

THE TRADE REFORM OF SACU

COUNTRY CASE STUDIES ON REGIONAL INTEGRATION

Phiwayinkhosi Ginindza, Willem Nekwiyu, Montle Phuthego,
Mohato Seleke, Yash Ramkolowan & Matthew Stern



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The Global Economic Governance (GEG) Africa programme is a policy research and stakeholder engagement programme aimed at strengthening the influence of African coalitions at global economic governance forums such as the G20, BRICS, World Trade Organization and World Bank, among others, in order to bring about pro-poor policy outcomes.

The second phase of the programme started in March 2016 and will be implemented over a period of three years until March 2019.

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DISCUSSION PAPER
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ABSTRACT

Member states of the Southern African Customs Union (SACU) are currently deadlocked in discussions on the future of the revenue-sharing arrangement and the role of the SACU Tariff Board. At the same time, there are discussions within SACU on the role of industrial policy, in general, and the need to develop regional value chains, in particular. To take these discussions forward, officials have been tasked to identify potential 'projects' that might serve as anchors for cross-border trade and investment within SACU. The establishment of a SACU development fund could serve to finance those projects that are identified and agreed on by member states. While SACU member states have yet to have in-depth discussions on whether or not to proceed with establishing a regional development fund, there remain concerns within Botswana, Lesotho, Namibia and Swaziland (BLNS) that such a fund might divert revenues from national governments. There has consequently been little discussion on how such a fund may work to facilitate the deepening or long-term reform of SACU. This discussion paper draws on the perspectives of business and researchers in the BLNS to identify the main infrastructure and regulatory barriers to the development of intra-SACU value chains, and to assess how the alleviation of these impediments might contribute to improved regional economic outcomes. In doing so, it seeks to inform current discussions within SACU on the type of projects that may serve as a basis for cross-border value chains, and to assess the possible contribution of a SACU development fund in growing, deepening or diversifying economic linkages in the region. This paper presents the results of eight case studies in the BLNS, describing the experiences of eight different firms in operating across SACU borders. It also highlights a number of areas in which SACU member states could work together to improve the environment for cross-border trade and deepen regional integration. This includes taking advantage of specific project opportunities for deeper value chain integration and development within certain industries, improving customs procedures to facilitate the movement of goods across SACU borders, implementing regional infrastructure projects in the electricity, transport and water sectors, and easing the movement of business persons and specialists across SACU member states.

ACKNOWLEDGMENT

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ACRONYMS AND ABBREVIATIONS

AGOA	African Growth and Opportunity Act
BLNS	Botswana, Lesotho, Namibia and Swaziland
CET	common external tariff
GAP	Good Agricultural Practice
GDP	gross domestic product
GMP	Good Manufacturing Process
HACCP	Hazard Analysis Critical Control Points
HS	Harmonised System
LEC	Lesotho Electricity Corporation
LNDC	Lesotho National Development Corporation
Namboard	National Agricultural Marketing Board
NMRC	Namibian Medicines Regulatory Council
NSI	Namibian Standards Institution
NTB	non-tariff barrier
PICS	Pharmaceutical Inspection Cooperation Scheme
SACU	Southern African Customs Union
SABS	South African Bureau of Standards
SMEs	small and medium enterprises
SRA	Swaziland Revenue Authority
VAT	value added tax
WUC	Water Utilities Corporation
WHO	World Health Organization



PROJECT INTRODUCTION AND OVERVIEW

OVERVIEW

Member states of the Southern African Customs Union (SACU) are currently deadlocked in discussions relating to the implementation of the 2002 SACU agreement. None of the intended institutions expected to be established subsequent to the 2002 SACU agreement has materialised. These include a single SACU Tariff Board, Tribunal, National Bodies and a Common Negotiating Body. Negotiations around both the future of the revenue sharing arrangement and the role of the SACU Tariff Board remain sticking points for SACU member states. Whereas the South African government would like to see the current revenue sharing mechanism amended (entirely or partially) to incorporate a development fund, it would also like to remove or reform the envisaged SACU Tariff Board to maintain its own authority over national tariff decisions. Doing so will require the renegotiation of the 2002 SACU agreement. All other member states are likely to resist substantial change.

A key stumbling block in these negotiations is the lack of consensus among member states on the costs and benefits of the current SACU arrangement for consumers and producers in the region. This makes it difficult to assess the relative merits of any alternative proposals, and undermines the potential for technical or evidence-based

negotiations. Moreover, SACU negotiations have historically adopted a narrow approach – focusing on the net fiscal outcome of proposed changes – with little consideration of the wider economic impact of SACU on its people in general, and the poor in particular.

At the same time, there are discussions within SACU and between SACU member states on the role of industrial policy in general, and the need to develop regional value chains in particular. Current evidence suggests that the SACU region participates in global value chains only at the margins, while issues of distance, locational advantage and scale mean that industries often favour locations in South Africa – to the detriment of the broader SACU region. Various studies highlight the challenges in developing broader and deeper value chains within SACU. These include productivity and supply chain weaknesses and a restrictive trade policy environment.

To take these discussions forward, officials have been tasked to identify potential projects that might serve as anchors for cross-border trade and investment within SACU. Whereas there has been some progress in bilateral engagements between South Africa and Namibia, and extensive research on possible sectors and projects within SACU, no specific interventions have been approved to date.

As a customs union, the priority objective of SACU should be to enable the free movement of goods across internal borders, and to ‘enhance the economic development, diversification, industrialisation and competitiveness of Member States’.¹ It is debatable whether SACU, in its current form, is effectively meeting these fundamental objectives. SACU’s borders remain relatively thick, evidence of industrialisation in Botswana, Lesotho, Namibia and Swaziland (BLNS) is generally low, and trade and investment flows are largely one-sided. This makes agreement on industrial policy difficult, and raises the costs of cross-border trade and investment flows.

The BLNS has, to varying degrees, resisted the formation of a traditional development fund that finances regional projects and infrastructure, because it would inevitably involve some diversion of revenues away from national governments

It would therefore seem appropriate that discussions on the future of SACU should incorporate a wider developmental agenda. However, doing so will require a fundamental change in approach. The establishment of a SACU development fund could mark a critical step in this direction. The BLNS has, to varying degrees, resisted the formation of a traditional development fund that finances regional

¹ SACU (Southern African Customs Union), ‘2002 Southern African Customs Union (SACU) Agreement’, <http://www.sacu.int/show.php?id=566>, accessed 15 Feb 2017.

projects and infrastructure, because it would inevitably involve some diversion of revenues away from national governments. It follows that some of the BLNS countries have instead shown a strong preference for a fund that enables member countries to adjust to short-term revenue shocks. However, there has been little discussion on how these different mechanisms may work to facilitate the deepening or long-term reform of SACU. Moreover, the voices of people and businesses in SACU have been generally silent on all of these matters.

This paper considers the options and potential for the economic reform of SACU from three different perspectives.

- In order to identify the specific types of investments and reforms that may be needed to further the development of cross-border value chains in SACU, the eight case studies provide evidence from the BLNS on the current opportunities for and obstacles to trade and investment within the customs union.
- To inform the current discussions within SACU on potential projects that may serve as a basis for cross-border value chains, the case studies also look to identify opportunities for growing, deepening or diversifying existing business linkages in the region.
- Given the focus of current discussions on the establishment of a development fund, the paper assesses the type of regional projects that such a fund could finance that could potentially serve to support the growth and deepening of cross-border value chains.

A separate discussion paper has been developed to provide an introductory framework on what a SACU development fund might look like. That paper looks at the evolving function of customs unions and discusses the experiences of and lessons from existing or proposed regional development funds in the international system.²

APPROACH

This paper has been constructed around eight country-specific case studies, whereby researchers in Botswana, Lesotho, Namibia and Swaziland were appointed to identify and work with two companies in each country, to describe their experiences in operating across SACU borders and to identify opportunities for growing or diversifying their business or value chain within SACU. The study deliberately targeted small and medium enterprises (SMEs),³ because larger firms generally have the capital and human resources needed to overcome the structural and regulatory challenges related to cross-border trade. Moreover, small firms are likely to be more

2 Ramsamy R, 'Why Does a SACU Development Fund Matter? Lessons from Other Regional Development Funds and SACU Trade Practitioners', GEG Africa Discussion Paper, 2017 (forthcoming).

3 The definition of an SME is likely to vary across SACU member states and, in the absence of a standard definition, the researchers were tasked to identify firms that are not considered 'large' (from a contextual perspective) in their domestic economies.

labour-intensive and can therefore be expected to illustrate the pro-poor costs and benefits associated with regional trade. A common framework and interview guide was developed and implemented for all of these studies.

STRUCTURE OF THE REPORT

The report is structured as follows:

- The current economic and trade conditions in the SACU region are reviewed, in order to identify the main issues facing member states.
- Summary results from the firms included in the country case studies are described.
- The key opportunities and challenges identified during these case studies are synthesised.

More information on the individual firm case studies is provided in the appendices.

BRIEF REVIEW OF SACU'S ECONOMIC DEVELOPMENT

MACROECONOMIC ENVIRONMENT

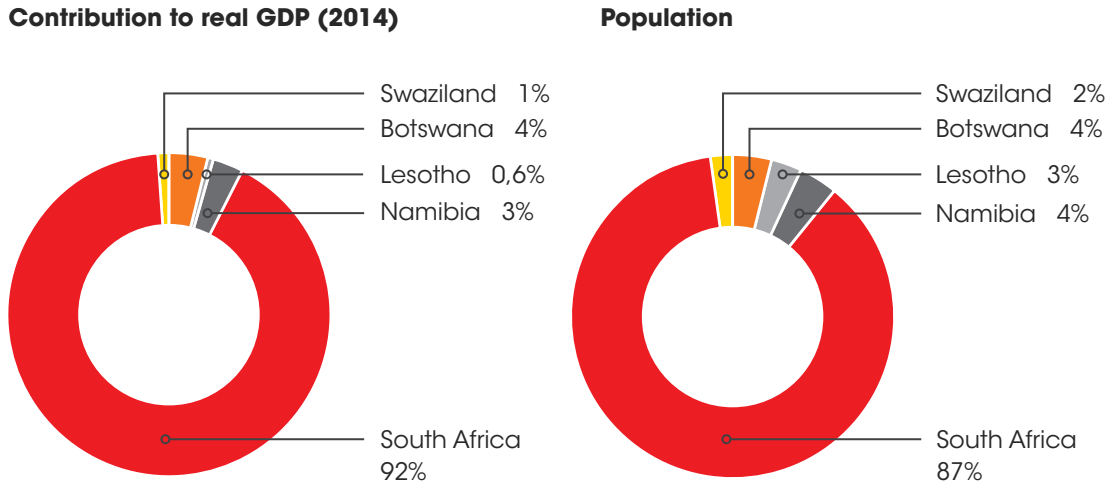
In 2014 SACU's overall gross domestic product (GDP) amounted to \$385 billion.⁴ However, as highlighted in Figure 1, almost all economic activity in the region is accounted for by South Africa, which contributes 92% of SACU's GDP and has over 87% of the region's population.

Figure 2 plots historical growth against each country's GDP per capita. There has been some divergence in economic growth between 2009 and 2014, with Botswana and Namibia experiencing annual average GDP growth of close to 6%, compared to growth of around 2% per year in both South Africa and Swaziland. On a per capita basis, Botswana and South Africa are comparatively more developed, while Lesotho and Swaziland are significantly less wealthy. In per capita terms Namibia falls between Botswana and Swaziland. Lesotho is the only SACU member state classified as a least-developed country by the UN.⁵

4 In nominal terms, based on data from World Bank, 'Mapping Global and Regional Value Chains in SACU: Sector-Level Overviews', 2016, <https://openknowledge.worldbank.org/handle/10986/23790>, accessed 3 August 2017.

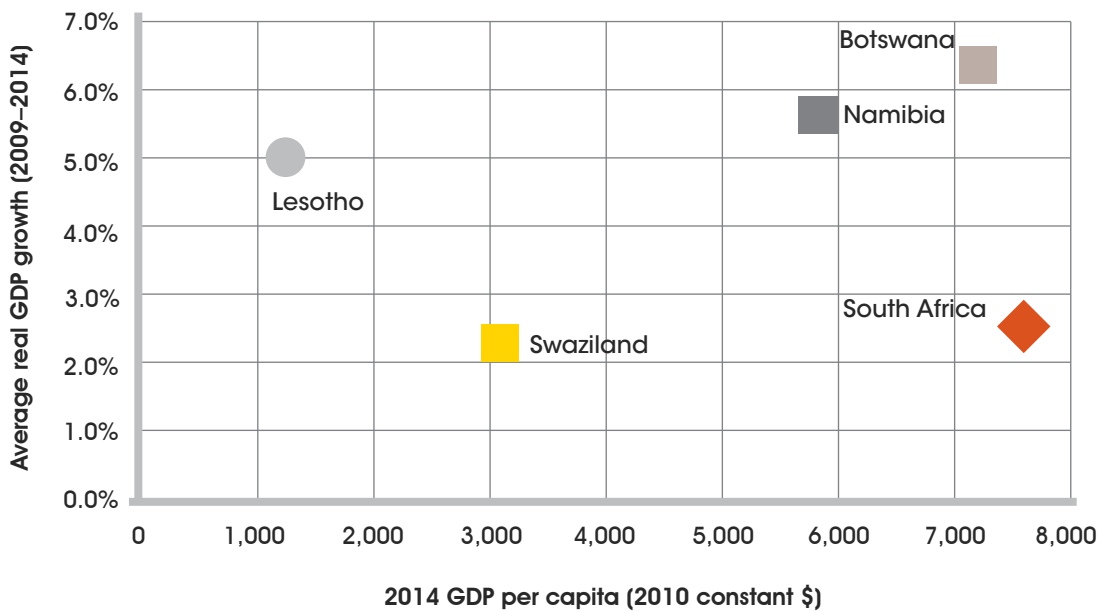
5 UN Committee for Policy Development, 'List of least developed countries as of June 2017', https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/lcd_list.pdf, accessed 11 August 2017.

FIGURE 1 SACU MEMBER STATES' CONTRIBUTION TO ECONOMIC ACTIVITY



Source: World Bank, 'World Development Indicators', <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>, accessed 15 February 2017

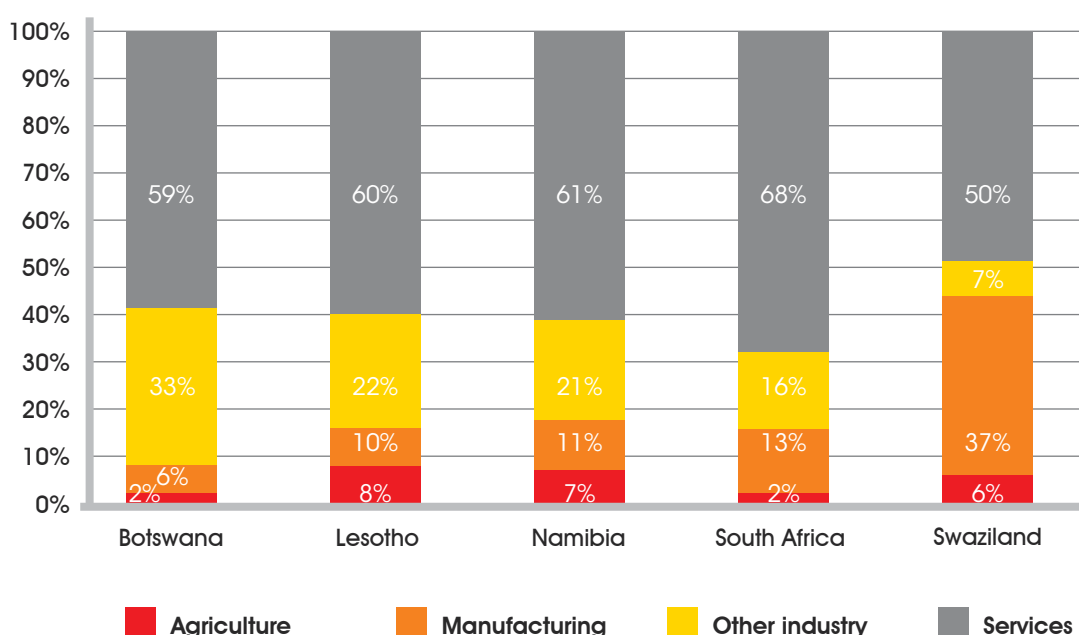
FIGURE 2 GDP PER CAPITA AND HISTORIC ECONOMIC GROWTH



Source: World Bank, 'World Development Indicators', <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>, accessed 15 February 2017

Despite these differences, all SACU member states have similar economic structures. As shown in Figure 3, the services sector is the largest contributor to economic activity (from a value added perspective) in all five economies. Agriculture contributes the least to GDP across all member states. Whereas Swaziland’s overall economic activity relies heavily on the manufacturing sector, this sector contributes much less to overall GDP in other member states.

FIGURE 3 VALUE ADDED BY SECTOR (2014)

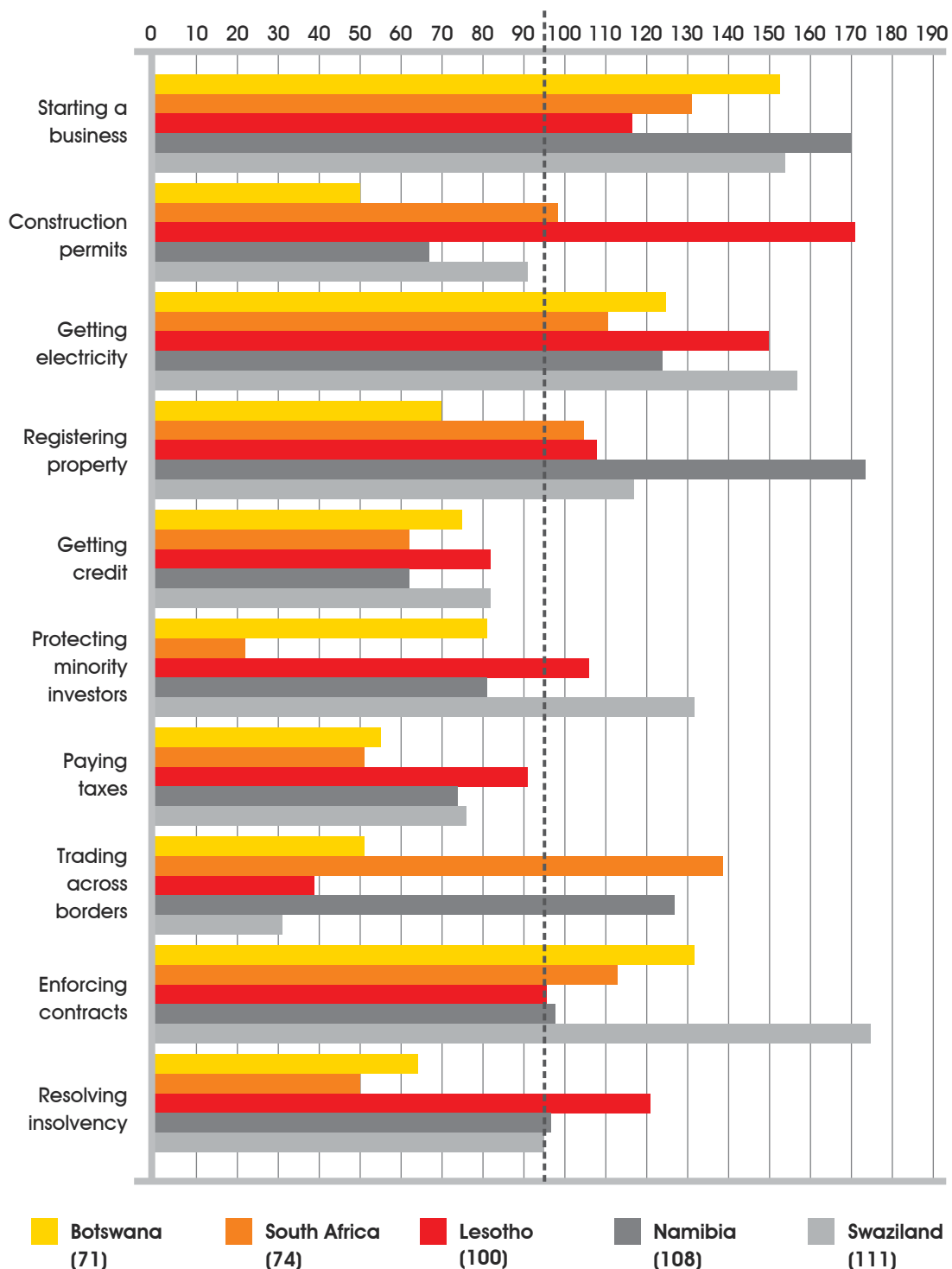


Source: World Bank, 'World Development Indicators', <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>, accessed 15 February 2017

In terms of the regulatory and infrastructure environment, the World Bank’s Ease of Doing Business Indicators⁶ map the business climate in the SACU region. Only Botswana and South Africa rank above the median of 190 countries included in the latest Ease of Doing Business index (released in 2017 and based on information collected up to June 2016). A summary of SACU rankings across the 10 sub-topics included in the index is provided in Figure 4.

⁶ The Ease of Doing Business ranking is compiled based on 10 sub-topics relating to the regulatory and licensing aspects of the business environment. The ranking is based on a review of domestic laws, regulations and administrative requirements and the work of in-country practitioners and professionals to determine the actual time and cost of relevant practices. For more see World Bank, Doing Business, <http://www.doingbusiness.org/>, accessed 15 February 2017.

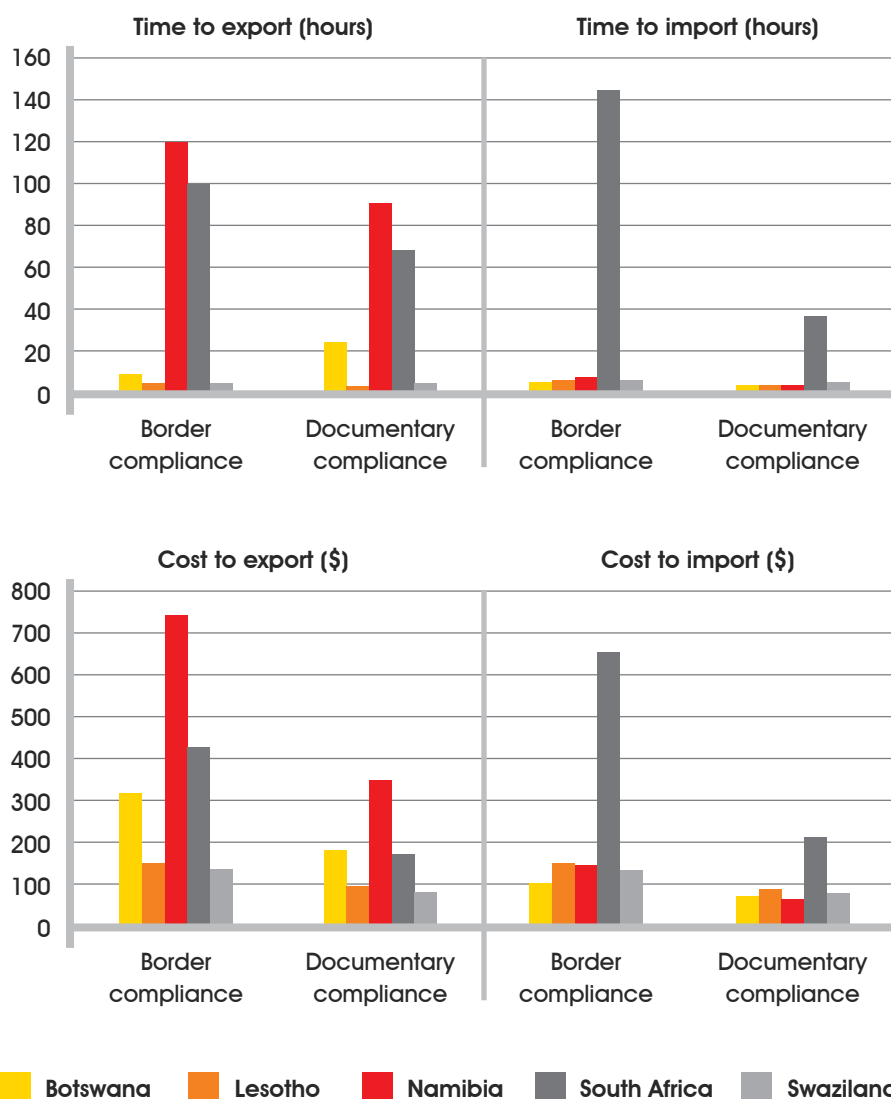
FIGURE 4 EASE OF DOING BUSINESS SUB-TOPIC RANKINGS



Note: Numbers in brackets reflect the overall ranking for each member state. The dotted line represents the median ranking (95).

Source: World Bank, 'Doing Business', June 2016, <http://www.doingbusiness.org/>, accessed 15 February 2017

FIGURE 5 TRADING ACROSS BORDERS: TIME AND COST OF COMPLIANCE



Source: World Bank, 'Doing Business, June 2016, <http://www.doingbusiness.org/>, accessed 15 February 2017

At least four of the five SACU member states rank below the median in a number of regulatory areas.

- **Starting a business:** The index suggests that the time and money costs of starting a business in all SACU member states are substantially higher than the global average. Namibia is the worst SACU performer in this area, ranking 170th.
- **Getting electricity:** Given the recent and acute electricity shortages that South Africa (and by extension, other SACU member states) has experienced, it is

not surprising that SACU member states rank poorly in this area. Their overall ranking reflects issues related to both the security of supply and the relative cost of electricity. Swaziland, ranking 157th in this area, is SACU's worst performer.

- **Registering property:** With the exception of Botswana, all other SACU member states ranked below the median, with Namibia the lowest ranked member state at 174th. This reflects the high cost of property registration and poor quality of land administration in SACU.
- **Enforcing contracts:** Lesotho ranks just above the median ranking (94th) in this area, while all other SACU member states fall below it. This reflects the high cost of resolving commercial disputes as well as the relatively poor quality of the judicial process in SACU countries. Swaziland ranks lowest in this area, at 175th.

Individual SACU member states also rank poorly in a range of other areas, including dealing with construction permits (Lesotho and South Africa); protecting minority investors (Lesotho and Swaziland); and resolving insolvency (Lesotho and Namibia). Interestingly, all of the SACU member states rank well above the median in terms of getting access to credit, suggesting that finance may be less of a constraint to doing business in SACU when compared to the global average.

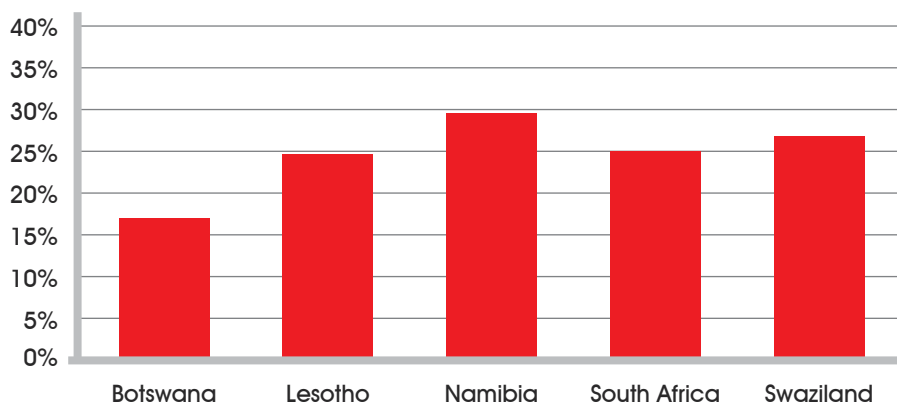
Both Namibia and South Africa rank especially low in terms of cross-border trade (Figure 5), which reflects the time and money costs of document and border compliance for exporters and importers. However, it is important to highlight that this reflects, in part, the time and cost of exporting and importing through seaports. Botswana, Lesotho and Swaziland are landlocked countries, so they are only assessed based on the cost of exporting and importing through the nearest land border post. The importance of South Africa as an international transit link for these landlocked countries implies that they are likely to face costs incurred both at land border posts (ie, intra-SACU border costs) and at South African seaport border posts for exports and imports beyond Africa.

SOCIAL DEMOGRAPHICS

All SACU member states are generally characterised by high unemployment and poverty rates, as shown in Figure 6, with unemployment rates ranging between 17% (Botswana) and 30% (Namibia).

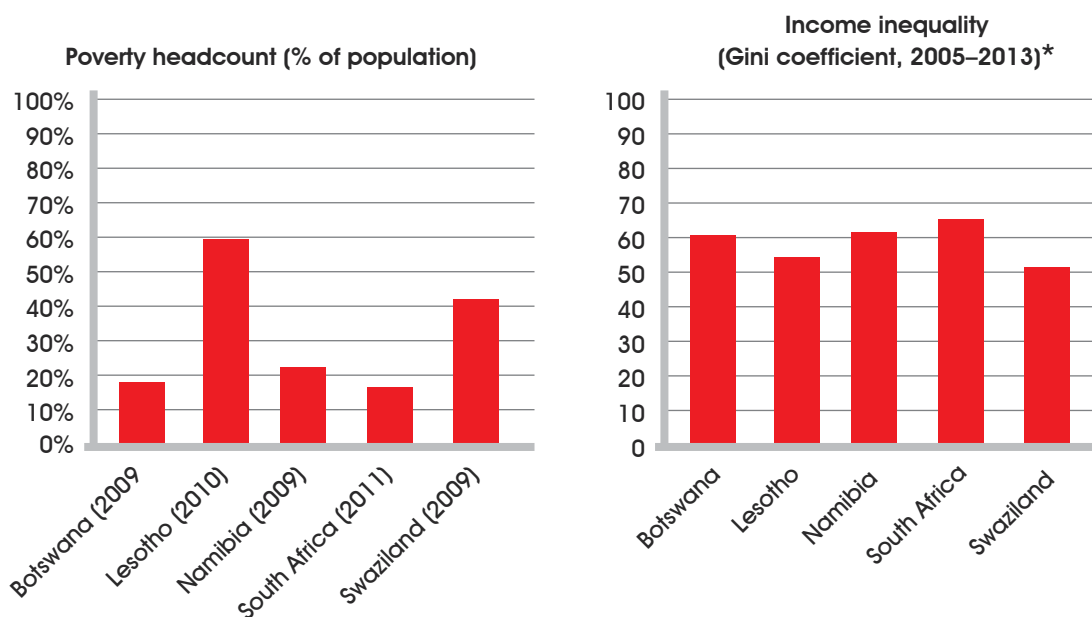
From a poverty and development perspective, there are wide variances between the five member states, as shown in Figure 7. Poverty levels are especially high in Lesotho and Swaziland, where 60% and 40% of the population respectively are estimated to live below the poverty line. Inequality is high across all member states but is especially severe in South Africa, which is estimated to have one of the highest inequality rates in the world.

FIGURE 6 UNEMPLOYMENT RATE (INTERNATIONAL LABOUR ORGANIZATION ESTIMATES, 2014)



Source: ILO (International Labour Organization), ILOStat, <http://www.ilo.org/ilostat>, accessed 15 February 2017

FIGURE 7 POVERTY AND INEQUALITY



Note: The poverty headcount ratio is the percentage of the population living on less than \$1.90 a day at 2011 international prices.

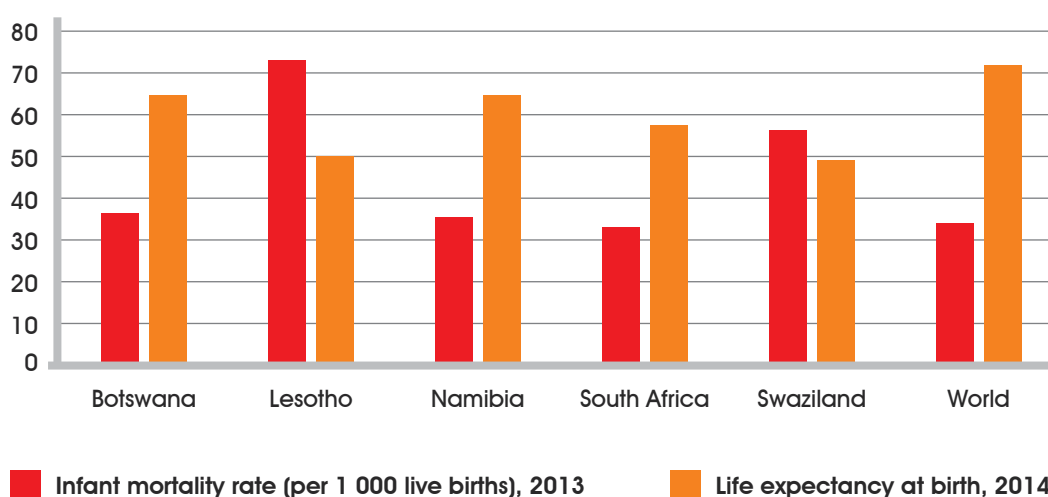
* Gini coefficient is the measure of the deviation of the distribution of income among individuals or households within a country from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality. The most recent values for the period 2005–2013 are shown.

Source: World Bank, 'World Development Indicators', <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>, accessed 15 February 2017; UNDP (UN Development Programme), 'Human Development Report', 2015, http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf, accessed 15 February 2017

The high levels of poverty and inequality and the undermining impact that this has on human development are reflected in the health and education outcomes for SACU member states. All member states are ranked in the bottom half of the UN Development Programme's Human Development Index, with Lesotho and Swaziland ranked especially low.⁷

Figure 8 highlights that health outcomes in Lesotho and Swaziland are substantially below that of the world average. In these two member states, infant mortality rates are much higher and life expectancy much lower than the world average. In terms of infant mortality, Botswana, Namibia and South Africa have rates comparable to the world average, although life expectancy is lower for all three when compared to the world average.

FIGURE 8 INFANT MORTALITY AND LIFE EXPECTANCY

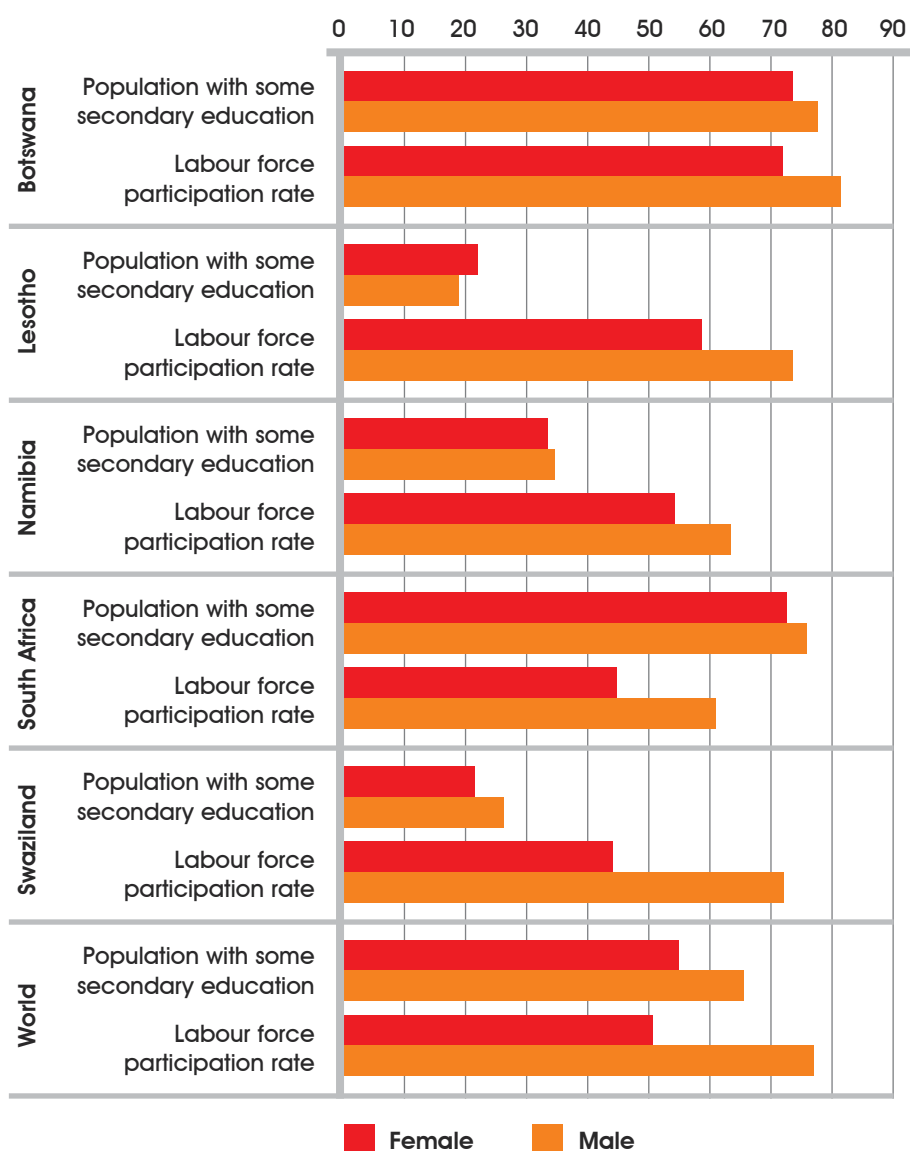


Note: Infant mortality rate is the probability of dying between birth and exactly age 1, expressed per 1 000 live births. Life expectancy at birth is the number of years a newborn infant could expect to live if prevailing patterns of age-specific mortality rates at the time of birth stay the same throughout the infant's life.

Source: UNDP, 'Human Development Report', 2015, http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf, accessed 15 February 2017

⁷ The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable, and having a decent standard of living. Out of 188 countries the UN Development Programme's 2015 Human Development Report ranks (with ranking in brackets) Botswana (106) and South Africa (116) as countries with 'medium human development'. Swaziland (150) and Lesotho (161) are classified as countries with 'low human development'.

**FIGURE 9 WOMEN'S PARTICIPATION IN EDUCATION AND LABOUR
(MOST RECENT DATA, 2005–2013)**



Note: Population with at least some secondary education is the percentage of the population aged 25 and older who have reached (but not necessarily completed) a secondary level of education.

Labour force participation rate is the proportion of a country's working-age population (15 and older) that engages in the labour market, either by working or actively looking for work, expressed as a percentage of the working-age population.

Source: UNDP, 'Human Development Report', 2015, http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf, accessed 15 February 2017

Disparities in education attainment among SACU member states are highlighted in Figure 9. The proportion of the population with some secondary education is much higher in Botswana and South Africa (and higher than the world average). Conversely, education outcomes in Lesotho, Namibia and Swaziland are poorer, with substantially less of the population having undergone some secondary schooling.

Participation by women in the economy is also reflected in Figure 9. Participation by women in terms of schooling is lower than that of men in all SACU member states. The exception is Lesotho, where a larger proportion of women have had some secondary education when compared to men. Similarly, across all SACU member states a lower proportion of women (compared to men) participate in the labour force. This appears to be particularly acute in South Africa and Swaziland, where labour force participation by women is lower than the global average.

INTRA-SACU TRADE

SACU policy environment

SACU operates with some of the hallmarks of a customs union. A single common external tariff (CET) is in place for all extra-SACU imports and the region has no rules of origin for intra-SACU trade. Customs and excise duty revenues are pooled in a single SACU revenue fund and distributed among member states. However, the region maintains intra-SACU border restrictions on the flow of goods and people. In terms of industrial and trade policy, there is currently no single policy driving development for the region as a whole. South Africa administers, on a de facto basis, the CET for the SACU region.

The SACU Secretariat's work programme is focused on addressing many of the issues acting as barriers to deeper integration. This includes focusing on trade facilitation, developing a regional industrial development policy and establishing a number of SACU institutions, such as the SACU Tariff Board.

While not part of the SACU agreement, the secretariat is also undertaking ongoing work in the area of trade in services. However, as noted in Section 1, many of these issues are the subject of contentious negotiations between SACU member states and to date little progress has been made.⁸

8 Issues related to SACU trade, tariff and industrial policy are well known and sufficiently addressed in the literature. For examples, see: Vickers B, 'Industrial policy in the Southern African Customs Union: Past Experiences, Future Plans', Institute for Global Dialogue, 2008; Erasmus G, 'Does SACU Face a Crisis?', Tralac Trade Brief, US16TB02/16, June 2016; Erasmus G, 'SACU After 10 Years: Taking Stock and Looking Ahead', Tralac Trade Brief, S14TB11/2014, September 2014; McCarthy C, 'A Perspective on Common Industrial Policies for the Member States of the Southern African Customs Union', Tralac Working Paper, S13WP01/2013, January 2013.

Analysis of trade trends

The SACU region (and South Africa in particular) remains the main export destination for member states such as Lesotho and Swaziland, accounting for more than half of their total exports, as shown in Table 1.

TABLE 1 SACU EXPORTS BY REGION (AVERAGE 2011–2013)

SACU EXPORTS BY COUNTRY AND REGION (\$ MILLION)

		EXPORTER				
		BOTSWANA	LESOTHO	NAMIBIA	SOUTH AFRICA	SWAZILAND
IMPORTER	Botswana	–	0.86	276.42	2,817.20	3.32
	Lesotho	0.76	–	0.74	906.40	2.79
	Namibia	69.25	0.03	–	2,497.96	8.26
	South Africa	472.46	183.21	862.47	–	693.65
	Swaziland	1.28	2.59	0.91	909.91	–
	SACU total	543.76	186.69	1,140.54	7,131.46	708.01
	World	3,901.36	344.99	3,506.27	59,480.64	1,032.94

SACU EXPORTS BY COUNTRY AND REGION (%)

		EXPORTER				
		BOTSWANA	LESOTHO	NAMIBIA	SOUTH AFRICA	SWAZILAND
IMPORTER	Botswana	–	0.20%	7.90%	4.70%	0.30%
	Lesotho	0.00%	–	0.00%	1.50%	0.30%
	Namibia	1.80%	0.00%	–	4.20%	0.80%
	South Africa	12.10%	53.10%	24.60%	–	67.20%
	Swaziland	0.00%	0.80%	0.00%	1.50%	–
	SACU total	13.90%	54.10%	32.50%	12.00%	68.50%
	World	100.00%	100.00%	100.00%	100.00%	100.00%

Source: ITC Trademap, <http://www.trademap.org/>, accessed 15 February 2017

For Swaziland, the South African market is likely to have grown in importance since 2015, given its exclusion from the African Growth and Opportunity Act (AGOA) and resulting loss in preferential access to the US market. Lesotho may face similar concerns, in that the US has placed it on review for AGOA eligibility as a result of deteriorating domestic governance conditions. Export destinations are somewhat more diverse for Botswana and Namibia, although South Africa remains a priority destination for their exports. For South Africa, the rest of the SACU region accounted for up to 12% of its total exports between 2011 and 2013.⁹

9 It should be noted that a substantial proportion, difficult to estimate, of South Africa's recorded exports to the SACU region is likely to be re-exports from third countries, given the significant presence of South African distributors and retailers in these countries.

As reflected in Table 2, BLNS exports to the rest of SACU remain highly concentrated in specific product sectors. For Botswana, exports to SACU are concentrated in mineral resources, precious stones (diamonds) and machinery and equipment (primarily electrical wire products and equipment related to the production of vehicles). Together these three product sectors made up close to 70% of Botswana's total exports to SACU in 2013.

Lesotho's exports to SACU are equally narrow, with machinery, textile products and food and beverages making up close to 80% in 2013. At a disaggregated level, its exports can be considered especially concentrated. Machinery exports largely reflect electrical assembly products, while food and beverage exports reflect Lesotho's bulk export of water to South Africa.

For Namibia, exports are mostly transport equipment (predominantly related to sea vessels), food and beverages (largely beer) and precious stones. Similarly, Swaziland's exports to SACU are largely concentrated in food and chemical by-products of the sugar industry, as well as clothing and textile products.

TABLE 2 INTRA-SACU EXPORTS BY COUNTRY (\$ MILLION, 2013)

Harmonised System (HS) section	BOTSWANA			LESOTHO			NAMIBIA			SOUTH AFRICA			SWAZILAND		
	Consumer and capital goods	Raw materials and intermediate goods	Finished goods as % of total exports	Consumer and capital goods	Raw materials and intermediate goods	Finished goods as % of total exports	Consumer and capital goods	Raw materials and intermediate goods	Finished goods as % of total exports	Consumer and capital goods	Raw materials and intermediate goods	Finished goods as % of total exports	Consumer and capital goods	Raw materials and intermediate goods	Finished goods as % of total exports
(S1) Live animals, animal products	0.05	46.07	0%	0.00	0.86	0%	29.93	99.29	23%	32.14	154.21	17%	0.00	0.10	3%
(S2) Vegetable products	11.21	0.79	94%	0.01	12.14	0%	0.01	4.29	0%	65.79	352.57	16%	0.14	6.71	2%
(S3) Animal or vegetable fats & oils	0.12	0.06	67%	0.00	0.00	–	0.00	0.86	0%	66.57	6.57	91%	0.00	0.03	9%
(S4) Food, beverages & tobacco	12.57	1.50	89%	46.71	2.29	95%	130.64	4.64	97%	668.29	81.36	89%	60.79	63.14	49%
(S5) Mineral products	4.79	74.21	6%	0.00	1.00	0%	29.86	5.36	85%	1,168.86	338.36	78%	0.02	19.00	0%
(S6) Chemical products	2.93	26.36	10%	0.56	0.01	97%	0.79	1.86	30%	468.93	223.14	68%	2.93	426.50	1%
(S7) Plastic products	15.00	2.07	88%	0.26	0.06	80%	3.14	0.51	86%	289.29	84.14	77%	4.71	0.24	95%

TABLE 2 INTRA-SACU EXPORTS BY COUNTRY (\$ MILLION, 2013)

Harmonised System (HS) section	BOTSWANA			LESOTHO			NAMIBIA			SOUTH AFRICA			SWAZILAND		
	Consumer and capital goods	Raw materials and intermediate goods	Finished goods as % of total exports	Consumer and capital goods	Raw materials and intermediate goods	Finished goods as % of total exports	Consumer and capital goods	Raw materials and intermediate goods	Finished goods as % of total exports	Consumer and capital goods	Raw materials and intermediate goods	Finished goods as % of total exports	Consumer and capital goods	Raw materials and intermediate goods	Finished goods as % of total exports
(S8) Raw hides	0.13	1.43	8%	0.61	0.01	99%	0.12	5.43	2%	19.36	2.93	87%	0.05	0.52	9%
(S9) Wood products	1.00	0.21	84%	0.05	0.00	96%	8.43	1.79	83%	37.43	62.29	38%	0.79	43.43	2%
(S10) Paper products	9.79	0.71	93%	3.36	0.04	99%	0.43	1.43	23%	150.14	53.50	74%	29.71	0.40	99%
(S11) Textiles & clothing	16.07	5.86	73%	52.57	11.21	82%	4.29	0.59	88%	293.79	66.14	82%	87.86	8.21	91%
(S12) Footwear	0.57	0.52	52%	18.14	0.02	100%	0.30	0.01	98%	112.93	4.86	96%	0.28	0.00	99%
(S13) Non-metallic minerals	3.57	0.02	99%	0.07	0.04	64%	1.07	1.93	35%	85.79	27.21	76%	2.57	0.06	98%
(S14) Precious stones & metals	0.03	301.36	0%	0.00	0.27	0%	1.14	606.50	0%	8.93	327.36	3%	0.01	0.00	100%
(S15) Base metals	6.79	23.86	22%	0.07	0.33	17%	3.86	26.36	13%	247.57	309.93	44%	0.22	4.36	5%
(S16) Machinery & equipment	64.50	0.38	99%	30.00	0.00	100%	96.00	0.11	100%	1,078.36	4.71	100%	10.71	0.01	100%
(S17) Transport equipment	26.43	0.71	97%	1.36	0.00	100%	578.14	5.57	99%	862.50	9.29	99%	1.86	0.01	100%
(S18) Specialised equipment	1.07	0.03	97%	0.11	0.01	96%	6.36	0.29	96%	85.79	4.29	95%	0.09	0.00	99%
(S19) Arms & ammunition	0.01	0.00	100%	0.00	0.00	–	13.71	0.16	99%	0.00	0.00	–	0.00	0.00	0%
(S20) Misc. manufact. articles	2.29	0.04	98%	0.31	0.00	100%	1.79	0.03	99%	156.14	16.79	90%	0.52	4.29	11%
(S21) Collectors' pieces & antiques	0.00	0.00	100%	0.00	0.00	–	0.04	0.00	100%	0.71	0.00	100%	0.00	0.00	–
Grand total	178.93	486.14	27%	154.29	28.29	85%	910.00	766.86	54%	5,899.36	2,129.64	73%	203.29	577.07	26%

Product categories highlighted in orange reflect the top three exports for each SACU member state.

Source: ITC Trademap, <http://www.trademap.org/>, accessed 15 February 2017

A significant percentage of BLNS exports consist of raw materials and intermediate goods to the rest of SACU, rather than higher value-added consumer and capital equipment.¹⁰ This is especially true for Botswana and Lesotho where, in total, about three-quarters of exports to SACU are raw materials and intermediate goods. The proportion of goods classified as consumer and capital equipment exported by Lesotho and Namibia is higher (over 50%), although skewed by certain products – bulk water exports in the case of Lesotho, and sea vessel transport equipment (and beer) in the case of Namibia. For some sectors there is evidence of value chain development, although predominantly in the form of assembly factories located in the BLNS countries. This is particularly true of the clothing and textile industry, where Lesotho and Swaziland, in particular, act as mass cut-make-trim providers utilising textiles imported from both South Africa and beyond SACU.

For the main export sectors of the BLNS, imports from SACU (mainly South Africa) exceed exports (see Table 3). This is true of all sectors, with the exception of precious stones (diamonds), where trade data reflects the re-export of precious stones between the BLNS and South Africa. While some level of specialisation may have occurred in the BLNS in these sectors, domestic markets continue to be largely served by South African firms.

TABLE 3 BLNS PRIORITY SECTOR TRADE WITH SACU (\$ BILLION)						
	Consumer and capital goods	Raw materials and intermediate goods	TOTAL	Consumer and capital goods	Raw materials and intermediate goods	TOTAL
(S4) Food, beverages & tobacco	250.71	71.57	322.36	724.14	85.21	809.36
(S5) Mineral products	34.71	99.64	134.29	1,179.00	343.29	1,522.29
(S6) Chemical products	7.14	454.71	461.86	485.71	256.21	741.93
(S11) Textiles & clothing	160.79	25.86	186.64	336.36	75.14	411.50
(S14) Precious stones & metals	1.14	908.07	909.29	8.86	668.00	676.86
(S16) Machinery	201.21	0.50	201.71	1,119.29	5.29	1,124.57
(S17) Transport equipment	607.86	6.29	614.14	961.86	10.43	972.29

Source: ITC Trademap, <http://www.trademap.org/>, accessed 15 February 2017

10 Classification was undertaken using concordance tables from the WITS TRAINS database. These were constructed by the UN Conference on Trade and Development and are based on the stages of processing using the Broad Economic Categories product classification.

The role of SMEs and women in SACU's cross-border trade

Many of SACU's trade facilitation initiatives target medium and large enterprises, which often have the skills and resources to overcome customs and border constraints and barriers. This is true, for example, of the SACU preferred trader programme.¹¹ This programme aims to facilitate trade by qualifying traders for expedited clearance procedures after firms have undergone a lengthy and onerous due diligence process. While such programmes are necessary – and likely to cover a substantial proportion of trade volumes between SACU member states – the union does not necessarily provide the same benefits to smaller (and informal) cross-border traders who face many of the same challenges and constraints.

This is especially true for the smaller SACU member states, where in absolute numbers small (and informal) cross-border traders are likely to make up the largest proportion of traders. While SACU-based research on cross-border trade remains relatively ad hoc, a seminal survey of cross-border trade in Southern Africa undertaken in 2007/8 illustrates the role of small-scale and women traders in the SACU region.¹² Data from this survey provides a number of overall conclusions about cross-border trade:

- Cross-border trade accounts for a significant proportion of people crossing borders, especially among the smaller SACU member states. At borders with South Africa, cross-border traders accounted for roughly 9% of total border traffic in Botswana and up to 34% in Lesotho.
- Close to half of traders between Botswana–South Africa and Lesotho–South Africa are women.¹³
- The majority of traders in Botswana, Lesotho and Swaziland carry a total value of less than ZAR¹⁴ 2,000, showing the small-scale nature of SACU cross-border trade.

This highlights the need for trade facilitation programmes, border design and trade policy to ensure a more inclusive approach to SMEs, and the mainstreaming of gender issues in efforts to alleviate challenges to intra-SACU trade.

11 This programme is currently being operationalised on a pilot basis across SACU and each member state is at a different level of implementation.

12 The survey, conducted by the Southern African Migration Programme (SAMP), covered 20 land border posts connecting 11 Southern African countries. It counted more than 205 000 people (including 85 000 traders) crossing these borders. Transactions of over 5 500 traders were monitored and over 4 500 traders were interviewed. For more see Crush J, 'Calibrating Informal Cross-Border Trade in Southern Africa', SAMP (Southern African Migration Programme) Migration Policy Series, 69, 2015.

13 While data for Swaziland is not available from this study, a separate study by the UN Development Fund for Women in 2010 suggested that up to 75% of Swaziland's informal cross-border traders were women. See UNIFEM, 'Women in Informal Cross Border Trade in Southern Africa'. Johannesburg: UNIFEM, 2010.

14 Currency code for the South African rand.

RELIANCE ON THE SACU REVENUE POOL

The perverse incentives and conflict created by the current distribution of the SACU revenue pool are well known. For example, a 2006 study¹⁵ shows that the formula used to distribute revenues from the pool lead to a greater focus on the collection of intra-SACU trade statistics over the development of a SACU-wide trade and industrial policy, while there is little predictability and stability of revenue flows from the SACU pool for each member state.¹⁶

Following the sharp contraction in the SACU revenue pool in the wake of the global financial crisis, the pool grew significantly (in nominal terms) between 2010/11 and 2014/15. As seen in Figure 10, SACU revenue pool collections increased from just above \$3.6 billion in 2010/11 to more than \$5.4 billion in 2014/15.

South Africa remains both the biggest contributor to the SACU pool¹⁷ and the biggest recipient, receiving 32% of total pool collections in 2014/15. The remaining member states nevertheless continue to receive substantially more than their direct and indirect contributions to the SACU pool, with the BLNS together receiving 53% of the total SACU revenue pool between 2010/11 and 2014/15.

The reliance on SACU pool revenues to support government expenditure in the BLNS is evident in Figure 10. Revenues from the SACU pool contributed between 31% (Botswana) and 54% (Swaziland) of total government revenue (including grants) for the BLNS in 2014/15. By contrast, the SACU pool contributed only 3% to South Africa's government revenue in this period.

ISSUES EMERGING FROM THE ANALYSIS

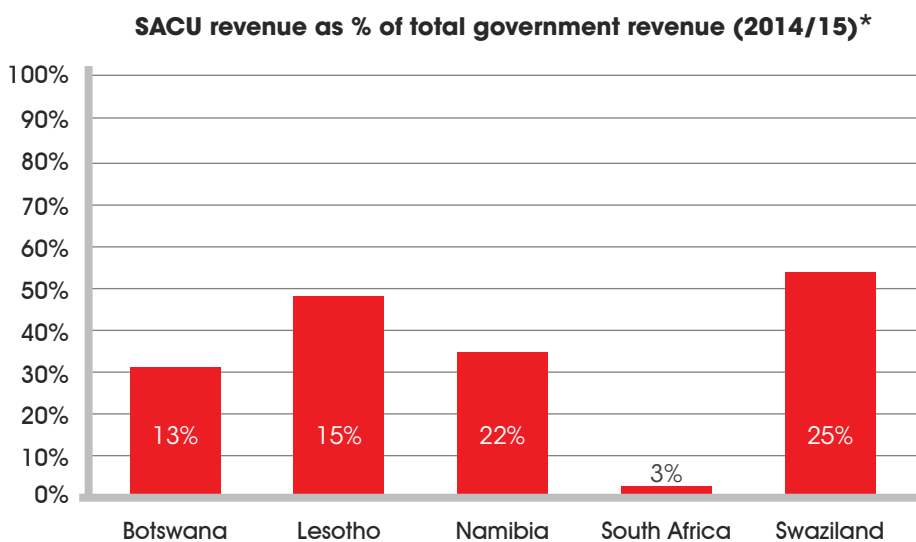
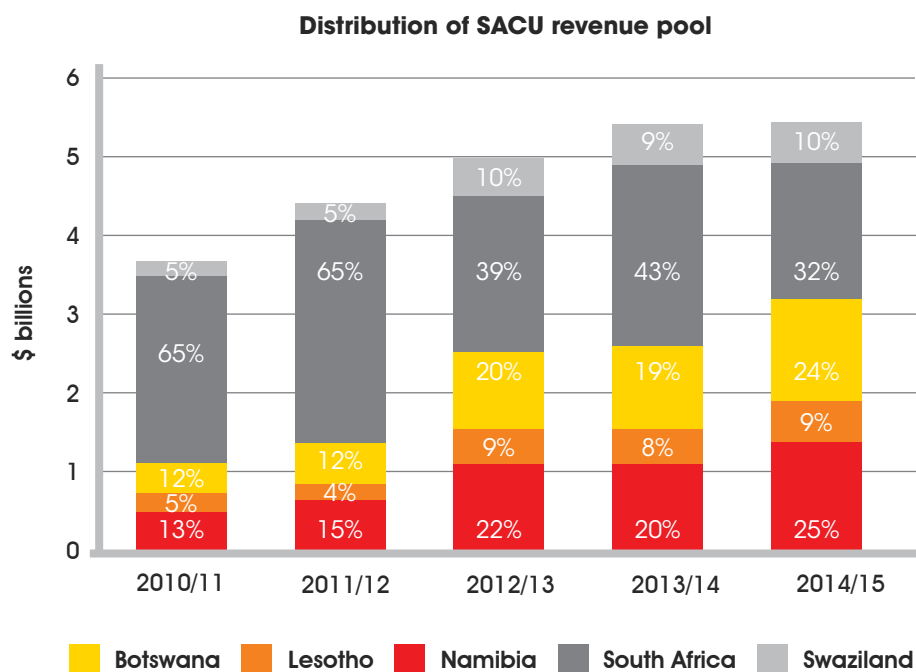
- South Africa is by far the dominant economy within the SACU region, as well as the primary destination market for BLNS exports. Any value chains that are developed in the region will in all likelihood depend on access to the South African market, and will be heavily influenced by the purchasing decisions of South African firms and consumers. It is therefore necessary to explore the

15 Flatters F & M Stern, 'SACU Revenue Sharing: Issues and Options', DNA Economics, 2006, http://www.dnaeconomics.com/assets/Usematthew/ff_ms_sacursf_2006.pdf, accessed 15 February 2017.

16 Other papers covering issues around the SACU revenue pool include: Grynberg R & M Motswapong, 'SACU Revenue Sharing Formula: The History of an Equation', BIDPA (Botswana Institute for Development Policy Analysis), 2010; Ngalawa H, 'Anatomy of the Southern African Customs Union: Structure and Revenue Volatility', ERSA (Economic Research Southern Africa) Working Paper, 374, 2013; Mongardini J *et al.*, 'In the Wake of the Global Economic Crisis: Adjusting to Lower Revenue of the Southern African Customs Union in Botswana, Lesotho, Namibia, and Swaziland', IMF (International Monetary Fund), African Department, 2011.

17 Information from the South African Revenue Service (SARS) suggests that South Africa's contribution was up to 98% of the total SACU pool (see: SARS, '2015 Tax Statistics', National Treasury & SARS, 2015). However, a portion of this contribution will include import and excise duties collected by South Africa on behalf of the BLNS.

FIGURE 10 SACU REVENUE POOL



* Total government revenue includes grant funding and other non-tax revenue.

Source: Based on data from Botswana, Ministry of Finance and Development Planning, <http://www.gov.bw/en/ministries--authorities/ministries/ministry-of-finance-and-development-planning1/>, accessed 15 February 2017; Lesotho, Ministry of Finance, <http://www.finance.gov.ls/>, accessed 15 February 2017; Namibia, Ministry of Finance, <http://www.mof.gov.na/>, accessed 15 February 2017; Swaziland, Ministry of Finance, http://www.gov.sz/index.php?option=com_content&view=article&id=277&Itemid=405, accessed 15 February 2017; South Africa, National Treasury, <http://www.treasury.gov.za/>, accessed 15 February 2017

extent to which firms in the BLNS are able to link into the supply chains of downstream businesses in South Africa; and the main barriers to such trade. It is also important to consider the dependence of firms in the BLNS on inputs (including services) from South Africa; and their ability to source inputs from elsewhere, including other preferential markets.

- The Ease of Doing Business rankings suggest that firms in SACU member states, in general, face significant regulatory constraints that increase the time and cost of doing business. These costs make it difficult for SACU countries to compete internationally, as exporters and for inward investment, and may encourage the development of inward-looking businesses and value chains. The extent to which barriers in one SACU country may impede the growth and international competitiveness of firms in other member states, may require further consideration.

Any value chains that are developed in the region will in all likelihood depend on access to the South African market, and will be heavily influenced by the purchasing decisions of South African firms and consumers

- It is evident that (informal) cross-border trade is made up predominantly of small-scale traders, with a large proportion undertaken by women. Trade facilitation efforts, and trade policy in general, need to ensure that the needs and perspectives of such traders are taken into account when programmes are implemented.
- The current SACU revenue agreement provides for a substantial transfer from South Africa to other member states, but all of this revenue goes directly to national budgets and does not necessarily develop regional linkages or support regional reforms. Moreover, given the high level of dependence of the BLNS on SACU transfers, it will be difficult for the governments in these countries to forego any of this revenue for regional development purposes. This may constrain the ability of SACU to address current blockages or invest in regional projects. In addition, depending on how these revenues are currently spent, the existing arrangement may not serve the long-term interests of businesses operating in the region. This is especially true if the revenue gains from the SACU revenue pool are largely directed to government current expenditure (ie, public sector salaries) rather than addressing the structural and regulatory constraints to growth and development.

COUNTRY CASE STUDIES¹⁸

The following section provides a summary of the key findings emanating from company case studies in the BLNS countries. Together, these case studies aim to identify the key challenges (particularly for SMEs) to regional integration and economic development within SACU, and to identify opportunities for broader value chain development across the region. Four different sectors are covered, based on two related factors: the extent to which there was evident exporting and importing activity in these sectors; and the ability of in-country consultants to access the firms.

FIRM COVERAGE AND TRADE PROFILES

The sector coverage of the eight case studies is summarised in Table 4. More detail on the individual firms, by country, is provided below.

TABLE 4 SECTORAL COVERAGE OF CASE STUDIES				
SECTOR	BOTSWANA	LESOTHO	NAMIBIA	SWAZILAND
Electrical/assembly	X	X		
PVC/plastics	X			
Agro-processing			X	X
Pharmaceutical			X	

In Botswana two manufacturing firms participated in the study. Pipe Firm started operations in 1998 as a start-up company. It manufactures and distributes PVC pressure & sewer pipes and roto-moulded products. The firm's main manufacturing plant is based in Lobatse, Botswana (about 60km from Gaborone). It also has subsidiary companies in Dundee and Port Elizabeth, South Africa. The firm has an annual turnover of roughly \$27 million and is 100% foreign owned. Pipe Firm has realised substantial growth since 1998. When it started operations its production was 50 tonnes per month. In 2016 the firm produced 1 600 tonnes per month and has managed to successfully grow both the domestic and export market.

Cable Firm started operations in Botswana in 2002, also as a start-up firm. It mainly produces two types of electrical cables: normal three-strand cable and armoured cable. The firm has three main shareholders, each owning one-third of the company. The ownership structure is 33% local and 67% foreign, and annual turnover is roughly \$8.2 million. Since it started operations, the firm has realised an annual

18 For comparative purposes, where applicable amounts in local currency have been converted to \$ at a rate of ZAR 14/\$ and BWP 11/\$ (BWP is the currency code for the Botswana pula).

growth rate of at least 15%. Its initial production was \$13,600 worth of electricity cables per month. This production has grown to roughly \$720,000 per month in 2016. This growth was underpinned by substantial re-investment into the company and a strong local market (mainly driven by government expenditure).

Pipe Firm sells 40% of its product locally, mainly to the water utilities parastatal, Water Utilities Corporation (WUC). The firm supplies WUC either directly or through WUC contractors and sub-contractors. The export market plays a critical role in its performance, contributing 60% of total revenue. When the company started operations more than 15 years ago, only 5% of its product was exported. Its major market for exports is South Africa, which accounts for 90% of total exports. Namibia receives 4% of total exports and the rest (6%) is sold to the SADC market, particularly Mozambique and Zambia. A small proportion of the products sold to South Africa are re-exported to Swaziland and Lesotho through a subsidiary office in South Africa.

Pipe Firm will continue to depend on the export market due to the almost saturated local market. It is also exploring new markets to increase its export potential. The firm has adopted a similar pricing strategy for both the local and the export market, in order to prevent local contractors from obtaining their supplies from its South African office instead of locally. Its main import products are PVC resin, chemicals and additives. All of these raw materials are sourced from South Africa and are not available locally. All services used are sourced locally.

Cable Firm supplies 67% of its product to the local market and exports 33% to Namibia. The firm has not explored exporting to Swaziland and Lesotho due to the small market in these countries, and has not yet exported to South Africa. The main reason given was the fierce competition by much larger companies operating from South Africa. In addition, when the firm set up in Botswana it displaced South African manufacturers, which were the main suppliers in Botswana at that time. The firm believes that these companies might retaliate should it enter the South African market.

All of the firm's exports are sold to Namibia through a marketing company based in Namibia. There is no differentiated pricing strategy for the Namibian market and therefore prices in Botswana and Namibia are similar, save for periodic differences caused by the exchange rate. The firm started exporting to Namibia in 2009, initially exporting \$45,500 worth of products per year. More recent figures show that exports to Namibia totalled \$1.36 million over a five-month period in 2016. The major constraint to exporting is transportation costs; this makes the local market more lucrative than the export market.

The company imports raw materials from South Africa (PVC) and Zambia (copper). These products are not available in Botswana. Although Botswana has a copper mining operation (currently under voluntary liquidation subject to a detailed analysis of its future profitability), the mine produces unprocessed copper ore, which cannot be immediately utilised by downstream manufacturing companies.

In Lesotho both of the firms included are in the general machinery/electrical assembly industry, and both utilise (at a subsidised rate) factory shells provided by

the Lesotho National Development Corporation (LNDC). The first firm (Electrical Firm) manages an assembly plant, producing electrical switches, sockets and related products, and is a subsidiary of a South African firm. In each of the past three years the factory has shipped an average of 700 000 switches and 1.3 million sockets, primarily destined for the South African market. Over the same period it earned more than \$4.7 million each year in revenue.

The second firm (Stove Firm) designs, produces and distributes clean energy cooking stoves. It was owned by an international conglomerate but is now operating independently. Over the past three years Stove Firm has witnessed a rapid rise in production and revenue, with its stoves being sold domestically and abroad. From an annual turnover of just over \$500,000 in 2014, annual revenue had grown to more than \$1 million as at October 2016. The firm more than doubled its sales volume over this period.

The companies in Lesotho have distinctly different trade profiles. Electrical Firm exports its entire output to South Africa, with no domestic sales in Lesotho. About 95% of its output is already contracted to the South African distributor, and the firm is essentially a price-taker. The remaining 5% is sold to other South African distributors.

Electrical Firm imports almost all of its components from either South Africa or outside of SACU. There is no domestic sourcing of industrial inputs, because there are no suitable suppliers in Lesotho. This is despite the fact that the factory would prefer to source some simple inputs, such as screws, from local firms. It would also be advantageous to meet some of its pressing and moulding needs domestically.

While the firm currently has no domestic sales, the factory is in the process of recruiting and contracting a local vendor to distribute switches and sockets in Lesotho. This is driven by domestic demand from both local and international building contractors working in Lesotho, and the perceived quality of the firm's products. Once the vendor is contracted, the trade profile of the firm's factory will gradually change.

Due to its past contractual relationship with an international parent company, Stove Firm could only distribute cooking stoves in Lesotho, or beyond the borders of SADC, with the SADC market restricted to the parent company, an international conglomerate. As a result, the factory has developed marketing and distribution channels in the Netherlands, Cambodia and Uganda. When contractual relations with the parent company collapsed in 2014, the factory became independently owned and managed. However, its marketing presence in SACU, beyond Lesotho, remains negligible. The company is planning on expanding marketing and distribution activities within Southern Africa in the near future.

Lesotho has historically been the primary market for the cooking stoves manufactured by the firm, but export sales to destinations outside SACU surpassed domestic sales growth for the first time in the last three years. The company attributes this to the quality of the product, foreign market demand, and marketing and distribution activities in its priority export markets.

In terms of imports, the company buys components and/or assemblies from the SACU region and beyond. The main components are imported from South Africa, China and the Netherlands. These suppliers are preferred based on the service provided, the quality and price of products, and their willingness to vary production methods and quantities according to the firm's needs. Beyond the domestic sourcing of packaging, no domestic products are utilised in the assembly process. The firm attempted to use local bricks, but this contract was discontinued due the inconsistent quality of the products supplied. The supplier subsequently went out of business.

In Namibia, Pharmaceutical Firm is in the pharmaceutical and cosmetics manufacturing sector, and is 100% Namibian owned. This firm is categorised domestically as a medium-sized business with fewer than 100 employees and an annual turnover of no more than \$700,000. The second firm, Fishing Firm, is in the agro-processing sector. It has more than 80 permanent employees and 650 seasonal employees, and an average annual turnover of \$28.5 million.

The two Namibian firms also have differing export profiles. Pharmaceutical Firm only exports about 1% of its products, mainly to South Africa. Fishing Firm, on the other hand, exports 95% of its primary products, with 90% destined for SACU via South Africa and 5% for the UK. China is a market for most of the company's by-products. Both firms import most of their production inputs from or via South Africa and only source between 15% and 30% of inputs locally.

Pharmaceutical Firm has not yet succeeded in developing an export market, despite actively increasing its export focus over the last four years. Its main reason for targeting exports is because it generates excess production for the small domestic market. As a result, the firm is currently producing at less than 50% of capacity. Fishing Firm has been more successful in tailoring its production over the years with the specific purpose of serving and supplying the export market, and has established brands in South Africa through its relationship with its South African parent company. Namibia's small population is also unable to absorb the significant amounts of fish and by-products at the disposal of the company.

Pharmaceutical Firm only sources about 5% of its production inputs locally, with the remainder being imported from South Africa. Fishing Firm sources between 20% and 30% of its inputs locally, with the rest being imported from or via South Africa. The main reason for importing production inputs from South Africa is their non-availability locally. Sometimes the South African suppliers serve as agents for imports from international markets such as Brazil, China and India.

In Swaziland the two firms included in the study are in the agricultural/agro-processing sector. Agro Firm 1 is 100% Swazi owned and Agro Firm 2 is 70% owned by a German national and 30% by a Swazi national. Both companies produce, pack and export baby vegetables and high-value horticulture crops (including carrots, cucumbers, peas, butternut, potatoes, sweetcorn and beans) to South Africa and Europe.

Agro Firm 1 currently owns and cultivates about 70ha of land. It is located near a river whose water supply has continued despite the current drought. The operation

has been ongoing for the past 20 years and generates an annual income of about \$930,000. Agro Firm 2 leases land from a private owner and normally cultivates about 100ha annually. The company has been in operation since 2009 and generates an annual income of between \$360,000 and \$570,000. Yields (and revenue) were depressed in 2016 due to the severe drought experienced in the region. Both firms are independently owned and run, and have secured supply contracts with South African retailers.

The two agricultural firms also have similar trade profiles. Both export about 90% of their produce to South Africa and Europe (mainly the UK and France). Exports to South Africa are through a contract with a single major retailer, and the firms are effectively price-takers in the South African market. In order to access the European market they have secured Global Good Agricultural Practice (GAP) and Hazard Analysis Critical Control Points (HACCP) certification.

The international (European) markets are considered more desirable owing to the preferential market access granted to Swaziland, as well as the favourable currency conditions, which see to higher margins when compared to the regional and domestic markets. The firms estimate that they are able to get double the price (or more) for their produce in European markets when compared to the SACU market. They have also adapted to international demand by changing the range of produce cultivated. This is illustrated by the firms' export of sweetcorn to Europe, which has since seen increasing competition from other international suppliers.

Most of the firms are export-oriented, with the domestic market of much less importance

As a result they have diverted their sweetcorn to the South African market, while increasing exports of produce such as pumpkin and chilli to Europe. The balance of the produce is sold in the domestic market to retail shops and hotels.

The firms import most of their packaging material, farming chemicals, fertilisers and seeds from South Africa. In their experience these imports from South Africa (specifically packaging) are cheaper than local products, and limited domestic supply is available.

THE EXISTENCE OF REGIONAL VALUE CHAINS

A number of generalised findings emerge about the regional supply and value chains of these firms:

- Most of the firms are export-oriented, with the domestic market of much less importance. This is largely a reflection of the small domestic market in the BLNS. When the domestic market does account for a considerable portion of the firms' overall sales, this is often related to government/public sector procurement.

- There is little or no domestic sourcing of inputs for almost all of the firms used as case studies, beyond basic utilities and services. The exceptions to this are in the agricultural sector, where the firms, by their nature, must source their produce locally.
- Intermediate and primary goods used in the production or assembly process are imported from South Africa and beyond SACU, with little intra-BLNS trade across or along these value chains.

Intermediate and primary goods used in the production or assembly process are imported from South Africa and beyond SACU

- With the notable exception of the Botswana Cable Firm, intra-SACU exports of finished goods are almost inevitably destined for the South African market, with little intra-BLNS trade. This reflects South Africa's relative market size within the SACU region.

TRADE AND POVERTY ALLEVIATION

Poverty and unemployment in the BLNS are generally high, especially in Lesotho and Swaziland, with estimates suggesting that roughly one-quarter and one-third of these countries' respective labour forces are unemployed. The employment opportunities provided by the case study firms are therefore significant avenues for poverty alleviation.

In Botswana Pipe Firm employs 450 people, of whom 14% are women. The firm uses a semi-automated production process that accommodates both skilled and non-skilled workers. The proportion of skilled to non-skilled employees currently stands at 50:50. Cable Firm employs 72 people. The firm's policy is to try to employ as many unskilled female employees as possible. Currently, 17% of its employees are women.

Most of the workers employed by the Botswana firms are low skilled. While their wages are relatively low as a result, they are able to provide for basic needs such as shelter, food and clothing. Moreover, many of these employees support more than one household (extended families). For example, two of the women interviewed have 15 and eight dependants respectively. Both women are low-skilled employees. They were initially employed as cleaners, earning minimum wage. They have since been trained to operate machines and have seen meaningful increases in their wages.

In Namibia most employees of Fishing Firm are low skilled and support up to seven dependants. The majority of the seasonal employees in the fishery sector, constituting close to 90% of the workforce, are women. With more than 95% of output in the fishery sector destined for export markets, their employment and security depend directly on trade.

The firms in Swaziland employ 70 and 120 people respectively. In both firms, more than 80% of the employees are women, with the jobs primarily of a low-skilled or semi-skilled nature. Interviews suggest that most employees are the main breadwinners in their households, with each supporting up to six dependants.

Agro Firm 1 and Agro Firm 2 are both located in rural areas where poverty is rife. Their supply value chain contracts with a premier South African supermarket retail chain are regarded as a boon in these impoverished communities. Based on interviews with the employees, it seems that exporting firms pay higher wages than similar firms that do not export.

Through job creation, the companies offer their employees skill transfers and income security. Most employees joined the companies at the entry level and have since grown within them. Interviews suggest that the companies have centred their corporate social responsibility on the needs of their employees and their communities, including the provision of education, housing, sanitation and healthcare, where possible. The firms have built schools for the children of their employees, and a church. They also provide them with regular food rations, especially during periods of food shortages.

The firms based in Lesotho employ 170 and 49 local workers respectively. In both firms the majority of employees are women. Interviews with some of these employees indicated that their jobs helped to provide a stable household income, allow them to support extended family members, and, in some cases, save.

In Electrical Firm just over 90% of the workers are considered unskilled but have received valuable on-the-job training. Women supervisors are able to take charge of and control the operations of the company with minimum direction from the general manager. Similarly, in Stove Firm the factory relies heavily on unskilled labour, with close to two-thirds of the workforce considered unskilled. The workers here believe they earn far more than the minimum wage. Other non-wage benefits, such as limited access to the Internet during lunch hours, contribute to a positive working environment.

UTILISATION OF SERVICES

For firms in the BLNS countries the main services utilised are telecommunications, financial and transport. These services are generally sourced locally, although in some cases use is made of foreign-owned subsidiaries (primarily in the telecommunications and financial services sectors).

Over the past few years Botswana has faced significant electricity shortages. The country is a net importer of electricity, with a substantial amount coming from South Africa. Any regional shortage of electricity impacts negatively on the country's ability to provide a constant supply to end users. All manufacturing companies were affected by long power cuts caused by electricity rationing. Botswana also faces serious water shortages owing to low water levels in the major dams.

Pipe Firm uses large amounts of water in its production process. To mitigate water shortages, it has dug its own borehole for use in its production process. The company has also invested in its own trucking service owing to the bulkiness of its products and its frequent transport needs.

Both firms in Namibia source most services from either local providers or agents/subsidiaries of mainly South African companies, especially electricity, insurance, standard certification, transportation, labelling and packaging. Specialists needed for servicing specialised machines and equipment are sourced exclusively from South Africa.

In Swaziland, although expenditure on telecommunications is a comparatively small proportion of firm costs, both companies complain that the high costs and poor reliability of local service providers adversely affect profitability. This is especially the case given that customs and clearance procedures are now web-based.

For the firms in Lesotho transportation and freight costs are of greater concern; this applies to both the import of components and the shipment of assembled products to destination markets. For Electrical Firm, transport costs account for about 4% of revenue and have increased by over 54% in the last three years. The firm uses a local freight company for imports from and exports to South Africa. Stove Firm faces relatively higher transport costs, averaging more than 10% of its total revenue per year in the last three years. This is primarily due to the fact that key inputs are sourced in international markets, as well as to the relative weight of the assembled units.

CONSTRAINTS TO DEEPER INTEGRATION

Although all firms interviewed currently trade across SACU borders, they also experience a number of constraints in growing their businesses. These are summarised below. (More information on the specific problems experienced by each firm is provided in the appendices.)

Infrastructure

The agro-processing firms in Swaziland highlight electricity reliability as a major challenge. These firms operate packing houses that need power to maintain produce at a certain temperature once harvested and until it reaches the market. A back-up generator can cost up to \$5,000 (or \$360/month). Agro Firm 2 estimates that the unreliable electricity supply increases its monthly running costs by between 10% and 15%. The firms also need electricity to drive their irrigation systems. Swaziland currently relies on South Africa for close to 80% of its energy requirements. Shortages in energy generation in South Africa have affected the BLNS, forcing both firms to procure generators and diesel, thereby raising their production costs.

The accessibility of water is of further concern for agricultural firms in Swaziland, and the recent drought has raised challenges related to water resources and water

infrastructure. The two firms have had contrasting experiences over the drought period. For Agro Firm 2, water quotas have severely curtailed production, exports and earnings. Agro Firm 1, on the other hand, has experienced a good season owing to the fact that the river feeding the farm never dried up.

The Swazi firms also experience high communication and Internet charges, especially when compared with the costs of similar services across the border. This greatly impedes the ability of new and small businesses to enter regional and international markets.

Transport and logistics

The firms in Botswana found the quality of the road network between SACU countries to be generally good. They do, however, experience some problems as a result of low cargo volumes between Botswana and Namibia and delays at the Kazungula Border Post between Botswana and Zambia. The low cargo volume leads to high transportation costs, as most trucks carry loads one way only. Although the Kazungula Bridge does not fall within the SACU territory, it facilitates the import of raw materials (eg, copper) required in Botswana for intra-SACU trade. The Botswana ferry experiences frequent breakdowns, leading to long queues at the border.¹⁹

Firms in both Swaziland and Lesotho also highlight the high relative cost of transport (in the case of Swazi firms, this extends to air transport for perishable produce). This is attributed in part to infrastructure constraints (specifically road infrastructure), as well as the relative costs of logistics companies servicing these firms. The agro firms in Swaziland estimate that transport costs account for between 20% and 30% of turnover. For Lesotho's Stove Firm, transport costs are related to the distance of its export markets, and the distance of inputs (eg, China).

Namibia's Pharmaceutical Firm faces a unique challenge in that South African legislation currently prohibits the import of pharmaceutical products by road (apparently to reduce smuggling, mostly from Zimbabwe). The firm therefore has to export its pharmaceutical products to South Africa by air.²⁰ This inhibits its ability to sell in the SACU market.

Access to skills and domestic capacity

The firms in Lesotho report that skills shortages and inadequate domestic capacity have impacted their expansion decisions and ability to source goods locally. Specifically, Electrical Firm is contemplating the establishment of another factory

19 The new Kazungula Bridge is currently under construction and is expected to alleviate cross-border cost and congestion constraints between Zambia and Botswana.

20 The current regulations under the South African Medicines and Related Substances Act only designate Cape Town Airport/harbour, Port Elizabeth Airport/harbour, King Shaka International Airport/Durban harbour and OR Tambo (Johannesburg) International Airport as points of entry for medicines and scheduled substances.

for pressing and moulding, but is concerned that it will not be able to find the necessary skills to operate and manage this plant. Although 90% of the workforce does not require specific skills, the factory still faces challenges in sourcing skilled employees. This is because production relies heavily on artisanal and machine-setter skills, which are scarce in Lesotho. As a result, the factory has to call on the South African head office every time it encounters a problem. According to both firms in Lesotho, local vocational training and technical institutes do not deliver the skills that they require.

Both firms in Botswana experience shortages of experienced employees, particularly in specialist areas such as electrical and mechanical maintenance. To mitigate this, they train employees on the job. However, this takes time, is costly and impacts negatively on production. The firms argue that it is important to find a better balance between Botswana's localisation policy and the need to import skills that are not available in the country.

Likewise, one of the main challenges identified by the Namibian firms relates to the customs and immigration requirements applied to the importation of specialised services. This is especially the case for Pharmaceutical Firm when specific skills are needed from South Africa for pharmaceutical machine and equipment maintenance. Specialists are required to obtain work permits/business visas for a job that will typically last only about two hours. The process of securing these work permits/business visas can take up to a month, which can severely disrupt production.

Permits and standards

There is no unified standard or accreditation system in SACU, and national permits are therefore required for the export of certain goods. In Swaziland it was noted that the issuance of export permits could cause delays, especially when more than one agent was involved. For example, to obtain an export permit from the National Agricultural Marketing Board (Namboard), the exporter must first receive clearance from the Swaziland Revenue Authority (SRA). These boards are also responsible for controlling and charging a variety of licence fees and levies on exports and imports. These fees and levies create an additional cost to the farmers. The agro firms estimate that this international certification costs around 3% of their annual turnover.

In Lesotho the lack of an adequate standards system makes local product certification for export purposes difficult and more expensive. Electrical Firm carries South African Bureau of Standards (SABS) certification, with an annual cost of around \$5,714 for maintaining the standards through two audits a year. This certification is conducted by personnel from South Africa. Stove Firm utilises a certification body based in Germany for its product certification from Technischer Überwachungsverein (Technical Inspection Association). The company estimates that this costs \$100,000 once-off.

In Namibia the lack of harmonisation in standards and product registration requirements within the SACU region is a serious challenge for the pharmaceutical

sector. Pharmaceutical Firm noted that every SACU country's standard certification body has its own requirements and processes for each product. This process includes inspection of the manufacturing factory, which is conducted at the cost of the manufacturer. The firm also highlighted the lack of mutual recognition across countries, noting, as an example, that South Africa uses the Pharmaceutical Inspection Cooperation Scheme (PICS) and does not accept World Health Organization (WHO) standards, which are used in Namibia.

Cross-border challenges

In Lesotho the firms suggest that the upgrading and implementation of customs systems need to be coordinated on both sides of the border to reduce waiting times and lower the negative impact this has on firms exporting and importing.

While Lesotho has seen the harmonisation of value added tax (VAT) systems, this has not been implemented in Swaziland. As a result, exporters in Swaziland must pay the full VAT amount on exports into South Africa up-front, and then claim this back from the domestic revenue authority (in Lesotho VAT is offset at the border directly between the respective revenue authorities). The VAT claims process in Swaziland can take time and this affects the working capital and time costs of exporting.

TABLE 5 SACU MEMBER STATES' VAT RATES

COUNTRY	VAT RATE
Botswana	12%
Lesotho	14%
Namibia	15%
South Africa	14%
Swaziland	14%

Source: Based on data from Botswana, Ministry of Finance and Development Planning, <http://www.gov.bw/en/ministries--authorities/ministries/ministry-of-finance-and-development-planning1/>, accessed 15 February 2017; Lesotho, Ministry of Finance, <http://www.finance.gov.ls/>, accessed 15 February 2017; Namibia, Ministry of Finance, <http://www.mof.gov.na/>, accessed 15 February 2017; Swaziland, Ministry of Finance, http://www.gov.sz/index.php?option=com_content&view=article&id=277&Itemid=405, accessed 15 February 2017; South Africa, National Treasury, <http://www.treasury.gov.za/>, accessed 15 February 2017

Burdensome customs clearance procedures, system downtime and limited border hours are also highlighted as critical challenges for firms in Swaziland. For example, at times information has to be emailed to Pretoria from the Oshoek/Ngwenya border and responses are only received the following day. This leads to firms' missing delivery times and, sometimes, connecting flights for goods destined for European markets. As a result the quality of agricultural produce may be compromised. These

constraints can prevent companies from using Swaziland as an export base into SACU and beyond.

In addition, firms contend that the customs systems between Swaziland and South Africa are not harmonised. This means that for each export transaction, the companies have to make two official and separate declarations. When errors occur the entire load or container may be returned or delayed (by up to two days), affecting timelines and the quality of the produce.²¹

In Namibia a challenge specific to the pharmaceutical sector is the pre-inspection of every consignment destined for export, which again is conducted at the cost of the exporting company. In most cases, the cost of this inspection is not justified given the value of the consignment. Firms also noted a need to simplify export requirements in order to reduce the time spent crossing borders (such as the process required to release a consignment that has been confiscated).

Firms in Botswana suggest that there is insufficient political will to address cross-border challenges. For example, an agreement has apparently been reached to implement a paperless and efficient customs/border system throughout SACU to facilitate the ease of entry of goods at border posts. However, some countries have instead implemented new non-tariff barriers (NTBs) that contravene this commitment and inhibit the movement of goods. A number of additional and specific examples of NTBs were provided by the two firms from Botswana:

- **Unreasonable penalties when clearing goods at the border:** When goods are cleared, as normal practice, customs officials select certain truckloads for physical inspection. If the truck proceeds through the border without the requisite inspection being carried out, the firm is fined about \$360. The main challenge is that the customs officials sometimes do not communicate to the drivers that their trucks have been selected for physical inspection, leading to unnecessary fines.
- **Penalties on the re-import of repaired goods:** When firms import goods from other markets, particularly machinery and equipment, they may return goods to the supplier for repair if these are found to be defective. The policy requires that returned goods be re-imported into the country within one month. However, sometimes the repair takes longer, leading to the company's applying for an extension. The request for extension is normally denied and the firm is fined approximately \$70 when the goods are finally returned to Botswana.
- **Delays in obtaining import/export permits:** One of the firms interviewed has established another company, dealing with furniture fittings. The new company sources its raw materials from South Africa, and requires an import/

21 This is apparently being addressed by the SACU Connect project on trade facilitation. The South African–Swazi border was the first to be piloted for connectivity. Systems are in place for the exchange of information and Swaziland's Parliament has recently passed the relevant legislation to enable the system. It was anticipated that this project would roll out to all SACU member states by March 2017.

export permit. Although the application process for the import/export permit is supposed to take 30 days, it can take up to six months.

- **Charges of \$364–\$455 for overloaded trucks in Namibia:** This is largely because weighbridges in Botswana are often not functional, leading the firm to (incorrectly) estimate axle load.

Access to finance

Although the Ease of Doing Business rankings suggest that SACU member states do not experience significant challenges in accessing finance, all firms cited financing (at different stages of the production and trade process) as a potential constraint. For the agricultural firms in Swaziland this related, in part, to VAT issues, and the fact that they have limited access to short-term bridging and trade finance. In addition, drought conditions have severely impacted the short-term financial sustainability of one of the firms, and it has not been able to secure short-term financing to overcome this problem.

Similarly, in Lesotho one firm faced challenges in securing finance to expand operations, despite its good credit history and recent growth.

Firms in Botswana noted that access to bridging finance and working capital could at times constrain their ability to meet market demand. For example, one of the firms has a capital cycle of 120–150 days. This often causes working capital gaps, forcing it to source bridging finance from financial institutions, which can be very costly.

OPPORTUNITIES TO IMPROVE INTEGRATION

The challenges identified by firms could be alleviated by implementing a number of SACU-wide projects or reforms. Some specific opportunities, identified by the firms included in the case studies, are summarised below. Once again, more detail is available in the appendices.

Improving customs procedures between SACU member states

Ideally, a fully functional customs union would have little to no restriction on the movement of goods across borders. However, all firms included in the review highlighted customs and border challenges as significant impediments to efficient and cost-effective trading.

Between Swaziland and South Africa, firms highlighted inefficiencies in the documentation process (which often required border officials to access and retrieve documents from the South African Revenue Service [SARS] head office) as causing significant delays in the export and import process. In addition, the lack of harmonisation of VAT systems means that additional paperwork is required. Firms suggested that systems between the two countries should be linked directly to each other to reduce the red tape and the complexity of the process. Harmonisation of

VAT procedures would also serve to ease the financial burden on these firms, as this would likely speed up the VAT refund process and reduce their working capital requirements.

Notably, firms in both Lesotho and Swaziland suggested that a 24-hour border facility with South Africa would ease the cost of exporting, especially for firms exporting perishable goods and those with short turnarounds.

Likewise, the firms in Botswana suggested that improvements in overall customs efficiency between SACU member states could be achieved through the implementation of one-stop border posts. Currently, firms must engage clearing agents on both sides of the border. This increases not only the cost of clearance but also the clearance processing time. An alternative suggestion was that SACU countries could develop a border agency cooperation project where countries could cooperate to fast-track service provision at border posts. Some of the areas of cooperation could include pre- and post-arrival clearance to ease congestion at the border, as well as the establishment of a dedicated window to deal with urgent goods.

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Easing the movement of business people

Firms in Botswana and Namibia expressed a need for easier access to skilled specialists, particularly for servicing and repairing machinery and equipment. Delays in securing the required work permits and visas for specialist personnel, especially in the case of Namibia, were highlighted as a serious challenge. It often takes longer to secure the required permits than to repair the equipment.

Harmonising standards and regulations

In Lesotho firms suggested that simplifying and harmonising regulations to facilitate access to best-practice risk management services, especially sophisticated insurance products, would help them to access the type of financial and insurance products required. Such harmonisation extends to a range of sectors, including agricultural products.

In the telecommunications sector, firms in Botswana and Swaziland highlighted the cost of communications. In addition, the cross-border (roaming) rates charged by service providers are extremely high. While firms have suggested that Swaziland needs more competition in the telecommunications industry, the SACU region may also consider a harmonised framework for telecommunications operators, dealing with issues such as SACU-wide roaming rates.

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Investing in infrastructure across SACU member states

SACU remains heavily reliant on South Africa's electricity production. Shortages in capacity in South Africa have had a detrimental knock-on effect in the BLNS. The security (and cost) of the electricity supply was highlighted as a key challenge by the firms in Botswana and Swaziland, and this is confirmed by the Ease of Doing Business rankings.

Firms in Botswana also viewed collaboration in water and electricity projects as important for regional cooperation. It is necessary to identify specific projects within countries and ensure that all SACU countries support this regional effort. An example used was Botswana's Mmamabula electricity generation project, which intended to export about 80% of electricity generated, mainly to South Africa. This project is perceived to have failed due to a lack of regional support.

Given the increased impetus in renewable energy projects, further investment in energy infrastructure in each of the BLNS countries could be considered. This would serve to increase reliability across the SACU region while reducing the BLNS's dependency on South Africa (and Eskom).

A number of other infrastructure constraints were identified for potential investment. These included improving road (and possibly rail) networks between Swaziland and South Africa, and water and dam infrastructure for the agricultural sector in Swaziland. Similarly, firms in Botswana and Namibia noted that investment in transport infrastructure, particularly rail transport, should be considered at the regional level. For example, there is currently no direct rail link between Botswana and Namibia. Such a link could facilitate increased bilateral trade and divert traffic from the Durban port, thereby reducing congestion and improving lead times for deliveries. The rail link between Botswana and South Africa was also viewed as insufficient, limiting the ability of firms to transport bulk goods.

Supporting trade through finance

Firms in both Lesotho and Swaziland highlighted the lack of access to short-term (bridging, trade) and long-term finance as a constraint to growth and sustainability. A regional trade and bridging finance facility could reduce the cost of trading for firms in BLNS countries and enable them to use SACU as a springboard to access international markets.

A SACU-wide fund could also support existing development entities in BLNS countries. This includes, for example, supporting the LNDC in its initiatives to

develop local industrialists through the provision of capital financing. Firms in Botswana suggested that the possibility of a regional trade finance institution should be explored to facilitate access to finance at a regional level. This institution could also play a role in assisting companies with bridging finance and export credit guarantee programmes.

Firms in Namibia suggested that existing financial institutions, especially those established by the government (the Development Bank of Namibia and the SME Bank) should introduce industrial development programmes with preferential terms and conditions to promote competitiveness. These principles could also be considered in a SACU-wide industrial development funding mechanism.

Value chain development and market access in agriculture and other sectors

Firms in Swaziland suggested that a cross-border clustering approach to production services could reduce costs in the agriculture sector. This could, for example, focus on the establishment of a regional facility to provide access to key farming inputs such as fertiliser, seeds and equipment.

SACU-wide export promotion activities, supporting deeper interaction between SACU country chambers of commerce and public–private programmes to support supplier development in the BLNS, might help to improve market access for firms located in the BLNS

A number of firms in the BLNS also highlighted challenges related to market access. This is either because these firms do not have adequate market knowledge of the broader SACU region or because they are ‘locked out’ of SACU distribution or retail chains, which are dominated by South African firms. These distribution and retail companies’ supplier procurement is often centralised in South Africa, resulting in BLNS firms either having to export to South Africa in order to supply their own domestic market or not being able to effectively access these supply chains at all.

SACU-wide export promotion activities, supporting deeper interaction between SACU country chambers of commerce and public–private programmes to support supplier development in the BLNS, might help to improve market access for firms located in the BLNS.

CONCLUSION

Analysis of current trade patterns in SACU suggests that exports from the BLNS are generally low and concentrated in a small number of products. South Africa, on the other hand, exports a much larger and more diversified range of products to

the BLNS. It is also the dominant market in the region. The development of intra-SACU value chains therefore depends largely on the ability of firms in the BLNS to develop stronger linkages with firms (buyers and suppliers) and end-consumers in South Africa.

Unfortunately, it does not appear as though the customs union, as it is currently structured, is optimising conditions for exporting. It is telling that the most severe trade constraint cited by all the firms is getting their goods across the internal (SACU) border, and not to foreign markets

The case studies largely confirm this analysis. Most of the firms interviewed depend on the South African market for almost all of their inputs, and for a large proportion of their sales. Their ability to grow is therefore severely constrained by the lack of competitive skills and inputs in their home countries (or their inability to access these skills and inputs competitively across SACU borders). It is, however, interesting to note that some of these firms export to both South Africa (as their primary export market) and international destinations beyond Southern Africa. This suggests that these firms can compete internationally under the right conditions.

Unfortunately, it does not appear as though the customs union, as it is currently structured, is optimising conditions for exporting. It is telling that the most severe trade constraint cited by all the firms is getting their goods across the internal (SACU) border, and not to foreign markets. Whereas some improvements have been implemented between Lesotho and South Africa, this only applies to the VAT refund process. In all other aspects there are dual border processes between union members. Moreover, these processes do not appear to be particularly efficient, and serve to raise rather than reduce trade facilitation costs in the region. Based on the information provided by this limited number of firms, there is also evidence of numerous and in some cases prohibitive non-tariff barriers in place between SACU member states.

Many domestic challenges also raise the cost of exporting within SACU. These include:

- infrastructure constraints, specifically in energy, water and irrigation;
- insufficient standards harmonisation and product certification facilities;
- lack of short-term trade finance;
- lack of access to management, supervisory and other specialist skills (such as artisanal and maintenance specialists, highlighted in the case studies) together with constraints on the movement of businesspeople in the region; and
- high costs of key service inputs, such as transport and telecommunications.

One of the main purposes of this research has been to identify specific projects where a regional approach, or a SACU development fund, may be able to assist in growing

intra-SACU value chains. The firms interviewed identified a number of potential investment projects. While some aspects of these investments relate directly to the firms' specific challenges, they also highlight more general opportunities for value chain development through increased domestic (local) procurement:

- Production of screws for local and regional markets: Currently, most screws used by the firm included in this study are imported from Asia. Electrical Firm uses more than 40 million screws annually and would source this input locally if there were a competitive supplier in Maseru.
- Establishment of a pressing and moulding plant in Lesotho to supply the local industry and to export to other SACU members.
- Investment in the renewable energy and water sectors, notably in Botswana and Swaziland, to address rising costs of and shortages in electricity and water supply.
- Investment in cross-border transport infrastructure and, in particular, the expansion of the regional rail network.
- Improved access to regional distributors and retailers: Distributors and retailers often centralise their sourcing and points of regional distribution in South Africa, making it difficult for producers in the BLNS to effectively access critical distribution chains.

All of these opportunities require further exploration. SACU (or a regional development finance institution) could assist in funding feasibility studies. However, most of the opportunities for improvement identified by the firms are cross cutting and would require either substantive reforms to SACU or the development of SACU-wide rules or facilities. These could include:

- Harmonising standards and regulations or developing a common SACU accreditation process or institution.
- Increasing competition or improving regulation in critical network services, such as transport and telecommunications.
- Improving access to skills, and particularly management and supervisory skills, possibly through the negotiation of a SACU movement of people agreement. This may also require the development of mutual recognition agreements for key skills and sectors. Related to this is the fast-tracking and reform of SACU's approach to trade in services in general, including the acceleration of the SACU Secretariat's work programme in this area.
- Ensuring more efficient border controls and systems, including establishing at least one 24-hour one-stop border post between each SACU member state. Such border posts need to facilitate the inclusion of SMEs and women, which form the majority of cross-border traders (in absolute number terms). This could be done by, for example, providing information centres, childcare facilities and adequate sanitation facilities.
- Establishing a SACU-wide border agency cooperation or trade facilitation project to address inefficiencies and the prevalence of unnecessary NTBs at SACU borders.

- Reducing the need for trade finance (through better VAT refund procedures) and making trade finance more widely available in SACU (through a regional trade finance facility, or possibly by extending the mandate of existing development finance institutions in South Africa). Finance provided to SMEs should be accompanied by adequate technical assistance to enhance their ability to effectively utilise this resource.
- Establishing a regional agriculture finance facility to provide financial support to the agricultural value chain (this could enable more efficient procurement of key inputs such as fertiliser, seeds and equipment).
- Establishing a SACU-wide database/portal of firms participating in intra-SACU import and export activities in order to facilitate the development of SACU value chains and the participation of SMEs.

Progress in any or all of these areas would bring marked benefits to all of the firms interviewed, and would certainly assist in strengthening the intra-SACU value chains in which they currently operate. More importantly, these changes would contribute to significant improvements in the overall business environment in SACU and would likely lead to the generation of many more cross-border opportunities. This would help to take SACU forward in meeting its objective ‘to promote the integration of Member States into the global economy through enhanced trade and investment’.²²

Meaningful economic reforms in SACU will, however, be difficult to negotiate and implement. Inevitably, the immediate costs and benefits will not be distributed equitably among member states, and some investment will be needed in new systems, regulations and infrastructure. The establishment of a SACU development fund, out of the existing revenue sharing arrangement, therefore presents SACU with a unique opportunity. Such a fund could finance the direct costs associated with agreed reform or investment initiatives while protecting individual member states from the unintended consequences of any adverse change.

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These results suggest that SACU should consider a much broader approach to the deepening of intra-regional value chains. Rather than focusing only on the identification and financing of individual projects that may serve the interests of specific countries and firms, it should first try to identify and alleviate the regulatory

22 SACU, *op. cit.*

and infrastructure barriers that currently impede trade and investment flows across all sectors. A SACU development fund could play a critical role in funding regional economic infrastructure and trade-related reforms. In doing so, the fund would likely increase the number and feasibility of individual investment projects emerging to take advantage of improvements to the regional business environment.

The mandate, feasibility and possible structure of a SACU development fund are explored in more detail in a separate GEG Africa report. This parallel paper²³ includes a brief review of the focus and performance of regional development funds, as established elsewhere.

23 Unpublished.

APPENDIX 1 BOTSWANA: CASE STUDIES

PIPE FIRM

Background information

Pipe Firm started operations in Botswana in 1998. It manufactures and distributes HDPE, PVC, PVC-U²⁴ and sewer pipes and roto-moulded products. It also supplies pipes for manufacturing borehole casings and screens. The firm's main manufacturing plant is in Lobatse, Botswana (about 60km from Gaborone) and another plant is in Johannesburg. Both plants are ISO 9001:2008 certified. The firm has subsidiary companies in South Africa and Angola. It is 100% foreign owned and has an annual turnover of BWP 300 million (\$27 million) with 450 people employed in Botswana. A total of 50% of its employees are skilled.

The production line is a semi-capital intensive production process. The main raw materials are PVC resin, chemicals and additives. The production process involves mixing all the raw materials together in a mixer, which is then extruded in an extruder machine to shape the pipes. The main product, which accounts for 90% of production, is PVC piping (HS code 39172990). The company also produces water tanks (HS code 3925106). When it started operating, it produced 50 tonnes of pipe per month. Production has now grown to 1 600 tonnes per month.

Firm's trade profile

At first the company mainly serviced the local market, exporting only 5% of its output. Over the years it has grown substantially and increased its share in the export market. Exports now account for 60% of total output. However, the local market is still important, as it contributes BWP 120 million (\$11 million) towards revenue.

The domestic market mainly consists of government tenders through Botswana Water Utilities Corporation and contractors working for the corporation. The advantage of the tender system is that, once a tender is awarded, the firm is guaranteed supply and payment. The pricing strategy for the local and export market is the same. This is to prevent Botswana consumers from buying products in South Africa, which is the main export market, in search of better deals. All the raw materials are imported from South Africa, as they are not available locally.

Firm's trade within SACU

The major export market, South Africa, accounts for about 90% of total exports. A small amount of these exports are re-exported to Swaziland and Lesotho through the South African subsidiary company. A total of 4% of total exports are sold in Namibia and the remaining 6% in the other SADC countries. The firm exports

24 HPDE: high-density polyethylene, PVC-U: polyvinyl chloride-unplasticised.

PVC pipes and water tanks. The products are finished products and are therefore not used in other manufacturing processes either locally or in the export markets.

The firm has an export expansion plan, but mainly for the SADC market, targeting Zambia and Mozambique in particular. The expansion plan is aimed at mitigating the risk of dependence on South Africa. Other SACU members have small economies and therefore demand in these countries is low.

Its main competitors are other manufacturers in South Africa. Competition from India and China is evident in the SADC region, but only to a minimal extent within SACU. The major raw materials – PVC resin, chemicals and additives – are imported from South Africa, as they are not available in Botswana.

Services sector

The firm transports its raw materials from South Africa and its finished products to local and external markets. It has invested in its own transportation (trucks) and therefore uses a lot of road infrastructure. Internet usage is also an integral part of the business and is used to communicate with suppliers, clients, staff, etc. Most of its import and export documentation is processed via the Internet or email.

The production process requires substantial amounts of energy, which is supplied locally by Botswana Power Corporation. The firm used to rely on water from Botswana Water Utilities but it has since invested in its own borehole to circumvent the water shortages encountered in the country.

Overall, the firm does not have serious challenges with services. The major issue affecting it is the movement of people. It employs some managers based in India, who need to frequent its South African office. They often experience challenges in getting visas to enter South Africa. The firm has suggested the possibility of exploring a visa for the movement of businesspeople within SACU countries to ease visa challenges.

Challenges identified by the firm

The major challenges faced by the company are as follows:

- The major domestic market for its PVC pipes in Botswana is Water Utilities Corporation and the corporation's contractors. Lately there have been delays in the awarding of projects/tenders, affecting local demand. Hence the need for the firm to continue its efforts to explore alternative export markets.
- There is a serious shortage in Botswana of the skills required by the firm, particularly in electrical and mechanical maintenance. It is therefore trying to train staff, but this takes time.
- The firm's working capital cycle is 120–150 days. This sometimes poses some financial challenges. However, it can get bridging finance from financial institutions, which many local companies are not able to do.

- The firm sometimes experiences NTBs when clearing goods at the border, particularly on the South African side. When goods are cleared, customs officials normally select certain truckloads for physical inspection. If the truck proceeds through the border without the inspection's having been carried out, the firm is fined ZAR 5,000 (\$455). Sometimes customs officials do not communicate to the drivers that their trucks have been selected for physical inspection, leading to fines on the firm.
- There are issues with goods/items that are sent to South Africa for repairs. Returned goods should be re-imported into the country within one month, yet repairs may take longer than a month, leading to the firm's applying for an extension. The request for extension is normally denied and the firm is fined ZAR 1,000 (\$71) when the goods are finally returned to Botswana.
- The firm sometimes experiences delays at the border, mainly when customs' operational system is down or when there is a lot of traffic. The firm was unable to quantify the cost of the delays.
- As part of the firm's diversification strategy, it has established another company that mainly deals with furniture fittings. The new company requires an import/export permit to trade between Botswana and South Africa. The application process is supposed to take 30 days, but at the time of writing it had been six months since the company applied for the permit. This inhibits the operations of the new company.
- The firm did not have any issues with soft constraints such as licensing/regulatory requirements, compliance, etc.

Firm perspectives on SACU integration

The firm believes that regional integration provides an opportunity for greater and faster access to many services and raw materials. For example, the PVC material required for the PVC pipe manufacturing industry could be manufactured in the SACU region. Opportunities exist for recycling plastics and old PVC products to feed into raw material production. The firm believes that several opportunities could be explored, but all of these are dependent on the cooperation of all SACU countries. Examples given were in large infrastructure projects: electricity, rail, water and broadband infrastructure.

Border challenges and hidden border costs need to be looked at, as certain countries tend to impose unnecessary charges. The main objective should not be revenue collection but the efficient transit of goods and services. Projects around border facilitation should therefore be explored.

Employment and poverty alleviation

The firm pays salaries that are above the minimum wage. The minimum wage for the manufacturing sector is BWP 5.46 (\$0.50) per hour or BWP 960 (\$87) per month. The firm pays an average pay of BWP 1,200 (\$109) per month for unskilled labour, while the pay for operators ranges between BWP 2,000 (\$182) and BWP 3,000 (\$273). Supervisors earn between BWP 5,000 (\$455) and BWP 6,000 (\$545).

About 50% of the staff can be classified as non-skilled. The firm hires unskilled labour and trains them on the job.

From the employees' perspective, the company has impacted positively on their skills, knowledge and experience. All three employees interviewed mentioned that if they were to leave the company, they could use the skills acquired to find another job.

The firm's employees believe the export market contributes a lot to its ability to sustain their employment. However, they noted that living costs in the country have increased over the years with minimal movements in salaries in the whole economy, limiting their ability to provide fully for their families. One of the employees interviewed is a young woman with two children. She is able to support her family on her salary, although it is not sufficient to provide for all their needs. Another employee supports a family of five. Both are the only breadwinners.

CABLE FIRM

Background firm information

The company started operating in 2002, producing electrical cables. When the company started operations in 2002, its annual turnover was BWP 1.8 million. This has increased to over BWP 90 million per year. The company has witnessed a minimum annual growth of around 15% since inception, propelled by re-investment into the company and local market demand. When the company started operations, it produced BWP 150,000 worth of electricity cables per month – today it produces BWP 8–9 million per month. The company employs 72 employees, 65 of whom are locals and 7 expatriates. A total of 17% of the employees are women. Most of the women are non-skilled workers who were initially employed as cleaners, but over the years they were trained to operate basic machines that require minimal skills. The ownership structure is 33% local and 67% foreign.

The company imports raw materials from South Africa (PVC) and Zambia (copper). It uses a wire drawing process to convert PVC from an 8mm to 0.2mm size. The wires are stranded together to make a copper conductor and then taken through an extrusion process. The company mainly produces two types of cables: the normal three-strand electricity cable and armoured cable (SABS 1507 part 1-6; SABS 60227, SABS 182 and SABS 1418). The production process is a highly skilled one, but there are certain processes for which unskilled labour can be trained. The company considers its production process to be capital intensive.

Firm's trade profile

Most (67%) of the company's input is sold locally, and the rest in Namibia. The company does not sell directly to end users but only supplies dealers. It believes the local market will continue to play a key role in its business strategy. This is mainly because it has built a strong brand that is preferred by most customers in Botswana. Over the years it has also built a loyal client base that it believes will continue to

support its products. Between 2002 and 2008 the company supplied all its products locally. It was only in 2009 that it started exporting to Namibia.

The company has explored several export markets, including South Africa, Angola, Zambia and Zimbabwe, but it is currently only exporting to Namibia. It has not explored the Swaziland or Lesotho markets due to the size of the economies and the resultant lack of purchasing power. It will continue exploring regional markets, as exports to both SACU and SADC are duty free. Its only concerns are the risks associated with some of the SADC countries and transport logistics, including border logistics.

Firm's trade within SACU

The main reason for its preference for the Namibian market is that a marketing company there effectively markets its products. However, the export market is currently not lucrative owing to the high transportation costs. Many companies in Botswana have decried the high transportation costs to Namibia, mainly caused by low transport volumes between the two countries. This means that trucks only ferry goods in one direction, and return empty. This disadvantages truck companies, as they are not able to spread their transportation costs.

The prices that are offered to the marketing company in Namibia are similar to those in the local market. The firm says it rarely negotiates prices with customers, as it tries to ensure that it gives customers the best possible price. It understands the end user pricing for its products and therefore offers competitive prices to ensure suppliers can compete in both the local and the export market. The company supplies finished products and its products are thus not used as inputs in other manufacturing processes. The products are used in the construction industry in Botswana and Namibia.

In terms of the company's trade relationships in SACU, it currently only sells in Namibia. Logistically this is easier for the firm as it has a marketing partner there. Although South Africa is the biggest market within SACU, the company has avoided it due to the fierce competition. Its competitors in South Africa are much bigger and have more market power. The company believes other opportunities can be explored within SACU, including the manufacture of electric transformers and fibre-optic cables.

The company imports its raw materials (PVC and copper) from South Africa and Zambia. PVC is not available domestically. Botswana mined copper ore for many years but the mining company did not process any of the ore to a state where it could be used in production processes, and all the raw copper was exported for processing overseas. The mining company has since gone into voluntary liquidation and it is not possible to assess its potential to process the raw material to a stage where it can feed into the company's production process.

The export market contributes about 33% (BWP 30 million [\$2.7 million]) of total revenue, which has contributed to the firm's ability to pay its employees slightly higher wages. As a rule, employees at first earn minimum wage, but are awarded

annual increases. For example, an employee who was employed as a cleaner earning BWP 692 (\$63) per month seven years ago now earns BWP 2,700 (\$245) per month. Generally, employees who have been with the company for 10 years earn an average of BWP 3,000 (\$273) per month. Minimum wages in Botswana for the manufacturing sector currently stand at BWP 5.46 (\$0.50) per hour, which translates to around BWP 960 (\$87) per month.

Services sector

The firm currently does not have problems with services, and mainly uses electricity and transport. A year ago the company witnessed serious production disruptions due to electricity shortages in the country. The production delays caused by the electricity shortage were exacerbated by water shortages. While the firm does not use water in its production process, the shortage meant that employees had no access to potable water and could not continue working.

The firm also uses telecommunications and Internet services, which are supplied locally by Botswana Telecommunications Authority.

Challenges identified by the firm

- In 2016 the firm did not face many hard constraints in terms of, for example, electricity, water or the quality of the road network. The only issue identified was delays at the Kazungula Border Post, associated with ferry problems. The only ferry that can transport trucks across the river is the Botswana ferry. However, it experiences frequent breakdowns, leading to long queues at the border. This sometimes affects the firm's copper imports from Zambia. The firm was not able to quantify the costs of the border delays.
- The firm occasionally faces capacity and skills constraints, especially where such skills are not available in the country. Botswana's stance on the issuance of immigration and labour permits is currently fairly stringent.
- The firm sometimes pays charges of BWP 4,000–5,000 (\$364–455) for overloaded trucks in Namibia. The major challenge is that weighbridges in Botswana are not functional most of the time, leading the firm to having to estimate axle load.
- The possibility of Botswana's running into electricity and water challenges could be a major threat for the company. Botswana is currently a net importer of both electricity and water, mainly from South Africa. Should South Africa face any challenges with its water and electricity supply, Botswana would automatically be affected.

Firm perspectives on SACU integration

The firm believes that there are opportunities for long-term investment and intra-SACU trade. However, most of these opportunities require funding. It pointed out that countries needed to steer away from attracting investors who are after quick money, as this limits their investment scope. Instead, opportunities should be determined by individual countries' comparative advantage. The firm also believes

comparative advantage can be created. The example given was Japan, which the firm believes has managed to build efficient industries through creating comparative advantage. One of the possible comparative advantages in Botswana is the supply of raw materials such as copper. There are opportunities for refining copper ore into processed copper, which can immediately be used in downstream copper industries.

Other key projects identified by the firm are those within clusters or value chains. For example, it believes that, with regional support, it could expand its production to include product lines such as electricity transformers and fibre-optic cables. Investment in regional infrastructure projects such as rail/road transport, electricity and water could ensure undisturbed access to services, thereby facilitating production and increasing regional trade.

Another way in which opportunities within SACU can be enhanced is the elimination of NTBs. The regulations imposed within SACU and individual member states should favour both domestic and foreign investment.

Employment and poverty alleviation

One of the company's key policies is that of employment creation. When purchasing equipment, it tries as far as possible to opt for manual or semi-operated machinery that non-skilled staff can be trained to operate. Due to the sensitivity of the production process, it takes three to four years to train machine operators. The extrusion and wire drawing process requires eight to 10 years of experience.

The firm has 72 employees, 65 of whom are local. Of this 65, 12 are women. The company prefers to hire low-skilled workers and train them to become machine operators. This has assisted several employees who would otherwise never have gotten such an opportunity. For example, two employees who were interviewed joined the company as cleaners. They have since been trained and promoted to operate light machinery. One has 15 dependants, and the other eight. The employees believe that they have acquired the skills and experience that will enable them to look for other jobs should the need arise. When they started working for the firm, they felt the wages were very low. But as the firm continued to grow, they have been receiving annual increases.

APPENDIX 2 LESOTHO: CASE STUDIES

ELECTRICAL FIRM

Background firm information

The company is based in Maseru West, Lesotho and was established in 2007. It is part of a Johannesburg Stock Exchange-listed group and assembles electrical switches and sockets (HS code 8536).

In each of the last three years, the factory has shipped an average of 700 000 switches and 1.3 million sockets. Over the same period it earned more than ZAR 66 million (\$4.71 million) each year in revenue, as shown in Appendix Table 1.

APPENDIX TABLE 1 TOTAL COMPANY REVENUE		
2014	2015	2016
ZAR 65 872 610 (\$4,705,186)	ZAR 69 164 203 (\$4,940,300)	ZAR 70,197,602 (\$5,014,114)

Source: Company finance department, 2016

The factory currently employs 170 workers, most of whom are unskilled women. Appendix Table 2 summarises the gender and skill breakdown of the firm's employees.

APPENDIX TABLE 2 EMPLOYMENT BY GENDER AND SKILL LEVEL			
GENDER	SKILL LEVEL		
Male	15	Skilled	7
Female	155	unskilled	163
Total employees	170		

Source: Company finance department, 2016

Out of this total headcount, 50 employees were employed on a contract basis while the rest were permanent.

Firm's trade profile

The firm imports its components and assemblies primarily from South Africa. The major import products are summarised in Appendix Table 3.

APPENDIX TABLE 3 VOLUME OF MAIN IMPORTS BY TYPE AND YEAR (NUMBER OF				
PRODUCTS	2014	2015	2016	AVERAGE ANNUAL GROWTH RATE
Plastic covers & bases	45 953 692	46 895 201	51 269 261	4%
Metal plates	25 695 326	28 698 742	31 826 692	7%
Screws	35 269 326	36 721 125	40 152 692	4%
Springs	65 897 562	69 365 256	70 215 622	2%

Source: Company finance department, 2016

The firm has seen the strongest growth in its import of metal plates (7%), followed by screws and plastic covers and bases. It imports these components and assemblies owing to a lack of suitable suppliers in the local market. It would prefer to source some imports locally, such as screws, and possibly set up a 'pressing and moulding' plant. Cheap labour and skills, compared to South Africa, are key considerations for its investing further in the country.

The firm also exports all its finished goods to South Africa. About 95% of the factory's output is contracted and sold in bulk to a single firm in South Africa, which then redistributes to retailers. The remainder is sold to retailers and other distributors in South Africa.

APPENDIX TABLE 4 VOLUME OF EXPORTS BY TYPE AND YEAR (NUMBER OF UNITS)			
PRODUCTS	2014	2015	2016
Extension cords	25 000	30 000	45 000
1 lever	459 263	465 321	435 692
2 lever	459 263	465 321	435 692
3 lever	253 152	270 236	231 871
Single socket	592 161	498 621	401 261
Double socket	625 162	698 147	602 147
Industrial socket	256 231	301 502	241 247
Stove isolator	115 632	130 625	98 258

Source: Company finance department, 2016

Firm's trade within SACU

The firm imports all components and assemblies from South Africa and sells all its output in the same market.

The firm manager indicated that one of the firm's main concerns is the legal and illegal import of competing products into the SACU market, primarily from Asia. In terms of illegal imports these relate to products that are not (or are falsely) approved by the relevant local standards authority.

The firm also sees opportunities for strengthening its trade within SACU. These include:

- Setting up a pressing and moulding plant in Lesotho to supply the local industry, and export to the region.
 - » The challenge in going ahead with the project is the lack of local boiler-making skills. Skilled boilermakers in South Africa are not willing to settle in Lesotho to help set up the plant and mentor the locals. The project thus becomes risky, owing to the uncertainty over retaining skills.
 - » The firm believes that the solution lies in a closer partnership with and coordination between the government and industry in attracting, retaining, training and mentoring the skills required. It suggests that more generous deductibles for companies, tax breaks and co-payment can be used as incentives to encourage the implementation of such a project.
- Localising the production of screws.
 - » Here the challenges are skills, access to project finance by locals, and standards infrastructure.
 - » Harmonising, facilitating cost-effective access to best practice standards infrastructure in the region, mobilising local savings from the pension and other collective investment schemes, and recognising on-the-job training for workers through a credible certification process are required.
- Another opportunity is to diversify the market and open a distribution centre in Maseru, as some building contractors have repeatedly advised.
 - » The challenge is to recruit the right partner that is well capitalised to hold inventory.

Services sector

A summary of the main services utilised by the firm is provided in Appendix Table 5.

APPENDIX TABLE 5 TYPE OF SERVICES UTILISED AND COST TO COMPANY (FINANCIAL YEAR)			
	2014	2015	2016
Energy	ZAR 441,398 (\$31,528)	ZAR 443,035 (\$31,645)	ZAR 546,509 (\$39,036)
Telecommunications (voice and data)	ZAR 144,984 (\$10,356)	ZAR 168,269 (\$12,019)	ZAR 208,956 (\$14,925)
Transportation (imports and exports)	ZAR 1,598,263 (\$114,162)	ZAR 2,052,963 (\$146,640)	ZAR 2,469,362 (\$176,383)

Source: Company finance department, 2016

The company has been spending between ZAR 440,000–550,000 (\$31,430–39,290) per year on electricity from the Lesotho Electricity Corporation (LEC), representing about 1% of its annual revenue. All services are sourced locally at competitive prices.

Challenges identified by the firm

The firm faces a number of challenges, both domestic and cross-border:

- Skills shortages: Lesotho-based vocational training/technical institutes do not produce the type of skills required to operate and maintain the plant.
- Lack of local suppliers for basic components and assemblies: The firm suggested that domestic sourcing of supplies would save time, and lower transportation and warehousing costs.
- Lack of standards infrastructure: Those that seek to participate in the supply chain need to have their products certified. This is a challenge to local firms and producers.
- Cumbersome customs processes: The tax authorities on both sides of the border need to better coordinate and synchronise the implementation of new systems, to avoid regular disruptions for importers and exporters.

Firm perspectives on SACU integration

From the firm's perspective, deepening SACU integration means doing more business with suppliers based in the region, cost effectively, and having access to the SACU market beyond South Africa. From a product perspective the firm has identified areas for value chain development, including:

- Screws should be manufactured and supplied in SACU, preferably in Lesotho. The final product can then supply local industry and other firms in the region.
- Steel pressing and plastic moulding should also be based in Lesotho for export into the region and to supply the firm's own needs.

In terms of services the firm suggests that distribution and marketing services are required in Lesotho to diversify the market.

Challenges could be addressed through:

- providing skills development initiatives for local industrialists and technicians;
- establishing regionally accredited institutions to provide professional certifications for onsite, on-the-job trained workers;
- providing local investors with access to capital; and
- improving local quality assurance/standards infrastructure and frameworks.

Employment and poverty alleviation

The firm employs 170 locals, the majority (155) of whom are women. A significant number of these women got their first job at this firm. It regularly conducts on-the-job training to upskill its employees and build flexibility in its operations. The

employees believe that their being employed by the firm has positively impacted their lives, helping them earn a monthly wage to support their households and meet basic needs.

STOVE FIRM

Background firm information

Stove Firm is based in Thetsane Industrial Area, Maseru. It was established in 2011 by the former manager of an international conglomerate with a factory in Lesotho. The company is focused on the design, production and distribution of clean energy stoves for developing markets.

From 2011 until the end of 2014 the firm produced patented stoves under contract to an international conglomerate. All output was bought and sold exclusively by this conglomerate. During this time the owner began experimenting with a new, innovative design more suited to the tough rural environment in sub-Saharan Africa. In the summer of 2014 the international company decided to terminate its contract with Stove Firm. According to interviews with a number of the firm's employees who were on site at the time, the capital equipment and inventory (both work-in-progress and final goods) were removed from the site.

Effectively, from 2015 onwards the firm has differed operationally from its predecessor in a number of material aspects. These include product design, supply chain, process technology, quality management processes, volume of output, distribution and markets. The international conglomerate that had owned the firm has since stopped producing this type of stove.

Over the past three years Stove Firm has witnessed a rapid rise in revenue and volume of stoves sold domestically and abroad. Annual turnover increased from ZAR 6.8 million (\$0.49 million) in 2014 to more than ZAR 14 million (\$1 million) as at October 2016, as shown in Appendix Table 6.

APPENDIX TABLE 6 TOTAL REVENUE IN NOMINAL TERMS		
2014	2015	2016
ZAR 6,814,528 (\$486,752)	ZAR 8,172,816 (\$583,773)	ZAR 14,016,684 (\$1,001,191)

Source: Company finance department, 2016

The factory currently employs 49 workers, the majority of whom are unskilled women. Appendix Table 7 summarises the gender and skill breakdown.

APPENDIX TABLE 7 EMPLOYMENT BY GENDER AND SKILL LEVEL			
GENDER		SKILL LEVEL	
Male	20	Skilled	17
Female	29	unskilled	32
Total employees	49		

Source: Company HR department, 2016

Firm's trade profile

The product has over 20 different components and assemblies, most of which the firm imports from South Africa. The major components and assemblies not from the SACU region are the bricks in the burning chamber (China), solar panels (China), lithium batteries (China) and fans for the stoves (the Netherlands). The firm sources little to no materials locally.

The primary reasons given for imports from China (and elsewhere) were price and, in some cases, durability and quality of materials. The contract for the local supply of bricks was discontinued, and the contractor thereafter went out of business. The reason for contract termination was inconsistent quality on the side of the bricks supplier.

Stove Firm also sources its packaging locally. Its supply chain is both within and outside of SACU, but the firm sells primarily domestically (within Lesotho) and outside the SACU region. About 70% of the factory's output is sold locally and the rest to destinations mostly outside SACU, as shown in Appendix Table 8.

APPENDIX TABLE 8 VOLUME OF EXPORTS BY TYPE BY DESTINATION (NUMBER OF UNITS)	
COUNTRY	NUMBER OF UNITS
Paraguay	1 470
Malawi	1 470
Netherlands	740
New Zealand	200
Other	703
Total exports	4 043 in 2016

Source: Company sales department, 2016

Local sales volumes for the year up to October 2016 were 9 601 units, and the international sales volumes were 4 043 units.

Firm's trade within SACU

As indicated above, the firm imports almost all its components and assemblies from the SACU region (South Africa), and sells its output in Lesotho (70%) and beyond SACU. It sees some opportunities in strengthening its trade within SACU. These include:

- Local production of screws.
 - » Here the challenges are access to both skills and project finance, and standards infrastructure.
- Market diversification and improved distribution in South Africa.
 - » The challenge is to recruit the right vendors who understand the languages and culture in the South African market.

Services sector

In terms of services utilised by the firm, the main three are summarised in Appendix Table 9. International distribution is managed by the firm's staff and relatives of the owner.

APPENDIX TABLE 9 TYPE OF SERVICES UTILISED AND COST TO COMPANY (FINANCIAL YEAR)			
	2014	2015	2016
Energy	ZAR 80,991 (\$5,785)	ZAR 113,648 (\$8,118)	ZAR 93,894 (\$6,707)
Telecommunications (voice and data)	ZAR 14,252 (\$1,018)	ZAR 17,601 (\$1,257)	ZAR 11,661 (\$833)
Transportation (imports and exports)	ZAR 791,333 (\$56,524)	ZAR 801,409 (\$57,244)	ZAR 1,782,628 (\$127,331)

Source: Company finance department, 2016

The company has been spending around ZAR 90,000 (\$6,429) per year on average on electricity from the LEC, representing less than 1% of its annual revenue in 2016.

Stove Firm faces high transport costs, averaging more than 10% of its total revenue per year in the last three years. This is primarily due to the supply chain from which key inputs are sourced, such as bricks, fans and solar panels from international markets; and the weight of the stoves, which raises the cost of transport. All these services are sourced locally.

Challenges identified by the firm

The firm faces a few challenges, both domestic and cross-border:

- Lack of local suppliers for basic components and assemblies.
- Limited market access in Southern Africa/SACU. A plan is in place to recruit vendors for distribution.
- Some challenges in cross-border transport (exporting and importing), but the firm does not consider these significant.

Firm perspectives on SACU integration

From the firm's perspective, deepening SACU integration means doing more business with suppliers based in the region, and having better access to the South African and other markets. It sees opportunity for the development of local suppliers to manufacture and supply screws and bricks within Lesotho. In terms of services, final product distribution is required in other SACU markets to improve penetration.

As far as the firm is concerned, it is the LNDC's responsibility to find local industrialists willing to invest in manufacturing, and to help arrange financing and mentorship. The firm is already in the process of planning and implementing a distribution process for SACU, involving the recruitment, training and stocking of vendors across South Africa.

Employment and poverty alleviation

Stove Firm employs 49 locals, most of whom (29) are women. A good number of these employees originally worked at the international conglomerate where the owner was a general manager. When the international firm left Lesotho, they followed the manager to this firm.

The firm is seen to provide a comparatively high standard of working environment, with higher than average wages paid. For example, employees have access to tablets and the Internet at work. From the assembly floor to management and sales teams, job satisfaction and optimism over the future were palpable. The low-skilled employees also noted that they could support their households, and occasionally save.

APPENDIX 3 NAMIBIA: CASE STUDIES

PHARMACEUTICAL FIRM

Background firm information

Pharmaceutical Firm was established in 1989, as a Namibian-owned pharmaceutical and toiletry/cosmetics manufacturer with almost 200 different products, consisting of:

- registered medicinal products;
- non-registered products – complementary healthcare and creams;
- packaging;
- special products, eg, insect repellent; sunscreens; heel balms; creams and ointments; and
- disinfectants, eg, povidone iodine lotion.

Pharmaceutical Firm manufactures toiletries, cosmetics, body lotions and creams, sunscreen products, food and vitamin supplements, etc. It also has various ranges of supplements. In terms of medical products, Pharmaceutical Firm produces paracetamol, antibiotics and iron supplements, among others.

The company is compliant with WHO standards and received an Official Manufacturing Good Manufacturing Practice (GMP) licence in 2013 from the Namibian Medicines Regulatory Council (NMRC).

In order to comply with the GMP licence requirements, Pharmaceutical Firm acquired and installed additional equipment, upgraded staff facilities, upgraded the laboratory, and replaced the old liquid chromatograph. The additional equipment includes an industrial geysers; machines for melting, tube filling and sealing, labelling and batch printing; a shrink-wrap tunnel; and an additional water purification plant.

A new Solid Dosage form facility has also been purchased, complete with Chromadek panels and air handling system, to form a complete unit with a storage area for raw materials, a powder mixing area with new mixing equipment, and three different manufacturing lines. The Solid Dosage form facility has the capacity to manufacture and pack sufficient capsules and sachets to meet the current demand from both the private and public sectors.

Pharmaceutical Firm is presently in the negotiation stage with Indian suppliers of tablet manufacturing equipment. This purchase will result in an extension of the laboratory to include more equipment to analyse tablets.

To accommodate the increase in production capacity, a new finished product area with dispatch area was built. It is 460m² and fitted with air conditioners to keep the temperature within the prescribed margins.

The company's invested capital over the past four years amounts to just over NAD²⁵ 16 million (\$1.14 million). These investments have doubled its manufacturing capacity and enabled further expansion, with several new product ranges being launched. Pharmaceutical Firm has also seen a 35% growth in employment since its establishment in 1989, bringing the total number to approximately 70 employees. With the upgraded creams and ointment facility, the firm has the production and packaging capacity to supply and store three times the current demand.

The main drivers of the upgrades and modernisation are to better satisfy the existing market demand, which is anchored to a government tender to supply hospitals and clinics in Namibia. The firm also benefited from the SADC Industrialization Upgrading and Modernization Programme via the Ministry of Industrialization, Trade and SME Development. The company's decision to expand is further influenced by the fact that it sees healthcare as a growing market.

The firm procures some production materials locally, such as devil's claw, hoodia and manketti oil.

Firm's trade profile

Pharmaceutical Firm is the only Namibian manufacturing facility to produce medicinal products licenced by the NMRC. Owing to the firm's product range, together with its upgraded and modernised facility and excess capacity, there are opportunities to grow the market locally and penetrate export markets in the SACU and SADC regions.

Thanks to its GMP licence the company has strengthened its reputation for integrity, which could enable it to manufacture for and sell in export markets.

The company has been performing well, expanding in terms of products and product lines, employees and revenue, while ensuring that the quality and affordability of its products are maintained. The introduction of new products to its portfolio has led to rapid growth in sales, market share and company revenue.

The company distributes medical products to retailers and pharmacies in Namibia and supplies pharmaceutical products to the government for distribution to state hospitals and clinics. The private medical sector also sources medical products from Pharmaceutical Firm through other suppliers.

While Pharmaceutical Firm has exported to or is in the process of developing export markets in South Africa, Botswana, Mozambique and Zambia, 99% of its output is currently destined for the local market. The company is interested in developing its export market due to the excess capacity available.

It imports most of its machinery and spare parts from India and South Africa, and a substantial amount of its production inputs from South Africa. Locally sourced ingredients represent no more than 5% of its total production inputs.

25 Currency code for the Namibian dollar.

Firm's trade within SACU

The company's occasional exports to South Africa and Botswana have not been sustainable, owing to a number of challenges posed by regulatory requirements. South Africa, for example, banned the export of pharmaceutical products by road about three years ago, and only allows export by air. The reason for this is apparently to reduce smuggling, mostly from Zimbabwe.

It is involved in negotiations with both Botswana and South Africa to overcome various administrative burdens, especially product registration in these countries. The purpose is to secure safe and open markets, especially in South Africa, which offers the bigger market and therefore the necessary economy of scale.

Services sector

For most services in the areas of finance, information and communications technology, and transportation, the company uses local service providers.

However, it uses mainly South African specialists to service equipment, install and serve laboratory equipment, and package and label products. It uses a local service provider for unsophisticated packing and labelling.

It is difficult to source specialised services from South Africa, owing to customs and immigration requirements such as work permits and the slow processing of the required documentation. Even if a technician is only needed for a few hours the company still has to apply for a work permit, which may take several days to approve, while the machine is down and work has come to a halt.

As part of product quality assurance, products are subject to testing at the laboratory. Only once the product has been tested and approved does it get a batch number and expiry date. All NMRC procedures are observed for medical products, with each one licensed separately. The company also ensures that WHO standards are met as expected.

Challenges identified by the firm

Within the domestic context, the firm faces the following challenges:

- High price of electricity: Namibia needs to introduce a special rate or subsidy for manufacturers, especially for priority industries, as per the National Industrial Development Policy and Strategy.
- High interest rates: Financial institutions such as the Development Bank of Namibia and the SME Bank can assist by introducing a financing portfolio for manufacturers.

In respect of cross-border challenges:

- Strict regulations make it difficult for the company's products to enter export markets.
 - » There are different standards in each country and a lack of mutual recognition. For example, South Africa uses PICS and does not accept WHO standards, which are used in Namibia.
 - » For product registration, each country has to conduct its own inspections, which is done at the cost of the producing company.
 - » Administrative bureaucracy puts the consignment at risk, as the temperature in trucks is a problem and can spoil the consignment if held up for an unnecessarily long time. The company has experienced cases where its consignments were confiscated at the border. Getting these released can take up to four days.
- The firm has experienced several trade practices that impede its efforts to develop and increase its exports to the SACU countries.
 - » Consignments are inspected at the loading site prior to export, which is done at company cost and can be problematic. For instance, each consignment destined for Mozambique is pre-inspected by InterTech, a company based in South Africa.
 - » Consignments that transit SACU countries require transit bonds, which is an additional cost on the exporting company.
 - » South Africa's ban on the export of pharmaceutical products by road has raised the cost of exporting into South Africa.
 - » South African retail chains such as Clicks are not keen to give shelf space to the firm's products, partly due to the centralised distribution system employed by the retailer, with many of the products sold in Namibian stores originating from South African distribution centres.

Firm perspectives on SACU integration

The firm believes that South African retail chains should be required to list, procure and give shelf space to Namibian products, as these retail chains have a strong footprint in all SACU countries and should therefore play a catalytic role for regional integration.

The company's management sees the railway, which is currently underused, as one means to improve transportation between SACU countries. 'More infrastructure such as railway lines and roads should be constructed and effectively used so as to facilitate trade between SACU member states.'

It is also of the opinion that easing cross-border trade requirements/regulations is crucial. Equally important is harmonising trade systems so as to grant easy access to markets within SACU countries and thereby increasing intra-trade between member states on a win-win basis (unlike the current situation, where it feels that South Africa tends to be the main beneficiary).

According to the company, if regulatory requirements and standards are harmonised it will be able to become more competitive, as the current cost and time delays are substantially prohibitive. It suggests that current challenges be identified, after which workable solutions can be found through coordinated efforts by all SACU member states. Possible solutions could be integrating border control systems, ensuring trade policy unification/harmonisation, removing some of the restrictions on foreign products and recognising each other's regulations, standards and inspections.

Employment and poverty alleviation

The workforce of the company currently numbers approximately 70 employees, of whom about 90% are skilled. The rest are either semi or low skilled and receive training accordingly. On average, the company's employees support up to seven dependants each, as there is often only one breadwinner per household.

Employees receive on-the-job training, mainly as machine operators. Employability elsewhere is limited, given that there are no other pharmaceutical manufacturers in Namibia and that it is a specialised industry where acquired skills do not have much applicability in other industries. In addition, there is significant unemployment in the industry as a result of a government drive to encourage student enrolment in the field and a resultant oversupply of graduates. Expansion of the company's market would thus have a positive employment effect.

FISHING FIRM

Background firm information

Fishing Firm has been in existence for more than 70 years, having been established in the 1940s as Namibia's first fishmeal and canning plant. In 1995 the facilities were revitalised and today the firm has one of the best round can production facilities in the world.

The annual revenue of Fishing Firm averages around NAD 400 million (\$28.6 million), which is dependent on the annual catch and therefore fluctuates with the availability of fish in Namibian waters. The 2016 revenue, for example, was a mere NAD 31 million (\$2.21 million).

The firm has about 80 permanent employees and up to 650 seasonal employees, who work for the company between four and eight months annually. Permanent employees are normally high skilled and seasonal employees are in the low-skilled category. The gender ratio is often 40% men to 60% women. The company is 44.9% owned by a South African company and 55.1% by Namibian nationals.

The main products are canned fish packaged under well-known local and international brands, through a shareholding agreement with the South African parent company. Some of these brands are among the canned fish market leaders in Southern Africa. As by-products, the firm also produces fishmeal and fish oils.

The firm considers its canning facility, based in Walvis Bay, to be on par with the best in the world, operating under HACCP compliance and EU Accreditation with an output of 600 000 cans per 24 hours. Products also comply with Namibian Standards Institution (NSI) regulations and standards. The production facility accommodates the canning of 400g tallies, 155g jitreys, 215g buffs and 125g quarter club cans.

A fleet of three well-maintained and highly effective purse seine vessels and one trawler are used to harvest pilchard and horse mackerel using the environmentally friendly purse seine fishing method.

Firm's trade profile

Only about 5% of the canned fish products are sold in the domestic market, with 90% sold in South Africa and the other 5% in the UK. The bulk of the fishmeal and fish oil production is exported to China.

The proportion of products sold in the domestic market has remained more or less consistent over the years. In terms of pricing, the only main differentiating factor is the distance to the market and the associated transport costs.

The firm sources fish, salt and water locally as production inputs. It imports more than 70% of inputs such as cans, labels and spices mainly from or through South Africa, since these are not available locally. During periods of low catches in local waters, the firm also imports frozen fish from Morocco as inputs for the canning factory.

Trade has a positive impact in the sense that the firm is expected to meet and adhere to the stringent standards of foreign markets, which has required revitalising and updating technologies and processes.

Firm's trade within SACU

The firm exports 90% of its canned products to South Africa, via its South African parent company. The South African parent company distributes the products mainly via established South African retail chains such as Pick n Pay, Shoprite, Checkers and Spar. These retail chains have footprints in all other SACU countries, and therefore its exports extend to these regions as well.

As stated earlier, it imports more than 70% of its inputs from South Africa, specifically from its South African business partner.

In addition to its proximity and being customs duty-free, the SACU market is preferred because of the business partnership in South Africa. There is also a low risk in trading within SACU when compared to exporting to other countries. In non-SACU countries, the firm would face the difficulty of understanding and complying with regulatory and standards requirements as well as the risk of non-payment, which necessitates arrangements such as letters of credit or upfront payments. This also makes the SACU market more profitable.

Its main competitors in the SACU market are South African fish canning factories and their brands. The firm sees market opportunities in other African markets, especially for canned horse mackerel.

Services sector

Crucial services are water and electricity, transportation, quality and standard endorsement, and insurance. Water and electricity are sourced locally and are reliable, but the cost is high. Quality and standards inspections and approval fall in the domain of NSI, which is a Namibian statutory body with an office in Walvis Bay, and its services are readily available at a reasonable price.

Transport and insurance services are sourced locally via the local agencies of South African companies, with a few instances where South African registered transportation services providers are used directly. The insurance covers risks of loss of income that may result from the firm's failure to supply products, owing to delays in transportation, for example.

The firm is a client of First National Bank, a South African bank with a minority local ownership.

Challenges identified by the firm

The firm identified the following as some of the notable challenges within the domestic market:

- Internet speed issues or downtime: The firm requires communications with the licensing authority and clients, and these issues negatively affect the dispatch of consignments.
- Labour unrest: There have been occasional strikes, including in the transportation industry.
- Limited number of people with the necessary skills: Specialised skills are required for canning. There are only two other canning factories in the country, and the labour pool from which the firm can tap when the need arises is thus small.

From a cross-border perspective, the levying of import VAT has been cited as a challenge that affects the firm's competitiveness in the SACU market. While South Africa does not charge import VAT on canned pilchards, as this is regarded as a staple food, it does charge on horse mackerel (which the firm believes should also be VAT-free given that it is rich in omega-3 fatty acid). The firm intends to bring this issue to the attention of the relevant authority in Namibia, through the Namibia Manufacturing Association and the Namibia Trade Forum, and hopefully have it considered within the SACU platform.

The challenge of exporting outside SACU is understanding the regulatory and standard requirements, especially with the first consignment or as changes are introduced.

Firm perspectives on SACU integration

The firm could not identify an opportunity that may come with deepened integration within SACU. This is because most of the export requirements and documentation are handled in South Africa by its business partner, which is also responsible for marketing within South Africa through established retail chains.

Employment and poverty alleviation

In addition to the high-skilled labour force (about 80 workers) employed on a permanent basis, the firm creates seasonal employment of four to eight months every year for more than 650 low-skilled Namibians.

Most of the seasonal employees are members of households located 600–1 000km away, where they depend on subsistence farming. It is difficult to measure to what extent they rely on this seasonal income and the size and features of their households. In Namibia, however, one can usually expect one employee to support a minimum of four dependants.

This means that the roughly 650 seasonal workers are in fact providing an additional income for approximately 2 600 persons within their communities in a 1 000km radius. In addition to the direct household benefit there is also a multiplier effect. When extra cash is injected into the economy, it benefits local shops with increased sales, allows more children to remain in school, etc., which can have a poverty alleviation effect. Since approximately 60% of the seasonal workers are women, the poverty-relief impact disproportionately benefits women.

APPENDIX 4 SWAZILAND: CASE STUDIES

AGRO FIRM 1

Background firm information

This firm owns a farming operation that produces baby vegetables on the outskirts of Sidvokodvo in the Manzini region. The farm currently employs 120 people, of whom 90 are women, and is a labour-intensive operation that hires low- to semi-skilled workers. The types of produce grown, packaged and exported are summarised in Appendix Table 10.

The firm has leased a privately owned farm surrounded by a community living on Swazi national land (ie, communal land) and the land currently under cultivation is about 70ha.

The company has been in operation for the past 20 years and generated an annual income of about SZL²⁶ 13 million (\$0.93 million) last year. When the company started it leased a farm that was over 15 times the land currently under cultivation and employed close to 300 people, mostly from the neighbouring community. It produced sugar cane, beef and baby vegetables, among others. About four years ago, when the lease was due for renewal, it had to compete with another firm. As a result it had to relocate to far less productive land within the same community.

Firm's trade profile

The company currently uses both high-tech farming equipment (for irrigating the land under cultivation) and 80% low-skilled labour (including tractor drivers, mechanics and labourers). The high-value crops are tended by qualified and experienced personnel. The farm also has a packaging facility, which employs most of the semi-skilled labour, to ensure that quality and high standards are maintained. The employees are distributed equally between the fields and the packing house.

The farm is HACCP and Global GAP certified, which enables it to sell to regional and international markets. It currently produces baby vegetables, including sweetcorn, chillies, beans, peas and potatoes. A detailed list of crops produced is outlined in Table 10 Appendix 1, together with their HS codes. About 95% of the farm's produce is exported, of which 50% is sold to SACU and the remainder in Europe, while the balance is sold in the domestic market and Mozambique (mainly potatoes).

The farm mainly sells to major retail outlets and on the international market, which has proved to be a profitable strategy, especially during its winter season. This has influenced the firm's volume of exports, despite the fact that it is easier to sell locally. The farm is a price-taker given the nature of production and the markets for its produce.

26 Currency code for the Swazi lilangeni.

APPENDIX TABLE 10 PRODUCE EXPORTED BY AGRO FIRM 1

HS CHAPTER (AND GROUP)	HS CODE	DESCRIPTION
07 – Edible vegetables and certain roots and tubers (onions, shallots, garlic, leeks and other alliaceus vegetables, fresh or chilled)	07039000	Leeks and other alliaceus vegetables
07 – Edible vegetables and certain roots and tubers (cabbages, cauliflowers, kohlrabi, kale and similar edible brassicas, fresh or chilled)	07041000	Cauliflowers and headed broccoli
	07049000	Other products not elsewhere classified
07 – Edible vegetables and certain roots and tubers (carrots, turnips, salad beetroot, salsify, celeriac, radishes and similar edible roots, fresh or chilled)	07061000	Carrots and turnips
	07069000	Other products not elsewhere classified
07 – Edible vegetables and certain roots and tubers (cucumbers and gherkins, fresh or chilled)	07070000	Cucumbers and gherkins, fresh or chilled
07 – Edible vegetables and certain roots and tubers (leguminous vegetables, shelled or unshelled, fresh or chilled)	07081000	Peas (<i>Pisum sativum</i>)
	07082000	Beans (<i>Vigna spp.</i> , <i>Phaseolus spp.</i>)
	07089000	Other leguminous vegetables
07 – Edible vegetables and certain roots and tubers (other vegetables, fresh or chilled, excluding potatoes, tomatoes, alliaceus vegetables, edible brassicas, lettuce <i>Lactuca sativa</i> and chicory <i>Cichorium spp.</i> , carrots, turnips, salad beetroot, salsify, celeriac, radishes and similar edible roots, cucumbers and gherkins, and leguminous vegetables)	07092000	Asparagus
	07093000	Aubergines (eggplants)
	07095990	Other products not elsewhere classified
	07096000	Fruits of the genus <i>Capsicum</i> or of the genus <i>Pimenta</i>
	07099000	Other vegetables, fresh or chilled, n.e.s
	07099100	Globe artichokes
	07099300	Pumpkins, squash and gourds (<i>Cucurbita spp.</i>)
07 – Edible vegetables and certain roots and tubers (vegetables, uncooked or cooked by steaming or boiling in water, frozen)	07101000	Potatoes
	07104000	Sweetcorn
	07108010	Truffles

Source: Based on company information, information provided by the Swaziland Revenue Authority (SRA)

It procures almost all farming inputs from the domestic market, through either a product distributor or an agent. Major inputs include fertiliser, chemicals and seeds. The only major input item that is imported is the packaging material, given that most of the produce is client specific and it is therefore cheaper to procure packaging from South Africa. Most of the equipment is either imported from the source market or through a third party in Swaziland or South Africa.

The firm's trade has positively impacted the overall operational size in terms of profitability and employment. The use of technology and processes has also evolved over time given the markets it services. The greatest challenge is access to more land to meet the increasing demand for its produce.

Firm's trade within SACU

The company's main trading partners within SACU are located in South Africa. Its relationship with one of the premier South African supermarket chains is facilitated through a supply value chain contract. Trade in SACU is the pillar stone of the firm's operations, as without it the local market would not sustain its operations. The major determining factors are price, quality and reliability. The firm does not use different production processes for products exported to SACU compared to other export markets.

About 50% of the farm's produce is destined for South Africa, given its proximity and market assurance. The SACU external tariff protects SACU member states from imports coming from the rest of the world. The firm's main competitors are the hundreds of farmers in South Africa who produce similar products in high volumes, given the considerable amounts of land to which they have access.

Trade within SACU has positively impacted the farm's operation and profitability, since the South African buyers pay better rates and buy in large quantities. This has enabled the company to pay better wages compared to farmers who are not exporting their produce. Given more land, the firm has great potential to grow and employ more workers. The use of machinery complements manual labour rather than replacing it.

Services sector

The firm uses electricity for a lot of its processes, including powering its irrigation equipment and regulating its packing house temperature. The firm procures electricity from the Swaziland Electricity Company, which sources almost 80% of its distributed energy from Eskom in South Africa, owing to a lack of production capacity locally.

Telecommunications and Internet services are the backbone of the firm's operations, since it must regularly communicate with buyers to ensure that market expectations are adhered to. These services are also crucial for the conclusion and finalisation of contracts, orders and financial transactions. They are entirely sourced from Swaziland at a high cost, compared to that in other SACU member states.

The company uses its own transport since it has to make between three and four trips per week to South Africa. This has proved to be cost effective and to ensure reliable deliveries.

Challenges identified by the firm

The firm experiences a number of challenges when it comes to its operations and trade within the region:

- Burdensome customs clearance procedures, systems downtime and limited border hours: For example, sometimes information has to be emailed to Pretoria from the Oshoek/Ngwenya border and the response is only received the following day. This can lead to late deliveries and missed connecting flights to European markets. The quality of agricultural produce may also be compromised. These constraints prevent other companies from using Swaziland as an export base into SACU and beyond. Border-related challenges were highlighted as the most significant impediment to cross-border trade.
- Lack of harmonisation between Swazi and South African customs systems: This effectively means that for each export transaction, the company has to declare twice. When errors occur the entire load can be returned or delayed by a day or two, thus affecting timelines, the quality of the produce and perishability.
- Offline VAT systems: Customs officers cannot clear any loads when the VAT systems are offline. Furthermore, the VAT claims process sometimes takes long, thus affecting the company's cash flow.
- Unreliable and expensive electricity: The company's packing house needs power to regulate temperatures. The company also requires energy to drive its irrigation systems after planting to ensure proper growth. Power cuts can last for hours, which has necessitated the additional cost of procuring a generator and diesel. Swaziland currently relies on South Africa for close to 80% of its energy requirements. With South Africa experiencing shortages in energy generation, there is a knock-on effect in Swaziland.
- Delays in issuance of export permits: Government agencies sometimes cause a delay when more than one agent is involved in issuing export permits. For example, the export permit issued by Namboard has to get clearance from the SRA. Goods can be delayed at the border should one agent have a problem with the documents. The boards are also responsible for controlling and issuing a variety of licence fees and levies on exports and imports, which create additional costs for farmers.
- Inability to satisfy demand: The farm lost land when its lease expired. Access to productive land is critical to ensure the sustained growth of commercial farming. In Swaziland, some communal land can be identified and reserved for high-value crops and niche agricultural products under the 99-year lease arrangement.
- High communication and Internet charges: This greatly impedes potential growth among new and small businesses.

Firm perspective on SACU integration

The firm feels that investment by individual companies can go a long way in complementing reforms and ensuring that they are undertaken, thus enhancing deeper integration within SACU. Such interventions would include, but are not limited to:

- Improved customs processes between South Africa and Swaziland: This would reduce delays at the border and allow the seamless flow of goods and services, thus reducing the cost of doing business between the two countries.
- Harmonisation of the VAT systems, so that a company does not have to prepare two sets of transaction documents for the same declaration: The two systems should talk to each other and hence reduce paperwork and delays at the border. Transparency between countries and the business community would greatly improve and processes would be standardised across the region. Truck delays at the border would be a thing of the past and delivery schedules would be adhered to. Turnaround time on VAT refunds would also be enhanced, especially for SMEs.
- Investment in energy generation: Swaziland should consider investing in power generation to reduce its dependency on South Africa, which is facing challenges in this sector. This would reduce the downtime experienced by companies in Swaziland, lowering production costs and improving the quality of inputs.
- A regional development fund to support companies that engage in cross-border trade: This would improve firms' access to finance as their competitiveness increases, thereby allowing them to use SACU as a springboard to access international markets.
- SACU facilities that support agro-business production: For example, SACU could set up a facility in the region that provides farming inputs such as fertiliser, seeds and equipment. This would greatly reduce production inputs and enhance competitiveness in the region.
- Increased investment in infrastructure such as roads, ports and rail: Investments in dams would also go a long way in improving access to water during times of drought.
- A SACU division that focuses on identifying niche products and markets: This would allow for better regional integration.
- Opening up the Swaziland communications industry: New players could provide enhanced services at competitive rates, and introduce better and more innovative technology.

Employment and poverty alleviation

The farm currently employs 120 people from the neighbouring community. The surrounding Sidvokodvo area is an active farming community and agriculture is a major creator of employment. Most employees have been with the farm for more than seven years and the turnover is around 15%.

About 90 workers are women. One woman said: 'I am the breadwinner in the family and the employment has ensured that I am able to support my family with basic needs and send my children to school. I am very grateful to the company for employing me and for the social support I receive from the company from time to time.' Most employees have an average of six dependants.

The entry-level low-skill wage is about SZL 50 (\$3.57) per day and about SZL 350 (\$25) per day or more for semi-skilled employees. The company pays slightly above the minimum wage rate outlined in the government gazette. It prefers promoting from within the company to the different levels of operations. Its employees seem to be relatively better off than those working on nearby sugar cane farms. The company has also established a pre-school for employees' children and has made arrangements for workers to form a savings association.

AGRO FIRM 2

Background firm information

Agro Firm 2 is a farming operation that produces baby vegetables on the outskirts of Mbabane in the Hhohho region. The types of produce cultivated for export are summarised in Appendix Table 11.

APPENDIX TABLE 11 PRODUCE EXPORTED BY AGRO FIRM 2		
HS CHAPTER (AND GROUP)	HS CODE	DESCRIPTION
07 – Edible vegetables and certain roots and tubers (onions, shallots, garlic, leeks and other alliaceus vegetables, fresh or chilled)	07039000	Leeks and other alliaceus vegetables
07 – Edible vegetables and certain roots and tubers (cabbages, cauliflowers, kohlrabi, kale and similar edible brassicas, fresh or chilled)	07041000	Cauliflower and headed broccoli
	07049000	Other products not elsewhere classified
07 – Edible vegetables and certain roots and tubers (carrots, turnips, salad beetroot, salsify, celeriac, radishes and similar edible roots, fresh or chilled)	07061000	Carrots and turnips
	07069000	Other products not elsewhere classified
07 – Edible vegetables and certain roots and tubers (carrots, turnips, salad beetroot, salsify, celeriac, radishes and similar edible roots, fresh or chilled)	07061000	Carrots and turnips
	07069000	Other products not elsewhere classified
07 – Edible vegetables and certain roots and tubers (cucumbers and gherkins, fresh or chilled)	07070000	Cucumbers and gherkins, fresh or chilled
07 – Edible vegetables and certain roots and tubers (leguminous vegetables, shelled or unshelled, fresh or chilled)	07081000	Peas (<i>Pisum sativum</i>)
	07082000	Beans (<i>Vigna spp.</i> , <i>Phaseolus spp.</i>)
	07089000	Other leguminous vegetables

HS CHAPTER (AND GROUP)	HS CODE	DESCRIPTION
07 – Edible vegetables and certain roots and tubers (other vegetables, fresh or chilled, excluding potatoes, tomatoes, alliaceae vegetables, edible brassicas, lettuce <i>Lactuca sativa</i> and chicory <i>Cichorium spp.</i> , carrots, turnips, salad beetroot, salsify, celeriac, radishes and similar edible roots, cucumbers and gherkins, and leguminous vegetables)	07093000	Aubergines (eggplants)
	07096000	Fruits of the genus <i>capsicum</i> or of the genus <i>Pimenta</i>
	07099100	Globe artichokes
	07099300	Pumpkins, squash and gourds
	07099900	Other products not elsewhere classified
07 – Edible vegetables and certain roots and tubers (vegetables, uncooked or cooked by steaming or boiling in water, frozen)	07101000	Potatoes
	07104000	Sweetcorn
09 – Coffee, tea, maté and spices (coffee, roasted or decaffeinated; coffee husks and skins; coffee substitutes containing coffee in any proportion)	09011120	Of the species <i>Coffea robusta</i>
11 – Products of the milling industry; malt; starches; inulin; wheat gluten (cereal groats, meal and pellets)	11031310	Maize meal not further processed other than by the addition of minerals and vitamins
	11031390	Other products not elsewhere classified

Source: Based on company information, information provided by SRA

The farm employs 70 people, of whom 55 are women, and cultivates only about 50ha of land owing to the ongoing drought. This affects its market and has worsened the employment situation. The river that feeds the farm was seriously affected by the drought and the company had to reduce production. This is a labour-intensive operation.

Under normal circumstances the company cultivates about 100ha of land, of which it owns 26ha. It has been in operation since 2009. Last year, which was a difficult period, it generated an annual income of SZL 5 million (\$0.36 million). In better years this can increase to SZL 8 million (\$0.57 million).

To minimise risk, the company has developed an out-grower scheme spread over three different communities, given the four regional climatic conditions in Swaziland. The growers supply the company during different cycles of the farming season.

Firm's trade profile

The company uses high-tech farming equipment for irrigating land under cultivation, and 80% low-skilled labour (including tractor drivers, mechanics and labourers) for high-value crop growing, supervised by qualified and experienced

personnel. The farm also has a packaging facility, which employs most of the semi-skilled labour, to ensure that quality and high standards are maintained.

The farm is HACCP and Global GAP certified, which enables it to sell to regional and international markets. It currently produces baby vegetables, including sweetcorn, chillies, beans, peas and potatoes. Most of the produce is exported to SACU (mainly South Africa) and Europe, with only a minimal amount consumed locally.

The farm mainly sells to major retail outlets and the international markets, which have proven to be very profitable, especially during their winter season. This has greatly influenced its volume of exports, despite the fact that it is easier to sell locally. The farm is a price-taker, given the nature of production and the markets it services. It sometimes negotiates prices with certain buyers from SACU.

The farm procures almost all farming inputs from the domestic market, through either a product distributor or an agent. Major inputs include fertiliser, chemicals and seeds. The only major input item that is imported is packaging material, given that most of the produce is client-specific and the packaging material is therefore cheaper to procure from South Africa. Most equipment is either imported from the source market or through a third party in Swaziland or South Africa.

The firm's trade has positively impacted overall operational size in terms of profitability and employment. Its use of technology and processes has also evolved. The only serious challenge is access to more land to meet the increased demand for its produce.

Firm's trade within SACU

The company's main trading partners within SACU are located in South Africa. Its relationship with a premier South African supermarket chain is facilitated through a supply value chain contract. Trade in SACU is the pillar-stone of the firm's operations, as the local market is not large enough to sustain it. Major determining factors are price, quality and reliability. The firm does not use different production processes for produce exported to SACU when compared to other export markets.

About 60% of the farm's produce is destined for South Africa, given its proximity and market assurance. The SACU external tariff protects SACU member states from imports coming from the rest of the world. The firm's main competitors are farmers in South Africa who produce similar products in high volumes, given their greater access to land.

Trade within SACU has positively impacted the farm's operations and profitability, since South African buyers pay better rates and purchase in large quantities. This has enabled the company to pay better wages compared to farmers who are not exporting their produce. Given more land the firm would have the potential to grow, and thus employ more workers. The use of machinery complements manual labour rather than replacing it.

Services sector

The firm uses electricity for a lot of its processes, which include powering its irrigation equipment and maintain its packing house at the correct temperature. It procures electricity from the Swaziland Electricity Company, which sources almost 80% of its distributed energy from Eskom in South Africa.

The company owns its own transport, since it has to make between three and four trips per week to South Africa. This has proved to be cost effective and to ensure reliable deliveries.

Challenges identified by the firm

The firm experiences a number of challenges, many of which are similar in scope and breadth to those experienced by Agro Firm 1, when it comes to its operations and trade within the region. These challenges are:

- **Border-related challenges:** These include burdensome customs clearance procedures even when documentation is correct; systems downtime, particularly with South African customs; limited border hours; and the fact that there are two customs systems to adhere to within SACU rather than a single harmonised one. In addition, the lack of a harmonised VAT system was identified as a major issue, given its financial implications.
- **Unreliable and expensive electricity:** This has meant that the firm has had to invest in its own generators to stabilise supply, especially for its packing house.
- **Government agencies causing delays when more than one agent is involved in the issuance of export permit:** For example, the export permit issued by Namboard has to get clearance from the SRA. Goods can be delayed at the border should one agent have a problem with the documents. The boards are also responsible for controlling and issuing a variety of licence fees and levies on exports and imports, which create an additional cost to the farmer.
- **Inadequate access to water:** Swaziland could consider increased investment in dams to help farmers take advantage of regional and preferential markets. Farms' production capacity can be negatively impacted by climatic conditions such as drought, floods and hailstorms. Agro Firm 2's water quota was greatly reduced due to the ongoing drought, which led to a decrease in production, fewer exports and a drop in earnings. At the same time it still has to service standing financial obligations to financial institutions and other suppliers. The firm has limited access to additional lines of credit, which may be required until rainfall levels normalise.
- **High communication and Internet charges for basic offerings, when comparing to the cost of similar services across the border:** This greatly impedes the potential growth of new and small businesses that could enter regional and international markets.

Firm perspectives on SACU integration

The firm is of the belief that investment by individual companies can go a long way in complementing reforms and ensuring that these are undertaken, thus enhancing deeper integration with SACU for the benefit of all. Such interventions would include, but are not limited to:

- Improved customs processes between South Africa and Swaziland: This would reduce delays at the border and allow the seamless flow of goods and services, thus reducing the cost of doing business between the two countries.
- Harmonised VAT systems so that a company does not have to make the same declaration twice when exporting goods from Swaziland to South Africa: The two systems should talk to each other and hence reduce a lot of paperwork and delays at the border. Transparency between countries and the business community would greatly improve and processes would be standardised across the region.
- Investment in power generation in Swaziland: This would reduce dependency on South Africa, which is also facing challenges in this sector, thereby reducing the downtime experienced by companies in Swaziland.
- SACU facilities that support agro-business production: This would greatly reduce production inputs and enhance competitiveness in the region.
- Opening up the communication industry: New players could provide enhanced services at competitive rates, while promoting better and more innovative technology.

Employment and poverty alleviation

The firm employs 70 employees from the neighbouring community. The area, on the outskirts of Mbabane City, is active in farming and agriculture is a major creator of employment. Most employees have been with the farm for more than seven years and the turnover is around 15%.

About 55 workers are women. Almost all of them are the breadwinners in their families and have on average between seven and 10 dependants. The out-grower scheme engages indirect employees.

The entry-level low-skill wage is about SZL 50 (\$3.57) per day, while semi-skilled employees earn about SZL 350 (\$25) per day or more. The company pays slightly above the wage rate outlined in the government gazette.

The company promotes from within to the different levels of operation. This has greatly improved the lives of employees living in the community compared to others working on nearby sugar cane farms.

The company has also established a pre-school for employees' children and encouraged them to form a savings association. It also gives employees food rations.



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