Economic
Commission for Africa
Southern Africa Office

Economic and Social Conditions in Southern Africa in 2007

Economic
Commission for Africa
Southern Africa Office

Fourteenth Meeting of the Intergovernmental Committee of Experts for Southern Africa (ICE)

E/ECA/SA/ICE.XIV/2008/3

2-4 June 2008
Lusaka, Zambia

Economic and Social Conditions in Southern Africa in 2007

Table of contents

Acronyms

AEC	African Economic Community
AfDB	The African Development Bank
AGDI	African Gender and Development Index
AIDS	Acquired Immunodeficiency Syndrome
ASEAN	Association of Eastern Asian Nations
AU	African Union
BPFA	Beijing Declaration and Platform for Action
COMESA	Common Market for Eastern and Southern Africa
DRC	Democratic Republic of Congo
CAADP	Comprehensive Africa Agriculture Development Program
CCBG	Committee of Central Bank Governors of SADC
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women
CETs	Common External Tariff
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
CU	Customs Union
ECA-SA	United Nations Economic Commission for Africa Southern Africa Office
EPAs	Economic Partnership
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FTA	Free Trade Area
GBV	Gender Based Violence
GDP	Gross Domestic Product
HBS	Household Budget Surveys
HCPI	Harmonized Consumer Price Index
HIPC	Highly Indebted Poor Countries Initiative
HIV	Human Immunodeficiency Virus
IMF	International Monetary Fund
LDCs	Least Developed Countries
LFDC	Low-Income and Food-Deficit Countries
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEC	Macroeconomic Convergence
MMTZ	Malawi, Mozambique, Tanzania and Zambia
MTEFs	Medium Term Expenditure Frameworks

MU	Monetary Union
NAFTA	North American Free Trade Area
NEPAD	New Partnership for Africa's Development
NPISHs	Non-profit institutions serving household
NSO	National Statistics Offices OECD
NTB	Non-tariff Barriers
PPP	Purchase Power Parity
PRSP	Poverty Reduction Strategy Paper
RECs	Regional Economic Communities
RISDP	Regional Indicative Strategic Development Plan
RTAs	Regional Trade Agreements
RoO	Rules of Origin
SADC	Southern Africa Development Community
SAPP	Southern African Power Pool
SNA	System of National Accounts
SPD	Structured Product Description
SSA	Sub-Saharan Africa
SWG	Statistical Working Groups
UAE	United Arab Emirates
UNECA	United Nations Economic Commission for Africa
WTO	World Trade Organisation

Introduction

The present report on the Economic and Social Conditions in Southern Africa for 2007 is a regular document presented to the Intergovernmental Committee of Experts (ICE) for Southern Africa. The main aims of the report for 2007 are to: (i) to provide Member States with analysis of the economic and social conditions in Southern Africa and prospects for 2008; and (ii) to provide police advice on selected policy issues in Southern Africa.

Part One: Economic and Social Trends and Prospects for 2008

Chapter 1: Developments in the World Economy and Implications for Southern Africa

1. Developments in the World Economy and Implications for Southern Africa

This chapter discusses three key global challenges facing Southern Africa: issues in world food prices; China/India and Africa relationship; and currency appreciation. A major issue in world prices is the skyrocketing food prices partly due to rising oil prices, weak growth in production relative to demand over a long period and rising populations that has increased global food demand.

1.1 Recent Economic Trends and Prospects for 2008

In 2007, world economic growth rose to 4.9 percent from 3.8 percent in 2006 (Fig. 1). Regrettably, this growth is projected to decline 3.7 percent in 2008, and to remain at this level in 2009 on account of still-unfolding events in the financial markets stemming from deep losses on structured credits related to the U.S. sub-prime market. The spill over effects of this event is weakening financial system balance sheets, and the current credit squeeze threatens to mutate into a full-blown credit crunch.

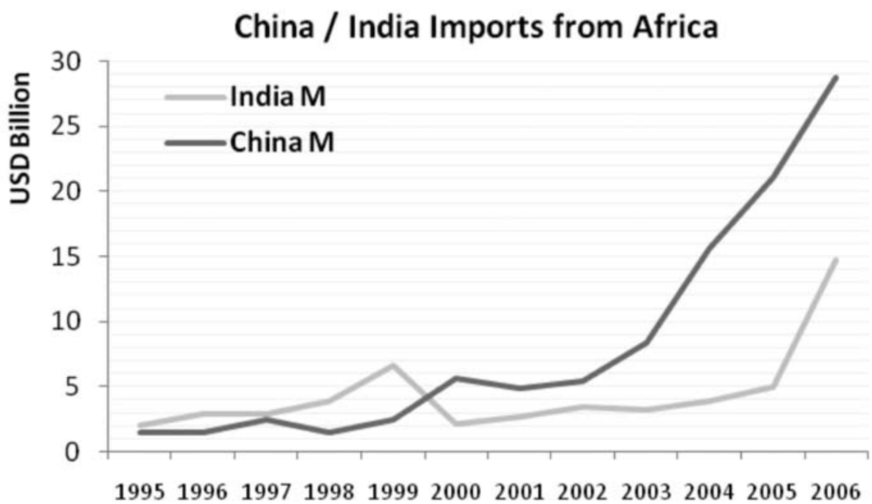
On the regional economic outlook, the Sub-Saharan Africa (SSA) is expected to grow to 6.6 percent in 2008, down from 6.8 percent in 2007 and 6.4 percent in 2006. This stellar performance in 2007 is attributed to improved macroeconomic policies, implementation of structural reforms, favourable commodities and largely still supportive external environment.

While recent developments in the world economy are likely to benefit African economies, they also pose some challenges and risks. The impact of the global financial turmoil originating from the mid-2007 sub-prime mortgage crisis in the USA on the economic environment for developing countries has been reviewed. So far African countries have not been assessed in detail in terms of international trade and finance but the impacts felt elsewhere can not be ruled out especially in countries such as South Africa which seems to mirror the trend in the USA in terms of rising interest rates.

Asian economies continue to be the fastest growing, with a growth rate of more than 8 per cent per annum, while growth in developed countries remains modest and is declining in the USA due to the housing and mortgage crises. Key constraints to growth include the massive global macroeconomic imbalances as well as record high oil prices that weaken growth in both developed and developing countries, through high production costs. Rising inflows of foreign direct investment (FDI) are still dominated by resource extraction such as in Angola, Botswana, DRC, Zambia etc. but some of these countries have started to diversify their economies.

Some positive developments in the world economy are likely to sustain growth in African countries, especially through the high demand for African export commodities and the relatively low costs of external borrowing. The closer links between Asia and Africa based on complementarities as well as similarities are providing mutual benefits but they also pose some challenges for African economies.

Figure 1.1



1.2 World prices for African commodities and implications to Southern Africa

Prices of commodities such as coffee, cocoa, cotton and tropical logs have remained stable. However, the recent promotion of the use of bio-fuels has already led to a price increase for agricultural commodities such as maize and sugar. Political support for bio-fuels in the European Union (EU) and the USA is mainly driven by concerns about future energy supply and the environment. These price increases for agricultural products have the potential to increase the income of the rural population in many African countries, but this impact can potentially be threatened by corresponding rise in prices of agricultural inputs among other factors.

1.3 GDP Growth rates of major regions in 2007

In 2007, world economic growth slowed only slightly to 3.7 per cent from 3.9 per cent in 2006 (figures 1.1 and 1.2). High prices for oil and other inputs combined with some turbulence in financial markets have contributed to this slowdown. Globally, growth rates were highest in the Commonwealth of Independent States (CIS) countries as well as in East Asia, with rates above 8 per cent. Growth in developing countries declined only slightly from 7.0 per cent in 2006 to 6.9 percent in 2007 (UN 2008). For 2008, some further slowdown is expected in all regions (except Africa and Central America), leading to a decline in world growth from 3.7 to 3.4 percent.

Growth in the USA slowed considerably in 2007 to 2.1 percent, down from 2.9 per cent in 2006. The weakness is partly due to the decline in house prices and the crisis in the sub prime mortgage sector, which together with high household debt has weakened consumer spending. Likewise, business capital spending has weakened since late 2006. For 2008, no major change is expected (UN 2008).
Growth in the European Union (EU) remained virtually unchanged in 2007 at 2.9 per cent compared to 3 per cent in 2006. This relatively good performance was driven by higher domestic demand, particularly investment expenditure and strong export performance. In 2008, a decline to 2.5 per cent of GDP growth is expected, as the Euro remains strong. Growth in Japan remained stable in 2007 at 2.0 per cent, compared to 2.2 per cent the previous year, but is expected to slow down in 2008 (to 1.7 per cent). In both cases, improved labour market conditions contribute to overall performance (UN 2008).

Growth in East and South Asia remained strong with 8.0 per cent in 2007, almost unchanged from the 8.1 per cent in 2006. For 2008, it is expected that growth will slow down somewhat to 7.5 per cent. This good performance is driven mainly by exports but also by recovery of domestic demand. With continued strong growth at 11.4 per cent in 2007, China continued to gain in importance as an export destination for other

East Asian countries. Growth in India slowed in 2007 to 8.5 per cent, down from 9.4 per cent in 2006, mainly due to high capacity utilization, inflationary pressures and continued monetary tightening (UN 2008).

Growth in Western Asia increased considerably to 5.7 per cent in 2007 from 4.6 per cent the previous year. Oil exporters in the region, such as United Arab Emirates (UAE) and Qatar experienced growth above 7 per cent, supported by higher-than-expected non-oil production, most notably in the construction and finance sectors (UN 2008). Growth in Latin America and the Caribbean declined slightly to 5.2 per cent in 2007, down from 5.7 per cent in 2006, but is still quite robust due to strong external and domestic demand, especially in the three largest economies (Brazil, Mexico and Argentina). For 2008, only a slight decline in GDP growth is expected (UN 2008). In Africa, growth continued to increase and stood at 5.8 per cent in 2007.

1.4 Sub-regional growth performance in 2007

Africa has maintained the strong growth momentum of the last few years and achieved a 5.8 per cent growth rate in 2007, up from 5.7 per cent in 2006 and 5.2 per cent in 2005.1 As in previous years; the growth performance in 2007 was driven mainly by robust global demand and high commodity prices. Other factors underpinning the sustained growth momentum include continued consolidation of macroeconomic stability and improving macroeconomic management, greater commitment to economic reforms, rising oil production in a number of countries, increased private capital flows, debt relief and increasing non-fuel exports. Africa has also witnessed a decline in political conflicts and wars, especially in West and Central Africa, though peace remains fragile in some parts of the continent.

On the average growth rate for Southern Africa is projected at 5.2% in 2008 and 2009 down from 7% in 2007. Economic growth in East Africa, which averaged 8.0 % in 2007, is projected to remain high at 7.3% and 7.9 % in 2008 and 2009 respectively. North African countries - growth is expected to strengthen from 5% in 2007 to 6.2% in both 2008 and 2009 sustained by high prices for oil and gas, and strong growth in tourism. West Africa is projected to accelerate from 3.5% in 2007 to 5.6% in 2008 and to remain high at 5.7% in 2009. Average GDP growth in Central Africa is projected to increase from 4.1 percent in 2007 to 5.1 percent in 2008 but slow to only 4.4 per cent in 2009.

Table 1.1 Average Growth Rates of African Regions (annual percentage change)

Region	1999-2005	2006	2007(e)	2008(p)	2009(p)
North Africa	4.2	5.6	5.3	6.2	6.2
West Africa	4.4	5.0	3.5	5.6	5.7
Central Africa	5.3	3.4	4.1	5.1	4.4
East Africa	5.2	7.5	8.0	7.3	7.9
Southern Africa	4.2	6.7	7.0	5.3	5.0
Total Africa	**4.4**	**5.9**	**5.7**	**5.9**	**5.9**
Memorandum Items					
Net Oil exporters	4.7	6.2	6.4	6.8	6.2
Net Oil importers	4.1	5.5	5.0	4.9	5..5
SANE * Countries	4.2	5.3	5.0	5.4	5.7
Other Countries	4.7	6.6	6.7	6.5	6.1

* South Africa, Algeria, Nigeria, Egypt.
Note: Due to lack of data, these aggregates do not include Somalia.
Source: Various domestic authorities; IMF World Economic Outlook and authors' estimates (e) and projections (p).

Strong commodity demand and continued high prices combined with favourable rainfall and accelerated growth in agriculture boosted economic activity in the industrial and services sectors as well as overall growth in most of East Africa. Ethiopia led the region with a 9.5 per cent real GDP growth rate in 2007, followed by Tanzania (7.0%), DRC (6.5%), Madagascar (6.4%), Kenya (6.1%), Uganda (6.0%) and Seychelles (5.8%). Other growth factors in the region include increased government investment in infrastructure, policies to encourage private sector development, investment in manufacturing, and rising FDI and tourism receipts. However, it is worth noting that failure to manage post-election violence in Kenya could have an important adverse impact on East Africa's growth in 2008.

With increasing oil production, Angola continued to lead Southern Africa in terms of real GDP growth (21.0% in 2007) despite its weak physical and human infrastructure and poor legal and regulatory environment. Malawi sustained the high growth of 2006 to record 8.5 per cent in 2007, owing to continuing agricultural recovery. Macroeconomic stability and continued donor support assisted Mozambique in maintaining high growth (7.5% in 2007). The factors driving growth in many countries of the region include the improved performance of the agricultural, mining and tourism sectors and expansion in manufacturing and construction.

Economic performance in South Africa remains robust (4.8%), thanks to expansion in construction and mining and increased investment in the corporate sector. Zimbabwe and Swaziland continue to be the least performing countries in Southern Africa owing to political instability in Zimbabwe and the impact of drought and declining production in the textile industry in Swaziland.

As in previous years, North Africa's growth remained high (5.9% in 2007) with increased oil and gas production and high oil prices. Additional growth factors include increased FDI flows (to Sudan for example) and increased public investment (Algeria and Libya).

Accelerated growth in Senegal and Guinea-Bissau in 2007 relative to 2006 and sustained recovery in Liberia and Sierra Lone underpinned the rise in GDP growth in West Africa this year (5.1%, up from 4.6% in 2006). The region as a whole benefited from good rainfall and strong agricultural performance as well as from high commodity prices, despite the negative effect of high energy costs on oil-importing countries.

Although still lagging behind other regions, real GDP growth in Central Africa jumped from 2.0 per cent in 2006 to 4.5 percent in 2007. Increased oil and gas production and revenue stimulated non-oil activity and pushed growth to 10.0 per cent in Equatorial Guinea and 4.9 per cent in Gabon in 2007.

1.5 Policy suggestions

- Whereas the international environment for growth in Africa is still favourable, risks from global imbalances, especially the sub prime mortgage crisis in the USA, have increased. International policy coordination is critical to avoid disorderly adjustment and the spread of financial crisis.

- The intensification of ties with Asia in terms of aid, trade and FDI holds both benefits and challenges for Africa. Through these channels, Asian growth provides African governments with increased revenues through exports and thus, the possibility to spend more on achieving the Millennium Development Goals (MDGs). It also improves opportunities for direct employment and better conditions for local firms. However, African manufacturing firms risk losing local markets if they are not able to compete with imports from Asia. African countries need to improve their business environment and increase investment in skills development to be able to benefit more from the relations with Asia. African government policy should emphasize the need for Asian companies to employ more local people, allowing for more learning by doing to take place.

Chapter 2: Economic Performance and Poverty Reduction in Southern Africa and Prospects for 2008

2.1 Growth Performance

Real GDP growth is presented in Table 2.1. Figures in light grey show achievement of SADC target of 7% or more and growth of less than 7% is shown in dark grey. Southern African countries' key challenge remains one of raising the rate of GDP growth in a sustainable way to meet the Millennium Development Goals (MDGs).

Table 2.1: Real GDP growth

	Economic Growth						
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Angola	14.4	3.4	11.1	20.6	18.6	24.4	16.2
Botswana	9.5	3.4	8.4	4.7	0.6	6.2	5
D.R. Congo	3.5	5.8	6.9	7.9	5.6	6.3	8.8
Lesotho	3.5	3.3	3.4	2.9	7.2	5.1	7
Madagascar	-12.7	9.8	5.3	4.6	5	6.2	7.3
Malawi	2.1	3.9	5.1	2.3	7.9	7.4	7.1
Mauritius	1.8	4.4	4.8	2.3	5	5.7	5.9
Mozambique	8.2	7.8	6.8	8.3	8.5	7.3	7
Namibia	6.7	3.3	5.9	4.8	4.1	4	4.7
Seychelles	1.2	-5.9	-2.9	7.5	8.3	7.3	4.6
South Africa	3.7	3.0	4.5	5	5.4	5.1	*3.8
Swaziland	3.6	2.9	2.1	2.2	2.8	2.8	2.8
Tanzania	6.2	5.7	6.7	6.8	7.1	7.8	7.5
Zambia	3.3	5.1	5.4	5.2	5.8	6.2	7
Zimbabwe	-4.4	-10.4	-4.2	-3.8	-2.0	-17.6	..

*IMF projection

Economic growth in Southern Africa rose marginally from 5½ percent in 2006 to 5¾ percent in 2007, but masking wide disparities that range from one of the world's fastest growing economy of Angola at 21.1 percent to the world's fastest shrinking economy of Zimbabwe at –6.1 percent. (IMF, 2008). The downside risks are foreseen from the slow down in domestic consumption as monetary policies tighten to arrest emerging inflation pressures, and drastic decline in global demand amid fears that the world's biggest economy of the US will tumble into recession.

Angola and South Africa continue to influence economic performance of the sub-region. Angola remains the fastest growing economy in Southern Africa influenced by the oil sector. The economy grew by 20.6% in 2005, 18.6% in 2006, 24.4% in 2007 and is expected to grow by 16.2% in 2008. Large investments in infrastructure and the natural resource sector such as oil and diamonds have contributed to the impressive performance. Further, improved terms of trade by way of increasing commodity prices of oil also contributed to the positive performance. Angola is the second largest oil producer in sub-Saharan Africa, with reserves estimated at 13.5 billion barrels.

South Africa, which accounted for 73% of the sub-region's GDP in 2005, grew by 4.9% in 2006 with projection of 4.8% in 2007. The growth of the economy has been demand driven with strong growth in household consumption expenditure as well as capital formation. Household's consumption is expected to slow, given the impact of increased interest rates since 2006. Capital formation is expected to remain firm on the back of large government expansion programmes relating to infrastructure developments. Supply-side growth is dominated by the finance and business services –, the manufacturing – and the trade industry. These sectors represent nearly half of the economy.

ECA-SA estimates that the sub-regional growth rate declines to 4.3% when Angola is excluded from the group and declines drastically to 1.8% when both Angola and South Africa are excluded.

Generally, per capita income improved for the region in light of the strong economic growth. 11 out of 14 countries reflected an increase in per capita income in 2007 when compared to 2006. Average per capita income excluding Angola and Zimbabwe was US $2,343.68 in 2007 from US $2,119.31 in 2006. Countries with the highest per capita income include Botswana, Mauritius and South Africa, with capita incomes above US $5000, whilst Namibia and Swaziland registered per capita income above US $2000. Although DRC registered the lowest GDP/capita at US $174.40, this was a 37 percent increase from the US $124.20 observed in 2006.

The implementation of structural reforms, sound macroeconomic policies, relatively sound external environment has enabled non-oil exporters such as Malawi, Mozambique and Tanzania to achieve growth rates in excess of 7 percent in 2007, in line with MDG target (Table 2.1). Whether these levels will obtain in the years ahead hinges critically on largely external factors including global demand and capital and aid inflows.

The driver for economic growth in other Southern African countries was more balanced than in earlier years. The manufacturing (Lesotho, Mauritius), agriculture (Malawi, Lesotho), construction (Madagascar, Mauritius) and services (DRC, Mauritius) and tourism (Mauritius, Seychelles) played a key role to the Southern Africa's growth. High aid inflows further propelled Malawi's economic growth forward. Foreign direct investment was a motor for economic growth of Seychelles and South Africa.

2.2 Overstretched electricity systems and implications for growth in Southern Africa

Southern Africa is buffeted by major infrastructure challenges, the most severe of which is arguably those in the power sector. While there are many causes for this underperformance of the power sector such as droughts for hydro-dependent countries of East Africa in Southern African the challenge came from fast economic growth; inadequate expansion of generation and transmission facilities that further stripped away cushion from excess capacity; internal conflicts in some countries that damage infrastructure; and high petroleum prices that have created huge cost pressure in some countries.

Besides causing major traffic lights failure and frustrated households without power, reduced electricity supply to large industrial users is damaging to economies. In South Africa, for example, the temporary shutdown of production in the mining sectors reduced gold production, causing global prices for gold and platinum to spike. As South Africa exports 5 percent of its electricity to Botswana, Namibia and Swaziland, these countries have also been affected by rolling blackouts. Moreover, if South Africa stops exporting electricity to meet internal demand, the implications for the entire Southern African region will be economically devastating.

2.3 Savings, Investments and FDI

The RISDP includes targets for domestic savings of at least 25% of GDP and domestic investment of 30% of GDP by 2008. Apart from Angola, Lesotho, Botswana and Namibia consistently attained the target (in light grey), most countries showed low rates of savings. Botswana continued to exceed the target since 2002 with savings of over 40 per cent of GDP.

Important as it is, national saving has always been relegated to the secondary list of MEC indicators. When economic data are released, there is always a great deal of attention to overall output, unemployment, inflation, interest rates, and budget and trade deficits. National saving rates, which represent the sum of public savings and private savings, have a lot to do with shaping each of these variables. Sustainable growth could be enhanced if member states minimize risks by raising their own national saving to finance their own investments. That would stabilize investment in the short run and increase profitability in the long run. They could raise national savings with some combination of fiscal tightening and measures to raise private savings, coupled with other measures.

The RISDP target (in light grey) for investment of 30 per cent of GDP was only achieved by Botswana from 2002 to 2005 and by Lesotho for the years 2002 to 2004. Since 2002, the rest of the SADC countries have not reached the target. Thus, the investment rate is generally below the required level to achieve the RISDP developmental objectives.

Apart from Botswana and Namibia, which consistently attained the 30 per cent target, most countries showed low rates of savings (in dark grey). And, the RISDP target for investment of 30 per cent of GDP was only achieved by Botswana from 2002 to 2005 and by Lesotho for the years 2002 to 2004. Since 2002, the rest of the SADC countries have not reached the target. Thus, the investment rate is generally below the required level to achieve the RISDP developmental objectives.

Table 2.2: Domestic Saving (% GDP)

	Domestic Savings (as % GDP)					
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
Angola	23.9	19.2	25.1	34.1	36.7	29.4
Botswana	52.2	50.7	49.8	47.4	44.2	43.2
D.R. Congo	4.0	5.0	8.5	2.2	3.0	6.9
Lesotho	-15.6	-6.1	-11.8	-17.6	-13.8	-12
Madagascar	4.5	6.4	8.3	8.4	13.4	12.2
Malawi	-0.11	-0.12	-0.10	-0.13	-0.06	0.06
Mauritius	25.2	24.7	22	16.5	15	14.4
Mozambique	11	10.1	8.5	5.9	11.3	11.0
Namibia	28	33	36.3	24.7	30.8	32.8
South Africa	16.9	15.8	14.5	14.5	18.0	16.6
Swaziland	22.8	28.3	27.4	24.5	15.0	14
Tanzania	11.8	14.5	13.6	11.7	10.5	10.6
Zambia	8.7	13.1	16.0	16.4	25.7	30.5
Zimbabwe	-12.5	-21.1	-3.7	-6.7	8.4	17.1
Average, SADC excl Zimbabwe	**14.9**	**16.5**	**16.8**	**14.5**	**16.1**	**16.1**
Average, all SADC	**12.9**	**13.8**	**15.3**	**13.0**	**15.6**	**16.2**

Table 2.3: Domestic Investment (as % GDP)

	Domestic Investment (as % GDP)					
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
Angola	12.6	12.7	9.1	8.1	15.0	13.7
Botswana	40.7	41.5	38.4	30.1	25.3	25.8
D.R. Congo	9	12.2	12.8	13.9	13.4	16.6
Lesotho	43.8	45.1	34.6	28.0	26.2	26.4
Madagascar	14.3	17.9	24.3	22.6	24.6	30.8
Malawi	10.4	10.8	14.4	13.7	15.7	1.63
Mauritius	21.8	22.6	21.6	21.4	24.4	24.1
Mozambique	29.8	25.9	20.1	21.3	21.3	23.8
Namibia	21	29	25.2	28.3	29.4	31.9
South Africa	15.0	15.9	16.2	18.6	20.3	20.4
Swaziland	19.8	23.6	22.7	22.9	17.3	16.9
Tanzania	18.9	18.5	21	22.2	23.4	24.5
Zambia	22	25.6	23.0	22.5	22.6	25
Zimbabwe	-8.8	-13.0	5.1	4.4	11.0	17.5
Average, SADC excl Zimbabwe	**21.5**	**23.2**	**21.8**	**21.0**	**21.5**	**21.7**
Average, all SADC	**19.3**	**20.6**	**20.6**	**19.9**	**20.7**	**21.4**

Successful policy convergence as critical ingredient for deeper regional integration would enable the region to assume a leading role in establishing financial, macro-economic and price stability and job creation, which are preconditions for sustained economic growth and development. Towards this end, it is clear that the SADC member states have made some progress in attaining the MEC criteria over the past 5 years, particularly with respect to all the four primary indicators. However, success in MEC should be based on over extended period and not on short-term.

The levels of FDI inflows into the SADC region in 2007 showed a drastic improvement of 73.2 percent to register US$ 22.1 billion. The significant increase is attributable in part to revised sets of data (see Table 2) and to a greater extent to major investments into the South African banking sector. During the year under review a whopping US$5.7 billion went into the acquisition of a 20 percent stake in one of the major Banks in SA by a non-resident reputable financial institution. Another major contributing development in the evolution of the figures has been the revision of FDI data by Angola which then presented an improved position for investment inflows during the review year. Furthermore FDI projections for 2008 are to hit the US$9.4 billion mark as a result of the discovery of new oil exploration sites that will boost this particular sector and the overall FDI inflows into SADC in 2008.

Table 2.4: Foreign Direct Investment Inflows (Inwards) US Dollars

US$ millions			
Country	**2006**	**2007**	**2008**
Angola*	9063,6	8801,2	9362,0
Botswana	805,0	1651,0	N/A
DRC	256,1	1135,4	969,0
Lesotho	91,9	112,4	N/A
Madagascar	221,0	685,3	660,6
Malawi	72,2	92,0	220,0
Mauritius	105,0	339,0	N/A
Mozambique	153,7	427,4	457,0
Namibia	380,0	683,4	N/A
South Africa	-527	5692,0	5384,0
Swaziland	851,4	859,0	N/A
Tanzania	597,0	647,0	697,4
Zambia	654,0	984,0	N/A
Zimbabwe	40,0	0,0	0,0
Net FDI SADC	12763,9	22109,1	17750,0

* significant revisions on FDI data lead to major evolution of Net FDI to SADC
Sources: SADC Central Banks

Botswana, the DRC and Madagascar recorded significant in flows of FDI in 2007,the latter two registering approximately 3 times the level of flows recorded in 2006.The three countries benefited from a vibrant mining sector- the DRC having signed lucrative contracts with foreign investors whilst Botswana on the other hand has set its sights into establishing a Diamond Trading Centre that will propel its industry to greater heights. Mauritius continues to record high net inflows amounting to US$339 million in 2007, these directed to that country's' vibrant tourism sector. Mozambique meanwhile is undertaking huge capital projects that have seen foreign partners joining forces with resident investors to register US$427.4 million in 2007. Zimbabwe facing severe economic difficulties registered zero FDI inflows in 2007, whilst Zambia and Namibia realized growth in investments channelled to their mining and banking sectors. Tanzania, Lesotho, Swaziland and Malawi registered marginal increases in FDI inflows as observed from these country's data in Table 3.

2.4. Debt Forgiveness

Six SADC countries benefited from debt forgiveness under the HIPC initiative (DRC, Madagascar, Mozambique, Tanzania and Zambia except for Malawi). Consequently, there has been a decrease in Public debt in these countries recording a stock of public debt below the SADC target of 60 per cent of GDP. There was an improvement in the public debt ratio in SADC from 64.6 per cent in 2002 to 44.9 per cent in 2006 with a further projected reduction to 34.8 in 2007.

Country data show that the debt stock fell in 17 out of 46 Least Developed Countries (LDCs), including 16 of the 33 African LDCs for which data are available. African LDCs still accounted for 65 per cent of the total debt stock of the LDCs in 2006, but this was down from a high of 77 per cent in 1998. Both multilateral and bilateral debt fell between 2004 and 2006, but the former declined at a faster rate. Multilateral debt constituted 58 per cent of total LDC debt stock in 2004, but fell to 53 per cent in 2006.

Table 2.5 shows the status of LDCs within the HIPC Initiative as of October 2007. Sixteen LDCs had reached completion point and were receiving irrevocable debt relief under the terms of the initiative.

Of these countries, four LDCs — Malawi, Rwanda, Sierra Leone and Zambia — reached the HIPC completion point in 2005 or 2006 and Sao Tome and Principe in 2007. All of these 16 LDCs have also benefited from MDRI debt cancellation. This has radically changed their debt burden and opens a window of opportunity. Progress in debt relief remains slow for the other LDCs eligible for HIPC. Various conditions have to be met, both to reach the HIPC decision point and to proceed to completion point. The time between decision point and completion point has been increasing since the early batch of countries reached decision point before end–2003. For the five LDCs which reached completion point in 2005 and 2006, the time between completion point and decision point was 4.3 years for Zambia and Rwanda, 4.7 years for Sierra Leone, 5.7 years for Malawi and 6.2 years for Sao Tome et Principe (IMF and World Bank, 2007: figure 1).

Of the nine LDCs that have passed the decision point, but not reached completion point, four reached decision point in 2001 and one in 2003. These countries — Chad, Gambia, Guinea, Guinea-Bissau and Democratic Republic of the Congo — have all experienced interruptions in their IMF-supported programmes and have faced difficulties in meeting completion-point triggers. But Burundi, Chad, Democratic Republic of the Congo, Gambia, Guinea-Bissau and Guinea adopted a full Poverty Reduction Strategy Paper (PRSP) by the end of 2007, a condition for reaching the completion point.

Table 2.5: The Status of LDCs as of October 2007

Completion point (date of completion point)	Decision point (date of decision point)	Pre-decision point
Benin (2003) Burkina Faso (2002) Ethiopia (2004) Madagascar (2004) Mali (2003) Malawi (2006) Mauritania (2002) Mozambique (2001) Niger (2004) Rwanda (2005) Sao Tome & Principe (2007) Senegal (2004) Sierra Leone (2006) Uganda (2000) Tanzania (2001) Zambia (2005)	Afghanistan (2007) Burundi (2005) Central African Republic (2007) Chad (2001) Democratic Republic Of Congo (2003) Gambia (2000) Guinea (2000) Guinea-Bissau (2000) Haiti (2006)	Comoros Eritrea Liberia Nepal Somalia Sudan Togo

Source: World Bank

According to the latest IMF/World Bank assessment of debt sustainability, debt distress is low in only seven post-completion point LDCs. It is moderate only in Malawi, in Southern Africa (IMF and World Bank, 2007). A simulation of the first 16 post completion point HIPCs to participate in the (Multilateral Debt Relief Initiative (MDRI) also finds that, in the absence of MDRI, the net present value of the external debt stock of these countries is expected to rise from 74 per cent of exports in 2004 to 236 per cent by the end of 2015. With the MDRI, it is expected to rise much less, but — at 176 per cent of exports — still will be unsustainable according to HIPC thresholds in 2015.

These results depend on estimates of the grant component of new disbursements, as well as forecasts of domestic savings and foreign exchange receipts. However, the model also clarifies the key conditions for growth with external debt. These are that: (a) the projected marginal savings rate exceeds the fixed investment ratio required to achieve the target rate of growth; (b) the anticipated rate of growth of imports should not exceed the growth of exports; (c) the estimated growth of external debt and interest payments should not continuously exceed the real growth rate of exports; and (d) the marginal product of foreign capital should be greater than the cost of international borrowing.

Table 2.6: Selected Indicators on Debt Burden in African LDCs, by Country and ODCs, (2006)

	Total debt stock as % GNI			Total debt stock as % exports			Total debt service as % exports		
	2000-2	2005	2006	2000-2	2005	2006	2000-2	2005	2006
Countries with debt >100% of GNI in 2006									
Liberia	524.5	619.2	541.3	…	….	…	…	…	…
Sao Tome and Principe*	---	…	295.8	1819.5	1540.6	…	25.5	…	…
Guinea-Bissau	374.7	239.6	241.2	959.3	564.2	…	22.1	…	…
Burundi	172.1	170.3	179.7	2493.8	1440.9	1518.9	49.4	41.5	40.4
Gambia	136.8	150.0	145.2	…	459.1	…	…	11.8	12.4
Democratic Rep. of Congo	253.1	156.8	137.5	…	484.0	487.0	…	…	…
Sierra Leone	174.6	141.8	101.0	1526.3	704.9	…	63.1	9.3	9.6
Guinea	109.8	98.9	100.2	419.8	…	…	16.0	…	…
Countries with debt between 50% and 100% of GNI in 2006									
Togo	108.5	81.7	82.8	278.2	175.7	…	4.9	1.6	…
Eritrea	64.8	76.5	74.1	349.3	…	…	3.1	…	…
Comoros	112.8	75.6	70.3	538.7	423.6	410.7	….	…	…
Central African Republic	93.3	74.3	68.7	…	…	…	…	…	…
Mauritania	201.7	121.8	58.9	570.7	346.3	…	…	…	…
Sudan	140.4	71.0	56.0	629.1	309.9	278.5	7.9	6.4	4.1
Djibouti	48.3	53.1	55.3	…	…	…	5.1	4.6	6.4
Cape Verde	65.7	56.3	54.7	162.9	125.9	108.3	6.6	6.5	4.7
Countries with debt <50% of GNI in 2006									
Mozambique*	159.4	72.3	47.1	584.3	216.2	114.7	9.1	3.8	1.9
Malawi*	154.9	156.6	38.8	598.6	585.7	121.6	10.1	…	…
Lesotho	68.2	37.7	37.6	118.9	64.2	60.8	11.6	7.4	4.0
Chad	73.1	33.6	34.2	488.5	51.7	…	…	…	…
Tanzania*	71.8	62.8	33.3	395.4	262.8	130.3	8.9	4.3	3.4
Madagascar*	106.8	69.8	26.8	355.1	177.5	65.2	6.5	5.7	…
Angola	110.0	41.0	24.5	113.3	48.5	…	23.5	10.7	12.8
Mali	111.3	59.6	23.4	304.5	190.6	…	9.3	5.6	…
Zambia*	182.6	79.0	23.3	619.1	253.4	56.6	19.6	10.9	3.6
Senegal*	83.4	47.9	22.4	222.4	130.1	…	12.8	…	…
Niger*	86.5	58.3	22.1	488.1	307.0	…	7.6	5.9	…
Burkina Faso*	52.1	35.9	18.3	473.1	348.3	…	13.3	…	…
Ethiopia*	77.1	55.2	17.5	564.9	299.7	97.1	12.9	4.1	6.8
Benin*	69.2	43.5	17.5	268.2	222.1	…	9.5	7.4	…
Rwanda*	77.0	71.6	16.9	960.9	551.5	145.9	15.3	8.1	9.6
Uganda*	65.6	51.7	13.8	371.7	243.1	55.5	6.2	9.3	4.8
Equatorial Guinea	26.5	7.6	5.3	14.9	3.8	…	…	…	…

Source: UNCTAD Secretariat calculations based on World Bank, Global Development Finance, online data, March 2008
Group average includes other LDCs outside Africa and has been weighted according to the denominator and are subject to data availability
* HIPC countries that have reached completion points

2.5 Policy Suggestions

Of concern to Southern Africa as a whole is the paradox that this crisis comes at a time when more focus is being paid to the development of infrastructure in the sub-region. Moreover, the sub-region possesses enormous resource of coal as well as hydro-electronic potential, 40 percent of which is accounted for by the Democratic Republic of Congo. The sub-regional authorities need to renew their focus to the development of the power sector, strengthen power utilities, increase generation capacity, and ensure access to electricity. Moreover, they must implement the regional protocols on energy, and pursue private sector partnership for sustainable energy sector development. Long term policies should include the need to embark on: (i) power generation capacity expansion; (ii) renewable energy sources: solar, wind and geothermal energy; (iii) Electricity prices will need to increase substantially to fund the supply cost; and (iv) enforcement of conservation measures.

The key to ensuring debt sustainability is to develop productive capacities. The problem with the current situation and the focus on social sectors is that this is not being done. On the contrary, the MDGs build up fiscal obligations for Governments without generating at the same time a sound fiscal base to raise these revenues. Similarly, they increase import requirements without building up export receipts to pay for these imports. Unless there is a shift in emphasis to building up the productive base of poor economies and promote structural change to reduce vulnerability to commodity price shocks, they will inevitably become unsustainably indebted again.

Chapter 3 :Sectoral Developments

3.1 Agriculture and Food Security: tracking performance in Southern Africa

Agriculture remains a key driving force for economic development in the Southern Africa Development Community (SADC) – a region in which most inhabitants rely on agriculture directly or indirectly as their main source of livelihood. The sector remains the primary source of subsistence, employment and income for 61% of the region's population. Agriculture accounts for close to 8% of the region's GDP. Despite the importance of the sector in SADC's economy, agricultural growth rates have been both low and highly variable across the region, averaging only 2.6% per annum in the last decade. Average growth rates in the sector have been almost similar to demographic growth rates of 2.4% over the same period (World Bank, 2006). This growth rate is still lagging behind the average annual agricultural growth rate of at least 6% targeted by CAADP as necessary for attaining overall economic growth, poverty reduction and food security (AU/NEPAD, 2003).

The net agricultural production more than doubled during 1960-2005, increasing from about US$10,000 million to more than US$20,000 million in the sub-region. However, net per capita agricultural production decreased by about 40% during this period. This suggests that agricultural production has not kept pace with population growth in the region. The decline in per capita agricultural production is attributable to, among other factors, the rapidly growing population in the face of low agricultural productivity. The production of cereals, root crops and livestock, which form the primary staple food in Southern Africa, has been increasing but has not kept pace with population growth, resulting in overall per capita food production falling.

Of the numerous explanations for the sector's poor performance, in terms of limited growth in the average yields of key crops and in low labour productivity, the most significant are insufficient investment in the sector, poor access to agricultural inputs (especially fertilizers and improved seed) and to markets, and low levels of technology development and dissemination. Other factors include adverse climatic conditions and HIV/AIDS threat within the sub-region (Chilonda and Minde, *2007).* Drought and floods are the factors that caused a significant decline in the per capita food production; soil erosion is the most widespread form of land degradation, and one of the biggest threats to agricultural productivity in the sub-region.

*Consequently, t*he current food security situation remains relatively stable in most parts of Malawi, Tanzania, Zambia, and northern Mozambique, where food crop production benefited from favourable rainfall during the 2006/07 season. Food insecurity continues in Lesotho, Swaziland, and southern Mozambique, where drought affected crop production last season. In Zimbabwe, food insecurity is critical as a result of adverse conditions last season and a difficult economic environment in addition to localized flooding that has persisted since late 2007. In Lesotho and Swaziland poor consecutive cereal harvests for the past three years compounded by problems of poverty and the impact of HIV/AIDS have led to serious food insecurity.

Five SADC countries were cited among the 21 African countries on the 82 Low-Income and Food-Deficit Countries (LFDC) list established by the FAO in 2006. They comprise: Angola, DRC, Lesotho, Madagascar and Malawi. On the other side, the FAO (2006)1 identifies 5 SADC countries among countries that have reduced the number of undernourished comprising Angola, Lesotho, Malawi, Mozambique and Namibia. The successful countries seem to have combined good economic growth performances with a significant expansion of per capita agricultural or, especially, food production. The current food crisis has a potential to even worsen the food security situation of the sub-region.

Table 3.1: Category of prevalence of under nourishment in Southern Africa

Category of prevalence	Countries	(%)
Less than 5%	-	0
5 to 9%	Mauritius	7.69
10 to 19%	Lesotho, Swaziland	15.38
20 to 34%	Botswana, Malawi, Namibia	23.07
35% and more	Angola, DRC, Madagascar, Mozambique, Tanzania, Zambia, Zimbabwe	53.84

Source: FAO, The state of food Insecurity in the World, 2006.

1 FAO, The state of food Insecurity in the World, 2006

3.2 The food crisis effect and policy implications

At the global level, real prices are still below their mid-1970s peak, but they have reached their highest point since that time. In 2007 the food price index calculated by the Food and Agriculture Organization of the United Nations (FAO) rose by nearly 40 percent, compared with 9 percent the year before, and in the first months of 2008 prices again increased drastically.

Food prices are increasing significantly in Southern African countries. Nominal retail cereal prices in Lesotho, southern Mozambique, Swaziland and Zimbabwe have increased quite significantly, shooting above last year's levels and in most cases remaining above the 5-year average. In Lesotho, food prices have remained relatively high. Food inflation fell marginally to 18.2 % in January from 18.7 % in December against an overall inflation rate of 10.5 % in both months. In Swaziland, month on month food inflation has risen to record levels, jumping from 19.7 % in December to 21.1 % in January 2008 against an overall inflation rate of 9.8 % and 10.6 % in December and January 2008, respectively.

Nearly every agricultural commodity is part of this rising price trend. Since 2000—a year of low prices—the wheat price in the international market has more than tripled and maize prices have more than doubled. The price of rice jumped to unprecedented levels in March 2008. Dairy products, meat, poultry, palm oil, and cassava have also experienced price hikes, with often serious consequences for the purchasing power of the poor (Joachim von Braun, 2008).

The observed increase in food prices is not a temporary phenomenon, but likely to persist in the medium term. Food crop prices are expected to remain high in 2008 and 2009 and then begin to decline as supply and demand respond to high prices: however they are likely to remain well above the 2004 levels through 2015 for most food crops (World Bank, 2008).

Currently strong world market prices for many agricultural commodities in international trade are, in large measure, due to factors of a temporary nature, such as drought related supply shortfalls, and low stocks. But, structural changes such as increased feedstock demand for biofuel production, and the reduction of surpluses due to past policy reforms, may keep prices above historic equilibrium levels during the next 10 years (OECD-FAO, 2007)

3.3 Factors, causes and diversified impacts of the global food crisis

The combination of new and ongoing forces is driving the world food situation and, in turn, the prices of food commodities. One emerging factor behind rising food prices is the high price of energy. With high oil prices and the western countries subsidizing farmers to grow crops for energy, U.S. farmers have massively shifted their cultivation toward biofuel feedstocks, especially maize, often at the expense of soybean and wheat cultivation. About 30 percent of U.S. maize production will go into ethanol in 2008 rather than into world food and feed markets.

High energy prices have also made agricultural production more expensive by raising the cost of mechanical cultivation, inputs like fertilizers and pesticides, and transportation of inputs and outputs. At the same time, the growing world population is demanding more and different kinds of food. Rapid economic growth in many developing countries has pushed up consumers' purchasing power generated rising demand for food, and shifted food demand away from traditional staples and toward higher-value foods like meat and milk. This dietary shift is leading to increased demand for grains used to feed livestock. Poor weather and speculative capital have also played a role in the rise of food prices. Severe drought in Australia, one of the world's largest wheat producers, has cut into global wheat production.

Higher food prices have radically different effects across countries and population groups. At the country level, countries that are net food exporters will benefit from improved terms of trade, although some of them are missing out on this opportunity by banning exports to protect consumers. Net food importers, however, will struggle to meet domestic food demand. Given that most of the SADC countries are net importers of cereals (ECA-SA, 2008); they will be hard hit by rising prices.

At the household level, surging and volatile food prices hit those who can afford it the least—the poor and food insecure. The few poor households that are net sellers of food will benefit from higher prices, but households that are net buyers of food—which represent the large majority of the world's poor—will be harmed. Adjustments in the rural economy, which can create new income opportunities, will take time to reach the poor (Joachim von Braun, 2008). The rising number of households relying on food aid will be affected as the volume of the western food aid is decreasing in the context of increased food prices.

This phenomenon will even worsen the food security status of the sub-region which is yet alarming as it is indicated through countries' FAO food security key indicators.

Table 3.2: Food access in Southern Africa

Country	Energy (Kcal/pers/day)			Protein (grs/pers/day)			Fat (grs/pers/day)		
	1979-81	1989-91	2001-03	1979-81	1989-91	2001-03	1979-81	1989-91	2001-03
Angola	2110	1770	2070	51	42	42	50	46	43
Botswana	2030	2240	2180	65	69	68	44	57	51
DR Congo	2110	2190	1610	33	33	25	34	35	26
Lesotho	2360	2420	2630	69	68	73	33	37	37
Madagascar	2370	2110	2040	57	50	47	35	31	29
Malawi	2270	1930	2140	66	53	55	40	27	33
Mauritius	2670	2840	2960	61	69	80	67	72	80
Mozambique	1860	1780	2070	32	32	39	32	38	33
Namibia	2230	2070	2260	68	59	65	42	34	52
SA Republic	2780	2830	2940	73	73	77	63	66	76
Swaziland	2400	2450	2360	63	59	60	41	46	45
Zambia	2220	1960	1930	59	49	48	35	30	29
Zimbabwe	2260	2050	2010	60	52	45	54	51	55

Source: FAO, The State of Food and Agriculture, 2007

Current higher food prices will worsen the poor people's food situation as they will lead to limit their food consumption and shift to even less-balanced diets, with harmful effects on health in the short and long run.

3.4 SADC Countries policy choices

National governments and international actors are taking various steps to try to minimize the effects of higher international prices for domestic prices and to mitigate impact on particular groups. Some of these actions are likely to help stabilize and reduce food prices, whereas others may help certain groups at the expense of others or actually make food prices more volatile in the long run and seriously distort trade (Joachim von Braun, 2008).

Many SADC countries are taking steps to try to minimize the effects of higher prices on their populations. Some countries have taken the easy option of restricting food exports, setting limits on food prices, while other countries are reducing restrictions on imports.

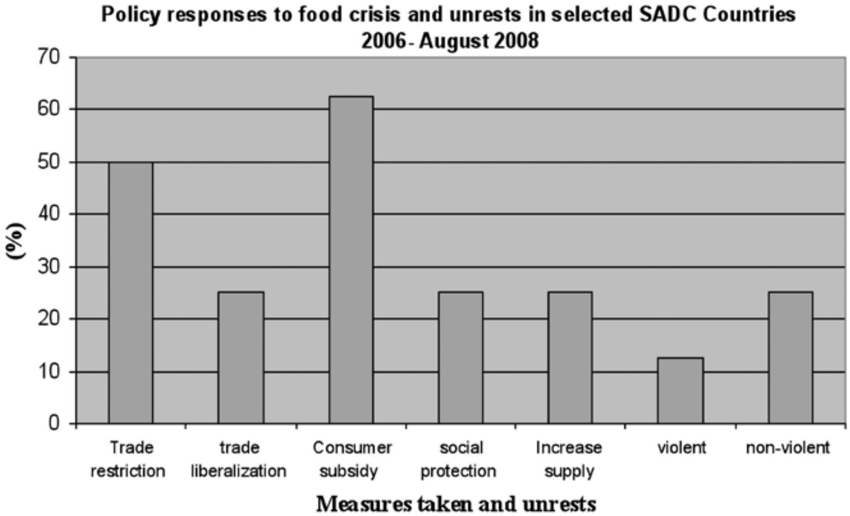
Table 3.3: Government policy responses to the food crisis and the symptoms of political actions triggered by the crisis in selected SADC Countries, 2006-August 2008

	Government Responses					Protests	
Country	**Trade restriction**	**Trade Liberalization**	**Consumer subsidy**	**Aocial protection**	**Increase supply**	**Violent**	**Non-violent**
Madagascar	X		X				X
Malawi	X				X		
Mozambique						X	
Namibia			X	X			X
South Africa			X	X			
Tanzania	X	X	X				
Zambia	X				X		
Zimbabwe		X	X				

Sources: Government responses: IMF, FAO, and news reports, 2007-08, food related protests: news reports, 2007-2008, IFPRI, September 2008.

As it can be seen through the chart below, 50% of the selected SADC countries registered violent and non violent protests related to the food crisis from 2006 to August 2008. Fifty percent (50%) of these countries implemented trade restriction policies, 25% of them opted for trade liberalization, and 62.5% applied the consumer subsidies while 25% opted for social protection. Twenty five (25%) of the selected countries opted also for long term measure aimed at increasing the food supply. It is clear that SADC countries in their large number combined long term and short term policies with great preference for trade- related and short term actions with potential urban/consumer bias.

Figure 3.1: Policy responses to food crisis unrests in selected SADC Countries (2006-2008)



Sources: Government responses: IMF, FAO, and news reports, 2007-08, food related protests: news reports, 2007-2008, IFPRI, September 2008

In 2008, a significant amount of maize has been formally exported to deficit countries from the three surplus producing countries of Malawi, Tanzania and Zambia. This trade is estimated at 612,001 MT through the end of February of this season. By the end of February, Malawi's National Food Reserve Agency (FRA) had shipped 301,000 MT as part of the contractual agreement to supply 400,000 MT of maize to Zimbabwe over a 10-month period (May 2007 – Feb 2008). In addition, the World Food Programme has shipped some 32,100 MT of Malawian maize for its food assistance programs in Zimbabwe. Zambia is also exporting to several neighbouring countries including Democratic Republic of Congo (25,000 MT), Zimbabwe (166,000 MT), and South Africa (63,000 MT).

Most of the policy measure taken by the SADC Countries carry a negative impact on the intra-SADC agricultural market development and reduce the benefits expected from the FTA and CU for rural producers. Some of these policies are likely to backfire by making the international market smaller and more volatile. Export restrictions and import subsidies have harmful effects on trading partners dependent on imports and also give incorrect incentives to farmers by reducing their potential market size. These national agricultural trade policies undermine the benefits of sub regional and global integration, as the rich countries' longstanding trade distortions with regard to developing countries are joined by developing countries' interventions against each other (Joachim von Braun, 2008).

In many countries in Southern Africa, significant market failures and high transaction costs arising from limited transport and cumbersome border controls can mean that imported food may only be available at high cost or not be. While there is significant evidence that the FTA and CU while strengthening the intra-regional trade will play an important role in ensuring the region's food security, some short term measure to mitigate the food crisis might reduce the benefit of these regional integration miles stones.

In the long term there is a clear need to increase the investment in agriculture and expand the proportion of irrigated land in the sub-region to mitigate both the effect of adverse climate conditions on the agricultural sector and reduce the high impact of global food market shocks to the food security in the SADC countries. The investment in irrigation is also low in the Sub-region, compared to other developing countries in Asia and Latin America.

- The example of Zambia being the source of 40 percent of the water resources of the SADC and having only 100,000 ha irrigated is an illustration. Five of the SADC states have water resources dependency ratios of over 50% - i.e. they rely on water generated outside their borders to supply more than half of their total water resource stock (FAO, 2006). This links the futures of basin states, with impacts on water quantity allocated to agriculture and possible modes of sharing transboundary water resources benefits.

The high dependency on rain-fed agriculture can reduce the sub-region`s resilience in the current context of climate change. This will be possible only in the context of increased public and private investment in the sector

In the context of climate change, drought prone areas of Namibia, Botswana and Zimbabwe are likely to be more vulnerable. While there is a need to improve early warning system and disaster management and mitigation capacity in the sub-region it is still imperative to address the constraints such as lack of access to credits, fertilizer, drought resistant seeds and other modern inputs which obstruct the farmers` response to the early warning signals and take opportunity from the high food prices.

Table 3.4: Irrigated land in thousand ha in the Southern Africa sub-region

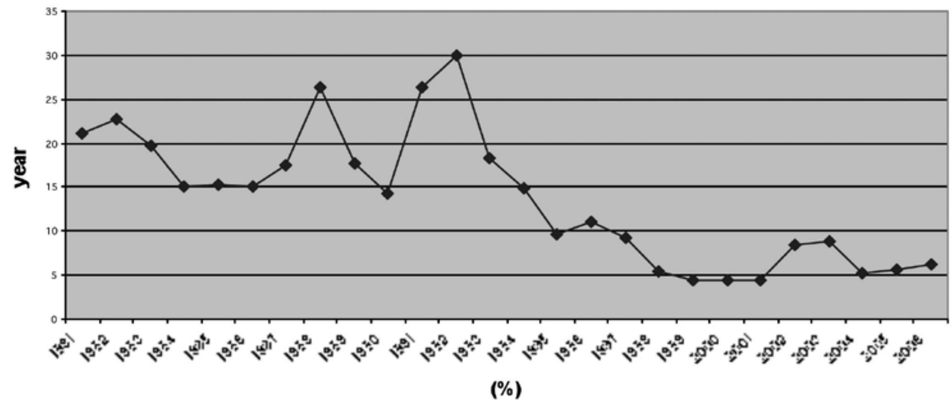
Country	1979-81	1989-1991	1999-2001	2002	2003
Angola	80	80	80	80	80
Botswana	2	1	1	1	1
DR Congo	6	10	11	11	11
Lesotho	1	2	3	3	3
Madagascar	646	1000	1086	1086	1086
Malawi	18	20	52	56	56
Mauritius	16	17	20	21	22
Mozambique	65	103	115	118	118
Namibia	4	4	7	8	8
SA Republic	1119	1200	1498	1498	1498
Swaziland	40	45	50	50	50
Tanzania	117	144	163	184	184
Zambia	19	30	133	156	156
Zimbabwe	80	106	174	174	174

Source: FAO, The State of food and Agriculture, 2007

African heads of state and governments committed themselves to adopting sound agricultural policies and allocating at least 10% of national budgetary resources to their agricultural sector in 2008 (AU/NEPAD, 2006) This commitment- referred to as the "Maputo Declaration" needs to be implemented through an increased public investment in basic infrastructure, agricultural research and extension, market access and inputs access for a strong long term response to the rising agricultural and food prices. Such investments need to be directed into priority areas such as market related infrastructure and research and technology developments if agricultural growth is to be accelerated.

The evolution of agriculture sector share into Zambian national budget illustrates the need to reverse the trend in terms of public expenditure in agriculture in some SADC countries.

Figure 3.2: Agriculture's share of the Zambia approved national budget



Source: Data from Govereh, Malawo, Jayne and Chilonda, 2007.

There is a need to build comprehensive, holistic and coherent agricultural policies, and reduce the institutional failures to deliver technology services and critical farm inputs, and increase both public and private investment in irrigated agriculture and rural infrastructure. Specific objectives would be to promote sustainable agricultural transformation in southern Africa; to reduce vulnerability to, and increase the capacity to respond to, climatic hazards; and to adapt to new climatic resources as they materialize.

3.5 Environment, water and sanitation

3.5.1 Drought, deforestation, desertification and land degradation

Drought, deforestation, desertification and land degradation are the major environmental problems in Southern Africa.There is an increasing concern over the rapid depletion of the natural resources base through deforestation, loss of biological diversity, unsustainable utilisation of fresh water and the rapid urbanization, resulting in escalating amounts of poorly processed human wastes, with associated contamination of land surfaces and water tables. The most drought and desertification affected areas are those covering the South-Western parts of Angola, Zambia and Zimbabwe, the Western and Central parts of Botswana and Namibia, the North-Western and South- Eastern parts of South Africa, and Lesotho. The over-cultivation, overgrazing and deforestation are identified as the three main causes of desertification in the sub-region. The contradiction, between growing nature tourism and shrinking assets to support this vast industry, is seldom raised.

It is estimated that, Tanzania loses not less than 0.5% of its forested area each year, (about 40,000 hectares). In Tanzania, 95% of domestic energy accrues from wood fuel, with the total demand for wood fuel standing at 44 million cubic meters (or 2 cubic meters per person) annually. Wood continues to constitute the major source of energy in the Southern Africa and especially in the rural areas leading to continuous deforestation. It represents a principal source of energy for cooking for 22.81 % of the urban population in Botswana and for 77.8% of the rural households.

The climate change is likely to add only further incremental stress to ecosystems already under severe pressure because of population growth, increasing subsistence needs, endemic droughts, unequal land distribution in some countries and a very limited coping ability particularly in communal rangelands.

3.5.2 Water and sanitation

As economic growth progresses in the Southern Africa and population numbers increase, several states in the region are predicted to become "water stressed". At present the countries with the most developed economies in the region (as measured by GDP per capita) also face the greatest levels of water stress. These include South Africa, Namibia, Botswana and Zimbabwe.

There is a need to match the public interventions for water management with efforts from the private sector and from the civil society if consumption patterns are to be adapted to available water resources and to raise awareness and responsibility for social and environmental issues and the long-term sustainability of the economic growth.

In several parts of the sub-region ground water provides the only perennial source of water. It is estimated that ground water supplies roughly 27 % of the water needs of urban communities in the sub-region and 35 % of the water needs of rural communities, with this figure increasing in times of drought when surface water supplies dwindle. However, these aquifers are not well understood and more research needs to be conducted on them.

At present agriculture is by far the largest consumer of water in the region, using between 70 and 80 % of available resources. Botswana and South Africa devote the lowest percentage of their water-use to agriculture – less than 60 %, indicating that as the economies of the other countries in the region become increasingly diversified (reliant on industry, mining, tourism etc) agricultural water use will be placed in competition with other sectors of the economy. Water for mining and industrial processing is increasingly growing in demand in countries like Botswana, Angola, South Africa and Zambia. In the coming years it is likely that hydropower developments in DRC, Zambia, Mozambique and Angola will increase. These new developments will have various long-term environmental and social repercussions on the water resources within the sub-region.

3.5.3 Policy: The SADC Water Policy of 2006 and Environment

There is a need to domesticate and strengthen the SADC Regional Water Policy, adopted in 2006 and to orient country policies on water towards factors such as environmental sustainability, income and jobs generated and ability to contribute to addressing inequality in the countries and the sub-region as a whole.

The principle of "subsidiarity" should call for more and strengthened local institutions to manage the allocation of water-use rights as well as to perform monitoring and compliance aspects. There is a need to use market based costs and incentives along the principle of "polluter pays" on water and to promote the IWRM as a solution achieving efficiency, equity and environmental sustainability, to protect the water resources base and associated eco-systems.

3.6 Transportation Infrastructure

The challenges to transport integration in the sub region to include inadequate capacity for industry regulators and service providers to enforce required standards, inadequate legislation and enforcement to enhance road safety, low private sector participation in road/rail infrastructure development, ownership and operation, inadequate support and enhancement of implementation of transport policy, and the general lack of capacity to enforce regulations. This has resulted in the inability to maintaining, upgrading and expanding infrastructure to ensure provision of effective, efficient, affordable and safe demand/user responsive services. These systems currently place a great financial burden to the countries' budgets.

Member States in Southern Africa, realizing the capital outlay required to maintain and expand the transport infrastructure and services, the continuously dwindling resource flows from the donors and competition with other socio-economic priorities, are now looking into other non-traditional ways of financing transport infrastructure and services such as the use of government bonds, pension funds and the introduction of the user pays principle through fuel levies and road tolls. Furthermore, governments should withdraw from operational functions such as road construction and maintenance and investigate privatization and or public-private-partnerships with private players in infrastructure development.

Despite these challenges, the study shows that considerable progress has been made in the harmonization of policies in the transport sector. A number of major transportation infrastructure projects involving several countries are being carried out in the subregion as given below:

The joint implementation by Botswana, Zambia and Zimbabwe of the feasibility study on the Kazungula Bridge on the Zambezi River, a project which will open up the movement of goods and persons in Western Zambia and the DRC. The implementation is under the COMESA/SADC transit transport facilitation programme.

Guidelines have been prepared for the overload control programme under the Sub-Sahara Africa Transport Policy Programme.

A project preparation facility has been set up under the NEPAD Infrastructure and Services component and is administered by ADB, with ten million Canadian Dollars as seed money. A tender has been advertised on the undertaking of feasibility of the Shire-Zambezi Waterway, a project sponsored by Malawi, Mozambique, Zambia and Zimbabwe.

Other major projects underway in the region include (i) the various one-stop-border projects being implemented at several crossing points in Southern Africa based on the SADC Model Legislation for one-stop-border- posts; (ii) the feasibility study of the proposed Kimberley-Maseru-Durban Railway Line; and, (iii) the rehabilitation of the Port of Luanda and the Lobito Corridor.

The role of transport services for growth and integration, inter and intra-regional trade and poverty alleviation cannot be underplayed. However, according to a recent SADC report, its contribution to the overall cost of doing business in the SADC region ranges between 10% in South Africa, 30.4% in Zambia and 55% in Malawi. The 2006 Africa Development Indicators of the World Bank identifies transport as a major obstacle to business growth. The need to reduce transport costs constitutes the main focus of the countries. As mentioned earlier, the transit transport facilitation programme has sub components which are aimed at harmonization of these costs through the implementation or rationalised road user charges, axle overload control initiatives and other interventions.

In the field of air transport, SADC and COMESA have been jointly working together in the implementation of the Yamoussoukro Decision on the liberalization of air transport. As part of the liberalization, the airlines for Malawi, Zimbabwe and the privately owned Zambia Skyways have jointly instituted a partnership (code sharing) on some of the routes. The flight frequencies for paired cities (Lilongwe-Lusaka and Lilongwe-Harare) have also increased. The progress also achieved in this sub-programme has been the adoption of the joint air transport competition rules. Furthermore, a Regional Competition Authority has been set up to oversee the airline air transport operations in Eastern and Southern Africa.

3.7 Energy in Southern Africa

The principal sources of energy in Southern Africa include electricity, petroleum and coal. In addition, renewable energy such as mini-hydro, solar, thermal, wind, biogas, ethanol and gel fuel have also emerged as important sources of energy in the sub region in recent times through deliberate government policies aimed at improving access to energy for the majority of the regional population through non-grid power supply. However, the electricity and the petroleum sub sectors faced major challenges during 2007. For the power sector, power deficits crippled economic activity in the sub region and for the oil sector, high volatile international prices during the year impacted negatively on net oil-importing countries in the sub region.

For the petroleum sub sector, crude oil prices continued on the upward trend, which started in 2006 and rose from 55.95 US$/b in December 2006 to 99 US$/b in December 2007. The prices rose further in the first quarter of 2008 to as high as 110 US$/b further worsening the plight of all countries in the sub region, except Angola, which is a major oil producer and has benefited immensely from high oil prices during the past two years. High oil prices have seen Angola experiencing the highest growth rate in the sub region in 2007. The challenge is for the economy to ensure that the windfall from the oil sector trickles down to all sectors of the economy, especially attending to the social sectors and the building of infrastructure destroyed during the years of instability.

In the case of the electricity sub sector, generation continued to be from; coal, diesel, gas and hydro. SADC has an installed electricity generation capacity of 54,742 MW of which only 46,391 MW is available and peak demand in 2007 was 44,016 MW without provision of a reserve margin. As a result of this situation, the power shortages forecast ten years ago to occur in 2007 became a reality as serious load-shedding was experienced throughout the whole sub region.

The increased demand for electricity is due to several factors including; the high economic growth patterns experienced in the sub region (higher than five percent for most countries) and the boom in the minerals sector, a major consumer of power, being fuelled by buoyant commodity prices. Further, most countries have embarked on rural electrification projects in an attempt to improve access to power for rural communities. These developments have not been matched by investments in rehabilitation and new generation, transmission and distribution capacity despite the potential in the region.

The commissioning of new generation amounting to 1,810 MW in 2007 failed to close the deficit as the reserve margin is still in deficit against a required reserve margin of 10.2%. The shortage is expected to continue until 2013 when all planned generation projects will be commissioned. Power shortages affected trading through the Southern African Power Pool's (SAPP) short term energy market as surplus was exhausted. The

SAPP which, until 2007, had been effective in ensuring secure and adequate power supplies for business and residential electricity in the sub region could was faced with serious problems despite a well developed interconnection system.

Nuclear energy has emerged as an important energy source for the future due to dwindling fossil fuel reserves As a result, Namibia and South Africa, the only countries in the sub region with significant uranium resources and looking at nuclear energy continued to make strides towards growing the sector. The boom in the Namibian uranium industry during the past few years has been attributed to international demand to finance nuclear energy expansion plans.

The sub region has also witnessed increased focus on renewable energy technologies in recent years in an attempt to increase access to electricity for productive and consumptive purposes. Botswana, Namibia, South Africa, Zambia and Zimbabwe have developed detailed policy programmes towards the promotion and support of the growth of the renewable energy sector. The other countries in the sub region are at various stages in incorporating the sector into national energy policies. Despite debate on the potential adverse impact of the growth of the biofuels sector on agriculture, South Africa, Zambia and Zimbabwe have intensified efforts to grow the sector in an attempt to overcome constraints posed by high oil prices. Zimbabwe has initiated farmer support programmes for jatropha as a way of growing the sector.

The electricity deficit and the impact of rising oil prices for net oil importing countries remain major challenges to economic growth in the sub region. Whereas oil prices have lost a bit of the upward pressure in prices in recent months, deficits in the electricity sector continue to impact negatively on the productive sectors.

To overcome the current electricity deficit, the sub region needs investment in capacity expansion through collaborative investment strategies and the pooling of resources. An estimated US$46.4 billion is required for the identified generation, transmission and interconnector projects in the sub region. The participation of the private sector and bilateral and multilateral organizations is required to closing this investment gap. To unlock private investor funds, governments have to develop conducive investment environments where economic tariffs are charged for access to electricity. The adoption and implementation of cost-reflective tariffs to allow the utilities and Independent Power Producers to recover production costs is also part of the roadmap. There is need to accelerate private sector participation and increase investment in the power sector and create an enabling environment for investors in the sector.

A road map proposed by a SADC Energy Ministers taskforce to address these challenges also recommended the harmonization of national electricity policy frameworks and the acceleration of the pace of electricity supply industry reforms to improve governance and performance. The policy environment would be further strengthened through the promulgation of legislation to ensure the promotion of power conservation practices, and to provide financial and fiscal incentives to the utilities for demand-side management.

Other strategies to manage the deficit can focus on supply and demand management initiatives and the optimum use of interconnectors. The development of minimum energy efficiency standards for all new electrical connections, implementation of renewable energy technologies, and the phasing out of incandescent light bulbs in preference to the compact fluorescent lights are some tried and tested management strategies which the sub region could adopt in the medium to long-term.

Cooperation is key to the development of power projects in light of the huge capital outlay. Initiatives such as the Western Power Corridor of Southern Africa, a collaborative approach involving Angola, Botswana, DRC, Namibia and South Africa, will provide important lessons for the sub region in the development of power projects and will indeed enable the region to overcome the deficit in the long-term.

3.8 Mining

Given Southern Africa's exceptional mineral endowment, it is not surprising that the mining sector continued to underpin export earnings for a number of regional economies. The continuing commodity boom sustained by China and India's economic expansion, as well as global economic growth, boosted this. The boom has witnessed unprecedented mineral commodity prices, particularly for those minerals produced by southern African countries such as base metals, gold and platinum.

In Botswana, the mining sector is estimated to have grown by 5.2% in 2007 after a decline of 3.8% in 2005/2006. While a slight decline was expected in diamond production for 2007, Botswana's mineral sector is generally flourishing with the government strategy firmly based on beneficiation and diversification. The strategy saw the issue of diamond cutting licences to 16 companies.

Similarly, in Namibia, growth in the mining sector was estimated at 13.6%, driven by a strong demand for diamonds and base metals. In South Africa, mineral sales in the first quarter of 2007 grew by about 39 % over the same period in 2006. The trend continues where platinum group metals followed by gold sales dominate foreign revenue earnings. The South African mineral development strategy continues to be underpinned by the need to grow the value added sector and industry transformation to include previously historically disadvantaged communities.

In Zambia, growth in copper production slowed down to 1.5% on account of flooding at some of the mines during 2007. Not withstanding this, copper production increased to unprecedented levels on account of increased investment in exploration and new production. Increasing sentiment that the country was not fully benefiting from the current commodity boom led to the introduction of a new fiscal and regulatory framework to bring about an equitable distribution of mineral wealth between mining companies and Government. The changes saw revisions in the tax regime to introduce variable and windfall taxes, as well as increased royalties.

Growth in mining output was not just confined to the major mineral producing economies. In Lesotho, diamond production has seen a significant expansion in recent years with growth in the sector in 2005 recorded at 139%. Further, migrant workers continue to account for a significant proportion of national income although numbers have been declining due to pressures in South Africa to increase the proportion of jobs held by South Africans.

The developments outlined above emphasise the need to implement a harmonised approach to the development of the mineral sector in the SADC region. The need for skills harmonisation and development should, for example lead to the free movement of skills in the region; while a common approach to taxation is desirable to avoid harmful competition in the regional industry. Likewise, beneficiation and issues of equity in the industry need a common strategy. SADC, with the assistance from UNECA-SA has now completed an Implementation Plan for the Mining Harmonisation Framework, which in due course should be presented to the SADC Ministers for approval and subsequent implementation.

Chapter 4: Social Development Conditions

4.1 Introduction

The year 2007 marks the mid term point for MDG targets. Different national reports show progress made in addressing the eight MDGs despite the continued, complex challenges being brought about by high prevalence rates of HIV/AIDS and endemic poverty. Notwithstanding, efforts were made to address the social conditions through reviews of policy papers including National Development Plans, Poverty Reductions Strategies and Medium Term Expenditure Frameworks (MTEFs).

4.2 Population and Demographic Dynamics

Table 4.1 presents indicators of social development conditions for 2007. The Annual population growth rates for Southern Africa have been steadily declining with South Africa at 0.97%, overall, the implied rate of growth is below 3% with Angola (2.7%) registering the highest rate of growth. Three countries have recorded negative growth rates i.e. Botswana (-0.4%), Lesotho (-0.3%) and Swaziland (-0.3%). The negative growth rates observed among these countries could suggest higher mortality levels existing in the countries and impact of migration into South Africa.

Overall, infant and child mortalities remained high with exceptions of South Africa and Namibia with current rates of 45 deaths per 1000 live births. At this rate, these two countries will reach the MDG target of a minimum of 41 deaths per every 1000 live births by 2015. The advent of HIV/AIDS has posed serious population challenges with the reduction in the general health of the population, decreased life expectancy and increased mortality. Overall, health indicators like child and maternal mortality are not improving at a required pace in the region to meet the MDG targets.

4.3 Urbanization and Migration

Population distribution in Southern Africa is skewed towards majority of people residing in the rural areas; Botswana (52.5%), South Africa (57.9%), Namibia (40%) and Zambia (40%) are countries that have more people living in cities, towns and other urban centres. The rest of Southern African countries have average populations of 35% in the urban areas. The process of rural-urban migration in the sub-region appears to have influenced urban population growth. For instance, in the following countries, majority of urban dwellers are in slums, Tanzania (92%), Malawi (91%) and Angola (83%). Apart from Mauritius with zero net migration all other countries registered negative net migration. The returning refugees could explain heavy positive net migration for Angola while it would be due to labour force migration into South Africa.

4.4 HIV and AIDS

Available data on HIV prevalence put Swaziland (33.4%), Botswana (24.1%) and Lesotho (23.2%) as well as Zimbabwe (20.1%) and Namibia (19.6%) including South Africa (18.8%) among countries with greatest concern for HIV prevalence among adult population. Orphans due to AIDS related deaths of one or both parents are a greater problem for South Africa, representing more than a million orphans. Other countries with large population of AIDS orphans include Zimbabwe, Zambia, Malawi and Mozambique. According to UNAIDS recent reports, almost one third of people living with HIV globally live in Southern Africa, as do about 43% of all children under 15 years living with HIV and 52% of all women over 15 years living with the virus. There are no clear signs of declining HIV prevalence in Southern Africa either, including in South Africa, Botswana, Namibia, and Swaziland, where exceptionally high infecting levels continue. In the rest of sub-Saharan Africa, the majority of epidemics appear to be levelling off (i.e., the number of new infections is roughly matching the number of people who are dying of AIDS). It is worth noting that HIV and AIDS remain the most serious development challenges in the region and are a direct impediment to the attainment of the MDGs especially those that are poverty related

4.5 Gender and Development

Sustainable social development is dependent on ensuring balanced participation of citizens in all political and economic affairs. Disparities between women and men still exist in the areas of legal rights, power-sharing, decision-making and access to and control over productive resources. Women in southern Africa continue to face challenges of systemic poverty and socio-legal minority status that restricts them full access to and control over productive resources. Gender equality, equity and empowerment of women are fundamental human rights and are integral to the process of sustainable development. Equality between women and men is a condition for social justice and is a necessary prerequisite for development and peace. Post the 1995 Fourth World Conference on Women, southern African countries prioritised key sectors (education, governance, agriculture and health) to accelerate equality between women and men. All countries in the region have put in place institutional mechanisms in the form of national gender machineries and developed gender policies to guide integration of gender into all sectors of development.

The southern Africa region faces numerous challenges related to mainstreaming gender into critical areas like national budgets and also in generating and effectively using gender disaggregated data for monitoring and evaluating policies and strategies such as poverty reduction and Millennium Development Goals (MDGs). To address this, the ECA African Centre for Gender and Social Development has developed the African Gender and Development Index (AGDI), a tool that maps the extent of gender inequality in Africa and assesses state performance in addressing the twelve critical areas of concern outlined in the BPFA. This tool was developed to address the inadequacy of monitoring mechanisms to track progress made towards achievement of gender equality and women's empowerment.

Lack of economic self-reliance, access to employment and appropriate working conditions, and control over economic resources like land, capital and technology are still major impediments facing majority of women in the southern Africa region. BPFA recommends the removal of all obstacles that hinder women's economic empowerment to enable them to enjoy their economic rights and achieve equality in access to, and participation in economic structures and policies. In southern Africa, one country that has taken a practical move to narrow the gender gap in access to and participation in economic structures and policies is South Africa, through its innovative Women's Budget Initiative (WBI) that was introduced in 1995 soon after independence. The WBI, which is proving to be one of the best practices to engender national budgets, is designed to impact on the structures of allocating resources to ensure that women and men benefit equally. This initiative was driven by an alliance of parliamentarians and representatives of non- governmental organizations. The parliamentarians were determined to introduce a gender focus to the work of the Joint Standing Committee on Finance of which they were members. WBI has evoked widespread interest not only in South Africa, but beyond its borders. Other countries in the region such as Mozambique, Namibia and Tanzania have devised ways to introduce women-friendly national budgets following the South African experience. Further, Lesotho, Mozambique, South Africa, Swaziland, Tanzania and Zimbabwe have identified elimination of inequality in women's access to, and participation in economic structures and policies as a national priority area of concern.

The need to achieve substantive equality between women and men and empowerment of women is a priority agenda for southern African countries. Southern African member states are signatories to a number of international conventions that address gender equality and empowerment of women. These are; Convention on all forms of Discrimination Against Women (CEDAW), Beijing Declaration and Platform for Action (BPFA), Millennium Declaration, the Protocol to the African Charter on Human and People's Rights on the Rights of Women and the African Union Solemn Declaration on Gender Equality in Africa. At SADC level, the Heads of State and government have signed the SADC Declaration on Gender and Development and its addendum on Eradication of Violence against Women and Children. This Declaration provides; pillars for the attainment of gender equality, a foundation for the overall policy framework and regional synergy and synthesis of efforts in the attainment of gender equality and development in southern Africa.

Since signing of the Addendum, member States have become more responsive by introducing laws and policies and developing multi-sector national action plans to address gender based violence (GBV). For instance, Mauritius' 2007/2008 budget was the country's first gender responsive national budget. Among other measures it established a women and children solidarity fund amounting to rupees 25 million (USD 839,000) which was earmarked for projects that would bring quality change to the lives of survivors of gender based violence2. On the whole, the different legislative initiatives in the region have not been sufficiently holistic to cater for all forms of GBV including emerging forms of violence like human trafficking. Only twelve Southern African countries have signed the United Nations Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children commonly known as the Palermo Protocol.

In 2007, advocacy campaigns intensified to elevate the SADC Gender and Development Declaration into a protocol. Once signed, the protocol will be a legally binding instrument for member states to translate commitments made into concrete enforceable actions and to accelerate efforts to achieve gender equality. One of the objectives of the SADC Gender and Development Protocol is to provide for the empowerment of women, eliminate discrimination and achieve gender equality and equity through the development and implementation of gender responsive legislation, policies, programmes and projects. The protocol is expected to harmonize the various commitments and declarations to which SADC member countries are signatory. It also provides legal and policy frameworks that enhance implementation of the agreed commitments as a strategy to deepen regional integration, sustainable development and community building. The protocol sets out to address emerging gender issues, concerns and gaps, set realistic targets, time frames and indicators for achieving gender equality and equity. It aims to strengthen, monitor, and evaluate member states progress towards meeting the set targets.

Southern Africa region continues to make steady progress in their efforts to attain parity in representation of women in all spheres of power and decision-making. SADC has endorsed the AU target of 50/50 representation of women in decision-making in the draft Gender and Development Protocol. The target is to equalise and have representation of women in 50% of all positions of power and decision-making by 2015. Southern Africa

2 Virahsawmy L. "First Mauritian govt budget to target women", 2008, http://www.afrol.com/articles/25889

has experienced an increase in the number of women in decision-making positions since the Beijing Conference than any other region of the world. The average representation of women in parliament is 20% with three countries South Africa, Mozambique and Tanzania having surpassed the initial minimum target of 30% representation by 2005 set out in the SADC Gender and Development Declaration. There are strides being made in attaining gender parity in local government with Lesotho at 58% and Namibia at 42%. Overall, there are improvements in the region regarding representation of women in positions of decision-making, notably Namibia, South Africa and Zimbabwe having women deputy presidents while Mozambique has a woman Prime minister. From the foregoing, it is clear that sustainable development and gender equality in Southern Africa will depend on addressing a number of critical issues.

- More efforts are needed to build the capacity of national experts to collect gender disaggregated data in order to enhance integration of gender perspectives in the development process.
- There is need to expedite review and amendments of discriminatory laws and procedures to ensure women's access to productive resources and sustainable economic empowerment. Having comprehensive laws in place without the necessary implementing structures and resources is not adequate, provision of harmonized gender responsive services is critical. Efforts need to be up-scaled to set up entrepreneurial programs, development funds and women centred credit institutions.
- There is continued disconnect between gender and development and general reluctance to domesticate international instruments into national laws and constitutions. Southern African countries have different histories, political climates and constitutional frameworks regarding women. Domestication efforts vary quite substantially in Southern Africa with majority of member states not making enough efforts to translate international commitments into a reality in their countries.

4.6 NEPAD Implementation

In 2007 the following activities took place under NEPAD initiative in the sub-region; Botswana: East Africa Submarine Cable System aimed at facilitating greater and more affordable access to International communication for the region, construction of Kazungula Bridge a major transit traffic corridor for the sub-region and the Common Africa Development Programme medium term development plan which includes management and control of migrant pests, Tsetse surveillance and establishment of plant protection station and agro chemical management and control.

Table 4.1: Indicators of Social Development Conditions for 2007

Country	Demographic Indices Fertility Mortality Total					Urban and Migration migrants rate per			HIV/AIDS prevalence Orphans			Education/Health Doctors per 100,000 Pop.			Water and Sanitation	
	(000)	r %	SR	TFR	eo	% Urban	(000)	1000 Pop.	%	(000) Pop.	xxxxx	Training %GDP		Doctors per 100,000 Pop.	% Access Imp'ved Water	% Access Imp'ved Satn
Angola	16400	2.7	97	6.5	42	37.2	29	1.9	3.7	160	320	2.6	26	11	40	31
Botswana	1760	-0.4	97	3.0	54	52.5	-1	-0.7	24.1	120	270	10.7	71	40	95	42
DR Congo	62661	3.2		6.5	52	32.7	-.23		3.6	680	1500				46	30
Lesotho	1791	-1.3	87	3.5	42	18.2	-7	-4.0	23.2	97	940	13.4	66	4	79	37
Malawi	13166	2.2	99	5.7	47	17.2	-4	-0.3	14.1	550	-	5.8	84	2	75	84
Mauritius	1256	0.8	98	1.9	73	43.8	0	0	-	-		4.5	74	106	100	94
Mozambique	20158	1.7	94	5.2	42	38.0	-4	-0.2	16.1	510	1800	3.7	49	3	43	32
Namibia	2052	1.0	98	3.3	52	33.5	-1	-0.6	19.6	85	230	6.9	67	30	87	25
Seychelles	86			1.1	-	50			4.9					130	88	-
South Africa	479594	0.1	97	2.69	50	51.9	10	0.2	18.8	200	5500	5.4	77	77	88	65
Swaziland	1029	-0.4	93	3.6	40	23.9	-1	1.2	33.4	63	220	6.2	58	16	62	48
Zambia	12526	2.9	100	5.6	51	33.7	-13	1.0	17.0	710	1100	2.0	54	12	58	53
Zimbabwe	13085	0.6	99	3.3	42	35.9	-10	-0.8	20.1	1100	1700	4.6	52	16	81	53
Madagascar	18606			4.9	59				0.5	13	49	3.2			50	42
Tanzania	38329			5.3	52				6.5	1100	1400	2.2			62	47
Total							54.7									

XXXX: People living with HIV
Source: Economic Reports (Member States), UNICEF and UNAIDS 2007 Human Development report 2007/08

Part Two: Macroeconomic Convergence in Southern Africa

Chapter 5: Recent Performance Assessment of Macroeconomic Convergence in Southern Africa

This section presents the level of convergence of the SADC region between 2002 and 2006 in terms of whether or not the process of convergence is sustainable over time by the member states. The SADC members that did not achieve the different convergence targets between 2002 and 2006 are highlighted in dark grey as opposed to light grey for those, which have achieved. While performance by different MEC targets are depicted in Tables 5.1 – 5.4 while the summary for overall sub-regional performance is presented in Tables 5.5.

The review covers both primary indicators: *inflation; budget deficit, public debt* and *current account balance as percentage of GDP).*

5.1 Inflation

Table 5.1 depicts inflation for all Southern African countries and progress being made to achieve a single digit inflation rate as required convergence criteria of SADC set by 2008. Based on Table 5.1 inflation continued to register increase in disparity from 2.9% in Namibia to a hyperinflation rate of over 3000 per cent for Zimbabwe in 2006. The number of countries registering inflation rates within single digit increased steadily from only four in 2002 to 9 in 2006 and 13 in 2007. Only Namibia has already achieved the target ahead of the 2008 schedule, and so only needs to maintain inflation rates at current level. Three countries (Mauritius, South Africa and Tanzania) maintained single digit target between 2002 and 2005, while Angola, Zambia and Zimbabwe has not achieved this target during this period. Apart from Zimbabwe (>3000%) projections for the rest of the countries for 2007 will be within the single digit range (4 – 9%).

As for Zimbabwe, excessive growth in money supply remained a major factor underlining the resurgence of inflation in the economy during the past decade, despite a tight liquidity management program put in place. Other factors include: supply bottlenecks, attributable to poor agricultural harvests and the upsurge in the international prices of oil; as well as the foreign exchange shortages, which contributed to creating shortages of goods and build-up of inflationary pressures.

Inflation for 2007 shows that the inflation for all countries in the sub-region will be within the inflation target band due to mainly compliance with this criteria, which calls for a tight monetary policy from intervention of central banks to ensure its stability.

The inflation outlook in the Southern African region, mirroring global trends, has deteriorated significantly. Inflation around the world has risen, boosted by the continuing steep rise in food and energy prices. For emerging and developing countries, strong demand growth, energy and food prices – that comprise a large bulk of consumption basket – has risen sharply, threatening to unravel recent achievement of price stability in a large number of countries.

The spill over effects of rising global inflation are being felt in Southern Africa. After a prolonged period of remaining within the 3-6 percent target band, South Africa's CPIX inflation has breached the inflation target band with an average of 7.1 percent in 2007, and reaching 10.1 percent in February 2008. Neighbouring countries whose inflation tends to track that of South Africa due to trade links and/or as part of the CMU arrangement have followed suit (Table 5.1).

Table 5.1: Inflation

Country	Inflation						
	2002	2003	2004	2005	2006	2007	2008
Angola	105.6	76.6	31	18.53	12.2	11.78	10
Botswana	10.6	6.4	7.8	8.6	11.6	7.1	8.4
D.R. Congo	25	13	9	21.4	13.2	16.7	10.1
Lesotho	11	7.5	5	3.5	6	7.9	7.5
Madagascar	13.4	0.8	27.3	11.4	10.9	8.2	7
Malawi	14.9	9.6	11.4	15.5	13.9	8.1	6.9
Mauritius	6.4	3.9	4.7	4.9	8.9	8.8	9
Mozambique	9.1	13.8	12.7	11.2	9.4	10.3	5.5
Namibia	11.3	7.8	3.9	2.3	5.1	7	7
Seychelles	0.2	3.3	3.9	0.9	0.4	5.3	20
South Africa	9.3	6.8	4.3	3.9	4.7	7.1	9.4
Swaziland	11.7	7.4	3.4	4.8	5.3	8.14	10
Tanzania	4.5	4.4	4.2	5.9	7.3	5.6	5
Zambia	22.2	21.4	17.5	15.9	8.2	8.9	7
Zimbabwe	134.5	384.7	350	585.8	>3000	>3000	

- Factors contributing to Zimbabwe's hyper-inflation have intensified: excessive growth in money supply remained despite a tight liquidity management program put in place. Other factors include: supply bottlenecks attributable to poor agricultural harvests and the upsurge in the international prices of oil.; as well as the foreign exchange shortages, which contributed to creating shortages of goods and build-up of inflationary pressures. As a result, inflation has sharply risen from an average of 10,452.6 percent in 2007 to a whopping 100,000 percent in January 2008 (at end-December 2007 it stood at 66,212.3 percent).

5.2 Fiscal Performance

Fiscal performance as the ability of governments to balance expenditure against revenue and pursue sound fiscal policy can be a critical determinant of long-term economic success. The fiscal deficit as used in this analysis (Table 5.2) is the difference between the government's total expenditure and its total receipts (excluding borrowing) - government's expenditure and net lending, which exceeds receipts from revenue and grants. It is believed that the deficit gives the best indication of both fiscal discipline and performance in the sub-region.

Fiscal performance between 2005 and 2007 for SADC member states are presented in Table 5.2. Fiscal outlays over the last two years have focused on capital spending, infrastructure rollout and social sectors.

Table 5.2: Fiscal Deficit as % of GDP

	2005	2006	2007	Projection for 2008
Angola	-7.2	-7.6	-19.7	-8.6
Botswana	3	8.1	11.3	4.2
D.R. Congo	-3.6	-1.2	-0.6	-1.2
Lesotho	4.7	14.1	5.9	-3
Madagascar	-10.3	-10.1	-9.6	-9.1
Malawi	-1.2	-1.3	-2.8	0
Mauritius	-5	-5.3	-4.3	-3.8
Mozambique	-2.3	-1.7	-1.9	-6.2
Namibia	-0.5	-3.4	-2.6	0.6
Seychelles				
South Africa	-0.5	-0.3	0.6	1
Swaziland	4.6	-10.1	-0.5	-1.5
Tanzania	-3.2	-5.7	-3.8	3.2
Zambia	-2.7	-2.8	-1.7	-1.9
Zimbabwe	-3.5	-17.6	-23.7	>-25.0.

All countries except Angola, Mauritius, Tanzania and Zimbabwe show improved fiscal deficit in 2006 against SADC target for 2008 of <5 per cent of GDP. Only Botswana, Lesotho, Namibia, South Africa and Swaziland maintained a budget deficit of below or equal to 5 per cent. Botswana recorded fiscal surpluses between 2004 and 2006, while Madagascar in 2006. The dominance of the South African economy and its low budget deficit of 0.4% in 2006, accounts for this comparatively low estimate in SACU countries. Angola, Zambia and Zimbabwe saw a widening of the budget deficit in 2006.

SADC target for 2008 of <5% of GDP. Of these countries, Botswana, DRC, Lesotho, Namibia, South Africa and Swaziland maintained a budget deficit of below or equal to 5 per cent between 2002 and 2006. Botswana and Lesotho registered a surplus in 2006 and 2007. Figures for countries that achieved the target between 2002 and 2007 are highlighted in light grey as opposed to dark grey for those that did not achieve. Botswana and Lesotho recorded fiscal surplus in 2006 and 2007.

5.3 Public Debt and Publicly Guaranteed Debt (as % GDP)

Public Debt and Publicly Guaranteed Debt as presented in this report is the amount of monies disbursed and outstanding contractual monetary liabilities of residents of a country to repay a principal debt with or without interest, or to pay interest with or without the principal debt. Such debt consists of loans to government, including loans to public enterprises and private companies enjoying government guarantees.

Six SADC countries benefited from debt forgiveness under the HIPC initiative (DRC, Madagascar, Mozambique, Tanzania and Zambia except for Malawi). Consequently, there has been a decrease in Public debt in these countries recording a stock of public debt below the SADC target of 60 per cent of GDP. There was an improvement in the public debt ratio in SADC from 63.4 per cent in 2002 to 44.9 per cent in 2006 with a further projected reduction to 36.0 in 2007.

Table 5.3: Public Debt (as % of GDP)

	Public debt (as % of GDP)					
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
Angola	80.6	63.0	45.6	37.8	25.5	26.1
Botswana	5.7	10.6	9.6	4.4	3.8	6.5
D.R.C	1.8	1.9	1.7	1.4	0.6	0.5
Lesotho	82	69	54	49.9	51.8	53.4
Madagascar	99.0	90.7	92.3	80.3	29.3	29.3
Malawi	146	166	159	153	152	145
Mauritius	68.4	73.2	69.3	69.7	68.8	62.8
Mozambique	3.3	4.1	4.7	73.9	52.8	4.5
Namibia	15.0	22.5	34.0	33.8	31.4	7.3
South africa	38.6	36.9	35.7	33.7	33.8	31.6
Swaziland	22.7	19.5	18.6	17.2	17.2	25.8
Tanzania	78.6	82.3	74.9	72.1	68.3	63.1
Zambia	191	170	130.15	62.27	16.5	4.8
Zimbabwe	54.6	64.4	60.9	110.2	76.2	26.6
Average, SADC excl Zimbabwe	**64.1**	**62.3**	**56.1**	**53.0**	**42.4**	**35.4**
Average, all SADC	**63.4**	**62.4**	**56.5**	**57.1**	**44.9**	**34.8**

5.4 Current Account Balance (as % of GDP)

Current Account Balance as discussed below is the difference between the nation's total exports of goods, services and transfers and its total imports of them. Current account balance calculations exclude transactions in financial assets and liabilities. The current account of the balance of payments is the sum of the balance of trade (exports minus imports of goods and services), net factor income (such as interest and dividends) and net transfer payments (such as foreign aid). A current account surplus increases a country's net foreign assets by the corresponding amount, and a current account deficit does the reverse. Both government and private payments are included in the calculation. The balance of trade is typically the most important part of the current account. This means that changes in the patterns of trade in SADC region are key drivers of the current account.

Table 5.4: Current Account Balance (as % of GDP)

	Current Account Balance (as % of GDP)					
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
Angola	-14.0	-5.3	4.0	3.0	16.7	23.7
Botswana	3	5	3	15.7	20.9	13
D.R. Congo	-0.06	-0.03	-0.02	-0.07	-0.07	-0.07
Lesotho	-17.0	-15.2	-4.7	-14.0	-13.6	-13.3
Madagascar	-4.9	-6.1	-8.9	-10.9	-8.65	-8.75
Malawi	-12	-8	-10	-8	-5	-6.0
Mauritius	5.2	1.7	-1.8	-5.2	-9.5	-7
Mozambique	28.37	17.6	9.5	11.95	11.69	10.78
Namibia	4.1	7.5	10.2	7.1	18.3	17.8
South Africa	-0.6	-1.3	-3.4	-4.2	-5.7	-5.3
Swaziland	2.8	4.7	2.1	3.4	3.7	-3.0
Tanzania	2.2	3.3	4.8	6.0	7.2	8.1
Zambia	-17.3	-16.2	-12.2	-10.9	-1.3	-10.2
Zimbabwe	-2.5	-4.4	-8.0	-12.0	-7.9	-4.8
Average, SADC excl Zimbabwe	**-1.6**	**-0.9**	**-0.6**	**-0.5**	**2.7**	**1.5**
Average, all SADC	**-1.6**	**-1.2**	**-1.1**	**-1.3**	**1.9**	**1.1**

Except for Lesotho and Mauritius, in 2006 the rest of the SADC countries achieved the target of –9 for balance on current account as a percentage of GDP. Apart from Lesotho, Malawi, Madagascar, Mauritius, Zambia and Zimbabwe, the rest of the countries consistently attained the conventional prudential levels of the SADC RISDP. Botswana in particular has run consistent current account surpluses over the past decade. The high level of export earnings from diamonds has supported a surplus on the trade account.

5.5 Regional Integration Issues Affecting Macroeconomic Convergence Programme in Southern Africa

The study of cross-national policy convergence is a highly popular research area in contemporary development agenda. As a consequence, there is an ever-growing body of studies that investigate the occurrence and the underlying driving forces of cross-national MEC. Notwithstanding these enormous research efforts, it is generally acknowledged that several interrelated issues abound in MEC, namely:

i. Theoretical and conceptual issues;
ii. Methodological and statistical issues;
iii. Regional integration issues;
iv. Institutional issues;
v. Political issues;
vi. Indicator-specific issues; and
vii. Reporting issues

5.5.1 Theoretical and Conceptual Issues

To date there is limited understanding of the causes and conditions of macroeconomic convergence. This deficiency can be traced to two key problems. First, economic researchers argue that much more emphasis has been placed on the presentation of empirical results than on systematic theory-building. Second, policy convergence is a rather heterogeneous research field, with scholars coming from different academic backgrounds and disciplines (including, for instance, comparative politics, policy analysis and international relations). Hence, policy convergence is typically analyzed from rather diverse theoretical perspectives employed in related research areas, such as policy transfer[3], policy diffusion[4] or isomorphism[5]. It is therefore hardly surprising that we find a broad number of different factors that are mentioned as potential causes of policy convergence. At the same time, theoretical and conceptual heterogeneity poses important restrictions on the comparability of the empirical findings gained in different convergence studies.

3 Dolowitz and Marsh (1996, 2000) provide a classification along a continuum between coercive and voluntary policy transfer, ranging from perfectly rational lesson-drawing of government A learning from government B to the direct imposition of a policy on country A by country B.

4 Simmons and Elkins (2004) distinguish three policy diffusion mechanisms: direct economic competition, informational networks, and social emulation as causes of convergence

5 In DiMaggio and Powell's (1991) theory, institutional isomorphism can result from coercion, mimetic processes, and normative pressures.

While treatise of theoretical and conceptual issues of MEC are out of the scope of this paper, it is an important area of future research to develop hypotheses and to undertake empirical research on the interaction effects of all potential causal mechanisms. Such a study has the potential of minimizing the current apparent ambiguity observed in some MEC studies in Africa and elsewhere as well as instituting remedial measures for macroeconomic divergence. This is because causes and factors regarding the scope, degree and direction of cross-national policy convergence as well as the conditions and effects of convergence vary strongly across the different countries of a given REC. Such studies for example, could include *income and institutional convergence* and their relationship to MEC

5.5.2 Methodological and Statistical Issues

Related to theoretical and conceptual deficiencies in any MEC programme are methodological issues with statistical issues emerging as probably the most critical to monitoring progress made in convergence. One key issue is that of inadequate maintenance of track record of compliance with MEC criteria for an extended period of beyond 5 years or so. This problem can be attributed to two key factors: (i) lack of a permanent statistical monitoring system; and (ii) lack of availability of comprehensive, timely and accurate statistical information to build on relevant efforts being made at sub-regional level, as well as on lessons learned from the International Comparison Program for Africa (ICP-Africa)6.

African countries are striving towards the formation of the African Economic Community (AEC). The African Development Bank (AfDB), the African Union (AU), and the United Nations Economic Commission for Africa (UNECA) are working together on a regional integration agenda to promote policies and programs that would: (i) speed up the formation of the AEC, (ii) promote intra-African trade, (iii) harmonize and coordinate policies and programs in Regional Economic Communities (RECs), and (iv) promote and develop infrastructure policies and programs. In order to assess the economic and social integration process within their zone, these economic and monetary unions need convergence and surveillance statistical indicators, including indicators of population, external trade, public finance, prices, income, employment and national accounts.

To increase the comparability of these indicators across countries, some groupings have created statistical units aimed at strengthening the harmonization of national statistics and building sustainable capacities in member states. However, the quality of statistical

---

6 ICP-Africa is carried out as part of the global 2005 ICP Round. The short-term objective is to generate quality data to meet the urgent needs of the Millennium Development Goals and Poverty Reduction Strategy Papers. The program is managed and coordinated by AfDB, with technical assistance from UK's Office of National Statistics, and France's INSEE..

information in the majority of African countries including those in the SADC region remains poor and needs improvement. Lack of statistical capacity – as manifested in the inadequacy of human and financial resources to plan surveys, collect, process and disseminate data in a timely manner – is one of the key constraints facing the SADC countries today.

The availability of comprehensive, timely and accurate statistical information is crucial for effective national development policy-making, decision taking as well as for establishing and monitoring economic convergence processes. In terms of convergence criteria, African countries will be expected to meet GDP related criteria and have sustainable price performance and their annual average inflation rate should not exceed a given threshold determined in relation to best-performing countries in terms of price stability. This requires a permanent statistical monitoring system to be put in place, which can build on relevant efforts being made at sub-regional level, as well as on lessons learned from the International Comparison Program for Africa (ICP-Africa).

The African Development Bank (AfDB) identified four types of issues to be considered if the harmonization process is to be implemented effectively:

- General issues to be considered – require a common definition of inflation, covering all GDP components, to be agreed across the countries, the same GDP classification to be used (the ICP-Africa classification was successfully used by 48 African countries), and a clear distinction to be made between basic headings in the classification for which price indices can be computed directly from surveyed prices and other basic headings for which reference price indices will be required.

- Issues pertaining to price statistics – point to the need to: (i) re-affirm general principles of item selection and leveraging on relevant methods used in the ICP-Africa such as the structured product description method (SPD); (ii) ensure effective outlet sampling and product-outlet mapping; (iii) use the ICP method of baskets of construction; (iv) build on existing ICP survey manuals and country's survey frameworks; (v) improve data quality by applying ICP quality control packages; (vi) establish a system of measurement of regional inflation where weighting factors will be Purchase Power parity (PPP)7 adjusted; and (vii) striving towards CPI-ICP integration.

7 A Purchase Power parity (PPP) is defined as the number of currency units required to purchase the amount of goods and services equivalent to what can be bought with one unit of the currency of the base country, for example the U.S. dollar". The use of the US$ is arbitrary, the calculation of PPP can be linked to any currency unit.

- Issues related to National Accounts – are centered on the implementation of the UN 1993 System of National Accounts (SNA) which needs to be improved by: (i) extending the production boundary and addressing the non-observed economy; (ii) assessing each country's implementation of the system using the SNA 1993 compliance check-list; and (iii) acknowledging Non-profit institutions serving households (NPISHs)8 in National Accounts

From the above analysis of issues major requirement for statistical harmonization are summarized as below. GDP and inflation related indicators require relevant statistical systems to be harmonized at sub-regional and regional levels, in terms of:

- Proposing common definitions of indicators to be used to monitor
- convergence criteria;
- Underscoring the scope of the indicators, their main components or the indicators they are derived from, their main components, status as well
- as desired frequency;
- Determining the statistical framework which would ensure data comparability; and
- Providing guidelines for future activities in order to set up a harmonised
- statistical system in Africa.

Given the poor quality of national accounts in most countries, more emphasis is needed for all participating countries to shift to the implementation of the 1993 System of National Accounts (SNA 1993) and improve the compilation of their GDPs.

SADC/EU Price and Economic statistics Project on "Harmonized Consumer Price Index (HCPI)", which began in 1995 tried to resolve these issues. HCPI is Consumer Price Index (CPI) that is developed from comparable methodologies. Based on results of the user needs analysis by the project in the SADC region, the following specific issues emerged:

- Users of the statistics on Household Budget Surveys (HBS) and Consumer Price Indices (CPIs) expressed a strong desire to be provided with reliable statistics on a comparable basis utilizing international standards for national planning and monitoring of inflation in the countries. An assessment study of the two sectors in all National Statistics Offices (NSO) of the SADC Member States (Democratic Republic of Congo and Madagascar excluded) identified strong weaknesses in the concepts, methods and practices followed in the compilation of these statistics in both fields.

8 NPISHs consist of non-profit institutions which are not predominantly financed and controlled by government and which provide goods or services to households free or at prices that are not economically significant.

- Governments, central banks and the private sector use the CPIs for a number of different purposes, such as monitoring of macro-economic convergence within SADC, analysis of trade and balance of payment, determining and monitoring of monetary and fiscal policies, deflation of key national aggregates expressed in nominal values to real values, wage negotiations, determining of investment needs, determining of real interest rates, comparison of imports and exports in relation to exchange rates and inflation in the countries. However, a number of users expressed concern about the reliability of the national CPIs. The heads of governments at their regional meetings repeatedly expressed the need for comparable statistical information in order to accelerate regional integration, improve the monitoring of the Trade Protocol and meet the requirements of poverty assessment.

5.5.3 Regional Integration Issues

The need for more political commitment to real regional integration in that although many regional initiatives have been agreed to in principle, there has been a gap between the texts approved and the actual implementation as noted in the pace of ratification of agreed protocols.

A second potential obstacle is a prolonged asymmetric terms of trade shock and consequent divergence between economies, having implications for fiscal and exchange rate management. Theoretical work on currency unions elsewhere in Africa has shown that successful ones require both fiscal coordination and a system of compensatory financing and transfer arrangements that could help offset income losses in countries due to exogenous shocks. While there may be some limited compensatory measures to help poorer countries catch up with wealthier ones within SADC, it is unrealistic in the foreseeable future to expect a formal mechanism to deal with the more complex issue involving asymmetric shocks resulting from cyclical variations in trade.

Elsewhere, until a few years ago, the costs and benefits of macroeconomic coordination were analysed primarily in terms of trade. One of the main variables from the perspective of trade is the exchange rate and its random fluctuations. However, these considerations, which are based on trade flows and on the growing trade interdependence between many of the region's economies, although important, are not in themselves sufficient to account for the renewed interest in macroeconomic coordination. Thus, studies related to the costs and benefits of pursuit of regional responses to global challenges need to be scaled up in the SADC region to include MEC.

Cost benefit analysis helps to deepen the understanding of policy makers and demonstrates the importance and benefits of MEC and regional integration at large. Thus, prior informed cost benefit analysis and internal consultations, including bringing civil society and the private sector on board much earlier, should precede upcoming integration programmes such as the customs union, to enhance ownership that motivates full implementation among all stakeholders. This in turn calls for strengthening technical capacity within the SADC Secretariat and member states for conducting informative cost benefit analysis and ensuring fair and equitable sharing of the costs and benefits of integration as the starting point among member States.

5.5.4. Institutional issues

Unlike sovereign governments, the SADC does not have adequate enforcement mechanisms at its disposal for seeing that agreements are actually carried out but relies instead in most cases on consensus and the voluntary cooperation of its member states. There is need to strengthen and empower the institutions that implement and monitor regional integration programmes both at the regional and country levels.

Probably most important in MEC programme is a functioning institutional framework that makes MEC more transparent. Currently this responsibility lies with the Macroeconomic Sub-Committees of SADC and the Committee of Central Bank Governors (CCGB). What are the constraints experienced by these organs? Is there urgency for a superstructure with sufficient relative weight, for instance, a team of macroeconomic experts to advise and evaluate outcomes and, above all, enhance the transparency and credibility of the process? Would an institution like the West African Monetary Institute (WAMI) serve this purpose in assisting these committees for example, to monitor the state of macroeconomic convergence of the member countries vis-à-vis the prescribed benchmarks; to ensure that financial infrastructure in all member including laws relating to both bank and non-bank financial institutions, are harmonized in order to create a level playing field for all economic operators within the SADC region?

Any central authority overseeing convergence and integration should be independent of all national authorities' influences. It should have a mandate that is well anchored on the agreed key objectives, such as ensuring price stability, with sufficient authority to enforce (and possibly supervise) compliance by all members for the attainment of the shared objectives. The relationship between such an institution and the roles for national central banks and the common central bank should also be clearly defined beforehand.

The European experience has shown that it is not necessary to wait for the achievement of theoretically optimal conditions before coordinating policies, but rather that the process of coordination itself strengthens the process of real convergence. The experience of West Africa, Europe, and Latin America also indicates that cooperation between countries requires a supranational institution to act as a catalyst and steer the process. Such institutions initially serve to promote and facilitate meetings, and later to oversee —albeit informally— the fulfilment of agreements.

5.5.5 *Political Issues*

Due to low political commitment and/or perceived or real losses and sacrifices involved, a number of countries have been reluctant to fully implement integration programmes on a timely basis. This has resulted to some extent, to slow ratification of protocols and reluctant implementation of agreed plans. Therefore, there is need to secure irrevocable commitment beyond mere political rhetoric amongst member countries to ensure the ratification and meticulous and punctual implementation of treaties and protocols, without inefficiencies, lapses or reversals.

The executive level by Heads of State and Government, some Ministers (Finance, Planning and Integration, Trade/Commerce, and Foreign Affairs), Central Bank Governors and Senior Government officials, like elsewhere in some African RECs, have spearheaded the integration including MEC efforts of the SADC. National Legislatures and Parliaments as well as the general public in the member countries are yet to be fully brought into the picture to take ownership of the project and lend essential support.

In some cases elsewhere, changes in the political dynamics within the member states involved have also militated against implementation of regionally agreed programmes, especially where socio-economic sacrifices are concerned.

5.5.6 *Reporting Issues*

Currently, there is no reporting system between the SADC Secretariat, member states and key partners of SADC. Flagship publications such as the Economic Report for Africa and Economic Report for Southern Africa of SADC and UNECA as a partner respectively could be used to disseminate information to key stakeholders on the progress and issues of macroeconomic convergence in southern Africa.

5.5.7 *Indicator-specific issues*

The SADC Macroeconomic Sub-Committee held its meeting in the Republic of Mauritius from 21st to 24th November 2006. During the meeting members discussed the national MEC assessment reports from 14 member states for 2006 including achievements made so far in convergence in the region and their challenges. The meeting reviewed the convergence targets, which are inflation; budget deficit, public debt and current account balance as percentage of GDP; and other secondary indicators.

Based on the 14 reports, the SADC Macroeconomic sub-Committee made recommendations in a number of areas, some of which require further analysis and information to improve the quality of macroeconomic convergence programme in the region. This paper will focus on those issues that require further analysis and those UNECA identified as topical issues and therefore requiring further elucidation. For the purpose of this document, the MEC issues to be addressed are summarized under indicator-specific issues. In doing so, the paper poses questions that need further investigation.

(i) Growth

Issues of growth relate to both conceptualization and measurement. The overall objective of macroeconomic convergence is for countries to implement stability oriented policies that will attract investment into the region and allow for sustainable growth. This is because economic convergence should be achieved around a higher level of economic growth. As such economic growth is included as a secondary indicator in the macroeconomic convergence programme, i.e. a growth target of 7 per cent annually. However, one opinion suggests that the 7 per cent target is too ambitious for more mature economies. On the other hand there is limited evidence that poorer countries are growing at a faster rate in the region. The questions that arise include: Is there evidence to show that some countries in the region registering employment creating and pro-poor growth and therefore are close to full employment (maturing)? What is important in such growth: consistency in growth or level of growth? Is there evidence that MEC is achieving stability as a condition for capacity-creating or cross-border investment?

(ii) Inflation

Problems still abound with regard to inflation measurement. For example, what methodology should be used to measure inflation in the region, i.e. the basket of goods and services (Consumer Price Index – CPI); geographic coverage of CPI; frequency of collection of prices of goods and services; base year; and headline versus core inflation? SADC/EU Price and Economic statistics Project on "Harmonized Consumer Price Index (HCPI)", which began in 1995 tried to resolve these issues.

There is on-going debate that a strategy of macroeconomic convergence, that is, policies aimed at the convergence of stability indicators in a regional integration arrangement, is not always best policy. And in a region like SADC, which is exposed to asymmetrical external shocks, convergence can in fact be counterproductive. In the case of monetary integration, which is scheduled for 2016, macroeconomic convergence is necessary but this is a stage in the progression of regional integration for which SADC is not ready. However, a case can be made for a programme of single-indicator convergence that focuses on inflation as the broadest indicator of balance in resource utilization. How can central banks of SADC address this issue? Can the banks for example, identify causes of inflation as basis for negotiating inflation targets, say, at the average of annual consumer price inflation of the three economies with the lowest inflation rates, or as a fixed numerical value as has been done elsewhere?

The other question for SADC is whether a free trade area needs a programme of MEC? Economists have attempted to answer this question by arguing that "countries in a free trade area can have different inflation rates, changing nominal exchange rates, and different levels of budget deficit", provided that member countries allow their currencies to depreciate if they have higher inflation rates than the others.

(iii) Debt/GDP ratio

While public debt/GDP ratio is included as one of the macroeconomic convergence indicators, it may not be sufficient as the impact of debt works through several macroeconomic channels depending on the type of debt. What would be the regional picture if the public debt/GDP ratio is supplemented with other indicators such as those derived from the HIPC initiative measures of debt sustainability on the basis of the burden of the debt service?

(iv) Current Account Balance

Sustainable levels of the current account balance are difficult to determine as they may depend on other factors, which are not contained in the current account indicators as defined by SADC. Besides, the reports reviewed show that a single limit on the current account as a percentage of GDP could be problematic. In the case of smaller countries, large projects may push the deficit far beyond this single limit. In the context of the sub-region what are the major factors driving the current account and how should this criterion be applied to make it flexible to accommodate these factors?

(v) Exchange Rates

Although it is not yet part of Member States' policy commitments, full macroeconomic policy convergence would be difficult without common exchange rate policies. Member States exchange rate regimes still diverge and currency fluctuations are a hindrance to increasing investment in the region. What common exchange rate policies should the region implement to ensure currency stability?

(vi) Relevance of MEC Criteria

Just like any programme, it is important to review the relevance of the convergence criteria in the light of current achievements, especially the need to revisit the numerical targets set for the four convergence targets after 2008. Are the targets still achievable? Is there need to include other secondary targets apart from the four primary targets set in RISDP? Are there lessons that can be drawn from other regions in Africa and elsewhere in preparation for monetary integration? UNECA has initiated econometric empirical studies on assessment of income convergence, macroeconomic convergence as well as financial and monetary integration in various RECs. How can such studies be incorporated within the MEC programme towards achieving upcoming regional integration milestones, especially, monetary integration?

5.6 Policy Suggestions

1. The authorities must focus on policies that boost savings, investment, expand exports, while continuing with sound macroeconomic policies of the past decade.

2. Member states need to support research on regional integration, which should be fully coordinated to avoid duplication including cost-benefit analysis of monetary union.

3. To encourage MEC compliance especially in the run-up to Monetary Union (MU), SADC should initiate work on developing detailed and effective eligibility criteria for entry into the MU.

4. Member states should strengthen their statistical working groups (SWG) under SADC through training on national accounts, trade statistics, economic classification, prices and harmonization of statistics; as well as the customisation of the UN Manual to the SADC context. The working groups should include representatives from statistics offices, ministries of finance and planning, and central banks.

5. Member states should ensure that macroeconomic convergence is integrated into their macroeconomic policy making processes.

6. Regarding trade, the region should in concert with other countries of the continent continue to argue for a more understanding treatment of its middle-income members by the creditors. This is very critical for mobilizing additional resources for the MDGs in the region.

7. Member states should consider ECA-SA initiative to establish a think-and-do-tank group (an advisory expert group) to address some of the economic and social issues in the sub-region. The Group will consist of senior economists from Ministries of Finance, Central Banks and other institutions in the sub-region.

Part Three: Achieving Free Trade Area (FTA) and Customs Union (CU): Emerging Challenges and Opportunities for Southern Africa

Chapter 6: The Road Maps for SADC FTA/CU and COMESA CU

6.1 Background

One of the largest free trade areas in Africa came into effect in August 2008. The Southern African Development Community (SADC) finally instituted its regional free trade area (FTA) and was officially launched on 17 August 2008 during the 28th SADC Heads of State Summit in Johannesburg, South Africa. The SADC FTA is a culmination of many years of work, which started when SADC member states signed the SADC Trade Protocol in 1996 in Maseru, Lesotho. The protocol came into effect in 2000 and attempted to abolish barriers to intra-SADC Trade such as the elimination of import duties, elimination of export duties as well as the systematic reduction of non-tariff barriers, and the protocol was a precursor to the establishment of the FTA.

From an economic standpoint, a free trade area is created when a group of countries eliminate tariffs and non tariff barriers on substantially all trade amongst them. Member countries do not adopt a common tariff regime for non-members but pursue their own schedules. A Free Trade Area is a first step towards deeper regional integration. A customs union, in contrast, also allows tariff-free trade between members but adopts a common tariff schedule for non-members.

Freeing trade in the SADC region will create a larger market, thus releasing the potential for trade, economic growth and employment creation. Other things being equal, there are a number of benefits envisaged under the SADC FTA[9] such as:

- Increased domestic production;
- Greater business opportunities;
- Higher regional imports and exports;
- Access to cheaper inputs and consumer goods;
- Greater employment opportunities;
- More foreign direct investment and joint ventures; and
- The creation of regional value chains.

9 See http://www.sadc.int/fta

Now that the SADC has attained an FTA the next step is to move towards a customs union (CU) which is envisaged by 2010, a common market by 2015, a monetary union in 2016 and economic union in 2018 in that order respectively.

6.2 Status of Implementation

Both SADC and COMESA have attained an FTA which is a great milestone towards the realization of a customs union. Although COMESA should have attained a CU by 2004 the time table had to be adjusted by four years from 2004 to 2008 to give stakeholders such as the public and private sectors and governmental agencies in member states more time to study the process and meaningfully engage it. SADC, having achieved its FTA in 2008 is now preparing for a CU by 2010 and this is contingent upon the level of commitment from the member states to harmonise and implement different policies and strategies across sectors and programmes.

6.3 Challenges for the FTA and Customs Union

As noted by His Excellence Thabo Mbeki, President of South Africa: "Regional economic cooperation and integration offer us the opportunity to pool our limited resources and build an economic base to address the challenges of economic growth and development"[10]. However, regional integration efforts have to date met with limited success, because the trading blocs have no effective mechanism of ensuring that members implement the protocols and treaties they sign. The real challenge therefore is for member states to move past ratification to implementation of the decisions that were passed by the Heads of State in a timely fashion manner.

For instance, whilst the majority of SADC member states have signed up to the FTA, there are some members that have not yet done so (Angola, DR Congo and Malawi). This situation naturally affects the process of integration in the region as some members are left lagging behind while others are advancing. There is also the issue of overlapping membership among some SADC and COMESA countries in the two regional economic communities (RECs) which poses serious challenges in terms of the realisation of a CU. According to the World Trade Organisation (WTO) rules, no country can be a member of two or more RECs—practically it becomes difficult for such a country to administer two common external tariffs (CETs).

10 President Thabo Mbeki of South Africa at the launch of the SADC FTA in August 2008

At another level, there is also need for the two RECs to address stringent rules of origin (RoO) that might stand in the way of free trade especially among weaker member states. A lot of time is usually spent by countries trying to prove that they have not violated the RoO. Another observation which is generally made is that although intra SADC trade has been growing in recent years, regrettably the volumes remain low for a meaningful free trade zone. In addition, both SADC and COMESA have to address the perennial problem of poor infrastructure i.e. railways, road networks and telecommunication which tends to push up the cost of doing business in the region. Therefore deliberate efforts should be made to develop a seamless infrastructure network among landlocked countries and link them up to the major seaports in the region.

6.4 Policy Suggestions

COMESA has developed a draft Regional Trade Policy to guide its process towards a CU. Some of the key principles in the draft document with policy implications are:

i. Principle 1 on CET rates and Sensitive Products - that the region will apply the CET on imports from third countries but will allow sensitive products that may attract tariffs different from the CET structure;

ii. Principle 2 on Free Circulation of Goods, Elimination of Rules of Origin - that the eventual objective of the Customs Union is to enhance free circulation of goods and services throughout the Custom Union which will necessarily mean elimination of Rules of Origin;

iii. Principle 3 on Revenue Distribution - that in the initial stages, revenue will be collected by the country of final consumption;

iv. Principle 4 on Export Processing Zones – the Customs Union will provide for the operation of Export Processing Zones and other economic free zones under a regime to be elaborated and agreed among the member States;

v. Principle 5 on Trade Remedy Measures and Competition Policy – that COMESA will ensure fair competition and business practices by enforcing safeguards, trade remedies and competition policy and consumer protection;

vi. Principle 6 on SPS and Technical Standards Programme; the region will enforce regional and national standards and eliminate technical barriers to trade. Sanitary and phytosanitary measures will also be harmonised and applied to streamline and encourage trade in agricultural products.

vii. Principle 7 on Bilateral Treaties, Arrangements with Third Parties, Common Negotiating Positions - COMESA will negotiate and maintain relations with third parties both in the global context under the auspices of the WTO as well as in the regional context such as under EPAs and other RTAs with major trading partners. COMESA will also engage in negotiations with other Regional Economic Communities including SADC and EAC as part of its contribution to the realisation of the African Economic Community.

As for SADC, its primary concern should be that of ensuring that all those member states that have not yet signed up to the FTA are brought on board. This is a necessary condition for the formation of a CU.

Chapter 7: Trade in Southern Africa

7.1 Background

Throughout acceleration of integration in regional trade agreements (RTAs) have been implemented. After the creation of the World Trade Organisation (WTO) in 1995, over 240 additional arrangements covering trade in goods or services have been notified the WTO Secretariat (WTO Secretariat, 2008). RTAs are considered in various regions as important to deepen economic integration and as a first step to globalisation. Southern African countries too are pursuing this strategy through the Southern African Development Community (SADC). In 1996 a SADC Trade Protocol was signed, indicating serious commitment towards regional economic integration.

The first steps of the implementation of the Trade Protocol started with the trade liberalisation process, which was to be completed over eight years. The tariff phase down process came into effect as from September 2000. A free trade area (FTA) will be reached in 2008 where up to 85% of trade flows within SADC will be duty free (SADC Secretariat, 2003). The remaining 15% consisting of sensitive products will be liberalised by 2012. Subsequent to the FTA, SADC envisages establishment of a Customs Union by 2010 and of a Common Market in 2015. A further liberalisation of trade in services was to be undertaken, but there was very little progress reported in that area.

These phases in implementing the Trade Protocol are reflected in SADC's Regional Indicative Strategic Development Plan (RISDP), which provides direction to its projects and activities. RISDP sets targets that serve as milestones towards the attainment of agreed goals. The commitment to reduce the tariff schedules has been honoured differentially by member states. For instance, the SACU countries have been able to reduce tariffs beyond the committed levels, while some countries have not done so. This section of the report reviews the performance of countries in relation to other members in the region as well as with the region in total after more than five years of implementation the trade protocol.

7.2 *Value of SADC exports to various regions*

Table 7.1 reflects SADC's exports to selected regions from the year 2000 to 2006, as well as growth rate over the same period. At the time of implementation of the SADC trade protocol in 2000, SADC's total exports were just over US$ 50 billion. By the end of 2006, the value of exports was over US$ 113 billion. That represented more than 100% growth per annum during period.

A breakdown of exports by regional blocs as destination shows that by the time of the implementation, the European Union (EU) accounted for most of SADC exports by value (about US$ 16.74 billion), followed by Eastern Asia with US$ 8.6 billion, North American Free Trade Area (NAFTA) with US$ 7.23 billion, lastly SADC itself and Common Markets of the South (MERCOSUR) with US$ 5.58 billion and US$ 2.15 billion, respectively.

Intra-SADC's export share at that point accounted 10.9% of the total, and by the end of the period it had declined to less than one tenth of total exports. It is also interesting to note that in 2000, the value of export to the EU were double those to Eastern Asia, however that difference was reduced to US$ 2.6 billion in 2006.

Table 7.1: SADC Exports to Selected Regional Destinations in US$ Billion from 2000 to 2006

Year	2000	2001	2002	2003	2004	2005	2006	Annual Growth
Destination	Value of SADC Exports in US$ billion							(%)
World	51.29	48.97	50.74	61.01	77.59	94.33	113.63	116%
EU	16.74	15.67	15.71	18.03	23.32	25.78	27.29	111%
MERCO-SUR[1]	2.15	1.10	1.33	2.47	5.14	7.18	11.82	144%
NAFTA[2]	7.23	7.36	7.73	7.18	8.58	10.74	11.11	108%
SADC	5.58	5.56	5.73	7.61	8.99	10.13	10.84	114%
Share of SADC (%)	10.9%	11.4%	11.3%	12.5%	11.6%	10.7%	9.5%	
East Asia[3]	8.60	7.86	8.19	11.01	13.37	19.02	24.73	121%
Rest of the World	11.00	11.41	12.07	14.71	18.21	21.47	27.84	117%

Source: SADC Trade Database and WITS (2008)

7.2.1 Main products exported by the SADC region

Exports by commodity in the SADC region are depicted in Table 7.2 which shows the rank the top ten exported products by value and share of total exports for the years 2000 and 2006. The product group being analysed is from the HS 2 classification which consist of about 100 products.

SADC exports in 2000 amounted to US$ 51.3 billion, of which more than US$ 30 billion was contributed by the ten products. Mineral fuels and oils and Pearls and precious metals accounted for 20.3% and 19.2%, respectively. Iron and steel, Vehicles and Machinery were also amongst the top ten; however their contribution was below 10% each. Clothing apparels and accessories, Tobacco products and Inorganic chemicals follow each contributing just under US$1.0.

One can see that just ten products accounted for more than 60% of total exports with the other 40% contributed by ninety products. However, some manufacturing and agricultural activities such as vehicles, machinery, clothing, and tobacco products and their sectors bring value addition. Besides, these products involve rural activities with a potential to fight poverty and unemployment.

Table 7.2: SADC Exports by Products (Value and Share) in 2000 and 2006.

	2000			2006		
	Products	Value (US$ bn)	Share of products	Products	Value (US$ bn)	Share of products
No	Total	51.3	100.0%	Total	113.5	100.0%
1	Mineral fuels and oils	10.5	20.3%	Mineral fuels and oils	37.4	32.9%
2	Pearls and precious metals	9.8	19.2%	Pearls and precious metals	21.9	19.3%
3	Iron and steel	3.6	7.1%	Iron and steel	6.8	6.0%
4	Vehicles	1.9	3.7%	Vehicles	5.0	4.4%
5	Machinery	1.8	3.5%	Machinery	4.9	4.3%
6	Ores, slag and ash	1.2	2.4%	Copper products	4.3	3.7%
7	Aluminium products	1.0	1.9%	Ores, slag and ash	4.0	3.5%
8	Clothing apparels and accessories	0.9	1.8%	Aluminium products	3.4	3.0%
9	Tobacco products	0.9	1.7%	Electrical and electronic equipment	1.6	1.4%
10	Inorganic chemicals	0.9	1.7%	Horticultural products	1.4	1.2%
	Others	18.9	36.8%	Others	23.0	20.3%

Source: SADC Trade Database and WITS (2008)

The ranking of the top ten products have remained the same after six years of the implementation of the trade protocol, with the top five still in the same order. The main gains in shares remain with the top of the list. The beneficiaries being mostly *Mineral fuels and oils* which gained more than 12% of the total exports, from 20.3% to 32.9%. This was mostly driven by the two factors. The increase in international oil prices as well as the stabilisation of Angolan economy which is the second largest producer of oil in Sub Saharan Africa, after Nigeria. In 2000, Angola was producing less than 800 barrels per day, the year 2006 its output was 1.9 million barrels a day (IMF, 2007). This growth together increased in other exports of primary nature in that top ten list improved the total SADC exports but reduced the relative contribution to intra-regional trade.

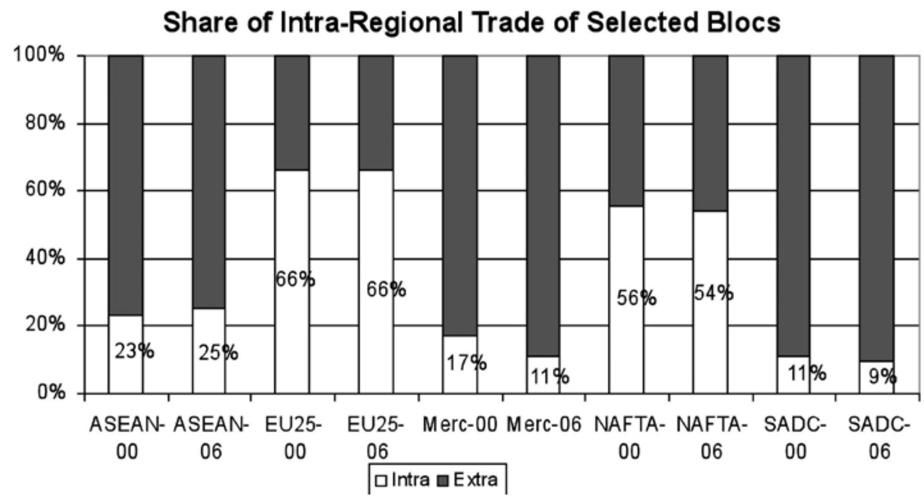
All top products in 2006 were still the same as in 2000 with the exception of, *Copper products, Electrical and electronic equipments* and *Horticultural products*. They have replaced *Clothing apparels and accessories*, *Tobacco products* and *Inorganic chemicals.* Entry into the top ten by these products plus gains by the top two has ensured that SADC intensified its concentration. In this period, the ten products account for nearly 80% of the total exports. Most of the activities are still linked to mining.

7.4 Intra-regional Trade (SADC Vs Other Regions)

Here we compare intra-regional trade of SADC with those of Association of Eastern Asian Nations[11] (ASEAN), EU25, Mercosur and NAFTA. The share of both intra- and extra regional trade is shown in a Regional Exports as a Share of To. The comparison is done between other regions, as well as between the years 2000 and 2006. Intra-regional share is indicated in the bottom part with light shading while the extra regional share is the shaded in dark in the upper portion of the bar.

It is noticeable from a Regional Exports as a Share of To that only two regional blocs, EU 25 and NAFTA have significant trade between their respective members in both 2000 and 2006. EU's intra-regional share accounts for two thirds of the total trade, while NAFTA's intra-regional exports account for over half of the total in both periods. The other region which has a reasonably high intra-regional trade is ASEAN with 23% and 25% in both periods. Mercosur and SADC come last with lower intra-regional shares. SADC is the only region that has single digit share in the second period. The main concern is that in the second period, the stage where deeper integration is envisaged, the shares are declining even further.

Figure 7.1: Intra-and Extra Regional Exports as a Share of Total Exports for Selected Groups



Source: SADC Trade Database and WITS (2008)

11 Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam
The least developing countries in SADC are Malawi, Mozambique

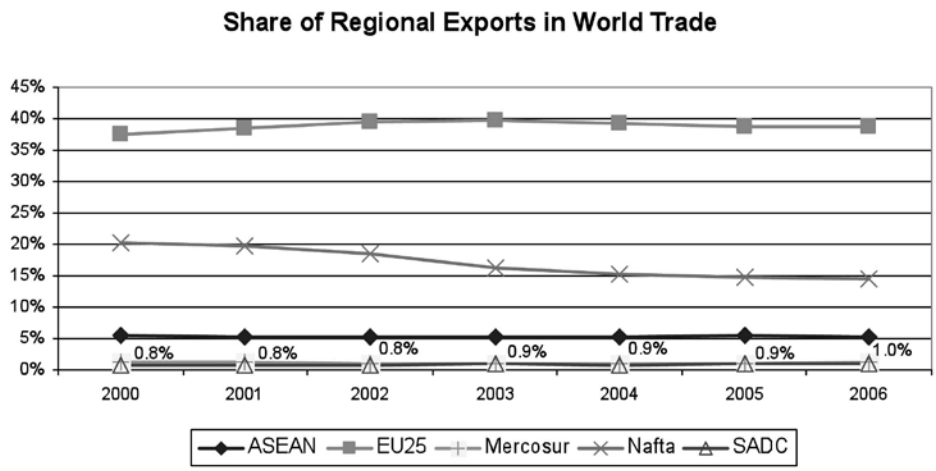
Since SADC started its implementation of the trade protocol it experienced huge increases in exports. However, most of these exports were destined to markets outside the region itself. Therefore, SADC lost market shares of its own export growth, and therefore missing out on opportunities to take advantage of its own integration initiative.

7.5 Share of Exports by SADC member states

Figure 7.2 shows a trend in global share of regional exports in world exports from 2000 to 2006. By 2006, SADC had just improved its share by 0.2% to 1.0% of world exports. The EU remains a dominant region as its contribution to global trade the highest of all selected groups. It contributed around two fifths of world exports.

In 2000, SADC exports accounted for 0.8% of global exports. By 2006, SADC had just improved its share by 0.2% to 1.0% of world exports. The EU remains a dominant region as its contribution to global trade is the highest of all other regions. It contributed around two fifths of world exports. NAFTA's contribution was about one fifth of global exports, but lost about 5% over the period. ASEAN's share remained relatively unchanged while Mercosur is almost on par with SADC. None of the selected regional blocs gains significantly, which implies that the rest of the world gains those shares lost mostly by NAFTA.

Figure 7.2: Share of Exports by SADC



Source: SADC Trade

Important to observe here is that generally, SADC has not made progress in terms of intra-regional exports. Furthermore despite increasing its total exports by twice the value at the implementation of the SADC trade protocol, SADC exports are still less diversified. However, it is encouraging to realise some increases in global share of exports, even though it is negligible. It remains a positive sign, and a start that can be built around.

The low level of intra sub regional trade exchange, is due to many factors including China's activities in the region and on the whole African continent, the range of invisible non-tariff barriers (NTBs) that impede trade in the region such as communication and transport problems, the customs procedures and charges, exchange rates; trade agreements or barriers; other tax, tariff and trade measures; as well as a lack of market information. Total exports increased by an average of 116% per annum.

The surge in total exports has helped SADC to increase its share in world marginally.

Table 7.2 shows shares of SADC member states exports to others. In the table, countries across the rows are the exporters of which the share of what is exported to other members is calculated. Along the columns are SADC markets where exports are destined. Each cell in the matrix at the intersection of two countries contains two numbers. The first number represents the share of exports to the recipient SADC member in the total exports of the exporter for the year 2000. The second number in parenthesis is the share in the latter period, 2006. In most cells there are arrows pointing upwards or down. Those indicate direction of change in shares between two periods. In cells where there is no arrow, it is because the share in the two periods was the same.

An assessment of intra-country shares reveals that most of the contribution is done through trade with South Africa. This contribution is equivalent to 70% of total intra-SADC export shares in both periods. This is more prevalent with South Africa's SACU partners which have intra-country export shares of less than 1% in both periods except in few cases with Zimbabwe (exports from Botswana and Swaziland), Angola (Namibia) and Mozambique (Swaziland).

Progress made by countries in terms of integrating into the region is further assessed by looking at how they have improved or declined their share of exports since the implementation of the trade protocol. Table 7.2 shows changes of SADC export shares over the period.

Tanzania is integrating into the region faster than any other SADC member. Its exports to SADC as a share of total increased by 20%, while its closest country in this regard Zambia, improved by only 3%. Other countries showing improvements in shares are Mauritius and Swaziland. The increase in share of Tanzania is due to the surge in precious metals (unwrought and semi-manufactured gold) which are exported to South Africa, probably for further destinations or beneficiation (TIPS, 2006). Therefore efforts by Tanzania to integrate into the region are clearly showing a positive sign.

The overall view from intra-SADC exports is that most countries have reduced their share of exports to the region. Only a small portion of trade taking place amongst member states outside South Africa. SACU members seem to be content with trading with fellow members, or South Africa. Zimbabwe's political and economic challenges have resulted in most SADC members reducing their share of exports to that destination. Tanzania has shown most of its total export shares towards SADC, while Mozambique has reduced the most.

Except for Lesotho and Mauritius, in 2006 the rest of the SADC countries achieved the target of –9 for balance on **current account as a percentage of GDP**. Except for Lesotho, Malawi, Madagascar, Mauritius, Zambia and Zimbabwe, the rest of the countries consistently attained the conventional prudential levels of the SADC RISDP.

7.6 Drivers of intra-SADC trade

Several factors have contributed to failure of growth in intra-regional trade and they include increase in commodity prices, recovery of economies of Angola and the DRC, mineral based project, rules of origin as well as lack of capacity, infrastructure and supply-side bottle necks.

7.6.1 Rise in commodity prices

Prices of SADC's exports, which are dominated by primary commodities in the past few years have been rising globally. The main markets for these commodities are mostly developed countries with more manufacturing capacity than SADC. However, in the recent years, China has become a dominant player in the world.

7.6.2 Recovery of Angola and DRC

Since 2002, when Angola and DRC emerged from civil strife, the economies of these countries improved significantly. Output growth in Angola has been robust since then, supported mostly by the oil sectors. In 2002 Angola's oil production was about 750 barrels per day and that was increased to 1.9 million barrels a day in 2006. This strengthened the country's economic base and enabled further recovery. For the period between 2003 and 2006, Angola's real GDP averaged 13.5% (IMF, 2007).

The DRC has also made significant economic and political progress after many years of turmoil. The country has also made remarkable economic recovery which resulted in improvement from a negative growth rate of -6% in 2000 to 6% in 2006 (IMF, 2007). However, DRC still needs to make further economic reforms to sustain higher growth rates as it still remains a poor country. It was ranked 166th out of 177 countries in the 2006 United Nations Human Development Index (UNCTAD Secretariat, 2006). In

2006, its GDP per capita was around US$ 140 (SADC Review, 2008). Its economic recovery is, by and large, dependent on exploitation of natural resources including *copper, cobalt, petroleum, industrial and gem diamonds, gold, iron ore, coal, hydropower, timber and* others. As we have become familiar with this trend, it is clear that most of these are exported to markets outside the region, and thus further reducing the intra-SADC trade. The most serious of all concerns is that the two countries have not submitted their tariff phase down schedules and therefore are not implementing the trade protocol (Southern African Global Competitiveness Hub, 2007)

These two countries' economic recoveries have come at a time when SADC members are exporting their commodities to the developed world, and they have increased that momentum. Almost all of Angola's exports are destined outside the region. SADC accounts for just 1% of Angola's total exports. In the case of DRC, 3% of its total exports in 2006 were destined to the SADC region. The outcome of these low shares of SADC exports shares contributed to the decline of intra-SADC share.

7.6.3 Mineral based projects

Some of the projects that are initiated with the objective of creating jobs, increase export growth and also contribute to economic development have sometimes added to the reduction of intra-SADC trade share. An example is that of MOZAL aluminium smelter in Mozambique and other export processing zones. The production is estimated at more than half a million tonnes a year, of which 99% of that is exported to the EU (TIPS, 2008). Furthermore, funding of this kind of projects is not from SADC members or even from the continent, which means that interest accrues to developed world. A similar project is on the cards in the DRC and is expected to produce about 0.8 million tonnes a year. Some of the projects are high users of electricity, and therefore at this time of the energy crisis in the region, the effect on the economy as a whole is immense.

7.6.4 Inappropriate signals

It is known that countries which were back loading their phase down schedules have not fully implemented the trade protocol as it was required (Imani Development, 2004). In the latest audit report by Southern Africa Global Competitiveness Hub (2007) it was indicated that by 2004 Malawi, Mozambique, Zimbabwe and Tanzania were not up to date with their implementation of the tariff phase down schedule as per commitment. Malawi had made only one tariff reduction since 2001 while Mozambique and Tanzania made only approvals but have not implemented in accordance with the agreement. Zimbabwe has not implemented any tariff reduction, except its offer for South Africa. All these are indications and signs that may be viewed by traders as protective and anti-liberalisation. Consequently, intra-SADC trade gets restricted by failure to comply with legally binding commitments.

7.6.5 Rules of origin

This subject is also one of the most contentious when it comes to the implementation of the SADC trade protocol. SADC rules of origin have been described as relatively complex and prohibitive (Brenton *et al*, 2005). One of the rules which are applied differentially by SADC is on textiles and garments, where the least developing members[12] were exempted from the two-stage transformation double transformation (Draper, *et al*, 2006). This decision was welcome as the sector is one of the few where significant manufacturing capacity has been proved to exist in many countries in the region. So we turn our attention to textile exports of the least developing nations of Malawi, Mozambique, Tanzania and Zambia (MMTZ) to SACU. The reason for picking SACU as a market is because South Africa is the main market for most SADC exports going to the region, plus the fact that SACU was frontloading it's phase down schedule.

7.6.6 Manufacturing capacity, supply side constraints and infrastructure

SADC's export basket, as we have seen under trade in goods earlier, is dominated by raw materials and intermediate inputs. That is an indication that within the region, there are serious capacity weakness to convert such inputs into finished products that have added value, and can contribute to reduction of unemployment and poverty. This point was further illustrated by lack of response to trade liberalisation which has zero-rated more 99% of tariff lines in the SACU area (Kalaba, 2007). Supply side constraints and infrastructural bottlenecks also contribute to the failure of member states to take advantage of incentives provided. Members find it easier to trade with the developed world where the business conditions are less demanding.

12 The least developing countries in SADC are Malawi, Mozambique, Tanzania and Zambia.

References

African Union New Partnership for Africa's Development (UN/NEPAD) (2003), Comprehensive Africa Agriculture Development Program (CAADP), Midrand, South Africa

Ashinze, J. O. (2002), "The West African Monetary Institute (WAMI) and the Efforts towards Monetary Integration in the West African Sub-Region", presented at the workshop organised by International Economic Relations Dept., CBN, Abuja

CCBG (Committee of Central Bank Governors) (2007), Integrated Paper on Recent Economic Developments in SADC

DiMaggio, P.J. and Powell, W.W. (1991), 'The iron cage revisited. Institutionalized isomorphism and collective rationality in organizational fields', in W.W. Powell and P.J. DiMaggio (eds), The New Institutionalism in Organizational Analysis, Chicago: Chicago University Press, pp. 63–82

Dolowitz, D.P. and Marsh, D. (1996), 'Who learns what from whom? A review of the policy transfer literature', Political Studies 44: 343–57

Dolowitz, D.P. and Marsh, D. (2000), 'Learning from abroad: the role of policy transfer in contemporary policy making', Governance 13: 5–24

FAO/World Bank, 2001, Farming Systems and Poverty: Improving farmers' livelihoods in a changing world, FAO and World Bank: Rome and Washington D.C.

Govereh J, E. Malawo, T.S. Jayne and P. Chilonda, Methodological guidelines for tracking public expenditures on agriculture with illustrations from Zambia, ICRISAT-IWMI, 2007

Joachim von Braun, Rising Food Prices, what should be done, IFPRI Policy Brief, April 2008

Jannie Rossouw (2006), An Analysis of Macro-Economic Convergence In SADC in South African Journal of Economics Vol. 74:3 September 2006

Katharina Holzinger and Christoph Knill (2005), Causes and conditions of cross-national policy convergence Journal of European Public Policy 12:5 October 2005: 775–796

Michel Mouyelo-Katoula2 and Adalbert Nshimyumuremyi (2007), 'International Comparison Program for Africa – Towards Economic Convergence Measurement', The African Statistical Journal, Volume 4, May 2007

OECD-FAO, Agricultural Outlook, 2007-2016, 2007

Pius Chilonda and Isaac Minde, Agricultural growth trends in Southern Africa, Re-SAKSS-SA, Policy Brief, May *2007*

SADC (Southern African Development Community), (2006), HCPI Guidelines – A draft

Todd Benson, Nicholas Minot, John Pender, Miguel Robles, Joachim von Braun, Global Food Crises Monitoring and Assessing Impact to Inform Policy Responses, International Food Policy Research Institute Washington, D.C., September 2008

UNECA (United Nations Economic Commission for Africa) (2007), The Economic Report on Africa

(Footnotes)

1 Mercosur consists of Argentina, Brazil, Paraguay and Uruguay
2 NAFTA is made up by Canada, Mexico and United States
3 East Asia consist of China, Japan, South Korea, Macao, Mongolia and Taiwan