Economic Commission for Africa

ECONOMIC AND SOCIAL CONDITIONS IN SOUTHERN AFRICA 2003

The Challenge of Private Sector Development in Southern Africa

Economic Commission for Africa

ECONOMIC AND SOCIAL CONDITIONS IN SOUTHERN AFRICA 2003

The Challenge of Private Sector Development in Southern Africa

ECA Subregional Office for Southern Africa (ECA-SA)

Please visit http://www.uneca.org for information on the latest ECA activities, initiatives and publications.

Contact:

The Communication Team
Economic Commission for Africa
United Nations
P.O. Box 3001
Addis Ababa
Ethiopia
Tel: +251-1-44-58-26
Fax: +251-1-51-03-65
Email: ecainfo@uneca.org

Contents

PART II: The Challenges of Private Sector Development in Southern Africa 51

Boxes

Tables

Graphs

Statistical Appendix

Foreword

This publication on *Economic and Social Conditions in Southern Africa 2003* analyses major economic and social developments that have taken place in the sub-region during 2003 and gives prospects for 2004. It is divided into two parts: Part I reviews macroeconomic and social developments and presents a medium-term outlook. Part II contains a special study on The Challenges of Private Sector Development in Southern Africa. The analysis and information in this document are based on preliminary data available as of January 2004 from the 11 countries served by the ECA Sub-regional Office for Southern Africa (ECA-SA).*

A consensus is emerging among development economists that the private sector is the engine for economic growth. Examples of development in western economies and the growth of East Asian countries display that not only is the private sector the engine for growth, but that effective partnerships between public and private sectors are key for economic and social development. In addition, sustainable economic growth grounded in entrepreneurship and a successful private sector is key to poverty reduction. Thus, a vibrant and competitive private sector can play a key role in lifting people from poverty. In Southern Africa, the overall picture is one of steady growth in private sector participation in economic and social activities. The challenge for government is to improve the regulatory framework and enhance transparency to sustain fair competition among private sector players.

The publication is intended to: (a) assist member States in identifying and disseminating best practices in socioeconomic development issues; (b) guide policy dialogue in Southern Africa between experts and policy makers and between governments and their development partners; and (c) identify selected issues that hinder private sector development and their policy implications in Southern Africa.

It is my sincere hope that the information and data provided in this publication will be useful to the readers.

Dickson W. M. Mzumara
Officer-in-Charge

* These are: Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe.

Acronyms

ADB	Africa Development Bank
ADF IV	The Fourth African Development Forum
AFSTD	African Forum on Science and Technology for Development
AGOA	African Growth and Opportunity Act
AIDS	Acquired Immunodeficiency Syndrome
ARV	Anti Retro Viral
AU	African Union
BIT	Bilateral Investment Treaty
BOT	Build Operate Transfer
CAADP	Comprehensive Africa Agriculture Development Programme
CEDA	Citizen Entrepreneurial Development Agency
CHGA	Commission for HIV/AIDS and Governance in Africa
CID	Corporation for Innovation Development
COMESA	Common Market for Eastern and Southern Africa
CSIR	Council for Scientific and Industrial Research
CUFT	Centre for the Utilization of Federal Technology
ECA	Economic Commission for Africa
ECA-SA	Economic Commission for Africa-Southern Africa
ECLA	Economic Commission for Latin America
ECOWAS	Economic Community for West African States
EIU	Economist Intelligence Unit
EPZ	Export Processing Zone
EU	European Union
FAO	Food and Agricultural Organization
FBO	Faith Based Organization
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade

GDP	Gross Domestic Product
GM	Genetically Modified
GMD	Genetically Modified Organism
GNP	Gross National Product
GSP	General System of Preferences
HDI	Human Development Index
HIPC	Highly Indebted Poor Countries
HIV	Human Immunodeficiency Virus
ICE	Intergovernmental Committee of Experts
ICOR	Incremental Capital-Output Ratio
ICPD	International Conference on Population and Development
IIA	International Investment Agreement
ILO	International Labour Organization
IMF	International Monetary Fund
IPA	Investment Promotion Agency
IPRAD	Institute for Policy Research for Dialogue
IT	Information Technology
ITRI	Industrial Technology Research Institute
JSE	Johannesburg Stock Exchange
KILM	Key Indicators of Labour Markets
LDC	Least Developed Country
LDI	Local Direct Investment
LMIS	Labour Markets and Information Statistics
M&A	Mergers and Acquisitions
MDG	Millennium Development Goal
MIGA	Multilateral Investment Guarantee Agency
MSBA	Medium and Small Business Administration
MW	Mega Watt
NACI	National Advisory Council on Innovation
NEPAD	New Partnership for Africa's Development
NISIR	National Institute for Scientific and Industrial Research
NSTF	National Science and Technology Forum

OAU	Organization of African Unity (now AU)
ODA	Official Development Agency
PA	Programme of Action
PPP	Public-Private Partnership
PRSP	Poverty Reduction Strategy Paper
R&D	Research and Development
REWU	Regional Early Warning Unit (SADC)
RISDP	Regional Indicative Strategic Development Plan
RUPSEA	Rural and Urban Planners of Southern and Eastern Africa
SACU	Southern Africa Customs Union
SADC	Southern Africa Development Community
SAMAT	Southern Africa Multidisciplinary Advisory Team
SARS	Severe Acute Respiratory Syndrome
SME	Small and Medium Enterprise
SMMEs	Small, Medium, and Micro-enterprises
SSA	Sub-Saharan Africa
TFP	Total Factor Productivity
TNC	Trans-National Corporation
USA	United States of America
UN	United Nations
UNAIDS	United Nations AIDS Programme
UNCHS	United Nations Conference on Human Settlements
UNCTAD	United Nations Conference on Trade And Development
UNDESA	United Nations Department for Economic and Social Affairs
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VAT	Value Added Tax
WHO	World Health Organization
WSSD	World Summit on Sustainable Development
WTO	World Trade Organization

Executive Summary

In late 2002 and early 2003, the world economy was beset by a combined effect of heightened geopolitical uncertainties and the perceived risks that arose before the invasion of Iraq. This situation permeated the world economy through a number of channels. First, the fear that the conflict might disrupt oil supplies raised the prices of oil far higher than warranted by economic fundamentals. Indeed, higher oil prices were in themselves a global economic shock that dampened aggregate demand and imposed additional price pressures in oil-importing countries. Secondly, the overall effect of the standoff with Iraq was the reduction of economic activity in late 2002 and early 2003, with the setback being most pronounced in developed countries. In fact, instead of recovering as expected, world economic growth was generally lower than a year earlier, resulting in the world average Gross Domestic Product (GDP) increasing by only 2 per cent in 2002.

In Southern Africa, the economic performance of the 11 countries improved in 2003. Preliminary estimates by ECA-SA indicate that overall GDP grew by an average of 3.6 per cent as against 2.9 per cent in 2002. This relative improvement was due to a combined effect of good weather conditions that positively affected agricultural output and improved economic policies.

Despite this modest improvement, economic growth has been unable to have a significant impact on poverty, either because it is insufficient or is insufficiently pro-poor in both its quality and structure. Although average incomes have risen and fallen over time, poverty reduction remains a daunting social and economic challenge in Southern Africa. According to UNDP Human Development Report 2003, out of the 21 countries that saw a drop in the Human Development Index (HDI) for the period 1990-2001, 6 are from the Southern Africa sub-region, representing more than half of the countries covered by ECA-SA. The countries referred to are Botswana, Lesotho, South Africa, Swaziland, Zambia and Zimbabwe.[*]

The food security situation improved for the 2003/2004 production year due to an improvement in 2002/2003 production of the major staple cereal, maize, which marked about a 10% increase over last year. There were some marked variations at national and sub-national levels. Some countries notably Zambia, Angola, Malawi and Namibia recorded much higher increases in overall cereal production. Zimbabwe's cereal production, whilst much higher than last year, is still very much below the last 5 and 10 year averages. Only in Lesotho was production down significantly compared to last year. Some countries, although the cereal harvests were good, were affected by localized crop failure - these included Malawi, Mozambique, Zambia and Swaziland.

Southern Africa continues to fight HIV/AIDS and the prevalence of the pandemic continues to be higher than in any other region in the world. The latest UNAIDS update on HIV/AIDS prevalence in Southern Africa when compared to the prevalence rates of 1994 show marked increases in all of the countries in the region with the exception of Mauritius. In three countries (Botswana, Swaziland and Zimbabwe), the incidence rates have even exceeded 30%. In 2001, 31% of the AIDS deaths in the world (or 1 million deaths) occurred in Southern Africa. In the same year, the number of children aged between 0-14 years in the region who were orphaned due to HIV/AIDS was estimated to be 5 million.

Several factors contribute to the spread of the HIV/AIDS epidemic. These include poverty, labour mobility, migration, gender inequalities, illiteracy, stigma and discrimination, alcohol abuse and civil conflict. Today, HIV/AIDS marks a severe development challenge for countries in the sub-region. Due to the pandemic, some countries are experiencing deteriorating child survival rates, reduced life expectancy, over-burdened health care systems as well as the breakdown of family structures.

Policy priorities in 2003 throughout the sub-region were focused on issues aimed at achieving development goals of poverty reduction, economic growth, sustainability, employment creation and the reduction of HIV/AIDS. Efforts also continued to be made to improve good governance as well as to enhance the involvement of the private sector in development activities. However, the implementation of appropriate development–oriented policies and programmes, the consolidation of regional integration and improvement of the business environment, remain major policy challenges that the sub-region will face in the short-term.

In addition, commendable efforts continued to be made to consolidate democracy in order to institute the separation of the legislative and executive powers, the independence of the judiciary, freedom of the press and political pluralism. While parliaments have been established in some countries, they do not yet have the material means or the required capacity to fulfill their triple function of national representation, legislative output and control of governmental activity. This results essentially from lack of a true parliamentary tradition, which is a consequence of more than 30 years of the one-party rule in many Southern African countries that did not allow parliamentary institutions to acquire the necessary means and mechanisms to operate in a system where the powers are separated.

The general picture of the economic structure in Southern Africa is one in which the productive sector and commercial services are mainly run by private sector institutions while the governmental role remains in what are considered strategic sectors such as infrastructure and social services. In many countries in the sub-region, agriculture, manufacturing and mining are now completely run by private sector institutions – formal and informal. Commercial services are also increasingly being run by the private sector, but banking and insurance is an area where state-owned enterprises continue to operate side by side with private sector institutions, particularly in Mozambique and Zambia. The oil industry in Angola involves a mixture of both State and private sector entities.

It is generally accepted that social services are areas that cannot be left entirely to the private sector because market selectivity could create serious distortions to the social infrastructure and services that are necessary to sustain economic development, for ensuring basic human development. Generally, the Governments in Southern Africa assume primary responsibility for infrastructure and social services. They have recognized that with a certain amount of regulation the social services present an increasingly attractive opportunity for private sector participation. Indeed, these are financially very demanding areas, and the policy challenge is to encourage active participation of the private sector to supplement State provisions.

The short-term outlook for the global economy indicates that most of the negative consequences of the 2003 geopolitical uncertainties will dissipate. Oil prices, for example, are expected to fall further as global oil production recovers, with the beneficial effects on global growth and on inflationary pressures in oil-importing countries. Based on that assumption, the global economy is expected to recover in 2004 with world GDP growth rates averaging 3.0 per cent compared to an estimated 2.0 per cent in 2003.

For Africa, the outlook is rather mixed. At best, growth is expected to remain unchanged at 4.2 per cent in 2004. However, if weather conditions and the international economic environment are favourable, growth may rebound modestly in 2004. In Southern Africa, overall output is forecast to rebound to between 4 to 5 per cent in 2004. This projected growth is based on a mixed outlook of domestic economic and political factors as well as international ones that will shape the sub-region's economic performance. The domestic factors that will influence sub-regional output are the capacity and political resolve for fostering economic policies conducive to growth, weather conditions in the drought-affected countries and the consolidation of political stability that has emerged in sub-region. On the external front, exports are expected to increase as the global economic environment improves. Development partners' support, through increased financial and technical assistance in addressing employment and poverty reduction programmes under the Poverty Reduction Strategic Papers (PRSPs) in the sub-region, will remain a key factor for poverty reduction and eradication.

* UNDP, Human Development Report 2003.

PART I

SOCIO-ECONOMIC DEVELOPMENTS AND PROSPECTS

Africa's Performance in the Global Economy

In late 2002 and early 2003, the world economy was affected by the heightened geopolitical uncertainties and risks that arose when the invasion of Iraq permeated the world economy through a number of channels. First, the fear that conflict might disrupt oil supplies raised oil prices far higher than warranted by economic fundamentals. Higher oil prices were in themselves a global economic shock that dampened aggregate demand and imposed additional price pressures in oil-importing countries. Secondly, the overall effect of the standoff with Iraq reduced economic activity, with the setback being most pronounced in developed countries. Indeed, instead of recovering as expected, world economic growth was generally lower than a year earlier, resulting in the world average Gross Domestic Product (GDP) increasing by only 2 per cent in 2003 as shown in Table 1.1 This risk was even higher during the second quarter of 2003, following the run-up to the war in Iraq.

Table 1.1: World GDP Growth Rate by Region, 2000-2004

Regions	2000	2001	2002	2003e	2004f
World	4.0	1.2	1.8	2.0	3.0
USA	3.8	0.3	2.5	2.5	5.0
Western Europe	3.3	1.5	1.0	1.2	2.2
Central and Eastern Europe	3.9	2.7	2.6	3.2	3.7
Asia and Oceania	3.2	0.6	0.5	1.0	1.0
Africa	3.1	4.3	3.2	4.2	4.2
Eastern and Southern Asia	7.1	3.7	5.7	5.2	6.0
Western Asia	6.4	-1.2	2.0	1.2	3.7
Latin America and Caribbean	3.9	0.3	-0.8	2.0	3.7

Sources: *UN/DESA, The World Economy in 2003 and ECA Secretariat.*
E = Estimates F = Forecast

Geopolitical uncertainties have also had a significant impact on commodity markets. After exhibiting considerable volatility throughout much of 2002 and early 2003, owing both to increased expectations of war in Iraq and to supply disruptions associated with the political crisis in Venezuela, oil prices continued to climb, peaking up in mid-March 2002 at $US34 a barrel. Non-fuel commodity prices also rose significantly during 2002, particularly for gold, food, beverages and agricultural raw materials, although the latter were still low by historical standards. There was a non-economic shock during the first half of 2003, the Severe Acute Respiratory Syndrome (SARS) that resulted in reduced growth in a number of Asian developing countries, such as Thailand and Singapore particularly affecting the travel and tourism industries.

In Africa, overall economic growth fell moderately from 4.3 per cent in 2001 to 3.2 percent in 2002. There were multiple causes for the decline in the growth rate. The most prominent causes were the weaker global economy, characterized by persistence of a slow-down in trade and investment, and rising unemployment. In addition, Africa's domestic difficulties, with conflicts in Côte d'Ivoire, Liberia and Sierra Leone, gravely affected the political, humanitarian and security landscape of much of the West African sub-region. On the other hand, among the larger economies (i.e. Algeria, Egypt, Morocco, Nigeria and South Africa) only South Africa improved performance in 2002, with a GDP growth from 2.5 per cent in 2001 to 3 per cent in 2002.

Out of the 53 African countries only five managed to achieve the annual 7 per cent growth rate required to meet the Millennium Development Goals (MDGs) in 2015. As shown in Table 1.2 these include Equatorial Guinea (24 per cent), Mozambique (12 per cent), Angola (11.7 per cent), Chad (11.2 per cent), and Rwanda (10 per cent). Of the other African countries, 43 registered growth rates below 7 per cent, while 5 countries registered negative growth rates. These figures suggest that for most countries in Africa, 2002 was another year in which there was little progress in reducing poverty through economic growth.

Table 1.2: African High and Low GDP Growth Rates, 2002

Country	GDP Growth Rate
Equatorial Guinea	24.4
Mozambique	12.0
Angola	11.7
Chad	11.2
Rwanda	10.0
Uganda	6.2
Ethiopia	5.5
Cape Verde	5.0
Benin	5.0
Mauritania	4.8
Gabon	-0.3
Guinea Bissau	-2.0
Malawi	-2.0
Madagascar	-4.5
Zimbabwe	-8.5

Source: *ECA, Economic Report on Africa 2003.*

The short-term outlook indicates that the global economy will recover starting from the last quarter of 2003. World GDP growth rate is expected to be 3.0 per cent in 2004 compared to an estimated 2.0 per cent in 2003. Thus, in addition to most of the positive factors that were expected to prompt a recovery in 2002, which remain in effect, most of the negative consequences of the 2003 geopolitical uncertainties shoulddissipate by end of 2004. Oil prices, for example, were expected to fall further as global oil production recovered, with beneficial effects on global growth and on inflationary pressures in oil-importing countries.

With respect to Africa, the outlook remains mixed, with GDP growth rate expected to be the same 4.2 per cent in 2004. However, if favourable weather conditions and the current international economic environment prevail, growth might rebound modestly in 2004. This pick up is also dependant upon improved macroeconomic policies and stability, progress in resolving regional conflicts, and debt relief under the Highly Indebted Poor Countries (HIPC) Initiative. On the external front, exports are expected to increase as the global economic environment improves. Projected price increases for almost all categories of export commodities are also expected to strengthen export revenues and support GDP growth in many countries.

Southern African Economies in 2003

2.1 Overview

Preliminary estimates by ECA-SA indicate that overall GDP grew by an average of 3.6 per cent, reflecting improvements in the prices of key export commodities such as gold, oil, diamonds and copper. Mozambique remained the fastest growing economy in the sub-region, with a GDP growth rate of 10.2 per cent as can be seen in Table 1.3. This growth rate was a result of sound macroeconomic policies, and a good investment climate. Economic growth in South Africa and Botswana are also estimated to have improved in 2003 due to improvements in the prices of gold and diamonds, respectively.

2.2 Economic Growth and Poverty Reduction

Economic growth is necessary to meet the goal of poverty reduction for two reasons. First, economic growth directly reduces income poverty for many households, increasing their savings and freeing resources for investment in human development. Second, economic growth tends to increase government revenue. Because most investment in human development, such as health, nutrition, education, infrastructure, comes from the public sector, greater fiscal resources are critical to reducing poverty.[1]

While economic growth is necessary for increased public expenditure on human development, some governments tend to neglect such investment or discriminate in their provision among the population groups, thereby weakening the potential benefits that overall economic growth can provide for meeting the goal of reducing poverty. Thus the strong links between economic growth and poverty reduction are mediated by policy choices and structural factors.

Recent studies suggest a strong relationship between poverty and agroclimatic conditions in various African countries (ECA, 2002). Large differences in living standards between regions in the same country are correlated with unequal distribution of natural assets, differences in agroclimatic conditions, or differences in geographic conditions, such as remoteness from markets and transport routes (ECA, 2003). In addition, addressing spatial poverty also depends on how resources are translated into basic services for the poor in such areas as health, education, water and sanitation, and energy. Public spending on these services is often biased against the poor and against rural dwellers (ECA, op. cit).

It is well recognized that if African countries have to make meaningful progress towards reducing the number of people living in poverty, they will have to maintain a high growth rate continuously for an extended period of time. However, during the period under review, poverty reduction has remained a daunting social and economic challenge in Africa, with close to half the population of the continent living below $US1 a day. Access to jobs, education, health services, housing and water supply remains inadequate for the majority.

Table 1.3: GDP Growth Rates by Countries, 2000-2004

Country	2000	2001	2002	2003E	2004F
Angola	2.4	3.5	11.7	10.5	8.5
Botswana	4.7	4.8	4.1	5.4	7.4
Lesotho	4.0	2.8	4.0	4.0	4.0
Malawi	2.3	-1.5	-2.0	1.8	2.6
Mauritius	4.0	5.4	5.2	4.8	5.1
Mozambique	1.6	13.9	12.0	10.2	8.0
Namibia	3.9	3.0	2.3	4.0	4.5
South Africa	3.1	2.5	3.0	2.7	3.5
Swaziland	2.5	2.6	1.6	2.4	3.0
Zambia	3.0	5.2	3.7	3.2	3.1
Zimbabwe	-4.1	-7.3	-8.5	-8.8	-4.7

Source: *EIU Country Reports, ECA and country sources E = Estimates F = Forecast*

African countries have been pursuing poverty reduction strategies for decades. Currently, these strategies require new political momentum for faster progress on reducing poverty as is already underway in most countries. As governments begin to assess whether and how reducing poverty by half will be achieved by 2015, they are also assessing policy priorities and developing national strategies, such as the Poverty Reduction Strategy Papers (PRSPs). To this end, several countries have increased social spending and launched new programmes in support of poverty reduction.

Despite these efforts, in most African countries, including those in Southern Africa, economic growth has been unable to register a significant impact on poverty, either because it is insufficient or is insufficiently pro-poor in both its quality and structure. Although average incomes have risen and fallen over time, many of the countries in Southern Africa with sufficient data to calculate the Human Development Index (HDI) during the period 1990-2001 saw a drop in the HDI. According to the UNDP Human Development Report 2003, out of the 21 countries that saw a drop in the HDI for the period 1990-2001, six are from the Southern African sub-region. The countries referred to are Botswana, Lesotho, South Africa, Swaziland, Zambia and Zimbabwe[2].

The HDI measures three important dimensions of the human development concept: living a long and healthy life, being educated and having a decent standard of living. Thus, the HDI combines measures of life expectancy, school enrolment and literacy and income to allow a broader view of a country's development than using income alone. According to the report, much of the decline in HDI during the 1990s can be traced to the spread of HIV/AIDS, which has lowered life expectancies and lowered economic growth and incomes.

2.3 Governance

Since the beginning of the 1990s, Southern African countries have made significant progress in institutionalizing democracy and good governance. This has been reflected in a number of developments taking place in the sub-region, such as constitutional limits on Presidential terms of office; setting up democratic institutions, multi-party elections; the increase of popular participation in governance and dialogue between governments, civil society and other stakeholders. In addition, a number of constitutional, legal and administrative changes have also been undertaken with the objective of consolidating and deepening democracy. Sub-regional structures to support such processes include the SADC Electoral Commissions Forum, the Electoral Institute of Southern Africa, the SADC Electoral Support Network and the SADC Parliamentary Forum. These organizations have committed themselves to supporting growth and deepening democracy in the sub-region.

In addition, commendable efforts are being made to institute the separation of the legislative and executive powers, the independence of the judiciary, democracy through freedom of the press and political pluralism. However, while some Southern African governments have managed to establish representative parliaments, they do not yet have the material means or the required capacity to fulfill their triple function of national representation, legislative output and control of governmental activity. This results essentially from the lack of a true parliamentary tradition, which is a consequence of more than 30 years of one-party rule in many countries that did not allow parliamentary institutions to acquire the necessary means and mechanisms to operate in a system where powers are separated.

ECA is organizing the Fourth African Development Forum (ADF IV) on the theme, "Good Governance for a Progressing Africa" in October 2004 in Addis Ababa, Ethiopia. The aim of the ADF is to connect the decision-makers with the best policy advice, informed by credible analytical work and relevant experiences. The Forum will discuss and examine ways of improving governance in Africa and make concrete recommendations on mechanisms for instituting and monitoring good governance. The preparatory sub-regional workshop for Eastern and Southern Africa was held in Lusaka, Zambia 24 – 26 November 2003.

Endnotes

[1] UNDP, Human Development Report 2003.

[2] UNDP, Human Development Report 2003.

Sectoral Developments

3.1 Food and Agriculture

As shown in Table 1.4, cereal production in the Southern African sub-region improved for the 2002/2003 production year. This improvement can be mainly attributed to an increased production of the major staple cereal, maize, which marked about a 10% increase above 2002 figures. There were some marked variations at national and sub-national levels. Some countries, notably Angola, Malawi, Namibia and Zambia recorded much higher increases in overall cereal production. Zimbabwe's cereal production, although much higher than last year, is still very much below the last 5-10 year averages. Only in Lesotho did production decrease significantly compared to last year. Some countries, although the cereal harvests were good, were affected by localized crop failure. These included Malawi, Mozambique, Zambia and Swaziland.

The increase in cereal production in the sub-region was mainly as a result of favourable weather conditions and provision of subsidized inputs in some countries such as Malawi and Zambia. The onset of Cyclone Delfina devastated crops particularly in Sofala and Zambezia provinces of Mozambique, but substantial rainfall associated with the cyclone had beneficial effects on late planted crops in parts of Malawi, eastern Zambia and Zimbabwe (SADC REWU, 2003).

Table 1.4: Cereal Production (metric tones)

Country	Production 1999/2000	Production 2000/01	Production 2001/02	Production 2002/03
Angola	515,000	591,000	549,000	713,000
Botswana	22,000	26,000	25,000	32,000
Lesotho	255,000	160,000	121,000	94,000
Malawi	2, 607,000	1, 711,000	1, 726,000	2, 111,000
Mauritius	620	620	2,000	2,000
Mozambique	1,422,000	1,618,000	1,706,000	1,735,000
Namibia	121,000	107,000	69,000	101,000
South Africa	14,456,000	10,975,000	11,765,000	11,440,000
Swaziland	86,000	86,000	70,000	63,000
Zambia	1,045,000	741,000	738,000	1,509,000
Zimbabwe	2,537,000	1,896,000	759,000	1,185,000
TOTAL	22,551,620	17,320,620	16,981,000	18,272,000

Source: *SADC REWU, 2003*

* *Maize, wheat, rice, sorghum and millet*

Maize constitutes the major crop in most Southern African countries. Consequently, maize crop failure as experienced in the recently drought-affected areas brings about serious food insecurity problems in the sub-region. There is need to diversify food production from maize to other food crops such as small grains (e.g. millet and sorghum) and roots and tubers (e.g. cassava and potatoes). As shown in Table 1.5, the production of roots and tubers in the sub-region has increased since 1990 and as a percentage of total cereals produced, production of roots and tubers has increased from 8% in 1990 to 21% in 2001. The contribution of these crops to household food security is significant in Angola, Mozambique, Malawi, and parts of Zambia. Remarkable progress has been made in the production of roots and tubers, particularly cassava and sweet potatoes in Malawi, where production has increased by more than 1000% from 1990 to 2001.

Table 1.5: Production of Roots and Tubers (‘000 metric tons)

Country	1990	1995	2000	2001
Angola	1799	2762	4684	5775
Botswana	7	9	13	13
Lesotho	45	70	90	90
Malawi	495	726	4795	6166
Mauritius	19	16	15	17
Mozambique	4720	4310	5513	5552
Namibia	212	220	255	270
South Africa	1300	1481	1624	1689
Swaziland	7	8	8	8
Zambia	703	803	877	1014
Zimbabwe	127	182	208	210
TOTAL	7635	7825		15029
TOTAL in grain equivalent*	1914	1961	3358	3767
Roots and Tubers as % of Cereals	8	11	20	21

Source: *FAO database, 2003.*
** A conversion rate of 3.99 used was used by FAO to convert roots and tubers into grain equivalent*.

Adaptation to marginal environments, their contribution to household food security, and their great flexibility in mixed farming systems make these crops an important component of a targeted strategy that aims to improve the welfare of the rural poor. They do initially require quite high levels of labour in terms of establishing ridges. However, once the crop is established, the amount of labour required is considerably less than other crops and they are thus suitable for households that may be experiencing labour shortages.

3.1.1 Regional food security status

Despite an improvement over last season’s cereal harvest, there is still need for food aid to meet the cereal shortfall in some countries. As shown in Table 1.6, some countries such as Angola, Lesotho, Namibia, Swaziland and Zimbabwe have been experiencing cereal shortfalls in their cereal balance sheet.

The SADC Secretariat together with the United Nations hosted a Regional Consultative Meeting on Humanitarian Needs in the six most affected countries in June 2003. The results of the meeting indicated that the population requiring food assistance had dropped from 15.2 million in March 2003 to 2 million in June 2003, but was expected to rise to 7 million by January 2004. About 5.4 million of these people are from Zimbabwe.

In Angola, despite the end of the civil war and a good cereal harvest in 2003, food aid was required for 1.4 million people, mainly for returnees and to the vulnerable groups. In Mozambique, the overall cereal harvest was good in 2003 but approximately 940 000 people in the Southern Provinces required food assistance due to a poor maize harvest. In 2003, emergency food assistance was also required in parts of Lesotho, Malawi, Namibia, Swaziland and Zambia in areas affected by localized crop failure and HIV/AIDS.

Table 1.6: Cereal Availability and Gaps 2003/2004 (metric tons)

Country	2003/04 Production + Opening Stocks	Domestic Requirements	Domestic Shortfall/ Surplus	Imports/ exports	Import Cereal Gap
Angola	713,000	1,262,000	-600,000	0	600,000
Botswana	76,000	311,000	-278,000	333,000	0
Lesotho	127,000	395,500	-287,000	200,000	87,000
Malawi	2, 391,000	2, 113,000	179,000	0	0
Mauritius	6,000	240,000	-234,000	278,000	0
Mozambique	1,860,500	2,358,000	-498,000	686,000	0
Namibia	149,000	257,000	-140,000	104,000	36,000
South Africa	15,481,000	12,024,000	1,828,000	890,000	0
Swaziland	69,000	204,000	-145,000	85,000	63,000
Zambia	1,612,000	1,346,000	211,000	9,000	0
Zimbabwe	1,251,000	2,272,000	-1,271,000	313,000	959,000

Source: *SADC REWU, 2003.*

3.1.2 Underlying causes of the continued food crisis

The main cause of food shortages in the sub-region is the recurrent drought. However, the situation is also exacerbated by the destabilizing impact of the HIV/AIDS pandemic. The inter-relationship between HIV/AIDS and the food crisis has been realized in the sub-region. HIV/AIDS is rapidly eroding the coping strategies used by communities to survive and recover from frequent drought and natural disasters. As a result, food relief efforts are now incorporating HIV/AIDS prevention and mitigation into their programmes. Other causes of the food security crisis include:

(a) Inadequate targeting of attention on the particular needs of women who are the dominant agricultural producers, traders and nutrition providers;

(b) Limited application of science and technology;

(c) Policy and institutional weaknesses such as unclear rights and land tenure arrangements, inadequate research and extension services to farmers;

(d) Limited or non-access to credit, inputs and markets;

(e) Poor political and economic governance which creates an unpredictable environment for business making the pursuit of economic growth difficult.

In addition, issues of sustainable development, land tenure security and lack of land tenure rights by women and other groups in the sub-region continue to play a critical role in agricultural productivity. In order to assist member States address these issues, ECA has prepared a study on *Land Tenure Systems and Sustainable Development in Southern Africa*.[1] The study indicates that land tenure insecurity is prevalent in most Southern African countries in both the statutory and customary tenure systems. This situation negatively affects agricultural production. The study contains a set of measures to strengthen the legal basis for secure land tenure in Southern Africa.

3.1.3 The 2003/2004 agricultural season

The Seventh Southern Africa Regional Climate Outlook Forum was held from 3 to 4 September 2003 to develop a consensus forecast regarding the weather prospects for the 2003/2004 rainy season. The outcome of the meeting indicated that the sub-region is likely to experience normal to above normal rainfall. Based on this weather forecast, SADC advised that sustainable food security in the sub-region could only be realised if appropriate supportive production strategies were adopted, such as provision of agricultural inputs. According to the SADC Seed Security Network, prospects for seed availability for the agricultural season 2003/2004 vary across the region. A number of countries, including Malawi, Mozambique, South Africa and Zambia are expected to have adequate seeds. Zimbabwe, however, will experience a deficit in seed maize, as well as in groundnut, sorghum and millet seeds.

3.1.4 Genetically modified organisms (GMOs)

In 2002, governments in the sub-region were faced with a set of decisions around the potential risks and benefits of accepting genetically modified commodities. So far, five of the six countries that were most affected by food shortages have agreed to accept Genetically Modified Organism (GMO) maize, most with the condition that the maize is milled before distribution so that it cannot be planted. Zambia is the only country that has banned all GMO stocks. Large-scale milling allows for Value-added nutritional impact through fortification with a multi-vitamin and mineral mix. This is especially valuable in light of the numbers of people infected with HIV/AIDS.

3.1.5 NEPAD and food security

The New Partnership for African Development (NEPAD) is according priority to agriculture and food security and has formulated a Comprehensive Africa Agriculture Development Programme (CAADP) with assistance from FAO together with inputs from COMESA and SADC. The programme reflects NEPAD's vision of agriculture that seeks to restore agricultural growth, rural development and food security in the African region. Taking into account Africa's diverse potential, constraints and opportunities, the overall CAADP presents urgent, mutually non-exclusive pillars to induce quickest production increases:

(a) Extending the area under sustainable land management and reliable water control systems;

(b) Improving rural infrastructure and trade-related capacities for improved market access;

(c) Increasing food supply and reducing hunger; and

(d) Addressing long-term agricultural research, technological dissemination and adoption.

As a way to operationalize CAADP, NEPAD has developed an Action Plan for 2003-2009 in which projects for funding by the Regional Economic Communities (RECs) are identified. The criteria used to select the projects are indicated in Box 1.1 below:

Box 1.1: Criteria for Selection of NEPAD programmes/projects under CAADP

1. The proposal should demonstrate how it adds value to the operationalization of the NEPAD/ CAADP through:

    (a) Capacity to respond rapidly to agricultural crises in Africa;

    (b) Bring greater attention to issues critical to growth and/or reducing vulnerability;

    (c) Lending a more holistic view to problems now dealt with "piecemeal" fashion;

    (d) Scaling up of proven technologies;

2. Projects should have a regional scope with high impact at national level whilst addressing issues of regional convergence and integration.

3. Comply with national and regional priorities as evidenced by commitments through cost sharing.

4. Be aligned with one or more of the pillars of CAADP:

    (a) Extending the area under sustainable land management and reliable water control systems;

    (b) Improving rural infrastructure and market access including inputs and finance;

    (c) Increasing food supply and reducing hunger;

    (d) Agricultural research, technology dissemination and adoption;

5. Have clear and visible linkages to the Millennium Development Goals (MDGs) of reducing hunger and poverty by half and reduce gender disparities by 2015.

6. Promote the development, sharing and transfer of expertise.

Source: *NEPAD, 2003.*

In the first tranche of "NEPAD Flagship Projects" for the period 2003-2009, projects worth $US15.7 billion at continental level were approved equivalent to only 6 per cent of the full cost estimated for CAADP. Of the $US15.7 billion total projects cost, 47% is for CAADP pillar 1 i.e. extending the area under sustainable land management and reliable water control systems; 0.2% is for CAADP pillar 2 i.e. rural infrastructure and trade-related capacities for improved market access; 52% is for CAADP pillar 3 i.e. increasing food supply and reducing hunger; 1% is for CAADP pillar 4 i.e. agricultural research, technology dissemination and adoption, and 0.1% is for Civil Society Mobilizing and Empowerment Programme.

Under CAADP pillar 2, the first tranche of projects approved for Southern Africa include a 'Regional Agricultural Trade Promotion and Food Security Project' to be implemented by COMESA, and 'Promoting Regional Agricultural Trade and Harmonizing Standards' to be implemented by SADC. The projects for Southern Africa approved under CAADP pillar 1, include an 'Irrigation Development Project' by COMESA and 'Irrigation Development and Water Management Project' by SADC. The first tranche of projects under Pillar 3, are mostly focused on combating emergencies and preparedness for recurrences. The projects approved for Southern Africa include development of the Strategic Food Reserve Facility by SADC, Cassava Development Initiative by COMESA and Disaster Prevention and Emergency Response Food Crises Programme by COMESA, and SADC. NEPAD plans to approve additional programmes and projects in the future to support non-emergency agriculture, and enhance food security through production and agro-industry.

The first tranche projects were presented at the Conference of Ministers of Agriculture of the African Union (AU) in Maputo, Mozambique in July 2003. Following a recommendation by the Ministers of Agriculture, the Summit of the Heads of State and Government adopted a Declaration on Agriculture and Food Security in Africa, under which they resolved to revitalize agriculture, prepare and implement projects under the NEPAD/CAADP programme, establish food reserves linked to Africa's own food production, and appeal for continuing co-operation by all concerned to enable Africa to develop a prosperous and viable agricultural sector.

3.2 Education and Health

3.2.1 Education

The performance of the education sector in the sub-region remains a critical element for sustainable development. Current trends indicate that the MDG of universal primary education by 2015 is unlikely to be attained. While most countries in the sub-region achieved a net primary enrolment ratio of over 80% by 2000/2001, there were some exceptions: Angola with an estimated 37%, Mozambique with 54% and Zambia with 66%. Mauritius, Swaziland, and South Africa each attained 95%, 93% and 89% net primary enrolment rates respectively. Thus, apart from these three countries, the net enrolment ratios are, for the most part, very low. Similarly, enrolment at secondary and tertiary levels still remains very low in most countries.

Sub-regional efforts towards addressing gender disparities in education are showing some positive results. Lesotho and Namibia, for example, are enroling more females than males in primary school while in Botswana and Mauritius the ratio of females to males in primary schools is 1:1. For the rest of the countries, the ratio of females to males is almost at parity. Although there is a drop in percentages from primary to secondary schools, the enrolment ratios of females to males at secondary level are quite high. In Namibia, South Africa, Lesotho and Botswana more females than males are being enroled in secondary schools, a positive development in gender equality. Indeed Botswana, Lesotho, Mauritius and Namibia have already achieved gender equality targets in education both at primary and secondary levels while the rest of the countries are on track with only Mozambique and Angola remaining behind at primary and secondary levels.

Table 1.7: Net Primary Enrolment Ratio

Country	1999/2000			2000/2001		
	M + F	M	F	M + F	M	F
Angola	27*	29*	25*	37*	39*	35*
Botswana	84	82	85	84	82	86
Lesotho	58	55	62	78	75	82
Malawi	..	..	..	..	..	..
Mauritius	94	94	94	95	95	95
Mozambique	50	55	46	54	59	50
Namibia	80	77	82	82	79	84
South Africa	95*	94*	95*	89*	90*	88*
Swaziland	93	92	94	93*	93*	95*
Zambia	66	67	66	66	66	65
Zimbabwe	80	80	80	80	80	80

Source: *UNESCO, Global Education Digest, Institute for Statistics (UIS), Montreal, 2003 (* UIS estimation)*

Positive progress has been achieved in the area of adult literacy from 1990 – 2000 and there are no large disparities between countries in terms of adult literacy levels. Pupil/teacher ratios for most have remained almost the same as their 1999/2000 levels, even though some countries are struggling to replace the teachers lost to the HIV/AIDS pandemic.

Data for expenditure on education are scarce, but it is known that, with the current austerity programmes in most countries, resources allotted to education have generally been limited, at all levels of education. It needs to be emphasized in this connection that informed decision-making will greatly depend on an enhanced capacity for producing statistical information for better monitoring and planning purposes.

3.2.2 Health

The health sector in the sub-region is undergoing a debilitating crisis with the health gains of the last 30 years being completely reversed. Adult mortality rates are now greater than they were 30 years ago with six countries experiencing rates well in excess of 600 per 1000 for both male and female populations compared to the rest of the world, which are below 300 per 1000. Furthermore, under-five mortality rates have also dramatically increased.

Life expectancy for men and women has reduced by more than 20 years due to HIV/AIDS with the greatest impact in Botswana, Lesotho, Swaziland and Zimbabwe (WHO, 2003). Further, HIV/AIDS has substantially increased the burden of disease with severe affects on the economy and the social fabric. Maternal mortality rates are also extremely high though in Mozambique, Malawi and Lesotho some minimal reductions were recorded in the period 1999 to 2001.

Table 1.8: Under-five and Adult Mortality Rates

Country	Under-five mortality rate		Average annual rate of reduction 1990-2001	Adult mortality rates 2002	
	1990	2001		M	F
Angola	260	260	0.0	594	481
Botswana	58	110	-5.8	786	745
Lesotho	148	132	1.0	902	742
Malawi	241	183	2.5	657	610
Mauritius	25	19	2.5	222	116
Mozambique	235	197	1.6	613	519
S. Africa	60	71	-1.5	605	529
Swaziland	110	149	-2.8	598	482
Namibia	84	67	2.1	818	707
Zambia	192	202	-0.5	700	654
Zimbabwe	80	123	-3.9	821	789

Sources: *UNICEF, State of the World's Children 2003; WHO, Health Report 2003 for Adult Mortality*

The percentage of people with access to adequate health facilities declined in the period 1999 to 2001, especially in Lesotho, Malawi and Zimbabwe. The disparities between rural and urban areas are also very large in terms of access to health facilities. Only Mauritius has succeeded in the provision of universal health services both in rural and urban areas with 99% of its population having access to adequate health facilities. Overall, there has been a decrease in the percentage of people with access to safe water sources especially in Zimbabwe, Mozambique and Lesotho. In most of the SADC countries, more than half of the rural population has no access to safe water sources and this is one of the biggest challenges facing the sub-region.

Malaria ranks high as one of the leading causes of death in Southern Africa. According to data in the Southern Africa Health Report (SADC, 2002), Angola, Malawi, Mozambique, Zambia and Zimbabwe are experiencing high malaria death rates per annum, and the rate has been increasing over the years. Botswana, Namibia, South Africa and Swaziland have relatively low malaria incidences per annum with Swaziland being the least affected. Malaria also remains the major cause of under-five mortality in the SADC sub-region. Similar to education expenditure, with the exception of Angola, Botswana, and Mauritius, per capita expenditure on health have also been on the decline.

Overall, there has been a general downward trend in progress in the education and health sectors throughout the sub-region and much needs to be done in order to achieve the desired results in the delivery of health and education services. Increased investments in health and education and awareness campaigns are already in place in many countries at the national level, but efforts are being hampered by weak capacities and limited financial and non-financial resources.

Table 1.9: Per Capita Total Expenditure on Health

Country	Per capita total expenditure on health at average exchange rate $US)				
	1997	1998	1999	2000	2001
Angola	26	19	17	26	31
Botswana	169	158	164	173	190
Lesotho	31	30	31	29	23
Malawi	21	15	14	12	13
Mauritius	109	114	113	127	128
Mozambique	10	11	11	12	11
South Africa	315	270	264	253	222
Swaziland	45	43	43	45	41
Zambia	24	20	19	18	19
Zimbabwe	66	59	35	42	45

Source: *WHO, World Health Report 2003*

While additional resources are required to improve both the education and health sectors, a holistic policy approach that addresses behavioural change, improvements in rural roads infrastructure and innovative approaches to the delivery of drugs will have to be put in place. Further, reduced indebtedness and more committed and enhanced partnerships with the private sector will be pivotal in addressing the health and education challenges facing the sub-region.

3.3 HIV/AIDS and Development

Southern Africa has the highest HIV prevalence in the world. As shown in Table 10, HIV/AIDS prevalence in Southern Africa has shown a marked increase in all countries since 1994, with the exception of Mauritius. In three countries, Botswana, Swaziland and Zimbabwe, the incidence rates have exceeded 30%. In 2001, 31% of the AIDS deaths in the world (or 1 million deaths) occurred in Southern Africa. For the same year, the number of children aged between 0-14 years in the sub-region who were orphaned due to HIV/AIDS was estimated to be 5 million.

Several factors contribute to the spread of the HIV/AIDS pandemic. These include poverty, labour mobility, migration, gender inequalities, illiteracy, stigma and discrimination, alcohol abuse and civil conflict. Countries are experiencing deteriorating child survival rates, reduced life expectancy, over-burdened health-care systems as well as the breakdown of family structures. In all countries, the epidemic is attacking the most productive sectors and prime-aged adults, and also robbing economies of scarce skills, children of their parents, and exacerbating food insecurity. HIV/AIDS-induced poverty is intensifying and deepening while, at the same time, demands are increasing for public goods such as health and education. Without doubt, HIV/AIDS poses a severe development challenge for countries in the Southern African sub-region.

Table 1.10: Estimated Adult HIV/AIDS Prevalence in Southern Africa

Country	% Of Total Adult Population December 1994	% Of Total Adult Population December 2002
Angola	1.0	5.5
Botswana	18.0	38.8
Lesotho	3.1	18.0
Malawi	13.6	15.0
Mozambique	5.8	13.0
Namibia	6.5	22.5
South Africa	3.2	20.1
Swaziland	3.8	33.4
Zambia	17.1	21.5
Zimbabwe	17.4	33.7

Source: *WHO, 1995, Global Prevalence and Incidence of Selected Diseases: Overview and Estimates; UNAIDS 2002, Report on the Global HIV/AIDS Epidemic, December 2002*

As highlighted in the most recent UNAIDS publication, *Accelerating Action against AIDS in Africa*, the major gaps in addressing the HIV/AIDS epidemic include treatment, capacity, resource mobilization and gender gaps in treatment. The report indicates that, since 1996, the use of antiretroviral (ARV) medicines has dramatically reduced AIDS-related illness and death in countries where these drugs are widely accessible. However, at the end of 2002, only an estimated 50,000 people in sub-Saharan Africa (or about 1% of the 4.1 million people in need) had access to such treatment.

Southern African countries are among those countries with the largest percentages of people in need of ARV treatment. However, one of the greatest barriers to expanding high-impact, cost-effective HIV interventions is the limited human and technical capacity. Lack of financial resources also remain a problem facing countries in Southern Africa, even though a majority of the member States have now increased their national budgetary contributions to HIV/AIDS programmes, in response to the crisis. Assistance has also been received from debt relief and World Bank loans and from the Global Fund for AIDS, TB and Malaria.

Women constitute 58% of infected people in Africa and the vulnerability of African women and girls to HIV infection is integrally linked to underlying gender inequalities, societal norms and discrimination. Reducing this vulnerability will require fundamental shifts in the relationships between men and women, and in the way societies view women and value their work and contributions.

The SADC Secretariat recently revised its HIV/AIDS Strategic Framework and called for an enhanced multi-sectoral response to the pandemic. The Maseru Declaration on HIV/AIDS adopted on 4 July 2003, by the Heads of State of SADC countries commits them to action in the area of care and treatment of people living with HIV/AIDS, with antiretroviral therapy. In 2003, the United Nations Secretary-General, Mr. Kofi Annan, established two initiatives to help address the impact of HIV/AIDS in Africa. In February 2003, he established the 'Commission for HIV/AIDS and Governance in Africa (CHGA)' and in July 2003 he requested the Southern Africa sub-region to establish a Task Force on 'Women, Girls and HIV/AIDS in Southern Africa.' Under the chairmanship of K. Y. Amoako, CHGA is mandated to complement the vital work on transmission and prevention being done by the UN and other agencies with policies and programmes to mitigate the socio-economic impacts of HIV/AIDS in African States.

The Commission is studying the impact of HIV/AIDS on State structures and economic development and also identifying the "complex linkages" between human losses at the local level and, economic growth and the capacity of health services and State structures to cope with the challenges. It has established four major research clusters These are:

1. The impact of HIV/AIDS on macroeconomic indicators and economic policies, including development partnerships;
2. The impact of HIV/AIDS at the household level, including its impact on women, social safety nets, food security, and household level poverty;
3. The challenge of scaling up HIV/AIDS treatment; and
4. The impact of HIV/AIDS on State capacity including service delivery and the security sector.

The aim of CHGA is to act as a source of advice and analysis for African policymakers in their engagement with these crucial factors. To this end, CHGA is envisioned as an `activist Commission'. This means that its research activities will produce policy-relevant material during the lifetime of the Commission, providing the basis for proactive advocacy for CHGA Commissioners. CHGA's work will culminate in a final report in June 2005, which will analyse the governance and development threats posed by the pandemic and will contain policy options for mounting an effective response.

The aim of the Task Force on Women, Girls and HIV/AIDS in Southern Africa is to develop a consensus on a sub-regional action agenda to respond to the issue of women, girls and HIV/AIDS, and to provide advocacy and technical support to country teams in developing action plans within this framework. The Task Force comprises 25 eminent individuals and leaders from government and civil society within the Southern Africa/ SADC sub-region. The countries involved are the nine countries in Southern Africa most affected by HIV/AIDS: Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia, and Zimbabwe.

3.4 Trade and Regional Integration

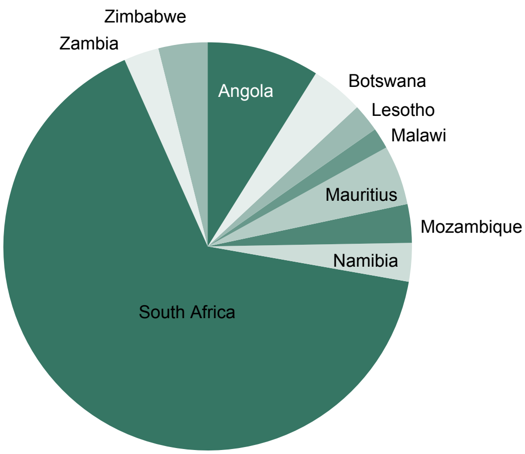
Despite various initiatives, intra-Southern African trade is still low mainly due to trade barriers, the unstable macro-economic environment and also the vicious cycle of indebtedness. In order to remove the barriers and increase integration, countries that are members of COMESA have adopted a programme aimed at consolidating a Free Trade Area (FTA)[1]. The short- and medium-term objective of the FTA is to form a Customs Union. In that context, there is need, for convergent bilateral and multilateral trading arrangements among the participating countries, in order to avoid trade deflection and diversion as well as to ensure ease of administration of the Custom Union. There is also a need to arrive at an appropriate institutional framework to ensure effective and efficient implementation of the trade protocol.

3.4.1 Southern African trade policies

Southern African trade policies are mainly a series of reciprocal arrangements signed by members of COMESA, SADC and Southern African Customs Union (SACU) regional economic groupings. Trade exchanges are made among contracting parties based on a most favoured nation basis and those that are not part of the FTA are usually granted trade preferences by the FTA member States on the basis of the tariff reduction they have agreed upon. However, despite these reciprocal arrangements, sub-regional total trade in terms of both volume and value is very low in Southern Africa.

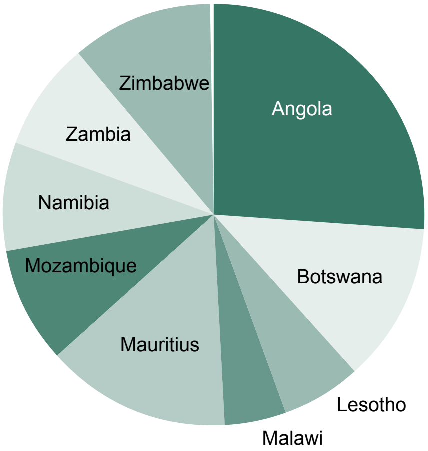
From 1990 to 2000, Angola experienced a 4.9 per cent average annual growth for imports and exports causing net barter terms of trade to reach an index of 214.9 in 2000. South Africa recorded an average increase of 2.5 per cent average annual growth for exports between 1990 and 2000 and a 5.8 % per cent average annual growth for imports for the same period maintaining a net barter index of terms of trade at 99.5 in 2000. Zambia and Zimbabwe, on the other hand, have faced a considerable regression in their export and imports activities since 1980.

Graph I: SA countries exports for 2002



Source: *UNCTAD, Handbook of Statistics, 2003*

Graph II: SA countries imports for 2002



***Source:** UNCTAD Handbook of Statistics, 2003*

As shown in graphs I and II, Angola, Botswana, Mauritius and South Africa enjoy a disproportionate share of total trade within Southern Africa. In the 2001, South Africa accounted for 61 per cent of all Southern Africa exports and South Africa and Angola combined accounted for 80.5 per cent of all imports. In 2002 this figure declined to 74.6%. The trade concentration among a few countries in Southern Africa may in part be attributed to trade liberalization policies and lack of production capacity.[2]

It may be concluded that there has been no tangible increase in Southern African trade as a result of integration, and trade amongst Southern African countries remains low and concentrated among a few countries. There are a number of factors that work against trade creation in Southern Africa. One is the dependence on primary commodities for generating the foreign exchange.

As shown in Table 1.11, Zambia depends on copper exports for 98% of its export earnings and Angola and Botswana depend on petroleum and diamond for 85% of their export earnings. Similarly, in Namibia, 95 % of its export earnings are from commodities of which diamonds and uranium represent 40.0% and 24.0% respectively, per year. Apart from creating balance of payments problems if production of a single commodity is disrupted, any slump in world commodity prices erodes the ability of the Southern African economies to maintain investment in basic infrastructure, which also has negative effects on regional integration efforts.

Table 1.11: Commodity Dependency of Selected African Countries, 2001

Primary commodities as a % of Total Export Earnings	Country	Individual Commodities as a % of Total Export Earnings
85	Angola	Petroleum
	Botswana	Diamonds (90.0)
46.2	Lesotho	(mohair 24.0)
99.7	Zambia	(copper 67.0)
95.0	Namibia	(diamonds 51.0/uranium 19.0)
93.4	Malawi	(tobacco 58.0/tea 8.0)
76.3	Mozambique	(fish 27.0/prawns 16.0)
56.9	Zimbabwe[1]	(tobacco 27.0)

Source: *National Statistical Offices [1]=Figures for Zimbabwe for 2000*

Furthermore, many Southern African economies still depend on Organization of Economic Cooperation Development (OECD) countries for imports and exports of raw materials and manufactured products, even if products of comparable quality are available from other countries in the sub-region. Angola, for example, imports 29.7% of its produce from Portugal, USA and France, and these same countries in turn absorb more than 65% of Angola's exports[3].

The continued dependence on external developed markets is partly due to the need for foreign currency. Further, many imports from the OECD countries are partly tied to aid programmes regardless of the suitability of the products for local conditions. The existing trade patterns in Southern Africa, not only serve as a vehicle for the systematic transfer of resources to OECD countries, but are also driving many Southern African economies further into debt.

According to studies undertaken for the United Nations Conference on Trade and Development (UNCTAD), the adverse impact of transport costs on trade efficiency are real and of serious concern. In Africa, 11.5 per cent of the total value of imports relates to transport costs. In North America, the equivalent percentage is 6.7 per cent and in Asia 7.2 per cent. Within Africa, the percentage for Eastern Africa is 23.6 per cent, while for Southern Africa the figure is 12.7 per cent. On the export side, many of the countries of Southern Africa spend 20 per cent of their earnings on transportation and related expenses, with Malawi spending as much as 55.5 per cent. It is clear that reductions in transport costs can significantly improve the sub-region's competitiveness. This is emphasized by the increasing trend of globalization enabling buyers to seek electronically the lowest prices internationally which, over time, puts downward pressure on commodity prices and forces competitors to look at ways to reduce the costs in their value claims. Reducing transport costs is an important component of this process.[4]

As a result of the regional focus of NEPAD, many Southern African countries have begun to re-emphasize the important role that infrastructure plays as a factor in development. Not only is this renewed emphasis helping to open the way for substantial gains from multinational cooperation, but also infrastructure development will help Southern African countries to offset some of the disadvantages of economic and geographical isolation and provide a foundation for future regional cooperation under the umbrella of COMESA and SADC.

As shown in Table 1.12, the Southern African countries are also experiencing mounting external indebtedness and as a result, for some countries, a significant portion of export earnings are being diverted from development programmes (including those that are specifically integration-related) to debt servicing. Of the nine countries in the world whose debt is unsustainable, two are in the Southern Africa sub-region.

The slow trade growth in Southern African countries over the last few years seems to suggest that tariff reduction and general trade liberalization are not sufficient to positively influence intra-regional trade flows, particularly amongst those economies with a capacity to compete in regional markets. A critical challenge facing the sub-region is the need to attract both domestic and foreign investment to raise export competitiveness and to establish a credible trade integration process. In order for the trade integration process to be perceived as credible by investors, the following needs to occur:

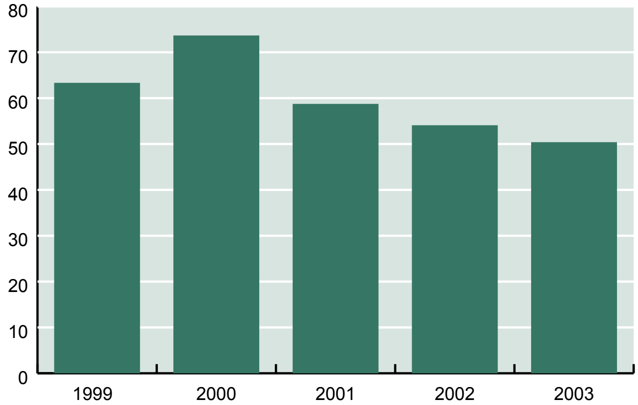
- A move towards some form of trade policy harmonization and convergence, underpinned by institutional strengths;
- Political stability;
- Greater co-ordination; and
- Stability and predictability of macroeconomic policies.

Table 1.12: Total External Debt of SA Countries 1999-2003 ($US Billions)

Country	1999	2000	2001	2002	2003
Angola	10.20	9.30	9.60	9.40	9.20
Botswana	0.49	0.42	0.37	0.38	0.40
Lesotho	0.73	0.67	0.59	0.60	0.61
Malawi	2.80	2.70	2.60	2.80	3.00
Mauritius	7.20	18.20	6.90	5.20	1.80
Mozambique	6.98	7.05	4.47	0.97	…
Namibia	0.24	0.43	0.41	0.62	0.68
South Africa	23.90	24.90	24.00	24.40	25.70
Swaziland	0.30	0.30	0.31	0.32	0.32
Zambia	5.90	5.70	5.70	5.90	5.30
Zimbabwe	4.60	4.00	3.80	3.50	3.40
Total	63.34	73.67	58.75	54.09	50.40

Source: *EIU Country Reports 2003…* *= Data not available*

Graph III: Total External Debt of SA Countries 1999-2003($US Billion)



Source: *EIU Country Reports*

3.5 The Manufacturing Industry

The bulk of manufacturing in most Southern African countries derives from the mining and agricultural sectors. With the exception of few countries such as Mauritius and South Africa, the manufacturing sector mainly comprises firms that are involved in the production of food and beverages, clothing and textiles, timber, pulp and paper, plastics and chemicals. Following the introduction of privatization programmes in the early 1990s and better incentives, the manufacturing sector is becoming more and more attractive to investors and the overall trend is that of increased investment in most countries in the Southern African sub-region. Between 1999 and 2000, the manufacturing sector's contribution to GDP has been, on average, at 15 per cent as shown in Table 1.13.

Table 1.13: Contribution of Manufacturing to GDP (%) 1998-2002

Country	1998	1999	2000	2001	2002
Angola	6.3	3.5	3.0	N/A	N/A
Botswana	4.8	4.9	4.7	4.0	N/A
Lesotho	17.5	15.4	16.0	15.8	N/A
Malawi	13.8	13.8	13.0	12.9	N/A
Mauritius	24.7	33.1	23.0	N/A	22.4
Mozambique	12.0	10.0	13.0	11.0*	N/A
Namibia	12.2	16.5	11.5	10.8	10.9
South Africa	19.3	19.9	19.8	20.0	20.2
Swaziland	34.4	35.9	35.7	35.6	N/A
Zambia	13.0	10.0	12.0	10.5	10.4
Zimbabwe	16.6	18.0	14.0	14.0	N/A

Sources: *EIU Country Reports 2003, World Bank Development Indicators 2002;SADC Review Website (www.sadcreview.com), Central Bank of Swaziland Annual Report 2000–2001*
N/A = Not available ** = Includes mining*

Table 1.14: Value Added in Manufacturing ($US Millions)

Country	1990	1999
Angola	513	198
Botswana	184	251
Lesotho	71	135
Malawi	313	224
Mauritius	524	903
Mozambique	230	439
Namibia	290	343
South Africa	24,040	22,253
Swaziland	246	331
Zambia	1,048	339
Zimbabwe	1,799	797
Total	29,258	26,213

Source: *2002 World Bank - World Development Indicators*

Botswana's manufacturing sector does not constitute a large contributor to GDP. However, prospects for the sector are positive. The Africa Growth and Opportunity Act (AGOA), coupled with fiscal incentives that the Botswana Government is providing, has fueled a boom in the manufacturing sector, which has contributed to high growth rates over the last two decades. As shown in Table 1.14, the value added of the sector has increased by approximately 50 per cent since 1990.

Lesotho's manufacturing industry is the smallest in Southern African countries but has experienced soaring growth rates between the 1980s and the 1990s. The sector is a major contributor to GDP, accounting for approximately 15.7 per cent of GDP between 1999 and 2001. The newly implemented AGOA and other government incentives are expected to continue stimulating growth in the sector.

Over the years, the performance of the Malawian manufacturing sector has been erratic. The 1980s was a period of growth, while the last decade has been a period of decline. Value added in the manufacturing sector has also been on the decline, from $US313m in 1990 to $US224m in 1999. However, with an attractive package of incentives from government the manufacturing sector is expected to grow.

In contrast to its Southern African neighbour, Mauritius is one of the few countries in the sub-region to have a diverse and dynamic manufacturing sector. New areas being explored include the production of woven garments, sportswear, woolen knitwear, clocks, watches, watch straps, leather goods, plush toys, carnival masks, sunglasses, lenses, spectacle frames, ship models, plastic products, engineering products, electronic items, canned foods, polished diamonds, and printing of books and magazines. Even though Mauritius' manufacturing industry's average annual growth rate dropped from 6 per cent in 2000 to 4.4 per cent in 2001 and to 2 per cent in 2002, due to a decrease in the amount of raw sugar processed because of the cyclones, the manufacturing industry continues to record a steady growth rate.

Table 1.15: Growth Rate of Value Added in Manufacturing Sector (%)

Country	1998	1999	2000
Angola	4.9	7.1	8.9
Botswana	5.9	6.0	6.0
Lesotho	-3.3	-0.4	4.4
Malawi	3.3	4.0	1.7
Mauritius	6.6	3.0	8.3
Mozambique	13.7	14.0	14.9
Namibia	8.9	-3.1	
South Africa	-1.6	-0.2	3.6
Swaziland	2.5	1.3	1.4
Zambia	1.8	2.8	13.5
Zimbabwe	-3.4	-4.6	-10.5

Source: *2002 World Bank - World Development Indicators*

Mozambique's manufacturing sector has experienced the greatest increase in growth rates among the eleven nations recording an average annual growth rate of 17.6% between 1990 and 2000 and approximately 14.5% between 1999 and 2000. The value added has also almost doubled from 1990 to 1999. However, if the mining component is excluded, only around a tenth of the GDP comes from the manufacturing sector alone.

Namibia has had an increase in the value added of the sector between 1990 and 1999; however, the contribution of the manufacturing sector to overall GDP has been on the decline, possibly due to a decline caused by growth in the other sectors of the economy. Apart from a decline of 3.1% in 1999 in the manufacturing sector, the steps taken by the Namibian Government have yielded positive results.

South Africa is the leading manufacturing economy of the sub-region with growth rates of 7.0 per cent in 2001 and 3.0 per cent in 2002. Preliminary estimates indicate that the sector will continue its upward trend with a growth rate of 4.0 per cent expected in 2003 and 5.0 per cent in 2004. The greatest increase in production in the manufacturing sector was in the fabricated metal industry, followed by the machinery/ equipment industry, and the basic chemical industry.

Table 1.16: Average Annual Growth in Manufacturing Industry (%)

Country	1980 – 1990	1990 – 2000
Angola	-11.1	-0.4
Botswana	8.7	4.1
Lesotho	8.5	6.6
Malawi	3.6	-2.1
Mauritius	11.1	5.6
Mozambique		17.6
Namibia	3.3	2.7
South Africa	1.1	1.2
Swaziland	14.0	3.0
Zambia	4.1	1.2
Zimbabwe	2.8	0.4

Source*: 2002 World Bank - World Development Indicators*

Swaziland's manufacturing sector contributes more to GDP than any of the other countries in the sub-region, forming well over a third of the GDP as shown in Table 1.16. Growth rates were quite high in the 1980s at 14%. However, they fell to just 3.0% in the 1990s. The growth rate was 1.3% in 1999 and increased by 0.1% in 2000. The value added in the manufacturing sector has experienced a marginal upsurge even though the manufacturing base is in need of diversification. The Swazi Government has embarked on the Millennium Projects - a programme that aims to improve infrastructure, and should assist the manufacturing sector in the country.

In contrast, Zambia's manufacturing sector only accounts for a tenth of annual GDP and has experienced low growth overall. Up until 2000, when government policies contributed to a boom, poor growth rates in the manufacturing sector have been common.

Political instability has affected the overall performance of Zimbabwe's economy, and the manufacturing sector in particular. Over the 1980s and 1990s, the manufacturing sector experienced stagnant growth rates, but in 2000, the situation worsened and the manufacturing sector including the value-added went into decline. This is a cause for concern as the manufacturing industry is a major contributor to GDP and is also a significant employer.

3.6 Urbanization and Development

Urbanization is generally associated with economic and social progress. In developed countries, cities and towns have been the engines of economic and social progress and development that has led to industrialization. Unfortunately, there have not been parallel developments in Africa, particularly in Southern Africa, where countries are faced with financial resources constraints in the light of the continued rapid growth of urban populations. Most of the urban areas in Southern Africa lack a strong industrial base and have weak infrastructure and do not have access to reasonable shelter, clean water, sanitation and health services. Above all, employment opportunities are not adequate. Even though urbanization levels are still comparatively lower than in other regions of the world, the rate of urbanization in Africa is leading to increasing poverty levels and to environmental degradation due to the increase of the population. Consequently, ensuring urban environmental sustainability has become a challenge.

At the Third African Population Conference in 1992, African Ministers adopted the Dakar/Ngor Declaration (DND) on Population, Family and Development. The Declaration called on African governments to address the urbanization and migration issues from a comprehensive integrated perspective taking into account the underlying causes and impact of the demographic, social and economic situation to improve the management of cities and urban areas.[5] The International Conference on Population and Development (ICPD), organized by the United Nations in Cairo, 5 – 13 September 1994, adopted the Programme of Action (PA) which addressed urbanization and related issues and made specific recommendations on actions to be taken. The second United Nations Conference on Human Settlements (Habitat II) held in Istanbul, Turkey in 1996 endorsed important changes in human settlements and acknowledged the need for guiding urbanization, rather than preventing it. The Habitat Agenda strategies, actions and objectives focus on adequate shelter for all and sustainable human settlement in an urbanizing world.

Issues of human settlement, urbanization and, environmental degradation were highlighted in a 2002 *ECA Report on Economic and Social Conditions in Southern Africa*. More recently, at the Second Ordinary Session of the African Union (AU) meeting in Mozambique in July 2003, African leaders expressed concern that if the rate of urbanization in Africa was left unchecked, it would lead to the urbanization of poverty and among the associated problems that have condemned the majority of urban dwellers to unemployment, food insecurity and lack of basic services, such as decent housing and water and sanitation.

3.6.1 Urbanization in Southern Africa

The definition of "urban" varies among African countries. In Botswana, for example, urban areas are defined as agglomerations of 5,000 inhabitants or more where 75 per cent of the economic activity is non-agricultural. As for Lesotho, district headquarters and settlements with rapid population growth and with facilities that tend to encourage people to engage in economic activities that are non-agricultural in nature, are defined as urban areas. In the case of Malawi, all townships, town planning areas and district centres are classified as urban areas.

As of 2001, as shown in Table 1.17, estimates show that South Africa is the most urbanized among the Southern Africa countries with about 58 per cent of the total population living in urban areas. South Africa is followed by Botswana at 49 per cent; Mauritius at 42 per cent; Zambia at 39.8 per cent (Zambia official data for 2000 is 35 per cent); Zimbabwe at 36 per cent and Angola at 35 per cent. In Swaziland, Namibia, Mozambique and Lesotho, about 26 to 29 per cent of the total population dwell in urban areas. Malawi is the least urbanized country with about 15 per cent of its population dwelling in urban areas.

More than 70 per cent of the urban population in least developed countries, including sub-Saharan Africa, was reported to be living in slums in 2001. For specific urban areas, for example in Blantyre in Malawi, 67 per cent of the urban population was reported to be living in squatter or slum areas in 1991.[6] In Luanda, Angola, 80 per cent of the urban population was reported to be living in squatter areas.[7] In Lusaka 'urban', about 70 per cent of the population live in unplanned settlements.

Table 1.17: Percentage Urban Population, Urban and Total Population, 2001

Country	Percentage of urban population	Total urban population in (thousands)	Total population (thousands)
Angola	34.9	4,715	13,527
Botswana	49.4	768	1,554
Lesotho	28.8	592	2,057
Malawi	15.1	1,745	11,572
Mauritius(1)	41.6	486	1,171
Mozambique	33.3	6,208	18,644
Namibia	31.4	561	1,788
South Africa	57.7	25,260	43,792
Swaziland	26.7	250	938
Zambia	39.8	4,237	10,649
Zimbabwe	36.0	4,630	12,852

[1] *Includes Agalege, Rodriguez and Saint Brandon.*
Source: *United Nations, World Urbanization Prospects – The 2001 Revision, New York 2002*

As shown in Table 1.18, in Angola, nearly 60 per cent of the urban population was living in Luanda in 2001. Maseru ranked second with 46 per cent of the country's urban population in 2004, followed by Lusaka at 41 per cent, Harare, 40 per cent; Windhoek, 37 per cent; Port Louis, 36 per cent; Blantyre/Limbe and Mbabane, with 32 per cent; Gaborone, 29 per cent; Maputo, 18 per cent and Johannesburg 12 per cent.[8]

Table 1.18: Population of the Largest Urban Agglomeration in 2001

Country	Agglomeration	Population (thousand)	As percent of urban population
Angola	Luanda	2,819	59.8
Botswana	Gaborone	225	29.4
Lesotho	Maseru	271	45.7
Malawi	Blantyre/Limbe	558	32.0
Mauritius(1)	Port Louis	176	36.2
Mozambique	Maputo	1,134	18.3
Namibia	Windhoek	216	38.6
South Africa	Johannesburg	3,047	12.1
Swaziland	Mbabane	80	32.2
Zambia	Lusaka	1,718	40.6
Zimbabwe	Harare	1,868	40.3

Source: *United Nations, World Urbanization Prospects – The 2001 Revision, New York, 2002*
[1] *Includes Agalege, Rodriguez and Saint Brandon.*

Balanced urban development in a main centre helps to foster development in other urban areas. On the other hand, concentration of the urban population in one or few urban areas in a country as is the case of Luanda in Angola, Maseru in Lesotho, Lusaka in Zambia, Harare in Zimbabwe, Windhoek in Namibia, brings about skewed development in favour of a few urban areas.

3.6.2 Urban population growth in Southern Africa

Urban population growth is due to the following factors:

(a) Migration of people from rural and other urban areas;

(b) Natural population increase in urban areas due to an increase in births over deaths; and

(c) Reclassification of previously rural areas as part of existing urban areas, sometimes also referred to as an extension of boundaries of an existing urban area.

Table 1.19: Population at Mid-year in Urban Areas (%), for Selected Years1970–2000

Country	1970	1980	1990	2000
Angola	15.0	20.9	27.6	34.2
Botswana	8.1	18.5	42.4	49.0
Lesotho	8.6	13.4	20.1	28.0
Malawi	6.0	9.1	11.6	14.7
Mauritius[(1)]	42.0	42.4	40.5	41.3
Mozambique	5.8	13.1	21.1	32.1
Namibia	18.6	22.8	26.6	30.9
South Africa	47.8	48.1	48.8	56.9
Swaziland	9.7	17.8	23.8	26.4
Zambia	30.2	39.8	39.4	39.6
Zimbabwe	16.9	22.3	28.4	35.3

Source: *United Nations, World Urbanization Prospects – The 2001 Revision, New York 2002*

[1]*Includes Agalege, Rodriguez and Saint Brandon.*

In the initial stages of urbanization, rural to urban, and urban to urban migration play a greater part of urbanization growth than natural urban population increase. Seeking improved economic and social conditions is the primary cause of rural to urban migration in the early stages of urbanization. However, even when economic and social conditions deteriorate in urban areas in developing countries, people still perceive conditions there to be better than in rural areas and consequently have continued to migrate to urban areas. Few find employment opportunities and find themselves living in squatter or slum areas, facing further unemployment and social exclusion.

Between 1970 and 2000, the urban population doubled in Angola, Malawi, and Zimbabwe as shown in Table 1.19. During the same period, the urban population grew by more than three times in Lesotho, more than six times in Botswana, and more then five times in Mozambique. Prolonged civil conflict from 1975 to 1992 in Mozambique contributed to the influx of population into urban centres from rural areas, which continued until after the signing of the peace accord.

Table 1.20 shows growth rates of the urban population over 5-year periods between 1970 and 2000. In Botswana, annual growth rates of the urban population varied from 12.6 per cent during 1970 - 1975 to 10.9 per cent between 1985 to 1990, while in Mozambique growth varied from between 10.5 per cent and 5.4 per cent for the same period, but rose to nearly 8 per cent during 1990 to 1995. Swaziland also showED annual growth rates in urban population between 10.1 per cent during 1970 to 1975 to 5.2 per cent during 1985 to 1990. In Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Zambia and Zimbabwe, urban annual population growth rates ranged from 5.5 per cent to 12.6 per cent. This contrasts with the fact that the highest annual urban population growth rate was in Mozambique at 6.4 per cent during 1995 and 2000. The rest of the countries in the sub-region had rates below 5 per cent. Clearly urban growth rates have declined since the 1970s throughout the sub-region.

Table 1.20: Average Annual Rate of Change (%) of Urban Population for Selected Periods 1970 – 2000

Country	1970-1975	1975-1980	1980-1985	1985-1990	1990-1995	1995-2000
Angola	5.51	5.86	6.34	5.28	5.70	4.93
Botswana	12.63	10.84	11.92	10.93	4.90	2.38
Lesotho	6.66	6.47	6.33	5.97	5.65	4.78
Malawi	7.74	6.73	5.58	7.70	3.63	4.80
Mauritius(1)	2.19	1.09	0.53	0.37	1.06	1.22
Mozambique	10.51	10.83	7.09	5.35	7.90	6.35
Namibia	4.80	3.85	3.93	5.75	4.28	3.60
South Africa	2.66	2.46	2.49	2.29	3.41	3.13
Swaziland	10.10	7.87	6.83	5.24	2.69	3.07
Zambia	6.37	5.83	3.16	2.98	2.59	2.69
Zimbabwe	6.26	5.72	6.26	5.82	4.54	4.02

***Source:** United Nations, World Urbanization Prospects – The 2001 Revision, New York 2002*
[1] Includes Agalege, Rodriguez and Saint Brandon.

3.6.3 Implications of urbanization

Most urban areas in Southern Africa face a number of problems including:

- A weak industrial and economic base;
- Lack of resources and investment for infrastructure improvement and development to deliver services;
- Problems of urban squatter/slum settlements;
- Increased urban population growth;
- Weak capacity for resource mobilization;
- Lack of adequately trained human resources with weak capacities at all levels in the technical management and administration of the urbanization process;
- Sustaining the environment; and lack of security.

Although urbanization rates in Africa in general, and in Southern Africa in particular, have in recent years been declining due partly to declining socio-economic conditions, the current levels and future trends will have severe consequences on sustainable urban development. Issues of low employment levels coupled with low incomes, inadequate housing and health services, inadequate access to clean water and sanitation services, poor infrastructure and poor governance all impact negatively on urban socio-economic conditions and on sustaining the urban environment.

3.6.4 Employment and incomes

With the exception of South Africa, industrialization rates are very low in Southern Africa, in contrast to Asia and Latin America where large-scale manufacturing led to increased levels of employment in the urban areas. Due to the low levels of industrialization and manufacturing in Southern Africa, there are limited employment opportunities in urban areas.

Generally, the employment situation and income has worsened poverty in Africa since the 1990s economic crisis. Wages have continued to fall in most urban areas while prices of goods and services have continued to increase. As noted earlier, up to 70% of the urban population are living in slum or squatter areas in most countries of the sub-region. Households in these urban areas are reported to spend 60 – 80 per cent of their income on food, yet they have to pay for many other basic needs.

Privatization and reforms have led to unemployment in urban areas causing the rise in unemployment rates. Consequently, there has been a shift from the formal economy to the informal economy and the International Labour Organization (ILO) has reported that participation in the informal economy has been the highest in sub-Sahara African countries, with rates above 50 per cent in two-thirds of the countries surveyed.[9] Employment in the informal economy is generally not conducted in a conducive environment. There are few or no standards, wages/incomes or returns are low, productivity is low and also health and safety issues are not given sufficient attention. There is need for governments, the private sector and development partners to use policies and regulations which ensure that the informal economy becomes more productive.

The current Poverty Reduction Strategy Papers (PRSPs) should give priority to employment issues and especially in the informal economy in both urban and rural areas as the two are economically and socially interdependent. Cities and towns, as centres of growth, should contribute to development in rural areas as in most countries in Southern Africa the majority of the population are living in rural areas. Attention should also be given to issues affecting the youth, and to gender issues in employment.

3.6.5 Housing, Health Services, Clean Water and Sanitation Services

The Habitat Agenda states that, "adequate shelter means more than a roof over one's head", it also means adequate privacy, adequate space, physical accessibility, adequate security, security of tenure, structural stability and durability, adequate lighting, heating and ventilation, adequate basic infrastructure, such as water-supply, sanitation and waste-management facilities, suitable environment quality and health-related factors, and adequate and accessible location with regard to work and basic facilities, all of which should be available at an affordable cost.

The Agenda also states that, "Urban settlements properly planned and managed, hold the promise for human development and protection of the world's natural resources through their ability to support large numbers of people while limiting their impact on the natural environment."[10] However, continued rapid growth of the urban population in developing countries with limited financial resources to deal with urbanization problems pose serious challenges in the twenty-first century.

An assessment of the implementation of the Habitat Agenda in Africa, based on national reports synthesized and presented at an ECA Regional Meeting in Addis Ababa in 2000, showed that while many governments have facilitated comprehensive shelter policies and have revised their housing development strategies, few have managed to be sufficiently effective in the implementation. The reason for this is lack of capacity at the local level, which ranges from technical planning to financial resource mobilization and management.

Zambia has a comprehensive housing policy that was formulated in 1996. The main goal of the housing policy is to provide adequate affordable housing for all income groups in the country. However, the implementation of the policy has been affected by lack of housing finance and the overall poor and declining economic and social conditions. Botswana also adopted a National Housing Policy in 1999. Since then, the Government has been involving the private sector in the implementation of this policy and the poor have been accorded adequate attention to enable them to benefit from the policy.

According to the recent Habitat publication "*The Challenge of Slums: Global Report on Human Settlement 2003*", 71.9 per cent of the urban population lived in slums in sub-Saharan Africa in 2001. Although countries resolved at Habitat+5 to promote the upgrading of slums and the regularization of squatter settlements within the legal frameworks of each country, this is proving difficult due to lack of resources. The poor are not able to afford the low-cost and sustainable building materials and appropriate technologies to construct decent housing and afford related services, including pipe water and health services and facilities.

Urban problems related to health services, clean water and sanitation services are characteristic of most countries in Africa, and in Southern African in particular are as follows:

- Most people in the urban slums and squatter areas have no access to clean water and health services;
- Most of the urban population, especially those in slum or squatter areas cannot afford to pay for clean water, health and sanitary services; and
- Most urban administrative institutions cannot meet the increasing demand for clean water, health and sanitary services.

The consequences of lack of access to clean water, health services and poor management of waste disposal include an increase in the incidence of diseases and mortality, which is most serious during the rainy season. The increase in the incidence of diseases and mortality makes it difficult to attain the MDGs in health and housing. Continued urban growth, without the ability to improve the prevailing housing situation, health and sanitation services and provision of clean water, will only worsen the already very poor conditions, especially in unplanned settlements. There is need for educational awareness to promote cleanliness and safety in urban areas. Zambia, for example, has initiated a Zambia Clean Programme to help the Zambian urban population keep their cities clean.

3.6.6 Infrastructure

The infrastructure in most urban areas has deteriorated and is not sufficient to support economic growth and expansion. Also the institutional capacity for the improvement of roads, provision of educational health, water and waste management is very weak. Governments alone cannot provide all the solutions to improve the infrastructure for the development and delivery of services in urban and rural areas. There must be participation and involvement of all concerned parties including government, private sector, communities and development partners. Southern African governments, however, must lead in formulating relevant policy and regulations for a conducive environment to improve urban areas and make them safe places in which to live and work.

South Africa formulated an Urban Development Framework in 1997, which forms the main policy guideline for implementing the Habitat Agenda. The programme of action that has been developed includes, integrating the city and region, improving housing and infrastructure, promoting urban economic development, and creating institutions for service delivery.

3.6.7 Urban management

United Nations Resolution S-25/2 on the Declaration on Cities and Other Human Settlements in the New Millennium stresses that the management of the urbanization process requires strong and accountable public institutions able to provide an effective framework to ensure that everybody has access to basic services. The Resolution calls for capacity building needs to be directed towards, *inter-alia,* supporting decentralization and participatory urban management process.

Hinrichsen, Salem and Blackburn[11] have devoted research on urban problems and management and have addressed pertinent issues focusing on a range of policy issues such as decentralization for urban management to meet urban challenges of population growth. The research shows that such challenges could be met if planning and action take into account interrelated factors such as land use, slum upgrading, improved water supply, sanitation and waste management and more efficient transportation systems in addition to responsive governance. Decentralization of power, authority and responsibility from national local governments will enhance local participation and encourage democratization process. Moreover, decentralization improves the effectiveness of public policy implementation. Decentralization should be supported with adequate budget allocations and empowering authorities at the municipal level to generate and mobilize resources. Decentralization requires that the administrative capacity of local governments be strengthened and improved in the areas of accounting, financial management, public communication as well as planning and technical aspects.

Some countries in the Southern African sub-region have implemented decentralization policies. Malawi adopted a National Decentralization Policy for local government in 1998; however, implementation of the policy faces serious difficulties including lack of adequate financial resources. Another challenge is the lack of competent human resources to develop needed infrastructure to deliver services in urban areas. In Botswana, the National Development Plan for the period 1991 – 1997 laid out a clear government commitment to decentralization as "delegating greater responsibility for development planning, financing and implementation, while increasing their capacity to manage these responsibilities." This was reiterated in the 8th National Development Plan, 1997 – 2003. The decentralization process in Botswana is also addressing issues such as financial administration (revenue, accounting and budgeting) and personal administration (personnel management and human resource development).

The decentralization process in Mozambique started in 1998, and has managed to establish new municipal governments in the country's major urban centres. A new legal framework gives municipal authorities extensive administrative and financial autonomy. However, as is the case in Malawi, lack of funding and other resources has hindered the development of systematic approaches to the provision of urban infrastructure and services by the municipalities in Mozambique.

3.6.8 Policy actions

In addressing urban development and related issues, the following deserve policy attention:

- Policies that promote the establishment of a strong economic and industrial base. Such policies should emphasize the importance of employment creation with special attention to small and medium enterprises not only in urban but also rural areas. Diversification of economies should also be given strong policy attention;
- Promotion of 'balanced' urban development in more urban areas rather than concentrating on one or a few urban areas;
- Environmental policy with regard to urbanization should pay special attention to the improvement of infrastructure, sanitation, water supply, waste management including industrial chemical waste and drainage in order to promote environmental sustainability;
- As reflected in the United Nations Resolution S-25/2 of 2001 on the Declaration of Cities and Other Human Settlements in the New Millennium, member States should fulfill their commitment to promote the upgrading of slums and regularization of squatter settlements, within the legal framework of each country;
- Continued attention to improve the implementation of decentralization policies where such policies exist while those that do not have such policies should formulate and implement them. These policies should stress the need for improving governance and management of urban areas and for involving the urban poor. Efforts by all stakeholders and all development partners need to also focus on strengthening the institutional capacities required to deliver services to meet the challenges of rapid urban growth. In this context, mobilization of financial

resources, and their adequate allocation to priority urban development activities deserve to be treated as an important component in the urbanization process;

- According to the call of the 2002 World Summit on Sustainable Development, member States in Africa should be supported in their efforts to implement the Habitat Agenda and the Istanbul Declaration through initiatives to strengthen local institutional capacities in the areas of sustainable urbanization and human settlements, provision of adequate support for shelter and basic services, and the development of efficient and effective governance systems in cities; and
- Implementation of the recommendations of the World Summit on Sustainable Development to provide access to potable domestic water, hygiene education and improved sanitation and waste management at the household level through initiatives to encourage public and private investment in water supply and sanitation that give priority to the needs of the poor.

3.7 Employment and Unemployment

Employment creation an important component in the equation of poverty reduction and promotion of sustainable development, therefore, it should be at the centre of macroeconomic and social policies in the Southern African sub-region. Such policies should pay particular attention to improving the informal economy in both rural and urban areas and linking the informal economy to the formal economy. Furthermore, employment should be linked to decent work as advocated in the ILO '*New Global Employment Agenda*'. Decent work embraces the following:

- Concerns for all workers in both formal and non-formal employment;
- Promotion of rights at work;
- Ensuring decent work and protection of individuals against vulnerable forms of work; and
- Promoting social dialogue among social partners (government, employers, and business) including stakeholders in civil society, non-governmental organizations and community-based organizations.

At the 1995 World Summit on Social Development, world leaders committed themselves to the promotion of full employment as a priority of economic and social policies to enable both men and women to attain secure sustainable livelihoods through freely chosen productive employment and work. The United Nations Millennium Declaration also stresses the need to address the employment issues of the youth. The United Nations Secretary-General has observed that with the current performance, many countries in sub-Saharan Africa will be unable to attain the goal of reducing poverty by half by 2015.[12] In 1990, 241 million people lived on less than $US1 in sub-Saharan Africa, which increased to 315 million in 1999 and is projected to reach 404 million by 2015. These figures show that poverty levels are worsening.

At the African Union (AU), employment and poverty issues are being given importance and this is reflected in the New Partnership for Africa's Development (NEPAD). The 25th

Ministerial Meeting of OAU in Burkina Faso deliberated on Employment and Poverty Alleviation in 2002. In 2004, the AU convened an Extraordinary Summit on Employment and Poverty Alleviation in Burkina Faso.

In Southern Africa, the SADC is addressing issues on employment and poverty and adopted an Employment and Labour Policy document in 2003. The policy addresses the challenges of widespread poverty, unemployment, underemployment as well as the creation of a conducive environment for labour productivity and employment opportunities.

3.7.1 Employment in Southern Africa

The Key Indicators on Labour Markets (KILM) are either non-available or simply unreliable, which is a key challenge for addressing the employment and unemployment situation in Southern Africa. However, South Africa, Mauritius followed by Zambia and Botswana have made concerted efforts to collect information on employment and unemployment as Table 1.21 below on formal employment shows.

The importance of trend data on labour markets and employment, in relation to poverty reduction programmes, was underscored at an Expert Group organized by ECA-SA. [13] The Experts recommended that Governments should:

- Give priority to the development of Labour Markets and Information Statistics (LMIS) at national and sub-regional levels;
- Strengthen Labour Market Information Systems and conduct periodic labour markets and information surveys which need to be integrated with Poverty Assessment Surveys;
- Promote consensus building on Labour Markets and Information Statistics through consultation with key stakeholders;
- Ensure harmonization of definitions and methodologies;
- Develop national and sub-regional data bases and build on the ILO Southern Africa Multidisciplinary Advisory Team (ILO/SAMAT) experience;
- Strengthen compilation, analysis and dissemination capacity needs; and
- Share information with sub-regional, regional and international bodies.

In most Southern African countries, GDP has been below the required 7 per cent needed to reduce poverty by half by 2015. Therefore, another employment challenge in Southern Africa relates to the fact that economic growth has generally not been sufficient to absorb the unemployed and new entrants in the labour markets. Table 1.22 shows growth rates in labour force in relation to growth rates in GDP. Further, the economic reforms in the mid 1980s and the restructuring and privatization programmes failed to generate employment in most Southern African countries which has pushed the majority of the population to find employment in the informal economy where productivity is low and incomes not adequate to reduce high poverty levels.

Women face several problems in employment – both in the formal and informal economy yet they play important multiple roles that contribute to socio-economic growth. The

Expert Group Meeting on Labour Markets and Employment in Southern Africa in 2003 recommended that government and its partners should mainstream and target women's issues in employment strategies and development and social policies as well as show a greater commitment to the implementation of the SADC Gender Declaration.

Lack of diversification of economic activities is also a major cause of limited employment opportunities. In Botswana, the Government has implemented a strategy aimed at increasing job opportunities through diversification efforts with a focus on creating employment opportunities outside the Government through the use of financial resources generated from the mining sector. Particular emphasis has also been placed on education and training to address the lack of skilled labour. The Zambian Government is also taking initiatives to diversify economic activities in the Copperbelt with a view to eventually cover other areas in the country.

Table 1.21: Number of People in Formal Employment

Country	1994	1995	1996	1997	1998	1999	2000	2001
Angola								
Botswana	230,614	233,457	234,116	226,001	391,400	441,187		
Lesotho								
Malawi								
Mauritius	454,800	460,500	466,000	475,200	487,200	495,800	499,800	
Mozambique								
Namibia	350,280			356,849				
South Africa	7,971,000	8,063,000	7,590,000	7,548,000	9,390,000	10,369,000	11,712,000	10,833,000
Swaziland	109,624	110,930	111,643	112,744				
Zambia	496,000	485,000	479,400	475,161	467,193	477,508	476,347	
Zimbabwe	1,263,300	1,239,600	1,273,700	1,323,700				

Source: *SADC Employment and Labour Sector, ILO and Country sources.*

The problem of youth in employment is another challenge in Southern Africa because most of the youth do not have the requisite skills to prepare them for employment. ILO estimates that in Africa, 93 per cent of new jobs and virtually all new jobs for young people are generated in the informal economy, yet wages on average are 44 per cent lower in the informal economy than in the formal economy.

One of the main challenges for employment in most countries is to match the increase in demand for highly skilled people with an adequate supply. The Status Report on the Post-Apartheid South African Labour Market states, "there is a massive skills mismatch in the country where a high proportion of labour market participants are unskilled and only equipped to work in the primary sectors. There is also evidence of increasing unemployment among those with tertiary education, even though there are definite occupations where skills are desperately required."[14]

Table 1.22: Growth Rates in Labour Force and Annual GDP growth rates

Country	Annual Labour force growth rate (per cent)		Annual GDP Growth rate (per cent)
	1990 – 2000	1995 – 2002	1995 – 2001
Angola	3.1	3.1	6.5
Botswana	2.7	1.9	5.2
Lesotho	2.4	2.3	4.0
Mauritius	2.7	2.7	5.6
Namibia	2.4	1.8	3.9
South Africa	2.0	1.5	2.6
Swaziland	3.6	3.4	3.5
Zambia	2.6	2.6	2.3
Zimbabwe	2.0	1.8	0.3

Source: *ILO, Global Employment Trends, January 2003.*

Emigration of many of the highly skilled professionals worsens the situation. In South Africa, for example, it is estimated that about 39,000 people left the country in 1999 to join the 1.6 million already living abroad. It has also been reported that about 70 per cent of skilled South Africans are considering emigrating."[15] In the past, South Africa had very strict immigration laws preventing skilled people from other African countries from immigrating into South Africa.[16] However, in May 2002, a new immigration law was passed allowing skilled workers into the country. Within Southern Africa, qualified professionals have migrated to work in South Africa, Botswana and Namibia from within the sub-region and across Africa. However, professionals from other African countries have also moved into these three countries. Recent trends also show that African countries are losing medical professionals, including a large number of nurses, to developed countries.

One of the greatest challenges in both the informal and formal economy in Southern Africa, in both rural and urban areas, is that of improving labour productivity. At the Meeting of the SADC Employment and Labour Sector Committee of Ministers and Social Partners in Arusha, Tanzania, 24 – 28 March 2003, the Ministers and Social Partners directed the SADC Secretariat, in collaboration with ILO, to set up national productivity centres. It is well known that improved productivity is important because it increases economic growth, which translates into higher per capita income. Thus member States should embark on activities that enhance labour productivity.

HIV/AIDS in Southern Africa is a serious challenge to employment as it affects those with skills that are needed to contribute and improve socio-economic development. Countries seriously affected by HIV/AIDS are not able to train people fast enough to replace those who are dying due to AIDS, thereby reducing productivity and economic growth. Estimates by UNAIDS show that when HIV prevalence rates rise to more than 20 per cent, GDP can be reduced by as much as 2 per cent per year. The HIV/AIDS pandemic continues to receive priority attention and several initiatives, programmes and frameworks have been developed in response. One of these is the SADC HIV and AIDS Strategic

Framework and Plan of Action, 2003 to 2007, which states that commitment at all levels of leadership is paramount towards reducing the incidence of HIV and AIDS.

Some of the other challenges that need to be highlighted regarding employment and poverty reduction include the implementation of the actions contained in the 2002 World Summit on Sustainable Development Plan of Implementation. These are:

- Development of national programmes for sustainable development and local and community development, where appropriate, within country owned poverty-reduction strategies to promote the empowerment of people living in poverty;
- Strengthening the contribution of industrial development to poverty eradication and sustainable natural resource management through actions which include (a) the provision of assistance to increase income – generating employment opportunities, taking into account the ILO Declaration on the Fundamental Principles and Rights at Work and (b) the promotion and development of micro-small-and medium-sized enterprises, including the means of training, education and skill enhancement, with special focus on agro-industry as a provider of livelihoods for rural communities; and
- Increasing access to decent employment, credit and income for the urban poor, through appropriate national policies and promoting equal opportunities for women and men.

3.7.2 The informal economy

The importance of the informal economy in sub-Saharan Africa has been recognized. ILO estimates that the informal economy contributes 41 per cent to the GDP in sub-Sahara Africa. As indicated earlier, over 90 per cent of new jobs in Africa and nearly all new jobs for young people are generated in the informal economy by small, medium and micro-enterprises (SMMEs). Unfortunately, the SMMEs face serious problems including:

- Lack of adequate skills;
- Lack of capital;
- Lack of collateral in order to access credit;
- No access or limited access to appropriate technology;
- Poor environment for the proper running of business;
- Difficulties in accessing markets;
- Low incomes in the informal economies; and
- Low productivity.

Policy responses to the above constraints are required by government, the private sector and development partners to improve the informal economy by:

- Improving business training and skills development to enhance management capability for those involved in the informal economy;
- Facilitating acquisition of simple technologies and their application in the informal economy;

- Improving access to credit facilities to those in the informal economy;
- Promoting a conducive working environment in the informal sector through relevant regulations, including setting desirable standards;
- Developing and/or improving infrastructure necessary for enhancing economic activities in the informal economy including marketing of products from the informal sector;
- Linking the formal and informal economies; and
- Linking financial services with non-financial services (Business Development Services) for SMMEs.

Some countries in Southern Africa are giving attention to the improvement of SMMEs. In South Africa, for example, initiatives on this started in 1995 when a White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa was tabled for discussion in Parliament. A strategy for broad-based black economic empowerment in South Africa is addressing various problems faced by SMMEs, including the critical problem of financing. The Government is also making efforts to facilitate the provision of adequate resources for micro-credit to support productive enterprises. The October 2003 Discussion Document, entitled " *Towards A Ten Year Review: Synthesis Report on the Implementation of Government Programmes*", also places great importance on the role of SMMEs in employment creation.

The Government of Namibia launched a National Policy and Programme on small business in 1997. The policy and programme sets out the Government's firm commitment to transform the small business sector into a leading sector of the economy. About one third of the nation's workforce is employed in small businesses in Namibia.

3.7.3 Youth and unemployment

Throughout the world, young people are two to three times more likely to find themselves unemployed. Some of the characteristic reasons for this are related to the following:

- Young people have no job history and no specific job skills;
- The "youth" consists of a high proportion of the total population and the growth rate of this group are high which exacerbates the youth unemployment rate;
- Education systems do not prepare young people for meaningful employment; and
- Young people are generally not keen to readily accept manual jobs.

In Africa, youth unemployment is a growing problem, especially for young women. In Namibia, young women suffer higher unemployment rates than their counterpart males. Data in 1997 showed that the unemployment rate was 41.4 per cent for females against a 32.9% rate for males. The rate was 37 per cent for both combined sexes. Similar data for South Africa showed an unemployment rate of 57.9 per cent for males compared to 53 per cent for females. Urban unemployment, among the male youth in Zambia increased from 30 to 49 per cent from 1990 to 2000 and the corresponding figures for females were from 40 to 53 per cent. There are serious socio-economic consequences related to youth unemployment including contribution to higher levels of poverty and an increase in the number of street youth, which significantly contributes to crime such as robbery and drug abuse, as well as to social exclusion.

To meet the challenges of employment and unemployment for young people, policies, strategies and programmes are required to ensure that:

- Educational reforms respond to the labour market needs in terms of skills;
- Technical and vocational training needs are knowledge based to reflect changing socio-economic situations;
- Information, Communication and Technology (ICT), applications are improved;
- Youth employment is an integral component of the Poverty Reduction Programmes;
- The specific education needs of girls who are historically disadvantaged compared to boys is taken into account;
- There is the involvement of the youth in the formulation and implementation of programmes affecting the youth;
- HIV/AIDS, youth and unemployment are addressed holistically;
- The sharing of best experiences on employment creation opportunities for the youth are in line with activities of ILO, United Nations Secretariat, the World Bank and other relevant specialized agencies.

In 1998, the South African Government announced a decision to set aside funds to create the Umsobomvu Youth Fund (UYF), as shown in Box 1.2. The UYF was established in January 2001. The goal of UYF is to develop effective modes and approaches to youth and skills development that can be integrated into the functions of mainstream institutions and line ministries, thereby making youth development an integral part of socio-economic development. A similar programme, the National Open Apprenticeship Scheme (NOAS), was introduced in 1987 in Nigeria as a means of linking education and training together and providing vocational education and training to unemployed youth in over 100 occupations.

Activities to address employment issues of young people worldwide have been increased since the adoption by the UN General Assembly of the Millennium Declaration in September 2000 at the Millennium Summit. In Resolution 55/2, Heads of State and Government resolved to “develop and implement strategies that give young people everywhere a real chance to find decent and productive work”.

Subsequently, as follow-up to the Millennium Summit, A High-level Panel of the Youth Employment Network, formulated recommendations in November 2001, focusing on employability; equal opportunities for young men and young women; entrepreneurship; and employment creation. This led to a United Nations General Assembly resolution in December 2002 on promoting youth employment it focused on promoting youth employability, entrepreneurship, equal opportunities in favour of women, and employment creation.

Box 1.2: Highlights on the South African Umsobomvu Youth Fund (UYF)

- Umsobomvu is an Nguni word which means “arising dawn”. It symbolizes the rising of new opportunities for South African young people;

- UYF is the single largest investment that the South African Government has made in support of the development of young people in the country;

- UYF is an outcome of the concerted struggles by young people for positive inputs into their development. It is also an outcome of over 10 years of discussion, consultation and debate in the youth sector;

- The role of the UYF is to make strategic investments that can facilitate opportunities for young people to: acquire skills, access job opportunities and/or create meaningful employment for themselves by creating viable small businesses.

- The UFY is part of the overall National Human Resource Development Strategy by the government to create a skills base that can meet the challenges of a rapidly changing South African economy;

- In designing and conceptualizing the strategy, the UFY works with key partners and role players in the youth development and youth employment field. This involves identifying and understanding the needs of young people and programme that work;

- The key to the UFY approach is to develop knowledge and experience base that will inform the nature of youth employment, training and policy, as well as to ensure a strong and effective programme that delivers services to the young;

- The goal of UYF is to develop effective modes and approaches to youth and skills development which can be integrated into the way in which mainstream institutions and line ministries function, thereby making youth development an integral part of socio-economic development;

- Based on an integrated model of youth development, all UYF programme have three fundamental elements that cut across all programme areas: life skills, academic/technical skills, and practical work experience;

- UYF has created partnerships with the National Youth Commission, South African Youth Council, key government ministries such as, Education, Labour Trade and Industry as well as civil society organizations that have strong connections to young people and their communities;

- The initial fund of the UYF was R1 billion.

Source: *Website: wwf.uyf.org.za*

3.7.4 Framework for addressing employment in Southern Africa

Resolving youth employment, general unemployment and poverty issues requires the development of a strategic policy framework that puts employment issues at the centre of national socio-economic development plans and programmes. SADC adopted an Employment and Labour Policy Document in 2003. The policy document addresses the challenges of widespread poverty, unemployment and underemployment, and creating a conducive environment for labour productivity and employment opportunities. The policy document sets the objectives and strategies, and also spells out a programme of action on employment and labour issues and institutional arrangements. It also has an implementation time frame and a sequence of key strategies.

Efforts by the UN, ILO, World Bank, and other organizations on employment issues in particular should enable member States to improve the living conditions of their people. Further, development partners' support through increased financial and technical assistance in addressing employment is key to reducing poverty in Africa.

Endnotes

[1] See report of the consolidated work programme for 2004 adopted by the Council of Ministers of the COMESA countries held in Lusaka, Zambia from 28 to 29 November, 2003.

[2] The South Africa rising trade surplus is a source of strain in their economic relations towards sub-regional economic integration. It is also a trend which could in the long run undermine the region's trade integration process. This is aggravated by the existence of trade barriers in the Southern African Customs Union (SACU) market seen by countries such as Zimbabwe, Zambia and Mauritius as a critical stumbling block to competing effectively in trading their food or manufactured products.

[3] EIU: Country Report February 2003

[4] See study produced by USAID, Southern Africa Transport Network: Comparative Transit Transport Cost Analysis, September 2001

[5] United Nations Economic Commission for Africa (ECA), Dakar/Ngor Declaration on Population, Family and Sustainable Development, Third African Population Conference, Dakar, Senegal, 7 – 12 December 1992.

[6] W.M.K. Mwafongo, "Rapid Urban Growth: Implications for Urban Management in Malawi", 1991, (Paper presented at the RUPSEA Conference on Urban Management in Southern Africa, held in Lilongwe, Malawi, 7 – 10 October, 1991).

[7] H. Hill, Concrete and Clay: Angola's Parallel City. *Africa South*, June 1992

[8] Official government data indicate that Lusaka had almost 32 per cent of the total urban population in 2000.

[9] ILO, "Urban informal sector employment", in: Key Indicators of the Labour Market, Geneva, 1999.

[10] United Nations, Habitat Agenda and Istanbul Declaration, Second United Nations Conference Human Settlements, Istanbul, Turkey, 3-14 June 1996, New York, Paragraph 7.

[11] D. Hinrichsen, , R. Salem, and R. Blackburn, "Meeting the Urban Challenge." Population Report, Series M, No. 16 Baltimore, The John Hopkins Bloomberg School of Public Health, Population Information Programme, Fall 2002.

[12] United Nations, "Report of the Secretary-General on Implementation of the First United Nations Decade for the Eradication of Poverty (1997-2006), A/58/179, 23 July 2003.

[13] United Nations Economic Commission for Africa, Southern Africa Office, Lusaka, "Report and Recommendations of the Expert Meeting on Labour Markets and Employment in Southern Africa" held in Lusaka, Zambia, 3-6 February 2003.

[14] University of Cape Town, Development Policy Research Unit, The Post-Apartheid South African Labour Market: A Status Report, prepared by Laura Poswell, February 2002.

[15] University of Cape Town, Development Policy Research Unit, The Post-Apartheid South African Labour Market: A Status Report, prepared by Laura Poswell, February 2002.

[21] Cited in the ILO Global Employment Trends, January 2003, Geneva, which gave the original source as *The Economist* 2002

Medium-term Outlook and Prospects for 2004

Global economic growth is expected to reach 3.5 per cent in 2005, and growth of world trade is expected to reach 7.5 per cent in 2004, up from 4.7 per cent in 2003. This global economic recovery is being driven mainly by the United States but also by the rising weight of China in the world economy and its role in the present economic recovery is also evident. East Asia has maintained its strength accompanied by a turn around in Japan that has been stronger than anticipated. The increased trade is attributable to import demand from developing countries.

GDP growth in Africa is expected to accelerate to 4.5 per cent in 2004, compared with an estimate of 3.2 per cent in 2003. For the Southern African sub-region, overall GDP growth is forecast to be between 4 to 5 per cent in 2004. Growth is expected to resume in all countries, except Zimbabwe, where severe decline is expected to continue. Growth is expected to be based primarily on increased agricultural output and on manufacturing and distributive trades linked to the agricultural sector.

A few countries in the sub-region will achieve high growth rates as a result of either successful political and economic reforms (Mauritius, Mozambique) or increased oil output as a result of substantial investment in increasing production capacity (Angola). Substantial South African private sector investment in infrastructure development and increased industrial capacity in minerals and metals processing for the export market will continue to underpin growth in Namibia, Mozambique and several other countries in Southern Africa. The boom in prices for precious metals (including gold) is particularly important for several countries in southern Africa. Export opportunities are also expected to increase brought about by incentives provided by AGOA. Industrial and manufacturing output will also continue to increase in several countries as a result of lower inflation, increased consumer demand and higher investment, including FDI.

This projected growth is based on a number of domestic and external factors that will shape the sub-region's economic performance. The domestic factors that will influence performance are the capacity and political resolve for fostering economic policies conducive to growth; weather conditions in the drought-affected countries; and the consolidation of political stability.

According to the Famine Early Warning Systems Network's (FEWS NET) Southern Africa Food Security Brief for December 2003—January 2004, seasonal rains have been below normal compared to the long-term average. Furthermore, the SADC Regional Warning System Special Agormet Update for January 2004 reported a decrease in areas planted throughout the region due to the dry conditions. In some areas, farmers had to replant, provided additional seed was available and affordable. The developing drought situation is increasing concerns of reduced crop yields and continued food insecurity for the 2004-2005 marketing season. However, even in countries where normal rainfall is expected, sustainable food security will only be realised if appropriate supportive production strategies are adopted, such as the provision of agricultural inputs and credit facilities to farmers.

The sub-region's improved economic performance in 2004 also depends heavily on the anticipated recovery of external demand for African exports from industrial countries, particularly Europe and increased market access for agricultural export commodities of the sub-region. It is, however, anticipated that exports are expected to increase as the global economic environment is poised to pick up. Prices are expected to increase for almost all categories of export commodities strengthening export revenues and GDP growth in many countries. However, the strength of the current recovery in the global economy is still heavily dependent on the policy stimuli of low interest rates and expansionary fiscal measures.

The fulfilment of commitments made by the international community to support Africa's social and economic development through increased official development assistance (ODA), debt relief, FDI and technical assistance in addressing poverty reduction programmes through the PRSPs will remain a key factor for poverty reduction and eradication in the sub-region.

With respect to good governance, correcting the imbalances and inadequacies of political governance should continue to be pursued through an application of the Rule of Law. Countries emerging from conflicts should strive to complete their peace processes and embrace the principle of reconciliation and reunification. National awareness and training campaigns on human rights should also be encouraged. Where democratic institutions are already in place, future orientations should be focused on capacity building of parliamentary institutions so that they can be in a position to fulfill the legislative functions that have been devolved to them by the constitution.

The next section will show that prospects for private sector development in Southern Africa abound and the potential for highly profitable foreign investment in the sub-region is enormous. Thus, over the past decade or so, most Southern African countries have liberalized their investment regimes and introduced new legislation offering a wide range of guarantees and opportunities for private investors, both foreign and domestic. However, the challenge for policy-makers remains the ability to create a favourable business environment conducive to increased private investment in general, and FDI, in particular.

PART II

The Challenges of Private Sector Development in Southern Africa

Introduction

1.1 Overview

The New Partnership for Africa's Development (NEPAD) constitutes Africa's current socio-economic policy framework in the form of a pledge by African leaders, based on a common vision and shared conviction, that they have a pressing duty to eradicate poverty and to place their countries, both individually and collectively, on a path of sustainable growth and development and active participation in the world economy and body politic.

Recent evidence on economic development indicates that an efficient private sector, in effective partnership with the public sector, has the potential to lift Africa out of poverty. Examples from developed western economies and the rapid growth of East Asian countries have ably demonstrated this. Moreover, sustainable economic growth grounded on entrepreneurship and a successful private sector is generally seen as key to poverty alleviation. Thus, the Economic Commission for Africa (ECA) decided to adopt Private Sector Development as a main theme of the Economic Report on Africa, (ERA) 2003. This theme was also adapted by all ECA sub-regional offices (SROs) for their respective reports on economic and social conditions for 2003. Also, during the 8th Intergovernmental Committee of Experts held in Lusaka in April 2002, it was recommended that the role of the private sector in economic development be analysed in a special study.

The private sector is generally conceptualized as a basic organizing principle for economic activity, where private ownership is an important factor, markets and competition drive production, and private initiative and risk-taking set economic activities in motion [Schulpen and Gibbon, 2001]. There has been a shift in development thinking from the 1960s and 1970s, when the State was regarded as the prime mover of economic developments, to the State and the private sector being regarded as critical partners in the development process. In the current viewpoint, the relationship between the State and the private sector is seen as a partnership that should concentrate on creating a conducive environment for market and economic forces. The focus of the State should be on the promotion of an effective legal and regulatory framework, social and economic infrastructure, public services and essential services to the poor. The role of the market and the private sector is to produce and distribute goods and services efficiently.

The general consensus today is that the State is structurally handicapped, and has little capital to enable it to be efficient under market conditions. The actual shift in development strategies has been aided by the structural adjustment conditionalities of the World Bank and IMF, and the current emphasis is on private sector development coupled with a global convergence towards political and economic liberalization. All countries in the Southern African sub-region have embraced democracy and market forces as the twin foundations of the new political economy and the foundation of this new political economic system is the private sector.

Private sector output, except for Mauritius, South Africa and Zimbabwe, remains low, which is essentially a reflection of economic underdevelopment; As a result, the private sector remains in its infancy in Southern Africa in comparison to other parts of the world. There is, however, substantial scope for increased private sector development through the expansion of existing enterprises, and through the establishment of entirely new ones. The challenge is for national governments and sub-regional umbrella organizations to focus on the development of policies and strategies for rapid development of the private sector with a view to solving the major socio-economic problems, such as high levels of poverty.

Africa has been perceived as a region troubled with political and civil conflicts. Thus, the primary policy challenge for the sub-region is to develop a new image of political stability. However, with the signing of national peace accords in Angola, Southern African countries are steadily moving towards the consolidation of constitutions that will further institutionalize democratic principles and practices. These developments will help to consolidate political stability in the sub-region so that governments are able to give more attention to legal and regulatory issues.

In view of severe domestic resource constraints, the sub-region needs to attract substantial FDI as a principal source of fresh investments and technology transfer. This is, in addition to stimulating local investments. Governments need to provide a legal and regulatory framework, and macroeconomic systems that address the concerns of both types of investors, foreign and domestic. With increased globalization, the competition for FDI is severe. Africa is receiving the lowest share of FDI in the world. In this regard, and in the context of institutional development, some countries in the sub-region have established Investment Promotion Agencies (IPAs) tasked with the responsibility of addressing regulatory matters and also of developing a number of policies to address the special concerns of foreign investors.

Small and medium enterprises (SMEs) play a significantly productive role in the economies of the sub-region. However, the biggest challenge is the lack of reliable statistics on SMEs and the informal sector at large. Ironically, because of poor statistics, there has not been adequate appreciation of the important roles SMEs play in the development of an economy. Generally, SMEs in Southern Africa have not been accorded the kind of policy priority they enjoy in many developed economies.

Fiscal and monetary policies need to be investor-friendly and also promote macroeconomic stability. The tax regime should also be such that the investor can make a worthwhile profit. The sub-region is succeeding in developing investor-friendly fiscal and monetary policies. However, the financial systems in many of the countries in the sub-region, except for South Africa, remain under developed and not conducive enough to support growing private sector participation effectively. The sub-region needs to create competitive financial systems that can stimulate and sustain high growth.

Another critical area for the development of the private sector is innovation. Most large companies in the sub-region are subsidiaries of transnational corporations (TNCs) and generally research and development (R & D) takes place at Western located R & D centres of the parent companies. Local subsidiaries remain mere recipients of new technologies because the high cost of R & D is prohibitive to most countries in the sub-region.

To date, the limited resources available for R & D in Southern Africa have been devoted to addressing the critical challenges of sub-regional, national and household food security. Apart from agriculture related R & D, the scope in other areas is severely limited by resource constraints. In spite of limited capacity for R & D, all countries in the sub-region must recognize the importance of innovation to their socio-economic development, and must put in place policies to develop a national culture of innovation. The basic policy is to have a literate society, and then encourage a science and technology content in higher levels of education. Basic literacy and general education should not be seen as mere social services, but also as an investment in human capital.

To sustain investments there must be access to markets. Most countries in the sub-region are members of the WTO and are also signatories to other international trade agreements. Furthermore, all countries within the sub-region belong to one or both of the major sub-regional groupings i.e. COMESA, SADC and SACU. The sub-regional market should be the initial target for investment due to the comparative advantages in transportation costs. One significant constraint on the domestic markets in the sub-region is the severe income and wage inequalities. Therefore Southern African countries must develop realistic labour policies to promote equitable income distribution and raise labour productivity which will, in turn, help stimulate domestic markets and investment.

1.2 Objective and Scope of the Study

The objective of this study is to analyse the challenges and opportunities for private sector development and policy implications for Southern Africa. The study examines the policy and institutional framework, and identifies a number of best practices within the sub-region that can assist member States to develop strategies for enhancing the role of the private sector role in socio-economic development. The primary focus of the study is FDI, local innovation, SME development, market access, policy and institutional mechanisms, and the way forward for Southern African countries. While the focus of the study is on Southern African economies, the study has drawn on good practices and models from other sub-regions and countries, broadening the perspectives from which policy challenges and options can be drawn for the Southern African context.

1.3 Methodology

This study was mainly based on desk research at the ECA-SA sub-regional office in Lusaka, and relied on secondary data from various sources. Library sources included the University of Zambia, COMESA, ECA-SA, World Bank, and the British Council. Internet sources included the ECA-SA website, and the official websites of member States, World Bank, ADB, UNCTAD, and other specialized sources. Country case studies and data were also received from Namibia, Malawi, Mauritius, Mozambique and Zimbabwe.

In addition to secondary data, modest field investigations were conducted in Zambia, which entailed discussions with a number of public sector agencies, and business associations. The study also benefited from the observations and discussions of two sub-regional workshops held in Lusaka in November 2003, i.e. the COMESA workshop on Common Investment Areas; and the ECA Eastern and Southern Africa sub-regional workshop preparatory to the Fourth African Development Forum (ADF IV) on *"Governance for a Progressing Africa"*. The study also benefited from a third workshop organized by the Development Bank of Southern Africa in March 2004, to review the first draft of the study. Recommendations for the section on 'The Way Forward' were received from the 10th ICE, which took place in Lusaka, Zambia in May 2004. The meeting devoted a special session to Private Sector Development in Southern Africa.

The Current Status of Private Sector Development In Southern Africa

In the 1960s and 1970s, many African countries adopted socialist policies that entailed the nationalization of major private sector enterprises. Among the Southern African countries that were independent before 1980, Angola, Mozambique and Zambia created mainly parastatals as the engine of economic activities, whilst Botswana, and to a lesser extent Malawi, maintained an inherited policy of private sector-led economic activity. By the time Zimbabwe became independent in 1980, the policy of nationalization was already a subject of serious public debate and review in Southern Africa. During this period, the global momentum towards privatization was gaining strength and Asia and Latin America were already moving away from a strong government role in the productive sector. Thus, Zimbabwe, Namibia and South Africa, all liberated after 1980, did not take the nationalization route although they created a few parastatals for social and economic service delivery.

The global momentum of privatization gained impetus in 1991 when Russia, the international leader of socialist policies, adopted radical measures for a vigorous privatization programme. In the Southern African sub-region, the real challenge for extensive privatization was limited to Angola, Mozambique and Zambia, where parastatals had dominated the industrial and commercial landscape. However, these three countries followed different approaches to privatization. In Zambia, open tendering was encouraged and as a result most enterprises ended up being bought by foreigners. In contrast, in Angola and Mozambique, privatization was used as a means to empower citizens economically.

In Angola, large State monopoly companies were broken up to avoid replacement of State monopolies with private monopolies and to enable Angolan entrepreneurs with limited financial and organizational resources to participate in the privatization process. By 1996, 275 state-owned enterprises had been broken up into 850 privately owned smaller enterprises. The efficiency advantages of privatization in Angola have been demonstrated by a privatized cement factory that tripled its production within a short period of being under private sector control. The Angolan strategy of encouraging local entrepreneurial participation is also very significant for the reinvestment policies of private enterprises.

In the last decade of the last century, Angola, Mozambique and Zambia have all made tremendous progress in transferring public enterprises to private ownership (see Appendix Table A.7) and as a result, the Southern African sub-region as a whole entered the 21st century as a bloc of private sector-dominated economies. The policy challenge for the sub-region is how to enhance the impact of the private sector on socio-economic development and how to stimulate the private sector to address the market failures and distortions that often justify the selective role of public enterprises in economic activities.

Due to the relatively poor transport and communications infrastructure in rural areas, private sector activities tend to concentrate in urban areas. However, state-owned banks in Tanzania, Mozambique and Zambia have succeeded in expanding financial services to rural areas that would have otherwise remained unattractive to private banks and financial institutions. Controlling the banking sector was at the centre of the financial development strategy that stimulated and sustained Korea's rapid industrialization programme of the 1970s and 1980s. Similarly, public enterprises in the 1970s and 1980s spread industrial establishments in rural areas of Zambia and were instrumental in stimulating agricultural activities and general socio-economic development in the rural areas of Zambia.

2.1 The Structure of Southern African Economies

The structure of an economy in terms of the relative share of public sector and private sector in employment, investment, and access to credit, has some bearing on economic prospects. Similarly, within the private sector, the relative share of local entrepreneurs and foreign investors can have a bearing on economic growth prospects because foreign investors, especially TNCs, are more likely than their local counterparts to look at the global market for reinvestment of profits.

Structural shifts in employment from the public to the private sector have been associated with greater economic growth and reduced inflation pressure. As elabourated by Johnston (1975) and Bacon and Eltis (1975), the private sector produces goods and services for the market, while the public sector produces free services that mainly go to consumption rather than enhancing production. Parastatals producing for the market are generally associated with inefficiency. The privatization efforts in the sub-region can be associated with greater structural momentum for economic growth. In Zimbabwe, the public sector accounts for 30% of the 1,200,000 persons in active employment. In spite of the relatively modest numbers of parastatals, there has been public pressure on the Zimbabwean Government to privatize its parastatals.

A major structural issue of concern in the sub-region is the ownership of enterprises. Except for South Africa and Zimbabwe where local ownership is quite significant, most economies in the sub-region are dominated by TNCs. A World Bank 1999 survey of industrial enterprises in a number of SSA countries, excluding South Africa, found that only 12.3% of all enterprises with more than 100 employees were owned by indigenous African groups [Schulpen & Gibbon 2001]. In no country did Africans account for more than 36.4 % ownership of large industrial firms. In Kenya, African ownership of large industrial firms was a mere 3.6%. Moreover, non-African-owned larger enterprises are usually dependent on expatriate managers and technical workers. This general ownership structure in the sub-region is not conducive for vigorous local reinvestment of profits or long-term socio-political stability. Ownership and management structures cannot continue to exclude the indigenous majority from mainstream economic activities.

Some countries have developed policies and programmes aimed at promoting a greater role for indigenous people in ownership and management of mainstream economic activities. For example, in Angola, the Government has used its privatization programme to transfer ownership of many enterprises to Angolans. In South Africa, the Government has taken steps to facilitate indigenous South Africans to participate in ownership and management of some major enterprises, whilst at the same time making efforts to empower them for a greater role in economic activities. In Zimbabwe, strategies have been developed to indigenize companies. These strategies focus on removing constraints that hinder indigenous people, such as poor access to and high cost of finance, inadequate management and entrepreneurial skills, lack of access to land, hostile regulatory frameworks, poor access to appropriate technology, and lack of access to essential infrastructure. Botswana has established the Citizen Entrepreneurial Development Agency (CEDA), which provides services to empower local people to participate more effectively in economic activities.

The general picture of the economic structure is one in which the productive sector and commercial services are run mainly by the private sector, while the government role remains in what are considered strategic sectors such as infrastructure and social services provision. In most of the countries in the sub-region, the agriculture, manufacturing and commercial sectors are run mainly by private sector institutions. The mining sector in Angola, Botswana, South Africa, Zambia and Zimbabwe is also, for the most part, run by private sector institutions. Banking and insurance remain sectors wherein state-owned enterprises operate side by side with private sector institutions, particularly in Mozambique and Zambia. Similarly, both State and private sector institutions manage the oil industry in Angola.

2.2 Private Sector Participation in Infrastructure and Social Services

Economic and social infrastructure and services include public goods that are freely accessed by everybody, as well as those that may be amenable to individual cost burden. The global practice is for governments to assume primary responsibility for infrastructure that is freely accessible such as roads, as well as basic social services such as drinking water. These public provisions are premised on overall State responsibility for basic infrastructure and services that sustain normal socio-economic activities and that promote sustainable development. These particular sectors cannot be left entirely to market forces due to the profit motive and market selectivity that create distortions to the provision of “free” infrastructure and services.

Most governments in the Southern African sub-region have assumed primary responsibility for infrastructure and social services. But due to the financial demands on these sectors, Southern African governments are also recognizing the increasing opportunity for private sector participation. The policy challenge is to encourage active participation of the private sector in ways that complement and supplement State provisions.

2.2. 1Infrastructure

In the past, infrastructure was generally viewed as a strategic sector best managed by government monopolies. However this perception has changed and there is growing realization that some infrastructural services are best provided by, or in partnership with, the private sector. Moreover, the growing perception of the private sector and the State as partners in development has widened the prospects for private sector involvement in infrastructural services. There are a number of reform measures in the sub-region ranging from internal restructuring and commercialization, to divestiture and new private sector investments. Private sector participation, for example, is growing rapidly in telecommunications, information technology (IT), and air transport sectors, but has been slow in power sectors and in municipal water, sewage and solid waste disposal systems. In Zimbabwe, the Government has encouraged the 'build operate transfer' (BOT) programmes which have assisted with road and bridge construction. Mining companies through these programmes have also established a number of health centres. These reforms partly reflect the advent of democratic and more transparent governance, and a more active and assertive civil society but also the growing internal pressure from donor conditionalities relating to the efficient management or divestiture of some parastatals.

2.2.1.1 Telecommunications and Information Technology

Generally in the Southern African sub-region, the telecommunications and IT sectors are viewed as strategic sectors whereby government participation is vital. However, many Southern African governments have also recognized the need for advanced technology for which private capital is readily available. The recent trend therefore has been to attract private sector participation to the sector whilst maintaining a strategic governmental role.

One of the main challenges for Southern Africa is the large demand gap. Telephone direct exchange lines per 100 people range from 0.58 for Angola to 3.36 for Botswana, and 9.57 for South Africa as compared to 10.49 for the world, and 35.36 for Europe (Simuyemba, 2000). The role of the private sector is inevitable if the demand gap is to be met, but many governments want to achieve this without losing control. South Africa's Telkom, for example, acquired a strategic equity partner by ceding 30% shares. However, for most countries in the sub-region, the cellular market has provided a door for private sector participation in the telephone business, and the competition with government telephone providers is proving to be effective.

Internet access has also spread rapidly, though it is confined to main cities only. In 1996, only 16 countries out of 52 in Africa had access to Internet, but today nearly all countries have access. For the Southern African sub-region (with the exception of Mozambique, South Africa and Zambia), Internet access is largely provided by public telecommunications operators. The Internet and related service provision provides a good opportunity for private sector participation, particularly for SMEs.

2.2.1.2 Energy

The Southern African sub-region has a hydro potential of 37 000 MW of which only 20% is being exploited. South Africa has the highest percentage of its population with access to electricity at 45%; while access in other Southern African countries remains low - Zimbabwe (16%), Swaziland (8.5%), Zambia (7.5%), Botswana (3%), Mozambique (2.7%), Malawi (2.5%) and Lesotho (2%).

Despite the demand and potential supply, there is little private sector involvement in the electricity sector. The generation, transmission and distribution are still, for the most part, managed by government-owned utilities which operate as statutory bodies. However, there are reforms in progress that are aiming at encouraging independent power producers and private sector participation in transmission and distribution. The first major privatization in the energy sector in the sub-region was the sale of the Copperbelt Power Company now known as Copperbelt Energy Corporation. The other independent power producer is the Hydro Cabora Bassa, which controls Mozambique's Cabora Bassa Complex.

2.2.1.3 Transport

The road network in the sub-region is generally well interconnected and the private sector is playing a key role in maintenance. The road passenger transport sector has the most visible private sector participation. In Botswana, Lesotho, Swaziland, South Africa and Zambia, the passenger transport industry is fully liberalized with little government involvement. In Angola, Malawi, Mozambique, Namibia and Zimbabwe there is some government involvement, but the private sector remains a strong player.

While the road passenger industry illustrates what the private sector can do, it also offers some lessons. Liberalization without adequate regulation can lead to over-capacity, poor financial returns, cutthroat or even dangerous competition (such as taxi wars in South Africa), and the concentration of services in a few congested areas. Without incentives, private operators tend to concentrate their businesses in urban areas to the neglect of rural areas. There is need, therefore, for effective regulations to nurture the steady growth of the sector. On the other hand, the road freight market, though mainly run by small owner/operator fleets, is somehow self-regulating due to the high entry costs.

The railway network is fairly extensive. The regional interconnected rail is 33,593 kilometres long, of which about 62% is in South Africa. However, the majority of national railways in the sub-region, with the notable exception of South Africa, Botswana and Swaziland, are loss making and are not responsive to market forces. All railways in the sub-region are nationally owned. Some governments are introducing reforms to improve services and revenues and most national railways are being processed for concessioning.

Airports are run by government in most countries, except in Mozambique, South Africa and Zambia, where autonomous airport companies have been established. In 1997, the South African Airport Company sold 20% of its equity to a strategic partner, Aeroporti di Roma. Other countries are moving towards autonomous entities for running airports. Zambia liquidated its national airline in 1994. Botswana, Mozambique, South Africa and Zimbabwe have opted for private sector strategic partners, rather than privatization. In addition to the national airlines, there are a number of private sector carriers in the sub-region.

Box 2.1: Private sector and transport infrastructure

The contribution of the private sector to regional integration is particularly important in regional infrastructure development. An example is the Maputo Corridor N4 Toll Road connecting Mozambique and South Africa. The South African Minister of Transport awarded Trans African Concessions a 30-year contract to design, construct, and operate the N4 Toll Road on May 1997. This 440-kilometre road links Witbank in South Africa to the port of Maputo in Mozambique. It is part of the larger and more ambitious Maputo Development Corridor, which aims to link Gauteng in South Africa to Maputo. The concession contract involved the rehabilitation of existing road sections and the construction of a new 36-kilometre section in Mozambique.

The general principle of Development Corridors is to treat national and regional areas with strategic transport routes (for example, from maritime ports to hinterlands) as special economic corridors for activities in agriculture, commerce, tourism and other industries. Development Corridors therefore serve as growth points and as areas for a broad spectrum of private sector activities. The Maputo Development Corridor, which links Mozambique to South Africa, is a good example of this and is also a good example of a public-private partnership. Another corridor under development is the one linking Mozambique, Malawi and Zambia.

The overall picture in Southern Africa is one of steady growth in private sector participation in infrastructure services. The challenge for governments in the sub-region is to improve the regulatory framework and to enhance transparency to sustain fair competition among private sector players.

2.2.3. Social services

The primary responsibility for the provision of basic social services i.e. education, health care and water has generally been associated with the State. Therefore, in most Southern African countries, governments play a leading role in the provision of education and medical services, especially to economically weak communities. The provision of water in urban areas generally remains the responsibility of local authorities. Public investment in education and medical care is today seen not as mere consumption expenditure on social services, but is recognized as strategic economic investment in human capital development. Thus, current strategies on poverty reduction include enhanced public expenditure on education, medical services, and social services.

As part of social responsibility programmes, and in order to ensure efficient supply of basic social services to sustain the effectiveness of their workforces, some large private sector institutions have been providing education and training, medical care, and water supply services to their staff and family members. These programmes, as well as the provision of residential establishments, are quite common for major mining companies and plantations in Southern Africa. However, the high-and middle-income classes constitute a growing market for profit-oriented private provisions of social services, which are normally of competitive quality.

Another source of social service provision that emerged in Zambia during the privatization and commercialization period of the 1990s is the Trusts. Some of the medical centres, schools and training institutions run by the parastatals (including mines) were converted into public or community Trusts by transferring the infrastructure and available capital stock to newly created Trusts that operate these institutions on a semi-commercial basis to generate operational resources.

The trust institutions generally have very competitive facilities and high calibre staff and tend to cater for those with above-average income. The Trusts are generally also capable of raising adequate operational resources for effective and efficient management; but if they were to factor-in capital equipment replacement costs, the fees would be prohibitive. The policy challenge is for government to continue to support these institutions with capital budgets. There is also need to consider other options to minimize donor dependence.

2.2.3.1 Water and sanitation

There is little private sector involvement in the provision of water and sanitation throughout the sub-region. Water distribution and sewerage management generally remain the responsibility of local authorities and in most low-income residential areas is highly subsidized due to high levels of poverty which means that consumers cannot meet the market cost. Water has generally been viewed as a basic necessity to be accessed by everybody regardless of their income status. Therefore, private sector involvement in water distribution to low-income residential areas may not be feasible considering the extremely low incomes, because water distribution is costly. However, there may be scope for selective private sector involvement in water distribution to affluent residential areas or industrial areas that can afford market prices.

The Zambian Government has created independent water and sewerage companies that operate under the management of local authorities. The companies operate according to commercial principles, but have heavy subsidies for water supplies to low-income residential areas. Similarly, South Africa's Mpumalanga Province has contracted a private company to operate its water and sewerage services. The service has been in operation for over 30 years and could set a new model for municipalities in Southern Africa and elsewhere.

An important example of private sector participation in the water sector is the Lesotho Highlands Water Project. The Project is aimed at transferring water from Maluti Mountains in Lesotho to South Africa's industrial heartland, Gauteng, to meet the growing industrial and domestic demand. The client is a private company, Rand Water of South

Africa and the total cost of the project is $8 billion. The size and impact of the project has therefore necessitated the joint involvement of Government and private sector. Namibia's first Build, Operate and Transfer (BOT) project will involve the construction of a water desalination plant for Namibia's second largest city, Walvis Bay. The need for this project is to ensure there is an adequate supply of water for increasing demands for the new industries in the Export Processing Zone (EPZ) and the expanding traditional fish industry.

2.2.3.2 Education

Most universities in the Southern African sub-region are for, the most part, State owned. For example, the universities in Namibia and Zambia are entirely State owned. In Zimbabwe, of the seven universities in operation, three are privately owned. In Malawi, a faith-based university has been established to supplement government university provisions, while Mozambique has both State and private universities. While in Namibia the role of the private sector and churches is confined to primary and secondary education, the churches and the private sector are playing an increasingly significant role in vocational training and teacher training notably in Malawi, Zambia, Zimbabwe, and South Africa.

The general policy today reflects the realization that the heavy demand for education services cannot be met by the State alone. For example, Zambia's socialist policies during the 1970s have been reversed and missionary schools have now been handed back to the missionaries for management. Namibia currently has 74 private schools of which 54 are primary, 14 are secondary, and 18 are combined primary-secondary schools. Only 48 of these schools are now receiving government support in the form of appointed teachers and/or materials or some other subsidy.

A detailed study of faith-based schools in Malawi has revealed a need for systematic financial support for non-government institutions such as faith-based organizations (FBOs) (MIM-IPRAD, 2003). Of the 4000 primary schools estimated to be operating in Malawi in 2002, 67% belong to FBOs. However, while FBOs have a large responsibility in the delivery of educational services, they face serious resource constraints and sometimes serious institutional challenges that undermine education quality.[1] Furthermore, government grants do not always flow on time, which also undermines the quality of administration. In this regard and in line with South Africa's strong policy on education, the post-apartheid government has developed a policy of financial support to all non-government schools. Given the importance of FBOs in the provision of educational services, common practice and greater financial commitment of grant-aided provisions to these institutions are needed.

2.2.3.3 Health care

Health care services in the Southern African sub-region are for the most part run by the State because, due to high levels of poverty, many people are simply not able to pay the market price for health services. In some countries such as Botswana and Zambia, patients contribute modest fees towards the cost of medical care. FBOs have also played an active role in the provision of medical services, especially in the rural areas of Southern Africa.

The private sector is also establishing a niche in health care services especially in urban areas where the middle classes are able to find better services run by the private sector than the poorer-quality government medical facilities.

In Namibia, the provision of health services is divided among the three main providers as follows: Government (70-75%), missions (5-20%) and the private sector (5%). The mission hospitals are non-profit and are mostly established in rural areas where they target low-income people, and are 100% subsidized by Government. The profit-oriented medical provisions are mainly urban based, and cater for high-income people who may not be in need of government subsidies to access health services. During the 1970s, the Zambian Government actively discouraged private ownership of hospitals. However, since the 1990s, there has been a change of policy and the result has been significant developments in private sector participation in health care services. A number of private health medical facilities have been established.

Table 2.1: Health Institutions by Type, Size and Ownership in Zambia (2002)

Facility		No of Units	Total Number of		Number of Facilities Owned by			
			Beds	Cots	Govt	Private	Missions	Total
3rd Level		5	3,802	452	5		6	5
2nd Level		18	5,133	988	12			18
1st Level		74	6,795	1,166	36	17	21	74
Health Centers	Rural	973	8,077	570	889	23	61	973
	Urban	237	1,632	325	163	74		237
Health Posts		20			19	1		20
Total		1,327	25,439	3,501	1,124	115	88	1,327

Source: *Zambia Central Board of Health "Health Institutions in Zambia: Listing of Health Facilities" 2002*

Notes
1st Level facilities are referral hospitals.
2nd Level facilities are hospitals with wide range of services.
3rd Level facilities are hospitals with selective facilities.

Table 2.1 shows the distribution of Zambia's health institutions by type and ownership. Most of the 115 private sector owned facilities have only been established since the 1990s. The significant growth of healthcare private sector provisions during the difficult economic circumstances of the 1990s and early 2000s is probably a positive indicator of the opportunities for a private sector role in health care services. In countries such as Botswana, Malawi, South Africa and Zimbabwe, where private sector participation in health care services has never been discouraged, private provisions of health care services are more pronounced than in Zambia.

It is important to note that although statistics are not available, casual observations in the sub-region indicate the dominance of traditional health services in the private sector provisions. Therefore, if traditional health care services are included in the overall statistics, the private sector provision of health services would be dominant over and above the public provision of health services in the sub-region. In Zambia, efforts are being made to register and regulate traditional health practitioners and to involve them in major health care such as the national HIV/AIDS programme. Such efforts should be encouraged as they help to promote ethical and professional standards in the health sector.

Endnote

[1] For instance in one Catholic Diocese, the Education Coordinator works without support staff and is responsible for coordinating and monitoring standards in 210 primary schools. His budget is MK80,000 per annum inclusive of his salary, fuel and stationery expenses.

The Role Of Foreign Direct Investment In Private Sector Development

Africa's current domestic savings mobilization capacity is too low to play a major catalytic role in investment. To meet the MDG of reducing poverty by half by the year 2015, SSA's GDP needs to grow at an annual average rate of 7%. Taking this growth rate in to account and domestic savings, trends in ODA flows, and required investments as percentage of GDP, ECA has calculated the development finance gaps in Africa as shown in Table 3.1.

Table 3.1: Development Finance Requirements for Private Sector Development

Africa Region	Required GDP Growth Rate (%)	ICOR*	Domestic Savings Rate (%)	Required Investment/ GDP rate (%)	Required External Finance (% of GDP)	Current ODA Flows (% of GDP)	Residual Finance (% of GDP)
North	5.60	3.8	15.9	21.3	5.4	3.8	1.6
West	7.61	4.8	7.8	36.5	28.7	13.5**	15.2
Central	6.70	7.3	15.0	48.9	33.9	7.3	26.6
East	8.12	5.6	7.7	45.5	37.8	15.6	22.2
Southern	6.20	6.1	19.6	37.8	18.2	11.8***	6.4
Total/Ave	6.79	5.0	14.9	33.0	18.1	8.9	9.2
(SSA)	(7.16)	(5.8)	(14.2)	(40.4)	(26.2)	(12.3)	(13.9)

Source: *ECA "Economic Report on Africa 1999" Addis Ababa, 1999.*
**ICOR: incremental capital-output ratio. **Excluding Nigeria. ***Excluding South Africa.*

In the Southern African sub-region, the required investment/GDP rate is 37.8% of which 19.6% can be met by domestic savings and 11.8% by ODA flows, leaving a development finance gap of 6.4% of GDP. However when the declining trend in ODA is considered, the actual resource gap in the next decade could be more than 6.4%.

Table 3.2 shows the sub-region's national savings as a percentage of GDP. Angola, Malawi, Mozambique and Zambia had negative savings for most of the period and the remaining countries, which had positive savings, fall far below the 37.8% required investment rate for effectively tackling poverty. The low levels of domestic savings are both symptoms and causes of underdevelopment.

These figures reflect a combination of factors that include low incomes, low productivity, and a weak savings culture. Moreover, the financial systems are generally too weak to facilitate effective intermediation of small savings into investible resources. With the exception of the Johannesburg Stock Exchange (JSE), the local capital markets are generally too underdeveloped to be major sources of capital mobilization, especially for fresh investments.

Table 3.2 Gross National Savings (% of GDP)

Country	1980	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Angola	- -	-2.5	-4.4	-24.6	-16.8	-46.0	17.7	-14.6	-39.6	-24.1	-0.3
Botswana	36.3	43.9	40.7	45.0	35.5	39.3	44.4	44.4	27.9	12.3	21.1
Lesotho	-11.4	1.2	15.1	20.9	27.2	20.5	23.5	29.2	17.8	19.7	23.7
Malawi	6.6	10.6	-0.7	-1.5	-5.0	-4.0	0.3	-1.5	1.9	-1.8	-0.6
Mauritius	13.1	28.1	29.1	27.5	25.7	25.3	25.9	26.9	26.9	24.3	23.4
Mozambique	-9.9	-17.5	-26.6	-30.9	-22.8	-9.6	-7.7	-4.3	1.6	1.3	18.5
Namibia	33.8	28.9	29.9	26.6	31.2	32.0	29.7	25.3	30.9	27.9	29.3
South Africa	27.3	13.8	13.5	15.1	15.6	16.8	15.6	14.5	13.8	14.2	14.7
Swaziland	20.9	24.9	20.7	17.1	16.0	16.8	14.8	21.2	14.9	17.1	9.5
Zambia	9.3	-4.2	-10.6	0.7	-0.2	4.6	-1.5	3.7	-3.6	-6.5	-1.7
Zimbabwe	12.4	13.8	11.3	20.6	21.7	16.8	18.0	9.1	12.6	14.0	11.2

Source: *World Bank "African Development Indicators 2002", Washington, D.C.*

In light of this, the Southern African sub-region and Africa as a whole need FDI as a principal source of investment resources. However, with increasing globalization, the global competition for FDI is quite intense with the recent economic liberalization of China, Russia and Eastern Europe, which has driven global competition for FDI to new heights. For instance, China whose FDI inflows were only $57 million in 1980 and $3 billion in 1990, has risen since 1993 from $28 billion to $53 billion in 2002, which is 5 times the total FDI flowing to the whole of Africa in 2002.

Table 3.4 shows inflows by host region and economy and shows that for a second consecutive year, the total world FDI inflows declined by 20% to $651 billion, which is the lowest level since 1998. The main cause for the decline was slow economic growth in most parts of the world. For the Africa region, the 2002 FDI inflows declined from a high of $19 billion in 2001 to $11 billion, close to 1997 figures.

Table 3.3: Relative Shares of FDI and LDI in Mozambique

Year	Number of Projects Submitted		Value of investment ($US millions)		
	FDI *	LDI**	FDI	LDI	Total
1993	27	27	18.0	7.5	71.1
1994	72	116	91.2	63.3	446.5
1995	55	150	50.4	52.5	279.0
1996	112	239	86.6	54.6	519.0
1997	91	152	695.3	60.4	1 754.3
1998	110	153	157.7	89.9	837.8
1999	125	183	121.9	150.7	762.3
Total	592	1 020	1 221.4	434.3	4 675.4

Source: *FIAS and USAID "Mozambique: Continuing to Remove Administrative Barriers to Investment" 2001*
**FDI: Foreign Direct Investment*
***LDI: Local Direct Investment*

A major concern to Africa is the low share of FDI flowing to Africa compared to the high inflows of Asia and Latin America. Asia's inflows rose steadily from $78 billion in 1995 to $142 billion in 2000, while that of Latin America rose from $31 billion in 1995 to $108 billion in 1999 before falling to $95 billion in 2000. Africa's inflows of $5 billion in 1995 represented 6% and 16.7% of inflows into Asia and Latin America respectively, rose to $12 billion in 1999 before falling to $8 billion in 2000 representing 5.6% and 8.4% of inflows to Asia and Latin America respectively in 2000.

Within the Southern Africa sub-region the two economies of South Africa and Angola represent the largest percentage of total FDI. The dominant sectors for FDI are oil in Angola and mining in South Africa. Mozambique leads the smaller economies in the sub-region. The significance of FDI flows to the sub-region is demonstrated by Table 3.3, which shows the relative shares of FDI and local direct investment (LDI) for Mozambique. While FDI projects were 58% of LDI, the cumulative FDI value of investment was three times that of LDI for the period 1993-1999.

3.1 Economic Considerations of the Investors

In addition to policy and institutional environment issues, a potential investor takes into account the economic factors that will have a bearing on the viability and profitability of the company. The principal economic determinants of FDI by TNC commercial motives fall in three broad categories:

a) Market seeking
  - Market size and per capita income
  - Market growth prospects
  - Access to regional and global markets
  - Country-specific consumer preferences
  - Structure of the market

b) Resource/Asset seeking

- Raw materials
- Low-cost unskilled labour
- Skilled labour
- Technological, innovating and other assets e.g. brand names
- Physical infrastructure e.g. roads, ports, power, telecommunications

c) Efficiency seeking

- Labour productivity and costs
- Other inputs costs, e.g. transport and intermediate inputs
- Membership of regional grouping conducive to the establishment of a regional corporate network

The primary and dominant profit motive of investors is market size. Technological limitations and standards provide for minimum economic plants for various industrial activities. Since average production costs tend to fall as production rises, the profit motive will favour large-scale operations subject only to financing capabilities. Usually the minimum economic size plant requires a market size bigger than the domestic markets that are available in most African countries. However, with low per capita incomes and low productivity in Africa, even market growth prospects are limited.

At present, only South Africa and Angola have domestic market sizes large enough to attract major industrial investments and this has been a major factor in South Africa's domination of FDI flows into the rest of the sub-region, plus the existence of good economic and social infrastructure. The most practical strategy for dealing with limited markets in the Southern African sub-region is for governments to place emphasis on regional integration efforts to increase market size.

Table 3.4: FDI Inflows, Host Region and Economy, 1995-2002 ($US Millions)

Host region/ Economy	1995	1996	1997	1998	1999	2000	2001	2002
World	333 818	384 960	481 911	686 028	1 079 083	1 392 957	823 825	651 188
Developed economies	204 116	221 624	269 654	472 265	824 642	1 120 528	589 379	460 334
Developing economies	114 891	149 759	193 224	191 284	229 295	246 057	209 431	162 145
Africa	5 119	5 187	10667	8 928	12 231	8 489	18769	10998
Other Africa	3 964	3 815	7 951	6 046	8 663	5 364	13295	7 452
Angola	472	181	412	1 114	2 471	879	2 146	1 312
Botswana	70	71	100	90	37	54	26	37
Lesotho	30	28	32	27	33	31	28	24
Malawi	- 19	10	- 1	- 3	46	- 33	- 20	0
Mauritius	19	37	55	12	49	277	32	28
Mozambique	45	73	64	235	382	139	255	406
Namibia	153	129	84	77	111	153	275	181
South Africa	1 241	818	3 817	561	1 502	888	6 789	754

Host region/ Economy	1995	1996	1997	1998	1999	2000	2001	2002
Swaziland	44	22	- 15	152	100	39	78	107
Zambia	97	117	207	198	163	122	72	197
Zimbabwe	118	81	135	444	59	23	4	26

Source: *UNCTAD "World Investment Report 2003: FDI Policies for Development: National and International Perspectives*

Beyond market size, natural endowments are also one of the important economic considerations for investors. However, these considerations are generally confined to primary product exploitation and it is generally recognized today that African governments need to move beyond the production of primary products.

Equal policy attention should be given to all factors that will help the investor operate efficiently, such as availability of skilled labour, economic and social infrastructure, and services. Economic and social infrastructure are particularly important because an investor can import skilled labour to address shortages but basic economic and social infrastructure is generally too expensive to be absorbed by an investor. The policy implication is for the State to invest adequately in economic and social infrastructure and services[1].

Efficiency considerations have a bearing on the overall productivity and profitability of an enterprise. High labour costs tend to discourage investors unless they can substitute labour with capital. However, labour productivity mainly depends on availability of skills. Furthermore, transport and intermediate input costs have an effect on the overall profitability of enterprises. Difficulties or high costs of transport, energy, and other utilities and intermediate inputs severely distort the cost structure of any private enterprise, weighing heavily on investment decisions.

A sub-regional integrated framework should facilitate the establishment of sub-regional operational arrangements that enhance the operational efficiency of an enterprise in taking advantage of the broader sub-regional resource base. A sub-regional facility that cuts out customs and other barriers to commercial transactions will also help to improve the overall efficiency and profitability of enterprises in the sub-region.

3.2 Optimizing FDI Benefits

Since FDI is a significant factor in the overall development strategy of Southern Africa, each host country needs to develop policies that aim at deriving the full economic benefits from FDI. However, significant concerns have been voiced in the past by developed and developing countries about the potential negative effects of TNCs. Although these concerns have diminished in intensity, they remain strong enough for many host governments to feel the need for effective policy measures to control and regulate TNCs to optimize their full benefit. Areas of concern include:

- Anti-competitive practices by foreign affiliates;
- Tax avoidance and abusive transfer pricing by foreign affiliates;

- Transfer of polluting activities or technologies;
- Volatile flows of investment and related payments, deleterious to the balance of payments;
- Crowding out local products, technologies, networks and business practices with harmful socio cultural effects;
- Concessions to TNCs that allow them to skirt labour and environment regulations; and
- Excessive influence on economic affairs and decision making, with possible negative effects on industrial development and national security.

Host countries need to be very clear about their macroeconomic objectives and ensure that they are sufficiently protected in any agreements that are signed to facilitate FDI. Governments should develop comprehensive regulatory arrangements that protect both foreign investor and national interests, and also support macroeconomic objectives.

3.3 International Investment Agreements (IIAs)

There has been a trend in the last two decades for FDI and general investment policies to be supplemented by International Investment Agreements (IIAs). IIAs provide multifaceted investment rules, ranging from the voluntary to the binding, and include obligations that must be prescribed to, varying in scope and geographical coverage. Some address only certain aspects of FDI policies, while others address general investment policies including those that affect both domestic and foreign investors.

3.3.1 Bilateral agreements

The most important effort to create international rules for investment after World War II was multilateral: e.g. the Havana Charter. However, more recently, the Bilateral Investment Treaties (BITs) have been relied upon more for investment rules. BITs have since evolved as spin-offs from general treaties on economic relations between countries. Since the first BIT in 1959, BITs have grown steadily to 385 by 1989, stood at 2,181 by 2002, and now encompass 176 countries.

The most rapid growth was in the last half of the 1990s, when the numbers of BITs almost doubled. The 1990s was also a period of consolidation of liberalized economic policies for economies that had previously adopted socialist economic policies. More BITs are being concluded among developing countries, and between them and emerging economies, reflecting the emergence of firms in these countries as foreign investors.

3.2.2 Regional and inter-regional agreements

At the regional level, the trend is towards comprehensive regional agreements for trade and investment policies. Most regional free trade agreements today are also free investment agreements, at least in principle. The general aim is to create a more conducive trade and investment framework to increase the flow of trade and investment. In the Southern African sub-region, COMESA has already established a Free Trade Area (FTA), and is currently taking steps towards establishing a common investment area, and moving towards a common market/union.

3.2.3 Multilateral agreements

Comprehensive multilateral rules for FDI established in the post-war period have not been popularly accepted or adopted. However, there appears to be broad international consensus on the 1992 World Bank Guidelines on Treatment of FDI, a non-binding investment code that sets out certain standards of treatment for investors.

There are some agreements dealing with specific investment aspects that have actually been broadly accepted. For example, the Convention on the Settlement of Investment Disputes between states and nationals of other states provides an acceptable framework for the settlement of investment disputes. The ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy also has a range of labour-related recommendations that have generally been acceded to. In addition, the Convention establishing the Multilateral Investment Guarantee Agency (MIGA) has enhanced the legal security of FDI with multilateral guarantees. The proliferation of IIAs and BITs is a reflection of the increasing popularity of FDI. Even though available empirical data have not established any correlation between IIAs and the flow of FDI, what is clear is that the signing of IIAs and ratification of multilateral conventions boost the confidence of potential investors that the host country is keen and willing to take steps to provide some guarantees to protect them.

Southern African countries need to take these IIAs seriously by articulating clauses that protect not only the investor, but also the host economy, workers and nationals, especially against the major concerns that have been raised against TNCs. Very often, TNCs are in a stronger position to negotiate very favourable terms. It is important that countries are clear about their primary objectives and anticipate accurate FDI contributions to the national economy, in critical areas such as human capital development, technology transfer, tax revenue, and general stimulation of income.

IIAs should also be able to reinforce national FDI policies. In Malaysia, for example, policies and agreements specifically encourage foreign investors to contribute to the transfer of technology and the development of local human capital, so that there is adequate local capacity to absorb and sustain the new technology provided by the investor. At the same time this builds the capacity of the local skills base for further technological development. In Botswana, there are tax incentives in place for foreign and local investors that have training programmes for staff. Botswana also has elaborate labour laws that protect local and foreign labour.

3.4 Stocks and Sources of FDIs

The major sectors that attract FDI in Africa are the oil and mining sectors. Other significant sectors of FDI stocks are energy, tourism, telecom, agro industries, beer and cement. Most of Africa's FDI stock comes from Britain, France, USA and Japan. Between 1991 and 1995, Britain and France accounted for 88% of all new FDI, although in 1998 (taken as a single year) the USA was the leading investor. British, French and USA investments in Africa are all dominated by oil interests while the largest single component of Japanese FDI in Africa has been in Liberian Flags of Convenience [Schulpen and Gibbon, 2001]. Flags of Convenience are examples of FDI with modest or questionable impact on the socio-economic development processes of the host country. It is important for each host country to encourage FDI flows into areas that give maximum stimuli to other economic activities of the host country.

Two major new sources of FDI for SSA since the 1990s have been South Africa and Malaysia. Since its reintegration into the world market, South Africa has used its relative economic strength to expand its trading volumes by investing in the surrounding Southern African region. South African Breweries, one of the largest brewery companies in the world, had by 2000 bought or built breweries in most Southern and Eastern African countries, with plans to expand into West Africa. South African companies such as Ilovo Sugar and Anglo American Corporation's mining division have also significant sub-regional presence. South African retail and fast food chains have consolidated their presence or expanded in many Southern and Eastern African countries. The trend is the same for South African banks, transport and milling companies and also large-scale commercial farmers in South Africa, many of whom have begun operations in Mozambique and Zambia.

These developments reflect the generally increasingly important role of South Africa as the sub-regional engine of economic growth and principal source of FDI within the sub-region. With growing and deepening integration of the sub-regional economies, the scope for intra sub-regional investments can only improve, and if properly nurtured, can become a significant source of FDI inflows within the sub-region.

Malaysian investments in Africa have been diverse. The leading sector has been telecommunications, with acquisition of shares in public telecom companies in South Africa, Ghana and Guinea, energy investments in petroleum refining in South Africa, and thermal power in Tanzania and Zimbabwe. Other Malaysian investments are in tourism (Ghana and South Africa); ship-building (Ghana); and forestry (Zimbabwe). The Malaysian FDI reflects the growing scope for south-south transactions in FDI and general economic relations.

Endnotes

[1]Empirical evidence based on cross-country data shows that the effect of public capital expenditure on growth is at best ambiguous (Barro and Sala-I-Martin, 1995; Easterly and Rebelo, 1993; Devarajan, Swaroop and Zou, 1996). These studies had a problem of identification since more public spending does not necessarily imply more public capital. When correlations are based on actual public infrastructure quality and growth rather than public expenditure, a positive correlation emerges (Easterly and Levine, 1997). In a study of Uganda Enterprises Survey, Reinikka and Svensson (1999) have shown that poor public capital significantly reduces productive investment by firms.

Promoting Small and Medium Enterprises

4.1 The Role of SMEs in Economic Development

In many developed and emerging economies, SMEs account for over 90% of the total number of business enterprises, and for more than 50% of total employment. The definition of SMEs varies from country to country and is generally based on the size of enterprises in terms of employment, investment level, and output. The specification of these factors for SMEs tends to be affected by the size of leading industrial and commercial establishments in each country.

Other general characteristics of SMEs in LDCs include relatively poor access to basic commercial services such as credit and technology, and relatively modest internal organizational skills that constrain their full participation in mainstream commercial activities.

Most African enterprises are of small and medium size with general characteristics of informal sector enterprises. Their development and overall impact on socioeconomic development is hampered by weak technical and management skills, poor access to technology and research services, poor access to credit, poor exposure to markets, insufficient assistance from productivity centres and training centres, poor access to production inputs, poor physical infrastructure for production, and poor access to suitable utilities for commercial production. In comparison, SMEs in industrialized countries are involved in modern manufacturing and services, often with cutting-edge technology, strong entrepreneurial bases, vibrant export sectors, and a good base of technical skills.

Table 4.1: Shares of SMEs in GDP and Employment in Selected Countries

Country	Contribution to:	
	GDP (%)	Employment (%)
S. A. [Informal Sector] (2000)	Unknown	26.0%
S. A. [Small Business] (2000)	34.8%	55.0%
Mauritius [SMEs] (2002)	23.4%	36.3%
Netherlands [Small Business] (1996)	60.0%	50.0%
Europe [Small Business] (1996)	47.0%	66.5%
Japan Regional [Small Business] (1998)	25.0% proxy	83.2%
Japan Metro [Small Business] (1998)	25.0% proxy	75.6%

Source: *Ntsika (2000): The State of Small Business in South Africa 2000; The State of Small Business in the Netherlands 1996. Commissioned by the Dutch Ministry of Economic Affairs, compiled by K. I. de Lind van Wijngaard; Japan Small Business Research Institute Annual Report, 1998; and Mauritius CSO.*

Table 4.1 summarizes the comparative contributions of small business to GDP and employment rates in Mauritius and South Africa as compared to Europe and Japan. The formal sector contributed 74% (55% by small business alone) and the informal sector 26% of employment in South Africa, in the year 2000, not very different form European figures.

Box 2.2: SMEs and the Informal Economy

In a study of SMEs in Eastern and Southern African countries, Ng'andwe (1986) observed that in spite of the several constraints, SMEs and the informal sector were making major contributions to these economies. Many household goods such as kitchen utensils and furniture for the majority of low- income people come from SMEs. Construction activities for rural houses and low-income urban houses are dominated by SMEs, and so this is the same for agriculture. In Uganda, when the civil strife of the 1980s led to the complete collapse of major industries, the Ugandan economy was sustained by SMEs, further underlying the insignificance to the overall economy.

In recognition of the important role of SMEs, most countries in the Southern Africa sub-region had by the mid-1980s established public institutions for the promotion of SMEs. Tanzania has established a Ministry for Small Industries. Uganda and Mozambique are the only two countries in Eastern and Southern Africa that do not have specialized public institutions for the promotion of SMEs. However, their SME organizational and promotional efforts are directed and coordinated by the private sector-owned Small Business Associations. In this respect, Uganda and Mozambique present a rare model in which the concerned private sector entrepreneurs, through their associations, are nationally recognized as the principal architects of policies and programmes related to the promotion of SMEs.

The shares of Mauritius SMEs in GDP and employment are the lowest for the sub-region, which may be explained by the definition of SMEs in Mauritius. Mauritius is an exceptionally small economy and its definition of SMEs is bound to be significantly different from the other countries. What is evident though is that SME contributions to GDP and employment are very significant in Africa, Europe, and Japan.

Table 4.2 shows the contribution of SMEs to employment growth in South Africa for the period 1981-2000. The smaller the enterprise the higher the average growth rate i.e. micro (3.4%), small (1.22%), medium (0.96%) and large (0.93%). Considering that the combined small and informal sector accounts for 81% of total employment, the high growth rate in this sector are very significant for the overall growth rate of employment.

In agriculture, trade and transport, large-scale businesses have better employment growth rates, while in mining, manufacturing, and business services, the SMEs have superior employment growth rates. In construction, the large, medium and small have average negative employment growth rates, while the micro has a positive 1.47% growth rate. These trends may reflect the greater flexibility of SMEs to adapt to changing market conditions.

Table 4.2: Average Employment Growth Rate in South Africa by Sector

Sector	Average Employment Growth Rates in S. A. over 1981 – 2000 period				
	Micro	Small	Medium	Large	Average
Agriculture	-3.42%	-2.28%	5.25%	5.32%	2.97%
Mining	0.14%	2.70%	1.02%	-1.04%	0.91%
Manufacturing	3.83%	2.35%	1.05%	1.47%	0.99%
Construction	1.47%	-0.56%	-0.78%	-3.88%	-2.38%
Trade	4.28%	1.65%	0.56%	6.00%	3.40%
Transport	-4.62%	-1.19%	-0.51%	3.11%	-0.19%
Business Services	4.46%	11.24%	22.97%	5.70%	6.75%
Other Services	12.91%	19.97%	-21.82%	N/A	2.33%
Average Growth	3.42%	1.22%	0.96%	0.93%	1.33%

***Source**: Ntsika (2000) "The state of small business in South Africa".*

Table 4.3 shows the role of SME in improving average disposable incomes. While average salaries declined in the construction sector for small, medium and large enterprises, and for the transport and agricultural sectors with regard to micro enterprises and small enterprises respectively, the average nominal salaries increased for all the other productive sectors and enterprise categories. The contribution of SME to growth in incomes is very significant. Except for the transport sector where large enterprises salaries grew at average 3.65% compared to 0.49% for small, 1.23% for medium, and –1.4% for micro enterprises, the combined SME growth rate is significantly superior to that of large enterprises.

Table 4.3: Salary Growth Rates by Sector in South Africa

Sector	Average Salary Growth Rates in S. A. over 1981 – 2000 period				
	Micro	Small	Medium	Large	Average
Agriculture	1.28%	-0.58%	9.39%	7.73%	6.89%
Mining	3.78%	2.66%	2.95%	2.05%	2.51%
Manufacturing	3.42%	2.97%	2.48%	2.50%	4.26%
Construction	0.64%	-0.56%	-1.00%	-2.69%	-2.39%
Trade	9.07%	4.45%	5.43%	3.97%	6.99%
Transport	-1.40%	0.49%	1.23%	3.65%	2.24%
Average Growth	6.14%	2.94%	3.60%	2.35%	3.90%

Source: *Ntsika (2000) "The state of small business in South Africa"*

4.2 Promoting Dynamic SMEs in Southern Africa

In a study of SME policies in the COMESA region, Ng'andwe (1986) observed that although most African countries had established SME specialized public institutions to promote SMEs, most of these institutions are under-funded and have little capacity to deliver a credible minimum package of services to address the various constraints on SMEs. In Malawi and Kenya, funding for SME programmes has mainly come from donors.

Many SMEs in Africa owe their existence to deliberate SME policies. However, many of those in the informal sector have evolved as survival strategies due to socio-economic pressure and mass unemployment. Uganda, for example, had one of the most dynamic SME sectors in Eastern and Southern Africa in the 1980s, and the sector managed to sustain the industrial sector after most large industries had closed down due to civil strife. Until today, however, there are no systematic public policies, or a specialized public institution for the promotion of SMEs in Uganda.

Reliable statistics for SMEs and the informal sector at large are generally difficult to find in Africa, which makes it difficult to make empirical observations on SMEs in general. However, casual evidence shows that Kenya and Tanzania, who have had long experience in support services for SMEs, can boast that many have done very well. Both Kenya and Tanzania had by 1981 established public agencies for the promotion and coordination of SMEs. These agencies provide a package of services that address the major constraints on SMEs and include services such as the provision of credit, industrial sheds to provide suitable physical infrastructure for production, basic technical and management guidance, regular monitoring of SMEs, and some support for R & D. Policies in both countries have been comprehensive enough to address the critical areas of concern to SMEs and have been successful in stimulating systematic growth of SMEs. In Kenya, for example, the leather goods manufacturing industry was nurtured by the Kenya SME promotional agency.

4.3 Informal Sector Specific Policy Challenges

Due to the relatively easy entry and exit, the informal sector provides many unemployed people in Africa with an opportunity for economic activity. However, the informal sector is generally hampered by extremely low levels of productivity and this is not conducive to dynamic economic growth. Petty trading and services, a major contributor to "disguised unemployment" i.e. people whose economic activities can be removed without any impact on the actual flow of goods and services, is also a major characteristic of the informal sector.

However, considering the mass unemployment levels of many countries in Africa, the informal sector's disguised unemployment provides a social safety net against social and economic hardships and even political tensions. The policy challenge here is to provide these workers with a package of services that can help transform this sector into "real" employment so that their economic activities will contribute to a higher supply of goods, services, and disposable incomes.

Another policy challenge is the fact that the informal sector remains outside the standard regulatory system, partly because of the complexities of procedures and the high costs associated with registration processes for both government and entrepreneurs. The practical challenge is to transform the informal sector systematically into a vibrant, dynamic sector through appropriate institutional facilities. The first step is to simplify registration procedures and decentralize the registration points to within reasonable reach of all people so that anybody involved in entrepreneurial activities will be encouraged to register and will be provided with the appropriate incentives.

4.4 SME Policy Challenges in Southern Africa

In order for governments to develop sound policies for SMEs, they need good reliable statistics to appreciate the status, challenges and opportunities of SMEs. In Mauritius and Botswana, for example, the public SME agencies in association with the National Statistics Office are maintaining good records, and in South Africa both the public SME promotion agency and National Statistics Office collect data with the assistance of universities and research centres.

With the notable exception of Mozambique and Namibia, most countries in the Southern African sub-region have established SME public institutions to promote and coordinate SMEs. Unfortunately, most of these institutions suffer from persistent under-funding which undermines programme planning and the ability to deliver a credible package of support services. The SME public agencies that are well funded are in Botswana, Mauritius, and South Africa.

Donor funding for SMEs may be inevitable for many countries. However, SMEs should be accorded appropriate domestic budgetary provision, which may be supplemented by donors. Total dependence on donor funds for SME development creates undue risks of

SME policy distortions or instability for a sector that deserves sustained long-term domestic budgetary support in order to exploit its full potential.

Mauritius recently embarked on a new financial package of assistance, supported by the EU. The Package includes subsidized interest charges; 50% loan risk guarantee, and equity participation by the Government to the maximum level of 49%, to lessen a firm's dependence on loans. The government is expected to exit within seven years, during which time the enterprise is expected to acquire the balance of shares. The Mauritian SME public institution also provides technical support services through its service centre, based on the concept of common workshop facilities. Its services include technical training courses to upgrade SME skills, dissemination of new technologies, assistance with modernizing SMEs, manufacturing parts and repair and maintenance services.

South Africa is forging linkages between universities, research institutions and SMEs. The South African Council for Scientific and Industrial Research (CSIR), for example, is the largest community-and-industry directed science and technology and R & D organization in Africa. CSIR has 10 major market-oriented business units including building and construction technology, chemicals and biochemicals, food science and technology, manufacturing and communication technology, manufacturing and materials technology, mining technology, textile technology, roads and transport technology and water, environment and forestry technology.

The activities of CSIR are aimed at supporting the technological competitiveness of South African industry, providing technological solutions to improve the quality of life and providing scientific and technological support for decision making in both public and private sectors. CSIR recently launched special initiatives for SMEs, including:

- An incubator for empowerment and job creation, which helps develop SME capacity to implement CSIR-developed technologies to empower entrepreneurs from previously disadvantaged communities;
- The Entrepreneurial Support Centre, which was launched to provide technical services and training to prospective and existing SMEs; and
- A pilot programme of manufacturing advisory centres aimed at assisting SMEs to upgrade their performance and competitiveness in both local and international markets. This was launched in partnership with the principal SME promotion agency and the National Productivity Institute.

Practical support services need to be complemented with a conducive regulatory framework. Mauritius, Botswana, and Tunisia have provided many generous incentives to the manufacturing sector including SMEs. Fiscal incentives for SMEs in Mauritius include 15% company tax and no customs duty on production equipment. In addition, new Mauritius SME policies are extending incentives of EPZ pioneer status companies to SMEs. Other measures expected in Mauritius include a reduction in bureaucratic procedures for registering companies, VAT exemption on production equipment, and duty exemption on all raw materials used by SMEs.

Box 2.3: The Textile Industry in Tunisia

In order to prepare the textile industry for increased competition following the WTO agreement, the Tunisian Government adopted several measures to support SMEs. The Tunisian textile industry has 2000 firms that employ 50% of the manufacturing sector, and account for 50% of export earnings. The adopted measures included substantial tax and financial incentives such as payment by Government of the employers' contribution to social security. Formal administrative procedures were rationalized and centralized in a one-stop shop at the agency responsible for the promotion of industries. This reduced transaction costs, and all administrative steps are now completed within 48 hours. The favourable legal, financial and administrative system has not only benefited local SMEs but has also proved attractive to foreign investors. [UNECA, 1996]

4.5 SME Lessons from Asia

Asian countries have been particularly successful in developing comprehensive policy packages to support SMEs. Taiwan is a good example of best practices from those Asian countries where SMEs have been playing a very dynamic role in exports and overall economic development (Dahlman and Sananikone 1990; Hobday 1995; Lall 1996, 2002; Mathews and Cho 2000). For instance, Taiwan has around 700,000 SMEs accounting for 70% of total employment, 55% of GNP, and 62% of manufactured exports. As Lall (2002) points out, these achievements, especially in the competitive export market, are supported by an impressive set of programmes.

In 1981, the Taiwanese Government set up the Medium and Small Businesses Administration (MSBA) to support SME development and to coordinate several agencies that provided support to them. It should also be noted that, in terms of deliberate active government initiatives to support SMEs, this is about the same time many Southern African Governments were creating specialized public agencies to promote and coordinate SMEs. Kenya and Tanzania had established their SME public agencies before 1981; however, many SMEs in Africa have not gained the same momentum as exhibited by the Taiwanese SME sector in the last two decades (see Box 2.3)

Table 4.4: Role of SMEs in Selected Developed and East Asian Economies (%), 1997

Country/economy (1997)	Share in number of enterprises	Share in employment
Hong Kong (China)	97	63
Korea, Rep. Of	99	78
Taiwan (China)	96	68
Thailand	98	74
Japan	99	79
Germany	99	66
France	99	57
Greece	99	91
United States	99	53

Source: *Mansour, A., "Support Services and the Competitiveness of SMEs in the MENA Region", in Fawzy (2002).*

The major lesson learnt is to develop a strategy to complete effectively on the global market. In addition to this, the comprehensiveness and harmonization of policies and the institutional framework have provided Taiwanese SMEs with a consistent and effectively coordinated policy environment, and a practical package of support services that have addressed the major constraints that generally affect SMEs.

It is important to observe that partial provision of these services often renders such services impotent, because of bottlenecks, which mitigate against the full utilization of services. Full credit services to SMEs that need but cannot access appropriate technology, management and technical services, creates a situation whereby credit services may not have the desired (and feasible) impact on the productivity of the recipient SME.

Box 2.4: Credit Scheme in Taiwan

In Taiwan, the usual binding constraint of poor access to credit was addressed comprehensively by the Taiwan Medium Business Bank, the Bank of Taiwan, the Small and Medium Business Credit Guarantee Fund, and the Small Business Integrated Assistance Centre, which provided financial assistance. MSBA also established a $10 billion fund for the promotion of SMEs. Management and Technology support services were provided by the China (Taiwan) Productivity Centre, the Industrial Technology Research Institute (ITRI) and a number of industrial technology centres. The Government of Taiwan subsidized SME consultation fees for management and technical consultancy services to the tune of 50-70% of total cost.

The "Centre-Satellite Factory Promotion Programme" of the Ministry of Economic Affairs was a deliberate effort to promote ancillary relations between small factories and principal (large) ones. This programme facilitated vendor assistance and various productivity-raising efforts including technical assistance and quality control. By 1989, there were 60 networks with 1,186 satellite factories, mainly in the electronic industry. This programme is very significant for quality assurance and market-support services especially for exports.

Several research institutes support R&D in the private sector, primarily SMEs. This approach is in recognition of the fact that most private sector companies do not have credible internal R & D capabilities, and it is more cost effective for them to source R & D services from specialized research institutes. These research institutes were restructured to be more responsive to the needs of SMEs.

The Government also encourages SMEs to contract research to universities, and 50% or $200 million of research grants of the National Science Council provide matching funds to industry for such contracts. The Programme for the Promotion of Technology Transfer maintains close contact with foreign corporations with leading-edge technologies in order to facilitate transfer of those technologies to Taiwan. [Lall, 2002]

It is also important to observe that the creation of research centres is not sufficient to ensure a flow of technical services to SMEs. There is also need to examine those factors that hinder dissemination of technical information to SMEs. The Taiwan subsidy on consultancy fees (to the tune of 50-70%) for technical services to SMEs is, in many cases, absolutely necessary for SMEs to realistically access technical services. Table 4.4 shows the role of SMEs in some developed and emerging economies. In these countries, their high contribution to employment partly reflects strong policy support to the sector in these countries.

4.6 SME Policy Implications for Southern Africa

Due to the relatively modest demands for financial and organizational resources, SMEs provide an excellent opportunity to address imbalances in access to entrepreneurship through special programmes and incentives. South Africa, for example, is formulating SME programmes to promote greater participation of those previously disadvantaged by the apartheid regime. In the USA, the Small Business Administration (the Federal SME promotional agency) has special SME programmes that give impetus to minorities marginalized from mainstream economic activities. In most African countries, the SME programmes are generally geared towards greater participation of indigenous people, often with special programmes for women that aim at redressing biases that hamper their participation in economic activities.

As most countries in the Southern African sub-region do not have reliable statistics on SMEs, this absence of statistics that show the full SME economic contribution to GDP and human welfare, coupled with lack of a strong collective political voice among SMEs, serves to undermine the policy attention required. With few exceptions, the full potential role of SMEs in national economic growth is far from being fully exploited in Southern Africa.

Optimal exploitation of the role of SMEs and the informal sector requires explicit policies that fully address the critical constraints, challenges and opportunities facing SMEs and the informal sector. A conducive SME–informal sector policy and institutional framework should include the following:

- Institutional mechanisms capable of delivering comprehensive packages of support services that address the major SMEs constraints i.e. poor access to credit and technology, weak technical and business skills, poor access to markets, inadequate transport, energy and utilities, lack of access to insurance services, and poor access to physical production infrastructure;
- A conducive regulatory framework with emphasis on decentralization of the regulatory system and simplification of enterprise registration procedures;
- Special incentives to overcome the negative effects of broader policies including special tax incentives, selective exemptions from specific labour laws and removal of municipal regulations that hinder small firms; and
- Policy consistency and transparency in pro-SME government programmes such as special government purchase programmes from SMEs, fiscal and export incentives, etc.

Local Innovation

5.1 The Strategic Role of Innovation in Economic Growth

Innovation is the development and commercialization of new products and processes, an essential element of a growing and dynamic economy. Innovation policies are strategically distinguished from research and general industrial policies. In this respect, the essential element in innovation is the use of new knowledge, and consequently, the linkages between sources of knowledge and potential users, and the transmission mechanisms for effective flow of new knowledge to these potential users.

Innovation has played a pivotal role in the development of some of the leading economies of the world. As US Assistant Secretary of Commerce for Productivity, Technology and Innovation, Hon. Jordan Baruch (1982) observed: "Industrial Innovation has contributed to the solution of some of America's most pressing problems i.e. reducing inflation, improving productivity, providing new energy supplies, conserving our non-renewable resources and utilizing in the most beneficial manner our solar-derived resources". As` long ago as 1978, President Carter of the USA, established a 'Domestic Policy Review of Industrial Innovation' which aimed at elevating industrial innovation and promoting if for the highest level of US Government policy consideration.

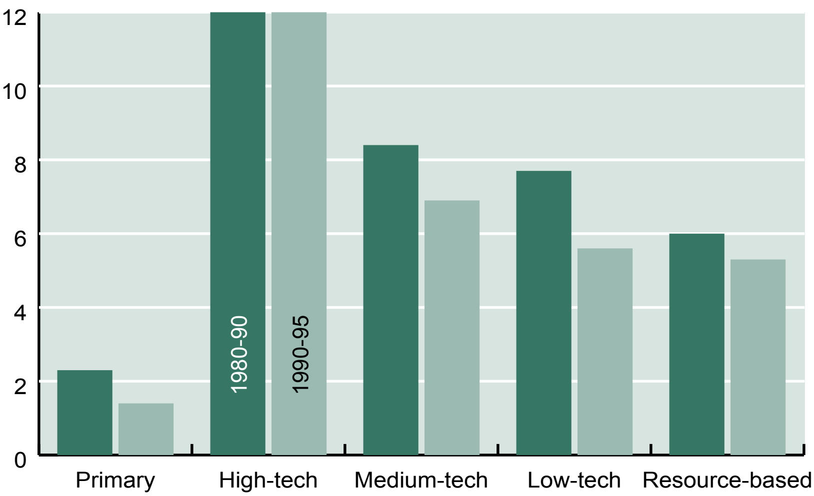
For the USA, it is instructive to note the broad partnership of key stakeholders in the 1979 review of innovation policy that laid foundations for the current innovation policy framework. The review processes involved a series of public symposia in which representatives of labour, industry, business, public interest and academia, and representatives of concerned government agencies participated. Similarly, Japan's innovation policy evolution underscores the importance of articulating innovation policy within the overall strategic context of the country in which long-term national socio economic considerations and local and international operational environments provided the basic determinants of these innovation policies.

Recent improvements in information and communications technology (ICT) and transportation, and the greater openness of national markets to international competition, have reduced the world to a global village of intense competition in which innovation is the critical determinant of competitiveness. The benefits and disadvantages of globalization are likely to remain issues of debate for sometime to come, but what is beyond debate today is the reality of it. As Hafsi (2002) observes: "Even when a firm does not intend to go elsewhere, it must expect others, from all over the world, to come and challenge it in its own territory." Globalization therefore, once considered a firm-specific strategy, has become a structural element that has dramatically changed competition dynamics in many industries.

The importance of innovation to national economic growth can be seen from the impact that technological developments have had on the competitiveness of products. In a study of world trade for various products grouped according to their technological complexities for the period 1980-1996, Lall (1998) observed that the share of technologically complex products has risen steadily. Indeed, the higher the level of technological sophistication, the higher the growth rate. Graph IV shows the growth in the share of world trade of various levels of technological complexity of products.

While world exports of primary products grew at a modest annual average of 2.3% during 1980-1990, and at an even lower average of 1.4% over 1990-95, high-tech products (fine chemicals, sophisticated electronics, aircraft, and precision instruments) grew at around 12% a year compound in both periods. Medium technology products (machinery, simple electronics, chemicals, and transport equipment other than aircraft) grew at 8.4% and 6.9% during the same periods, respectively.

Graph IV – Growth in the Share of World Trade, 1980-1996

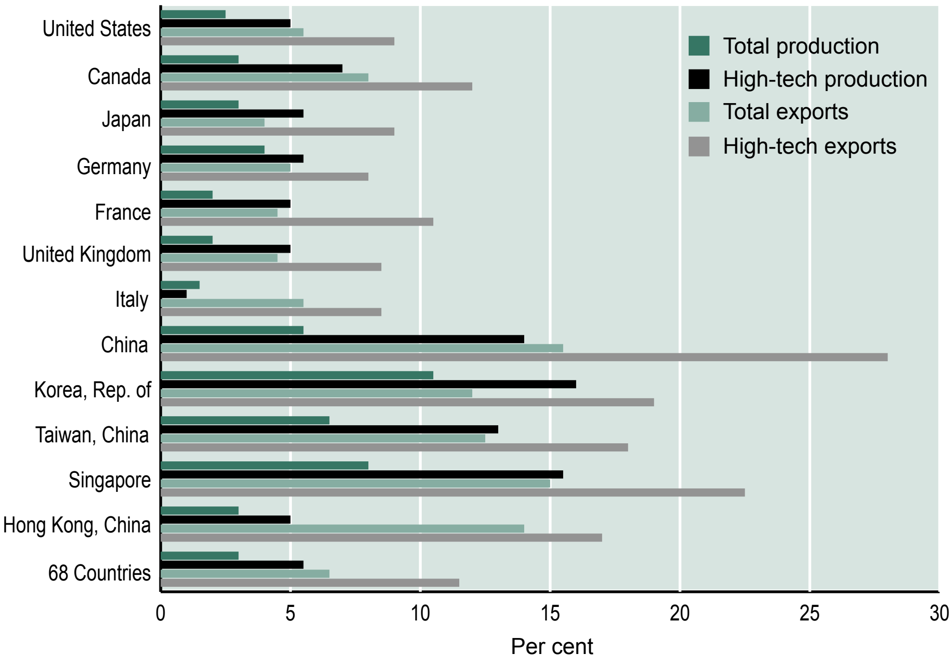


Source: *Lall S. (2002) "Strengthening Small and Medium Enterprises for International Competitiveness" in Fawzy (2002).*

Low technology products (textiles, clothing, toys, simple metal and plastic products, and footwear) grew at 7.7% and 5.6% for both periods respectively, while resource-based manufacturers grew at 6% and 5.3% for the same periods. So while export growth rates generally declined after the 1980s, technologically complex products maintained their growth, more so than simpler products.

For growth within countries in the sub-region, similar observations can be made. Growth rate in output is higher for all countries for high-tech products than the rate for total production. As shown in Graph V, the growth rate of exports is higher for high-tech products than for total exports. Graph V also shows that many South East and Far East Asian countries exhibited higher growth rates than USA, Japan and Western Europe, in both high-tech production and exports. This reflects the benefits of strategic policies that have aimed at increasing trade in high-tech products, especially those which have high export potential.

Graph V - Growth Rates of Total and High-Tech Production and Exports, 1980-1995



Source: *Lall, S. "Strengthening Small and Medium Enterprises for International Competitiveness" in Fawzy (2002)*

5.2 Innovation Challenges and Policies in the Southern African Sub-Region

The R & D annual budget of a typical large US corporation is larger than the combined national budgets of six low-income countries of Southern African. The cost factor of R&D alone is a major constraint. Another limiting factor on local R & D activities is that major industrial establishments in this sub-region are subsidiaries of TNCs with Headquarters and principal R & D centres based, for the most part, in Western locations. Therefore, due to severe resource constraints and the subsidiary nature of the major local industrial establishments, the scope for local R & D activities is modest. The basic policy challenges for the sub-region are:

- To rationalize and optimize the utilization of the available modest national and regional R & D capabilities so as to achieve the best possible developments; and
- To improve mechanisms for technology transfer to the sub-region, and to individual member countries.

5.2.1 Rationalization of national and regional innovation policies

In spite of the acknowledged severe cost constraints, most countries in the sub-region have some policy and institutional arrangements to guide national R & D efforts. This policy stance is in recognition of the fact that certain socio-economic problems and opportunities are peculiar to a specific country, and therefore only locally initiated R & D activities can address these problems.

One of the most serious socio-economic challenges for Southern African today is regional, national, and household food security. While the sub-region has substantial potential for agricultural production, the food security situation remains weak, and has recently been exacerbated by droughts and floods. It is encouraging to observe that each country in the sub-region has some basic agricultural research facilities that also have the capability for developing better seed varieties, and better agricultural methods to suit each country's peculiar agricultural context.

The national agricultural research centres in the sub-region include Sebele in Botswana, Huambo in Angola, Malkerns in Swaziland, Chitedzi in Malawi and Mount Makulu in Zambia. South Africa has a network of agricultural research centres and Mauritius has a Food and Agricultural Research Council and a specialist Sugar Industry Research Institute. With the assistance of government agricultural extension services, the agricultural sector has good scope for transferring new knowledge from R & D centres to both large-scale and smallholder farmers.

Many Southern African countries also have R & D facilities for post-harvest and agro-processing activities. For the development of locally made machinery for various post-harvest activities for products such as maize, groundnuts, rice, cassava, sorghum, etc, many also have technologies for increasing the content of traditional produce such as sorghum, maize, and cassava in such popular consumer products as bread and biscuits. Many also have technologies for using local indigenous fruits for making wine and other commercial drinks. These technologies are not only important for improving smallholders productivity but also give the opportunity to use simple functional equipment that is time and energy saving.

However, the link between R & D centres and commercial manufacturers of new (appropriate technology) machines has been rather weak. Consequently, in spite of the development of prototypes for a variety of basic equipment that can improve overall productivity for smallholder farmers, technology for post-harvest activities in most smallholder farm communities remains primitive. The policy challenge is to promote linkages between R & D centres and commercial manufacturers and to facilitate the manufacturers to produce new equipment for smallholders in order to raise productivity and incomes. With the notable exception of Amarula, a liqueur produced from indigenous fruits in South Africa that now has a significant commercial market within and outside South Africa, commercial production from local materials has been generally undeveloped.

In many countries, notably Angola, Lesotho, Malawi, Swaziland and Zambia, severe resource constraints have led to significant deterioration in infrastructure, and loss of high-calibre researchers at research stations. Undermining the effectiveness of the research centres. Inadequate operational budgets have further undermined the capacities of government agricultural extension officers to serve as effective linkages between research centres and farming communities. This situation points to the need for credible financing strategies for agricultural innovation. Zimbabwe, for example, has been supporting agricultural research through an export levy on export crops such as tobacco, and similarly, Malawi with tea. Crop levies that directly impact on particular crops and agricultural programmes could be an equitable and effective means of financing agricultural research. The policy challenge is transparency and efficient targeting of levy revenues on agricultural R & D activities.

Research centres should be encouraged to specialize in specific areas, and at the same time researchers in the sub-region could be placed in a sub-regional pool for distribution to research centres where their qualifications are most appropriate. SADC member countries have developed a regional approach to R & D in agriculture proving that regional cooperation is a very important practical approach to contain and rationalize the high cost of R & D in the sub-region. In addition to this approach, there is scope for bilateral collaboration. For example, due to efforts to improve food security through a greater reliance on drought-resistant products such as cassava, Zambia has been importing higher yielding cassava species from Malawi.

In addition to agricultural research institutes, many of the Southern African countries have established science and technology research centres that are assisting with the promotion of non-agricultural innovations. Most of these institutions combine regulatory responsibilities with actual R & D activities. For example, Zambia has recently changed its institutional arrangements to follow the Ugandan model of a separate regulatory body for science and technology to support and regulate public and private R & D institutions. It is anticipated that other countries in the sub-region may follow suit. In 1996, Zambia established the National Science and Technology Council as a regulatory body and transformed the old National Council for Scientific Research, which had until then combined regulatory and R & D responsibilities into the National Institute for Scientific and Industrial Research (NISIR) allowing it to focus completely on R & D activities.

Apart from agro-related R & D in post-harvest technologies, non-agriculture R & D centres have not had much impact on industrial production. This is mainly a reflection of poor government funding of R & D activities and poor institutional frameworks and facilities for linking new knowledge from research centres to commercial production. This is a reflection of few resources. Therefore, at least the short term, the sub-region should maintain policy attention in the agricultural sector. With regard to the other sectors, the policy challenge is to improve and intensify technology transfer and also improve possibilities for the development and refinement of indigenous technologies. In order to promote the application of science and technology for economic growth and poverty reduction, the African Forum on Science and Technology for Development (AFSTD) was recently established by tNEPAD. AFSTD will promote regional collaboration in science and technology, and will provide a regional platform for:

- Open and knowledge-intensive multi-stakeholder dialogue on ways to harness science and technology to eradicate poverty, and create wealth for African people;
- Building strong political and civil society constituencies for the advancement of science and technology in Africa;
- Promoting science and technology to achieve NEPAD and MDG objectives, and the targets set in the African Chapter of the Plan of Implementation of the World Summit on Sustainable Development (WSSD);
- Improving the quality and intensity of bilateral and multilateral cooperation in science and technology;
- Promoting good practices of science and technology policy development and implementation;
- Ensuring that Africa's needs and aspirations are articulated in international negotiations and U.N processes on matters of science and technology; and
- Formulating projects, guidelines and recommendations on science and technology issues within NEPAD and AU systems.

The AFSTD aims to design strategic actions to strengthen science institutions, improve quality of science and engineering education, leverage increased public expenditure on R & D, design regional R & D projects, and promote networking of departments, academies and institutes of science and technology.

5.2.2 Policies for transfer of technology

While inadequate resources remain a major barrier to innovation activities, the fact remains that the sub-region can only develop by relying on better technologies in all areas of economic activity. For SMEs, emphasis should be placed on the transfer of generic and basic technologies that can assist local establishments improve their technological base.

Many national public technology agencies have in their portfolio both local development and transfer of new technologies. What may need to improve are the mechanisms for collecting information on foreign technologies and the capacity to disseminate information on new technologies to the local potential users. To optimize the impact of technology transfer, there should be systematic ways of identifying strategic areas for technology interventions, and institutional capacity for adapting imported technologies to the peculiar needs of the host country.

5.2.3 Development of a technology culture

The main determinant for the development of a technology culture is the acquisition of basic literacy. Basic literacy is essential for social empowerment, which enables access to information and the effective absorption of technologies. The policy challenge is for governments to treat education not only as a social service, but a strategic element in human capital development. Primary education should be available for every child. Further, secondary schools and tertiary training institutions have the responsibility of preparing students for higher levels of technical responsibilities. Innovation policies should encourage a strong emphasis on science courses in secondary schools, and engineering and technical courses in tertiary institutions.

In the promotion of a technology culture, the education system must be the principal vehicle, but this needs to be augmented actively by deliberate inventions and innovations promotion activities, such as publicized prizes for scientifically creative activities, local science and technology exhibitions for students, the business community, or researchers. There should also be clear government commitment to supporting commercialization of inventions and major innovations that target strategic areas of the national economy.

5.3 The Special Case of South Africa on Innovation

The South African economy is in many ways different from other countries in the Southern African sub-region. With a large modern industrial sector and a highly developed communication and transport system, South Africa's economic structure compares with those of developed economies and other emerging economies. South Africa is also a major exporter of manufactured goods to other markets, both inside and outside the sub-region. Thus, innovation developments are of similar importance to the more developed economies outside the sub-region.

Geographical proximity to the rest of the sub-region gives South Africa a comparative advantage for trade within the regional markets and, as a result, the industrial growth of South Africa continues to depend significantly on the regional market and the internal South African market for trade. However, increased globalisation and dramatic improvements in information, communication and transport facilities are reducing the advantages of geographical proximity, and South African products are now becoming increasingly challenged. South Africa's industrial growth therefore can only be sustained with adequate investment in innovation.

Table 5.1 above shows global contributions to economic growth by major factors of production, i.e. capital, labour, and technology. As seen from the figures, Africa's growth depends on capital (72%), labour (28%) and technology (0%). Africa's significant reliance on labour compares with Latin America and both regions have the lowest growth rates.

Table 5.1: Contribution of Capital, Labour and Technology to GDP Growth Rate (%)

Region	Capital	Labour	Technology
Developing countries, 1960-87	65	23	12
Africa	72	28	0
East Asia	56	16	28
Europe, Middle East & North Africa	58	14	28
Latin America	67	30	3
South Asia	67	20	13
Selected developed countries, 1960-85:			
France	27	-5	78
West Germany	23	10	87
Japan	36	5	59
United Kingdom	27	5	78
United States	23	27	50

Source: - *Lim, D. "Explaining the Growth Performances of Asian Developing Economies" Economic Development and Cultural Change, 1994.*

Note: *The contribution of technology is computed as residual growth in total factor productivity (TFP) after allowing for the impact of factor inputs (capital and labour) on growth rate.*

By way of contrast, the contribution of labour to economic growth is negative in West Germany and the United Kingdom, whilst the contribution of technology is significant at 87% and 78% respectively.

The contribution of labour, capital and technology to GDP growth in South Africa is shown in Table 5.2. From a negative contribution in the 1970s, the contribution of technology to GDP growth steadily rose to a level where technology became the main contributor to GDP growth in the 1990s.

The decomposition of GDP growth into the main sectors is shown in Table 5.3. The table shows technology has been the dominant contributor to growth in agricultural, forestry and fishing sector for the last three decades which reflects sub-regional innovation efforts for agriculture. Similarly, steady growth has been recorded for the share of technology in the mining and service sectors. Manufacturing is the only sector where the contribution of technology to growth has been declining. Generally this is a result of the isolation of the South African economy during the apartheid period. The South African manufacturing sector had to depend more on the costly method of developing technologies rather than on the cheaper route of importing them.

Table 5.2: Contributions of Labour, Capital, and Technology to Real GDP Growth Rate in South Africa

	Growth in Of which:			
	Real GDP	Labour	Capital	Technology
1970s	3.21	1.17	2.54	-0.49
1980s	2.20	0.62	1.24	0.34
1990s	0.94	-0.58	0.44	1.07

***Source:** NACI & NSTF "Growth & Innovation: Perspectives on the Interaction between economic growth, science, technology and human capital" 2001.*

Table 5.3: The decomposition of Growth in per capita GDP by Factors of Production and Technological Progress.

	Growth in Real GDP Of which:			
	Agriculture Forestry and Fishing	Labour	Capital	Technologygy
1970s	4.27	-0.10	2.00	**2.37**
1980s	4.30	-0.24	-0.56	5.10
1990s	-4.47	-0.20	-0.92	3.52
	Mining			
1970s	-1.07	0.51	3.81	-5.40
1980s	-0.55	0.18	3.90	-4.63
1990s	-0.60	-2.32	0.10	1.62
	Manufacturingng			
1970s	4.94	1.67	2.78	0.49
1980s	1.48	0.78	1.21	-0.52
1990s	0.19	-0.47	1.69	-0.79
	Service Industryy			
1970s	3.41	1.49	2.80	-0.88
1980s	2.81	0.82	1.28	0.71
1990s	1.50	-0.59	0.44	1.65

***Source:** NACI & NSTF "Growth and Innovation: Perspectives on the Interaction between Economic Growth, Science, Technology and Human Capital" 2001.*
Figures are in per cent

5.4 South Africa's R & D Policy

South Africa's R&D has generally been performing well, which is a reflection of sound innovation policies. As early as 1945, South Africa had created a Centre for Scientific and Industrial Research (CSIR) as the principal public science council for the promotion of innovation. CSIR operates as a market-oriented contact and consortium research partner to its clients and stakeholders. With a budget equaling 10% of the total R & D budget for Africa and a staff number of 3000, the CSIR is the largest community-and industry-directed R & D organization in Africa. It provides a comprehensive range services to private and public sector institutions and also has an international network of clients and partners, including universities.

The CSIR's primary guiding objectives are:

- Promotion of competitiveness and employment opportunities
- Enhancing quality of life
- Human resource development
- Environmental sustainability
- Promotion of an information society
- Generation of new knowledge

CSIR's operational focus is determined by the country's socio-economic circumstances and natural strategic interest, and reflects the responsiveness of CSIR to the development challenges of South Africa. The current areas for technology development are:

- Food, biological and chemical technologies
- Building and construction technologies
- Defense technologies
- Water, environment and forestry technologies
- Information and communications technologies
- Manufacturing and materials technologies
- Mining technologies
- Roads and transport technologies

CSIR also has collaborative initiatives that include:

- Crime prevention
- SMEs
- Manufacturing
- Environmental impact assessment
- Outreach programmes and national human resource development
- Sports technology

The collaborative approach of CSIR makes it a practical and cost-effective institution for medium-size enterprises to engage in R & D. In addition to CSIR, South Africa has a network of research institutions, universities and technical schools that assist in R & D and human development activities. Major industries are also facilitated by industry or sector associations such as the South African Stainless Steel Development Association and the South African Bitumen Association that facilitate collective approaches to generic R & D activities. Also, the Ministry of Art, Culture, Science, and Technology ensures that science and technology policy issues reach Cabinet level. In 1997, South Africa created the National Advisory Council on Innovation (NACI) as the principal public agency to liaise with innovation centres and advise the Ministry on issues affecting innovation. NACI assists the Ministry to facilitate practical relations between the major players in innovation i.e. government, business houses, and knowledge centres such as universities and research centres.

Market Access

Markets play a critical role in the sustainability and economic growth of private sector enterprises. Poor market access can stifle the growth prospects of any commercial enterprise. In the past, many African countries tried to protect local products from competition from externally produced products through tariffs and a variety of non-tariff barriers. Such protection tendencies have been generally associated with inefficiency in the global allocation of productive resources.

The global trend today is to eliminate or reduce tariff and non-tariff barriers to trade and, as such, many countries in the sub-region have ratified the World Trade Organization (WTO) protocols to eliminate all barriers to world trade. Other international agreements, of which many Southern African countries are members, include the Cotonou Agreement with the EU and the General System of Preferences (GSP). However, developing countries carry little influence in WTO negotiations, partly because of lack of knowledge and technical capacity.

Some of the WTO international trade policies have also worked against the developing countries. There are still many quotas, tariffs and subsidies that obstruct developing country access to northern markets, and even though quality-related standards are being applied to imports from developing countries, these standards are not treated as barriers to trade. In addition to this, corporate intellectual property rights block developing country access to cheap technology.

International trade has never been a game of charity: it has always favoured stronger economies. International trade agreements involve complex issues and require sophisticated skills to negotiate. One of the weaknesses for Africa is the lack of specialized skills in trade negotiations. Among the recent interventions by African Capacity Building Foundation has been to assist ECOWAS and COMESA to build capacity for trade negotiations. The ECA has established an Africa Trade Policy Centre (ATPC) with the main aim of building the capacity of member States to participate effectively in WTO negotiations.

SADC is moving towards establishing a Free Trade Area amongst its member States and COMESA is also developing a broad regional market from which individual countries can develop their production possibilities and build more capacity for effective entry into the more competitive global market. However, these regional approaches are not consistent with WTO principles of global openness but are sound propositions for small economies in Southern Africa that need some form of protection before entering a globalized market.

Current policies in COMESA and SADC are also aimed at attracting FDI that can take advantage of lower transportation costs to meet sub-regional demand. This sub-regional approach is the surest way of attracting FDI to service sub-regional markets adequately. However, factors constraining sub-regional trade include difficulties in settlement arrangements because financial and monetary systems are not integrated and the strength of the US dollar against other regional currencies. Another constraint includes poor information on export markets. Even though many countries in the sub-region have developed some policies to improve information technology, IT policies need to specifically target export trade to empower potential exporters with essential basic information.

One major cause of weakness in Africa's domestic market is that local production initiatives are not able to meet new, mainly foreign-oriented, consumption habits and demands. The consumption of wheat-based products, such as bread, is now common. However, many African countries have not developed the local capacity to produce wheat, or to use locally available flour to produce bread. This mismatch in consumption and production patterns tends to leave local markets unduly exposed to foreign product competition, and the inability to adapt indigenous products (such as sorghum flour) to emerging demand has stifled demand for indigenous products.

Depressed demand usually reflects several factors including low productivity, low incomes, and severe inequalities in income distribution. Most salary structures in African countries reflect a colonial legacy of large differentials based on racial discrimination. Large disparities in income continues today and as such the average wage of general workers and agricultural workers in Southern Africa is small, which oftentimes reduces productivity. Similarly, smallholders suffer the same fate of low prices for their crops, on one hand, and harsh terms of trade to obtain manufactured goods, on the other. Hence, rural areas in Southern Africa are generally characterized by severe poverty, except for small pockets of large modern farms.

Figures for income distribution for Southern African economies are shown in Table 6.1. In post-apartheid South Africa during 1986-1997, the richest 20% of the population had 64.8% of the national income; the share of the richest 10% was 46%, whilst the poorest 20% survived on only 3%. As can be seen from the table, the former socialist countries such as Mozambique and Zambia have similar patterns of income distribution, largely due to the significant salary differentials of the parastatals.

The heavy concentration of income amongst a small minority, and the geographical distance from the urban areas for the rural population, have tended to further depress demand for products and limit consumption to the few with income. Improved equity in income distribution needs to aim at broadening and increasing domestic demand. More equal income distribution will assist Africa to reinvigorate domestic and sub-regional markets. South Africa is an example of a country's efforts to redress the economic inequalities of apartheid by improving employment and income opportunities of those previously disadvantaged. The post-apartheid period has shown some increase in employment without a decline in wages, which has meant that more people have been employed at higher wages.

Table 6.1: Income Distribution in Southern Africa

Share of Income held by Population Groups				
Country	Richest 10% 1986-97	Richest 20% 1986-97	Poorest 10 % 1986-97	Poorest 20% 1986-97
Angola	- -	- -	- -	- -
Botswana	- -	- -	- -	- -
Lesotho	43.4	60.1	0.9	2.8
Malawi	- -	- -	- -	- -
Mauritius	- -	- -	- -	- -
Mozambique	31.7	46.5	2.5	6.5
Namibia	- -	- -	- -	- -
South Africa	45.9	64.8	1.1	2.9
Swaziland	50.2	64.4	1.0	2.7
Zambia	39.2	54.8	1.6	4.2
Zimbabwe	46.9	62.3	1.8	4.0

***Source:** World Bank "African Development Indicators 2002", Washington, D.C.*

While the challenges in South Africa today are racially contextualized, poor income distribution is a problem experienced for the most part in every country in the sub-region. The primary challenge for governments is to address income distribution through a review of wage structures that can positively affect local markets, and strengthen the regulatory framework for the sustainability of private sector-led economic growth.

Policies And Institutional Mechanisms for the Promotion of the Private Sector

An effective institutional framework must address the major constraints and concerns of both local and foreign investors. However, whilst a favourable general institutional framework is certainly the starting point, foreign investors also need additional policy measures that address their particular circumstances. Local investors may also require additional policy measures and incentives that help to address their circumstances fully. A comprehensive institutional framework for promoting private sector development should include governance policies, fiscal and monetary policies for macroeconomic stabilization, mechanisms for stakeholder participation in policy development, investment facilitation and regulation systems, innovation policies, and appropriate incentives for identified special sectors of the economy.

7.1 Governance Policies

As early as the 1960s, the Latin American School of Structuralists recognized governance as a critical factor in economic growth and development. ECLA economists of that era notably Anibal Pinto, O. Sunkel, Raul Prebisch, Celso Furtado, and Pedro Vuskovic contributed to the original structuralist analytical framework that underscored the importance of relations and linkages between various factors that directly or indirectly impacted on economic growth and human development. These factors included income, demand, labour, output, exports/imports, politics, administration and culture. In the context of structural and political reforms, the issue of good governance has been of concern to Africa for some time, but it is only recently that the intrinsic linkage between good governance and sustainable human development has been given due attention.

In the NEPAD document, for example, African leaders have recognized the fact that the process of achieving economic growth and reducing poverty in their countries is heavily influenced by a considerable number of political and administrative factors, and that good political governance is a prerequisite for good economic and corporate governance. The NEPAD framework recognizes the need for considerable capacity building and reform in the civil service, strengthening democratic structures such as parliamentary oversight, participatory decision making, effective anti corruption policies, and judicial reforms to enhance the rule of law.

The significance of democracy goes beyond promotion of political stability because democracy also impacts more directly on economic growth prospects by inducing greater national ingenuity. By facilitating greater participation of the citizens and residents in national decision-making processes, democracy encourages greater flow of ideas and is thus associated with relatively higher levels of collective national wisdom and national organizational ingenuity.

Since the beginning of the 1990s, Southern African countries have made significant progress in institutionalizing democracy and good governance. This is reflected in a number of developments taking place in the sub-region, such as constitutional limits on Presidential terms of office, setting up democratic institutions, the holding of multi-party elections, the increase of popular participation in governance, and dialogue between governments and stakeholders. In addition, a number of constitutional, legal and administrative changes have also been undertaken with the objective of consolidating and deepening democracy.

Sub-regional structures to support such a process include the SADC Electoral Commissions Forum, the Electoral Institute of Southern Africa, the SADC Electoral Support Network and the SADC Parliamentary Forum. These organizations have committed themselves to supporting the growth and deepening of democracy in the sub-region. This has been accomplished, through, *inter alia*, sending election observers to monitor and observe elections in the sub-region, as well as providing training for election personnel.

Experiences from the sub-region and beyond have shown that deepening democracy entails more than the holding periodic elections and the creating a set of institutions. It also requires the development of a generally accepted set of values that ensures fair electoral practice, predicated on representation, accountability, inclusiveness, transparency, gender equality, tolerance and respect for diversity. These basic values have been agreed upon by Southern African countries and are expressed in the various declarations and instruments to which they are signatory: the Windhoek Declaration on the Freedom of the Media (1991), the SADC Treaty of 1992, the 1997 SADC Declaration on Gender and Development. During the year 2001, Southern African leaders identified as part of their common agenda the promotion of common political values, systems and other shared values transmitted through institutions that are democratic, legitimate and effective, as well as the consolidation and maintenance of democracy, peace and security. This led to the adoption of a Regional Indicative Strategic Development Plan (RISDP) by SADC member States in 2002.

7.2 Macroeconomic Policies

Fiscal and monetary policies are important in promoting a stable macroeconomic environment. Monetary policies are conducted by central banks, and on one hand, in practically every country in the sub-region the central banks are managed by eminent professionals on a sound professional basis. Fiscal policies on the other hand, are universally influenced by political considerations and objectives that sometimes are inconsistent with macroeconomic objectives and targets. The biggest challenge for full effectiveness of macroeconomic policies is the harmonization of fiscal and monetary policies so that there is mutual reinforcement. For instance, while most central banks in the sub-region have tried to control inflation with tight monetary policies, uncontrollable deficits have tended to undermine the impact of such monetary policies on overall macroeconomic stability.

7.2.1 Fiscal policies

Both the revenue and expenditure sides of fiscal measures need to be responsive to the needs of the private sector. The tax burden should be such that the investor is able to meet their tax obligations, and shareholder profit expectations and retain adequate surplus to sustain the enterprise. Previously, tax collection was done by departments of the Ministries of Finance. Reforms in many countries have led to the creation of autonomous revenue agencies which operate on separate, conditions of service that are generally better than these of the civil service. In many countries in the sub-region, these agencies have improved revenue collection because they operate on semi-commercial principles.

The actual taxation policies are done by the Ministries of Finance, which attempt to be sensitive to private sector needs. Indeed, many countries are competing on the global market for FDI, and tax policies are part of their competitive packages. On the government expenditure side, the major areas of interest to the private sector are the shares going to infrastructure, human capital development, and to maintenance of political and social stability in the country. Countries in the sub-region have different experiences in infrastructure and human capital development. Most countries in the sub-region are taking major steps to improve political and administrative systems including the judicial systems. These measures are getting fair budgetary provisions as they are critical to the maintenance of political and social stability, which is a very essential condition for private sector investment whether local or foreign.

In some countries, there are government-underwritten programmes for World Bank, ADB and other donor-support services to the private sector. These programmes supplement donor support to governments, and should be further encouraged to enhance private sector participation. It is a vibrant private sector that can, in the long run, reduce national dependence on foreign donors. Most countries in the sub-region are heavily dependent on donor support to balance their budgets. Such support may be inevitable in the short run. The challenge for government is to use this donor support to build capacity for self-sustained economic growth. With the heavy pressure on national treasuries from various angles of development, fiscal balance and discipline are a problem. Balance is particularly needed between short-term revenue objectives and long-term development objectives. The revenue measures are prudently allowing for private sector incentives to invest in desired areas including human capital development.

Inadequate fiscal discipline, especially in the administration and implementation of approved budgets, leads to serious distortions in planned expenditure and to undue stresses on available resources. This leads to unplanned recourse to the banking system, where the private sector is crowded out. This creates a series of chain reactions including poor performance, and reduced tax revenue that in turn undermine macroeconomic stability. To improve fiscal discipline, any proposal to depart from the approved budget in Uganda has to be tabled and approved by the Cabinet. This procedure helps to induce fiscal discipline. The Uganda practice could serve as a useful model for this sub-region.

7.2.2 Monetary policies

One of the biggest barriers to development in Africa is weak financial systems and capital markets. Africa's financial systems are characterized by inadequate and uncompetitive banking facilities and financial institutions and weak capital markets. The poor banking and financial services are particularly inadequate in rural areas. Even South Africa which has a world-class stock exchange cannot boast of optimal utilization for domestic capital mobilization because of the apartheid legacy that excluded many people from the mainstream commercial culture.

With the failure of several small, mainly indigenous banks on the continent in the 1990s, the banking system has further deteriorated into less competitive and unresponsive systems, especially in countries that experienced these bank failures. The general picture in Africa is one of extremely poor access to institutional loans by local enterprises, especially SMEs. Even though access to institutional lending is said to have improved during the 1990s, the credit situation remains quite bad. Schulpen and Gibbon (2001) have noted: "In Zimbabwe the percentage of SMEs that obtained loans from banks or NGOs increased during the 1990s from very little to 2.5%, while in Kenya 3.5% of SMEs had obtained institutional loans by 1995. Female-owned enterprises have less access to institutional lending than male-owned ones, and depend for finance to a high degree on loans from husbands and other family members".

This difficult credit situation is generally regarded as the binding constraint on the development of entrepreneurship in Africa. The special problem of women entrepreneurs is particularly unfortunate since observable evidence in Lesotho, and the empirical observations of Kenya Industrial Estates and Zambia's Small Industries Development Organization and national SME promotional agencies indicated that women-run SMEs tend to be better managed and to be more successful than those run by men. Thus, the bias against women entrepreneurs hampers a potentially more successful category of SME entrepreneurs.

In recognition of the binding constraints of poor credit access by SMEs, some countries have developed specialized institutions and schemes to facilitate credit to SMEs. This is a positive, development, but countries in the sub-region need to do a lot more to address the constraint of credit to the private sector. The East Asian credit policies and strategies in the 1980s offer very pertinent lessons for the sub-region.

In East Asian countries, the radical economic restructuring policies of the 1980s recognized the critical role of an efficient financial sector, and appropriate policies were developed to deliberately encourage the vigorous growth of non-bank financial services to compete with commercial banks in the provision of financial services. The improved flow of credit ensured the growth of the private sector especially SMEs, and were critical to the resuscitation of economic growth in these countries.

The central banks in this sub-region generally rely on the classical monetary restraint to control inflation. This policy is sometimes undermined by deficits. Indeed, it could be argued that in some cases when the little liquidity available goes to government to increase consumption, and the private sector which is crowded out of credit market reduces its production, inflation pressure can increase rather than reduce because of this increased consumption by government and the reduced output in the private sector. If tight monetary policy is required, it should be targeted at controlling governments frequent excessive reliance on the banking system for funding budget deficits while allowing reasonable flows of credit to the private sector. Such "targeted tight monetary policies" are more likely to achieve macroeconomic stability than a generally tight monetary policy.

7.3 Public – Private Sector Partnership in Policy Management

With increasing recognition of the private sector as a major partner in economic growth, the private sector role in policy evolution and management needs commensurate recognition. To promote a sense of ownership and commitment to public policies affecting the private sector, governments in the sub-region are encouraging close collaboration with and greater involvement of the private sector in policy management.

Regular consultations between business associations and the relevant ministries have been there for some time, and such relations are being consolidated. These consultations have recently been broadened in many countries in the sub-region to include an annual meeting between the State President with his entire Cabinet and major business associations. These top-level meetings started with Botswana and Malawi and are now getting replicated in the neighbouring countries.

The public-private sector partnership has also been incorporated in the sub-regional institutional arrangements. For instance, the COMESA private sector association participates in COMESA policy forums. At national level, the Business Associations' interactions with Government Ministries are getting better under an increasingly positive atmosphere for public-private sector partnerships. In Mauritius, the Government has embarked on a comprehensive Public-Private Partnership (PPP) concept that could prove to be a useful model for the rest of the sub-region.

Box 2.5: The Public-Private Partnership (PPP) in Mauritius

The Public-Private Partnership (PPP) in Mauritius is conceived as a new way for Government to deliver services to the population in a more efficient and cost- effective manner. It is a contractual arrangement whereby a private party performs part of a Government organization's normal service delivery or administrative functions and assumes the associated risks. In return, the private party receives a fee in accordance with predefined performance criteria. The essential aspects of PPP arrangements are:

- Focus on services to be provided, not the assets to be employed; and
- A shift of the risks and responsibilities to a private provider for the pertinent activities.

The PPP project can take any of the various contractual forms below:

a) Service Contract: Government bids out the right to deliver a specific service usually of short duration;

b) Management Contract: Assets of the institution continue to be public, but operational management becomes private;

c) Leasing: Private sector finances and builds new facility, which is leased to public sector which makes scheduled lease payments; and

d) BOT/BOO: Private Sector builds and operates a facility based on public sector design. In the case of BOT, the ownership rests with the public sector, while in case of BOO, ownership is vested in the contractor until end of the contract.

The Government strategy for PPP includes a policy, legal and institutional framework with a full-time secretariat and technical support services from the University of Mauritius and the Ministry of Economic Affairs.

Source: *Mauritius Ministry of Economic Development, Public-Private Partnership Secretariat.*

7.4 FDI Policy Challenges

National policies and institutional arrangements for business facilitation are fundamental in attracting or preventing FDI inflows. Significant policies are those relating to:

- Economic, political and social stability;
- Rules for entry and operations;
- Treatment of foreigners relative to that of citizens;
- Market structure and operations e.g. competition and mergers and acquisitions (M & A);
- International and regional trade and investment agreements;
- Privatization and nationalization of enterprises;

- Trade policies e.g. tariffs and non-tariff barriers; and
- Tax policy

The significant business facilitation services are those related to:

- Investment promotion and facilitation;
- Investment incentives;
- Hassle costs (related to corruption and administrative efficiency);
- Social services (bilingual and international schools, medical care, quality of life; and
- After-investment services

Political and social stability are basic requirements for any investor, and these are also the basic pillars for economic stability. The Southern African sub-region has emerged from the liberation wars that undermined the political, social and economic stability of the sub-region until 1994, when South Africa was liberated from the Apartheid System. The civil wars that followed independence in Mozambique and Angola have now ended, and the whole sub-region is now moving steadily towards democratic systems of governments and are switching substantial financial and organizational resources from military activities to developmental activities.

As part of its global strategy to promote FDI inflows into areas of high political risks, the World Bank, in 1985, established the Multilateral Investment Guarantee Agency (MIGA), which offers investors protection against currency inconvertibility or transfer, expropriation, breach of contract, war and civil disturbance. With the current global trend towards market-based economic systems, the risk of open nationalization of businesses is very remote. However, investors are cautious about the regulatory collections in the tax policy that can enable the State to take substantial resources from an investor.

Botswana, South Africa and Mauritius have been very proactive in evolving FDI-friendly legal frameworks and tax policies, including double taxation agreements. Botswana, for instance, has ratified the 1985 World Bank Convention and MIGA. The country has a comprehensive legal framework including the Employment Act that stipulates minimum conditions of employment for all workers both citizens and expatriates. Botswana's tax policy includes incentives of 200% tax deduction on staff training costs. The actual tax burden is low at a 25% corporate rate, and it is reduced to 15% for manufacturing enterprises with 15% on dividends.

In the area of business facilitation services, all countries in the sub-region have Investment Promotion Agencies (IPAs), which provide basic services to help investors get essential licenses and legal registrations. Most of these IPAs attempt to operate as a one-stop window for basic services, to reduce the time spent on these preliminary administrative requirements. Many measures have been taken to improve the regulatory framework in various countries.

A recent study of the regulatory system in Mozambique observed significant developments in the regulatory framework, but also noted several areas requiring further action

[FIAS & USAID, 2001]. This study, highlighted the importance of effective sensitization and training of responsible officers on the new rules, regulations and procedures. For instance, many local labour officers were ignorant of new labour laws that they were expected to monitor in their areas. To address such challenges, the study proposed a four-stage approach as follows:

> **Stage 1:** Build political will at the highest and all critical levels of policy management and reinforce the institutional arrangements.
>
> **Stage 2:** Formulate an Action Plan in a participatory manner so that it enjoys a legitimate sense of ownership by all stakeholders especially the private sector.
>
> **Stage 3:** Premise the Implementation Plan on accountability and transparency, taking full account of the essential capacity building needed to empower the regulatory system to operate effectively.
>
> **Stage 4:** An effective Monitoring and Evaluation (M & E) System should be in place to facilitate timely responses to any factors that may have a bearing on the effectiveness and responsiveness of the regulatory system.

For purposes of attracting foreign investment, the major challenge for the sub-region and for Africa is to shake off the historical associated images of social and political instability. To develop and sustain a new positive image, the sub-region needs to build on its past achievements and further develop and consolidate democratic structures of governance aimed at building the culture of democracy that is necessary for sustaining social and political stability.

The COMESA programme for systematically transforming the COMESA sub-region into a common market offers prospects for uniting several small markets into one large market. Currently, COMESA is working out modalities for a Common Investment Area which can further improve prospects for attracting large investments targeted at the COMESA and the global market.

7.5 Policy Implications for Infrastructure and Services for Private Sector Development

In terms of economic infrastructure to facilitate local and foreign investors, special attention should go to transport and communications infrastructure. For social services, primary focus should go to education, medical care and basic water supplies. Although these are also areas for private sector commercial enterprises, the primary responsibility for providing these basic infrastructure and social services rests with the government.

In the light of widespread poverty and serious resource constraints, many African governments face difficult choices and trade offs in order to allocate reasonable resources to capital expenditure. For instance, in the early 1990s, Uganda had to reduce its public service establishment drastically so that the public budget cold focus on a lean, but effective civil service with a relatively lower salary budget, to facilitate significant expenditure switching to capital budget and social services. This Uganda strategy is relevant to many African countries who are also attempting to rationalize their public service structures and establishments to more manageable sizes and to improve the allocative efficiency of their fiscal policies.

The Southern African capital expenditure practices are given in Table 7.1. South Africa has a highly developed economic infrastructure including ports, railway system, road network, and telecommunications. Its capital expenditure share of the total budget had dropped from 25.8% in 1980 and an annual average of 23.6% for 1975-1984 to an annual average of 10% for the period 1990-2000. Given the good state of infrastructure, the 10% expenditure may be adequate for maintenance and essential marginal expansions to maintain an investor-friendly infrastructure system.

Table 7.1: Government Capital Expenditure and Net Lending as Percentage of Total Expenditure

	1980	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Annual Average		
												1975-1984	1985-1989	1990-MR
Angola	- -	10.1	6.4	10.7	5.7	10.3	8.3	7.9	3.4	20.9	10.6	- -	17.3	10.2
Botswana	- -	47.3	42.4	39.5	32	31.8	33.4	34.4	32.8	31.9	32.5	43.3	45.1	37.1
Lesotho	- -	38.4	35.4	44.1	39.4	32.3	37.8	41.1	32.8	23.8	28.3	37.9	24.1	36.2
Malawi	48.8	20.5	23.3	20.3	17.2	21.4	19.9	19.3	26.9	32.9	36.1	38	27.5	23.6
Mauritius	26.6	19	19.3	18.2	15.9	13.8	14.6	12.7	13	15.9	15.1	20.8	19.6	16
Mozambique	44	52.4	50.3	49.3	51.1	57.3	55.1	55.8	47.6	49.7	53.9	40.1	35.6	52.2
Namibia	- -	14	13.8	16.8	12.4	13.2	13.1	13.3	11.8	12	12.5	21.2	17	13.9
South Africa	25.8	9	9.6	12.3	9.6	9.2	8.4	7.8	8.5	14.3	14	23.6	10.3	10.3
Swaziland	- -	25.7	28.7	25.4	24.7	23.8	18.1	17.1	23	21.9	26	- -	- -	23.4
Zambia	10.5	15.5	12.1	10.7	12.5	17.5	32	30.1	39.4	44.9	47.8	11.6	2.2	25.6
Zimbabwe	43.1	20.2	18	16.8	17.6	14.5	12.7	12.3	6.7	14.2	5.2	42.7	15.7	14.2

Source: *World Bank "African Development Indicators 2002", Washington, D.C.*

Zimbabwe is another country in the sub-region with good economic infrastructure developed, with an annual average capital expenditures share of 42.7% during 1975 – 1984 period. The 14.2% annual average for the 1990s may be adequate for basic maintenance and marginal improvements. Otherwise, the 5.2% in 2000 should be seen as an exceptionally low level that may not be adequate to maintain investor-friendly infrastructure. Namibia and Mauritius can also maintain a fairly good infrastructure at the current annual average capital allocations of 14% and 16% respectively.

Botswana, Lesotho, Malawi, Mozambique and Swaziland have made good cumulative public investments in the development of infrastructure since 1980. There are significant observable achievements especially in Swaziland and Botswana road networks. Considering the damage caused by the civil war which may have further mitigated against investment in infrastructure, Angola faces enormous challenges in infrastructure. The Angolan share of capital expenditure fluctuated from 10% in 1991 to a peak of 21% in 1999 before dropping to 10.6% in 2000. These levels of capital expenditure may not be adequate to address the problems of infrastructure in Angola effectively. With the civil war now over, Angola is well placed to focus her resources more on development. Capital expenditure is one of the areas that will deserve priority consideration in the national budget in order to give further incentives to both local and foreign private sector investors. The 21% expenditure of 1999 is a good indicator in the right direction, and Angola needs to maintain that kind of investment in infrastructure to develop a conducive environment for investment.

Table 7.2: Paved Primary Roads as Percentage of Road Network

Country	1991	1992	1993	1994	1995	1996	1997	1998	1999	Percent in Good
Angola	- -	25.0	25.0	25.0	25.0	25.0	25.0	25.0	10.4	- -
Botswana	34.0	19.9	21.1	22.2	48.0	52.0	54.0	56.0	55.0	94
Lesotho	17.0	16.0	15.0	15.0	17.9	17.9	16.8	17.3	18.3	53
Malawi	17.0	17.0	18.0	18.0	20.0	20.0	19.0	- -	- -	56
Mauritius	93.0	93.0	93.0	93.0	93.0	93.0	93.0	96.0	96.0	95
Mozambique	17.2	17.5	17.8	18.2	18.6	18.7	- -	- -	- -	19
Namibia	10.9	10.9	7.3	7.9	7.9	8.2	8.3	- -	- -	- -
South Africa	- -	- -	- -	- -	41.5	- -	- -	11.8	- -	- -
Swaziland	54.7	58.6	59.8	28.2	- -	- -	- -	- -	- -	35
Zambia	16.9	17.3	17.6	18.0	- -	- -	- -	- -	- -	40
Zimbabwe	15.	16.0	17.0	54.9	48.0	47.4	- -	- -	-	70
Angola	- -	25.0	25.0	25.0	25.0	25.0	25.0	25.0	10.4	- -

Source: *World Bank "African Development Indicators 2002", Washington, D.C.*

Zambia also faces serious future challenges in the area of infrastructure development mainly because of past failures to maintain capital expenditure, as reflected by an average annual share of 2.2% for the 1985 – 1989 period, the lowest for the whole Africa region. The annual average of 11.6% for the period 1975 – 1984 was again the lowest for the entire African region. It is encouraging that, since 1996, the annual capital expenditure share has steadily risen from 32% to 48% in 2000. Zambia needs to maintain these levels of capital expenditure for sometime if it is to develop an economic infrastructure that is conducive to private sector investment.

Table 7.2 gives some indication of the challenges of infrastructure development. Roads are the major transportation mode for passengers and goods in Africa. Outside of South Africa, Zimbabwe, and to a lesser extent Mozambique, the railway network is not that widely spread. Air transport is generally confined to a small percentage of the population, while water transport is purely for international trade. Paved roads constitute the most reliable infrastructure for transportation in the sub-region. Table 7.2 shows the paved primary roads as percentage of road network and gives percentage of roads in good condition in 1989.

The table shows that Botswana has progressed from 34% in 1991 to 55% of paved roads in 1999, and 94% of the road network was in good condition in 1989. Mauritius has, since 1991, maintained 93 – 96% share of paved roads with 95% of them in good condition in 1989. Zimbabwe's share of paved roads was around 50% in the mid-1990s, and 70% were in good condition in 1989. Swaziland had averaged 58% good roads in early 1990s, but there are no recent data, though latest observable developments would tend to raise the share of paved roads and good roads above 58%. The other countries in the sub-region generally have less than 25% of the roads paved. This gives some indication of the tremendous challenges faced in this key area of infrastructure development.

With regard to physical infrastructure development, a related policy issue is the culture of maintenance. Africa has generally been associated with a poor culture of maintenance which leads to extreme deterioration of infrastructure and relatively high cost of rehabilitation or replacements. It is important for capital expenses to be fairly distributed between new investments and rehabilitation work. The rehabilitation expenditure line should be part of the regular annual budget rather than being treated as ad hoc expenditure in response to major rehabilitation works.

Considering the high cost of infrastructure and services and the urgent need for their development to a level that can effectively attract and sustain private sector investment, it is important for national governments to recognize areas such as telecoms, education and health care services, where private sector can play roles that supplement government efforts. The government should develop strategies that give maximum incentives to private sector and faith-based organizations to participate in infrastructure and services provision.

Conclusions and the Way Forward

8.1 Conclusions

The study has discussed major areas for policy intervention aimed at development of the private sector in the sub-region. The study has noted a number of good practices that serve as useful models in the process of encouraging healthy growth of the private sector. The challenges and opportunities for private sector development are premised on the generally accepted strategy of domestic public-private sector partnership and international partnerships pursuing policies and programmes developed and owned by Africans. NEPAD provides the current policy framework for Africa and the primary focus is on poverty reduction.

Within national boundaries, the public-private sector partnerships are premised on separation of functions so that the private sector takes responsibility for the efficient production and delivery of traded goods and services, while the State concentrates on creating and sustaining a conducive environment through effective legal and regulatory framework and provision of social and infrastructure services.

The most basic primary need for any investor is political and social stability. The image of Africa as a land of social and political conflicts and civil war has been very damaging to the growth prospects for the private sector. Africa is challenged to build a new image. The entire Southern African sub-region is today at peace. Indeed, practically all countries have moved steadily towards democratic systems of government with some constitutions limiting tenure of office for the President (the highest political office) to two terms. This is likely to consolidate the peaceful transfer of political power at the highest level. Although there may be pockets of resistance, the trend towards democratic systems of governance in the sub-region appears irreversible, but national governments and civil society need to remain vigilant in strengthening various democracy-enhancing institutions and in developing a deep-rooted national culture of democracy.

Related to democracy are the issues of good governance and transparency. Current efforts in the sub-region aimed at improving good governance and transparency should continue, and civil society should be vigilant and active partners with the State in programmes aimed at improving good governance. Good governance and transparency have direct bearing on government's capacity to address factors, such as infrastructure, that hinder private sector development and economic growth. This is an area of mutual interest for the State, private sector and civil society. Broad partnerships and good working relationships among all stakeholders can help promote positive developments in good governance and transparency.

Once the social-political stability issues are taken care of, the next area of concern to the investors is macroeconomic stability and predictability. The principal macroeconomic management policies are fiscal and monetary policies, which can provide the incentives and signals to guide private sector behavior. Most countries in the sub-region are following fiscal and monetary policies that aim at promoting macroeconomic stability. In terms of providing a conducive environment for the private sector, a special challenge for fiscal policies is to ensure adequate budgetary provisions for capital expenditure to ensure a conducive economic infrastructure. Good infrastructure and social services are essential requirements for private sector development, and are generally seen as the domain of government. However, experience in the sub-region and elsewhere indicate substantial scope for private sector involvement in infrastructure and services. Economic policies should deliberately encourage an increasing role of private sector in infrastructure and services. Another area of concern for fiscal policies in many countries is the need to control deficits which tend to breed inflation and undermine macroeconomic stability. The basic answer lies in improved fiscal discipline.

Like most African countries, the sub-region has undeveloped financial systems that are characterized by uncompetitive behaviour and inadequate credit flows to the private sector, especially SMEs. The sub-region can take some lessons from East Asian countries, which in the 1980s, developed deliberate policies to encourage growth of non-bank financial institutions that helped to create competitive and investor-responsive financial systems. In most countries, poor access to credit is the binding constraint on the growth of domestic private sector, especially for SMEs. All countries need to develop monetary and credit policies that encourage production. Current monetary policies tend to focus solely on tight money supply to control inflation. In these policies, the private sector tends to be crowded out of credit market by government whose deficits seek recourse to the financial system. Central banks should be encouraged to develop "targeted tight monetary policies" that can tighten credit to specified targets, such as government without affecting essential credit flows to the private sector.

FDI should be recognized as a major potential source of development finance and technology transfer. National policies, especially those related to macroeconomic stability, should be sensitive to the concerns of TNCs. To ensure full benefit from FDI, national policies and specific agreements should also be carefully articulated to protect national objectives, especially in key areas such as technology transfer, human capital development, equitable income distribution, and protection of the environment.

Part of the reason why the informal sector exists despite lack of any official registration is the high costs for both the informal operator and the regulators that are associated with the complicated registration processes. The policy on informal sector should fully recognize that the informal sector is a reflection of underdevelopment, poverty, unemployment, and inappropriate regulatory systems. Simplified registration procedures and decentralization of registration points can facilitate effective registration of enterprises in this sector. Registration can help with the essential process of generating statistics needed for effective, enterprise planning. Policy measures can also based on group interventions able to help improve productivity and efficiency in the sector.

SMEs play a major role in the development of practically all countries including the developed and emerging economies. Thus, in most developed countries, SMEs enjoy top policy priority ranking. However, many countries in the sub-region, SMEs do not appear to receive the type of policy priority they deserve. The main reason for this appears to be the absence of statistics that can show the full importance of SMEs to their economies. Perhaps the starting point for all countries in the sub-region, in this regard, is to invest in developing baseline data on SMEs and the informal sector. The statistics will help national planner evolve comprehensive policies and programmes for SMEs. The major constraints needing special public policy interventions include poor access to credit, poor access to technology, weak technical and management skills, lack of access to insurance services, and poor access to transport, communications and appropriate energy and utilities.

Local innovation is a challenge to all countries if they are to respond to efficiency and competition challenges. However, the high cost of R & D makes it imperative for small countries to rationalize and focus their limited R & D capabilities on critical areas of socio-economic development. The current R & D policies in the sub-region have wisely focused on regional, national and household food security and other targeted socio-economic objectives. Even with resource constraints, all countries should encourage a culture of technology through promotion of basic literacy as top priority and encouragement of science and technology in the education system. Compulsory primary education will help promote basic literacy, and should be encouraged in every country.

With regard to non-agricultural technologies, countries in the sub-region should focus more on technology transfer. With special focus on adaptation of imported technologies to local situation, innovation efforts should be guided by identified strategic areas. Promotion of a culture and practice of local inventions and innovations should be encouraged through prizes and other forms of public recognition of local inventions. In view of severe resource limitations at national level for innovation, a regional approach to non-agricultural R & D activities would help to pool resources into meaningful quantities for effective R & D activities.

The challenge of market access should initially focus on sub-regional markets where local establishments can enjoy comparative advantages in transportation. Expansion of the depressed national markets should also offer good prospects; especially with policies that encourage more equitable distribution of national income, especially through better salaries for the majority general workers.

Most countries have done well in improving the regulatory framework. However, more improvements are needed. The current efforts by COMESA member States' national investment promotion agencies to operate as single window sources should be encouraged as they will reduce administrative costs for the investor and the regulator. Most countries need to further simplify the documentation procedures and reduce the time in which these procedures can be done.

The sub-region has three economic groupings; COMESA SADC, and SACU. The substantial scope for coordinated sub-regional programmes aimed at private sector development offered by these sub-regional groupings should be fully exploited. Sub-regional approaches to a number of issues should be encouraged as they offer good prospects for enhancing overall impact of policies on national socioeconomic development.

8.2 The Way Forward

The role of the private sector in African development is critical and, without private sector acceptance and participation, the vision of a growing and prosperous Africa will not materialize. The NEPAD vision document, for example, outlines an agenda for raising the average economic growth rate of the African continent from 2.6 per cent per annum in the 1990s to 7 per cent per annum for the next 15 years, the latter being the minimum required to halve the incidence of poverty over this period. According to this vision, achieving 7 per cent per annum growth requires that fixed investment must rise above current levels by some $64 billion per annum, this additional sum to be funded by a combination of increased domestic savings, foreign aid and foreign direct investment.

The reality is that international aid levels are on the decline in Africa. Therefore, the majority of the additional resources that are needed will have to come from private sector investment and commercial bank loan sources. But even potential investments will not occur if the perceived risk of doing business in the sub-region remains too high. Therefore, the effective promotion of private sector investment by both foreign and local investors requires appropriate government policies in the three areas of primary concern to the investors namely:

a) Political stability and good governance
b) Macroeconomic stability, and
c) Regulatory framework and institutional mechanisms.

a) Political stability and good governance

The mechanisms of good economic and corporate governance in Africa are heavily influenced by a considerable number of political factors. Where there exists bad economic and corporate governance, there will also exist bad political governance. Good political governance is therefore a prerequisite for good economic and corporate governance. Democratic systems of government are empirically associated with political and social stability. The current momentum in the Southern African sub-region towards institutionalization of democracy and good governance should be encouraged and consolidated. Constitutional limits on the Presidential terms of office help to promote smooth transition of top political power, and this should be encouraged on the sub-regional political agenda.

For Southern African public institutions to function effectively, considerable reform and capacity building will be required. As indicated in the NEPAD framework document, those institutional reforms will need to focus on

- Administrative and civil services;
- Strengthening of parliamentary oversight;
- Promoting participatory decision-making;
- Adopting effective measures to combat corruption and embezzlement; and
- Undertaking of judicial reforms.

b) Macroeconomic stability

To encourage the private sector to undertake effective planning, Southern African governments should establish a stable macroeconomic environment. This requires the adoption of credible and consistent macroeconomic policies. The most frequent major risks to macroeconomic stability are the high budget deficits accompanied with excessive dependence on the banking system at the expense of the private sector (crowding-out). There is need, therefore, for greater fiscal discipline to ensure that deficits are within manageable limits that do not create undue pressure on price levels.

Macroeconomic stability is also severely hampered by the generally underdeveloped financial systems. Capital markets, for example, are important facilitators of economic growth and should be recognized as an important and legitimate component of a country's development programme. However, given the limited state of development of markets in many Southern African countries, targeting capital market development in the sub-region demands a broader commitment – i.e. a commitment to overall financial sector development, including but not limited to, the banking system, pension, insurance and social security schemes.

In addition to this, there is need for policies to facilitate the development of financial systems that are more responsive to the needs of SMEs. This, in turn, requires a strong emphasis on developing concrete mechanisms for building a country's financial architecture, one that can serve as the basis for effective management of existing financial resources and the mobilization of additional ones.

c) Regulatory framework and institutional mechanisms

The regulatory framework and institutional mechanisms are fundamental in determining the environment in which the private sector will operate. The regulatory framework must be sensitive to the commercial objectives of local and foreign investors, and at the same time promote the social and economic objectives of the country.

Significant policies of concern to the investors include tax policy, trade policies, international and regional trade and investment policies, and treatment of foreigners relative to treatment of citizens. The significant socio-economic objectives of national economies include employment creation, technology transfer, human capital formulation, sustainable environment etc. Sub-regional approaches such as common trade and investment areas can supplement domestic national policies in promoting a conducive environment for private sector investment.

Business facilitation services needing priority attention in the sub-region include investment incentives; elimination of bureaucratic costs (including corruption and administration efficiency); social services (especially education and medical services); investment registration services; and after-investment services. Current efforts to streamline national investment promotion agencies into comprehensive single window institutions can help in improving the business facilitation services.

At its 10th meeting in May 2004, the Intergovernmental Committee of Experts (ICE) examined the document on 'Challenges of Private Sector Development in Southern Africa' and made a number of recommendations on the way forward. These recommendations addressed:

a) Foreign Direct Investment;
b) Private Sector and Regional Integration;
c) Financial Instruments and Strategies for increasing access to financial services for the private sector in Southern Africa and
d) Promoting Small-and Medium-Scale Enterprises;
e) Policies and Institutional Mechanisms for Promoting the Private Sector; and
f) Best Practices: South Africa-Angola Case Study on Southern Africa.

A summary of the recommendations is shown in Box 2.6.

Box 2.6: Recommendations of the Intergovernmental Committee of Experts (ICE) for Southern Africa on the "Way Forward"

a) FDI, local innovation and market access

- Attract FDI as a source of fresh investments, technology transfer and promote local investments;
- Create macroeconomic conditions that address the concerns of both local and foreign investors and accord private sector development priority;
- Develop sub-regional strategies to attract FDI and promote innovation;
- Look beyond primary production and processing and promote value-added manufacturing programmes;
- Place emphasis on the global market for high-value export products and access to the sub-regional market targeted at commodities;
- Promote investment in economic and social infrastructure and services;
- Facilitate proper funding for R & D;
- Encourage a proper assessment of skills and key assets to assist with investment decisions;
- Promote education policy that has a culture of innovation and skills development;

- Enhance monetary and financial systems to include financial instruments e.g. venture capital financing, equity funds;
- Promote competitiveness of local industries/firms; and
- Promote total quality management in all products.

b) The private sector and regional integration

- Ensure that agencies have enough capacity to support private sector actors;
- Engage the private sector in the formulation of private sector development policies;
- Identify and develop markets that are amenable to regional integration within the framework of the Growth Triangle;
- Promote the establishment of diverse types of financial intermediaries that can provide support including Commercial Banks;
- Provide more variety in terms of availability and types of institutions that can provide financial support, aside from Commercial Banks; and
- Encourage trade and transport protocols.

c) Financial instruments and strategies for increasing access to financial services for the private sector in Southern Africa

- Encourage the establishment of National Credit Guarantee Schemes;
- Encourage commercial banks and other financial institutions to increase their financial support to SMEs;
- Establish Credit Reference Institutions;
- Pursue strategies that will improve Country International Credit Ratings;
- Improve Capital markets;
- Promote greater awareness on existing financial institutions and services
- Encourage more dialogue between the financing institutions and the private sector;
- Develop capacity building programmes for the private sector and the financial institutions to enhance their roles in accessing and administering loans; and
- Enhance and promote the role of public/private partnerships in giving guarantees to SMEs.

d) Promoting SMEs

- Engender SMEs policies and programmes;
- Accord SMEs appropriate policy priority;
- Promote the development of pro-SME policies and programmes;
- Provide more emphasis on raising domestic savings for investment and the support of local entrepreneurs;

- Promote collection of more baseline data on SME's and the informal sector;
- Provide adequate budget provisions for the promotion of SMEs;
- Develop effective support services; e.g. credit and skills training;
- Promote a conducive legal framework in support of SMEs;
- Facilitate the registration of SMEs and improve productivity; and
- Promote interventions that facilitate access to markets by SMEs.

Policies and Institutional mechanisms for promoting the private sector

- Strive to maintain peace, stability democracy and good governance for private sector development;
- Establish mechanisms to promote business statistics to guide sound policy formulation and management;
- Empower national statistics offices to produce reliable statistics to support public policy;
- Undertake systematic interventions to encourage the informal economy to become a nursery for formalized dynamic enterprises;
- Decentralize business/enterprise registration systems within reasonable reach of the informal economy and establish user-friendly systems;
- Encourage policies that promote basic education;
- Introduce incentives for the private sector to train their personnel;
- Ensure that labour policies address the needs of the private sector, in the context of ILO recommendations;
- Organize regular forums to facilitate exchange of experiences on PPP and to enable the identification of successful practices;
- Undertake capacity building on Private Public Partnerships (PPP) to improve the general understanding of the concept and its use; and
- Develop regulatory frameworks to protect national and investor interests.

Best practices: South Africa-Angola case study in Southern Africa

- Encourage private sector initiatives to organize business consistent with existing protocols;
- Encourage the private sector to organize itself and establish linkages, especially investment related linkages; and
- Document and disseminate best practice case studies such as that on the South Africa – Angola Bilateral Chambers of Commerce and learn from the experience, as appropriate.

PART III:

STATISTICAL APPENDIX AND REFERENCES

Table A.1: Nominal Gross Domestic Product ($US million)

Country	1980	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Angola	1130	12,194	779	5,286	4,060	5,040	7,526	7	6,449	6,198	8,828
Botswana	432	3,920	4,147	4,177	4,404	4,899	4,910	5	4,932	5,053	5,285
Lesotho	1238	675	822	815	835	933	943	1	890	911	899
Malawi	1132	2,204	1,800	2,071	1,182	1,429	2,432	2	1,737	1,810	1,697
Mauritius	3526	2,831	3,189	3,195	3,503	3,973	4,301	4	4,077	4,228	4,381
Mozambique	2309	2,447	1,854	1,981	2,178	2,311	2,841	3	3,873	3,985	3,813
Namibia	80,544	2,687	3,050	2,847	3,253	3,503	3,492	3	3,411	3,475	3,479
South Africa	582	120,243	130,533	130,406	135,778	151,113	143,840	148	132,968	130,220	125,887
Swaziland	3,884	890	971	1,016	1,104	1,304	1,288	1	1,321	1,337	1,355
Zambia	6,679	3,377	3,183	3,274	3,347	3,471	3,271	3	3,238	3,104	2,911
Zimbabwe	1130	8,641	6,751	6,564	6,891	7,117	8,624	8	6,338	5,492	7,392

Source: *World Bank "African Development Indicators 2002", Washington, D.C.*

Note: *Nominal figures are based on market prices.*

Table A.2: Government Deficit/Surplus (including grants)

												Annual Average		
												75- 1975 -84	1985-89	1990-MR
Angola	- -	21.9	-56.9	-21.7	-20.1	-37.5	13.5	-22.7	-10.2	2.0	4.9	- -	-11.1	-20.4
Botswana	- -	9.1	9.5	8.7	3.1	1.8	6.4	3.8	-4.0	-2.9	1.9	9.7	14.5	4.4
Lesotho	- -	-0.6	2.5	14.1	13.2	4.5	3.5	3.4	0.5	-6.2	-11.8	-4.6	-5.8	1.9
Malawi	-11.6	-3.3	-11.1	-6.1	-17.4	-4.7	-3.7	-5.5	6.6	-4.5	-5.0	-8.3	-5.9	-6.5
Mauritius	-14.9	-3.0	-2.2	-2.7	-3.9	-5.9	-4.7	-4.1	-4.5	-4.0	-7.2	-10.4	-2.4	-4.0
Mozambique	-2.1	-3.1	-2.7	-3.6	-5.3	-3.2	-2.9	-2.6	-2.3	-1.5	-3.7	-8.6	-8.1	-3.4
Namibia	- -	-1.5	-3.0	-4.5	-2.0	-3.2	-5.2	-3.4	-3.6	-3.3	-2.9	-17.2	-7.5	-3.2
South Africa	-18.0	-3.9	-7.4	-8.9	-6.2	-5.2	-5.4	-4.5	-5.1	-4.7	-3.7	-6.5	-4.3	-5.9
Swaziland	- -	5.5	-1.7	-4.7	-5.4	1.8	-1.2	1.9	1.0	-1.5	-1.4	- -	- -	-0.9
Zambia	- -	-7.0		-5.6	-6.5	-4.3	-0.5	-0.2	-3.2	-2.4	-6.8	- -	-10.8	-4.3
Zimbabwe	7	-5		-6.1	-6.7	-10.1	-7.7	-7.6	-2.5	-9.6	-21.4	8.0	-7.9	-8.2

Source: *World Bank "African Development Indicators 2002", Washington, D.C.*

Table A.3: Gross Domestic Savings

	1980	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Annual Average		
												75-8 1975-84	1985-89	1990-MR
Angola	- -	16.2	1.7	9.9	26.1	0.7	39.9	24.7	6.4	29.4	44.2	- -	24.0	20.8
Botswana	34.4	37.7	35.2	36.1	38.9	40.6	43.4	31.8	21.8	14.2	15.9	30.2	49.2	32.1
Lesotho	-52.0	-50.4	-34.8	-45.5	-36.0	-38.4	-36.2	-31.4	-33.5	-22.4	-19.5	-64.3	-63.0	-36.4
Malawi	10.8	14.2	0.7	-0.9	-3.0	-0.3	3.0	0.9	6.1	-0.6	1.1	15.6	11.8	3.1
Mauritius	10.5	24.9	26.1	24.5	23.4	23.3	23.8	24.5	24.8	22.8	22.2	18.5	25.5	24.0
Mozambique	-10.6	-11.2	-17.2	-22.4	-13.9	-1.9	-1.8	0.9	7.1	6.6	9.5	-10.4	-10.2	-5.1
Namibia	44.6	11.3	14.5	12.3	19.1	15.5	15.1	10.7	15.0	16.7	16.6	17.8	17.3	15.7
South Africa	31.4	16.9	16.1	17.6	17.9	19.1	18.3	17.1	16.7	17.3	18.0	24.4	22.0	17.5
Swaziland	6.5	8.8	1.4	-1.6	2.3	1.8	-3.8	1.4	3.3	3.8	4.4	13.6	14.7	3.8
Zambia	19.3	8.4	0.3	8.2	7.4	12.2	5.3	9.4	3.9	-0.9	3.1	18.9	14.9	6.7
Zimbabwe	13.8	15.8	11.0	21.0	21.8	17.0	18.7	11.1	15.3	15.7	12.3	15.2	19.0	16.1

Source: *World Bank "African Development Indicators 2002", Washington, D.C.*

Table A.4: Gross Private Investment Percentage of GDP

	1980	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Angola	- -	- -		19.8	28.4	21.1	21.1	20.7	22.7	25.5	22.4
Botswana	19.1	19.1	19.1	- -	- -	- -	- -	7.1	4.6	3.5	5.5
Lesotho	37.0	37.0	37.0	41.4	43.1	46.9	41.1	36.5	33.2	38.8	34.8
Malawi	4.7	4.7	4.7	4.6	11.6	5.1	3.0	2.7	2.4	2.3	2.4
Mauritius	14.9	14.9	14.9	20.6	21.7	16.3	16.7	20.6	17.5	20.9	18.4
Mozambique	-1.7	-1.7	-1.7	0.4	5.8	10.8	10.7	7.9	14.2	21.3	21.1
Namibia	12.2	12.2	12.2	13.8	12.5	15.1	16.2	11.9	15.7	16.1	16.0
South Africa	12.9	12.9	12.9	10.3	11.0	11.6	11.7	11.8	11.3	10.5	10.7
Swaziland	13.3	13.3	13.3	12.7	12.2	13.1	14.3	14.8	15.7	12.5	12.1
Zambia	17.2	17.2	17.2	7.0	7.3	7.3	5.2	7.7	3.5	5.7	5.5
Zimbabwe	12.3	12.3	12.3	19.9	18.3	21.7	15.7	15.3	15.7	10.8	12.4

Source: *World Bank "African Development Indicators 2002", Washington, D.C.*

Table A.5: Net ODA from all Donors as Share of Recipient GDP

	1980	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Annual Average		
												1 1975 -84	11985 - 89 --89	1990 -MR
Angola	- -	1.8	2.6	2.3	6.0	5.5	11.1	8.3	6.3	4.6	5.2	- -	1.8	5.4
Botswana	9.4	5.2	3.9	3.4	2.7	3.1	1.9	1.8	1.5	2.4	2.2	10.1	6.6	2.2
Lesotho	21.9	26.1	23.0	18.6	17.7	17.7	13.9	12.2	11.0	9.0	7.4	21.0	26.4	12.4
Malawi	11.6	27.3	26.8	25.0	32.1	24.0	39.8	30.4	20.2	13.5	25.0	11.1	20.9	25.0
Mauritius	2.9	2.8	3.4	2.4	1.4	0.8	0.4	0.6	0.5	1.1	1.0	3.6	3.0	1.2
Mozambique	4.8	35.4	40.7	43.7	78.9	59.5	55.1	46.1	31.3	27.9	26.8	5.8	24.5	40.0
Namibia	- -	2.5	4.8	6.8	4.7	5.4	4.2	5.5	5.4	4.5	5.3	0.0	1.1	4.9
South Africa	- -	- -	- -	- -	- -	0.2	0.2	0.3	0.3	0.3	0.4	- -	- -	0.3
Swaziland	8.6	4.4	6.4	6.0	5.8	5.4	5.2	4.5	2.6	2.0	2.6	7.9	6.6	3.9
Zambia	8.2	9.4	14.6	26.2	32.5	26.6	21.5	58.6	18.6	15.6	10.8	6.3	16.5	23.1
Zimbabwe	2.5	3.2	3.9	4.5	11.7	7.6	8.1	6.9	4.3	3.9	4.4	1.6	3.8	5.5

Source: *World Bank "African Development Indicators 2002", Washington, D.C.*

Table A.6: Industrial Structure of the Labour Force

	Percentage of Labour Force Working in								
	Agriculture			Industry			Services		
	1970	1980	1990	1970	1980	1990	1970	1980	1990
Angola	78	76	75	7	8	8	15	16	17
Botswana	82	64	46	5	10	20	13	26	33
Lesotho	43	40	40	36	34	28	21	26	32
Malawi	91	87	87	4	5	5	5	7	8
Mauritius	34	27	17	25	28	43	41	45	40
Mozambique	86	84	83	6	7	8	8	8	9
Namibia	64	56	49	15	15	15	21	29	36
South Africa	31	17	14	30	35	32	39	48	54
Swaziland	65	50	39	13	19	22	22	31	38
Zambia	79	76	75	7	8	8	14	16	17
Zimbabwe	77	72	68	11	12	8	12	15	24

Source: *ILO Database on Labour Statistics, 2004*

Table A.7: Progress in Privatization: Ownership and Control Changes (Cumulative figures of enterprises up to 2002)

	Transfer of majority ow ownership to priva private Share share holders	Gov Government retention of majority ownership	Government retention of minority interest	Sales of minority gove government interest	Total share of transactions	Total asset sales and liquidation	Other transactions	Total transactions
Angola	56	- -	1	- -	0	57	275	332
Botswana	- -	- -	- -	- -	0	0	0	0
Lesotho	11	5	3	1	9	9	4	22
Malawi	33	- -	7	5	29	13	27	69
Mauritius	- -	- -	- -	- -	0	0		0
Mozambique	461	43	75	- -	509	22	48	579
Namibia	- -	- -	- -	- -	0	0	0	0
South Africa	6	7	2	- -	10	1	5	16
Swaziland	- -	- -	- -	- -	0	0	0	0
Zambia	205	30	28	4	61	133	74	268
Zimbabwe	1	- -	5	- -	6	0	0	6

Source: *World Bank "African Development Indicators 2002", Washington, D.C.*

Table A.8: FDI inflows, by Host Region and Economy, 1980 -2002

(Millions of dollars)

Host region/ economy	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Latin America	7 485	9 701	15 775	18 446	17 487	29 702	30 809	50 198	73 275	82 040	108 255	95 358	83 725	56 019
South America	3 631	4 874	7 136	9 467	7 933	14 830	18 112	32 416	48 228	52 424	70 346	57 248	39 693	25 836
Argentina	678	1 836	2 439	4 431	2 793	3 635	5 609	6 949	9 160	7 291	23 988	11 657	3 206	1 003
Brazil	1 910	989	1 102	2 061	1 291	2 150	4 405	10 792	18 993	28 856	28 578	32 779	22 457	16 566
Chile	287	661	822	935	1 034	2 583	2 956	4 815	5 271	4 628	8 761	3 639	4 477	1 603
Guyana	1	8	12	147	70	107	74	93	53	47	48	67	56	44
Peru	63	41	- 7	150	687	3 108	2 048	3 242	1 697	1 842	2 263	681	1 151	1 462
	..	11	6	15	7	11	18	33	21	28	38	39	33	33
Asia and the Pacific	516	24 828	24 393	33 309	59 071	68 849	78 963	94 374	109 282	100 316	108 809	142 209	106 937	95 129
Asia	396	24 264	24 291	33 016	58 720	68 529	78 235	93 674	109 092	99 983	108 529	142 091	106 778	94 989
West Asia	- 3 162	2 141	2 230	2 791	3 636	1 806	3	2 902	5 918	6 893	754	1 523	5 211	2 341
Saudi Arabia	- 3 192	1 864	160	- 79	1 369	350	- 1 877	- 1 129	3 044	4 289	- 780	- 1 884	20	- 350
Turkey	18	684	810	844	636	608	885	722	805	940	783	982	3 266	1 037
South, East and South-East Asia	3 558	22 120	22 041	30 105	53 666	65 799	76 592	88 682	100 067	90 093	105 313	138 698	97 604	88 613
China	57	3 487	4 366	11 156	27 515	33 787	35 849	40 180	44 237	43 751	40 319	40 772	46 846	52 700
Hong Kong, China	710	3 275	1 021	3 887	6 930	7 828	6 213	10 460	11 368	14 766	24 580	61 939	23 775	13 718
India	79	237	75	252	532	974	2 151	2 525	3 619	2 633	2 168	2 319	3 403	3 449
Indonesia	180	1 092	1 482	1 777	2 003	2 108	4 346	6 194	4 678	- 356	- 2 745	- 4 550	- 3 279	- 1 523
Korea, Republic of	6	789	1 180	728	588	809	1 776	2 325	2 844	5 412	9 333	9 283	3 528	1 972
Malaysia	934	2 611	4 043	5 138	5 741	4 581	5 815	7 297	6 323	2 714	3 895	3 788	554	3 203
Singapore	1 236	5 575	4 887	2 204	4 686	8 550	11 503	9 303	13 533	7 594	13 245	12 464	10 949	7 655
European Union	21 317	96 773	77 740	72 359	73 385	76 852	114 435	110 736	127 888	249 934	475 542	683 893	389 432	374 380
Belgium and Luxembourg	1 545	8 047	9 363	11 286	10 750	8 514	10 689	14 064	11 998	22 691	119 693	88 739	88 203	..
France	3 283	15 614	15 167	17 849	16 439	15 574	23 676	21 960	23 174	30 984	46 545	43 250	55 190	51 505
Germany	333	2 962	4 727	- 2 089	368	7 135	12 025	6 573	12 244	24 593	55 797	203 080	33 918	38 033
Spain	1 493	13 984	12 493	13 276	9 681	8 876	6 161	6 585	7 697	11 797	15 758	37 523	28 005	21 193
United Kingdom	10 123	30 460	14 847	15 472	14 804	9 253	19 968	24 434	33 229	74 324	84 238	130 422	61 958	24 945

(Millions of dollars)

Host region/ economy	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Central and Eastern Europe	35	640	2 637	4 681	7 086	6 304	14 811	13 576	19 033	22 479	25 145	26 373	25 015	28 709
Poland	10	89	291	678	1 715	1 875	3 659	4 498	4 908	6 365	7 270	9 341	5 713	4 119
Romania	..	0	40	77	94	341	419	263	1 215	2 031	1 041	1 025	1 157	1 106
Russian Federation	..	..	..	700	1 211	690	2 065	2 579	4 865	2 761	3 309	2 714	2 469	2 421
Ukraine	..	..	..	200	200	159	267	521	623	743	496	595	792	693
Yugoslavia (former)	24	67	119	..	..	..	..	..	..	..	..	..	..	..
Other Developed Countries														
Australia	1 870	8 128	4 304	5 729	4 285	5 033	11 970	6 109	7 657	6 015	2 924	13 071	4 006	13 978
Israel	51	92	139	269	417	463	1 397	1 610	1 950	1 839	3 068	4 988	3 520	1 648
Japan	278	1 753	1 368	2 728	86	888	41	228	3 225	3 192	12 742	8 323	6 243	9 326
New Zealand	178	1 735	1 290	2 095	2 350	2 543	3 659	2 231	2 624	951	1 586	3 505	2 009	367
North America	22 725	56 004	25 680	23 946	55 395	53 299	68 027	94 089	114 925	197 243	308 118	380 764	172 787	50 625
Canada	5 807	7 582	2 881	4 724	4 732	8 204	9 255	9 634	11 527	22 809	24 742	66 757	28 809	20 595
United States	16 918	48 422	22 799	19 222	50 663	45 095	58 772	84 455	103 398	174 434	283 376	314 007	143 978	30 030
Least developed countries (LDCs)	537	504	1 620	1 577	2 026	1 145	1 693	2 217	3 401	4 573	5 974	3 427	5 629	5 232
Oil-exporting	- 4 196	3 747	6 298	5 274	7 154	7 059	6 807	13 293	18 427	14 010	5 254	2 468	8 099	7 364
All developing, excluding China	8 335	33 461	38 959	44 185	54 057	70 545	79 042	109 579	148 987	147 533	188 976	205 285	162 585	109 445

Source: *UNCTAD FDI/TNC database www.unctad.org/fdistatistics.*

Table A.9: Inward FDI Flows as a Percentage of Gross Fixed Capital Formation, by Region and Economy, 1980, 1980-2002

	(Percentage)													
Host region/economy	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
World	2.3	4.5	3.2	3.0	4.2	4.6	5.4	6.0	7.5	10.9	16.5	20.8	12.8	12.2
Developed economies	2.7	4.8	3.0	2.7	3.5	3.5	4.4	4.8	6.0	10.4	17.1	22.9	12.7	12.3
Western Europe	2.8	6.7	4.9	4.2	5.1	5.4	6.6	6.5	8.3	14.8	27.3	41.6	24.0	22.0
European Union	2.8	6.7	5.1	4.5	5.3	5.2	6.7	6.5	8.0	14.8	27.5	42.2	24.5	22.5
Belgium and Luxembourg	5.2	17.2	20.6	22.7	23.2	17.4	18.2	24.5	22.3	40.6	209.5	169.7	171.2	..
Belgium	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	2865.0
Germany	0.2	0.9	1.1	-0.4	0.1	1.5	2.2	1.3	2.7	5.4	12.4	50.3	9.1	10.4
Spain	3.2	11.6	9.9	10.5	10.2	9.2	4.8	5.0	6.3	8.8	10.9	26.4	19.2	12.8
Sweden	1.0	4.0	13.7	-0.1	14.6	20.4	38.9	13.2	28.2	48.6	140.3	54.7	30.1	27.0
United Kingdom	10.1	15.0	8.0	8.8	9.8	5.6	10.8	12.5	15.1	29.7	33.9	54.2	26.2	10.1
Central and Eastern Europe	0.1	1.3	6.4	2.5	4.8	4.7	9.4	7.2	9.7	13.6	18.5	17.9	14.6	17.2
Poland	0.1	0.7	2.0	4.8	12.6	10.5	15.5	15.1	14.5	15.9	18.4	23.4	14.9	11.4
Russian Federation	..	..	..	0.7	1.5	1.1	2.9	2.9	5.9	5.7	11.9	6.7	4.3	3.9
Yugoslavia(former)	..	..	..	..	..	..	..	..	..	..	..	..	..	..
North America	4.2	5.8	2.8	2.5	5.3	4.7	5.6	7.1	7.9	12.4	18.0	20.8	9.7	2.9
Canada	9.4	6.3	2.5	4.4	4.7	7.7	8.9	8.8	9.1	18.6	19.0	47.2	20.6	14.3
United States	3.5	5.7	2.8	2.3	5.4	4.4	5.3	7.0	7.8	11.9	18.0	18.6	8.7	1.9

(Percentage)

Host region/economy	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Other developed countries	0.6	1.1	0.6	0.9	0.5	0.6	1.1	0.7	1.2	1.0	1.6	2.2	1.3	13.1
Australia	4.6	10.9	6.4	8.9	6.7	6.5	14.8	6.9	8.3	7.1	3.2	15.4	5.2	15.0
Israel	1.1	0.9	1.0	1.7	2.8	2.7	6.1	6.5	8.0	8.2	13.8	21.9	16.9	9.0
Japan	0.1	0.2	0.1	0.2	0.0	0.1	0.0	0.0	0.3	0.3	1.1	0.7	0.6	..
New Zealand	3.8	20.2	18.7	31.0	28.9	24.2	28.0	15.4	19.2	8.9	14.4	36.4	21.1	3.3
Developing economies	1.2	3.6	3.5	3.9	6.4	8.2	7.9	9.1	11.4	12.0	14.3	14.6	12.7	10.5
Africa	0.4	2.3	3.8	4.4	6.1	6.9	5.6	5.3	9.7	8.0	11.8	8.8	19.4	8.9
Other Africa	0.3	2.1	4.7	4.5	6.0	7.8	7.4	6.5	12.5	9.8	16.4	11.7	27.0	10.7
Angola	..	-29.3	42.1	137.7	21.6	13.7	49.8	6.9	21.1	48.6	86.8	28.0	66.7	..
Benin	1.9	25.2	46.9	25.7	0.4	5.3	2.1	6.6	6.8	8.5	13.9	13.8	9.6	..
Botswana	34.8	8.4	-0.7	-0.1	-26.6	-1.4	6.2	6.5	8.6	7.4	2.7	4.2	2.2	3.0
Lesotho	3.0	1.7	10.0	8.7	22.1	17.0	5.2	5.1	5.6	6.1	7.5	8.2	8.7	11.2
Malawi	3.5	7.8	-7.8	-2.4	3.2	3.6	-9.3	4.6	-0.4	-1.4	20.7	-14.3	-10.5	..
Mauritius	0.4	5.1	2.3	1.7	1.7	1.9	1.9	3.3	5.0	1.3	4.2	25.9	3.2	2.7
Mozambique	1.0	1.1	5.3	6.8	8.2	8.3	8.4	13.1	10.5	27.4	30.0	10.8	23.0	24.0
Namibia	..	5.9	30.1	20.0	9.2	15.4	19.7	15.7	11.7	9.9	14.3	23.8	39.9	..
South Africa	-0.1	-0.4	1.2	0.0	0.1	1.8	5.2	3.5	15.5	2.5	7.4	4.7	40.5	4.8
Swaziland	13.9	18.6	47.5	35.7	28.3	19.1	10.3	6.1	-3.5	34.6	20.5	10.4	34.0	..
Zambia	8.7	40.2	9.0	12.9	83.7	5.2	10.5	8.2	14.1	41.3	32.5	21.2	10.1	25.8
Zimbabwe	0.2	-0.8	0.2	1.3	2.5	2.8	6.8	4.2	8.0	44.0	7.2	2.6	0.5	7.5
Latin America and the Caribbean	3.2	4.2	6.4	6.4	5.2	8.7	9.2	12.7	16.6	17.3	25.8	20.7	20.0	14.6
South America	2.5	3.3	5.2	6.2	4.5	6.6	6.9	11.9	15.9	17.6	32.6	25.5	19.7	17.3
Argentina	1.3	9.3	8.8	11.6	6.2	7.1	12.1	14.1	16.1	12.2	46.9	25.3	8.4	8.2
Brazil	3.5	1.0	1.5	2.9	1.5	1.9	3.0	7.2	11.8	18.6	28.2	28.4	22.7	19.6

Host region/economy	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
(Percentage)														
Chile	6.2	9.4	11.9	10.0	9.3	21.8	19.0	24.1	23.5	22.3	56.9	22.9	31.4	11.4
Guyana	0.3	4.7	10.0	73.0	28.7	43.0	26.4	30.0	15.9	22.5	29.7	41.6	36.7	..
Peru	1.2	0.9	-0.1	2.5	10.8	32.6	15.9	25.9	12.1	13.8	20.2	6.3	11.6	14.9
		0.1	3.7	2.8	3.2	6.8	8.1	7.7	8.4	9.7	10.2	10.7	13.0	9.8
Asia and the Pacific		0.1	3.6	2.8	3.2	6.7	8.1	7.6	8.3	9.7	10.2	10.7	13.1	9.8
Asia		-3.0	0.9	0.6	0.6	2.0	1.6	0.0	2.0	3.9	4.5	0.6	1.1	4.0
West Asia		-10.0	9.5	0.7	-0.3	5.2	1.6	-7.5	-4.1	10.4	14.2	-2.5	-5.7	0.1
Saudi Arabia		0.2	2.0	2.3	2.2	1.3	1.9	2.2	1.6	1.6	1.9	1.9	2.2	12.4
		1.6	5.0	4.4	5.3	7.9	9.1	8.7	9.1	10.4	11.0	12.2	14.8	10.3
South, East and South-East Asia		0.1	3.5	3.9	7.4	12.2	17.3	14.7	14.3	14.6	13.1	11.3	10.3	10.5
China		7.6	16.3	4.4	13.8	21.5	19.8	14.4	21.4	19.5	29.4	58.6	138.9	54.2
Hong Kong, China		0.2	0.3	0.1	0.4	0.9	1.4	2.4	2.9	4.0	2.9	2.2	2.3	3.2
India		1.2	3.4	4.1	4.7	4.8	4.3	7.6	9.2	7.7	-1.5	-9.7	-14.3	-10.8
Indonesia		0.0	0.8	1.0	0.6	0.5	0.6	1.0	1.2	1.7	5.7	8.3	7.1	3.1
Korea, Republic of		12.2	17.9	22.6	23.7	22.1	15.3	15.0	17.0	14.7	14.0	22.2	16.5	2.5
Malaysia														
Memorandum		3.6	1.1	6.2	5.9	7.0	3.1	4.1	4.7	6.0	7.0	8.1	5.9	8.2
Least developed countries (LDCs)		-2.5	1.4	1.6	1.1	3.5	4.5	3.5	6.3	8.7	7.9	2.9	1.2	4.3
Oil-exporting countries		1.3	3.6	3.5	3.4	5.1	6.5	6.5	8.0	10.6	11.7	15.3	16.0	13.6
All developing countries excluding China														

Table A.10: Public Expenditure on Education: % of GNP in Selected Countries

	1997
Argentina	3.5
Botswana	8.6
Brazil	5.1
Chile	3.6
Hong Kong	2.9
India	3.2
Korea	3.7
Malaysia	4.9
Mexico	4.9
Singapore	3.0
South Africa	7.9
Thailand	4.8
Turkey	2.2
Uruguay	3.3

Source: *NACI & NSTF "Growth and Innovation Perspectives on the Interaction between Economic Growth, Science, Technology and Human Capital" 2001.*

Table A.11: The Decomposition of Growth in Per Capita GDP into the Contribution by Factors of Production and Technological Progress: the South African Manufacturing Sector in the 1970s. *

	Growth in real GDP	of Which			
		Labour	Capital	TFP	Rank TFTFP
Other chemicals & man-made fibers	16.12	1.02	4.00	11.10	1
Basic non-ferrous metals	15.13	2.36	2.35	10.42	2
Electrical machinery	13.26	3.20	1.55	8.51	3
Plastic products	12.01	3.13	2.10	6.78	4
Paper & paper products	7.44	0.31	2.02	5.10	5
Textiles	2.80	0.67	-0.77	2.90	6
Machinery & equipment	4.96	1.91	0.53	2.52	7
Metal products excluding machinery	4.89	1.81	0.78	2.30	8
Food	6.60	1.57	2.94	2.09	9
Wood & wood products	5.02	1.24	1.86	1.92	10
Furniture	2.15	0.46	-0.11	1.80	11
Motor vehicles, parts & accessories	5.54	2.97	1.01	1.56	12
Wearing apparel	3.80	2.52	-0.04	1.33	13
Beverages	8.09	1.83	5.02	1.24	14
Basic iron & steel	6.29	2.63	3.42	0.24	15
Rubber products	3.36	1.41	2.02	-0.06	16
Other industries	3.82	2.94	0.95	-0.08	17
Non-metallic minerals	2.69	0.49	2.74	-0.54	18

	Growth in real GDP	of Which			
		Labour	Capital	TFP	Rank TFTFP
Footwear	0.62	0.54	0.64	-0.56	19
Basic chemicals	4.87	3.29	2.51	-0.92	20
Glass & glass products	1.63	-0.13	2.72	-0.96	21
Printing, publishing & recorded media	0.87	1.99	0.73	-1.86	22
Other transport equipment	3.29	3.30	2.21	-2.22	23
Leather & leather products	-0.04	1.66	0.65	-2.35	24
Tobacco	0.26	0.28	2.60	-2.62	25
Professional & scientific equipment	-4.53	-0.12	0.34	-4.74	26
Television, radio & communication equipment	-1.48	2.65	1.91	-6.04	27
Coke & refined petroleum products	-3.11	0.65	21.46	-25.22	28
Correlation with output growth:		0.40	-0.14	0.79	

Source: *NACI & NSTF "Growth & Innovation: Perspectives on the Interaction between Economic Growth, Science, Technology and Human Capital" 2001.*

**Figures are in percent.*

Table A.12: The Decomposition of Growth in Per Capita GDP into the Contribution by Factors of Production and Technological Progress: the Manufacturing Sector in the 1980s. *

	Growth in real GDP	of Which			
		Labour	Capital	TFP	Rank TFP
Other industries	15.65	1.26	-0.22	14.62	1 1
Coke & refined petroleum products	17.63	1.51	4.10	12.02	2
Television, radio & communication equipment	12.47	2.39	0.09	9.99	3
Professional & scientific equipment	13.28	3.34	2.28	7.65	4
Plastic products	9.07	3.39	2.02	3.67	5
Motor vehicles, parts & accessories	5.89	0.58	1.76	3.55	6
Furniture	8.11	3.93	1.08	3.10	7
Glass & glass products	4.34	-0.63	2.06	2.92	8
Printing, publishing & recorded media	4.99	1.50	0.64	2.86	9
Leather & leather products	3.80	1.27	-0.22	2.76	10
Rubber products	2.49	-0.07	0.09	2.47	11
Beverages	6.54	0.92	3.85	1.77	12
Tobacco	0.53	-0.05	1.15	1.73	13
Wearing apparel	3.26	1.34	0.20	1.72	14
Basic non-ferrous metals	3.28	0.17	1.70	1.41	15
Basic iron & steel	-0.67	-0.58	-0.26	0.17	16
Other chemicals & man-made fibers	2.44	1.95	0.68	-0.19	17
Metal products excluding machinery	-0.47	-0.04	0.21	-0.64	18
Wood & wood products	0.68	1.05	0.32	-0.70	19
Textiles	-0.71	-0.46	0.82	-1.07	20
Paper & paper products	4.28	1.47	3.89	-1.07	21
Footwear	1.82	2.40	0.53	-1.11	22
Non-metallic minerals	0.78	0.51	1.78	-1.52	23
Food	-0.05	0.79	1.13	-1.96	24
Other transport equipment	-3.04	0.73	-0.30	-3.47	25
Electrical machinery	-1.00	1.33	1.26	-3.60	26
Basic chemicals	2.04	0.77	5.38	-4.10	27
Machinery & equipment	-3.33	0.64	0.80	-4.77	28
Correlation with output growth:		0.54	0.30	0.93	

Source: *NACI & NSTF "Growth & Innovation: Perspectives on the Interaction between Economic Growth, Science, Technology and Human Capital" 2001.*
** Figures are in percent.*

Table A.13: The Decomposition of Growth in Per Capita GDP into the Contribution by Factors of Production and Technological Progress: the South African Manufacturing Sector in the 1990s.*

	Growth in real GDP	of Which			
		Labour	Capital	TFP	Rank TFP
Basic iron & steel	3.73	-2.29	3.02	3.00	1
Basic chemicals	1.35	-1.38	0.02	2.72	2
Machinery & equipment	1.32	-1.11	-0.16	2.60	3
Wearing apparel	1.84	0.67	-0.56	1.72	4
Wood & wood products	2.02	0.72	0.38	0.93	5
Leather & leather products	0.52	-2.61	2.56	0.57	6
Professional & scientific equipment	0.35	-0.12	0.02	0.45	7
Non-metallic minerals	-1.15	-1.49	-0.02	0.36	8
Other chemicals & man-made fibers	0.55	-0.77	1.22	0.10	9
Electrical machinery	1.71	1.83	-0.19	0.07	10
Food	1.28	-0.59	1.82	0.06	11
Tobacco	-3.68	-2.52	-1.14	-0.02	12
Metal products excluding machinery	-0.09	-0.45	0.43	-0.07	13
Textiles	-1.98	-1.65	-0.11	-0.22	14
Footwear	-3.57	-2.69	-0.48	-0.40	15
Other industries	7.45	-0.23	8.45	-0.76	16
Paper & paper products	0.11	0.01	1.46	-1.36	17
Basic non-ferrous metals	10.55	-1.16	13.58	-1.87	18
Plastic products	2.58	0.91	4.02	-2.35	19
Rubber products	-1.81	-0.88	1.86	-2.79	20
Glass & glass products	-0.27	-0.46	3.05	-2.87	21
Furniture	-1.13	0.79	2.00	-3.91	22
Printing, publishing & recorded media	-1.43	0.70	1.82	-3.95	23
Coke & refined petroleum products	-2.57	-0.31	1.90	-4.16	24

	Growth in real GDP	of Which			
		Labour	Capital	TFP	Rank TFP
Other transport equipment	-5.43	-1.08	-0.15	-4.20	25
Motor vehicles, parts & accessories	-1.74	0.79	2.45	-4.98	26
Beverages	-2.76	-1.08	3.44	-5.12	27
Television, radio & communication equipment	-1.98	2.50	1.97	-6.45	28
Correlation with output growth:		0.08	0.74	0.38	

Source: *NACI & NSTF "Growth & Innovation: Perspectives on the Interaction between Economic Growth, Science, Technology and Human Capital" 2001.*
**Figures are in percent.*

References

Aitkin & Harrison, A.E. "Do domestic firms benefit from DFI? Evidence from Venezuela" *American Economic Revies (AER)* June, 1999.

Albaladejo, E, and Schmitz, H. "Helping African SMEs to compete in Regional and Global Markets Strategic Framework" *(ECA), Addis Abba, 2000.*

Ayogu, M.D. "Case Studies, Private Sector Participation in Infrastructure in Uganda, Ghana and Nigeria" *ADB Economic Research Papers No. 44, 2001.*

Bacon, R.W and Eltis, W.A. "The implications for inflation, employment, and growth of a fall in the share of output that is marketed", *Oxford Bulletin of Economics and Statistics, Nov, 1975.*

Banda, M., Fundanga, C., and Ng'andwe, C. (eds) "Financing Small Business in a liberalized economy" in Critical Development Issues in the 3rd Republic, EAZ, Lusaka, 1994.

Bell, M.& Pavitt, K. "Accumulating Technological Capability in Developing Countries" in Proceedings of the World Bank Annual Conference on Development Economics, Washington, DC 1992.

Cho, Y. K., & Cunningham, S.R. "The Korean Stock Market: the Road to Globalization and Liberalization" in Doukas, J & Lang, L.1996.

Collier, P. & Gunning, J.W. "Explaining African Economic Performance*" Journal of Economic Literature, 1999.*

Denison, E.F. "The Unimportance of the Embodied Question." *American Economic Review, 1964.*

Doukas, J. & Lang, L. Research in International Business and Finance, JAI Press, London, 1996.

Dunning, J.H. & Narula, R. [Editors] Foreign Direct Investment and Governments: Catalysts for Economic Restructuring, Routledge, London, 1996.

Easterly, W., and Levine, R. "Africa Growth Strategy: Policies and Ethnic Divisions*"*, *Quarterly Journal of Economics, 107:1997.*

Fagerberg, J. "International Competitiveness," *in Economic Journal, 1988.*

Fagerberg, J. “Technology and International Differences in Growth Rates” *Journal of Economic Literature, 1994.*

Fawzy, S. Globalization and Firm Competitiveness in the Middle East, World Bank, Washington, 2002.

Fedderke, J.W. “Investment on Fixed Capital Stock: the S. African Manufacturing Industry*” 1970-97, ERSA working Paper no16, Univ. of Witwatersrand, 1999*.

FIAS & USAID. “Mozambique: Continuing to Remove Administrative Barriers to Investment” *Maputo, 2001.*

Friedman, J. & Shachmurove, Y. “International Transmission of Innovations among EC Stock Markets*” in Doukas, J &Lang, L. [1996].*

Hafsi, T “Global Competition and the Peripheral Player: A promising Future*” in Fawzy [2002].*

Johnston, J. “A Macromodel of Inflation” *in Economic Journal, June 1975.*

Killick, T. The Flexible Economy, Routledge, London, 1995

—“Relevance, Meaning and Determinants of Flexibility” *in Killick, T [1995*].

—“Economic Inflexibility in Africa: Evidence and Causes” *in Killick [1995].*

Lall, S. “Industrial Adaptation and Technological Capabilities in Developing Countries” *in Killick [1995]*

Lall, S. “Exports of Manufactures by Developing Countries: Emerging Patterns of Trade and Location” *Oxford Review of Economic Policy, 1998.*

Lall, S. “Strengthening Small and Medium Enterprises for International Competitiveness” *in Fawzy [2002].*

Lieberman, I.W.& Nellis, J. Russia: Creating Private Enterprises and Efficient Markets, World Bank,Washington,1995.

Lim. D. “Explaining the Growth Performances of Asian Developing Economies” *Economic Development and Cultural Change, 1994.*

“Mapping of Faith based organizations and NGO Support for Education in Malawi*” Lilongwe, 2003. Malawi Institute of Management (MIM) & Institute of Policy Research and Analysis for Dialogue (IRAD)*

Mkandawire, W. “Private Sector: Malawi’s Engine of Economic Growth. Is it just a Myth?” *Economic Association of Malawi, 1999.*

Myers, D. et el [editors]. U.S Business in South Africa: the Economic, Political, and Moral Issues, Indiana University Press, 1980.

Ndiweni, M.K. "Review of Current Trends, Approaches and Strategies for Private Sector Development: Case Study of Zimbabwe*" ECA, Addis Ababa, 1998*.

Ng'andwe, C. "Status of Small and Medium Industries in PTA" *COMESA, Lusaka, 1986.*

Nsekela, A. Southern Africa: Toward Economic Liberation, Collings and London, 1980.

OECD. Innovation Policy: Trends and Perspectives, Paris 1982.

Reinikka, R. and Svensson, J. "How Inadequate Provision of Public Infrastructure and Services Affects Private Investment" *Staff Paper, World Bank, Washington, DC, 1999.*

-"Confronting Competition: Investment Response and Constraints in Uganda" *Policy Research Working Paper, World Bank, Washington, DC, 1999.*

UNCTAD. FDI Policies for Development: National and International Perspectives, World Investment Report, Geneva, 2003.

— "Emerging issues in Private Sector Development; Enhancing the competitiveness of SMEs in Africa: Proceedings of Intergovernmental Committee of Experts on Industrialization in Africa, Yaoundé, Cameroon, 25-27 Oct, 2001" *UNECA Addis Ababa, 2001.*

—"Enhancing the competitiveness of SMEs in Africa: A Strategic Framework for Support Services" *Workshop Working Document, Dakar 2-5 October, 2001, Addis Ababa*.

—"Workshop Paper on the Study of Institutions and Modalities for promoting the

Financing of small and cottage industries in Africa" *Addis Ababa, 1996.*

— "Economic Survey of Europe*" UNECE Geneva, 2002*.

Schulpen, L and Gibbon, P. "Private Sector Development: Policies Practices and

Problems" *Center for Development Research Copenhagen, 2001.*

Schultz, T. "The value of the ability to deal with disequilibria" *Journal of Economic Literature, Sept.1975.*

Seddon, D. & Belton-Jones. "The Political Determinants of Economic Flexibility,

With Special Reference to East Asian NICs" *in Killick [1995].*

Seers, D. “A theory of inflation and Growth in Underdeveloped Economies based on the Experience of Latin America*” in Oxford Economic Papers, June, 1962.*

Simuyembe, S. “Private Sector Participation in Infrastructure in Southern Africa” ADB Economic Research Papers no. 49.2001.

Teece, D.J. “Technological Transfer by Multinational Firms: The Resource Cost of Transferring Technological Know-How” *Economic Journal, 1977.*

World Bank. “Namibia: Private Sector Assessment” *Vol1, II, Washington DC, 1996.*

World Bank. Private Capital Flows to Developing Countries, Oxford University Press, New York, 1997.

Please visit http://www.uneca.org for information on the latest ECA activities, initiatives and publications.

Contact:

The Communication Team
Economic Commission for Africa
United Nations
P.O. Box 3001
Addis Ababa
Ethiopia
Tel: +251-1-44-58-26
Fax: +251-1-51-03-65
Email: ecainfo@uneca.org