



Economic Commission for Africa (ECA)
Southern Africa Office (SRO-SA)



Southern African
Development Community

An Ad Hoc Experts Group Meeting on Assessment of Macroeconomic Policy and Institutional Convergence in Member States of Southern African Development Community

4-5 September 2007
Johannesburg, South Africa



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I. Introduction

1. The Ad- hoc expert group meeting on Assessment of Macroeconomic Policy and Institutional Convergence in member States of Southern African Development Community (SADC) was held on 4 – 5 September 2007, in Johannesburg, South Africa. The United Nations Economic Commission for Africa (ECA), Southern Africa Office, Lusaka organized the meeting in collaboration with SADC.

2. Mr. Alfred Latigo, Senior Economic Affairs Officer, ACGD presented the overall objectives of the ad-hoc expert group meeting as to review the national macroeconomic convergence (MEC) reports and provide information on recent progress in the 14 SADC member States with respect to the macroeconomic convergence criteria and targets specified in the Regional Indicative Strategic Development Plan (RISDP). The specific objectives were:

- To present a summary of the national MEC reports;
- To identify gaps and topical issues emerging from the assessment of progress in MEC and make concrete recommendations to address these issues;
- To review whether achievement of the macroeconomic targets is likely in the short-to- medium term;
- To provide opportunity for the participants from member States to report on 2007 mid-year progress and issues on MEC;
- To review the relevance of MEC criteria to member states;
- To review macroeconomic policy and institutional frameworks in terms of their effectiveness in achieving the macroeconomic targets and regional integration;
- To prepare and present a report with key recommendations on ‘Progress on Macroeconomic Policy Convergence in SADC member States’ for dissemination to key stakeholders.

4. As this was a technical meeting to address MEC issues in the SADC region, participation was limited to only two senior economists from Ministries of Finance and Central Banks dealing with MEC from each of the 14 member States of SADC.

5. The meeting was organized into four sessions as per the attached work programme: opening session, two plenary sessions and closing session.

Opening Session: Opening remarks, objectives and expected outcomes of the meeting

Plenary 1: Consideration of the Report on ‘A Review of Macroeconomic Policy and Institutional Convergence in Member States of Southern African Development Community for 2002 – 2007’

- Plenary 2: Presentation of other Issues Related to Macroeconomic Convergence in Southern Africa
- Closing Session: Presentation of agreed recommendations, way forward and closing remarks.

II. Opening Session

6. Mr. Robert Okello, the Director of NEPAD and Regional Integration Division (NRID) of ECA in his opening statement, on behalf of Mr. Abdoulie Janneh, Executive Secretary of ECA extended his gratitude to the Expert Group whom he noted comprised high-level experts from the 14 member States of SADC as well as cooperating partners: AUC, IMF and GTZ.

7. Mr. Okello thanked the experts for their overwhelming attendance of the meeting, which was indicative of the seriousness the Governments and Central Banks in Southern Africa have in the regional integration agenda of Africa. He assured the experts that as the regional arm of the United Nations Secretariat in Africa, with a mandate to promote economic and social development of the region, UNECA will continue to play a crucial role in related services in all its member States.

8. Mr. Okello informed the meeting that in accordance with its mandate and the AU agenda, UNECA had refocused its program priorities while maintaining its analytical and knowledge-sharing capacity across the full range of development themes. The Commission had now focused its operations on a more limited set of sectors and areas where its competence and contributions and comparative advantage are widely acknowledged. In this context, UNECA will strive to achieve results in two related and mutually supportive pillars: promoting regional integration in support of AU vision and priorities and meeting Africa's special needs and emerging global challenges with emphasis on supporting efforts to achieving the MDGs – reducing poverty,

9. To achieve the expected outcomes from its strategic focus on these two pillars, Mr. Okello explained that UNECA is in the process of strengthening its five Sub-regional Offices (SROs), namely in North Africa, West Africa, Central Africa, East Africa and Southern Africa. He informed the meeting that the SROs will be the natural interface between headquarters in Addis Ababa, member States and RECs. SROs will act as privileged partners of RECs, AUC sub-regional offices, engage member States through especially UN Sub-regional Offices and participate in a Joint AU-AfDB-ECA Programme on Regional Integration. In this regard, he thanked Prof. Omotayo Olaniyan, Executive Secretary, African Union, Southern Africa Regional Office attending the meeting as this bears witness to the growing partnership in the regional integration agenda.

9. Mr. Okello reminded the meeting that RECs including SADC remain a strong partner of UNECA, a partnership that spans several years back, especially in harmonizing policies and programmes of action, providing policy advisory services, facilitating and serving as convener for policy dialogue. And that given the opportunity provided

by NEPAD, SADC's Regional Indicative Strategic Development Plan (RISDP), Strategic Indicative Plan for the Organ (SIPO) and the Windhoek Declaration to reinvigorate collaboration and partnership between the two institutions, the framework to strengthen the special partnership and cooperation between the SADC secretariat and the UNECA Office for Southern Africa has now been translated into a multi-year programme, which among others seeks to explore institutional modalities for strengthening collaboration between UNECA and SADC which will directly contribute to greater institutional operational synergy resulting from a more coherent and strategic engagement.

10. The Director further informed the meeting that UNECA Southern Africa Office in collaboration with AfDB and AUC Southern Africa Offices is in the process of developing a joint AfDB/AUC/UNECA Prospectus on Regional Integration in SADC region aimed at strengthening RECs in the support of member States in, among other areas, macroeconomic convergence.

11. He pointed out that the Commission in addition to its services at sub-regional level, prepares flagship publications such as 'Assessing Regional Integration in Africa (ARIA)' as a tool to regularly evaluate and appraise progress being made on the process of integration in Africa. Mr. Okello informed the meeting that UNECA planned to conduct an external peer review of the report in September 2007 and appealed to the experts to participate in that exercise.

12. Mr Okello added that convergence of macro-economic policies by member States is a key objective of RECs, and it's a transition towards their ascendancy to monetary unions and economic communities. He emphasized that harmonisation of macroeconomic policies is one of the foundations of successful economic integration. For example, he cited inflationary pressures as generated by budget deficits and excessive monetary expansion can undermine trade liberalization, leading to increased tariffs and/or tightening of non-tariff barriers (NTBs), while macroeconomic instability is among the prime factors that inhibit economic growth in developing countries. Lack of fiscal discipline and inadequate monetary instruments and policies contribute to lack of macroeconomic stability and low economic growth. And multiple currencies in RECs are a contributory factor to high transaction costs, production inefficiencies, and business overheads.

12. As for the draft report that you are about to discuss, Mr. Okello noted that while attempts were made to provide answers to the issues identified in the macroeconomic convergence programme in the SADC region, more unanswered questions remain. He therefore urged the experts to work towards realization of the key objectives of the expert group meeting by attempting to formulate practical recommendations to the issues of macroeconomic convergence. And that some of the recommendations

could be important inputs to the Peer Review Panel that the Ministers of Finance constituted in Maputo in July 2007 to monitor the annual macroeconomic convergence programmes in the SAC region.

13. Mr. Okello concluded his remarks by assuring the experts of UNECA's readiness to support their efforts towards macro-economic policy convergence among the countries of SADC, and in other areas within the framework of the SADC-UNECA multi-year programme.

14. Mr. Sadwick Mtonakutha, Senior Programme Manager, made a statement on behalf of SADC Secretariat. He reminded the experts that they would be discussing issues relating to regional integration in the area of macroeconomic convergence. The meeting noted that SADC concluded its first set of Macroeconomic Convergence Programmes and the Ministers Responsible for Finance and Investment approved them for publication in July 2007. However, like any other programme, system or process there are gaps in the Macroeconomic Convergence Programmes. And that the Ad hoc Experts Group Meeting (AEGM) aims at identifying those gaps. Further, the AEGM aims at providing a forum to generate debate at regional level, which is healthy for the success of the macroeconomic convergence programme.

15. Mr. Mtonakutha commended UNECA-Southern Africa for its readiness to support SADC in organizing this AEGM. He informed the meeting that the Commission works closely with SADC within the context of the mandate by UN General Assembly and the Africa Heads of States and Governments. He added that soon SADC will sign the Protocol on Relations between the African Union and Regional Economic Communities. This follows a recent directive by Council mandating the Executive Secretary to sign the Protocol on behalf of SADC.

16. Mr. Mtonakutha expressed gratitude to member States for showing commitment by being able to attend the meeting in spite of having just attended a very involving Summit. He underscored the importance of the recommendations of the meeting, which he said would be channeled to the appropriate structures in SADC. Mr. Mtonakutha wished the experts fruitful deliberations

Plenary II: Consideration of the Report on 'A Review of Macroeconomic Policy and Institutional Convergence in Member States of Southern African Development Community for 2002 – 2007'

17. Dr. Keith Jefferis Managing Director of Econsult Botswana (Pty) Ltd, Botswana facilitated this plenary, which comprised of presentations from ECS-SA, SADC and representatives of SADC member States. In the first presentation, Mr. Alfred Latigo briefly introduced the presentation on 'Progress on macroeconomic policy

and institutional convergence in SADC member States: primary and secondary convergence indicators’.

18. Mr. Latigo’s presentation had two parts: (i) MEC performance for the period 2002 – 2006; and (ii) Regional integration issues affecting MEC.

19. On MEC performance, Mr. Latigo presented an overview of developments in the world economy and implications for Southern Africa and reviewed the progress towards the achievement of macroeconomic convergence (MEC) targets in SADC member States. The review covers both primary indicators: inflation; budget deficit, public debt and current account balance as percentage of GDP as well as secondary indicators: economic growth, external reserves (import cover months), central bank credit to govt (% of revenues), domestic saving (% GDP) and domestic investment (% GDP). It compared the actual performance against agreed macroeconomic indicators and targets in the SADC macroeconomic convergence programme, and presents prospects for the year 2007 and beyond. The report further discusses the regional integration process and issues affecting the macroeconomic convergence programme in the SADC region.

20. While in 2006, world economic growth improved slightly to 3.8 percent from 3.5 per cent in 2005, growth in Southern Africa declined from 5.6 per cent in 2005 to 5.4 per cent in 2006. Although seven countries in the sub-region registered marked increase in GDP growth rates of 7 per cent and above in 2006, they still face the critical challenge of raising the rate of GDP growth and sustaining high growth rates over an extended period in order to accelerate progress towards meeting the Millennium Development Goals (MDGs).

21. With regards to MEC performance, Mr. Latigo explained that SADC countries registered a mixed performance. The number of countries registering inflation rates within single digit increased steadily from only four in 2002 to 10 in 2006. However, six countries have already achieved the targets ahead of the 2008 schedule, and so only need to maintain these inflation rates at current levels (Lesotho, Mauritius, Namibia, South Africa, Swaziland and Tanzania). Apart from Zimbabwe (2880%) projections for the rest of the countries for 2007 will be within the single digit range (4 – 8.3%).

22. All countries except Angola, Mauritius, Mozambique, Tanzania and Zimbabwe show improved fiscal deficit in 2006 against SADC target for 2008 of <5 per cent of GDP. Of these countries, Botswana, Lesotho, Namibia, South Africa and Swaziland (except in 2003 for Swaziland) maintained a budget deficit of below or equal to 5 per cent between 2002 and 2006.

23. 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 40.3 per cent in 2006 with a further projected reduction to 36.0 in 2007.

24. Except for only three countries: Lesotho, Madagascar and Zambia, the rest of the SADC countries achieved the target of -9 for balance on current account as a per centage of GDP. Of these, four countries (Botswana, Mauritius, Mozambique and Tanzania) consistently attained the conventional prudential levels of the SADC RISDP.

25. Apart from Botswana and Namibia, which consistently attained the 30 per cent target, most countries showed low rates of savings. 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.

26. The meeting noted that overall, the SADC member states have made some progress in attaining the MEC criteria over the past 5 five 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.

27. Turning to the issues in implementing the SADC MEC programme, Mr. Latigo outlined several interrelated issues, namely: theoretical and conceptual issues; methodological and statistical issues; regional integration issues; institutional issues; political issues and reporting issues..

28. With regard to conceptual issues, to date there is limited understanding of the causes and conditions of MEC. This is mainly due to much more emphasis being placed on the presentation of empirical results than on systematic theory-building and because policy convergence is a rather heterogeneous research field, it limits the comparability of the empirical findings gained in different convergence studies.

29. Methodological issues are emerging as 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 time of 5-10 years. This problem can be attributed to two key factors: lack of a permanent statistical monitoring system and authoritative statistics on sectoral development issues such as population, gender, poverty etc; and 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 (ICPA).

30. Institutional issues include lack of mechanisms and resources for effective planning, coordination, implementation, monitoring and pragmatic adjustment of programmes on the ground have been another constraint to MEC. A related issue here is the inadequate cost-benefit analysis of policy convergence, which has led to some extent slow ratification of protocols and reluctant implementation of agreed plans.

31. The need for SADC to have a central authority to oversee convergence and integration is one of the institutional issues. Such an institution 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.

32. Mr. Sadwick Mtonakutha Senior Programme Manager, SADC made the second presentation on Macroeconomic Convergence in SADC vis-a-vis other Regional Economic Groupings. The presentation compared performance in terms of macroeconomic indicators of SADC with COMESA, WAEMU and CEMAC.

33. Mr. Mtonakutha explained that SADC's real GDP growth remained steady but on average lower than the sub-Saharan Africa (SSA) average growth. SADC per capita GDP remains highest and has been rising steadily. COMESA's per capita GDP growth is low but rising, though the rate of growth is similar to that of SADC and SSA average. The rate of growth of the per capita GDP of WAEMU and CEMAC has slowed down (because of the slowdown in GDP growth for CEMAC).

34. As for inflation, Mr. Mtonakutha informed that SADC Inflation moderated to same levels of SSA average. WAEMU and CEMAC have recorded lower inflation rates in lower single digits. COMESA remains inflationary, despite other members making substantial progress in containing inflation. Prudent macroeconomic policies, good harvest have contributed to the good performance. But rising oil prices remain a threat to oil-importing countries.

35. The meeting noted that investment has been rising moderately in all economic blocks, but COMESA's has been more pronounced. This is because of increasing investor confidence as a result of good growth performance, commodity boom and debt relief. Domestic savings have been rising in all economic blocks with the exception of WAEMU. CEMAC ranks highest in terms of domestic savings while WAEMU

ranks least. Reduction in inflation has partly contributed to higher domestic savings through increased real resources available to private sector

36. As for fiscal balance, the meeting noted that CEMAC has been running fiscal surpluses (excluding grants) because of the oil boom. COMESA and SADC fiscal deficits (excluding grants) had been narrowing partly because of improved macroeconomic policies and debt relief. WAEMU fiscal deficit (excluding grants) has been widening.

37. On debt, the meeting noted that SADC has the lowest external debt to GDP ratio. However, all the economic blocks have recorded decelerating ratios. Nonetheless, WAEMU's and COMESA's still remain high at 38% and 29%, respectively. Debt relief has contributed to these improved positions. As for trade, terms of trade have generally improved because of rising commodity prices with CEMAC topping the chart followed by COMESA and SADC.

38. Regarding exchange rate, this indicator for most of the economic blocks have been appreciating as indicated by the Real Effective Exchange Rate (REER). The appreciation for COMESA was more pronounced. However, within SADC RSA and Namibia recorded a depreciated REER; while Zimbabwe appreciated. Without RSA and Zimbabwe, REER in SADC remained stable.

39. In conclusion, Mr. Mutonakutha informed the meeting that comparatively, SADC appears to be among the regional economic groupings, which are performing well in many macroeconomic indicators. However, the region needs to consider some of the following issues: While growth remains stable, the need to accelerate it remains; in order to achieve the income poverty goals throughout the region. And that, while SADC is ahead of other regional economic groupings in terms of diversified composition of GDP, efforts should continue to ensure a stable GDP. Inflation has moderated on the back of good harvest and prudent macroeconomic policies. There is need to diversify agriculture production from rain-fed to irrigation agriculture and general improvement of agriculture policies. While the SADC is comparatively competitive in terms of REER, there is need for: Closer coordination of macroeconomic policies (fiscal and monetary). But this should be complemented with substantial structural reforms and strengthening of institutional framework to develop functioning markets raise productivity, strengthen supply side by promoting private sector activity and liberalizing trade regimes.

40. Representatives of Ministry of Finance from member States later made presentations on mid-year progress and issues on macroeconomic convergence (January – July 2007). Mr. Boniface Mphetlhe, Director Macroeconomic Planning, Ministry of Finance and Development Planning, Botswana informed the meeting that

the mining sector grew by 12.3% in the first quarter of 2007. In a review of recent MEC indicators, the meeting noted that in 2007 the inflation rate decreased, meeting the single digit requirement, the annual inflation rate stood at 6.4 for June 2007, while public debt is at 7.5%. And that, given the positive export performance the current account is expected to continue to be positive, forecasts show a rise to 13.4% of GDP in 2008 – even with the slowdown in growth of diamond exports. Expectations are that economic growth may fall below the SADC target in the short to medium term. Government forecast an average growth rate of 4.3% a year through to 2008/09.

41 Mr. Theko Bereng, Senior Economist, Central Bank of Lesotho informed the meeting of MEC performance in 2007 as follows: inflation (CPI) 8.6%; debt/GDP 46%; current account balance/GDP 24.66%; GDP 4.9%. He added that according to projections, all primary MEC targets will be met by 2011.

42. Mr. Steven Banda, Deputy Director, Ministry of Finance, informed the meeting that Economic growth expected to increase at an average rate of 5.2% per annum. annual inflation projected to decline further to 9.0% in 2007 and 7.5% from 2008-2010. The fiscal deficit to remain at 2.2% of GDP. Growth of money declined from 18.1% in 2007 to 13.9% in 2010. And gross foreign reserves in months of imports to more than double to 2.9 in 2009. He informed the meeting that Malawi will not be able to meet these targets by 2008: Economic growth; Current account deficit; External reserves; Domestic savings and Domestic investment.

43. Mr Ram Hittoo, Economist, Ministry of Finance and Economic Development, Mauritius informed the meeting that fiscal consolidation is expected to deliver the following results in 2007: budget deficit 3.5%, Public and Publicly Guaranteed Debt 59.6%. He added that for 2007, growth rate is expected to stand at 5.4%, current account balance at -3.9%; inflation at 7%.

44. Dr Natalie Labuschagne, Director, Macroeconomic Analysis, National Treasury, South Africa in her presentation addressed the issue of if tougher monitoring mechanisms are needed to cement the gains that had been made so far in MEC. She added that success with which countries are addressing the primary (4) MEC targets suggests that it may now be time to introduce sanctions for deviations from the targets unless rigorous economic explanations are provided (costs of deviation increasing).

45. Mr. Justin Mubanga, Assistant Director, Ministry of Finance and National Planning, Division of Planning and Economic Management, presented an overview of MEC performance in 2007: Inflation (average for 2007) as 11.3%; current account balance 4.3%; Months import cover 2.7. End year fiscal balance is expected to be within the year target of 2 %. The overall deficit excluding grants may, however, widen to around 7 percent of GDP reflecting a pickup in external financing. Year

projection for National Savings at 23.7 % while domestic investment is projected at 24.1 %, both below the convergence target. Real GDP growth 6-7 percent between 2007-2010. In conclusion Mr. Mubanga informed the meeting that in 2006 Zambia was on track on most indicators and for some even reached the targets ahead of the convergence year of 2008. These were inflation, current account balance, budget balance, domestic savings, and public debt. Budget performance was on track and deficit should be within end year target (2.7%). Current account balance slipped to negative during the first half and may be in deficit (-0.4 %) by end of the year but well within the convergence target (-9%).

Plenary 2: Presentation of other Issues Related to Macroeconomic Convergence in Southern Africa

46. Dr. Keith Jefferis again facilitated this session, which in this plenary comprised presentations from the Committee of Central Bank Governors (CCBG), IMF, GTZ, SADC and UNECA.

47. Mr. Mshiyeni Belle, Secretariat, CCBG, South African Reserve Bank, in his presentation focused on the SADC Monetary Union (MU). He covered the theory and background to MU in SADC as well as reminded the meeting on the MEC targets and milestones. Mr. Belle also outlined the functions and various projects within the CCBG. Mr. Belle also outlined the functions and issues in the Common Market Area (CMA). Mr. Belle listed the following issues as affecting the MU: Institutional mechanism overseeing reports, assessing and monitoring progress is unavailable; Process of establishing mechanism is slow; Lack of commitment from member state and cooperation among stake-holders; lack of peer review mechanism.

48. Mr. Belle informed the meeting that while CCBG have made an effort to collect data and compile publications such as the recent Economic Developments and the Integrated paper which is updated annually, there are still conflicting ideas about the accuracy of data among stakeholders; timelines of data is a problem; Lack of cooperation in verifying or supplying data between stakeholders; and Gaps continue in Reports. He proposed that more coordination and cooperation is required at national level by stakeholders, Statistics Agencies should be involved with the process of Regional Integration and that SADC statistics office should be revived to oversee and initiate workshops to deal with statistics challenge.

49. Mr Belle also emphasized the urgent need for establishing a peer review mechanism as guided by principles that ensures equality of participants; the protection of Central Bank independence; and acceptance of the special role Central banks play in the economy.

50. On the Legal committee of the CCBG, Mr Belle informed the meeting that the Draft model bill has been concluded and will be finalized by April 2008. The Bill sets out the environment under which a regional central bank will operate. This will be followed by the development of a road map towards Monetary union In which a decision on whether other institutions will be identified which will undertake further work towards a monetary union. These could include the establishment of a SADC Monetary Institute which will carry on with the preparatory work.

51. Regarding the Payment, Clearing and Settlement Committee of CCBG, Mr. Belle informed the meeting that there are 10 countries on RTGS and hopefully the rest will adopt the system which could eventually be linked into a regional system which can allow for cross border payments albeit some countries are slow in modernizing their financial systems. As for the Banking Supervision role of CCBG, he added that discussions still have to happen on whether this function will remain with central banks or an independent regional body will be established.

52. In conclusion, Mr. Belle said that earnest discussions should begin on the road map towards the realization of a monetary union at summit level. Also, peer review mechanism could be the body that will decide conditions for entry into Monetary union and reporting into Summit and consideration should be given of existing institutions e.g. CMA and SACU as building blocks.

53. Mr. Sean Nolan, Senior Resident Representative, International Monetary Fund (IMF) made a presentation on: (i) What we mean by Macroeconomic convergence (MEC); (ii) the track record to date; and (iii) the growth pay-off from enhanced macroeconomic stability. Mr. Nolan explained that MEC should be based on the definition coined in the SADC Memorandum of Understanding (MOU) of 2002 as: “convergence by Member States to low and stable levels of inflation [and to] sustainable budget deficits, public and publicly guaranteed debt [levels], and current account balances”. He reiterated that MEC will contribute to faster growth of output, investment, and employment in SADC.

54. Mr. Nolan cited two key methodological issues in MEC as being: lack of economically sensible categorization of countries and methodological problems with constructing averages. He noted that inflation has declined across the SADC region, strong convergence among SADC countries in latest years and that prospects to reach the target are positive with only few outliers. He further noted that most SADC countries perform better than SSA; low and middle-income countries have already one-digit inflation and fragile countries are not following regional trends. He added that most SADC countries are in a position to meet the 2008 fiscal target and one-time factors, like debt relief contributed to a strong and more volatile 2006.

55. Regarding fiscal balance, Mr. Nolan noted that only few SADC countries are below the external target and the median has been sustained around a 5 percent deficit, thanks in part to favorable commodity markets. As for Current Account Balance, external favorable conditions have benefited Angola and the middle-income countries, while low-income and fragile countries are close to the target.

56. As for growth, Mr. Nolan agreed that real growth has been strong in most SADC countries and that prospects indicate the continuation of robust growth. However, growth dispersion among members has increased recently. He noted that there has been solid increase in investment levels in the past 5 years. Low and middle-income countries have relatively high investment and that capital formation in oil and fragile countries is still low but rising. SADC countries have attracted foreign investment, but stock of FDI shows a diverse situation across the region. FDI has been attracted by oil and other primary economic activities and some small countries have had relatively high FDI.

57. Ms. Yvonne Ruf, Associate Expert, GTZ, also made a presentation, which focused on GTZ support to MEC in SADC. She gave a background to GTZ collaboration with SADC as having started in 2002 when the Federal republic of Germany signed a formal agreement with SADC. She informed the meeting that the GTZ Programme to strengthen SADC within the priorities of the RISDP had a team of six international and regional staff. The programme has five components: (i) Planning and Monitoring RISDP implementation; (ii) Enhancing management efficiency and effectiveness of the secretariat; (iii) Enhancing the impact of the programme through focal area coordination with SADC-ICPs; (iv) Public-Private dialogue; and (v) Trade Policy Issues and related aspects of MEC.

58. Ms. Ruf explained that in supporting MEC, on SADC's request GTZ/GFA financed consultants to visit 9 SADC member states and prepared reports on MEC in close collaboration with government officials. GTZ also supported the Macroeconomic Sub-Committee meeting in Mauritius by financing the facilitator/consultant for the meeting. GTZ also supports Monitoring Surveillance Programme Unit (MSPU) of SADC through extraction of data from reports and supports in publication and dissemination of SADC MEC reports.

59. As for future GTZ support to SADC, Ms. Ruf informed the meeting that this will include conference on the implementation of the FIP and Public-Private Dialogue. The conference would involve bringing together various implementing structures on national and regional level to agree on a framework implementation plan for FIP and initiate a broad based consultation process with stakeholders. Future support will also include ongoing support to updating national MEC programmes, support to Macroeconomic Sub-Committee Meetings as well as strategy and institutional advice.

60. In her concluding remarks, Ms. Ruf informed the meeting that GTZ has a collaborative arrangement with UNECA to support fostering of good governance in Africa as related to Measuring, Monitoring and Progress towards good governance, the African Governance Report. And that GTZ ensures that there is no duplication of efforts by supporting institutional strengthening through donor coordination. She informed the meeting that the current cooperating partners in MEC include: EU, GTZ, FEF, FOPRISA and UNECA.

61. Mr. Andry Andriantseheno, Statistician, UNECA made a presentation on 'Statistical Issue and Harmonization for the Macroeconomic Convergence Program (MACP)'. The presentation covered the: rationale, challenges, statistical demands for MEC, statistical harmonization, institutional issues, and the ECA contribution to statistical harmonization. Mr. Andriantseheno outlined the rationale for statistical harmonization for the MEC program, as being necessary for analyzing issues related to:

- External shocks, fuel price, devaluation of major currencies which could reduce years of efforts of smaller size economies
- Monetary control, exchange rate fluctuations and limited financing of public deficit
- Increased market size for the economy, through suppression of barriers and customs taxes between SADC member countries
- Economic growth through specializations, complementarities and synergies between member countries
- Increased level of common foreign reserve, improving the absorptive capacity to confront external shocks

62. Mr. Andriantseheno explained that the challenge of MEC relates mainly to the surrendering of national sovereignty by member states. As MEC means progressive transfer of national sovereignty, toward a shared and collective sovereignty, African countries resist this loss of sovereignty, due to their request for independence. The transfer of sovereignty should be justified and explained with adequate and transparent information, of which statistical data is certainly the most accepted information over qualitative and non-scientific information.

63. On statistical demand for MEC, Mr. Andriantseheno explained that both analysis of primary and secondary MEC indicators need statistics. He added that traditional methods currently used to conduct statistical operations are no longer sufficient. These methods include questionnaires, surveys, data processing and dissemination. He added that for the regional demand, before aggregate countries data, there is need to harmonize the concept and definitions; classifications; price indexes; methodologies

for censuses, surveys and data processing, preferably using common protocols and software; and the data dissemination and schedule of release.

63. Mr. Andriantseho informed the meeting that the application of the concepts of the 1993 SNA represent the basis for the statistical harmonization of concepts, definitions and classifications relating to:

- Harmonized system (HS) for trade statistics
- Harmonized classifications for industrial activities and the products (CITI)
- Harmonized national accounts methodology (93 SNA/95 ESA)
- Harmonized data processing and data dissemination, using common software and common programmes.

64. Mr. Andriantseho gave the definition of statistical harmonization as an incremental process: from national accounts, prices, trade statistics and public finances into other statistics, such as demographic, environment and agriculture. He added that statistical harmonization requires a collective divisions of work, translated namely into regional statistical program between. This means that the national statistical offices as well as for Central banks should be established such as the Eurostat/Afristat. Without intensive statistical harmonization, the MEC programme will be slow and more difficult!. A regional statistical programme be established to meet the methodological and data requirement for the statistical harmonization in SADC.

65. On institutional MEC issues, Mr. Andriantseho recommended that countries should adopt a new statistical laws/ acts for the Union, with two options: (i) decentralized system with the NSOs as key players; or (ii) a centralized system, where the NSO becomes a branch of the regional statistical program, which take the key decisions. These laws should: define the exact role of the NSO, Central Banks and the Regional Statistical Program in the division of tasks. Countries should also set up statistical working groups (SWG) or statistical committees to work on common definitions and agree upon convergence criteria, e.g for the primary criteria whether 4-5% of budget deficit is reasonable over an unrealistic 3%. Currently countries are satisfied with 7-8%. The SWG will develop the modality of implementation the concept of the 93 SNA, SWG consists of representatives of NSO, Central banks and, three SWGs. The three potential SWGs were: (i) SWG1 on monetary, financial statistics and balance of payments; (ii) SWG2 on national accounts, inflation rate and trade; and (iii) SWG3 on public finance and budget deficits.

66. Mr. Andriantseho informed the meeting that the ECA Contribution to Statistical Harmonization includes methodological work through participatory process, consultations and expert group meeting for the development and revision of UN Manuals, namely the 1993 SNA-Rev1, International Classification CITI-rev4, IMTS-rev2, the P&R for Population & Housing censuses and ICP methodology.

ECA also supports the development of African version and sub-regional version of international standard, for example CITI for Afristat, ECOWAS and CEMAC. The Commission also organizes expert group meetings, workshops and engagement of experts to carry out the customization of UN manuals to the African/regional context. It further supports the implementation of the manuals in countries.

67. The meeting noted that ECA is the regional coordinator of statistics in Africa, within the RRSF and has extensive experience in the organization of technical meetings, expert group meeting and group trainings on various subjects, including national accounts statistics (SNA), international merchandise trade statistics (IMTS) and price statistics. It also has extensive experience in the servicing of regional statistical meetings of directors of statistical offices and partners: ABSA, CODI, FASDEV, ASSD and STATCOM-Africa.

68. In conclusion, Mr. Andriantseheno appealed to Member states, SADC, ECA and partners to develop a consistent and reliable statistical project, set up the three SWGs with regular meetings and adequate resources. Member states were also urged to build upon the existing group trainings, working groups, task force (organized by ECA), the UN statistical manuals and classifications, then adapt to the SADC requirements. He added that the process of MEC requires the highest level of competencies of statisticians from each member States and the serious methodological work of the SWG. He further urged countries to address the institutional issues through increasing the capability of NSOs and the regional statistical programme and to draft an adequate statistical act for SADC, including, mission, vision, responsibility, divisions of tasks across institutions with adequate financial resources. And that the NSO should be equipped and expect heavy methodological works, statistical demand workloads emerging from the convergence program.

A. Issues Arising from Discussion and Recommendations

69. The meeting noted that overall, the SADC member states have made some progress in attaining the Macroeconomic Convergence (MEC) criteria over the past five years, particularly with respect to all the four primary indicators. However, success in MEC should be based on an extended period and not on short-term. Notwithstanding enormous research efforts, the meeting noted that several interrelated issues abound in macroeconomic convergence (MEC), namely:

- Theoretical and conceptual issues;
- Methodological and statistical issues;
- Regional integration issues;
- Institutional issues;
- Political issues;

- Indicator-specific issues; and
- Reporting issues

70. On **theoretical and conceptual issues**, to date there is limited understanding of the causes and conditions of macroeconomic convergence, posing important restrictions on the comparability of the empirical findings gained in different convergence studies. Thus, the meeting proposed this area and choice of indicators as needing deeper discussion.

71. The meeting noted that **methodological issues with statistical issues** emerging as probably the most critical to monitoring progress made in convergence relating to (i) lack of a permanent statistical monitoring system; and (ii) lack of availability of comprehensive, timely and accurate statistical information. It was also noted that the availability of such information is crucial for effective national development policy making, decision taking as well as for establishing and monitoring economic convergence processes. And, the on-going efforts of UNECA, AfDB, AU and IMF in developing statistical capacity was noted as an area that could be further harnessed to address these issues.

72. On **regional integration issues**, the meeting noted that the costs and benefits of macroeconomic coordination were analysed primarily in terms of trade and that cost benefit analysis (CBA) helps to deepen the understanding of policy makers demonstrates the importance and benefits of MEC. Slow ratification of protocols and reluctant implementation of agreed plans in regional integration can be attributed to lack of CBA especially in anticipation for monetary union in SADC. The meeting agreed on the need for more research, and alluded to the current research work being conducted by the CCBG with a list of studies slated for release in April 2008. The CCBG is concentrating its research efforts on major indicators to see how they fit into the convergence programme.

73. As for institutional issues, the meeting noted lack of mechanisms and resources for effective planning, coordination, implementation, monitoring and pragmatic adjustment of programmes on the ground have been another constraint to MEC. The need for SADC to have a central authority to oversee convergence and integration is one of the institutional issues. Such an institution 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 meeting was further informed that institutions such as the West African Monetary Institute (WAMI) and others for the European Union exist. However, the meeting felt that using the European Union and West African examples

might not be useful in the SADC context. The region can probably do with far less complicated models on regional integration.

74. Regarding **indicator specific issues**, the meeting raised concern in several areas. First, the meeting noted that that similar macroeconomic indicators are applied to countries that are vastly different in terms of size of economy and economic performance . For example, what would the requirement for 7% growth mean for more matured economies versus those less so. Also, drivers of indicators may be different for SADC countries at different development levels. Some countries are highly dependent on agriculture, natural resources, skills, etc. What could bring stability in one country may not be the same with another.

75. In respect of the **debt/GDP ratio** the meeting noted that after reaching the HIPC completion point, some member States' public debt is lower than private debt. The meeting further noted that unlike EU countries whose debt is homogenous, SADC debt portfolio is heterogeneous, thus posing challenges in the measurement of debt burden. The meeting was informed that the IMF and World Bank started producing debt sustainability reports, which can be used to validate the debt/GDP ratios. On globalization trends, the meeting observed that China and India are becoming major sources of FDI in Africa but the implications of recent borrowing from these countries are yet to be analysed along with analysis is required to qualify the debt/GDP ratios.

76. On **fiscal deficits**, the meeting noted the need to include grants in the calculation of the deficit/GDP ratio since some expenditure would not have taken place if those grants were not available to start with. However, some participants argued that grants should be excluded because quality of fiscal management can best be judged without the grants. One way of dealing with this is to have a supplementary measure of the degree of donor dependence in fiscal receipts. In respect of the need to mobilize more internal revenue and thus rely less on grants, some participants argued that member States could revisit the generous mining concessions given to the mining companies. They acknowledged, however, that many countries entered into these agreements from a position of weakness characterized by low international commodity prices and high capital needs.

77. With regards to country presentations, it emerged that up to 2006 most SADC member States had made good progress on macroeconomic convergence criteria. However, since the beginning of 2007 many countries have registered deterioration in a number of these criteria:

- Inflation is rising largely due to oil and food price pressures, as a result of poor weather conditions and instability in oil markets.

- GDP growth is slowing due to the fact that mining activities in some countries have reached a plateau, unfavourable weather conditions, and the capacity constraints partly due to HIV/AIDS.

78 The meeting raised a concern about enforcement of Macroeconomic Convergence criteria, arguing that as the momentum towards monetary union gains speed and criteria become tighter, deviations from the agreed targets are likely to increase. Henceforth member States need to consider whether to have an institutional mechanism that will ensure compliance. The meeting further raised the need to distinguish between convergence of policy and convergence of performance. In addition, there is need for more research around regional integration

79. It was noted that in the early stages of regional integration the criteria should be seen as guidelines that would help to reduce macroeconomic divergence in the region, but that it might not be appropriate to introduce sanctions or penalties against those states missing the targets. However, in the later stages of integration, as the process proceeds towards monetary union, then the achievement of convergence targets becomes much more important, and sanctions/penalties against non-achievers would be important in maintaining the integrity of the process. One way of achieving compliance would be to link entry to a possible monetary union to achievement of convergence targets and not make entry to a SADC monetary union automatic for all member states.

80. The meeting acknowledged the importance of the MEC reports. However, to make them more relevant there is need to release them timeously and with quick updates.

81. The meeting observed that data compilation and dissemination could be improved by involving national statistical agencies and strengthening the SADC Statistical Unit. The reporting process should be continuous regardless of methodology used. IMF databases should, noting that the data is reported in line with consistent definitions and in any case comes directly from member states. One suggestion was that when member states are providing monthly data to the Fund they should provide the same to the SADC Secretariat.

82. It was noted that the IMF was willing to spend more time on regional integration issues if this were requested by Member States. IMF input would support rigorous analysis of regional integration issues and the impact on Members States.

B. Recommendations

1. Member states need to support research on regional integration, which should be fully coordinated to avoid duplication, particularly in the following areas:
 - Theoretical and conceptual issues of macroeconomic convergence
 - Relevance of the four macroeconomic indicators.
 - The inclusion of secondary macroeconomic indicators.
 - Review of the MEC programme after 2008.
 - Cost-benefit analysis of monetary union.
 - Drivers of macroeconomic performance in different countries in the region
 - How member states in the region can generate enough revenues to finance their budgets rather than depending on grants
 - The implications of borrowing from China and India on debt sustainability.
2. Member states should ensure that MEC is integrated into their macroeconomic policy making processes.
3. The meeting recommended the following with respect to indicators and data reporting:
 - Member states should focus on building capacity to enable better and timely reporting of MEC data through the existing reporting structures.
 - Participants should submit updated MEC data to SADC Secretariat to enable UNECA to finalize the draft report. Data should be submitted by end of September 2007.
 - Member states should energize efforts to produce timely and updated MEC reports to ensure their usefulness and relevance as a policy instrument, e.g. mid-year and annual reviews. A template should be developed to facilitate standardized reporting by SADC Secretariat. The reporting of data relating to MEC should be done through a single coordinating institution.
 - There is no need to change the indicators at this stage, but strengthen the reporting structures that already exist.
4. Member states should broaden debt analysis to qualify the debt/GDP ratio and to dissect this ratio into public external, public domestic, publicly guaranteed debt and private debt.
5. The presentation of fiscal balance data should include a measure of donor dependency. Further, Member States should double their efforts to broaden their revenue bases to reduce dependency on grants through both improved tax collection efficiency and reform of tax policy.

6. In light of recent deterioration in MEC indicators particularly inflation and the slowdown in GDP growth, Member States must ensure appropriate policy responses.
7. 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.
8. The ECA should assist in strengthening 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.
9. Data compilation and dissemination on MEC should be improved as follows:
 - involving national statistical agencies and strengthening the SADC Statistical Unit.
 - reporting process should be continuous regardless of methodology used.
 - IMF database should be used because data itself comes directly from member states.
 - when member states are providing data to the Fund they should also do so to the SADC Secretariat.
 - Member states should aspire to consistent and uniform statistical reporting, for instance in aiming for calendar year reporting, common methodologies and definitions.

Participants List

Ad Hoc Experts Group Meeting on Assessment of Macroeconomic Policy and Institutional Convergence in Member States of Southern African Development Community

**4 – 5 September, 2007
Johannesburg, South Africa**

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An Ad Hoc Experts Group Meeting on Assessment of Macroeconomic Policy and Institutional Convergence in Member States of Southern African Development Community

**4 – 5 September, 2007
Johannesburg, South Africa**

Draft Agenda

Day One: Tuesday 04 September 2007

- | | |
|-------------------|---|
| 08:00-08:45 | Registration |
| 08:45-09:30 | Agenda Item 1:
Opening remarks |
| 09:30-09:50 | Agenda Item 2:
Objectives, expected outcome of the meeting and organization of work |
| 09:50-10:00 | Agenda Item 3:
Presentation of officers and adoption of the agenda and Programme of Work |
| Plenary 1: | Presentation of a Report on Progress on Macroeconomic Policy and Institutional Convergence in SADC Region |
| 10:15-11:00 | Agenda Item 4:
Progress on macroeconomic policy and institutional convergence in SADC member States: primary and secondary convergence indicators |
| 11:00-11:30 | Agenda Item 5:
Macroeconomic Convergence in SADC vis-à-vis other Regional Economic Groupings |
| 10:45 -11:00 | Tea/Coffee Break |
| 11:00 - 13:00 | Agenda Item 6:
Discussion and recommendations |

13:00-14:30	Lunch
14:30-16:15	Agenda Item 7: Presentation of mid-year progress and issues on macroeconomic convergence (January – July 2007) in SADC member states by Representatives from Ministry of Finance
16:15-16:30	Tea/Coffee Break
16:30- 17:30	Agenda Item 8: Discussion and recommendations

Day Two: Wednesday 05 September 2007

Plenary 2:	Presentation of other Issues Related to Macroeconomic Convergence in Southern Africa
08:30- 09:00	Agenda Item 9: Institutional Issues in Macroeconomic Convergence Programme
09:00 – 09:30	Agenda Item 10: Macroeconomic Convergence and prospects for cross-country investment
09:30 – 10:00	Discussion and recommendations
10:00 – 10:15	Tea/Coffee Break
10:15 – 10:45	Discussion and recommendations
10:15 – 11:45	Agenda Item 11: Statistical issues in macroeconomic convergence
10:45-11:15	Discussion and recommendations
11:15 – 12:00	Agenda Item 12: Funding for macroeconomic convergence
12:00 – 12:45	Discussion and recommendations
12:45- 13:15	Agenda Item 13: Recommendations on Article 7 (3) of Annex 2 of the Protocol on Finance and Investment

- 13:15-13:45 Presentation and adoption of agreed recommendations and way forward
- 13:45-14:00 **Agenda Item 14:**
Closing remarks (UNECA)
- 14:00-15:00 Lunch

**United Nations
Economic Commission for Africa
Southern Africa Office**

**An Ad Hoc Experts Group Meeting on Assessment of
Macroeconomic Policy and Institutional Convergence in Member
States of Southern African Development Community**

**4 – 5 September, 2007
Johannesburg, South Africa**

Annotated Draft Work Programme

Day One: Tuesday 04 September 2007

- | | |
|--------------|--|
| 08:00-08:45 | Registration |
| 08:45-09:30 | Agenda Item 1:
Opening remarks
Dr. Robert Okello, Director: NEPAD and Regional Integration Division, United Nations Economic Commission, Southern Africa Office (UNECA)
(SADC)
Prof. R. Omotayo Olaniyan , AU Regional Delegate to SADC
Mr. Sadwick Mtonakutha, Senior Programme Manager, SADC
Mr. Mshiyeni Belle, Secretariat, Committee of Central Bank Governors (CCBG), South African Reserve Bank) |
| 09:30-09:50 | Agenda Item 2:
Objectives, expected outcome of the meeting and organization of work
(Alfred Latigo, Senior Economic Affairs Officer, UNECA-SA) |
| 09:50-10:00 | Agenda Item 3:
Presentation of officers and adoption of the agenda and Programme of Work (Mzwanele Mfunwa, Economic Affairs Officer, UNECA-SA) |
| 10:00 -10:15 | Tea/Coffee Break |

Plenary 1: Presentation of a Report on Progress on Macroeconomic Policy and Institutional Convergence in SADC Region

Facilitator: Dr. Keith Jefferis, Managing Director, Econsult Botswana (Pty) Ltd.

10:15-10:45 **Agenda Item 4:**
Progress on macroeconomic policy and institutional convergence in SADC member States: primary and secondary convergence indicators (A. Latigo)

10:45-11:00 **Agenda Item 5:**
Macroeconomic Convergence in SADC vis-à-vis other Regional Economic Groupings (Sadwick Mtonakutha, Senior Programme Manager, SADC)

11:00 - 13:00 **Agenda Item 6:**
Discussion and recommendations

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, therefore job creation, which are preconditions for sustained economic growth and development. This success further yields large payoffs for African economies, including providing an enabling environment for trade as well as domestic and foreign investments.

Examining the four MEC criteria and the RISDP targets, a number of discussion issues and questions arise relating to among others: (i) Indicator-specific issues (ii) Theoretical and conceptual issues; (iii) Methodological and statistical issues; (iv) Regional integration issues; (v) Institutional issues; (vi) Political issues; and (vii) Reporting issues.

Indicator-specific issues:

Inflation:

- What should be the geographic coverage of CPI?
- What should be the frequency of collection of prices of goods and services;
- What methodology should be used to measure inflation in the region?

What is the role of national (e.g. central bank and national statistics offices), regional and international institutions (e.g. AfDB, UNECA and the IMF and World Bank) in assisting member States in identifying meaningful inflation rates and the means of compiling them?

Debt/GDP ratio:

A number of member States have benefited from the HIPC initiative, resulting in significant improvement in this criterion.

- However, should the anecdotal evidence indicating deterioration, through more ‘soft’ borrowings from the East, be raised as a concern?
- What is the nature of these new loans, if any?
- While public debt/GDP ratio is included as one of the macroeconomic convergence indicators, is it an appropriate indicator given that 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?

Current account/GDP ratio: Sustainable levels of the current account (CA) balance are difficult to determine as they may depend on several factors, which are not contained in the CA indicators as defined by SADC. Besides, the reports show that a single limit on the CA as a percentage of GDP could be problematic. In the case of smaller economies, 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 CA and how should this criterion be applied to make it flexible to accommodate these factors?

Growth: SADC growth target for MEC is 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.

- 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?

Theoretical and conceptual issues

To date there is limited understanding of the causes and conditions of macroeconomic convergence.

- Should SADC and its partners embark on empirical research to elucidate the interaction effects of all potential causal mechanisms of MEC to minimize the current apparent ambiguity observed in some MEC studies in Africa and elsewhere as well as instituting remedial measures for macroeconomic divergence?
- Could such studies include income and institutional convergence and their relationship to MEC?

13:00-14:30 Lunch

14:30-16:15 **Agenda Item 7:**
 Presentation of mid-year progress and issues on macroeconomic convergence (January – July 2007) in SADC member states by Representatives from Ministry of Finance (Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Madagascar, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe).

16:15-16:30 Tea/Coffee Break

16:30- 17:30 **Agenda Item 8:**
 Discussion and recommendations

Since the Country Reports were compiled significant revisions in the current data and/or in the outlook may have been made. A number of member States may have received debt forgiveness; inflation outlook may have changed; volatility currently underway in world markets may have impacted on them in a negative or positive way. It is possible that information unavailable at time of the Reports' preparation has since become available, calling for changes in conclusions and outlook.

- Are there changes or not in the recent past with respect to projections?

- Is data in the Summary Report accurate?
- What are the changes' implications for the entire regional integration in SADC – do they imply a regress or progress? If the former, what remedial actions can the respective governments and SADC take? If the latter, what measures should the Community initiate to consolidate and sustain the gains?

Relevance of the RISDP Targets

These targets, and potentially more others, are critical to the macroeconomic stability and economic prosperity of the sub-region.

- What is the relevance of the convergence criteria in the light of the current achievements, especially the need to revisit the numerical targets?
- What can SADC learn from other regional economic groupings in MEC? These lessons pertain to, among other things, the sequencing of economic reforms; participatory approaches to policy formulation and target setting.
- What do these lessons inform us about institutional reforms? In regions where there are huge economic disparities among countries, what lessons should SADC draw regarding bigger economies taking the lead in regional integration efforts, while taking care of smaller economies?
- In promoting intra-regional trade and investments, what lessons are there to help SADC circumvent the constraints imposed by small domestic markets of most SADC countries and promote industrialization?

Day Two: Wednesday 05 September 2007

Plenary 2: Presentation of other Issues Related to Macroeconomic Convergence in Southern Africa

Facilitator: K. Jefferis

08:30- 09:00 **Agenda Item 9:**
Institutional Issues in Macroeconomic Convergence Programme (Mshiyeni Belle, Committee of Central Bank Governors (CCBG and Juma Kaniki, Senior Programme Manager, Macroeconomic Surveillance and Performance Unit)

09:00 – 09:30

Agenda Item 10:

Macroeconomic Convergence and prospects for cross-country investment (Sean Nolan, IMF Senior Resident Representative, Pretoria)

09:30 – 10:00

Agenda Item 11:

Discussion and recommendations

Institutional issues

Unlike sovereign governments, the SADC lacks enforcement mechanisms to ensure the implementation of agreements, relying instead mostly on voluntary cooperation of its member States.

- What can be done to strengthen and empower the institutions that implement and monitor regional programmes both at the regional and country levels?
- Is there a need for a superstructure institution with requisite powers and autonomy to push the regional integration agenda?
- Would, for example, an institution such as the West African Monetary Institute (WAMI) serve this purpose, as well as assist the various Macroeconomic Sub-Committees of SADC to overcome any institutional or administrative constraints they may be facing?
- How can SADC avoid a plethora of overlapping, even conflicting regional initiatives, and over-bureaucratization?
- How should SADC handle dual membership issues to this REC and what are the implications to MEC programme?
- Is there participation from other State actors besides the executive?
- Are Parliaments, for example, involved in the regional integration efforts, and if so, in what way are they involved?
- What is the nature, if any, of the involvement of non-State stakeholders in the regional integration agenda?
- What can be done to ensure a clear communication line between SADC Secretariat, member States and key partners in SADC?
- Should SADC consider stronger collaborative effort with UNECA in producing flagship publications such as on economic performance, food security, and other issues of critical importance to the sub-region?

Regional integration and Political issues

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. This can be attributed to some extent to perceived or real losses and sacrifices involved without having a clear picture of the corresponding benefits of integration or MEC. Cost benefit analysis helps to deepen the understanding of policy makers demonstrates the importance and benefits of MEC and hence expedite integration process through strengthened political commitment.

- What should be done to undertake prior informed cost benefit analysis and internal consultations, including bringing civil society and the private sector on board much earlier, to precede upcoming integration programmes such as the customs union and to enhance ownership that motivates full implementation among all stakeholders?
- What institutions should be main players?
- Within countries, are there any developments that generate political inertia and resistance to sacrifices, even if these are of short-term nature, needed to achieve regionally integrated economies?

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?

10:00 – 10:15 Tea/Coffee Break

10:15 – 10:45 Discussion and recommendations

The overall objective of MEC is for countries to implement stability oriented policies that will attract investment into the region and allow for sustainable growth.

- What measures exist within the SADC countries to provide an appropriate regulatory framework and a stable investment climate?

- What is the investment climate like in the SADC region as influenced by the existing MEC programme; and what are the challenges?

SADC macroeconomic convergence advocates a pursuit of sound macroeconomic policies, leading to a stable macroeconomic environment. In turn, the latter is one of the key considerations by local, intra-regional and foreign potential investors.

- What does history tell us about the correlation between stable macroeconomic environment and investment?
- Is stable macroeconomic environment a panacea to the paltry investment inflows into our sub-region?
- What is more useful to sustaining high-level job-creating investment: natural resources or government policies?

10:45 – 11:15

Agenda Item 12:

Statistical issues in macroeconomic convergence (Andry Andriantseheno, Statistician, UNECA)

11:15-11:45

Discussion and recommendations

One key issue in MEC is the inadequate maintenance of track record of compliance with 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). Thus, while forecasts for member states are available, their reliability and quality are questionable in terms of lack of consistency, uniformity and timeliness.

- In line with a call at the SADC Summit in Lusaka for a central source of statistics, what recommendation can this meeting make to realize this need?
- What opportunities exist for capacity building in quality collection and analysis of macroeconomic statistics and if so how should it proceed?
- What should be the role of SADC, IMF and African regional institutions such as the African Development Bank, African Union Commission and UNECA in addressing this issue?

SADC/EU Price and Economic statistics Project on “Harmonized Consumer Price Index (HCPI)”, which began in 1995 tried to resolve statistical issues by ensuring that HCPI as Consumer Price Index (CPI) is developed from comparable methodologies.

- What is the status of the on-going HCPI?
- What is the involvement of regional institutions vis-à-vis National statistical offices in implementing the guidelines developed in this project?
- How can institutions such as IMF, African Development Bank (AfDB) and UNECA assist in harmonization of macroeconomic statistics in SADC region?
- Given the poor quality of national accounts in most countries, what should be done for all SADC member countries to shift to the implementation of the 1993 System of National Accounts (SNA 1993) and improve the compilation of their GDPs?

11:45 – 12:15

Agenda Item 13:

Funding for macroeconomic convergence (Mr. Sean Nolan, IMF; Sonja Kurz, GTZ; and Robert Okello, UNECA)

12:15 – 12:45

Discussion and recommendations

Meeting MEC criteria may in some instances entail costs, and not merely policy changes. This is so with respect to meeting fiscal deficit and debt criteria.

- What are the implications for fiscal policies?
- What are implications for the rollout of social and economic infrastructure that is sorely needed in the sub-region?
- Which are the critical areas for funding MEC programme?
- What is the role of the donor community with particular reference to the 2005 Paris Declaration?

12:45- 13:15

Agenda Item 14:

Recommendations on Article 7 (3) of Annex 2 of the Protocol on Finance and Investment (Juma Kaniki, SADC)

SADC Ministers of Finance and Investment at their meeting in Maputo, 27th July 2007 constituted a Peer review Panel comprising of the ministers responsible for Finance and Investment and Central bank Governors of member states.

- What recommendations can this meeting make on Article 7 (3) of Annex 2 of the Protocol on Finance and Investment, which states that ...”the PEER Review Panel shall evaluate and monitor the annual macroeconomic convergence programmes submitted by State Parties, determine whether such macroeconomic convergence programmes satisfy the common guidelines, advise on possible changes, compare outcomes with previous programmes and make such recommendations as the Peer Review Panel may deem appropriate in accordance with the Treaty?”

These recommendations will then form an input into the Peer Review Panel whose outcome will be a communiqué towards improving MEC programme.

13:15-13:45 Presentation and adoption of agreed recommendations and way forward (Willem Goeiemann, Senior Economist, SADC)

The recommendations coming from this meeting will not only constitute an important component of the final report on progress made in MEC, but will also form a strong basis for improving the implementation and monitoring of SADC MEC programme.

- To what organs of SADC and stakeholders should the recommendations be directed?
- In the recommendations, which institution should do what, how and when?

13:45-14:00 **Agenda Item 15:**
Closing remarks (UNECA)

14:00-15:00 Lunch