

ECONOMIC GROWTH, INEQUALITY AND POVERTY IN SOUTHERN AFRICA

ISSUES AND POLICY OPTIONS



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ECONOMIC GROWTH, INEQUALITY AND POVERTY IN SOUTHERN AFRICA

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Table of Content

FOREWORD	xiv
Abbreviations and acronyms	xvi
ACKNOWLEDGEMENTS	xxvi
EXECUTIVE SUMMARY	xxviii
CHAPTER I:	1
1.1 The ‘triple challenge’ of economic growth, inequality and poverty in Southern Africa.....	1
1.1.2 Land ownership inequalities	6
1.1.3 Employment gender inequalities	7
1.1.4 General and youth employment inequalities.....	8
1.1.5 Food insecurity.....	9
1.1.6 Child nutrition inequalities	9
1.1.7 HIV and AIDS-related inequalities	10
1.1.8 Inequalities in child health	12
1.1.9 Inequalities in maternal health	13
1.1.10 Health inequalities in South Africa.....	15
1.1.11 Education inequalities	15
1.12 Water and sanitation inequalities.....	21
1.1.13 Political representation gender inequalities	22
1.1.14 Human exclusion	23
1.2 Conceptual framework for economic growth, inequality and poverty	27
1.2.1 Inequality.....	27
1.2.2 Economic growth.....	28
1.2.3 Poverty	29
1.2.4 Relationships between poverty, inequality and growth.....	29
CHAPTER II:	34
2.1 The pre-neo-liberalism economic reforms era (before 1981 – ‘big-push’ and ‘trickle down’ theories).....	39
2.2 The neo-liberalist economic reforms era (1980s–mid-1990s): the universalist/’one-size-fits all’ and ‘trickle-down theories.....	41
2.3 Sustainable human development paradigm.....	42
2.4 Post-ESAP Neo-Liberalist Economic Reforms Era (mid 1990s to 2010s) – Institutional, Pro-poor and Inclusive Growth (IG) Theories	44
2.4.1 New institutional economics	44
2.4.2 The pro-poor policy debates	44
2.4.3 Re-Thinking the Economic Reforms Model	48
2.4.4 Inclusive Growth (IG) paradigm	51
2.5 Conclusion.....	54

Table of Content

CHAPTER III	55
3.1 Introduction.....	55
3.2 Colonial dualism, grafted capitalism and the enclave economy.....	56
3.3 The irony of independence: mismatch between populist consumption and enclave production	63
3.4 Neo-liberal economic reforms: tinkering with the symptoms of underdevelopment.....	80
3.5 2015 Millennium Development Goals – a social agenda without adequate resources	91
CHAPTER IV.....	97
4.1 Causes/roots/sources of civil unrest.....	100
4.1.1 Socioeconomic and political transitions	100
4.1.2 The natural resource ‘curse’	107
4.1.3 Economic stagnation	119
4.2 The economic, social and political consequences of civil unrest	120
4.2.1 Economic consequences	120
4.2.3 Political consequences	125
4.3 Conclusion	129
CHAPTER V.....	131
5.1 Global context.....	131
5.2 Regional context	132
5.3 Country case studies.....	141
5.3.1 Angola.....	141
5.3.2 Botswana.....	145
5.3.3 Democratic Republic of the Congo	148
5.3.4 Lesotho	152
5.3.5 Madagascar	154
5.3.6 Malawi.....	158
5.3.7 Mauritius	162
5.3.8 Mozambique.....	169
5.3.9 Namibia.....	173
5.3.10 Seychelles	177
5.3.11 South Africa	182
5.3.12 Swaziland	189
5.3.13 Tanzania.....	193
5.3.14 Zambia.....	197
5.3.15 Zimbabwe	202

Table of Content

CHAPTER VI.....	208
6.1 Conclusions	208
6.2 Recommendations.....	209
APPENDICES.....	212
REFERENCES	231

List of Figures

Figure I.1	SADC Countries by Income Category (Gross National Income per Capital -US\$- PPP), 2012.....	3
Figure I.2	Economic growth (2012), inequality, (various years), and poverty (various years) by income category of Country, SDAC, 2014.....	3
Figure I.3	Inequality -Share of Income Holding by Lowest 20 Percent and Highest 20 Percent of the Population, SADC Countries 1994-2010	5
Figure I.4	Estimated GNI per capital (2011 PPP\$) by sex, SADC Countries, 2013.....	5
Figure I.5	Income inequality by racial classification, South Africa, 2012.....	6
Figure I.6	Income inequality by province, Gini Income Index, South Africa, 1999-2012.....	6
Figure I.7	Land inequality, land-use distribution by racial classification, South Africa, 2012.....	7
Figure I.8	Land inequality by province, Gini Land Index, South Africa, 2002-2012	7
Figure I.9	Share of women in wage employment in non-agricultural sectors, (percentage), SADC Countries	8
Figure I.10	Population undernourished (millions), SADC Countries, 2012.....	10
Figure I.12	Prevalence of underweight children under-five years of age (percentage), SADC Countries, 2010.....	10
Figure I.13	Prevalence of HIV in population aged 15-49 years, (percentage), SADC Countries, 2013.....	10
Figure I.14	HIV prevalence in those tested by province and sex (percentage), Zimbabwe, 2010-2011	11
Figure I.15	Antiretroviral therapy coverage among people with advanced HIV infection (percentage), SDAC Countries, 2011	11
Figure I.16	Orphans with one or both parents dead, (number), total SDAC, 1990-2009	12
Figure I.17	Infant mortality rate, per 1000 live births, SADC Countries, 2013.....	12
Figure I.18	Under-five mortality rate, per 1000 live births, SADC Countries, 2013.....	13
Figure I.19	Proportion of 1 year-old children immunized against measles (percentage), SADC Countries, 2012	13
Figure I.20	Maternal mortality ratio 100 000 live births, SADC Countries, 2013.....	14
Figure I.21	Proportion of births attended by skilled health personnel (percentage), SADC Countries, 2011.....	14
Figure I.22	Health inequality by province, Gini Health Index, South Africa, 1999-2012.....	15
Figure I.23	Health inequality in South Africa, health care insurance distribution by racial classification, 2012.....	15
Figure I.24	Mean years of schooling by sex, SADC Countries, 2002-2012	16
Figure I.25	Expected and mean years of schooling for females, SADC Countries, 2002-2012	16
Figure I.26	Expected and mean years of schooling for females, SADC Countries, 2002-2012	17
Figure I.27	Total net enrolment ratio in primary education, both sexes (percentage), SADC Countries , 2012.....	17
Figure I.28	Primary level enrolment Gender Parity Index, SADC Countries, 2012	18
Figure I.29	Secondary level enrolment Gender Parity Index, SADC Countries, 2012	18
Figure I.30	Tertiary level enrolment gender Parity Index, SADC, Countries 2012.....	19
Figure I.31	Literacy rates of 15-24 year old, both sexes (percentage), SADC Countries, 2012	19
Figure I.32	Literacy rates of 15-24 year olds, Gender Parity Index, SADC Countries, 2012	20
Figure I.33	Education inequality by province, Gini Education Index, South Africa, 1995-2012	20
Figure I.34	Education inequality, education distribution, highest level completed, by racial classification, South Africa, 2012	21
Figure I.35	Proportion of Population Using Improved Drinking Water Sources, Rural and Urban Areas, SADC Countries, 2012	22

List of Figures

Figure I.36	Proportion of Population Using Improved Sanitation Facilities, Rural and Urban Areas, SADC Countries, 2012	22
Figure I.37	Proportion of Seats Held by Women in National Parliament (Lower Chamber), Percentage, SADC Countries, 2014	23
Figure I.38	The African Social Development Index (ASDI), Available Africa Countries, 2012.....	24
Figure I.39	The African Social Development Index (ASDI), Available Africa Countries, 2012	24
Figure I.40	The African Social Development Index (ASDI) by Component, Available SADC Countries, 2012	25
Figure I.41	Reduction in human exclusion in Africa using the ASDI, percentage, available Africa Countries.....	26
Figure I.42	The Poverty, Inequality and Growth Triangle	30
Figure I.43	Desired Development Path – Towards ‘Growth with Equity’	33
Figure III.1:	Sectoral contribution to GDP, percentage, Malaysia, 1960-2012	92
Figure III.2 :	Sectoral contribution to GDP, percentage, DRC, 1965-2012	93
Figure III.3:	Sectoral contribution to GDP (percentage), Tanzania, 1990-2012	93
Figure III.4:	Sectoral contribution to GDP (percentage), Zimbabwe, 1965-2012.....	94
Figure III.5:	Sectoral contribution to GDP (percentage), South Africa, 1960-2012.....	94
Figure III.6:	Sectoral contribution to GDP, percentage, Seychelles, 1976-2012	95
Figure IV.1	Global Peace Index 2013 Value, SADC Region Compared to the Best and Worst Countries in the World.....	98
Figure IV.2	Global Peace Index 2013 Rank, SADC Region Compared to the best and worst Countries in the World	99
Figure IV.3	Military expenditure as a percentage of central government expenditure, SADC countries, 2013	100
Figure IV.4	Military expenditure as a percentage of central government expenditure, SADC countries, 2013	100
Figure IV.5	The operational context of the Botswana Pula Fund.....	117
Figure IV.6	Management and Accountability Structure of the Botswana Pula Fund.....	118
Figure IV.7	Pula Fund Assets under Management, Botswana-2013.....	119
Figure V.1	Indicates of Primary Commodity Prices, 2004 - 2013 (2005=100, In terms of US\$).....	132
Figure V.2	Annual inflation and annual real GDP growth trend (percentage), SADC Countries, 2001-2011	132
Figure V.3	Inflation, end of period consumer prices, percentage change, SADC Countries, 2012 and 2013	133
Figure V.4	Real GDP growth, annual percentage, SADC Countries, 2011 and 2012	133
Figure V.5	GDP per capital, US\$ PPP, SADC Countries, 2012 and 2013	134
Figure V.6	Cash surplus/ deficit as a percentage of GDP, SADC Countries 2011 and 2012.....	134
Figure V.7	Public debt as a percentage of GDP, SADC Countries, 2010 and 2011	135
Figure V.8	Current account balance as a percentage of GDP, SADC Countries, 2012 and 2013.....	135
Figure V.9	Total reserves in months of imports, SADC Countries, 2011 and 2012.....	135
Figure V.10	Gross domestic savings as a percentage of GDP, SADC Countries, 2011 and 2012	136
Figure V.11	Gross fixed capital formulation as a percentage of GDP, SADC Countries, 2011 and 2012.....	136
Figure V.12	Foreign direct investment (net inflows), US\$ billion, SADC Countries, 2011 and 2012	137
Figure V.13	Ease of Doing Business Index and Global Competitiveness Index, rank out of 189 and 148 Countries, respectively, SADC Countries compared to Malaysia and China, 2013	138

List of Figures

Figure V.14	African Transformation Index, 2010, average of 2009-2011, by Country	138
Figure V.15	Ibrahim Index of African Governance, SADC Countries, 2013	139
Figure V.16	Corruption Perceptions Index (CPI) Score (percentage) and Rank, SADC Countries, 2013.....	139
Figure V.17	Human Development Index (HDI) and Inequality-Adjusted Human Development Index (IHDI), SADC Countries, 2013	140
Figure V.18	Human Development Index (HDI) value by sex, SADC Countries, 2013.....	140
Figure V.21	Madagascar GCI Pillars by Rank, 2013-2014.....	155
Figure V.36	Zimbabwe GCI Pillars by Rank, 2013-2014.....	203
Figure A1.1	HIV Prevalence of Those Tested, by Age Group and sex, Percentage, Zimbabwe, 2010/11.....	213
Figure A1.2	The Dimensions of Human Exclusion in Africa.....	214
Figure A3. 1:	Sectoral Contribution to GDP, Percentage, Angola, 1985-2012	215
Figure A3. 2:	Sectoral Contribution to GDP, Percentage, Botswana, 1960-2012	215
Figure A3. 3:	Sectoral Contribution to GDP, Percentage, Lesotho, 1960-2012.....	215
Figure A3. 4:	Sectoral Contribution to GDP, Percentage, Madagascar, 1966-2009	216
Figure A3. 5:	Sectoral Contribution to GDP, Percentage, Malawi, 1960-2011.....	216
Figure A3. 6:	Sectoral Contribution to GDP, Percentage, Mauritius, 1976-2012.....	216
Figure A3. 7:	Sectoral Contribution to GDP, Percentage, Mozambique, 1980-2012.....	217
Figure A3. 8:	Sectoral Contribution to GDP, Percentage, Namibia, 1980-2012.....	217
Figure A3. 9:	Sectoral Contribution to GDP, Percentage, Swaziland, 1960-2011.....	217
Figure A3. 10:	Sectoral Contribution to GDP, Percentage, Zambia, 1965-2011	218
Figure A3. 11:	Sectoral Contribution to GDP, Percentage, Hong Kong, 2000-2012.....	218
Figure A3. 12:	Sectoral Contribution to GDP, Percentage, Indonesia, 1960-2012	218
Figure A3. 13:	Sectoral Contribution to GDP, Percentage, Japan, 1970-2011	219
Figure A3. 14:	Sectoral Contribution to GDP, Percentage, Korea, 1965-2012.....	219
Figure A3. 15:	Sectoral Contribution to GDP, Percentage, Singapore, 1975-2012.....	219
Figure A3. 16:	Sectoral Contribution to GDP, Percentage, Thailand, 1960-2012	220
Figure A3. 17:	Sectoral Contribution to GDP, Percentage, Vietnam, 1985-2012.....	220
Figure A5. 1:	GCI Institutions Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014.....	224
Figure A5. 2 :	GCI Infrastructure Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014	224
Figure A5.3:	GCI Microeconomic Environment Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014.....	225
Figure A5.4:	GCI Health and Primary Education Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014	225
Figure A5.5:	GCI Efficient Enhancers Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014...	225
Figure A5.6:	GCI Higher Education and Training Components Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014.....	226
Figure A5.7:	GCI Global Market Efficiency Pillar Rank, SADC Countries in Comparison to	

List of Figures

	China and Malaysia, 2013-2014.....	226
Figure A5.8:	GCI Labour Market Efficiency Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014.....	226
Figure A5.9:	GCI Financial Market Development Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014.....	227
Figure A5.10:	GCI Technology Readiness Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014.....	227
Figure A5.11:	GCI Market Size Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014.....	227
Figure A5.12:	GCI Innovation and Sophistication Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014.....	228
Figure A5.13:	GCI Business Sophistication Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014.....	228
Figure A5.14:	GCI Innovation Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014.....	228
Figure A5.15:	ATI Diversification of Production and Exports Sub-Index, 2010, (Average of 2009-2011) Available SADC Countries	229
Figure A5.16:	ATI Export Competitiveness Sub-Index, 2010, (Average of 2009-2011) Available SADC Countries.....	229
Figure A5.17:	ATI Productivity Increase Sub-Index, 2010, (Average of 2009-2011) Available SADC Countries	229
Figure A5.18:	ATI Technology Upgrading Sub-Index, 2010, (Average of 2009-2011) Available SADC Countries.....	230
Figure A5.19:	ATI Human Economic Well-Being Sub-Index, 2010, (Average of 2009-2011) Available SADC Countries....	230

List of Table

Table 1.1	Growth, inequality and poverty in SADC, EAC and ECOWAS.....	2
Table A1.1	.....	212
Table A1.2	Income Share held by Lowest 20 Percent and Highest 20 Percent of the Population by Year, SADC, 2014.....	213
Table A2.1	Growth Rate of the Poor and Overall Growth Rate for Selected Countries, Mid-1980s-Late 1990s.....	214
Table A4.1	Global Peace Index (GPI) Values, SADC, 2007-2013.....	221
Table A4.2	Global Peace Index (GPI) Rank, SADC, 2007-2013	221
Table A5.1	Human Development Index (HDI),	222
Table A5.2	Gross Domestic Product by Sector, Percentage, SADC Countries, 2012 and 2013	223
Table 2.1	Economic Schools of Thought Informing Economic Growth and Inequality: From Classical to Inclusive Growth (IG).....	34
Table 3.1	Total number of farmers resettled in Zimbabwe, 1980-2009	69
Table 3.2	.....	79
Table 3.3	.....	95

FOREWORD

This publication addresses one of the most contemporary challenges of our time, which is the deepening inequality amidst rapid economic growth. The problem of inequality is a global one but with a strong African face, in particular the Southern African face. Sub-Saharan Africa is one of the most inequitable regions of the world, second only to Latin America. Southern Africa takes an unenviable first place as the most inequitable region on the continent and one of the worst cases in the world. According to a 2012 study by the African Development Bank, “*Namibia, Comoros, South Africa, Angola, Botswana, Lesotho and Swaziland count among the continent’s top ten most unequal countries and the most striking increase in inequality is found in South Africa and the Central African Republic whose Gini coefficients have risen from 58 to 67 between 2000 and 2006 and from 43 to 56 between 2003 and 2008, respectively*”.

The African Progress Panel chaired by former United Nations Secretary-General, Kofi Annan, in its 2013 Report, said: “*Some resource-rich countries have made impressive strides in improving the lives of their people. But overall progress has been uneven – and in some areas it has fallen short of expectations. After a decade of strong growth, several of Africa’s resource-rich countries remain at the bottom of the international league-table for human development. Others register some of the world’s largest inequalities in wealth and in well-being, as captured by indicators such as life expectancy and education*”.

Rapid economic growth, experienced by a good number of countries in Southern Africa, is good but not enough. Besides a tiny minority, most of the citizens do not see, feel or benefit from the fruits of this economic growth; they are completely disconnected from the economic progress registered by the countries. The liberal economic theory, which argues that as the economy grows, there will be a trickle-down effect, has not worked and Southern Africa continues to suffer from the unacceptable triple challenges of high levels of inequality, poverty and unemployment/underemployment, especially of young people.

According to a recent study by the Open Society Initiative for Southern Africa in partnership with Namibia’s Labour Resource and Research Institute: “*The SADC region can only be described as a region in deep crisis. More than 60 per cent of the population in SADC lacks access to adequate supply of safe water, a third of the SADC population lives in abject poverty and about 40 per cent of the labour force is unemployed or underemployed. Poverty levels have not only increased, but have also become more pronounced in urban areas and amongst female-headed households and the youth, in particular*”.

Inequality, poverty and unemployment triplet siblings – are organically related and constitute not only an economic malaise but also create social and political liabilities for countries in the region. These conditions are potentially ticking time bombs which may have dire consequences for countries if care and appropriate steps are not taken to tackle them. The scale, magnitude, dimensions and sources of the problem may be different across countries but the character is essentially the same: dispossession of the majority of the indigenous populations of their basic socioeconomic means of survival.

This publication seeks to answer certain basic questions that have implications for the progress and development of countries in Southern Africa. What is the interface between economic growth and inequality in Southern Africa? Does economic growth necessarily exacerbate inequality and deepen poverty? In other words, is the process of capital accumulation antithetical to public welfare and socioeconomic empowerment? Can economic growth be inclusive and empowering by nature? What growth pattern would that be and what would be its driving forces? What are the nature, scale, dimensions and consequences of the levels of inequality, poverty and unemployment in Southern Africa? What policy recommendations are appropriate for addressing these challenges? How can we place these issues in the public domain, engage the policymakers and ensure that they get the policy attention they deserve?

The key message of this publication is that the appropriate growth and development strategy for Africa in general, and Southern Africa in particular, should be one that not only accelerates the process of capital accumulation,

diversifies the economies and creates an industrial base, but also one that is participatory, empowering and inclusive for the people. Economic growth can only be sustainable and enduring when it protects the weak and vulnerable in society, includes the majority of the people in the economic process and creates majority stakeholders in the development agenda. Economic progress should and can be a win-win situation both for the powerful and powerless in society, and for the strong and the vulnerable. It is only then that our *ubuntu* philosophy germane to our humanity in Southern Africa and Africa in general, can be realized. The *ubuntu* philosophy reminds us that “*I am, because we are; and since we are, therefore I am*”.

We are confident that with strong political will and courage the people of Southern Africa, both state and non-state, will think through the development challenges identified in this publication, and individually and collectively generate and implement appropriate solutions. We at the ECA and UNDP remain ready and committed to provide the kind of support that could help to move the regional development agenda forward.

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Abbreviations and acronyms

ACET	African Centre for Economic Transformation
ACP/EU	African-Caribbean and the Pacific/European Union
ADMARC	Agricultural Development and Marketing Corporation
AFC	Agricultural Finance Corporation
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
AIDS	Acquired Immuno-deficiency Syndrome
AISP	Agricultural Inputs Support Programme
APDP	Automotive Production Development Plan
APEI	Accelerated Programme for Economic Integration
APPG	Absolute pro-poor growth
ART	Antiretroviral Therapy
ARV	Antiretroviral drugs
ASDI	African Social Development Index
ATI	African Transformation Index
BCC	Botswana Central Bank
BCM	Central Bank of Madagascar
BCZ	Business Council of Zimbabwe
BEAM	Basic Education Assistance Module
BESTAP	Business Environment Strengthening and Technical Assistance Programme
BoB	Bank of Botswana
BPO	Business Process Outsourcing
BRICS	Brazil Russia India and South Africa
BRN	Big Results Now
BRT	Bus-Rapid Transit

BSAC	British South Africa Company
BVM	Mozambique Stock Exchange
CA	Communal Area
CAAPD	Comprehensive Africa Agriculture Development Program
CAR	Central Africa Republic
CCM	Chama cha Mapinduzi
CDM	Clean Development Mechanism
CEGPL	Commission Economic des Pays du Grand Lacs
CET	Common External Tariff
CGD	Commission on Growth and Development
CM	Cut Make and Trim
CMA	Common Monetary Area
CODESRIA	Council for the Development of Social Science Research in Africa
COLETU	Congress of Lesotho Trade Unions
COMESA	Common Market for Eastern and Southern Africa
COSATU	Congress of South African Trade Unions
CPI	Corruption Perceptions Index
CSOT	Community Share Ownership Trust
CSR	Corporate Social Responsibility
CZI	Confederation of Zimbabwe Industries
DEPTH	Diversification, Export competitiveness, Productivity, Technology upgrading,
DFID	Department for International Development/UK
DRC	Democratic Republic of the Congo
DSA	Debt Sustainability Analysis
EABI	East African Bribery Index
EAC	East African Community

EAM	East Asian Miracle
ECCE	Early Childhood Care and Education
ECD	Early Childhood Development
ECOWAS	Economic Community of West African States
EEP	Economic Empowerment Plan
EFA	Education for All
EFF	Economic Freedom Fighters
EFF	Extended Fund Facility
EITI	Extractive Industries Transparency Initiative
ENDE	National Development Strategy
EPA	Economic Partnership Agreement
EPWP	Expanded Public Works Program
EPZ	Export Processing Zone
ERP	Economic Recovery Plan
ESAP	Economic Structural Adjustment
ESOT	Employee Share Ownership Trust
ETFs	Education Transition Funds
EU	European Union
FAM	Armed Forces of Mozambique
FDI	Foreign Direct Investment
Findex	Financial Inclusion Index
FISP	Farm Input Subsidy Programme
FLE	Front for the Liberation of the Enclave of Cabinda
FNLA	National Front for the Liberation of Angola
FRELIMO	Front for Liberation of Mozambique
FSRA	Financial Services Regulatory Authority

FTA	Free Trade Area
FTLRP	Fast Track Land Reform Programme
GCI	Global Competitiveness Index
GDI	Gender Development Index
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GFEC	Global Financial and Economic Crisis
GIA	Government Investment Account
GII	Gender Inequality Index
GMB	Grain Marketing Board
GNI	Gross National Income
GPI	Global Peace Index
GPI	Gender Parity Index
GSP	Generalized System of Preference
GTB	Government Tender Board
GVC	Global Value Chain
HDI	Human Development Index
HDR	Human Development Report
HIV	Human Immuno-deficiency Virus
HRI	Health Results Innovation
HSSP	Health Sector Strategic Plan
HTF	Health Transition Fund
ICT	Information and Communication Technology
IDA	International Development Association
IDP	Internally Displaced Person
IDS	Institute of Development Studies

IEE	Indigenization and Economic Empowerment
IEEA	Indigenization and Economic Empowerment Act
IEP	Institute for Economics and Peace
IFI	International Financial Institution
IFMIS	Integrated Financial Management System
IFPRI	International Food Policy Research Institute
IG	Inclusive Growth
IHDI	Inequality Adjusted Index
IHS	Integrated Household Survey
IIAG	Ibrahim Index of African Governance
ILO	International Labour Organization
IMCI	Integrated Management of Child Illnesses
IMF	International Monetary Fund
IMR	Infant Mortality Rate
IOT	Indian Ocean Tuna
JSE	Johannesburg Stock Exchange
LBW	Low Birth Weight
LFCLS	Labour Force and Child Labour Survey
LSCF	Large Scale Commercial Farm
MARDEF	Malawi Rural Development Fund
MDC	Movement for Democratic Change
MDG	Millennium Development Goal
MDHS	Malawi Demographic and Health Survey
MDTF	Multi-donor Trust Fund
MEC	Macroeconomic Convergence
MFEZ	Multi-Facility Economic Zone

MGDS	Malawi Growth and Development Strategy
MIBA	<i>Minière de Bakwanga</i>
MICS	Middle Income Countries
MITC	Malawi Investment and Trade Centre
MLC	Movement for the Liberation of Congo
MMR	Maternal Mortality Ratio
MNC	Multinational Corporation
MONUC	United Nations Organization Mission in the Democratic Republic of the Congo
MPI	Multidimensional Poverty Index
MPLA	People's Movement for the Liberation of Angola
MSME	Micro, Small, and Medium Enterprise
MTEF	Medium-Term Expenditure Framework
MW	Megawatt
MYDIE	Ministry of Youth Development, Indigenization and Empowerment
NAP	National Action Plan
NCCRP	National Climate Change Response Policy
NCDs	Non-Communicable Diseases
NDP	National Development Plan
NDP	Net Domestic Product
NEPAD	New Partnership for Africa's Development
NER	Net Enrolment Rate
NER	Net Enrolment Ratios
NES	National Export Strategy
NESP	National Education Sector Plan
NGO	Non-governmental organization
NIC	Newly Industrializing Country

NIEEB	National Indigenization and Economic Empowerment Board
NIEEF	National Indigenization and Economic Empowerment Fund
NSCM	National Seed Company of Malawi
NUNW	National Union of Namibian Workers
OCHA UN	Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organization for Economic Cooperation and Development
OFAC	Office of Foreign Assets Control
PAGI	Institutional Governance Support Project
PDL	Poverty Datum Line
PEMC	Public Enterprise Monitoring Commission
PFMA	Public Finance Management Act
PIE	Interim Education Programme
PNER	Primary Net Enrolment Ratio
PNISA	National Agriculture Investment Plan
PPP	Purchasing Power Parity
PRSP	Poverty Reduction Strategy Papers
PWC	Post Washington Consensus
RBM	Reserve Bank of Malawi
RBZ	Reserve Bank of Zimbabwe
RCD	Rally for Congolese Democracy
REC	Regional Economic Community
RENAMO	Mozambique Resistance Movement
RISDP	Regional Indicative Strategic Development Plan
RNLB	Rhodesian Native Labour Bureau

RPRF	Regional Poverty Reduction Framework
SACEEC	South African Capital Equipment Export Council
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCC	Southern African Development Co-ordination Conference
SADF	South African Defence Force
SAP	Structural Adjustment Programme
SATUCC	Southern Africa Trade Union Co-ordination Council
SCTS	Social Cash Transfer Scheme
SDMS	Sovereign Debt Management Strategy
SHD	Sustainable Human Development
SHIES	Swaziland Household Income and Expenditure Survey
SIDA	Swedish International Development Cooperation Agency
SIDS	Small Island Developing States
SIPO	Strategic Indicative Plan of the Organ
SME	Small and medium-sized enterprise
SMP	Staff Monitored Programme
SNER	Secondary Net Enrolment Ratio
SPPRA	Swaziland Public Procurement Regulatory Agency
SSA	Sub-Saharan Africa
SSCF	Small Scale Commercial Farm
STPF	Social Transfer Policy Framework
SWAp	Health Sector Wide programme
SWF	Sovereign Wealth Fund
TTIP	Trans-Atlantic Trade and Investment Partnership
TTL	Tribal Trust Land

UNAIDS	Joint United Nations Programme on HIV and AIDS
UNCTAD	United Nations Conference for Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNESCO	United Nations Educational and Cultural Organisation
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Children's Fund
UNITA	National Union for the Total Independence of Angola
UNSD	United Nations Statistics Division
UNWTO	United Nations World Tourism Organization
USA	United States of America
UWSSRP	Urgent Water Supply and Sanitation Rehabilitation Project
VAT	Value Added Tax
VCT	Vocational Training Centre
WC	Washington Consensus
WENELA	Witwatersrand Native Labour Association
WHO	World Health Organization
WSSD	World Summit on Sustainable Development
WWII	World War II
ZAADDs	Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy
ZADMO	Zimbabwe Aid and Debt Management Office
Zamseed	Zambia Seed Company Limited
ZANLA	Zimbabwe African National Liberation Army
ZANU	Zimbabwe African National Union
ZAPU	Zimbabwe African People's Union
ZAR	South African Rand

ZCC	Zimbabwe Council of Churches
ZCCM	Zambian Copper Consolidated Mines
ZCTU	Zimbabwe Congress of Trade Unions
ZDERA	Zimbabwe Democracy and Economic Recovery Act
ZDHS	Zimbabwe Demographic Health Survey
ZEP	Zones Education Prioritaire
ZIA	Zimbabwe Investment Authority
ZIMCORD	Zimbabwe Conference on Reconstruction and Development
ZimFund	Zimbabwe Multi-Donor Trust Fund
ZIMSTAT	Zimbabwe National Statistics Agency
ZMDC	Zimbabwe Mining Development Corporation
ZPA	Zambia Privatization Agency
\$	United States Dollar
%	Percentage

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EXECUTIVE SUMMARY

Southern Africa is in the midst of a complex transition, involving political, socioeconomic and governance dimensions that need to evolve into new political and economic dispensations that can guarantee broad-based wealth creation, equality, inclusivity, sustained growth and development and poverty reduction. This transition has been in a context of unfavourable economic performance and negative external shocks. The result has been increasing poverty, inequality and unmet aspirations of prosperity, even in the midst of growth for some countries.

The debates on economic growth, inequality and poverty have tended to revolve around the question of whether market-led growth is sufficient to eliminate poverty and reduce inequality, because benefits of growth automatically ‘trickle down’ to the poor, or whether state-supported, targeted industrial policies and redistribution of assets and/or income are necessary, because trickling-down benefits may be insufficient.

The rampant civil unrest and/or wars in Southern Africa have further undermined economic development, and widened the development gap between the region and the rest of the world, thus, sustaining the cycle of poverty and violence. The roots of the civil wars are complex, but evidence from research suggests that poor governance, inequality, particularly in access to natural resources such as minerals and land, and widespread poverty, are among the main factors that create the conditions for conflict and provoke civil unrest and/or wars. Civil unrest and wars not only interrupt the larger socioeconomic and political transition, but also make an already difficult development process more daunting, by weakening the institutional infrastructure, degrading the environment, and destroying social capital. However, resolving civil unrest and/or wars provide an opportunity to address the development process in a more holistic manner, including addressing historical structural inequalities.

Southern Africa inherited a special type of social formation in which the capitalist sector of the economy was grafted onto pre-capitalist forms of production in a distorted manner. This kind of capitalism did not transform the economy as a whole, but only small formal enclave sectors, thus failing to produce dynamic and sustained growth and development. The small, formal enclave economy was totally dependent on external factors such as markets and capital from the West, and this dependency is still visible to date.

Southern Africa’s extractive industries have further fuelled inequality and poverty. They deepened enclave developments as the extractive zones became the centre of government and private sector attention but not the basis of diversification. Thus, while Southern Africa is well endowed, including with oil, copper, gold, diamonds, chrome, gas, bauxite, fisheries, platinum, unemployment is increasing, poverty is deepening and inequality between and within countries is widening.

Of great significance for Southern African societies in their experience with dualism was the massive alienation of key factors of production, particularly land from indigenous people, and the subsequent imposition by the colonizers of specific restrictions on commercial agricultural production, while their settler farmers were subsidized by the State. The market-driven “*willing-buyer, willing-seller*” approach to land redistribution failed to resolve this historical land inequality. Dualism and enclavity extended to all the other sectors of the economy, including social sectors such as health and education. In education, for example, the majority of the Black people were completely neglected in most Southern African States and the vast majority of Black children did not attend any school at all. Most schools open to Black children only taught the skills required by low-level labourers in the colonial economies without providing higher-level skills training.

When Southern African countries attained independence during the 1960s, there was an implicit understanding between the nationalists who inherited State power from the colonial authorities and the general populace whose support was instrumental to the success of the independence struggles. At the centre of the social contract was a commitment by the nationalists to an across-the-board improvement in the lives and well-being of the populace, with a promise to do so in ways which would overcome the discriminatory restrictions that underpinned colonial social, economic, and political policies. In this regard, the health and educational sectors

occupied a place of pride in the early investments which Southern African independent States made in the social sectors. Overall, these sectors witnessed an all-round expansion in the period up to the end of the 1970s and 1980s. However, even in the periods of expansion, there were numerous questions of equity and access posed by the populace.

In addition to the challenges of dualism arising from colonialism, the post-colonial development strategy and agenda of Southern Africa has until recently been prescribed from outside. Soon after independence, the emerging fragile African countries were bombarded with a 'litany' of development strategies ranging from commercialization through cash cropping, through structural adjustment programmes (SAPs), to Poverty Reduction Strategy Papers (PRSPs), (in some cases, three generations of them), and more recently, Inclusive Growth (IG). The proliferation of such strategies derailed the structural transformation efforts of the emerging African States. In this regard, Southern Africa's case of pervasive outside influences on basic development strategy remains unparalleled in the world in modern times.

Conclusions

Against this background of the underlying historical colonial template, the report concludes that, Southern Africa has some of the highest levels of inequality in the world. The inequalities span across several spheres, namely, economic, social and political. These inequalities manifest themselves at various levels including: at the regional level among countries; spatially, for rural and urban areas and among regions within each country; racially, between the majority Black and minority White Africans, and the other ethnic groups forming the Southern African populations; gender-wise, between females and males; and age-wise, for the youths, adults and the elderly.

Economic inequalities include: growth; access and ownership of natural resources such as land and minerals; income; and employment inequalities. Social inequalities include: poverty levels; food insecurity; HIV and AIDS-related challenges; child, maternal health, and general health; education, particularly at secondary and tertiary levels; water and sanitation; and human exclusion, among others. HIV and AIDS underlie the high maternal and child mortality rates in SADC countries. Political inequalities include gender representation in parliament.

Utilizing both the three-sector economic analysis and the recently introduced African Transformation Index (ATI), a major conclusion is reached, namely that Southern Africa is characterized by growth without economic transformation. Although it has achieved commendable economic growth rates, it is of concern that this growth lacks the economic transformation elements necessary for launching the economies into dynamic, broad-based sustainable growth and development. Diversification and beneficiation/value addition remain critical components of economic transformation.

Addressing inequality is central to fighting poverty, so that policymakers do not have to choose between 'pro-growth' and 'pro-poor' policies. The two outcomes overlap, because most policies that increase growth also reduce poverty, and many policies that are effective for reducing poverty also increase growth. There is, therefore, no inevitable trade-off between equity and efficiency. On the contrary, growth and better distribution are complementary, rather than competing objectives in the fight against poverty. More equal distribution of income and assets can foster growth, whereas high inequality can retard it.

Even though Southern Africa is characterized by high inequalities, jobless growth and poverty, among other challenges, there are windows of hope, in the form of measures some countries have taken that have gone a long way in addressing some of these issues. Some of these measures can be replicated where possible. Country case studies flagged in the report include: Mauritius and South Africa on economic transformation, including diversification of production and exports and value addition; Zimbabwe on the radical Fast Track Land Reform Programme (FTLRP) which transferred agricultural land to the majority Black population; Botswana on

setting up the Pula Fund (Sovereign Wealth Fund) from diamond revenues; the Zimbabwe Indigenization and Economic Empowerment (IEE) Programme, which is transferring mineral resources to the majority Black population; and Zimbabwe's 'Green Revolution' of the 1980s which sought to support smallholder farmers to ensure food security.

Recommendations

When addressing the injustices of the colonial and apartheid past, it is recommended that countries of Southern Africa should tackle the legacy of the past in a systematic manner, supported by social and economic policies that raise human and productive capacity levels, encourage entrepreneurship and empowerment, promote domestic and international investments; and tackle racial, ethnic, gender, age and geographical inequalities. This has to be done through deliberate and systematic inclusiveness in policymaking and implementation, equity in resource distribution, and use of a merit system that factors in past discrimination.

On making economic growth broad-based and more inclusive and sustainable, countries of Southern Africa should structurally transform their economies through economic diversification, value addition and broad-based and inclusive growth in the agro-allied, natural resources and other economic sectors. Such transformation is important to these countries, for facilitating their growth out of poverty and inequality. There is need to recalibrate the structure of economies through public and private investments in value added activities that support labour-intensive sectors, including tourism, agro-business and manufacturing, to ensure decent employment creation for all, particularly the youth and women. In this regard, more efforts should be expended on the implementation of regional protocols such as the continental Comprehensive Africa Agriculture Development Programme (CAADP), in so far as investment in agriculture is concerned.

Although the redistribution of land is a prerequisite for meaningful reform, it is not necessarily a sufficient condition for sustainable human development. There is need also for comprehensive agrarian reform to ensure that agricultural development becomes viable and contributes to food security and broader goals for sustainable human development. The State needs to play a more pro-active and pivotal role in such a process, including intervention in markets for credit, inputs and crops. There is a massive need for investment in irrigation support, inputs, and training and extension services; in a network of rural markets and distribution centres; and in the transport and communication infrastructure. Such programmes need support at both the regional and national levels, paying particular attention to rural smallholder farmers, the majority of whom are women and the youth.

Notwithstanding the actual and potential backlash from external forces, countries should ensure that mineral resource beneficiation gains traction. To realize this, there is need for human skill upgrading, formulation and implementation of the requisite regulations and strengthening of institutions to create the right conditions for the local processing of raw mineral resources and other natural resources. There is need to work as a collective (including trade unions, private sector and civil society) to maximize the interests of the country as a whole in terms of job-creation, citizen empowerment, closing of the inequality gaps and poverty reduction. Accordingly, protection of those employed should be balanced against the need to create more job opportunities for the unemployed, especially the youth.

Governments should ensure that citizens in remote areas are part of development efforts, and that the rolling out of social and economic infrastructure reaches those areas. In order to ensure the optimal operation of the economies as broad-based and inclusive development entities, women should be an integral part of all development efforts, as economic assets and not just as a vulnerable group to be thrown into safety nets. Non-governmental organizations (NGOs) should reach out to all parts of each country to take into account the needs of those at the lowest rung of the economic ladder, to ensure that their voice is heard and is reflected in social and economic policies as well as in the distribution of national resources.

On recalibrating social and economic policies, the Governments of Southern African countries should encourage academia and indigenous think tanks to generate relevant research regionally and nationally, to inform policymaking, in order to avoid the dangers of being 'structurally adjusted' in the fierce global war for ideological supremacy. In this regard, the education system should be tailored to meet local industry needs and also to ensure congruency to the long-term regional integration agenda. There should be continuous exchange and interaction between academia and the policy community in Southern Africa.

Countries should put in place well-targeted policies and programmes that have a direct impact on reducing social and economic inequalities, including the spread of HIV and AIDS. Introducing and entrenching stable macroeconomic frameworks, sound trade policy, and an appropriate investment climate that helps to fuel the industrialization needed for sustainable and inclusive growth cannot be overemphasized. On industrial and trade policy, countries should give high priority to indigenous national and small to medium-scale enterprises (SMEs) through instruments of fiscal policy such as tax regimes, access to finance and working space, and other forms of targeted support. Countries should avoid policies that are designed to appear good from the external observer's viewpoint, but which have no relevance to local developmental conditions. In this regard, development partners should adhere to international undertakings that not only respect national development plans (NDPs) but also support them. Overall, there is need to continue investing more in social sectors to ensure quality education, health and nutrition especially for women and children.

On addressing gender, race, age and geographical inequalities, countries should design and implement a policy mix that combines targeted transfers with the provision of quality education, affordable and effective basic social services, and infrastructure. Countries should note, however, that social protection measures are not a long-term solution to poverty and inequality reduction. There is need to comply with regional and national laws and protocols on gender equality to ensure that gender-based inequality is addressed in a systematic and sustainable manner.

Tailoring financial/credit packages to effectively support the empowerment of women, youth and other disadvantaged and marginalized social groups will go a long way. There is need to focus on the '*one country, one region*' concept which helps to avoid a narrowly focused development approach at the expense of other parts of the country or region. Race-based inequality from the colonial and apartheid past should be addressed systematically including through land redistribution, while at the same time ensuring State support to ensure food security and skills retention.

In order to implement the above recommendations effectively, the strong leadership role of effective developmental States that are committed to economic transformation and social justice is required to drive the transformation agenda of constructing a new development template in Southern Africa. A strong developmental State is one which has the following characteristics: it addresses productive assets and other inequalities; allows wide participation of its citizens in all its development processes; establishes efficient institutions; provides a conducive environment for the private sector to do business and create new wealth and jobs; and balances between the role of market forces and the need to ensure sustainable human development, among other features.

CHAPTER I:

INTRODUCTION

1.1 The ‘triple challenge’ of economic growth, inequality and poverty in Southern Africa

The debates about economic growth, inequality and poverty have tended to revolve around the question of whether market-led growth is sufficient to eliminate poverty and reduce inequality, because benefits of growth automatically trickle down to the poor, or whether targeted industrial policies and redistribution of assets and/or income are necessary, because trickling-down benefits may be insufficient. Southern Africa is slowly becoming the epicentre of economic activity in Africa with a combined gross domestic product (GDP) of US\$ 655 billion in 2012¹, for the Southern African Development Community² (SADC). This is much higher than that of any other African regional community. In comparison, the GDP of the East African Community³ (EAC) was around \$85 billion⁴, and that of the Economic Community of West African States⁵ (ECOWAS) around \$396 billion, for the same period (see table 1.1).

While economic growth was adversely affected by the global financial and economic crisis (GFEC) which started in 2007/8, registering annual real GDP growth rates of 0.9 per cent in 2009, Southern Africa still grew by 4.3 per cent in 2012 from 4.1 per cent in 2011⁶. This growth level was still below the recommended SADC secondary macroeconomic convergence (MEC) target of 7 per cent real GDP growth rate per annum⁷. Nonetheless, the growth rate was relatively comparable to the growth rates for EAC and ECOWAS in 2012.

However, this SADC growth pattern has been accompanied by high levels of poverty and inequality. Poverty levels, as measured by the proportion of the population below the national poverty datum line (PDL), ranged from 9 per cent in Mauritius in 2010 to 73 per cent for Zimbabwe for 2011/12. Comparatively, the EAC countries have relatively lower poverty levels. Burundi has 67 per cent of its population above the national PDL, and the rest have below 50 per cent. See appendix table A1.1. While ECOWAS has relatively high poverty levels, the extent is higher in SADC. About 63 per cent of Southern Africa’s 284 million people reside in rural areas, with a similar proportion for ECOWAS, 65 per cent of 245 million, and more than 70 per cent of the 135 million people in the EAC countries. Generally, in sub-Saharan Africa (SSA), rural areas have higher poverty levels than urban ones.

1 SADC Selected Indicators, 2013.

2 The 15 SADC countries are: Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.

3 The 5 EAC countries are: Burundi, United Republic of Tanzania, Kenya, Uganda and Rwanda.

4 EAC Facts and Figures Report, 2012.

5 The 15 ECOWAS countries are: Benin, Burkina Faso, Cabo Verde, Cote d’Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.

6 SADC, 2013, “Integrated Paper on Recent Economic Developments in SADC”, prepared for the SADC Committee of Central Bank Governors, September 2013.

7 Source: SADC, 2003, Regional Indicative Strategic Development Plan (RISDP), 2003-2018.

Table 1.1 Growth, inequality and poverty in SADC, EAC and ECOWAS

Regional Economic Community	Combined GDP (US\$ billion)	Annual real GDP growth rate (%)	Total population (millions)	% Population in rural areas	Inequality (range of income) Gini Coefficient (%)	Poverty (range of population) (%) Below the National Poverty Line
Southern African Development Community (SADC)	655 (2012)	0.9 (2009) 4.3 (2012)	284 (2012)	63 (2009)	38 for Tanzania to 66 for Seychelles (2007)	9 for Mauritius (2010) to 73 for Zimbabwe (2011/12)
East African Community (EAC)	85 (2012)	4.5 (2009) 5.5 (2011)*	135 (2011)	>70 (2012)	33 for Burundi (2006) to 51 for Rwanda (2011)	25 for Uganda (2009) to 67 for Burundi (2006)
Economic Community of West African States (ECOWAS)	396 (2012)	3.1 (2009) 4.3 (2012)	245 (2002)	65 (2002)	33 for Mali (2010) to 51 for Cabo Verde (2002)	27 for Cabo Verde (2007) to 69 for Guinea-Bissau (2010)

Sources: SADC Selected Indicators, 2012; SADC Statistical Yearbook, 2011; UNSD, MDG Database, 2014; World Bank Database, 2014; UNECA, 2013; Human Development Report 2013;

www.uneca.org; <http://web.worldbank.org/WBSITE/External/Countries>; <http://www.ecowas.int>; and <http://www.quandl.com/demography/gini-index-all-countries>, 2014.

Note: * is an estimate.

Similarly, inequality in SADC countries as measured by the income Gini coefficient, remained high, ranging from 38 per cent for Tanzania to 66 per cent for Seychelles, in 2007. In contrast, EAC and ECOWAS have relatively lower levels of inequality, with income Gini coefficients ranging from 33 per cent to 51 per cent (see appendix table A1.1).

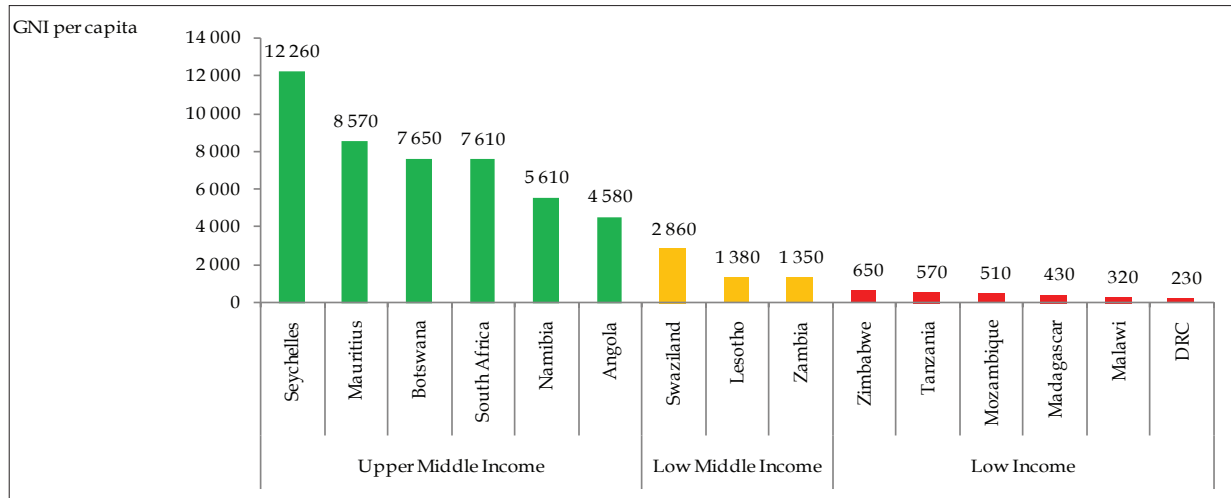
1.1.1 Growth and income inequalities

According to the latest (1 July, 2013) simple World Bank classification of countries by income level [gross national income (GNI) per capita]⁸, SADC countries can be classified into three categories as follows: *Upper Middle Income* (six countries – Seychelles, Mauritius, Botswana, South Africa, Namibia and Angola); *Low Middle Income* (three countries – Swaziland, Lesotho and Zambia); and *Low Income* (six countries – Zimbabwe, Tanzania, Mozambique, Madagascar, Malawi and DRC). See figure 1.1. No SADC country is in the *High Income* category although Seychelles is very close to the minimum for this category.

It is of concern that the 40 per cent of SADC countries which fall within the low-income category are way below the upper cut-off level of US\$1 035. For example, Zimbabwe, the highest performer in that category, had a GNI per capita of US\$ 650 in 2012, which was 62 per cent of the cut-off level into the low middle-income category. In contrast, the lowest performer, DRC, had a GNI per capita of US\$ 230 in the same period, which was 22 per cent of the cut-off level into the low middle-income category. These low-income levels partly underlie the high poverty levels noted in Southern Africa.

8 Each year on 1 July, The World Bank revises the classification of the world's economies based on estimates of gross national income (GNI) per capita for the previous year. The updated GNI per capita estimates are also used as inputs to the Bank's operational classification of economies, which determines their lending eligibility. As of 1 July 2013, the World Bank income classifications by GNI per capita are as follows: Low income: \$1 035 or less; Lower middle income: \$1 036 to \$4 085; Upper middle income: \$4 086 to \$12 615; High income: \$12 616 or more.

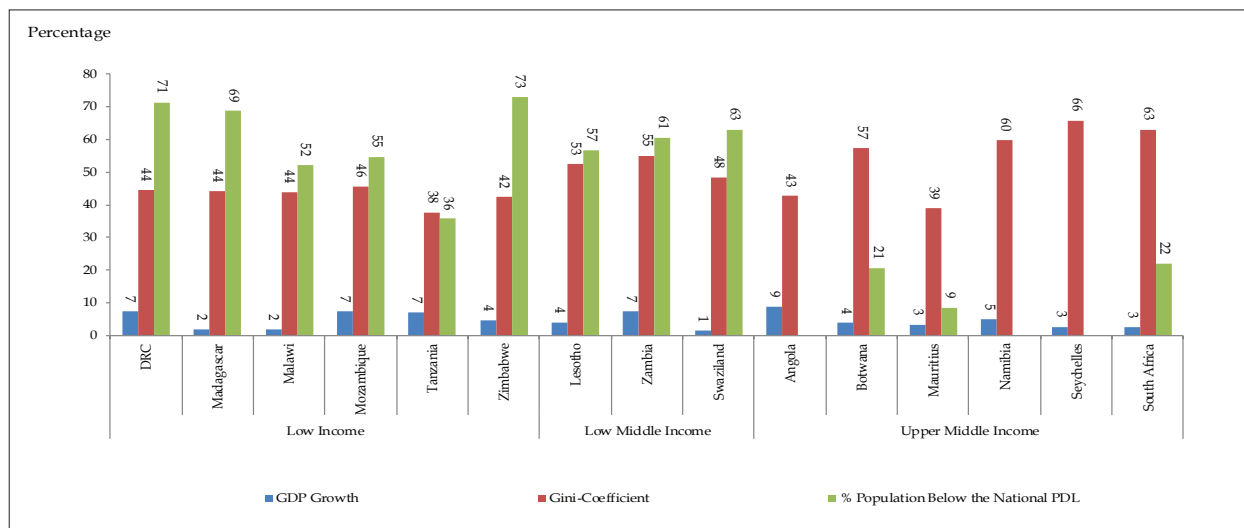
Figure I.1 SADC Countries by Income Category (Gross National Income per Capita -US\$-PPP), 2012



Source: Available from data.worldbank.org

Figure I.2 presents the relationship between economic growth, inequality and poverty by income categories for SADC countries. Generally, economic growth rates have remained subdued irrespective of the income category of the country. In 2012, only four countries, largely at the lower end of the income spectrum, namely DRC, Mozambique, Tanzania and Zambia, recorded the recommended SADC secondary MEC target of 7 per cent real GDP growth rate per annum. Angola (6 per cent) was close to the target growth during the same period.

Figure I.2 Economic growth (2012), inequality, (various years), and poverty (various years) by income category of Country, SDAC, 2014



Source: GDP Growth – SADC Selected Indicators, 2012; Gini Coefficient – SADC Statistics Yearbook, 2011; Human Development Report 2013, Database and <http://www.quandl.com/demography/gini-index-all-countries>, 2014. Population below the National Poverty Datum Line (%) – SADC Statistics Yearbook, 2011.

Note: The income Gini coefficient refers to the following years – DRC (2006) – SADC, 2011; Madagascar (2010); Malawi (2010); Mozambique (2008); Tanzania (2007); Zimbabwe (2011/12); Lesotho (2003) – SADC, 2011; Zambia (2010) – SADC, 2011; Swaziland (2010) – SADC, 2011; Angola (2009); Botswana (2003) – SADC, 2011; Mauritius (2007) – SADC, 2011; Mozambique (2008); Namibia (2010) – SADC, 2011; Seychelles (2007); South Africa (2009).

The percentage of the population below the national PDL refers to the following years: DRC (2005); Madagascar (2005); Malawi (2005); Mozambique (2008); Tanzania (2001); Zimbabwe (2011/12); Lesotho (2003); Zambia (2010); Swaziland (2010); Botswana (2010); Mauritius (2010); South Africa (2008) . Angola, Namibia and Seychelles had no available data.

With regards to poverty in SADC countries, generally, all the nine countries in the low income and low middle income categories, had high poverty levels as measured by the percentage of the population living below the national PDL, ranging from 36 per cent for Tanzania to 73 per cent in Zimbabwe. For the upper middle income group, poverty levels were relatively low, ranging from 6 per cent for Mauritius to 22 per cent for South Africa and 21 per cent for Botswana.

Inequalities also remain very high, as illustrated by the following income Gini coefficients for the period covering 2003–2011/2012 (percentages): Seychelles (66%); South Africa (63%); Namibia (60%); Botswana (57%); Zambia (55%); Lesotho (53%); Swaziland (48%); Mozambique (46%); DRC (44%); Madagascar (44%); Malawi (44%); Angola (43%); Zimbabwe (42%); Mauritius (39%); and Tanzania (38%). See appendix table A1.1 for specific reference periods. These figures suggest that the higher the country's income level, the higher the level of income inequality. This is the case in Seychelles, South Africa, Namibia, and Botswana.

Southern Africa is reputed to have one of the highest levels of inequality in the world⁹. According to the African Development Bank (AfDB), 2012, in addition to being one of the poorest regions in the world, Africa is also the world's second most inequitable region after Latin America, with inequalities remaining high over many decades. In 2010, six out of the ten most unequal countries worldwide were in SSA, and more specifically in Southern Africa.

The AfDB report further reiterates that overall Southern Africa is the most unequal part of Africa. Namibia, Comoros, South Africa, Angola, Botswana, Lesotho and Swaziland count among the continent's top ten most unequal countries with the most striking increase in inequality being found in South Africa and the Central African Republic, whose income Gini coefficients rose from 58 to 67 between 2000 and 2006 and from 43 to 56 between 2003 and 2008, respectively¹⁰.

Looking at inequality as measured by the share of income held by the lowest 20 per cent and highest 20 per cent of the population confirms the existence of high income inequalities. Generally, across Southern Africa, the lowest 20 per cent of the population held only 3 p to 7 per cent of the total income, whilst the highest 20 per cent of the population held varying proportions of the total income ranging from 45 per cent for Tanzania to 70 per cent for Seychelles (see figure I.3 and appendix table A1.2). Overall, the higher the level of GNI per capita the higher the level of inequality, with the exception of Angola.

9 AfDB, 2012.

10 Ibid.

Figure I.3 Inequality -Share of Income Holding by Lowest 20 Percent and Highest 20 Percent of the Population, SADC Countries 1994-2010

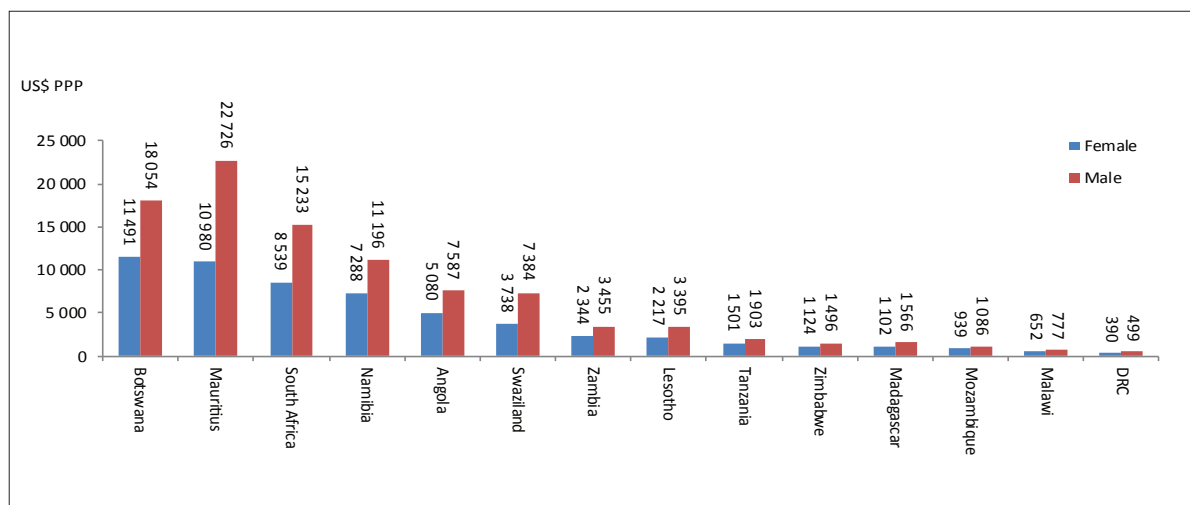


Source: World Bank Database, 2014; <http://data.worldbank.org/indicator>

Note: Angola (2009); Botswana (1994); Lesotho (2003); Madagascar (2010); Mozambique (2008); Malawi (2010); Namibia (2004); Swaziland (2010); Seychelles (2007); Tanzania (2007); South Africa (2009); DRC (2006); Zambia (2010). Data for Mauritius and Zimbabwe are not available.

Generally, in Southern Africa, upper-middle income and low-middle income countries have high gender inequalities in income as measured by GNI per capita (2011 PPP\$) for 2013 (see figure I.4). In Mauritius, for example, the GNI per capita for females of \$10 980 is 48 per cent of that for males, \$22 726. In comparison, gender inequalities in income is lower in the low-income country category, implying equality in poverty. In the DRC, for example, the GNI per capita for females of \$390 is 78 per cent of that for males, \$499.

Figure I.4 Estimated GNI per capita (2011 PPP\$) by sex, SADC Countries, 2013



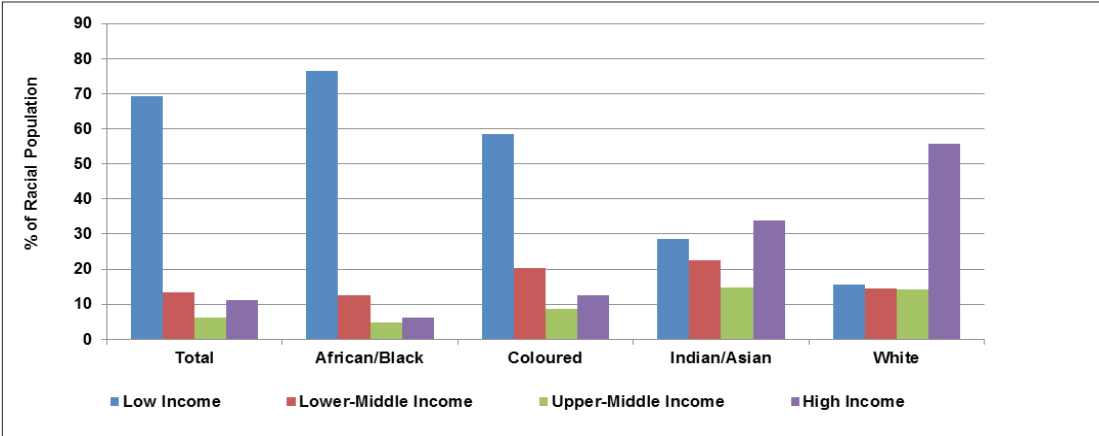
Source: United Nations Development Programme, HDR 2014.

Note: Estimated earned income, GNI per capita. Derived on the basis of the ratio of female to male wages, and female and male shares of the economically active population, GNI (constant 2011 PPP\$).

South Africa presents striking examples of racial and spatial inequalities. In 2012, for example, about 78 per cent of Black Africans were in the low-income category, and only about 6 per cent were in the high-income category (see figure I.5). In contrast, for the Whites, about 15 per cent were in the low-income category, and

about 56 per cent were in the high-income category. The pattern for Coloureds is similar to that of Blacks, whilst that of Indians/Asians is similar to that for Whites, but with lower proportions.

Figure I.5 Income inequality by racial classification, South Africa, 2012

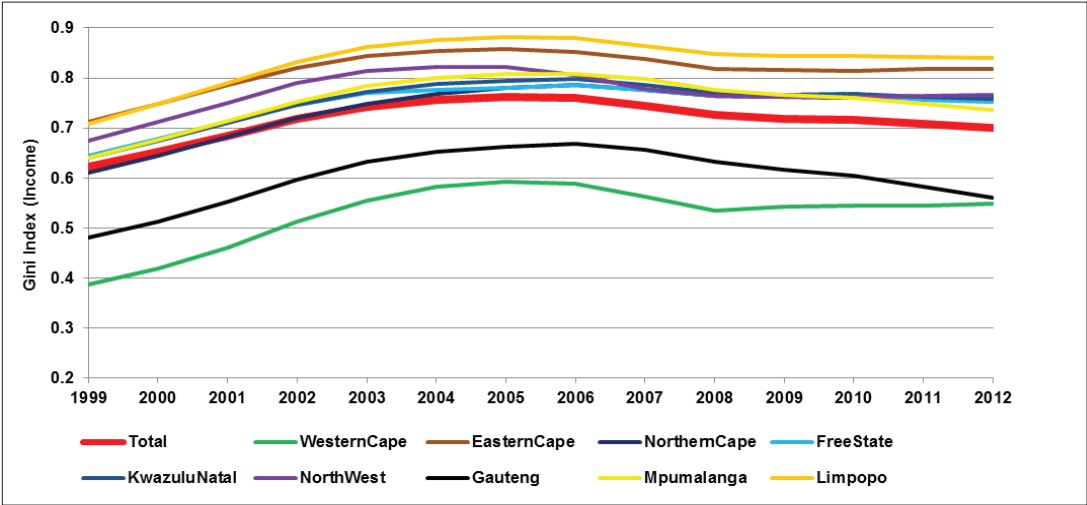


Source: UNDP, 2014.

Note: The figures contributed by UNDP were prepared by Dr. Babatunde Omilola, Economic Advisor, UNDP-South Africa.

Income inequality in South Africa remained high and increasing from an income Gini coefficient of around 64 per cent in 1999 rising to 0.72 in 2012. See figure I.6. Limpopo Province, with an income Gini coefficient of around 84 per cent, had the highest income inequality in 2012, whilst the Western Cape had the lowest, 0.55.

Figure I.6 Income inequality by province, Gini Income Index, South Africa, 1999-2012

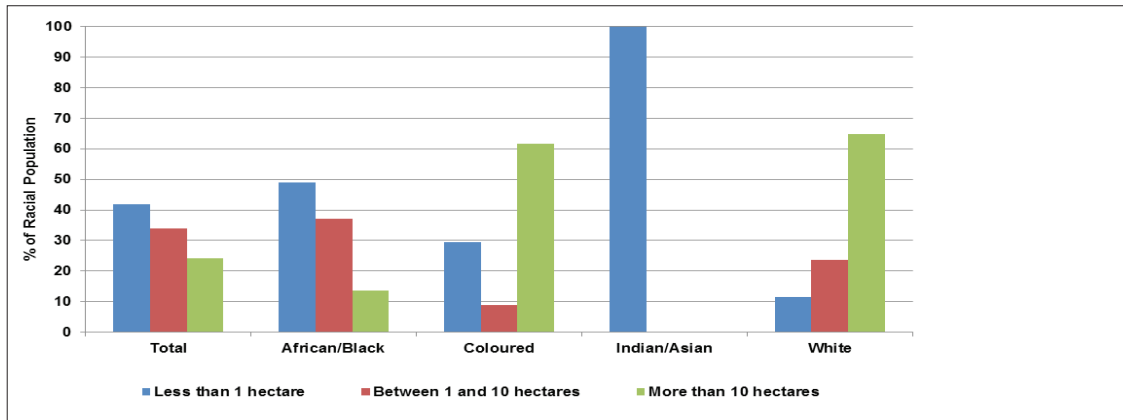


Source: UNDP, 2014.

1.1.2 Land ownership inequalities

In 2012, Whites and Coloureds had relatively high proportions, about 64 per cent and 61 per cent, respectively, of their populations owning larger pieces of land of more than 10 hectares, compared to Africans/Blacks who had only 12 per cent owning such large pieces of land (see figure I.7). Almost half of the Blacks owned small pieces of land of less than one hectare. Almost all Indians/Asians owned small pieces of land of less than one hectare.

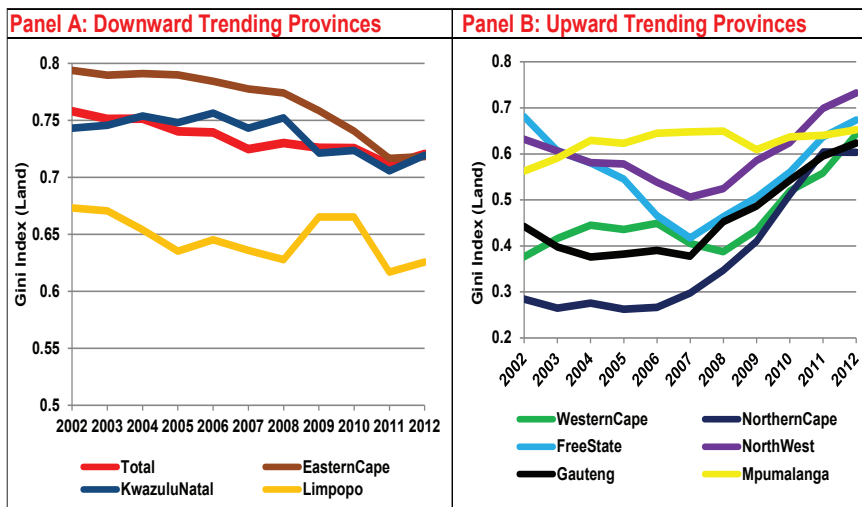
Figure I.7 Land inequality, land-use distribution by racial classification, South Africa, 2012



Source: UNDP, 2014.

South Africa has high land inequality, with a slight decline at national level and in three provinces, namely, the Eastern Cape, Kwazulu Natal and Limpopo (see figure I.8). Nationally, the land Gini coefficient was estimated at 0.74 in 2012. In the remaining six provinces, land inequality notably increased between 2002 and 2012. As at 2012, a cumulative 40 per cent of the household population owned about 10 per cent of the country’s land while only 8 per cent of the population held about 70 per cent of the land¹¹.

Figure I.8 Land inequality by province, Gini Land Index, South Africa, 2002-2012



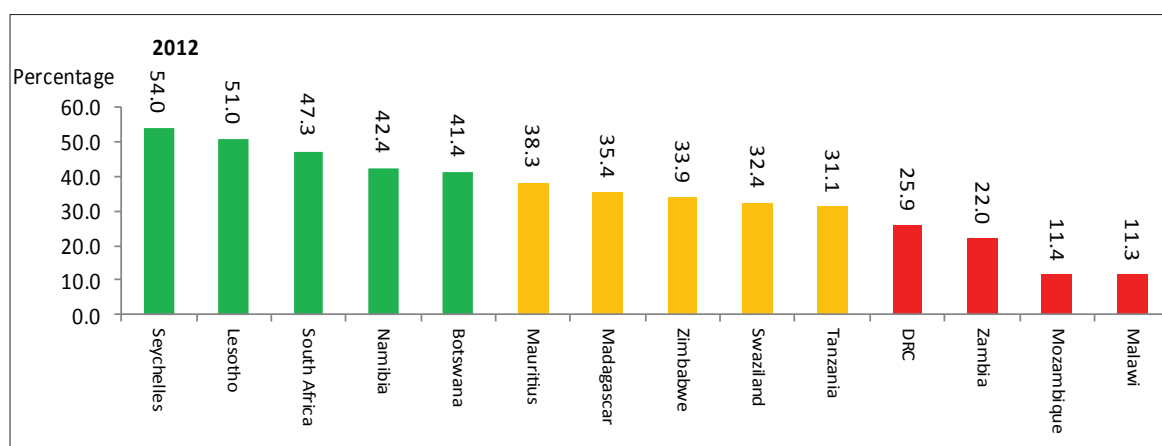
Source: UNDP, 2014.

1.1.3 Employment gender inequalities

The share of women in wage employment in the non-agricultural sector is a key indicator of women economic empowerment. Generally, in 2012, the five countries which were on course with 40 per cent or more of their women in wage employment in the non-agricultural sector included, Seychelles, Lesotho, South Africa, Namibia, and Botswana. See figure I.9. Malawi and Mozambique, with only 11 per cent of their women in wage employment in the non-agricultural sector, exhibit high gender inequalities in this regard.

11 UNDP, 2014.

Figure I.9 Share of women in wage employment in non-agricultural sectors, (percentage), SADC Countries



Source: UNDP, MDG Database, 2014.

Note: Data for Angola are not available. Data refer to the following years : Seychelles (2011); Lesotho (1999); Botswana (2010); Madagascar (2010); Zimbabwe (2011); Swaziland (1997); Tanzania (2011); DRC (1990); Zambia (2000); Mozambique (1990) and Malawi (1995).

1.1.4 General and youth employment inequalities

The unemployment rates reported in Southern Africa, mainly single-digit percentages, appear even lower than in some industrialized countries. This is because many people who are classified as employed, according to International Labour Organization (ILO) definitions, are severely underemployed, that is, engaged in low-productivity agriculture or services, barely eking out a living.

Informal employment (in the informal sector or in the formal sector but without a contract and social protection) makes up more than 80% of employment, and vulnerable employment (own-account and contributing family work) is around 80% of employment. For example, for Mozambique in 2005, informal employment constituted 93 % of total employment, with a similar proportion in Kenya in 2010, and in Ghana, 86% in 2010¹².

Vulnerable employment as a percentage of total employment constituted: 85per cent for Mozambique in 2005; 63 per cent for Kenya in 2010; and 72 per cent for Ghana in 2010. Both informal employment and vulnerable employment lack formal work arrangements and social benefits.

There are also serious gender inequalities in employment, with women mainly participating in the informal and vulnerable sectors, and in low remunerating jobs. This results from inequalities in access to secondary and tertiary education and low female participation in hard-core science and technology courses. Many African countries do not have adequate data on employment, and even when they do have some data, appropriate measurement to bring out unemployment data are lacking, due to the structural characteristics of the countries in Southern Africa.

Youth unemployment remains a major cause of concern in Africa in general. In Southern Africa, with a formal unemployment rate for youths aged 15–24 years being much higher than for adults aged 25–64 years. The youth vulnerable unemployment rate is also higher than that of adults. According to the 2012 *African Economic Outlook*, 75 per cent of the working young are in vulnerable employment in low-income African countries, 57 per cent in lower middle-income countries, and 26 per cent in upper middle-income countries. It is of concern that many of the well-educated youth school leavers either remain unemployed or cannot find jobs, thus,

threatening social and political stability, as witnessed with the Arab Spring protests which began in December 2010.

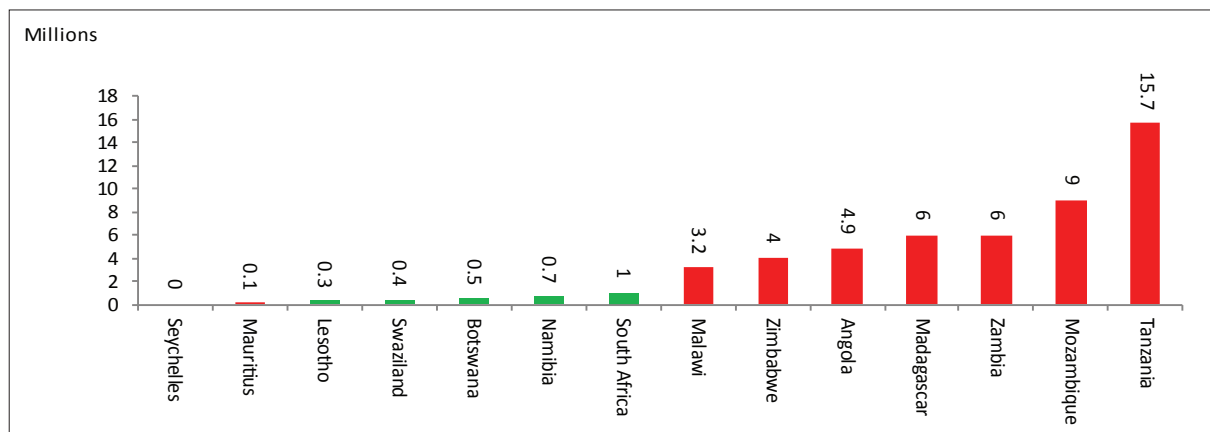
In Zimbabwe, for example, according to the *Labour Force and Child Labour Survey (LFCLS)*, 2011, 80 per cent of the currently unemployed, aged 15 years and above, were youths aged 15-34 years. If one considers youths aged 15 to 24 years, still almost half of the currently unemployed are youths. There are also gender dimensions to employment even among the youth, with female youth (15-34 years) unemployment double that of male youths in the same age group.

Given the continent's demographics, youth unemployment is likely to increase if Africa's jobless growth continues. In 2010, the share of youth in the working-age population (ages 15-64 years) in SSA was 20 per cent, compared with the world average of 18 per cent. With economic transformation strategies that create demand for employment and provide education and the right skills, this bulging youth population can be turned into an asset.

1.1.5 Food insecurity

SADC countries remain susceptible to food insecurity with at least 52 million people in 2012 recorded to be undernourished (see figure I.10). In absolute terms, Tanzania had the highest number of undernourished people at 15.7 million. The following countries also had relatively large numbers of undernourished in their populations: Malawi (3.2 million); Zimbabwe (4 million); Angola (4.9 million); Madagascar and Zambia (6 million each); and Mozambique (9 million).

Figure I.10 Population undernourished (millions), SADC Countries, 2012



Source: UNDP, MDG Database, 2014.

Note: Data for DRC are not available.

In 2012, 11 SADC countries had at least 16 per cent of their population undernourished (DRC had no data), with Zambia being the most affected at 43 per cent (see figure I.11). South Africa had the smallest proportion (2 per cent) of undernourished, followed by Mauritius (5 per cent), and Seychelles (8 per cent).

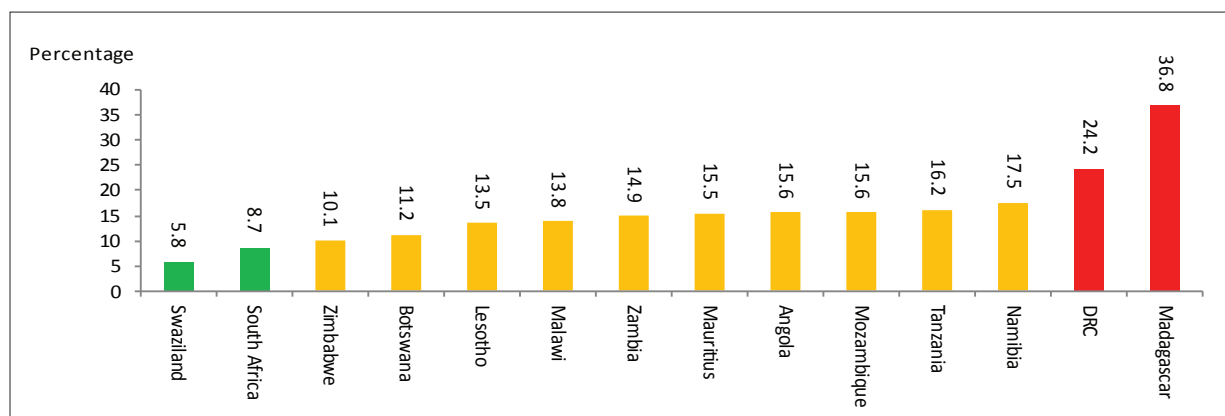
1.1.6 Child nutrition inequalities

Similarly, SADC countries are experiencing child malnutrition, with Madagascar and DRC experiencing severe¹³ under-five malnutrition in 2010, whilst Swaziland and South Africa had mild under-five malnutrition during

¹³ Mild malnutrition = below 10 per cent; moderate malnutrition = (10-20) per cent; and severe malnutrition = above 20 per cent.

the same period (see figure I.12). The remaining 10 countries, excluding Angola which had no data, had moderate under-five malnutrition.

Figure I.12 Prevalence of underweight children under-five years of age (percentage), SADC Countries, 2010



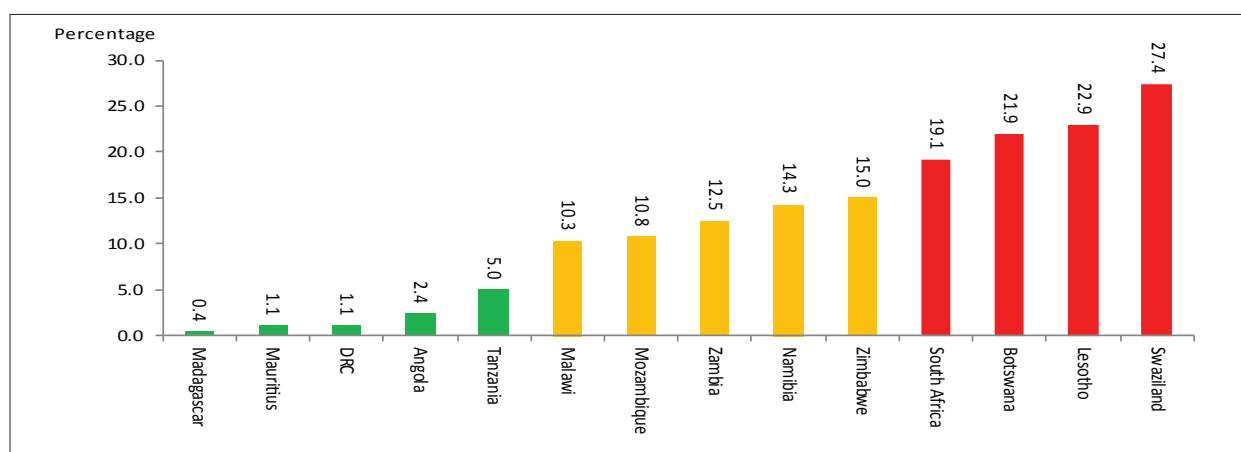
Source: UNDP, MDG Database, 2014.

Note: Data for Seychelles are not available. Data are for the following years: Mozambique (2011); South Africa (2008); Botswana (2007); Lesotho (2009); Zambia (2007); Mauritius (2005); Angola (2007); Namibia (2007); and Madagascar (2004).

1.1.7 HIV and AIDS-related inequalities

Southern Africa remains the epicentre of the HIV and AIDS epidemic, with nine out of the 14 countries with data recording double-digit HIV prevalence for the population aged 15-49 years, in 2013, ranging from 10.3% for Malawi to 27.4% for Swaziland (see figure 1.13). HIV prevalence ranged from 0.4% in Madagascar to 5% for Tanzania, in the five single-digit prevalence countries. It has been argued that the high inequalities and socioeconomic vulnerabilities template created during the colonial period provided fertile ground for the rapid spread of HIV.¹⁴

Figure I.13 Prevalence of HIV in population aged 15-49 years, (percentage), SADC Countries, 2013

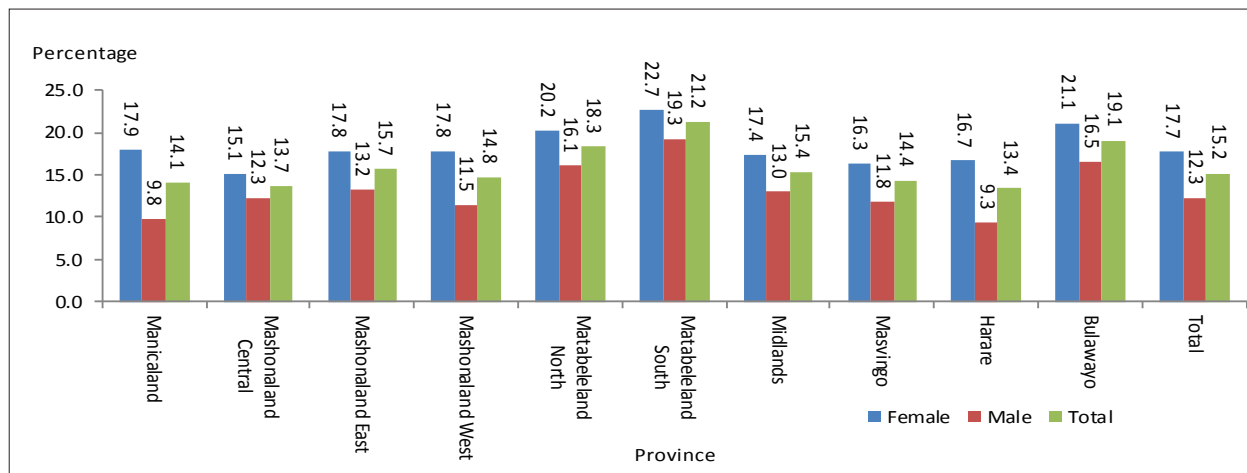


Source: World Bank Database, 2014, (UNAIDS Estimates).

Note: Data for Seychelles are not available.

The HIV and AIDS epidemic in Southern Africa has disproportionately impacted on women in terms of higher HIV prevalence, and the care burden of both the sick and orphans. The case of Zimbabwe presented in figure I.14 clearly illustrates gender inequalities in HIV prevalence at provincial level. The *Zimbabwe Demographic Health Survey (ZDHS)*¹⁵ of 2010/11 gave a prevalence rate of 15.2 per cent, (18 per cent for women compared to 12 per cent for men). About 6 per cent of young people age 15-24 (7 per cent of women and 4 per cent of men) were reported as HIV positive in 2010/11. Women consistently exhibited higher infection rates than men up to age 40 after which the pattern is reversed. HIV prevalence in urban areas was 16.7 per cent (females – 19.6 per cent; males – 13.1 per cent); while that in rural areas was 14.6 per cent (females – 16.8 per cent; males – 12.0 per cent).

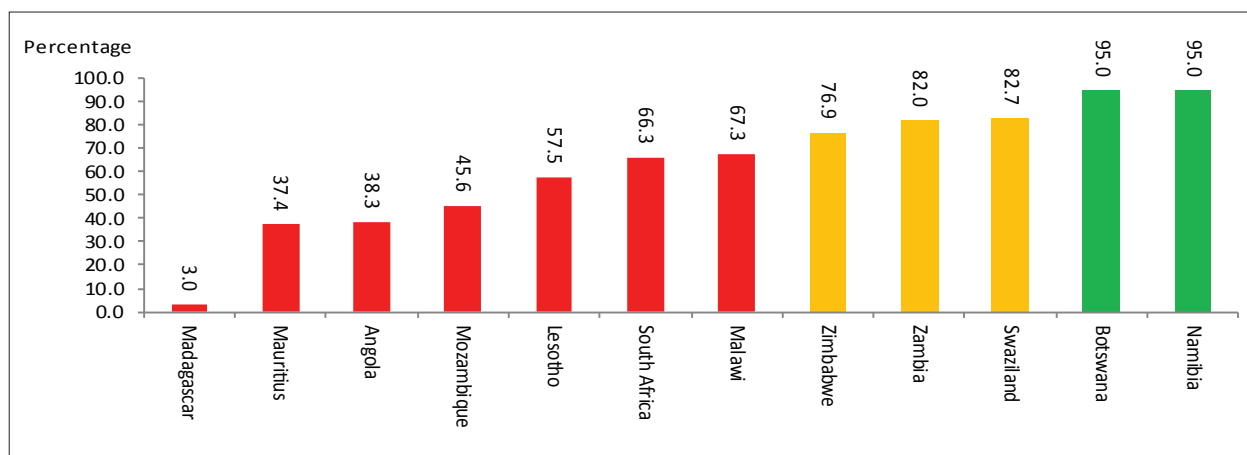
Figure I.14 HIV prevalence in those tested by province and sex (percentage), Zimbabwe, 2010-2011



Source: Zimbabwe National Statistics Agency (ZIMSTAT) and ICF International, 2012, *Zimbabwe Demographic Survey 2010-11*, Calverton, Maryland: ZIMSTAT and ICF International Inc.

Antiretroviral therapy (ART) coverage among people with advanced HIV infection has been improving in SADC countries. In 2011, ART coverage among people with advanced HIV infection ranged from three per cent for Madagascar to 95 per cent each for Namibia and Botswana, as shown in figure I.15.

Figure I.15 Antiretroviral therapy coverage among people with advanced HIV infection (percentage), SDAC Countries, 2011



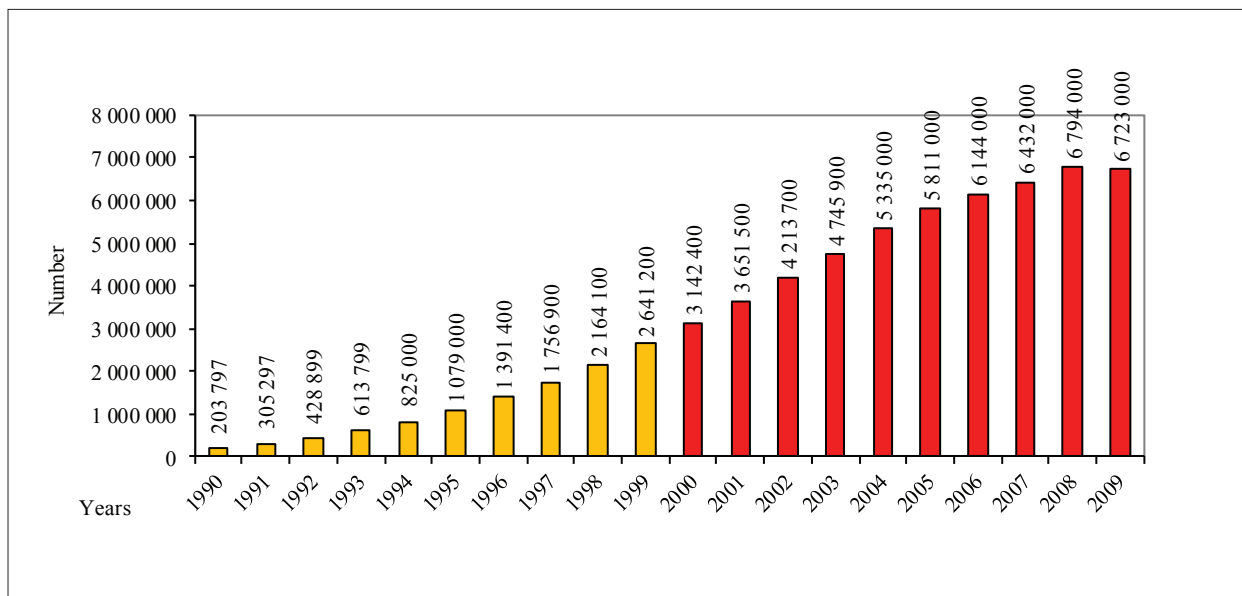
Source: UNDP, MDG Database, 2014.

Note: Data for DRC, Seychelles and Tanzania are not available.

15 Zimbabwe National Statistics Agency (ZIMSTAT) and ICF International, 2012; *Zimbabwe Demographic Health Survey 2010-11*. Calverton, Maryland: ZIMSTAT and ICF International Inc.

Given the high HIV prevalence and previous limited access to anti-retroviral drugs, the orphan burden has been on the increase in most countries. The total number of orphans, with one or both parents dead, increased from 204,000 in 1990 to 6.7 million in 2009, giving a percentage increase of 3 199 per cent, during this period. (See figure I.16¹⁶).

Figure I.16 Orphans with one or both parents dead, (number), total SADC, 1990-2009

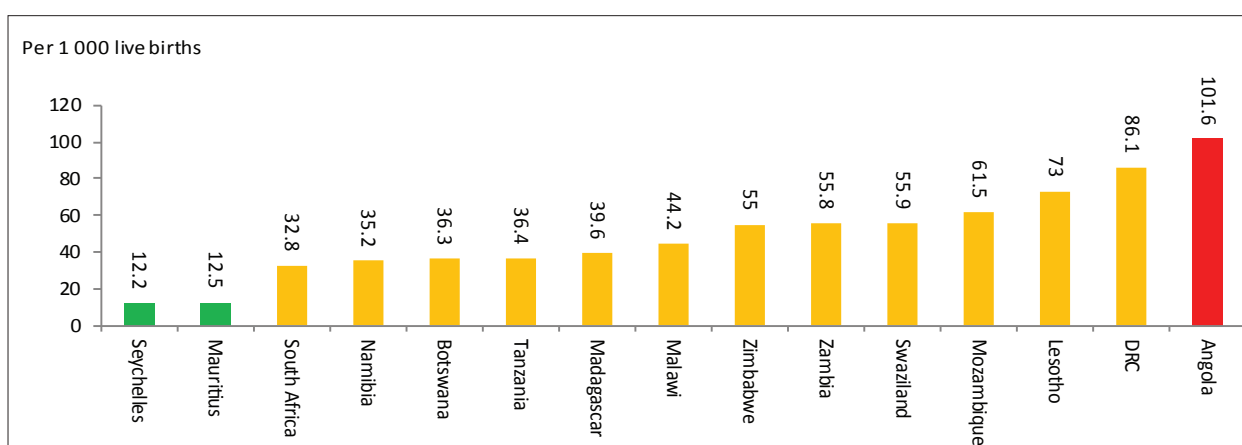


Source: UNDP, MDG Database, 2014

1.1.8 Inequalities in child health

Although infant mortality rates (IMRs) in SADC generally declined between 1990 and 2013, they remained relatively high. Seychelles (12.2 deaths per 1 000 live births) and Mauritius (12.5 deaths per 1 000 live births) have relatively low IMRs, compared to Angola with 101.6 deaths per 1 000 live births (see figure 1.17). The remaining 12 countries, all registered relatively high double-digit IMRs, in comparison to developed countries with single-digit infant mortality rates.

Figure I.17 Infant mortality rate, per 1000 live births, SADC Countries, 2013



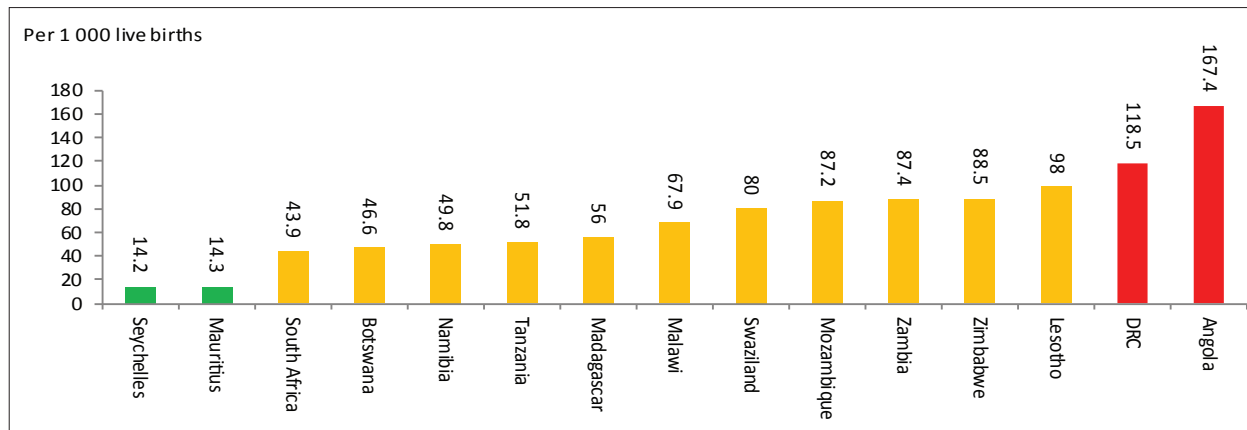
Source: UNDP, MDG Database, 2014.

16 SADC, 2013.

Note: Various figures prepared for SADC by J.T Chipika and J.A. Malaba.

Similarly, the under-five mortality rates in SADC countries generally declined between 1990 and 2013, but remained relatively high. Seychelles (14.2 deaths per 1 000 live births) and Mauritius (14.3 deaths per 1 000 live births) have relatively low under-five mortality rates, compared to Angola with 167.4 deaths per 1 000 live births, and the DRC with 118.5 deaths per 1 000 live births (see figure I.18). The remaining 11 countries, all registered relatively high double-digit under-five mortality rates, in comparison to developed countries such as Singapore and Sweden with single digit under-five mortality rates.

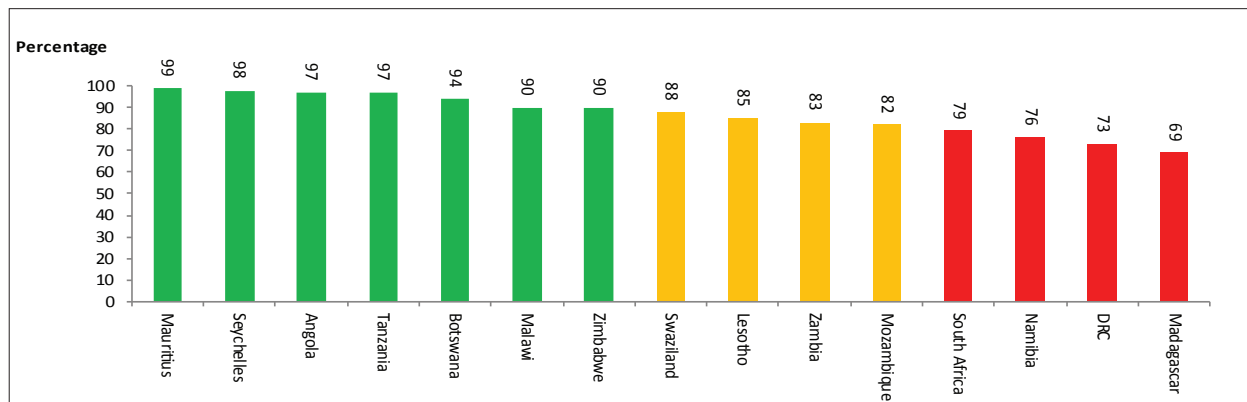
Figure I.18 Under-five mortality rate, per 1000 live births, SADC Countries, 2013



Source: UNDP, MDG Database, 2014.

Ideally, all children should be immunized against measles. Immunization levels were relatively high in 2012, ranging from 69 per cent for Madagascar to 99 per cent for Mauritius, with seven countries registering proportions of at least 90 per cent (see figure I.19).

Figure I.19 Proportion of 1 year-old children immunized against meals (percentage), SADC Countries, 2012



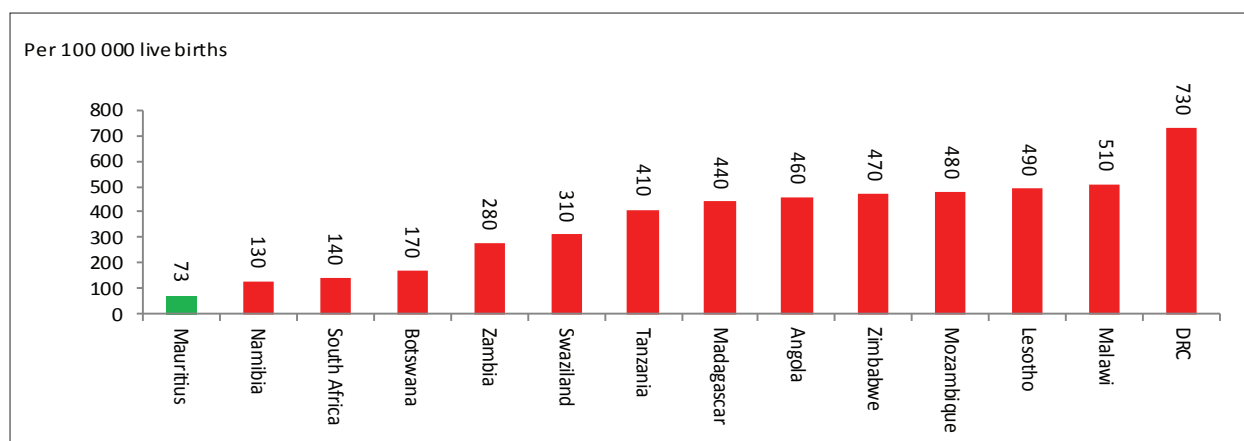
Source: UNDP, MDG Database, 2014.

1.1.9 Inequalities in maternal health

Women, because of their reproductive role, are exposed to maternal mortality, in addition to general population mortality. The maternal mortality rate (MMR) in SADC, although generally declining, remains high, ranging from 73 maternal deaths per 100 000 births for Mauritius to 730 maternal deaths per 100 000 births for DRC, in 2013 (see figure 1.20). All the countries except Mauritius had MMRs of three digits in 2013, which is very

high. This is in comparison to developed countries such as Singapore and Sweden with single-digit MMRs. HIV and AIDS underlie the high maternal and child mortality in Southern Africa.

Figure I.20 Maternal mortality ratio 100 000 live births, SADC Countries, 2013

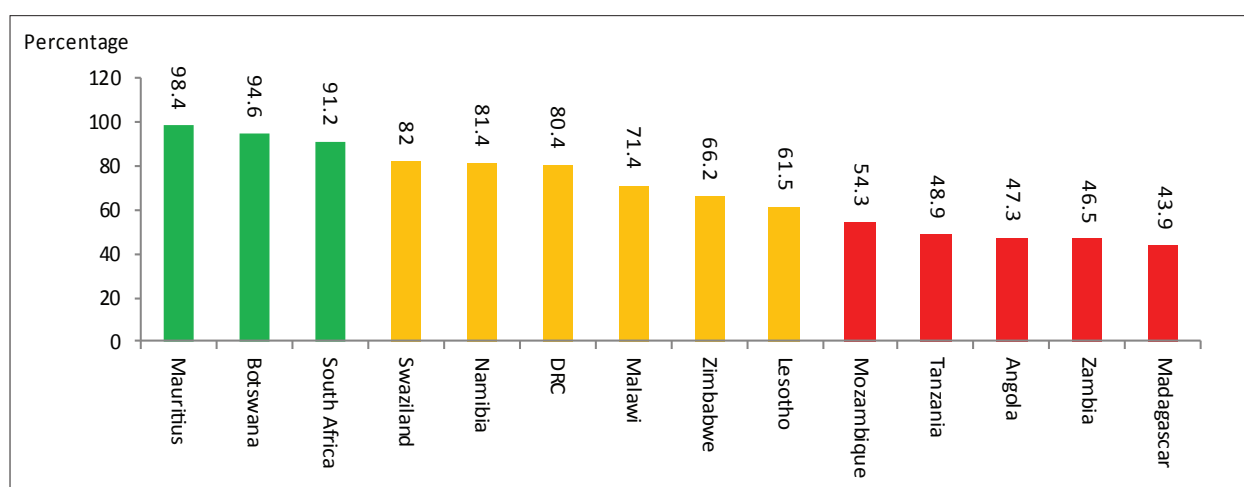


Source: UNDP, MDG Database, 2014.

Note: Data for Seychelles are not available.

Generally, the proportion of births attended by skilled personnel improved between 1992 and 2011. The percentage of births attended by skilled personnel ranged from 43.9 per cent for Madagascar to 98.4 per cent for Mauritius, with three countries, Mauritius, Botswana, and South Africa, having proportions of at least 91 per cent (see figure I.21). In Zimbabwe, for example, home deliveries, which are normally not attended by skilled personnel, increased from 31 per cent in 2005/06 to 34 per cent in 2010/11, with rural areas having a much higher proportion (42 per cent) than urban areas (14 per cent)¹⁷.

Figure I.21 Proportion of births attended by skilled health personnel (percentage), SADC Countries, 2011



Source: MDG Database, UNDP, 2014.

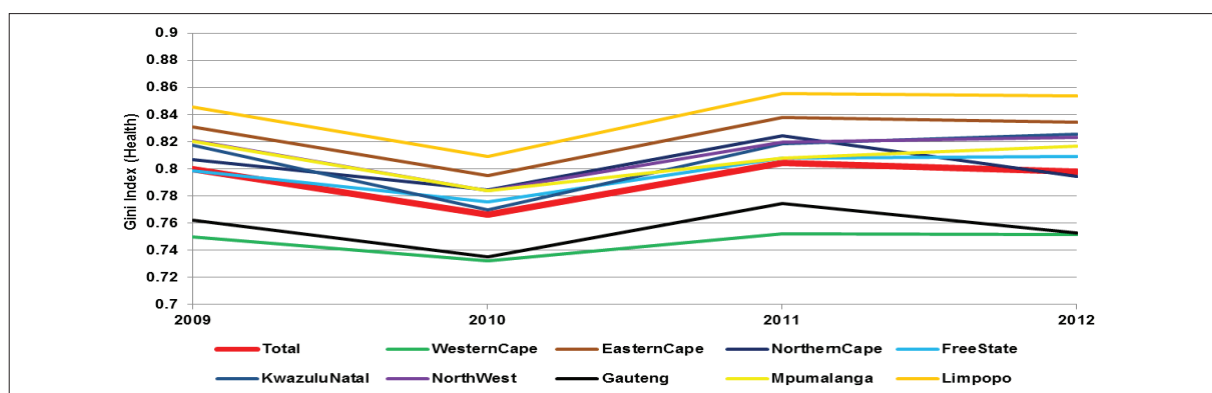
Note: Data are for the following periods: Mauritius (2003); Botswana (2007); South Africa (2003); Swaziland (2010); Namibia (2007); DRC (2010); Malawi (2010); Lesotho (2009); Tanzania (2010); Angola (2007); Zambia (2007) and Madagascar (2009)

17 ZimStat, ZDHS 2010/11.

1.1.10 Health inequalities in South Africa

In South Africa, for example, health inequality remains very high with an estimated 0.79 average Gini health index recorded for the overall economy in 2012. See figure 1.22. There are spatial differences in access to health, with the Gini health index being lowest, but still very high, in Western Cape Province (about 0.75) and highest in Limpopo Province (close to 0.86).

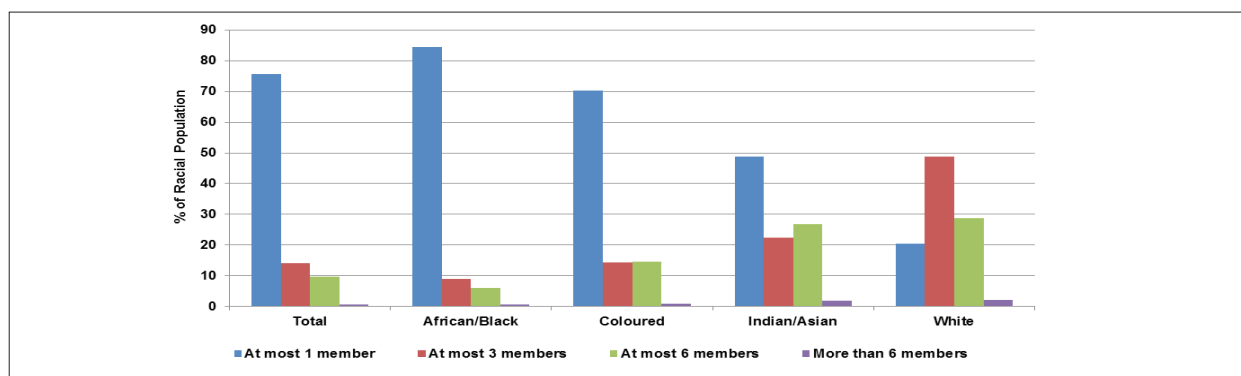
Figure I.22 Health inequality by province, Gini Health Index, South Africa, 1999-2012



Source: UNDP, 2014.

The Lorenz curve distribution for South Africa revealed that only 20 per cent of the household population can provide health insurance coverage for more than one member of a household¹⁸. Access to quality health care facilities remains very restricted, with high racial inequalities. Figure 1.23 shows that Whites and Indians/Asians are better covered in health care insurance with larger percentages of their population (at most 3 members and at most 6 members) covered, than Africans/Blacks with over 80 per cent having at most one member covered.

Figure I.23 Health inequality in South Africa, health care insurance distribution by racial classification, 2012



Source: UNDP, 2014.

1.1.11 Education inequalities

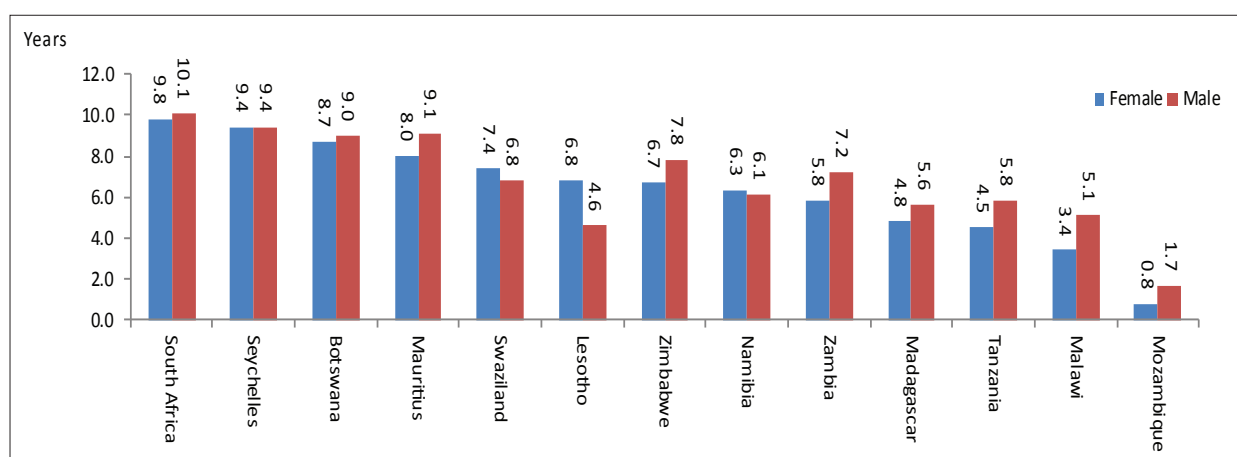
For the period 2002-2012, for most of the countries (nine), females had lower mean years of schooling¹⁹ than males, except for Seychelles where there was gender parity and for Swaziland, Lesotho, and Namibia, where for historical reasons of male mining migration, females had higher averages than males (see figure I.24). The

¹⁸ UNDP, 2014.

¹⁹ Average number of years of education received by people 25 years and older.

mean years of schooling for females ranged from 0.8 years for Mozambique to 9.8 years for South Africa, and for males the range was 1.7 years to 10.1 years for the same countries, respectively.

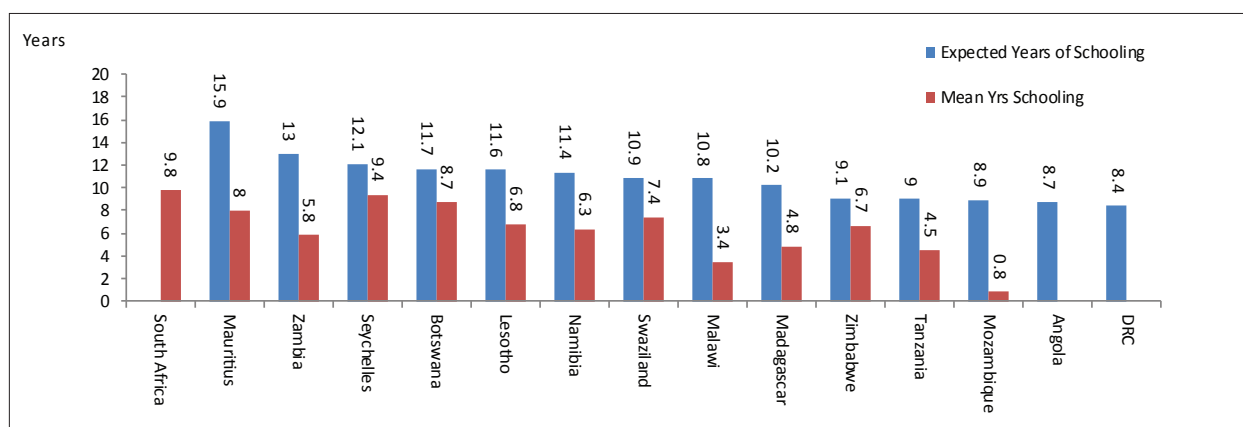
Figure I.24 Mean years of schooling by sex, SADC Countries, 2002-2012



Source: UNDP, *HDR*, 2014.

Mean years of schooling was significantly below expected years of schooling²⁰ or both females and males, for all the countries with data, as shown in figures 1.25 and 1.26. The wide gap is illustrative of inequality in terms of education achievement potential not reached.

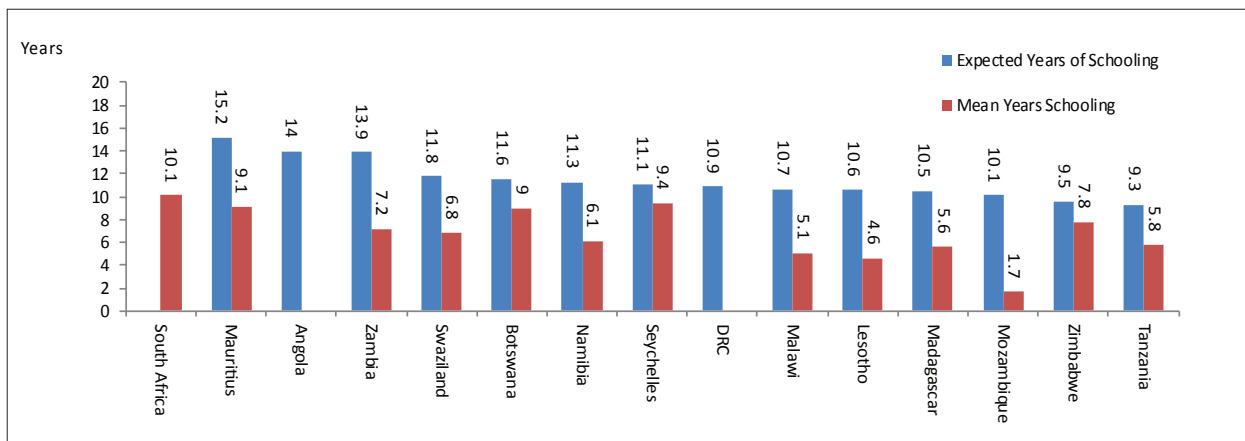
Figure I.25 Expected and mean years of schooling for females, SADC Countries, 2002-2012



Source: UNDP, *HDR* 2014.

20 Expected years of schooling refers to the number of years of schooling that a child of school entrance age can expect to receive if prevailing patterns of age-specific enrolment rates persist throughout the child's life.

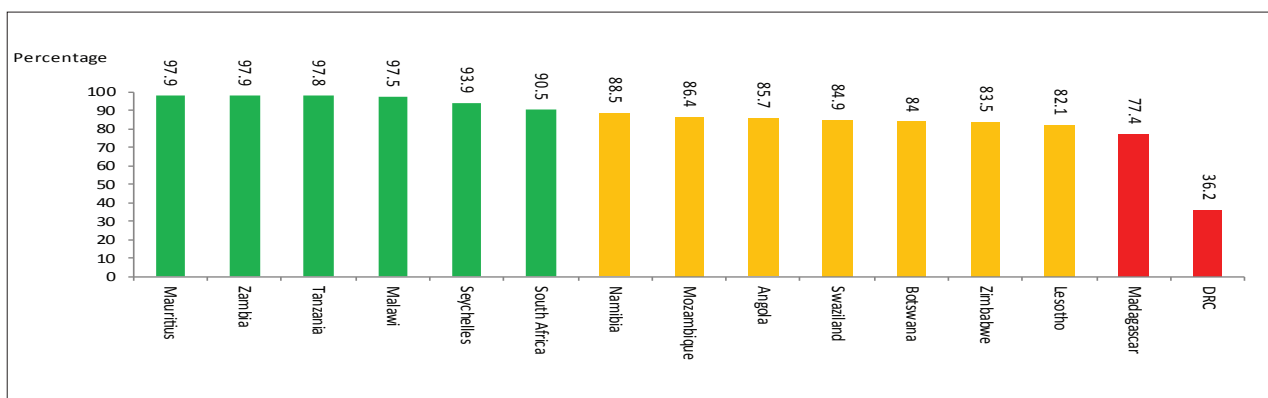
Figure I.26 Expected and mean years of schooling for females, SADC Countries, 2002-2012



Source: UNDP, *HDR*, 2014.

SADC countries registered remarkable progress in primary education between 1991 and 2012, with eight countries with data having net enrolment ratios (NERs) of at least 82 per cent (see figure I.27). However, the NER of the Democratic Republic of the Congo, at 36.2 per cent, remains too low.

Figure I.27 Total net enrolment ratio in primary education, both sexes (percentage), SADC Countries , 2012



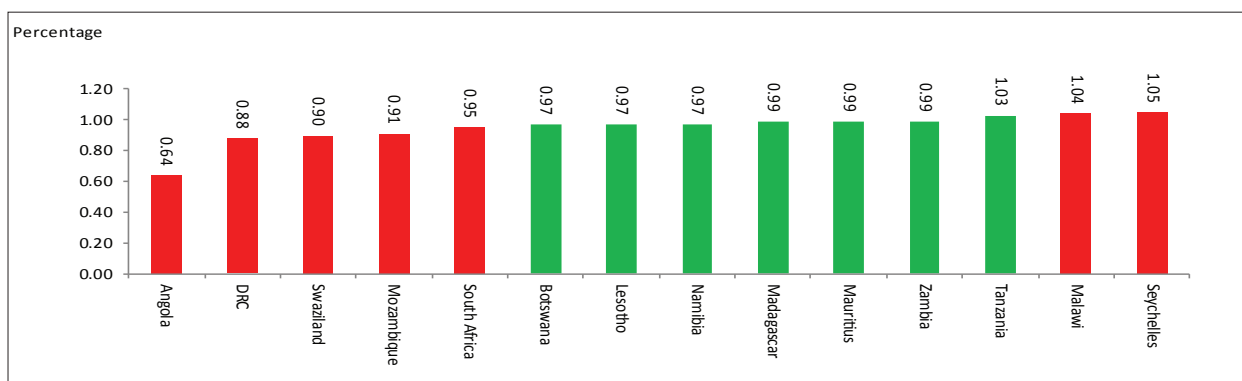
Source: UNDP, MDG Database, 2014.

Note: Data for Zimbabwe are not available. Data are for the following years: DRC (2008); Malawi (2009); Seychelles (2011); Angola (2011); Swaziland (2007); Botswana (2009); Madagascar (2003) and DRC (1999).

Many SADC countries moved towards or maintained NER gender parity²¹ at the primary level of education between 1991 and 2012. The NER gender parity index (GPI) at the primary level of education in 2012 ranged from 0.64 for Angola to 1.05 for Seychelles (see figure 1.28). There is gender parity in primary education in seven countries, namely, Botswana, Lesotho, Namibia, Madagascar, Mauritius, Zambia, and Tanzania. In 2012, five countries had an NER bias in favour of boys, and these were Angola, DRC, Swaziland, Mozambique, and South Africa. Malawi and Seychelles had an NER bias in favour of girls in the same year.

21 Gender parity includes a ratio of girls to boys which is within the range 0.97 and 1.03, that is to say 1+/-0.03.

Figure I.28 Primary level enrolment Gender Parity Index, SADC Countries, 2012

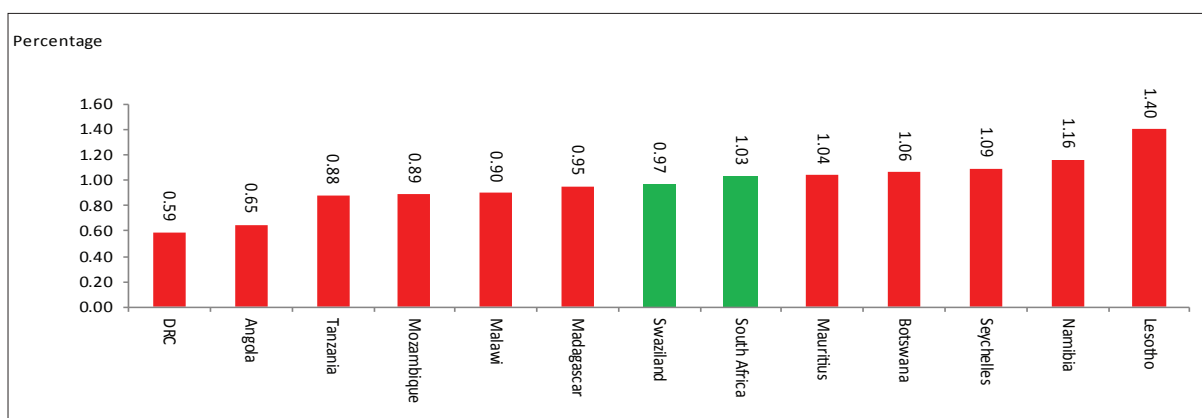


Source: UNDP, MDG Database, 2014.

Note: Data for Zimbabwe are not available. Data refer to the following years: Angola (2011); Swaziland (2011); Botswana (2009); and Seychelles (2011).

There was no NER gender parity for the secondary level of education in SADC in 2012, except for Swaziland and South Africa, as seen in figure I.29. The NER gender parity index for the secondary level of education ranged from 0.59 for DRC to 1.40 for Lesotho in 2012. For the same period, six countries had secondary school NERs in favour of boys, and these were DRC, Angola, Tanzania, Mozambique, Malawi, and Madagascar. Another six countries had secondary school NERs in favour of girls, and these were South Africa, Mauritius, Botswana, Seychelles, Namibia and Lesotho.

Figure I.29 Secondary level enrolment Gender Parity Index, SADC Countries, 2012

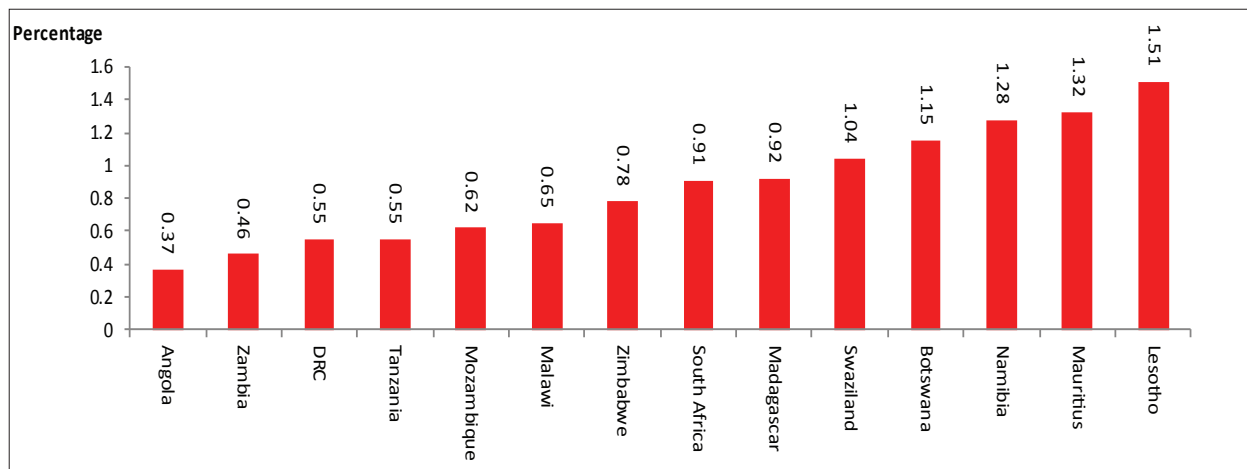


Source: UNDP, MDG Database, 2014.

Note: Data for Zimbabwe are not available. Data refer to the following years: Angola (2011); Swaziland (2011); Botswana (2008); Seychelles (2011) and Namibia (2007).

There was significant progress in the enrolment of girls at tertiary levels of education in between 1991 and 2012. Historically, girls have been marginalized in access to tertiary education in the region. The NER gender parity index for the tertiary education ranged from 0.37 for Angola to 1.51 for Lesotho (see figure I.30). In nine countries, NER gender parity indices were in favour of males, namely, in Angola, Zambia, DRC, Tanzania, Mozambique, Malawi, Zimbabwe, South Africa and Madagascar. The five countries that had GPIs in favour of females in 2012 were Swaziland, Botswana, Namibia, Mauritius, and Lesotho. Bias is generally transmitted from the secondary school level, to tertiary level, and through to the labour market.

Figure I.30 Tertiary level enrolment gender Party Index, SADC, Countries 2012

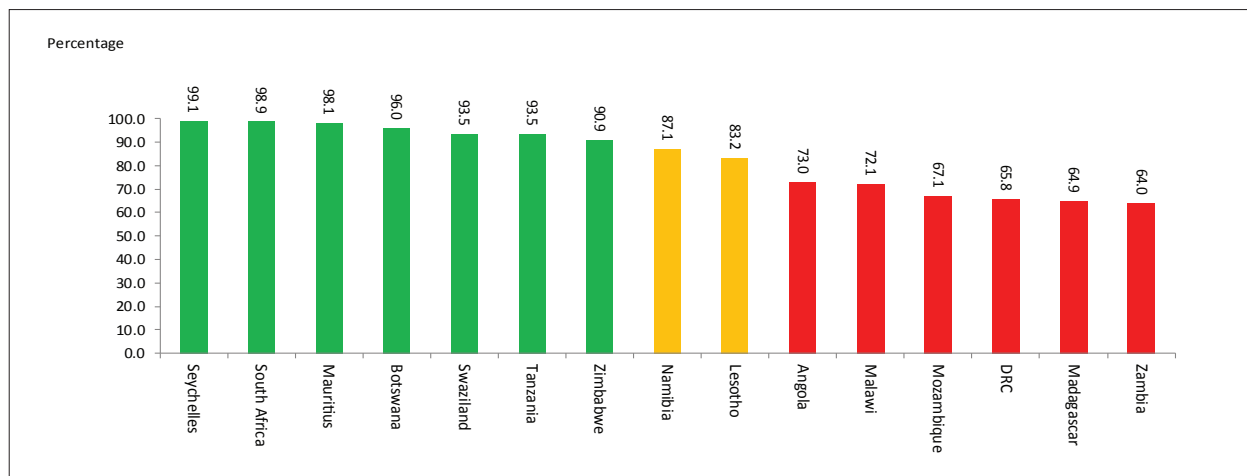


Source: UNDP, MDG Database, 2014.

Note: Data refer to the following years: Angola (2011); Zambia (2000); Mozambique (2011); Malawi (2011); South Africa (1994); Swaziland (2011); Botswana (2006); and Namibia (2008).

Literacy rates for 15-24 year olds are very high in SADC, with about half the countries (seven) having literacy rates of at least 91 per cent in 2012. These were Seychelles, South Africa, Mauritius, Botswana, Swaziland, Tanzania, and Zimbabwe. During the same period, Seychelles and South Africa had reached universal literacy for 15-24 year olds at 99 per cent (seen in figure I.31). Namibia and Lesotho had relatively high literacy rates of 87 and 83 per cent, respectively. The remaining six countries with relatively low literacy rates below 80 per cent were Angola, Malawi, Mozambique, DRC, Madagascar and Zambia. Thus, the literacy rates for 15-24 year olds ranged from 64 per cent for Zambia to 99 per cent each for Seychelles and South Africa.

Figure I.31 Literacy rates of 15-24 year old, both sexes (percentage), SADC Countries, 2012

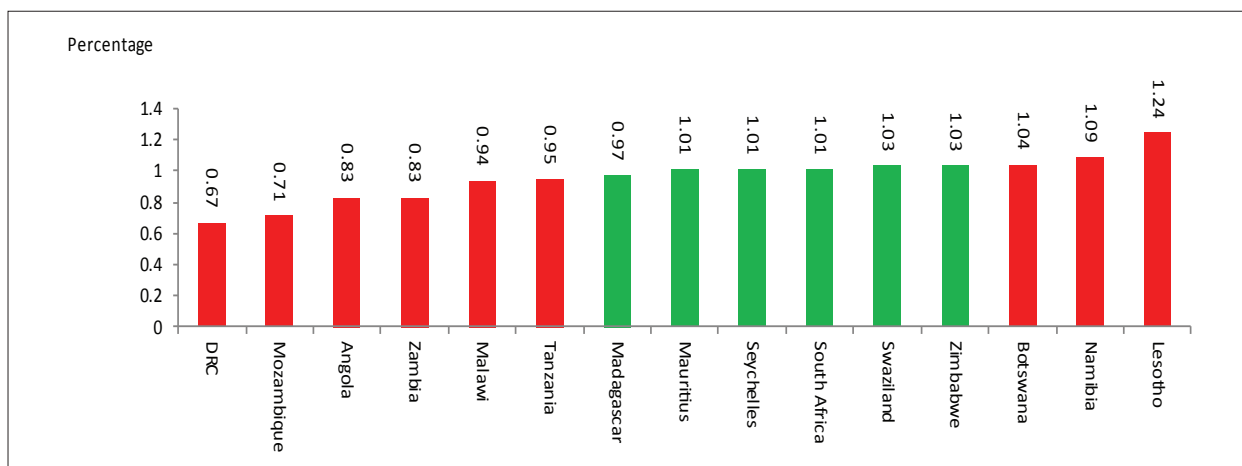


Source: UNDP, MDG Database, 2014.

Note: Data are for the following years: Mauritius (2011); Swaziland (2010); Tanzania (2010); Zimbabwe (2011); Namibia (2007); Lesotho (2009); Malawi (2010); Mozambique (2009); DRC (2007) and Zambia (2007).

The GPIs for literacy rates of 15-24 year olds in Southern Africa ranged from 0.67 for DRC to 1.24 for Lesotho, as shown in figure I.32. In 2012, six countries had gender parity in youth literacy rates, namely, Madagascar, Mauritius, Seychelles, South Africa, Swaziland and Zimbabwe. Another six, DRC, Mozambique, Angola, Zambia, Malawi and Tanzania, had GPIs which showed a bias against girls, whilst Botswana, Namibia and Lesotho had a bias against boys.

Figure I.32 Literacy rates of 15-24 year olds, Gender Parity Index, SADC Countries, 2012

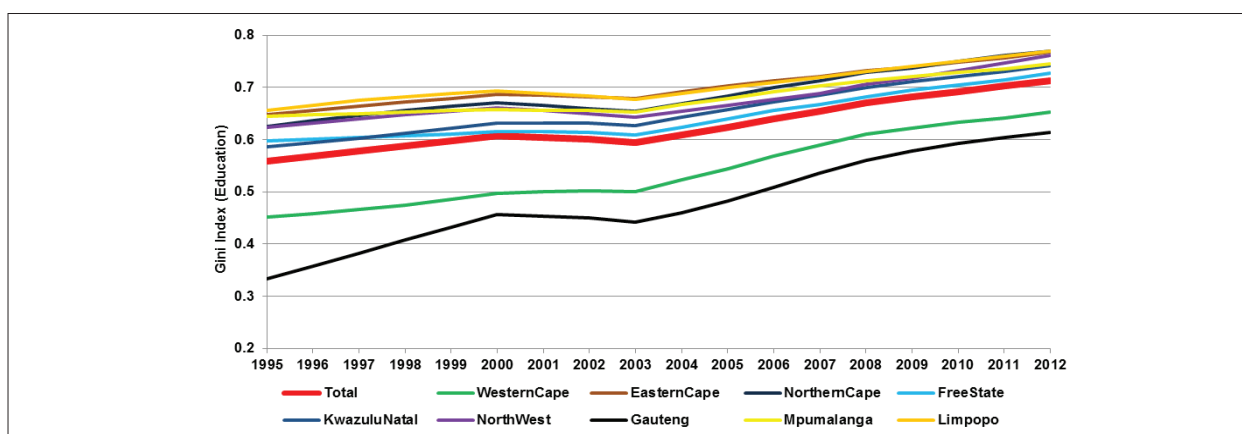


Source: UNDP, MDG Database, 2014.

Note: Data are for the following years: Mauritius (2011); Swaziland (2010); Tanzania (2010); Zimbabwe (2011); Namibia (2007); Lesotho (2009); Malawi (2010); Mozambique (2009); DRC (2007) and Zambia (2007).

In South Africa, for example, education inequality remains very high with an estimated 0.73 average Gini education index recorded for the overall economy in 2012, from 0.56 index point in 1995 (see figure I.33). There were spatial differences in access to education, with the Gini education index being lowest in Gauteng Province (about 0.52) and highest in the Limpopo Province (about 0.76).

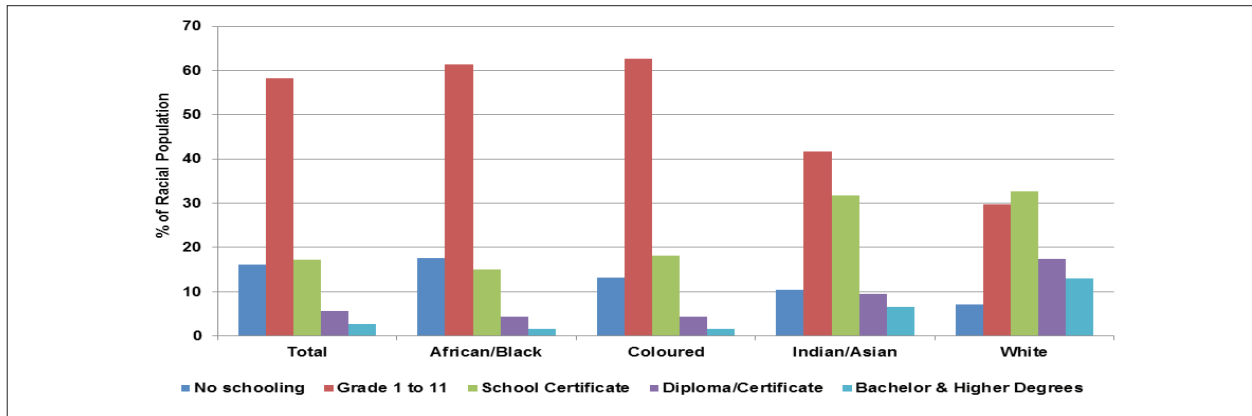
Figure I.33 Education inequality by province, Gini Education Index, South Africa, 1995-2012



Source: UNDP, 2014.

The Lorenz curve distribution revealed that only about 1.5 per cent of the population had attained at least a Bachelor's degree as at 2012 and this trend had not changed since 1995²². The trend shows that apart from the financial constraints, the poor quality of the basic education is a major hindrance in accessing higher degree qualifications. Access to education remains very low for the higher academic levels, with high racial inequalities. Figure I.34 shows that in 2012, Whites and Indians/Asians had relatively higher proportions of their populations with a Diploma/Certificate (about 16 per cent and 9 per cent, respectively), and Bachelor and Higher degrees (about 13 per cent and 6 per cent, respectively), than Africans/Blacks (about 4 per cent and 2 per cent, respectively).

Figure I.34 Education inequality, education distribution, highest level completed, by racial classification, South Africa, 2012



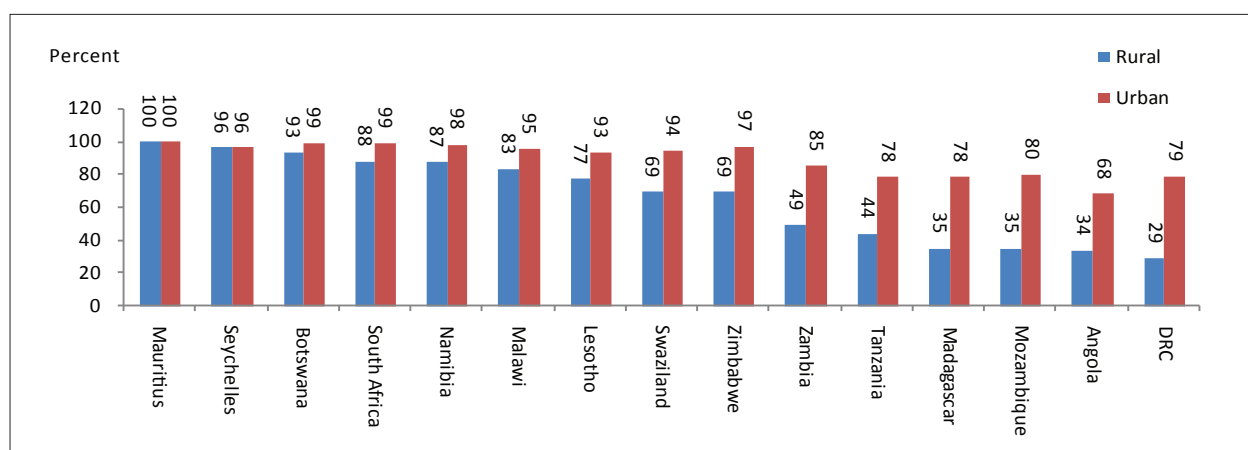
Source: UNDP, 2014.

1.12 Water and sanitation inequalities

The water situation remains a challenge in rural areas. In 2012, the proportion of the population using improved drinking water sources in rural areas ranged from 29 per cent for DRC to 96 per cent in Seychelles, with Mauritius having universal use (see figure 1.35). Six countries, (Mauritius, Seychelles, Botswana, South Africa, Namibia and Malawi) had at least 83 per cent of their rural population using improved drinking water sources. At the same time, another six countries (Zambia, Tanzania, Madagascar, Mozambique, Angola and DRC) had less than half of their rural populations using improved drinking water sources. The remaining three countries, namely, Lesotho (77 per cent) and Swaziland and Zimbabwe (69 per cent each), also have relatively low proportions of their rural population using improved drinking water sources.

During the same period, in urban areas, the proportions of the population using improved drinking water sources were much higher than in the rural areas, ranging from 68 per cent for Angola to 99 per cent for Botswana and South Africa, again with Mauritius enjoying universal usage of improved drinking water sources. Nine out of the 15 countries had at least 94 per cent of their urban population using improved drinking water sources, whilst the remaining six countries had 85 per cent or less of their urban population using improved drinking water sources.

Figure I.35 Proportion of Population Using Improved Drinking Water Sources, Rural and Urban Areas, SADC Countries, 2012

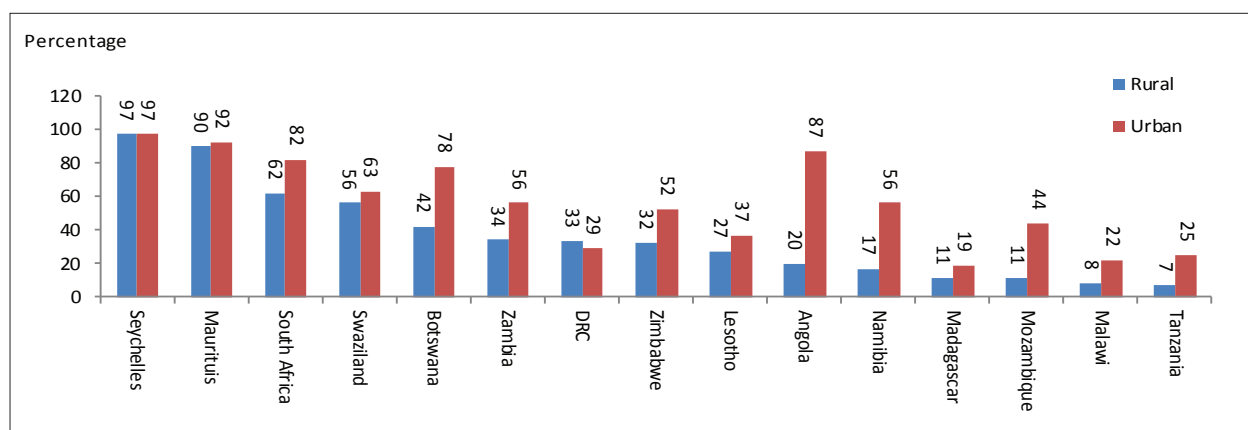


Source: UNDP, MDG Database, 2014.

The sanitation situation remains a challenge in both rural and urban areas. In 2012, use of improved sanitation facilities in rural areas was generally very low, ranging from as low as 7 per cent in Tanzania to 97 per cent in Seychelles (see figure I.36). Mauritius and Seychelles had very high proportions of their rural population using improved sanitation facilities of 97 per cent and 90 per cent, respectively. Eleven countries had less than half of their populations using improved sanitation facilities in rural areas.

During the same period, in urban areas, the proportion of the population using safe sanitation facilities, although higher than in the rural areas, were also low, ranging from 19 per cent for Madagascar to 97 per cent for Seychelles (see figure 1.36). Six out of the 15 countries in the SADC region, namely, Madagascar, Malawi, Tanzania, DRC, Lesotho and Mozambique, had less than half of their urban population using improved sanitation facilities.

Figure I.36 Proportion of Population Using Improved Sanitation Facilities, Rural and Urban Areas, SADC Countries, 2012



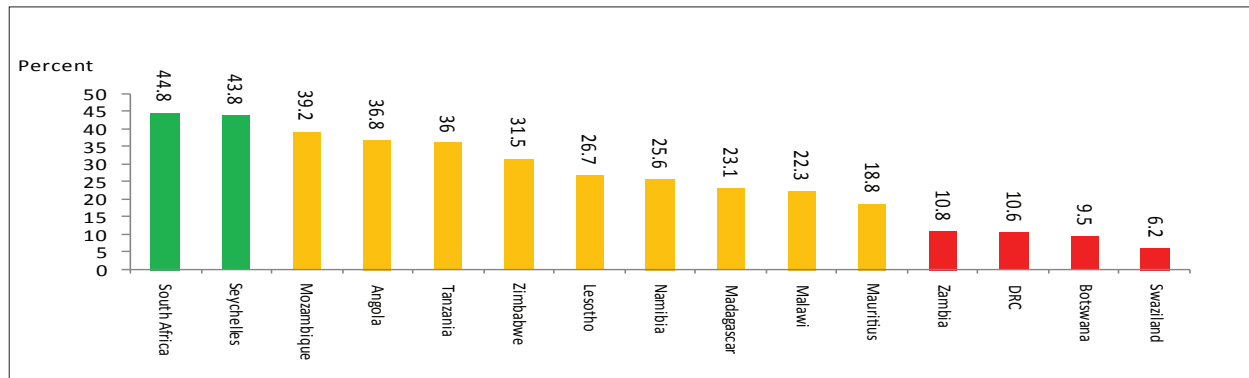
Source: UNDP, MDG Database, 2014.

1.1.13 Political representation gender inequalities

The situation with regards to the participation of women in political decision-making has generally been improving in Southern Africa in recent years. The proportion of seats held by women in parliament ranged from as low as 6 per cent for Swaziland to 45 per cent for South Africa in 2014, as shown in figure I.37. However, no SADC country had met the required 50:50 gender parity set by MDG and SADC targets.

Nonetheless, countries such as Zimbabwe have made commendable progress with regards to gender equity and the empowerment of women through its National Constitution of 2013, which is now a widely acknowledged 'best practice'. Zimbabwe also introduced the *zebra* selection of candidates for the Senate (Upper House of Parliament), with proportional representation of political parties, resulting in the share of women rising significantly to 47.5 per cent²³.

Figure I.37 Proportion of Seats Held by Women in National Parliament (Lower Chamber), Percentage, SADC Countries, 2014



Source: UNDP, MDG Database, 2014.

1.1.14 Human exclusion

ECA recently developed a tool for assessing human exclusion in Africa, known as the African Social Development Index (ASDI)²⁴. The ASDI measures the depth of exclusion. This was after the realization that no mechanism existed to assess the depth and forms of exclusion to help countries develop more inclusive policies to ensure and accelerate inclusive transformation of Africa. There are four determinants of human exclusion, namely, social, economic, political/institutional, and cultural. The ASDI provides a mechanism for African countries to monitor social development outcomes and position themselves to make progress towards increased social inclusion.

Using a life-cycle approach, ASDI currently focuses on six key dimensions of human exclusion that reflect the impact of exclusion overtime. The life cycle is as follows: early childhood (0-5 years); formative years (6-14 years); employment opportunities (+15 years); production period (+15 years) and the elderly (+15 years), as depicted in appendix figure A1.2.

The five ASDI dimensions of exclusion measured to date²⁵ are health, education, labour, livelihood, and decent life²⁶. For the 27 African countries for which the ASDI was calculated in 2012, Niger had the highest human exclusion (high inequality) of 4.20 and Tanzania the lowest (low inequality) of 1.88, shown in figure I.38.

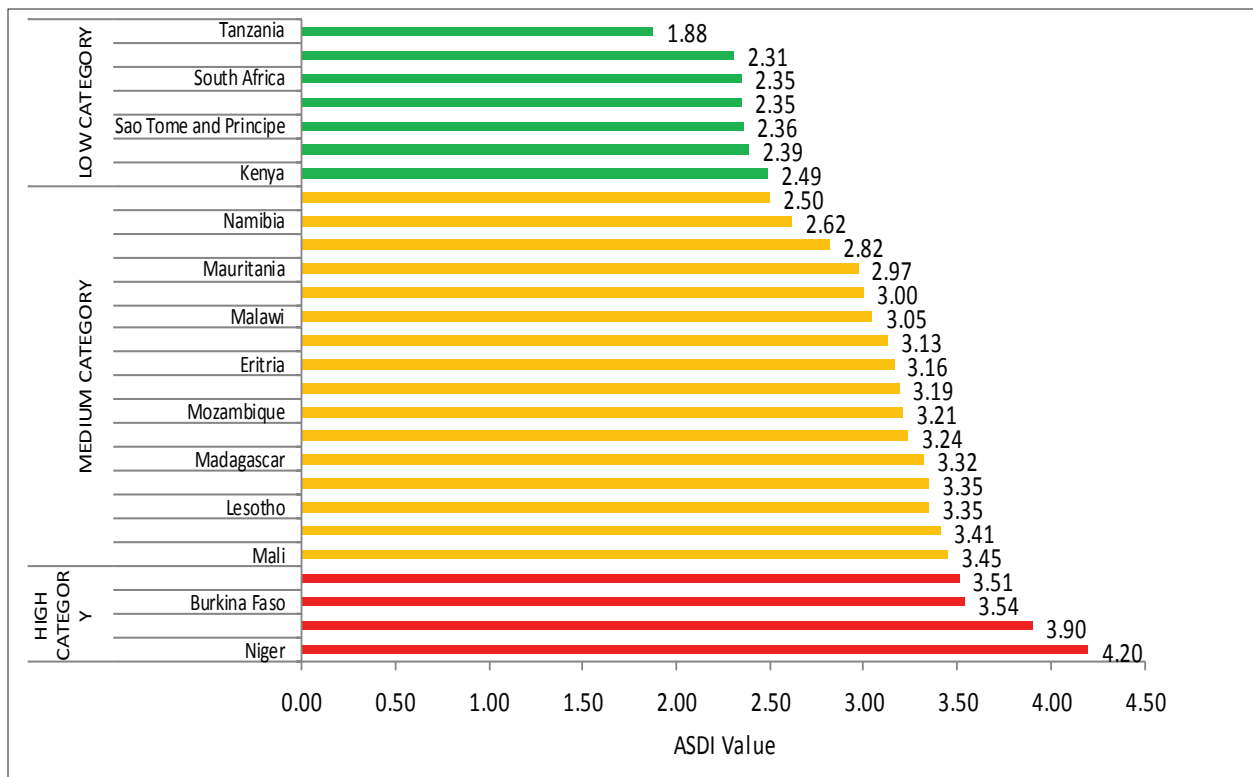
23 Zimbabwe Parliament, 2014.

24 UNECA, 2014.

25 The ASDI ranges from 0 to 6, with the following categorization: low – ASDI < 2.5; medium – 2.5 < ASDI < 3.5 and high – ASDI > 3.5.

26 The five dimensions have been measured by the following indicators in brackets: health [neonatal mortality (new born < 28 days) and malnutrition prevalence (children under-five years)]; education [literacy rate (percentage of people aged 15-24 years)]; labour, (youth unemployment); livelihood (poverty headcount at national poverty line) and decent life (life expectancy, after 60 years).

Figure I.38 The African Social Development Index (ASDI), Available Africa Countries, 2012



Source: UNECA, 2014, African Social Development Index – A Tool for Assessing Human Exclusion in Africa, Addis Ababa.

Overall, for the 10 Southern African countries for which the ASDI has been calculated so far, the majority (seven countries, namely, Swaziland, Lesotho, Madagascar, Mozambique, Malawi, Namibia, and Zimbabwe) were in the medium ASDI category, between 2.50 and 3.50. Tanzania and South Africa with 1.88 and 2.35, respectively, both fell in the low ASDI category, shown in figure I.39. Zambia, slightly above the medium ASDI borderline, had the highest ASDI of 3.51, falling within the high ASDI category.

Figure I.39 The African Social Development Index (ASDI), Available Africa Countries, 2012



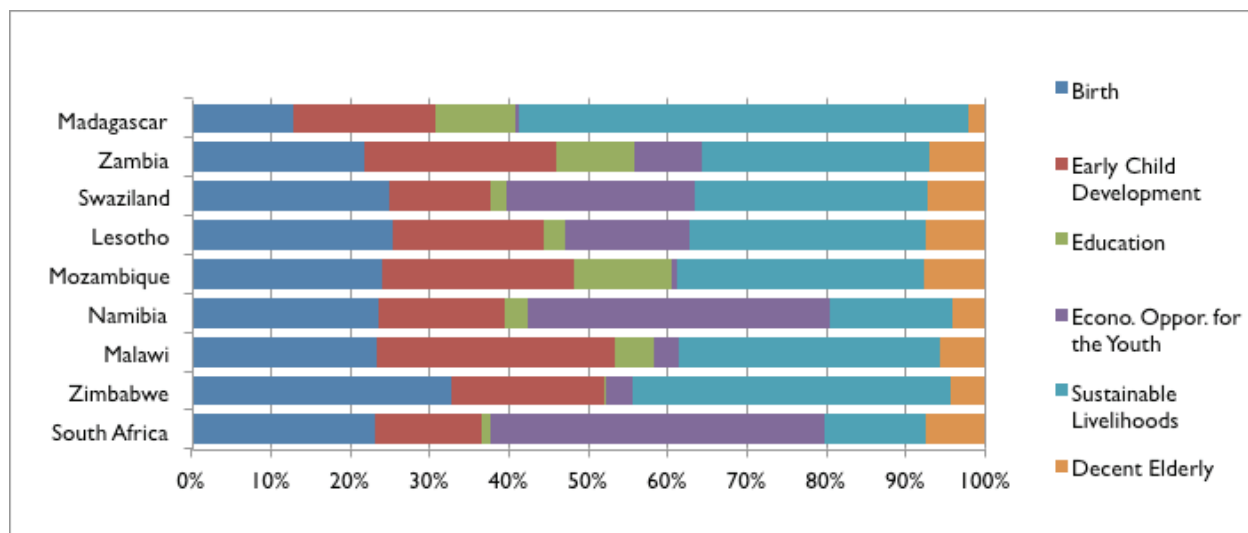
Source: UNECA, 2014, African Social Development Index – A Tool for Assessing Human Exclusion in Africa, Addis Ababa.

Figure I.40 shows that generally, Southern Africa is facing the challenges of sustainable livelihoods as reflected in the pervasive structural poverty with Madagascar and Zimbabwe standing out in this regard. Neonatal death,

largely explained by the fact that the region is the epicentre of the HIV and AIDS epidemic, with Zimbabwe, Swaziland and Lesotho experiencing the highest prevalence rates. Coming third is the early childhood development challenge, with Malawi, Mozambique and Zambia, the most affected. Fourth, is the youth unemployment²⁷ challenge, with South Africa, Namibia and Swaziland, most affected. Generally, SADC countries are doing relatively well in improving education and decent life variables.

The ASDI component analysis can also be used to prioritize areas of intervention per country. For example, South Africa would need to put more emphasis on addressing youth unemployment, followed by infant deaths, early child development, and poverty.

Figure I.40 The African Social Development Index (ASDI) by Component, Available SADC Countries, 2012

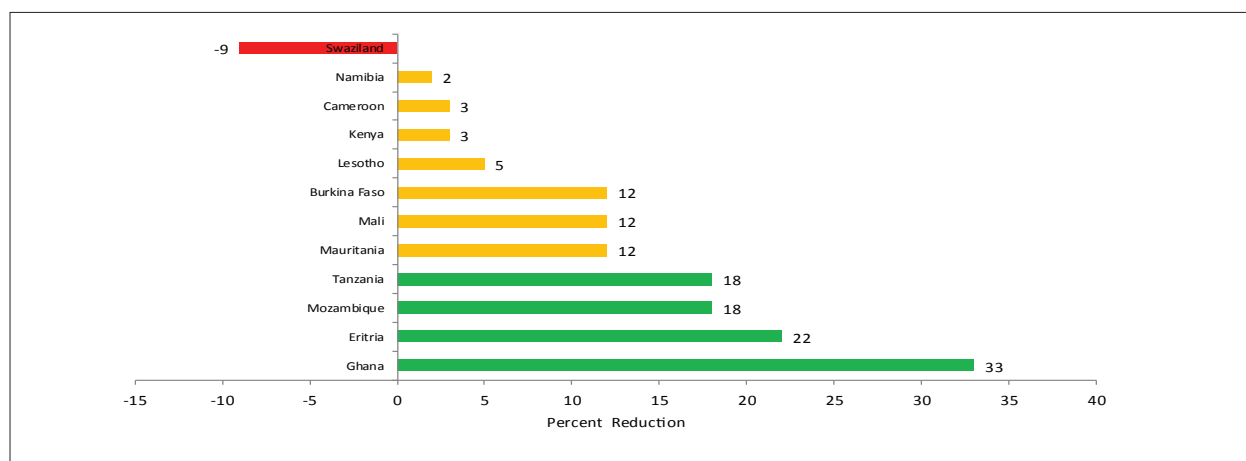


Source: UNECA, 2014; African Social Development Index – A Tool for Assessing Human Exclusion in Africa, Addis Ababa.

Figure I.41, shows that in Africa in 2012, Ghana (33%) was one of the best performers in reducing human exclusion, followed in SADC by Tanzania and Mozambique (18% each). On the other extreme is Swaziland, which experienced an increase in human exclusion at 9%.

27 Note definitions and computations of youth employment vary significantly across countries so this indicator should be interpreted with caution.

Figure I.41 Reduction in human exclusion in Africa using the ASDI, percentage, available Africa Countries



Source: UNECA, 2014, African Social Development Index – A Tool for Assessing Human Exclusion in Africa, Addis Ababa.

The above analysis shows that the inequalities in Southern Africa span across all spheres, namely, economic, social and political, and they manifest themselves at several levels including: at subregional level among countries; spatially, for rural and urban areas and among regions within each country; racially, between Whites and Blacks; gender-wise, between females and males; age-wise, youths, adults and the elderly; among others.

Therefore, the search for the possible explanations behind this ‘triple problem’, of low to medium growth rates, high inequalities and high poverty levels in Southern Africa with their dire socioeconomic consequences, and identification of viable policy options constitute the core research issues of this report.

Some theoretical explanations for “the triplets” challenge for economic development in Southern Africa have been put forward since the time of Adam Smith, 1776. Theories range from those that argue that income inequality is a necessary condition for growth especially in emerging economies, to those who argue that high income inequality is bad for a country and impedes growth. The former group of economists believed in the “trickle-down” approach. This path, however, failed spectacularly in most middle-income countries of the world.

Current consensus has converged on the understanding that high levels of assets and income inequality are detrimental to balanced and sustainable growth. Stiglitz (1998) argues that high inequality leads to under-investments in education by the poor, thus transmitting and sustaining inter-generational poverty. Others contend that, as income inequality grows, more resources are increasingly concentrated in the hands of the wealthiest, who in turn ensure that policies implemented are those aimed at protecting the status quo, thus, worsening inequality. Furthermore, high inequality leads to lower levels of consumer spending and savings by the poor. The poor are then caught in a poverty trap due to their low disposable incomes and low levels of savings. These theoretical arguments will be explored in more detail in chapter II.

The social consequences of inequality can create social tension and evoke social implosion for many countries. Addressing this problem becomes an imperative for countries in the Southern Africa. Although empirical support remains difficult, there may be possible linkages between the recent social instability world-over and high inequalities, for examples, the Arab Spring (2010)²⁸, Occupy Wall Street (2011)²⁹, and service-delivery

28 The Arab Spring is a term for the revolutionary wave of demonstrations and protests (both non-violent and violent), riots, and civil wars in the Arab world that began on 18 December 2010. By December 2013, rulers had been forced from power in Tunisia, Egypt (twice), Libya, and Yemen; civil uprisings had erupted in Bahrain and Syria; major protests had broken out in Algeria, Iraq, Jordan, Kuwait, Morocco, and Sudan; and minor protests had occurred in Mauritania, Oman, Saudi Arabia, Djibouti, Western Sahara, and the Palestinian territories.

29 Occupy Wall Street (OWS) is the name given to a protest movement that began on 17 September, 2011, in Zuccotti Park, located in New York City’s Wall Street financial district. The main issues raised by Occupy Wall Street were social and economic inequality, greed, corruption and the perceived undue influence of corporations on government—particularly from the financial services sector. The OWS slogan, “We are the 99 per cent”, refers to income inequality and wealth distribution in the United States between the wealthiest 1 per cent and the rest of the population.

protests in South Africa (various years)³⁰. The experiences of Southern Africa in this regard are presented in more detail in chapter IV.

1.2 Conceptual framework for economic growth, inequality and poverty

Following two decades of neglect, the 1980s and 1990s, when developing countries were engrossed in neo-liberal economic reforms, income inequality re-entered the mainstream development policy agenda by featuring prominently in the World Bank's *World Development Report 2000/01*. Inequality of whatever form (income or non-income) matters in its own right and it is key to reducing poverty³¹. There is evidence that poverty can be reduced through increases in income, through changes in the distribution of income, or through a combination of both, and that, it is not possible to disassociate poverty from inequality. Yet, poverty and inequality have often been separated conceptually both in research and in development activities

1.2.1 Inequality

The concept of inequality is less well-developed in empirical work than in the cases of poverty and economic growth. Inequality is typically viewed as *'different people having, different degrees of something'*³². Ray (1998), defines economic inequality as *'the fundamental disparity that permits one individual certain material choices, while denying another individual those very same choices'*³³. This definition encompasses both *inequality in opportunities* and *inequality in outcomes*. It can allow for different time horizons over which these choices can be permitted or denied, yet broader perspectives on inequality can still be developed.

Just as living standards and poverty are multidimensional by nature (including education, health and nutrition, security, power, social inclusion, income or consumption and assets), the same also applies to inequality. Although inequality has often been considered in terms of income or consumption, it can also apply to other dimensions, such as: access and/or ownership of production assets (major means of production) such as land, minerals and other natural resources; human capital including education, health, food security, among others. The Overseas Development Institute (ODI), 2002, identified three key questions in understanding the place of inequality in development, as follows: 'Inequality of what? Inequality between whom?'³⁴ And, 'Inequality over what time horizon?'³⁵

Research evidence has shown that assets inequality clearly has a negative effect on economic growth and the effects are almost twice as large for the poor than for the rest of the population³⁶. Complementarities between growth and progressive asset redistribution are particularly strong in situations where credit and insurance

30 South Africa has one of the highest rates of public protests in the world (Amandla Magazine, April, 2012). It is often argued that the rate of protests has been escalating since 2004. The most common reasons for protests are grievances around land and housing. Informal settlements have been at the forefront of service delivery protests as residents demand houses and basic services.

31 A. McKay, ODI, 2002.

32 A. McKay, ODI, 2002, p.2.

33 D. Ray, 1998.

34 It is important to consider inequality between individuals within a population, normally a country, between groups of people, global inequality between countries, inequality between regions or communities within a country, and inequality between groups of individuals or households classified according to various criteria (for example, gender, class), and intra-household inequality, among others.

35 The data used to measure inequality are often collected at a single point in time whereas many aspects of living conditions vary over time. This is a common criticism of income-based measures of the standard of living, as typically measured. They are static in nature, whereas income fluctuates over time, within a year, from one year to the next, or over the life cycle. By analogy with poverty, in the case of income inequality, it would be highly desirable to distinguish transient and chronic components based on longitudinal data to judge how much inequality is transient (reflecting life-cycle factors or one-off shocks). The same point can equally apply to several other dimensions of inequality that could change significantly over time (such as malnutrition). For other dimensions of inequality, this may be less important. For example, unequal land distribution typically implies structured deprivation.

36 K. Deininger and P. Olinto, 2000; N. Birdsall and J. Londono, 1997.

markets do not function perfectly³⁷. Instability and crises increase the level of inequality of income as well as assets.

Evidence from Latin America during the 1970s and 1980s suggests that rises in inequality during recessions are not eliminated by subsequent recoveries. While current attention to growth and human capital accumulation is clearly appropriate, the longstanding attention of the World Bank to inequality in the distribution of assets, especially education and land, has been costly particularly for Southern Africa. More concern earlier with the causes and the consequences of income inequality would have called greater attention to a fundamental constraint to poverty reduction, which is, the poor's lack of access to the assets that generate adequate income.³⁸

There are several reasons why development practitioners should be concerned with inequality. Inequality matters for poverty reduction because for a given level of average income, education, land ownership, among other factors, increased inequality of these characteristics will almost always imply higher levels of both absolute and relative deprivation in these dimensions. Inequality matters for growth, and there is increasing evidence that countries with high levels of inequality, especially of assets, achieve lower economic growth rates on average.

Overall, inequality matters in its own right, based on ethical grounds, especially in the sharing of basic means of production from the country's natural resources. Inequality is also often a significant factor behind crime, social unrest, and violent conflict, besides fuelling poverty in many countries and communities. High inequality remains one of the major impediments for the attainment of the MDGs, particularly, MDG1 – 'Eradicate extreme poverty and hunger'. MDG1 will require special attention in the United Nations Post-2015 Development Agenda.

1.2.2 Economic growth

The growth of an economy is usually measured as an increase in the country's GDP. GDP measures the monetary value of final goods and services, that is, those that are bought by final users, produced in a country in a given period of time (say a quarter or a year). It counts all of the output generated within the borders of a country. GDP is composed of goods and services produced for sale in the market and also includes some non-market production, such as defence or education services provided by the Government.

An alternative concept, GNP, counts all the output of the residents of a country³⁹. However, not all productive activity is included in GDP. For example, unpaid work (such as that performed in the home by youth, females and the elderly, or by volunteers) and black-market activities are not included because they are difficult to measure and value accurately. When depletion of the capital stock/depreciation (wear and tear on the machinery, buildings, among others) is subtracted from GDP, net domestic product (NDP) is measured⁴⁰.

To determine "real" GDP, its nominal value must be adjusted to take into account price changes/inflation. In broad terms, an increase in real GDP is interpreted as a sign that the economy is doing well. When real GDP is growing strongly, employment is likely to be increasing as companies hire more workers for their factories and people have more money in their pockets. When GDP is shrinking, as it did in many countries during the recent global economic crisis, employment often declines. In some cases, GDP may be growing, but not fast enough to create a sufficient number of jobs for those seeking them. But real GDP growth does move in cycles over time. Economies are sometimes in periods of boom, and sometimes in periods of slow growth or even recession (with the latter often defined as two consecutive quarters during which output declines)⁴¹.

37 R. Kanbur and N. Lustig, 1999.

38 N. Birdsall and J. Londono, 1997.

39 So, for example, if a country's X-owned company has a factory in country Y, the output of this factory would be included in country Y's GDP, but in country X's GNP.

40 Tim Callen, IMF, 2012, Gross Domestic Product: An Economy's All, Finance & Development, USA.

41 Ibid.

GDP is measured in the currency of the country in question. That requires adjustment when trying to compare the value of output in two countries using different currencies. The usual method is to convert the GDP value of each country into U.S. dollars and then compare them. Conversion to dollars can be done either using market exchange rates, those that prevail in the foreign exchange market, or PPP exchange rates. The PPP exchange rate is the rate at which the currency of one country would have to be converted into that of another to purchase the same amount of goods and services in each country⁴².

1.2.3 Poverty

Poverty exists when individuals or groups are not able to satisfy a minimum standard of living. It is a multi-dimensional complex phenomenon which includes lack of access to productive resources, physical goods, services and income, lack of participation, civil and political freedoms among others. Poverty is not a natural phenomenon as often, paradoxically, an abundance of natural resources co-exist with widespread poverty. In this regard, poverty is socially constructed globally and locally, and can be deconstructed⁴³.

The SADC region is experiencing a complex interplay of high structural chronic poverty with a historical underpinning, combined with transient poverty. The 'feminization of poverty' is one of the systematic features of both structural and transient poverty in most countries in the region. Poverty is reflected in social indicators such as chronic food insecurity, high levels of malnutrition, high child and maternal mortality, declining life expectancy, illiteracy, unemployment, underemployment, high income inequalities and low access to the basic services and infrastructure needed to sustain human capacities, such as safe drinking water and sanitation, health and education facilities, and shelter, among others⁴⁴.

The poverty hardships in most SADC countries have been compounded and further complicated by the raging HIV and AIDS pandemic, with around a quarter of the population infected in the past decade. Southern Africa remains the epicentre of HIV and AIDS with HIV prevalence still recording double-digit figures and on the increase in half of the countries in the region. In this regard, the HIV and AIDS pandemic has become a major driver of poverty in the region.

The HIV and AIDS pandemic is disproportionately affecting women. The ability of most SADC countries to respond to the HIV and AIDS pandemic is limited. There is, thus, no doubt that the poverty, gender and HIV and AIDS nexus has become the biggest development challenge in SADC in the new millennium. In addition, climatic changes resulting in droughts and floods, natural resource degradation and gender inequalities, are also causing or fuelling poverty⁴⁵.

Even though notable progress has been made to date on governance issues, there are various political, economic, corporate and institutional governance challenges which remain and that underlie the Southern African poverty context? It is equally important to acknowledge that poverty in SADC countries is being generated in a broader international context, characterized by the forces of globalization that generally marginalize developing countries.⁴⁶

1.2.4 Relationships between poverty, inequality and growth

Poverty, inequality and growth interact with one another through a set of two-way links. Some of these links (A1, A2, B1, B2, C1 and C2, in figure 1.42) can be explored separately, but often one influences another

42 IMF, 2012; Tim Callen; Gross Domestic Product: An Economy's All, Finance & Development, USA.

43 SADC Secretariat, 2010, J.T Chipika and J. Malaba, Regional Poverty Reduction Framework (RPRF) (Final Draft), Gaborone, Botswana.

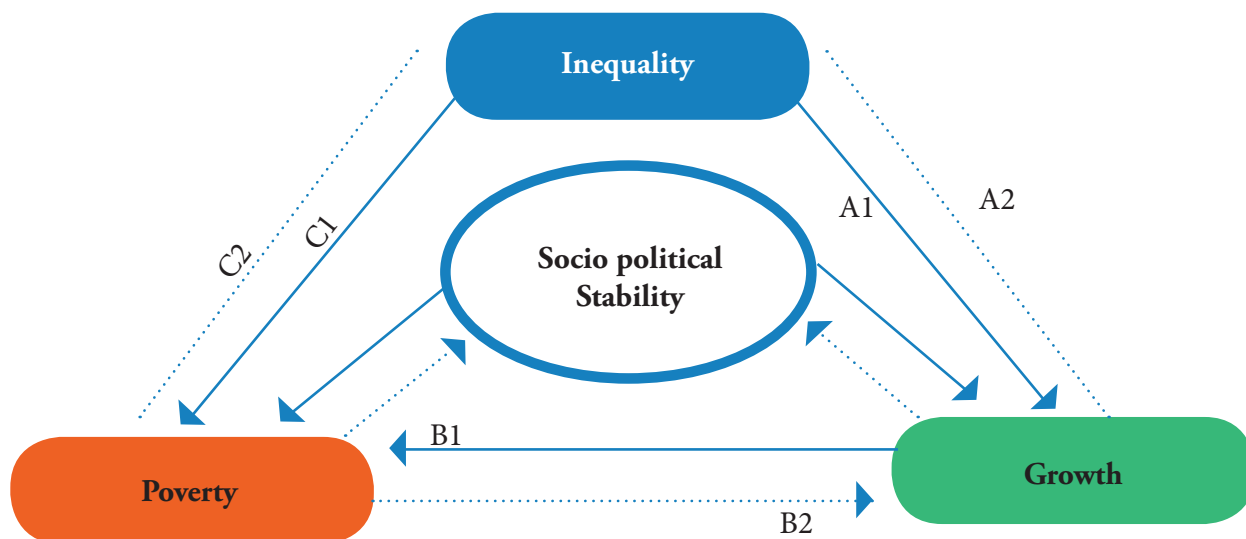
44 Ibid.

45 Ibid.

46 J.T. Chipika and J. Malaba, Regional Poverty Reduction Framework (RPRF) (Final Draft), SADC Secretariat, 2010, Gaborone, Botswana.

causing indirect effects. For instance, inequality can indirectly influence poverty as inequality affects growth (A1) and growth in turn influences poverty (B1).

Figure I.42 The Poverty, Inequality and Growth Triangle



Source: Adapted from F. Naschold, ODI, 2002.

From inequality to growth (A1)

Inequality affects poverty indirectly through its impact on growth (links A1 and B1 in figure 1.4). Evidence to date predominantly suggests that inequality is bad for growth. According to the *World Development Report 2000/01*, better income distribution is possible without a reduction in economic growth, that is, there is no inevitable trade-off between equity and efficiency. On the contrary, lower inequality can create faster growth, possibly benefiting the poor by increasing overall growth and average incomes, and by letting them share more in that growth.

Several cross-country studies have found that greater initial income inequality actually reduces future growth, even after controlling for initial levels of GDP and human capital, resulting in even slower poverty reduction⁴⁷. This does not mean that all policies to improve equity are good for growth. For example, to remove 'functional inequalities', equity-improving policies requiring greater personal effort and risk-taking for profit incentives can reduce growth. Tackling 'redundant or dysfunctional disparities', such as political connections, inherited wealth and other historical asset inequalities, can boost growth and reduce poverty.⁴⁸ Thus, overall, inequality does matter and policymakers should take this into account if the aim is to maximize broad-based, sustainable growth and poverty reduction.

According to Atkinson (1997), economic theory does not tell us why or how inequality may affect growth. Empirically, the link has mainly been explained in terms of political, economic or social factors. From a political economy perspective, it is suggested that inequality creates political instability which leads to lower investment and waste of resources.⁴⁹ Instability also reduces government's ability to react to shocks, and in its more extreme form, leads to direct as well as opportunity costs due to violence⁵⁰.

47 N. Birdsall and others, 1995.

48 ODI Inequality Briefing No 3, March 2002.

49 A. Alesina and R. Perotti, 1993; D. Rodrik, 1997.

50 F. Bourguignon, 1998.

The economic arguments emphasize capital market imperfections and the role of the poor not only as beneficiaries but also as contributors to economic growth. Largely due to their lack of collateral, the poor often cannot afford the minimum initial investment in business activities, including for education and health. Nevertheless, the poor's savings rate can be exceptionally high if they can expect higher returns for their labour and investment, resulting in their income (and national income) increasing and inequality falling⁵¹.

Lastly, social inequality may create self-fulfilling, expectational equilibria with lower growth. For example, if economic agents are rewarded according to social class (small-holder agriculturalists versus industrialists, gender or ethnicity factors), rather than by what they achieve, this reduces the incentive to work and earn more, eventually reducing overall growth (sub-optimal economic outcomes)⁵².

From growth to inequality (A2)

Is there any inherent link in the other direction: from growth to inequality? While the Kuznets hypothesis⁵³ predicted increases in inequality during early periods of growth and reduction in inequality during subsequent periods, virtually all recent evidence has rejected this pattern⁵⁴. Fields (2000) rejects the Kuznets hypothesis for a number of African countries, and several researchers have found no evidence of a systematic relationship between growth and income distribution⁵⁵. Dollar and Kray (2000) concluded that, on average, the poor benefit from growth. Overall, the consensus is that inequality is no more likely to rise than it is to fall in periods of economic growth, and that increasing inequality is not an inevitable consequence of early growth. It is not the rate of economic growth or the stage of economic development but the '*kind*' of economic growth which affects inequality.

Relative importance of growth and inequality in reducing poverty

It is now clear that income inequality and economic growth both matter for poverty reduction. But what is their relative importance (links C and B in figure 1.4)? While generally the growth effect is more dominant (B1), this is not true for some groups of countries. For example, inequality was more important in reducing poverty than growth in a quarter of the case studies cited in White and Anderson (2001). It has been suggested that the dominance of growth overall may also be partly due to the growth focus of neo-liberal economic reform policies in the 1980s and 1990s. Nonetheless, there is latent potential for reducing poverty by implementing equity policies (C1).

As earlier noted, growth is less effective in reducing poverty in high inequality countries (A2 through C1)⁵⁶. The effect of growth on poverty reduction increases with average income, implying that growth policies work better in middle to high-income countries, than in low income/poor countries⁵⁷. As the effect of inequality does not vary with the level of income, the relative importance of inequality for reducing poverty (C1) is greater in the poorest countries. In this regard, Hammer and Nichols (2000) and Nichols, (2004) argued that, SSA and least developed countries would not be able to get close to meeting the income poverty MDG1 through growth alone. Improvements in equality were needed in addition.

ODI (2002) further concluded that the effects of inequality on increases in poverty in Africa might have been understated. In fact, overall in SSA, the high levels of inequality may have increased poverty more than the lack

51 N. Birdsall and others, 1996.

52 F. Bourguignon, 1999.

53 S. Kuznets, 1955.

54 K. Deininger and L. Squire, 1996; 1998.

55 M. Ravallion and S. Chen, 1997; L. Demery and L. Squire, 1996; M. Bruno and others 1996, and M. Ravallion, 2001.

56 M. Ravallion, 2001, argues that, this is not surprising, as what matters for poverty reduction is not the rate of growth per se, but the distribution-corrected rate of growth which is defined as [Economic Growth * (1-Gini coefficient)]. See A. McKay, 1997; L. Hanmer and Naschold, 2000; M. Ravallion, 2001.

57 R. Heltberg, 2001 and F. Naschold, 2004.

of growth. There is also some evidence that growth has a larger effect in rural areas, while income distribution has a larger effect in urban areas⁵⁸.

The poverty elasticity of growth measures the effectiveness of growth to reduce income or consumption poverty. Increasing the elasticity, therefore, has a large effect on the prospects for reducing poverty. According to ODI (2002), the poverty elasticity of growth depends on the following factors: the level of inequality; the quality of growth, including its instability, sectoral composition, and labour intensity; macroeconomic factors such as inflation, and depreciation of the exchange rate; and structural factors, such as the share of agriculture in GDP, and the distribution of assets (land, education, among others). Inequality is one of the strongest of these factors.

Inequality influences the propensity of growth to reduce poverty in a variety of ways. The following stylised facts emerge from recent research. The initial level of inequality affects the poverty-reducing capacity of growth, as a more equitable distribution of income and assets provides the poor with more means and opportunities to improve their standard of living. The income poverty elasticity varies systematically with the level of inequality⁵⁹. Higher levels of inequality lower the income elasticity of poverty.

It would appear that the worse the distribution of income, the lower the share of current and additional income going to the poor, and therefore, the smaller the poverty-reducing effect of growth. High-inequality countries may need as much as three times the amount of growth to reduce poverty as do low-inequality countries⁶⁰. Similarly, changes in distribution determine the capacity of growth to reduce poverty, for example, in Bangladesh⁶¹. Between 1987 and 1998, developing countries with rising incomes and improving distributions reduced poverty seven times as fast as growing countries with worsening inequality⁶².

Periods of recession or rapid inflation tend to worsen inequality, and thereby reduce the poverty elasticity of growth. The income poverty elasticity varies with the level of income; the higher the level of income, the greater the elasticity. This variation is larger the more equally income is distributed⁶³, suggesting yet another mechanism through which lower inequality helps to reduce poverty. The distribution of assets, primarily of land and education, has an even stronger effect on poverty elasticity than income distribution, as shown for many Latin American countries⁶⁴. Poverty elasticities have a spatial dimension and can differ within a country.

As mentioned earlier, in SSA rural poverty is more responsive to growth than urban poverty, while urban poverty is more responsive to changes in income distribution⁶⁵. In Tanzania, rural poverty elasticities were around four times higher than those in urban areas. These findings demonstrate that inequality has a large effect on the poverty elasticity of growth. Pursuing equity should therefore be an integral component of any growth-based poverty reduction strategy.

From poverty to growth (B2)

The relationship between poverty and growth can be direct (B2) or indirect with inequality underlying poverty (C1 through B1). The relationship between high inequality and weak growth appears to be particularly strong in countries where a large part of the population is 'trapped' in poverty. One reason that poor countries find it so difficult to grow is that most income in an impoverished household goes for consumption (high marginal propensity to consume). There are generally no or little taxes and no or little personal savings. In the meantime, at macro-level, aggregate capital depreciation and population growth continue naturally. This results in a fall in per capita capital in the country and a negative growth rate of per capita income. That leads to still further impoverishment of the household in the future⁶⁶.

58 A. Ali and E. Thorbecke, 2000.

59 L. Hanmer and F. Naschold, 2000.

60 L. Hanmer and F. Naschold, 2000.

61 M. Ravallion and A. Sen, 1996.

62 M. Ravallion, 2001.

63 R. Heltberg, 2001.

64 N. Birdsall and J. Londono, 1997.

65 UNECA, 2014.

66 M. Johnston, 2010.

In other words, at the macroeconomic level, extensive poverty leads to low savings rates and, in the absence of external sources of finance, low rates of investment. Low investment results in low growth, which in turn is insufficient to make a dent in poverty. Put differently, high initial levels of poverty can set into motion a vicious cycle “*through which the high incidence and severity of poverty act as constraints on economic growth, thus perpetuating all-pervasive poverty*”⁶⁷.

From poverty to inequality (C2)

While the dominant relationship is that inequality causes poverty (C1), empirically, in crisis situations (political and/or economic and social), poverty can lead to inequality as a minority takes advantage of weak governance to profiteer, while the majority languishes in poverty. Several countries in Southern Africa which went through a crisis of one form or another experienced this phenomenon.

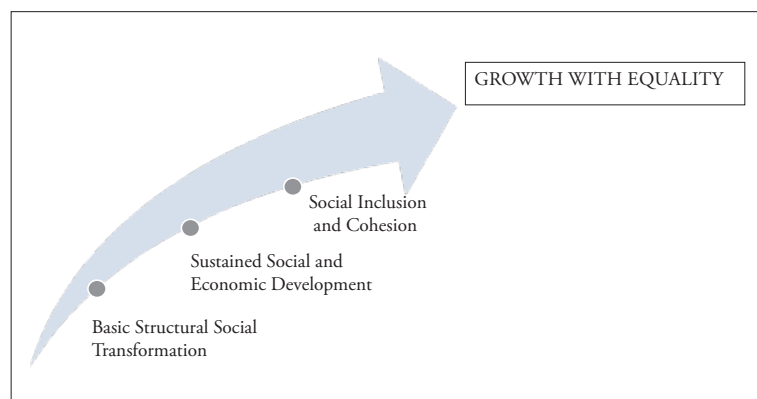
Sociopolitical stability, growth, inequality and poverty

Finally, sociopolitical stability lies at the centre of the growth, inequality and poverty triangle (see figure I.4). Although here are undeniable direct relationships between sociopolitical stability and each of these three dimensions, the reverse relationship from each of the dimensions is relatively weaker than the former. High sociopolitical instability in a country will directly descend into low economic growth, high poverty, and high inequality. On the other hand, sustained low or negative economic growth, high poverty, and high inequality, can lead to sociopolitical instability⁶⁸.

According to Birdsall, (2005), “*Where the institutions of government are weak, inequality exacerbates the problem of creating and maintaining accountable government, increasing the probability of economic and social policies that inhibit growth, and poverty reduction and where social institutions are fragile, inequality further discourages the civic and social life that undergirds collective decision-making which is necessary to the functioning of healthy societies*”.

Conceptually, therefore, figure 1.43 shows that the desired development path for Southern Africa is to address the ‘triple problem’ and move towards sustained ‘*Growth with Equity*’.

Figure I.43 Desired Development Path – Towards ‘Growth with Equity’



Source: UNECA, 2014, African Social Development Index – A Tool for Assessing Human Exclusion in Africa. Addis Ababa.

67 C. Gore, 2002.

68 A. Alesina and R. Perotti, 1996.

CHAPTER II:

ECONOMIC GROWTH, WIDESPREAD INCOME INEQUALITY, AND POVERTY: GENERAL THEORY AND PRACTICE

The theories and debates regarding economic growth and inequality date back to the early father of economics, Adam Smith, and his 1776 publication, *“Inquiry into the Nature and Causes of the Wealth of Nations”*. Since this advent of Classical Economics, there are now at least 11 other economic schools of thought, including, Neo-classical, Communism; Socialism; Keynesian; Neo-Keynesian New Keynesian Monetary, Structuralist, Liberalism, Neo-liberalism, and Inclusive Growth (IG) (see table 2.1). However, economic history in general, the world over and in Southern Africa in particular, has shown that no economic school of thought becomes totally irrelevant over time. Rather, they all continue to be called upon for solutions and are even combined depending on the particular economic problem to be addressed under specific circumstances.

For example, during the latest global financial and economic crisis of 2007/08, all affected countries (developed and developing) resorted to expansionary fiscal and monetary policies, in line with Keynesian economics, in sharp contrast to monetarism. In the meantime, central banks the world over, and even in Southern Africa, normally operate under monetarism in order to control inflation. Social protection, including free health and education, have their roots in socialism and communism. International trade, also modelled along the classical free market, comparative advantage model, in reality, faces the centre – periphery challenges highlighted by the structuralist economists. In this regard, the analysis of economic growth and inequality in Southern Africa presented in this report and the proposed recommendations draw from the several economic schools of thought from classical to inclusive growth and beyond.

Table 2.1 Economic Schools of Thought Informing Economic Growth and Inequality: From Classical to Inclusive Growth (IG)

Economic School of Thought	Highlights	Key Proponents
Classical Economics	<p>Free market/ laissez-faire capitalism/‘an invisible hand’ - allow individuals, acting in their own self-interest to promote the general well-being of society through low prices, higher economic growth, a wide variety of goods and services, and higher wages, among others.</p> <p>Warned against the possible collusive nature of business interests forming monopolies, leading to price rises.</p> <p>Market prices are determined in the long run by the amount of labour time, and aggregate supply; generate aggregate demand.</p> <p>Dualism model – capitalist versus subsistence sector.</p> <p>Development is modernizing and transforming the traditional sector.</p> <p>Government intervention is necessary to hasten process of modernization.</p>	<p>Adam Smith</p> <p>Jean-Baptist Say</p> <p>James Mill</p> <p>David Ricardo</p> <p>John Stuart Mill, among others.</p> <p>(1776 – 1871)</p> <p>Arthur W. Lewis, 1954</p> <p>J. H. Boeke, 1953,</p> <p>1961 J.S. Furnivall</p> <p>1941</p>

Economic School of Thought	Highlights	Key Proponents
Neo-Classical Economics	<p>Subjective theory of value (utility) as the basis for market prices, and prices, not labour time.</p> <p>Microeconomic determination of prices, outputs, and income distribution in markets through supply and demand – driven by maximization of utility by income-constrained individuals and of profits by cost-constrained firms (rational choice theory).</p> <p>Governments generally should not make rules about types of businesses.</p> <p>Free-market general equilibrium theory.</p>	<p>Carl Menger</p> <p>William Jevons</p> <p>Leon Walras, among others.</p> <p>(1870s)</p>
Communism	<p>Political ideology – class struggle with proletariat victory; one-party system.</p> <p>Nationalization of means of production and capital; no private productive property.</p> <p>Economic planning coordinates all decisions regarding investment, production and resource allocation.</p> <p>Planning is done in terms of physical units instead of money.</p> <p>All choices, including education, religion, employment and marriage, are controlled by the State.</p> <p>From each according to his ability, to each according to his needs.</p> <p>All class distinctions are eliminated.</p>	<p>Karl Marx</p> <p>Fredrich Engels</p> <p>Vladimir Lenin</p> <p>Leon Trotsky</p> <p>(1789, 1848-1991)</p>
Socialism	<p>All individuals should have access to basic articles of consumption and public goods to allow for self-actualization.</p> <p>Large-scale industries are collective efforts and thus the returns from these industries must benefit society as a whole.</p> <p>'Planned-socialism' relies principally on planning to determine investment and production decisions.</p> <p>Market-socialism¹ relies principally on markets for allocating capital to different socially owned enterprises (1920s and 1930s).</p> <p>From each according to his ability, to each according to his contribution.</p> <p>The means of production are owned by public enterprises or cooperatives and individuals are compensated based on the principle of individual contribution.</p> <p>Can co-exist with different political systems.</p> <p>Two kinds of property, personal property, such as houses, clothing, etc. owned by the individual. Public property includes factories, and means of production owned by the State but with worker control.</p> <p>All choices, including education, religion, employment and marriage, are up to the individual.</p> <p>All health care and education is provided free to everybody.</p> <p>Class distinctions are diminished.</p>	<p>Robert Owen</p> <p>Pierre Leroux</p> <p>Karl Marx</p> <p>Fredrick Engels</p> <p>John Stuart Mill</p> <p>Albert Einstein</p> <p>George Bernard Shaw</p> <p>Thorstein Veblen</p> <p>Emma Goldman</p> <p>(1789, 1848-1991)</p>

1 Market socialism is a type of economic system where the means of production are either publicly owned or socially owned as cooperatives and operated in a market economy.

Economic School of Thought	Highlights	Key Proponents
Keynesian Economics	<p>Advocates for a mixed economy, predominantly private sector, but with a role for government intervention during recessions.</p> <p>Free market capitalism inherently unstable, contrary to classical and neo-classical schools of thought.</p> <p>In the short-run, especially during recessions, economic output is strongly influenced by aggregate demand.</p> <p>Aggregate demand not necessarily equal to the productive capacity of the economy; influenced by a number of factors affecting production, employment, and inflation.</p> <p>Private sector decisions sometimes lead to inefficient macroeconomic outcomes.</p> <p>Active monetary and fiscal policy by the central bank and government, respectively, sometimes required in order to stabilize output over the business cycle, in order to attain the goals of full employment, growth, and price level stability.</p> <p>Relevant during the Great Depression, World War II (WWII), the post-WWII economic expansion (1945–1973), and the most recent global financial and economic crisis (GFEC), 2007/08.</p> <p>Lost some influence following the oil shock and resulting stagflation² of the 1970s.</p>	<p>John Maynard Keynes³</p> <p>Great Depression, (1930-1945)</p>
Neo-Keynesian Economics	<p>Synthesized Keynesian economics with the neo-classical models.</p> <p>The oil shock of the 1970s, and resultant stagflation, and the work of monetarists such as Milton Friedman cast doubt on the neo-Keynesian theory.</p>	<p>A.W Phillips⁴</p> <p>John Hicks</p> <p>Franco Modigliani</p> <p>Paul Samuelson, among others.</p> <p>Post-World War II period (1950s, 60s and 70s)</p>
New Keynesian Economics	<p>Provides microeconomic foundations for Keynesian economics.</p> <p>Assumes that households and firms have rational expectations.</p> <p>A variety of market failures exist – imperfect competition in price and wage setting.</p> <p>Prices and wages can become ‘sticky’- economy may fail to attain full employment.</p> <p>Government intervention in macroeconomic stabilization can lead to a more efficient macroeconomic outcome than a laissez faire policy would.</p>	<p>N. Gregory Mankiw</p> <p>Robert E. Lucas</p> <p>Mikhail Golosov</p> <p>Joseph Stiglitz, among others.</p> <p>(1980s)</p>
Monetary Economics ‘monetarism’	<p>Subscribed to virtues of a free-market economic system with minimal intervention.</p> <p>Acknowledged a ‘natural rate of unemployment’/‘non-accelerating inflation rate of unemployment (NAIRU).</p> <p>Governments could increase employment above the NAIRU by, for example, increasing aggregate demand, at the risk of causing inflation to accelerate.</p> <p>In the short-run, the Phillips curve is not stable; predicted stagflation.</p> <p>Accepted a steady, small expansion of the money supply by central banks.</p> <p>Influenced government policies, especially during the 1980s and also in the response to the GFEC 2007/08.</p>	<p>Milton Friedman,⁵ and others.</p> <p>(1960s)</p>

Economic School of Thought	Highlights	Key Proponents
Structuralist Economics	<p>Emphasized the importance of structural features and specific rigidities in developing countries when undertaking economic analysis.</p> <p>Economic ‘centre’ (industrialized nations), and the ‘periphery’, (primary commodity producers) in trade, remains relevant today.</p> <p>Declining terms of trade of developing countries – basis of economic dependency theory.</p> <p>Assumes that the price mechanism fails, as an equilibrating mechanism, to deliver steady growth, and to produce a ‘desired’ income distribution – equality.</p> <p>Recognition of political and institutional factors.</p> <p>Need to raise the level of domestic savings in order to raise the rate of investment, given that external sources of finance are likely to be hard to come by.</p> <p>Inflation as both an economic and social phenomenon.</p> <p>The false nature of the dilemma between import substitution industrialization and export-oriented industrialization, market planning, and agriculture and industry.</p> <p>Role of technology in development.</p> <p>Improve the terms and conditions for integrating into the global economy and gaining international competitiveness.</p> <p>Consider broader and deeper structural changes beyond the immediate short-term need for structural adjustment.</p>	<p>Raúl Prebisch</p> <p>Hans Singer</p> <p>Celso Furtado, among others.</p> <p>Neo-structuralists – Michal Kalecki⁶</p> <p>Lance Taylor</p> <p>E.V. K. FitzGerald, among others.</p> <p>(1960s -1980s)</p>
Liberalism and Neo-Liberalism	<p>Political philosophy founded on ideas of liberty and equality.</p> <p>Generally supported ideas such as free and fair elections, civil rights, freedom of the press, freedom of religion, free trade, and private property.</p> <p>Neo-liberalism (1930s) – supported economic liberalization, free trade and open markets, privatization, deregulation, and enhancing the role of the private sector in modern society.</p> <p>In the 1940s and 1950s, promoted a market economy under the guidance and rules of a strong State, a model which came to be known as the social market economy.</p> <p>Rostow’s Stages of Growth model, 1960 postulates that economic growth occurs in five basic stages⁷.</p> <p>Economic take-off must initially be led by a few individual sectors – similar to David Ricardo’s comparative advantage, modernization model.</p> <p>The Kuznetz inverted U – Curve of growth (per capita income) and income inequality, 1950s to 1960s. Inequality increases in the first stages of growth under market forces, then decreases after a certain average income is attained by trickle-down effects.</p>	<p>John Locke (17th century)</p> <p>Neo-liberalism-</p> <p>Walt Whitman Rostow (1930s-1980s) Simon Kuznetz, 1950s to 1960s.</p>

- 2 Stagflation describes a situation wherein the inflation rate is high, the economic growth rate slows down, and unemployment remains steadily high. It raises a dilemma for economic-policy since actions designed to lower inflation may exacerbate unemployment, and vice versa.
- 3 John Maynard Keynes’ book, “The General Theory of Employment, Interest and Money”, was published in 1936, during the Great Depression.
- 4 The Phillips curve of 1958 depicts the inverse relationship between the rate of unemployment and the rate of inflation in an economy, in the short –run.
- 5 In his 1962 book, Capitalism and Freedom, Friedman advocated policies such as a volunteer military, freely floating exchange rates, abolition of medical licenses, a negative income tax, and education vouchers.
- 6 Michal Kalecki, 1970. Problems of Financing Economic Development in a Mixed Economy.
- 7 Rostow, Stages of Growth model: Traditional Society;; Preconditions for Take-off; Take-off; Drive to Maturity; and Age of high mass consumption.

Economic School of Thought	Highlights	Key Proponents
Neo-Liberalism-Economic reforms	<p>Assumes that the market is efficient and the State is inefficient.</p> <p>Eliminating price controls, deregulating capital markets, lowering trade barriers, and reducing State influence on the economy, that is, 'rolling back' the role the State, especially by privatization and fiscal austerity (Washington Consensus).</p> <p>'One-size-fits-all'/Universalist model.</p> <p>Assumes monetary policy is superior to fiscal policy.</p> <p>Secure property rights</p> <p>Deregulation</p> <p>Fiscal discipline</p> <p>Tax reform</p> <p>Privatization</p> <p>Reorientation of public expenditures</p> <p>Financial liberalization</p> <p>Trade liberalization</p> <p>Openness to FDI</p> <p>Unified and competitive exchange rates.</p>	<p>World Bank [Washington Consensus (WC)]</p> <p>(1980s – mid-1990s)</p>
Sustainable Human Development Paradigm	<p>People should be at the centre of development.</p> <p>Expansion of material output (economic growth) is a means to achieving people's well-being, not an end in itself, (ends-means relationship).</p> <p>If people are not purposely placed at the centre of development, growth can be ruthless, rootless, futureless, voiceless and jobless.</p> <p>Economic growth does not necessarily translate into poverty and inequality reduction and general human development.</p> <p>The purpose of development is to improve human lives through expanding the range of things that a person can do and be.</p> <p>Specific policies are needed to transform economic progress into human development.</p> <p>Obsession with economic growth can result in adverse consequences for the environment and for the survival of future generations. It is not sustainable.</p> <p>SHD implies promotion of conducive social capital, able to prevent, at the worst, violent conflicts, and to build a consensus on development issues.</p> <p>A strong developmental State (legitimate, addressing productive assets and other inequalities, transparent, accountable and efficient, balancing economic and social concerns) is key for delivering on SHD.</p> <p>Human development is not just about health, education and income, the three measurements for the dimensions of the Human Development Index (HDI), but includes governance development dimensions such as institutional, political, cultural and social governance.</p>	<p>Amartyre Sen, 1990s</p> <p>UNDP, (1990-2010s)</p>
Post-ESAP Neo-Liberalism	<p>Includes Institutional economics, pro-poor growth (PPG), and inclusive growth (IG) paradigms.</p>	<p>World Bank</p> <p>Mid-1990s-2010s)</p>

Economic School of Thought	Highlights	Key Proponents
Institutional Economics	<ul style="list-style-type: none"> Sound governance, at the national, regional and corporate level Effective and respected institutions A well-established legal system Recognition of, and protection of property rights A well-functioning financial sector Flexible labour markets 	Joseph Stiglitz, 1997.
Pro-poor	<ul style="list-style-type: none"> Secure property rights; deregulation Fiscal discipline; tax reform; privatization Reorientation of public expenditures Financial and trade liberalization; unified and competitive exchange rates WTO agreements; “prudent” capital account opening Openness to foreign direct investment (FDI) Anti-corruption; corporate governance Independent central bank; financial codes and standards Flexible labour markets Social safety nets; targeted poverty reduction Sustained growth 	<ul style="list-style-type: none"> World Bank Mid-1990s-2010s)
Inclusive Growth	<ul style="list-style-type: none"> Competitive environment Government commitment to growth “Good policies” Public sector investment Labour market deregulation. Employment and productivity growth International integration Exchange rate management “Prudent” capital account opening Social safety nets 	Late 2000s

2.1 The pre-neo-liberalism economic reforms era (before 1981 – ‘big-push’ and ‘trickle down’ theories)

During this period, in the Western bloc including all former colonies and the Americas, the growth and inequality debate was largely dominated by free-market economic models, though heavily contested by the socialist and communist models which seemed to offer an alternative to developing countries in the wake of widespread decolonization. This struggle for influencing economic space was at its peak during the 46 years of the Cold War, from 1946 – 1991.

The idea that less developed areas of the world could be conceptualized in terms of dualism, either economically and/or socially, is associated with the works of Boeke, (1953), (1961), Furnivall, (1941), and Lewis, (1954). The essence of dualist views was that less developed countries were characterized by two different sectors. One was typified as capitalist in its mode of production, ‘modernizing’, dynamic, progressive, and usually capital-intensive. The other was a subsistence/peasant/marginal sector in societies dominated by agriculture and was

characterized by pre-capitalist modes of production: often depending on family labour, unsophisticated in its operations and production patterns, using low technology and having low productivity.

These societies were seen as *separate*. The trick of *economic* 'development', according to Lewis, was for the latter sector to disappear gradually as it was absorbed by, or transformed by the characteristics of the former. Dualist ideas segued into the modernization theory which has dominated development theories for decades. The policy was to 'transform' the traditional, pre-capitalist sector by stimulating it to become 'modern', and government intervention to hasten this outcome was usually assumed to be necessary and positive .

The theory was criticized for assuming a unilinear pattern of economic development by which 20th century less developed countries would inevitably follow the path of capitalist and industrial development enjoyed by the industrialized, wealthy nations. This took no account of history in that the global economic and political circumstances facing post-war Africa, Asia and Latin America were profoundly different from those experienced by industrializing Europe and North America. In addition, global power relations remained powerfully skewed in favour of the already modern countries. On the left, the dependency school argued that the dependent relations set up by colonization and capitalist penetration of the less developed countries in the 19th and 20th centuries would prevent their modernization along classic, capitalist lines; thus, such countries would remain economically subordinate and on the periphery, as their development was still controlled by external interests.

Building upon the orthodox classical and neo-classical economic models, the notion of development was largely driven by the modernization theories of the 1960s, underpinned by Keynesianism, structuralism and socialism. Rostow (1960)⁶⁹ outlined five stages of economic growth model was key in popularizing the concept that development involved a transition from a traditional society, through modernization, to the ideal-type of advanced capitalism.

With this large influence from neo-classical, Keynesian and early neo-liberalism, the 'big push' and 'trickle-down' approaches were seen as essential to delivering rapid growth, employment creation, macroeconomic stability and a sustainable balance of payments. These in turn would reduce poverty and inequality through 'trickle down' flows, especially via employment creation. The 'big push' for economic growth was seen as requiring State participation in large-scale investment projects, including public ownership of key sectors, in order to provide the requisite economic infrastructure for private sector-led industrialization. This thinking was partly influenced by the socialist model in the Eastern bloc.

The Keynesian theory of consumption established that the rich have a higher marginal propensity to save than the poor and that domestic savings are key to capital accumulation for investment. It was argued that some increase in inequality was unavoidable in the early phase of development, as part of giving the economy a 'big push'. Thus, in all this drive for economic growth, addressing poverty and inequality were seen as occupying the final stages of growth and development.

The fact that rapid economic growth during the 1960s and early 1970s in many countries aligned with the West was accompanied by continuing widespread poverty and rising inequality raised questions on the efficacy of the 'big push' and 'trickle down' approaches to development⁷⁰. It became clear that poverty and inequality reduction could not happen spontaneously through mostly free-market economic growth. Instead, it required conscious, targeted intervention. During the same period, dependency theory scholars from the structuralist school became vocal on the unfair international trading system, arguing that development and underdevelopment constituted two sides of the same coin, with the periphery countries losing out through unfair terms of trade⁷¹.

69 The Rostov Stages of Growth model is one of the major historical models of economic growth. It was published by American economist, Walt Whitman Rostov, in 1960. The model postulates that economic growth occurs in five basic stages, of varying length: traditional society; preconditions for take-off; take-off; drive to maturity; and age of high mass consumption. Rostov's model is one of the more structured models of economic growth, postulating that economic take-off must initially be led by a few individual sectors. This belief echoes David Ricardo's comparative advantage thesis and criticizes Marxist revolutionary 'push' for economic self-reliance in that it pushes for the 'initial' development of only one or two sectors over the development of all sectors equally. This became one of the important concepts in the theory of modernization.

70 Bigsten and Levin, 2004.

71 Cardoso and Faletto, 1979; Kay, 1989; and Saad-Filho, 2005.

Following this despondency from the capitalist economic models of the time, and Hollis Chenery's⁷², '*Redistribution with Growth*', (1974), the World Bank started to shift emphasis from capital-intensive development to labour-intensive industries and provision of education and infrastructure for the poor, especially in small-scale agriculture, and through transfer of land and other assets to the poor. It was argued that this would lead to better outcomes in poverty and inequality. Unfortunately, the *Redistribution with Growth* proposals were never implemented in a comprehensive manner, with shifts in the global political economy overwhelming poor countries in the international debt crisis.

In the meantime, the economics profession shifted decisively towards monetarism and the related supply-side and neo-classical economics. The blame and responsibility for persistent poverty was placed on the poor countries themselves, in particular on their unwillingness to follow the 'correct' economic theory and policies prescribed from the West. Under this view, the scope for distributive policies to address poverty and inequality while ensuring growth, became very limited.

2.2 The neo-liberalist economic reforms era (1980s–mid-1990s): the universalist/'one-size-fits all' and 'trickle-down theories

Following the failure of the early neo-liberalism model to deliver on the stages of growth, the criticism by the Keynesian, structuralist and dependency theory advocates, and the strong influence of socialism on newly decolonized States in the South, a universalist (one-size-fits-all) neo-liberal ideology, in the form of economic structural adjustment (ESAP) economic reforms, was hatched in the World Bank in the early 1980s. This economic model was soon codenamed the Washington Consensus.

The ESAP model had absolute commitment to the free market⁷³ and assumed that the State was a source of both inefficiency and corruption⁷⁴. The market rather than the State should address such economic problems of development as industrial growth, international competitiveness and employment creation. Development was supposed to be the inevitable outcome of a set of 'appropriate' incentives and neo-classical economic policies, including fiscal restraint, privatization, abolition of government intervention in price setting, labour market 'flexibility', and trade, financial, and capital account liberalization.

There was little specification of what the end results would be under this 'rolling back of the State' scenario. In reality, such 'market economy' freedoms could only be guaranteed through State provisioning via efficient public institutions. Weak, rolled-back States could not deliver on this demand.

The Washington Consensus also believed in the priority of monetary policies over fiscal policies, making interest rates the most important economic policy tool. It was assumed that "correct" interest rates would deliver balance-of-payments equilibrium, low inflation, sustainable levels of consumption and investment, improved allocation of resources and, therefore, high long-run growth rates. At the scholarly level, the Washington Consensus suppressed earlier development economics as a separate and respected field of analysis for the problems of poor countries, which included, poor growth, high poverty and inequality⁷⁵. In addition, whilst, the early, neo-classical models presumed that the main reason poor countries remained poor was because they lacked capital (machines, infrastructure and money), the ESAP model presumed that countries were poor because of misconceived state intervention, corruption, inefficiency and misguided economic incentives.

As a result, the World Bank and the International Monetary Fund (IMF) imposed conditionalities on poor countries facing balance-of-payments, fiscal or financial crises, as they agreed to take on the ESAP model. However, the conditionalities went far beyond the core monetary and fiscal macroeconomic policies (IMF)

72 Chenery was then the World Bank's Vice-President for Development Policy.

73 The Washington Consensus emphasis on the virtues of the market was supported by the neo-Austrianism associated with Friedrich von Hayek, and by the general equilibrium theory of mainstream economics (Fine and Saad-Filho, 2011).

74 Krueger, 1974.

75 Jomo and Fine, 2006.

and the sector-specific, micro and financial policies (World Bank). These international financial institutions (IFIs), claimed an expanding set of policy areas, including pricing policy, ownership of productive and financial enterprises, market structures and regulation, public sector management and political and economic governance⁷⁶.

Under this market-driven model, poverty and inequality could not be a priority as distributive aspirations were perceived as generating inefficiencies in the economy. Thus, under the ESAP model, States lost much of their capacity to select, implement and monitor distributive and welfare policies. Once again, the poverty and inequality reduction agenda was largely left to the failed 'trickle-down' process.

In the late 1980s and 1990s, economic reforms came under increasing attack from frustrated governments, academia and civil society movements. The success of the East Asian newly industrializing countries (NICs), in the 1960s and 1970s, with Japan as the precursor, followed by the four 'Asian Tigers' (Hong Kong, Korea, Singapore and Taiwan) followed by China, Indonesia, Malaysia, Thailand and Viet Nam. Their success was driven by strong developmental States that inspired major criticism of the Washington Consensus⁷⁷. The NICS emphasized long-term planning, protectionism, directed finance and other departures from the free-market model.

The disproportionate burden on the poor arising from the processes of adjustment and stabilization during economic reforms was highlighted by many critics and calls were made for "adjustment with a human face"⁷⁸. Evidence showed that poverty was rising in the "adjusting" countries, and demonstrated the tendency of the adjustment costs to fall on the most vulnerable, particularly, the poor in general, women, children, lowly paid employees, among others. In response, the World Bank argued that, the problem was not with the ESAP policies, but, with their insufficient implementation, resulting in sub-optimal outcomes and unintended consequences. In this regard, blame was shifted to the underperforming countries, including, highlighting issues of corruption, lack of good governance and among others⁷⁹.

The interface between economics and politics under neo-liberal economic reforms, raises a lot of contradictions. While economic reforms were accompanied by a push for democratic governance, in several countries in the South and in Eastern Europe, the free market economic model itself is largely exclusionary in nature, to the majority poor populations in these countries. In many such countries, the initial decision by the Governments to adopt ESAPs was not through the consultative approach.

2.3 Sustainable human development paradigm

By the late 1980s, it had become apparent that the free-market growth model was not necessarily translating into poverty and inequality reduction and general human development. Development theorists and practitioners went back to the drawing board and started re-questioning what economic growth and development was really all about. Within this context, the sustainable human development (SHD) paradigm was birthed and formalized under the United Nations, particularly by UNDP in the early 1990s.

Amartyre Sen's theory of development as *capability expansion* is the starting point of the SHD approach. The theory postulates that the purpose of development is to improve human lives through expanding the range of things that a person can do and be, that is, a person's capabilities to function, which include being healthy and well-nourished, knowledgeable and able to participate in the life of the community. Thus, development is about removing obstacles to the things that a person can do and be in life, such as lack of literacy, health care, access

76 UNCTAD, 2002.

77 Fine, 2006.

78 Cornia, Jolly and Stewart, 1987; Chang, 2003; Chang and Grabel, 2004.

79 UNCTAD, 2002.

to resources including income and employment opportunities, access to a clean and safe physical environment, human security, civil and political freedoms and general human dignity, among others.

Simply put, the SHD approach places people at the centre of development. Expansion of material output (economic growth) is a means to achieving people's well-being, not an end in itself. Most contemporary paradigms over the years have reversed this *ends-means* relationship. The human resource/capital-based approaches to development, for example, stress how investing in education and health will enhance productivity and promote economic growth. In such approaches, people are seen as an input into production for economic ends.

In contrast, the SHD approach views investment in health and education as having an intrinsic value for human lives, which should be maintained even in the absence of economic growth. In the medium to long-term, growth and human development can be made to be mutually and positively reinforcing, provided that the growth is broad-based, empowering and pro-poor. If people are not deliberately placed at the centre of development, growth is usually ruthless, rootless, futureless, voiceless and jobless⁸⁰.

The UNDP first global *Human Development Report (HDR)* of 1990 and subsequent reports have shown that important discrepancies among countries do exist between economic and human development performances. High economic performance often co-exists with poor education and health indices and vice versa, implying that economic growth can fail to be transmitted into broad-based human development. There is no automatic, direct link between human development and economic growth. The implicit idea is that policies play an important role in improving human development, that is, specific policies are needed to transform economic progress into human development. It is encouraging to note that in recent years, SADC countries registering relatively improved economic performance in terms of GNI per capita are also performing relatively better in human development.

The SHD approach is concerned with poverty and inequality in that the persistence of a high level of poverty and inequality is found unacceptable, in this age and era. The fact that unemployment, underemployment and poverty are major problems in Southern Africa brings the economic growth model itself into question. In addition, obsession with the maximization of production and of economic surpluses (economic growth), can result in adverse consequences for the environment and the survival of future generations, making it unsustainable.

The concept of sustainability gained a central place in development, leading to the landmark 2002 World Summit on Sustainable Development (WSSD), held in Johannesburg, South Africa. Sustainability does not limit itself to environmental concerns only but encompasses other governance development dimensions such as institutional, political, cultural and social governance. SHD implies the promotion of a conducive social capital, able to prevent, at the worst, violent conflicts and to build a consensus on development issues.

In contrast to the neo-classical approaches, in the SHD perspective, the role of the state should not be minimal. Instead, a legitimate, transparent, accountable, efficient State, that is, *a strong developmental State*, plays a key role in defining the development strategy of a country, based on the demands of the people and taking into account the constraints which may prevail. The State has the responsibility of placing the SHD perspective at the centre of the country's development strategy as indicated by the allocation of public resources (national budget) in this direction, to protect health and education expenditure, and advance the interests and empowerment of the poor and vulnerable.

However, despite the broad nature of the SHD (well-being) concept, an unfortunate misinterpretation has arisen over the years, namely, that human development is simply about health, education and income, the three components that were originally used in statistically defining and measuring the human development index (HDI)⁸¹. Thus, ironically, the commendable success of the HDI has also served to reinforce the narrow

80 Poverty Reduction Forum (PRF) and Institute of Development Studies (IDS), University of Zimbabwe, 2003.

81 The HDI, 2010, has three dimensions, namely: Health as measured by life expectancy at birth; Education as measured by mean years of schooling for adults aged 25 years and expected years of schooling for children of school-going age; and Living Standards as measured by GNI per capita (US\$ PPP).

interpretation of human development. Of more concern is the fact that there has been, as a result, a tendency to confine SHD strategies and ideas within the parameters of the HDI. The exclusion of participation and civil and political freedoms from the current HDI measurement continues to haunt the concept.

2.4 Post-ESAP Neo-Liberalist Economic Reforms Era (mid 1990s to 2010s) – Institutional, Pro-poor and Inclusive Growth (IG) Theories

The Post-ESAP Neo-Liberalist Economic Reforms policy frameworks emerged in the mid-1990s, drawing upon the many economic schools of thought that were critical of the free-market paradigms. These included Keynesian, Neo and New Keynesian, Structuralist, Dependency, Institutional, Socialist and Communist schools, among others. Some of these ideas were nurtured and matured in the United Nations development institutions, academia, and some NGOs⁸². Despite the growing discontent with ESAP policies during this period, the IMF continued to stress the virtues of the neo-liberalist reforms, and to blame the poor countries for their own failures⁸³.

This implies that the IMF expects countries to “do more of the same, and do it well” in order to realize economic success⁸⁴. The World Bank, in the meantime, reviewed their policies, to become more pro-poor, given the overwhelming evidence from the East Asian success associated with the distribution of income and assets (equity), mass education and state guidance of investment.

2.4.1 New institutional economics

J. Stiglitz, one of the main proponents of the new institutional economics, used his position in the World Bank to influence the post-ESAP neo-liberalist economic reforms⁸⁵. Analytical focus shifted away from the neoclassical emphasis on free-markets, to the institutional setting of economic activity and the significance of market imperfections. The post-ESAP development paradigms acknowledge that at the core of the development process lies a profound shift in social relations, the distribution of property rights, work patterns, urbanization, among others. In this regard, the IMF, for example, acknowledges the need for sound governance at the national and corporate level, effective and respected institutions, a well-established legal system, recognition of, and protection for property rights, a well-functioning financial sector, and flexible labour markets, as vital ingredients for lasting economic success⁸⁶.

According to Rodrik (2006), ‘*getting the institutions right*’ has sometimes been exaggerated to the point of becoming a slogan, like ‘*getting the prices right*’ under neo-liberalism. Nevertheless, the post-ESAP reforms remained fundamentally pro-market, having a more human face, supported by appropriate institutions and the ‘gentle steer’ of the national state and the IFIs⁸⁷. The outcome of these shifts was the expansion of the list of ESAP policy reforms by another long but imprecise list of ‘*second generation reforms*’, to create what many have termed as the post-WC or ‘*enhanced conditionalities*’.

Ironically, the expansion of the list of conditionalities has been compatible with an increase in the legitimacy of the post-ESAP policies, as they have been embraced in many developing countries, because of their added pro-poor flagship, and seeming state-friendliness.

2.4.2 The pro-poor policy debates

82 Examples include, the United Nations Development Programme (UNDP), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), the World Institute for Development Economics Research (WIDER) and other United Nations agencies.

83 Krueger, 2004.

84 Rodrik, 2006.

85 Stiglitz, 1998.

86 Krueger, 2004.

87 Marangos, 2008, and Williamson, 2007.

In the 1950s and 1960s, economists such as Simon Kuznets, argued that that as an economy develops, a natural cycle of income inequality occurs, driven by market forces which at first increase inequality, and then decrease it after a certain average income is attained. The Kuznets inverted 'U'-curve implies that as a nation undergoes industrialization, and especially the mechanization of agriculture, the centre of the nation's economy will shift to the cities. As capitalism causes a significant rural-urban inequality gap, rural populations are expected to decrease as urban populations increase, the trend being that people migrate to cities in search of higher income. Inequality is then expected to decrease when a certain level of average income is reached and the processes of industrialization, democratization and the rise of the welfare State, allow for a trickle-down of the benefits from rapid growth and thus increase per capita income.

Following the disillusionment with the trickle-down theories, debates about growth, poverty and inequality since the late 1990s have tended to focus on the concept of pro-poor growth⁸⁸. This was accompanied by the adoption of a broader concept of poverty in the IFIs, drawing upon the UNDP Human Development Index (HDI) in the early 1990s. According to Saad-Filho (2010), by the late 1990s, the mainstream was compelled to admit that poverty reduction and redistribution were not spontaneous by-products of economic growth, improvements in macroeconomic policies, or sound governance. Although all these factors were important, the purposeful role of a dedicated developmental State in addressing poverty and inequality should not be underestimated. The IFIs also had to confront claims that inequality itself was harmful because it induced civil strife, leading to political and economic instability and, in extreme cases, political violence and civil war.

There are two main approaches to defining pro-poor growth, namely, absolute and relative, and both require identification of 'the poor'⁸⁹. Absolute pro-poor growth (APPG) refers to a situation where, on average, the incomes of the poor are rising fast enough to reduce absolute poverty significantly, regardless of changes in inequality. This is typically what China experienced between 1981 and 2001, when the proportion of the population living in poverty fell from 53 per cent to just 8 per cent⁹⁰. During the same period the Gini index of income inequality rose from 28 per cent to 39 per cent, and real GDP growth rose from 5.2 per cent to 8.3 per cent, with 10 years of sustained high double-digit growth⁹¹. The package of pro-poor policies implemented in China during this period are presented in box 2.1.

Box 2.1

The package of pro-poor policies implemented in China, 1981 to 2001

- ▶ Agrarian reforms and lower taxes on farmers, notably through public procurement policies.
- ▶ Macroeconomic stability, notably avoiding inflationary shocks.
- ▶ Public spending reduced poverty but not inequality.
- ▶ The gains came from provincial/local government spending rather than central spending.
- ▶ No clear evidence that greater external trade openness brought rapid gains to the poor.

Source: World Bank, 2012, *Fighting Poverty: Findings and Lessons from China's Success*; Washington, D.C., USA.

88 Kakwani, Khandker and Son, 2004; Kakwani and Pernia, 2000; Ravallion, 2004; Ravallion and Chen, 2003; DFID, 2004; Besley and Cord, 2007; and McKinley, 2009.

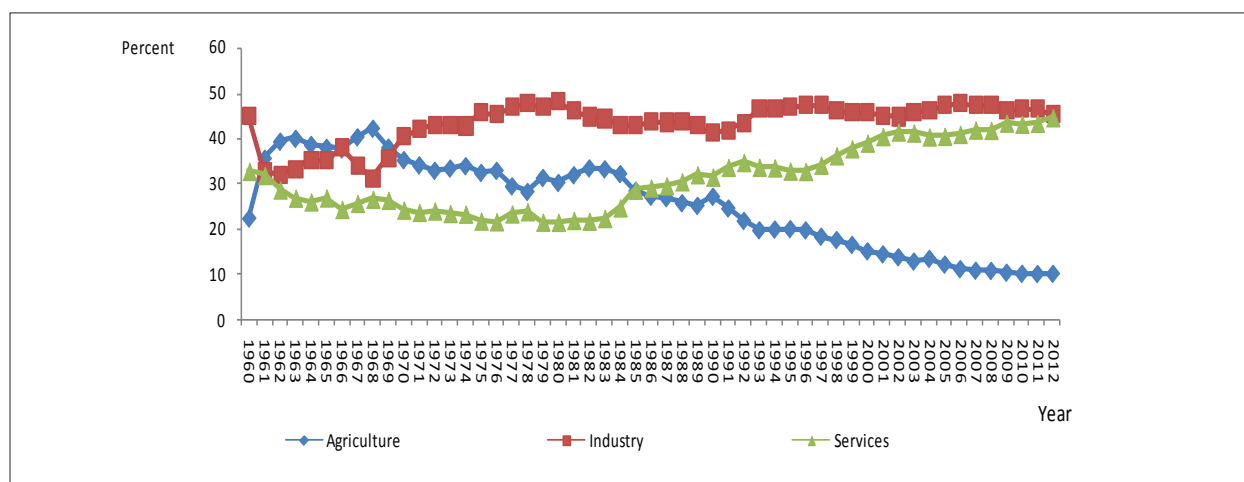
89 Using an international or national poverty line.

90 M. Ravallion, 2004, and 2012.

91 China National Bureau of Statistics, (percentages), (1983 – 10.9%; 1984 – 15.2%; 1985 – 13.5 %; 1987 – 11.6%; 1988 – 11.3%; 1992 – 14.2%; 1993 – 14.0%; 1994 – 13.1%; 1995 – 10.9%; 1996 – 10.0%).

During the five decades, 1960-2012, China's share of agriculture in real GDP decreased from a high of 40 per cent in 1963 down to 10 per cent in 2012. The share of industry rose from 33 per cent in 1961 to 40 per cent in 1970 and steadily to 45 per cent in 2012; whilst that of services increased from 32 per cent in 1961 to 45 per cent in 2012, see figure 2.1.

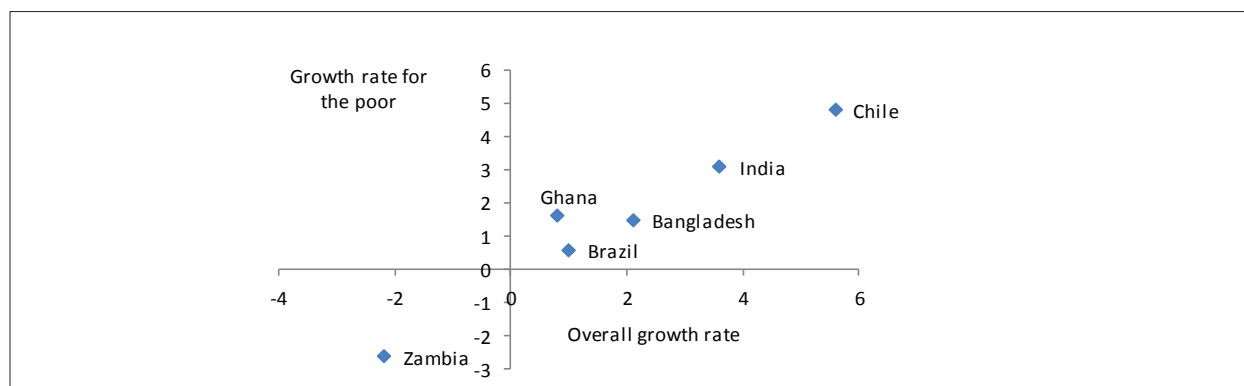
Figure II.1 Sectoral Contribution to GDP, Percentage, China, 1960-2012



Source: World Bank, *World Development Indicators*, 2014.

Relative pro-poor growth (RPPG) refers to a situation where the incomes of poor people grow faster than those of the population as a whole, and the non-poor in particular, that is to say, income inequality must fall, when the income share of the poor increases⁹². A case study of six countries conducted by the Department for International Development (DFID), United Kingdom, in 2004, with data covering the period between mid-1980s and late-1990s produced interesting results on the relationship between the overall economic growth rate and that for the poor, as well as on income inequality. See figure II.2⁹³ and table A 2.1. The variations in the country positions in relation to the 45-degree income equality line reflect differences in effects on income inequality under the various country scenarios of income growth⁹⁴.

Figure II.2 Growth rate of the poor and overall Growth Rate for Selected Countries, Mid 1980s to the Late 1990s



Source: Department for International Development (DFID) in 2004

92 N. Kakwani, 2002.

93 The figure is based on World Bank data from the Global Poverty Monitoring Database and the Dollar and Kraay dataset. The vertical axis measures the growth in income of the quintile of the population that was initially below the \$1 a day poverty line. The selection of countries was largely based on data availability. The time periods vary across countries: India (1983-97), Bangladesh (1984-2000), Chile (1987-98), Ghana (1987-97), Zambia (1991-98), and Brazil (1985-96).

94 For a country on the 45-degree line, the income of the poor rises at the same rate as that of the population as a whole, implying that inequality stays constant. A country above the line, represents a situation where the income of the poor rises faster than the overall average income, implying falling income inequality. A country below the line, depicts a situation where there is rising inequality.

The relationship between economic growth, poverty reduction and inequality, varies among countries. The case of Chile, for example, confirms that where overall incomes per capita per annum rise fast, the incomes of poor people tend to rise fast as well. However, during the period under study, Chile experienced rising income inequality. In the meantime, the case of Zambia, depicted the opposite, where both overall income per capita growth rate and income growth rate for poor were falling, with income inequality also falling (implying, equality in poverty). It is also possible that countries can have similar overall income per capita growth rate, but with different income growth rates for the poor, and differing income inequality levels. This was the case of Ghana and Brazil, with overall per capita income growth rates of 0.8 per cent and 1.0 per cent respectively, yet the poor fared better in Ghana, where their incomes grew by 1.6 per cent, with reduced inequality, than in Brazil, where the incomes of the poor grew by only 0.6 per cent, with rising inequality. On the other hand, the incomes of the poor rose faster in Ghana than in Bangladesh, whose growth rate of 2.1 per cent was three times that of Ghana. Bangladesh was also experiencing rising income inequality.

Which of these two definitions of pro-poor growth is preferable depends on a country's objectives. There is broad recognition that when poverty reduction is the objective, then the absolute definition of pro-poor growth is the most relevant. Using the absolute definition, the aim is to increase the rate of growth to achieve the greatest pace of poverty reduction⁹⁵. This can be seen in the figure by comparing Ghana with India. On the relative definition of pro-poor growth, Ghana comes out ahead of India. But the incomes of the poor grew faster in India (3.2 per cent) than in Ghana (1.6 per cent). In other words, despite its falling inequality, Ghana's slower overall growth resulted in less poverty reduction than in India, which had rising inequality but a higher overall growth rate. Thus, by focusing on inequality, the relative definition could lead to sub-optimal outcomes for both poor and non-poor households.

According to McKinley (2009), over time, the definitions of Kakwani and Ravallion have tended to converge, reaching an agreement on the ultimate goal of maximizing the reduction of poverty. For this goal, they have tended to agree that both faster growth (implying absolute improvements) and greater equity (implying relative improvements) should be priorities, with the achievement of this combination remaining primarily a pragmatic issue.

Debates around the definition of PPG were heavily influenced by concurrent exchanges about the relationship between growth and equity⁹⁶. Deininger and Olinto (2000), found that asset and not income inequality has a comparatively large negative impact on subsequent growth, and reduces the effectiveness of educational interventions. They argued that "*policymakers should be concerned more about households' access to assets and the associated opportunities than the distribution of income. policies to facilitate asset accumulation by the poor may improve long-term growth.*" Earlier on, Deininger and Squire (1998) had tested the Kuznets hypothesis using land distribution as a proxy for asset inequality and concluded that high inequality is bad for growth⁹⁷. Also, Birdsall and Londono (1997) claimed that, given asset inequality, income inequality does not improve growth outcomes.

Bigsten and Levin, (2000) failed to find any systematic link from fast growth to increasing inequality. They highlighted research evidence which showed that the level of initial income inequality is not a robust explanatory factor of growth, though high inequality in the distribution of assets, such as land, has a significantly negative effect on growth. They argued that, "*among the strategic elements that contributed to reduced poverty are: an outward-oriented strategy of export-led growth, based on labour-intensive manufacturing; agricultural and rural development, with encouragement of new technologies; investment in physical infrastructure and human capital; efficient institutions that provide the right set of incentives to farmers and entrepreneurs; and social policies to promote health, education, and social capital, as well as safety nets to protect the poor*". Countries that have been successful in terms of economic growth are also very likely to be successful in reducing poverty, growth can be substantial if the policy and institutional environment is right.

95 World Bank, 2009, p. 3

96 Bowman, 1997; Cornia, 2004; Cramer 2000; Kanbur, 1998; Niggle, 1998; and Persson and Tabellini 1994.

97 Bigsten and Levin, 2004, p. 259.

Critics of the Kuznets curve theory argue that its U-shape comes not from progression in the development of individual countries, but rather from historical differences between countries. For instance, many of the middle-income countries used in Kuznets' data set were in Latin America, a region with historically high levels of inequality. Palma (2011), highlights that, ".....among middle-income countries, Latin America and mineral-rich Southern Africa are uniquely unequal When controlling for this variable, the U-shape of the curve tends to disappear⁹⁸. Regarding the empirical evidence, based on large panels of countries or time series approaches, Fields, (2001) considers the Kuznets hypothesis refuted.

The East Asian miracle depicting the rapid economic growth of eight East Asian countries, namely, Japan, South Korea, Hong Kong, Taiwan, Singapore (Four Asian Tigers), Indonesia, Thailand, and Malaysia, between 1965 and 1990, has also been used to criticize the validity of the Kuznets curve theory. The development process in these countries, where state-led manufacturing and exports grew fast, whilst simultaneously, life expectancy increased and population levels living in absolute poverty and inequality decreased, contradicting the Kuznets curve theory. Many studies have been done to identify how the 'East Asian Miracle' was able to ensure that the benefits of rapid economic growth were distributed broadly among the population, because Kuznets' theory stated that rapid capital accumulation would lead to an initial increase in inequality.

Joseph Stiglitz argues that the 'East Asian miracle' can be explained by the immediate re-investment of initial benefits into land reform (increasing rural productivity, income, and savings), universal education (providing greater equality and what Stiglitz calls an "intellectual infrastructure" for productivity), and industrial policies that distributed income more equally through high and increasing wages and limited price increases of commodities. These factors increased the average citizen's ability to consume and invest within the economy, further contributing to economic growth.

Stiglitz highlights that the high rates of growth provided the resources to promote equality, which acted as a positive-feedback loop to support the high rates of growth. Thus, the 'East Asian Miracle' defies the Kuznets curve, which insists growth produces inequality, and that inequality is a necessity for overall growth.

2.4.3 Re-Thinking the Economic Reforms Model

In 2005, "*Economic Growth in the 1990s: Learning from a Decade of Reform*" was published by the World Bank, followed in 2008 by, "*The Growth Report: Strategies for Sustained Growth and Inclusive Development*" which was published by the World Bank-sponsored Commission on Growth and Development (CGD)⁹⁹. The two reports try to avoid offering blueprints for economic development and instead emphasize the virtues of experience, selective reforms, eclecticism, experimentation, the middle-ground and learning-by-doing. For example, the World Bank acknowledged that, " *Policymaking will need to be patient, pragmatic, and experimental*"¹⁰⁰. Box 2.2 provides a summary of the report's highlights.

98 Deininger and Squire, 1998.

99 The Commission on Growth and Development is an independent group of policy makers, business leaders, and scholars, supported by the World Bank, the Hewlett Foundation, and the Governments of Australia, Netherlands, Sweden, and the United Kingdom (CGD, 2008, p. 13.

100 CGD, 2008, p. 15.

Box 2.2

Experiences with Economic Reforms – Summary from the World Bank, 2005 and CGD, 2008 Reports

- ▶ There was an economic collapse in the transition countries of the former Soviet bloc despite IFI guidance.
- ▶ SSA countries failed to take-off despite significant policy reforms, aid and debt forgiveness.
- ▶ There were recurrent financial and balance of payments crises in the reforming countries.
- ▶ Most poor countries failed to match their growth performance in the pre-reform period.
- ▶ Rapid growth in China and India was responsible for most poverty reduction in the world during the last generation and yet these countries did not follow conventional policies.
- ▶ Economic policy is necessarily contextual.
- ▶ The reports aim to “offer a framework that should help policymakers create a growth strategy of their own”.
- ▶ “Governments in the high-growth economies were not free-market purists. They tried a variety of policies to help diversify exports or sustain competitiveness”.

Source: World Bank, 2005, “*Economic Growth in the 1990s: Learning from a Decade of Reform*”, Washington D.C., USA.

World Bank, Commission on Growth and Development (CDG), 2008, *the Growth Report: Strategies for Sustained Growth and Inclusive Development*, Washington D.C., USA.

Despite acknowledging that development is context specific, the two reports offer a fairly detailed picture of the “correct” economic policies¹⁰¹. Distributive concerns are noticeably absent from these sprawling aims, with two exceptions. First, the Commission on Growth and Development (CGD) (2008, p. 7) is concerned that Kuznets-type inequality might trigger political instability. Second, and drawing on the pro-poor debates reviewed above, the World Bank recognizes that large inequalities can hamper the translation of growth into absolute poverty reduction¹⁰². Having noted these reservations, the two reports focus entirely on absolute poverty, without any consideration of “active” distributional policies.

CGD (2008), highlights the fact that for growth to be sustainable, a range of conditions have to be in place, the first and foremost being a competitive environment (free-market) (see box 2.3).

101 These include a long and wholly conventional list of objectives, including a stable macroeconomic environment, fiscal responsibility, price stability, improving the investment climate, strengthening property rights, regulatory improvements to lower transaction costs, high savings and investment rates, transparent markets responsible for resource allocation, greater access to infrastructure, improved mobility of resources, especially labour, trade openness and strategic integration with the world economy, and capable, credible and effective Government committed to growth. (World Bank, 2007. Besley and Cord, pp. 14, 17; CGD 2008, pp. 5, 15, 21), and World Bank (2009, p. 7).

102 World Bank, 2007, Besley and Cord, p. 1.

Box 2.3

CGD package of conditions for sustainable growth

- a. Competitive environment (that is, free-market).
- b. Government commitment, specifically, “*an increasingly capable, credible, and committed Government ... [providing] strong political leadership*”.
- c. Heavy public sector investment in infrastructure and the creation of physical and human capital, including roads, ports, airports, power, telecommunications, health and education, especially for girls, which crowds-in private investment.
- d. Labour market flexibility, to foster the expansion of the formal labour market.
- e. Growth and poverty reduction depend on sustained productivity growth, and international integration through trade, investment and technology.
- f. Growth requires exchange rate management, in order to maintain export competitiveness.
- g. Capital account liberalization which can lower the cost of capital, but should be introduced gradually to avoid macroeconomic risks, with capital controls being imposed if necessary.
- h. Social safety nets are necessary, not primarily for pro-poor reasons, but for instrumental reasons: without them, “*popular support for a growth strategy will quickly erode*”. However, these safety nets should be limited, because “*in poor countries such schemes can impose significant burdens on already stretched budgets, and it is theoretically impossible to reduce poverty through redistribution in countries where average income falls below US\$ 700 per year*”.
- i. There must be political support for the reforms, since even the best technical solutions can work only if they are politically viable.

Source: World Bank, Commission on Growth and Development (CDG), 2008, *The Growth Report: Strategies for Sustained Growth and Inclusive Development*, Washington, D.C.: USA.

According to the World Bank (2007), “*A successful pro-poor growth strategy would thus need to have, at its core, measures for sustained and rapid economic growth ...*”¹⁰³. It is important to note that, the nine-point package in box 2.3, remains largely the core neo-classical economic reform package, with the important role of government and social safety nets (human face) added. The package still misses the key factor of addressing asset inequality through redistribution (of land, for example), as a foundational condition for pro-poor growth, particularly in Latin America and Southern Africa.

Rodrik (2006) explained that, “*Policy reforms of the (Augmented) Washington Consensus type are ineffective because there is nothing that ensures that they are closely targeted on what may be the most important constraints blocking economic growth. The trick is to find those areas where reform will yield the greatest return. Otherwise, policymakers are condemned to a spray-gun approach, that is, they shoot their reform gun on as many potential targets as possible, hoping that some will turn out to be the ones they are really after. A successful growth strategy, by contrast, begins by identifying the most binding constraints*”.

103 World Bank 2007, Besley and Cord, p. 19.

2.4.4 Inclusive Growth (IG) paradigm

The late 2000s, witnessed the birth of the inclusive growth (IG) paradigm, from a combination of pro-poor growth debates outcomes and the new, but firmly neoclassical growth framework developed by the World Bank and its associates. It is acknowledged that poverty and inequality are mutually reinforcing, and that IG is the best way to address both of them simultaneously. IG stresses the importance of growth for poverty reduction, admits that a wide range of policy combinations can deliver these outcomes, and aims to select the appropriate policies through “growth diagnostics”. Inclusive growth refers both to the pace and pattern of growth, which are considered interlinked, and therefore in need to be addressed together ... Traditionally, poverty and growth analyses have been done separately. However, according to the World Bank, 2009, encouraging broad-based and inclusive growth does not imply a return to government-sponsored industrial policies, but instead puts the emphasis on policies that remove constraints to growth and create a level playing field for investment.

In an attempt to answer the question “Inclusive growth: merely desirable or essential?” Thomas, (2011) (World Bank), argues that, “*the concern for inclusive growth, or a growth pattern that includes all income strata, is not new. What is different is the urgency for achieving greater inclusiveness, and a nascent realization that without it sustained growth will not be possible in the future*”. It will be increasingly difficult to raise economic growth without a larger share of the population participating in that process. Inclusiveness means levelling the playing field, getting rid of special enticement for lopsided development, and making the effort to engage every segment of the population, (including women, youth, people living with disability, among others).

There is a crucial connection between income inequality and poverty, in the sense that, empirically, where growth was more inclusive, poverty was reduced more sharply. The East Asia and Pacific region reduced poverty from 78 per cent in 1980 to 17 per cent around 2005. Globally, a one percentage point growth in income is associated broadly with a decline in poverty by about 2.4 percentage points¹⁰⁴. In addition, inclusive growth can promote stability and peace. Sociopolitical instability and violence have been seen to follow episodes of highly uneven growth, either from absolute deprivation for some people or from a sense of unfairness when economic gains are shared very unequally.

Interestingly, highly unequal societies such as Brazil and Mexico have become more equal in the past two decades, while relatively more equal ones such as China and India have become more unequal, signalling a degree of convergence in inequality across Asia and Latin America.

For the World Bank, IG is broader than pro-poor growth, as highlighted:

“Rapid ... growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be broad-based across sectors, and inclusive of the large part of the country’s labour force ... [T]he [relative] pro-poor approach is mainly interested in the welfare of the poor while inclusive growth is concerned with opportunities for the majority of the labour force, poor and middle-class alike”¹⁰⁵.

Inclusiveness is understood as providing equality of opportunity “*in terms of access to markets, resources, and unbiased regulatory environment for businesses and individuals*”¹⁰⁶. Equality of access is instrumentally valuable, since “systematic inequality of opportunity [is] “toxic” as it will derail the growth process through political channels or conflict”.

Not surprisingly, “*The inclusive growth definition is in line with the absolute definition of pro-poor growth, but not the relative definition. Under the absolute definition, growth is ... pro-poor as long as poor people benefit in absolute terms ... In contrast, in the relative definition, growth is “pro-poor” if and only if ... inequality declines. However, while absolute pro-poor growth can be the result of direct income redistribution schemes, for growth to be inclusive,*

104 V. Thomas, World Bank, 2011.

105 World Bank, 2009, p. 1.

106 World Bank, 2009, p. 2.

*productivity must be improved and new employment opportunities created. In short, inclusive growth is about raising the pace of growth and enlarging the size of the economy, while levelling the playing field for investment and increasing productive employment opportunities ... [IG] focuses on productive employment rather than income redistribution ... IG is typically fuelled by market-driven sources of growth with the Government playing a facilitating role*¹⁰⁷.

The World Bank's shift towards growth diagnostics and the identification of constraints (to inclusive growth), which should be addressed sequentially, replicates the debates about the "order of liberalization" in the 1980s that took place after the collapse of the first wave of radical reforms in Latin America, and the controversies about the speed of transition/reforms in the former Soviet bloc and Southern Africa. The IG paradigm is different in two respects: first, the "correct" policies are, drawn up inductively from successful growth experiences around the world, in an effort to carefully incorporate selected insights from the developmental-state debates. Despite this reversal towards empiricism, IG policies are essentially identical to the Post-Washington Consensus, plus a government-led push for growth. Inequality issues are still underplayed in the IG model.

There seem to be four steps countries can pursue for greater inclusion, namely:

- Focusing on the access to high quality, relevant (skill formation) education, at basic, secondary and tertiary levels, including addressing high unemployment among educated populations;
- Paying special attention to areas with high labour intensity such as agriculture, to ensure improved agricultural productivity and key linkages with agribusiness; Channelling remittances into productive investment can help small businesses to flourish and stimulate job creation, leading to more inclusive growth; and
- A State that is accountable to all its citizens, including efficient social protection systems¹⁰⁸.

Box 2.4 summarizes the main characteristics of IG approaches.

107 World Bank, 2009, pp. 3-4.

108 V. Thomas, World Bank, 2011.

What is Inclusive Growth?

Inclusive growth:

- Focuses on economic growth which is a necessary and crucial condition for poverty reduction.
- Adopts a long term perspective and is concerned with sustained growth.

-For growth to be sustained in the long run, it should be broad-based across sectors. Issues of structural transformation for economic diversification therefore take front stage. Some countries may be exceptions and continue to specialize as they develop due to their specific conditions (for example, small States).

-It should also be inclusive of the large part of the country's labour force, where inclusiveness refers to equality of opportunity in terms of access to markets, resources and unbiased regulatory environments for businesses and individuals.

- ▶ Focuses on both the pace and pattern of growth. How growth is generated is critical for accelerating poverty reduction, and any IG strategies must be tailored to country-specific circumstances.
- ▶ Focuses on productive employment rather than income redistribution. Hence, the focus is not only on employment growth but also on productivity growth.
- ▶ Has not only the firm, but also the individual as the subject of analysis.
- ▶ Is in line with the absolute definition of pro-poor growth, not the relative one.
- ▶ Is not defined in terms of specific targets such as employment generation or income distribution. These are potential outcomes, not specific goals.
- ▶ Is typically fuelled by market-driven sources of growth with the government playing a facilitating role.

Source: World Bank, 2009, "What is Inclusive Growth?" Washington, D.C., USA.

However, there are several limitations of the IG paradigm identified to date. Critical assessment of IG demonstrates that it belongs squarely within the mainstream neo-liberal tradition, whose policy prescriptions have been successful only exceptionally. For example, IG assumes that economic growth is the most powerful tool for elimination of poverty, disregarding the structural inequalities which can create poverty even as the economy expands. Clearly, if income and productivity growth are sufficiently rapid, most people benefit even if inequality rises, as was the case in Brazil and Mexico from the 1950s to the 1970s, the Gulf economies between the early 1970s and the early 1980s, and in China since the 1980s. However, if GDP growth is insufficient or erratic, this may lead to the stagnation or even decline of the welfare of large sections of the population, witnessed in Russia and other former Soviet Union countries in the 1990s, and in most Middle East, African and poor Latin American countries in the 1980s and early 1990s.

Although the World Bank increasingly recognizes the significance of asset ownership in its definitions of poverty, IG ignores the role of asset transfers in its own selected experiences of growth, including the radical land reforms in China, Japan, Republic of Korea and Taiwan Province of China, and the distributive implications of resource rents in Botswana and Oman. IG largely underplays the numerous episodes of rapid and sustained growth

before the “reforms” and neoliberal “globalization”, for example, in Brazil, China, India, Mexico, Norway, Poland, South Africa and the Russian Federation, not to speak of heavily selective “global integration” in the Republic of Korea and Taiwan Province of China until the mid-1980s.

Under IG, countries are assumed to fail largely because they do not implement the “correct” policies. However, it is equally plausible that countries could fail because their preferred policies could not be implemented due to other problems such as currency or balance-of-payments crises, insufficient aid, lack of market access, domestic or external debt overhang, and overburdening conditionalities. Naturally, conditionality is the enemy of experimentation, since it weakens contextual links with economic policies. Failure victims are likely required to try harder, instead of the policy package being re-visited.

In addition, IG does not address the limitations of previous neo-liberal economic reform strategies, including the contradictions between policy legitimacy, ownership and participation, the cost of adjustment, and the absence of self-correcting mechanisms in such policy packages. Social safety nets in IG, although primarily instrumental, often encounter serious financial constraints, particularly, in poor implementing countries. In fact, re-distribution is purely incidental to IG, as the focus of this strategy is entirely on growth and on the potential welfare gains for the poor which might ensue from high growth.

2.5 Conclusion

The limitations and insufficiencies of the mainstream classical and neo-classical, liberal and neo-liberal, among other paradigms including IG suggest that it is essential to develop a new generation of broad-based development strategies, responding to the imperatives of equity including asset redistribution (means of production), economic growth, poverty reduction, sustainability, mass employment, social inclusion, social justice, satisfaction of basic needs, provision of welfare for the vast majority, and good governance, among others. This task of offering an alternative framework for macroeconomic policy in developing countries, is not only necessary but is a difficult one. Yet its time has certainly come, particularly for Southern African and Latin American countries which have a special historical context underlying high asset and income inequalities that are stifling economic growth and sustainable human development.

CHAPTER III

HISTORICAL AND CONTEMPORARY BASIS OF GROWTH, INEQUALITY AND POVERTY TRENDS AND EXPERIENCES IN SOUTHERN AFRICA

3.1 Introduction

The current patterns of economic, social and political development in Southern Africa were largely imprinted by their history and political economy since the advent of colonialism largely in the late nineteenth century. Colonial rule in Southern Africa was implemented in various forms for many years, from the most pervasive White settler/colonial rule in South Africa, Zimbabwe, Namibia; to moderate colonial rule in the Democratic Republic of the Congo (DRC), Tanzania, Seychelles, Mauritius, and Madagascar; to colonial occupation in Angola and Mozambique; to a variety of colonial protectorates in Botswana, Lesotho, Malawi, Swaziland and Zambia¹⁰⁹. This resulted in the region inheriting a special type of social formation in which the capitalist sector of the economy was grafted onto pre-capitalist forms of production in a distorted manner¹¹⁰. This kind of capitalism did not transform the economy as a whole but only a small formal enclave sector, thus failing to produce wider dynamic growth and development. This small, formal enclave economy was totally dependent on external factors such as markets and capital from Europe, and this dependency is still visible to date.

The incomplete subordination of non-capitalist forms of production by capitalism is manifested in pervasive economic and social dualism in SADC countries today. Major segments of the labour force co-exist in mutually beneficial interrelation. There is a minority engaged in the formal sector propelled by the capitalist imperative for accumulation, and a majority trapped in the non-formal sector (subsistence agriculture and informal activities) under non-capitalist forms of production characterized by low productivity economic pursuits that are static from the point of accumulation.

Generally, in Southern Africa, the formal sector accounts for less than 20 per cent of the labour force, with the exception of South Africa, where it is around 45 per cent. In general, there are high levels of unemployment and under-employment in both the formal and non-formal sectors.

The informal sector, characterized by easy entry and exit due to non-registration, and driven by self-employment activities, is dependent on the resourcefulness of individuals. It has links to both the formal and rural subsistence agricultural sectors. About a third of the labour force participates in the informal sector, mostly as own-account workers. The rural subsistence agricultural sector is the traditional or pre-capitalist sector and is highly differentiated. It has a number of linkages to the formal and informal sectors and accounts for about 50 per cent of the labour force in SADC.

The dualism and its inherent lack of socioeconomic development is perpetuated by a number of factors, including: *external dependency*, in capital flows, technology, trade, information and skills, which maintains the enclave economy; *distributive inefficiencies*, resulting in the non-formal sectors having unequal access to productive assets, including land and markets; and *allocative inefficiencies*, which make the formal sector unnecessarily capital and technology intensive, thus reducing its requirements for labour. Meanwhile, the non-formal sectors lack capital and technology, thus undermining their productivity.

In addition, *technical inefficiencies* result in low technological capabilities, thus limiting the establishment of value chains in the economy. Thus, levels of productivity of labour, capital and land tend to be low compared

109 Angola (1655-1975); Botswana (1885-1966); Democratic Republic of the Congo (DRC) (1855-1960); Lesotho (1868-1966); Madagascar (1894-1960); Mauritius (1638-1968); Malawi (1891-1964); Mozambique (1505-1975); Namibia (1884-1990); Seychelles (1756 – 1976); South Africa (1652-1994); Swaziland (1906-1968); Tanzania (1880-1961); Zambia (1888-1964) ; Zimbabwe (1888-1980).

110 G. Mhone, 1997; 2004.

to optimal methods of production. All these constitute the structural rigidities that underlie the economies of Southern Africa, constraining mechanisms of dynamic growth and development, including equality and poverty reduction.

Furthermore, Southern Africa's extractive industries have often fuelled inequality and poverty. They have deepened enclave developments as the extractive zones became the centre of government and private sector attention but not as the basis of diversification. Thus, while the Southern Africa is well endowed with oil, copper, gold, diamonds, chrome, gas, bauxite, fisheries, platinum, unemployment is increasing, poverty is deepening and inequality between and within countries is widening.

In addition to the challenges of dualism arising from colonialism, the development strategy and agenda of Southern Africa in the post-colonial period has until recently been prescribed from outside. According to UNECA (2011), soon after independence, the fragile emerging African countries were bombarded with a '*litany*' of development strategies as follows: commercialization through cash cropping (before independence up to 1979); community development, integrated rural development and participatory development (1955–1973); regional integration for industry and national self-sufficiency for food (1970–1979); basic human needs (1970–1979); regional integration, food-first (1973–1989); supply shifters in agriculture (1973–1989); first-generation structural adjustment programmes on demand management (1980–1984); second-generation SAPs on equity with growth (1985–1999); and sustainable development (1990 to the present).

Ultimately, the Poverty Reduction Strategy Papers (PRSPs), in some cases, three generations of them, were introduced to replace the SAPs, alongside other externally generated development initiatives. The proliferation of such strategies derailed the structural transformation efforts of the emerging African States. In this regard, Southern Africa's case of pervasive outside influences on basic development strategy remains unparalleled in the world in modern times¹¹¹.

In summary, Southern Africa has gone through a five-stage full cycle in development:

- a. Colonial dualism, designed to serve the minority;
- b. Populist independence movements, desiring to service the majority, yet the inherited dual economies could not deliver on this agenda;
- c. The neo-liberal approaches to reform and liberalize the economies, which were cosmetic/artificial reforms instead of the required structural reforms, and generally economic reforms did not deliver on the promised growth to ensure 'trickle down';
- d. SHD paradigm and the MDGs, with the latter largely a social agenda that could have been better designed; and
- e. Rethinking the economic model for Southern Africa, going back to changing the economic structures from dualism to broad-based, pro-poor, inclusive, gender-sensitive fundamentals, in order to ensure sustainable growth with equity and poverty eradication.

3.2 Colonial dualism, grafted capitalism and the enclave economy

Of great significance for Southern African societies in their experience with dualism was the massive alienation of the key factors of production, particularly land, from indigenous people. This was compounded by the subsequent imposition of specific restrictions on indigenous commercial agricultural production, while White

111 R. Delgado, 1995.

settler farmers were subsidized by the colonial State¹¹². Very often, it suited colonial administrations to maintain some type of 'traditional' legal institutions and authorities through which to rule. Transformation to a more 'modern' alternative would have been more costly in both financial terms and unforeseen and undesirable outcomes for the colonizers.

Thus, indigenous pressure for 'modernization' in these respects were often actively discouraged or prohibited. Overall, long-term or permanent urbanization was discouraged as it was perceived to be both politically and economically disadvantageous for the colonial State. This led to restrictive housing and labour policies which reached their peak in South Africa, Namibia and Zimbabwe.

Agriculture and rural development

The different forms of colonial penetration in Southern African countries resulted in diverse land and agriculture sector policies. In addition, the divergent ecological environments in the various countries determined the different types of land use, cropping and livestock programmes. Generally, during the colonial period, the majority indigenous populations were pushed to the marginal, less productive, dry ecological regions, with little or no infrastructure, through the use of various legal instruments. The racially determined ownership of land was entrenched in the early twentieth century by legislation such as the Native Land Act of 1913 in South Africa, the Land Settlement Proclamation of 1920 in Namibia, as well as the Land Apportionment Act of 1930 and the Land Tenure Act of 1969, in Zimbabwe.

Although the scale of land dispossession varied, there was a common experience of land expropriation in Southern Africa. The variations in the 'land question' have resulted in the different types and scopes of land reforms and agricultural policies implemented in the different countries. Within this context, each country has invariably had to grapple with increased congestion on land and inequitable patterns of ownership, including implementing land redistribution to the land hungry or landless and revisiting systems of land tenure.

In the most pervasive White settler/colonial rule in South Africa, Zimbabwe, and Namibia, the land question assumed a more acute racial dimension. Comparatively speaking, there was a larger scale of land expropriation from the indigenous population in these countries. In South Africa, the expropriation process had begun soon after the arrival of the first batch of colonists in 1652, while in Namibia and Zimbabwe it occurred much later in the closing decade of the nineteenth century. In Namibia and Zimbabwe, half of the arable land was set aside for White farmers, while in South Africa about 87 per cent of the total land was transferred to White ownership¹¹³. In other countries such as Malawi and Zambia, there was no large-scale dispossession of land to generate a contentious land question, and in Botswana, Lesotho, Swaziland and Mozambique, the land question did not take on the acute racial dimension that was the case with their neighbours.

Further compounding the low productivity trap in the rural subsistence agriculture sector is reliance on rain-fed agriculture, which is vulnerable to periodic droughts. According to UNECA (2003), the rural population density (in terms of persons per square kilometre) in 2001 ranged from 116 in Zambia to 288 in Angola and from 419 in Malawi to 451 in Lesotho¹¹⁴. It is therefore not surprising that there has been a trend towards land shortage and landlessness in countries such as South Africa, Zimbabwe, Lesotho, Malawi, and Swaziland. Overall, there has been a growing gap between the amount and quality of land available in the region and the size of the population that has been forced to eke out a living from it without adequate institutional support. This has resulted in low growth and general food insecurity, weakening most economies in the region.

112 R. Palmer and N. Parsons, 1977.

113 Adams F., Werner W., and P. Vale, 1990, and F. Adams, 2003.

114 The rural population densities (in terms of persons per square kilometre) for the other SADC countries in 2001 were Botswana – 231; Mauritius – 697; Mozambique – 308; Namibia – 149; South Africa – 125; Swaziland – 432; and Zimbabwe 254.

Mining

Southern African region is endowed with vast deposits of minerals and mining plays a crucial role in the economies of the region. Major minerals in the region include chromium, coal, cobalt, copper, diamonds, gold, iron, manganese, nickel, phosphates, platinum group-metals; bauxite, semi-precious stones and titanium, among others. Prior to 1815, when the British finally supplanted the Dutch as the colonial administrators of the Cape of Good Hope, economic development in Southern Africa was largely restricted to the area surrounding the harbour at Cape Town. The discovery of diamonds and gold in South Africa was to dramatically change the society and economy. In fact, the consequences of these and other mineral discoveries of the late nineteenth century were revolutionary for both the economy and society throughout the whole of Southern Africa.

Foreign capital flooded both to the Cape and to the Witwatersrand, accompanied by large numbers of skilled migrants, speculators, traders, contractual labourers and fortune-seekers from all over the world. Subsequently, conglomerates were established to finance the huge investment needed to mine the rich diamond deposits and deeper gold ores. The new settlements became the nuclei of the major urban centres of the future. Railway systems became necessary for supplying mines and the mining populations with machinery and consumer goods that were imported from abroad. This was of particular importance for the subsequent pattern of development throughout Southern Africa. Together with roads, which generally paralleled them, the railways naturally proved to be, at one and the same time, both the great facilitators and the great constrainers of the patterns of urban settlement and economic development. Difficult mining conditions, combined with a shortage of capital equipment and skilled labour, created an unprecedented demand for unskilled labour.

The political system was co-opted by mining corporations in furtherance of the industry's objective, to ensure a constant supply of cheap Black labour from all the regions of Southern Africa. The migrant labour system developed to serve the interest of the mining conglomerates and the African way of life was destroyed by this 'proletarianization' of large numbers of African males who were drawn into mining and other industries that erupted to serve the industry. From the outset of the new order, the distribution of ownership of economic assets and political power was highly unequal. Those who had access to mineral rights were almost exclusively White, thus, laying the economic, social and political inequality foundations.

Thus, from the onset, the spatial distribution of economic activities conformed to the pattern determined largely by the geographical locations of mineral resource endowments and discoveries, and by the radial pattern of transport routes from the coast to the interior.

The mineral wealth in Southern Africa was not confined to the Kimberly and Witwatersrand areas. Valuable mineral deposits were soon also found elsewhere in the region. Around the turn of the century extensive coal deposits were found on the Southern Rhodesia (Zimbabwe) and copper deposits were found on the Northern Rhodesian (Zambian) side of the already well-established Katanga copper belt in the southern Belgian Congo (DRC). These new mineral discoveries necessitated extension of the railway system further into the interior. As highlighted in Box 3.1, in the case of Zimbabwe, the Rudd Concession, signed on 30 October 1888, gave exclusive mining rights to Cecil John Rhodes. By the turn of the nineteenth century, the line from Kimberly had already been extended to Bulawayo in Zimbabwe, and a separate line had been built from the port of Beira in Mozambique.

Manufacturing

As earlier highlighted, unlike the original capitalist mode of production, often referred to as 'endogenous' capitalism, the post-colonial capitalist mode of production or 'grafted capitalism' lacked the historical roots of the cradle of capitalism, that is, feudalism. On the contrary, grafted capitalism, typical of Southern African economies, integrated its enclave modern formal sector into the world economy, while over 70 per cent of the national economy is left behind in the non-formal sectors. The manufacturing sector in the region was birthed and sustained within this context to date.

In addition, the manufacturing sector in Southern Africa was agro-based from its inception in the colonial times, supporting forward and backward linkages between agriculture (mainly, large scale commercial farming sector) and manufacturing. Forward linkages are established through the supply of raw materials by the agricultural sector to the manufacturing sector, whilst backward linkages, include the purchase of goods such as fertilizers, chemicals, and implements by the agricultural sector from the manufacturing sector. In Zimbabwe, for example, about 60 per cent of the raw materials required by the manufacturing sector were provided by agriculture, whilst 40 per cent of the manufacturing sector output was consumed by the agricultural sector. In South Africa 70 per cent of agricultural output is used as intermediate products in the manufacturing sector¹¹⁵.

Within the 'periphery', grafted capitalism's relationships are characterized by minimal internal linkages within the country and between the countries in this category, while all the countries in this group are characterized by dependence relationships with the developed countries of the 'centre' or endogenous capitalism. This is why many sub-sectors of manufacturing in Southern Africa, for example, metals industries and food processing, hardly export anything substantial to the Organization for Economic Co-operation and Development (OECD) countries, except for a few textiles and garments under special preferential arrangements such as Generalized Systems of Preference (GSPs), African-Caribbean and the Pacific/European Union (ACP/EU) and the USA's African Growth and Opportunity Act (AGOA), 2000. Even in the case of South Africa, over 70 per cent of her value added manufactured exports are destined to African countries, namely motor vehicles and parts, mining equipment and machinery, food and chemical products. The same pattern is followed by Zimbabwe and Kenya, whose few manufactured exports can only be absorbed by countries in the region. The exception to this pattern is Mauritius, which has substantial manufactured textile and garments exports to the north.

Education

Education has been viewed as a source and reflection of social and economic inequality, both because of its recognized value as a key component of human development and because of its contribution to individual earnings and national economic development¹¹⁶. The colonial period saw the introduction of European type education systems into Southern Africa. While indigenous forms of education, mainly delivered orally and through demonstration and practice continued to be important in African societies long after the establishment of colonial rule, their legitimacy and importance were not officially recognized and were often undervalued and looked at with contempt by colonial regimes.

European models of education were initially introduced by missionaries who wanted to convert indigenous populations to Christianity and spread 'European civilization'. Missionaries established some mission schools throughout the region, providing a relatively high level of academic education at primary and secondary levels and even training clergymen, teachers, and nurses. Some former students of these schools took up junior positions in the civil service and a few found their way into professions such as law or journalism, sometimes after further study abroad. The majority of mission village primary schools were very poorly resourced and only gave children the basics of literacy and numeracy, initially up to the current equivalent of Grade 3 or Grade 5, as well as religious instruction.¹¹⁷

In some colonies, colonial regimes subsidized mission schools and also established a small number of state schools for Africans. However, overall the resources allocated to schools for Africans were far inferior to those allocated to the schools for the children of the White settlers¹¹⁸. During the colonial rule in many Southern African countries such as Namibia, South Africa, Mozambique and Zimbabwe, very few women had access to education. Consequently, women's literacy is much lower compared to that of men. However, despite all this, the education of most Africans was completely neglected in most Southern African States and the vast majority of African children did not attend any school at all.

115 Department of Agriculture, Forestry and Fisheries, South Africa, 2013.

116 Lloyd, C.B. and Hewett, P.C. 2009.

117 K.B. Hartshorne, 1992.

118 Statement by the Executive of the South African Native Congress, reprinted in Karis and Carter 1972, p.19.

Most schools gave African children some of the skills required by low-level labourers in the colonial economies without providing higher-level skills training. In settler States where independence took longer to achieve, for example, South Africa, Zimbabwe, and Namibia, in the last pre-independence decades, Governments took firm measures to put the education of all Africans under state control, under the 'bottleneck' system. The Bantu Education system in South Africa, for example, became a system of mass education in order to provide low-skilled workers with basic levels of education to improve their effectiveness as workers in an industrializing economy. In explaining the Government's new education policy as outlined in the 1953 Bantu Education Act to the South African Parliament, the then Minister of Native Affairs, Dr. Hendrik F. Verwoed stated:

"There is no space for him (the 'Native') in the European Community above certain forms of labour. For this reason it is of no avail for him to receive training which has its aim in the absorption of the European Community, where he cannot be absorbed. Until now he has been subjected to a school system which drew him away from his community and misled him by showing him the greener pastures of European Society where he is not allowed to graze"¹¹⁹.

While earlier forms of European education, such as that provided by missionaries, were meant to further the aims of colonial regimes and strengthen colonial subjugation, they sometimes had effects which were unintended by their designers. Many of the leaders of the anti-colonial movements were in fact products of the more prestigious mission schools. To achieve their aims of independence, these leaders mobilized support from the masses of poor peasants and workers who suffered from colonial rule and who also yearned for the removal of foreign domination. However, in recognition of the importance of education, the newly independent Southern African States, almost without exception, prioritized mass education systems in their plans for national development.

Health

According to the Council for the Development of Social Science Research in Africa (CODESRIA) (2005), there were sharp differences between the levels and quality of urban and rural health services, with the former being generally better resourced than the latter. Furthermore, public investments in the development of 'traditional' medicine patronized by a large proportion of the populace was almost non-existent as all attention went to the development of a 'modern' medical sector structured along the dominant institutional approach introduced during the colonial period.

The difficulties encountered in sustaining equitable access were exacerbated by policy inconsistencies and incoherencies, including the long-term neglect of primary health care, preventive health education, and the creative interfacing of 'modern' and 'traditional' health services. These policy deficiencies accounted for the shortfalls and shortcomings in the allocation of resources for health care. They also affected the priorities set for the treatment of different diseases. Finally, the issue of equitable access to health care is linked to the broader strategies of social policy pursued, including special measures designed to eradicate poverty and promote welfare.

Labour markets

As earlier noted, the capitalist, formal sector of the economy which was essentially grafted onto pre-capitalist forms of production such as subsistence agriculture, drew labour from the non-formal sector of the economy (rural subsistence agriculture and informal sectors), but contributed very little to its transformation. Most of the population remained outside the colonial, capitalist relations of production within the framework of enclave economies¹²⁰. The development of the mining industry in Southern Africa stimulated the commercialization of agriculture, in order to feed the huge amount of African labourers of the mining industry.

As a short-term solution to the shortage of labour, the companies started with the imposition of rents and other payments through the setting up of semi-feudal relations with the African tenants, in order to facilitate labour

119 P. Kallaway, 2002.

120 G. Mhone, 2000.

recruiting and to boost its own revenue. For example, in 1902, 69 per cent of the total revenue of the British South Africa Company (BSAC) relied on this source¹²¹. At the beginning of the colonization, African tenants were allowed to stay on expropriated land because the dominant capitalist system relied upon the African supply of produce and any reduction would have seriously hit the mining interests.

Some attempts were made to reduce the shortage of labour by importing indentured labour from southern China. Although by the turn of the century thousands of Africans were working in the Southern African mines, between 1903 and 1905 the South African Native Affairs Commission estimated a shortage of 300 000 labourers each year to match the necessary growth of the production forces and affirmed further that “*natives looked for a wage employment only as a mere supplement to their subsistence means*”¹²².

The model of absorption of the surplus in the peasant society included, as a result of this interaction, new patterns of resource allocation towards consumption of goods such as agricultural implements, coffee, sugar, clothes, paraffin, among others, and this compelled the Africans to seek wage employment. The contradiction between the tendency of the colonial masters to keep down wages and the unwillingness of the African labourers to work in the mines, increased the use of compulsory, legalized, coercive means of involving the Africans in wage employment.

To avoid competition and reduce costs, the companies tried to impose a policy of collaborative monopsony (only one buyer) to control the labour market. Thus, the South African and Rhodesian companies constituted, through their Chambers of the Mines respectively, the Witwatersrand Native Labour Association (WENELA) and the Rhodesian Native Labour Bureau (RNLB). The former, constituted in 1896, was to be the sole recruiter outside the border of Southern Africa – for East Africa, including the Portuguese colonies and British High Commissioner territories. Articulation of the system of recruitment was extremely widespread, as “its fingers point into Northern Rhodesia (Zambia), Nyasaland (Malawi), far into Tanganyika (Tanzania), into all the High Commissioner territories; Bechuanaland (Botswana), Basutoland (Lesotho) and Swaziland”¹²³.

However, both these agencies of recruitment did not solve the problem of shortage of labour. A policy that aimed at separating the African peasants from their means of subsistence, was implemented. The means used to mobilize labour force were numerous and included imposition of taxes; restrictions on access to land; forms of indebtedness linked to working in mines, plantations or estates; forms of forced labour’ *chibaro*’, as in the Portuguese colonies; and legal discrimination in the allocation of provisions and grants for implements, seeds and agrarian assistance only to the White capitalist agriculture; and a discriminatory price policy for the sale of African produce; among others. This in turn disrupted the competitive position of the African peasantry in relation to the emerging White capitalist agriculture.

A plethora of draconian State regulations were imposed on African peasantries throughout all the regional system in the early twentieth century. For example, in South Africa, the Land Act, 1913; Native Taxation and Development Act, 1922; the Native Urban Areas Act, 1923; the Mines and Work Act, 1911; the Industrial Conciliation Act, 1926¹²⁴. These regulations all reflected a racial division of labour in the mines as well as in the urban areas.

Through this legal framework, the native lands were reduced to becoming huge reserves of labour for the grafted capitalism. This pattern of control of the labour force in South Africa was soon extended throughout the region. Examples include the Land Apportionment Act, 1931 in Rhodesia (Zimbabwe); the Decree of August 1911 and January 1912 in Katanga (DRC); the 1897 *Regulamento* in Portuguese colonies which prescribed compulsory labour service and the Regulations of 1906-1907 in South-West Africa (Namibia), among others.

121 M. Burawoy, 1985.

122 W. G. Martin, I. Wallerstein, and T. Dickinson, 1982.

123 B. Davidson, 1952, in M. B. Magubane, 1979.

124 C. Bundy, 1991, in A.M. Gentili, 1993.

After this process, Mozambique became one of the largest reservoirs of mineworkers supplying 70 per cent of the total labour force in the South African mines in 1906¹²⁵. This process on one hand increased specialization and a more articulated division of labour in the White capitalist agriculture, and, on the other hand, it undermined the African self-sufficient political and economic organization. This colonial background inculcated the current characteristics of the African labour force in the region, who get educated to become employees and not employers/entrepreneurs.

Even though the policies adopted in the different countries at various times affected people in different ways, migrant labour became a common feature of the regional economic system. The migrant labourers never lost contact with their areas of origin, where they came back for periods of rest, refreshment, injury or when they were no longer able to work. The result was a process of 'semi-proletarianization' in which the capitalists had to afford only the cost of maintenance of the labour force (one person living wage in town or in a compound), while they outsourced the costs of renewal of the labour force on the rural household (on the labour of the women). It meant that employers could pay wages under the minimum standard by virtue of the security of the role of the rural household in the social reproduction of the labour force.

While all this repression was taking place in the African male labour force, the females were largely left behind in the rural subsistence agricultural sector, with a few migrating to urban areas to work as private domestic workers or as prostitutes for the male migrants. A few women who passed through the colonial 'bottleneck' education system worked as teachers, nurses or office secretaries/typists/personal assistants. This socioeconomic double discrimination against African women (both as Blacks and as women) made them more vulnerable to poverty and later to the HIV virus when it hit in the mid-1980s. As Palmer and Parson, (1983), the authors of *Roots of Rural Poverty*, put it:

"Elements of the pre-capitalist system were deliberately permitted to survive under capitalism... between the first decade of twentieth century in the south and the third decade in the north of Southern Africa, there were created variations of the 'dual economy' which kept African families split but constantly moving between rural and urban 'reserves' or settler estates".

The origins of many labour movements in the region can be traced back to their countries' liberation struggle for national independence. In several cases, organized workers were one of the most visible and effective social forces advocating for independence and social change. The roles played by the National Union of Namibian Workers (NUNW) and the Congress of South African Trade Unions (COSATU), among others, are instructive in this regard. The close links between liberation and labour movements in parts of Southern Africa are still visible today, particularly in those countries that attained their independence in recent decades, such as Namibia and South Africa.

Informal sector

The informal sector was well-established by the 1960s in Southern African cities. According to O'Connor (1983), in terms of its key characteristics, this type of employment was part and parcel of pre-capitalist cities throughout the world and is not new. However, its scale and importance as a source of livelihoods was different, due to the small numbers involved and the fact that rapid urbanization was occurring in many poor countries of the world without the rapid growth in formal sector manufacturing that had occurred in Europe and North America in the early stages of their rapid urbanization. The restrictive segregationist legislation surrounding African urbanization, housing and employment in most Southern African countries and the apartheid legislation in South Africa in particular, affected rates of in-migration and the types of work possible. It also strongly discouraged self-employment in the informal sector.

The informal sector was denoted as backward, traditional, with low productivity, low technology, low incomes, low capital use, and low levels of investment. The sector was also typified as having unregistered micro and

125 R. Cohen, 1988.

small business enterprises and unrecorded employment and production that did not feature in national income accounts. The perception was that developing cities needed to get rid of these types of activities as development required modernization and a shift to higher productivity, higher technology, and more capital-intensive types of production and employment.

The term, 'informal sector', came later, invented by Hart, (1973), in reference to the situation of towns in Ghana. According to the laws mainly inherited from colonial times, this made most of the informal sector 'illegal' leaving it terribly vulnerable to shifts in government attitudes and policy. Often, the informal sector was typified as a breeding ground for criminals, and of potential political instability.

Zambia has experienced serious economic decline since the mid-1970s. A combination of extremely negative terms of trade, being landlocked, and destabilization under the liberation wars of neighbouring Southern African countries imposed huge restrictions and costs on its transport for decades. The Zambian economy transformed in an opposite direction to that supposed under the modernization theories. According to Potts (2005), the urban economy in Zambia was extensively 'informalized' during this period. Poverty deepened and the balance of economic forces between urban and rural areas shifted so dramatically that Zambia experienced *de-urbanization* for twenty years.

3.3 The irony of independence: mismatch between populist consumption and enclave production

Southern African countries attained independence since the 1960s on the basis of a broad social contract between the nationalists who inherited State power from the colonial authorities and the general populace whose support was instrumental to the success of the independence struggle¹²⁶. At the centre of the contract was a commitment by the nationalists to an across-the-board improvement in the lives and well-being of the populace, with a promise to do so in ways which overcame the discriminatory restrictions that underpinned colonial social policy.

In this regard, the health and educational sectors occupied a place of pride in the early investments which Southern African independent States made in the social sectors. Overall, these sectors witnessed an all-round expansion in the periods up to the end of the 1970s and 1980s respectively. Even in the periods of expansion, there were numerous questions of equity and access posed by the populace. Apart from income-based differentials which conditioned and, in some cases, limited equitable access to health and education services, there were also latent demands which were not readily met on account of various capacity limitations, including the dualistic economic performance constraints. It was not until the 1980s that the question of inequality in the health and education systems was brought to the fore of public debate in Southern Africa.

Agriculture and rural development

Broadly, two approaches to post-independence land policy were implemented. The first was the *equity approach*, which consisted of a strong commitment to land redistribution for political reasons as in the case of Angola, Mozambique and Swaziland. This was a non-market driven approach characterized by State policy to either nationalize all land (as in Angola and Mozambique) or expropriate it for reallocation to indigenous claimants or to the landless¹²⁷. The second was the "*willing-buyer, willing-seller*" approach, which was market-driven. It was an approach that required full compensation to the land owners by the Government, which needed land for resettlement of the landless majority. Due to the enormous costs involved in purchasing land for redistribution, land policy has been designed under severe structural constraints. The land redistribution policy in Zimbabwe for example, during the first two decades after independence in 1980, was based on the second approach.

126 Council for the Development of Social Science Research in Africa (CODESRIA), 2005.

127 W. Breytenbach, 2004.

Independence settlements themselves such as the Lancaster House Constitution in Zimbabwe, 1979 as well as those that constituted the ‘historical compromise’ in Namibia in 1990 and South Africa in 1994, weighed heavily on the new Governments in relation to land policy. Their room to manoeuvre for land policy was very limited, more so as pledges for financial assistance from the former colonial masters for land compensation, such as in the case of Zimbabwe, did not materialize. The frustration of the populace, combined with the use of land as a political card by competing political parties, culminated in the violent land takeover of 1999/2000 in Zimbabwe, which was later formalized into the Fast Track Land Reform Programme (FTLRP) by the Government. By 2010, around 96 per cent of the land was in the hands of the indigenous people of Zimbabwe¹²⁸.

Box 3.1 presents Zimbabwe’s FTLRP, which started in 2000, as a case study in addressing the problem of land inequality in Southern Africa.

Box 3.1

Land reform in Zimbabwe: the Fast Track Land Reform Programme, a radical developmental State action

The successful redistribution of land ushered in by Zimbabwe’s Fast Track Land Reform Programme (FTLRP) in 2000, placed the Southern African nation at the forefront of the emergent nationalism in the South, which is still poorly understood¹²⁹. The only other major case of substantial redistribution and economic re-orientation of recent years, though under very different political conditions, has been that of Cuba¹³⁰.

The fact that the Zimbabwe’s case has not been recognized as vanguard nationalism has much to do with the “*intellectual structural adjustment*” which has accompanied neo-liberalism and a hostile media campaign¹³¹. This has entailed dubious theories of “*neo-patrimonialism*”, which reduce African politics and the State to endemic ‘corruption’, ‘patronage’ and ‘tribalism’, while overstating the virtues of neo-liberal good governance¹³². Zimbabwe’s land reform has had a bad press, particularly in the international sphere. Images of chaos, destruction and violence have dominated the coverage of the Zimbabwe land reform programme, while underplaying the important successes such as equality in the ownership of a major means of production¹³³.

Such research and media reports have mostly focused on the ‘*victims*’ of the land reform (for example, former land owners and farm workers), to the neglect of the views and experiences of key actors within and protagonists of the FTLRP (such as the land occupiers, land beneficiaries, former and new farm workers and war veterans, among others), as well as of local and central state officials, local NGOs engaged with the FTLRP and the key actors in agribusiness. Official reports and policies are often ignored, while empirical researchers who go contrary to the dominant narrative are labelled as defenders of the FTLRP¹³⁴. The critical role of state intervention in the overall outcome is also visibly downplayed by its liberal-populist orientation. As its main audience is the donor industry, sanctions are not featured in this narrative.

Under this racist repertoire, it has been impossible to see class politics, mass mobilization and resistance, let alone believe that something progressive can occur in Africa. Yet, it should come as no surprise that there was a re-radicalization of nationalism in Zimbabwe. Land reform was a central demand of the nationalist movement and the armed liberation struggle, which more broadly sought popular sovereignty

128 Ministry of Lands, Land Reform and Resettlement, 2009.

129 S. Moyo and P. Yeros, 2011.

130 Altieri and Funes-Monzote, 2012.

131 S. Moyo and P. Yeros, 2005b.

132 A. de Grassi, 2008; B. Olukoshi, 2011; T. Mkandawire, 2012.

133 I. Scoones, and others., 2010.

134 L. Cliffe, and others, 2011; M. Hungwe, 2011; M. Chiweshe, 2012.

and majority rule, including control over land, natural resources and the economy, despite its flirtation with socialist ideals¹³⁵. Accordingly, the FTLRP is most likely to be remembered in Zimbabwe and in Africa as the culmination of the anti-colonial struggle, despite the liberal democratic deficit and economic policy contradictions that accompanied it¹³⁶.

Land reform itself has created the social and economic foundation and potential for broad-based development and democratization in Zimbabwe. New forms of rural mobilization and accumulation are promising in this regard¹³⁷. Moreover, critical deficiencies in the agrarian outcome, such as low levels of agricultural land and labour productivity, the insecurity of land tenure for the various classes of small producers and the weak protection of peasant markets, reflect continuing development and democratization challenges. Also in question is the character of Zimbabwe's re-integration into global circuits.

Brief history of land dispossession

The history of dispossession in Zimbabwe can be traced back to the Rudd Concession, a written concession for exclusive mining rights to Cecil John Rhodes, on 30 October 1888. Agricultural development, however, was slower, and it was not until 1907 that steps were taken to facilitate the acquisition of land. The Shona staged unsuccessful revolts known as the *First Chimurenga*, against encroachment upon their lands by clients of BSAC and Cecil Rhodes in 1896 and 1897. Following the failed insurrections, the Ndebele and Shona groups became subject to Rhodes's administration, thus precipitating European settlement en masse. This led to land distribution disproportionately favouring White settlers, displacing the Shona, Ndebele, and other indigenous people.

After self-government was granted in 1923, the Southern Rhodesia House of Assembly created a framework for the allocation of land. The Land Apportionment Act of 1930 divided the colony's land into three areas characterized by race and also tribes: zones where White, Shona or Ndebele could own property; and zones which were held in trust for indigenous peoples on a collective basis, called "*Tribal Trust Lands*" (TTLs) as per the 1965 statute, which became "Communal Areas" (CAs) as per the 1981 statute). One effect of the apportionment was that some Black indigenous families were moved from land they had held for generations. The Land Apportionment Act of 1930 formed the basis for subsequent laws and continued in effect until independence in 1980.

At independence, therefore, about 57 per cent (800 000 families) of the Black population lived in the communal areas and occupied 16.5 million hectares of land (42 per cent), of which 75 per cent was in areas unsuitable for intensive arable farming, in natural regions IV and V. An additional 8 000 Black families occupied 1.6 million hectares (4 per cent) in the former African Purchase Lands, now called Small Scale Commercial Farms (SSCFs), with a larger proportion of this land in the drier natural regions IV and V.

In contrast, about 6 000 White farmers owned about 15.5 million hectares (40 per cent) of prime agricultural land, mainly in the high agriculture potential natural regions I, II and III. Large Scale Commercial Farms (LSCFs) were consolidated by discriminatory subsidies to the White farmers and a few Black SSCFs. The communal sector was largely subsistence in character and was poorly serviced with essential physical, agricultural and social infrastructure.

The unworkable market-based "willing buyer, willing seller" principle of land redistribution

Land reform in Zimbabwe officially began in 1979 with the signing of the Lancaster House Agreement, an effort to more equitably distribute land between the historically disenfranchised Blacks and the

135 T. Mkandawire, 2001; J.S. Saul, 2005; I. Mandaza, 1986.

136 M. Mamdani, 2008.

137 CODESRIA and AIAS, 2013, S. Moyo and W. Chambati, (eds.), L. Masuko, Chapter 4, and T. Murisa, Chapter 7.

minority Whites who ruled Southern Rhodesia from 1890 to 1979. The Government's land distribution is perhaps the most crucial and most bitterly contested political issue surrounding Zimbabwe. It can be divided into two phases: from 1979 to 1999, when the principle of "*willing buyer, willing seller*" was unsuccessfully applied with financial support from Britain, and secondly, beginning in 2000, the FTLRP.

In the Opening Speech to the Lancaster House Conference of 1979, which ushered in Zimbabwe's independence in 1980, the Patriotic Front, representing the major liberation movements, namely, the Zimbabwe African National Union (ZANU) and the Zimbabwe African People's Union (ZAPU), listed the land question among its nine major issues for negotiation. During the negotiations, the British Government insisted on stringent protection of private property with equally restrictive provisions for 'prompt' and 'adequate' compensation in foreign currency, in the few cases where compulsory acquisition of land was to be allowed. The Patriotic Front objected to the British proposals as the objective of the struggle in Zimbabwe was recovery of the land of which the people had been dispossessed. The British provisions converted the freedom from deprivation of property into a right to retain privileges and so perpetuate social and economic injustice. In this regard, the Lancaster House Conference nearly broke down over the land question. The Patriotic Front wanted the British Government to provide money to pay compensation. An agreement was reached and the Patriotic Front announced in its documentation as follows:

"We have now obtained assurances that ... Britain, the United States of America and other countries will participate in a multinational donor effort to assist in land, agricultural and economic development programmes. These assurances go a long way in allaying the great concern we have over the whole land question arising from the great need our people have for land and our commitment to satisfy that need when in government".

Between 1980 and 2000, Britain provided a total of 44 million pounds to the Government for land resettlement projects. In 1981, the new Government organized the Zimbabwe Conference on Reconstruction and Development (ZIMCORD), in which more than £630 million of aid was pledged. Only a small share of this was used to finance land resettlement. Despite lobbying by the British Government, no other donor was willing to help finance the purchase of land and only the African Development Bank (AfDB), European Union (EU) and Kuwait Fund were willing to pay for the other investments required by the new settlers.

The 1985 Land Acquisition Act, though drawn in the spirit of the 1979 Lancaster House "*willing buyer, willing seller*", gave the Government the first right to purchase excess land for redistribution to the landless. However, the Act had a limited impact, largely because the Government did not have the money (foreign currency) to compensate landowners. In addition, White farmers mounted a vigorous opposition to the Act, and the Government was powerless in the face of such resistance.

New policies under the "*Growth with Equity*" policy framework put in place at independence, included bringing underutilized land into full production and reducing the inequality in land holdings. The first phase of the Land Redistribution Programme began in 1980, and by 1990 it had redistributed about 3.5 million hectares to 71 000 families from communal areas, well below the initial target of 8.3 million hectares to 162 000 families¹³⁸. This outcome was largely because the willing sellers were not forthcoming, and at the same time, the Government did not have enough resources to buy land.

This was followed by an unsuccessful attempt between the State and landowners to negotiate land transfers during the Economic Structural Adjustment Programme (ESAP), 1991-1995 period, alongside limited attempts at land expropriation by the State between 1993 and 1997. The land and agrarian reform strategy, under the "*National Land Policy*" of 1990, became explicitly bi-focal when it sought to redistribute land to small-scale family farms (called A1 schemes) and to smaller-sized capitalist farmers called A2 schemes, reflecting the growing influence of the domestic Black *petty bourgeoisie* on policymaking¹³⁹. The 1992 Land Acquisition Act was enacted to speed up the land reform process by removing the "*willing buyer,*

138 Ministry of Lands and Rural Resettlement, 2009.

139 CODESRIA and AIAS, 2013, Chapter 1, S. Moyo and W. Chambati (eds.).

willing seller “ clause, limiting the size of farms and introducing a land tax (although the tax was never implemented.) The Act empowered the Government to buy land for redistribution on a compulsory basis, and fair compensation was to be paid for land acquired. Landowners could challenge in court the price set by the acquiring authority.

Opposition by landowners increased throughout the period 1992 to 1997. During the 1990s, less than 1 million hectares (2.47 million acres) were acquired, and fewer than 20 000 families were resettled. In 1997, the Government published a list of 1 471 farmlands it intended to buy for redistribution. The list was compiled via a nationwide land identification exercise undertaken throughout the year. Landowners were given thirty days (as the Act demanded) to submit written objections.

Although many Whites had left Zimbabwe after independence, mainly for neighbouring South Africa, those who remained continued to wield disproportionate control of some sectors of the economy, especially agriculture. In the late 1990s, Whites accounted for less than one per cent of the population but owned 70 per cent of the arable land. As expected, following the expiry of the Lancaster House Agreement’s constraints on land re-distribution within the first decade of independence, the ordinary people and opposition politicians of Zimbabwe became restless again on the land issue. The Government, by then struggling with ESAP requirements, appeared to have forgotten about this key unresolved issue.

Following several public expressions of discontent with regards to various socioeconomic issues, including the land question, in 1998, a Land Reform Donors Conference was held between Government and donors. The partners reached an agreement to try combined market and state acquisition through an Inception Phase Framework Plan. It was agreed that the former colonial power, Britain, together with the help of well-wishing donors would provide resources, for the compensation of farmers for the land which was to be acquired for resettlement, whilst the Government of Zimbabwe agreed to pay for farm improvements.

The plan was delayed and there was very slow progress on both sides. Following the change of government in Britain, and subsequent renegeing by the new British Labour Government on the pledge to compensate White farmers for the land, the Zimbabwean people, led by war veterans, spontaneously moved in to occupy commercial farms in 1998. On 5 November 1997, Britain’s then Secretary of State for International Development, Clare Short, under the new Tony Blair administration, explained the new Labour Government’s approach to the Zimbabwean land reform. She said that the UK did not accept that Britain had a special responsibility to meet the costs of land purchase in Zimbabwe. Despite the Lancaster House commitments, Short stated that her Government was only prepared to support a programme of land reform that was part of a poverty eradication strategy. In her letter to Zimbabwe’s Agriculture Minister, she said:

“I should make it clear that we do not accept that Britain has a special responsibility to meet the costs of land purchase in Zimbabwe. We are a new government from diverse backgrounds without links to former colonial interests. My own origins are Irish and, as you know, we were colonised, not colonisers”.

The letter concluded by stating that a programme of rapid land acquisition would be impossible to support, citing concern about the damage which this might do to Zimbabwe’s agricultural output and its prospects of attracting investment. This became the ‘last straw that broke the camel’s back’, with regards to the land question in Zimbabwe.

The land reform programme, sanctions backlash, and economic recession, 2000-2008

Zimbabwe’s economic recession, 2000 – 2008, was characterized by a radical developmental State in crisis, following implementation of the FTLRP starting in 2000. The resultant unilateral international sanctions backlash, remains unparalleled in the world. Shortly after, there was a ‘protest rejection’ by the

Zimbabwean population of a draft Zimbabwe Constitution in February 2000. In response to Britain's reneging on the land issue under the Labour Government, and formation of the political opposition party, the Movement for Democratic Change (MDC) in 1999, the Government, through groups of war veterans working in collaboration with land-hungry villagers, sanctioned by tacit approval, an aggressive land redistribution programme codenamed, "*Third Chimurenga*", that is, "*Third War of Liberation*", often characterized by forced expulsion of White farmers from the land. In 2000, the Government of Zimbabwe made the land occupations official and part of the FTLRP.

In response to this and to increasing governance challenges in Zimbabwe, Western nations, the USA in particular, responded by putting Zimbabwe under unilateral economic sanctions, that is, not sanctioned by the United Nations. The USA enacted the Zimbabwe Democracy and Economic Recovery Act (ZDERA) in 2001, which is still in place to date. Zimbabwe's radical stance was not without a huge cost as it culminated in the slide into an unprecedented, deep economic recession, characterized by hyperinflation, shortages of all basic goods and services, and loss of skills/brain drain in all sectors through outmigration.

There was a cumulative economic decline of 54.8 per cent from 1999 to 2008, and both the economy and social services (health, education, water and sanitation, and social protection) collapsed by 2008. Agricultural output is estimated to have declined by more than 60 per cent during this decade of recession. Annual inflation reached 231 million per cent in July 2008 and an unpublished estimated 3.2 quintillion per cent by December 2008, leading to rejection of the Zimbabwe dollar as a medium of exchange by the population. The economy was subsequently officially 'dollarized' in 2009, following the formation of an Inclusive Government (IG).

Thus, whereas the land reform process was initially technocratic and conservative in terms of liberal market criteria of "*willing buyer, willing seller*", it became radicalized through the use of land expropriation on an extensive scale from 1997¹⁴⁰. The FTLRP resulted in far-reaching changes in terms of land ownership, farm sizes, gender distribution and output. While the re-distribution of land to the Black majority was testimony to the role of a developmental State, the ensuing international outcry and sanctions backlash reflected the costs of taking a radical stance. Forced land redistribution, by its nature, is usually violent and faces resistance at many levels when determined developmental State is ready to carry through its objectives.

Landholding patterns in Zimbabwe altered dramatically in 2007, when over 90 per cent of the former large-scale commercial farm lands was transferred into state property and allocated to various Black beneficiaries. Current land distribution shows that the White population constitutes less than 0.2 per cent of the farmers in the country. The number of communal farmers remained unchanged, standing at 1.1 million in 1980. The small to medium-scale commercial farm category increased from 8 000 in 1980 to 22 000 in 2009, with the introduction of small to medium-scale A2 farmers under leasehold type of tenure. According to the official Government of Zimbabwe data, there have been approximately 145 775 A1 farm allocations and 16 386 A2 beneficiaries/households. Generally, most beneficiaries were allocated land in the higher potential provinces. These families have been resettled on 10 816 886.11 hectares¹⁴¹. Table 3.1 shows the number of people resettled since 1980 and the area they occupy.

140 CODESRIA and AIAS, 2013, S. Moyo and W. Chambati (eds.), S. Moyo, Chapter 2.

141 Ministry of Lands and Rural Resettlement (MLRR), 2009.

Table 3.1 Total number of farmers resettled in Zimbabwe, 1980-2009

Resettlement phase	Number of families resettled	Targeted families	Families resettled %	Area (ha)	Targeted area	Area settled (percentage)
Phase I (1980 to 1998)	71 000	162 000	43.8	3 498 444.00	8 300 000	5.0
Inception Phase (1998-2000)	4 697	110 000	4.3	168 264.00	5 000 000	3.4
II – Phase (2000 – 2008/FTLRP)	162 161 ¹⁴⁹	-	-	10 816 886.11	11 000 000	98.3
Total	237 858	-	-	14 483 594.11	-	-

Source: Ministry of Lands and Rural Resettlement, 2009

Women also benefited from the land reform programme with an estimated 11 per cent of the land allocated under FTLRP going directly to women, but with larger numbers benefiting jointly with their spouses. Special groups, such as war veterans, also acquired about 15 p to 20 per cent of the allocated land.

The FTLRP reconstituted Zimbabwe’s agrarian structure, altering the nature of property rights and labour relations, based on new forms of access to resources and markets¹⁴². By 2010, it had transferred 96 per cent of agricultural land into the hands of indigenous Black Zimbabweans. Land redistribution increased access to farm infrastructure and natural resources previously dominated by a racial minority. It also partly reconstituted gender and ethno-regional dimensions of land and resource control, although it also led to some exclusion, especially of farm workers. This outcome has generated new forms of social differentiation, although wider access to land created a new basis for the social legitimacy of land tenure relations, despite the persistence of land tenure insecurities and demands for the re-institution of private property rights over agricultural land¹⁴³.

During this period, even though the Government took land acquisition to a higher political profile, and acted to transfer and place indigenous beneficiaries on the land, this was done with minimum support for production¹⁴⁴. In addition, there were no clearly defined criteria or guiding principles on the redistribution programme, resulting in allegations that it was not empowering the rural poor. Instead, it was being manipulated by a few individuals with political connections. The Bhuka Audit, 2002, for example, unearthed widespread multiple farm ownership and land underutilization especially on the A2 farms. There was also inequitable allocation by gender, among other issues¹⁴⁵. The Utete Committee, 2003, acknowledged the positive developments of the land transfers but identified teething problems with implementation of the programme from district to national level. Significantly, it recommended separation of the Ministry of Lands from that of Agriculture.

Despite the political and economic challenges that Zimbabwe continues to face, along with the outstanding legal challenges and concerns of the international community, there is a broad consensus that Zimbabwe’s land reform is not reversible¹⁴⁶. The 2013 Zimbabwe Constitution has put the land issue to rest by clarifying the compensation modalities. The Government will not pay for land, unless external resources are availed in this regard. However, when resources become available, the Government will compensate for improvements that had been made on the land. In the meantime, Zimbabwe’s agricultural production levels have since recovered to near previous levels, albeit this time with the Black Zimbabweans in the ‘driving seat’.

142 S. Moyo, 2004.

143 S. Moyo and P. Yeros, 2005b.

144 World Bank 2006.

145 The report was not officially published.

146 B. Raftopolous, 2010.

Land policies in Southern Africa have had to grapple with dualism in land tenure and the imperatives for broad land reform. There are two principal forms of tenure:

- a. Customary land tenure, which is governed by unwritten traditional rules and administered by traditional leaders¹⁴⁷. Under the system, active occupation or usage of a piece of land is the main evidence of ownership or of an existing interest in land; and
- b. Statutory land tenure, which is governed by modern law and is supported by documentary evidence such as title deed or lease certificate administered by the Government. Land ownership under this system is often built upon freehold or leasehold entitlements to the land while offering exclusive rights to the owner that often guarantee tenure security¹⁴⁸.

Access to land in Southern Africa tends to focus more on the political dimension as compared to the market-determined allocation of the resource. Most of the land reform and resettlement programmes are aimed at redressing the past colonial biases, while private property rights are mainly assigned through the distribution (or sale) of commercial farming holdings. Women in Southern Africa who may have access to land often do not control this resource, and very few of them are private landowners. Historically, women have access to the use of land and property by virtue of their relationship with their male counterparts in the household. In Zambia, for example, approximately 90 per cent of land available is under the customary regime managed by traditional chiefs. The ratio of female to male ownership of land is approximately 10:90¹⁴⁹.

By the time of transition to majority rule in Southern Africa, maize had become the cornerstone of a 'social contract' that the post-independence Governments made with the Black majority to redress the neglect of smallholder agriculture during the former colonial period¹⁵⁰. The controlled marketing systems inherited by the new Governments at independence were viewed as the ideal vehicle to implement these objectives. It was believed that in order to promote the welfare of millions of smallholders, the system simply needed to be expanded¹⁵¹.

The social contract meant that Governments were responsible for ensuring food self-sufficiency in maize at a cheap price¹⁵². Countries achieved impressive growth in maize production, driven by interacting innovations in technology, policies, and institutions, as witnessed 1970-1989 in Zambia, 1980-1989 in Zimbabwe, and 1983-1993 in Malawi.

Some of the ingredients of these episodic successes included: availability to smallholder farmers of hybrid seed; complementary investments in agronomic research and extension; expanded seed distribution systems; rural infrastructure; and institutions to coordinate grain marketing with seed, fertilizer and credit delivery. However, the grain and inputs marketing was implemented through controlled pricing and marketing systems that incurred large subsidies and treasury costs, and which eventually contributed to fiscal crisis, in the late 1980s, just before the adoption SAPs in some countries.

The post-independence Government in Zimbabwe, attempted to expand the input delivery, credit, and marketing programmes that had previously served only large-scale producers¹⁵³. Rohrbach (1988) attributes the tripling in smallholder maize production that occurred from 1980 to 1988 to five factors, namely:

- Ending of the independence war in 1979
- Increased use of hybrid maize seeds from about 40 per cent in 1979 to 98 per cent by 1985

147 UNECA, 2003.

148 UNECA, 2003.

149 *Beyond Inequalities*, 1997.

150 T.S. Jayne and others, 1999.

151 C. Jenkins, 1997.

152 T.S. Jayne and M. Rukuni, 1993.

153 M.J. Blackie, 1990; D.D. Rohrbach, 1988.

- Increased number of State crop- buying stations serving smallholder areas, from five in 1980 to 148 in 1985
- An eight-fold rise of in-kind credit allocated to smallholders between 1979 and 1986, which stimulated fertilizer use and maize yields. and
- An associated response by private input suppliers to the increased demand for farm inputs.

This 1980s period has now been termed Zimbabwe's "*green revolution*", describing the peasant agricultural sector's production and marketing success (see box 3.2). Zimbabwe's sustained post-independence agricultural success story was internationally recognized in 1988, when President Robert G. Mugabe received the World Hunger Prize. In addition, during this period, Zimbabwe was appointed to head the Crop Production, Food, Agriculture and Natural Resource Sector of the Southern African Development Coordination Conference (SADCC) formed in 1980, and later transformed into the Southern African Development Community (SADC), in 1992.

Box 3.2

Zimbabwe's "Green Revolution" of the 1980s – the peasant agricultural sector's production and marketing success

Marketing incentive through expanding the Grain Marketing Board (GMB) outlets into communal areas (CAs). In 1980, the Government abolished the 10 per cent marketing levy and this had the effect of raising the net price received by farmers. While before 1980 GMB depot facilities were mostly unavailable to CA farmers, access opened by including GMB collection points in CA areas. In 1985, GMB directly controlled 53 depots of which 14 were in CAs, and almost all were built after 1980. In the same year, GMB had 55 collection points, including 13 mobile units in CAs. The success of these efforts is clear. About 60-86 per cent of the marketed maize output from CAs was directly handled by GMB.¹⁵⁴ As a direct result of these new marketing facilities, the number of CA producers registered with GMB almost quadrupled,¹⁵⁵ from 60 000 in 1981 to 217 189 in 1985.

Favourable pricing policy. Peasant producers benefited from receiving the same GMB producer price which was above international parity levels paid to Large Scale Commercial Farmers (LSCFs). In the past, peasant farmers were forced into accepting large price discounts from private merchants who were the principal marketing channel available to them.

Growing use of high-yield inputs (fertilizers and hybrid seeds). Fertilizer deliveries to CAs rose almost five times, from 27 000 metric tonnes in 1979/80 to 128 000 metric tonnes in 1984/85. For maize seed, approximately 90 to 100 per cent of CA maize producers were using certified seeds throughout the first decade. Conditions of access to high-yielding inputs greatly improved as supply outlets were expanded, mainly due to an increase in the number of cooperative societies in the rural areas.

Expanded agricultural extension services. Before independence, the agricultural network, like other state-supported agricultural schemes, was designed for the sole benefit of White settler farmers. After independence, the focus was increasingly on improving agronomic practices in the peasant sector. The ratio of the number of extension workers to CA farmers was 1: 1 200 in 1980, but by 1988 it had improved to 1:800. Thus, both improved access to extension facilities and novel use of dissemination techniques targeting peasant groups as well as individual farmers increased the adoption levels of new high-yielding technologies and contributed to production improvements in the CAs.

Improved supply of credit. Following independence, the Agricultural Finance Corporation (AFC), another government parastatal, became active in extending short-term crop loans to CA farmers. The

154 B. Harris, 1986.

155 A. Thomson, 1988.

number of AFC loans to CA producers rose 34 times, from 2 850 in 1979/80 to 97 761 in 1985/86. Over the same period, the total loan quantity disbursed increased 109 times, from Z\$478 000 to Z\$52 189 000¹⁵⁶.

Source: J.T. Chipika and N Amin (eds.), 1993. *Rural Household Food Security Research: Implication for Nutrition and Agricultural Policymaking in Zimbabwe*. Summary of Project Findings, Dissemination Workshop Proceedings, Harare: University of Zimbabwe.

In Malawi, several structural factors other than the use of hybrid seeds contributed to the sharp rise in smallholder output from the mid-1980s until 1993. Primary among these factors was the supply of quality commercial seed made available. This lack had been a binding constraint in the early years of Malawi's maize production programme. The National Seed Company of Malawi (NSCM) took over responsibility from Agricultural Development and Marketing Corporation (ADMARC) in 1978, and Cargill acquired most of the equity of NSCM in 1988, with a more aggressive approach to seed production, procurement and marketing. Price ratios were also favourable for the use of hybrid seed and fertilizer during the late 1980s in Malawi¹⁵⁷.

In addition to hybrid maize seed, identified as driving factors Zambia's land surplus, favourable weather, and the heavily subsidized state-led system of credit, input, and maize marketing support to smallholders, as key factors in Zambia's smallholder farmers success (Howard, 1994; Howard and Mungoma, 1996). The Swedish International Development Cooperation Agency (SIDA), which funded maize research from the 1980s, also funded establishment of a seed industry, including Zambia Seed Company Limited (Zamseed) and the Seed Control and Certification Institute. Zamseed produced seeds as a commercial company, though the Government and SIDA owned large shares¹⁵⁸.

Mining

Mining in the post-colonial period was greatly shaped by what was established during the colonial period. Almost five and half decades after independence from colonial rule, the mining sector production structure has not fundamentally been altered, despite numerous efforts by SADC Governments to process raw materials and shift away from the colonial extraction and export of raw minerals. Thus, Southern African countries, like most developing countries, are still participating in the global division of labour as a net supplier of raw materials and importer of finished goods. They face both internal and external constraints on their ability to diversify away from mining or to benefit from minerals.

The period after independence was also characterized by the nationalization of mining companies, for example, in Zambia. However, dependency on the mineral surplus exposed the mineral-dependent economies to fragility and/or economic stagnation and decline, given the volatility of the prices of minerals on the global market. For example, mining exports as a percentage of total exports for selected SADC countries were as follows: Angola, 98.5 per cent in 1996; Zambia, 83 per cent in 1995; Botswana, 79 per cent in 1997; DRC, 72 per cent in 1994; Namibia, 58 per cent in 1997; South Africa, 28 per cent in 2004; and Zimbabwe, 23.4 per cent in 1996¹⁵⁹. Furthermore, it has been argued that mining rents were largely usurped by the elites rather than reinvested in social development or other economic sectors. In this regard, mineral wealth has triggered and/or fuelled and financed civil conflicts, for example, in Angola and DRC, leading to mass poverty and unemployment amidst mineral wealth.

Generally, the mining industry has weak links with the rest of the economy and it tends to be capital intensive and to use little unskilled or semi-skilled labour. This leads to development of enclave-type methods of production, where exploitation of resources is geographically concentrated, creating small pockets of wealth that

156 N. Amin, 1988

157 M. Smale and P.W. Heisey, 1994.

158 E. Cromwell, 1996.

159 G. Kanyenze, and others, (eds.), *Alternatives to Neo-liberalism in Southern Africa (ANSA)*, 2006.

fail to spread to the rest of the economy¹⁶⁰. Despite this general trend, South Africa and Zimbabwe developed industrial and service sectors with links to mining.

Mineral-dependent countries often suffer from ‘*Dutch disease*’, whose effects include: dependence on a single commodity; de-industrialization; over-expenditure on consumption as opposed to re-investment; resource (labour, capital, technology) concentration in mining; currency appreciation; enclave effect; and high dependency on FDI, among others. FDI stimulated the development of mining during the colonial period, and set up local companies, especially in South Africa. In the post-colonial period, foreign ownership remained high in the sector, despite attempts to expand Black ownership through various ‘indigenization’ and empowerment programmes, for example, in Zimbabwe, South Africa, and Namibia. In most cases, foreign ownership leads to the repatriation of profits, thus undermining local investment.

Manufacturing

In the post-colonial economy of Southern Africa, the formal sector cannot be readily expanded because of the structural rigidities in the dualistic economic system. This is despite the neo-liberalism argument that the manufacturing sector can be expanded to enhance employment creation, given its linkages with the global economy. Structurally, however, the manufacturing sector lacks the dynamics for expanding into the rest of the economy and for utilizing the surplus labour trapped in the large non-formal sector. The high level of both structural unemployment and underemployment is testimony to this stagnation and/or decline of the formal manufacturing sector.

After experimenting with import substitution industrialization strategies and state-led, post-independence growth strategies, the regional economies have adopted trade liberalization. In so doing it was hoped that the competitive effect of trade liberalization would be a major factor in stimulating domestic producers to improve efficiency. Unfortunately, this did not happen, but instead, the once protected obsolete technology-based manufacturing companies, failed to compete globally and ended up shutting or scaling down, thus, giving birth to a phase of de-industrialization in the region.

The structures of the manufacturing sector are driven by the narrow formal sector of the Southern African economy, which is biased towards high capital intensity, even though labour-intensive production processes might be viable. This is probably the main reason why virtually all the Southern African producers cry out about the labour-intensive products coming out of China, while they themselves cannot adopt similar strategies in their production structures and processes. The structural dualism between the formal sector on one side, and the non-formal sector, on the other, produces many kinds and layers of distortions, namely, external, structural, and micro distortions. As a result, there are no virtuous links within the individual national economies.

Furthermore, because of the dualism, with the exception of South Africa, each SADC country’s manufacturing sector is not able to export its products to the regional markets as it was originally geared to produce for the domestic market under import substitution. Thus, no matter how high the growth rate of the formal sector is, this remains a short-term phenomenon as the sector is not able to grow large and fast enough to absorb the non-formal sector.

In the context of the regional economic communities (RECs), such as SADC, COMESA, and SACU, trade liberalization results in trade creation or trade diversion, thereby resulting in gains or losses for the trading partners. Trade economists have for a long time emphasized that the major benefit of an integrated area is trade creation¹⁶¹. The reduction in trade barriers among countries involved in a free trade arrangement, but maintaining barriers against the rest of the world, will stimulate additional trade, that is, create trade¹⁶². In

160 South Centre, 2005c.

161 B.A. Balassa, 1961, 1967.

162 D. Ndlela, 1996.

Zimbabwe, for example, there was a movement away from importing from the OECD countries, to South African sources, when international economic sanctions against South Africa were removed.

On the other hand, trade diversion refers to a movement from a cheaper source outside the economic grouping to a more expensive source within the REC due to a reduction of trade barriers among member countries. Alternatively, a movement from a less efficient source within the REC to a more efficient (less expensive) source outside the region can be equated to trade diversion. In this regard, the flooding of Southern Africa with Chinese and other Asian products constitutes a trade diversion. If this becomes predominant, one or more of the member countries will be injured, say, in the form of de-industrialization, and consequently, the entire REC will suffer an injury¹⁶³.

Within this complex context, the region's manufacturing sector lacks the capacity and the flexibility currently to expand linkages through exports regionally or internationally. Though not entirely a curse, because of lack of transformation of the entire post-colonial economy, the region's manufacturing sector is neither a panacea nor an alternative strategy, because it lacks virtuous linkages and roots, both within the domestic economy, and regionally with other economies.

Education

At independence, the colonial regimes left Southern African States in an appalling situation as far as education and human resource development was concerned. The meagre efforts of missionaries and the colonial States had left the overwhelming majority of people unschooled and illiterate and higher-level training in industrial skills was virtually non-existent. For example, in Zambia, at independence in 1964, there were only 107 university graduates and less than 2 000 Africans had completed secondary schooling. A similar situation existed in most countries in SADC.¹⁶⁴ When most of the Portuguese colonists left Angola and Mozambique abruptly in the mid-1970s, they left with most of the technical and managerial skills of the two countries. The educational inheritance from colonialism was clearly inadequate in meeting the development needs and challenges of the newly independent Southern African countries.

Within this context, the newly independent countries placed extremely high priority on education. In most countries, the State took control of education and provided basic education free of charge. In the 1960s and early 1970s, this took place against a back drop of economies sustained by buoyant commodity prices. Countries such as Malawi, Zambia, Tanzania, Mauritius, Botswana, Lesotho and Swaziland were able to begin implementing their political visions and social transformation. Primary and secondary schooling, higher and tertiary education, an adult education (including adult literacy courses) were expanded throughout SADC. New schools and universities were opened, teachers trained and enrolments grew¹⁶⁵. The late independence-entry countries followed suit, starting with Zimbabwe in 1980, Namibia in 1990, and South Africa in 1994.

For example, with independence in 1980, Zimbabwe embarked on a massive expansionary policy which saw primary school enrolment increase by 80 per cent from 1 235 994 in 1979 to 2 473 769 in 2009¹⁶⁶. The number of primary schools more than doubled from 2 401 in 1979 to 5 560 in 2006. For the secondary level of education, enrolment increased by 1 083 per cent from 66 215 in 1979 to 783 318 in 2009. The proportion of children in the first grade of primary school with pre-school background increased over the years, from 49 per cent in 2002 to 64 per cent in 2006. In 2009, there was gender parity in primary schools (girls constituting 50.1 per cent); near parity in enrolment in lower secondary school (girls constituting 49 per cent). However, huge disparities still existed at upper secondary school with girls constituting only 35 per cent.

163 J. Viner, 1972.

164 L. Chisholm and others, 1998.

165 Ibid., 1998, A. Habte and T. Wagaw, 2004.

166 J.T.Chipika and J. Malaba, Ministry of Economic Planning and Investment Promotion, Government of Zimbabwe and UNI CEF, 2014.

Most countries initially accepted the model of schooling inherited from colonialism and expanded it to cater for a far greater proportion of the population. However, most leaders of the newly independent States agreed on the need to make their education systems more relevant to social needs and rooting them in African culture¹⁶⁷. In this regard, in some countries, experimental forms of education were tried out as the new systems contemplated the possibility of making their education more relevant to the needs of their students and their new democracies. In Botswana and later in Zimbabwe, for example, a number of schools were established to combine education with production, particularly, agriculture.

Perhaps the boldest attempt to re-conceive the purpose and practice of education was in Tanzania where the ideas and writings of President 'Mwalimu' Julius Nyerere led to the concept of '*education for self-reliance*'. The changes in education were part of an integrated vision to reconstitute a socialist, self-reliant society based on collective effort, social cooperation and non-exploitation and an end to elitism¹⁶⁸.

However, an international economic crisis, triggered from 1973 to 1974 by a four-fold increase in the price of oil had a devastating impact on most Southern African economies, especially the poorest. All the independent countries were importers of oil, which was their main source of transport fuel and, in some cases, of electricity production. The need to spend large amounts of foreign exchange on oil imports began to drain their foreign reserves and to undermine their ability to import other necessities, including machinery, spare parts, certain raw materials, consumer goods and even educational necessities such as books, journals and other educational supplies.

The oil crisis exacerbated a problem that was already starting to manifest itself: the deteriorating terms of trade for Southern African commodity producers. Prices of tea, coffee, tobacco, copper, and other goods exported by the countries of independent Africa declined while the cost of manufactured goods and capital goods increased.

This left many Southern African nations in a precarious economic position and most plunged deeply into debt to the World Bank and IMF under the strenuous conditionalities of SAPs. Most countries struggled to repay these loans and had to borrow more in order to do so. The greatest threat to education was that the SAP package included cutbacks in spending on social services such as education and health care, in addition to economic liberalization. Thus, the very independence of the poorer Southern African countries came under pressure as they became more and more dependent on foreign creditors and donors, who once again began to control and drive the development agenda in these countries.

Throughout this period, the dynamics in the entire region were also affected by instability due to the liberation wars in a number of countries such as Mozambique, Angola, Zimbabwe, Namibia and South Africa. In addition, the Governments could no longer sustain the previous rate of growth in the education systems and educational expansion slowed down drastically. Shortages of learning and teaching materials gripped many educational institutions. The construction of educational infrastructure also slowed down dramatically while existing infrastructure deteriorated. Many of the best African scholars began to leave Southern Africa in search of 'greener pastures' abroad, that is, 'brain drain'. Thus, overall, Southern Africa's capacity for independent knowledge production was seriously undermined and the region increasingly became intellectually dependent on the developed world.

Labour markets

A century of capitalism under colonial rule has left Southern Africa as an exporter of raw materials. Botswana, Namibia, South Africa and Zambia, for example, are mainly mineral exporters while Malawi, Swaziland, Tanzania and Zimbabwe are exporters of tobacco, sugar, fruits, cotton, sisal, skins, timber, beef and fish¹⁶⁹.

167 A. Habte and T. Wagaw, 2004.

168 L. Chisholm and others, 1998, A. Habte and T. Wagaw, 2004.

169 L. Torres, 1998.

Mhone (2000), grouped the Southern African economies into four types, sometimes overlapping, that emerged out of colonial capitalism, namely:

- *Settler-dominated economies*, for example, South Africa and Zimbabwe, where the majority of the labour force was designed to be a source of cheap labour.
- *Economies of the South African periphery*, such as Lesotho, Swaziland, Botswana and Namibia, which initially supplied cheap migrant workers.
- *Resource-based rentier monocultural economies*, such as Botswana, Namibia, Zambia, Angola, which relied on a single major natural commodity, and
- *Agrarian economies*, such as Malawi, Tanzania and Mozambique.

The common legacy of all economies in the region is a formal sector which was implanted on the basis of external interests and not as ‘*an endogenous outgrowth of the interactions between the agrarian and industrial sectors*’¹⁷⁰. The post-independence Governments embraced this ‘enclavity’ and hoped that the trickle-down effect from the formal sector would resolve unemployment and underemployment. Almost all policies had a deliberate formal sector bias and this reinforced the low labour absorption capacity of the economies. Foreign investment and foreign aid were regarded as the major source of capital for the independent Southern African States. The formal, capitalist sector after independence continued to operate as an enclave, which could only absorb a minority of the labour force, leading to economic stagnation and marginalization of the majority¹⁷¹.

As earlier noted, labour migration remains a significant feature of SADC labour markets. It developed throughout the century of colonialism, initially as a response to the labour needs of mining operations in South Africa. The migrant labour system was later expanded to the agricultural and manufacturing sectors and had a strong influence on the structure of labour markets in Southern Africa¹⁷². Torres (1998), identified different labour migration flows in Southern Africa:

- *Rural-urban migration* in search of work and better livelihoods.
- *Short-term trade migration* related to informal/small cross-border trading activities; *Migration of low-skilled workers* to jobs in the mining and agricultural sectors of neighbouring countries;
- *Migration of highly skilled workers* to countries with higher levels of income in neighbouring countries, such as South Africa, and

Migration of politically motivated refugees.

Labour migration is challenging for both the countries and communities receiving and losing the migrants. In some cases, migrants may be added to the already high number of unemployed workers in a particular country. Thus, many faced an antagonistic response from their hosts, for example, in South Africa and Botswana. In other cases, migrant workers constituted a ‘brain drain’ and a loss of youthful and productive workers, for example, in Zimbabwe.

Although trade unions incubated most liberation movements and nationalists in Southern Africa during colonialism, post-independence labour movements found themselves in the forefront of advocating for greater democracy and openly challenging the ruling parties of the day. Due to their relatively large social base, trade unions in Zambia and Zimbabwe played a key role in forming political opposition parties that either overthrew

170 G. Mhone, 2000.

171 Ibid.

172 L. M. Sachikonye, 1998.

former liberation movements in power (as in the case of Zambia) or presented a serious political challenge (as in the case of Zimbabwe).

After independence, many unions had to re-define their roles, including the need to become politically and organizationally independent. South Africa, Swaziland, Zimbabwe and Zambia, for example, are characterized by notable conflicts between government and labour. Southern Africa's trade unions, as the most organized section of civil society and the most outspoken critics of failed government policies, often have to articulate the aspirations not only of industry workers, but also of the poor majority, in general. However, the trade unions are not homogenous and vary greatly in terms of organizational capacity, membership base and vision. In some countries such as Botswana, Malawi and Mozambique, union federations were actually established on the initiative of government and hardly play the role of independent working class organizations.

Despite the notable economic performance of some Southern African countries, low wages, poverty, inequality, high levels of unemployment, underemployment and informalization are the daily experiences of most workers. As earlier noted, only 20 per cent of the Southern African labour force is in the formal sector. The legacies of colonialism are visible in the economic structures of all the countries of Southern Africa.

Informal sector

In the early post-independence era, when global and Southern African economies were generally performing well and formal sector employment was expanding, albeit more slowly than suited those wanting formal jobs, the informal sector was generally seen as an inconvenient reality which would disappear as modernization spread through the economy. Policies tended to be discouraging, and street traders and small-scale artisans were often harassed by the police. In addition, given that economic planning was highly regarded, from national development plans, to regional planning, and city zoning, the informal sector messed up these 'neat' plans. Whatever the perceptions of the role of the informal sector at any particular time, urban planners, in particular, are rarely in favour of it. Health and safety regulations, zoning by-laws, traffic laws, all are violated daily by informal sector workers.

The image of the sector was also problematic as newly independent Southern African Governments wanted their capital cities in particular, to appear 'modern', 'planned' and clean, to look like First World cities of the late twentieth century. The informal sector was seen as undermining that image. In Zimbabwe, for example, during the first decade of independence, street vendors, beggars, 'female prostitutes', and street roundups by police were a common feature whenever big regional and international meetings were being hosted, or important international figures were visiting the capital city of Harare.

In Malawi, for example, where 'obedience' and 'discipline' were two of the central ideologies of the ruling Malawi Congress Party, the urban informal sector was repressed, and was tolerated only in *planned* market spaces. These planning practices were replicated in the other major area of informality, low income housing. Squatting was prevented for many years and even the planned, low-income settlements were hidden away from the main roads as being too unsightly¹⁷³.

However, the 1970s, saw a major shift in thinking, driven by the United Nations International Labour Organization (ILO) towards a far more positive view of the actual and potential economic role of the informal sector in development, particularly with regards to the creative, employment-creating aspects of the sector.

SADC regional integration

Apartheid reigned supreme in South Africa from 1948 until the rise of the Frontline States in 1975. The Frontline States originally consisted of six independent countries, namely, Angola, Botswana, Lesotho, Mozambique, Tanzania and Zambia with the objective of ending colonialism and racism in Southern Africa. When the first

173 D. Potts, 1994; G. Myers, 2002.

objective of the Frontline States was achieved in 1980, after the liberation of Zimbabwe, the organization turned its attention to South Africa. The newly independent Zimbabwe became the seventh Frontline member in this crusade against the apartheid regime of South Africa¹⁷⁴.

Originally known as the Southern African Development Coordination Conference (SADCC), the organization was formed in Lusaka, Zambia on 1 April 1980, following adoption of the Lusaka Declaration. It had nine member States, namely, Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe, with Namibia joining in 1990. SADCC was formed to advance the cause of national political liberation in Southern Africa, and to reduce dependence particularly on the then apartheid South Africa, through effective coordination of utilization of the specific characteristics and strengths of each country and its resources.

SADCC objectives went beyond just dependence reduction to embrace basic development as well as regional integration. It was formed with four principal objectives, namely: reduction of Member State dependence, particularly, but not only, on apartheid South Africa; forging of linkages to create genuine and equitable regional integration; mobilization of member States' resources to promote implementation of national, interstate and regional policies; and concerted action to secure international cooperation within the framework of the strategy for economic liberation¹⁷⁵.

The Declaration and Treaty Establishing the Southern African Development Community which replaced the Co-ordination Conference was signed at the Summit of Heads of State and Government on 17 August 1992, in Windhoek, Namibia. The SADC Treaty sets out the main objectives of SADC as:

- a. Achieve development and economic growth
- b. Alleviate poverty
- c. Enhance the standard and quality of life of the peoples of Southern Africa, and
- d. Support the socially disadvantaged through regional integration.

These objectives are to be achieved through increased regional integration, built on democratic, equitable, and sustainable development principles.¹⁷⁶ Initially, SADC consisted of the 10 SADCC member States, with South Africa joining in 1994, Mauritius in 1995, DRC and Seychelles in 1998, and Madagascar in 2005, to make up the current 15 SADC member States.

In order to address national priorities through regional action, most member States were allocated the responsibility of coordinating one or more sectors. This involved proposing sector policies, strategies and priorities, and processing projects for inclusion in the sectoral programmes, monitoring progress and reporting to the Council of Ministers. Until 2001, the sector responsibilities within SADC were as presented in table 3.2.

174 SADC Secretariat, 2014, available from- www.sadc.int

175 SADC Secretariat, 2014, available from www.sadc.int

176 Ibid.

Table 3.2**Sector responsibilities within SADC up to 2001**

Country	Sector
Angola	Energy commission
Botswana	Agricultural research, livestock production and animal disease control
Lesotho	Environment, land management and water
Malawi	Inland fisheries, forestry and wildlife
Mauritius	Tourism
Mozambique	Culture, information, sport, and the transport and communications commission (SATTCC)
Namibia	Marine fisheries and resources legal affairs
South Africa	Finance, investment and health
Swaziland	Human resources development
Tanzania	Industry and trade
Zambia	Employment, labour and mining
Zimbabwe	Crop production, food, agriculture and natural resources
DRC	No sector responsibility
Seychelles	No sector responsibility

Source: Available from www.sadc.int

A decision of the SADC Summit held in Maputo, Mozambique, in August 1999 called for a review be conducted on the institutions of SADC as well as its operations. This directive was based on the fact that under the sector-based approach inherited from SADCC, the organization was being hamstrung in its endeavours to achieve regional integration. It needed to devise and implement regional policies and strategies in a coordinated and harmonized manner.

Following the review exercise, the sector-based decentralized approach was discontinued in favour of a centralized approach at the SADC Secretariat Headquarters in Gaborone, Botswana. SADC has 27 legally binding protocols¹⁷⁷ dealing with issues such as Defence, Development, Illicit Drug Trade, Free Trade and Movement of People, as well as several charters¹⁷⁸ and declarations¹⁷⁹. In 2004, the SADC Regional Indicative Strategic Development Plan (RISDP), 2004-2018, was launched, and the Strategic Indicative Plan of the Organ (SIPO) was initiated in 2005.

177 Protocol Against Corruption 2001; Protocol on Combating Illicit Drug Trafficking 1996; Protocol on the Control of firearms Ammunition and other Related Materials 2001; Protocol on Culture, Information and Sport, 2001; Protocol on Education and Training 1997; Protocol on Energy, 1996; Protocol on Extradition, 2002; Protocol on the Facilitation and Movement of Persons, 2005; Protocol on Finance and Investment, 2006; Protocol on Fisheries, 2001; Protocol on Forestry, 2002; Protocol on Gender and Development, 2008; Protocol on Health 1999; Protocol to the Treaty Establishing SADC on Immunities and Privileges, 1992; Protocol on Legal Affairs 2000; Protocol on Mutual Legal Assistance in Criminal Matters, 2002; Protocol on Mining, 1997; Protocol on Politics, Defence and Security Cooperation, 2001; Protocol on Science, Technology and Innovation, 2008; Protocol on Shared Watercourses, 2000; Protocol on the Development of Tourism, 1998; Protocol on Trade, 1996; Protocol on Trade in Services, 2012; Protocol on Transport, Communications and Meteorology, 1996; Protocol on Tribunal and Rules Thereof, 2000; Protocol on Wildlife Conservation and Law Enforcement, 1999; and Revised Protocol on Shared Watercourses, 2000.

178 Charter Establishing the Centre for Coordination of Agricultural Research and Development (CCARDESA) (2010); Charter of the Fundamental Social Rights in SADC (2003); and Charter of the Regional Tourism Organization of Southern Africa (1997).

179 Madagascar Declaration, 2013; SADC Declaration on Competition and Consumer Policies, 2009; Declaration on Poverty Eradication and Sustainable Development, 2008; Windhoek Declaration on SADC and International Cooperating Partners, 2006; Declaration on Agriculture & Food Security, 2004; Declaration on HIV/AIDs, 2003; Declaration on Terrorism, 2002; Declaration on Information and Communication Technology, 2001; Declaration concerning Firearms, Ammunition and other related materials, 2001; Declaration on Productivity, 1999; Declaration on Refugee Protection within Southern Africa, 1998; Declaration Towards a Southern Africa Free of Anti-Personnel Landmines, 1997; and Declaration on Gender and Development, 1997.

It is important to note that some SADC member States belong to other RECs, such as SACU, COMESA, and EAC.

3.4 Neo-liberal economic reforms: tinkering with the symptoms of underdevelopment

The post-independence analysis above shows that many Southern African States did not do what was needed to establish the conditions for economic take-off and for sustainable development. In contrast, evidence provided by numerous studies indicates that Japan, Korea, Malaysia and Singapore achieved '*deep structural economic transformation*' and sustained growth over three decades largely through a disciplined planning approach. From a policy stand point, there have been many failures which explain Southern Africa's inability to engineer an economic take-off whereby growth results in economic and human development:

- The first is the failure to understand and pay attention to the common characteristics of structural change required for high-level and inclusive growth that leads to economic development, including industrialization and diversification.
- The second is the failure to make the critical investments for structural transformation and increased productivity needed for take-off, especially, investment in infrastructure, human capital development, knowledge and innovation generation and diffusion, and technology transfer.
- The third is the failure to institute an environment that is conducive for endogenous private investment and to strengthen local entrepreneurship to play an appropriate role to spur growth and development.
- The fourth is the failure of leadership, lack of political will and absence of developmental States supported by a capable bureaucracy to guide the development process. In this regard, key growth, inequality and poverty issues such as the distribution of key productive assets including land and minerals, were forgotten.

Within this context, since the 1980s, neo-liberal ideology came to be felt through the influence of multilateral agencies such as the World Bank and the IMF, which sponsored the SAPs that swept across Africa. The effects of these policies are visible in virtually all of the African countries, Southern Africa, included, although the manifestations may be different. According to the IMF and the World Bank, SAPs were meant to lead to economic growth and improve a country's competitiveness through increased investments.

Critiques have argued that SAPs were built on the fundamental condition that debtor countries had to repay their debt in hard currency. This led to the policy of 'export-orientedness at all cost', because exports were the only way for developing countries to obtain such currencies. A first feature of SAPs was therefore a switch in production from what local people eat, wear or use, towards goods that can be sold in the developed countries. However, as many developing countries often exported the same primary commodities, competing with each other, this led to a global surplus of commodities, accentuating the fall in prices of commodities. Between 1980 and 1992, developing countries lost 52 per cent of their export income due to deteriorating prices¹⁸⁰. In Southern Africa, the SAP era of the 1980s and 1990s has gone down in economic history as the 'lost decades'.

The SAP package had four fundamental objectives: *liberalization*, which was designed to promote free movement of capital, including the repatriation of profits, through opening of national markets to international competition; *privatization* of public services and companies; *deregulation* of prices, labour markets including cutting of social safety nets; and improving competitiveness¹⁸¹.

180 Touissant and Comanne, 1995; S. George, 1995; C. Bournay, 1995.

181 E. Touissant and D. Comanne, 1995.

Based on these objectives, SAPs nearly always prescribed the same measures as a condition for new loans. These were:

- Reduction of government deficit through cuts in public spending (cost recovery programmes);
- Higher interest rates;
- Liberalization of foreign exchange rules and trade (deregulation);
- Rationalization and privatization of public and parastatal companies;
- Deregulation of the economy, including liberalization of foreign investment regulations, deregulation of the labour market, wage 'flexibility', and abolishing price controls and food subsidies; and
- Shift from import substitution to export-oriented economic growth.

In summary, the tide turned against state intervention, as the State was 'rolled back'. This limited government capacity to pursue its development goals. These measures forced countries on a path of deregulated free-market economies and integration into the global economy. The IMF and World Bank basically determined national macroeconomic policies, taking control over monetary and fiscal policies through Public Expenditure Review and other mechanisms. SAPs promoted the principle of cost recovery for social services and the gradual withdrawal of the State from basic health and educational services¹⁸².

Despite the IMF and World Bank claims of some SAP successes, it is widely acknowledged that SAPs failed to achieve their goals. They did not create wealth and economic development as unregulated markets did not benefit the poor majority and failed to protect the delivery of social services.

While the IMF/World Bank believed that the elimination of protective tariffs would make domestic industries more competitive, Southern African countries experienced the opposite. Manufacturing often collapsed and imported consumer goods replaced domestic production. Unemployment increased considerably, underpinned by firm downsizing, retrenchments and closures. In the public sector, for example, 300 000 civil servants were retrenched in DRC in 1995. These impacts coupled with the bankruptcies of local companies. Liberalization of the labour market led to the phasing out of minimum wages which protected the poor.

The elimination of subsidies and price controls under SAPs, along with devaluation, led to price increases and reduced real earnings in the formal and informal sectors. Tax reforms under SAPs placed a greater tax burden on middle and low-income groups while foreign capital received generous tax holidays.

Cost-recovery programmes in health and education increased the inequality in health care and education delivery, and reduced access to health and education. Export orientation in agriculture reduced the production of food crops, increasing the risk of food insecurity. Women, children, the poor, and vulnerable groups bore a disproportionate share of the SAP burden. Overall, in Southern Africa, SAP interventions reinforced rather than changed dependence on the export of raw minerals and cash crops.

Agriculture and rural development

Agrarian policies in Southern Africa have been designed and implemented within a neo-liberal macroeconomic and political framework. Even in those instances where land reform has been carried out, the neo-liberal approach has been retained. The principal element in neo-liberal policies was that agrarian production should be left for 'market forces' to determine, while the role of the State should be 'rolled back' significantly. In summary, the

182 M. Chossudovsky, 1995.

main elements and/or assumptions of SAPs as they related directly to the agrarian and land sector was stagnation in agriculture due to inappropriate government policies.

Many have argued for a reduced role of the State in production and marketing in the sector, and that input supply and crop marketing should be privatized, subsidies and price controls should be abolished; pan-territorial producer pricing structures should be replaced by local market-clearing prices; export crop parastatals should be abolished; and agricultural extension and research services should be reduced and privatized¹⁸³.

These SAP conditionalities were tied into lending to the agrarian sector. However, the resultant agrarian policies did not stimulate a major recovery in the sector; in many instances, there was deterioration in infrastructure, service and production levels. In an assessment of the impact of SAP-type policies in Zimbabwe's agrarian sector, it was observed that there was a decline in small-farmer production¹⁸⁴. This was due to a combination of factors which included: diminished access to credit, exploitation of the small farmers by 'middlemen' following the withdrawal by the State and the deterioration of marketing and delivery infrastructure. Liberalization at local levels in the agrarian sector did not necessarily result in higher productivity. The main beneficiaries of liberalization were few and confined to well-placed, large-scale commercial producers including plantations and estates. There is clearly a need to rethink agrarian policies.

Historically, Southern African countries have been suppliers of traditional agricultural raw materials such as tobacco, sugar, cotton, coffee, tea and beef. Under SAPs Southern African countries were drawn into the global web and became important exporters of horticultural products such as fruit and flowers, vegetables, paprika, wine products, beef and exotic meats such as ostrich meat. There were and are ready markets for these commodities in the European and East Asian countries. However, SADC has had to compete on a world market of limited demand. It has been condemned to do so with mostly unprocessed, agricultural products. Moreover, the pricing of these commodities is chiefly determined by the buyers, who include large multinational corporations and supermarket chains that have tremendous bargaining power vis-à-vis governments, growers and farm workers.

Finally, SADC countries are being forced to open up and expose their vulnerable agricultural sectors to the unfair competition of subsidized products from the North. Countries in Southern Africa experience the negative effects of unfair international trading arrangements underpinned by subsidies in developed countries. For example, the sugar industry in Swaziland cannot compete with imported EU sugar products¹⁸⁵.

Other countries that have been negatively affected by subsidies for developed country producers include South Africa, Zimbabwe, Malawi and Mozambique among others. Globalization of agriculture has not enhanced Southern African integration into world trade on an equitable basis; instead, the opposite has happened.

Mining

The dominance of neo-liberal economic thinking has militated against the emergence of a conscious strategy to diversify out of the colonial economy towards high-value economic activities. In this regard, the thrust of the SADC economic strategy rests on a restrictive macroeconomic policy and the promotion of free trade. A fundamental problem within SADC is the absence of an 'active industrial strategy' that defines the roles of sectors such as mining. Such a strategy would also define the role of mining to support downstream and secondary industries.

SADC has developed a mining strategy and protocol which seeks to encourage the following strategies: disseminating information on the investment climate and business opportunities available; strengthening national/regional institutions that are involved in mineral exploration and development; encouraging the downstream processing of minerals; compiling data on potential mining projects; identifying potential

183 World Bank, 1981, P. Gibbon and others, 1993.

184 G. Kanyenze, 2004.

185 Action Aid, 2002.

commodities for exploration; encouraging the publication of geological information; reducing the adverse environmental impact of mining; and ensuring the training and sustainability of human resources.

Policy reforms in some countries, for instance, in Angola, Botswana, DRC, Namibia, South Africa, Tanzania, Zambia and Zimbabwe, show that Government efforts were directed at creating a stable and predictable environment for private sector involvement in mining by improving administration of the sector, including the setting up of a minerals and geographic information database, and fiscal policies to encourage foreign investment in the mining sector. A major weakness of these interventions is the virtual absence of mechanisms to promote small-scale mining because of the obsession with mega projects. In turn, employment creation and retention receives scant attention or is left to chance.

Neo-liberalism has had a varied impact on mining in Southern Africa. By reducing State expenditure, support for state-owned enterprises was cut back. As a result, Governments could not undertake the much-needed capital investment to revitalize mining companies that desperately needed such investment. It can be argued that Governments were already incapable of making the required investments at the time of the introduction of adjustment policies. In the case of Zambia, even though currency devaluations plausibly increased the competitiveness of minerals, capacity constraints, in copper mines for example, meant that Zambia could not take advantage of price competitiveness.

Privatization encouraged foreign takeover of the former state-owned mining companies. Locals generally lacked the resources to buy state-owned mines, as was proved in the case of Zambia. In the case of diamonds, the De Beer cartel controls a major stake of the product distribution and supply, as part of the company's global strategy. This means that diamond-producing countries have to be price takers and have limited space to manoeuvre. Trade liberalization encouraged the importation of ore for smelting in the country to take advantage of cheap energy. There are examples of this scenario in both South Africa and Mozambique where the feed stock for aluminium smelting is imported and the smelt is done in these countries. In these cases, local production is displaced by foreign imports.

Privatization was vigorously pursued by Zambia to sell state-owned copper mines as part of the SAP. Privatization was justified on the grounds that the *Zambian Copper Consolidated Mines (ZCCM)* faced high costs, low output and low profits and was a drain on the State. The results of privatization were mixed. The *Zambian copper mines* have experienced an injection of much needed capital and supply industries were stimulated. Direct State subsidies in the mines have been reduced and the benefits of privatization accrue to a small minority of mainly foreign investors. Employment in mining has declined and State revenues are no better than during State ownership. As such, the decrease in the flow of revenue from mining to the State has limited the much-needed cash injection for financing social development objectives¹⁸⁶.

Manufacturing

The general erosion of the manufacturing sector of the developing countries, especially its industrial competitiveness, has not spared Southern African economies. The manufacturing sector and its export sub-sectors in particular, have been hard-hit in the traditional export markets of the North. This has been exacerbated by the emergence of Chinese and other more competitive Asian products. Exports in general have not grown as expected; in fact, there has been a decline in most sub-sectors, especially in garment and textile exports in recent years. The traditional markets, which Southern Africa has been accessing for a long time, are based on trade preferences, which are soon coming to an end or have already ended.

186 One study cites five reasons for the reduction in the flow of mineral rents after privatization in Zambia: the new owners of ZCCM assets negotiated for taxation individually, and in all cases, the Government gave in to low mineral rents; although the new owners are paying low royalty and value added tax (VAT), import duty was waived for five years from the effective date of sale; most mining companies have obtained excessive concessions in terms of taxation, royalty payments and the repatriation of profits and have ensured that the Government shoulders any liabilities; the development of agreements between the Government and the new owners provided mining companies greater protection by exempting them from liability for fines, penalties or third party claims made in respect of the past activities of ZCCM.

After two or more decades of trade liberalization, there is still very little to show in terms of practical policy measures and institution building mechanisms geared to facilitate and promote domestic firms in their quest for competitiveness. Even in those countries, where governments have moved on to privatize non-core activities, liberalize markets, prices, interest rates, among others, to enable the private sector to procure inputs including raw materials at competitive world market prices, the manufacturing sector has not responded as expected. The firms continue to focus solely on 'low road' manufacturing activities and this is inevitably plunging Southern African countries into competition with economies characterized by low labour costs, as is the case with China¹⁸⁷.

The situation in Zambia illustrates the policy inconsistencies and costly policy reversals that abound in Southern Africa. Zambia's structural adjustment and economic liberalization of the early 1990s, among other things, freed interest rates and prices, discontinued subsidies of basic food stuffs and energy, and repealed foreign exchange controls, devalued the Zambian kwacha and substantially reduced external tariffs. Privatization and deregulation were supposed to be further measures to improve efficiency. However, these measures were too broad and too quick, thus, deepening the economic crisis that was already in motion in the country before the reforms. The measures resulted in a severe de-industrialization of the economy. The country's manufacturing sector suffered from the impact of tariff differentials. Duty and sales tax raised on imported raw materials made Zambian products more expensive when compared with lower or no duties on imported final products. Most domestic firms continue to operate uncompetitively, using obsolete equipment.

Zimbabwe experimented with trade liberalization and SAPs in the 1990s. However, the decade ended with some policy reversals, which included the re-introduction of price controls, increased tariff rates, pegging as well as recourse to multiple exchange rates, and suspension of foreign currency accounts operated by corporations, although they were later re-instated. Since the beginning of 1999, the country's productive sectors became embroiled in a series of politically induced economic challenges. They were continuously adversely affected by severe foreign exchange constraints and a drastic upsurge in the inflationary pressure which reached 230 million per cent by July 2008¹⁸⁸. This resulted in the continued downsizing of agricultural and manufacturing production (de-industrialization), and hence, negative effect on regional and international competitiveness of the country's exports. Between 2000 and 2003, Zimbabwe experienced a massive closure of 750 firms, which led to retrenchments of several thousand workers.

In 1990, Malawi's textile and garments sub-sector was boosted by the signing of the South Africa/Malawi trade agreement, which attracted many South African companies to invest in Malawi doing cut, make and trim (CMT) operations for the South African market, effectively relocating a part of South Africa's garment industry to Malawi. Malawi's exports of apparel (clothing) grew rapidly from \$1.8 million in 1990 to \$63 million in 1999 once the new firms began to take advantage of the bilateral trade agreement. However, in 1998 the agreement came under attack. By January 2000, trade with South Africa under the agreement had virtually ceased with nine firms closing. The remaining firms battled to survive while the terms of trade with South Africa were renegotiated under the SADC Trade Protocol. In September 2001, agreement on quotas for apparel was finally reached, but by this time the critical mass built up during the 1990s had been destroyed (de-industrialization) and Malawi was no longer an attractive destination for investors to take advantage of SACU, Free Trade Area (FTA), or AGOA.

Small economies, such as Swaziland, though part of SACU, have long recognized their limitations in terms of size and economic space. Since the 1980s, Swaziland promoted the growth of foreign investment. As such, FDI became a major factor in propelling the growth of the economy, with FDI growing by 10.6 per cent from 2001/02 to 2002/03. In response to trade liberalization and global trends, Swaziland's hub of exporting firms became concentrated within the manufacturing sector where efforts were stepped up to create strong backward and forward linkages to enhance competitiveness and sustainability. The textile and clothing industry, showed massive benefits from AGOA between 2000 and 2013, and recorded commendable growth. Towards the end of

187 COMESA, 2004.

188 Zimbabwe Central Statistical Office, 2008.

2013, some of the FDI textile firms in Swaziland folded, throwing thousands of workers in the streets, before the extension of AGOA to May 2014.

While the above are only a few examples of the experience of Southern Africa under the frontal attack of trade liberalization and globalization, the manufacturing sector in Southern Africa faces a fragile relationship with virtually all the international trade agreements.

Education

One of the biggest impacts of neo-liberalism and globalization in Southern Africa, has been the shortage of resources available for education, leading to severe funding cutbacks for education at all levels. The shortage of resources has impacted on the quality of education management, such that the efficacy of management information systems, on which management decisions are based, has been compromised and cannot be adequately developed to meet the needs of the education systems. Quality assurance systems no longer function adequately as there are insufficient numbers of school-support personnel to visit schools regularly and insufficient transport to take them there. Many middle to high-ranking education officials in some countries do not have access to adequate modern electronic communications systems.

Within this context, the rate of school dropouts increased as households failed to cope with the privatized costs of education. Evidence showed that the girl child was the first victim in dropping out of school. A study commissioned by SADC described the impact of SAPs on education as follows:

“...the immediate impact of structural adjustment policies on education ...has been to reduce education budgets and intensify capacity problems. As the education share of the budget has fallen, enrolments have dwindled, quality has declined and equity goals have been compromised. Without sufficient funds to maintain buildings, pay teachers a living wage and provide meaningful instructional materials, infrastructure has become dilapidated, dropout rates have risen sharply, teachers have taken on extra jobs to make ends meet, and skilled personnel at higher levels of education have left for better conditions elsewhere”¹⁸⁹.

The inability of member States to fulfil popular demand for education has led some of them to increase reliance on private providers of education. In Malawi and Tanzania, for example, there has been a rapid growth of private secondary schools since the 1980s. In Malawi, private providers account for about a quarter of secondary school enrolments while in Tanzania, where private schooling was previously banned, over half of secondary schools were private by 1996¹⁹⁰. Botswana also has a high proportion of private secondary schools and in Zimbabwe by 1996, 88 per cent of primary school enrolment and 71 per cent of secondary school enrolment were in private schools. While some of the private schools are elite schools charging high fees to the wealthy, many are poor quality schools catering largely for relatively poor sections of the population who cannot gain access to public schooling¹⁹¹.

However, it is important to note that definitions of private schooling vary from country to country. In Zimbabwe, for example, most schools classified as private receive State support in the form of teachers' salaries, building grants and grants for non-capital expenditure. In Lesotho, all primary schools are considered private since the Church has traditionally been the provider of primary education, but the State recruits and employs teachers¹⁹². In Malawi, the State provides no subsidy at all and schools are liable to pay tax on income and assets. There is evidence in many countries that States do not have the capacity to regulate private schooling and that many poor students and their parents are exploited by some private providers whose main aim is to turn a profit at the expense of parents who undergo considerable economic deprivation in order to afford the relatively high school fees¹⁹³.

189 L. Chisholm and others, 1998.

190 P. Rose, 2002.

191 *ibid.*, 2002.

192 *Ibid.*, 2002.

193 P. Rose, 2002.

In Southern Africa, the decentralization of power over education away from the central state under the reform strategies is largely shifting the burden of education costs away from an increasingly impoverished State to even more impoverished communities. In the 1980s, the World Bank argued that investments in higher education were less valuable than those in primary schooling, for both individuals and societies. Although the Bank began to shift from this position in the 1990s, one effect of this thesis has been to further undermine investment in higher education in Southern Africa.

Health

As an arena and a vector of power relations in society, the health system both embodies and conveys questions of access, equity, justice and sustainability. Comprehensive primary health care and global protection of universality, solidarity and equity as a basis for health policy was dealt its most severe blow when the World Bank took on the restructuring of health systems in line with its neo-liberal, free-market ideology. SAPs introduced from the early 1980s onwards had a clear and devastating effect on health by undermining the structural factors that produce good health (jobs, incomes, food security, shelter, etc.).

During this era, the World Bank, with its financial muscle, took over the World Health Organization (WHO) role as world leader in health policy. The World Bank's budget for 'health' grew to three times that of the total WHO budget. As public budgets and tax-based financing for health fell under wider SAP reforms, greater attention was given to resource mobilization and efficiency, opening the way for arguments for cost recovery, and management reforms while drawing attention from the significant public under-funding of the sector¹⁹⁴.

These policy shifts, based on fundamental shifts in the paradigms and values governing health, had a profound impact on health systems in Southern Africa. Public spending on health, a major factor in improved household health, declined under SAPs and health care resource allocations were systematically biased against primary care. Health personnel attrition increased, in line with declining health worker morale, falling quality of care particularly at primary care level, and health sectors becoming more dependent on external financing.

Disincentives to health-seeking behaviour increased in the population as witnessed by the lower utilization rates, and household ability to meet major health care expenses declined as real incomes in the civil service declined. Debt-servicing levels exceeded expenditures on health in almost all SADC countries.¹⁹⁵ As debt consumed an increasing share of revenue, public health expenditure fell to well below the US\$ 30-40 needed to provide reasonable, quality basic health care.

The deterioration of the public health system across Southern Africa during the SAPs era has attracted much scholarly and policy attention. SAPs helped to reverse or diminish many of the historic post-independence gains, especially with regard to the health and nutritional status of the majority of the population, and the capacity of the public health system to prevent and manage diseases. Most of these difficulties have been both a symptom and cause of the deepening inequalities in access to health services in Southern Africa. These inequalities have grown in tandem with the widening gulf between the rich and the poor, the expansion of the ranks of the working poor, the thinning out of the middle class, and the increased segmentation of the category of working poor.

SAPs went a step further to incarnate marketization as the directive principle of policy and practice. The introduction of user charges, cost recovery and other marketization policies occurred at the same time as real incomes for the working poor collapsed in the face of: deep and repeated currency devaluations; major loss of employment as the public sector was first 'down-sized' and then 'right-sized'; a heavy inflationary spiral which fuelled prices and ate into incomes; the collapsing competitiveness of public sector wages and salaries and a flight of talent from the health sector in general and the public health system in particular; and deterioration

194 M. Rao and R. Loewenson, available from <http://www.phmovement.org/about/background1.html>

195 Over the period of SAPs, the total debt stock in Africa rose from US\$60.6 billion in 1980 to US\$206.1 billion in 2000, while investment and saving rates declined.

of the physical infrastructure and equipment of public health facilities due to the shortage of funds associated with the deflationary public expenditure policies adopted by most Governments which particularly targeted social expenditures;; and lack of a proper public policy in relation to the traditional medical system to which an increasing number of people turned as part of their coping strategies.

Furthermore, liberalization enabled a wider spread of health providers but without adequate state infrastructure to regulate quality or ensure equity in the growth of health care by private providers. The liberalized growth of private care under conditions of declining access to basic public services led to parallel worlds, where those with wealth could access the highest technology while many poor people could not afford basic drugs or safe water supplies. Many of these changes not only affected the funding and affordability of services, but also meant that citizens, who once expected safe water or health care as a right delivered by the State, now had to negotiate as consumers with a plethora of providers and bureaucracies¹⁹⁶.

What was left of the public health system was itself increasingly exposed to an internal commercial logic which, for the average patient, meant payment for virtually every service rendered. This is despite the fact that, in most African countries, public health insurance systems are non-existent and the culture of private health insurance remains highly underdeveloped. Also, the 'social safety net' programmes put in place by most Governments to alleviate the social consequences of the various reforms introduced failed to make a positive impact as they were generally under-resourced, came with very stiff qualification criteria meant to dissuade as many people as possible from benefiting, produced unacceptable social stigmas, and were generally managed as after-thoughts residual to the macroeconomic strategy.

The practice of self-medication and treatment at home became a prevalent feature of the health-seeking behaviour of those excluded from access to quality local health services at affordable prices and the 'globalized' services that were on offer to the wealthy. The circulation of fake medicines and medical quackery was on the increase. All of these developments posed varying degrees of challenges to the well-being of the poor. Furthermore, home-base care within the context of a raging HIV and AIDS epidemic, always a feature of the health-seeking behaviour of the populace, increased owing to the increasing inability of individuals and households to afford quality health services. Public health institutions became reduced to shadows of themselves and Governments sought to displace the burden of care to families.

While some constituent civic organizations tried to resist and confront these changes, others came in to fill the gaps in service provision created by State withdrawal or by falling access due to commercialization, gaining resources and visibility in the process. Although many trade unions actively resisted the SAP measures, their members were increasingly forced by market reforms into becoming users of private services. . Some unions were pressured to bring demands for employer cover for medical insurance and health care to union negotiations. As workers struggled to deal with escalating costs of care, health worker unions organized around their own falling real wages.

With HIV and AIDS, the burden shouldered by women as the providers of basic health care in the Southern African household, was made significantly heavier, with little support from government and the private sector. Southern Africa is the epicentre of the HIV and AIDS epidemic, with women registering higher infection rates compared to men. In 2003, Botswana was ranked as the country with the highest HIV and AIDS prevalence in the world¹⁹⁷. In 1998, 48 per cent of pregnant women in Francistown (Botswana) and 60 per cent of pregnant women in Beitbridge (Zimbabwe) were HIV positive. In Zambia, the prevalence was 25 per cent in young female adults compared to 10 per cent in males.

196 P Bond and G. Dor. 2003; R. Loewenson and M. Chisvo, 1994.

197 UNAIDS, 2003.

By the end of 2005, Swaziland had become the worst-affected country in SADC, with a national HIV prevalence of more than 40 per cent. HIV and AIDS deaths have led to an increased number of orphans and it is mostly the women in the communities who take care of them.

In the 1990s the World Bank extended its reach to the health sector itself. While the previous effects of World Bank policies on health had been to reduce funding to the health sector and undermine the resource capacity to sustain essential drugs and primary health care, in 1993 the World Bank published its *World Development Report*, entitled “*Investing in Health*.”

Labour markets

Since the 1980s, labour laws in Southern African countries have been influenced by the adoption of SAPs. Both trade unions and employer groups criticized SAPs for being ‘donor-driven’ and the Governments for failing to consult adequately with the social partners. During this period, many Southern African Governments abandoned their interventionist approach to industrial relations in favour of more market-oriented policies. According to Takirambudde (1995), Southern African labour laws introduced in the 1990s embodied a paradigm shift towards “*limiting the role of the state, the acknowledgement of economic conflict between capital and labour, recognition of the managerial rights of the owner/manager and respect for trade union autonomy*”¹⁹⁸.

SAPs required Governments to implement labour market reforms aimed at facilitating enterprise efficiency, both in terms of labour market flexibility and labour productivity. While each country adopted slightly different reforms, the standard elements of the reform programme included:

- A reduction in public sector employment
- Decentralized wage determination
- Cost containment by marginalization of the activities of trade unions
- Increases in labour ‘flexibility’ by making it easier for employers to terminate employee contracts (reducing job security) and
- Establishment of export processing zones (EPZs).

Changes to labour legislation in Zimbabwe in the early 1990s epitomized the type of labour law reforms that have been implemented by countries in pursuit of labour market ‘deregulation’. The Zimbabwean Government sought to decentralize the regulation of terms and conditions of employment¹⁹⁹. It granted employment councils a greater role in determining wages and conditions and dispute resolution, abolished statutory minimum and maximum wages (except for agricultural and domestic workers), reduced its own role in resolving labour disputes, and simplified labour regulations. Workplace councils were assigned the responsibility of establishing ‘codes of conduct’ governing workplace issues such as retrenchments, dismissals and labour disputes²⁰⁰.

Privatization of State enterprises/parastatals was one of the measures the Governments used under SAPs. Privatization was seen as a solution to the poor performance of the parastatal sector as well as an engine of growth through private sector participation. It was also strongly believed that privatization would attract foreign direct investment (FDI), thereby creating more employment²⁰¹. However, in most cases, privatization resulted in thousands of workers losing their jobs through retrenchments and company closures. For example, in Zambia, the Zambia Privatization Agency (ZPA) was established by an Act of Parliament in 1992 to implement

198 P.N. Takirambudde, 1995.

199 G. Kayenze, 1999; M. Gwisai, 2006.

200 J.B. Knight, 1997.

201 D. Banda and A. Muneku, 1996.

the Government's privatization policy. In the last three years of its existence, ZPA privatized 102 state-owned enterprises out of the 210 earmarked for this. More than 70 000 workers were estimated to have lost their jobs in Zambia.

In Zimbabwe, the SAP implemented from 1991 to 1995 resulted in around 50 000 jobs lost and a considerable number of unrecorded casual and temporary workers who also lost their livelihoods. Madhuku and Kanyenze (1998), suggest that the reduction of formal sector employment from 40 per cent of the labour force in 1980 to 27 per cent in 1996, was due to the effects of SAPs. In Mozambique, an Enterprise Reform Programme resulted in about 500 small and medium-sized state enterprises being privatized. As a consequence of privatization alone, about 90 000 workers lost their jobs.

Similar programmes of modernizing the public sector and opening up national markets for international competition were implemented in Botswana and South Africa. It is important to note that, while job losses affected men and women, women found it more difficult than men to regain employment or become self-employed, due to relative lack of education and skills, lifecycle issues and lack of independent access to capital.

Banda and Muneku (1996) summarized the effects of the SAP on Zambian labour markets. These experiences in Zambia were true for most countries in Southern Africa. Results included:

- Marked general decline in formal sector employment and decent jobs
- Rapid expansion of the informal sector with poor and low-income jobs
- Absence of a labour market and employment policy to address key social problems arising in the Zambian labour market
- Lack of correlation between high rates of national output growth and national employment growth;
- Decline in real wages;
- Wide wage differentials between industries and within industries (inequalities);
- Absence of a national wage policy
- Lack of liaison between trade unions and other social partners on labour-market issues, and
- Lack of labour-market flexibility, among other issues.

Given these negative impacts of SAPs on the labour markets in Southern Africa, trade unions resolved not to waste their energies in becoming co-managers of "SAPs with a human face", such as the 'Poverty Reduction Strategy Papers (PRSPs)' were supposed to be. Rather, they mobilized for an interventionist, developmental State needed to overcome the constraints of the region's enclave economies. In this regard, some union federations such as the Southern Africa Trade Union Co-ordination Council (SATUCC), Congress of South African Trade Union (COSATU), the Zimbabwe Congress of Trade Union (ZCTU), and the Congress of Lesotho Trade Unions (COLETU), took an active role in formulating their own proposals regarding alternative economic paradigms at national and regional levels. Unions in Zimbabwe, Zambia, Namibia, Mozambique and South Africa have built their own research departments and institutes to strengthen their capacity to influence socioeconomic policies and outcomes in favour of their labour constituencies.

Informal sector

The decade of the 1970s saw a major shift in how the urban informal sector was viewed. However, the next decade ushered in the era of neo-liberalism and the dominance of the 'market' under SAPs. Although the urban formal labour force was a target under SAPs, being seen as an over-favoured 'labour aristocracy', the fate and trajectory of the urban informal sector in all this was not of much concern as the market approach would work things out. From a theoretical stance, at least, prices in the informal sector were often competitive and the sector was entrepreneurial.

By the 1970s, there was a significant gap between formal-sector job opportunities and the urban labour force seeking jobs. The informal sector had also grown considerably. However, the era of SAPs from the 1980s brought about a massive increase in the informal sector, as the retrenched and others who lost their jobs, also moved into the informal sector. Some countries de-industrialized with startling speed under SAPs. For example, the manufacturing industry in Zimbabwe which had accounted for 25-27 per cent of GDP in the 1980s, after SAPs began in 1991, this reduced to 17 per cent of GDP by 1998²⁰². The thousands who lost their jobs mainly had to find work in the informal sector, or leave town for rural areas or another country, frequently South Africa and Botswana²⁰³.

In addition, several United Nations agencies, other development agencies, and NGOs supported proactive government investment in informal businesses, on legal sites, including providing training and credit facilities for them. This was the beginning of micro, small, and medium enterprise (MSME) policies which are still around today, although the terminology then, was different. King, (1977) and (1996) produced studies on the '*Jua Kali*'/informal sector in Kenya and these are now classic references on the informal sector in East and Southern Africa. The policy recommendations of agencies such as ILO and World Bank in the 1970s also helped to provide a less repressive regime towards informal sector work.

Many Governments embarked on various projects to promote specific elements of the informal sector and small-business sites were sometimes developed for informal entrepreneurs who were involved in various types of production/manufacturing and not only trading. Unfortunately, these were often in peripheral locations, which imposed costs and disadvantages which could quickly render marginally profitable businesses unviable. Once established on a planned site and registered, the businesses were no longer informal sector, but this transition was deemed desirable.

The era of SAPs and neo-liberalism had conflicting effects on the informal sector. On the one hand, rolling back the State allowed new trading activities in a far less regulated set of markets. By the 1990s in Malawi, many analysts were commenting on the changes in Malawian towns, with far more visible evidence of informal sector activities. Even in Ghana, where food trading was already such an important part of history and culture, it was noted that food marketing was expanding in the Central Region and that markets were much less heavily 'policed' under the Economic Recovery Programme (the Ghana SAP)²⁰⁴. On the other hand, as discussed, SAPs also stimulated the informal sector in the negative sense of forcing the retrenched and new job seekers into self-employment in order to survive. Thus, in most cases, the expansion was driven more by necessity than by new opportunity.

In Zambia, two years after President Chiluba came to power in 1991, the Lusaka City Council undertook a major sweep of street vendors. The President weighed in on the vendors' side, arguing that the action was unfair, especially when the Council had not provided alternative space for their trading. The vendors took this as support from the very top, and that they could now trade anywhere in the capital city, and they did. The central streets of the city became a hive of informal sector trading and street vending was nicknamed the '*Office of the President*'.

202 T. Hawkins 2001; C. Stoneman, 2004, in D. Potts, 2007.

203 D. Potts, 1995.

204 C. Dennis, 1996.

However, this populist support from the President was not to last, as in 1997, the Council opened a new, privately managed, covered set of market stalls, called the New City Market. The new market was controversial, as many vendors had to be moved for its construction. At first, these vendors lobbied for guaranteed space within the new market, but when it opened, most of them moved out into the streets and surrounding space, citing high rentals.

Parallel to the dualistic, gender-related inequalities in the larger economy and in the formal sector, generally, women because of their historical marginalization in education and in the patriarchal society, were and are still found in larger numbers in the informal sector in Southern Africa, as a survival strategy. Women mostly engaged in low remunerating economic activities such as food vending, selling at flea markets, market gardening, supplying *shebeens* and beer brewing, knitting, crocheting and sewing, prostitution and cross-border trading, among others. On the other hand, men were engaged in more lucrative economic activities such as gold panning, art and carpentry, retailing, repairs and transportation, among others.

3.5 2015 Millennium Development Goals – a social agenda without adequate resources

MDG agenda

By the end of the 1990s, the general failure of SAPs in developing countries, particularly in SSA including Southern Africa, necessitated re-thinking of the development agenda at global, United Nations level. In this regard, in 2000, the United Nations General Assembly adopted the Millennium Declaration outlining concrete and specific development goals and targets to free humanity from extreme poverty, among other calamities, to be achieved by 2015. The Declaration adopted the eight (8) MDGs²⁰⁵, with 21 targets and 60 main indicators, to guide developing countries in improving the living standards of the majority of their people. Unfortunately, one major weakness of the MDG agenda is that it remains largely a social agenda, superfluously de-linked from the economic development agenda that has to provide resources for the achievement of said social agenda.

According to the SADC *MDG Progress Report, 2013*, Southern Africa is likely to meet the 2015 targets for two MDGs, namely, MDG 2: *Achieve Universal Primary Education*, and MDG 6: *Combat HIV and AIDS, Malaria and Other Diseases*. However, under MDG 6, malaria and TB targets remain unlikely to be met. In addition, remarkable progress has been made for most targets in MDG 3: *Promote Gender Equality and Empower Women*; MDG 4: *Reduce Child Mortality* and MDG 8: *Develop a Global Partnership for Development*.

This implies that in 5 out of the 8 MDGs, SADC countries have registered significant, positive development towards their achievement. However, MDG 1: *Eradicate Extreme Poverty and Hunger*; MDG 5: *Improve Maternal Health* and MDG 7: *Ensure Environmental Sustainability* remain major challenges. This limited success is largely underpinned by lack of much needed economic structural transformation from the colonial enclave economy, through to the pervasive, neo-liberal economic development models.

With the 2015 deadline fast approaching, work is already at advanced stages in developing the Post-2015 United Nations Development Agenda to succeed the current MDG agenda. Given the historical experiences in Southern Africa, with respect to international versus local development priorities, it is important that the Post-2015 Development Agenda ensure complementarities rather than divergence with key development visions of countries and regional economic communities.

205 MDG 1: Eradicate Extreme Poverty and Hunger; MDG 2: Achieve Universal Primary Education; MDG 3: Promote Gender Equality and Empower Women; MDG 4: Reduce Child Mortality; MDG 5: Improve Maternal Health; MDG 6: Combat HIV and AIDS, Malaria and Other Diseases; MDG 7: Ensure Environmental Sustainability; and MDG 8: Develop a Global Partnership for Development.

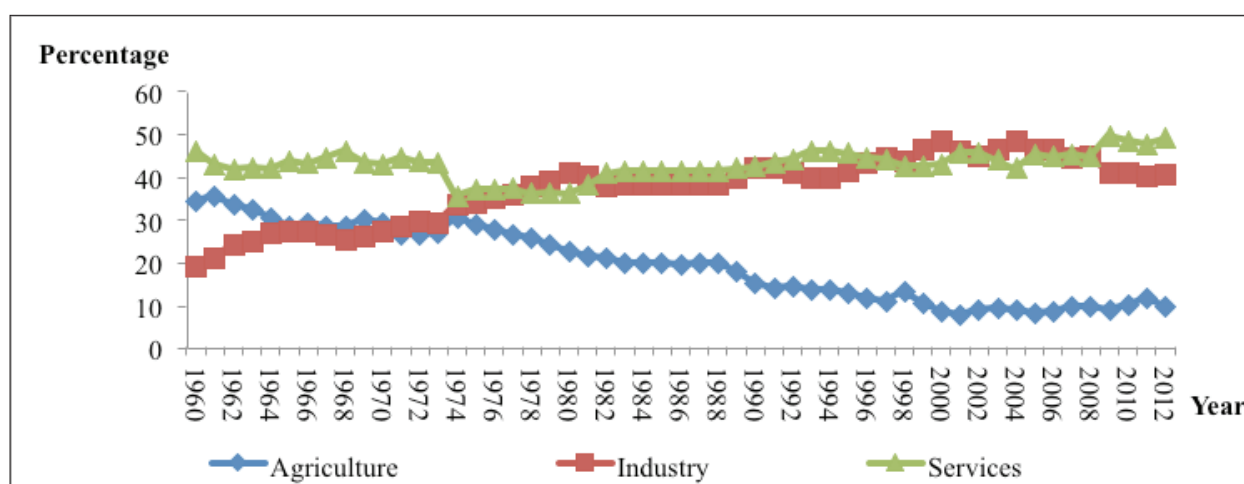
For example, there is a specific context within which SADC is pursuing its economic development, equality and poverty eradication agendas. In this regard, several frameworks have been put in place, including the Regional Indicative Strategic Development Plan (RISDP), Regional Poverty Reduction Framework (RPRF), Regional Poverty Observatory (RPO), and the Strategic Indicative Plan of the Organ (SIPO), among others. These frameworks have already defined the SADC development vision and path.

It is therefore important to integrate the Post-2015 Development Agenda within this context, to ensure complementarities rather than divergence. Post-2015 development priorities for SADC include: pursuing economic structural transformation to ensure broad-based and inclusive economic growth and development; poverty eradication, combating the spread of HIV and AIDS and eventually eliminating it; eliminating gender and income inequalities and empowering women; and reducing maternal and child mortality, among others.

SADC basic economic structure over five decades of independence

The economic outcome of the policies of the colonial, post-independence, and neo-liberal eras in terms of the basic structure of the economies of selected Southern African countries, compared to Malaysia, one of the South East Asian newly industrializing countries (NIC), is presented in figure III.1 to figure III.6. The basic tenets of an industrializing economy on the path of growth and development is clearly illustrated in the case of China (see figure II.1) and Malaysia (figure III.1), among others. In these countries, the contribution of agriculture to GDP has been declining, while that of industry and services has been increasing.

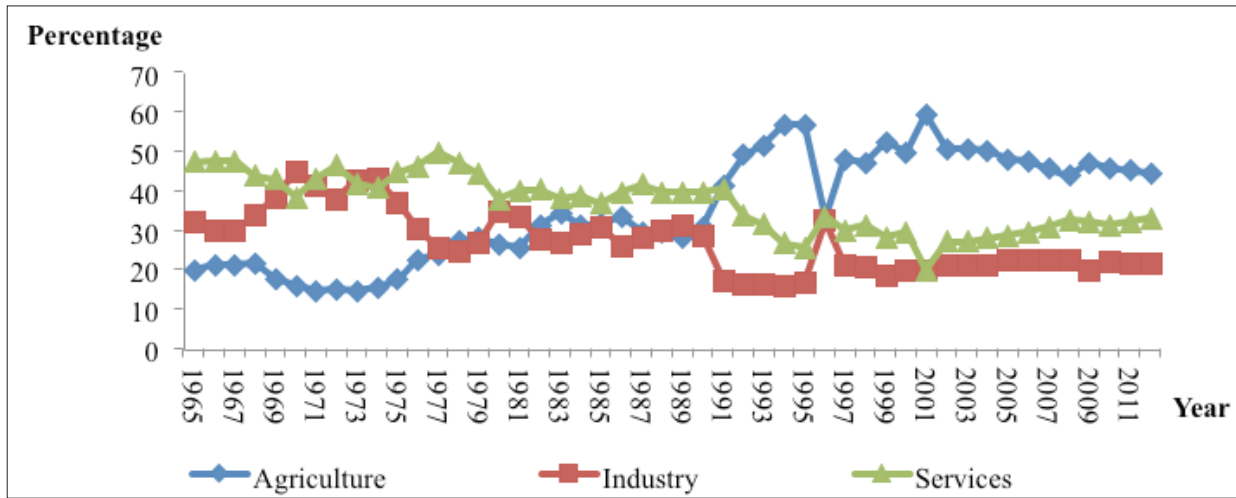
Figure III.1: Sectoral contribution to GDP, percentage, Malaysia, 1960-2012



Source: World Bank, *World Development Indicators*, 2014.

The situation of DRC (figure III.2) shows that from 1965 to 2012, the contribution of agriculture to GDP has been generally rising, while that of industry and services has been generally falling. This reflects an undesirable path of development.

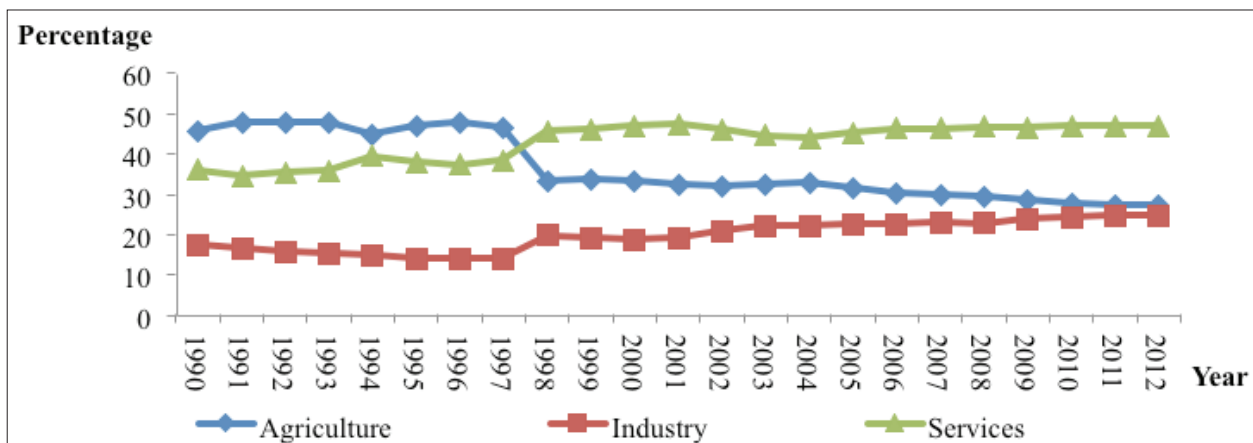
Figure III.2 : Sectoral contribution to GDP, percentage, DRC, 1965-2012



Source: World Bank, *World Development Indicators*, 2014.

For Tanzania, (figure III.3), from 1990 to 2012, the contribution of industry to GDP remained low, that of agriculture high but declining, while that of services has been steadily rising. This reflects a middle-of-the-road development path.

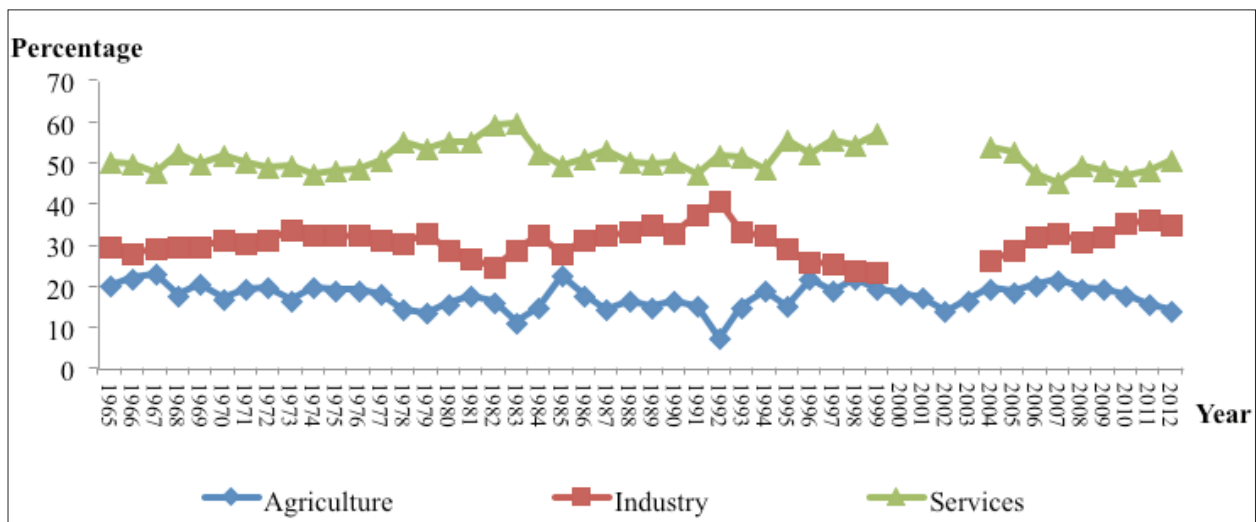
Figure III.3: Sectoral contribution to GDP (percentage), Tanzania, 1990-2012



Source: World Bank, *World Development Indicators*, 2014.

The structure of the Zimbabwean economy (figure III.4), from 1965 to 2012 depicts a country with serious structural rigidities, with the contributions of agriculture, industry and services, basically remaining the same over the five decades from colonialism to date. This reflects an undesirable path of development.

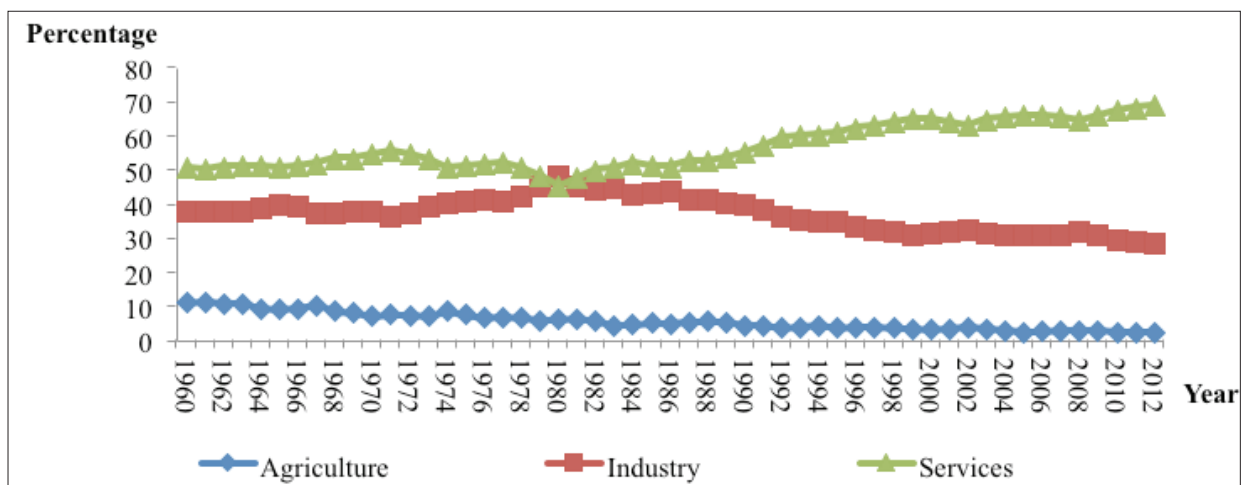
Figure III.4: Sectoral contribution to GDP (percentage), Zimbabwe, 1965-2012



Source: World Bank, *World Development Indicators*, 2014.

South Africa (figure III.5), a country classified as a NIC globally, shows that from 1960 to 2012, the contribution of agriculture to GDP was low and declining, while that of industry was relatively high and constant and that of services was high and generally rising. This reflects a desirable path of development.

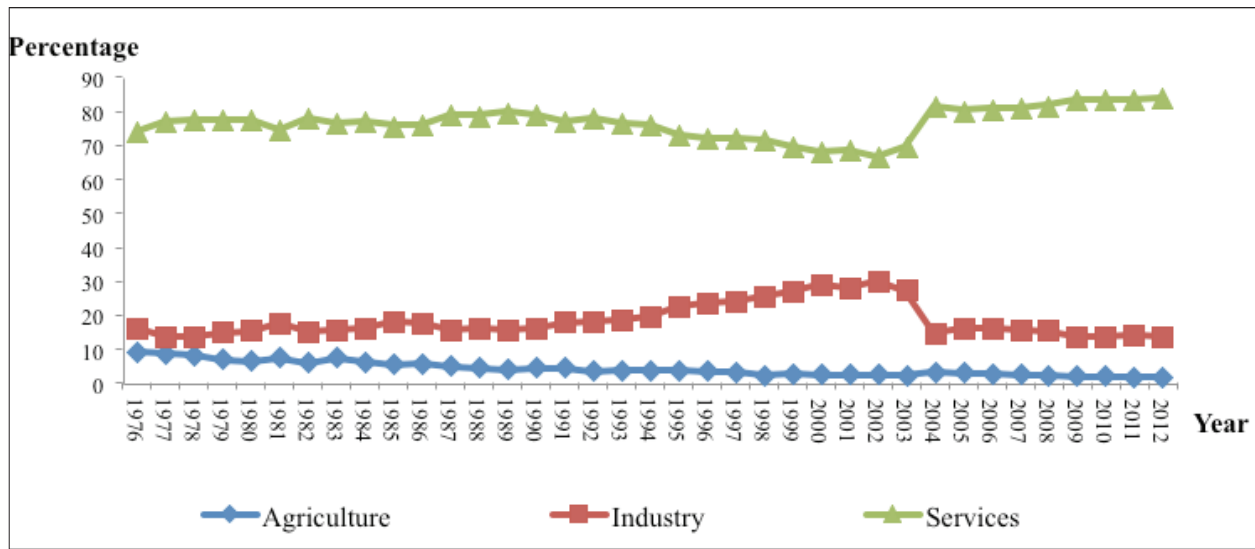
Figure III.5: Sectoral contribution to GDP (percentage), South Africa, 1960-2012



Source: World Bank, *World Development Indicators*, 2014.

Island States such as the Seychelles (figure III.6), with little land area, has minimal agricultural activity. From 1976 to 2012, the Seychelles economy was dominated by services, whose contribution to GDP is rising. The contribution of industry to GDP remains small but above that of agriculture. This reflects a desirable path of development.

Figure III.6: Sectoral contribution to GDP, percentage, Seychelles, 1976-2012



Source: World Bank, *World Development Indicators*, 2014.

The long-term economic structures for the rest of the SADC countries in comparison to the relatively more successful Asian countries²⁰⁶ are presented in appendix figure A3.11 to figure A3.17. Table 3.3 presents a summary of the economic structures for all the other SADC countries not highlighted above.

Table 3.3

Economic structures of selected SADC countries, percentage contribution to GDP for industry, agriculture and service sectors, 1960-2012

Country	Period	Economic structure (sectoral contribution to GDP)
Angola (figure A3.1)	1985 to 2012	Industry- high and rising Agriculture – low Services – above agriculture but declining
Botswana (figure A3.2)	1960 to 2012	Industry- high but declining Agriculture – declining Services – high and rising
Lesotho (figure A3.3)	1960 to 2012	Industry- rising Agriculture – declining Services – steadily rising
Madagascar (figure A3.4)	1966 to 2009	Industry- low and constant Agriculture – steadily rising and above industry Services – high and constant

206 The Asian countries used for additional comparison are Hong Kong, Indonesia, Japan, Korea, Singapore, Thailand, and Vietnam.

Country	Period	Economic structure (sectoral contribution to GDP)
Malawi (figure A3.5)	1960 to 2011	Industry- low but steadily rising Agriculture – high, slightly declining and remains above industry. Services – relatively high and generally constant.
Mauritius (figure A3.6)	1976 to 2012	Industry- steadily increasing Agriculture – low and declining Services –high and rising
Mozambique (figure A3.7)	1980 to 2012	Industry- relatively low and constant Agriculture – relatively high and slightly declining Services – generally constant
Namibia (figure A3.8)	1980 to 2012	Industry- generally declining Agriculture – low and constant Services – relatively high and steadily rising
Swaziland (figure A3.9)	1960 to 2011	Industry- rising Agriculture – declining Services –rising
Zambia (figure A3.10)	1965 to 2011	Industry- generally declining Agriculture – steadily rising Services – steadily rising

CHAPTER IV

CIVIL UNREST AND THE ECONOMIC GROWTH,

INEQUALITY AND POVERTY NEXUS

Civil unrest, also known as civil disorder, civil strife or civil disturbance, is a broad term that is typically used by law enforcement to describe one or more forms of unrest caused by a group of people²⁰⁷. Civil unrest is typically a symptom of, and a form of protest against, major socioeconomic and political problems. The severity of the action depends on the public's displeasure levels. Examples of civil unrest, therefore, range from legal and illegal protests, demonstrations, sit-ins, obstructions, riots, sabotage, some forms of crime (such as, widespread armed robberies), to civil wars and armed insurgencies.

Lower forms of civil unrest, though initially intended to be a demonstration to the public and the Government, can escalate into general chaos²⁰⁸. Civil unrest in Africa in general and Southern Africa in particular, are varied and diverse, and have produced strikingly different patterns of civil violence. Africa has been home to wars of decolonization, ethnic conflicts, long-running guerilla insurgencies, coups, proxy wars, urban unrest, clashes between paramilitary thugs with ties to political parties, armed criminal banditry, coordinated genocides, and anarchic State failure, among others²⁰⁹.

Southern African countries are in the midst of a complex transition, involving, political, social, and economic and governance dimensions that need to evolve into new political and economic dispensations, which can guarantee, broad-based wealth creation, equality, sustained growth and development and poverty reduction.²¹⁰ This transition has been, for most countries, in a context of unfavourable economic performance and negative external shocks that battered the fragile economies in SSA, in contrast to accelerated economic advances in most other regions of the world. The result in SSA has been increasing poverty, inequality and unmet aspirations of prosperity. The rampant civil unrest and/or wars have further undermined economic development, widened the development gap between SSA countries and the rest of the world and thus sustaining the cycle of poverty and violence.

The roots of the civil wars are complex, but evidence from research seems to suggest that poor governance, inequality particularly in access to natural resources such as minerals and land, and widespread poverty are among the main factors that create the conditions for conflict and that provoke civil unrest and/or wars. These conditions not only interrupt the larger socioeconomic and political transition but they make an already difficult development process more daunting, by the weakening of institutional infrastructure, degradation of the environment, and destruction of social capital, now widely believed to be an essential ingredient of socioeconomic development. However, civil unrest and/or wars provide an opportunity address the development process in a more holistic manner, including addressing historical structural inequalities.

According to Obidegwu (2004), of the 49 countries in SSA, at least 19 m (excluding Namibia, South Africa, and Zimbabwe) have been involved in internal armed conflicts. Human losses and suffering from these unconventional wars have been staggering. Over 800 000 people were killed in the genocide in Rwanda in three months in 1994, and over 200 000 people killed in Burundi since violence erupted in 1993, in addition to the 200 000 people that lost their lives in what the United Nations described as “genocidal repression” in 1972²¹¹. In Uganda, an estimated 800 000 people lost their lives over a 20-year period (1966-1986) of political autocracy, repression, and civil war²¹². Furthermore, neighbouring DRC, formerly Zaire, has witnessed the

207 W.J. Schurink, 1990

208 D. Black, 2007

209 J. Driscoll, (undated)

210 C. Obidegwu, 2004

211 F. Ngaruko. and J.D. Nkurinziza, 2000

212 Y.K Museveni, 1992

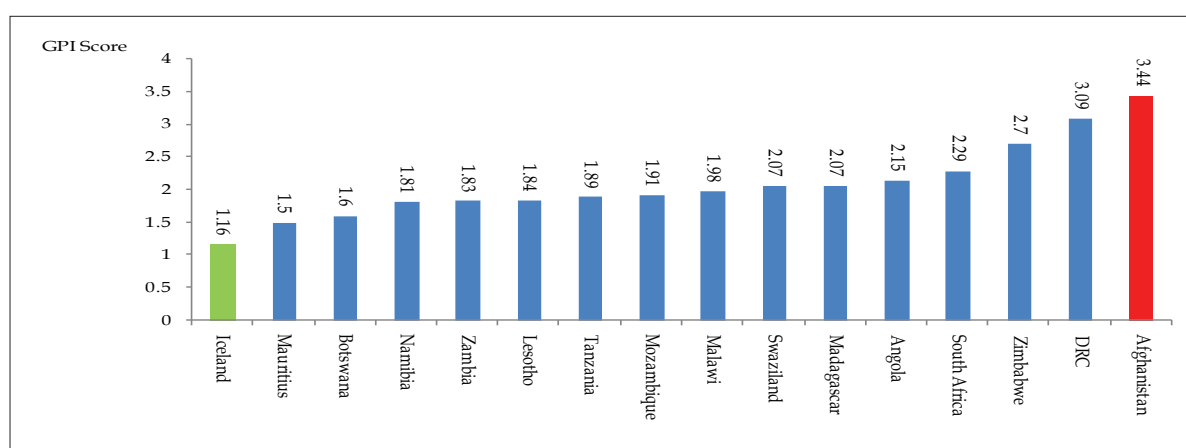
mother of all complex violent conflicts since the mid-1990s. By 2004, an estimated 3.5 million lives were lost in this continuing tragedy.

Large numbers of people were also lost to the brutalities of fighters of the Revolutionary United Front in Sierra Leone, and in the protracted wars in Angola, Ethiopia/Eritrea, Sudan and Mozambique, Madagascar, to name a few. Population displacement has been enormous. It is estimated that by 2000, about 14 million people had been uprooted from their homes by conflict in Africa.

According to the Global Peace Index (GPI), 2013²¹³, produced by the Institute for Economics and Peace (IEP)²¹⁴, Iceland with a GPI of 1.16 (rank 1), was the most peaceful country in the world, while Afghanistan with 3.44 (rank 162), was the least peaceful. For SADC countries, (excluding Seychelles), the GPI ranged from 1.5 for Mauritius (rank 21) to 3.09 for DRC (rank 156), shown in figure IV.1 and figure IV.2. Six SADC countries, namely, DRC, Zimbabwe, South Africa, Angola, Madagascar and Swaziland fall into the upper end of the GPI ranks of above 81, with DRC being in the bottom six countries at global level, together with Iraq, Sudan, Syria, Somalia and Afghanistan²¹⁵.

Nevertheless, Southern Africa also hosts the top six most peaceful countries in Africa, namely, Mauritius, Botswana, Namibia, Zambia, Lesotho, and Tanzania.

Figure IV.1 Global Peace Index 2013 Value, SADC Region Compared to the Best and Worst Countries in the World



Source: Institute for Economics and Peace, available from <http://www.economicsandpeace.org/research/iep-indices-data/global-peace-index>.

213 The GPI investigates the extent to which countries are involved in ongoing domestic and international conflicts. It also seeks to evaluate the level of harmony or discord within a nation; ten indicators broadly assess what might be described as safety and security in society. The assertion is that low crime rates, minimal incidences of terrorist acts and violent demonstrations, harmonious relations with neighbouring countries, a stable political scene and a small proportion of the population being internally displaced or refugees can be equated with peacefulness. Countries' peacefulness is measured on a wide range of indicators, 22 in all (originally 24 indicators, but one was dropped in 2008, and another in 2013). The 22 indicators include: number of external and internal conflicts fought; number of deaths from organized conflict (external); number of deaths from organized conflict (internal); level of organized conflict (internal); relations with neighbouring countries; level of perceived criminality in society; number of refugees and displaced persons as percentage of population; political instability; terrorist activity; political terror scale; number of homicides per 100 000 people; level of violent crime; likelihood of violent demonstrations; number of jailed persons per 100 000 people; number of internal security officers and police per 100 000 people; military expenditure as a percentage of GDP; number of armed-services personnel; volume of transfers of major conventional weapons as recipient (imports) per 100 000 people; volume of transfers of major conventional weapons as supplier (exports) per 100 000 people; financial contribution to un peacekeeping missions; nuclear and heavy weapons capability; and ease of access to small arms and light weapons.

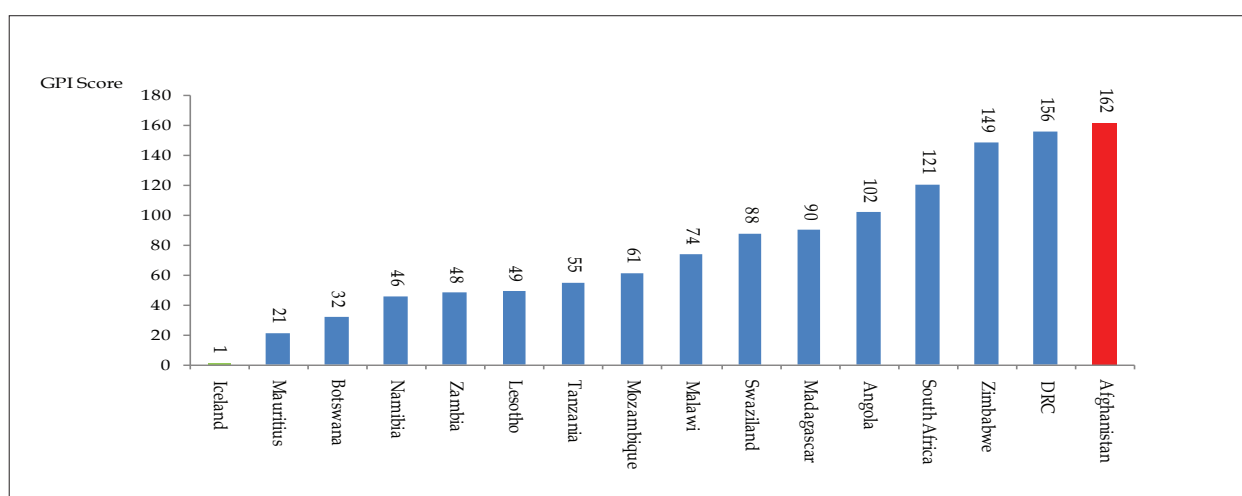
214 The IEP produces the GPI using indicators from the Uppsala Conflict Data Program (UCDP) – Sweden; the Economist Intelligence Unit (EIU) -UK; the United Nations Survey of Criminal Trends (UNSCCT) and Operations of Criminal Justice Systems; the International Centre for Prison Studies (ICPS) – UK; the International Institute for Strategic Studies (IISS) publication, 'The Military Balance'; the Stockholm International Peace Research Institute (SIPRI) Arms Transfers Database – Sweden; and the Bonn International Centre for Conversion (BICC) – Germany.

215 Institute for Economics and Peace, available from [economicsandpeace.org/research/iep-indices-data/global-peace-index](http://www.economicsandpeace.org/research/iep-indices-data/global-peace-index)

Note: GPI data for Seychelles are not available.

The peace situation in SADC as measured by the GPI improved between 2007 and 2013, in seven countries (Botswana, Namibia, Tanzania, Malawi, Angola, Zambia and South Africa); worsened in four countries (Swaziland, Madagascar, Zimbabwe and DRC); and remained stable in three countries (Mauritius, Mozambique and Lesotho), see appendix table A4.1. Even though Zimbabwe has not had a civil war, the extent of civil unrest was very high, matching some of the characteristics of economies in civil war, particularly during the economic recession decade of 2000-2008. South Africa, although experiencing some of the highest civil unrest, still retains relative economic strength. Swaziland is Africa's last absolute monarchy with the king holding all powers. Growing protests, particularly led by the youth, mainly demanding a constitutional multiparty democracy in Swaziland, are common.

Figure IV.2 Global Peace Index 2013 Rank, SADC Region Compared to the best and worst Countries in the World



Source: Institute for Economics and Peace, available from <http://www.economicsandpeace.org/research/iep-indices-data/global-peace-index>.

Note: GPI data for Seychelles are not available.

Excluding the wars of independence fought in some countries, several SADC countries are relatively socially stable, namely, Tanzania, Zambia, Malawi, Botswana, Namibia, Lesotho, Seychelles, and Mauritius. Tanzania, for example, has experienced a high degree of political stability since independence in 1961.²¹⁶ The ruling party, the Chama cha Mapinduzi (CCM) has dominated domestic politics since shortly after independence, a situation which has not changed with the end of one-party rule and introduction of a democratic multi-party system in 1995. In addition, Tanzania has little history of civil unrest, apart from isolated incidents in Zanzibar, with the two main religious groups, Christians and Muslims, co-existing harmoniously.

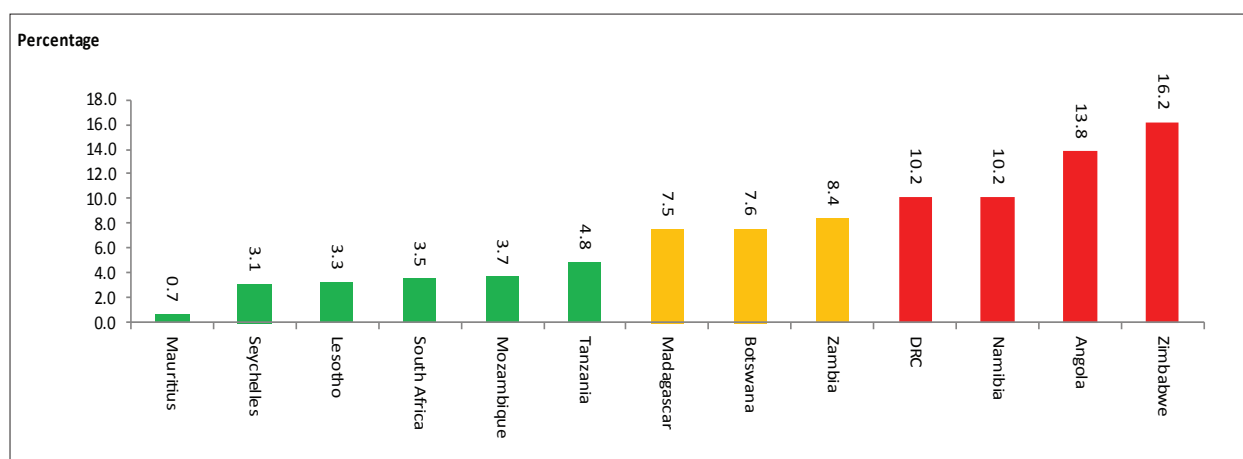
According to Bunwaree (2002), Mauritius has often been presented to the rest of the world as a success story not only because of its high economic performance, but also because of its interracial peace and harmony. In February, 2002, Mauritius did experience forms of civil unrest which paralyzed the country for a whole week. The GPI for 2013 ranked Mauritius and Botswana amongst the most peaceful countries in the world with ranks of 21 and 32 respectively. For countries with data, Botswana remained the most peaceful country in the SADC region from 2007-2011, as seen in appendix table A4.2.

Figure IV.3 shows that, generally, countries that have gone through episodes of civil unrest tend to continue to spend relatively high proportions of their total central government expenditure on the military, often

216 The Swiss Agency for Development and Cooperation (SDC), Tanzania Country Brief, retrieved on 30 April, 2014, available from <http://www.swiss-cooperation.admin.ch/tanzania/en/>;

perpetuating resource misallocation and straining the treasury. Zimbabwe and Angola, followed by Namibia and DRC are on the high side, in this regard.

Figure IV.3 Military expenditure as a percentage of central government expenditure, SADC countries, 2013

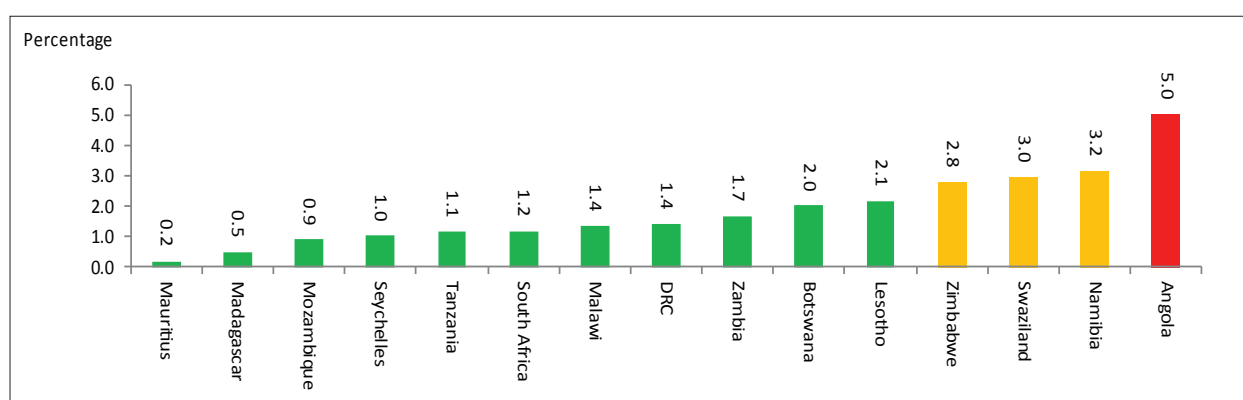


Source: World Bank Database, 2014.

Note: Data for Swaziland and Malawi are not available. Data for the following countries refer to the periods in brackets: Lesotho (2008); Mozambique (2010); Madagascar (2011); Zambia (2011); DRC (2010); Namibia (2011) and Zimbabwe (1997).

Figure IV.4 depicts that, generally, the same countries also have relatively high military expenditure as a percentage of GDP, with Angola being the highest with 5 per cent in 3013.

Figure IV.4 Military expenditure as a percentage of central government expenditure, SADC countries, 2013



Source: World Bank Database, 2014.

Note: Data for Mozambique refer to 2010.

4.1 Causes/roots/sources of civil unrest

4.1.1 Socioeconomic and political transitions

Underlying the issues of civil unrest and internal conflicts in Africa are the complex and difficult institutional as well as socioeconomic and political transitions underway in the region, within the context of weak capacity manage the challenging frictions that arise in the process. Many SSA countries in general and Southern African

countries in particular, have had common sociopolitical and economic experiences that have created situations prone to violent conflict. For example, the legacies of colonialism and the continued interference of the former colonial masters and other external powers and economic interests in the affairs of these countries, continue to sow the seeds of conflict.

The economic stagnation starting in the 1970s, exacerbated by persistent global economic shocks, made the transitions even more challenging. The inclination of the new political class to centralize authority in the context of challenging socioeconomic transformation, contributed to conflict. Where the underlying conflicts were poorly managed, the result was civil war.

The transition from colonial rule to a united and functioning independent state faced serious institutional obstacles. Box 4.1 illustrates the case of failed transition, and natural resource-related international interference in Angola, resulting in a 27-year civil war, 1975-2002.

Box 4.1

Angolan Civil War, 1975-2002 – a case of failed transition and natural resource-related international interference

The Angolan Civil War was a major 27-year civil conflict which started immediately after independence in 1975 and continued, with some interludes, until 2002. The war can be divided roughly into three periods of major fighting, from 1975 to 1991, 1992 to 1994, and from 1998 to 2002, broken up by fragile periods of peace. Prior to this, a decolonization conflict, the Angolan War of Independence (1961–74), had taken place. Angola's colonial power, Portugal, has been present and active in the territory, in one way or another, for over four centuries.

While the war was essentially a power struggle between two former liberation movements, the People's Movement for the Liberation of Angola (MPLA)²¹⁷ and the National Union for the Total Independence of Angola (UNITA)²¹⁸, it not only sucked in at least four other African countries, namely, South Africa, Namibia, Zaire/DRC, and Zambia but also at least eight countries internationally, namely, Portugal, USA, Soviet Union, China, Cuba, France, Belgium, and Israel, among others. At the same time, the war served as a surrogate battleground for the Cold War and large-scale direct and indirect international involvement by opposing powers such as the Soviet Union, Cuba, South Africa and the United States was a major feature of the conflict.²¹⁹

The Angolan civil war was thus, notably due to the combination of the country's violent internal dynamics and massive foreign intervention. The war became a Cold War struggle, as both the Soviet Union and the United States, along with their respective allies, provided significant military assistance to parties in the conflict. Moreover, the Angolan conflict became entangled with the Second Congo War, 1998-2003, in neighbouring DRC, as well as with the Namibian War of Independence, 1966-1990.

217 Since its formation in the 1950s, the main MPLA social base has been among the Ambundu people and the multiracial intelligentsia of cities such as Luanda, Benguela and Huambo. During its anti-colonial struggle of 1962–74, the MPLA was supported by several African countries, as well as by the Soviet Union. In the decolonization conflict of 1974–75, Cuba became the strongest MPLA ally, sending significant contingents of combat and support personnel to Angola. This support, as well as that of several other countries of the Eastern Bloc, for example, Romania and East Germany, was maintained during the Civil War, (Franz-Wilhelm Heimer, 1979).

218 UNITA's main social basis were the Ovimbundu of central Angola, who constituted about one third of the country's population, and the organization also had roots among several less numerous peoples of eastern Angola. UNITA was founded in 1966 by Jonas Savimbi, who until then had been a prominent leader of the FNLA. During the anti-colonial war, UNITA received some support from the People's Republic of China. During the subsequent decolonization conflict, the United States decided to support UNITA, and considerably augmented their aid to UNITA during the civil war. However, in the latter period, the main ally of UNITA was the Republic of South Africa.

219 Uppsala Conflict Data Program, 2013.

The MPLA and UNITA had different roots in the Angolan social fabric and mutually incompatible leaderships, despite their shared aim of ending colonial occupation. Although both had socialist leanings, for the purpose of mobilizing international support they posed as “Marxist–Leninist” and “anti-communist”, respectively.²²⁰ A third movement, the National Front for the Liberation of Angola (FNLA)²²¹, having fought the MPLA alongside UNITA during the war for independence and the decolonization conflict, played almost no role in the civil war. Additionally, the Front for the Liberation of the Enclave of Cabinda (FLEC), an association of separatist militant groups, fought for the independence of the province of Cabinda from Angola. It is also important to note that the Angolan liberation movements were mainly organized along ethnic lines²²².

When the timeline for independence became known, most of the roughly 500 000 ethnic Portuguese Angolans fled the territory during the weeks before or after that deadline. Portugal left behind a newly independent country whose population was mainly composed of Ambundu, Ovimbundu, and Bakongo peoples. The Portuguese that lived in Angola accounted for the majority of the skilled workers in public administration, agriculture, and industry; and after their departure, the national economy began to sink into depression.²²³ In addition, the South African Defence Force (SADF) despatched to secure the construction of the dam at Calueque under Operation Savannah, ultimately clashed with Cuban forces assisting the MPLA.

A fragmented declaration of victory and independence by each of the liberation movements, undoubtedly plunged the just independent Angola into civil war. Agostinho Neto, the leader of the MPLA, declared the independence of the Portuguese Overseas Province of Angola as the People’s Republic of Angola on 11 November, 1975.²²⁴ UNITA declared Angolan independence as the Social Democratic Republic of Angola based in Huambo, and the FNLA declared the Democratic Republic of Angola based in Ambriz. FLEC, armed and backed by the French Government, declared the independence of the Republic of Cabinda from Paris. The FNLA and UNITA forged an alliance on 23 November, proclaiming their own coalition government, based in Huambo with Holden Roberto and Jonas Savimbi as co-Presidents.²²⁵

Historically, in 1885, the Treaty of Simulambuco established Cabinda as a Protectorate of Portugal, such that, a number of Cabindan independence movements consider the occupation of the territory by Angola illegal, leading to ongoing separatist conflict. Thus, while the Angolan Civil War largely ended in 2002, an armed struggle persisted in the exclave of Cabinda, where some of the factions proclaimed an independent Republic of Cabinda, with offices in Paris.

Despite the July 2006 ceasefire negotiations in Brazzaville, the Cabinda issues remain fragile. Adjacent to the Cabinda coast, in the Atlantic Ocean, are some of the largest offshore oil fields in the world. Cabinda produces 700 000 barrels (110,000 m³) of crude oil per day, which constitutes 60 per cent of Angola’s oil production.²²⁶

220 The MPLA adopted the label “Marxist-Leninist” in 1977, but at the same time eliminated by way of a massacre its wing that wanted it to become communist; the label was then given up again in 1991. UNITA adopted anti-communist rhetoric for reasons of convenience, and also gave it up in 1991.

221 The FNLA formed parallel to the MPLA, and was initially devoted to defending the interests of the Bakongo people and supporting the restoration of the historical Kongo Empire. However, it rapidly developed into a nationalist movement, supported in its struggle against Portugal by the government of Mobutu Sese Seko in Zaire. During the early 1960s, the FNLA was also supported by the People’s Republic of China, but when UNITA was founded in the mid-1960s, China switched its support to this new movement, because the FNLA had shown little real activity. The United States refused to give the FNLA support during the movement’s war against Portugal, which was a NATO ally of the U.S.; however, the FNLA did receive U.S. aid during the decolonization conflict and later during the Civil War.

222 The MPLA was primarily an urban based movement in Luanda and its surrounding area. It was largely composed of Mbundu people. By contrast the other two major anti-colonial movements were rurally based groups, the FNLA and UNITA. The FNLA largely consisted of Bakongo people hailing from Northern Angola. UNITA, an offshoot of the FNLA, was mainly composed of Ovimbundu people from the Central highlands.

223 The Economist, 1975.

224 D. S. Rothchild, 1997.

225 Chester A. Crocker, Fen Osler Hampson, Pamela R. Aall, 2005.

226 <http://www.cidcm.umd.edu/mar/assessment.asp?groupId>.

On a global scale, by 1986, Angola began to assume a more central role in the Cold War. The Soviet Union, Cuba and other Eastern bloc nations increased support for the MPLA Government, and the USA began to elevate their support for Jonas Savimbi and UNITA in an effort to oppose and rollback Soviet-backed, non-democratic governments around the world. The Soviet Union gave an additional \$1 billion in aid to the MPLA Government and Cuba sent an additional 2 000 troops to the 35 000-strong force in Angola to protect Chevron oil platforms in 1986. In addition, the ability of UNITA to mine diamonds and sell them abroad provided funding for the war to continue even as the movement's support in the Western world and among the local populace withered away.

Illicit arms trading characterized much of the later years of the Angolan Civil War, as each side tried to gain the upper hand by buying arms from Eastern Europe and Russia. Israel continued in its role as a proxy arms dealer for the United States.²²⁷ Eventually, Government troops killed Savimbi on 22 February, 2002, in Moxico province. Military commanders for UNITA and the MPLA met in Cassamba and agreed to a cease-fire.

The new UNITA leadership declared the rebel group a political party and officially demobilized its armed forces in August 2002. By the time the MPLA finally achieved victory in 2002, more than 500 000 people had died and over one million had been internally displaced. The war devastated Angola's infrastructure and severely damaged the nation's public administration, economic enterprises, and religious institutions.

Mozambique's Civil War of 1977-1992 is a similar example of failed transition. The country was also caught up in Cold War tensions as well as the liberation wars of Zimbabwe and South Africa. See box 4.2. This civil war was notorious for its human rights abuses and the general destruction of infrastructure.

Box 4.2

The Mozambican Civil War – a case of failed transition and the costs of final liberation of the region

The Mozambican Civil War which began in 1977, following its independence in 1975, was fought over a period of 15 years until 1992. Prior to that, a war of independence from Portugal had been waged from 1964 to 1975. Just like the Angolan Civil War, the Mozambican Civil War was partly a proxy of the Cold War. During the war, the ruling party, Front for Liberation of Mozambique (FRELIMO), and the national armed forces FAM (Armed Forces of Mozambique), were violently opposed from 1977 by the Mozambique Resistance Movement (RENAMO), which received funding from the then Rhodesia and later South Africa. About 1 000 000 people died in fighting and from starvation, 5 000 000 civilians were displaced,²²⁸ and many were made amputees by landmines, a legacy from the war that continues to plague Mozambique. Fighting ended in 1992 and the country's first multi-party elections were held in 1994.

Mozambican resistance began to surface, as some groups within the Mozambican society eventually started to blame the Portuguese authorities for centuries of exploitation, oppression and neglect. FRELIMO's support largely came from Algeria, the Soviet Union and China. On 7 September 1974, an agreement was made by Portugal to transfer power to FRELIMO within a year. This resulted in the exodus of most of the Portuguese, leading to the economic and social collapse of the newly independent country. On 25 June 1975, Mozambique gained independence from Portugal, with Samora Machel as the Head of State. The independence of Mozambique and Angola in 1975 challenged White minority rule in Southern Africa, as revolutionary socialistic movements gained power in the region, openly supporting the Black resistance movements in South Africa and Rhodesia. As Samora Machel put it in a speech in 1975: "*The struggle in Zimbabwe is our struggle*".²²⁹

227 Wayne Madsen, 2002.

228 Available from State.gov, 2011.

229 Available from jpires.org, retrieved 28 April, 2012.

Soon after independence, FRELIMO announced Mozambique's transformation into a socialist one-party State. Furthermore, nationalization of many Portuguese-owned enterprises, fear of retaliation among Whites, and an ultimatum to either choose Mozambican citizenship or leave the country within 90 days, drove the majority of the White Portuguese Mozambicans out of the country. As most Black Africans were not educated under Portuguese rule, this resulted in economic collapse and chaos. As a revolutionary Marxist party, FRELIMO embarked on overturning traditional governance structures in order to gain full control over every aspect of society. Therefore local chiefs were ousted and thousands of those who disagreed were imprisoned in re-education camps.²³⁰ Another source of conflict was the continuation of the 'aldeamento'/communal villages system that the Portuguese had introduced as a means of exerting control and inhibiting contact between the population and the liberation fighters. FRELIMO hoped that this system would enable the fulfilment of its agricultural development goals, but its implementation alienated the rural population.

From 1976 to 1977, Rhodesian troops repeatedly entered Mozambique in order to carry out operations against the Zimbabwe African National Liberation Army (ZANLA) bases tolerated on Mozambican territory by the FRELIMO Government. In this context, the FRELIMO ex-official, André Matsangaissa, was freed from a re-education camp, given military training and installed as leader of RENAMO, which is said to have been founded by the Rhodesian Secret Service shortly before.²³¹ RENAMO subsequently started operating in the Gorongosa area in order to fight FRELIMO and ZANLA.

In 1979, Matsangaissa died, and subsequently, Afonso Dhlakama became the new leader of RENAMO. During this period, millions died from the war and famine. FRELIMO had to defend vast areas, while RENAMO operated out of a few remote areas carrying out raids against towns and important infrastructure. Both sides heavily relied on the use of land mines, FRELIMO as a means to defend important infrastructure, RENAMO in order to terrify the populace, stall the economy and destroy the civil service, mining roads, schools and health centres. By the mid-1980s, FRELIMO had lost control of much of the countryside. RENAMO was able to carry out raids virtually anywhere in the country except for the major cities. Transportation had become a perilous business. Even armed convoys were not safe from RENAMO attacks.²³²

During the war, FRELIMO initially received substantial military and development aid from the Soviet Union and later also from France, the United Kingdom and the United States. RENAMO received military support from Rhodesia, South Africa, Malawi and Kenya, as well as organizational support from Western Germany.²³³ The FRELIMO administration led by President Machel was economically ruined by the war, leading to the signing of the non-aggression pact, the Nkomati Accord, on 16 March, 1984 with South Africa. By the end of the 1980s, neither side was able to win by military means. On 19 October 1986, Mozambique's first president, Samora Machel, died when his presidential aircraft crashed near South Africa's border. He was succeeded by Joaquim Alberto Chissano. Chissano continued Machel's policies of expanding Mozambique's international ties, particularly the country's links with the West, and pursuing internal reforms.

In 1990, the transition to peace in Mozambique was ushered in, with the end of the Cold War, apartheid crumbling in South Africa, and subsequently, support for RENAMO drying up, leading to the first direct talks between the FRELIMO Government and RENAMO. FRELIMO's draft constitution in July 1989 paved the way for a multi-party system, and a new constitution was adopted in November 1990. On 4 October 1992, the Rome General Peace Accords, negotiated with the support of the United Nations, were signed in Rome between President Chissano and RENAMO leader, Afonso Dhlakama, which formally took effect on 15 October 1992. A United Nations peacekeeping force (ONUMOZ) of 7 500 arrived

230 Igreja, 2007, p.128.

231 "Our work | conciliation resources", available from C-r.org, retrieved 28 April, 2012.

232 Available from <http://www.c-r.org/our-work/accord/mozambique/key-actors.php>.

233 "Our work/ conciliation resources", available from C-r.org, retrieved 28 April, 2012.

in Mozambique and oversaw a two-year transition to democracy. Some 2 400 international observers also entered the country to supervise the elections held 27–28 October 1994. The last ONUMOZ contingents departed in early 1995. By then, the Mozambican Civil War had caused

1 000 000 deaths and displaced over 5 000 000 people, out of a total population of around 13-15 million at the time.

The case of South Africa illustrates the impact of inherited inequalities and poverty for the majority, engendering a culture of civil unrest, as shown in box 4.3.

Box 4.3

Civil unrest/protests in South Africa

South Africa has been dubbed “the protest capital of the world”²³⁴ and has one of the highest rates of public protests in the world.²³⁵ The country’s record of civil unrest dates back to the 1970s, when nationalists were fighting the apartheid regime for independence. However, following the attainment of independence in 1994, the rate of protests has been escalating since around 2004, with 540 protests reported in the Province of Gauteng between 1 April and 10 May 2013²³⁶. In February 2014, it was reported that there had been “nearly 3 000 protest actions in the last 90 days – more than 30 a day – involving more than a million people.”²³⁷

The most common reasons for protests relate to inequality and poverty with most grievances around land, housing and general poor service delivery, especially with regard to water and sanitation.²³⁸ According to *The Times*, “*Informal settlements have been at the forefront of service delivery protests as residents demand houses and basic services*”²³⁹. More specifically, reasons for protests in South Africa include:

- Unequal and segregated distribution of land in both rural and urban areas
- Government corruption (especially at the local level)²⁴⁰
- Undemocratic structure of wards and development forums
- Top-down selection for party positions within the African National Congress (ANC)
- Top-down, authoritarian approaches to governance (that is, lack of consultation with the people)
- Evictions and forced removals
- Rampant crime
- Unemployment²⁴¹
- Police brutality

234 C. Rodrigues, 2010.

235 P. Alexander, 2012.

236 K. Patel, 2013.

237 M. Du Preez, 2014.

238 N. Davids, 2012.

239 P. Dlamini, 2014.

240 M. Mbeki, 2011.

241 C. Benjamin, 2011.

- Municipal and provincial border demarcation issues
- Increases in transport prices
- Electricity disconnections, increases in electricity prices and the failure to provide electricity to shack settlements
- Overcrowding in schools
- Failure to install traffic-calming measures on roads adjacent to shack settlements, and, among others,
- Low wages.

Some analysts have termed the rapidly increasing wave of protests since 2004 a ‘rebellion of the poor’²⁴². Zwelinzima Vavi, COSATU Secretary-General, described the increasing rate of popular protests as a “ring of fire” closing in on major cities that could result in a Tunisia-style revolution²⁴³.

Notable protests include: the Harrismith protests in 2004; Kennedy Road blockade on 19 March 2005; Khutsong protests during 2006 and 2007; N2 Gateway occupations where over 1,000 families occupied unfinished State-built houses to protest unfair and corrupt allocation of houses during 2007 and 2008; February 2008 Symphony Way road occupation which lasted over 1 year and 9 months; Balfour protest of 2009; Macassar Village Land Occupation in May 2009; Durban proletarian shopping protest in July 2009; Abahlali base Mjondolo march in March 2010 (City Manager, Mike Sutcliffe tried to ban the shack dwellers from occupying the CBD); protests in Ermelo, Grahamstown, Zandspruit Ficksburg, Makhaza in Khayelitsha, the Samora Machel squatter camp in Mitchell’s Plain, Cape Town, Shaka’s Kraal in KwaZulu-Natal, Noordgesig, Soweto and Themb’elihle, Johannesburg, all in 2011; protests in the Siyahlala shack settlement in Gugulethu, Cape Town, the Zakheleni and Puntan’s Hill shack settlements in Durban, as well as Marrianridge, also in Durban, Oliphantshoek in the Northern Cape and Port Elizabeth in 2012; Marikana miner strike which resulted in 34 strikers being killed by the police with 78 being wounded on 16 August 2012; protests on grape farms in the Western Cape in November 2012 and January 2013; protests in Sasolburg against municipal demarcation and the perceived corruption and manipulation of democratic processes in the local and regional ANC in January 2013; and protests in Protea, South, Soweto, in August 2013, among others.

More examples of problematic socioeconomic and political transitions include the 1980 Lancaster House independence constitution of Zimbabwe, with its ‘willing buyer-willing seller’ great compromise on land, creating a breeding ground for the conflicts surrounding the FTLRP of 2000, and the subsequent decade of economic recession in the country, against the backdrop of illegal selective international sanctions. There were countries at independence that had very limited human and institutional capacity for good governance, or even for establishing a functional government, for instance, in DRC.

As noted earlier, the institutional and socioeconomic transformation required in SSA countries for national political and economic integration contained seeds of conflicts. Whether the motivation of the leaders of the rebellion is political or economic, a civil war indicates severe grievances in the society that could have been addressed with non-violent approaches including open dialogue. Often these grievances festered for several years before being manifested by open rebellion. Furthermore, the global economic shocks of the 1970s eroded the capacity of the security agencies (army, police, customs and immigration and emigration agencies) and thus, their potential to deter organized rebellion. In the meantime, political leaders tended to overestimate the capabilities of their military establishment as well as the strength of commitments of external military support and hence, were not inclined to make compromises for peace.

²⁴² K. Patel, 2011.

²⁴³ S. Mkokeli, 2011.

On the other hand, rebel movements, without the training, organization and resources to fight and sustain a conventional war, often resorted to economic plunder and to terrorizing non-combatants. The rebellion, often initiated with noble objectives of fighting poor governance, injustice, poverty and inequality, often degenerated into an instrument of economic plunder and for inflicting misery on ordinary people. As few governments and rebel movements have the organization and financial resources to win civil wars outright, once a civil war starts, it often drags on for a long time. With the loss of a unifying theme in the rebellion, rebel factions proliferated, for example in DRC, Liberia, Sudan and Burundi, hindering the process of implementing ceasefire and peace agreements.

4.1.2 The natural resource ‘curse’

Going as far back as the late 19th to early 20th century (1881-1914, the ‘*scramble for Africa/or partition of Africa*’ was centred on its natural resources²⁴⁴. The next century of colonialism up to 1994, when South Africa, the last country was liberated, saw wars of liberation, civil wars, and other post-independence struggles for the control of the continent’s natural resources. Post-independence, in most countries, foreign interests intensified efforts to preserve or gain control over natural resource extraction and marketing, a process that was well-served by government and centralized control over these natural resources. The unequal access to and distribution of the benefits (real or perceived) from the natural resources and the mismanagement associated with such resources provided fertile ground for broad dissatisfaction in society at large, creating conflict between the benefactors and losers.

Most of the natural resource-based conflicts in SSA are between elitist groups, with the poor majority dragged into such conflicts largely as frontline combatants, for example, in Angola, DRC, and Sudan, among others. Box 4.4 presents a chronology of the resource-curse complexities in the DRC conflict since the First Congo War of 1996.

Box 4.4

Chronology of the resource-curse complexities in the DRC conflict since the First Congo War of 1996

The Second Congo War (also known as the Great War of Africa) began in August 1998, little more than a year after the First Congo War ended and involving some of the same issues. It officially ended in July 2003 when the DRC Transitional Government took power. However, hostilities have continued since then in the ongoing Lord’s Resistance Army insurgency, and the Kivu and Ituri conflicts, driven by, among other things, the trade in conflict minerals.

Dubbed the deadliest war in modern African history, it has directly involved nine African nations, namely Rwanda, Burundi, Uganda, Angola, Namibia, Zimbabwe, Sudan, Chad, Libya, as well as about 20 armed groups. By 2008, the war and its aftermath had killed 5.4 million people, mostly from disease and starvation,²⁴⁵ making the Second Congo War the deadliest conflict worldwide since World War II. Millions more were displaced from their homes or sought asylum in neighbouring countries.²⁴⁶

The First Congo War began in 1996 as Rwanda grew increasingly concerned that members of Hutu militias, who were carrying out cross-border raids from Zaire, were planning an invasion. The Hutu militias had fled to escape the Tutsi-dominated Rwandan Patriotic Front in the aftermath of the Rwandan

²⁴⁴ The Berlin Conference of 1884 which regulated European colonization and trade in Africa is recognized as the official starting point of the partition of Africa.

²⁴⁵ Reuters, 2008.

²⁴⁶ Available from GlobalSecurity.org.

Genocide of 1994. The new Tutsi-dominated Government of Rwanda protested this violation of their territorial integrity and began to give arms to the ethnic Tutsi Banyamulenge of eastern Zaire.

The Mobutu Government of Zaire did not have the capacity to effectively resist this aggression. With active support from Uganda, Rwanda, and Angola, the Tutsi forces of Laurent-Désiré Kabila moved down the Congo River, encountering little resistance from the Mobutu regime. When Kabila gained control of the capital in May 1997, he faced substantial obstacles to governing the country, which he renamed the Democratic Republic of the Congo. Beyond political jostling among various groups to gain power and an enormous external debt, his foreign backers proved unwilling to leave when asked. In July 1998, Kabila thanked Rwanda for its help and ordered all Rwandan and Ugandan military forces to leave the country. The people most alarmed by this order were the Banyamulenge Tutsi of eastern Congo.

On 2 August 1998 the Banyamulenge in the town of Goma erupted into mutiny. Rwanda offered immediate assistance to the Banyamulenge and early in August, a well-armed rebel group, the Rally for Congolese Democracy (RCD), composed primarily of Banyamulenge and backed by Rwanda and Uganda, had emerged. This group quickly came to dominate the resource-rich eastern provinces and based its operations in Goma. The RCD quickly took control of the towns of Bukavu and Uvira in the Kivus. The Tutsi-led Rwandan Government allied with Uganda, and Burundi also retaliated, occupying a portion of north eastern Congo. To help remove the occupying Rwandans, President Kabila enlisted the aid of refugee Hutus in eastern Congo and began to agitate public opinion against the Tutsis, resulting in several public lynchings in the streets of Kinshasa.

On 12 August, a loyalist army major broadcast a message urging resistance from a radio station in Bunia in eastern Congo: *“People must bring a machete, a spear, an arrow, a hoe, spades, rakes, nails, truncheons, electric irons, barbed wire, stones, and the like, in order, dear listeners, to kill the Rwandan Tutsis.”*²⁴⁷

The Rwandan Government also claimed a substantial part of eastern Congo as “historically Rwandan”. Uganda, while retaining joint support of the RCD with Rwanda, also created a rebel group that it supported exclusively, the Movement for the Liberation of Congo (MLC). The first African countries to respond to Kabila’s request for help were fellow members of the SADC. While many SADC member nations took a neutral stance to the conflict, Namibia, Zimbabwe and Angola supported the Kabila government. Chad, Libya and Sudan also joined in the support. A multi-sided war thus began.

On 18 January 1999, Rwanda, Uganda, Angola, Namibia and Zimbabwe agreed on a ceasefire at a summit at Windhoek, Namibia but the RCD was not invited. Fighting thus continued. A further sign of a break occurred when President Yoweri Museveni of Uganda and Kabila signed a ceasefire accord on 18 April 1999 in Sirte, Libya, following the mediation of Libyan President Muammar al-Gaddafi, but both the RCD and Rwanda refused to take part. Nevertheless, diplomatic circumstances contributed to the first ceasefire of the war. In July 1999, the Lusaka Ceasefire Agreement was signed by the six warring countries (DRC, Angola, Namibia, Zimbabwe, Rwanda and Uganda). The RCD and MLC refused to sign.

Under the terms of the agreement, forces from all sides, under a Joint Military Commission, would cooperate in tracking, disarming and documenting all armed groups in the Congo, especially those forces identified with the 1994 Rwandan Genocide. By 24 February 2000, the United Nations authorized a force of 5 537 troops, the United Nations Organization Mission in the Democratic Republic of the Congo (known by the French acronym, MONUC), to monitor the cease-fire. However, fighting continued between rebels and government forces and between Rwandan and Ugandan forces.

Laurent-Désiré Kabila was assassinated on 16 January 2001. By unanimous vote of the Congolese parliament, his son, Joseph Kabila, was sworn in as president to replace him. In February, Rwanda,

247 BBC News, 1998

Uganda, and the rebels agreed to a United Nations pull-out plan. In April 2001 a United Nations panel of experts investigated the illegal exploitation of diamonds, cobalt, coltan, gold and other lucrative resources in the Congo. The report accused Rwanda, Uganda and Zimbabwe of systematically exploiting Congolese resources and recommended that the Security Council should impose sanctions²⁴⁸.

On 30 July 2002, Rwanda and the DRC signed a peace deal known as the Pretoria Accord, after five days of talks in Pretoria, South Africa. The talks centred on two issues. One was the withdrawal of the estimated 20,000 Rwandan soldiers in the Congo. The other was the rounding up of the ex-Rwandan soldiers and the dismantling of the Hutu militia known as *Interahamwe*, which took part in Rwanda's 1994 genocide and that continued to operate out of eastern Congo. Rwanda had previously refused to withdraw until the Hutu militias were dealt with.

Signed on 6 September, 2002, the Luanda Agreement formalized peace between Congo and Uganda. The treaty aimed to get Uganda to withdraw their troops from Bunia and to improve the relationship between the two countries, but implementation proved troublesome. Eleven days later, the first Rwandan soldiers were withdrawn from eastern DRC. On 5 October, Rwanda announced the completion of its withdrawal; MONUC confirmed the departure of over 20 000 Rwandan soldiers.

On 17 December 2002, the Congolese parties of the Inter-Congolese Dialogue, namely: the national Government, the MLC, the RCD, the RCD-ML, the RCD-N, the domestic political opposition, representatives of civil society and the Mai Mai signed the Global and All Inclusive Agreement. The Agreement described a plan for transitional governance that would lead to legislative and presidential elections within two years of its signing. It marked the formal end of the Second Congo War.

On 18 July 2003, the Transitional Government came into being as specified in the Global and All-Inclusive Agreement out of the warring parties. The Agreement obliges the parties to carry out a plan to reunify the country, disarm and integrate the warring parties and hold elections. There were numerous problems, resulting in continued instability in much of the country and a delay in the scheduled national elections from June 2005 to July 2006.

On 30 July 2006 the first elections were held in DRC after the populace approved a new constitution. A second round was held on 30 October.

The fragility of the State has allowed continued violence and human rights abuses in the east. There are three significant centres of conflict, namely, North and South Kivu, Ituri, and Northern Katanga. Despite the heavy involvement of both Uganda and Rwanda in the DRC conflict, the IMF and World Bank debt relief packages improve their economic health²⁴⁹.

Generally, Governments with weak institutions created environments for rent seeking, corruption and often, poor public and private investments in natural resources, and this worsened with the advent of armed conflicts. As a result, the natural resource based real economies of some SSA countries stagnated after a few years of natural resource-led growth, as conflicts escalated, for example, in DRC. According to Obidegwu (2004), the private benefits from natural-resource windfalls to those in power constitute strong incentives for them to hold on to power. Finally, large natural resources endowments provide the financing for both governments and rebels to wage the struggle for power and access to wealth.

Collier (2000), identified three factors, namely, the mismanagement of natural resource rents, the potential for ethnic dominance, and the unemployment and illiteracy of the youth as major risks of renewal of conflicts. The first two factors are matters of governance. Unemployment, particularly among the youth, has become chronic in SSA, including, Southern Africa. Unless the youth, particularly the literate ones, can find employment, they

248 Available from mun.org, 2013

249 C. Mullins. and R. Dawn, 2012

will not have a stake in the development process and will be willing to entertain short-cut solutions to a better life through regime change.

Elbadawi and Sambanis (2000), in an econometric analysis of the incidence of civil wars in Africa, found that:

- a. The lower the GDP per capita, the higher is the likelihood of civil wars;
- b. The higher the degree of openness of political institutions, the lower the probability of civil war;
- c. There is no linear relationship between ethnic diversity and civil war, and after a certain threshold, an increase in ethnic diversity reduces the probability of war; and (d) The dependence on natural resources (measured as primary exports as a percentage of GDP) is non-linearly related to civil wars, but above 24 per cent of GDP increase in dependency increases the likelihood of civil wars.

Overall, they concluded that, *“the relatively higher incidence of war in Africa is not due to the ethno-linguistic fragmentation of its countries, but rather to high levels of poverty, failed political institutions and economic dependence on natural resources”*.

In SADC, DRC, Madagascar, Mozambique, and Zimbabwe, which are all low-income and high-poverty countries, have all (with the exception of Zimbabwe) experienced civil wars, while Zimbabwe itself experienced severe political tensions/unrest and socioeconomic meltdown. Angola in the meantime is the only upper middle-income country in the region, which experienced civil war.

Collier and others (2003), hypothesized that rebellion and thus civil war may be due to severe grievances such as high inequality, lack of political rights, and ethnic and religious differences in the society. An alternative hypothesis was that many opportunities existed for building a rebel organization and fighting a civil war, such as access to finance, through extortion of natural resources, donations from the diaspora, the existence of mountains and forests, among others. They found that opportunities provided more explanatory power than grievances. This helps to explain why the presence of easily marketable natural resources such as diamonds tends to ignite and prolong civil wars (Angola, DRC, and Sierra Leone).

The profitable opportunities provided by these natural resources provide incentives for rebellion and civil war. It is important to further emphasize the fact that, there is high inequality associated with the distribution of such highly profitable natural resources in the SADC region, supporting the abundant resource ‘curse’ argument.

In a Burundi-specific country study, Ngaruko and Nkirunzuza (2000), emphasized the disparities in access to economic opportunities between the inhabitants of the north (the victimized) and the south (the privileged), as well as the ethnic factor, as key causes of conflict in Burundi. Ndikumana (1998) attributed the perpetuation of conflict in the country to the failure of institutions due to the privatization of the State by ethnic and regional interests. Poverty, bad governance, weak leadership and injustices, were found to be the major factors in disunity and deadly conflict in Rwanda²⁵⁰.

In SSA countries in general and SADC countries in particular, the natural resource extraction sector usually operates as an enclave of foreign companies, thus, making marginal contributions to the development of the real economy, in terms of creating employment and sustainable wealth. As the natural resource industry matures, with production approaching a plateau, the sector ceases to be a direct source of growth for the economy. This combined with limited industrial development results in reduced government revenues, and the consequent cut-backs in public services and related employment, thus further fuelling conflicts.

250 C. Obidegwu, World Bank, 2003.

The conflicts over the control of natural resources highlight the fundamental challenge faced by African economies, and the need for their transformation into diversified and growing economies, with new economic opportunities for the elites and the growing number of entrants into the labour market.

Zimbabwe, as presented in box 4.5, provides an illustrative example of radical addressing of the deep-rooted mineral dispossession in Southern Africa, through its Indigenization and Economic Empowerment (IEE) Programme, implementation of which started in 2010.

Box 4.5

Indigenization and economic empowerment in Zimbabwe: the case of Zimbabwe's mining and other sectors under radical developmental State action

The historical land inequality question in Zimbabwe, addressed under the FTLRP of 2000, underlies the current economy-wide Indigenization and Economic Empowerment (IEE) drive in the country. In order to steer the economy to rapid, broad-based and inclusive growth, the Government of Zimbabwe took another radical action to devise well-calculated and sequenced people-centred interventionist policies under the IEE policy framework. The IEE policy is meant to address development challenges through empowering the majority of the indigenous people of Zimbabwe by providing assets, opportunities, skills and finance, among other forms of support. The Ministry of Youth Development, Indigenisation and Empowerment (MYDIE) is mandated to drive the key initiative in Zimbabwe, with the National Indigenization and Economic Empowerment Board (NIEEB) spearheading programme implementation.

Indigenization, which is the first phase of the programme and is expected to be complete by 2015, will seek among other objectives to put vast amounts of wealth in the hands of indigenous Zimbabweans through various interventionist strategies such as: (a) the allocation of the value of mineral resources in the ground for the benefit of broad masses and government entities such as the National Indigenization and Economic Empowerment Fund (NIEEF), Zimbabwe Mining Development Corporation (ZMDC), Community Share Ownership Trusts (CSOTs), Employee Share Ownership Trusts (ESOTs) and Indigenous Strategic Equity Partners; and (b) the purchase of shares by indigenous partners through cash payments, or vendor finance facilities. These strategies are aimed at ensuring compliance with the IEE Act (Chapter 14:33) which generally stipulates that 51 per cent of company shareholding, for companies of a stipulated size, should be in the hands of indigenous Zimbabweans in all sectors, except the reserved sectors where 100 per cent local shareholding is required.

Background to IEE policy and legal framework

Zimbabwe first put in place a “*Policy Framework on the Indigenization of the Economy*” in February, 1998. The policy was revised in October, 2004 and adopted by the Cabinet as the “*Revised Policy Framework for the Indigenization of the Economy*.” The indigenization policy framework formulated the IEE legislation, culminating in the enactment of the Indigenization and Economic Empowerment Act (IEEA) (Chapter 14:33), March, 2008. The main objective of this Act is outlined as “*to endeavour to secure that at least 51 per cent of the shares of every public company and any other business shall be owned by indigenous Zimbabweans.*”

The IEEA of 2008 defines indigenization as “*a deliberate involvement of indigenous Zimbabweans in the economic activities of the country, to which hitherto they had no access, so as to ensure the equitable ownership of the nation's resources*”. It further defines an ‘indigenous Zimbabwean’ as “*any person who, before the 18th April, 1980, was disadvantaged by unfair discrimination on the grounds of his or her race, and any descendant of such person, and includes any company, association, syndicate or partnership of which indigenous Zimbabweans form the majority of the members or hold the controlling interest.*” The IEEA defines empowerment as, the “*creation of an environment which enhances the performance of the economic activities of indigenous Zimbabweans into which they would have been introduced or involved through indigenization.*”

To facilitate the implementation of the Act, the Government of Zimbabwe promulgated the Indigenization and Economic Empowerment (General) Regulations in February, 2010. The Regulations provided that all businesses with a net asset value equal to or above US\$ 500 000 located in Zimbabwe should formulate plans that will lead to 51 per cent of the shares in the firm being transferred to “indigenous” Zimbabwean shareholders within five years from the date of operation of the regulations.

Thereafter, these regulations were supplemented by specific general notices which applied to different sectors of the economy and provided for different compliance requirements. The principal /notices gazetted at various times were: General Notice No. 114 of 2011 governing the indigenization of mining companies; General Notice No. 459 of 2011 governing the manufacturing sector; General Notice No. 280 of 2012 governing the rest of the sectors such as services, education, energy, finance, tourism, engineering, trade, communication, among others; and Statutory Instrument 66 of 2013 governing the sectors reserved for indigenous Zimbabweans.

Mining Sector General Notice No. 114/2011 was gazetted on 25 March 2011 to govern indigenization of businesses in the mining sector. The notice required all existing businesses in the mining sector to complete the indigenization processes within a specified period (one year), with new businesses in the mining sector required to indigenize as soon as they are registered. *The general rule in the mining sector is that the resources in the ground belongs to the people of Zimbabwe and any business wishing to carry out mining activities should dispose 51 per cent equity to indigenous entities in lieu of the resources in the ground.* Thus, an investor brings in the required expertise on the table while the local indigenous people bring in the untapped resources, at the value of 49 per cent for the former and 51 per cent for the latter. It is mandatory that 10 per cent equity of any mining company goes to the community under an established Community Share Ownership Scheme, 5 per cent equity to an Employee Share Ownership Scheme and the remaining 36 per cent equity to indigenous entities of the company’s choice.

Manufacturing Sector General Notice No. 459/2011 was gazetted in October 2011 to govern the indigenization of businesses in that sector. The notice requires businesses in this sector to submit revised plans and to achieve indigenization within four years from the date of the gazette on a staggered annual basis. If it was a new business in the manufacturing sector, the business should indigenize within four years from the date of operation. However, indigenous entities willing to participate in this sector pay for the acquired shares at full commercial value.

General Notice No. 280/2012 was gazetted in June 2012 to govern indigenization of companies in all other sectors, excluding retail, manufacturing and mining, with the aim of achieving the 51 per cent indigenization quota at full commercial value.

Statutory Instrument 66 of 2013 was gazetted in June 2013 dealing with the reserved sector framework. There are 14 sectors reserved for 100 per cent business ownership by indigenous Zimbabweans as follows: agriculture, primary production of food and crops; transportation, passenger buses, taxis and car hire services; retail and wholesale trade; barber shops, hairdressing and beauty salons; employment agencies; estate agencies; valet services; grain milling; bakeries; tobacco; tobacco processing; advertising agencies; milk processing; and provision of local arts and crafts, marketing and distribution. These are areas where local people can operate MSMEs and even enterprises which do not require large investment outlays or external help in the form of FDI. ***General Notice No. 114/2011*** detailed how this policy objective would be implemented by businesses. As noted earlier, several indigenous vehicles for broad-based empowerment were established.

Community Share Ownership Trusts (CSOTs) clarifies the extent of local community ownership of the natural resources. By virtue of being the owners of the resources extracted by the mining and quarrying companies, communities are transformed from passive stakeholders to active and significant shareholders. The community’s *quid pro quo* for the shareholding is the value of the ore that is contributed to the

mining venture. These trusts are managed by boards of trustees that include traditional leaders and other persons on behalf of participating communities.

Employee Share Ownership Trusts (ESOTs) regulated further benefits for workers, implemented by businesses, as a way of enabling workers to benefit and participate in the indigenization programme. These trusts are able to acquire anything from 5 per cent shares to a maximum of 28 per cent shares in their companies and are held by the trusts managed on behalf of the workers.

Preferential Procurement detailed the role of the responsible Ministry and of NIEEB, to ensure that companies procure at least 50 per cent of their supplies locally, thereby creating continuous businesses and jobs for indigenous Zimbabweans.

More importantly, as the IEE programme implementation moves on to the second phase, there will be emphasis on broad-based economic empowerment, which entails assisting Zimbabweans to form their own companies and do business, and not just wait for redistribution. This second IEE phase will ensure new wealth creation and expansion of the economic pie²⁵¹. Among the measures to be taken is encouragement of women's MSMEs to continue growing and upgrading into value addition of products, participating in the processing of raw materials into brands that can be exported carrying the flagship of Zimbabwe.

Registered IEE successes/achievements

Following the implementation of the this legal framework, a great deal of work has been done by the responsible Ministry and NIEEB in assessing and approving submissions by companies in line with the requirements of the indigenization legislation. The whole programme is being implemented systematically under specific sector frameworks that address the uniqueness of each business. It is now clearly understood that *indigenization is a process not an event* and requires positive participation by every indigenous Zimbabwean.

Since the gazetting of the principal indigenization and economic empowerment regulations in March 2010, the Ministry and NIEEB received 1 480 applications for approval of indigenization implementation plans from businesses operating in the country. Of these, 802 applications have been processed and approved as compliant with the regulations and the various sectoral notices. Separately, in the reserved sectors, 1 750 applications were also received from October 2013 to 30 September 2014 and 884 companies were given certificates enabling them to operate in reserved sectors. Table 4.1 is a summary of progress by 2014, on a sector-by-sector basis.

Table 4.1

Summary of indigenization applications processed since 2010, Zimbabwe, 2014

Sector	Total no. of applications received	Total no. of applications approved	Total no. of applications pending
Mining	405	185	261
Manufacturing	390	203	187
Agriculture	11	07	04
ICT	21	15	06
Tourism	54	31	23

251 Government of Zimbabwe, Ministry of Youth Development, Indigenization and Empowerment (MYDIE) and the National Indigenization and Economic Empowerment Board (NIEEB), 2012.

Sector	Total no. of applications received	Total no. of applications approved	Total no. of applications pending
Engineering and Construction	57	35	22
Energy	24	18	06
Finance	88	40	48
Health	08	05	03
Service	53	36	17
Retail	51	42	09
Real Estate	38	25	13
Other sectors	280	160	120
Global Total	1480	802	678
Reserved Sectors	1750	884	886

Source: National Indigenization and Economic Empowerment Board, 2014

Since 2011, 61 CSOTs have been registered throughout the country in every district, with 14 being fully functional. Seed capital amounting to US\$ 38 260 000.00 had been deposited as at 30 June 2014 into CSOTs and a significant portion, \$14 604 344.89, has been spent during the past two years. According to NIEEB, these resources are being used in various sectors, including:

- *Education* – for improving school infrastructure through the building of new classrooms, teachers' houses, science laboratories, and sanitation facilities, rehabilitation of existing infrastructure, school electrification, purchase of school furniture.
- *Health* – for building clinics and staff houses, improving health transport, health facility electrification, water reticulation systems rehabilitated, purchase of medical equipment.
- *Rural agriculture* – for the rehabilitation of irrigation schemes, and dams.
- *Safe water* – for drilling and repair of boreholes
- *Roads* – for re-grading and re-gravelling.

Since 2010, the Ministry has recorded 184 employee share schemes/trusts throughout the country. It is important to note that ESOTs are only established by means of moral persuasion. Companies have a legal leverage by choosing not to implement ESOTs, especially when they have used other options to achieve the indigenization requirements. The apparent reluctance of most companies to allocate share value to employees is a clear indication of the limits of the Act in dealing with broad-based empowerment.

The Ministry also came up with the framework for the conservancies. As policy, the NIEEF is now supposed to hold 36 per cent and the balance should be held by communities (10 per cent) and employees (5 per cent). The new policy is expected to ensure that a sustainable relationship subsists between communities, employees and various international stakeholders who shall in most cases hold at most 49 per cent of the shareholding in the conservancies.

The Ministry and NIEEB are working flat out and convincing indigenizing companies to submit Economic Empowerment Plans (EEPs). These plans go hand in glove with the indigenization plans. Section 3(5) of the IEEA empowers the relevant Minister to vary the timeframe for compliance and extend the timeframe in which a company may achieve the 51 per cent indigenization quota. The EEP directly links businesses to assist Vocational Training Centres (VCTs). The Ministry has over 60 VTCs

around the country, and these have not been fully functional because of lack of capitalization. Qualifying businesses are required to submit EEPs that offer assistance to a VCT in the areas of training/capacity-building, infrastructure, donation of equipment or any other form of assistance that will empower the young students. As of 19 September 2014, 121 companies had agreed on EEPs. The quantifiable value of the EEPs which stretch for an average life of five years is more than \$2.7 million.

Challenges and constraints faced by the IEE programme

Despite all these achievements, the IEE programme in Zimbabwe has been criticized for largely redistributing existing wealth in order to empower the indigenous Black majority, instead of creating a conducive environment for the creation of new wealth, particularly by indigenous people. This implies a bottom-up or the maximalist/broad-based approach as opposed to the minimalist/narrow one. The acquisition of shares in companies has the inherent weakness that shareholders will only benefit from the residual allocation of profits. Profits may not be available in the short term and it is the preserve of the directors to decide on the amount of dividends to be distributed. A few companies are still reluctant to accept the indigenization legislation and currently, the responsible Ministry and NIEEB are engaging with these companies.

ESOTs have been faced with specific challenges in cases where:

Employees have refused to participate in the trusts because they do not want to pay for the shares since not all the offers are donations;

Employees have disposed of shares that were acquired through the trusts within a short-term period of such acquisitions, thereby leaving the company non-compliant; and

Companies are already operating share profit schemes and employee share option schemes that offer immediate benefits to employees.

For CSOTs, the issue of the share of districts without natural deposits still remains on the agenda, ensure that the country's natural resources benefit the whole population and not just those places where the natural deposits are found. The sustainability of CSOTs in times beyond the exhaustion of minerals demands a business approach to the trusts.

Overall, the Zimbabwe IEE programme, just like its predecessor, the FTLRP, was not without a huge cost to the nation. Both the international media and sections of the local media were heavily hostile to the programme, demonizing it and blaming it for the decade of economic recession (2000-2008) and the chasing away of foreign investment. In addition, the unilateral sanctions imposed on Zimbabwe by the West and the USA since 2000 were partly a backlash on the IEE programme, in addition to the FTLRP and the governance issues then.

Conclusion

The indigenization and empowerment of the entire economy is a mammoth task that requires complete buy-in by all stakeholders and unequivocal support by all the branches of government. Much work still needs to be done to ensure that all companies comply with the indigenization legislation. A few new investors are coming in and are now cognizant of the need to comply with the national laws.

As the country tries to balance indigenization and investment, it is necessary to speak with one voice and support the IEE programme so as to instil investor confidence. Considerable progress has been made in the mining sector and a firm foothold has been secured for the capitalization of NIEEF to lead the commencement of empowerment projects. Although the value allotted to NIEEF is mostly over a

period of 10 years, the passage of time will strengthen the balance sheet of this fund. In the immediate, Community Share Ownership Trusts are increasingly becoming visible through the implementation of broad-based projects that reflect the egalitarian nature of the IEE programme.

The Government of Zimbabwe expects increased acceptance as the programme goes forward. The development of procurement measures and the roll-out of empowerment projects will help to persuade the skeptics. Also, as more people benefit from the programme, this will serve to increase the rate of compliance for companies and also help to allay the risk-perception of investors. Government therefore expects a shifts in perception, whether self-generated, or influenced by the unveiling realities, that the IEE policy is an enabler of investment and a frontier tool for economic development. The success of the IEE programme in Zimbabwe is increasingly becoming evident with the passage of time.

Sources: The Ministry of Youth Development, Indigenization and Empowerment (MYDIE), the National Indigenization and Economic Empowerment Board (NIEEB), 2014; T. Jesimen Chipika and Joyce A. Malaba, Business Council of Zimbabwe (BCZ), 2011.

Proceeds from mineral resources should be equitably beneficial to the majority of the population in a country. The case study of Botswana's Pula Fund, a Sovereign Wealth Fund (SWF) is highlighted in box 4.6.

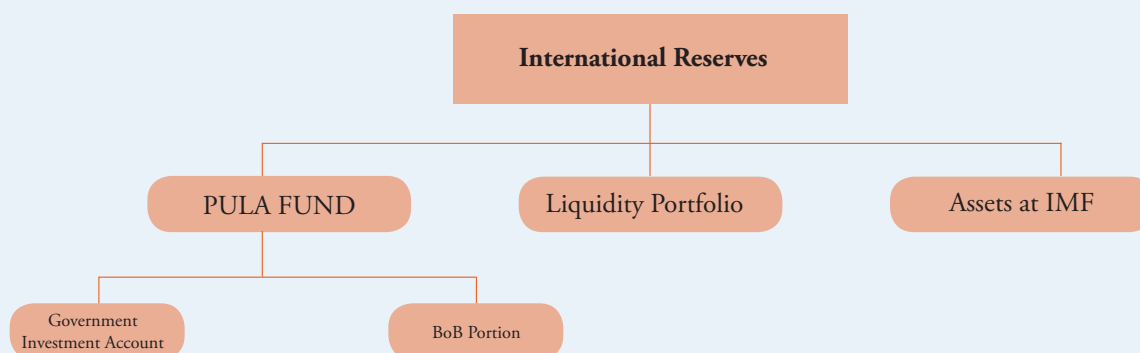
Box 4.6

Saving mineral wealth for development and for future generations – the case of the Botswana Pula Fund (a Sovereign Wealth Fund)

Botswana's Pula Fund, established in November 1993 under the Bank of Botswana Act (CAP 55:01), is the oldest Sovereign Wealth Fund (SWF) in SSA. The accumulation of foreign exchange reserves stems from the general trend of surpluses in the balance of payments, which are based mainly on the export of diamonds and other minerals. The fund is regarded as a benchmark for good governance throughout SSA. It was subsequently re-established in the current form under the new Bank of Botswana Act (1996) with the objective of providing greater flexibility in the management of international reserves, and greater certainty in the forecasting of annual dividend payments to the Government from the Bank of Botswana (BoB), the country's central bank. The Pula Fund is accounted for in the BoB balance sheet. Through budget surpluses, the Government has accumulated cash balances with BoB, which are transformed into direct government ownership of part of the Pula Fund. Currently, the Government's share of the Pula Fund is about two thirds, while the remainder is owned by the Bank.

The Bank of Botswana Act (1996) came into operation on January 1, 1997. Under the Act, Botswana's international reserves were split into two portfolios: (a) the Liquidity Portfolio, to provide the foreign exchange needed for normal day-to-day international transactions; and (b) the Pula Fund (officially referred to as "long-term investment funds" in the Act) to be invested in long-term assets to achieve higher returns. The bank-managed Pula Fund is composed of the Government Investment Account (GIA), which reflects savings from accumulated fiscal surpluses, and BoB reserve accumulation above the target for liquid reserves (see figure IV.5). The long-term savings aspect of the Fund is what makes it a full-fledged SWF. Its existence is hugely important in a developing nation that is so dependent on finite natural resources. Given their long experience in managing this Fund, BoB has been closely involved in international discussions regarding prudent management of SWFs and formulation of generally accepted principles for such Funds.

Figure IV.5 The operational context of the Botswana Pula Fund

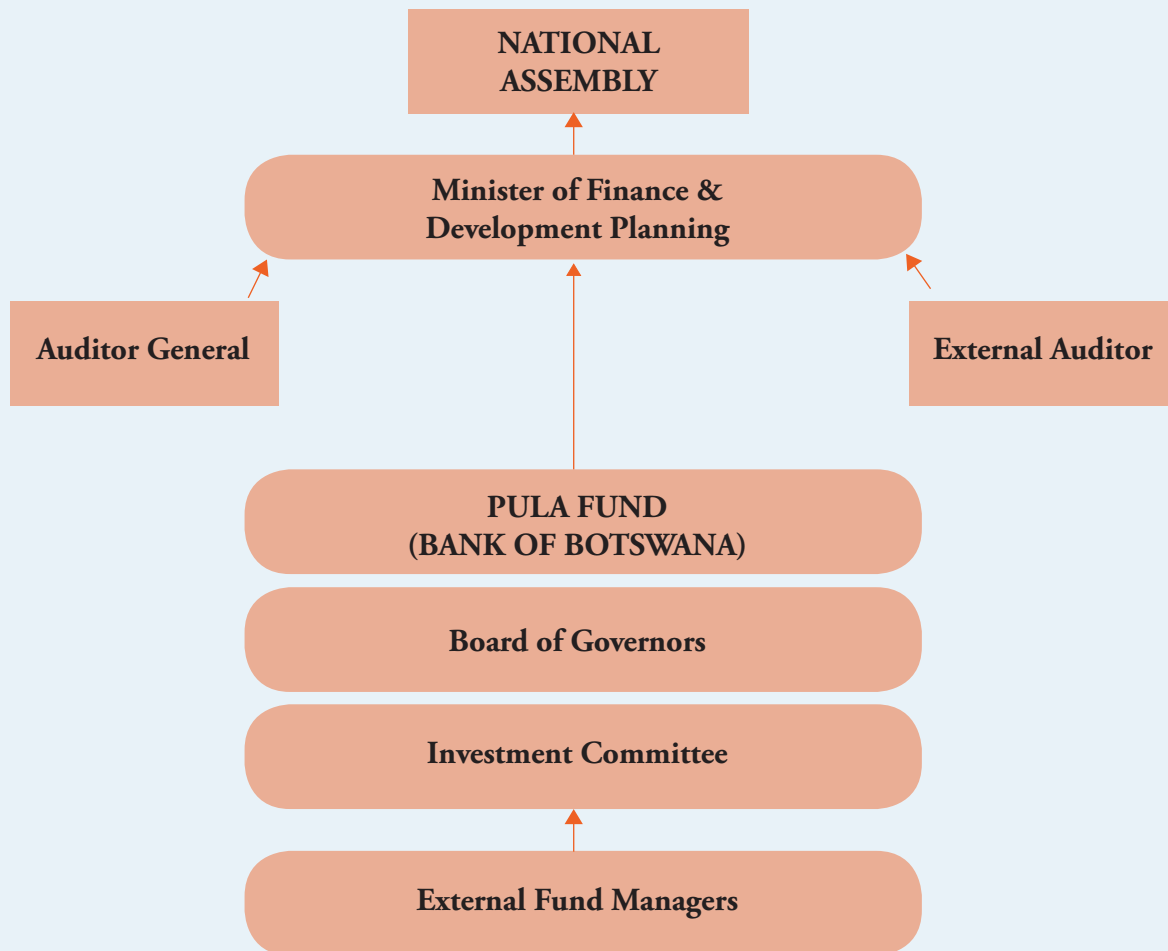


Source: World Bank, 2010.

The Pula Fund has two main objectives, namely, to deliver returns on national savings, which derive largely from diamond exports, and to act as an economic stabilization tool. More specifically, the investment objectives are to: (a) ensure the safety of the foreign exchange reserves and preserve value; (b) maintain liquidity so that funds can be made available in a timely manner and at reasonable prices; and (c) optimize returns through prudent investment and acceptable levels of risk. As of 31 December, 2013, the Fund's total assets under management stood at 49 billion pula (\$5.7 billion), or about 40 per cent of Botswana's GDP and around 16 months of import cover. Pula Fund assets are invested in long-term instruments overseas. The strategic asset allocation includes investments in foreign assets, public equity and fixed-income instruments in industrialized economies. As at 31 December, 2013, BoB, held 43.4 per cent of its assets in equities and 55.5 per cent in long-term fixed income assets. It also used derivatives for risk management purposes, although the amount, less than 0.1 per cent of its total portfolio, was negligible. The Pula Fund kept the rest of its assets in cash.

The Act mandates BoB to manage and determine investment policy for, and the payment of dividends accruing from, the Pula Fund, in consultation with the Minister of Finance and Development Planning (MFDP). Together with the Liquidity Portfolio, since 1993 the Pula Fund has been held with a global custodian. Financial and investment activities are reported in the financial statements of the Bank. Annual financial statements are audited by external auditors meeting international standards and submitted to the Minister of Finance and Development Planning, for submission to Parliament. Figure IV.6 presents the management and accountability structure of the Pula Fund.

Figure IV.6 Management and Accountability Structure of the Botswana Pula Fund

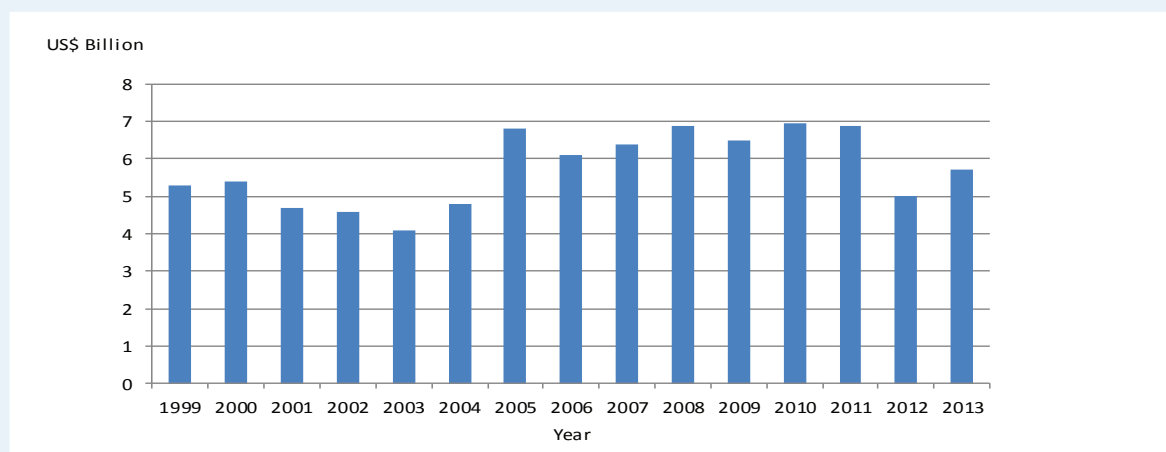


Source: Natural Resource Governance Institute and Columbia Center of Sustainable Investment, 2013.

On the issue of the Fund's transparency laws, rules and policies, an assessment by the Natural Resource Governance Institute and Columbia Center of Sustainable Investment, 2013, established that there is public disclosure of the following: when and how often the Fund reports are published and made publicly available; which individuals and organizations are responsible for publishing the Fund reports; size of the Fund; returns on investment; and detailed asset allocation. However, there is no public disclosure on the following: deposit and withdrawal amounts; detailed asset allocation – geographic location; detailed asset allocation – specific assets; and natural resource prices and other fiscal assumptions used to calculate deposit and withdrawals allowed under fiscal rules.

The Pula Fund has increased substantially in value (when measured in both domestic and foreign currency) in real terms since it was established in 1994, reflecting both a sustained period of substantial balance-of-payments surpluses as well as the success of the investment strategy (see figure IV.7). It has proved especially useful as a stabilization tool during periods of economic volatility such as the GFEC of 2008/09. The Fund enabled the Botswana Government to undertake a countercyclical spending programme to facilitate a strong economic recovery. It also helped in the establishment of the Public Officers Pension Fund, which resulted in a substantial transfer of assets from Government.

Figure IV.7 Pula Fund Assets under Management, Botswana-2013



Source: Bank of Botswana, 2014; Institutional Investors Sovereign Wealth Center Website, 2014.

However, while the Act provides a legal framework for the establishment, management, and auditing of the Fund, it does not specify the objective of the Fund in the context of overall fiscal policy and rules on the operation of the Pula Fund, particularly concerning payments into, withdrawals from and their uses. Although the original idea behind the establishment of the Pula Fund was to invest in long-term offshore assets the financial resources that could not be absorbed domestically for productive purposes, there are no other laws, constitutions, regulations nor guidelines that explicitly specify the link between the Pula Fund and fiscal policy. Since its establishment, the Pula Fund has, by and large, served as a revenue stabilization fund, rather than an investment fund, but also has been regarded by many as a future generation fund²⁵², despite the absence of clearly defined objectives.

The Fund's longer-term prospects are uncertain. With many of Botswana's diamonds deposits mined to exhaustion, export revenue is set to decline precipitously over the next decade, and the Government may be forced to draw down the Pula Fund to plug budgetary gaps. In this regard, policymakers are now taking more steps to diversify the Botswana economy beyond diamonds²⁵³.

Source: Bank of Botswana, 2014; <http://www.ifswf.org/pr/pr22.pdf>; and World Bank, 2010.

4.1.3 Economic stagnation

African countries in general, including SADC countries were unprepared to deal with the global economic shocks of the 1970 and 1980s and more recently, the 2008/9 GFEC. These global shocks set into motion a severe socioeconomic crisis from which the continent has yet to recover. Nevertheless, the ruling elites continue to maintain and even raise their living standards, often at levels comparable with upper-middle classes in industrialized societies, at the expense of the vast majority of the people. In particular, in the context of economic stagnation and a decline in income opportunities for the Government and formal private sector for aspiring and excluded elites, the perceptions of increasing inequality of access to incomes creates conflict not only among the elites, but also among the vast majority.

²⁵² For example, "2009 Budget Review" by Econsult views the accumulated fiscal surpluses as part of the inheritance of future generations (Econsult, 2009).

²⁵³ Institutional Investors Sovereign Wealth Center website, 2014.

4.2 The economic, social and political consequences of civil unrest

4.2.1 Economic consequences

Macroeconomic instability, debt burden, and declining economic growth

Civil unrest, in its extreme form of civil war, has several severe direct and indirect economic consequences²⁵⁴. Direct effects include, high military expenditure by both the government and rebel groups, which crowds out development spending; destruction of human, social and physical capital (infrastructure); interruption of economic activities; losses of stocks and related income flows; weakening of institutions; among others. In addition, during and post the conflicts, there are also large amounts resources directed to relief and eventual rehabilitation efforts by the government and the donor community.

All these have adverse impact on long-term economic growth and poverty reduction. Finally, any form of civil unrest including civil war in one country can have severe adverse effects on the economies of neighbouring countries, affecting both investment and trade. In SADC, the cases of the DRC and Mozambique civil wars are clear examples in this regard.

Countries in civil conflict and/or serious socioeconomic tensions are often characterized by severe macroeconomic instability, with high inflation, active parallel exchange markets, with large spreads between the official and parallel exchange rates. In Zimbabwe, during the economic recession decade, 2000-2008, annual inflation surged to 585 per cent in December 2005, before reaching 231 million per cent by end July 2008 and an unpublished 3.2 quintillion per cent by December 2008. This led to rejection of the Zimbabwe dollar as a medium of exchange by the population, and the subsequent official dollarization/multi-currency policy of the economy in 2009.

The acceleration in inflation eroded the value of the Zimbabwe dollar and posed severe transactional challenges, necessitating the re-basing or re-denomination of the local currency, by cumulatively removing 25 zeros in 2006, 2008 and 2009. During the same decade, a vibrant parallel market for foreign exchange developed in the country, on the backdrop of foreign currency shortages. In addition to the official exchange rate which was highly volatile, there were several other exchange rates, such as the United Nations rate, parallel market rate, and different exporters' rates, among others.

Severe macroeconomic instability, particularly high inflation associated with civil unrest and war, erodes confidence in the formal financial sector, leading to a decline in formal savings, whilst large volumes of financial resources circulate outside the formal banking sector. Government accumulation of arrears of payments to State enterprises and the private sector compound the problem of non-performing loans (NPLs) of the commercial banks. Even in situations where private banks dominate, with high operational risks, price instability and political uncertainty, banks lend very cautiously and for short-term and high interest rate spreads.

The rise in public expenditure to support a military build-up, under civil war situations, or similarly, the dwindling government resources under economic decline and high inflation leads to increased resorting to domestic bank and non-bank financing. In the case of Zimbabwe, the central bank resorted to money printing for quasi-fiscal activities, further fuelling inflation. Resorting to domestic bank and non-bank financing raises public debt and the accumulation, by the Government, of arrears of payments to domestic suppliers and foreign and domestic creditors.

The inflationary pressures together with falling export revenues and the diminished and uncertain flows of donor assistance put unrelenting pressure on the exchange rates. In addition, under resource constraints, governments

²⁵⁴ Collier (1999), using global data, estimated that during civil wars, GDP per capita declined at an annual rate of 2.2 per cent relative to its counterfactual (what it might have been without the war).

tend to cut budget allocations to social sectors and economic services. The social and economic infrastructures suffer from neglect as well as destruction by war. Overall, civil unrest and war reduce growth of the economy.

With long and protracted civil conflicts and wars, the external debt burden often increases, culminating in the loss of access to external official and private borrowing. As the conflict and/or civil unrest proceeds and debt-servicing capacity deteriorates, the country becomes delinquent in servicing the external debt, even to the Bretton Woods institutions, as was the case with Sudan, DRC, Liberia, and Zimbabwe, among others. This would make the country ineligible for further borrowing, including for post-war/unrest reconstruction, until the outstanding arrears are cleared. In addition, it constrains access to official development grants, concessional loans and technical assistance in some cases.

Population displacement and humanitarian assistance crowd out conventional development

The expansion of activities of the United Nations High Commission for Refugees (UNHCR) reflects the increasing need for humanitarian assistance stemming from violent conflicts. The number of persons of concern (POCs) to UNHCR, mostly refugees from wars, grew from 2.8 million in 1975 to nearly 15 million by the end of the 1980s and to 27.4 million in 1995. Spending by UNHCR rose from US\$76 million in 1975 to US\$580 million in 1985 and US\$801 million in 2000. About 35 per cent of year 2000 expenditure was spent on SSA countries²⁵⁵. Mchugh (2001), noted that US\$ 1 billion was spent on emergency relief in Rwanda between April 1994 and August 1995 and the \$500 million committed by the USA to help refugees after the genocide was more than double the entire amount of development aid that it had ever given to Rwanda in the three decades since its independence. Stremlau (1998) claimed that two years of emergency work in Rwanda cost the USA \$750 million, roughly equal to its entire annual development aid to SSA.

In addition, demining activities have been costly in countries such as Angola and Mozambique, and the presence of mines in these countries, continues to rob them of access to prime agricultural land. After the civil war, the Government of Angola spent \$187 million settling internally displaced persons (IDPs) between 4 April, 2002, and 2004, after which the World Bank gave \$33 million to continue the settling process. The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) estimated that fighting in 2002 displaced 98 000 people between January 1 and February 28 alone.

IDPs comprised 75 per cent of all landmine victims. The IDPs, unacquainted with their surroundings, frequently and predominantly fell victim to these weapons. Militant forces laid approximately 15 million landmines by 2002.²⁵⁶ The HALO Trust began demining Angola in 1994, and had destroyed 30 000 landmines by July 2007. About 1 100 Angolans and seven foreign workers are employed by the HALO Trust in Angola, with de-mining operations expected to finish in 2014.²⁵⁷ In situations of civil wars or even severe socioeconomic and political tensions resulting in economic recession, as in the case of Zimbabwe, a huge economic cost is incurred in the form of brain drain/or skills loss to perceived greener pastures.

External trade and commerce

Effective foreign trade depends on predictable, institutional trade arrangements, yet civil unrest, particularly civil war, weakens and/or destroys such institutions, disrupting trade flows, commerce and competitiveness, and promoting of smuggling of goods and currencies across borders. Civil war in particular, increases the risk and transactions cost factors in external trade, in relation to delivery, quality assurance, transportation, and financing. When these costs and risks rise, exporters and importers seek alternative reliable and competitive markets. In some instances, neighbouring countries also respond to civil unrest by tightening customs and immigration regulations with the country at war or experiencing unrest, undermining trade agreements and regional integration efforts.

255 UNHCR, 2000; 2001.

256 O. Furley and R. May, 2006.

257 B. Scott, 1 November, 2009.

While some national institutions such as those for the budget, central banking, revenue management, and even public administration, can be rebuilt quickly after a civil war with strong government commitment, trade institutions on the other hand, will take time to develop. This is because they have to take account of the perceptions of many different agents and institutions inside and outside the country. Thus, external trade, particularly exports, recover very slowly in post-war/civil strife situations.

For example, the protracted civil war in Uganda contributed to the demise of the East African Community (EAC) and the conflicts in Burundi, Rwanda and the DRC rendered the Commission Economic des Pays du Grand Lacs (CEPGL) dormant and impaired the performance of a jointly owned power company (SENELEC), an important source of electric power to the three countries. The bulk of the trade transacted between the countries was taking place underground and was unrecorded.

The control of export commodities is critical for funding a civil war in Africa. Government and rebel groups often muscle in on the high value natural export commodities such as minerals, particularly, gold and diamonds, and take control of marketing. The interventions of the government and rebels bring down producer prices, marginalizing experienced private operators and disrupting normal trade patterns. The result is disinvestments by the private sector and ultimately, a decline in exportation.

For landlocked countries that depend on the country at war and/or in civil strife, for access to the sea-ports, the economic impact can be very severe. These countries must rely on alternative outlets for their goods, and these may be very expensive. For example, the foreign trade of Zambia and Malawi suffered immensely from the crisis related to the Zimbabwe war of liberation in the 1970s, as the rail line passing through that country to the seaport of Beira in Mozambique, was insecure. In an effort to sustain its then booming copper industry, Zambia had to invest in a new railway line through Tanzania, the Tanzania Zambia Railway (TAZARA/Tanzam/Uhuru Railway²⁵⁸).

Petroleum supplies to the Central Africa Republic (CAR) were disrupted seriously by the war in the DRC, aggravating the social crisis and the outbreak of civil war in DRC at the end of 2002, against a backdrop of the Government's loss of revenues from petroleum. In 1982, Zimbabwe directly intervened in the Mozambican Civil War in order to secure its transport routes, stop cross-border RENAMO raids and help its old ally, FRELIMO. Zimbabwe's help was crucial to the defence of the corridors.

Later Zimbabwe became engaged further, carrying out several joint operations with FRELIMO against RENAMO strongholds.²⁵⁹ In order to keep a minimum level of infrastructure working, three heavily guarded and mined corridors were established consisting of roads, railways and power lines: the Beira, the Tete and the Limpopo Corridors.

Environment and natural resources

Unruly behaviour during civil unrest including civil war can cause severe environmental degradation to the land, forests, water resources, livestock, and wildlife that support the agricultural economy and tourism. With weakened public institutions, including a demoralized civil service, environmental regulations are hardly enforced. In some instances, the environment becomes the bank of last resort as the population desperately searches for food and income through the exploitation of protected forests and wildlife.

In addition, the movement of undisciplined armies, paramilitaries, refugees and displaced people, leads to deforestation, the destruction of wildlife and the stock of domestic animals, among others. This can have adverse consequences for long-term agricultural yields, food security and poverty reduction. Furthermore, civil strife and civil war have a directly negative impact on tourism, from a security and other perspectives.

258 The TAZARA Railway, also called the Uhuru Railway or the Tanzam Railway, links the Tanzanian port of Dar es Salaam with the town of Kapiri Mposhi in Zambia's Central Province. The railway is 1 860 km in length and was built as a turnkey project financed and executed by China. Construction began in 1970 and was completed in 1975, two years ahead of schedule. Construction costs were about US\$ 500 million, making it the largest single foreign-aid project undertaken by China at the time.

259 -Working Paper 3", "Defence Digest, Available from Ccrweb.ccr.uct.ac.za, retrieved 28 April, 2014.

4.2.2 Social consequences

Destruction of social capital and sexual violence

As noted above, civil unrest and war destroy human and physical capital. In addition, it also destroys social capital²⁶⁰ including the trust between individuals or groups of people, as well as undermining the legitimacy of social institutions²⁶¹. Social capital is a critical ingredient for economic development and, while it is easy to destroy, it takes time to rebuild and there are no obvious actions that can be taken to build social capital²⁶². By engendering impunity and thus condoning serious crimes (murder, banditry, and rape), civil war corrupts the fabric of the society, with the overall effect of lowering ethical standards and creating an environment that breeds crime and corruption.

Social capital is also an important element of coping with poverty in poor countries, such that, its reduction increases the impact of poverty, as the poor can no longer expect assistance from their weakened social networks²⁶³. The case of rape as a war tool in the DRC is illustrated in box 4.7.

Box 4.7

Sexual violence against women in the DRC Civil War

Rape has been used as a weapon of war in both the First Congo War (1996-1997) and Second Congo War (1998-2003). Used as a tactic of war, the daily sexual violence against women and children by armed groups created a climate of fear and a reputation for the DRC as the world's "worst place to be a woman or a child".²⁶⁴ One statistic suggests that over 200 000 women may have been victimized since mid-2000, while another notes that in some areas, as many as 40 women are raped every day²⁶⁵. Despite the massive scale of violence against women committed, the level of assistance that victims can expect in the form of medical care or post-traumatic counselling service is minimal to the point of non-existence.²⁶⁶ Most of the rape shelters in the DRC are operated by foreign or international NGOs, but these remain inadequate to meet demand.²⁶⁷

In addition to psychological and physical trauma, rape victims bear socioeconomic costs. For example, the families of raped women are only paid a compensation price of two goats, if at all, as compared to the typical dowry price of 20 goats. In addition, raped women are often abandoned by their husbands, while raped girls have difficulty marrying, within the context of the DRC's patriarchal society. This inevitably affects the rape victims' economic well-being.

Mass abduction and child soldiers

During the Mozambican Civil War, for example, it is reported that RENAMO conducted mass abduction, especially of children, in order to use them as child soldiers, among other uses. It is estimated that one third of RENAMO forces were child soldiers.²⁶⁸ Abducted people also had to serve RENAMO in administrative or public service functions in the remote areas it controlled. Another way of using civilians for military purposes

260 According to the World Bank, 2011 (web.worldbank.org); 'social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions. Increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable. Social capital is not just the sum of the institutions which underpin a society – it is the glue that holds them together'.

261 World Bank, 2000.

262 Grootaert, Christiaan and Bastelaer, 2002; P. Collier 2002; N. Colletta and M. Cullen, 2002.

263 Zimbabwe Council of Churches (ZCC), 2011.

264 Human Rights Watch, 2009.

265 L. A Seymour, 2010.

266 L. Hartill, 2010.

267 M. Bosmans, 2010.

268 Available from <http://newhistories.group.shef.ac.uk/wordpress/wordpress/?p=2867>.

was the “*Gandira*”, in which rural populations were forced to fulfil such tasks as producing food for RENAMO, transporting goods and ammunition, and supplying females to serve as sex slaves.

Gandira caused widespread starvation among the rural population due to the little time left to produce food for themselves. RENAMO crimes gained worldwide public attention when its soldiers butchered 424 civilians, including the patients in a hospital, with guns and machetes, during a raid on the rural town of Homoine.²⁶⁹

Human Rights Watch estimates that in Angola, UNITA and the Government employed more than 6 000 and 3 000 child soldiers, respectively. Additionally, human rights analysts found that between 5 000 and 8 000 underage girls were married to UNITA militants. Some girls were ordered to go and look for food to provide for the troops. After victories, UNITA commanders would be rewarded with women, who were often then sexually abused.²⁷⁰

Weakening of social service delivery

The combination of civil unrest, war and economic decline and accompanying social and economic disintegration undermine the provision of social services, such as health, education, water and sanitation, and social protection. For example, irregular immunizations of children creates an environment for the rapid spread of communicable diseases due to displacement of population, and disruption of food supply, which increases malnutrition. With the disruption of educational programmes, the normal intellectual development of school age children is affected and there is a fall in educational achievement, with adverse implications for long-term socioeconomic development.

This could create pools of idle, semi-illiterate and frustrated adolescents that can be attracted or forced into war or criminal activities. In SADC, these social service delivery disruptions were most experienced during the civil wars in Mozambique, DRC, and Angola, with Zimbabwe experiencing some of these adverse impacts during the recession of 2000-2008.

Often in these situations, alternative institutions develop as communities attempt to take over the provision of public services. In DRC, for example, Government provision of social services has never been significant but religious organizations and community-based NGOs have provided such services during periods of peace and war. The United Nations estimated in 2003 that 80 per cent of Angolans lacked access to basic medical care, 60 per cent lacked access to safe water, and 30 per cent of Angolan children would die before the age of five, with an overall national life expectancy of less than 40 years of age.²⁷¹

War crimes and crimes against humanity

Gersony (1988) described how RENAMO normally employed the following tactics in its raids:

“..... In some cases refugees perceived that the attacking force had divided into three detachments: one conducts the military attack; another enters houses and removes valuables, mainly clothing, radios, food, pots and other possessions; a third moves through the looted houses with pieces of burning thatch setting fire to the houses in the village. There were several reports that schools and health clinics are typical targets for destruction. The destruction of the village as a viable entity appears to be the main objective of such attacks. This type of attack causes several types of civilian casualties..... Eyewitness accounts indicate that when civilians are killed in these indiscriminate attacks, whether against defended or undefended villages, children, often together with mothers and elderly people, are also killed.”

269 “MHN: Homoine, 1987”, available from Mozambiquehistory.net.

270 Human Rights Watch, 2008.

271 L. Polgreen, 2003.

Despite the massive scale and organized manner in which war crimes and crimes against humanity had been committed during the Mozambican civil war, so far not one RENAMO or FRELIMO commander has appeared before a war crimes tribunal of any sort. This is due to the unconditional general amnesty law for the period from 1976-1992 passed by Parliament in 1992.²⁷² Instead of receiving justice, victims were urged to forget.²⁷³

Population displacement and the refugee problem

With the violence, destruction of resources, displacement of the population, the brain drain and other socioeconomic and political shocks, civil wars arbitrarily change the distribution of and returns from private economic endowments, the configuration of communities, the social hierarchies, and community leadership. For example, the Angolan civil war, 1975-2002, spawned a disastrous humanitarian crisis in Angola, internally displacing 4.28 million people, one third of Angola's total population.²⁷⁴

Communities lose their young and able persons to the war, or to regional and diaspora migration, who, if they return, are profoundly changed by the experience of the unconventional war and other cultures. Induced outmigration, especially, of one spouse, has led to the irreparable disintegration of families, including increased stress-related suicides and health disorders. In addition, the flow of political and/or economic refugees from the war-torn or country experiencing civil unrest including recession, into its neighbours' territories engenders severe social and economic costs. It puts heavy pressures on the fragile security services such as immigration, police, and army, and often worsens the corruption in these services.

Unemployment, underemployment and informalization

An economy under civil unrest or war is usually characterized by high formal unemployment and underemployment, brain drain and capital flight, and fall in private investment and savings. The environment increases the risks associated with the disruption of the markets for goods and services, and the displacement of labour and potential clients and suppliers by military and criminal operations. Raids from fighters and/or paramilitary groups, as well as disposal of productive assets for the purchase of household necessities, leads to destocking, and general disinvestment, undermining production capacity.

In environments of civil strife and other higher forms of unrest, respect for human rights, tolerance for different points of view, and the enforcement of laws and regulations deteriorate. Underground economic activities flourish including high levels of informalization of the economy, resulting in high unemployment, particularly, among the youth. This further undermines the legitimacy of government and its institutions. Civil wars, for example, creates a cadre of young people experienced in the use of deadly weapons and these criminal tendencies will not be easily reversed in the post-war period.

4.2.3 Political consequences

Multiparty democracy

While civil unrest and/or war is often caused by political tension of one form or another, it also impacts on national, regional and even international politics and political and diplomatic relations. Nationally, both positive and negative political outcomes can emerge out of conflicts. On the positive side, many conflicts in SSA have resulted in the overthrow of one-party States, and of dictatorships, ushering in multi-party politics, and democratic dispensations. Notwithstanding this, some traits of dictatorships still exist in the region, and many of the democratic regimes have not matured enough to deliver on development for the majority of the

²⁷² Peace Accords Matrix, Kroc Institute for International Peace Studies, University of Notre Dame, retrieved 04/28/2014), available from <https://peaceaccords.nd.edu/matrix/status/7/amnesty>.

²⁷³ Igreja, 1988.

²⁷⁴ L. Polgreen, 2003.

populations. However, on the negative side, the removal of stabilizing dictatorships can result in the proliferation of many political parties, eventually, failing to proffer a credible national leadership, as is currently the case in Egypt. This latter scenario can also prolong civil unrest or war.

Undermined credibility of the financial sector

With regards to the internal politics of running the country, for countries in civil strife or war, State enterprises often become the conduit for government borrowing from State banks. This borrowing is meant to cover the non-payment for goods and services provided to the Government and its high officials. This institutionally destructive process of indirect financing is sustained by putting corruptible and flexible allies in key positions in the banks and other State enterprises, usually in the form of military personnel, and controlled interest rates, with low lending rates available to the Government. The loans to government and its officials ultimately become non-performing loans ultimately undermining the credibility of the financial sector.

Institutional degradation and centralization of power

With, the concentration of power and decision-making among relatively inexperienced military officers, institutional performance deteriorates rapidly and the civil servants that remain are inadequately compensated and are unlikely to be highly motivated and committed to the programme of the government. As the decision-making authority shifts from the top civil servants to the politicians and political appointees, the authority of the State tends to be increasingly centralized in the office of the Head of State. To survive, the top civil servants have to be subservient to the inexperienced ministers and other political appointees, and need to find alternative legal and illegal means to maintain their standards of living and ranks in the society.

The result is institutional degradation, characterized by poor and distorted decision-making, weak implementation and creation of an environment prone to corruption. Revenue collection, particularly customs, the respect for the budget, service delivery and the implementation of government regulations suffer from corruption and low capacity.

Undermining of regional diplomatic and economic relationships

At regional level, the political consequences of civil unrest and war can be substantial. In some instances, rebel groups seek for safe havens in neighbouring countries, and use these as bases for launching attacks on their home countries, with or without the support of the neighbouring Government. This results in deterioration of the relationship between the Governments in two or more countries and disruption in diplomatic and economic relationships.

This was the situation in the Great Lakes region, when DRC was used by different rebel groups as the base for attacks on Uganda, Burundi and Rwanda. This ultimately led to the military involvement of these countries in DRC and the shifting of the centre of the war to DRC. The relations between the countries in the Horn of Africa (Eritrea, Ethiopia, Somalia and Sudan) are poor and the protracted civil conflicts in these countries have impeded the improvement of relations and any efforts on regional cooperation.

Large and sudden inflows of people also upset the social balance and peace in a neighbouring country. For example, the inflows of Hutu refugees from Rwanda into the DRC in 1994 was at the genesis of the complex civil war that erupted in DRC in 1996 that has cost millions of lives. These refugees included the bulk of the defeated army in Rwanda with their weapons and military equipment. The refugees also imported Rwanda's ethnic difficulties into eastern DRC, generating conflict among the Congolese of Rwandan origin. The conflict spread to other ethnic groups in eastern DRC, igniting massive violence, displacement of the population, and ultimately, an extensive civil war. Rwanda, Uganda, Burundi, Zimbabwe, and a number of other African countries were eventually drawn into this DRC civil war.

Civil unrest and war can distort a country's international political and diplomatic relations. Zimbabwe is a case in point, in which unilateral sanctions (not sanctioned by the United Nations) were imposed on the country by the USA and other Western nations. The sanctions were in response to the Zimbabwe Democracy and Economic Recovery Act (ZDERA), 2001; in response to the Fast Track Land Reform Programme (FTLRP) of 2000; the Indigenization and Economic Empowerment (IEE) policy of 2004; and governance challenges, as shown in box 4.8. According to the US Department of the Treasury's Office of Foreign Assets Controls (OFAC), the United States targeted sanctions applied against 105 Zimbabwean individuals and 71 entities (mostly farms, state-owned enterprises and legal entities owned by the 105 individuals), as of 17 April, 2014²⁷⁵.

It is important to note that although Zimbabwe is said to be under *targeted* sanctions, in reality, the sanctions have affected the whole economy, hurting the poor the most. Apart from Zimbabwe, the other African countries on the OFAC list are DRC, Somalia and Sudan.

Box 4.8

Zimbabwe Democracy and Economic Recovery Act of 2001 – the cost of radically tackling inequalities

The Zimbabwe Democracy and Economic Recovery Act (S. 494)²⁷⁶ is an act passed by the United States Congress to assist in providing for a transition to democracy and to promote economic recovery in Zimbabwe²⁷⁷. ZDERA's policy was stated as to "support the people of Zimbabwe in their struggle to effect peaceful, democratic change, achieve broad-based and equitable economic growth, and restore the rule of law". This policy was supported by the following findings by the US Congress:

1. The Government of Zimbabwe was unable to participate in programmes created by the International Bank for Reconstruction and Development (*World Bank*) and by IMF to assist in the transformation and resuscitation of Zimbabwe's economy. Furthermore, said exclusion of the people of Zimbabwe from the economic and democratic benefits laid out by programme donors, including the United States, was because of "economic mismanagement, undemocratic practices, and the costly deployment of troops to the Democratic Republic of the Congo" by the Zimbabwean Government.
2. The IMF suspended support under a "Stand by Arrangement" in September 1999 that was approved in August 1999 for economic adjustment and reform. In October 1999, all structural loans, credits, and guarantees to the Government of Zimbabwe were suspended by the International Development Association (IDA). This was followed by a complete suspension of new lending to the Government of Zimbabwe by the IDA in May 2000. By September 2000, the IDA suspended all funds to the Government of Zimbabwe for ongoing projects.

ZDERA proposed two sectors of financial support for the Zimbabwean economy under the imposed sanctions.

1. Bilateral debt relief: the Secretary of the Treasury would conduct a review of the ability of "*restructuring, rescheduling, or eliminating the sovereign debt of Zimbabwe held by any agency of the US Government.*"

²⁷⁵ Embassy of the United States, Harare, Zimbabwe, available from <http://sdnsearch.ofac.treas.gov/>, retrieved April, 2014.

²⁷⁶ ZDERA was passed with 91 per cent (396 votes) of Congress voting in favour of the bill. Of the 396 votes, 194 were Democrats, 200 were Republicans, and 2 were Independent. Three per cent (11 votes) of Congress voted against ZDERA: 2 Democrats, 8 Republicans, and 1 Independent. Six per cent (26 votes) did not vote, 15 Democrats and 11 Republicans. ("House Vote On Passage: S. 494 [107th]: Zimbabwe Democracy and Economic Recovery Act of 2001". Available from GovTrack. Retrieved 1 March 2012.

²⁷⁷ "Zimbabwe Democracy and Economic Recovery Act of 2001", available from Global Legal Information Network, retrieved 1 March 2012.

2. Multilateral debt relief and other financial assistance: the Secretary of the Treasury would be allowed to direct the USA executive director of each multilateral development bank to “propose that the bank should undertake a review of the feasibility of restructuring, rescheduling, or eliminating the sovereign debt of Zimbabwe held by that bank” as well as to instruct the USA executive director of international financial organizations to which the US is a member to propose financial and technical support for Zimbabwe. Particularly, these means should promote *“economic recovery and development, the stabilization of the Zimbabwean dollar, and the viability of Zimbabwe’s democratic institutions.”*

The following criteria were included in the ZDERA guidelines and were stipulated as law until certain criteria were fulfilled or, exceptionally, it was necessary to meet *“basic human needs or for good governance.”* As such, the Secretary of the Treasury instructed the USA executive director of each international financial institution to *“oppose and vote against”* the following:

1. Any extension by the respective instruction of any loan credit, or guarantee to the Government of Zimbabwe.
2. Any cancellation or reduction of indebtedness owed by the Government of Zimbabwe to the United States or any international financial institution.

The following were certifications that, once satisfied, would lift the aforementioned restrictions:

1. Restoration of the rule of law: including *“respect for ownership and title to property, freedom of speech and association, and an end to the lawlessness, violence, and intimidation sponsored, condoned, or tolerated by the Government of Zimbabwe, the ruling party, and their supporters or entities”.*
2. Electoral conditions: That Zimbabwe has held a presidential election that is widely accepted as free and fair and the president-elect is free to assume the duties of the office.

OR

That the Government of Zimbabwe has sufficiently improved the pre-election environment to a degree consistent with accepted international standards for security and freedom of movement and association.

Further recommendations included:

1. Transparent land reform: The Government of Zimbabwe has demonstrated a commitment to an equitable, legal, and transparent land reform programme consistent with agreements reached at the International Donors’ Conference on Land Reform and Resettlement in Zimbabwe held in Harare, Zimbabwe, in September 1998.
2. Fulfilling the agreement to end the war in DRC: The Government of Zimbabwe is making a good faith effort to fulfil the terms of the Lusaka Agreement on ending the war in Democratic Republic of the Congo.
3. Military and police: The Zimbabwean Armed Forces, the National Police of Zimbabwe, and other State security forces are responsible to and serve the elected civilian government.

Congress further recommended that the President should begin immediate consultations with European Union nations, Canada, and other suitable nations to identify ways to:

1. Identify and share information regarding individuals responsible for the deliberate breakdown of the rule of law, politically motivated violence, and intimidation in Zimbabwe.

2. Identify assets of those individuals held outside Zimbabwe.
3. Implement travel and economic sanctions against those individuals and their associates and families; and
4. Provide for the eventual removal or amendment of those sanctions.

4.3 Conclusion

From the analysis in this chapter, it can be concluded that both historical and current inequalities in the distribution of productive assets, access to social services, economic opportunities, and access to political space, are some of the major broad dimensions/factors responsible for the incessant civil unrest and wars in Southern Africa. In addition, both structural and transient poverty, underpinned by generally weak economic performance, are also key contributing factors. More specifically, failed and fragile socioeconomic and political transitions from colonial rule to united and functioning independent States continue to underpin civil unrest and war. Failure of socioeconomic and political transitions, engender institutional degradation which affects the delivery capacity of these Governments on all fronts, which further fuels the conflicts.

Another major cause of civil unrest and war in Southern Africa has been the historically unequal ownership and access to benefits from the abundant natural resources in some countries, compounded by their rampant mismanagement. More recently, the global economic shocks of the 1970s, 1980s and 2000s have had their fair share of exacerbating civil unrest in the region.

The negative economic, social and political consequences of civil unrest and war on SADC countries are enormous. Economic consequences include, among others:

- Macroeconomic instability, rising debt burden, and declining economic growth
- Population displacement and humanitarian assistance crowding out conventional development
- Declining external trade and commerce
- Degradation of the environment, and
- Increased mismanagement of natural resources.

On the social front, the consequences, among others are:

- Destruction of social capital and sexual violence
- Mass abductions and the recruitment of child soldiers
- Weakening of social service delivery
- War crimes and crimes against humanity
- Population displacement and the refugee problem, and
- Unemployment, underemployment and informalization.

Political consequences include the following, among others:

- Increased multiparty presence which can be positive or negative
- Undermined credibility of the financial sector
- Institutional degradation and centralization of power, and
- Undermining of both regional and/or international diplomatic and economic relationships.

Given that almost half of SADC countries have been experiencing civil unrest and war, with dire consequences, it is imperative that the development model followed should address the identified underlying causes and dimensions, including the historical ones. Short of this, Southern Africa will remain caught up in a vicious cycle of civil unrest and war.

CHAPTER V

THE RELATIONSHIP BETWEEN ECONOMIC GROWTH, INEQUALITY AND POVERTY IN SOUTHERN AFRICA: REGIONAL STATUS, COUNTRY SPECIFICITIES AND POLICIES

5.1 Global context

Globalization has entered a different phase, which experts are calling “guarded globalization”²⁷⁸. Many countries are choosing the countries or regions with which they want to do business picking the sectors in which they will allow investment, and selecting the local or state-owned companies they wish to promote. As such, the current phase of globalization is slow-moving, selective and largely inward looking. The recent economic crisis has seen government involvement in businesses globally. Policymakers have enacted massive stimulus packages, propped up faltering companies and banks and pledged regulatory reforms. They are taking part in decisions that were once the province of managers and boards. The growth of China, soon to be the world’s largest economy, entails that China no longer follows but establishes international economic and business rules and norms. As such Chinese socialist-capitalism characteristics are influencing globalization.

In view of the above developments, there is little political appetite for further trade liberalization, for example, by completing the Doha Round of Negotiations. The damage to multilateralism has been compounded by a substantial push, led by the USA, for the Trans-Pacific Partnership (TPP) and the European Union, for the Trans-Atlantic Trade and Investment Partnership (TTIP), toward discriminatory, preferential regional trade initiatives. While a backlash cannot be ruled out, the more likely outcome is increased protectionism in the foreseeable future.

The other striking global development is the growing gap between the rich and the poor. In the past decade and a half, economic growth has been termed “*growth without jobs*”. The recent economic crisis has worsened the already delicate situation. Income inequality is at historic highs. For example, the richest 10 per cent took home half of the USA income in 2012, a magnitude not seen in the country since the 1920s.

In OECD countries, inequality increased more in the three years up to 2010 than in the preceding twelve years. A number of factors explain the current development including technological change in recent decades which has conferred an advantage on those skilful at working with computers and information technology. Further, global supply chains have moved low-skilled tasks out of economies. Thus, the demand for highly skilled workers has increased, raising their incomes relative to those less skilled. The second explanation is policy actions by Governments to lower their budget deficits through austerity and fiscal consolidation policies.

The global economy is still in transition, slowly recovering from the global economic crisis. This time, advanced economies are gradually getting stronger largely led by the USA economy especially towards the end of 2013. However, growth in emerging economies has slowed down. Recovery in Japan has been sustained. With regard to Europe, signs of recovery in the core economies have emerged, largely supported by change in the mood of consumers and firms towards increased spending. Economic growth in developing economies including those of SSA remains robust on the back of recovery in the advanced economies, where demand for exports is firming up.

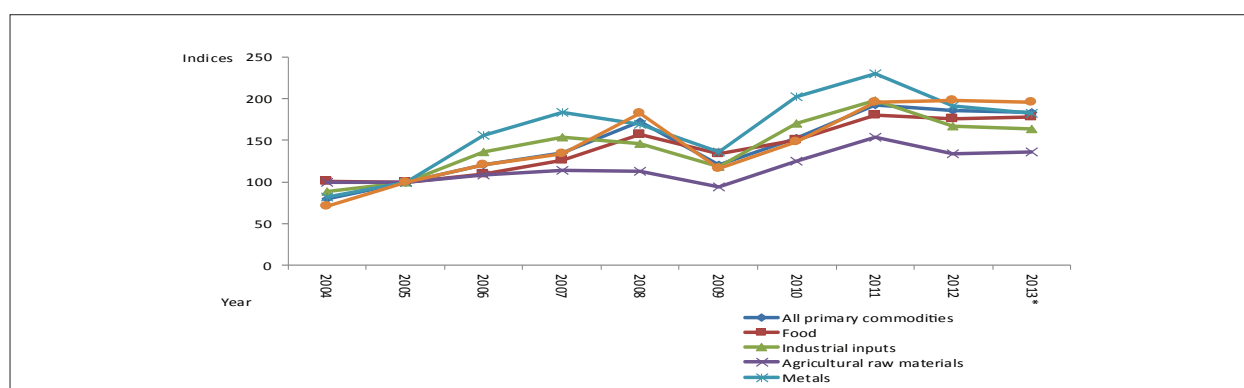
However, growth has been affected by declines in commodity prices. With the above background, world output in 2013 increased by 2.9 per cent, 0.3 percentage point lower than the 3.2 per cent recorded in 2012. The

²⁷⁸ SADC, 2014.

marginal slowdown is largely across all regions. Output in advanced economies as a group only increased by 1.2 per cent in 2013 compared to 1.5 per cent recorded in 2012. Economic activity in the euro zone remained subdued for the most part of 2013 until towards the end of the year, resulting in a decline of output by 0.4 per cent. The USA followed a similar trend with output expanding by only 1.6 per cent in 2013 compared to an increase of 2.8 per cent in 2012.

Most commodity prices remained flat or declined in 2013. The all primary commodity index of the IMF declined from an average of 186 in 2012 to 183 in 2013, seen in figure V.1. Similarly, the index for industrial inputs declined from 167 in 2012 to 163 in 2013. However, the index for food and agricultural raw materials increased slightly from 176 and 134 in 2012 to 178 and 136 in 2013, respectively. The metals index declined from 191 in 2012 to 183 in 2013, while that of petroleum declined from 198 to 196, during the same period.

Figure V.1 Indicates of Primary Commodity Prices, 2004 - 2013 (2005=100, In terms of US\$)

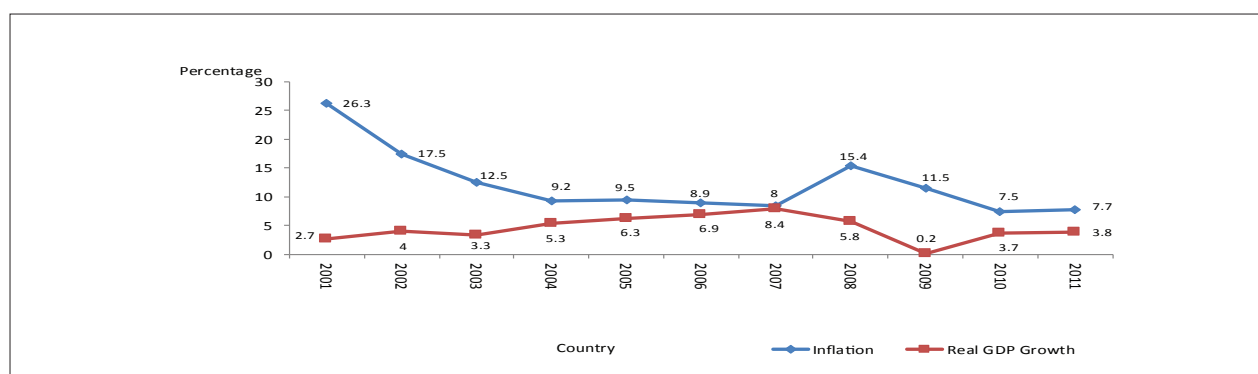


Source: International Monetary Fund Database, May, 2014.

5.2 Regional context

Annual inflation has generally been on the decline in the SADC region, falling from 26.3 per cent in 2001, to 8 per cent in 2007, rising to 15.4 per cent in 2008 at the peak of the GFEC, before falling to 7.7 in 2011, as shown in figure V.2. Correspondingly, real GDP growth generally rose from 2.7 per cent in 2001, to 8.4 per cent in 2007, before declining to 0.2 per cent in 2009 and picking up again to 3.8 per cent in 2011.

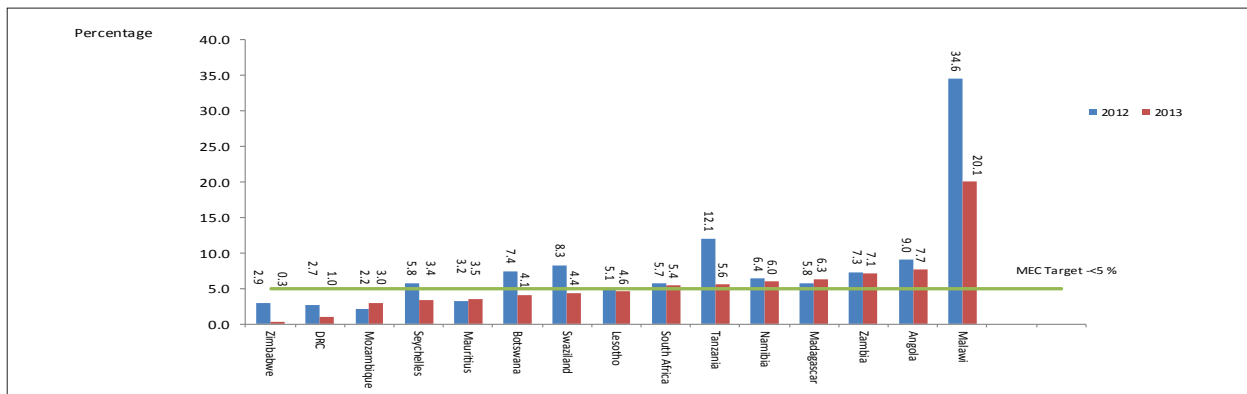
Figure V.2 Annual inflation and annual real GDP growth trend (percentage), SADC Countries, 2001-2011



Source: SADC Statistics Selected Indicators, 2013, available from www.sadc.int

All the countries, with the exception of Madagascar, reduced inflation in 2013 compared to 2012 (see figure V.3. Eight member States attained the < 5 per cent target, namely, Lesotho, Swaziland, Botswana, Mauritius, Seychelles, Mozambique, DRC and Zimbabwe. However, DRC and Zimbabwe with 1.0 per cent and 0.3 per cent respectively, seem to be in their early stages of deflation, which can also harm economic growth. Meanwhile, Malawi, was the only member State still grappling with a double-digit inflation of 20.1 per cent in 2013.

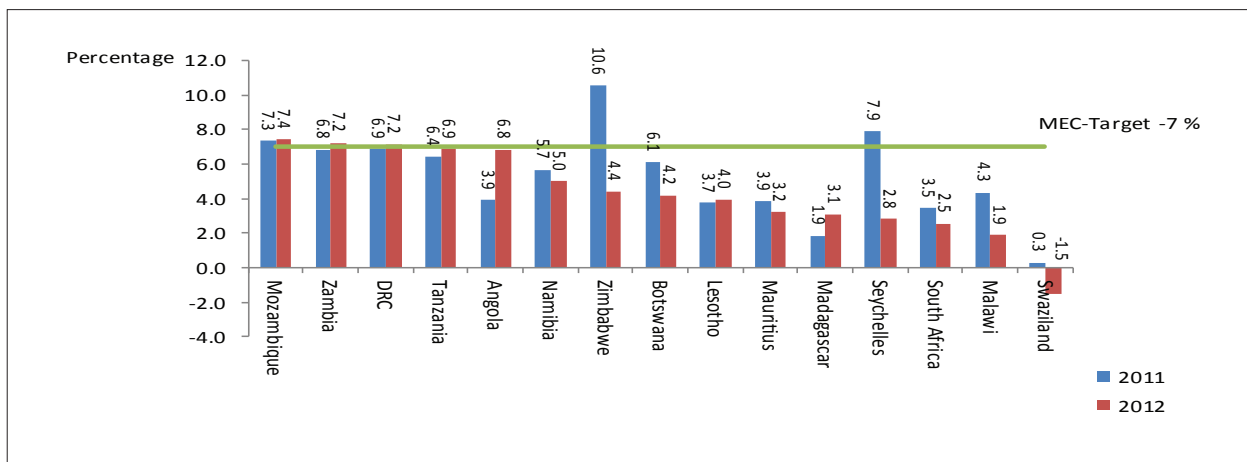
Figure V.3 Inflation, end of period consumer prices, percentage change, SADC Countries, 2012 and 2013



Source: International Monetary Fund, World Economic Outlook Database, April 2014.

Provisional figures provided by member States in November 2013 and by the IMF *World Economic Outlook*, October 2013, indicate that the SADC region recorded an average real GDP growth of 4.9 per cent in 2013, just 0.1 percentage point above the 2012 average of 4.8 per cent. Less than a third of the countries recorded real GDP growth equal or above the regional target of 7 per cent in 2012. (See figure V.4). These were Mozambique, Zambia, DRC, Tanzania, and Angola.

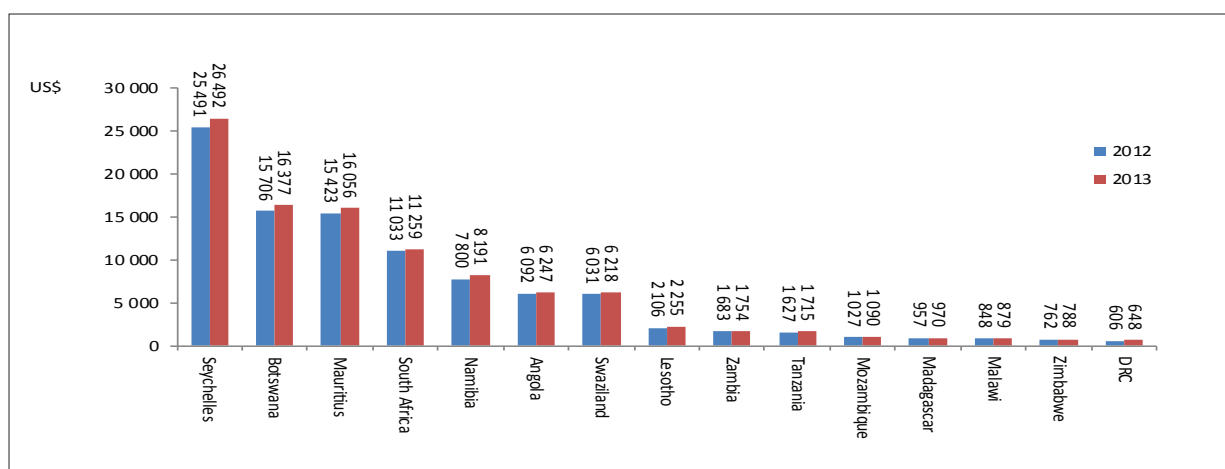
Figure V.4 Real GDP growth, annual percentage, SADC Countries, 2011 and 2012



Source: World Bank, World Development Indicators, 31 May 2014.

GDP per capita went up in all SADC member States in 2013 compared to 2012 (see figure V.5. In 2013, GDP per capita ranged from US\$ 648 for DRC to US\$ 26 492 for Seychelles.

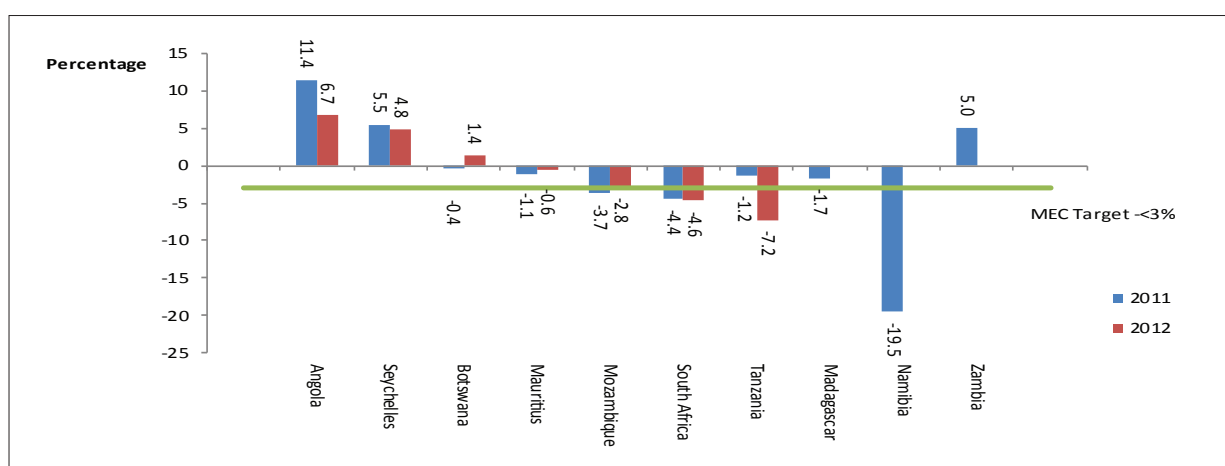
Figure V.5 GDP per capita, US\$ PPP, SADC Countries, 2012 and 2013



Source: International Monetary Fund, World Economic Outlook Database, April 2014.

Angola, Seychelles, and Botswana registered surpluses and Mauritius and Mozambique met the primary MEC budget deficit as a percentage of GDP target of less than 3 per cent, seen in figure V.6.

Figure V.6 Cash surplus/ deficit as a percentage of GDP, SADC Countries 2011 and 2012

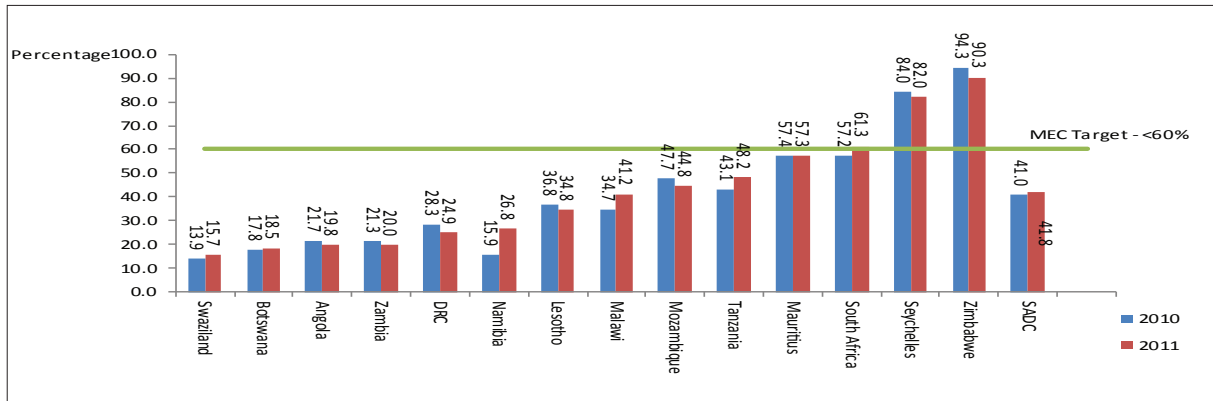


Source: World Bank Data <http://data.worldbank.org/indicator/NY.GDS.TOTL.ZS>

Note: No data for Lesotho, Malawi, Swaziland, DRC, and Zimbabwe.

With regard to public debt as a percentage of GDP, the region recorded an increase from an average of 41.0 per cent in 2010 to 41.8 per cent in 2011 (see figure V.7). Public debt as a percentage of GDP in the SADC region ranged from as low as 16 per cent in Swaziland to as high as 90 per cent in Zimbabwe. Most (12) of the 14 SADC countries with data managed to reduce public debt to sustainable levels, thereby meeting the primary MEC public deficit as a percentage of GDP target of less than 60 per cent. Zimbabwe and Seychelles (82 per cent) are the only member States yet to meet this target.

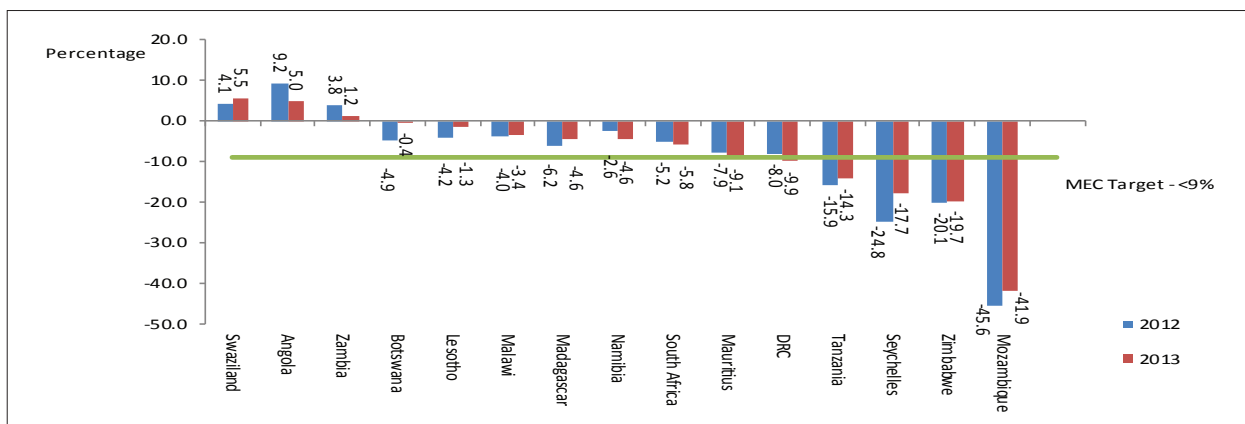
Figure V.7 Public debt as a percentage of GDP, SADC Countries, 2010 and 2011



Source: SADC Statistics Yearbook, 2012.

Swaziland, Angola and Zambia experienced current account surpluses in 2013 (see figure V.8). Six SADC countries, namely, Botswana, Lesotho, Malawi, Madagascar, Namibia, and South Africa, met the target levels of less than 9 per cent current account deficit. Mozambique recorded the largest deficit of 41.9 per cent in 2013.

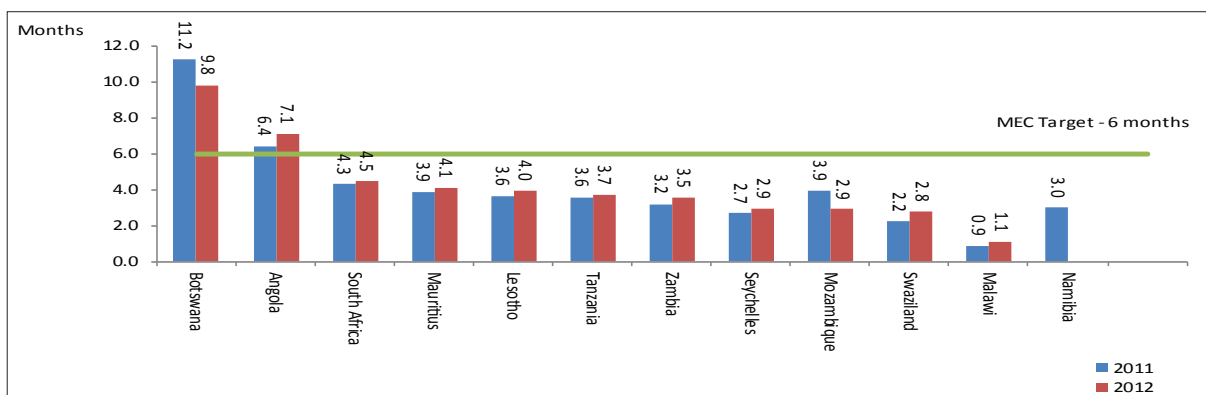
Figure V.8 Current account balance as a percentage of GDP, SADC Countries, 2012 and 2013



Source: International Monetary Fund, World Economic Outlook Database, April 2014.

Only Botswana and Angola, met the secondary MEC external reserves target of 6 months import cover in 2012, seen in figure V.9.

Figure V.9 Total reserves in months of imports, SADC Countries, 2011 and 2012

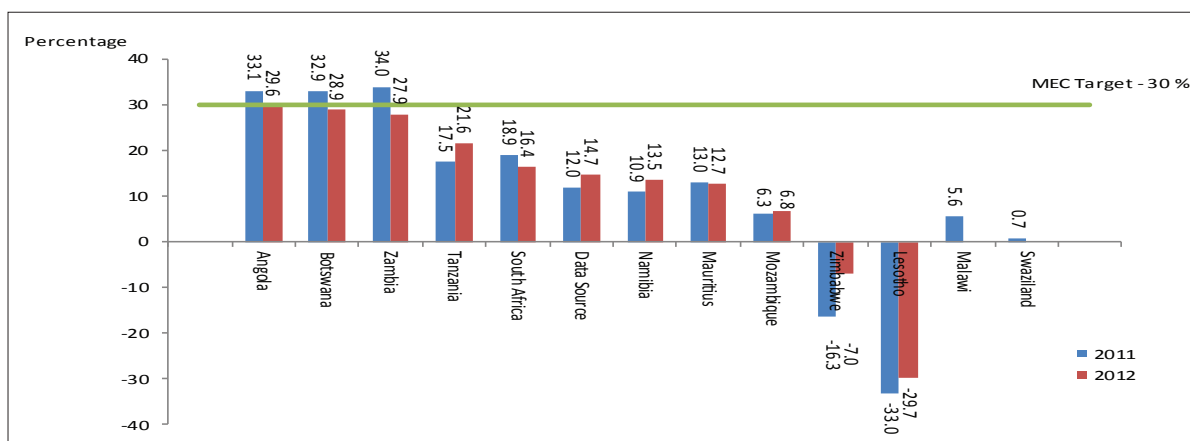


Source: World Development Indicators, 2014.

Note: No data for Madagascar, DRC and Zimbabwe.

Domestic savings as a percentage of GDP remained low in SADC, with all member States failing to meet the secondary MEC target of 30 per cent of GDP in 2012. See figure V.10. However, Angola and Botswana nearly met the target, Zambia had a relatively high percentage, while Lesotho and Zimbabwe recorded negative values.

Figure V.10 Gross domestic savings as a percentage of GDP, SADC Countries, 2011 and 2012



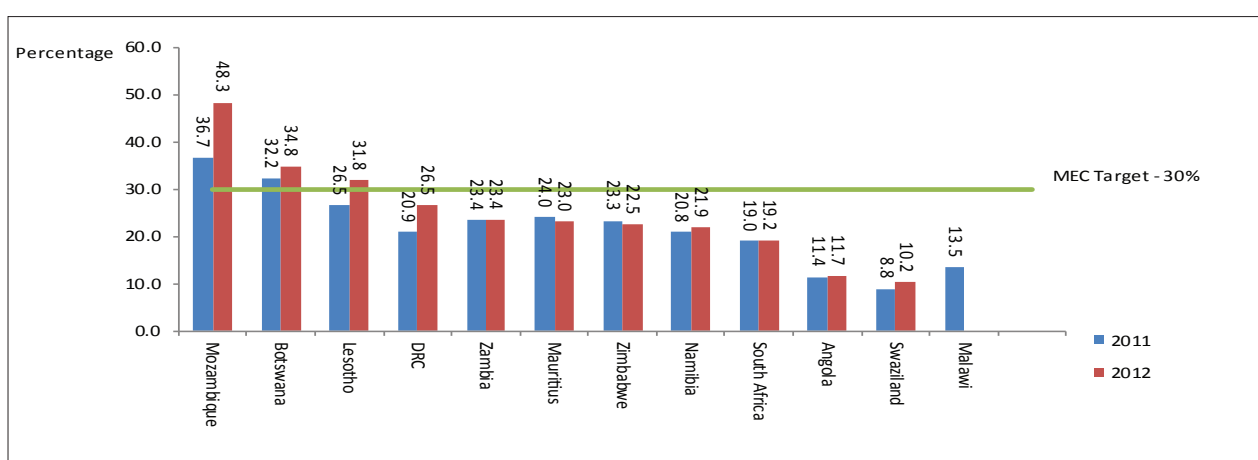
Source: World Bank data, available from

<http://data.worldbank.org/indicator/NY.GDS.TOTL.ZS>

Note: Data for Madagascar and Seychelles are not available.

In 2012, only Mozambique, Botswana and Lesotho met the gross fixed capital formation as a percentage of GDP, the MEC secondary target of 30 per cent seen in figure V.11.

Figure V.11 Gross fixed capital formulation as a percentage of GDP, SADC Countries, 2011 and 2012

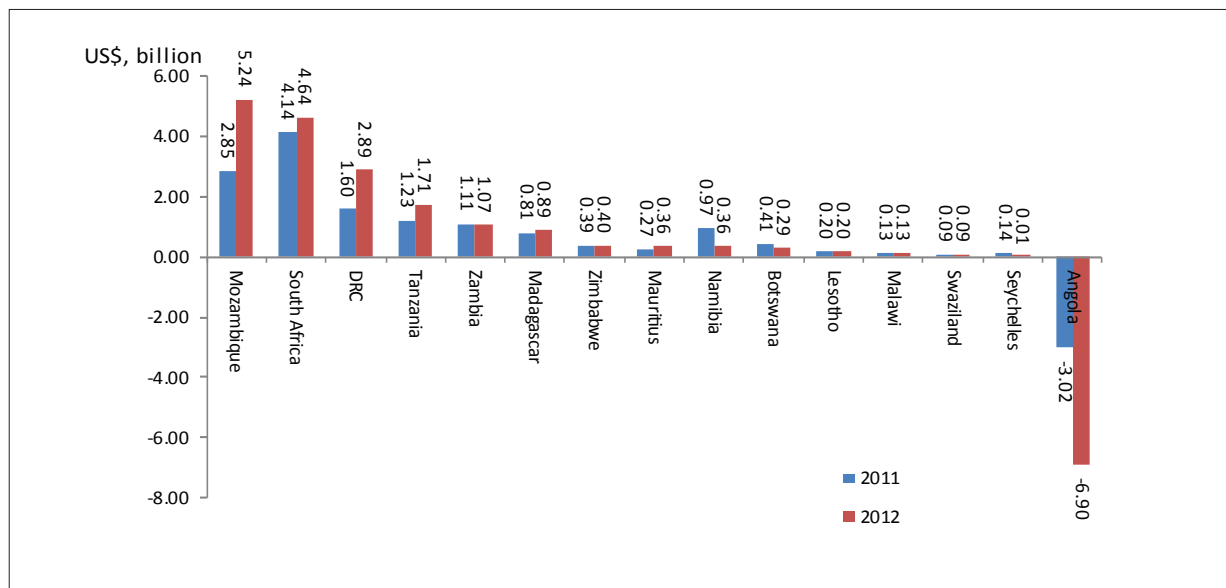


Source: World Bank, *World Development Indicators* as of 31 May 2014.

Note: No data for Madagascar and Seychelles.

Favourite FDI destinations in SADC in 2012 were Mozambique and South Africa (see figure V.12). Angola experienced FDI net outflow in both 2011 and 2012.

Figure V.12 Foreign direct investment (net inflows), US\$ billion, SADC Countries, 2011 and 2012



Source: World Bank Data, available from

<http://data.worldbank.org/indicator/NY.GDS.TOTL.ZS>

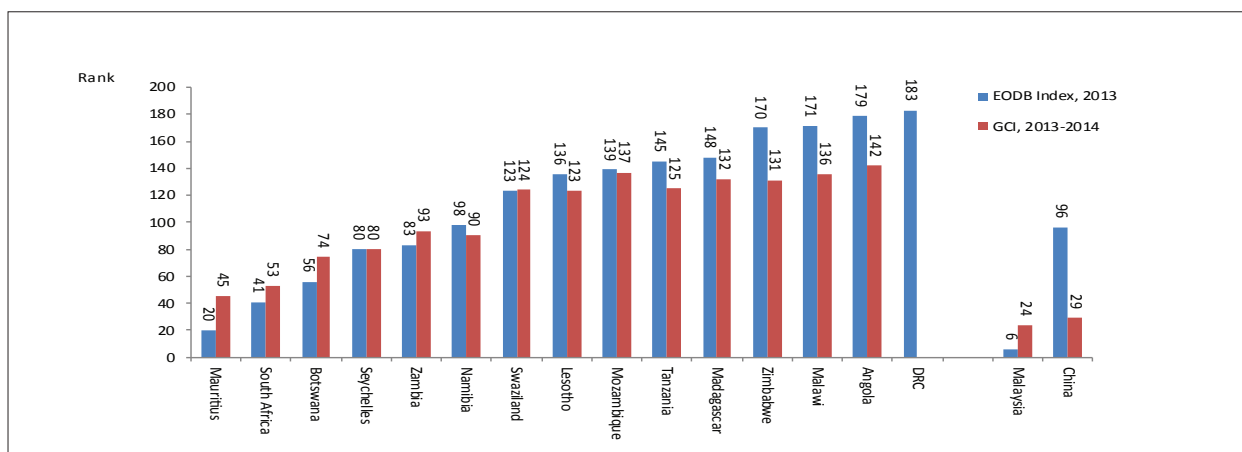
Data from the World Bank *Ease of Doing Business Report, 2014*, and the World Economic Forum, *Global Competitiveness Report, 2013-2014*, indicated that the SADC region was making progress in improving its business environment and its competitiveness in general. SADC countries were implementing a number of policies and carrying out reforms in this regard, but generally at a slower pace, compared to other countries globally. The *Ease of Doing Business Report 2014*, which looks at the regulatory environment of businesses, indicates that six SADC countries are ranking relatively well in the Ease of Doing Business (EODB) Index²⁷⁹, (below rank 100 globally), namely, Mauritius (20), South Africa (41), Botswana (56), Seychelles (80), Zambia (83), and Namibia (98) out 189 countries globally (see f V.13). DRC (183) and Angola (179) ranked lowest in the region. In comparison, Malaysia's rank was 6.

Similarly, the *Global Competitiveness Report 2013-2014*, indicates that the same six countries were ranking relatively well in the Global Competitiveness Index (GCI)²⁸⁰, (below rank 100 globally), namely, Mauritius (45), South Africa (53), Botswana (74), Seychelles (80), Namibia (90) Zambia (93), out 148 countries globally, seen in figure V.13. Angola (142) and Mozambique (137) ranked lowest for SADC countries. In comparison, NICs such as Malaysia and China ranked 24 and 29 respectively, on the GCI. For the performance of SADC members on each GCI pillars, see appendix figure A5.1 to figure A5.14.

279 The Ease of Doing Business Index measures the regulatory environment in terms of its conduciveness to the starting and operation of a local firm. The following 10 components are included: Starting a Business; Dealing with Construction Permits; Getting Electricity; Registering Property; Getting Credit; Protecting Investors; Paying Taxes; Trading Across Borders; Enforcing Contracts; and Resolving Insolvency.

280 Competitiveness is defined as the set of institutions, policies, and factors that determine the level of productivity of a country. The 12 pillars under this index include the following: Institutions; Infrastructure; Macroeconomic environment; Health & Primary; Efficiency; Higher education and training; Goods market efficiency; Labour market efficiency; Financial market development; Technological readiness; Market size; Innovation and sophistication factors; Business sophistication and innovation.

Figure V.13 Ease of Doing Business Index and Global Competitiveness Index, rank out of 189 and 148 Countries, respectively, SADC Countries compared to Malaysia and China, 2013

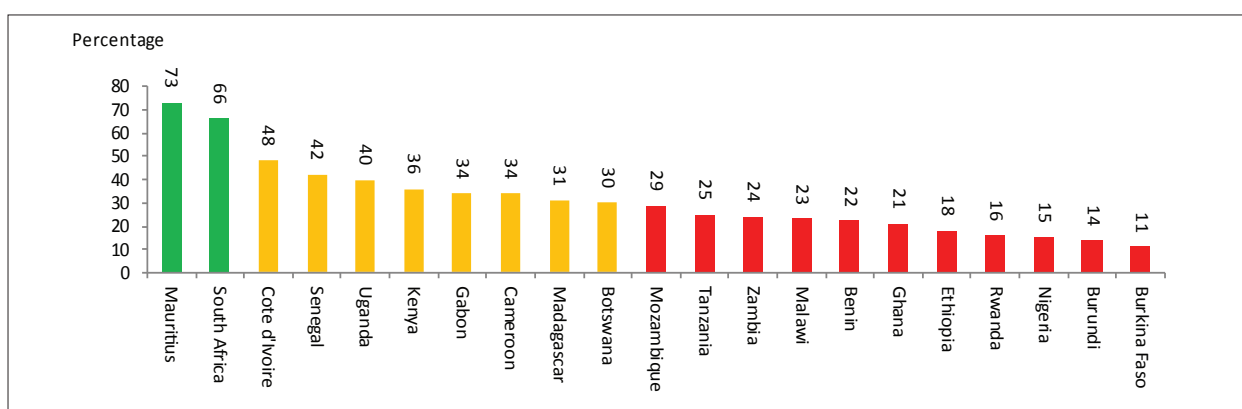


Source: The World Bank, *Ease of Doing Business Report*, 2014; and World Economic Forum, *Global Competitiveness Report 2013-2014*.

African Centre for Economic Transformation (ACET) provides the African Transformation Index (ATI). ATI is a new composite index of the five elements of DEPTH, namely, Diversification of production and exports; Export competitiveness and gains; Productivity increases; Technology upgrading, and Human economic well-being in terms of expanding formal productive employment and raising incomes²⁸¹.

There is now increased realization that while the recent economic growth in Africa is welcome, it will not by itself sustain development on the continent. To ensure that growth is sustainable and continues to improve the lives of the many, countries now need to vigorously promote economic transformation. Figure V.14 presents the ATI for the 21 African countries for which the new index was computed in 2012, and 8 of these are SADC countries. The evidence shows that, overall economic transformation remains a huge challenge on the continent. The ATI ranged from 11 per cent for Burkina Faso to 73 per cent for Mauritius, which was the highest, followed by South Africa with 66 per cent.

Figure V.14 African Transformation Index, 2010, average of 2009-2011, by Country

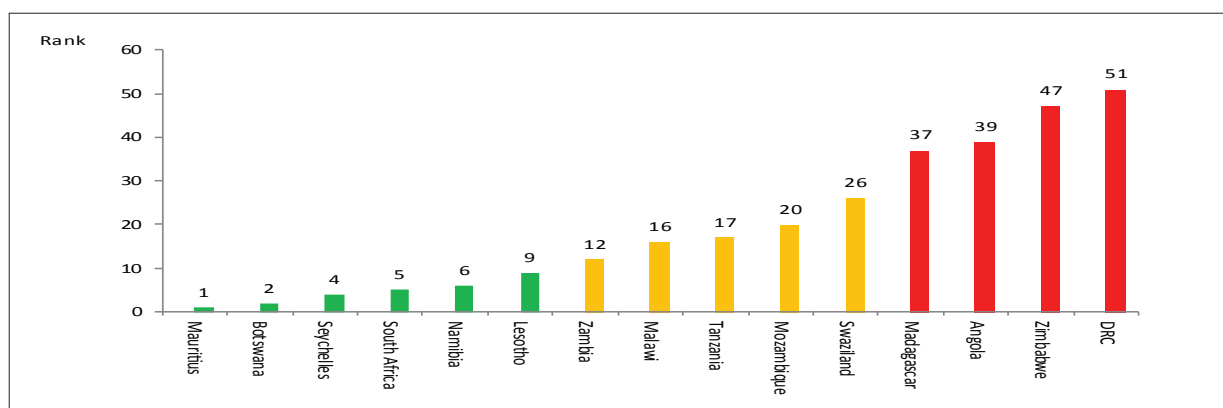


Source: Available from African transformation, org/2014/04/29/interactive-african-transformation-index/

281 African Centre for Economic Transformation (ACET), 2014; 2014 African Transformation Report: Growth with Depth; Accra, Ghana.

According to the Ibrahim Index of African Governance (IIAG)²⁸², in 2013, most (11) of the SADC countries were doing relatively well on governance. (See figure V.15). These were Mauritius (1), Botswana (2), Seychelles (4), South Africa (5), Namibia (6), Lesotho (9), Zambia (12), Malawi (16), Tanzania (17), Mozambique (20) and Swaziland (26). DRC and Zimbabwe rank among the lowest in SADC and in Africa, ranking 51 and 47 respectively.

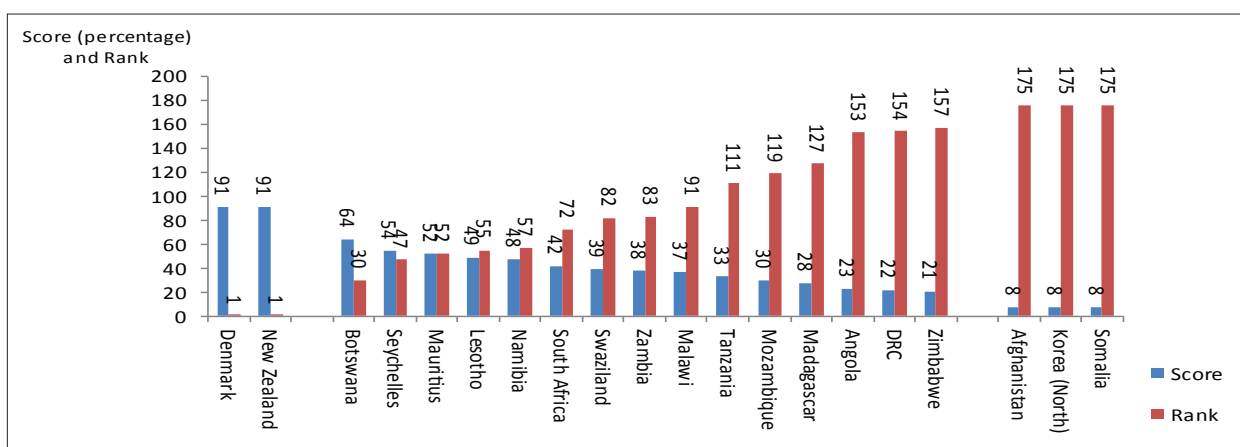
Figure V.15 Ibrahim Index of African Governance, SADC Countries, 2013



Source: Ibrahim Index of African Governance Report, 2014.

Transparency International's Corruption Perceptions Index²⁸³ (CPI) was established in 1995 as a composite indicator used to measure perceptions of corruption in the public sector in different countries around the world²⁸⁴. Figure V.16 presents the 2013, CPI values and ranks²⁸⁵ for SADC countries in comparison to the best (Denmark and New Zealand) and worst countries (Somalia, North Korea, Afghanistan) internationally. In SADC, the countries ranked low on corruption in 2013 were Botswana, Seychelles and Mauritius. The ones ranked high in corruption were Zimbabwe, DRC, Angola and Madagascar.

Figure V.16 Corruption Perceptions Index (CPI) Score (percentage) and Rank, SADC Countries, 2013



Source: Transparency International, 2014, Corruption Perceptions Index 2013; EY Building a Better Working World.

282 Established in 2007, the Ibrahim Index of African Governance is the most comprehensive collection of quantitative data on governance in Africa. It covers four categories namely: Safety and Rule of Law; Participation and Human Rights; Sustainable Economic Opportunity and Human Development.

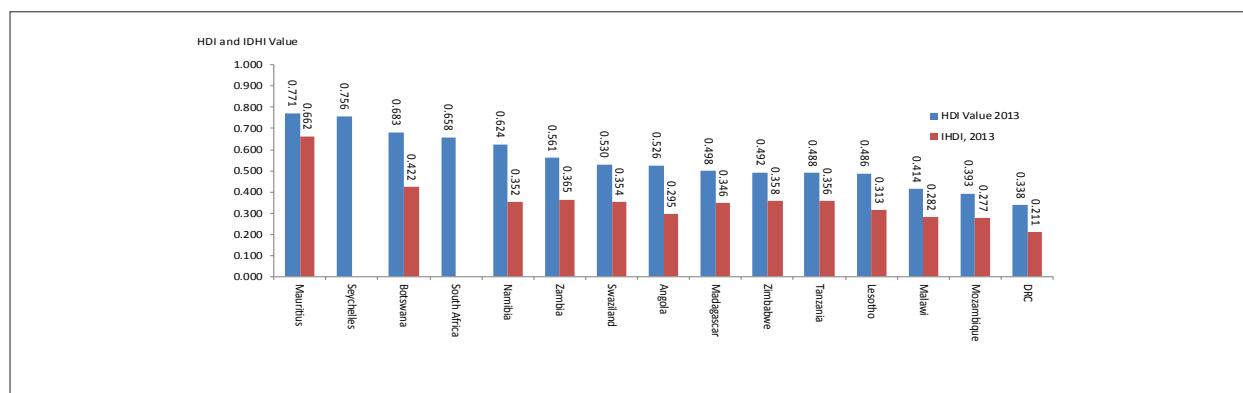
283 Scores 100 per cent-Very Clean and 0 per cent Highly Corrupt.

284 The 13 data sources were used to construct the Corruption Perceptions Index 2013 are as follows: African Development Bank Governance Ratings 2012; Bertelsmann Foundation Sustainable Governance Indicators 2014; Bertelsmann Foundation Transformation Index 2014; Economist Intelligence Unit Country Risk Ratings; Freedom House Nations in Transit 2013; Global Insight Country Risk Ratings; IMD World Competitiveness Yearbook 2013; Political and Economic Risk Consultancy Asian Intelligence 2013; Political Risk Services International Country Risk Guide; Transparency International Bribe Payers Survey 2011; World Bank – Country Policy and Institutional Assessment 2012; World Economic Forum.

285 Rank out of 177 countries.

Human development in the SADC region is summarized using the different human development indices presented in appendix table A5.1. In 2013, Mauritius and Seychelles were the only SADC members in the high human development category²⁸⁶ with a Human Development Index²⁸⁷ of 0.771 and 0.756, respectively, (see figure v.17). Nine SADC countries were in the low human development category in 2013, with HDI levels as follows: Swaziland (0.530), Angola (0.526), Madagascar (0.498), Zimbabwe (0.492), Tanzania (0.488), Lesotho (0.486), Malawi (0.414), Mozambique (0.393) and the DRC (0.338), whilst, the balance (four countries) were in the medium human development category²⁸⁸.

Figure V.17 Human Development Index (HDI) and Inequality-Adjusted Human Development Index (IHDI), SADC Countries, 2013



Source: UNDP, *Human Development Report*, 2014.

Note: Data for Seychelles and South Africa IHDI were not available.

When the HDI was adjusted for income inequality, the values went down significantly, throwing all the countries into the low human development category, except Mauritius and possibly Seychelles which fall into the medium human development category.

For all the 12 SADC countries with data, female HDIs were lower than those for males, showing that women are more disadvantaged in the various components of the HDI, especially incomes, as seen in figure V.18 and appendix table A5.1.

Figure V.18 Human Development Index (HDI) value by sex, SADC Countries, 2013



Source: UNDP, *Human Development Report*, 2014.

286 The new 2014 HDI cut-off points are as follows: HDI 0.800 and above is very high; 0.700 to 0.799 is high; 0.550 to 0.699 is medium and 0 to 0.550 is low human development.

287

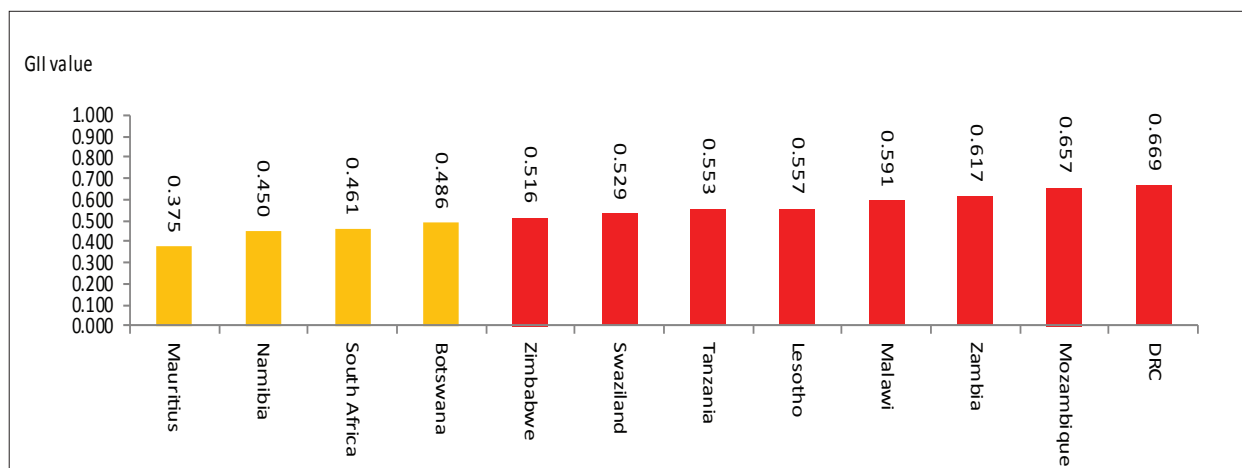
288 In 2013, Norway, with an HDI of 0.944, had the highest HDI in the world, followed by Australia (0.933) and Switzerland (0.917), while Niger had the lowest HDI of 0.337, followed by Democratic Republic of the Congo (0.338) and Central African Republic (0.341).

Note: Data for Seychelles, South Africa and Angola are not available.

The Gender Development Index (GDI), which is the ratio of female to male HDI or basically a GPI of the HDI, show overall bias against females, except for Namibia and Lesotho, which are at parity levels. See appendix table A5.1.

SADC still exhibits high gender inequalities (see figure v.19 and appendix table A5.1.), in comparison to the world's number one, Germany, with a GII of 0.046 in 2013,²⁸⁹ The world's worst ranking, Yemen, with 0.733. In SADC, Mauritius had the lowest GII, 0.375 and DRC the highest, 0.669.

Figure V.19 Gender Inequality Index (GII) value, SADC Countries, 2013



Source: UNDP, *Human Development Report*, 2014.

Note: Data on Seychelles, Angola and Madagascar were not available.

Madagascar had the highest Multidimensional Poverty Index (MPI)²⁹⁰ in the SADC region, 0.420 in 2008/09 followed by Mozambique with 0.390 in 2011. South Africa had the lowest MPI in SADC, 0.041 in 2012. See appendix table A5.1.

5.3 Country case studies

Country case studies were all based largely on data and information from national authorities²⁹¹.

5.3.1 Angola

Economic growth

Angola's economy grew by 5.1 per cent in 2013. The country is Africa's second biggest oil producer²⁹², with oil accounting for about 46 per cent of GDP, 80 per cent of government revenues and 95 per cent of Angola's exports. Virtually all major inputs for the oil industry are imported. Angola is China's top African supplier of crude oil. China buys 44 per cent of Angola's total oil exports and bilateral trade between the two countries

289 Of the 152 countries with data in 2013, Yemen had the highest GII (0.733), followed by Chad (0.707) and Afghanistan (0.70).

290 The new multi-dimensional poverty index (MPI) has three dimensions as follows: Living Standards as indicated by assets, house flooring, electricity, water, toilet, cooking fuel; Education as measured by children enrolled and years of schooling; and Health as measured by child mortality and nutrition. The MPI ranges from 0 to 1 with zero reflecting no acute deprivation and one reflecting 100 per cent acute deprivation.

291 AfDB, OECD, and UNDP, 2014.

292 Production is expected to rise from 1.8 million barrels per day (bpd) in 2013 to 2 million bpd in 2016 with new fields, notably: British Petroleum's Plutão, Saturno, Venus, and Marte complex, Cobalt International Energy's deep-water exploratory wells and Chevron's development of the Mafumeira Sul project just off the Angolan coast.

exceeded US\$ 120 billion in 2010. The 5.1 per cent GDP growth was also driven by robust non-oil activity, notably in energy (22 per cent expansion), fisheries (10 per cent), agriculture (9 per cent), manufacturing (8 per cent) and construction (8 per cent), seen in appendix table A5.2. Although diamonds account for only 1 per cent of its GDP, Angola is Africa's number two producer after Botswana, and the world's fourth largest producer of rough diamonds²⁹³.

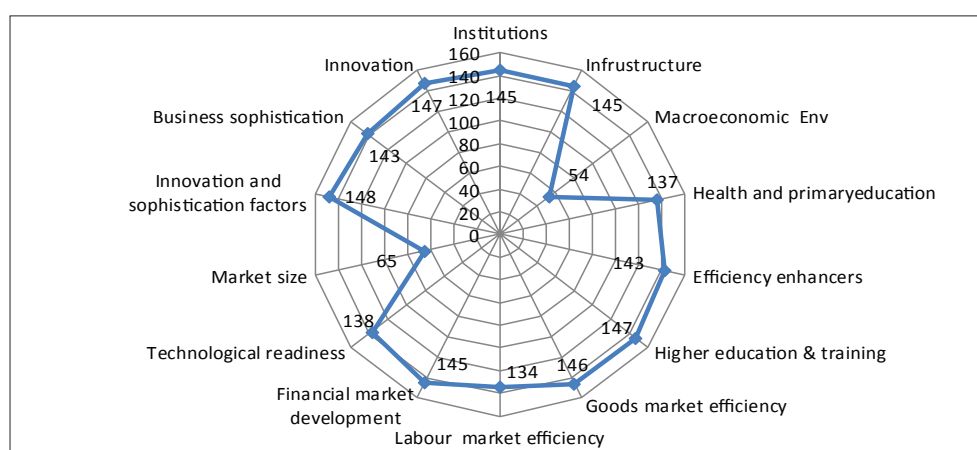
Agriculture accounts for 11 per cent of GDP and 70 per cent of total employment. According to the National Cereals Institute, Angola requires 4.5 million tonnes a year of grain and only grows about 55 per cent of the maize, 20 per cent of the rice, and just 5 per cent of its wheat requirements. Manufacturing sector growth improved from 7 per cent in 2012 to 8 per cent in 2013, driven by wood, cement, and electric materials production. The services sector grew by 5.4 per cent in 2013 compared to 10 per cent in 2012. As earlier noted in chapter III, the current situation where industry and services contribution to GDP are higher than that of agriculture reflects a desirable economic structure.

Both import and export volumes for Angola experienced declines in 2013. Import volumes grew by 7 per cent in 2013 compared to growth of 15.7 per cent in 2012. Similarly, export volumes expanded by 2.7 per cent in 2013 in contrast to 4.3 per cent in 2012. The country's current account surplus was 9.2 per cent and 7.1 per cent for 2012 and 2013, respectively. Import cover for 2012 was 8.6 months, slowing down slightly to 8.0 months in 2013 (US\$ 35.6 billion). The country's imports are predominantly machinery and metal equipment, vehicles and transport materials, and food. In addition, it is estimated that foreign investment inflows will increase to US\$ 15.7 billion in 2014, mainly channelled to the oil industry, real estate, construction, hotels and tourism²⁹⁴.

Angola's business environment has not kept pace with international developments. The country ranked 179 out of 189 in the World Bank's 2014 *Doing Business* report. Angola placed 178 on the ease of starting a business indicator, below most regional competitors. According to the *Doing Business Report 2014*, it takes 66 days and 8 procedures to start a business in Angola at an average cost of 105 per cent of income per capita. It also takes 12 procedures and 204 days to get a construction permit. Other factors affecting the business environment include a poorly educated work-force, bureaucracy, access to financing, and inadequate infrastructure.

Angola re-entered the GCI in 2013/14 ranking 142 out of 148 countries, indicating that much needs to be done to build the country's competitiveness. Its infrastructure is one of the least developed globally. Banking coverage expanded from 22 per cent in 2010 to 51 per cent of the country's area in 2012 though it is still concentrated in Luanda. The banking system's capital adequacy ratio remained strong at 18.3 per cent in 2013, well above the 10 per cent minimum requirement. Figure V.20 presents the GCI pillars by rank, 2013-2014.

Figure V.20 Angola GCI Pillars by Rank, 2013-2014



Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

293 The Kimberley Process Group estimated Angola's 2012 diamond production at US\$ 1.16 billion.

294 OECD Development Assistance Committee data indicate that net official development assistance (ODA) declined from US\$ 300 million in 2002 to US\$ 200 million in 2011.

Poverty, inequality and human development

Despite the high economic growth rate characteristic of this oil-rich economy, Angola with an HDI of 0.526²⁹⁵ in 2013, falls in the low human development category and ranks 149 out of 187 countries. Although the population living below the national poverty line has been reduced from 68 per cent in 2001 to 37 per cent in 2013²⁹⁶, poverty still remains a challenge.

In addition, Angola has a Gini income inequality coefficient of 0.586, one of the highest in the region, raising threats to social cohesion. When the HDI was adjusted for income inequality, its index slipped down to an IHDI of 0.295. Only 5 per cent of the poor have access to all three key social infrastructure services (clean water, proper sanitation, and electricity), compared to 32 per cent of the non-poor²⁹⁷. Unemployment remains high at 26 per cent, with the crucial oil industry employing just 1 per cent of Angolan workers. In 2013, the vocational training programme generated 110 000 new jobs, notably in the energy (39 000), transport (29 000), and construction (24 000) sectors.

Primary school NER and completion rate are relatively low at 85 per cent and 46 per cent respectively. Angola devotes a low share (29 per cent) of the education budget to primary schools, falling far below both the regional average of 46 per cent and the 50 per cent defined for achieving education for all (EFA) the United Nations Educational and Cultural Organization (UNESCO). Secondary enrolment is also low at 32 per cent. Gender parity in education is relatively low with a 0.81 ratio of girls to boys. The IMR was reduced from 112 per thousand live births in 2000 to around 97 in 2012, while the MMR was reduced from 890 per 100 000 live births in 2000 to less than 450 in 2012. The country lacks a comprehensive social safety network, and coverage remains limited. Public funding for subsidies stood at US\$ 7.2 billion in 2013, of which \$5 billion went on energy subsidies²⁹⁸.

Government efforts, policies and actions

In order to improve general living conditions, Angola is investing to expand access to electricity, water and transport. A new foreign exchange currency law for the oil sector and a mining law was introduced. The Government has used the Petroleum Activity Law and local content decrees to advance national interests (the Angolanization programme) in the oil sector. The State is also urging oil companies to strengthen links to the rest of the economy. A mining law enacted in November 2012, which cut taxes on revenues to 25 per cent from 35 per cent led to significant investment from companies, including diamond producer De Beers and Sumitomo Corp, which is developing an ammonia and urea plant.

The Government has made significant investment in improving infrastructure and the business environment. Energy reforms are expected to cost \$13 billion by 2025. Work to link three major national railways (Benguela, Moçâmedes and Luanda) is underway. Plans are being prepared for a deep sea port north of the capital, Luanda, and for a Bus-Rapid Transit (BRT) in the Luanda region. The national airline, TAAG Angola Airlines, and the Civil Aviation Authority are among State entities being restructured.

The Government spends approximately US\$ 2 billion a year on agriculture with about 75 per cent of the resources borrowed from China's Export-Import Bank. Brazil, Spain and Israel are also funding farm projects. In addition, there are several other major investment projects underway, including: the cement plant at Lobito; the Cassinga iron ore mine; and manganese and fertilizer production projects. In 2013, a Japanese company, Marubeni Corp, announced a US\$ 1 billion investment to renovate three fabric plants that would employ 2

295 UNDP, Human Development Report 2014

296 2013 Integrated Household Survey and Population Well-Being Report.

297 The poor are less likely to have access to adequate housing. Only 30 per cent of the poor compared to 51 per cent of the non-poor have access to clean drinking water and there are similar figures for proper sanitation (40 per cent and 72 per cent, respectively) and electricity (14 per cent and 57 per cent, respectively).

298 According to a 2013 UNICEF assessment, it is estimated that the richest 50 per cent of Angolan households receive 70 per cent of government social assistance benefits.

700 people. From 2011 to 2013, about \$4.1 billion of foreign investment went into real estate, with Brazilian and Chinese companies leading the construction of new towns. Several multinational firms with interests from retail to hotels plan to establish a \$2.5 billion commercial development project in Luanda Bay.

The country is eligible for trade preferences under AGOA. Investment is also being made in air, sea, and rail and road links to boost integration into SADC and Central African markets. Despite these efforts, free movement of people and goods remains constrained and clearing imports through Angolan ports and customs is slow. The expansionary fiscal policy pursued in 2013 aimed to promote growth, employment and macroeconomic stability. Debt indicators remain sustainable with external debt averaging 20.4 per cent of nominal GDP in 2013 up from 19.5 per cent in 2012. Domestic debt remained stable at 9.5 per cent of nominal GDP in 2013.

The Government plans to reduce dependence on oil taxes from 81 per cent of total revenues in 2012 to less than 70 per cent in 2014 and to increase non-oil tax revenues from 6.6 per cent of GDP in 2012 to 9.6 per cent of GDP in 2014, as economic diversification progresses. It is responding to global economic uncertainties by accumulating significant international reserves. Monetary policy focused in 2013 on ensuring inflation and exchange rate stabilization and resilience to external shocks. Favourable monetary policy trends led to an annual expansion of credit-to-the-economy with most of the credit going to commercial activities. Consumer price inflation fell from 9 per cent in 2012 to 7.7 per cent at the end of 2013. A policy discouraging use of the US dollar (de-dollarization), was enforced in July 2013.

The Government carried out some major reforms on regulations impacting business operations in 2013, including: the introduction of a 10 per cent consumption tax levy on oil companies; a presidential decree to reduce and eliminate the custom tax burden on imported goods used as main inputs for national production, including some food products; and the approval of laws to regulate stock and debt market operations.

There are efforts to improve educational infrastructure with 50 new high schools built and 18 660 teachers recruited in 2013. More than 240 000 teachers have entered the education system over the past four years. Angola recently completed Phase II of a five-year, \$38 million malaria grant from the Global Fund to Fight AIDS, Tuberculosis and Malaria and has started to implement a new five-year \$78 million grant. In June 2013, under a joint programme between the Government and the United Nations Children's Fund (UNICEF), WHO, the Food and Agriculture Organization (FAO) started more than 27 inpatient facilities, and 307 outpatient treatment centres opened in 10 provinces. The Government has also established an institutional framework for entrepreneurship development and job creation through the Ministry of Employment and Social Security.

Conclusion

Despite Angola's strong economic indicators, effective policies are needed to lift the people out of poverty. Investment is needed in skills and infrastructure to improve human development. Angola needs to accelerate economic diversification to broaden the economic base and reduce the dependence on oil which is prone to volatility in international prices. The country has to get a foothold in the global oil industry's value chain and broaden its participation into sectors such as liquefied natural gas, methanol and other high potential sectors. Critical factors that need attention include:

Improving labour market competitiveness

Greater inclusion of the private sector in the growth and development of the economy, and

Addressing structural imbalances.

5.3.2 Botswana

Economic growth

Botswana's economic performance improved in 2013, continuing the recovery that set in after the 2008/09 global economic crisis. Real GDP growth increased to 5.4 per cent in 2013 from 4.2 per cent in 2012, mainly driven by service-oriented sectors, notably trade, transport and communication, public and financial services. The sound performance of the non-mining sectors is laudable as it suggests nascent steps towards economic diversification. On the expenditure side, growth in 2013 was mainly driven by public investment which grew by 12.8 per cent from 8.1 per cent in 2012, reflecting the implementation of major government infrastructure projects.

The country's predominant mining sector registered a rebound in spite of the impact of the sluggish global prospects and the water shortages and electricity outages arising from a severe drought, registering a growth rate of 6.9 per cent in 2013 from a decline of 7.0 per cent the previous year. Performance was supported by higher diamond prices, which were about 3 per cent higher in September 2013 compared to the same period in 2012, combined with the recent relocation of De Beers' diamond-sorting and sales activity from London to Gaborone. Mining has been the mainstay of the economy since the 1970s. In 2012, it accounted for 19.6 per cent of GDP (see appendix table A5.2), 30 per cent of government revenue and around 84.7 per cent of foreign exchange earnings. Botswana's ATI of 30 per cent in 2010 reflects low economic transformation²⁹⁹.

The diamond industry also received a boost in October 2013 when the Okavango Diamond Company conducted its first full-scale sale, in which 76 companies from the world's major diamond centres participated and over 220 000 carats were sold. The diamond cutting and polishing sector has continued to grow, with the licensing of 11 additional companies, bringing the total number to 27. Sales to the local polishing industry were estimated to have grown from US\$ 618 million in 2012 to \$770 million in 2013.

Despite its middle-income status, Botswana has to contend with challenges emanating from its narrow economic structure and the attendant over-dependence on the mining sector, in particular diamonds. As earlier noted in chapter III, the current situation whereby services and industry contribution to GDP are higher than that of agriculture reflects a desirable economic structure.

External trade continues to be dominated by exports of mineral products, with diamonds accounting for more than 70 per cent of total export earnings in 2013. For the period up to September 2013 export receipts grew substantially by 52 per cent while the value of imports increased by 13 per cent, leading to a trade surplus. Preliminary estimates of the current account balance for 2013 indicated a surplus to 1.8 per cent of GDP, reflecting an improvement from a 0.2 per cent surplus in 2012, mainly due to an increase in current transfers, comprising receipts from SACU.

In terms of the direction of trade, South Africa emerges as Botswana's dominant source of imports, accounting for 63 per cent of the total in 2012, followed by the United Kingdom, accounting for 17 per cent. The shares from the European Union and the United States were relatively small, at 3 per cent and 2 per cent respectively. The United Kingdom was the most important destination for exports, accounting for 60 per cent of the total in 2012, followed by South Africa with 13 per cent. The European Union and United States accounted for 5 per cent and 1 per cent respectively.

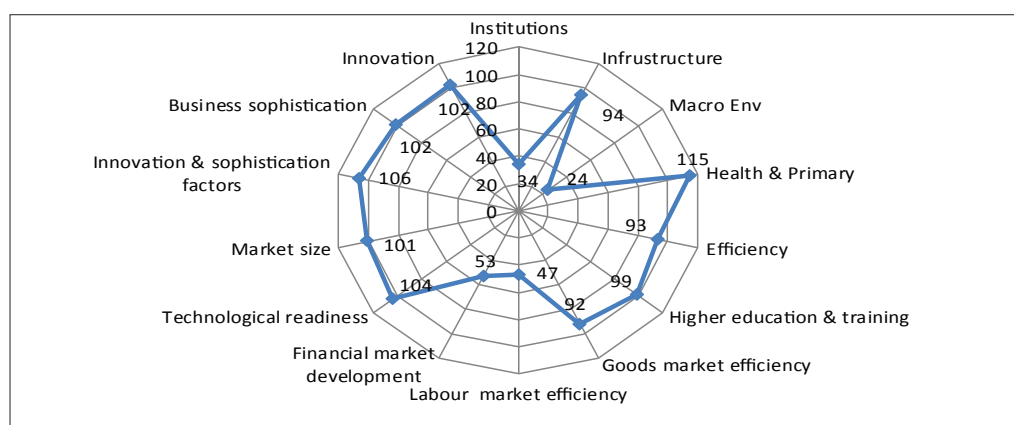
The World Bank report, *Doing Business 2014* ranks Botswana's business environment among the best in Africa. Overall, the country's ranking improved to 56 out of 189 economies in 2013, from 65 in 2012, reflecting the impact of significant reforms initiated by the National Doing Business Committee established in 2011. On the *Global Competitiveness Index* (GCI), Botswana ranked 74 out of 148 countries in 2013/14. Among the

²⁹⁹ African Centre for Economic Transformation (ACET), African Transformation Report: Growth with Depth, 2014, Accra, Ghana.

country's strengths are its sound macroeconomic environment, relatively reliable and transparent institutions, with efficient government spending, strong public trust in politicians and low levels of corruption. See figure V.21.

Botswana's primary weaknesses continue to be related to its human resources base. However, it is clear that by far the biggest obstacle faced in its efforts to improve competitiveness remains its health situation, characterized by high rates of disease and poor health outcomes despite improvements in recent years.

Figure V.21 Botswana GCI Pillars by Rank, 2013-2014



Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

The sectors most engaged in GVCs are mining (diamonds, copper nickel, soda ash and gold), vehicles, textiles, beef and tourism, with the diamond sub-sector playing the most visible role. The earlier highlighted relocation of the Diamond Training Company from London to Botswana in 2013 and the Government's decision to reserve a proportion of Botswana's diamonds for local processing are expected to consolidate the country's role as a major player in the diamond GVC. The structure of Botswana's financial sector reveals a small but thriving industry, with commercial banks and pension funds being the most dominant institutions by asset size. With regard to asset quality, robust supervisory standards have ensured the resilience of the financial sector even in the face of shocks such as the 2008 GEFC.

Poverty, inequality and human development

On the social front, the distribution of resources and level of development remain major concerns. With an income Gini coefficient of 0.57³⁰⁰ in 2003, Botswana has a relatively unequal distribution of wealth. The incidence of poverty is also high, with 18.4 per cent of the population living below the poverty line. Other challenges include a high unemployment rate of 17.8 per cent, and a relatively low HDI score of 0.683 in 2013³⁰¹, falling in the medium human development category. This is mainly due to the high HIV and AIDS prevalence of 23.4 per cent that drags down life expectancy. Botswana had an HDI rank of 109 out of 187 countries in 2013. In the same period, it had a GDI of 0.964, and a GII of 0.486. The proportion of the population living below the national poverty line declined from 30.6 per cent in 2002/03 to 19.3 per cent in 2009/10.³⁰²

Educational enrolment rates at all levels remain relatively low by international standards and the quality of the educational system is a challenge. About 90 per cent of the primary school age population (7-13 years) were

300 SADC Statistics Yearbook, 2011

301 UNDP, Human Development Report, 2014.

302 The decline was even more significant in the level of extreme poverty, defined using the one dollar a day poverty line, since in the same period, extreme poverty declined from 23.4 per cent to 6.5 per cent. In addition, poverty has a strong rural dimension, with 8.4 per cent of the rural population living in extreme poverty compared to 2.7 per cent in urban areas.

in school in 2011 and there is almost universal access to primary and junior secondary education. Notably, between 1996 and 2010, the total literacy rate increased from 34 per cent to 83 per cent and gender parity in primary and secondary education has been virtually achieved. Even though the country has made commendable progress in the fight against HIV and AIDS, the prevalence rate of 23.4 per cent in 2013 remains high. As of December 2012, Botswana had attained universal access to anti-retroviral therapy with 96 per cent of those eligible receiving it. The maternal mortality ratio declined from 326 per 100 000 births in 1991 to 198 per 100 000 births in 2008.

On social protection, 98 per cent of eligible orphans are covered, in addition to cash and food baskets for the vulnerable, a primary school-feeding programme, shelter for destitute persons, among others. However, the country suffers from a persistent high unemployment rate of 17.8 per cent, reaching 34 per cent among youth (20-24 years of age), mainly reflecting a mismatch between the quality of education and the labour market demand.

Government efforts, policies and actions

There are several strategies aimed at enhancing private sector competitiveness and growth, such as the Excellence Strategy, 2008; the Economic Diversification Drive, 2011; the National Export Strategy, 2010-2016; the Private Sector Development Strategy, 2009-2013; investment in broadband width; and modernization of the payment system, among others.

Botswana's prudent fiscal policy remains one of the hallmarks of its macroeconomic framework. Prior to the 2008 GEFC, the Government ran budget surpluses and accumulated substantial savings. The budget outturn for 2012/13 recorded a small budget surplus of 0.7 per cent of GDP, largely on account of improved revenue from SACU. In order to lower the Government's wage bill, efforts have been made to rationalize state-owned enterprises and outsource programmes to the private sector. The broad structure of revenue is such that tax revenue accounts for around 70 per cent of total revenue, with VAT accounting for about 14 per cent. Botswana's monetary policy objective is to achieve price stability, targeting inflation rates within a range of 3 per cent to 6 per cent, and recording 4.1 per cent in December 2013.

Credit to the private sector grew by 21.9 per cent in 2012 while there was a decline of 7.8 per cent in government credit. The estimates for 2013 revealed a further slowdown in government credit to about -1.4 per cent and a deceleration of private sector credit growth to 16.4 per cent, which could impact overall growth adversely. The Government consistently implements a prudent debt policy, limiting public domestic and foreign debt (including government-guaranteed debt) each at a cap of 20 per cent of GDP and they have adhered to this limit even in the face of adverse external shocks. Public external debt was sustainable at 12.6 per cent in 2012/13³⁰³, while domestic debt was 6.1 per cent of GDP in 2012/13.

The most remarkable improvement was recorded in dealing with construction permits, with the rank improving to 69 in 2013 from 164 in 2012. However, procedures for starting a business remain cumbersome, and trading across borders remained the country's poorest aspect, at rank 145 in 2013/14. To address the shortcomings in the financial sector, the Government launched a Financial Sector Development Strategy (2012-16). The organizational structures in the civil service show clear functional lines with very little duplication of efforts and business processes.

A *Customer Satisfaction Survey of Public Services* that is expected to guide interventions in areas requiring further attention, as well as the Privatization Master Plan II, 2013-18 were launched. However, it has been announced that the number of civil servants will be cut by 5 000 per year, to help achieve the intended reduction in the public sector wage bill.

³⁰³ The bulk of external debt is from multilateral institutions which accounted for 94.8 per cent of the debt in 2012/13, with the African Development Bank being the major creditor accounting for 80 per cent of the total.

The key policies that have contributed to favourable education outcomes include the provision of free basic education, adoption of an Inclusive Education Policy in 2011, and an ongoing literacy programme that has mainly benefited women. Specific reform measures envisaged include reform of the education system, especially secondary and tertiary institutions, to diversify academic programmes that will equip learners with the needed skills. Cognizant of the fact that education and skills development are critical in enhancing the quality of life, spending on education constitutes about 25 per cent of total budget expenditure. In the health sector, the 2010 Master Health Facility List Report shows that the country had an extensive network of health facilities comprising hospitals, clinics, health posts, and mobile stops, such that over 95 per cent of the total population (and 89 per cent of the rural population) live within a radius of 15 km to a health centre.

On the labour market, key reforms introduced include enactment of e-legislation and the review of immigration procedures and labour laws to attract skilled expatriate labour to Botswana, especially in the context of relocation of the Diamond Trading Centre from London to Gaborone. To address high unemployment, a notable initiative entailed the introduction of the *Ipelegeng* programme in 2008. This was designed to create temporary employment for those people who needed jobs most and about 66 800 people were employed under the scheme. Although the number declined to 43 651 in March 2011, the *Ipelegeng* programme has revealed that there is potential for creating temporary jobs during times of need.

Conclusion

While the Government has a reputation for prudent management of mining revenues and also boasts a good governance record and stable democracy, the need for diversification remains critical, including diversification in trading partners to include other emerging ones such as China and India. In spite of the favourable revenue outcomes, Botswana could improve its tax system even further to reduce or eliminate the granting of various exemptions and incentives. Overall, there is need to address unequal distribution of wealth, high levels of poverty, unemployment and the HIV and AIDS epidemic.

5.3.3 Democratic Republic of the Congo

Economic growth

The DRC economy remained strong in 2013 with growth in real GDP of 8.1 per cent compared to 7.2 per cent in 2012. There has been some growth despite the worrying political and security context, driven by the extractive industries (up to 2.26 per cent from 1.80 per cent in 2012), wholesale and retail trade (1.80 from 1.60 in 2012), construction (1.53 from 1.40 in 2012) and agriculture (1.20 from 1.00 in 2012). The other sectors contributed little to growth: merchant services (0.50 points), transport and telecoms (0.41), manufacturing (0.20) and energy (0.09). Growth also benefited from some improvement in aspects of the business environment, reconstruction of infrastructure and strong demand. Mining has been the main driver of growth and several mining companies have passed from exploration to production since 2013.

Rationalization of macroeconomic policy and stable commodity prices helped to contain inflation, which stood at 1.1 per cent in 2013, against 2.7 per cent in 2012. Proper coordination of fiscal and monetary policies and the rally in export earnings have also increased foreign exchange reserves at the central bank (BCC). The foreign exchange market remained stable, with occasional BCC interventions. This stability has been underpinned by the growth of international reserves, up from US\$ 1 643.1 million (8.8 weeks of imports) in 2012 to US\$ 1 766.4 million (9.4 weeks) in 2013.

The continuing strong performance of the mining sector has been helped by investment, demand, macroeconomic stability and road reconstruction. Construction remains one of the pillars of growth. Agriculture has also benefited from road reconstruction as well as the Government's agricultural campaign. In 2013, agricultural production (mainly coffee and logging) grew by 4.1 per cent contributing 36.1 per cent of GDP. See appendix table A5.2.

Trade in these two products has been stimulated by reconstruction of some rural roads. The opening-up of some areas of production and Government support in the form of fertilizers and equipment given to smallholders as part of the agricultural campaign, also helped to increase food production.

Diamond production has declined (down 20.7 per cent), due to cash flow problems at the mining company *Minière de Bakwanga* (MIBA). Exploitable areas have also been reduced in the new system of mining permits issued to artisanal diamond producers. Despite the presence of the British firm SOCO International, which is exploring the oilfields in the Virunga National Park, near Goma in North Kivu, crude oil production has stagnated between 2012 and 2013.

Manufacturing contributes little to growth (no more than 2 percentage points) due to the obsolescence of production equipment, limited ability to use new technologies and the effects of foreign competition, as well as costs imposed by the effects of poor infrastructure and access to energy. Textile mills that once contributed 5 per cent to GDP have lost ground against foreign competition, unable to control their production costs. Only breweries have been relatively successful, despite difficulties caused by unpredictable electricity cuts.

With almost no contribution to growth, energy remains one of the weakest sectors of the economy. The national electricity company (SNEL) and the water distribution board (REGIDESO) have experienced several years of technical and financial difficulties, including non-payment of arrears by the Government. Overall, the service sector remained strong in 2013.

As earlier noted in chapter III, the current situation where the contribution of agriculture to GDP remains much higher than that of services and industry, reflects an undesirable economic structure.

The country was ranked 183 out of 189 in the World Bank report, *Doing Business 2014*. A decrease was observed in four areas: paying taxes, enforcing contracts, cross-border trade and investor protection. The difficult access to energy is also cited as a barrier by investors. The private sector is sensitive to the precarious security situation in the east. The persistence of pockets of insecurity discourages equity holders from investing in conflict zones as they would like, despite the significant development potential.

The financial system remains one of the least developed in SSA, given the country's demographics and economy. Yet, between 2011 and 2013, the banking sector has experienced rapid growth. The level of financial inclusion has increased from 2.2 per cent to 6.0 per cent over the period, and the balance sheet total increased by 30 per cent, up to US\$ 3.6 billion. Banks have relaxed conditions for opening new accounts to facilitate the banking of public sector and military pay. The financial soundness indicators point to a strongly capitalized banking system, but compliance with other prudential indicators remains mixed.

DRC remains one of the least developed countries in the world due to its poor capacity to develop its enormous production potential. Structural weaknesses, lack of infrastructure and governance issues since independence in 1960 are some of the reasons for the absence today of an industrial fabric that could make it an 'emerging' country. The private sector contributes only marginally to international production networks, mainly to the low end of the GVC. The country's participation in global trade is also limited by the range of products offered and demanded (capital goods and food). Exports are concentrated on low value added raw materials.

The investment rate is low and capital unproductive. The development model adopted (commodity exports and import substitution) has not led to significant diversification of the production base. The country has for decades been in a situation of commercial technological and financial dependency. From 1960 to 2000, the share of primary products in exports remained the same (about 80 per cent), while their share in the world market has declined.

Poverty, inequality and human development

Macroeconomic indicators are positive, but the social situation remains worrying. While the foundations of the economy strengthened in 2013, the HDI remains one of the lowest in the world at 0.338 in 2013, ranking number 186 out of 187 countries³⁰⁴. DRC had an income Gini coefficient of 0.44 in 2006. When the HDI was adjusted for income inequality the index slipped down to an IHDI of 0.211 in 2013.

DRC had a GDI of 0.822 in 2013, a GII of 0.669 and a MPI of 0.669 and 0.399, respectively, in 2010. Living conditions contrast with economic performance due to three factors: the deep recession of the 1990s, low job creation and governance issues. The poverty rate is estimated at 70 per cent. The unemployment rate exceeds 50 per cent. DRC ranks last but one (51 out of 52 countries) in the Ibrahim Index of African Governance 2013, within the same group with Eritrea and Somalia. The labour market remains very small and real wages are not increasing. Rampant malnutrition is one of the leading causes of death. Agriculture and mining, the two pillars of the economy, do not create enough wealth or jobs. Since 1970, agriculture employs 70 per cent of the labour force but provides only 40 per cent of production, reflecting its low productivity and inability to adequately feed the population.

Poverty makes access to education and health care difficult. Many children remain outside the education system, the quality of which is also questionable. Several school-year enrolments, such as September 2013, have been low because parents cannot afford to pay school fees and buy school supplies. More students now start primary school but dropout rates remain very high, affecting more than 4 million children. Government also intends to gradually reduce the ratio from the current 1 teacher per 60 pupils to 1 teacher per 40 pupils.

In addition, many deaths could have been avoided with better access to health care. The number of deaths from typhoid fever is increasing in Western Kasai with 29 cases of perforation of the intestine and a total of 1 092 cases reported. No fewer than 2 300 cases of cholera were recorded in 2013, including 76 deaths in Katanga. The quality of drinking water and lack of hygienic facilities are the cause of several cases of cholera identified in South Kivu and Orientale Province. In early 2013, nutritional surveys funded by UNICEF and conducted by the national nutrition project, Pronanut, in Malemba Nkulu (Katanga Province) revealed an average rate of 19.3 per cent with acute malnutrition and 6.5 per cent with severe acute malnutrition.

In 2013, HIV prevalence was estimated at 1.1 per cent nationally and 3.5 per cent among pregnant women. Over 1.5 million people are living with the virus. Young people and women are the most affected and transmission is mainly sexual. Sexual violence aggravates the prevalence. With only 15 per cent of HIV-positive patients on antiretroviral (ARV) treatment, the country has one of the lowest rates of cover in the world.

Government efforts, policies and options

The security situation was very unstable in the east during the first ten months of 2013.

The fighting intensified between FARDC and the M23 rebels. To halt the loss of human lives, human rights abuses, especially against women, and the destruction of infrastructure, the Government has used both diplomacy and military action on the ground. After 30 years of interrupted service, two railway lines were brought back into operation in October 2013: the Dilolo-Lobito railway between Katanga and Angola, and the Benguela railway. Both lines offer a maritime outlet through Angola, at the port of Lobito, meaning that the country's exports no longer have to pass through South Africa or Tanzania.

Fiscal policy aims to control public spending while ensuring its effectiveness, given the need to rebuild the country. Steps have been taken to increase domestic revenues by broadening the tax base, particularly in the area of natural and mineral resources. The Government also eliminated tax loopholes, exemptions and preferential treatment and subsidies for petroleum products. As part of a prudent monetary policy, the central

³⁰⁴ UNDP, Human Development Report, 2014

bank continued its fight against inflationary pressures and has sought to expand credit to the economy, lowering its key interest rate twice in November 2013, from 4 per cent to 2 per cent. Treasury bill auctions and a higher reserve ratio, (increased from 7 per cent to 8 per cent) were used to absorb the excess liquidity resulting from the repayment of VAT by mine operators.

The effectiveness of the monetary policy is hampered by the high dollarization of the economy and by administrative weaknesses at the BCC. De-dollarizing the economy is expected to improve the mechanisms for transmitting the effects of monetary policy to the real economy. In 2013, the country's public debt was estimated at US\$ 6.46 billion. Although this debt appears sustainable, the Government is committed to a prudent policy, based on analysis of the viability of projects to be funded. It favours concessional loans and grants from its technical and financial partners.

To better realize its growth potential, the country will have to improve its business environment and address the lack of infrastructure and access to energy. In 2012, it joined the African Business Law Harmonization Organization (OHADA). Because several companies are struggling to get used to this new business law, the Government has taken further steps, such as simplifying business creation and setting up a register of trade and property credit. It has also created a one-stop shop for business creation in April 2013. This is to reduce both the number of procedures (from 13 to 3) and time (from 58 to 3 days).

To facilitate trade, an integrated single point of contact for foreign trade has been created and its implementation entrusted to the French firm, Bivac. This has the advantage of linking all customs operations, leading to greater transparency. The objective is to make trade a lever for growth and to increase customs revenue through a higher volume of transactions.

More than 245 taxes were abolished in 2013, and the Government decided to fix the list of taxes and duties and the charges levied by provincial local authorities and decentralized territories as well as their allocation rates. The Government has also abolished the withholding of tax, that is, tax retained at source on income and profits. In addition, to encourage mineral processing and refinement within the country, it has banned the export of raw copper concentrates and cobalt.

To reduce its energy deficit and stimulate further growth, the country is engaged in the construction of the Inga III hydroelectric dam in the Lower Congo, which will have a production capacity of 4 800 megawatts (MW), compared with 351 MW and 1 400 MW for the existing Inga I and Inga II dams. The project, costing US\$ 12 billion, should be completed in 2020 with a significant contribution from the private sector in a public-private partnership.

In February 2013, in Addis Ababa, Ethiopia, under the auspices of the African Union (AU), the leaders of the ECGLC countries signed an agreement for a return to peace in the region. They are committed to respect the territorial integrity of neighbouring countries and to not support armed groups. A draft law developed in 2010 authorizing the ratification of the Kinshasa Convention, (Central African Convention for the Control of Small Arms and Light Weapons, their Ammunition, Parts and Components that can be used for their Manufacture, Repair or Assembly), is pending adoption by the Government. An operation against urban crime called "*Likofi*" ("punch" in Lingala) was launched in late 2013.

Currently, government support for some elements of school fees for students from first to fifth year of primary education extends to all provinces with the exception of Kinshasa and Katanga. In line with commitments under the interim education programme (PIE), the Government has launched construction of 1 000 schools, 286 of which were ready for the 2013 school year. In the health sector, in September 2013, it validated the national nutrition policy, which aims to ensure productive human capital. A campaign to reduce maternal and child mortality has been launched with funding of US\$ 80 million. It aims to save the lives of around 430 000 children and prevent 7 900 maternal deaths a year. To combat measles and polio, two campaigns were launched in September 2013, treating 6.8 million children between 6 and 14 years and 2 million children under 5 years.

About 17 million mosquito nets have been distributed in the fight against malaria. Despite these efforts, the health situation remains worrying in various areas.

To promote good public hygiene, the deployment of a joint hygiene-environment team is underway, aiming to create community organizations at all levels, advisory and operational, to take responsibility for sanitation and hygiene. To join the “AIDS free generation” movement, the Government has launched the WHO guidelines on ARV treatment and the UNAIDS Treatment 2015 Initiative. This should result in a reduction of 36 per cent in infections and of 39 per cent in HIV and AIDS-related deaths.

The Government has also sought to improve the social situation. In 2013, it directed nearly 10 per cent of domestic revenue, or US\$ 400 million to the sectors benefiting pro-poor economic growth (transport, health, education, and agriculture). The process of affiliating companies to the national social security and vocational training institutions launched in 2012 to improve social security for workers, has continued.

Conclusion

Despite its natural resources, the country remains one of the poorest in the world, with low participation in global value chains. Faced with the fragile social context, the economy needs to contribute also to human development. In terms of economic transformation, industrialization will not happen without a better business climate and the lure of natural resources is not enough to attract new capital and expand the wealth creation chain. The country must establish an institutional and infrastructural architecture to support its development, and encourage the private sector to play its full role in driving growth. Growth is relatively unstable in the short to medium term due to low diversification of the production base, strong dependence on the world market and low capacity to respond to external shocks.

5.3.4 Lesotho

Economic growth

The Lesotho economy was estimated to have grown by 3.4 per cent in 2013, from below 6.5 per cent in 2012. Lesotho suffered from the economic uncertainty in Europe which constrained production activity in the mining sector. Realized growth was supported by construction, textile and clothing, transport and communications, and financial intermediation. Construction and building was boosted by works on the Metolong Dam and by government construction. Textiles and clothing rebounded in response to increased activity in the United States. This was in addition to the relocation of South African-based producers to Lesotho to take advantage of lower labour costs. Clothing, textiles and livestock are the most important value chains with considerable potential to contribute to economic growth and poverty reduction.

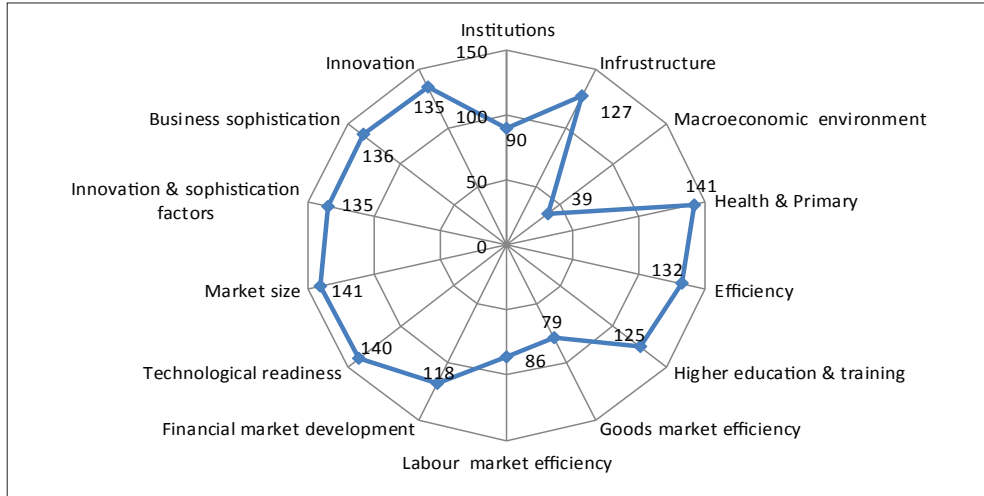
The primary sector (mining, quarrying and agriculture) accounts for 13.3 per cent of GDP (see appendix table A5.2) and for over 14 per cent of total employment. In 2013, the sector shrank to 7 per cent growth, down from 9 per cent in 2012. The modest recovery by the crop sub-sector and positive growth from animal farming, services and forestry, were overshadowed by the mining slump. The potential contribution of agriculture was also affected by army-worm infection, limited grazing land and stock theft.

Manufacturing sector contribution to GDP declined from 19 per cent in 2008 to 11.4 per cent in 2013. As earlier noted in chapter III, the current situation where services and industry contribution to GDP are higher than that of agriculture, reflects a desirable economic structure. Inflation improved to 5.3 per cent in 2013 from 6.1 per cent in 2012.

Lesotho is among the SADC countries which has improved its competitiveness substantially, gaining fourteen steps on the *GCI*, from 137 in 2012 to 123 in 2013/14. This success is largely attributed to satisfactory

improvements in macroeconomic management, supported by relatively reliable institutions and efficient goods and labour markets (see figure V.22). However, more work is needed to improve infrastructure and efficiency of the financial markets.

Figure V.21 Lesotho GCI Pillars by Rank, 2013-2014



Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Poverty, inequality and human development

Economic growth in Lesotho has not been inclusive enough. There is widespread unemployment, inequality and poverty, particularly in rural areas. Unemployment was around 25 per cent in 2013. The proportion of households living below the national poverty line remained relatively high at 57 per cent between 2003 and 2013. The Gini income inequality index coefficient remains high at 0.51. HIV and AIDS continue to have a serious impact, especially on the young. The social sector remains a challenge, with high rates of communicable diseases and an education system that needs reforms. The country had a low HDI in 2013 of 0.486, ranking 162 out of 187 countries³⁰⁵. It falls in the low human development category. When the HDI was adjusted for income inequality, its index slipped down to an IHDI of only 0.313. In 2013, Lesotho had a GDI of 0.973, a GII of 0.557 and an MPI of 0.227 in 2009.

According to the United Nations MDG database, Lesotho had an IMR of 63 deaths per 1 000 live births in 2011, and an under-five mortality rate of 86 deaths per 1 000 live births for the same period. While the IMR has declined since 1990, the under-five mortality rate has remained almost the same. The MMR was relatively high at 620 maternal deaths per 100 000 live births in 2010 and it had increased from its 1990 level of 520. HIV prevalence in adults aged 15-49 years remains high increasing from 0.8 per cent in 1990 to 23.9 per cent in 2009. Lesotho's primary school NER remains low at 74 per cent in 2010, but there is gender parity. At secondary and tertiary levels the NERs are in favour of girls. The literacy rate of 15-24 year olds remains high at 92 per cent in 2010.

Government efforts, policies and actions

The fiscal policy stance in 2013 remained tight because of the need to curb high spending. However, the fiscal consolidation, in the absence of strong private sector support, is likely to compromise the country's growth. Coupled with this is the Government's weak capacity to implement a sound capital programme aligned to its development objectives. Growth in gross capital formation (GFCF), public consumption and exports supported

305 UNDP, Human Development Report, 2014.

aggregate demand in 2013. GFCF growth benefited from financial sector reforms that eased access to credit and government capital investment. Aggregate demand was further boosted by increased government consumption largely through better salaries for public sector workers. Exports were partly supported by the depreciation in the exchange rate which increased international competitiveness.

Lesotho's fiscal position remained strong in 2013, registering an overall surplus of close to 1.5 per cent of GDP, thus supporting private investment. Marked improvement in tax revenues, dominated by SACU receipts bolstered the fiscal position. In addition, grants increased from 8.8 per cent of GDP in 2012 to an estimated 11.9 per cent in 2013. This was driven by an increased capital component as the absorption capacity of projects improved.

Conclusion

Despite the positive growth which is expected to continue benefiting from robust building and construction activities, risks with respect to inflation are high exacerbated by exchange rate volatility and uncertain oil price developments. With relatively high levels of poverty and unemployment, economic policies need to make growth more inclusive. Textiles and livestock are key value chains with considerable growth potential. There are risks over global demand for diamonds and renewal of the US-led AGOA, which runs out in 2015. The Government needs to undertake deep reforms to improve capacity, accountability and efficiency.

5.3.5 Madagascar

Economic growth

The country's political crisis since 2009 is still hampering economic and social progress. Economic growth of 1.9 per cent in 2012 and 2.6 per cent in 2013 remains low against a population increase of 2.8 per cent and a SSA average economic growth of 5.1 per cent. Economic growth was mainly driven by extractive industries, agro-industry, banking, transport, livestock and fisheries. Macroeconomic stability was maintained by drastic budgetary adjustments that undermined the Government's ability to provide basic services and also held back economic recovery. Inflation rose to 6.9 per cent in 2013 from 5.8 per cent in 2012. The business climate worsened, partly due to widespread insecurity issues, poor infrastructure and bad governance. Cyclone Haruna and a locust invasion damaged production and the Government had no national strategy to overcome development obstacles and seize short and medium-term opportunities.

The secondary sector (about 15 per cent of GDP) was the growth leader in 2013, mainly due to extractive industries for nickel and cobalt processing, and agro-industry. The tertiary sector (56 per cent of GDP) grew 2.4 per cent, mostly due to banking and transport. The primary sector (29 per cent of GDP) slowed down, based mostly on livestock and fisheries. Paddy-rice production dropped 21 per cent in 2013 due to Cyclone Haruna, the locust invasion and rural lawlessness, producing a 240 000 tonne shortfall for the 2013/14 marketing season. Year-on-year maize production also shrank (by 15 per cent), as well as manioc (by 14 per cent).

Overall investment grew moderately (4.5 per cent) in real terms and accounted for 1.1 per cent of GDP. Public investment rose an estimated 6.3 per cent, partly making up for a 34.6 per cent drop in 2012. As implementation of major mining projects ended, private investment only increased 4.2 per cent (against 13.7 per cent in 2012). As earlier noted in chapter III, the current situation by which the contribution of industry to GDP is lower than that of agriculture is not a desirable economic structure. Appendix table A5.2 presents the sectoral contribution to GDP. Madagascar's ATI of 31 per cent in 2010 reflects low economic transformation³⁰⁶.

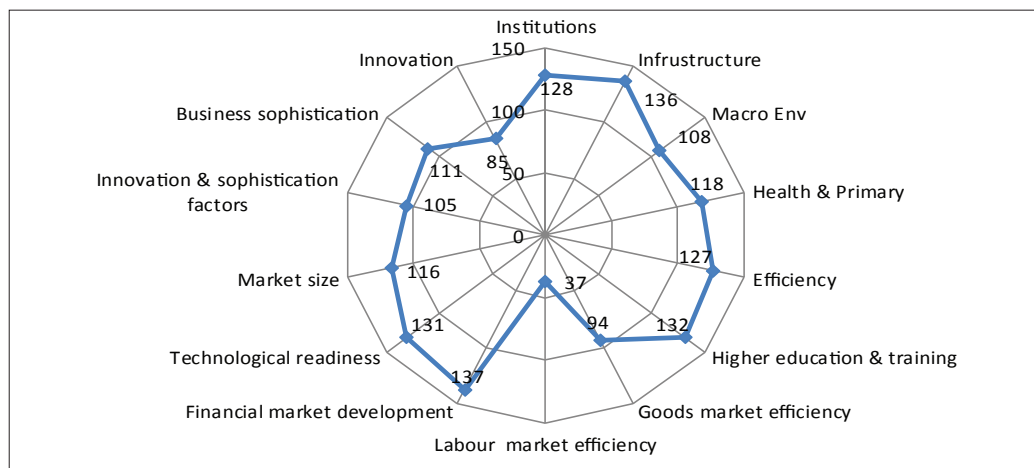
The business climate is still difficult in Madagascar because of the drawn-out political crisis. The country has a small financial sector, with only about 5 per cent of the population using banks. The political crisis has damaged

306 African Centre for Economic Transformation (ACET), African Transformation Report: Growth with Depth, 2014, Accra, Ghana.

the quality of bank portfolios, making it difficult for banks to honour commitments. It continues to lose ground in the World Bank report *Doing Business 2014*, dropping another four places in the overall ranking for ease of doing business, to 148 out of 189 countries.

On the GCI, Madagascar ranked 132 out of 148 in 2013/14. This is owed in part to the political crisis that befell the country since 2009, affecting most of the sectors including the reliability of institutions; macroeconomic management; difficult access to credit; corruption; lawlessness; lack of infrastructure; costly and unreliable energy supply; and absence of an independent legal system³⁰⁷. See figure V.23. The social sector and infrastructure indicators remain poorly rated both regionally and globally. However, Madagascar has a relatively efficient goods market and its labour market is among the high rated at 37. According to the National Statistics Institute, the poor business climate was reflected in a 40.4 per cent drop in the number of new businesses, from 22 019 in 2012 to 13 118 in 2013. The Mo Ibrahim 2013 Index of Governance in Africa ranked Madagascar 37 out of 52 countries.

Figure V.21 Madagascar GCI Pillars by Rank, 2013-2014



Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

In 2012, SADC countries bought 5.3 per cent of Madagascar's total exports, COMESA countries 3 per cent and IOC countries 3.1 per cent. Of its total imports, 12 per cent came from SADC countries, 6.9 per cent from COMESA countries and 5.5 per cent from IOC countries. Leading exports are minerals, cloves and oil products, while imports are mostly oil products and food items such as rice and other agricultural crops. Madagascar's participation in GVCs is limited to exporting unprocessed goods to Western Europe and North America and selling to consumers mainly non-food products imported from France and China and food imported from SADC and COMESA member States. The political crisis and increasing lawlessness slowed down tourism and arrivals fell 52 per cent between 2008 and 2013.

Despite the crisis, the ICT sector has expanded steadily over the past decade with the volume of business by mobile telephone companies growing 13-fold between 2005 and 2009 and creating direct and indirect jobs. ICT has great potential to draw the country further into GVCs, as shown by the firm Vivetic, which began as a specialist in data entry but whose marketing and relocation strategies led it to expand into cross-channel customer marketing in French-speaking European countries, creating 1 000 jobs in Madagascar.

307 World Economic Forum, *Global Competitiveness Report* 2013/14.

Poverty, inequality and human development

Madagascar falls into the low human development category with a HDI Index of 0.498 in 2013, ranking 155 out of 187 countries³⁰⁸. When the HDI was adjusted for income inequality, its index slipped down to an IHDI of 0.346. In 2013, Madagascar had a GDI of 0.917 and a MPI of 0.420 in 2008/09. A nationwide 2012/13 survey of MDG progress showed more than 70 per cent of Madagascans (including 77 per cent in the countryside, 55 per cent in provincial towns and 31 per cent in the capital) lived below the national poverty line. In the poorest regions, almost everyone was living in poverty, with 97 per cent in Androy affected, and 93 per cent in Atsimo-Atsinanana.

Underemployment is especially high for young people and the crisis has made jobs precarious for 81 per cent of the workforce, especially women in rural areas. Only 27.7 per cent of the population had access to safe water and 7.1 per cent to improved sanitation, which is still a serious problem. As many as 88.2 per cent of urban dwellers live in slums and more than 57 per cent dump their rubbish anywhere (65.5 per cent in the countryside).

Universal primary education remains a challenge in Madagascar, with the completion rate rising to 69 per cent in 2012 from 47 per cent in 2004, but the NER has dropped sharply, from 96.8 per cent in 2006 to 69.4 per cent in 2012 (70.8 per cent for girls and 68.1 per cent for boys). One third of primary-age children do not attend school currently, compared with only 3 per cent in 2006, mainly due to insufficient educational provision and parents' inability to pay. Fewer than 3 per cent of Madagascan workers completed secondary education according to data for 2010. According to the 2012/13 MDG national follow-up survey, primary school gender parity had been achieved, with a 1.05 ratio in favour of girls, but among older pupils it was less, 0.93 at junior secondary level and 0.86 at senior secondary level. Gender parity had not been reached for literacy amongst 15 – 24 year-olds. Under-five child mortality fell from 161.2 per 1 000 live births in 1990 to 61.6 in 2011³⁰⁹. Maternal mortality was still high at 478 per 100 000 live births in 2012. Of the under-fives, 47.3 per cent were chronically malnourished, 18.1 per cent severely.

Government efforts, policies and actions

The political situation is returning to normal after a transition period of nearly five years but it is still fragile. Presidential and parliamentary elections were held in the last quarter of 2013 with help from the international community and regional organizations.

After that, Madagascar was allowed back into various bodies of the African Union from which it had been excluded in 2009. The 2013 draft budget targeted priority areas for poverty reduction, greater health care and education access, greater food security, farm-production support, greater protection for people and property, and better energy supply, but results fell short. The 2013 national budget was implemented amid worsening economic conditions, low foreign aid, extra spending on elections and on fighting the locust invasion, and continued fuel subsidies.

In 2013, the central bank, BCM, approved an institutional governance support programme, Institutional Governance Support Project (PAGI), which should boost revenue through better collection and by modernizing tax policy. To ensure that the budget deficit was in line with the goal of macroeconomic stability, the Government slashed allocations to all ministries and prioritized current spending such as salaries. The cuts especially affected investment crucial for growth and poverty reduction. The 2014 budget was drafted amid political uncertainty and was once again cautious.

Madagascar does not belong to any monetary union. The current lack of political clarity makes it difficult for the private sector to get loans, and private borrowing fell to 10.9 per cent of GDP in August 2013 from 11.7

308 UNDP, Human Development Report, 2014

309 United Nations Statistics Division, MDG Database, 2013.

per cent in 2012, according to the BCM. External debt is quite small and thus viable because the possibility of contracting such debt since the start of the political crisis has been minimal. It was 25.8 per cent of GDP in 2012 and about 25 per cent in 2013, according to the IMF, despite approval of new emergency loans from AfDB and the World Bank. The external debt was 77.2 per cent multilateral, 22 per cent bilateral and 0.8 per cent private in origin³¹⁰.

An interim economic partnership agreement (EPA) with EU came into force in January 2013. The country's textile industry has greatly benefited from the free zone set up in 1989 and from the US African Growth Opportunity Act (AGOA) which the country signed up for in 2001. Textile exports grew strongly, from 14.9 per cent of all exports in 1995 to 54 per cent in 2008, before dropping after 2009, when the country was excluded from AGOA, to 27.5 per cent in 2012. The creation of a one-stop shop for exports and imports, MIDAC, which unified customs procedures and made them more secure improved the ease of trading across borders. The first poverty reduction strategy paper (PRSP), for 2003-06, stressed the need to make the economy more competitive in order to reduce costs and improve quality.

The Madagascar Action Plan (2007-12) which followed the PRSP aims for “*a diversified and strong private sector*” that can meet “*the challenges of globalization and gain a competitive advantage*”. In this regard, the firm Lecofruit is doing research on green beans and engaging in contract agriculture with small farmers to gather, process and ship produce to local and European markets, transforming the subsistence activity of 9 000 farmers into export production. Another firm, Guanomad, has set up a business over the past decade manufacturing bio-fertilizer made from bat droppings for local and foreign markets, an example of successful entry into the GVCs at the level of sustainable bio-agriculture. The Government has granted prospection and production licences since 2003 for major mineral deposits³¹¹.

Public-finance management still has serious flaws, such as budget credibility, transparency, raising domestic revenue, accounting methods and monitoring systems. As the political crisis fades, privatization of State enterprises is expected to resume along with further public finance reforms, all supported by the country's main economic partners. Madagascar was excluded from the Extractive Industries Transparency Initiative (EITI) in 2011 because of the political situation, but the Government has continued to apply the EITI programme.

Various social safety-net programmes were implemented by government bodies and development partners such as, the World Bank, the European Union, ILO, UNDP and a number of municipalities, to soften the effects of the crisis on the poorest families by providing them with income and helping them to access basic social services. Educational kits, school meals and operational subsidies for some schools were provided, along with equity funds to cover health care for the very poor in rudimentary clinics, funding to reduce maternal and neonatal mortality (in place in only four regions) and mutualized health insurance (focused on the capital, Antananarivo). Labour-intensive public works provide wages for some³¹². No law promotes positive discrimination in favour of women to speed up the attention of decision-makers to gender parity requirements.

Conclusion

Madagascar faces huge challenges with regard to macroeconomic management, resulting from the political crisis that befell the country since 2009. However, the country applied prudent fiscal and monetary policies and managed to contain fiscal deficit, inflation, public debt and the current account deficit within manageable levels, and at times within regional targets. It is endowed with very significant and diverse natural resource

310 A 2013 World Bank survey of the country's debt management capacity revealed serious flaws in several areas, including judicial aspects, management strategy, analysis ability and human resources, and the Bank offered technical aid to remedy this.

311 Rio Tinto has invested some US\$ 760 million in the Qit Madagascar Minerals (QMM) group to build an ilmenite mine and a port to ship the mineral to Quebec – 870 000 tonnes in 2013, about 12 per cent of world output. The firm Sherritt has invested about US\$ 4.5 billion in a nickel and cobalt mine at Ambatovy and a processing plant at Toamasina. The mine began operating at the end of 2012, with annual production of 5 600 tonnes of cobalt (10 per cent of world output) and 60 000 tonnes of nickel (5 per cent of world output). A dozen other firms are prospecting for oil.

312 The social protection project of the National Development Fund (FID) inaugurated 412 micro-projects to benefit 59 795 people in 2012, but their scope and funding were not enough to protect the poorest and the most vulnerable.

deposits and the challenge lies in how to harness these resources towards economic growth for the benefit of the Malagasy people now that political stability is being restored.

To participate fully in GVCs, it must end recurrent political unrest, fight corruption strongly, train the workforce and improve infrastructure. International support for the new Government is needed to implement the policy of open dialogue and national reconciliation required for economic and social recovery. Better transport and reception infrastructure would enable growth of luxury tourism. Economic recovery plans after the end of the political crisis and the country's development programmes should include vigorous strategies to boost export items with strong added value.

5.3.6 Malawi

Economic growth

Real GDP growth was estimated at 5 per cent in 2013, up from 1.8 per cent in 2012. This was due to a good tobacco season and strong recovery of growth in manufacturing, construction, and the wholesale and retail trade sectors. Strong recovery in tobacco output boosted overall agriculture sector growth to 5.7 per cent from a 2.3 per cent contraction in 2012. Agriculture accounted for 31 per cent of GDP in 2013, as seen in appendix table A5.2. Manufacturing, with a share of 9 per cent of GDP, grew by 6.2 per cent, reversing the 2.3 per cent contraction of 2012, supported by an improvement in the availability of foreign exchange. Manufacturing is dominated by agro-processing, and was further boosted by expansion in agricultural output. Growth of services remained buoyant in 2013. Telecommunication and financial services continued to drive the expansion of services with growth rates of 7.9 per cent and 6.1 per cent, respectively, in 2013

Construction, which was among the sectors hit hardest during the economic downturn, recovered strongly. The resumption of major construction projects boosted construction sector growth from 2.6 per cent in 2012 to 7.1 per cent in 2013. Major construction projects under implementation include the Nacala railway corridor. The mining and quarrying sector grew at a rate of 8.5 per cent in 2013 following increases in production of uranium, coal and lime. While mining is now the fastest-growing sector, its share of GDP is still small, at 5 per cent. On the demand side, Malawi's growth was driven by public and private consumption and the increase in public investment. As earlier noted in chapter III, the current situation where the contribution of agriculture to GDP is higher than that of industry, reflects an undesirable agrarian economy. Malawi's ATI of 23 per cent in 2010 reflects low economic transformation³¹³.

In spite of the gains, the country has continued to face macroeconomic pressures, reflected in inflation, exchange-rate volatility and excessive government domestic borrowing. Inflation accelerated to 26.0 per cent in 2013 from 18.4 per cent in 2012. The macroeconomic challenges faced by Malawi were exacerbated by the revelation in September 2013 of the looting of public funds through the Integrated Financial Management System (IFMIS), known as "cash-gate". Donors suspended budget support, leading to a widening of the fiscal gap.

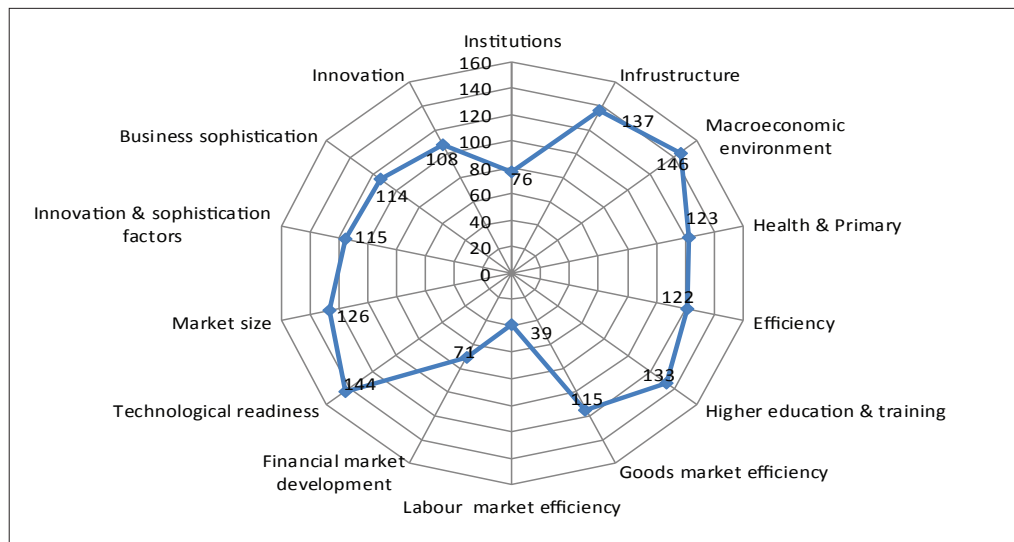
Malawi, in the 2014 World Bank's *Ease of Doing Business Index*, fell from 161 in 2013 to 171 out of 189 countries in 2014. The fall occurred in the following areas: starting a business (149 from 142); dealing with construction permits (173 from 168); getting credit (130 from 126); paying taxes (81 from 55) and resolving insolvency (150 from 136). There was minimal or no change in getting electricity, protecting investors, trading across borders, and enforcing contracts. Improvement was registered in registering property, resulting from reduction in stamp duty.

Under the GCI, 2013/14, Malawi is ranked 136 out of 148, largely because of a weak and unstable macroeconomic environment characterized by high inflation and constrained foreign-exchange reserves.

313 African Centre for Economic Transformation (ACET), African Transformation Report: Growth with Depth, 2014; Accra, Ghana.

Infrastructure is poorly rated by international standards; the education system remains inadequate; and there is a high rate of communicable diseases. See figure V.24. However, the country ranks favourably at 39 with regard to labour-market efficiency. Its financial market is also relatively efficient. While reliability of its institutions has been weakening recently, it was ranked 76 in 2013/14. It dropped in ranking on the Transparency International Corruption Perception Index from 88 in 2012 to 91 out of 177 countries in 2013.

Figure V.21 Malawi GCI Pillars by Rank, 2013-2014



Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Malawi's export basket is dominated by primary commodities but, with globalization, opportunities for exports of processed products have emerged. The country has not yet repositioned itself to exploit opportunities to integrate into GVCs. Obstacles to integration into GVCs include poor infrastructure, low skills and a weak business climate. The main export commodity is tobacco, which accounts for 60 per cent of foreign exchange earnings. Other key export commodities include tea, sugar, cotton and uranium. Because of concentration on low-value primary commodities, the benefits to Malawi from globalization are limited. Malawi's production and supply capacity is limited; hence, the country's high import dependence.

The financial sector has limited outreach and is relatively small and concentrated. Only 19 per cent of the population have access to banking services, while a mere 3 per cent use insurance products. In the 2014 World Bank *Ease of Doing Business* survey, Malawi's ranking on ease of getting credit slipped from 126 to 130. Access to finance for SMEs is a major challenge, especially when it is a question of accessing long-term finance. Banks are unwilling to lend to SMEs (which make up the largest number of private sector actors) because of the perceived risk associated with this market segment, lack of conventional forms of collateral and lack of information on credit history to monitor borrowers. Medium-term and long-term project financing are also not readily available in Malawi. Non-banking financial institutions are emerging, including micro and savings institutions, and their importance in the financial system is likely to grow. Currently, financial intermediation is characterized by high lending rates.

Poverty, inequality and human development

While Malawi has registered positive economic growth for much of the past decade, progress in poverty reduction has been limited. According to the 2012 *Integrated Household Survey* (IHS) report, poverty level was reduced marginally from 52.4 per cent in 2005 to an estimated 50.7 per cent in 2011. In 2013, Malawi had very low human development levels, with the third lowest HDI in SADC, 0.414³¹⁴. It ranked 174 out of 187

314 UNDP, Human Development Report, 2014

countries. Income inequalities are also relatively high with an income Gini coefficient of 0.44 in 2010³¹⁵. When the HDI was adjusted for income inequality, the index slipped down to an IHDI of 0.282. In 2013, the country had a GDI of 0.891, a GII of 0.591 and an MPI of 0.332 in 2010.

According to the *Malawi Demographic and Health Survey* (MDHS, 2010), mortality rates for children under-five declined from 133 deaths per 1 000 live births in 2004 to 112 deaths in 2010, while infant and child mortality rates declined from 76 and 62 deaths per 1 000 live births to 66 and 50 deaths per 1 000 live births, respectively. These health gains resulted from expanded access to antenatal care, a fall in cases of chronic malnutrition, and an expansion in vaccination rates. Malawi has also managed to reduce incidents of major diseases, including malaria. While progress on HIV/AIDS has been made, the prevalence rate (10.6 per cent) is still relatively high. Life expectancy increased to 53 in 2012 from 38 in 1995. According to the United Nations MDG Database, Malawi has a relatively high MMR which fell from a four-digit level of 1 100 deaths per 100 000 live births in 1990 to 460 in 2010. Urban areas fare better than rural areas across these health indicators.

Educational outcomes are low even by regional standards. Nevertheless, notable progress in school enrolment has been registered over the past decade. NERs increased from 58 per cent in 2000 to 83 per cent in 2012, while completion rates up to grade 5 increased from 65 per cent in 2000 to 73 per cent in 2010. The gender parity in secondary schools is only 0.79. The low quality of education is another major challenge. Literacy rate is estimated at 62 per cent (69 per cent for men and 59 per cent for women). Overall, the education sector faces significant challenges, including a high pupil-teacher ratio of 76:1 (up to 100 children in some classes) and high repetition and drop-out rates. At 20 per cent in primary education, repetition rates are among the highest in Africa, translating into poor and irrelevant education.

Only 10 per cent of women, compared to 18 per cent of men, are in wage employment. Most of Malawi's labour force is employed in the non-formal sector.

Government efforts, policies and actions

The 49 per cent devaluation of the Malawian kwacha in May 2012 and the shift towards a market-based exchange rate regime boosted the competitiveness of Malawi's cash crops. Driven by improved auction prices, tobacco production increased from 79.8 million kg in the 2012 season to 168.6 million kg in 2013. The reforms in the tobacco industry, including adoption of contract farming, contributed to the good tobacco harvest in 2013. By contrast, output of maize, the staple food, increased by only 1.6 per cent because of drought conditions in some parts of the country. Although Malawi recorded a national maize surplus, estimated at 560 000 tonnes, for the eighth consecutive year, 21 drought-affected districts were declared food-insecure.

The macroeconomic reforms pursued by Malawi under the Economic Recovery Plan (ERP) began to yield results as evidenced by improved foreign exchange availability and better incentives for producers of export commodities. The country has committed itself to reducing non-tariff barriers (NTBs) to regional trade. Currently, potential exporters have difficulty exporting to neighbouring countries because of the requirements for export licences, and inflexible rules relating to phytosanitary standards.

As a landlocked country, Malawi faces high transport costs and experiences delays in transit and the clearance of goods at the border. The country is developing regional transport corridors and implementing programmes to harmonize trade regimes and transit procedures with neighbouring countries. The development of the Nacala transport corridor with Mozambique (both road and rail) is expected to reduce transport costs significantly and improve connectivity to markets. The Government is undertaking trade facilitation measures within the framework of SADC and COMESA, which include establishment of one-stop border posts and creation of a national single window.

Malawi is also participating in an accelerated programme on economic integration, an initiative agreed upon with Mauritius, Mozambique, Seychelles and Zambia to fast-track regional integration. The Government

is implementing the National Export Strategy (NES), with a view to enhancing export competitiveness and promoting exports of processed agro-products to feed into regional and global value chains.

To curb inflation, the Reserve Bank of Malawi (RBM) maintained a tight monetary policy stance. In December 2013, the central bank introduced a Lombard Facility in order to assist banks to improve liquidity management. Malawi's official foreign exchange reserve position improved significantly on the back of a good tobacco season. During the tobacco season, the RBM intervened actively in the foreign exchange market to build reserves while tightening monetary policy to mop up liquidity. Gross official reserves stood at US\$ 402.4 million in December 2013, equivalent to 2.1 months of import cover compared to US\$ 134 million in December 2012, equivalent to one month's import cover.

In response to the scandal, the Government is implementing, with the support of donors, a comprehensive action plan to correct weaknesses in public finance management (PFM). The financial scandal has underscored the urgent need for Malawi to redouble efforts to improve accountability and transparency in the public sector. Malawi held its fifth multi-party democratic elections in May 2014, which was won by the opposition Democratic Progressive Party and this is likely to lead to a change in policies.

The fiscal position deteriorated in 2012 because of an expansionist fiscal policy and a shortfall in donor financing and tax revenues. The Government adopted corrective fiscal adjustment measures for the 2012/13 fiscal year, as part of the Extended Credit Facility Programme with the IMF. The bulk of the budget (70 per cent) was allocated to the Malawi Growth and Development Strategy (MGDS II) priority areas, including the social sector and food security. The 2012/13 budget was executed against the backdrop of macroeconomic challenges, particularly the sharp depreciation of the kwacha, rising inflation and high interest rates.

Malawi's external debt stock has grown since it qualified for debt relief under the Highly Indebted Poor Countries/ Multilateral Debt Relief Initiative (HIPC/MDRI) in 2006. The debt stock, which amounted to US\$ 488 million at HIPC completion in 2015 increased to US\$ 1.4 billion (23 per cent of GDP) in June 2013. The country has established an institutional and policy framework for external debt management. Under existing debt policy, non-concessional borrowing is restricted.

Business climate reforms have been implemented, at a slow pace, under the Business Environment Strengthening and Technical Assistance Programme (BESTAP), with the aim of improving the regulatory environment. Parliament also enacted the Investment Promotion Act allowing for the creation of a one-stop centre under the Malawi Investment and Trade Centre (MITC). The Government is pursuing reforms to promote financial inclusion and has enacted new laws such as the Credit Reference Bureau Act, Pension Fund Act and Financial Co-operative Act. Incentives are being provided to encourage mobile banking to expand access to financial services and lower costs of transactions for banks.

Improvement in health outcomes is supported by such initiatives as the National Reproductive Health Strategy, Integrated Management of Child Illnesses (IMCI), the Essential Health Package and distribution of mosquito nets under the Health Sector Wide programme – Health SWAp. In September 2011, the Government adopted the health sector strategic plan 2012-2016 (HSSP), which has been endorsed by development partners.

The country has put in place a National Education Sector Plan (NESP 2008), which serves as the overarching policy framework. While the free primary education policy has helped increase enrolment from 1.9 million to about 3 million, inadequate investment in personnel and infrastructure has affected the quality of primary education. Social protection programmes targeted at vulnerable groups include the Farm Input Subsidy Programme (FISP), the Public Works Programme (PWP) and the Malawi Rural Development Fund (MARDEF). However, it is recognized that such programmes may not reach the “ultra-poor”, who are marginalized and have no access to land and income. Hence, cash transfers have been adopted as a complementary instrument to support those in extreme poverty.

Conclusion

Malawi faces challenges of inflationary pressures, constrained foreign exchange reserves, and dependency on donors for budgetary support. However, the country has huge potential owing to its diverse natural resources such as land, water, forestry and minerals, much of which remain unexploited. More efforts are needed to reduce reliance on rain-fed agriculture through irrigation complemented by productivity-enhancing investments. The main short-term challenge for the Government is to consolidate macroeconomic stability and improve governance, while strengthening the enabling environment for private sector investment for sustained and inclusive growth.

5.3.7 Mauritius

Box 5.1 presents the case study of Mauritius in economic transformation.

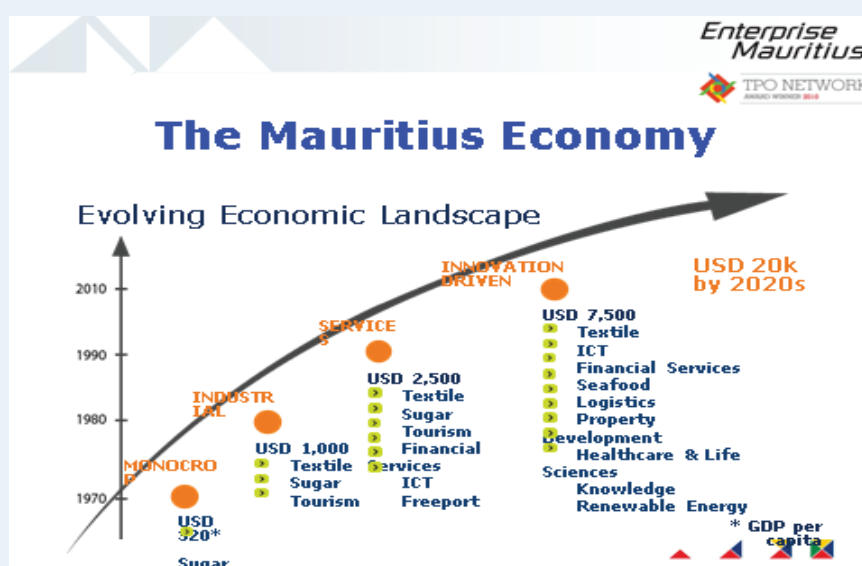
Box 5.1

The Mauritius success story in economic transformation (Growth with DEPTH)

According to the African Transformation Index (ATI), a composite of the five elements of DEPTH, namely, Diversification, Export competitiveness, Productivity, Technology upgrading, and Human economic well-being, Mauritius, with an ATI value of 73 per cent in 2010, ranks 1 out of the 21 African countries assessed³¹⁶. It has progressed from a “three pillar economy”, sugar, tourism, and textiles, into a modern, strong economy revolving around agriculture, manufacturing, financial services, information and communication technology (ICT), real estate, and hospitality, as seen in figure V.25.

Figure V.25

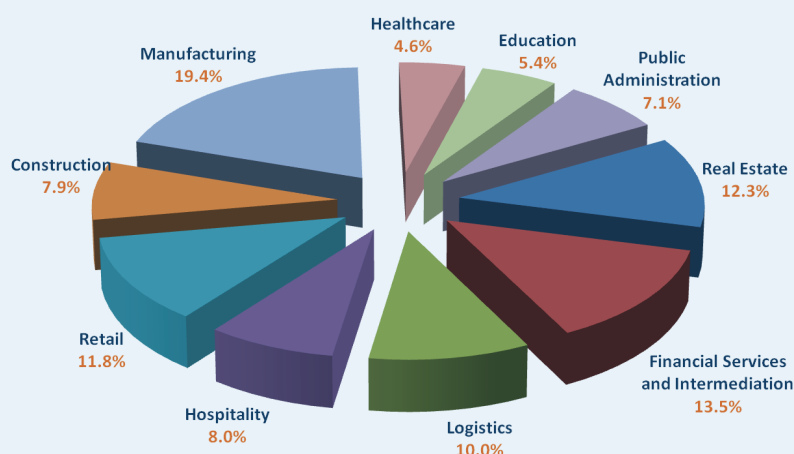
The Path of Diversification, Mauritius 1970-2010



Source: A. Darga, 2014, *Mauritius Experience of Growth with Inclusiveness*.

The promotion of textile and garment exports (in addition to sugar) through special economic zones, and tourism powered GDP growth at 5.2 per cent a year from 1981 to 2000, while GDP per capita grew at 4.3 per cent, taking the level in 2000 to more than 2.3 times the level in 1981. From 2001 to 2010 growth slowed to an average of 3.4 per cent a year, while GDP per capita rose at an average of 2.8 per cent a year. Sectoral GDP contribution is also testimony to the country's diversified economy. See figure V.26.

Figure V.26 Sectoral GDP Contribution, Mauritius 2013



Source: A. Darga, 2014, *Mauritius Experience of Growth with Inclusiveness*.

Mauritius' performance in each of the five sub-components of the ATI is highlighted below. Mauritius ranked number 1 in diversification in 2000 and 2010. The share of manufacturing in GDP fell from 23 per cent in 2000 to 18 per cent in 2010, which is still much higher than the 10 per cent average in SSA. The share of manufacturing and services in total exports is very high, 87 per cent in 2000 and 82 per cent in 2010, while the top five exports make up 57 per cent of exports, down from 70 per cent in 2000.

Mauritius was also 1 in Export Competitiveness (the share of exports in GDP relative to the share for the world) in 2000 and 2010. The export competitiveness ratio, or the relative export intensity of production, was 1.85 in 2010. This was a fall from 2.90 in 2000, but still much higher than in comparable African countries.

Mauritius was ranked 2 on Productivity in 2000 and 2010. Manufacturing value added per worker rose from an average of \$9 351 in 2000 to \$15 307 in the 2010. Cereal yields were very high, 7 002 kilograms per hectare in 2000 and 7 425 in 2010, compared with the SSA average of around 1 500.

Mauritius ranked 14 in Technology in 2010, reflecting the fact that a significant part of production and the bulk of exports were in garments, which are classified as low technology. The share of medium and high technology in both production and exports was around 8 per cent.

Mauritius ranked no. 1 in Human well-being, with a GDP per capita (US\$ PPP, 2005) of \$12 289 in 2010, risen from \$8 774 in 2000. Though behind Gabon and Botswana in GDP per capita, Mauritius ranked 1st on human well-being in 2000 and 2010, due to its relatively higher level of formal employment for its labour force.

Mauritius's financial centre has international recognition as a safe and trusted jurisdiction. However, the offshore financial sector, though fairly well developed, is weakly integrated with the domestic economy.

With regards to tourism, hospitality³¹⁷, and property development, from 935 000 tourists in 2010, the Government has set the ambitious goal of attracting 2 million tourists a year by 2025. Mauritius has always promoted high-end tourism, directed primarily at the high-spending European market. It is now moving beyond its traditional beach resort tourism into a broader phase of tourism development with hospitality and property development. Property development has the potential to attract a range of developers seeking cross-border opportunities. Major constraints include serious scarcity of beachfront sites for further hotel development and an ever-growing need for skilled human resources.

The country has progressed in network readiness with ICT prowess and leadership in Africa, displaying a first-class environment characterized by the ease for starting a business, a conducive regulatory environment for ICT development, favourable laws on ICT, and stiff competition among Internet and telephony providers.

According to Darga (2014), the success story of Mauritius was supported by sustained long-term key policy considerations, one of which was pursuing the key objective of *job creation* for inclusivity, rather than to rely on social transfer which is unsustainable and often disempowering. The country was ready for some trade-offs in pursuit of the promotion of job-creating sectors. Trade policy was also aligned with job-creating sector development, and the central bank directed commercial banks to support development.

The overall thrust was to support a sector until it was vibrant in the economy, and not the attraction of FDI, as such. Key policy strategies included: selective fiscal benefits to provide incentives for investment and wealth creation in selected sectors; reducing the fiscal burden on individuals to encourage consumption, and investment in assets (housing and education); and capturing revenue through consumption. Mauritius ignited and pursued its development vision to the current success story, over a period of at least three decades.

Sources: African Centre for Economic Transformation (ACET), 2014; A. Darga, 2014, *Mauritius Experience of Growth with Inclusiveness*.

Economic growth

The Mauritian economy has weathered the global slowdown relatively well in spite of its exposure to the euro area which accounts for nearly 60 per cent of its exports and tourists. In 2013, real GDP growth rate was 3.3 per cent, almost the same as in 2012, driven by weak sugar and textile exports and a fall in construction. Inflation declined from 3.9 per cent in 2012 to 3.5 per cent in 2013. Sustained structural reform and prudent fiscal management during the global slowdown have served Mauritius well, propelling the country to offer the region's best business environment and most competitive economy. Benefiting from strong institutions that have helped the economy to withstand a protracted global slowdown, the country's sovereign credit rating at Moody's Baa1 further strengthens its competitiveness.

Accounting for 72.4 per cent share of GDP in 2013 and growing at 4.9 per cent, the tertiary sector continues to drive growth anchored by strong performance in financial services, ICT, wholesale and retail trade and a rebound in tourism, seen in appendix table A5.2. Financial services benefited from a robust performance in banking services. Accommodation and food services recovered in 2013 to grow by 3.5 per cent following no growth in 2012. Benefiting from a gradual recovery in some of the main source markets, tourist arrivals are estimated to have reached the 1 million mark in 2013 up from 965 000 in 2012. A double-digit growth for arrivals from Asia partly compensated for the weak performance in the euro area market.

³¹⁷ Hospitality encompasses hotels, leisure parks, green and medical tourism, restaurants, tour operators, training institutions, international conferences, and airline companies.

The secondary sector at 23.9 per cent share of GDP continued to slow down, growing at 1.3 per cent in 2013, slightly down from 1.4 per cent in 2012, as sugar and textile sectors oriented to the euro area continued to perform below par. Manufacturing expanded by 3.0 per cent in 2013 up from 2.2 per cent in 2012, driven by the strong performance of the food sector. Contracting by 9.4 per cent, construction continued to decline for the third year in a row as major projects such as the airport and shopping malls were completed while some major public sector road projects were delayed.

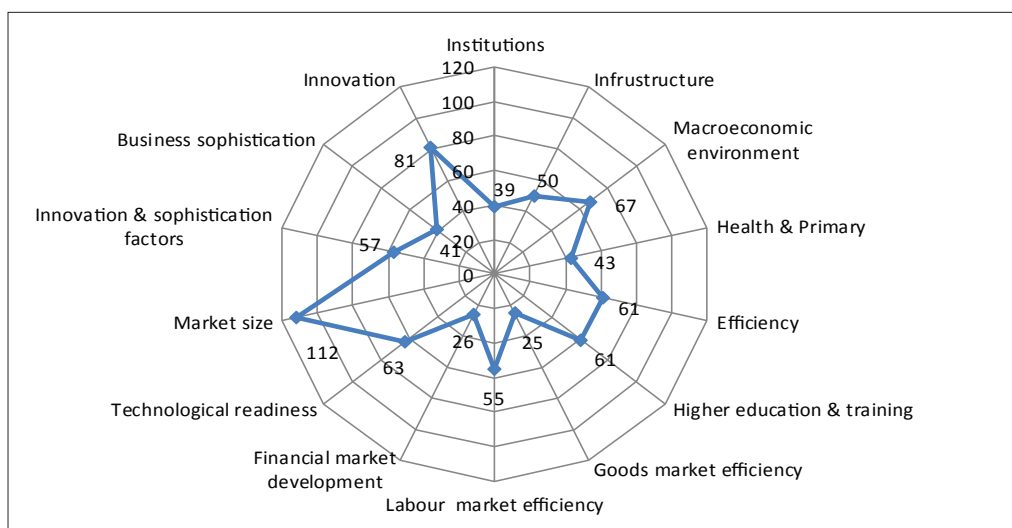
The primary sector registered a near zero growth rate as annual sugarcane production at an estimated 407 000 tonnes fell by 1.3 per cent. Sugar dominates the primary sector with sugarcane occupying about 90 per cent of total land under cultivation. As earlier noted in chapter III, the current situation where services contribution to GDP is very high, followed by industry, with minimal agriculture contribution, reflects a desirable economic structure.

FDI has slowed down after a peak of MUR 13.9 billion (US\$ 0.46 billion) in 2010. The main sources of FDI were France (27 per cent) followed by China (18 per cent) and South Africa (15 per cent). Benefiting from the BoM's Operation Reserves Reconstitution, international reserves coverage improved significantly from 4 months of import cover as at end November 2012 to 5.3 months as at end November 2013. The 2013 OECD Trade Facilitation Indicators rank Mauritius in first place among SSA countries and upper-middle income countries (MICS). Mauritian exports to Europe declined from 61.3 per cent in 2011 to 58.9 per cent in 2012. Exports to South Africa grew by 28 per cent driven by the textile trade. India and China remain the main import source markets.

Ranking 20 out of 189 countries, in the World Bank report, *Doing Business 2014*, Mauritius continues to consolidate its position as the easiest place to do business in SSA for the seventh year running. In *Doing Business 2013*, the country ranked 19 out of 185 economies. The 2014 report shows that Mauritius made notable improvements to coverage, scope and accessibility of credit information, helping the country improve 10 places to rank 42 globally on this indicator. On the GCI, Mauritius became the best ranked country in SADC, region, ranking 45 out of 148 countries globally, in 2013/14. The country benefits from relatively strong and transparent public institutions, with clear property rights, strong judicial independence and an efficient Government. See figure V.27.

Private institutions are rated as highly accountable, with effective auditing and accounting standards and strong investor protection. The country's infrastructure is well developed by regional standards, particularly its ports, air transport and roads. Furthermore, notable improvements have taken place in the area of market efficiency. Financial markets have deepened, lifting Mauritius' rank up to 26 on the back of improved access to different modes of financing and financial services. Furthermore, the country boasts an efficient goods market driven by greater foreign prevalence and more competition. The labour market is relatively flexible.

Figure V.21 Mauritius GCI Pillars by Rank, 2013-2014



Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

The *Global Competitiveness Report 2013-2014* ranks the Mauritian financial sector 26 out of 148 economies, up from 35 a year ago, putting the country second in SSA, behind South Africa and overtaking Kenya in the process. The Stock Exchange of Mauritius Ltd (SEM) is one of the leading Exchanges in Africa and the only African Exchange to have a multi-currency trading platform. The Mauritian ranking on “access to credit” has improved from 78 out of 183 economies in 2012 to 54 out of 185 economies in the World Bank report, *Ease of Doing Business 2013*. SMEs are benefiting from government credit facilities³¹⁸.

Mauritius has strong governance institutions based on the rule of law. Over the past six years, the country has consistently ranked top among SSA countries on the Mo Ibrahim Index of African Governance. It is ranked as the highest performer on the continent on “safety and the rule of law”. Property rights are protected and reasonably transparent. The country is in the top half of the *Global Competitiveness Report 2012-2013*. It does particularly well on “strength of investor protection” where it ranks 12 out of 139 economies.

Mauritius’ small and geographically isolated market has historically motivated its integration into GVCs. With trade accounting for about 120.5 per cent of GDP, the economy is highly open and strongly linked to other markets. The objective is to deepen its participation in GVCs and accelerate growth so as to catapult the country into a high-income status. Participating in GVCs has so far helped the country optimize comparative advantage through linkages to raw materials and cheaper sources of production from Madagascar, Bangladesh and India.

It has also helped to maximize economies of scale, and achieve technological improvement in Mauritian factories, thus releasing older generation equipment and machinery for relocation to other destinations. This in turn assists in the conclusion of trade agreements which allow market access and reinforce regional economic integration. Positioned between Africa and Asia with strong economic ties to the euro area, Mauritius is strategically positioned to be an economic hub, bridging value chains in the three economic blocks. Several sectors are engaged in GVCs, including textile and clothing, sea food, agro-industries (in particular sugar) and the services sector (most notably the tourism, information and communication technology (ICT) and Business Process Outsourcing (BPO) sectors.

Poverty, inequality and human development

Mauritius has a relatively good record of human development and falls into the high human development category, with an HDI of 0.771 in 2013³¹⁹. The HDI ranking was the highest in SADC in 2013, well above

318 By end December, 2013 commercial banks had approved an estimated MUR 1.56 billion under the SME Financing Scheme since its launch in December 2011.

319 UNDP, Human Development Report, 2014

the SSA average, giving the country a global rank of 63 out of 187 countries. In 2013, Mauritius had a GDI of 0.957, and a GII of 0.375. Available data show that the population living below the poverty line of \$1.25 (PPP) per day is non-existent. However, the proportion of households below the relative poverty line as defined in Mauritius, based on half median monthly household income per adult equivalent, has increased from 7.9 per cent in 2006/07 to 9.4 per cent in 2012.

Income inequality has further increased between 2006/07 and 2012 with the income Gini coefficient increasing from 0.388 in 2006/07 to 0.413 in 2012. The share of total income going to the 20 per cent of households at the lower end of the income range which was 6.4 per cent in 2001/02 has decreased further from 6.1 per cent in 2006/07 to 5.4 per cent in 2012. In contrast, the share of income of the upper 20 per cent of households increased from 45.6 per cent in 2001/02 to 47.4 per cent in 2012, reflecting growing income inequalities. When the HDI was adjusted for income inequality, Mauritius's index slipped down to a medium human development category with an IHDI of 0.662 in 2013.

Life expectancy stands at 73.5 years. Under-five child mortality rate declined from 23 per 1 000 live births in 1990 to 15.7 per 1 000 live births in 2012. However, the proportion of low birth weight (LBW) has increased from 12.9 per cent in 2000 to 17 per cent in 2011. While communicable diseases are under control, non-communicable diseases (NCDs) have emerged as a major challenge, constituting 80 per cent of the disease burden in the country. The country's MMR increased to 60 per 100 000 live births in 2012 up from 36 in 2011, driven by Rodrigues Island where health and poverty indicators remain poor. While more than 99 per cent of the population has access to safe drinking water and improved sanitation, the availability of clean water at all times is not guaranteed in some areas such as Rodrigues Island, due to drought, poor water infrastructure and slow progress in water sector institutional reforms.

Mauritius had a high literacy rate of 98.1 per cent (between 15 and 24 years) in 2011 and the NER in primary education has gradually improved to reach 99 per cent in 2012³²⁰. The proportion of pupils starting grade 1 and reaching the last grade of primary schooling (survival rate) is also very high, at 98.7 per cent. In education, near gender parity has been reached in primary school and girls dominate slightly in secondary education. Nonetheless, at 45.2 per cent, the female population with at least secondary education in Mauritius is much lower than the average for the high HDI category, at 62.9 per cent. Improvements to the education sector are expected to help reduce the skills mismatch and the unemployment rate which is considered largely structural. The unemployment rate averaged 8.2 per cent in 2013.

Government efforts, policies and actions

There are ongoing efforts to position Mauritius as a regional hub for manufacturing, financial services, trade and knowledge under the Africa Strategy. This strengthens the prospects for further developing regional industry and services GVCs.

Fiscal policy remains expansionary as the authorities seek to reinvigorate growth and bolster investor confidence. Stimulus measures during the slowdown have focused on accelerating both public and private sector investment. The Government is using domestic debt and concessional foreign borrowing to finance budget deficit, resulting in the debt to GDP ratio reaching the legal limit of 60 per cent for the first time since December 2010. The budget statement carried some key reforms including the liberalization of petroleum importation to achieve competitive tariffs, and abolition of the Certificate of Primary Education (CPE) exam, considered a source of exclusion in Mauritius due to high failure rates among children from disadvantaged groups. The authorities are developing a National Curriculum Framework, strengthening the *Zones Education Prioritaire* (ZEP) Strategy and introducing a Nine Year Schooling System to replace the CPE exams.

320 UNDP, Human Development Report, 2012.

Monetary policy has complemented fiscal policy measures to support growth while maintaining price stability. To manage the excess liquidity in August 2013, BoM issued securities for a total nominal amount of MUR 4.67 billion.

Mauritius hosts the COMESA Infrastructure Fund. The Bank of Mauritius has been designated the settlement bank for COMESA and prides itself in settling payments within time of application “t” plus 2 days. Along with Seychelles, Madagascar and Zimbabwe in Eastern and Southern Africa, it signed an Interim Economic Partnership Agreement (EPA) with the European Union in 2009. Mauritius has concluded double taxation avoidance agreements with 38 countries, among which are 14 African countries. Agreements with five more African countries await ratification and signature.

To facilitate labour movement in the region, in 2012. Mauritius eased visa requirements for nationals of 29 countries from Africa. The establishment of the Regional Multi-disciplinary Centre of Excellence under COMESA, the IMF ‘Africitac South’ (Africa Regional Technical Centre, South) and the IMF Africa Regional Training Centre seeks to position the country as a knowledge hub. The *Maurice Ile Durable* (MID) Policy, Strategy and Action Plan launched in 2013 provides the long-term vision for achieving sustainable development.

In the textile and clothing sector, increased global competition as a result of globalization and the erosion of preferential treatment have led to a variety of strategies being adopted by Mauritian firms involved in the value chain. These include:

- a. *Process upgrading* (improving technology and/or production systems to gain efficiency and flexibility);
 - b. *Product upgrading* (shifting to more sophisticated and complex products);
 - c. *Functional upgrading* (increasing the range of functions or changing the mix of activities to higher-value tasks, for example, moving beyond production-related activities such as design, input sourcing or distribution/logistics);
 - d. *Supply chain upgrading* (establishing backward manufacturing linkages within the supply chain, in particular to the textile sector); and
- a. *Channel upgrading* (diversifying to new buyers or new geographic or product markets).

Similarly, the sugar sector has also undergone substantial changes, successfully transforming into an. Mindful of the resilience of EU refined sugar prices relative to raw sugar prices, the Mauritian sugar industry has pursued a strategy of investment in moving up the sugar value chain, as well as developing other revenue streams from sugarcane production such as electricity co-generation. As part of this restructuring strategy, the Mauritian sugar industry has sought out new corporate partners in Europe to assist them in packaging and marketing refined sugar products.

The Mauritian seafood strategy aims at promoting an efficient and attractive environment for the supply of value added processes and services related to the sourcing and marketing of seafood products. The value chain of the Mauritian Seafood Hub includes fishing, trans-shipment, storage and warehousing, light processing (sorting, grading, cleaning, filleting and canning, and ancillary services). For the sustainable development of the Seafood Hub, a Fisheries Partnership Agreement and Protocol was concluded and initialled by both the European Commission and Mauritius in February 2012³²¹. In the global business sector, a wide range of activities including software development, call centre operations, business process outsourcing (BPO), IT-enabled services (ITES), web-enabled services, training, hardware assembly and sales, networking, consultancy,

321 The Fisheries Partnership Agreement establishes the terms and conditions under which vessels registered in and flying the flag of the EU may carry out tuna fishing in Mauritian waters in accordance with the provisions of the United Nations Convention on the Law of the Sea (UNCLOS) and other rules of international law and practice.

multimedia development, disaster recovery (DR) and other support services are presently being undertaken. The ITES-BPO operations are mainly centred on customer support, help desks and telemarketing campaigns.

Participation in GVCs has helped Mauritian companies to integrate into regional and global value chains gaining visibility and recognition as emerging players. Companies participating in GVCs have greatly improved their income from offshore activities. Mauritius is actively engaged in developing backward and forward linkages with Africa and other neighbouring countries. Most players engaged in GVCs are large companies, mostly local multinational corporations (MNCs), and thus, only a few SMEs have integrated into the value chain. Where large firms have integrated into the GVCs, they have shifted out old technology, machinery and equipment and their labour-intensive operations. As a consequence they have upgraded technology in their local companies and enhanced value creation in Mauritius, for example, design in Mauritius, production in Malaysia, Bangladesh and India, research and development in Mauritius; and project implementation in Africa, such as biotechnology, seed cultivation and plant nurseries.

In 2008, the Government created the National Empowerment Foundation to have a more comprehensive and holistic approach to poverty reduction. Following the creation of the Ministry of Social Integration and Economic Empowerment in 2010, the National Empowerment Foundation became its operating arm. In 2009, the Government also introduced a framework for Corporate Social Responsibility (CSR) which mandates companies to pay 2 per cent of their book profits to contribute to poverty alleviation, human development and environmental protection. Mauritius has a comprehensive social security system, including government subsidies on food (rice, flour), housing (for the lower-income groups), free education and health services for all and free transport for the elderly and students. The cost of the social security system was estimated at 5.5 per cent of GDP in the 2012 budget, raising questions about its sustainability.

Conclusion

Having the region's best business environment and most competitive economy, Mauritius is well placed to build on the progress it has made by participating in the global industry and services value chains. Immediate opportunities exist for its companies to integrate into the regional value chains, in respect of agriculture, manufacturing and services. Despite the resilience of the economy, a number of factors present challenges that Mauritius will have to deal with, including recession in the euro zone that has weakened external demand, and affected the trends in some major economic indicators (public debt, investment, savings, unemployment, and current account deficit).

This calls for prudent public finance management and other structural reforms to catapult the economy and enhance competitiveness. To attain a high income country status, the authorities need to address a number of remaining bottlenecks to further bolster competitiveness and reinforce investor confidence. Anti-corruption efforts should be strengthened to recapture the public's confidence and sustain the country's strong governance record. Efforts to enhance education quality and relevance and innovation capacity should be accelerated to address the emerging problems of skills mismatch and structural unemployment.

5.3.8 Mozambique

Economic growth

Mozambique's economy remained one of the fastest growing on the continent in 2013, with a real gross domestic product (GDP) growth rate of 7 per cent, in spite of the major flooding which occurred during the first quarter of the year, little economic structural transformation, and the politico-military low-intensity confrontations between the Government and the RENAMO opposition movement. The main drivers of growth were FDI, focused mostly on the extractive sector, and increasing public expenditure, primarily benefiting the construction, services, and transport and communications sectors. The extractive sector was the fastest growing in 2013 at 22

per cent, propelled by coal exports and the financial sector. The financial sector expanded by 17.7 per cent in 2013, supported by increased household income and credit expansion.

Other dynamic sectors are construction, services, and transport and communication, (see appendix table A5.2), broadly correlated with infrastructure development and mega-projects predominantly funded by foreign capital, particularly, in the aluminium, and other extractive industries and the energy sectors. The agriculture sector, which employs 70 per cent of the population, remains relatively sluggish presenting 4.6 per cent growth in 2013. Major flooding severely affected the agriculture-rich southern provinces of Gaza and Zambezia, displacing more than 240 000 people and damaging or destroying significant infrastructure. Crop production also suffered greatly, particularly vegetable and rice production. The fisheries sector, after contracting in 2012, expanded by 4.5 per cent in 2013 buoyed by increased fish and lobster production.

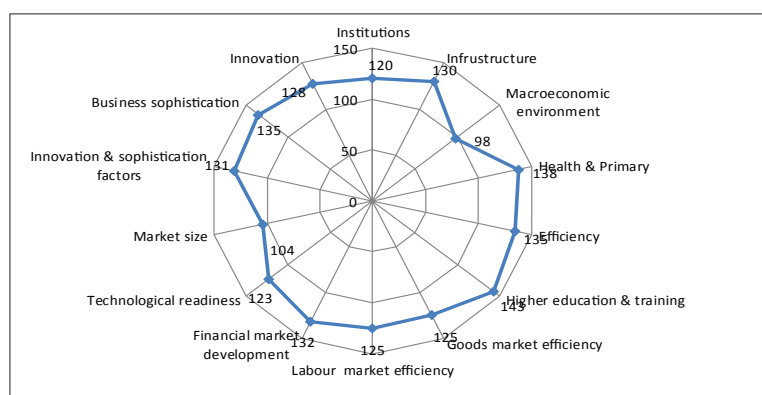
The country continues to follow the typical pattern of factor-driven economies with FDI concentrated in the extractive industries, while infrastructure, innovation and higher education and training are underdeveloped. As earlier noted in chapter III, the current situation where agriculture's contribution to GDP is higher than that of industry, reflects an undesirable agrarian economy. Mozambique's ATI of 29 per cent in 2010 reflects low economic transformation³²².

In terms of the World Bank's *Doing Business* report 2014, Mozambique rose to rank 139 out of 189 countries. The most significant improvements pertained to obtaining construction permits (with a 48 per cent decrease in the days needed to secure one) and trading across borders (10 per cent reduction in days needed to export). However, access to credit and electricity have deteriorated, the latter being the worst ranked indicator (171 out of 189). After three years of sliding competitiveness, some progress was made in private sector development in 2013.

On the GCI, Mozambique ranked 137 out of 148 in 2013/14, with efforts required across many areas to lift the economy onto a sustainable growth and development path, particularly in view of its natural resource potential. The country's public institutions receive weak assessments and macroeconomic stability is reported to be still weak, although recent efforts seem to be bearing some fruit in containing price rises.

According to the *Global Competitiveness Report 2013-14* compiled by the World Economic Forum, access to finance, and corruption are the greatest constraints to competitiveness as identified by companies, followed by inefficient bureaucracy. (See figure V.28). Inadequate infrastructure, which was previously the third biggest impediment, now ranks at 5 after a poorly educated workforce. In 2013/14 Mozambique's ranking in terms of protection of property in the *Global Competitiveness Report* actually deteriorated (to 112 out of 144 countries). The Mozambique Stock Exchange (BVM) currently lists just three private companies.

Figure V.28 Mozambique GCI Pillars by Rank, 2013-2014



Source: *Global Competitiveness Report, 2013-2014*

Mozambique has a residual place in GVCs. The economy is focused on the primary sector, and particularly the extractive industries. Economic activity occurs mostly at the primary input level, with little added value both on the upstream and the downstream processes. According to a joint report by the Government of Mozambique and the University of Copenhagen, the country presents one of the lowest SSA productivity levels, particularly at the SME level, which constitutes the bulk of companies. The aluminium industry, is well integrated in the GVC via the Mozal megaproject³²³. Despite Mozal's success, several reports and studies have documented the low fiscal revenue generated for the country and the limited positive links with the country's economy.

Aside from natural gas, electricity and aluminium, representing more than 66 per cent of exports, Mozambique mostly exports unprocessed agriculture products (cashew, cotton, shrimp, wood and tobacco). Export of manufactured or processed products is low and only 3 per cent of SMEs are exporters, with South Africa being the primary destination for food and beverages, and fabricated metal products. Asia (China) provides a market for wood products. The recent discoveries of large-scale natural gas reserves that allow for the construction of a multi-billion dollar LNG plant, together with the extensive coal basins already being exploited, have opened the possibility of developing value added products locally, such as iron, steel, power and a diversity of downstream hydrocarbon-related industries.

Poverty, inequality and human development

Human development is very low in Mozambique with an HDI of 0.393 in 2013 ranking number 178 out of 187 countries³²⁴. Income inequalities are relatively high as reflected in its income Gini coefficient of 0.46 in 2008³²⁵. When the HDI was adjusted for income inequality, Mozambique's index slipped down to an IHDI of 0.277. In 2013, it had a GDI of 0.879, a GII of 0.657 and an MPI of 0.390 in 2011. Estimates from the previous poverty assessment in 2008 suggest that Mozambique continues to suffer from a high incidence of poverty. Based on the US\$ 0.60 per day official poverty line threshold employed in Mozambique, the incidence level was estimated at about 55 per cent. However, this increases to 60 per cent and 82 per cent respectively when the international poverty line thresholds of US\$ 1.0 and US\$ 2.0 are used.

Thus, poverty is more pervasive than it first appears and poverty levels are extremely sensitive to internal and external shocks. Thus, despite the economy having grown at over 7 per cent a year, poverty has remained largely unchanged at about 55 per cent since 2002. This stagnation in the poverty incidence partly reflects a failure of policies targeting poverty, particularly in effecting structural transformation in rural areas. Another explanation for this persistent vulnerability could be that since the late 1990s vigorous growth has largely been jobless growth.

The primary NER in 2012 surpassed 77 per cent, significantly improved from 64.5 per cent in 2009. Illiteracy amongst women was 60 per cent, against 30 per cent for men. Mozambique's IMR is 64/1 000 while mortality for under-fives is 97 deaths per 1 000. According to the 2011 DHS, the MMR remains high at 408 deaths per 100 000 live births. Despite the 11.5 per cent national HIV prevalence rate, some improvements have also occurred in this critical area. Antiretroviral coverage increased from 37 per cent in 2009 to 45.7 per cent in 2012.

The economy does not generate sufficient jobs. While about 370 000 young people join the labour force every year, the private sector creates fewer than 18 000 jobs per annum. The capital-intensive nature of the extractive industry has a limited impact on employment. In 2010, all megaprojects combined generated just 3 800 direct jobs. A new labour-market segment tied to the extractive industry is emerging but the country is still

323 Currently, 1 200 people are directly employed by Mozal, of which over 80 per cent are Mozambicans, and, indirectly, employment is upwards of 10 000. Mozal created a joint programme with Government and development agencies, MozLink, to promote connections between the project and Mozambican suppliers, which achieved some success. A deal was signed in 2013 between Mozal and Midal Cabos, a subsidiary of the Bahrain-based Midal Cables, for the first aluminium processing industry in the country to be built in an industrial park beside the Mozal plant.

324 UNDP, Human Development Report, 2014

325 Available from <http://www.quandl.com/demography/gini-index-all-countries>

characterized by the scarce availability of applied labour skills (applied mechanics, welders, electricians, etc.). Its capital-intensive nature does not generate enough jobs to provide sufficient opportunities for the fast-growing young population.

Government efforts, policies and actions

The Government's macroeconomic management has been prudent, and the country agreed a new three-year Policy Support Instrument (PSI) programme with IMF. The ongoing implementation of the National Agriculture Investment Plan (PNISA), which includes investment in hardware and technical assistance, coupled with the expansion of cultivated areas and favourable climatic conditions should enable agriculture production to expand by 7 per cent in 2014.

In September 2013 the national tuna company, EMATUM, a limited liability company owned by three State bodies issued a US\$ 850 million bond yielding 8.5 per cent a year with a seven-year maturity. The bond is guaranteed by the Government, in practice, making the off-budget operation Mozambique's first international sovereign debt issue. The stated aim of the bond was to raise funds to finance a fleet of 24 fishing vessels and 6 coastal patrol boats. However, weak human capital, the high cost of credit, deficient infrastructure, burdensome regulations, and the uncertain security situation could discourage investors and further constrain economic diversification. Several mining companies briefly suspended the use of the Sena rail line following threats of attacks by the RENAMO opposition movement.

Fiscal revenues cover little more than 65 per cent of the annual budget, while mega-projects benefit from generous fiscal incentives. External aid is generally declining. Taking advantage of persistent low inflation and with increased spending with the elections upcoming, the fiscal policy stance has become increasingly expansionist. In an effort to broaden the tax base, the Government is expecting to enrol 600 000 new tax payers, of which 90 000 will fall under the simplified regime for small taxpayers.

To avoid crowding the private sector out of the credit market, government domestic borrowing will continue to be limited to 1 per cent of GDP. The Bank of Mozambique continues to follow a prudent but active monetary policy stance.

The debt situation has deteriorated, although debt ratios remain moderate. The debt-to-GDP ratio is currently 54.9 per cent, and the public debt-to-GDP is 41.7 per cent. The debt service ratio is 14.7 per cent, and the public debt service ratio (as percentage of revenue) is 4.3 per cent. The latest debt sustainability analysis (DSA) performed by IMF and World Bank during the first quarter of 2013, downgraded Mozambique from "low debt distress level" to "moderate debt distress level". The downgrade is attributable to the rising levels of both concessional and non-concessional debt, which would leave the country vulnerable in the case of a strong exogenous shock to the balance of payments.

The financial sector continues to be underdeveloped, although it has the potential to quickly expand in line with the country's decentralized growth. Currently, approximately 90 per cent of Mozambicans do not have access to formal financial institutions, and credit is only available to an estimated 3 per cent of the population. The Mozambique Financial Sector Development Strategy 2012-21, approved in April 2013, accelerated the pace of reforms and led to approval of the legal framework for creation of a private credit registry bureau, establishment of a collateral registry, and a new Anti-Money Laundering/Combating the Financing of Terrorism law. In 2014, the Deposit Insurance Fund should become operational, and the interbank retail payments network (SIMO), already successfully tested, is expected to be rolled out.

Economic ties are especially strong with South Africa, Mauritius and Malawi. In March 2013, the Accelerated Programme for Economic Integration (APEI), to foster trade and investment, was signed with Malawi, Mauritius, Seychelles and Zambia. The introduction of the Single Electronic Window of customs on foreign trade is

reported to have reduced the level of corruption at the border post, although difficulties in implementing the system resulted in considerable delays, with a noticeable reduction in customs revenues.

The Government is preparing initiatives to improve the business environment. The approval of the regulatory framework for the creation of a credit bureau and the implementation of the EMAN II (*Estratégia para a Melhoria do Ambiente de Negócios*) should result in a more formalized economy as well as greater access to financing, easing the fiscal burden on SMEs, and enhancing SME productivity and competitiveness. The Government is also currently preparing its new National Development Strategy (ENDE) with a special focus on the country's industrialization, as well as a specific industrialization policy. Following the June 2012 national education strategy, the Government opened two polytechnic institutes in 2013, recruited over 6 600 new teachers, continued with distance education, promoted entrepreneurship programmes and improved student retention efforts via school-feeding programmes.

In 2013, the President re-stated his commitment to the decentralization process. The Government has responded to this high level of social vulnerability by increasing the budget and public spending on social protection. In line with the poverty reduction strategy as well as the annual social and economic plan, the 2013 budget identified social protection as one of its key components. The Government is making efforts to widen and increase awareness of women's rights and gender parity targets.

Conclusion

The deterioration in the political situation, largely affected by low-intensity confrontations between the Government and opposition groups, combined with the recent deterioration of public financial management and economic governance is of increasing concern. It is crucial that political stability be maintained so that the country continues to attract FDI that enables infrastructure and human development. The capital-intensive nature of Mozambique's growth has created limited jobs and has had a less than desirable impact on poverty reduction. The country remains one of the least developed countries in the world.

Looking ahead, significant reform will be needed to advance long-term competitiveness, including making critical investments across all modes of infrastructure, establishing a regulatory framework that encourages competition, fostering economic diversification and developing a sound financial market. Also critical, in view of the country's rapidly growing population and high unemployment, are investing in the health care system and primary education as well as higher education and training.

5.3.9 Namibia

Economic growth

The Namibian economy has recovered from the global economic crisis. Real gross domestic product (GDP) growth remained robust at 5.0 per cent in 2012 despite the persistent global economic turbulence, and was estimated to have slowed down to 4.2 per cent in 2013, due to the negative impacts from drought conditions and a weak global demand for mineral exports.

Real GDP growth should benefit from the continued expansion of construction activities related to new projects such as the Government's launch of a massive housing project, the commencement of the expansion of the container terminal at Walvis Bay, the construction of the Neckartal Dam, and large investment projects in mining (Husab uranium mine, Otjikoto gold mine and Tschudi copper mine). On an annual basis, the year closed at an estimated 5.8 per cent inflation rate, lower than the annual inflation of 6.5 per cent for 2012. The declining trend in inflation is mainly due to decelerating costs of food, while transport inflation picked up in the second half of the year.

As in the previous year, diamond production in 2013 also benefited from favourable labour relations, which led to fewer operational disruptions than in 2011. Mining and quarrying contributed 12.3 per cent to GDP in 2012 (see appendix table A5.2.) and accounted for 47 per cent of Namibia's exports in 2012. The manufacturing sector maintained moderate expansion in 2013, although at a faster pace than the growth of just above 1 per cent recorded in 2012.

Growth in the sector was also boosted by increased cement exports to DRC and Angola. Manufacturing contributed 12.3 per cent to GDP in 2012. As in 2012, domestic growth in 2013 was largely driven by the sustained expansion of construction activities. The construction sector picked up significantly in 2013, sustained by increased private-sector investment in residential and commercial properties. The contribution to GDP of the construction sector was 3.9 per cent in 2012 compared to only 2 per cent in 2000.

The service sector, which contributed about 55 per cent to GDP on average during 2002-12, continued to be an important engine of growth in Namibia. The sector's growth slowed down slightly in 2013 from the 6.4 per cent registered in the previous year. Tourism continued to be hit hard by continued fragility in the global economy. European tourists are the main source of growth for the tourist subsector. The service sector contributed about 60 per cent to GDP in 2012. As earlier noted in chapter III, the current situation where services and industry contribution to GDP are higher than that of agriculture reflects a desirable economic structure.

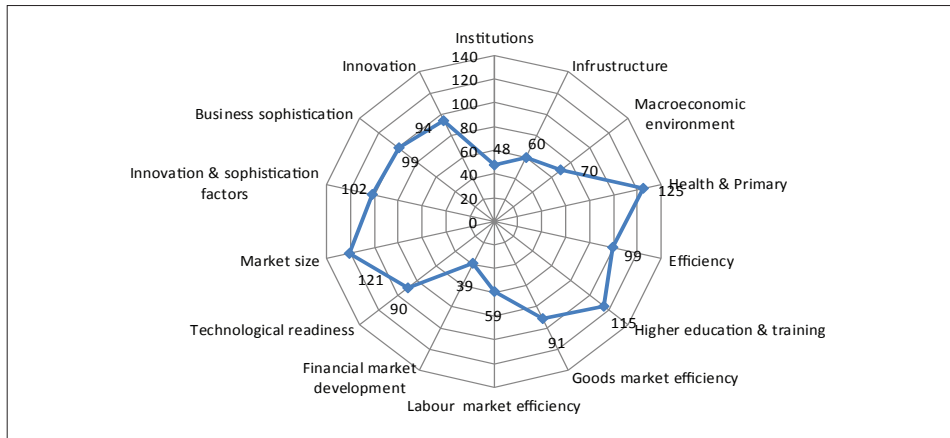
Following a poor performance in 2012, agriculture and forestry (excluding fishing and hunting) output, which contributed 5.5 per cent to GDP in 2012, remained subdued in 2013 due to protracted drought conditions. Although the livestock subsector, which represents more than half of agricultural output, experienced a significant increase in cattle marketed in response to the severe drought, it performed poorly due to shrinking inventories in livestock and a rapid increase in input costs, particularly of yellow maize. Similarly, crop production contracted significantly in 2013 on account of the prolonged drought conditions, the worst in three decades, and an invasion of crop fields by armyworms, which had a negative effect on the country's cereal production in 2013.

Namibia performs well amongst African countries in terms of business-environment indicators. Its relatively good ranking by the World Bank report *Doing Business 2014* at 98 out of 189 economies, although down from 94 the previous year, reflects the Government's commitment to policies and a regulatory environment that foster private-sector development. The same report ranked Namibia 8 among the best performers in SSA below only Mauritius (ranked 20 in the overall world ranking), South Africa (41 in world ranking), Botswana, (56), Seychelles (80) and Zambia (83) among SADC countries.

On the GCI, Namibia ranked 90 out of 148 countries. The country continues to benefit from a relatively well-functioning institutional environment, with well-protected property rights, an independent judiciary and reasonably strong public trust in politicians (see figure V.29). The country's transport infrastructure is also good by regional standards. Financial markets are reasonably developed and buttressed by solid confidence in financial institutions, although their overall assessment has weakened for three years in a row.

In order to improve its competitiveness, as in much of the region, Namibia must improve its health and educational systems. The country is ranked as low as 123 on the health indicator, with high infant mortality and low life expectancy, partly as a result of the high rates of communicable diseases. On the educational side, enrolment rates remain low and the quality of the educational system remains poor. The Transparency International 2013 Corruption Perceptions Index ranked Namibia 57 globally out of 177 countries, up from 58 out of 176 countries in 2012, making it the 7th least corrupt country in Africa after Botswana, Cabo Verde, Seychelles, Rwanda, Mauritius and Lesotho.

Figure V.29 Namibia GCI Pillars by Rank, 2013-2014



Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Namibia has one of the most developed financial systems in Africa, albeit comprising a number of significant limitations. Benefiting from close ties with South Africa, its banking institutions remain sound, profitable, and adequately capitalized. The proportion of the financially excluded population fell from 51 per cent in 2007 to 31 per cent in 2011 according to the latest) FinScope Consumer Survey, 2011, for Namibia.

The geographical distribution of Namibian exports changed from South Africa in 2012 to Botswana in 2013, as top export destination (followed by South Africa), mainly because of an increase in diamond exports to Botswana. The European Union is the third most important economic bloc behind SACU and non-SACU SADC countries. Imports are mainly from South Africa and are largely constituted by food, fuel, machinery and transport equipment. The bulk of Namibia's exports benefit from preferential trade agreements. A major government concern has been the European Union's deadline for Namibia to conclude negotiations for a full EPA by October 2014, failing which it will rescind its duty-free and quota-free market for all exports, which is particularly relevant for beef, fish and grapes to the EU market.

Most of the diamonds mined in Namibia are exported in rough form, now mainly to Botswana instead of the United Kingdom following the decentralization of De Beers's rough-diamond sorting and trading from London to Gaborone in 2011. Only about 10 per cent of the diamonds are kept for cutting and polishing by the local industry.

Poverty, inequality and human development

Namibia has achieved appreciable reduction in poverty, but pockets of poverty persist while unemployment and inequality are still disturbingly high. The country, with an HDI of 0.624 in 2013 is classified in the medium human development category³²⁶, but with an unacceptably high income Gini coefficient, estimated at 0.597 in 2009/10, making Namibia one of the most unequal societies in the world. It ranked number 127 out of 187 countries in 2013. When the HDI was adjusted for income inequality, Namibia's index slipped down to an IHDI of 0.352, landing the country in the low human development category. In 2013, Namibia had a GDI of 0.978, a GII of 0.450 and an MPI of 0.200 in 2006/07.

The incidence of poverty, that is, the proportion of population identified as poor (those living on less than \$1.25 per day), has declined over the past two decades. In 2009/10, it stood at 28.7 per cent, having declined from 69.3 per cent in 1993/94 and 37.7 per cent in 2003/04.

326 UNDP, Human Development Report, 2014

The education sector remains a top priority and receives the largest share of the national budget, 23.9 per cent in 2013/14. Past heavy investment in the education sector has resulted in good progress. The NER in primary education stood at 99.6 per cent in 2012, although the survival rate for grade 7 was 86 per cent. The literacy rate for 15 to 24 year olds was 94 per cent in 2012, with adult literacy estimated at 89 per cent during the same year. However, a defining characteristic of education in Namibia is the low quality across all segments and a mismatch between the demand for skills and the supply.

Health care remains a top government priority, receiving the third largest share of the national budget after education and finance: 9.5 per cent in 2014/15, slightly down from 11.0 per cent in 2013/14 but still falling short of the minimum 15 per cent target set by the Heads of State of the African Union in the 2001 Abuja Declaration. In terms of health indicators, malaria mortality per one hundred thousand of population declined from 31 to 0.4 between 1996 and 2012. According to the United Nations MDG Database 2013, Namibia's adult HIV prevalence in the population aged 15-49 years declined from 16 per cent in 1990 to 13 per cent in 2009. Although the HIV prevalence among the population aged 15 to 24 increased slightly from 8.2 per cent to 8.9 per cent between 2006 and 2012, 81.5 per cent of adults with advanced HIV and AIDS infection were on ART in 2011.

Namibia is confronted with a high rate of overall unemployment which, in 2012, was estimated at 27.4 per cent, with youth being most affected. An estimated 48.5 per cent of the population aged 20 to 24 are unemployed with the corresponding percentage for those aged 25 to 29 at 33.6 per cent.

Government efforts, policies and actions

The fiscal situation has deteriorated owing to the prolongation of an expansionary fiscal policy. Lack of an independent monetary tool has led the country to use fiscal policy in the aftermath of the global economic crisis, as a major countercyclical tool to sustain economic growth. Beginning in 2012, the Government started pursuing tax-policy reforms aimed at broadening and deepening the revenue base in an environment of increased trade liberalization, while maintaining the competitiveness and equity objectives of the tax system. Following a study launched in 2012, a task team has also been appointed by the Government to oversee establishment of a semi-autonomous revenue agency.

Namibia's membership in the Common Monetary Area (CMA), along with Lesotho, South Africa and Swaziland, renders any monetary policy attempt futile. Circulation of the South African rand (ZAR) in Namibia alongside the Namibian dollar poses challenges as it limits Namibia's discretion in monetary and exchange-rate policies. South Africa's policy regime is therefore essentially Namibia's de facto monetary and exchange-rate policy framework. In spite of such limitations, Namibia's CMA membership, the pillar of Namibia's monetary and exchange-rate policies, has conferred macroeconomic stability and helped the country to integrate into the South African financial markets. It has also enabled the country to enjoy unrestricted transfer of funds.

The overarching objective of monetary policy is to maintain price stability, which helps the Bank of Namibia to maintain the currency peg and thus, a healthy balance of foreign-exchange reserves. Following the launching of the Namibia Financial Sector Strategy 2011-21 in August 2012 and the opening of the SME Bank in December 2012, the enactment of the new Banking Institutions Bill 2013, when completed, is expected to further strengthen the regulatory framework for microfinance banking institutions as part of a series of measures aimed at promoting financial inclusion. In addition, the Ministry of Finance is spearheading the Namibia Financial Literacy Initiative, together with the financial sector, in order to increase financial literacy, to increase access to financial services.

Namibia's debt policy is guided by its Sovereign Debt Management Strategy (SDMS), which was approved in 2005. The Government has a very prudent debt policy and the SDMS specifies various fiscal benchmarks, which have generally been adhered to. The borrowing strategy continues to be oriented towards domestic

sources, mainly to reduce vulnerabilities stemming from external-market volatility, financial shocks, foreign exchange risks, and to support development of the local capital market.

Namibia has consistently ranked among the top SSA countries in terms of good governance, rule of law, human rights and freedom of the press. Namibia has a well-organized civil service, which is well-remunerated compared to other SSA countries.

The country plays an important role in facilitating international trade and transport in Southern Africa. It is expanding the Walvis Bay Container Terminal to become the logistics and distribution hub for landlocked countries in Southern Africa, by linking them to markets in Europe and the Americas through the Walvis Bay Corridors, an integrated system of well-maintained tarred roads and rail networks comprising the Trans-Kalahari, Trans-Caprivi, Trans-Cunene and Trans-Oranje Corridors.

The Government continues to make strides aimed at enhancing competitiveness and improving the business climate in order to foster development of the private sector. Its 1990 Foreign Investment Act and the Special Economic Zones Policy are currently under review with the aim of streamlining government administrative procedures and reducing red tape in order to diminish the cost of doing business and improve the country's competitiveness. A Public-Private Partnerships (PPP) Policy has been approved, and the process to develop its legal framework has commenced, running concurrently with the process of developing an appropriate institutional framework for PPPs in order to facilitate private sector investment in projects addressing emerging key infrastructure bottlenecks.

The Government is also currently developing relevant and in-demand skills through the vocational education system. The current medium-term expenditure framework (MTEF) has provided funds for the following priority capital investments: expansion of facilities for specialized training in medicine and engineering, financial assistance for students, construction of offices for the Institute for Open Learning (a distance-education institute), strengthening of the Namibia Training Authority, evaluation and assessment of qualifications of graduates and accreditation of potential education institutions. Labour legislation and practices, which are derived from the constitution, have been criticized as being inflexible and unresponsive to the dictates of the modern-day labour market. Numerous workers' strikes and demonstrations have hit the country since 2011, a development which has forced the Government to start assessing labour relations with a view to finding ways to avoid more industrial unrest in the future so as not to disrupt FDI inflows.

Conclusion

Namibia, should continue to consolidate its development path, including aggressive participation in GVCs through commodity beneficiation.

5.3.10 Seychelles

Economic growth

After the collapse of the economy, which saw GDP growth drop from 10.4 per cent in 2007 to -2.1 per cent in 2008, Seychelles' growth turned positive, averaging 2.7 per cent per year. In 2013, the economy rebounded further, with real GDP growth estimated at 3.5 per cent, up from 2.8 per cent in 2012. The higher growth was due to growth in the tertiary sector, which contributed 71 per cent of GDP in 2012, up from 68 per cent in 2011, and tourism was the main contributor, as seen in appendix table 5.2. This sector's contribution to GDP further increased from 24 per cent in 2012 to 29 per cent in 2013, due to a 10 per cent increase in the number of arrivals compared to the previous year, as the country diversified its markets beyond Europe to new markets in Asia, Eastern Europe and Africa. Robust tourist earnings also led to a reduction in the current account deficit to 20.5 per cent of GDP in 2013 from 24.7 per cent in 2012.

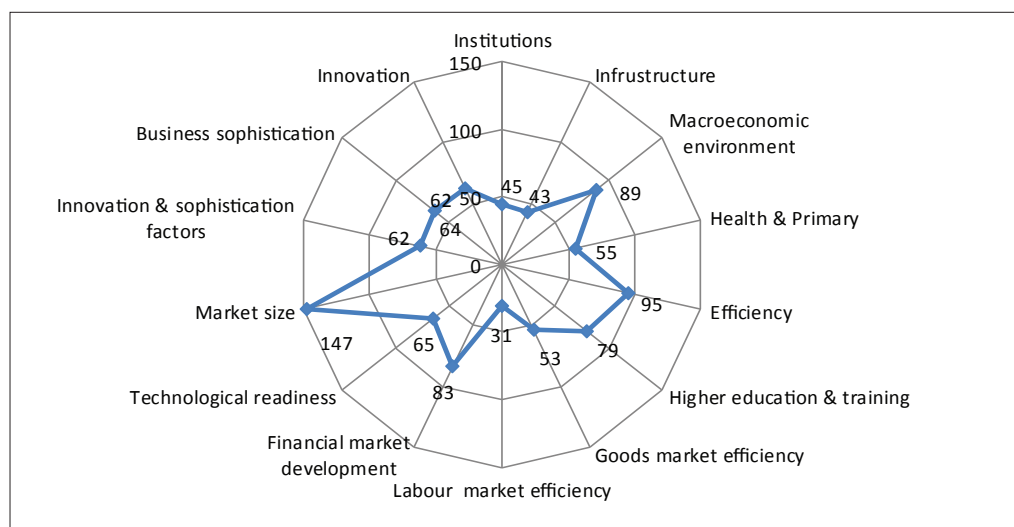
Further growth was seen in other tertiary subsectors such as financial and insurance services, ICT, and residential housing. FDI inflows increased in 2013, largely in the construction sector, which also had a positive impact on growth. The growth of the fishing sector, one of the main foreign-exchange earners for the country, has been slow. Over the last 5 years, the sector has suffered from the effects of piracy. The sector's growth has decreased even further due to the reduction in fish stock and the need to go further off-shore than previously.

Private sector consumption continued to be the main driver of growth. The Government has given priority to investments in water and energy as the key capital projects, increased wages in some public sectors and increased social programme funding for 2013. Inflationary pressures that had plagued the country in 2012 abated in 2013 as international food and fuel prices steadied. This led to a reduction in inflation to an average of 4.4 per cent in 2013 compared to 7.1 per cent in 2012. In addition, international reserves increased from 3.9 months of imports in 2012 to 4.1 months by end of 2013. As earlier noted in chapter III, the current situation where services contribution to GDP is very high, followed by industry, with minimal agriculture contribution, reflects a desirable economic structure.

The main merchandise exports continue to be canned tuna (about 94 per cent of the value of exports at SCR 3.4 billion, fishmeal, and frozen and fresh fish. The main imports were fuel (25 per cent of imports), machinery and transport equipment, food, and manufactured goods. In 2013, the current account deficit as a percentage of GDP decreased to 20.5 per cent from 24.7 per cent in 2012, as fuel and food prices remained stable and the Seychelles rupee appreciated over the year.

The environment for the operation of business in Seychelles is challenging. Apart from the difficulty in accessing credit, other problematic factors identified are government bureaucracy, a small skilled workforce and restrictive labour regulations as identified by the GCI in 2012 (see figure V.30. Seychelles ranked 80 out of 148 countries on the GCI in 2013/14 (ranking 4 in SADC). The World Bank's report, *Ease of Doing Business 2014*, ranks Seychelles 80 out of 189 countries in overall ease of doing business. The ranking on starting a business has slipped to 118 from 117, as have rankings for dealing with construction permits (68 from 57), getting electricity (147 from 146) and registering property (69 from 68). Access to finance is the most problematic factor for doing business with the country, which ranks 170 out of 189 countries for access to credit, down from 167 in 2013.

Figure V.30 Seychelles GCI Pillars by Rank, 2013-2014



Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Seychelles has a small, open economy, limited in natural resources and in skilled labour, which imports over 95 per cent for its consumption and production. As a result, the country has to depend upon GVCs to sustain its economy, and enhance incomes and employment. Like many Small Island Developing States (SIDS), Seychelles

is characterized by its small size, remoteness from global markets, limited natural and human resources, but it is also endowed with unique biodiversity, cultural richness and an expansive maritime environment. Tourism has therefore emerged as the major economic pillar, providing livelihoods to a large segment of the population and a major source of foreign exchange earnings.

Seychelles has emerged as a dream destination for high-end tourism especially from Europe (which accounts for approximately 69 per cent of tourists). In the wake of the global economic crisis, successful attempts have been made to diversify markets to Asia (China), Eastern Europe, the Emirates and Africa. The growth of the tourism sector has forged both forward and backward linkages with the development of new products and diversification into newer destinations, while supporting ancillary sectors such as hotel and food establishments, yachting and cruise ships, transportation services, water sports, spa and wellness and also boosting housing construction and development around the islands.

The country is home to one of the world's largest tuna canning factories, Indian Ocean Tuna (IOT), which mainly exports to Europe and Asia. Tourism in Seychelles is vulnerable not only to climate change, but also to other externalities (piracy, for example). The skills mismatch, and a concentration of expatriate labour in managerial positions, are also concerns. The fishing industry has over time developed from primarily sustaining the local population to one capable of competing internationally as an important foreign exchange earner. Seychelles' location at the centre of the western Indian Ocean tuna migratory routes makes it the region's most efficient hub for tuna fishing and home to industrial fishing fleets from the European Union and the Far East. The IOT canning factory is the largest single employer.

Canned tuna remained the dominant commodity produced, accounting for 90 per cent of total domestic production in 2011. Trade in fish and fish products and other related activities accounted for 33 per cent of current account receipts in 2011. Exports of fish products represent around 68 per cent of Seychelles exports (excluding re-exports). Industrial tuna fishing activity continued to increase in importance in the economy, in terms of revenue generated (derived mainly from foreign fishing vessels' expenditure on goods and services in Port Victoria, as well as through payments for licences and financial compensation).

Poverty, inequality and human development

The country has a high GDP per capita at US\$ 12 300 (2012) and is one of the ten African upper-middle-income countries (MICs) and leads in human development rankings. In 2013, Seychelles was in the high human development category, with an HDI of 0.756, the second highest, after Mauritius, in SADC.³²⁷ It ranked number 71 out of 187 countries globally. Seychelles had an income Gini coefficient of 0.66 in 2007, also the highest in SADC. The MDGs report (2013) notes that while abject, visible poverty does not exist in Seychelles, there are still pockets of poverty, in terms of multi-dimensional poverty when food and shelter are taken into account. While the country does not have a national poverty line, the *2011 Living Conditions Survey* conducted by UNDP in 2012 estimated the poverty line at about US\$ 3 per day per adult. The poverty rate is estimated at 17 per cent of the population. The *MDG Report 2013* also noted that certain groups were more vulnerable, in particular single mothers and those engaged in the fishing sector. Poverty is higher in households led by unemployed heads, females and those with little education.

The country has surpassed the MDG goal on provision of universal primary education, although there are concerns about the quality of education and the pass rates at secondary and tertiary levels. Furthermore, there is a 10 per cent differential in secondary school enrolment rates in favour of girls, as many boys drop out of secondary and tertiary schools as a result of social problems. Nevertheless, universal access to education is close to 100 per cent while adult literacy rates are high at 96 per cent. Despite these impressive literacy rates, an inadequate supply of skilled labour force is one of the challenges identified by the private and public sectors.

327 UNDP, Human Development Report, 2014

The provision of health services is underpinned by the Constitution and the Health Policy Declaration that underscores basic human rights, equity and access, and ensures the availability of free basic health services to the entire population. Health services are provided in a three-tier system, with the bulk of specialized treatment being provided abroad at government cost. As a result, vaccination rates for communicable diseases was 100 per cent (eliminating most vaccine-preventable communicable diseases); the IMR, while low had increased from 10.7 per 1 000 live births in 2009 to 11.3 per 1 000 by 2012. One reason being investigated is the increased incidence in congenital malformations. The MMR was 0 in 2010 according to the MDG status report. Life expectancy was high at 73 years in 2010.

The HIV prevalence rates remain low at 0.87 per cent of the population and ARV access is 100 per cent. Areas of need in the provision of health care remain the control of non-communicable diseases related to unhealthy lifestyles, such as diabetes, cardiovascular problems and substance abuse.

According to the Social Protection Agency, the number of households seeking welfare assistance has more than doubled over the past two years as poorer households and vulnerable groups, especially female-headed households, have increasingly felt the impacts of reforms. As part of the ongoing reform, the benefits system is being reviewed to ensure better targeting and also to assist current working-age beneficiaries who are not disabled to transition to employment. As a result, there has been a decrease in the number of people on benefits from 18 000 (out of a population of 88 000) and 6 000 on welfare in 2012, to 13 210 on benefits and 1964 on welfare as of September 2013.

Government efforts, policies and action

The country experienced a primary fiscal surplus of over 5 per cent of GDP from 2010 to 2013. Budgetary allocations towards social sectors remain the largest components of annual budgets even in 2013. The overall fiscal goal remained the same as in previous years, with the Government committed to carrying out a fiscal policy consistent with the country's aim of achieving debt sustainability over the medium term and reduction in public debt to 50 per cent of GDP by 2018, from 151 per cent in 2008. Public debt stood at 70 per cent in 2013.

A key legislative area was approval of the new Public Finance Management Bill (2012) that came into effect in January 2013. As a result of this bill, improvements were made in the area of accounting and financial control, budgeting and expenditure tracking, and public enterprise monitoring. The Government established a Public Enterprise Monitoring Commission (PEMC) to increase oversight over parastatals and control contingent liabilities due to parastatal borrowing. Prudent financial management allowed successful management of overall fiscal sustainability. The introduction of value added tax (VAT) in January 2013 caused a temporary pick-up in inflation, which was offset by an appreciation of the rupee. Monetary policy since 2008 is largely based on liquidity management.

In April 2013, Seychelles joined Malawi, Mozambique and Zambia in an accelerated trade programme to quicken the integration, taking variability into account as allowed under the REC protocols. Seychelles has several bilateral and double taxation agreements already in existence with 28 countries. A further cooperation agreement was signed with India in September 2013.

In order to rationalize its regional integration objectives, the country is currently developing its first Regional Integration Strategy to guide policies and implementation variations under its REC commitments and other multilateral agreements. Following the completion of negotiations with EU as part of its WTO accession in 2013, the Government amended trade taxes under the Customs Management (Amendment) Regulations 2013, to enable compliance between EU preferences and current applicable tariffs under COMESA/Most Favoured Nation.

The most recent discussions with non-Paris Club bilateral and commercial creditors were also finalized in 2013 with the last commercial creditor, India EXIM Bank, reaching a debt-restructuring agreement in early September 2013 and writing off 45 per cent of the debt. A new Debt Management Strategy (2013-15) has been prepared to ensure that the repayments are made in a timely manner. The Government also designed its first Public Sector Investment Programme (PSIP) to guide public investments and was mid-way in implementing its Public Financial Management action plan that aims at enhancing value for money in government expenditure. By December, the country successfully concluded the IMF programme that underpinned these reforms, the Extended Fund Facility (EFF) signed in 2008.

One of the main reasons for the increased tourist arrivals in 2013 was the extensive marketing that the Government embarked on in non-traditional tourism markets leading to a growth in tourists from Eastern Europe, Asia, Arab States and Africa. The Government is also currently investing in the development of additional fishing quays to support the growth of the fishing industry (particularly at the artisanal level) and is designing an Aqua-Mari-culture plan, in order to increase the exports of non-traditional fish.

A National Strategic Framework (2012-2016) has been adopted to ensure the comprehensive, coordinated and coherent design of programmes to address HIV and Tuberculosis. Through deliberate government policy, Seychelles has successfully promoted high living standards and social development. Under the Social Security Fund, the Government provides various social welfare programmes that provide access to a universal, social insurance system.

Education services are free in Seychelles and various benefits for post-secondary school students are provided, including transport subsidies and allowances. In late 2011, Seychelles adopted a National Framework for Early Childhood Care and Education (ECCE). The proposed framework aims to improve the quality of education and care provided for children 0 to 7 years (14.7 per cent of the population). The ECCE programme will provide a variety of services for education, health, nutrition and protection of vulnerable children.

Conclusion

In 2013, the country marked five years since the commencement of comprehensive economic reforms that have achieved economic stabilization, debt reduction, liberalization and public sector restructuring. The challenges that remain in going forward include:

Making economic growth more inclusive

Generating more local employment, and

Unlocking constraints for the private sector.

Ranked number 1 in terms of human development in Africa, the Seychelles has met most of the Millennium Development Goals (MDGs) and is looking forward to the development of a post-2015 agenda that better integrates issues relevant to SIDS. The country has also long attained good maternal care with an MMR close to 0, with free primary health care provision. However issues have emerged with regard to universal access to reproductive health, particularly the decline in the contraceptive prevalence rate and the high adolescent birth rate.

5.3.11 South Africa

Box 5.2 presents a case study of economic transformation in South Africa.

Box 5.2

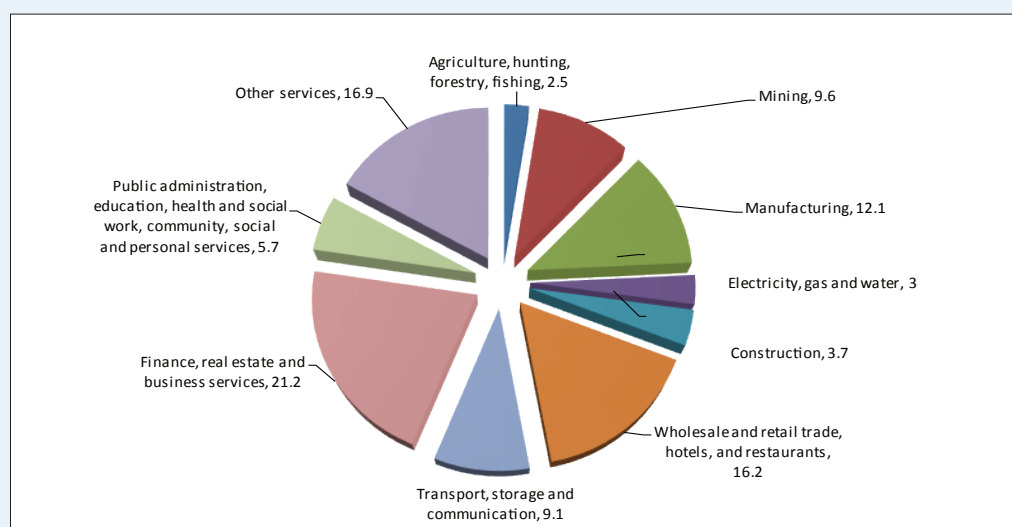
South Africa's success story in economic transformation (Growth with DEPTH)

According to the African Transformation Index (ATI), a composite of the five elements of DEPTH, namely, Diversification, Export competitiveness, Productivity, Technology upgrading, and Human economic well-being, South Africa, with an ATI value of 66 per cent in 2010, ranks number 2 out of the 21 African countries assessed, and was also second in 2000.

South Africa's GDP grew at an average of 2.4 per cent a year in the seven years after independence, in 1994. GDP per capita grew at an average of 0.4 per cent. In the last seven years of apartheid, average GDP growth was 0.6 per cent and GDP per capita growth was a -1.2 per cent. Growth accelerated from 2001 to 2010, with average GDP growth moving up to 3.2 per cent and GDP per capita to 2.1 per cent. Two episodes, the 1998 contagion of the East Asia financial crisis and the global recession of 2009, interrupted the longest period of economic expansion by ending 55 quarters of growth since the end of apartheid in 1994. GDP is projected to grow at 3 per cent in 2013 and 2014.

South Africa's rank of 2 in Diversification did not change from 2000 to 2010. The share of manufacturing in GDP fell from an average of 19 per cent in 2000 to 17 per cent in 2010, while the share of manufacturing and services in exports also dropped from 37 per cent to 32 per cent. Meanwhile, the share of the top five exports rose from 35 per cent to 40 per cent. So all the indicators of diversification moved in the wrong direction between 2000 and 2010. But South Africa is so diversified relative to most of the countries compared on the index that it still retained its number 2 rank. Figure V.31 presents the sectoral contributions to GDP in 2012.

Figure V.31 Gross Domestic Product by sector, percentage, South Africa, 2012



Sources: African Development Bank, 2014; OECD Development Centre and UNDP, *African Economic Outlook, 2014*.

In Export Competitiveness, South Africa lost three places, falling from 8 in 2000 to 11 in 2010. Its relative export intensity of production (the share of exports in GDP relative to the share for the world, not counting extractives), is below 1.0, and it fell from 0.69 in 2000 to 0.66 in 2010.

In Productivity, it improved its rank from 8 in 2000 to 4 in 2010. Manufacturing value added per worker (in 2005 US\$) rose from \$26 703 in 2000 to \$36 050 in 2010, while cereal yields rose from 2 458 kilograms per hectare to 4 193.

In Technology, the country is clearly the leader, number 1, in 2000 and 2010. The share of medium and high technology is around 37 per cent in production and around 32 per cent in exports.

In Human well-being, it was number 3, with a GDP per capita of \$9 510 (PPP 2005 US\$) in 2010, up from \$7 617 in 2000. Despite modest improvements in human and social indicators over the last decade, high open unemployment and inequality remain serious challenges.

South Africa is the economic powerhouse of SSA. Since the transition to majority rule in 1994, the country has pursued a number of political, economic, and social reforms aimed at achieving a stable social democracy, ensuring a fine balance between meeting pressing social objectives, prudent macroeconomic management, and building a robust economy. It trades extensively within Southern Africa, and its companies have a growing presence in Africa. There is a diversified manufacturing base that can compete in the global economy as well as good transport and ICT and telecommunication infrastructure, and a well-developed financial system. Its trade structure remains unchanged from its primary and resource-based products. Except in mining, movement toward a significant amount of high-tech products has been slow.

Transformation policy frameworks adopted since 1994 have tried to respond to the economy's growth and development challenges, and these include: the *Reconstruction and Development Program, 1994*, which focused on growth with government investment playing a major role; the *Growth, Employment, and Redistribution Program, 1996*, emphasized increased private sector investment-led growth; the *Accelerated and Shared Growth Initiative, 2005*, aimed to further the goals of the preceding policy frameworks with a higher commitment to macroeconomic stabilization policies relative to welfare policies; the *New Growth Path Framework, 2010*, aimed to address persistently high unemployment through the creation of decent jobs; and the *Industrial Policy Action Plan, 2010*, set out to diversify and expand exports, improve trade balances, build long-term industrial capacity, build domestic technology, catalyse skills, and accelerate job creation in the next decade. The 2014 version of the plan reinforces diversification, industrialization, and the move to a knowledge economy. It also promotes labour-absorbing industrialization to increase the participation of historically disadvantaged people and marginalized areas.

Its trade with the rest of Africa has a huge potential. Exports of technology-intensive products to SSA countries range from specialized agricultural products to machinery, vehicles, and electronics. In turn, South Africa receives resource-based products such as oil, precious stones, base metals, and agricultural products and has the opportunity to further specialize in higher technology and more sophisticated products for the African market. Indeed, SADC countries could soon become South Africa's biggest market for manufactured goods.

Travel service exports are on the rise. Other services in which world trade is growing faster than the average and faster than South Africa's market shares are increasing include ICTs, insurance, and finance. Call centres are a growing business, and South Africa's location is ideal for servicing major European and Asian markets because of time zones and cultural affinities. The installation of fibre optic cables around SSA, on the eastern and western coasts, should ensure cheaper and more widely available bandwidth, which should boost South Africa's connections with the rest of the world. The country's participation in the EU-South Africa Free Trade Agreement, the SADC Trade Protocol, the renegotiated Southern African Customs Union agreement, and the US-led African Growth and Opportunity Act (AGOA), have all boosted market access. These agreements should help to expand exports of agricultural products such as wines and fresh fruits, on the rise since the end of apartheid.

Source: African Centre for Economic Transformation (ACET), 2014.

Economic growth

After the initially promising recovery following the global economic crisis, real GDP growth peaked at 3.6 per cent in 2011, sliding to 2.5 per cent in 2012 and to 1.9 per cent in 2013. Sluggish growth in its major European and North American trading partners combined with ongoing labour unrest and fading business and household confidence all underlay this performance. Labour unrest continued to affect performance in the manufacturing, mining and agricultural sectors with manufacturing being worst hit. The mining sector performed well despite union rivalries and the loss of 14 000 jobs at Amplats, the world's largest platinum producer.

The sector expanded for the first time since 2011 posting 2.5 per cent annual growth as iron ore and coal production largely offset the decline in platinum production. In the agricultural sector, violent strikes early in 2013 caused growth to collapse from 4 per cent in 2012 to just 1.4 per cent in 2013. It was in manufacturing, however, that labour unrest had the greatest impact. The automobile sector was worst hit with strikes in August and September resulting in a 75 per cent quarterly fall in vehicle production and a 6.6 per cent quarterly fall in total manufacturing output.

Services, which account for 25 per cent of the South African economy, rose 2.6 per cent in 2013, compared with 5 per cent in 2012, as seen in appendix table A5.2. Within services, the finance and insurance, real estate and business sub-sectors lead with finance and retail in particular tapping into the more dynamic growth of the wider Southern African region.

Inflation estimated at 5.7 per cent in 2013 remained within the Reserve Bank's (SARB) target range of 3 per cent to 6 per cent. The South African rand (ZAR) remained under pressure in 2013, sliding 20 per cent in value during the year. National government debt increased to 42.5 per cent of GDP in 2012/13, up from 36.2 per cent two years earlier. As earlier noted in chapter III, the current situation where services contribution to GDP is very high, followed by industry, with minimal agriculture contribution, reflects a desirable economic structure.

The growth of gross fixed capital formation slowed to less than 3 per cent, from its post-crisis peak of 5 per cent in 2011 and pre-crisis average of 12 per cent (2003-08). Sluggish public investment due to labour disputes at the Medupi power plant project and delays with spending on rail, road and port infrastructure accounted for some of this fall. The private sector accounts for two thirds of fixed capital formation. The bulk of the investments made target mechanization and efficiency gains, expanding productive capacity, but limiting employment opportunities in a low-growth environment. South African companies have significant cash reserves but report low confidence in both the current business cycle and the political environment.

South Africa ranked 80 out of 189 in the Ease of Doing Business Index in 2014. Its regulatory climate is regarded as one of the most conducive to business in Africa and the country ranked 41 out of 189 countries in the World Bank report, *Ease of Doing Business 2014*. In Africa, only Mauritius and Rwanda ranked higher. However, it remains one of the most difficult countries in the region for conducting cross-border trade (ranking 106 out of 189). Nevertheless, it ranks 24 in terms of ease of paying taxes, with a burden of 200 hours and 7 tax payments.

The same report ranks South Africa 10 globally and 1 in Southern Africa in terms of protecting investors. The private sector has good access to credit, and the country was ranked number 1 out of 185 countries in the World Bank's *Ease of Doing Business 2013*, with regards to obtaining credit. South Africa also possesses a developed stock market and has the eighteenth largest stock exchange in the world, the Johannesburg Stock Exchange (JSE), which anchors private sector investment and growth both within South Africa and across the region.

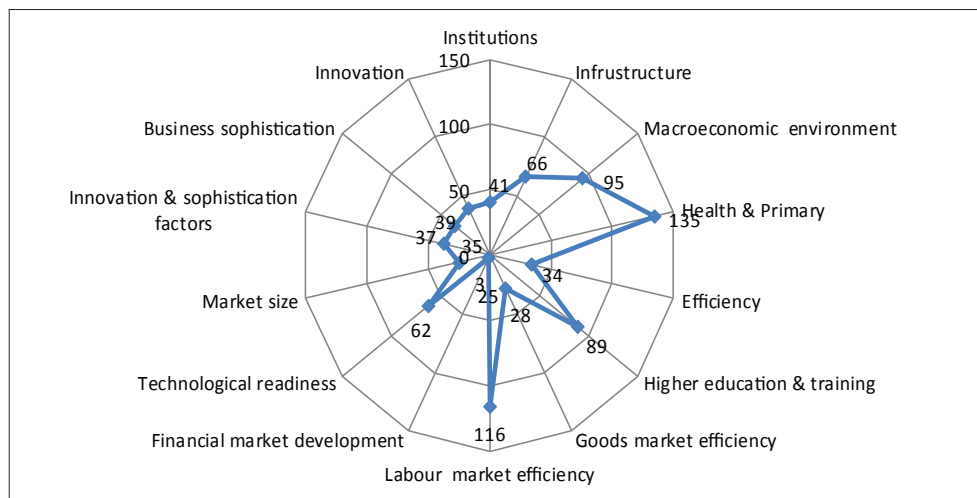
In the GCI, 2013/14, South Africa is the second highest ranked country in the region, at number 53. Globally, it has overtaken Brazil to become second also among the BRICS (Brazil, Russia, India, China and South Africa) group. It does well on measures of the quality of its institutions, including intellectual property protection,

property rights and in the efficiency of the legal framework in challenging and settling disputes (see figure V.32). The report also stated that the six most problematic factors for doing business in South Africa are:

- An inadequately educated labour force
- Restrictive labour regulations
- Inefficient government bureaucracy, and
- Corruption
- A poor work ethic in the national labour force, and
- Inadequate infrastructure.

The high accountability of its private institutions further supports the institutional framework. Financial market development remains impressive at number 3 position, globally. The country also has an efficient market for goods and services and it does reasonably well in more complex areas such as business sophistication and innovation. The 2013/14 *Global Competitiveness Report* ranked South Africa 45 out of 148 countries in terms of the intensity of local competition, and 8 for the effectiveness of its anti-monopoly policy.

Figure V.32 South Africa GCI Pillars by Rank, 2013-2014



Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

It has a well-developed financial sector with assets worth over ZAR 6 trillion that contribute 10.5 per cent of GDP. The sector employs 3.9 per cent of the labour force and is responsible for 15 per cent of the corporate income tax bill. It was ranked 3 out of 148 countries in terms of financial market development by the 2013/14 *Global Competitiveness Report*. The rand continued its downward trend reaching 11.1 rand to the US dollar at end January 2014, 20 per cent lower than end 2012 and 66 per cent below the peak in 2011.

Nonetheless, the perception of corruption has deteriorated in recent years. The country is now ranked 72 out of 177 countries in the 2013 Transparency International *Corruption Perceptions Index*, compared to 69 out of 176 countries in the 2012 index. However, South Africa now ranks at 9 among least corrupt countries in Africa, below Lesotho and Rwanda.

It dominates the region economically, accounting for 41 per cent of all SADC trade and about 63 per cent of its combined GDP. It is also a member of BRICS, the association of five fast-growing and emerging economies

which account for 25 per cent of global GDP and 40 per cent of the global population. In 2013, the top four export commodities were gold, iron ores and concentrates, coal, and platinum. The primary imports were petroleum, original equipment components, electrical machinery, equipment, vehicles and accessories.

Emerging markets and the euro area economies are the key drivers in the demand for commodities. FDI revenues increased from ZAR 37.5 billion in 2012 to ZAR 47.4 billion in the third quarter of 2013. The key recipient sectors included mining, pharmaceuticals, automotive equipment, financial services and, most recently, renewable energy. Investments originated from BRICS (China and India in particular), as well as Europe and the United States.

South Africa is integrated into several GVCs, particularly in the automobile, mining, finance and agriculture industries. It may be unique in Southern Africa in possessing the efficiency and scale to drive a global value chain. In addition to functioning as an assembly hub for the automotive industry, it has had some success in becoming a global supplier of components (seats and catalytic converters) capitalizing on locally available skills and intermediate products. The automotive industry accounts for more than 6 per cent of GDP and 12 per cent of its manufacturing exports. The mining industry has become an important global hub with deep backward vertical integration and a full-fledged supply industry serving both South African and foreign companies. Mining accounts for over 16 per cent of formal sector employment.

South Africa is an international player in its own right. As the largest African economy, it is also an important regional hub, and the country is increasingly capitalizing on regional value chains, especially in retail, finance and telecommunications. The South African automotive industry adds the most value to exports at 40 per cent, while finance, retail and mining are the lowest at less than 10 per cent.

South Africa ranks second among the BRICS countries in terms of the content of foreign value added to exports³²⁸. China's exports contain 37 per cent of foreign value added, whilst South Africa's contain 16 per cent, ahead of the exports coming from Brazil, India and Russia with 15 per cent or below.

South African suppliers are global leaders in numerous areas, particularly the provision of washing spirals, underground locomotives, submersible pumps, hydropower equipment and mining fans. South African firms are also leaders in some of the vast mining services including geological services, prospecting, shaft sinking, turnkey solutions to the mining and mineral-processing industries, and operation services. They are also competitive on a global scale when it comes to the four vital areas of mine safety, tracked mining, shaft sinking and ventilation. Development in these areas is strong and considered much greater than in comparable countries such as Chile or Australia.

According to the South African Capital Equipment Export Council (SACEEC), one of the nation's largest exports is mining equipment, accounting for 8.5 per cent of total exports from 2005-09, and 55 per cent of capital equipment exports during the same period. It is estimated that 90 per cent of the exports of mining equipment and specialist services are local content.

Poverty, inequality and human development

The country ranks 4 in terms of HDI rankings in the region, and falls in the medium human development category, with an HDI of 0.658, in 2013³²⁹. Globally it ranked 118 out of 187 countries in the same period. As earlier discussed in this report, South Africa has one of the highest inequalities rankings in SADC, as reflected in an income Gini coefficient of 0.63 in 2009. According to the World Bank Database (2014), the income share held by the lowest 20 per cent of the population was 2.70 per cent, while that held by the highest 20 per cent was 68.2 per cent in 2009.

328 The joint OECD-World Trade Organization (WTO), Trade in Value Added database.

329 UNDP, Human Development Report, 2014

About 23 per cent of the population lived below the national poverty line in 2006³³⁰. In 2012, around 61 per cent women were living in poverty, and 31 per cent in destitution, compared to 39 per cent and 18 per cent of men, respectively. In 2013, South Africa had a GII of 0.461 and in 2012, a MPI of 0.041, and the lowest in SADC, excluding Mauritius, Seychelles and Angola with no available data.

Performance in addressing under-five mortality and ensuring universal access to reproductive health care remains weak. According to the November 2011 Department of Health report, the MMR and under-five mortality rate were 310 per 100 000 and 56 per 1 000, respectively. Health service coverage is about 71 per cent. Currently, about 2 million of the 6.4 million people who live with HIV and AIDS in South Africa have access to ARV treatment and the Government planned to expand access to 2.5 million patients by 2014 and an additional 1.5 million by 2017.

In 2012, 37 per cent of children under the age of four attended early childhood development (ECD) institutions compared to 35 per cent in 2011. School attendance for those aged 7-13 had already reached 98.4 per cent for boys and 98.8 per cent for girls in 2009. Around 63.3 per cent of women aged 25 years or older had received at least secondary education. However, only 2.8 per cent of Black Africans aged 18 to 28 were studying at tertiary institutions in 2012 compared to 17.2 per cent of White South Africans in the same age group. The quality of education still remains poor, particularly in disadvantaged Black schools. The World Economic Forum, in its *Global Information Technology Report 2013*, ranked South Africa 143 out of 144 countries for the quality of maths and science education, and 139 for the overall education system, below several low-income African countries.

The South African Government has adopted a comprehensive safety net programme to target extreme poverty and hunger. By 2012, 29.6 per cent of the population received a social grant (up from 12.7 per cent in 2003) with children accounting for 70 per cent of these individuals. In 2011, over 10.4 million children under the age of 18 received a child support grant, which in total accounts for 36 per cent of total grant expenditure. In 2012, approximately 15 million people and 37.4 per cent of Black Africans received grants.

Social spending was estimated to account for 58 per cent of government expenditure in 2012, increased from 49 per cent a decade ago. In addition to social grants, the Government funds largely free services such as public health facilities, free schools (provided for approximately 60 per cent of students in 2011), and housing, water and electricity in poorer communities. The average value of a social grant for a family of four in 2012/13 was ZAR 3 940 per month. Social support thus marks a substantial contribution to household budgets and is financed and informed by a progressive tax system. The Government has built 1.5 million free homes to house the poor since 2012.

Unemployment and labour relations continue to pose challenges for the country. Unemployment remains high at 24.1 per cent overall, 64.8 per cent for young people between the ages of 15 and 24, and youth unemployment (15-34 year olds) at 50 per cent. However, the overall labour market remains constrained and labour unrest continued to reduce South Africa's output in 2013, especially in agriculture and manufacturing. The disparity between the skills provided by education and job requirements continues to be a primary cause of unemployment.

Government efforts, policies and actions

The fiscal position, though fundamentally sound, saw a slight deterioration in the 2012/13 fiscal year, with the budget deficit rising from 3.6 per cent in 2011/12 to 4.2 per cent in 2012/13. Mining and petroleum royalties remain recent additions to the revenue stream as they were only introduced in March 2010 following adoption of the Mineral and Petroleum Resources Royalty Act of 2008. According to the 2012 Open Budget Survey, the country has the second most transparent budget system in the world with consistent, transparent and detailed budget documents. However laudable this transparency may be, it has not translated into improvements in

service delivery in rural areas and informal settlements. Mechanisms put in place to fight corruption include creation of the independent Public Protector Office, which has investigated a number of high-profile corruption cases in recent years, leading to effective sanctions.

The primary objective of monetary policy in South Africa is achieving price stability. SARB uses reserve accumulation as an instrument to manage international liquidity, rather than employing it as an instrument in exchange rate policy. South Africa was amongst the first ten of the 27 Basel Committee member countries to have adopted Basel III on schedule by January 2013. The Government's debt management strategy forms part of broader fiscal sustainability policy and net targets for foreign and domestic borrowing are set with a three-year perspective. The National Treasury monitors debt sustainability with a benchmark range of 20-25 per cent of GDP, and an interest rate risk benchmark of 70 per cent versus 30 per cent for fixed versus floating domestic debt.

A number of bilateral investment treaties have been replaced with general legislation, with the intention of creating a level playing field for domestic and foreign investors. The Automotive Production Development Plan (APDP) that came into force in January 2013 is aimed at encouraging new investments in the industry, promoting use of local components and boosting annual production to 1.2 million vehicles by 2020.

In 2013, the Department of Trade and Industry introduced a new business licencing bill repealing the Business Act of 1991, aiming to establish national norms and simplified procedures for obtaining business licences. The bill calls for businesses to obtain licences from local municipalities. South Africa adopted a National Climate Change Response Policy (NCCRP) at the end of 2011.

In April 2013, a new one pill, single-dose ARV treatment was launched for HIV and AIDS patients. The mortality rate from malaria has been cut by 85 per cent over the past 12 years, through the use of a controversial pesticide, DDT. The risk of infection had fallen to less than 1 per 1 000 by 2012.

The Labour Relations Amendment Bill was adopted by Parliament on 20 August 2013 in a bid to introduce major changes to labour relations. The newly launched employment tax incentive aims to address the job creation/unemployment challenge by encouraging private sector absorption of youth by subsidizing the salaries of newly recruited workers aged between 18 and 29. The main instrument to boost employment is the Expanded Public Works Program (EPWP). By the end of the 2012/13 financial year, more than 3 million work opportunities had been created by the EPWP since the start of the second phase in 2009/10. The programme surpassed its targets, aiming for a 55 per cent participation rate for women and 40 per cent for youths, it achieved 60 per cent and 50 per cent, respectively. The EPWP has near comprehensive reach, with 277/278 municipalities implementing the programme by 2012/3.

On the political front, a victory by the African National Congress in the recently held general elections may imply that no major policy changes will take place. However, the entry into parliament of Julius Malema's Economic Freedom Fighters (EFF) party, might see more radical economic policy proposals emerging.

Conclusion

Challenges of high unemployment, especially among the youth, and labour disputes, need urgent attention in South Africa. Given that the country is an important hub in the global mining value chain, a regional assembly hub in the global automotive value chain and a key player in the regional finance and retail value chains, it should capitalize on these links as engines of growth at home. Higher electricity generation along with improved rail transportation capacity are crucial for overcoming the infrastructure bottlenecks that hamper the country's growth. Improving the capacity of specific value chains, and on a globally competitive scale, is a critical part of an important diversification strategy. In order to increase the depth of value chains, measures that target skills development, expansion of technological capabilities and access to capital are essential. Furthermore, output

potential is constrained by a skills shortage, and calls are being made for further investment and reform in the poorly performing education system.

5.3.12 Swaziland

Economic growth

Economic growth in Swaziland was estimated at 3.5 per cent in 2013 up from 1.7 per cent recorded in 2012. Characteristically for the region, this weak performance is largely the result of existing structural constraints, despite the large inflows from the Southern Africa Customs Union (SACU) revenue pool. The main growth drivers in 2013 were the recovery in domestic and external demand supported by public expenditure and stronger global demand for exports. Inflation averaged 6.2 per cent for 2013 compared to 8.9 per cent in 2012. Reflecting the positive macroeconomic environment and growth of the economy, annualized private sector credit grew by 6.5 per cent as of end-November 2013. The healthier fiscal position has also allowed gross foreign reserves to increase from an equivalent of 3.2 months of import cover at the beginning of the year to 4.8 months in November 2013.

The tertiary sector decline of 1.2 per cent in 2011 was reversed to a positive growth of 2.5 per cent in 2012. The transport, storage and communications sector experienced the largest growth at 19.3 per cent in 2012 compared to 2.7 per cent the previous year. Growth in the primary and secondary sectors was subdued due mainly to the combination of a poor agricultural season, especially for the maize and citrus sub-sectors, and the slow recovery in South Africa and EU. These two markets account for about 70 per cent of the country's exports. Growth in 2013 therefore improved, largely driven by a recovery in manufacturing and service sectors. Construction benefited from public sector investments, especially given the 25 per cent increase in the capital budget.

Strengthening domestic demand was observed in higher usage of utilities where both water and electricity demand have increased by about 1.5 per cent and 4.8 per cent in real terms in 2013. The supply-side of the economy saw manufacturing output increase in response to the recovery in export demand. The soft drink concentrates, sugar and sugar related products, timber and textiles sub-sectors registered positive growth above 2 per cent. Similarly, electricity, gas and water supply recovered from a contraction of 20.9 per cent in 2012 to positive growth in 2013 on account of favourable rains in the 2012/13 summer season.

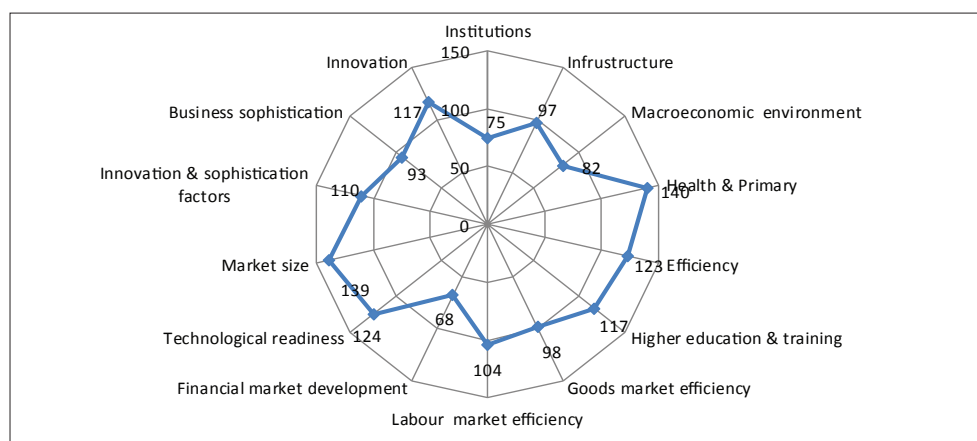
The secondary sector, which comprises construction, manufacturing and power generation, gas and water supply sectors, is estimated to have reversed a 0.3 per cent decline in 2012 to a more than 6 per cent growth in 2013. As earlier noted in chapter III, the current situation where services and industry contribution to GDP is very high, with minimal agriculture contribution, reflects a desirable economic structure.

Swaziland's ranking in the 2014 *Doing Business* Index by the World Bank was 123 out of 189 countries. Over the same period, the World Economic Forum's *Global Competitiveness Report 2013-14* ranked Swaziland at 124 out of 148 countries, up from 135th position in 2012, largely on the back of positive efforts to improve basic requirements for competitiveness, such as, supportive institutions; reasonable infrastructure and stable macroeconomic environment (see figure V.33). The financial market is also relatively efficient by international standards. However, the country ranks poorly in the social sector as a result of high rates of communicable diseases and a poor education system.

The country also needs to improve the efficiency of the labour market. Starting a business, still requires 12 procedures and takes 38 days while enforcing a contract takes 956 days, costs 56 per cent of the value of the claim and requires 40 procedures. Sectors such as water and transport are still heavily regulated. Swaziland's governance indicators compare unfavourably with its neighbours. In 2013, the Ibrahim Index of African Governance ranked Swaziland 26 out of 52 countries with a score of 50.8. The 2013 Index ranks Swaziland low

in participation and human rights, as well as sustainable economic opportunity attributable to weak institutional capacity and a relatively rigid political system.

Figure V.33 Swaziland GCI Pillars by Rank, 2013-2014



Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

South Africa, in particular, remains the largest single market for the country. Swaziland's multiple memberships in the different trading blocs, with no unified rules and regulations, strain the country's limited administrative capacity. Swaziland is also one of the most open countries in the world, with a trade to GDP ratio of about 120 per cent. The country is lowly ranked under the trade barriers (84), trade tariffs (78) and burden of customs procedures (137) categories in the *Global Competitiveness Report 2013*.

As of September 2013, Swaziland's balance of payments recorded a surplus. Exports included sugar and sugar products, forestry products, processed fruit products, textiles, soft drink concentrates, refrigerators and, more recently, pneumatic drills.

Imports from South Africa and the rest of the world form most of the value in the final products. Such imports include packaging materials, marketing and transport services and the final products themselves. For canned fruit, the main producing firm is of South African origin and sells its product to the rest of the world and the home country. With regards to sugar, critical issues relate to diversifying sugar products. Coca Cola Swaziland (Conco Ltd) produces soft drink concentrates that are exported to 20 countries in Africa. Export-oriented firms have been hamstrung by an unfavourable investment environment, regulatory restrictions, government distortions and the high cost of trade. The service sector, which is one of the fastest growing sectors, especially telecommunications, is still to fully emerge out of a legislative bind that has impacted investments.

Poverty, inequality and human development

Even though poverty declined from 69 per cent to 63 per cent as reflected in the 2001 and 2010 *Swaziland Household Income and Expenditure Survey* (SHIES), it still remained high with huge differences by geographic location. The driest regions of the country (Lubombo and Shiselweni) are the poorest. The Hhohho and Manzini regions, which include the major urban centres of Mbabane and Manzini, respectively, have the lowest poverty rates. Female-headed households are poorer than male-headed households, with poverty prevalence of 67 per cent and 59 per cent, respectively.

It has also been observed that rural households involved in non-commercial farming activities derive about 12 per cent of their income from these activities and are the poorest. They are followed by self-employed headed households. Closely correlated to poverty is the extent of food insecurity due mainly to unsustainable farming

techniques, low rainfall and limited irrigable land. Extension services required to lift agricultural productivity also do not adequately cover smallholder farmers.

The prevalence of HIV has stabilized at 26 per cent, remaining the highest in the world. This has reduced life expectancy to less than 50 years, adversely impacted labour productivity and has led to a smaller skills base. Despite financial constraints, Swaziland is continuing to provide life-saving drugs to HIV and AIDS patients with the support of donors. According to the 2014 UNDP *Human Development Report*, at rank 148 out of 187 countries, it is a low human development country, with an HDI of 0.530 slipping down to an IHDI of 0.354 when adjusted for income inequality. In 2013, Swaziland had a GDI of 0.877, a GII of 0.529 and a MPI of 0.113 in 2010. The country's income Gini coefficient was 0.48 in 2010. The primary NER rose from 72 per cent in 2007 to 93 per cent in 2013. In 2009/10, 73.9 per cent of children reached grade 7 without repeating a grade more than twice, compared to 59.8 per cent in 2006/07.

Government efforts, policies and actions

The recently appointed cabinet adopted the concept of “*development unusual*”, which reflects the Government's commitment to addressing poverty and inequality. Given the improved fiscal situation, it has signalled its intention to address some of the social challenges, including creating jobs, and spending more on human capital development. Accordingly, the country allocated almost 20 per cent of its budget to education and training and about 12 per cent to health. The challenge, however, is sustaining such expenditures in the future without negatively impacting fiscal sustainability, especially given the low allocations to the productive sectors.

There is continued reliance on SACU revenue receipts, which account for approximately 55.3 per cent of total revenue and grants, and this remains an issue of major concern. Domestic revenues, including value added tax (VAT, 14 per cent), individual and corporate taxes (19 per cent) and non-tax revenue (3.7 per cent) amounted to about 43.2 per cent of total revenues. Grants constituted about 1.5 per cent of total revenue. There are ongoing negotiations on a revised revenue-sharing formula, which might reduce Swaziland's share of SACU revenue receipts. In addition, the levels of tariff rates in the region and those for South Africa's main trading partners are declining in line with global trends. These two factors, coupled with weaker growth in South Africa and the slow progress in improving the business environment are hampering domestic and foreign investment inflows, posing significant downside risks to growth.

Agriculture, which is the mainstay of almost 70 per cent of the population, was allocated only 4.2 per cent of the total budget in 2013, well below the 10 per cent agreed under the Comprehensive Africa Agriculture Development Programme (CAAPD). Although the agriculture sector's contribution to Swaziland's GDP is less than 10 per cent, it is vertically linked with the manufacturing sector that is dominated by sugar production.

- a. The demand side of the Swazi economy is likely to benefit from a number of factors, including among others:
- b. Tax policy changes implemented in the 2013/14 budget that have boosted disposable incomes, following upward adjustments in non-taxable income thresholds and increases in civil servants' salaries;
- c. Although not fully recovered yet, the external sector has been boosted by increasing export demand; and
- d. The expansionary fiscal policy, as reflected in the increase in capital expenditures and the reduction in personal and corporate tax burdens.

The banking sector remains stable and sound, with the non-bank financial sector now fully under control following the operationalization of the Financial Services Regulatory Authority. Swaziland has no independent monetary and exchange rate policies as it is a member of the Common Monetary Area (CMA). Its currency

is pegged at par to the South African Rand (ZAR). The Central Bank of Swaziland, however, has supervisory and regulatory authority over the financial sector. Monetary policy has largely been accommodative and tracks that followed by SARB. The financial sector is well regulated and risks from the non-bank financial sector were addressed following the establishment of the Financial Services Regulatory Authority. An improving macroeconomic environment and the stability of the financial sector have helped in rebuilding confidence in the economy.

Public debt contracting is currently guided by the Finance Management and Audit Act (1967) and its 1992 amendments. This legal instrument is expected to be replaced by the Public Finance Management Bill of 2013 that was approved by the cabinet in 2013, but has not yet been implemented. Government has now set the total debt threshold at 40 per cent of GDP and domestic debt at 25 per cent. All debt proposals have to demonstrate that the debt to be contracted is in line with the national development objectives and that such debt will not lead to debt unsustainability. The absence of an institutionalized framework to manage SACU receipts, upon which 55 per cent of government revenue depends, increases the medium-term fiscal and debt risks for the country.

The revision of the Swaziland Investor Road Map and its re-launch in 2012 created a new impetus to implement reforms to improve competitiveness and improve the business environment. The 2013 legislations such as the Communications Commission and Electronic Communications Acts removed existing constraints that provided for monopolies. The creation of the communications sector regulator as provided for under the Communications Commission Act, and the new framework provided under the Electronic Communications Act are expected to boost investment opportunities in the sector. In 2013, the Government launched the public-private partnership policy, which is the first step towards establishing a framework for partnership between government and the private sector in development projects, including infrastructure

There are efforts to establish the Swaziland Public Procurement Regulatory Agency (SPPRA), and a Government Tender Board. The lack of these institutions has been compromising the integrity and transparency of government procurement, which to some extent made it difficult to deal with corrupt practices that continue to haemorrhage the economy. Swaziland has institutions that focus on climate change and green growth, notably the National Climate Change Committee and Designated National Authority for the Clean Development Mechanism (CDM).

In 2013, lingering effects of the fiscal crisis have had an impact on resource allocations to the social sector. This, together with the weak private sector, unable to maintain existing jobs, reduced households' capacity to provide for some of the basic requirements for health and education. At the same time, the Government withdrew blanket university grants leaving prospective students without financial support to take courses of their choice. The Government's Free Primary Education Programme has continued to be supported. Reflecting the erosion of capacity to fully fund education grants to orphans and vulnerable children, the release of funds for the Free Primary Education Programme was delayed to allow for an audit of the fund.

Some of the social protection programmes under implementation include direct cash transfers in the form of old age grants, education grants to orphans and vulnerable children, and a public assistance grant system for disabled people. In-kind transfers are made up of school feeding programmes and Neighbourhood Care Points largely targeting children at risk of neglect, abuse and malnutrition.

Conclusion

The country faces challenges related to: low economic growth; over-reliance on SACU revenue receipts; uncertainty on the future of SACU; slow global recovery; uncertainty about trade preferences (EPA and AGOA); oil price and exchange rate volatility; and inflationary pressures from the proposed hike in electricity price. In mitigation, the macroeconomic framework sets out to: achieve higher economic growth; secure macroeconomic stability; maintain inflation at 3-6 per cent; increase private sector employment; and facilitate higher credit

extension by commercial banks. An unfavourable business environment constrains the extent to which the economy could benefit from existing links with GVCs

However, given Swaziland's low labour costs and the rigid and hostile labour relations environment in South Africa, improving the productivity of labour could attract investments from its neighbour or further afield. Better budget planning, execution, reporting and control are critical elements that need to be fully addressed under the ongoing public financial management reforms.

5.3.13 Tanzania

Economic growth

The economy of Tanzania has continued to perform strongly, with growth at around 7 per cent in both 2012 and 2013, driven largely by communications, transport, financial intermediation, construction, agriculture and manufacturing. Inflation declined from an annual average of 16.0 per cent in 2012 to 7.9 per cent in 2013. The annual average of food inflation declined from 20.2 per cent to 8.6 per cent over the same period. The service industry contributes 48 per cent of Tanzania's GDP, seen in appendix table A5.2. It is heavily geared towards urban centres in the domestic market and especially active in telecommunications and financial services. Agriculture contributes 27 per cent to GDP but plays the predominant role for employment. Industry's share in GDP is 25 per cent, with particular contributions from light manufacturing and agro-processing.

Tourism is important too, contributing some 20 per cent of GDP, but with little value addition at the local level. As earlier noted in chapter III, Tanzania is still an agrarian economy, but making steps in the right direction, in terms of building the manufacturing sector. Tanzania's ATI of 25 per cent in 2010 reflects low economic transformation³³¹.

Growth of the agriculture sector was estimated at 4.3 per cent in 2013, driven by increased production of the major food crops, including maize, paddy, millet/sorghum and cassava. Good rains, as well as the Government's provision of subsidized farm implements, have continued to support agricultural performance, but the sector still remains heavily dependent on weather and is poorly mechanized. Growth of the agriculture sector also continues to be constrained by existing infrastructure gaps, including poor road transport, especially in rural areas, and lack of storage facilities.

Strong performance of the communications and trade sub-sectors resulted from increased use of mobile phone services, the start-up of new trade services and an increase in the trade of domestically manufactured and imported goods. Strong performance of the mining sector (estimated growth of 7 per cent in 2013) resulted from increased production in gold and tanzanite. Financial intermediation continued to perform strongly, growing at about 11 per cent in 2013. Increased levels of deposits, lending by commercial banks, and the services provided by insurance companies all supported growth.

Export performance remained strong, largely driven by gold and services receipts, which account for a combined share of about 44 per cent of total exports. Tanzania has continued to promote regional integration through tariff reduction. In 2012/13, the Common External Tariff (CET) on electricity was reduced from 10 per cent to 0 per cent. This was intended to reduce the cost of importing electricity into East African Community (EAC) member States. The volume of trade between Tanzania and EAC partners more than doubled, from US\$ 520 million in 2008 to about US\$ 1.2 billion in 2012. The current account deficit is estimated at about 14 per cent of GDP in 2013, largely on account of oil imports for emergency power generation. Oil imports account for about 32 per cent of total imports of goods and services.

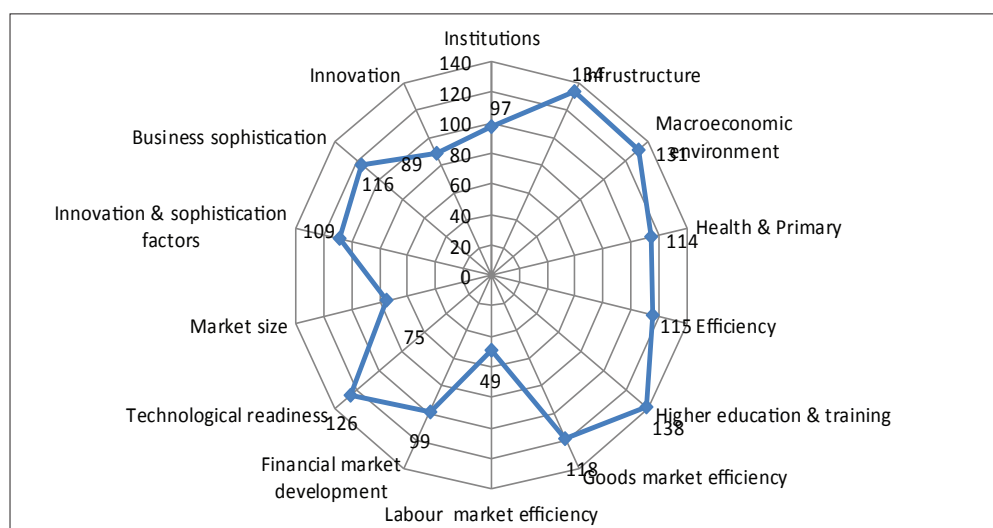
331 African Centre for Economic Transformation (ACET), 2014; 2014 African Transformation Report: Growth with Depth, Accra, Ghana.

In line with the key changes in Tanzania's economy, especially with gold becoming the dominant export commodity, its trading partners have also changed, with exports shifting from EU to China, Switzerland, South Africa and EAC. Between 2003 and 2012, exports to EU decreased from approximately 50 per cent to 30 per cent. Total exports to Asia increased from 23 per cent to almost 30 per cent. Most importantly, exports to Tanzania's neighbouring countries in EAC and SADC rose from less than 10 per cent to over 30 per cent currently. The port of Dar es Salaam is currently a major trade hub for East and Central Africa. It also opens the door for the development of Special Economic Zones and more global trade, in particular with the Asian markets, to which the country has a privileged geographic position.

Tanzania ranked 145 out of 189 economies in the World Bank report *Doing Business 2014*, representing a drop of nine from the rank of 134 out of 183 countries in the previous year. The report also notes that Tanzania's ranking in eight of the ten indicators dropped by between 1 and 6 positions. On GCI, the country is ranked 125 out of 148 in 2013/14. Its institutions have been deteriorating over the past years, although government regulation is not seen as overly burdensome (see figure V.34). In addition, some aspects of the labour market, such as reasonable redundancy costs, lend themselves to efficiency.

On the other hand, infrastructure in Tanzania is underdeveloped, with poor roads and ports and an unreliable electricity supply. And although primary education enrolment is commendably high, providing universal access, enrolment rates at the secondary and university levels are among the lowest in the world, while the quality of the educational system needs upgrading. The basic health of its workforce is also a serious concern; the country is ranked 125 in this area, with poor health indicators and high levels of communicable diseases.

Figure V.34 Tanzania GCI Pillars by Rank, 2013-2014



Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Tanzania is facing serious infrastructure challenges, constraining both the local and regional economy. The condition of transport, energy, water and port facilities is still very poor and in urgent need of government action. On the GCI infrastructure pillar, its rank is 124 among 148 countries. Only 24 per cent of the population has access to electricity. On the quality of electricity supply, it ranked 131 among 148 countries. The results of the latest business survey conducted by the Tanzania Private Sector Foundation (released in 2013) confirm that, for the fourth consecutive year, unreliable electricity supply is the top barrier to doing business in Tanzania.

The country has made significant governance advances according to the recent Ibrahim Index of African Governance. The country was ranked 17 out of 52 countries, with a score of 56.9 out of 100, higher than the African average (51.6). It ranked 3 out of 11 in East Africa, with a higher score than the regional average. In addition, the country improved slightly in the East African Bribery Index (EABI) in 2013, coming third after

Uganda and Burundi, after ranking second in 2012. Yet, the fight against corruption remains a significant challenge.

According to the 2012 *Global Financial Inclusion Index* (Global Findex), only 17 per cent of the adult population in Tanzania has access to formal financial services, and about 56 per cent of the adult population is completely excluded from any form of financial services. Its financial sector remains dominated by the banking sector, which accounts for about 74 per cent of financial assets. According to the recent financial sector stability review, the banking sector remains sound, profitable, highly liquid and adequately capitalized. The country's major strength is political stability.

Participation in GVCs remains low, mainly on account of its economic structure. Although continuing to enjoy strong export growth and diversification from traditional markets and products, it remains significantly reliant on primary commodity exports. Nevertheless, manufacturing exports have grown significantly over the past decade, and have been diversified. Tanzania remains a major FDI destination, with mostly 'green field' investments in the extractive and tourism sectors.

Poverty, inequality and human development

Despite the indicated strong economic performance, growth is not sufficiently broad-based and poverty levels still remain high. According to the recent household budget survey results, 28.2 per cent of Tanzanians are poor (below the national poverty line), and the poverty incidence is higher in rural areas (33.0 per cent) than in urban areas (21.7 per cent). The high levels of growth have not translated into fast poverty reduction. This is partly because the agriculture sector, which employs about three quarters of the workforce, contributes only about a quarter of GDP, while growing at less than 5 per cent annually. Inequality in mainland Tanzania declined slightly, with the income Gini coefficient at 0.35 in 2007 and 0.34 in 2011/12, one of the lowest in SADC.

Tanzania continues to make progress in social and human development, as exemplified by improvement in the HDI from 0.354 in 1990 to 0.478 in 2011 and 0.484 in 2012, even though it remains in the low human development category, at 0.488 in 2013³³². When the HDI was adjusted for income inequality, its index slipped down to an IHDI of 0.356, in 2013. It had a GDI of 0.916, a GII of 0.553 in 2013, and a MPI of 0.335 in 2010.

Life expectancy at birth has increased from 51 in the 1990s to 58 in 2011, while under-five mortality rates have declined from 128 per 1 000 live births in 2000 to 68 per 1 000 live births in 2011. A recent demographic and health survey shows that the IMR declined from 68 deaths per 1 000 live births in 2004/05 to 51 in 2009/10. Likewise, the MMR declined significantly to 454 deaths per 100 000 live births in 2010 from 578 deaths per 100 000 live births in 2004/05.

Although progress has been made in improving child survival, malnutrition still remains a serious challenge in Tanzania, manifested by both poverty and food insecurity. Based on the findings of the *2010 Demographic and Health Survey*, stunting declined from 44 per cent in the late 1990s to 42 per cent in 2010, while the proportion of children who were underweight declined from 29 per cent to 16 per cent over the same period.

Gender parity has been achieved in primary schools, and the teacher-to-pupil ratio is estimated at 1:46. Secondary school enrolment has increased by 54 per cent over the past five years, from 1.2 million students in 2008 to about 1.8 million students in 2012. The gross enrolment ratio for secondary school increased from 36.2 per cent in 2008 to 51.4 per cent in 2012, while NER increased from 24.4 per cent in 2008 to 36.2 per cent in 2012. The share of female students in tertiary education has increased from 25 per cent in 2001 to 41 per cent in 2012. However, the increase in enrolment has not been matched with the requisite resources in terms of adequately qualified teachers, learning materials and quality infrastructure, leading to declines in pass rates in recent years.

332 UNDP, Human Development Report, 2014

Tanzania has made progress in dealing with the HIV and AIDS challenge, as indicated by the recent population-based surveys (2010 *Demographic and Health Survey* and the 2011/12 *HIV and Malaria Indicator Survey*), which found that 5.1 per cent of the population aged 15-49 in Tanzania is HIV positive, compared to 5.7 per cent in 2007/08. There has been progress in integrating biomedical HIV prevention services into the health sector. Currently, Prevention of Mother-to-Child Transmission (PMTCT) is offered in more than 65 per cent of health facilities countrywide. Notable achievements have also been recorded in increasing access to antiretroviral therapy for treatment of affected persons. The number of health facilities providing and reporting HIV care and treatment services increased from 1 100 in 2011 to 1 176 in 2012.

With regard to labour, youth unemployment and underemployment remain an area of policy concern. According to the 2006 *Integrated Labour Survey*, at 13.4 per cent the unemployment rate among youth (ages 15-34) was higher than the overall unemployment rate, which was estimated at 11.7 per cent of the total labour force. The challenge continues to escalate, with new entrants in the labour market estimated at between 800 000 and 1 000 000 from schools and colleges each year.

Government efforts, policies and actions

Tanzania has continued to strengthen its fiscal position by embarking on fiscal consolidation measures throughout 2012/13. Its monetary policy aims to support economic growth and maintain price stability. In line with these objectives, the Bank of Tanzania continued to pursue tight monetary policy to anchor inflation expectations in 2012/13. Its financial system remains stable and sound, underscoring several years of successful financial sector reforms. External debt grew to US\$ 13 billion in November 2013, an increase of about 23 per cent over the US\$ 10.6 billion recorded during the same period in the previous year. However, despite this increase in external borrowing, Tanzania's external debt remains sustainable. Borrowing and public debt developments are guided by the 2011 Medium Term Debt Management Strategy.

Progress in energy generation includes the current construction of a US\$ 1.2 billion gas pipeline from Mtwara to Dar es Salaam, as well as the related investments aimed at stabilizing electricity generation in the country. The country has licensed 16 international energy companies to search for oil and gas. Based on discoveries, recoverable natural gas resources are currently estimated to exceed 43 trillion cubic feet. As oil and gas exploration activities continue to attract foreign investments, it is projected that net FDI to Tanzania will rise significantly.

Public sector governance is being reinforced by implementation of the Open Governance Partnership (OGP), reviewing procurement and financial management. The OGP aims to promote transparency and accountability and ensure the institutions' adhere to public reporting mechanisms. Tanzania continues to enjoy political stability and peace.

The country remains an active participant in a number of regional trading agreements and RECs, the most important being EAC and SADC. Considerable progress in promoting participation and accelerating regional integration has been made through tariff reduction in conformity with signed protocols. A particularly noteworthy development in 2012/13 was reduction of the Common External Tariff (CET) on electricity from 10 per cent to 0 per cent, intended to reduce the cost of importing electricity into EAC.

The ongoing reforms in Tanzania, particularly the economic liberalization policies, have reshaped the country's corporate environment, with private players taking over production and distribution while the Government assumes the role of facilitator and regulator. Significant progress has been made in reforming the economy, and creating a favourable environment for the private sector to function. A particularly noteworthy development is the ongoing implementation of the 2013 *Roadmap for Improvement of the Business Environment and Investment*.

The Government has also launched the Big Results Now (BRN) initiative, which seeks to enhance the results delivered in key areas, including energy, transport, agriculture, water, education and resource mobilization. With regards to trade, since 2011 Tanzania has been implementing the Pre-Arrival Declaration (PAD) system

and electronic submission of customs declarations, which has made trading across borders much faster. The ongoing reforms aimed at simplifying starting up businesses and promoting competition, include business registration and licencing reform, tax administration reform, regulatory reforms and financial sector reform.

Under a specific Early Childhood Development (ECD) programme coverage of pre-primary education (children aged 5-6) has increased, with net enrolment reaching 40 per cent in 2012.

Government also launched the Big Results Now (BRN) initiative, which seeks to enhance the results delivered in key areas, including energy, transport, agriculture, water, education and resource mobilization. Implementation of the BRN initiative is in progress and the main goal is to push up the growth rate in order to reduce poverty.

Conclusion

Despite the current relatively high economic growth rate of approximately 7 per cent per annum, rural poverty has remained high at 33.3 per cent, implying that growth has not benefited the poor enough, as it has been concentrated in economic sectors with limited employment opportunities. The key to achieving broad-based growth lies in the transformation of the rural economy largely through significant improvements in agricultural productivity. Also, with increased employment generation in the non-farm sector, as well as youth employment opportunities in urban areas, growth will become more inclusive. Key policy challenges in going forward include:

- Fostering strong inclusive growth through improving productivity in sectors with maximum impact on poverty reduction (agriculture and manufacturing)
- Productive infrastructure investment
- Enhancing the institutional framework to ensure that possible future revenues from the country's wealth of natural resources benefit all citizens, and
- Improving the business climate.

5.3.14 Zambia

Economic growth

Zambia's economic growth of 6.5 per cent in 2013, was largely driven by manufacturing, mining, construction, transport, communications and the public sector. Copper remains the country's mainstay, contributing about 70.0 per cent to export earnings. However, over the last few years non-traditional exports have grown substantially. Inflation has remained largely stable during the past couple of years, between 6 per cent and 7 per cent. Private sector credit growth decreased from 40 per cent to 15 per cent in 2013. Infrastructure investment, especially in mining, power generation and roads, with the Link 8000 project, will ensure that growth remains robust. The main areas of policy focus are creating employment opportunities for the majority of Zambians (especially the youth), improving accountability and strengthening the fight against corruption.

Manufacturing accounted for about one tenth of GDP in 2013. The country is landlocked and is constrained by high costs of transport, which add up to 40 per cent of the cost of the final product. The extractive industry is the main exporter in the country and has potential for upstream value chain development. Competitiveness of downstream activities may be constrained given the distance from the main markets for copper products. Food and beverages account for more than two thirds of manufacturing value added.

A growing market in Katanga province in the south of DRC, fuelled by mining activity, offers opportunities for Zambian firms and farmers. Another potential consumer market is South Kivu, also in the DRC, which is

accessible from Mpulungu Port on Lake Tanganyika. The rapidly expanding mobile communications services sub-sector is also expected to continue to lead growth in the communications industry. The public sector saw strong performance in 2013, with education and public administration expanding. The downside risks to growth include waning global copper demand and adverse effects on agricultural production.

During the past decade, manufacturing has consistently performed well. The expansion has been driven by strong performance in agribusiness, such as food processing, tobacco and beverages, as well as a growing need for materials to support activities in the construction industry (see appendix table A5.2). In 2013, growth in manufacturing slowed slightly, mainly due to sluggish growth in agribusiness. The late delivery of maize and other seed and fertilizer to affected areas that needed replanting contributed to contraction in maize output by 11.0 per cent and cotton production by 48.0 per cent. Agriculture is still the most important sector from a socioeconomic point of view, providing employment opportunities for 60.0 per cent of the country's 4.9 million population employed in the non-formal sector and 8.0 per cent of the 625 000 formally employed.

Though growth in mining slowed down in 2011 and 2012, the sector (especially copper) has continued to grow. It is the single most important recipient of large FDI and accounts for about 10 per cent of the formally employed. There is agreement that copper output expanded in 2013 and the main challenge for the mining industry is to obtain reliable and sufficient power supply as this affects copper production in the future. The mining sector consumes more than 50 per cent of power supply. Current value chains already well-established include copper, beef and sugar; other chains that have potential for growth include gemstones and cotton.

Zambia's financial sector is among the fastest growing in the economy, exceeding 12 per cent in 2013. The sector accounts for about 7 per cent of GDP. The pace of credit growth in Zambia has exceeded the threshold at which there is a higher risk of stress in the banking system (15 per cent). Financial sector growth is still expected to remain robust in the medium term, although the sector is still characterized by low financial intermediation, with limited access to financial services for the rural population and low-to-middle income earners, high costs of funds and an undeveloped money and capital market.

As earlier noted in chapter III, the current situation where services and industry contribution to GDP are higher than agriculture contribution reflects a desirable economic structure. However Zambia's ATI of 24 per cent in 2010 reflects low economic transformation³³³. The overall external position weakened in 2013 largely due to fast-rising imports against moderate gains from exports. As a result, the current account weakened in 2013 but maintained a surplus of 0.2 per cent of GDP, compared to a 2.1 per cent surplus in 2012. International reserves fell during 2013 to 2.8 months of imports cover (the Government's target is three months). This was equivalent to US\$ 2.7 billion.

Although Zambia's publicly guaranteed external debt increased in 2013, the risk of debt distress remains low. The most recent data on public debt indicate that total domestic and external publicly guaranteed debt for 2013 was 34.1 per cent of GDP. External public debt was estimated at 16.5 per cent of GDP, which is within the international threshold of 40.0 per cent of GDP set to ensure debt sustainability. Furthermore, according to conclusions from the IMF *Debt Sustainability Analysis* of 2013, debt dynamics are sustainable given the current volume of debts and the evolution of the domestic debt stock. The debt service to exports ratio is 5.0 per cent against a threshold of 20.0 per cent.

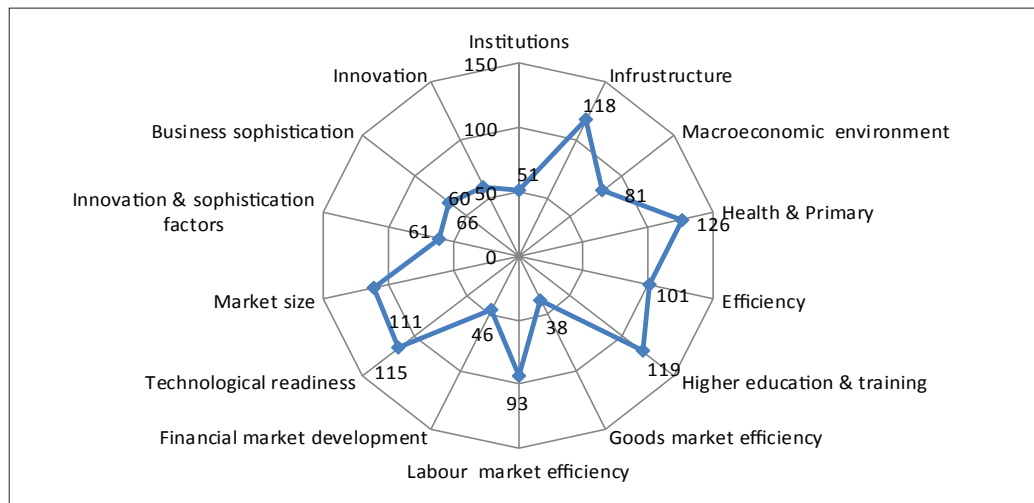
According to the World Bank report *Doing Business 2014*, Zambia's overall business environment showed improvement in 2013, moving up seven places in the global ranking to 83 (it was ranked 7 in Africa). Within Southern Africa, only Botswana and South Africa are doing better than Zambia. Improvements were recorded in starting a business, resolving insolvency issues and obtaining credit. The threshold required for a business to register for value added tax increased to ZMW 800 000 from ZMW 200 000 last year.

333 African Centre for Economic Transformation (ACET), African Transformation Report: Growth with Depth, 2014, Accra, Ghana.

Under the 2013/14 CGI, the country joined the top 100, ranking 93 out of 148 countries, and became number six in the top-ranked countries in SADC. Among its strengths are its relatively reliable institutions and efficient goods and financial markets (see figure V.35). However, the country's infrastructure is rated as poor. Zambia needs to improve on its social sector as health and education are ranked poor. Similarly, the country has to improve technology infrastructure to lay a basis for business competitiveness.

Zambia's rating on the Ibrahim Index of African Governance (IIAG) has remained favourable. It was ranked 12 in Africa for two consecutive years. Following elections in 2011, which were won by the opposition Patriotic Front (PF) party, the country saw its second peaceful transfer of power in its democratic history. The political landscape in Zambia continues to develop and mature.

Figure V.35 Zambia GCI Pillars by Rank, 2013-2014



Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

With little value addition, the country remains an exporter of unprocessed primary products. The agriculture sector can be harnessed to become the leading sector for economic transformation and employment creation. Over the past few years, agribusiness has demonstrated consistent growth, particularly in livestock production, providing linkages to the dairy, beef and leather industries. Copper mining is already creating higher value through smelting and refining copper into cathodes for exports. The Chambishi multi-facility economic zone in the Copperbelt is an example of this. Gemstone mining is another area with potential for integration into the GVC. In an attempt to realize this potential, the country has made it mandatory that all locally extracted gemstones be auctioned in the country in order to stimulate beneficiation as well as local market development.

The Zambia Export Growers Association assists farmers who grow vegetables and flowers, exporting their products to Europe. Farmers lump their products together through storage facilities provided by the association, which later handles transport and marketing of their products to Europe and other markets. Out-grower schemes help small-scale farmers gain access to markets, while there is technological transfer from large-scale farmers. Zambia Sugar is one such company which obtains 30 per cent of its throughput from larger private growers, while 10 per cent is from small-scale farmers. In turn, small-scale growers receive training, extension services and benefit from technological transfer. Other examples are honey production and beef and milk production.

Poverty, inequality and human development

Despite the country achieving consistently high levels of economic growth during the past decade, equitable distribution of growth and catch-up growth have not been sufficient, and poverty remains high and widespread. Available national poverty data for 2010 indicate that 61 per cent of the Zambian population are poor. Half the

population were living in extreme poverty in 2006, but this number decreased to around 42 per cent in 2010. The data also indicate that poverty still remains predominantly geographically defined, with extreme poverty in rural areas close to 58 per cent, compared to 13 per cent in urban areas.

Zambia is in the medium human development and ranked 141 out of 187 countries, in 2013³³⁴. Its HDI was 0.561 in 2013. It had an income Gini coefficient of 0.55 in 2010. When the HDI was adjusted for income inequality, Zambia's index slipped down to an IHDI of 0.365 in 2013. It had a GDI of 0.913, a GII of 0.617 in 2013, and an MPI of 0.318 in 2007. It has continued to record progress in education indicators, as evidenced by a near universal primary NER of 96 per cent in 2011.

This is attributed to increased school construction, and the re-entry policies, especially for pregnant young girls. Government policies on basic education have prioritized access and enrolment, resulting in an increase in the primary school completion rate to 103 per cent in 2011. Enrolment in secondary schools has remained stagnant at only 23 per cent in 2011, while the completion rate stood at about 27 per cent. Quality of education is still a major challenge in both primary and secondary education with a primary school pupil-teacher ratio of 49.

The Government took steps last year to reform the education system back to the old system, with primary running from grades 1-7, lower secondary from 8-9 and upper secondary from 10-12. This was not well received by the public. Another reform being piloted is the use of teaching in local languages from pre-school to grade 4. Teachers unions have welcomed the move, while private-school parents are concerned about how this will affect quality. Considerable advancements have been made in achieving gender parity in primary school NERs, but gender inequalities in school attendance persist. The inequalities increase at secondary and tertiary levels of education.

Although slowly declining, the IMR and under-five mortality remain very high at 76 and 138 deaths per 1 000 live births, respectively. Child and maternal mortality are marked by spatial inequalities. High child and maternal mortality are in themselves symptoms of an unequal society in which children and women bear a disproportionately greater health burden. The coverage of measles immunization of one-year olds has improved to 94.0 per cent in 2010 from 84.9 per cent in 2007.

Although the country has achieved its national target of 15.6 per cent HIV prevalence, rates, particularly in the urban areas of the country and among the educated, remain above the national prevalence rate. Additionally, new infection rates remain high, especially among the youth.

Coverage of social protection schemes is still very low in terms of the number of actual recipients. A 2013 World Bank report states that coverage of the extremely poor is between 1 and 2 per cent.

Government efforts, policies and actions

In agriculture, slow delivery of inputs continues to pose a challenge in most areas. During 2013, the Government took steps to reduce the subsidy to grain millers, as well as farmers' input-support subsidies, which affected more than 800 000 small-scale farmers.

During the past seven years, Zambia has been pursuing a policy of increased industrialization through the promotion of industrial parks and multi-facility economic zones (MFEZs), inspired by the Chinese experience. Currently, six MFEZs are on the drawing board, with the aim of creating clusters of companies operating within the same industry. Two MFEZs have been developed and are already operational. Four others are still at early development stages. The parks are located in the Copperbelt, North-Western and Lusaka regions. The Chambishi MFEZ in the Copperbelt is focused mainly on the copper supply chain and houses both heavy and light industries, including copper smelting, manufacture of copper wire and cables, household appliances such

334 UNDP, Human Development Report, 2014

as stoves, motor parts and agro-processing. More than 10 enterprises have been established, creating over 3 500 jobs.

MFEZ development has been sluggish due to poor road infrastructure and unreliable and undeveloped power and water supply. By creating a critical mass of different service providers and operators, the expectation is that industrial development can move to higher levels while creating jobs and allowing Zambia to participate increasingly in GVCs.

In 2013, the Government pursued a more expansionary fiscal policy than was initially announced in the budget. This expansion was induced by increased expenditures to support construction of new roads, operations of the Food Reserve Agency, the provision of the farmer input-support programme, unplanned fuel payments and increases in civil servant wages. Road construction is being carried out under the Link 8000 programme aimed at constructing 1 500 km of roads in the first phase. The project is to be implemented over the next five years. Other programmes include Pave 2000 for pedestrian paths and Lusaka 400 for the rehabilitation of Lusaka roads.

The budgetary allocation for agriculture was largely influenced by the need to enhance national food security. Accordingly, ZMW 1.0 billion was spent on the farmer input-support programme, representing an increase of 22 per cent from 2012. A total of ZMW 1.1 billion was spent on the strategic food reserve in order to maintain 500 000 tonnes maize in reserve. As part of ongoing reforms aimed at increasing transparency in the maize marketing system, all food reserve agency operations will be funded directly from the budget in 2014.

Throughout 2013, the Central Bank of Zambia (BoZ) pursued a tight monetary policy, increasing the policy rate to curb inflation. Growth in private sector credit was adversely affected by a cap on interest rates for commercial banks and non-bank financial institutions, coupled with a rise in returns on government securities. The upward adjustments in bank capitalization which were implemented in 2013 have not contributed to increased lending. From 2014, capital requirements for local and foreign-owned banks will be US\$ 20 million and US\$ 100 million, respectively. Out of the 19 registered banks, 14 have met the new capital thresholds.

BoZ also enacted new regulations to improve the monitoring and flow of foreign exchange to help curb tax evasion, money laundering and other unlawful transactions. The new regulation, dubbed monitoring of balance of payments, drew sharp criticism from the private sector and Zambia's other stakeholders, for introducing additional costs on foreign exchange transactions.

In addition to earlier reforms, the option of registering a company online has facilitated ease of starting companies. This ranks Zambia at 45 globally, a substantial jump relative to the 2013 report and among the highest-ranking in SADC. The number of businesses registered in 2013 was 27 000 compared to 15 130 registered in 2012. Zambia has also revised the 1995 Mineral Resources Development Policy. The policy is meant to strengthen capture of mining revenue while facilitating transparency and accountability in the sector through closer monitoring of mineral exports. It is also meant to promote mining diversification by exploiting the huge potential of non-traditional minerals. In order to reduce capital flight and stimulate beneficiation, all emeralds and gemstones extracted locally have to be auctioned in the country. Three successful auctions were held in 2013 amounting to US\$ 63.1 million.

The Government launched the Public Financial Management Reform Strategy for the period 2013 to 2015. Reforms to improve tax administration have also been initiated in the Zambia Revenue Authority, which has strengthened its ICT capacity in 2013, enabling it to launch an online tax administration system. There are plans to expand the coverage of the Social Cash Transfer Scheme (SCTS). Other important schemes are the Public Welfare Assistance Scheme, the Food Security Pack, the School Feeding Programme and the Tertiary Bursary Scheme. Additionally, the Government supports tuition exemption up to grade 7 and free primary health care for the poorest people.

Conclusion

Industrial policy needs to address integration of the rural sector into the rest of the economy. This can be done by advancing agro-industry value addition and the supply of goods and materials, which enhances the competitiveness of domestic enterprises. Zambia faces a number of challenges for effective participation in GVCs. First, its landlocked position substantially increases the cost of long-haul transport by up to 40 per cent of the final product value. There is also urgent need to improve trans-boundary corridors and border administration to reduce delays.

Deepening regional integration could offer the potential to tackle some of these challenges by providing access to regional and global markets. In industry, improved access to qualified local labour has to be addressed, with the right skills mix needed to operate machinery that is more automated and complex than ever.

Accelerating poverty reduction will require large-scale and continuous investments in agriculture, which is the mainstay of the rural economy. More investments in infrastructure such as roads will connect rural-producing areas to urban markets, thereby improving economic integration between the two poles. The agricultural reforms of the farmer input-support programme and the Food Reserve Agency should be designed to provide more benefits to the rural poor.

Access to reliable and stable electricity is critical in ensuring constant food production flows to reduce production wastage, particularly for perishables. Access to good quality water for production, and efficient wastewater treatment is also required. More still needs to be done to further reduce child and maternal mortality. This includes promoting breast feeding, improving nutrition and knowledge of nutrition, and ensuring full immunization coverage against preventable communicable diseases.

5.3.15 Zimbabwe

Economic growth

While economic growth in Zimbabwe has been on an upward trend since 2009, it has significantly slowed and remains fragile. Growth declined from 10.6 per cent in 2011 to 4.4 per cent in 2012. It is estimated to have decelerated to 3.7 per cent in 2013. Real GDP growth is underpinned by developments in key sectors, such as mining and agriculture. This reflects a continued slowdown in the economy as a result of limited sources of capital, policy uncertainty, the high cost of doing business, and structural rigidities.

In 2013, inflation averaged about 4.1 per cent and continues to come down, amidst fears that the economy is fast sliding into a deflationary mode. Persistent liquidity shortages combined with low effective demand and a weak South African rand are dampening inflationary pressures in the economy. The country remains hamstrung by a high external debt overhang, which has affected its ability to unlock fresh investments and capital.

Zimbabwe is experiencing a structural regression, with accelerated de-industrialization and informalization of the economy. On an annual basis, the share of the manufacturing sector in GDP peaked at 26.9 per cent in 1992 before collapsing to 7.2 per cent by 2002. The Confederation of Zimbabwe Industries (CZI) *Manufacturing Sector Surveys* suggest that industrial capacity utilization declined sharply from 35.8 per cent in 2005 to 18.9 per cent by 2007 and to less than 10.0 per cent by 2008. It increased to 33.0 per cent in 2009, 43.7 per cent in 2010 and 57.2 per cent in 2011, before declining again to 44.2 per cent in 2012 and 39.6 per cent in 2013. See appendix table 5.2. In 2004, 80 per cent of jobs in Zimbabwe were in the non-formal sector, with the 2011 *Labour Force Survey* suggesting the rate had further increased to 84 per cent.

The mining sector has become the leading exporter. Strong external demand for primary commodities, particularly platinum and gold, underpinned higher production levels. Real growth in the manufacturing sector

has been slowing since 2011, with the sector registering 14.4 per cent growth in 2011, 2.3 per cent in 2012 and an estimated 1.5 per cent in 2013. A number of companies have been placed under judicial management while many others are closing down. Capacity utilization remains constrained by erratic power supply, lack of capital, higher input costs, obsolete machinery and infrastructure deficiencies. Consequently, Zimbabwe's manufactured products have failed to compete both locally and internationally.

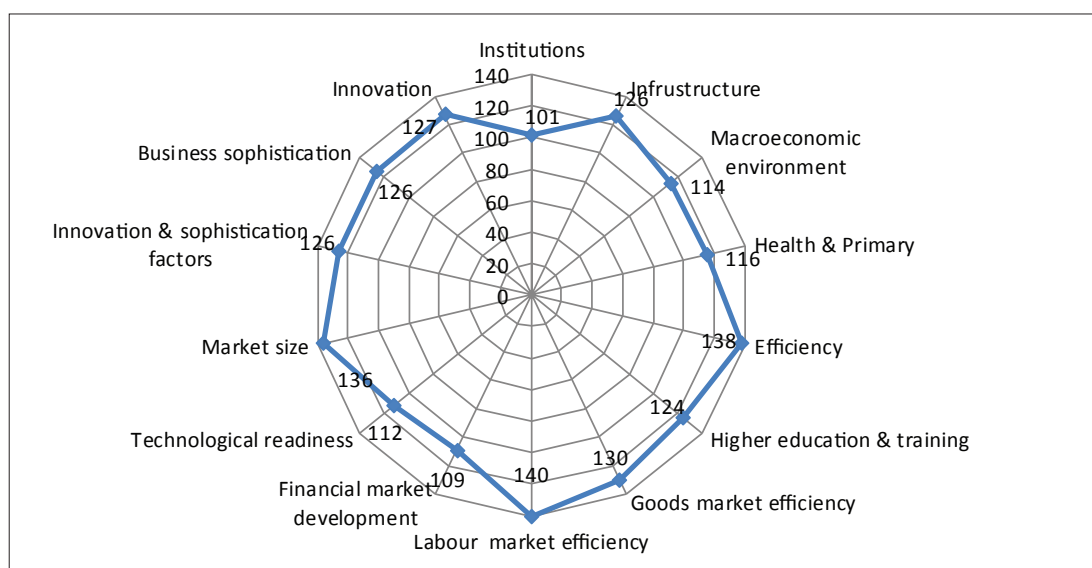
The financial sector continues to experience structural vulnerabilities arising from the lack of confidence of depositors, liquidity constraints, rising non-performing and insider loans, high lending rates and low deposit rates, the absence of an active inter-bank market and the lack of an effective lender of last resort. As at 31 December 2013, total banking sector deposits amounted to US\$ 4.7 billion. The bulk of deposits are on-demand basis, affecting the ability of banks to provide long-term funding. Moreover, lending has been skewed in favour of consumption as opposed to production. As earlier noted in chapter III, the structure of the Zimbabwean economy has remained the same since colonization, with regard to the contributions of agriculture, industry and services, evidence of serious structural rigidities. This reflects an undesirable economic structure.

Starting a business in Zimbabwe remains a cumbersome, costly and time-consuming exercise. In the World Bank report, *Ease of Doing Business 2014*, Zimbabwe was ranked 170 out of 189 in 2014 economies. In 2013, starting a business required nine procedures and took 90 days. Zimbabwe is ranked 131 out of 148 countries in the World Economic Forum's *Global Competitiveness Report 2013/14* rankings, slightly up from 132 out of 144 countries in 2012/13.

Public institutions continue to receive a weak assessment, although overall the assessment of this area has improved somewhat in recent years. Yet, major concerns remain with regard to the protection of property rights, since Zimbabwe is among the lowest-ranked countries, reducing the incentive for businesses to invest (see figure V.36).

Despite efforts to improve its macroeconomic environment, including the dollarization of its economy in early 2009 which brought down inflation and interest rates, Zimbabwe still receives a low rank in this area, demonstrating the extent of efforts still needed to ensure its macroeconomic stability. Weaknesses in other areas include health, and formal markets that continue to function with difficulty.

Figure V.36 Zimbabwe GCI Pillars by Rank, 2013-2014



Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

In the 2013 Ibrahim Index of African Governance, Zimbabwe is ranked 47 out of 52 countries (as in 2012), putting it in the same category as such politically unstable countries as Somalia, Equatorial Guinea and Chad. The high cost of doing business remains a major deterrent to foreign investment.

The country's external sector position remains precarious, with both the trade and current account balances projected to remain negative in the short to medium term. This is due to rising imports against a backdrop of low export receipts. Import growth continues to be mainly dominated by fuel, chemicals, machinery and manufactured goods. As the manufacturing sector continues to struggle, domestic demand for consumption goods is being met by increased imports. FDI increased from US\$ 387 million in 2011 to \$ 400 million in 2012.

The Zimbabwe Investment Authority (ZIA) approved investments worth \$685.8 million in 2013, down from \$909 million the previous year, according to latest ZIA statistics. China is the investor in more than 50 per cent of the proposed projects. The harmonized elections held on 31 July 2013 were associated with increased uncertainty in the future of the economy. Consequently, there was a huge capital outflow in the last half of 2013.

The country has ratified an interim Economic Partnership Agreement (EPA) with the European Union. South Africa is Zimbabwe's single largest trading partner, accounting for at least 40 per cent of total exports and 60 per cent of total imports. The European Union is the country's second biggest trading partner, followed by China, accounting for about 7 per cent of Zimbabwe's total exports.

Currently there is integration in GVCs for agriculture (tobacco, sugar, cotton and horticulture), mining (diamonds, gold, and platinum), and manufacturing (food and beverages, clothing and textiles, wood and timber, fertilizers, and chemicals and pharmaceuticals). Zimbabwe also has some of the largest deposits of diamonds, gold and platinum in the world. The GVC of the diamond industry includes exploration, mining, sorting, polishing, dealing, jewellery manufacturing and ultimately retail. Zimbabwe is able to conduct the first three stages but must now focus on achieving the other four.

It is currently the largest cotton-producing country in Eastern and Southern Africa. There is limited value addition in the industry, with spinning capacity currently at less than 30 per cent of the total lint available, with most of the equipment now old and even obsolete. Sugar cane is another important agricultural export crop in Zimbabwe, along with cotton and tobacco. The sugar sub-sector is concentrated and dominated by two companies³³⁵. Around 65 per cent of the sugar is produced for the domestic market, and the remainder is exported to Southern Africa, the European Union and the United States.

Following completion of the validation and reconciliation exercise, total external public and publicly guaranteed debt (excluding reserve bank and private sector external debt) stood at US\$ 6.1 billion (49 per cent of GDP) as of 31 December 2012. The stock of accumulated arrears accounted for \$4.7 billion, which represents 78 per cent of total debt stock³³⁶.

Poverty, inequality and human development

The proportion of the population living below the Total Consumption Poverty Line (TCPL) remained relatively high and stable at 76 per cent in 1995, 71 per cent in 2001 and 73 per cent in 2011/12³³⁷. Extreme consumption poverty slightly more than halved from 47 per cent of the population falling below the Food Poverty Line (FPL)

335 Triangle Estate is the biggest sugar estate in Zimbabwe, with an annual crushing capacity of 2.5 million tonnes of cane. It can produce up to 300 000 tonnes of raw sugar. Hippo Valley is the second largest sugar operation and has a mill of almost the same capacity as Triangle.

336 Total multilateral debt stock was US\$ 2.5 billion (41 per cent of total debt) as of 31 December 2012, of which arrears came to US\$ 2.0 billion. This amount is broken down as follows: World Bank, \$1.4 billion; AfDB, \$632 million; European Investment Bank, \$302 million; IMF, \$125 million; and other multilateral creditors, \$117 million (2014 national budget statement).

337 Zimbabwe Poverty, Income, Consumption and Expenditure Survey (PICES), 2011/12.

in 1995, to 42 per cent in 2001, and to 23 per cent in 2011/12. General poverty levels have remained high, because consumption poverty is largely structurally determined.

Zimbabwe also ranked low in human development, at 156 out of 187 countries in 2013. Its HDI was 0.492 in 2013³³⁸. Although declining, income inequality as measured by the income Gini coefficient, remained high, decreasing from 0.50 in 1995, to 0.49 in 2001, to 0.42 in 2011/12. When the HDI was adjusted for income inequality, its index slipped down to an IHDI of 0.358 in 2013. The country had a GDI of 0.909, a GII of 0.516 in 2013, and an MPI of 0.181 in 2010/11, some of the lowest rankings in SADC.

However, Zimbabwe's literacy rate remains high, one of the highest in Africa at 96 per cent of the population aged 15 years and above in 2012. In 2011/12, it had a high primary net enrolment ratio (PNER) of 90 per cent, with no variation by sex and place of residence (rural and urban). It also had a secondary (forms 1-4) net enrolment ratio (SNER), of 49 per cent in 2011/12, with females having a higher ratio (54 per cent) than males (45 per cent). With the support of the Education Transition Funds (ETFs), Zimbabwe achieved a 1:1 book ratio in primary and secondary school selected priority subjects.

Life expectancy at birth remains low at 58 years in 2012, due to the impact of HIV and AIDS, according to the National Population Census. According to the *Demographic and Health Surveys*, life expectancy fell from 63 years in 1988 to 43 years in 2005/06. Under-five mortality has remained high at 84 deaths per 1 000 births in 2010/11. Maternal mortality, remains extremely high having increased from 395 deaths per 100 000 live births in 1992, to 525 deaths per 100 000 live births in 2012, according to the National Population Census.

HIV prevalence, although declining continues to be unacceptably high at 15 per cent among adults 15-49 years of age, in 2010/11, down from an estimated 33.7 per cent in 2001, the first such decline in Southern Africa³³⁹. By mid-2009, 45 per cent of the estimated 400 000 adult persons requiring treatment were receiving ART and 85 per cent of these were receiving ART by 2011. Zimbabwe continues to face persistent levels of chronic malnutrition which are exacerbated by recurring food insecurity and widespread poverty. According to the *Zimbabwe Demographic Health Survey (ZDHS)*, 2010/11, 32 per cent of the children under-five were stunted, with 11 per cent being severely stunted.

Access to improved toilet facilities that are not shared with other households is very low in Zimbabwe, at 37 per cent of the population (50 per cent for urban areas; 32 per cent for rural areas). In 2010/11, nationally, 28 per cent of the population had no toilet facility, (40 per cent for rural areas; 2 per cent for urban areas). In 2010/11, 77 per cent of the population had access to an improved water source (95 per cent for urban areas, 69 per cent for rural areas).

Government efforts, policies and actions

The poor performance of domestic revenue inflows and the rise in recurrent expenditures continue to constrain fiscal space, while the continued use of the multi-currency regime will result in largely unchanged monetary policy. In 2013, the Government unveiled the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimAsset, 2013-18). ZimAsset has a number of positive elements, such as the adoption of results-based management and a clear implementation matrix. As part of its measures to finance the implementation of ZimAsset by leveraging mineral resources, the Cabinet approved the Zimbabwe Sovereign Wealth Fund Bill in November 2013³⁴⁰.

338 UNDP, Human Development Report, 2014

339 The decline was partly attributed to successful implementation of prevention strategies (i.e. significant changes in sexual behaviour) and high mortality due to low antiretroviral therapy (ART) coverage of less than 5 per cent between 1999 and 2006.

340 It was gazetted in January 2014 and now awaits parliamentary debate. The Government plans to allocate a quarter of the royalties levied on companies mining gold, diamonds, coal, coal-bed methane gas, nickel, chrome, platinum and such other mineral that may be specified, to the Fund.

The country has not fully engaged with international development partners, leading to low capital inflows. In light of the constrained fiscal space resulting from the multi-currency regime and the public debt overhang, the Government has been forced to adopt a contractionary fiscal policy regime. Increases in spending related to the March 2013 constitutional referendum, the July 2013 harmonized elections and the hosting of the United Nations World Tourism Organization (UNWTO) in August 2013, also added pressure on government spending. The bulk of expenditures are current, effectively crowding out capital expenditures essential for medium- and long-term recovery and growth.

In its first monetary policy statement for 2014, the Reserve Bank of Zimbabwe (RBZ) announced that the Chinese Yuan *renminbi*, Japanese yen, Indian rupee and Australian dollar would be accepted as legal tender alongside the US dollar, South African rand, Botswana pula and British pound. An increase in trade and investment between Zimbabwe and Asia spurred this move, which is expected to reduce costs and boost trade between the partners.

The 2014 National Budget proposed the introduction of a US\$ 100 million facility to revive the interbank market, with effect from 1 April 2014. The directive by the Government to cancel the debts of local authorities and those of the Zimbabwe Electricity Supply Authority left the banking sector heavily exposed.

The Microfinance Act, which provides for the registration, supervision and regulation of microfinance businesses in Zimbabwe, as well as amendments to the Money Lending and Rates of Interest Act, and to the Banking Act, were gazetted on 30 August 2013. Although it has been said that the multi-currency regime will remain in place until 2018, there are fears that the deteriorating liquidity situation may force the Government to revert back to the Zimbabwe dollar.

In order to strengthen debt management, the Zimbabwe Aid and Debt Management Office (ZADMO) was established within the Ministry of Finance in December 2010. The Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADDS) has been adopted. ZAADDS is aimed at accelerating re-engagement with creditors, including IFIs. In June 2013, the Government adopted the IMF Staff Monitored Programme (SMP). In January 2014, the IMF approved a six-month extension of the SMP at the request of the Government.

Land redistribution in Zimbabwe was endorsed in the new Constitution, including compensation mechanisms. Although the right to property is guaranteed and protected, it, as in many countries of the world, can be revoked when the public interest is at stake. Instances that can see someone lose his or her right to property include settlement, land reorganization and redressing the unjust and unfair pattern of land ownership that was brought about by colonialism.

Following the elections, the Government has toned down its hard-line stance on indigenization to move more in the direction of broad-based economic empowerment. According to the law, there are 13 economic sectors earmarked for indigenization, including mining, manufacturing, construction, tourism, finance, transport, communications and energy. The retail sector is reserved 100 per cent for the indigenous population.

The budget preparation process has been broadened to ensure the participation of a number of key stakeholders, in order to have a process that is credible and inclusive. Although the Public Finance Management Act (PFMA) gives Parliament more scope to monitor budget performance, the country still has no regulations to enforce this. Wage and benefit levels are generally inadequate, which affects morale. The government wage bill is unsustainable and crowds out spending required for public services. It remains of concern that diamond revenue has not made any meaningful contribution to financial transformation, despite increasing production levels.

In the 2014 National Budget, health was allocated US\$ 337 million, accounting for 8.2 per cent of the total budget. This is less than the 9.9 per cent allocated in 2013. Zimbabwe is a signatory to the April 2001 Abuja Declaration, by which African countries agreed to commit 15.0 per cent of their national budgets to health. The

African Union Member States meeting in Abuja, Nigeria, pledged to increase government funding for health and urged donor countries to scale up support.

The Zimbabwe Multi-Donor Trust Fund (ZimFund) is financing implementation of the US\$ 29.65 million *Urgent Water Supply and Sanitation Rehabilitation Project (UWSSRP)*. Other key partnerships with the United Nations and donors in the form of multi-donor trust funds, include: the Education Transition Fund (ETF) I, 2009-2010 and ETF II, 2011-2015; the Health Transition Fund (HTF), 2011-2015; and the World Bank Multi-Donor Trust Fund for Health Results Innovation (MDTF for HRI), 2011-2013 and 2013 onwards.

The key Government interventions in social protection for the period 2013-15 are underpinned by the National Action Plan for Orphans and Vulnerable Children Phase II (NAP II), 2011-2015, including the Basic Education Assistance Module (BEAM); and the Social Transfer Policy Framework (STPF), 2011. Other social protection programmes include: the Food Deficit Mitigation Strategy; Assisted Medical Treatment Orders; Agricultural Inputs Support Programme (AISP)/Vulnerable Households Input Support; and Livelihoods Support Programmes implemented by NGOs, among others.

Conclusion

Zimbabwe's economy remains fragile, with an unsustainably high external debt, liquidity and power challenges and massive de-industrialization and informalization. The Government needs to build capacity and support private sector participation, especially in SMEs. It also needs to develop an institutional framework for public-private partnerships, in particular, to develop world-class infrastructure.

Much remains to be done in Zimbabwe to improve the business environment. The development potential of the mining sector can be maximized through building resource linkages with the rest of the economy. This includes revenue linkages, backward linkages (supply chains), forward linkages (value addition/beneficiation) and knowledge and spatial linkages to create new industries associated with mining.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

- 1. Southern Africa has one of the highest levels of inequality in the world.** The inequalities span across several spheres, namely, economic, social and political and manifest themselves at several levels as follows: at subregional and regional level among countries; spatially, for rural and urban areas and among areas within each country; racially, between Whites and Blacks and other races; gender-wise, between females and males; age-wise, between youths, adults and the elderly; among others. Economic inequalities include: growth; access and ownership of natural resources such as land and minerals; and income and employment inequalities. Social inequalities include: poverty levels; food insecurity; HIV and AIDS-related inequalities; child, maternal, and general health; education, particularly at secondary and tertiary levels; water and sanitation; human exclusion; among others. HIV and AIDS underlie the high maternal and child mortalities in the region. Political inequalities include gender representation in parliament, where women are usually underrepresented.
- 2. The high levels of inequalities in Southern Africa are largely explained by the underlying historical colonial template characterized by enclavity, grafted capitalism, and dualism, all of which dispossessed the majority indigenous populations of their basic means of survival.** This colonial template also underlies the recurring civil unrest and wars undermining peace and security, as well as sustainable development efforts in Southern Africa today. Furthermore, the litany of externally driven development strategies, including the pervasive market-based, neo-liberal structural adjustment SAPs and their inherent 'trickle down' assumption in economic growth and the 'willing-buyer, willing-seller' assumption in land redistribution, did not deliver as expected. Instead, these programmes persistently derailed the Southern African development agenda meant to correct these past injustices.
- 3. Southern Africa is characterized by growth without economic transformation.** Although Southern Africa has achieved commendable economic growth rates, it is of concern that this growth lacks the economic transformation necessary for launching the SADC economies into dynamic, broad-based sustainable growth and development. Diversification and beneficiation and value addition remain critical components of economic transformation.
- 4. Addressing inequality is central to fighting poverty.** Policymakers do not have to choose between 'pro-growth' and 'pro-poor' policies. The two outcomes overlap, because most policies that increase growth also reduce poverty, and many policies that are effective for reducing poverty also increase growth. There is therefore, no inevitable trade-off between equity and efficiency. On the contrary, growth and better distribution are complementary, rather than competing objectives in the fight against poverty. More equal distribution of income and assets fosters growth, whereas high inequality retards it.
- 5. Some prominent case studies of policies and programmes in Southern Africa include the following:** Mauritius and South Africa, on economic transformation including diversification of production and exports; Zimbabwe on the radical *Fast Track Land Reform Programme (FTLRP)* which transferred agricultural land back to the majority Black population; Botswana on setting up a lucrative *Pula Fund (Sovereign Wealth Fund)* from diamond revenues; the Zimbabwe *Indigenization and Economic Empowerment (IEE) Programme* which is transferring minerals back to the majority Black population; and last but not least, Zimbabwe's '*Green Revolution*' of the 1980s which successfully supported smallholder farmers to ensure food security, even under the minimal land redistribution at the time.

Even though SADC countries have high inequality, jobless growth and poverty, among other challenges, there are windows of hope in the form of national and regional measures that countries have taken that have gone a long way towards the addressing some of these major challenges. Some practices can be replicated were possible, bearing in mind the possible costs of constructing a new development template in Southern Africa.

6.2 Recommendations

On addressing injustices of colonial and apartheid past, countries of Southern Africa should:

- Address the legacy of the past in a systematic manner, supported by social and economic policies that raise human and productive capacity levels, encourage entrepreneurship and empowerment, and promote domestic and international investments, and
- Tackle racial, ethnic, gender, age and geographical-based inequality through active and systematic inclusiveness in policymaking and implementation, equity in resource distribution, and a merit system that factors in affirmative action for past discrimination.

On making economic growth broad-based and more inclusive and sustainable, countries of Southern Africa should:

- Structurally transform their economies through diversification, value addition and broad-based and inclusive growth in the agro-allied, natural resources and other economic sectors. Transformation is important for these countries to outgrow poverty and inequality.
- Recalibrate the structure of economies through public and private investments in value added activities that support labour-intensive sectors, including tourism, agribusiness, and manufacturing, to ensure decent employment creation for all, particularly for the youth and women. In this regard, more efforts should be expended on the implementation of regional protocols and national policies such as the continental Comprehensive Africa Agriculture Development Programme (CAADP), in so far as investment in agriculture is concerned.
- Although the redistribution of land is a prerequisite for meaningful reform, it is not necessarily a sufficient condition for sustainable human development. There is need for *comprehensive agrarian reform* to ensure that agricultural development becomes viable and contributes to food security and broader sustainable human development. The State will need to play a more proactive and pivotal role in such a process, including intervention in markets for credit, inputs and crops. There is also a massive need for investment in irrigation support, inputs, training and extension services; in a network of rural markets and distribution centres; and in transport and communication infrastructure. Such programmes need support at both the regional and national levels, paying particular attention to rural smallholder farmers, the majority of whom are women and the youth.
- Notwithstanding the actual and potential backlash from external forces, ensure that mineral resource beneficiation gains traction. To realize this, there is need for human skills upgrading, formulation and implementation of requisite regulations, and strengthening of institutions to create the right conditions for local processing of raw mineral resources and other natural resources.
- Work as a collective (including trade unions, private sector and civil society) to take the interests of the country as a whole into account, in terms of job creation, citizen empowerment, for closing of inequality gaps and accelerated poverty reduction. Accordingly, protection of those employed should be balanced against the need to create more job opportunities for the unemployed, especially the youth.

- Ensure that citizens in remote areas are part of development efforts, including ensuring that the rolling out of social and economic infrastructure reaches these areas.
- Ensure optimal operation of SADC economies as broad-based and inclusive development entities. Women should be an integral part of all development efforts as economic assets and not just as a vulnerable group to be thrown into safety nets, and
- Ensure that NGOs reach out to all parts of each country to take into account the needs of those at the lowest rung of the economic ladder, to ensure that their voice is heard in social and economic policies as well as in the allocation of benefits from national resources.

On recalibrating social and economic policies, Governments of Southern Africa countries should:

- Encourage academia and indigenous think tanks to generate regionally and nationally relevant research to feed into policymaking, avoiding the dangers of being '*structurally adjusted*' in the fierce global war for ideological supremacy. In this regard, the education system should be tailored to meet local industry needs and should ensure congruency with the long-term regional integration agenda. There should be continuous exchange and interaction between academia and the policy community.
- Put in place well-targeted policies and programmes that have a direct impact on reducing social and economic inequalities, including the spread of HIV and AIDS.
- Introduce and entrench stable macroeconomic frameworks, sound trade policy, and an appropriate investment climate that will help fuel the industrialization needed for sustainable and inclusive growth.
- On industrial and trade policy, give high priority to indigenous SMEs) through, inter alia, instruments of fiscal policy such as tax regimes, access to finance and working space.
- Avoid policies that are designed to appear good from external observer's viewpoint, but have no relevance to local developmental conditions. In this regard, development partners should adhere to international undertakings to not only respect national development plans (NDPs) but also support them, and
- Continue investing more in social sectors to ensure quality education, health and nutrition especially of women and children.

On addressing gender, race, age and geographic inequality, countries should:

- Design and implement a policy mix that combines targeted transfers with the provision of quality education, affordable and quality basic social services and infrastructure. Countries should note, however, that, social protection measures are not a long-term solution to poverty and inequality reduction.
- Comply with regional and national laws and protocols on gender equality to ensure that gender-based inequality is addressed in a systematic and sustainable manner.
- Tailor financial/credit packages to effectively support the empowerment of women, youth and other disadvantaged and marginalized social groups.
- Focus on '*one country, one region*' and therefore refrain from a narrowly focused development approach at the expense of other parts of the country or region; and

- Race-based inequality from the colonial and apartheid past should be addressed systematically including through land redistribution, while at the same time ensuring State support to ensure food security and retention of skills.

In order to effectively implement the above recommendations, the leadership role of a strong developmental State is required to drive the transformation agenda, including constructing a new development template in Southern Africa. A strong developmental State is one which is effective and is committed to economic transformation and social justice, and which:

- Addresses productive assets and other inequalities
- Allows wide participation of its citizens in all its development processes
- Establishes efficient institutions
- Provides a conducive environment for private sector to do business and create new wealth and jobs, and
- Balances between the role of market forces and ensuring sustainable human development.

APPENDICES

CHAPTER I: INTRODUCTION

Table A1.1

Inequality and Poverty, SADC, ECOWAS and EAC, 2014

Country	Income Gini coefficient	Year	Proportion of population below the national PDL	Year
Southern African Development Community (SADC)				
Angola	42.7	2009	..	..
Botswana	57.3	2003	20.7	2010
DRC	44.4	2006	71.3	2005
Lesotho	52.5	2003	56.6	2003
Madagascar	44.1	2010	68.7	2005
Malawi	43.9	2010	52.2	2005
Mauritius	38.8	2007	8.5	2010
Mozambique	45.6	2008	54.7	2008
Namibia	59.7	2010	..	..
Seychelles	65.8	2007	..	..
South Africa	63.1	2009	22.0	2008
Swaziland	48.3	2010	63.0	2010
Tanzania	37.6	2007	35.7	2001
Zambia	55.0	2010	60.5	2010
Zimbabwe	42.3	2011/12	73.0	2011/12
Eastern African Community (EAC)				
Burundi	33.3	2006	66.9	2006
Tanzania	37.6	2007	33.4	2007
Kenya	47.7	2005	45.9	2005
Uganda	44.3	2009	24.5	2009
Rwanda	50.8	2011	44.9	2011
Economic Community of West African States (ECOWAS)				
Benin	38.6	2003	33.3	2007
Burkina Faso	39.8	2009	46.7	2009
Cabo Verde	50.5	2002	26.6	2007
Côte d'Ivoire	41.5	2008	42.7	2008
Gambia	47.3	2003	48.4	2010
Ghana	42.8	2006	28.5	2006
Guinea	39.4	2003	55.2	2012
Guinea-Bissau	35.5	2002	69.3	2010
Liberia	38.2	2007	63.8	2007
Mali	33.0	2010	43.6	2010
Niger	34.6	2008	59.5	2007
Nigeria	48.8	2010	62.6	2010
Senegal	40.3	2011	46.7	2011
Sierra Leone	35.4	2011	66.4	2003
Togo	39.3	2011	58.7	2011

Sources: SADC Selected Indicators, 2012; SADC Statistical Yearbook, 2011; United Nations Statistics Division (UNSD) MDG Database, 2014; World Bank Database, 2014; www.uneca.org; <http://web.worldbank.org/WBSITE/External/Countries>; <http://www.ecowas.int>; UNECA, 2013; Human Development Report 2013, Database and <http://www.quandl.com/demography/gini-index-all-countries>, 2014.

Table A1.2 Income Share held by Lowest 20 Percent and Highest 20 Percent of the Population by Year, SADC, 2014

Country	Income Share held by lowest 20% of the population	Year	Income Share held by highest 20% of the population	Year
Angola	5.40	2009	48.60	2009
Botswana	3.13	1994	65.00	1994
Lesotho	2.97	2003	56.40	2003
Madagascar	5.41	2010	50.10	2010
Mozambique	5.23	2008	51.50	2008
Mauritius	..		..
Malawi	5.64	2010	50.20	2010
Namibia	3.15	2004	68.60	2004
Swaziland	4.05	2010	56.60	2010
Seychelles	3.71	2007	69.60	2007
Tanzania	6.80	2007	44.80	2007
South Africa	2.70	2009	68.20	2009
Congo, Dem. Rep.	5.47	2006	50.60	2006
Zambia	3.58	2010	62.20	2010
Zimbabwe	..		..

Source: World Bank Database, 2014; available from <http://data.worldbank.org/indicator>

Figure A1.1 HIV Prevalence of Those Tested, by Age Group and sex, Percentage, Zimbabwe, 2010/11

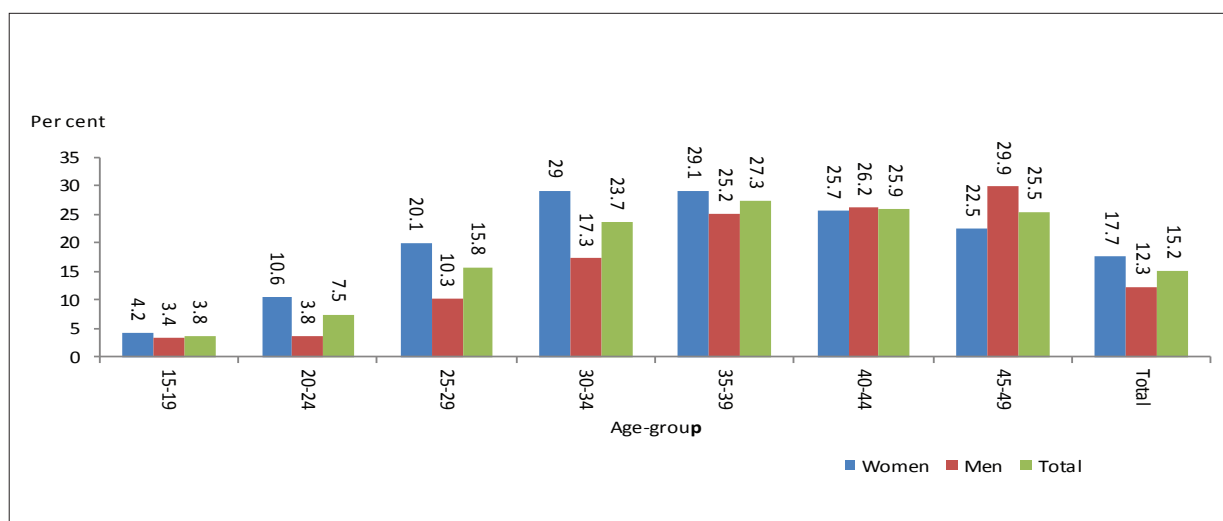
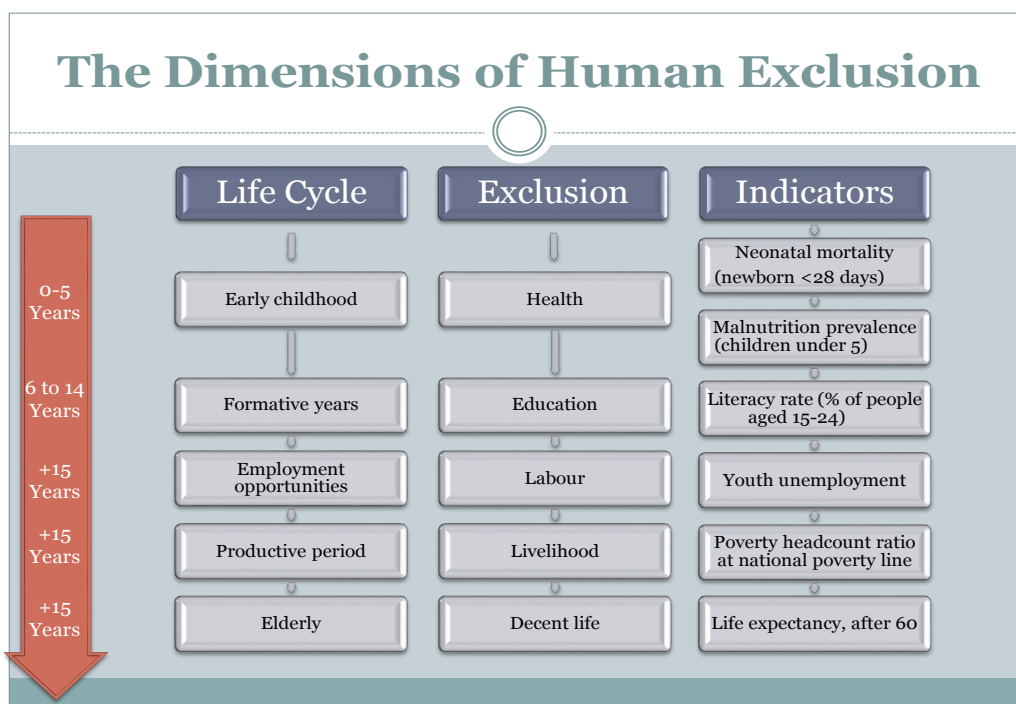


Figure A1.2 The Dimensions of Human Exclusion in Africa



Source: UNECA, 2014, African Social Development Index – A Tool for Assessing Human Exclusion in Africa, Addis Ababa.

CHAPTER II: ECONOMIC GROWTH, WIDESPREAD INCOME INEQUALITY, AND POVERTY: GENERAL THEORY AND PRACTICE

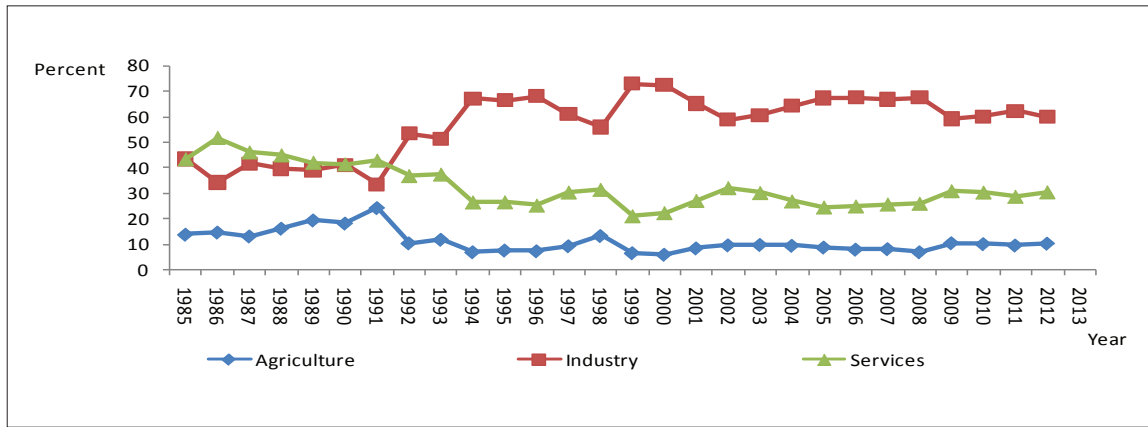
Table A2.1 Growth Rate of the Poor and Overall Growth Rate for Selected Countries, Mid-1980s-Late 1990s

Country	Growth rate for the poor	Overall growth rate
Zambia	-2.6	-2.2
Ghana	1.6	0.8
Brazil	0.6	1.0
Bangladesh	1.5	2.1
India	3.1	3.6
Chile	4.8	5.6

Source: Department for International Development (DFID), 2004

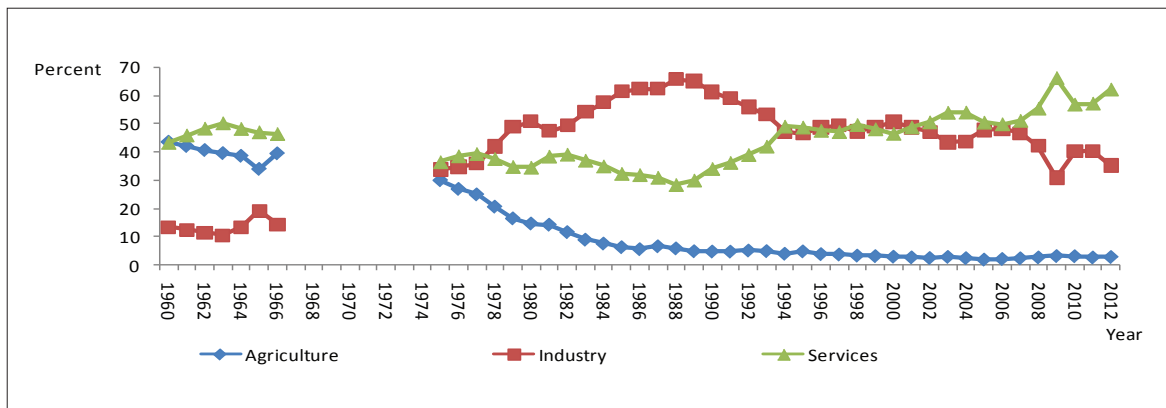
CHAPTER III: HISTORICAL AND CONTEMPORARY BASIS OF GROWTH, INEQUALITY AND POVERTY TRENDS AND EXPERIENCES IN SOUTHERN AFRICA

Figure A3. 1: Sectoral Contribution to GDP, Percentage, Angola, 1985-2012



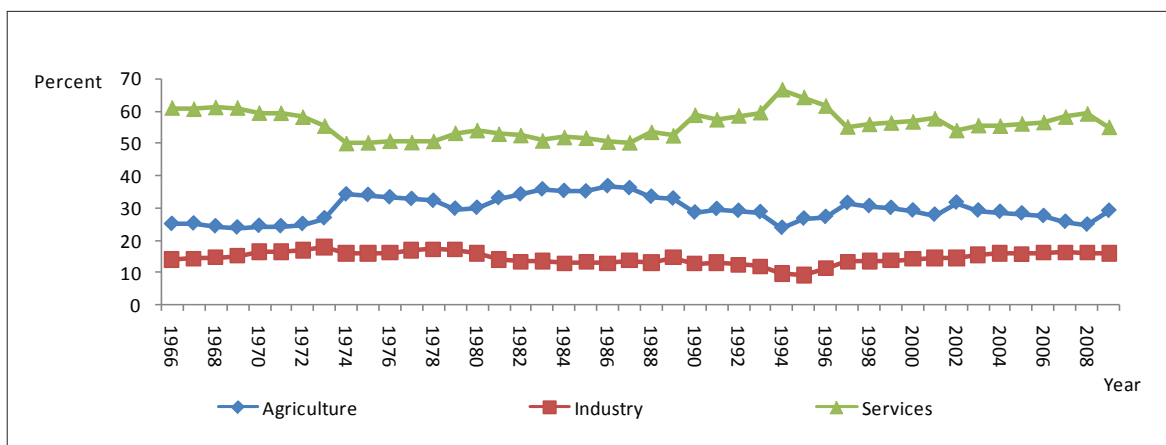
Source: World Bank, World Development Indicators, 2014.

Figure A3. 2: Sectoral Contribution to GDP, Percentage, Botswana, 1960-2012



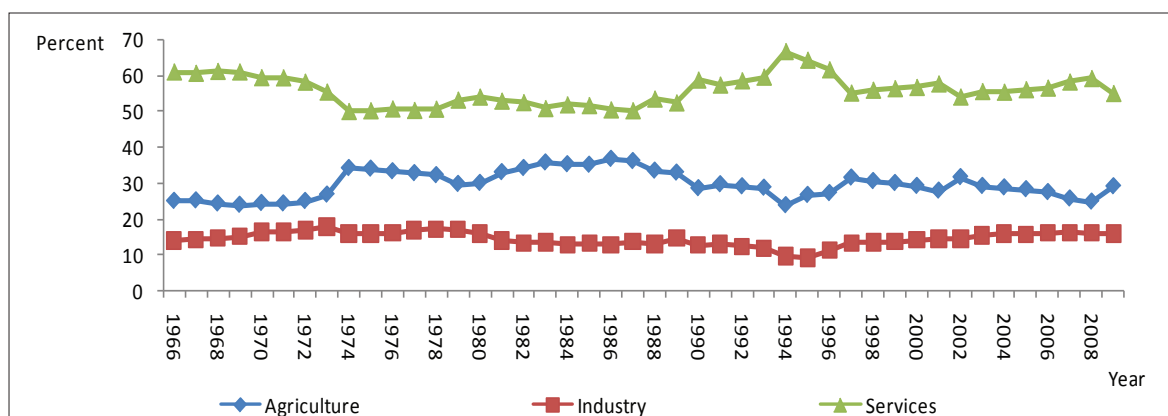
Source: World Bank, World Development Indicators, 2014.

Figure A3. 3: Sectoral Contribution to GDP, Percentage, Lesotho, 1960-2012



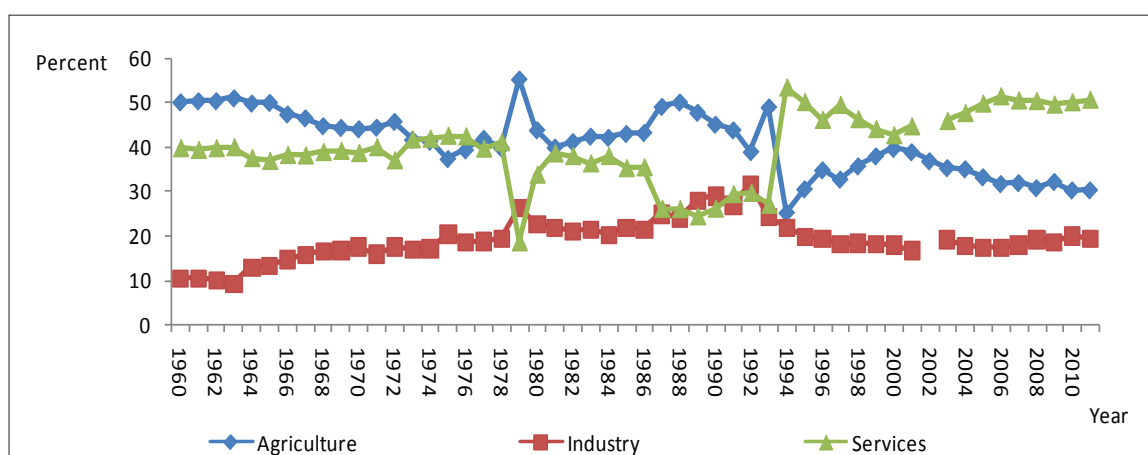
Source: World Bank, World Development Indicators, 2014.

Figure A3. 4: Sectoral Contribution to GDP, Percentage, Madagascar, 1966-2009



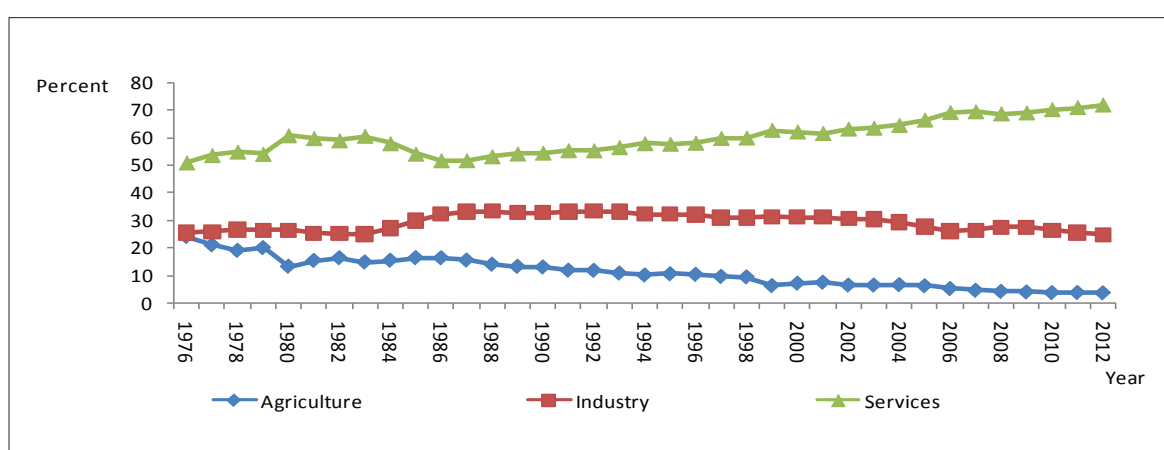
Source: World Bank, *World Development Indicators*, 2014.

Figure A3. 5: Sectoral Contribution to GDP, Percentage, Malawi, 1960-2011



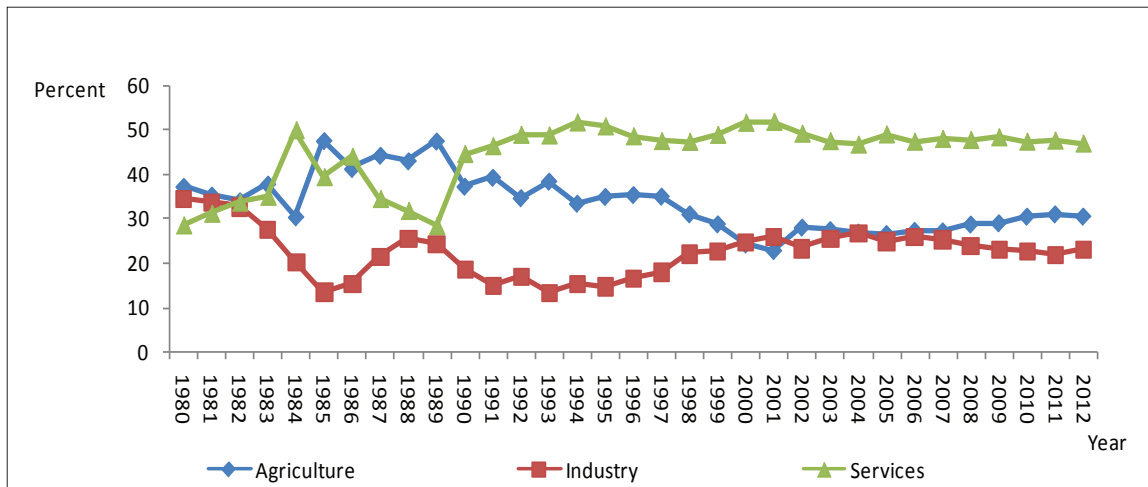
Source: World Bank, *World Development Indicators*, 2014.

Figure A3. 6: Sectoral Contribution to GDP, Percentage, Mauritius, 1976-2012



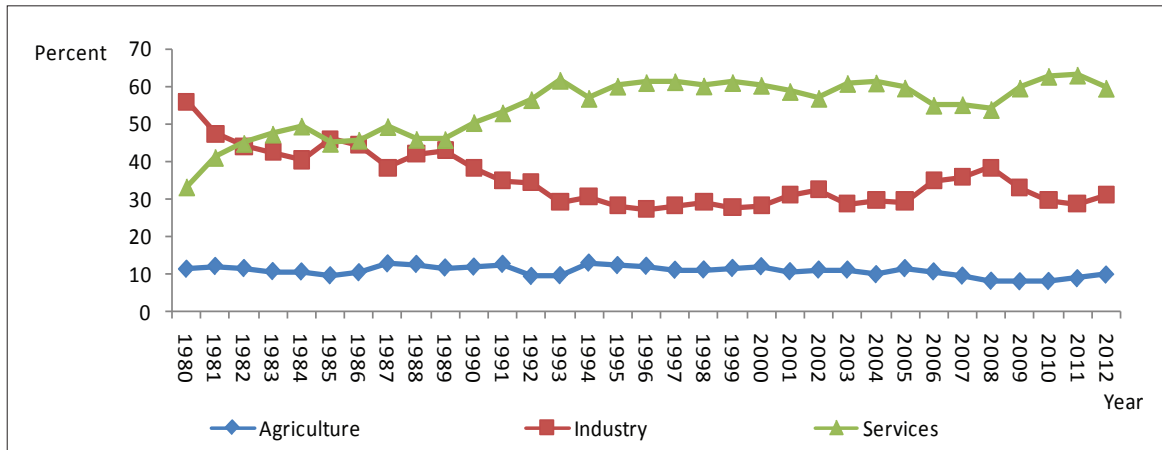
Source: World Bank, *World Development Indicators*, 2014.

Figure A3. 7: Sectoral Contribution to GDP, Percentage, Mozambique, 1980-2012



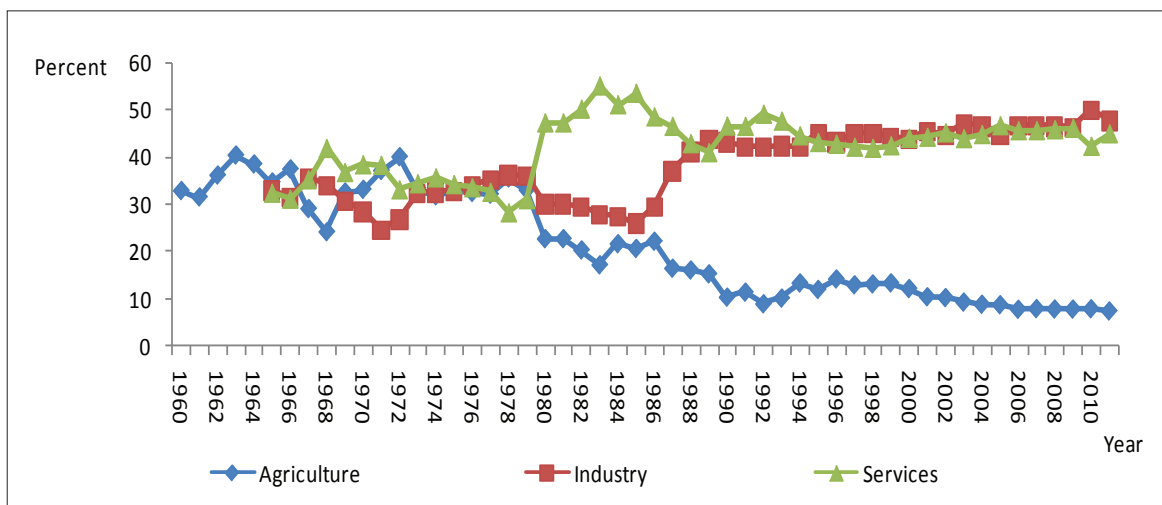
Source: World Bank, *World Development Indicators*, 2014.

Figure A3. 8: Sectoral Contribution to GDP, Percentage, Namibia, 1980-2012



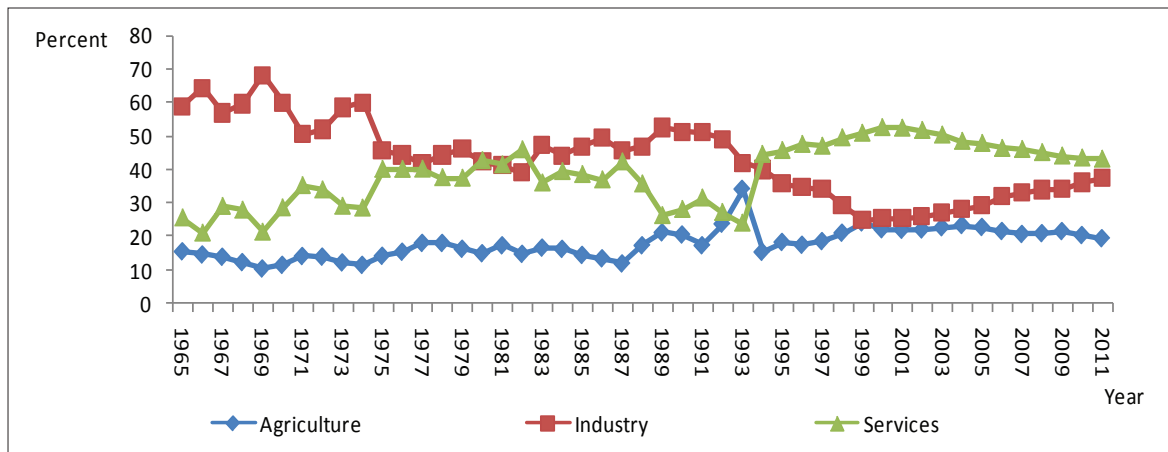
Source: World Bank, *World Development Indicators*, 2014.

Figure A3. 9: Sectoral Contribution to GDP, Percentage, Swaziland, 1960-2011



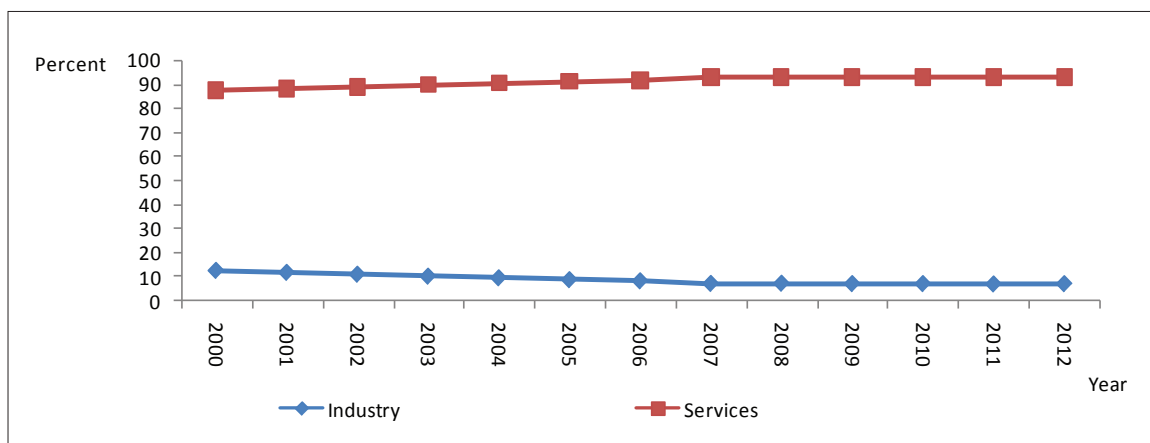
Source: World Bank, *World Development Indicators*, 2014.

Figure A3. 10: Sectoral Contribution to GDP, Percentage, Zambia, 1965-2011



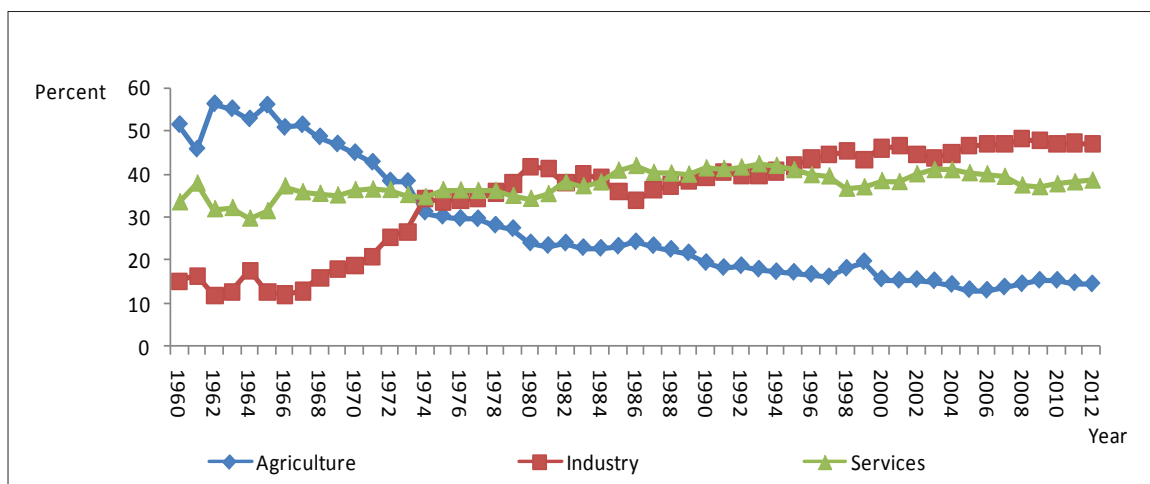
Source: World Bank, *World Development Indicators*, 2014.

Figure A3. 11: Sectoral Contribution to GDP, Percentage, Hong Kong, 2000-2012



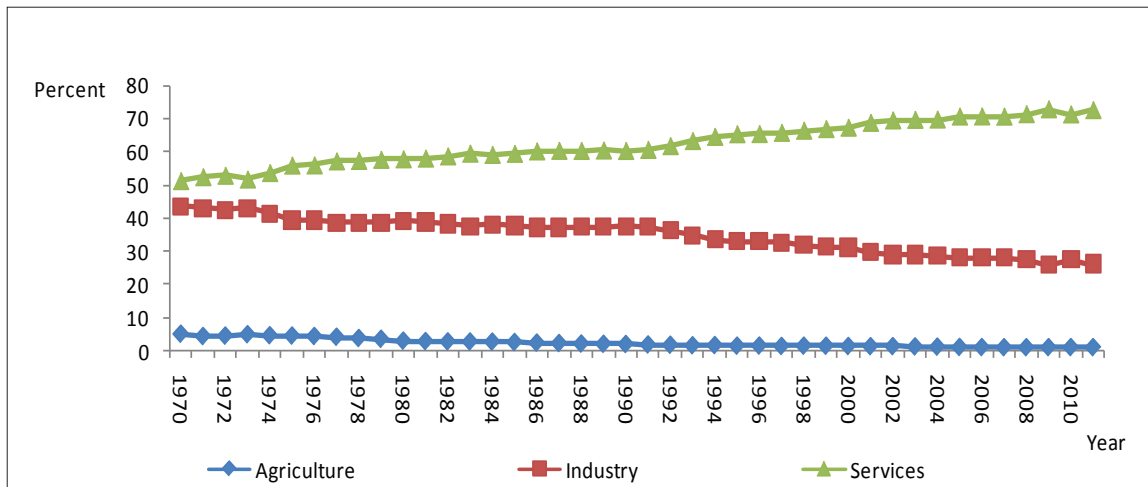
Source: World Bank, *World Development Indicators*, 2014.

Figure A3. 12: Sectoral Contribution to GDP, Percentage, Indonesia, 1960-2012



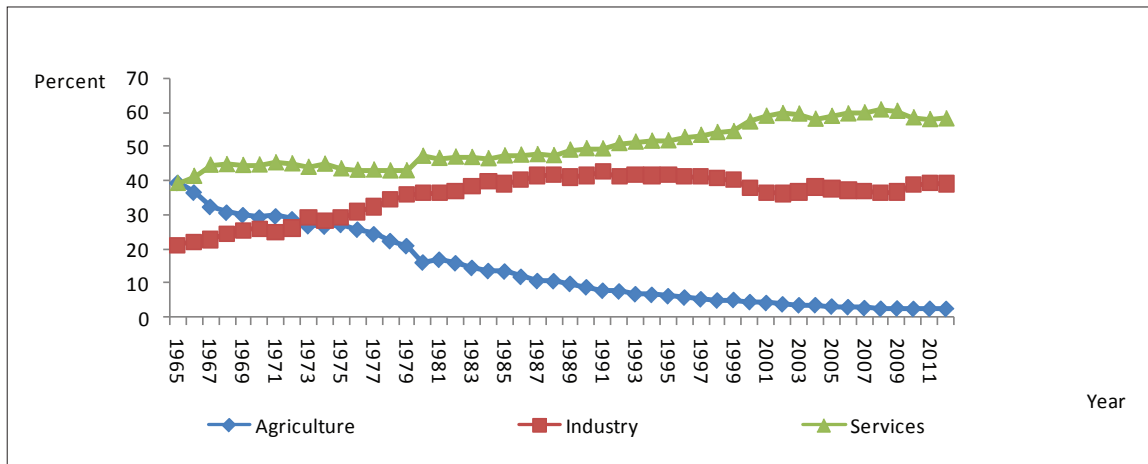
Source: World Bank, *World Development Indicators*, 2014.

Figure A3. 13: Sectoral Contribution to GDP, Percentage, Japan, 1970-2011



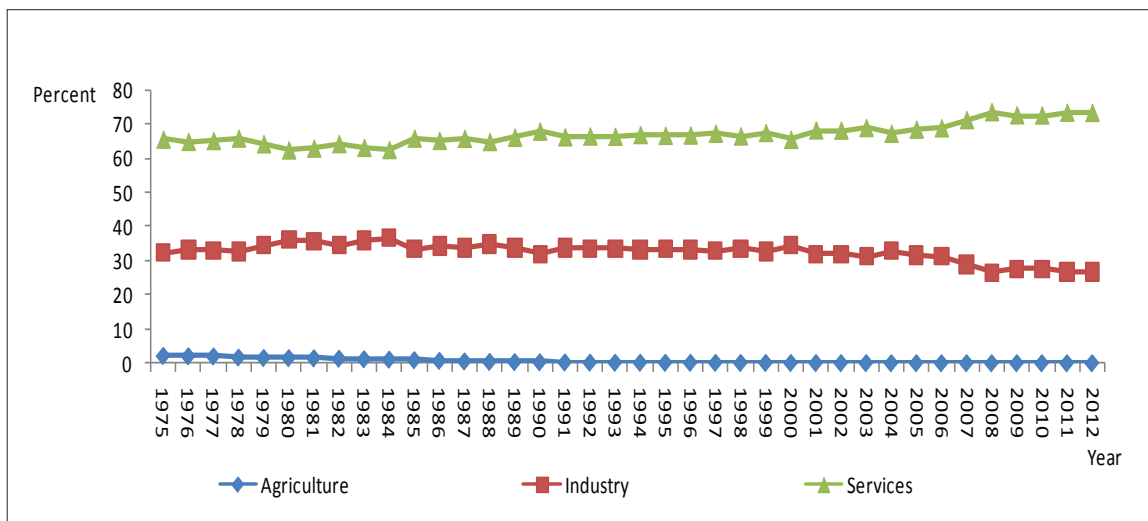
Source: World Bank, *World Development Indicators*, 2014.

Figure A3. 14: Sectoral Contribution to GDP, Percentage, Korea, 1965-2012



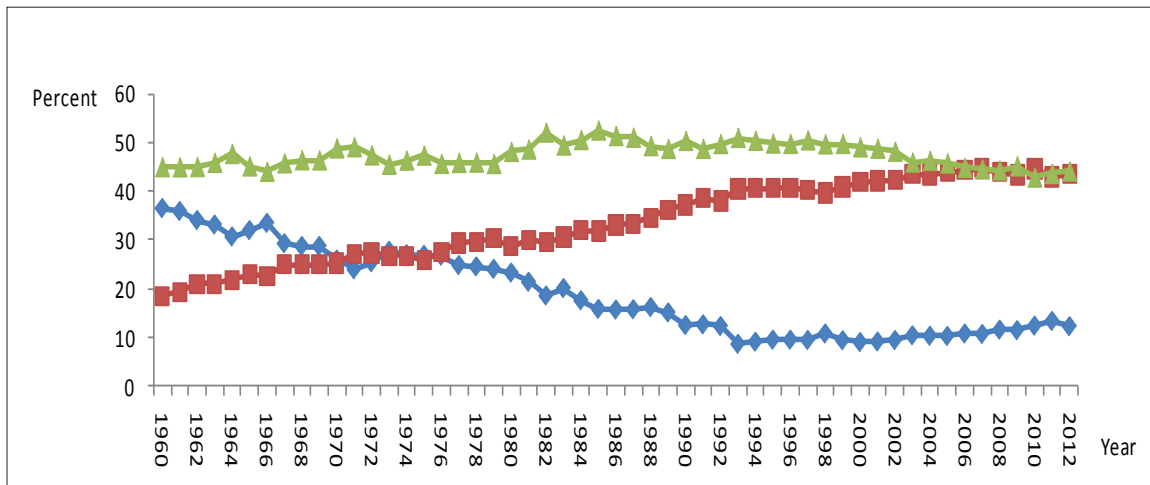
Source: World Bank, *World Development Indicators*, 2014.

Figure A3. 15: Sectoral Contribution to GDP, Percentage, Singapore, 1975-2012



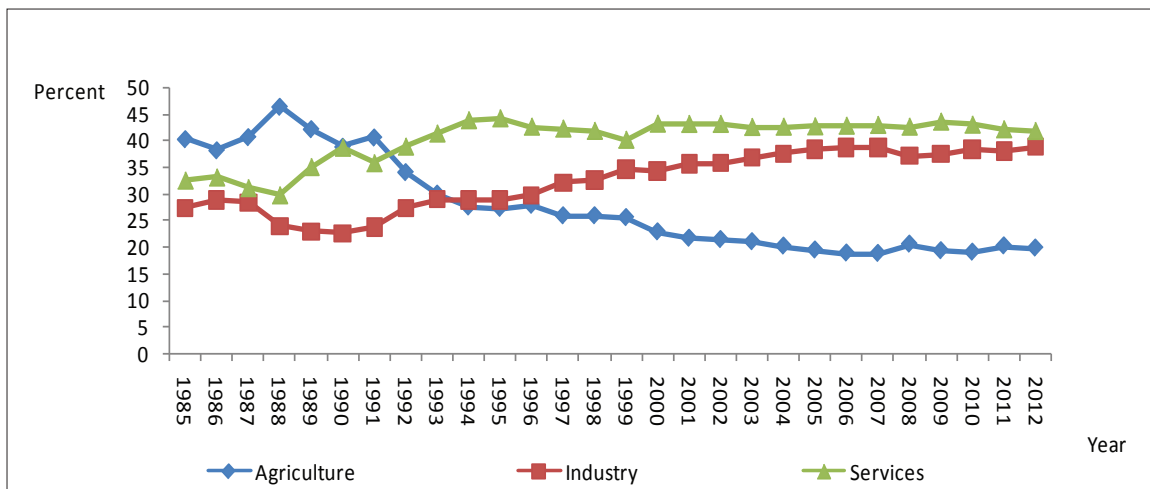
Source: World Bank, *World Development Indicators*, 2014.

Figure A3. 16: Sectoral Contribution to GDP, Percentage, Thailand, 1960-2012



Source: World Bank, *World Development Indicators*, 2014.

Figure A3. 17: Sectoral Contribution to GDP, Percentage, Vietnam, 1985-2012



Source: World Bank, *World Development Indicators*, 2014.

CHAPTER IV: CIVIL UNREST AND THE ECONOMIC GROWTH, INEQUALITY AND POVERTY NEXUS

Table A4.1 Global Peace Index (GPI) Values, SADC, 2007-2013

Country	Year						
	2007	2008	2009	2010	2011	2012	2013
Mauritius	..	..	..	..	..	1.49	1.50
Botswana	1.79	1.79	1.64	1.64	1.69	1.62	1.60
Mozambique	1.91	1.80	1.77	1.78	1.81	1.80	1.91
Namibia	2.00	2.04	1.84	1.86	1.85	1.80	1.81
Zambia	1.93	1.86	1.78	1.81	1.83	1.83	1.83
Lesotho	..	..	..	..	..	1.86	1.84
Tanzania	1.97	1.92	1.80	1.83	1.86	1.87	1.89
Malawi	2.04	2.02	1.71	1.81	1.74	1.89	1.98
Swaziland	..	..	..	1.97	2.00	2.03	2.07
Angola	2.59	2.36	2.10	2.06	2.11	2.11	2.15
Madagascar	1.77	1.77	1.91	2.02	2.24	2.12	2.07
South Africa	2.40	2.41	2.44	2.38	2.35	2.32	2.29
Zimbabwe	2.49	2.51	2.74	2.68	2.72	2.54	2.70
DRC	..	2.71	2.89	2.92	3.02	3.07	3.09

Source: Institute for Economics and Peace. Available from economicsandpeace.org/research/iep-indices-data/global-peace-index

Table A4.2 Global Peace Index (GPI) Rank, SADC, 2007-2013

Country	Year						
	2007	2008	2009	2010	2011	2012	2013
Mauritius	..	..	..	..	..	21	21
Botswana	42	46	34	33	35	31	32
Mozambique	50	50	53	47	48	48	61
Namibia	64	77	65	59	54	49	46
Zambia	53	53	58	51	52	51	48
Lesotho	..	..	..	..	..	53	49
Tanzania	57	58	59	55	56	55	55
Malawi	68	73	47	52	39	60	74
Swaziland	..	..	..	73	70	85	88
Angola	112	110	100	86	87	95	102
Madagascar	41	43	72	77	105	99	90
South Africa	99	116	123	121	118	127	121
Zimbabwe	106	124	135	135	140	140	149
DRC	..	128	139	140	148	154	156

Source: Institute for Economics and Peace. Available from economicsandpeace.org/research/iep-indices-data/global-peace-index.

CHAPTER V: THE RELATIONSHIP BETWEEN ECONOMIC GROWTH, INEQUALITY AND POVERTY IN SOUTHERN AFRICA: REGIONAL STATUS, COUNTRY SPECIFICITIES AND POLICIES

Table A5.1 Human Development Index (HDI), Rank, Value and Category; Inequality-adjusted Human Development Index (IHDI) Value; Gender Development Index (GDI), Value, and Rank by Sex; Gender Inequality Index (GII), Value and Rank; and the Multidimensional Poverty Index (MPI), Value and Year, SADC, 2013

HDI Global rank, 2013	Country	HDI Value 2013	HDI Category 2013	IHDI 2013	GDI, 2013 (Female to male ratio of HDI)	GDI Global Rank, 2013	HDI Value, female 2013	HDI Value, male, 2013	GII Value, 2013	GII Global Rank, 2013	MPI Value	MPI Year
63	Mauritius	0.771	High	0.662	0.957	72	0.75	0.784	0.375	72		
71	Seychelles	0.756	High	..	..	..	..	..	..	..
109	Botswana	0.683	Medium	0.422	0.964	58	0.669	0.694	0.486	100		
118	South Africa	0.658	Medium	..	..	..	..	..	0.461	94	0.041	2012
127	Namibia	0.624	Medium	0.352	0.978	36	0.616	0.631	0.45	87	0.200	2006/07
141	Zambia	0.561	Medium	0.365	0.913	101	0.534	0.585	0.617	135	0.318	2007
148	Swaziland	0.530	Low	0.354	0.877	121	0.493	0.562	0.529	115	0.113	2010
149	Angola	0.526	Low	0.295	..	..	..	..	..	..
155	Madagascar	0.498	Low	0.346	0.917	99	0.476	0.519	..	..	0.420	2008/09
156	Zimbabwe	0.492	Low	0.358	0.909	105	0.468	0.515	0.516	110	0.181	2010/11
159	Tanzania	0.488	Low	0.356	0.916	100	0.466	0.509	0.553	124	0.335	2010
162	Lesotho	0.486	Low	0.313	0.973	43	0.474	0.488	0.557	126	0.227	2009
174	Malawi	0.414	Low	0.282	0.891	116	0.389	0.437	0.591	131	0.332	2010
178	Mozambique	0.393	Low	0.277	0.879	120	0.343	0.391	0.657	146	0.390	2011
186	DRC	0.338	Low	0.211	0.822	134	0.304	0.369	0.669	147	0.399	2010

Source: United Nations Development Programme, *Human Development Report, 2014*

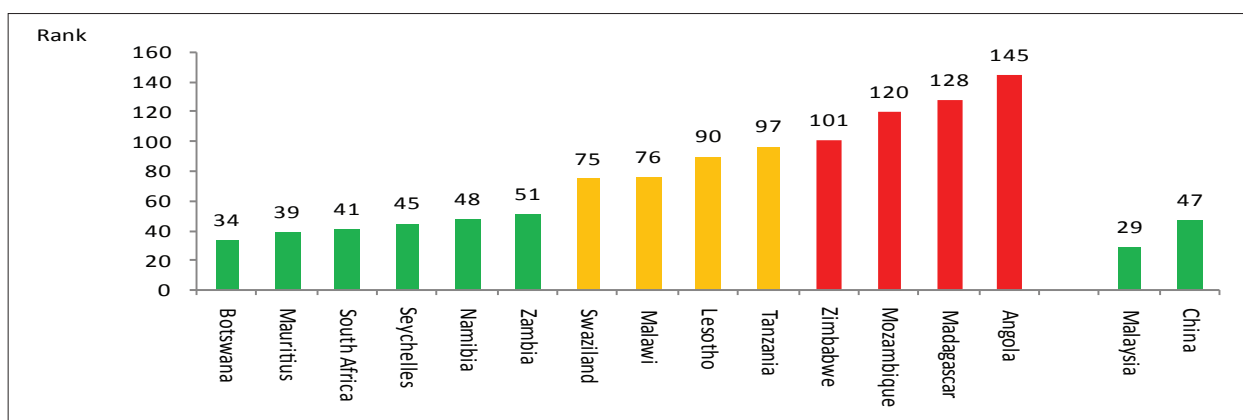
Table A5.2 Gross Domestic Product by Sector, Percentage, SADC Countries, 2012 and 2013

Sector	Country/Year							
	Angola	Botswana	DRC	Lesotho	Madagascar	Malawi	Mauritius	Mozambique
	2012	2012	2013	2013	2013	2012	2013	2012
Agriculture, hunting, forestry, fishing	10.2	2.9	20.6	7.9	26.4	30.7	3.4	32.6
Mining	47	21.9	4.6	7.8	0.3	5.3	0.3	2.4
Manufacturing	6.6	6.4	27.4	11.3	14.6	9.9	16.9	11.9
Electricity, gas, and water		-0.5	1.4	4.9	1.3	1.4	1.7	4.1
Construction	7.8	7.4	4.6	7.8	3.5	3	5.5	3.2
Wholesale and retail trade, hotels, and restaurants	16	16.6	14	10.3	11.1	18.7	19	17
Transport, storage and communication	4.3	6.2	14.4	7.2	24	6	10.1	9.8
Finance, real estate and business services		15.9	6.6	15.8	11.3	13.2	22.8	6.3
Public administration, education, health and social work, community, social and personal services	8.1	16.4	4.1	13.2	7.5	3.4	6.6	4.5
Other services		6.8	2.3	14		8.4	13.8	8.2
Total, %	100	100	100	100	100	100	100	100
	Namibia	Seychelles	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe	
	2012	2012	2012	2012	2012	2013	2013	
Agriculture, hunting, forestry, fishing	9.6	2.3	2.5	7.2	28.7	17.7	13.1	
Mining	12.3		9.6	0.3	3.8	2.2	10.1	
Manufacturing	12.3	9.9	12.1	42.2	9.2	8.2	13.6	
Electricity, gas, and water	2.4	1.9	3	1.2	2.4	3	4.3	
Construction	3.9	4.8	3.7	2.2	8.9	29.1	3.6	
Wholesale and retail trade, hotels, and restaurants	14.6	31	16.2	9.6	16	15.1	15.3	
Transport, storage and communication	5.2	11.2	9.1	7.2	8.3	3.9	12.8	
Finance, real estate and business services	15	26.1	21.2	7.6	10.1	9.2	11.3	

	Country/Year							
	Angola	Botswana	DRC	Lesotho	Madagascar	Malawi	Mauritius	Mozambique
Public administration, education, health and social work, community, social and personal services	11.2	6.6	5.7	17.9	8.6	2.9	3.7	
Other services	13.5	6.2	16.9	4.6	4	8.8	12.3	
Total, %	100	100	100	100	100	100	100	

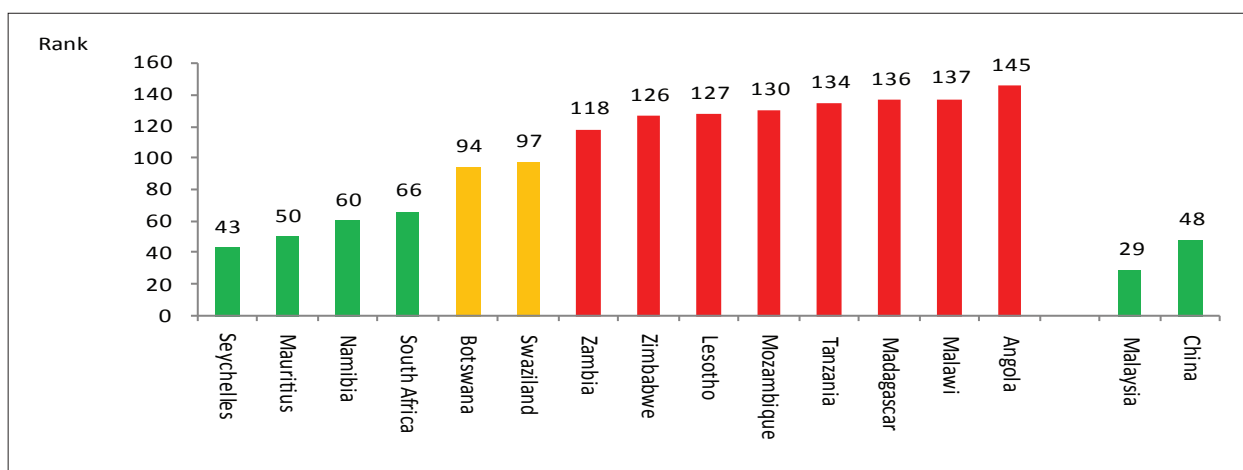
Sources: African Development Bank; the Organization for Economic Cooperation and Development (OECD) Development Centre and the United Nations Development Programme (UNDP). 2014; African Economic Outlook, 2014.

Figure A5. 1: GCI Institutions Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014



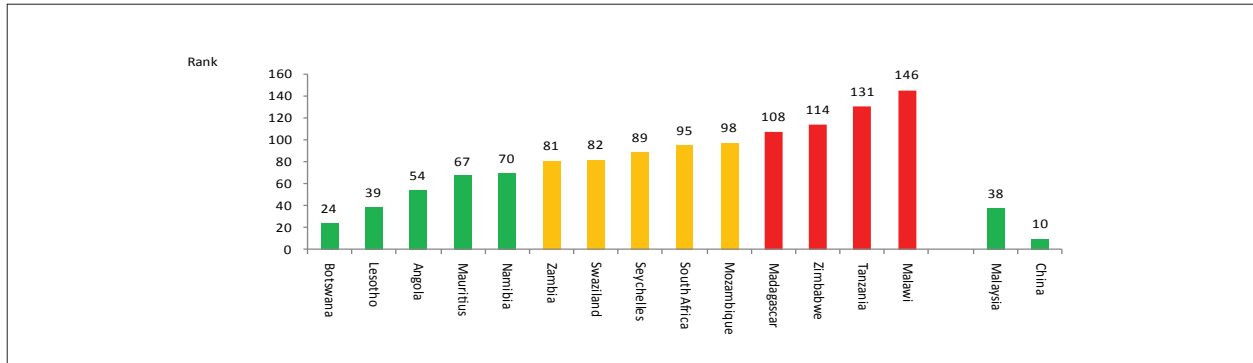
Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Figure A5. 2 : GCI Infrastructure Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014



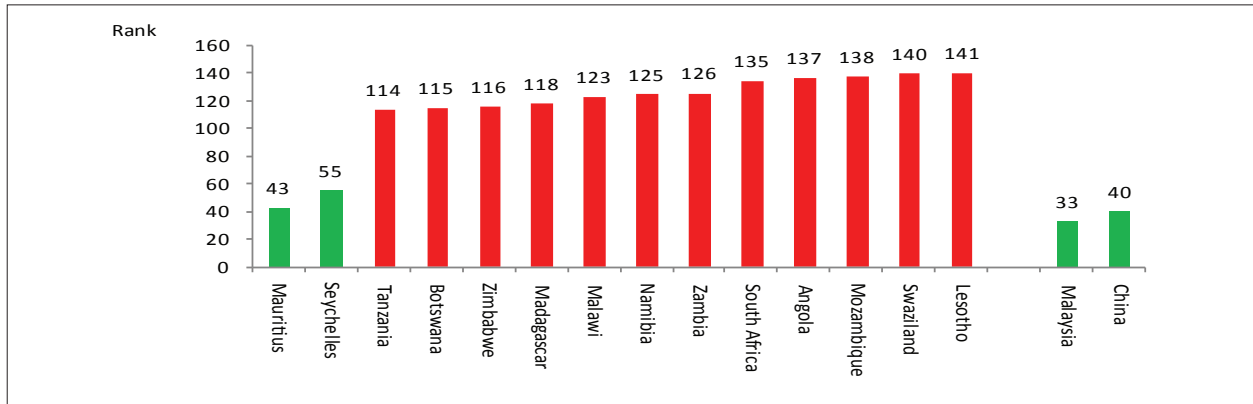
Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Figure A5.3: GCI Microeconomic Environment Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014



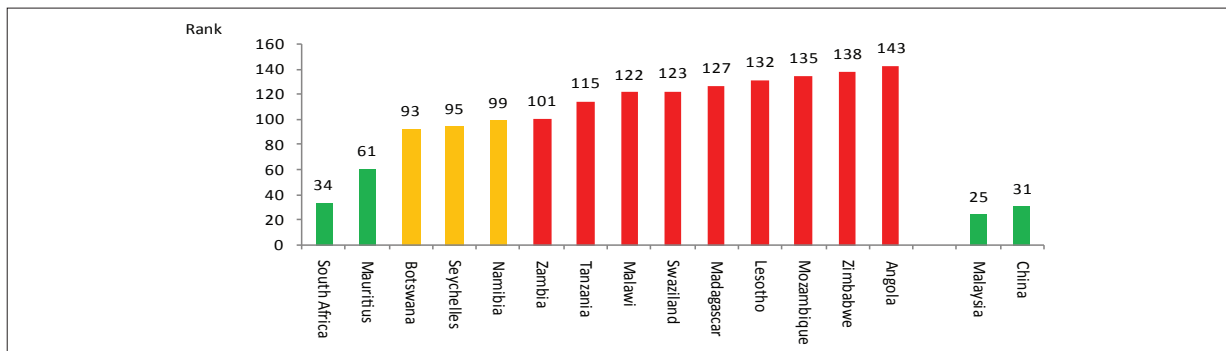
Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Figure A5.4: GCI Health and Primary Education Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014



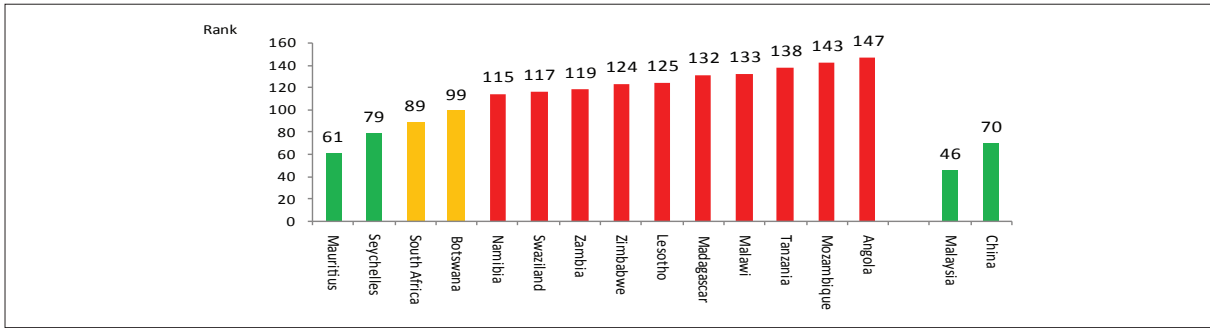
Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Figure A5.5: GCI Efficient Enhancers Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014



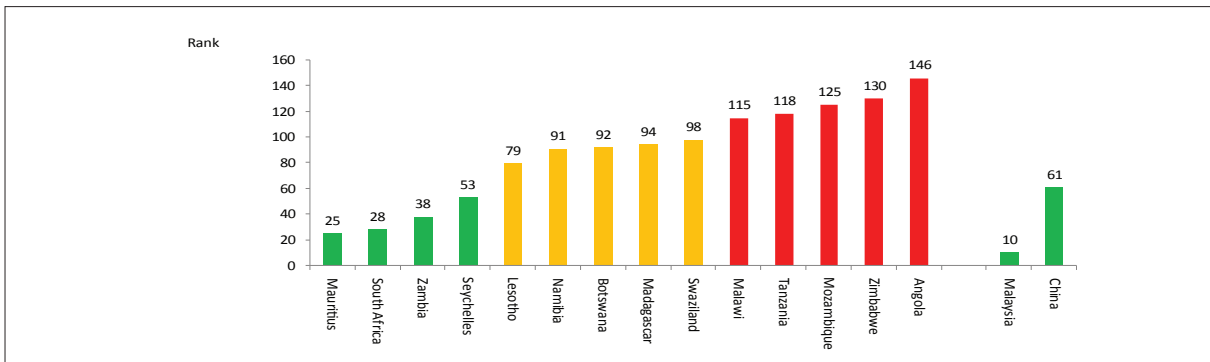
Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Figure A5.6: GCI Higher Education and Training Components Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014



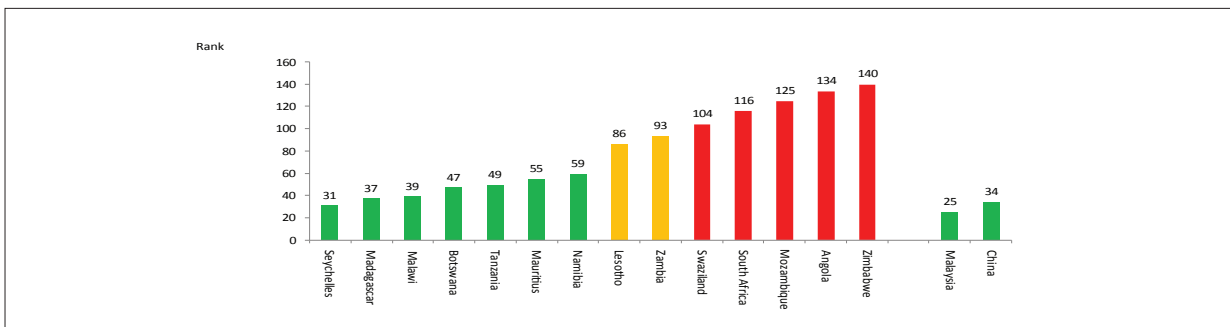
Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Figure A5.7: GCI Global Market Efficiency Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014



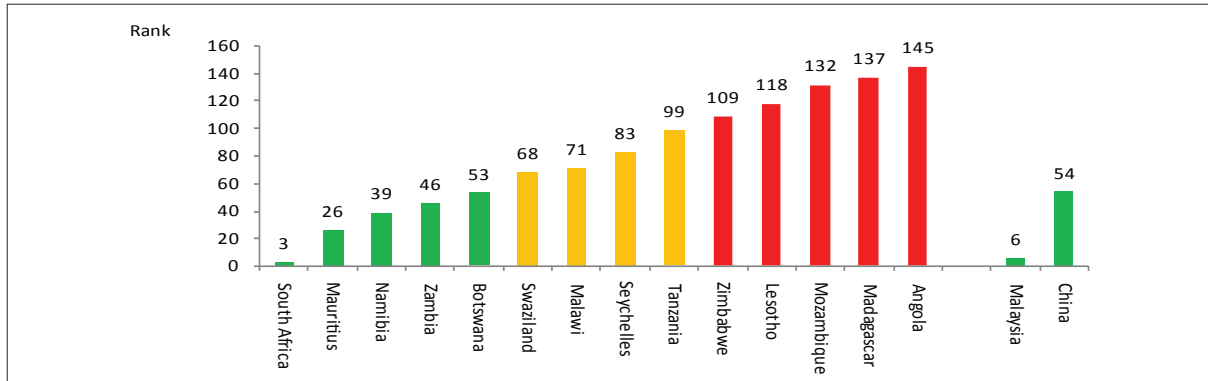
Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Figure A5.8: GCI Labour Market Efficiency Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014



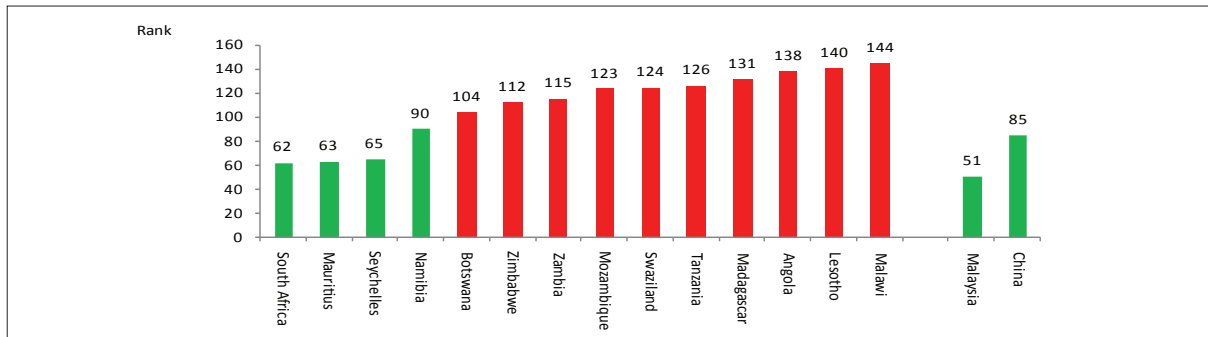
Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Figure A5.9: GCI Financial Market Development Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014



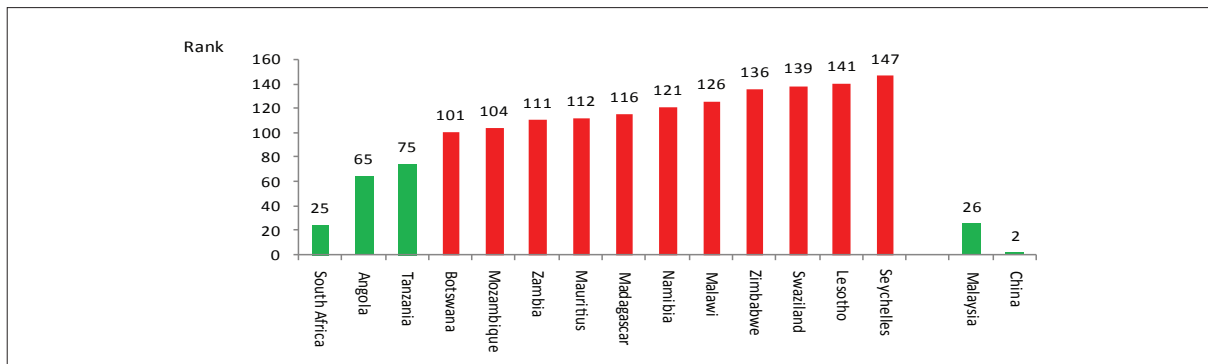
Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Figure A5.10: GCI Technology Readiness Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014



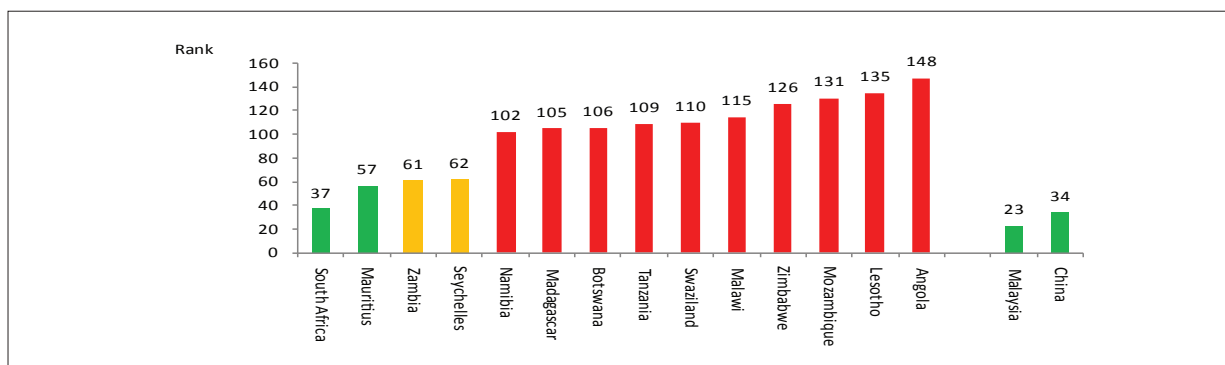
Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Figure A5.11: GCI Market Size Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014



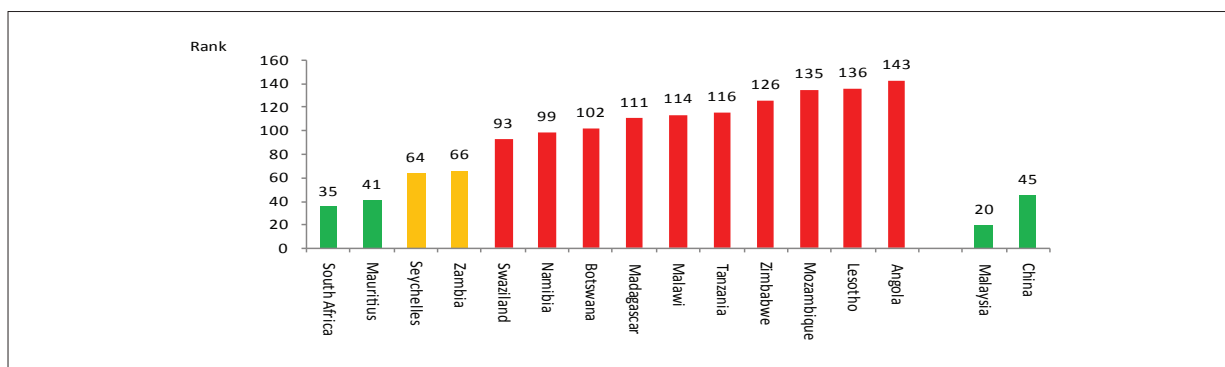
Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Figure A5.12: GCI Innovation and Sophistication Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014



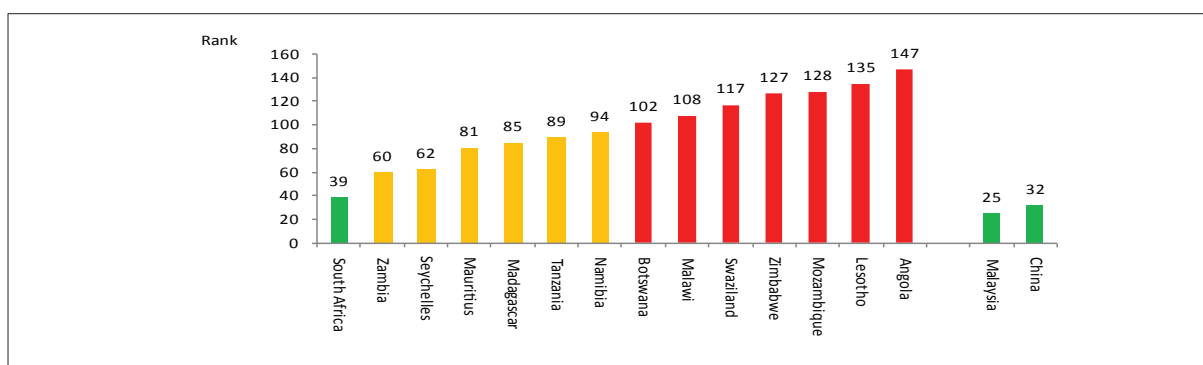
Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Figure A5.13: GCI Business Sophistication Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014



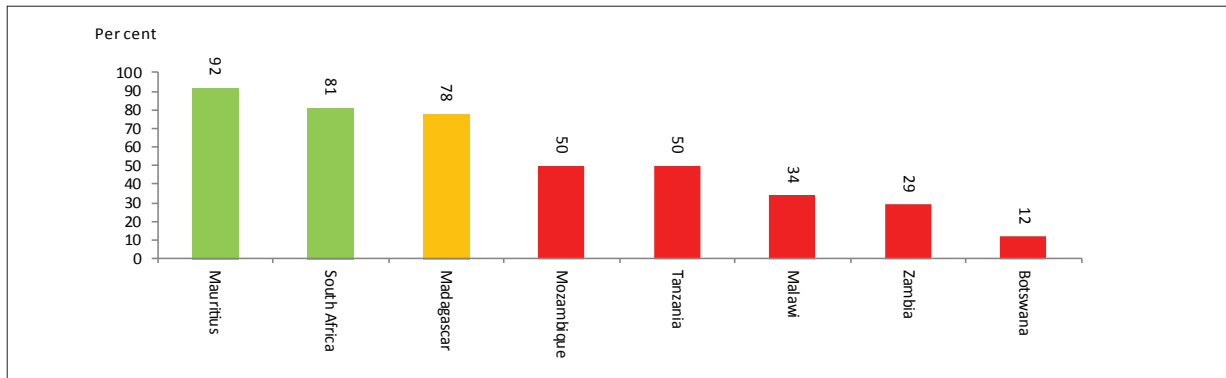
Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Figure A5.14: GCI Innovation Pillar Rank, SADC Countries in Comparison to China and Malaysia, 2013-2014



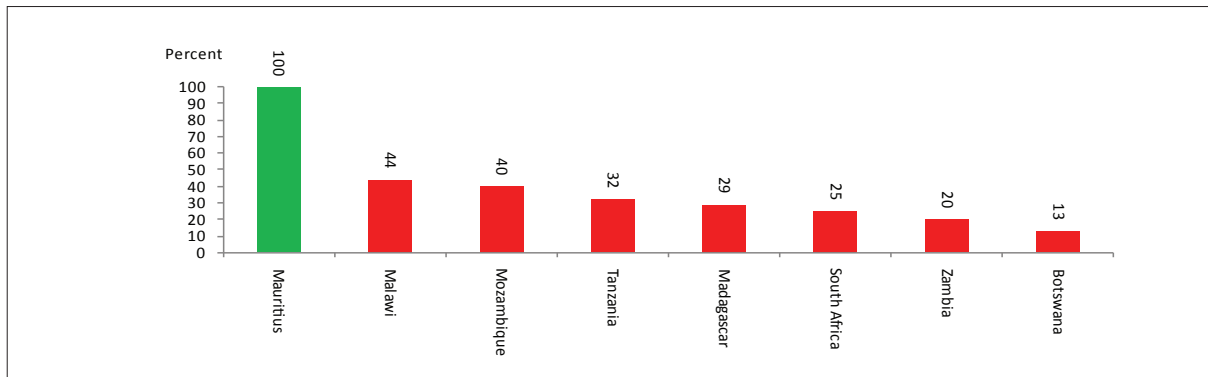
Source: World Economic Forum, *Global Competitiveness Report*, 2013-2014.

Figure A5.15: ATI Diversification of Production and Experts Sub-Index, 2010, (Average of 2009-2011) Available SADC Countries



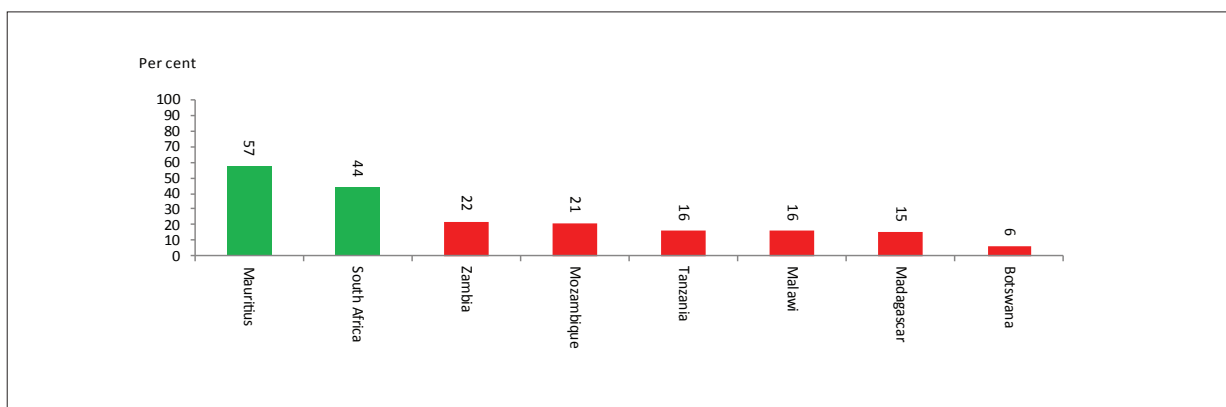
Source: Available from Africantransformation. org/2014/04/29/interactive-african-transformation-index/

Figure A5.16: ATI Export Competitiveness Sub-Index, 2010, (Average of 2009-2011) Available SADC Countries



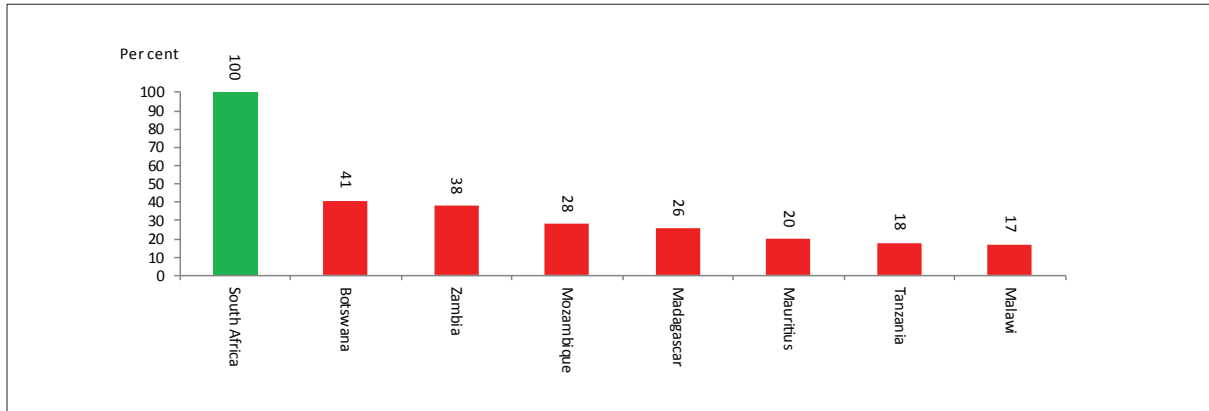
Source: Available from Africantransformation. org/2014/04/29/interactive-african-transformation-index/

Figure A5.17: ATI Productively Increase Sub-Index, 2010, (Average of 2009-2011) Available SADC Countries



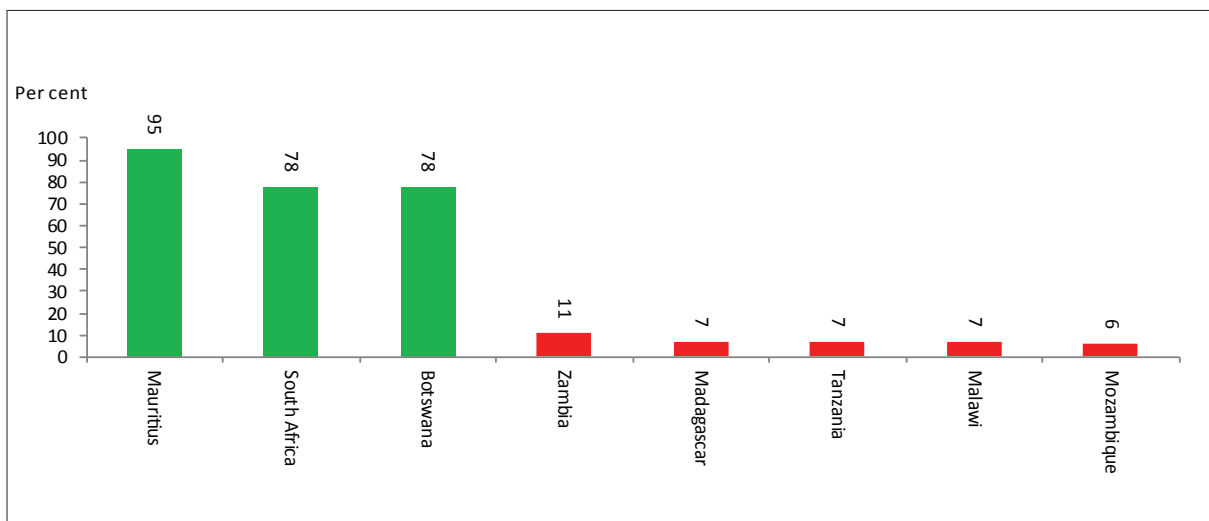
Source: Available from Africantransformation. org/2014/04/29/interactive-african-transformation-index/

Figure A5.18: ATI Technology Upgrading Sub-Index, 2010, (Average of 2009-2011) Available SADC Countries



Source: Available from Africantransformation.org/2014/04/29/interactive-african-transformation-index/

Figure A5.19: ATI Human Economic Well-Being Sub-Index, 2010, (Average of 2009-2011) Available SADC Countries



Source: Available from Africantransformation.org/2014/04/29/interactive-african-transformation-index/

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