



# Regional Integration in Southern Africa - Vol. 12

## Deepening Integration in SADC

### Macroeconomic Policies and Social Impact

A Comparative Analysis of 10 Country Studies and Surveys of Business and Non-State Actors

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STIFTUNG** 

A study conducted for the  
Friedrich Ebert Foundation



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## Preface

Regional integration can be a key force for sustainable development. It can promote economic growth, reduce poverty, foster social development or protect the environment. But, it can also have negative economic and social impacts, notably when the domestic regulatory framework is inadequate or not implemented effectively.

The Southern African Development Community (SADC) is committed to deepening the integration processes amongst its members and has adopted the Regional Indicative Strategic Development Plan (RISDP) in order to provide strategic direction in the design and formulation of SADC programmes, projects and activities in order to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa; and support the socially disadvantaged, through regional integration.

Amongst the various measures governments can implement to further such integration, ensuring sound macroeconomic management is vital. Given the commitment to deepening SADC integration through macroeconomic policies, it is important that policy makers in SADC and its Member States assess the impacts that such measures will have on the social well-being of its people, both in the short term and the long term.

In view of the above, the Friedrich Ebert Foundation, through its office in Botswana, and in close consultation with the Planning Unit of the SADC Secretariat initiated a regional research programme on “Deepening Integration in SADC – Macroeconomic Policies and their Impact”.

From the very beginning the programme was designed as a collective effort of the leading economic research institutions of the region. A total of 14 institutes from 11 SADC member countries responded to the call to join the programme. In two workshops held in December 2004 in Gaborone, Botswana, and in April 2005 in Stellenbosch, South Africa, the team developed detailed terms of reference for the research programme. Phase 1 was to begin at the country level with a comprehensive study of the present status of the economies, their congruence with SADC convergence targets, the respective policy frameworks, as well as a social impact analysis. This more theoretical desk study was complemented by an empirical survey of the perceptions of Businesses and Non-State Actors vis ‘a vis SADC. A study

on South Africa's international trade diplomacy and its implications for regional integration was to give a contextual perspective.

All members of the research team have spent a lot of time and energy and produced excellent reports. The ideas and recommendations contained therein have induced some lively as well as controversial discussions among the participating institutions, as well as with other experts. The content of each study reflects of course solely the views of the authors. I commend all of them for their great commitment as well as their great team spirit in this endeavour. I also wish to acknowledge the substantial input we received from the SADC Secretariat, especially the Head of the Strategic Planning Unit, Dr. Angelo E. Mondlane, the then Technical Advisor on Finance, Dr. Moeketsi Senaoana, as well as other SADC experts. Other external experts have also contributed to the final documents as part of the various reference group meetings in all the participating countries. I wish to extend my greatest thanks to all them.

In order to make the results of this research programme known to a broader public, especially among the relevant policy and decision makers of the SADC region, the Friedrich Ebert Foundation then decided to publish a series of volumes entitled, "Regional Integration in Southern Africa".

The first eleven volumes of "Regional Integration in Southern Africa" were dedicated to the context study and the 10 country studies. The 12<sup>th</sup> volume, presented here, contains the findings of a comparative study that synthesises the findings of the 10 country studies and surveys and puts them in a regional context and perspective. This volume concludes the research programme we started in December 2004.

My special thanks go to the editors, to Chinyamata Chipeta of SAIER and to Klaus Schade of NEPRU. Prof. Chipeta coordinated and edited the inputs to Part 1 "Macroeconomic Policies and their Impact in SADC". He himself authored the Chapters 4, 5 and 6. Prof. Happy Siphambe from the University of Botswana, working for BIDPA on this matter, contributed the introduction and Chapter 1, Philip Alves from SAIIA wrote the synthesis of chapter 2, and Prof. Sanjeev K. Sobhee of the University of Mauritius did the same for chapter 3. In Part 2 "Perception of Business and Non-State Actors in SADC" Klaus Schade and his colleague Mariama Deen-Swarray from NEPRU put all the empirical data from the 10 country surveys together and analysed the from a regional perspective.

I also wish to thank Peter Maina Kamiti and MacDonald Gatora for the design and layout.

Finally I want to acknowledge and commend once more the great effort and spirit of all the researchers and institutions that have participated in this intensive research cycle. We certainly have compiled a lot of valid information and have come up with recommendations that shall contribute to further "Deepening Integration in SADC".

Gaborone, May 2007

Dr. Marc Meinardus  
Resident Representative  
Friedrich Ebert Foundation  
Botswana Office





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# **Deepening Integration in SADC**

## **Macroeconomic Policies and Social Impact**

A Comparative Analysis of 10 Country Studies and  
Surveys of Business and Non-State Actors

### **Part 1**

Macroeconomic Policies and Their Impact  
in SADC

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## List of Abbreviation

ACP	African, Caribbean and Pacific Countries
AGOA	African Growth and Opportunity Act
AIDS	Acquired Immune Deficiency Syndrome
ANC	African National Congress
ASGISA	Accelerated and Shared Growth Initiative for South Africa
BCM	Central Bank of Madagascar
BoT	Bank of Tanzania
CBI	Cross Border Initiative
CBO	Community Based Organisation(s)
CCMA	Council for Conciliation, Mediation, and Arbitration
CET	Common External Tariff(s)
CMA	Common Monetary Area
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
CPI	Corruption Perception Index
CU	Customs Union
EAC	East African Community
EFTA	European Free Trade Association
EPA	Economic Partnership Agreement
EPZ	Export Processing Zone(s)
ESA	Eastern and Southern Africa (EPA negotiating group)
ESAP	Economic Structural Adjustment Programme
EU	European Union
FDI	Foreign Direct Investment(s)
FIP	Finance and Investment Protocol
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
HDI	Human Development Index
HIPC	Highly Indebted Poor Country
HIV	Human Immuno-Deficiency Virus
ICT	Information and Communication Technologies
IFI	International Financial Institution(s)
ILO	International Labour Organisation

IMF	International Monetary Fund
IOC	Indian Ocean Commission
LDC	Least Developed Country
MDG	Millennium Development Goal(s)
MEGS	Malawi Economic Growth Strategy
Mercosur	Common Market of South America
MERP	Millennium Economic Recovery Programme
MFN	Most Favoured Nation
MGA	Malagasy Ariary
MGDS	Malawi Growth and Development Strategy
MK	Malawi Kwacha
MoU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
MTFS	Medium Term Fiscal Scenario
NAD	Namibian Dollar
NGO	Non-Governmental Organisation(s)
NDP	National Development Plan(s)
NERP	National Economic Revival Programme
NSGRP	National Strategy for Growth and Reduction of Poverty
OECD	Organisation for Economic Cooperation and Development
PAP	Poverty Alleviation Programme
PES	Economic and Social Plan
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
RBZ	Reserve Bank of Zimbabwe
RDP	Reconstruction and Development Plan
RISDP	Regional Indicative Strategic Development Plan
RSA	Republic of South Africa
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCC	Southern African Development Coordination Conference
SAP	Structural Adjustment Programme(s)
SARB	South African Reserve Bank
SME	Small and Medium Scale Enterprises(s)
STEP	Support to Entrepreneurs Programme
TNDP	Transitional National Development Plan
TDCA	Trade, Development and Cooperation Agreement



UNCTAD United Nations Conference on Trade and Development  
USA United States of America  
USD United States Dollar(s)  
VAT Value Added Tax  
WTO World Trade Organisation  
ZAR South African Rand  
ZIMPREST Zimbabwe Programme for Economic and Social Transformation



## Executive Summary

This study combines the ten country studies of the Friedrich Ebert Foundation research programme into one volume that draws out and accounts for common patterns and trends. At the same time, it analyses differences between countries and between sub-groups of countries, in the process comparing and contrasting their performance. In this connection, the study derives clear recommendations for both the SADC Secretariat and for individual member states with respect to macroeconomic policy options for deepening the process of regional integration, as well as their potential impact at regional and national levels.

The ten country studies are the culmination of a consultative process that started in Gaborone at the end of 2004 to work out a research programme on deepening integration in SADC: macroeconomic policies and their impact. These studies examine four broad areas that are related to the strategies contained in the Regional Indicative Strategic Development Plan (RISDP); namely, the basic macroeconomic policy framework, especially fiscal and monetary policies; the trade policy framework; the labour market policy framework; and the social impacts that the various policy frameworks aimed at achieving macroeconomic convergence and deepening SADC integration have. In addition, the studies seek to identify the critical policy issues in each of these areas for the processes of accelerating the deepening of integration amongst SADC states, in line with the RISDP.

The Southern African Development Community (SADC) adopted a Regional Indicative Strategic Development Plan (RISDP) in 2004 in order to provide strategic direction in the design and formulation of SADC programmes, projects and activities. The RISDP is intended to give SADC structures clear guidelines on what are the approved SADC social and economic policies and priorities, as well as provide member states with a coherent and comprehensive development policy agenda, for both social and economic development. The ultimate objective of the RISDP is to deepen the integration of SADC with a view to accelerating poverty eradication and the attainment of other economic and non-economic development goals.

## Macroeconomic Stability and Convergence

In order to achieve development and economic growth, Southern Africa committed itself to deepening the integration process. The countries agreed to a goal of ensuring sound macroeconomic management, which is reflected in the MoU adopted in 2001. The macroeconomic indicators identified for monitoring were rate of inflation, ratio of budget deficit to GDP, ratio of public debt to GDP and balance and structure of current account. SADC set convergence targets for these indicators and agreed that countries should strive to put policies and programmes that would allow them to achieve these targets, which would ultimately allow them to achieve the MDG. The essential aim of macroeconomic convergence is to create regional levels of macroeconomic stability.

Analysis of the studies shows that all the SACU countries met the target for inflation and are likely to reach the target for the subsequent years. Mauritius, Mozambique and Tanzania have also met the core inflation target. Madagascar, Zambia, Malawi and Zimbabwe have not met the target and prospects for Zimbabwe to meet the target are very remote. In terms of budget deficit, Mozambique, Tanzania, Mauritius, Madagascar have not met the target even though the latter three are close to meeting it. The SACU countries have also achieved this target so have Zimbabwe and Zambia, even though for Zimbabwe it is quite doubtful if that will be sustainable.

SACU countries have also achieved the target of external debt, with Botswana having done better than other countries, as is the case with the other targets. Malawi, Mozambique and Tanzania have not achieved this target but may achieve it following recent debt cancellations. No data is available from country studies for this target for Zimbabwe and Madagascar. In terms of current account, all the SACU countries have achieved surpluses in current account. Only Madagascar, Malawi and Mozambique have not achieved the target, and the last two are far too off the target to even achieve it by 2012.

In terms of growth, all countries except Mozambique have not met the target so far. Tanzania is closer to meeting the target growth rate of 7 percent. The growth is the most difficult target to reach for all SADC countries and will be the biggest challenge in the years ahead.

This target is even difficult for the more successful country in terms of all other targets, Botswana. For external reserves, Namibia, Zambia, Malawi and Zimbabwe have not achieved the target. In terms of domestic savings, only Botswana and Namibia have achieved the targets so far. The worst performers are Malawi and Zimbabwe with negative savings rates.

An assessment of the possibility of each country achieving the targets indicates as follows:

- In terms core inflation three countries have achieved the goal so far. These are South Africa, Mauritius and Tanzania. In terms of the future, only Zimbabwe and Madagascar are unlikely to achieve the SADC goals especially the 2008 goal of 9%.
- In terms of budget deficit, Mauritius, Madagascar, Mozambique and Tanzania have not yet achieved the goal of 5% or less budget deficit as a percentage of GDP. But in terms of the future only Madagascar and Mozambique are unlikely to achieve the target.
- In terms of external debt, Madagascar, Mozambique, Malawi, Tanzania and Zimbabwe have not yet reached the target. With external debt cancellation, most of these countries may achieve the SADC targets.
- With regard to current account deficit it is South Africa, Botswana, Tanzania and Mauritius that have already met the target. The other countries have not met them and are unlikely to meet the target by 2008 given their current circumstances and projected forecasts.
- Except for Mozambique, no other country has achieved the 7 percent or more growth. It is only Mozambique and Tanzania that are projected to be likely to achieve the 7% target for the period. Growth is the area that poses a greater challenge for all the countries especially if that has to translate into economic welfare.
- Related to the challenge on growth is the challenge with regard to savings and investment where most countries have not been able to achieve the targets currently and are not likely to achieve them in future.

## Macroeconomic, Trade and Labour Market Policies

This chapter compares and contrasts the macroeconomic, trade, and labour market policies of ten Southern African Development Community (SADC) members (Botswana, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Tanzania, Zambia, and Zimbabwe). The primary goal is to assess fundamental policy thrusts, not, for example, the finer details of each country's tax regime. It also assesses the extent to which member states are formulating macroeconomic policies with SADC's Regional Indicative Strategic Development Plan (RISDP) targets in mind, or according to other, national-level imperatives. Concerning macroeconomic and trade policies, the following three broad trends are apparent.

First, every country except Tanzania formulates its growth and development targets, and the policies deemed necessary to achieve them, with little consideration for SADC-level priorities. In many countries, especially those in the central and eastern parts of SADC, policy is designed in collaboration with International Financial Institutions (IFI). In the Southern African Customs Union (SACU), countries design policy according to national priorities where possible; but being members of a customs union obviously constrains trade policy options, while Namibia's monetary policy is constrained by membership in the Common Monetary Area (CMA). But, as is commonly understood, SACU's trade policies and the CMA members' monetary policies reflect primarily South Africa's priorities, and South Africa does not consider SADC macroeconomic convergence objectives when designing its policies.

That said, however, the second noticeable trend is that, according to existing policy documents, all countries adhere to very similar policy frameworks. The direction or thrust of macroeconomic policymaking is very similar: all countries are committed to achieving macroeconomic stability through orthodox fiscal and monetary policies, and all are committed (in varying degrees) to greater openness to trade and investment. These two broad objectives are not necessarily complementary, as poorly managed external liberalisation can contribute greatly to increased macroeconomic volatility, and arguably has done so in many of these countries. However, all governments

seem to realise that globalisation cannot be ignored, and that they must trade to survive, leaving only the question of how best to manage these realities.

Nevertheless, and this raises the third important point, despite this widespread commitment to similar, relatively orthodox macroeconomic and trade policies, widely divergent macroeconomic and economic conditions prevail across the ten countries. Hence the future and success of macroeconomic convergence in SADC hinges less on all countries subscribing to a similar (orthodox) view on economic management, but on the ability of governments to implement policies effectively and bring about real change.

Realising this also raises a critical question: if the policies in use do not effect material improvements in macroeconomic stability, they ought to be reconsidered, even if this risks that countries' chances of meeting SADC convergence targets.

Labour market policies and the social-economic realities that inform them are by their very nature more country- and time-specific than fiscal, monetary, or trade policies. International Labour Organisation (ILO) standards and best practice aside, there is also no real objective set of benchmarks against which countries could be compared. As expected, this study found that formal labour market regulations and workplace conditions differ significantly across countries in the region.

But two striking commonalities were apparent. First, and implementation challenges aside, SADC labour market policies certainly are not underdeveloped. This may be because in many newly independent SADC countries, labour legislation developed in response to worker exploitation under colonialism, or in South Africa's case under apartheid before 1994. Moreover, labour movements often played an important political role in liberation struggles. As such, labour in some SADC countries is well organised, and actively promotes strong protection of worker rights. It is thus unsurprising that a number of SADC-wide protocols and codes of good practice related to workplace conditions already exist, and that almost all SADC countries have ratified the ILO Core Conventions.

The second is that non-wage labour costs in SADC are high. The global labour market is changing radically due to the emergence of China and India onto the world stage. This process is placing significant

pressure on wages to adjust downwards. This should in principle not be a concern for many SADC countries, as real incomes in SADC are already very low. However, because non-wage labour costs are high, wage-cutting and retrenchment are often businesses' primary response to increased competitive pressures. Thus governments should be making every effort to ensure that businesses are able to cut costs elsewhere, including those non-wage labour costs associated with burdensome regulation.

## Impacts of Policy Frameworks: A Comparative Analysis

A comparative analysis is made across 10 countries of the SADC to evaluate respective macroeconomic policies adopted to date, their impact on the social sector and their implications for regional integration. Much of the analysis is derived and examined from individual country studies and other relevant documents. The overall picture indicates that several policies have been implemented in recent years by these countries, however, not exclusively towards addressing the issue of regional integration; but instead to focus more on national problems such as poverty, high income inequality, HIV&AIDS pandemic, high unemployment and low economic growth.

The overall view emanating from the 10 countries studied clearly reveals that there may not be any automatic relationship between macroeconomic performance and the social sector. In fact, there may be more conflict between policies aimed to achieve certain macroeconomic targets and the social targets. While the latter would require higher and more customized public expenditures, for instance, to combat poverty, HIV&AIDS, regional imbalances, human resource development and women's empowerment, they would constitute a very heavy burden for the other sectors of the economy and also in tightening of government budget constraint. Thus, there exists a trade-off between improvements in the social sector and better macroeconomic performance. In recent years, particularly over the period 1998-2004, with the exception of Mauritius, all the countries have experienced a significant fall in their HDI ranking. The major element explaining this tendency is the drop in life expectancy due basically to the pronounced incidence of HIV&AIDS on the populations



of the countries studied. It has proved to be very difficult for governments concerned to take a serious commitment in the struggle against HIV&AIDS due to the increasing rate of infection and the accompanying exorbitant medical care required. The lack of financial resources and other commitments of these governments have constrained effective public intervention. While there have been marked changes in a positive sense with respect to human resource development and adult literacy, Mozambique and Tanzania still have below average net primary enrolment rates. On the other hand, infant mortality rates have improved due to greater vaccination and immunization in most of the SADC member states but is still be high in countries like Malawi, Mozambique and Zambia.

The loss in HDI ranking in all but one country (Mauritius) is also a sign that overall indicators of the social sector may not be faring well relative to other countries. Moreover, it is worth observing that life expectancy has also declined rather rapidly between 1998 and 2002 among these countries due to the higher incidence of HIV&AIDS and propagation of tropical diseases. In Zambia, for instance, compared to other member countries, 'Under-Five Mortality' Rate per 1000 Live-births increased from 181 in 1970 to 192 in 2002.

At this stage, it is rather obvious that in the case of Madagascar, Malawi, Mauritius, Mozambique, Zambia and Tanzania, the main problem is fiscal administration. If these countries tend to reduce their fiscal deficits by carefully reorganizing public expenditure and public revenue, they may easily in the long run converge towards much better indicators. Mauritius, Tanzania and Zambia have relatively high growth rates to be able to do so. Moreover, since it is found that there is direct correlation between high inflation, high fiscal deficits and low savings, a policy of fiscal austerity may easily improve the rate of convergence of these countries. However, in the case of Zimbabwe, there should be greater political stability and commitment to address economic reforms in the most rigorous manner to prevent national output from declining. Without political reforms and good governance, it would be really tough for this member of the SADC to meet any target in the near future. The other set of countries that does not have fiscal deficit problem but suffer from low capital formation and growth rates comprises of Botswana, Namibia and South Africa. Robust measures

have to be implemented to encourage higher savings and broader scope for capital formation, particularly, in the case of South Africa. As far as Namibia is concerned there should be a clear attempt to diversify the economy further and to adopt supply side measures to boost up production. Hence, a more conducive environment is needed to encourage promoters to invest further. The diversification process in Botswana must accelerate to reduce the economy's vulnerability to external shocks. It would also be wise to link up the high propensity of public spending in this economy with more growth generating channels just in case higher public spending might be crowding-out private sector activity and growth of GDP.

With respect to the social indicators, it could be seen that there are two major concerns, namely, poverty alleviation and HIV&AIDS common to all the member states. In certain economies which benefit from relatively high growth rates and which would remain at these levels for some more time, such as, Tanzania, Mozambique, Zambia where there are acute social problems, the state has all its chances to redistribute more evenly the growth gains across different segments of the population. In addition, support programs should also address the problems of health and HIV&AIDS altogether but with the utmost care not to worsen the fiscal stance. Botswana, Madagascar, Malawi and Namibia have already got high levels of public spending and it would thus be advisable in order not to worsen the fiscal position of these countries to reshuffle public expenditure patterns and direct them towards providing the essential goods and services to the poor and needy. This policy would obviously involve some opportunity cost initially, but should pay off in the long run. In the case of Mauritius, the relatively fair growth rate and the expenditure patterns could serve both to reduce the problems of poverty and HIV&AIDS albeit not as acute as in other SADC member states. In South Africa, the HIV&AIDS is more problematic than poverty as far as the figures are concerned. The average growth rate may not allow for better allocation of the GDP across different layers of the population, but given that fiscal deficit is rather low, the government may slightly increase its support to combat the plague without worsening its fiscal position. A reorganization of public expenditure may also help to eliminate unproductive items to minimize the resulting opportunity cost. In all

the countries studied, policy reforms should, all in all, take into account the existing gender bias against women so as to empower and render them financially more independent and less vulnerable.

### **Other Factors that Impact on the Regional Integration Process in SADC**

The other important factors that have been identified in several country studies as constraining the regional integration process in SADC are lack of adequate infrastructure, environmental degradation, lack of human capital and capacity, governance problems, unemployment, inequality in the distribution of income, and food insecurity. The richer SACU countries of Botswana, Namibia and South Africa have transport, water, power and telecommunications infrastructure that is in good condition and works reasonably well. The main problem that they face is the high cost of utilities. The central and eastern countries of Malawi, Mozambique, Tanzania, Zambia and Zimbabwe have an inadequate network of good roads, water, power and telecommunications facilities, and, like the SACU countries, they face high costs of utilities. In addition, the land-locked countries of Malawi, Zambia and Zimbabwe suffer from high transport costs partly due to long distances from the sea. The high cost of utilities negatively impacts on the cost of doing business in the region and so discourages investment. High transport costs, particularly in landlocked states, negatively impact on trade integration. Both of these impacts in turn reduce the competitiveness of the economies of SADC member states. In light of these problems of infrastructure, it is desirable that SADC member states should increase investment in infrastructure and adopt measures to improve competition in the various transport and utility industries. These steps will assist to increase reliability of supply of services and to reduce the cost of provision.

Problems of air and water pollution, soil erosion, loss of soil fertility, and loss of biodiversity caused by rising population pressure on the environment and demands made on that environment by agriculture, mining, fishing, tourism, manufacturing industries and urbanisation affect all countries in the SADC region. The problems are particularly serious in countries that have fragile natural environments, such as

Botswana and Namibia, and in other countries with high population densities. Apart from its impact on economic growth, environmental degradation adversely affects the health of the population through pollution of air, water and the soil, among other things. Governments are aware of environmental problems and their adverse impact on economic growth and development. Hence they have formulation laws, policies and established institutions to protect the environment. However, in themselves laws, policies and institutions are not enough to arrest environmental degradation. Governments need to strengthen enforcement of their environmental laws and policies.

A general shortage of human capital and specialised skills in the SADC region, including technical and professional skills in Botswana and skills for a knowledge-based economy in Mauritius, is another factor that is constraining development. In order to address this problem, educational institutions must relate training to the demands of the labour market. There is also a general shortage of capacity for implementing, monitoring and evaluating policies. In South Africa the problem is particularly serious at local government level, where effective solutions must be found. And in Zambia the problem is in both human and institutional capacity.

The Namibian and South African country studies included unemployment and inequality in the distribution of income among other factors that impinge on regional integration, but these problems apply to other countries as well. High rates of unemployment militate against the willingness of member states to agree on free movement of labour in the SADC region. Inequality in the distribution of income undermines demand for goods and therefore growth of intra-regional trade. Reducing unemployment requires adoption of measures to increase economic growth, especially in labour-intensive sectors; and to reduce rural-urban and other types of migration, among other things. And reducing inequality in the distribution of income requires effective measures for redistributing wealth.

Governance problems range from lack of transparency and accountability in the way that the affairs of the state are run to corruption, especially in central and eastern countries. Tanzania is reported to have improved its governance, although more can be done to enhance it. In Zambia, the main problem that has been reported is

weak economic governance. In South Africa, the main problem is failure to implement policies at local government level due to human resource constraints.

Food insecurity was mentioned in the Malawi country study only, although this too is a common problem in the SADC region. It has implications for the budget deficit because of the necessity to buy and distribute foodstuffs among the hungry on the part of governments, and for the current account deficit of the balance of payments because it may necessitate importation of foodstuffs.

## **Future Needs for Research and Policy Advice**

Issues for further research are those that will require a more rigorous technical framework for analysis than the one that was used in the country studies. Apart from the background or context, the justification, objectives of the study and sources of data, they will need testable hypotheses, a methodology that may use a specific economic model, and econometric, statistical or other techniques of analysis. The issues that have been identified in the country studies relate to macroeconomic convergence, implications and impact of regional integration, membership in overlapping regional integration schemes, links between trade and poverty, and diversification of industrial development.

SADC member states have either already met some of the convergence targets for 2008, or they are expected to meet a number of other targets, but not all, by the set period because of policy measures implemented under various policy frameworks. The main success has been on primary macroeconomic convergence targets; that is, those for core inflation, budget deficit, foreign debt and current account deficit. Progress towards meeting the secondary macroeconomic convergence targets (specifically, growth, foreign exchange, savings and investment) has been less impressive. The limited progress in meeting the secondary macroeconomic targets reflects the fact that the attainment of macroeconomic stability in primary indicators does not necessarily translate into higher savings, investment and growth rates. The favourable performance under net central bank

credit to government is a reflection of success in controlling budget deficits.

Since not all countries have met or are likely to meet the macroeconomic targets by 2008, all the macroeconomic target variables require rigorous research. If any research issues can be singled out at all, they are:

- The determinants of economic growth and convergence in the economies of SADC member countries.
- The behaviour and determinants of foreign exchange reserves in the economies of SADC member countries.
- The determinants of domestic savings and investment in the economies of SADC member countries.

Other issues that have been suggested in the country studies for rigorous research include:

- The potential impact of co-ordination of tax policies, liberalization of current and capital accounts, and integration of financial markets;
- Determinants of employment in each country, in urban and rural areas, and by employment status, gender and age;
- Cost-benefit analysis of dual membership in SADC and COMESA;
- Cost-benefit analysis of the SADC FTA, CU and Common Market;
- Cost-benefit analysis of currency devaluation;
- The costs and benefits of unilateral, bilateral and multilateral trade liberalization; and
- The potential and problems of currency convertibility in the SADC.

The Malawi country study stresses all these issues. The Zambian study emphasizes the issue of the tax structure and how it inhibits regional integration. This study also proposes a study on comparative advantage of individual SADC member countries.

It is also important that policy makers in SADC and its member states assess the economic and social impacts that integration will have, both in the short term and long term. Individual member states need to conduct research on the implications of similar policy initiatives that are being pursued in the context of other regional integration schemes to which they belong.

The objectives of regional integration in the various agreements overlap and, as such, it is imperative that research be carried out on the possible benefits and the impact of the agreements on the long-term trade prospects and development goals of SADC member states.

Furthermore, it is essential to conduct research on identifying the possible links between trade, employment and poverty and on how regional integration through trade can be exploited to address the poverty and unemployment problems.

Focused research on how industries in the less developed member states will be affected, especially at the early stages of their development, is critical.

In the form of consultancies, which require a less rigorous approach, it is recommended that studies be done on the following:

- An analysis of capacity within the private and public sectors to exploit the opportunities provided by regional integration.
- Consideration of a review of the CMA structure to broaden and deepen the consultative process, with the ultimate aim of establishing a regional central bank. A CMA central bank could become the anchor for SADC monetary integration. However, a thorough study is required to weigh the pros and cons of such a regional bank and to assess whether it would change the current decision-making structure.
- A review of the process of designing regional policies and of consistency among the regional policies in order to increased effectiveness of those policies. At the same time, there is a need to review the process of monitoring and evaluating the impacts of regional policies with the aim of adjusting them when needed.
- Taxation and regional integration; taxation and economic growth, development and poverty reduction in the SADC region; government expenditure and regional integration, and government expenditure and economic growth, development and poverty reduction in the SADC region, in order to inform the implementation of the FIP.
- Comparative models of financial intermediation and performance in the SADC region; institutional barriers to access to foreign financial service industries; constraints to financial market integration within and across countries, involving formal, micro-finance and informal financial sectors; the level of development of financial services

industries, including commercial banking and insurance services, in the region, with a focus on the supply and use of financial products and services, and on the level of co-operation and competition and barriers to financial sector development.

- The rationalisation of overlapping regional integration schemes.
- Possible winners and losers from regional integration, particularly taking into account the large more developed economy of South Africa (which can easily marginalize other small members).
- How SADC member states can begin to prepare better to mitigate the disadvantages of globalisation and take advantages of the opportunities it offers. Particular areas of emphasis could be how to improve SADC competitiveness in a global economy.

Concerning policy advice to member states and the SADC Secretariat, it is recommended that:

- Member states take urgent measures to improve the accuracy, reliability and comparability of their macroeconomic data and to address other problems with their economic and social data, such as frequency, timeliness, disaggregation, coverage and consistency.
- In order to gain from regional integration, SADC member states need to enhance their institutional capacity for identifying opportunities from regional integration as well as to control the influx of goods more efficiently and effectively to protect domestic industries from unfair trade practices. National competition policies will need to be harmonised and institutions created to enforce them effectively and efficiently.
- SADC consider supporting the participation of companies in trade fairs in the region or even establishing SADC trade fairs. This would create opportunities for companies to get in touch with potential customers in the region or to join forces. In addition, increased public relations' efforts are needed to inform the SADC population about member countries in general, and businesses in particular. This would help to shift the focus from existing traditional business links to new opportunities.
- National governments or the SADC secretariat consider establishing an export insurance scheme to cover some of the risks inherent in venturing into new markets.



- A strategy be developed to involve the public more extensively in the process of regional integration and to inform them regularly on progress. Such an inclusive process would ensure that regional integration addresses the needs of the people, and ultimately benefits them.
- It is essential for all SADC member states to develop social safety nets and income re-distribution mechanisms that will foster more equitable sharing of the benefits of economic growth.
- There is a need to strengthen monitoring and evaluation of the SADC macroeconomic convergence programme, implementation of the SADC Regional Indicative Strategic Development Plan, the SADC Trade Protocol and other agreements that are essential for deepening integration.
- There is also a need to deepen integration through developing better trade-industry-infrastructure linkages.

## Conclusions and Recommendations

The main common factors identified in the study that might constrain achieving the SADC convergence targets are:

- Relatively low rate of domestic investment, HIV&AIDS, human capital constraints, landlockedness and transport problems, environmental degradation, gender discrimination and external debt in relation to the rate of economic growth.
- Droughts, oil prices, other import costs and currency depreciation in relation to inflation.
- High import demand and inadequate trade development, promotion and facilitation, as well as inadequate domestic savings, in relation to the current account balance.
- An unsustainable level of foreign debt and uncertainties about the level of export receipts and inflows of foreign aid and loans in relation to foreign reserves.
- An unsustainable level of foreign borrowing in relation to foreign debt.
- Weak expenditure control and productivity of the tax systems in relation to the budget deficit.

- High rate of time preference, low rate of growth of national income, high dependency rates, and dependence on foreign aid in relation to the domestic savings rate.
- Corruption, low level of savings and foreign capital inflows, as well as an unfavourable business environment in relation to investment.
- Economic instability in relation to currency convertibility.
- The adverse balance of payments position in relation to exchange controls.

The critical policy issues for achieving SADC macroeconomic convergence targets are savings, investment and economic growth policies. The countries with low savings and/or investment rates need to adopt measures for promoting foreign direct investment, such as greater human and physical capital formation; use financial sector reforms to mobilise savings through more attractive inflation-linked schemes; improve fiscal incentives to promote savings and investment; control public spending to reduce crowding out of private investment; and improve economic governance. Member states that are beset by comparatively low growth rates need to increase their savings or investment rates, diversify their economies and invest in research and development.

Issues of social impacts are considered through wide consultations in decision-making processes in the SADC region. But, few attempts are made to consult the poor and other beneficiaries directly. The view of civil society is that most of the strategies, plans and programmes emphasize economic issues at the expense of social concerns.

Concerning reconsideration of chosen measures for deepening integration, it is recommended that SADC member states should adopt stability-oriented macroeconomic policies and targets and align them to those of SADC, and that the IMF should take member states' regional obligations into account in formulating stabilisation programmes for them.

The values of a number of macroeconomic convergence target indicators are ambitious for member states. Therefore, it is recommended that they should be reviewed. The affected target values are:

- The values of the target indicators for the current account deficit and domestic savings rate.
- The values of the external reserves target.
- The values of the growth rate target and the external debt target.
- The time frame for the finalisation of the legal and regulatory framework for dual and cross-listing on regional stock exchanges; and
- The time-frame for the gradual interconnection of payments and clearing systems in SADC.

Member states are urged to consider:

- Expanding the rationales for the FIP and elaborating rationales for co-operation on taxation and related matters, including government expenditure, and for co-ordinating and harmonising fiscal policies.
- Making provision for differential treatment in favour of the least developed member states in all the components of the FIP.
- Including a provision for co-ordination in exploration of natural resources so as to improve opportunities for investment in the SADC region.
- Reducing the complexity and discretionary nature of investment incentives.
- Reviewing the feasibility of some of the macroeconomic convergence targets.
- Reviewing the need for a common approach to taxation in light of uneven and unequal development between member states.
- Elaborating rationales for co-ordinating and harmonising monetary policies.
- Including commercial banks, insurance, microfinance institutions and informal financial sector in the FIP.
- Making provision for linking commercial banks across the region.
- Promoting the integrated development of formal, microfinance and informal financial sectors within member states.
- Promoting a suitable model of financial intermediation.
- Drawing on existing studies on financial sector development and on taxation and economic growth in implementing the FIP, or conducting fresh studies on which to base the implementation of the FIP.

Member states are also urged to modify or eliminate the following barriers to deeper regional integration:

- The complicated and restrictive Rules of Origin;
- Other non-tariff barriers to intra-regional trade;
- Overlap in membership of regional integration schemes; and
- Incompatibility and divergence in external trade regimes that will complicate the choice of a common external tariff.

Country specific recommendations include appeals to:

- Botswana to remove obstacles to trade and investment, prioritise industrial development, improve labour productivity, integrate trade policy in the planning process and build capacity for effectively implementing policies.
- Mauritius to foster greater public-private sector partnership, minimise the adverse effects of the end of the trade preferences that were enjoyed under Lome Conventions, be more responsive to the demands of civil society and revisit the concept of vulnerability.
- Mozambique to develop the financial sector and do something about the high cost of bank credit.
- Tanzania to mainstream trade, investment and industrial policies in growth and poverty reduction strategies, allocate more resources to local government institutions responsible for implementing the growth and poverty reduction strategies, and review institutions other institutions responsible for the strategies.
- Zambia to make prudential use of monetary policies to enhance private investment, growth and poverty reduction, avoid ad hoc exemptions and selectivity in tax policy, make foreign aid more predictable and strengthen structural and competition policies.

## Introduction

In consultation with the SADC Secretariat, the Friedrich Ebert Foundation, Botswana Office held a workshop from 6th to 7th December 2004 in Gaborone, Botswana on "Deepening Integration in SADC - Macroeconomic Policies and Their Impact". The purpose of this workshop was to develop a concept and terms of reference for a study on deepening integration in SADC. Regional macroeconomic researchers and policy analysts attended the workshop. The Friedrich Ebert Foundation organised a second workshop, which was held from 13th to 14th April 2005 in Stellenbosch, South Africa to further develop a research programme for a study on macroeconomic policies and their impact in the SADC region. It was agreed that the study should aim at providing the SADC Secretariat and national policy makers with macroeconomic policy advice on how the processes of SADC integration can be facilitated, as well as information on the various options that could be pursued on the path of integration. Eleven country case studies were commissioned. The drafts of these studies were presented and discussed at a regional workshop held in Livingstone, Zambia, from 3rd to 6th April 2006. Ten out of the eleven country studies were subsequently completed and submitted to the Friedrich Ebert Foundation.

The country studies examine four broad areas that are related to the strategies contained in the Regional Indicative Strategic Development Plan (RISDP); namely, the basic macroeconomic policy framework, especially fiscal and monetary policies; the trade policy framework; the labour market policy framework; and the social impacts that the various policy frameworks aimed at achieving macroeconomic convergence and deepening SADC integration have. In addition, the studies seek to identify the critical policy issues in each of these areas for the processes of accelerating the deepening of integration amongst SADC states, in line with the RISDP.

The Southern African Development Community (SADC) adopted a Regional Indicative Strategic Development Plan (RISDP) in 2004 in order to provide strategic direction in the design and formulation of SADC programmes, projects and activities. The RISDP is intended to give SADC structures clear guidelines on what are the approved SADC social

and economic policies and priorities, as well as provide member states with a coherent and comprehensive development policy agenda, for both social and economic development. The ultimate objective of the RISDP is to deepen the integration of SADC with a view to accelerating poverty eradication and the attainment of other economic and non-economic development goals (SADC, 2003).

Towards attaining its ultimate objective, the RISDP focuses on facilitating trade (goods and service market integration), economic liberalization (tariff phase down schedules and financial liberalization), competitive and diversified industrial development and increased investment for deeper regional integration and poverty eradication. The major milestones are the establishment of a free trade area (FTA) by 2008, under which intra-regional trade will be free from barriers but each country will maintain its own external tariff; a customs union by 2010, under which there will be free intra-regional trade as well as a common external tariff; a common market by 2015, which will combine the features of a customs union with free movement of factors of production; and a monetary union by 2016, under which there will be a common currency and a common central bank.

This study combines the ten country studies of the preceding research programme into one report that draws out and accounts for common patterns and trends. At the same time, it analyses differences between countries and between sub-groups of countries, in the process comparing and contrasting their performance. In this connection, the study derives clear recommendations for both the SADC Secretariat and for individual member states with respect to macroeconomic policy options for deepening the process of regional integration, as well as their potential impact at regional and national levels. The detailed terms of reference are appended to the study.

The study is presented in the following six chapters. Macroeconomic Stability and Convergence are presented in Chapter 1, Macroeconomic, Trade and Labour Market Policies follow in Chapter 2, Impacts of Policy Frameworks are in Chapter 3, Other Factors that Impact on the Regional Integration Process are analysed in Chapter 4, Future Needs for Research, Consultancy and Policy Advice are covered in Chapter 5, and the Conclusions and Recommendations follow in Chapter 6.

# 1 Macroeconomic Stability and Convergence

## 1.1 SADC Commitments

SADC has a vision of a shared future within the regional community, which serves to chart the region's direction for development. This vision provides the basic foundation for the Regional Indicative Strategic Development Plan (RISDP). The SADC Vision of a common future seeks to ensure that all the people of Southern Africa will enjoy economic well-being, decent standards of living and quality of life, freedom and social justice, and peace and security. This vision is founded on the common values, principles, historical relationships and cultural affinities that exist between the peoples of Southern Africa.

The Regional Indicative Strategic Development Plan sets out ambitious goals and objectives that SADC has to establish a Free Trade Area (FTA) by 2008, a Custom Union by 2010, a regional common market by 2015 and a monetary union by 2016. SADC's Finance and Investment Protocol (FIP), which was approved in 2006, is an instrument for coordinating and harmonising the financial policies of member states. Its objectives include providing a framework for cooperation in the area of finance, promoting the development of sound investment policies, encouraging savings, and facilitating and stimulating investment flows and technology transfer and innovation.

SADC is committed to deepening the integration process amongst its members as part of its strategic plan to "achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged, through regional integration". Ensuring sound macroeconomic management is vital to the integration process, which is reflected in the Memorandum of Understanding (MoU) on Macroeconomic Convergence, which was adopted in 2001. Four macroeconomic indicators were identified for monitoring the implementation of the MoU, viz.: a member state's rate of inflation; the ratio of the budget deficit to GDP; the ratio of public and publicly guaranteed debt to GDP; and the balance and structure of the current account. SADC has set convergence targets for these indicators and has stressed that adopting the macroeconomic policy framework

needed to achieve such targets is crucial for the economies of Southern Africa to be able to smoothly integrate into a fully-fledged economic union, while successfully achieving the Millennium Development Goals.

The essential aim of macroeconomic convergence is to create regional levels of macroeconomic stability. The basic elements of macroeconomic stability include low and stable inflation, sustainable levels of debt, exchange rates that are stable and sustainable, prudent and efficient fiscal management and sound and credible monetary policies. Macroeconomic stability is a crucial pre-condition for long-term sustained development, low and stable real interest rates, increased investor confidence in the economies of SADC Member States and job creating productive investment, which, in turn, is not only important in enabling many people to raise their standards of living above the poverty line, but also is critical in enabling increased spending on poverty reducing social programmes.

Through the Memorandum of Understanding (MoU) on Macroeconomic Stability and Convergence, Member States agreed that a substantial degree of macroeconomic convergence is necessary for effective policy coordination and regional integration. The MoU covers the following issues:

- The principles of macroeconomic stability and convergence;
- Indicators to measure macroeconomic stability and convergence;
- The provision of data and information by Member States;
- The establishment of a collective surveillance procedure;
- The presentation of annual convergence programmes by Member States to the Committee of Ministers; and,
- The allocation of responsibility for implementation.

In adopting the MoU on Macroeconomic Convergence, the Committee of Ministers for Finance and Investment identified a set of economic indicators for measuring macroeconomic convergence and the numeric targets they believed would be appropriate for the chosen indicators.



These are reflected in the table below.

**Table 1: Numeric Values of Target Indicators for SADC MoU**

Target Indicators	2008	2012	2018
Core inflation	9%	5%	3%
Budget deficit as a percentage of GDP	5%	3%	1%
External debt as a percentage of GDP	60%	60%	60%
Current account deficit as a percentage GDP	9%	9%	3%
Growth rate	7%	7%	7%
External reserves (import cover in months)	3	6	6
Net Central Bank credit to Government*	10%	5%	5%
Domestic savings rates	25%	30%	35%

Source: Senaana (2005)

Note: There is some flexibility regarding the current account deficit target, viz., that it should be considered in conjunction with the countries' rate of output growth, its import cover, and should exclude official transfers when calculated.

\*Central Bank credit to government' is expressed as a percentage of the government's tax revenues in the previous fiscal year.

Other macroeconomic targets covered by the Memorandum of Understanding include: raising domestic investment levels to at least 30% of GDP by 2008; interconnection of the payments and clearing systems in SADC by 2008; finalising the legal and regulatory framework for dual and cross listing of shares on the regional stock exchanges by 2008; and liberalising exchange controls on current account transactions between Member States by 2006 and on the capital account by 2010.

## 1.2 Country Performance on Macroeconomic Stability Indicators

This section looks at the performance of the 10 countries that have been studied in terms of stability indicators as indicated in section one. A synthesis of where the region stands in general is provided at the end of the section. In what follows we give a discussion of each country's performance separately first and at the end distil common trends in terms of policy action and recommendations. We also discuss performance of sub-groups of countries in terms of their performance and compare between groups. What follows is a short discussion of

each country's performance in terms of macroeconomic stability indicators.

## Botswana

Botswana has not formally adopted a Macroeconomic Convergence Programme in line with the Memorandum of Understanding on Macroeconomic Stability and Convergence. Nevertheless, Botswana has already made great strides in moving towards and achieving most of the targets set for the Memorandum of Understanding.

In terms of inflation Botswana is on track of achieving the core inflation rate. The Bank of Botswana, in consultation with the Ministry of Finance and Development Planning, adopts a monetary policy framework, which is reported on in the Bank's annual Monetary Policy Statement. The monetary policy framework sets out a target range for inflation. The monetary policy stance can generally be described as a tight monetary policy regime. For 2005, the range was 3%-6%; but this was prior to an exchange rate devaluation of 12% implemented on 30th May 2005. Botswana brought its average annual rate of inflation to within the SADC target by 1997; and, apart from an aberration in 2003 caused by the introduction of VAT, Botswana has been able to stay within the target level since then till 2005 when inflation started going up again following the change in the exchange rate policy and the devaluation of the currency. Given the double digit levels of inflation for most of 2006 Botswana was forced to revise its medium term inflation target to 4%-7%, while maintaining a long term goal of 3%-6%. The current trend is a downward one, which is now single digit. Botswana strives for an even lower upper limit for inflation, which is more in line with that in South Africa and other more developed countries.

In terms of budget deficit, Botswana has also been on track. Because of the high variability of its major revenue source (i.e., mineral revenues from diamonds), and to avoid having a pro-cyclical fiscal policy, the Government has traditionally adopted a fiscal strategy of achieving a balanced budget over the medium term horizon; e.g., a national development plan period. Botswana has had deficits in five of the 12 years (1998, 2001, 2002, 2003 and 2004); but only in 1998

did the deficit exceed the 5% upper bound of the SADC macroeconomic convergence target. Over the entire period, there has been a small budget surplus of 1.2% of GDP.

In terms of debt, Botswana has done very well and has already achieved the SADC goal of having a debt to GDP ratio of less than 60%. The Government has traditionally espoused a policy of only taking on external debt that it has good prospects of being able to service. Once the country graduated from being a least developed country, and had accumulated substantial levels of international reserves, very little additional debt was taken on; and that was typically of a concessional nature. Botswana, with debt to GDP ratios ranging from 11% to 5%, has remained well within the macroeconomic convergence upper bound of 60% for debt to GDP over the entire period. Once revenues from diamonds became significant, the Government did not attempt to borrow from the domestic market. However, in 2003, Government initiated a programme of issuing three Government bonds in order to develop the domestic capital market, create a long-term yield curve, and provide an investment vehicle for insurance and pension funds, the latter of which had been generously endowed through the establishment of the Public Officers Pension Fund.

Botswana has not had balance of payment deficits since 1982 because of the good performance of the diamond industry. As a result, the country has not adopted any explicit targets for the current account balance in recent years, in part because the country has recorded current account surpluses since the early 1980s, mainly due to the healthy performance of mineral exports. Thus, Botswana has consistently achieved the SADC macroeconomic convergence target of having a current account deficit no greater than 9% of GDP.

In terms of other targets, Botswana's long-term Vision 2016 has a target rate of growth of real GDP of 8% p.a. for the 20-year period from 1996 to 2016. Botswana did not achieve that rate of growth on average for the period from 1996 to 2003; but it was achieved on three occasions since 1996, mainly due to rapid growth of mineral production and Government expenditure. The projected growth rate for the National Development Plan 9 was only 5.5% p.a. Compared to the SADC target rate of growth of at least 7% per annum, Botswana has been experiencing problems. Thus, Botswana is challenged by

sluggish growth, which poses further problems for Botswana's strategies for economic diversification, employment creation, poverty eradication and a more equitable distribution of income.

Since the early 1980s, Botswana has been able to accumulate substantial levels of international reserves, well in excess of the SADC macroeconomic convergence target and well in excess of the target level felt to be appropriate for Botswana, given the structure of its economy and the risks of fluctuations to which it is subject. In past National Development Planning exercises, target levels for international reserves were estimated at 9-11 months of import cover for goods and services in the 1980s and 7-9 months of import cover in the 1990s.

The Bank of Botswana Act sets a limit on the extent to which Government can borrow from the central bank. In general, the Bank of Botswana has not lent any money to Government or any parastatals during its 30 years of existence. Thus over the last 12 years, Botswana has satisfied the macroeconomic convergence target of having net central bank credit to Government not exceeding 10% of the previous year's tax revenue. In contrast, the Government has maintained substantial cash balances (deposits) at the Bank of Botswana, which have constituted the major portion of the country's official international reserves until recently.

Botswana has not established an explicit target savings rate, comparable to the SADC macroeconomic convergence target of 25% of GDP. But, one can be derived for Botswana from the target investment rate of 40% of GDP and the target ratio of foreign direct investment relative to GDP (which averaged 0.052 in NDP 9). Thus, Botswana's target savings rate would be about 34.8% of GDP, something the country has been able to achieve over the past 10 years. Hence, Botswana has been able to achieve the SADC target savings rate of 25% of GDP.

In order to achieve the target rate of growth set in Vision 2016, of 8% p.a., with an estimated incremental capital-output ratio of 5.0, Botswana needs to have investment of about 40% of GDP. That target investment rate has not been achieved in recent years. Botswana's investment rate averaged 25.3% from 1994 to 2003.

Botswana has achieved almost all the core SADC targets of low and stable inflation, low debt, low budget deficits, etc and has policies

that will ensure that the country will continue to achieve these targets. The country has however not achieved the target of at least 7% rate of growth per annum and an investment ratio of about 40% of GDP or more. The country faces challenges in terms of diversifying the economy, creating employment and reducing absolute poverty.

## South Africa

Monetary policy is the preserve of the independent South African Reserve Bank (SARB). When Growth, Employment and Redistribution (GEAR) was published, SARB's policy was to target inflation through restricting growth in the money supply. By the mid-1990s it was clear that the relationship between money supply and inflation in South Africa had broken down. The SARB was not achieving its targets for the growth of money supply yet inflation was subsiding from the 14-16% range of the late 1980s to 7-8% by the mid-1990s. A new inflation target was introduced for the annual average of Consumer Price Index (CPI) to range between 3% and 6%. Inflation has declined markedly in the last 2 years since 2003 and CPI has consistently been inside the target range since then. At the moment, CPI is more likely to fall out of the bottom of the target range than to rise out of the top. This, combined with consistent action by the SARB to maintain inflation within the target range even at the cost of lower economic growth, has meant that inflation expectations in South Africa have been permanently lowered. Thus, it is quite reasonable to expect that South Africa will not struggle to meet the SADC inflation target of 9% in 2008. The next targets of 5% in 2012 and 3% in 2018 may be more difficult to achieve but they are still within the country's capabilities. The major risk to South Africa like most other countries of not achieving the inflation target comes from abroad. South Africa's greater openness to world market forces, especially on the capital account, since 1994 and the ever larger amounts of portfolio capital circulating the globe have meant that South Africa has been vulnerable to exchange rate crises. These have often resulted in higher domestic inflation as the prices of imported goods have risen.

South Africa's budget deficit has been steadily reduced, in order to reduce the public sector borrowing requirement, and hence pay down

public debt. The deficit increased in 2004 as government began to experiment with more expansionary fiscal policy. The budget deficit target of 5% is unlikely to be an issue for South Africa; neither is the 3% target in 2012. The 1% target for 2018 might appear challenging at present but there is sufficient warning of this to put in place plans to reach this level.

South Africa has generally had a low level of foreign debt. This was probably due to difficulties in raising foreign finance by the end of the Apartheid era. South Africa's fiscal prudence paid off in terms of better credit ratings in foreign capital markets. This allowed South Africa to increase foreign debt but foreign debt levels never breached the 30% of GDP level. This means that South African foreign debt is currently less than half of the SADC target level, even until 2018. Obviously this target should be very easy for South Africa to achieve.

South Africa's current account balance has mostly been around the 1% to -1% of GDP range, which is within the target. This changed sharply in 2003 and 2004. A number of factors contributed to this. Firstly, South Africa found herself at a point in the business and interest rate cycle opposite that of the developed world. This led to large inflows of portfolio flows to take advantage of the large interest rate differential. This resulted in the Rand rising to quite high levels so that South African exports fell off and imports increased. The large current account deficit was financed by an even larger capital account surplus. The current account deficit is expected not to worsen in the coming years and therefore South Africa should reach the target levels quite easily.

South Africa has not been able to reach the 5% growth rate in the last 10 years let alone getting to the SADC target of 7%. Current optimistic talk in the country is about boosting growth to the 6% level, obviously viewing 7% as being too ambitious. Even though growth has never been negative, it is still short of the 7% level. South Africa's level of reserves is already greater than the SADC target for 2008, and is nearly at the target for 2012 and 2018. Preliminary data for 2005 indicates that South Africa is very close to 6 months of import cover. The quicker rate of reserve accumulation is due in part to political pressure to push down the value of the Rand as this has been perceived to be having a harmful effect on South African exports. Accelerated

reserve accumulation will probably continue so long as the currency remains strong. The major threat to South Africa not meeting the targets is an exchange rate crisis, which could mean that South Africa would need to use its reserves.

South Africa has not used credit from the central bank as an option to finance budget deficits. Credit extension from the central bank has consistently been below 2% of GDP. In fact, only in the past 3 years has the level been above 1% of GDP. South Africa's main method of credit extension appears to be from private banks, which extend about 6 times more credit to general government than the SARB does. Meeting the targets for SADC macroeconomic convergence should not be a problem in this regard. One of the areas where South Africa will probably struggle to reach the proposed targets is in savings. Savings in South Africa are currently less than 18% of GDP. Although this represents quite a strong increase from 2001 when savings were only 15.3% of GDP, this is still significantly short of the SADC target of savings being 25% of GDP by 2008. Savings will have to double before 2018 to reach the target for that year of 35% of GDP.

In summary, South Africa has achieved most targets and should have no difficulty in maintaining most of the targets. The policy variables (budget deficit, external debt, external reserves, and central bank credit to the government) are particularly well within the limits set by the memorandum of understanding on macroeconomic convergence. The outcome variables (savings rate, growth rate, current account deficit) are much harder to control and these are the targets that South Africa will struggle to meet, with the probable exception of the current account deficit.

## Namibia

Namibia is a member of the Common Monetary Area (CMA), consisting of Lesotho, Namibia, South Africa and Swaziland. The currencies of Lesotho, Namibia and Swaziland are pegged one-to-one to the South African Rand. Because of her membership in the CMA and because of the dominant South African economy, Namibia follows South Africa's monetary policy. The Bank of Namibia sets its bank rate in line with the South African Reserve Bank's repo rate. The inflation rate in Namibia

fluctuated around 9% between 1995 and 2001; peaked at the end of 2002 at almost 14%, and has declined since then to an annual inflation of 2.2% in 2005. This is a result of both a monetary policy focusing on the inflation rate and a strong Namibia dollar reducing the costs of imports - in particular levelling out rising oil prices. If the current rate can be sustained, Namibia will be able to meet the SADC inflation target including the 3% by 2018.

Namibian budget deficit has stayed within manageable levels, ranging between 1.4% and 7.5% for the period 1996/97 to 2003/04. The average for this period was 3.6%; however, excluding the high deficit of 7.5% for the year 2003/04 that was caused by a strong and persistent appreciation of the Namibia dollar and was not foreseen, the average stood at 3%. However, this external shock also revealed limitations in government's response to declining revenue. Expenditure was not adjusted in time to keep the deficit within the self-set range of 3%. In general, the deficit was still higher than the 3% target for 2012 and more will need to be done in getting to the 2012 and 2018 SADC targets.

Total government debts stood at about 33.5% in 2004/05. 15% of these debts are foreign debt stocks representing between 4% and 6% of GDP. However, Namibia has not borrowed any money from the IMF or World Bank. Treasury bills and bonds are used for borrowing on the domestic market. The Central Bank Act provides for an overdraft for government. Government could request credit only in specific instances. Neither has happened yet. Government has always maintained savings on its account with the Bank of Namibia. The ratio of foreign debt over GDP is far below the 60% SADC target.

Gross Domestic Product (GDP) grew by 3.8% on average during the period 1990 to 1995. This compares quite favourably with a growth of 1.1% for the decade before independence. However, growth slowed down to 3.6% (1995-99), but picked up again over the next five years to 4.4% (2000-04). The increase in GDP shortly after independence can be closely linked to a surge in government activities that accounted for about 20% of GDP in 1989 and 26% in 1991. Despite these developments, economic growth has not been strong enough to significantly raise the standard of living in Namibia, and



falls short of the SADC growth target of 7% and of the growth rates necessary to achieve the domestic Vision 2030.

Namibia has incurred a trade deficit in most years, which however turned into a trade surplus during the first quarter of 2005. Because of the SACU transfers Namibia recorded a current account surplus. On average foreign reserves covered 9.5 weeks of imports between 1999 and 2004. However, the import cover fell significantly from above 10 weeks to around 7 weeks during 2003 and 2004. This is below the 3 months import cover SADC target for 2008.

Gross National Savings stood at 31.5% of GDP in 2003. The high savings ratio over GDP is primarily attributed to contractual savings. Contrary to other developing countries, Namibia is a net-exporter of capital. Large sums in the form of pension funds, for instance, are invested in South Africa. In order to reduce capital outflow, Government has introduced the requirement for pension funds and insurance companies to invest 35% of their portfolio on the domestic market. However, since the absorption capacity of the local market is limited, this requirement could result in dubious investments that could turn sour. The skewed distribution of income as well as limited access to banking facilities in rural areas - even though access is increasing and banks are covering larger areas - constrains private savings. Based on historic data it can be assumed that Namibia will meet the 2008 (and probably 2012) SADC target concerning the savings ratio. Gross fixed capital formation fluctuated around 23% during the period 1995 to 2004 with no clear trend in either direction. Infrastructure projects (transport, communication, electricity and water), the mining sector and government drive it. It is expected that Namibia will not achieve the SADC target of an investment rate of 30%.

Overall, Namibia is doing well with regard to most of the indicators. However, it lags behind in terms of investment, growth and foreign reserves. Despite the favourable macroeconomic framework and its well-developed infrastructure, Namibia has not benefited substantially from foreign and domestic investment. Government's fiscal targets are a budget deficit of not more than 3% of GDP, a debt ratio of not more than 25% and an expenditure ratio of not more than 30%. These targets are below the SADC convergence criteria, and hence do not influence government's fiscal policy stance.

## Madagascar

During the last 20 years, inflation in Madagascar went through two periods of hyperinflation. The first is that which followed the implementation of the floating exchange rate on the exchange market. The devaluation of the MGF which followed caused a rise in the prices of imported consumer goods and imported inputs that resulted in a general increase in prices of 36.9% between 1993 and 1994, 45.2% the following year and 20% between 1995 and 1996. The second period is that of 2002. The increase in the CPI between 2001 and 2002 reached 16.5%. This high inflation rate is related with the political and economic crisis that occurred in 2002. Indeed, shortage of fuel, which is a strategic product, especially in the Capital, and the deceleration of trade between the various localities of the island caused a generalized price increase. Because of the restoration of the economic situation, the inflation rate dropped to a remarkable 1.7% in 2003. This fall in the rate of inflation means a return to the normal trend after the big rise of the year 2002. At the beginning of the year 2004, inflation accelerated again. The inflation rate reached 13.8% in 2004 and 18.4% in 2005. Up to now the inflation is still far above the SADC target of 9% by 2008.

World Bank data suggest that Madagascar is one of the most aid dependent countries in the world; more than 50% of the budget is financed from abroad. Some factors stressing the persistence of the high level of the government budget are of a structural nature. As far as receipts are concerned, despite effort made by the government to improve tax revenue, the capacity to mobilize resources is very weak. Tax revenue represented only 10.3% of GDP in 2003 and 11.2% in 2004. At the same time, public spending did not stop increasing.

Concerning difficulties connected with the limited development of the financial sector, the following is observed: weak liquidity, a low level of competitiveness, a weakness of national saving and lack of instruments to influence macroeconomic indicators. In 2004, only 61% of households were capable of saving and rural households prefer hoarding at home (79%) to depositing in a bank or in a micro finance. In 2005, economic growth for Madagascar equalled 5.1%. This is, however, still below the SADC target of 7%.

Madagascar is characterized by a low GDP per capita and a high incidence of poverty. The GDP is one of the lowest within SADC, 20 times less than that of Botswana and 10 times less than that of South Africa. Foreign trade liberalization induced an increase in imports, which have more than doubled in 10 years. As a consequence, the balance of trade remained in deficit.

In general, Madagascar has not met most of the SADC targets and is unlikely to meet them especially the 2008 and 2012 ones. A lot will need to be done to be able to bring the economy towards the SADC targets by the dates indicated.

## Mauritius

Low and stable inflation has generally been achieved, largely due to a relatively successful implementation of an informal inflation-targeting framework. The rate of inflation declined from 6.4% in 2001/02 to 3.9% in 2003/04, but consequently rose to 5.5% in 2004/05. This increase is mainly on account of the rise in the price of petroleum products and freight costs. Oil prices continue to trade at high levels on the international market with some further upside risks to inflation. The pick up in domestic credit and the increasing risk of an increase in the world price of oil and other commodities are generating inflationary pressures in the economy. Mauritius has managed to achieve the inflation target and is likely to sustain it.

After a weak performance in 2002, the Mauritian economy recovered in 2003 and 2004 with a reasonable average annual growth of 4%. In 2004, the overall economy grew by 4.1% mainly on account of better sugar production and higher growth in the other manufacturing and wholesale and retail trade sectors. This is, however, lower than the 7% SADC target.

Over the past few years, the positive resource gap, which peaked at 5.8% of GDP in 2002, gradually declined to 1.2% in 2004 and is expected to turn negative in 2005 (-1.9%). This was largely on account of the decline in the saving rate while the investment rate hovered around the 22% mark. The decline in the saving rate is explained by the continued high budget deficits and the resurgence of growth in consumption expenditure.

The growth in consumption at a rate higher than that of GDP reflects the increasing contribution of private consumption in overall GDP. The high growth rate of private consumption expenditure also shows growing consumer confidence in the economy due to lower inflation, higher increase in compensation of employees, stability of the exchange rate and lower interest rates.

With the resurgence in consumption expenditure, the saving rate was expected to fall to 19.6% in 2005 while the investment rate was expected to be around 22%. The medium term objective was to increase both the saving rate and investment rate to around 28-30% in order to sustain overall economic growth of 6-8% annually and create more employment opportunities and be consistent with the criteria laid in the MoU.

There are some apprehensions whether the economy of Mauritius will be able to maintain its good performance in the years to come given the challenges of trade liberalisation. As it stands, it can be observed that the growth rate has been declining between 2003 and 2005 and this may continue with the phasing out of trade preferences and the sluggish performance of new sectors. Both the current account deficit and the savings ratio have been on the decline. Lower savings rates would have implications for capital formation and long term growth performance.

With the exception of budget deficit and growth rate, all other aggregates do lie within the range specified in the MoU. The budget balance has been systematically adverse and worse, it has been overshooting the range of 3-5% of GDP. This is one indicator, which has to be monitored in the short and medium terms to reach the level compatible with the SADC range of macroeconomic convergence. Moreover, with respect to foreign reserves and debt monetisation, Mauritius does fulfill the stated criteria.

## Zambia

Zambia's end of period inflation rate has been steadily declining from 46% in 1995 to 18% in 2004, giving an annual end of period decline of -7% over the same period. For 2005, government had targeted to reduce inflation to 15% in line with the 2005-2007 Medium Term Expenditure Framework macroeconomic targets. Inflation is targeted to decline to 5% by 2007, which means that Zambia would have achieved the 2012 macro convergence target by the close of 2007 and outperformed the 2008 target by 4%. But currently the inflation rate is still higher than the SADC target. The main instrument that the government is using to control inflation, through the Bank of Zambia, is monetary policy using open market operations by selling treasury bills.

The budget deficit as a percentage of GDP is programmed to stand at 0.6% in 2007, well below the convergence target for 2008 through 2018. In 2004, the budget deficit was recorded at 2.2% of GDP. This means that the country has already achieved this convergence criterion. However, the cash budget system has not realised the objective of instilling financial discipline as evidenced by budget over-runs and also excessive accumulation of payment arrears. Domestic borrowing as a percentage of GDP has been declining over years from 5.2% in 2003 to 1.2% in 2006. The Bank of Zambia credit to the government as a percentage of the previous years tax revenue averaged 104% over the period 1996 to 2003. While the convergence target stands at 10% for 2008 and reducing thereafter, the Zambian reality shows that it increased from 72% in 1996 to 129% in 2003. This target is, therefore, most unlikely to be achieved in view of the increasing domestic debt burden and is also likely to exert additional inflationary pressure.

The country's current account deficit averaged 14% of GDP over the period 1994 to 2004. This is higher than the 9% target for 2008 and 2012. In 1994, the deficit stood at 0.8% and rapidly increased to 19% in 1996 after which it showed a steady decline, reaching a low of 11% in 2003. In 2004, the deficit marginally increased by 0.3% whereby it is likely to elude the convergence target of 2008. For 2005 the gross international reserves were programmed at 1.3 months of

import cover and for 2007 at 1.9 months of import cover, which is significantly well below the convergence target of 2008 and beyond.

The real growth of the economy is about 5% for most of the period, which is 2% below the SADC target of 7%. While the attainment of the HIPC completion point has rapidly improved the country's progress in meeting the convergence criterion of improving the ratio of external debt to GDP, the Dutch Disease problem now threatens the sustained recovery of the Zambian economy and movement towards the achievement of the macroeconomic convergence criterion of 7% of real GDP growth by 2008.

## Malawi

Malawi has met the 2008 target with respect to the budget deficit and net central bank credit to government as a percentage of previous year's tax revenue. This is due to buoyancy or productivity of the tax system, government expenditure control and inflows of foreign aid. For each of these target variables, the country needs to stick to its stabilisation programme to ensure that they do not get off track. Malawi is expected to satisfy the target for core inflation for 2008 owing to prudent fiscal and monetary policies. Debt cancellation has improved prospects for reaching the debt to GDP ratio target. But it is off target with respect to the other target variables, which it is not expected to meet in 2008 and possibly thereafter also, given that the goals are ambitious. For these variables, which are current account balance, economic growth rate, external reserves and domestic savings rate, Malawi needs to take measures for achieving their targets.

Malawi's inflation was 16.9% in 2005, which is higher than the 9% SADC target for 2008. Given the prudent monetary and fiscal policies, this target is however likely to be reached. The budget deficit as a percentage of GDP has been reduced to within target and is likely to be sustained up to 2008. In the past, the internal macroeconomic financial imbalance had been an intractable problem for a long time in Malawi. The budget deficits excluding grants, which generally used to be tolerably small (below 10% of GDP) up to the early 1990s, have since then been uncomfortably high, averaging 14.2% of GDP between 1991 and 1995, 11.1% between 1996 and 2000 and 14.5%

thereafter. These deficits have increased due to higher growth in expenditures than in revenues. On account of rising levels of foreign aid, government deficits including grants have decreased from an average of 6.9% between 1991 and 1995 to 2.5% between 1996 and 2000 and 4.8% thereafter. Thus, Malawi is within the target of 5% for 2008 recommended in the Memorandum on Macroeconomic Convergence.

The rate of growth of real gross domestic product (GDP) during the first three years (2000 to 2002) of the new millennium was unsatisfactory, averaging -0.6%. Although the rate of growth of real GDP picked up in 2003 and rose further in 2004, it was well below the target rate of 7.0% required if Malawi is to halve the proportion of its population living on less than 1 USD per day by 2015, which is also a target variable in the SADC Macroeconomic Stability and Convergence programme. This target is not likely to be met by Malawi. External reserves could cover only 1.6 months of imports, which is quite lower than the 3 months target value.

National income data show that the rate of consumption exceeded 100% as the domestic savings rate averaged -3.0% of GDP. Hence, Malawi is not within the convergence domestic savings target rate of 25% by 2008. The average investment rate of 12.4% during the same time period suggests that the country is also not within the agreed convergence investment rate of 30% of GDP by 2008. Since the average national savings rate was 3.0%, foreign savings financed most of the investment.

## Mozambique

In its 2005-2009 Programme the Government of Mozambique commits itself to keeping inflation at low and stable levels, although without any specific figures. In 2004 inflation stood at 9.1%, against the projected target of 11%. Given the trend and commitment in terms of policies this target is likely to be achieved.

In terms of budget deficit as a percent of GDP, the country is off-track and not likely to achieve the target. In 2004 the deficit before grants was at about 13%, a figure close to those registered for the indicator in the past years. Despite the ongoing reforms aimed at

increasing internal revenues, Mozambique is not expected to meet the MoU target (of 5%) for 2008 given the country's high external dependence. About 45% of the State Budget is covered by external funds. Under its compromise with the World Bank, IMF and other cooperation partners, the Government foresees a gradual increase of internal revenues as percentage of GDP from about 14.8% (2004) to 17% in 2009. The current internal public revenue remained stable in the last six years. Along this period, the percentage of fiscal revenue in relation to GDP stood at approximately 12%.

In terms of external debt as a percentage of GDP, Mozambique is unlikely to meet the SADC target of 60%. Mozambique's external debt has known a special scenario in recent years in light of various initiatives. Mozambique benefited from considerable relief under HIPC, from about USD 6.0 billion (1998) before HIPC to about 4.4 billion in 2004, through which it was possible to bring down the burden of debt servicing in terms of exports of goods and services from 27% to 5% after 2000, and is expected to remain below 10% by 2010. Unless drastic international decisions are taken on the debt situation of the poorest nations, Mozambique does not present a promising scenario towards meeting the SADC target (60%).

In terms of current account deficit as a percent of GDP, Mozambique is also off track. In 2004 the country had a very high deficit of 14%. In 2003 this indicator stood at 6.2%, against 12.7% registered in 2002. Estimates for this indicator are promising as the entry into operation of large-scale projects will contribute to an increase of exports of goods and services. Exports have grown considerably due to the effect of mega projects from 2000. The export contribution of mega projects has been at 50%. If this continues, the target is likely to be reached.

Mozambique achieved a significant economic growth rate in the 1998-2004 period. Real GDP growth - including mega projects - was above 10% throughout the period except 2000 with a 1.2% growth due to floods. In 2004 the economy grew by 7.2%. For the coming years the government hopes to maintain the growth rate at between 7% and 8%, which is consistent with the MoU target for this variable.

The Bank of Mozambique has held net international reserves equivalent to more than 4 months of imports, on average. The Bank



of Mozambique has registered progress in this area. Under its monetary policy and in line with agreements with partners, the Bank of Mozambique has sought to maintain the volume of international reserves equivalent to 5 to 6 months of imports, a target attainable by Mozambique in 2006.

Since 2002 the Government of Mozambique has been reducing budgetary deficit financing via Bank of Mozambique loans. An analysis and Bank of Mozambique statistics have shown a decline in credit to the government since 2002. The Government undertook to reduce deficit financing via Central Bank resources, as one of the requisites for maintaining macroeconomic stability. Mozambique is therefore likely to achieve the SADC target.

In terms of domestic savings and investment, preliminary data for 2004 indicate a savings rate in the region of 15.4%, and was projected to increase to about 16.1% in 2005. Investment was 20% in 2004. The SADC targets for these macroeconomic variables are all unlikely to be achieved.

## Tanzania

Tanzania has sustained the SADC inflation convergence target level since 1999. Tanzania, through the central bank - Bank of Tanzania, adheres to prudent conduct of monetary policy. The aim is to achieve low inflation (below 5%), improve liquidity management and foster efficient financial sector institutions. With regard to control of inflation, the BoT in collaboration with Ministry of Finance has largely succeeded in keeping inflation below 10% in the past five years. This target is therefore achieved and can be sustained if there is no policy shift.

Tanzania's fiscal deficit is within the SADC convergence programme if donor grants are included (4.5%). However, exclusion of donor grants worsens fiscal deficit, which rises from 8.1% of GDP in 2003 to 9.9% in 2004, implying considerable efforts before convergence is attained. Greater mobilisation of domestic resources, including reforming the tax policy and administration are essential if Tanzania is to attain convergence by 2008.

In terms of external debt, Tanzania's 2004 level for this variable was 81.4% of GDP. Even after taking into account full debt relief under the Enhanced HIPC Initiative, Tanzania has a considerable task of achieving convergence in the future. However, external debt sustainability analysis conducted by the IMF at the HIPC Completion Point shows that Tanzania's external debt is sustainable in the medium term.

Tanzania's balance of payments on current account for 2004 was 5.3% of GDP, which is within target of the stability programme. The deficit has improved from about 11% of GDP in 1998 to 5.3% in 2004, partly due to better performance in attracting foreign direct investment and improved exports related to minerals and non-traditional exports.

In terms of growth, Tanzania's Vision 2025 targets growth between 8% and 10% to achieve its development goals, including progressive reduction in poverty. Real growth improved from 5.7% in 2003 to 6.7% in 2004 but it is still below the target. Given this trend, Tanzania is likely to achieve its growth targets if further improvements are made in macroeconomic management, fiscal management (particularly in enhancing domestic revenue by enlarging its narrow tax base and improving tax administration) and attracting greater developmental-oriented foreign direct investment.

Tanzania has progressively improved its foreign exchange reserves from about 2.4 months of imports in 1996 to nearly 8 months of imports in 2004. The good performance is associated with improvements in the overall balance of payments. All main accounts improved during this period (current account, capital and financial accounts). If that level of reserves is maintained, these are considered adequate to cover Tanzania's requirements for imports of goods and services. This target is therefore achieved.

Increasing external financing of the Government budget has enabled Tanzania to avoid recourse to domestic bank borrowing to finance its deficit. Net Bank of Tanzania credit to the Government has been maintained at less than 0.7% since 1997, and thus Tanzania has met the SADC target.

In terms of savings, Tanzania's 2004 domestic savings rate was only 9.8% of GDP - about 15.2% below the 2008 target. In terms of investment, Tanzania's 2004 investment rate was only 19.9% of GDP

- about half of what is required under RISDP. The low investment rate is not consistent with levels required to reduce poverty and calls for Tanzania to improve further not only macroeconomic stability but also put in place a better environment for attracting greater foreign direct investment. In terms of these variables, the country is therefore far below targets and is unlikely to meet them.

## Zimbabwe

Zimbabwean inflation has been the highest in the region and continues to be at very high levels. It was 599% in 2003, 382% in 2004 and is expected to decline due to tight monetary policy. Year on year inflation was 622.8% in January 2004 and had declined to 251.5% by September 2004. The Macroeconomic Framework 2005-2006 outlines the vision of Zimbabwe's economic development programmes to reduce poverty and improve the living standards of the people in line with Zimbabwe's MDG and anchors all policy initiatives during that period. This includes guiding the current macroeconomic stabilisation efforts that aim at reducing inflation, initially to lower than 200% by the end of 2004, double digit levels in 2005 and single digit inflation thereafter. However, by March 2006 inflation had risen again, this time to above 1,000%. Zimbabwe is therefore not likely to meet the SADC target even though it may succeed in reducing inflation.

The budget deficit in Zimbabwe as a percentage of GDP was 0.3% in 2003 and 3-5% in 2004. Surprisingly, the country is able to meet the budget deficit target of 5%. In terms of growth Zimbabwe has experienced negative growth rates since 2000. In 2003 the actual growth rate was -8.5% before improving to -2.5%. In 1990, real GDP growth rate was 7%, giving a per capita real GDP growth of 3.7%. The growth rate is obviously too far off from the SADC target of 7%. Export growth was also negative during the period. Gross national savings was -5% in 2003 and -1.7% in 2004. Gross national investments as a percentage of GDP is also quite off the mark at between 4% and 5% between 2004 and 2005 as compared to a minimum target of 30%.

Overall Zimbabwe has not met any of the SADC targets except for budget deficit. Looking at the trend it is also not possible for the country to meet those targets for 2008.

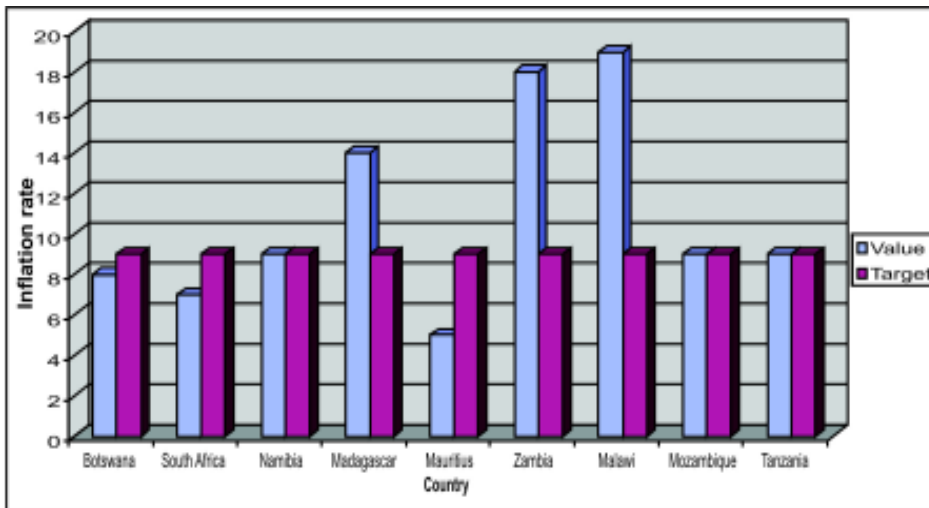
### 1.3 Analysis of Case Study Countries' Performance

This section uses charts to illustrate whether SADC member states have met the SADC macroeconomic performance targets. The charts compare the performance of member states in 2005 against the agreed performance targets for 2008.

#### Inflation Target

Figure 1 shows the performance of nine of the countries in terms of inflation target of 9% by 2008. All the SACU countries of Botswana, South Africa and Namibia have already met the target and are likely to reach the targets for the other years given their tight monetary policy stance and other economic circumstances. Among the non-SACU countries, Mauritius, Mozambique and Tanzania have also met the core inflation target. Madagascar, Zambia, Malawi and Zimbabwe have not met the target yet. Zimbabwe is the worst case (not shown in the graph because of its extreme values) with inflation of 622%, which has been rising over the years.

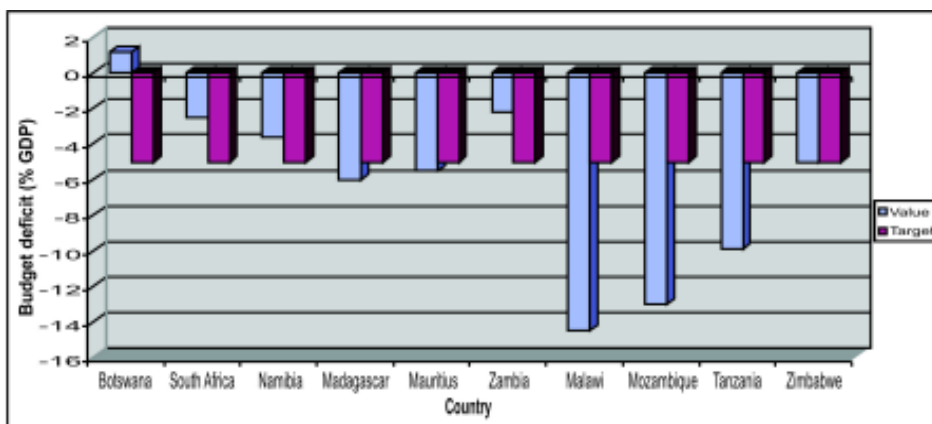
Figure 1: Performance of Countries on Inflation against Targets



## Budget Deficit Target

In terms of the goal of having a budget deficit of 5% of GDP or less by 2008, as shown in Figure 2, a number of countries have still not achieved this target. The worst cases are Malawi, Mozambique and Tanzania. Mauritius and Madagascar have also not achieved this target but are close to achieving the target. The most successful country in this regard is Botswana, with most of the years having recorded modest budget surplus rather than deficits. The other SACU countries of South Africa and Namibia have also achieved the target so far, even though it was quite problematic for South Africa after the 1994 independence period due to pressure to increase expenditure as part of GEAR. Zambia and Zimbabwe have also achieved these targets so far.

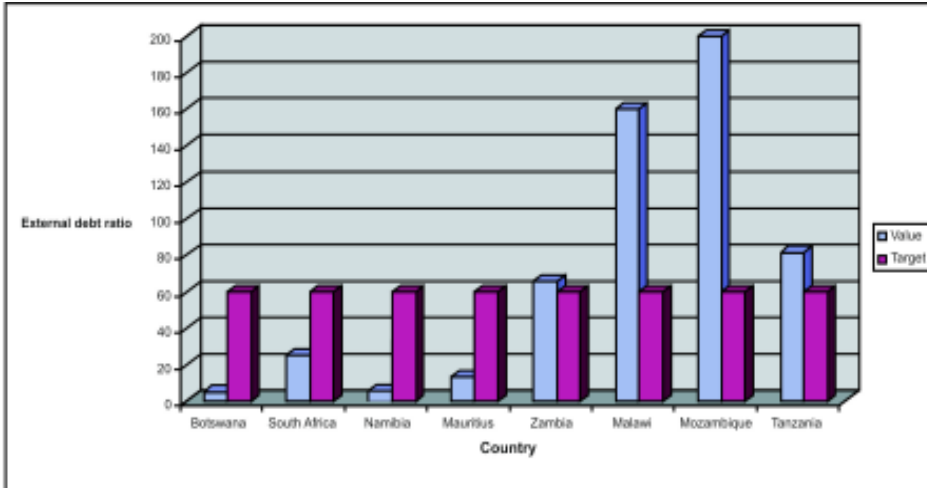
**Figure 2: Performance of Countries on Budget Deficits against Targets**



## External Debt as a Percentage of GDP

The SADC target for external debt is that it should not be more than 60% of GDP. Figure 3 compares the performances of countries with regard to this variable. The SACU countries of Botswana, South Africa and Namibia have again achieved the target so far and are likely to maintain the performance to 2018. Botswana is again the most successful in this regard as it has a very low debt ratio. Mauritius has also been able to achieve the goal and has done even better than South Africa and Namibia. Malawi, Mozambique and Tanzania have not achieved this target so far and are unlikely to achieve the target by 2008. Data are not available for Zimbabwe and Madagascar even though it is known that their debt is quite high and not likely to fall within target by 2008.

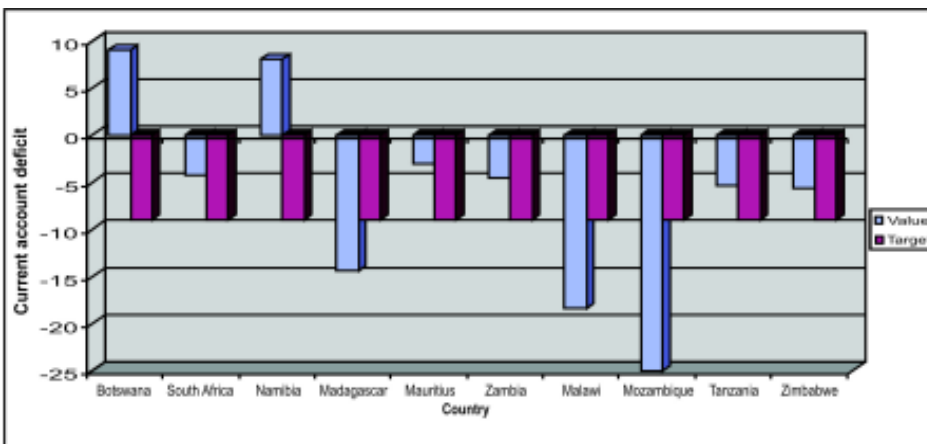
Figure 3: External Debt as a Percentage of GDP



### Current Account Deficit

The SADC target for current account deficit is to be no more than 9% of GDP by 2008 and 2012 and not more than 3% of GDP by 2018. As Figure 4 shows, Botswana and Namibia have achieved current account surpluses for most of the period including the current one. South Africa, Mauritius, Zambia, Tanzania and Zimbabwe have also achieved the target by 2004. For Zimbabwe it is mainly because the country has a diverse export base despite its other macroeconomic and political problems. Madagascar, Malawi and Mozambique are the three countries from the 10 who have not achieved this target. Malawi and Mozambique are far-off from achieving it even by 2012.

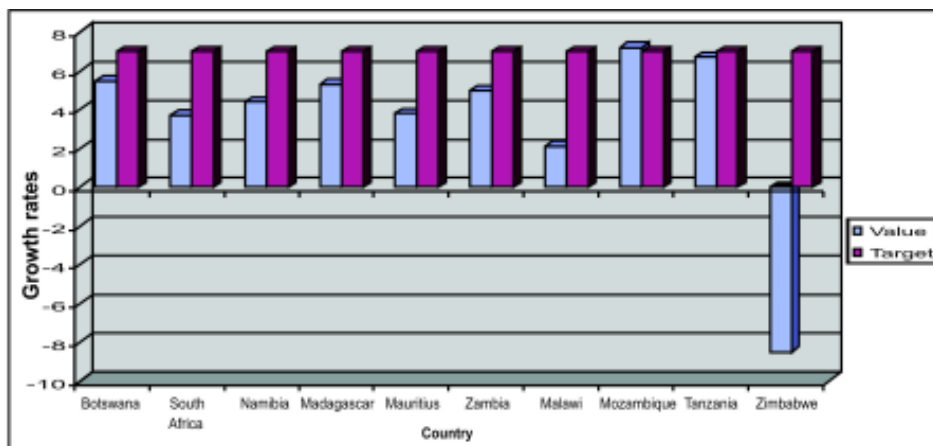
Figure 4: Current Account Deficit as a Percentage of GDP



## Growth Rate

The target values for growth rate are 7% for all the three periods, 2008, 2012 and 2018. Figure 5 shows a summary of the countries performances with regard to this target. All the countries, except Mozambique have not met the target of 7% per annum so far. Zimbabwe has in fact recorded negative growth rates. In terms of SADC economic convergence the growth aspect poses the most difficult challenge and most countries are likely not to meet the target on this variable. A lot of effort will need to be put to achieve the goal by 2008. Tanzania is closer to achieving the target with a growth rate of 6.7% in 2004.

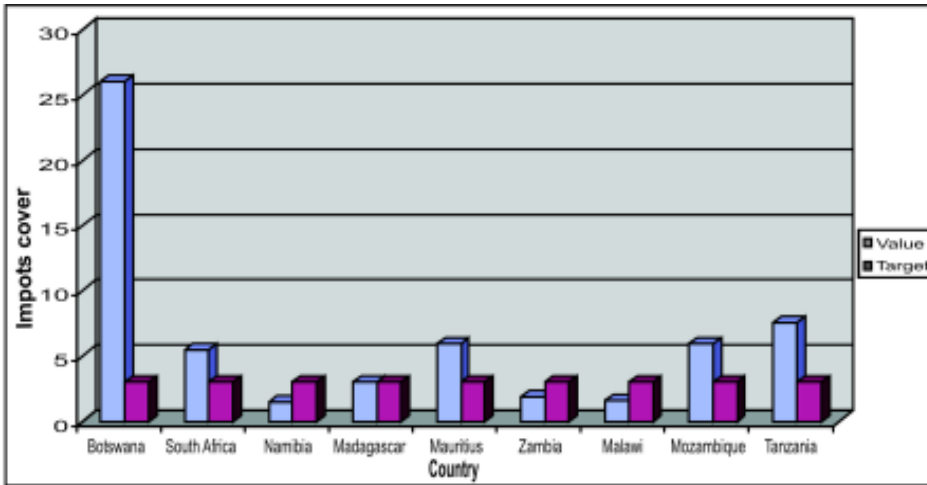
Figure 5: Growth Rates against SADC Target.



## External Reserves

The SADC target for external reserves is 3 months by 2008 and 6 months by 2012 and 2018. In terms of this target Botswana has performed exceptionally well as shown in Figure 6. South Africa, Mauritius, Madagascar, Mozambique and Tanzania have so far achieved the target and are likely to sustain the performance. The countries that have not achieved the target are Namibia, Zambia, Malawi. The study for Zimbabwe did not report any information on this target.

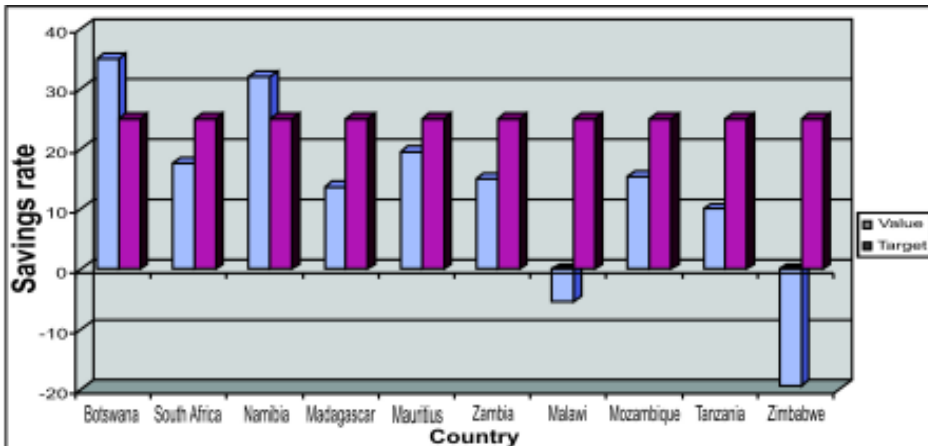
Figure 6: Country Performance with External Reserves Target



### Domestic Savings

The SADC target for domestic savings is set at 25% by 2008, 30% by 2012 and 35% by 2018. In terms of this target only Botswana and Namibia have achieved the target so far. The worst performers are Malawi and Zimbabwe with negative savings rates.

Figure 7: Performance of Countries on Savings Compared to SADC Target





## Summary

Table 2 provides a summary of country's performance in terms of convergence indicators. We assess the possibility of each country achieving the targets. In terms of core inflation three countries have achieved the goal so far. These are South Africa, Mauritius and Tanzania. In terms of the future, only Zimbabwe and Madagascar are unlikely to achieve the SADC goals especially the 2008 goal of 9%. In terms of budget deficit, Mauritius, Madagascar, Mozambique and Tanzania have not yet achieved the goal of 5% or less budget deficit as a percentage of GDP. But in terms of the future only Madagascar and Mozambique are unlikely to achieve the target. In terms of external debt, Madagascar, Mozambique, Malawi, Tanzania and Zimbabwe have not yet reached the target. These countries are also unlikely to achieve the SADC targets according to analysis of trend. With regard to current account deficit it is South Africa, Botswana, Mauritius, Namibia and Tanzania that have already met the target. The other countries have not met them and are unlikely to meet the target by 2008 given their current circumstances and projected forecasts. Except for Mozambique, no other country has achieved the 7% of more growth. It is only Mozambique and Tanzania that are projected to be likely to achieve the 7% target for the period. Growth is the area that poses a greater challenge for all the countries especially if that has to translate into economic welfare. Related to the challenge on growth is the challenge with regard to savings and investment where most countries have not been able to achieve the target currently and are not likely to achieve them in future.



## 2 Macroeconomic, Trade and Labour Market Policies

This chapter compares and contrasts the macroeconomic, trade, and labour market policies of ten SADC members (Botswana, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Tanzania, Zambia, and Zimbabwe). It also assesses the extent to which member states are formulating macroeconomic policies with the Regional Indicative Strategic Development Plan (RISDP) targets in mind, or according to other, national-level imperatives.

The following chapters analyse the broad similarities and differences in the macroeconomic, trade, and labour policies of the ten countries listed above. It also assesses the extent to which the SADC-level priorities feature as prominent drivers in policy decisions. The final section concludes.

The analysis is divided into a section for macroeconomic and trade policy, and another one for labour market regulations. Cross-country comparisons are done within each of these categories. In the category of countries belonging to the Southern African Custom Union (SACU) we begin with South Africa, as it is the largest and most diversified economy in the region, and arguably has the most complex and varied set of policy frameworks. Discussing South Africa first provides a good way of grounding the rest of the analysis. It offers a way of benchmarking the comparisons with other SADC members. From there the analysis moves to the other SACU countries included in this study i.e. Botswana and Namibia. The next two categories comprise the central and eastern SADC countries (Malawi, Mozambique, Tanzania, Zambia and Zimbabwe), and the Indian Ocean islands (Madagascar and Mauritius). These groupings follow earlier work done on this project.

Choosing to begin with South Africa does not involve any value judgements regarding the merits of any one member's policies. That is, using South Africa as the default case is not to argue that its policies should be emulated across the SADC region, or upheld as the standards towards which other SADC countries should strive.

Finally, what follows cannot address the finer details of each country's policies in these three fields. Some of the individual country reports, forming the core background material for this analysis, are well over

100 pages in length, and the reader is therefore referred to each of them where necessary for further insights and commentary. Rather, this chapter provides the reader with a qualitative overview of the fundamental nature and thrust national-level policy frameworks are taking, and the different countries are compared on that basis.

## 2.1 Macroeconomic and Trade Policies

### 2.1.1 SACU Countries

#### South Africa

South Africa's macroeconomic policy focus has undergone massive changes since apartheid and since 1994, when the African National Congress (ANC) took power. The post-apartheid government inherited a dysfunctional economy, disconnected from the global and regional economies. It subsequently committed to an ambitious program of internal and external liberalisation, and, with the formulation of the Growth, Equity and Redistribution (GEAR) strategy in 1996, coupled this commitment with orthodox fiscal and monetary policies. GEAR has thus been described as neo-liberal in character, following closely the core principles of the Washington Consensus. This stood in contrast to the immediate post-1994 macroeconomic strategy, known as the Reconstruction and Development Program (RDP), which was less orthodox in seeking to achieve growth and reduce unemployment and poverty through income and asset redistribution, and state provision to the poor of a range of goods and services.

GEAR's core elements are as follows (quoting RSA, 1996):

- a renewed focus on budget reform to strengthen the redistributive thrust of expenditure
- a faster fiscal deficit reduction programme to contain debt service obligations, counter inflation and free resources for investment
- an exchange rate policy to keep the real effective rate stable at a competitive level
- consistent monetary policy to prevent a resurgence of inflation
- a further step in the gradual relaxation of exchange controls

- a reduction in tariffs to contain input prices and facilitate industrial restructuring, compensating partially for the exchange rate depreciation
- tax incentives to stimulate new investment in competitive and labour absorbing projects
- speeding up the restructuring of state assets to optimise investment resources
- an expansionary infrastructure programme to address service deficiencies and backlogs
- an appropriately structured flexibility within the collective bargaining system
- a strengthened levy system to fund training on a scale commensurate with needs
- an expansion of trade and investment flows in Southern Africa
- a commitment to the implementation of stable and coordinated policies

In short, GEAR stresses fiscal restraint, certainty and consistency in monetary policymaking (which has translated into strict adherence to an inflation targeting regime), improved budgeting processes (institutionalised through the introduction of the Medium Term Expenditure Framework Process), privatisation of some state assets, increasing the economy's openness to trade and investment, and deregulation of financial markets. Reasons for the switch in thinking from the RDP to GEAR remain debatable, but the state's precarious fiscal position and global financial volatility probably loomed large in policymakers' minds. It is clear that macroeconomic stabilisation was the top economic priority after the 1996 Rand crisis, which was not to be the last of the 1990s.

Two years after GEAR's adoption, the stability of the South African economy, and by extension GEAR's credibility, came under severe pressure from the impacts of the Asian Financial Crisis, which was followed in quick succession by ones in Brazil and the Russian Federation. These crises saw global liquidity tighten, in turn bringing about rapid and large depreciations of South Africa's exchange rate. This led to sharp contractions in monetary policy (higher real interest rates) to curb the consequent inflationary pressures.

Although now enjoying a structurally lower inflation and real interest rate environment, the South African economy is arguably still recovering from its third post-apartheid currency crash (in 2001, caused in part

by the terror attacks on the USA). As a result of these challenges and others (such as the deep scepticism with which foreign governments and financial institutions greeted the new ANC government and its economy after 1994), which are largely beyond the control of policymakers in South Africa, caution and prudence, coupled with a long-term outlook for the economy, are the key drivers of decision-making today.

GEAR officially ran from 1996-2000, and there has been no discernible shift in fundamental thinking on macroeconomic policy since the end of that period. The South African government's latest initiative, the Accelerated and Shared Growth Initiative for South Africa (ASGISA) adopted in 2006, fits within the same broad framework, but is specific in focusing on South Africa's physical infrastructure and skills shortages (the former of which, as shown above, was identified as a core element of the GEAR strategy). ASGISA's primary aim is simple: to reduce transaction costs in the economy.

Aside from this, monetary policy remains strongly independent and governed by an inflation target band of 3-6%, and fiscal policy remains conservative. Personal income tax rates, having come down in recent years, are not expected to begin rising again (this is due in part to the considerable reduction in the budget deficit in recent years, thanks mainly to vastly improved revenue collection and reduced spending in some areas), and company tax rates may be revised downwards in the near future.

Finally, the government's commitment to an open, flexible, globalising economy remains firm (recent changes in the government's stance notwithstanding-see below). This underpins thinking on trade policy, which manifested in the 1990s drive to liberalise border controls on the flow of goods and services. Three vehicles were used to achieve this: commitments made in the General Agreement of Tariffs and Trade (GATT) Uruguay Round (which was concluded in 1994 and led to the creation of the World Trade Organisation), a comprehensive bilateral free trade agreement with the European Union (the Trade, Development and Cooperation Agreement, or TDCA) and with SADC (the SADC Trade Protocol), and unilateral reform of both the level and complexity of the tariff structure, as well the complex system of quotas,

surcharges, and subsidies that were in operation during the late 1980s and early 1990s.

Arguably, much more work on trade reform needs to be done. However, the momentum behind the liberalisation drive has waned recently, with the government now focusing on a comprehensive industrial strategy for improving the overall and, by extension, export performance of a range of sectors, in both manufacturing and services. It remains to be seen whether this strategy will include targeted tariff protection for producers, but it is fairly clear that further liberalisation will not form a key part of this initiative. The government has cooled considerably on a trade agreement with the United States and with China, is not campaigning strongly for a resumption of the Doha Round of WTO talks (although does not want to see it collapse), and is not assessing the merits of unilateral reform. Trade policy in South Africa is thus currently in stasis and its future is unclear.

South Africa's regional trade policy is encapsulated in its commitment under the SADC Trade Protocol. On the positive side, South Africa agreed to frontload the liberalisation of imports from SADC countries, signalling a commitment to take the lead on economic integration in the region. By 2005 an estimated 90% of the tariff lines South Africa applies to imports from SADC countries were zero-rated. This seems to have some effect on reducing the large trade surplus South Africa runs with the SADC region, which peaked in 2002 at about ZAR 24 million.

On the downside, however, South Africa has proven recalcitrant in certain areas, such as clothing and textiles, leather, footwear, some sugar products, wheat and wheat products, and some motor vehicle products. Rules of origin in clothing and textiles are also contentious and remain unresolved; South Africa appears to be doing little to rectify this. Such problems reflect strong protectionist lobbies within South Africa, and the results are not necessarily in the interest of its own economy or those of its regional partners. These attitudes also have worrying implications for the ability of the SADC region to establish a WTO compliant free trade area, covering 85% of all goods traded, by 2008, and a customs union by 2010, as planned.

It should be clear that South Africa has not formally adopted a macroeconomic policy framework in line with the 2001 SADC MoU

on Macroeconomic Stability and Convergence. Yet one of the main aims of the GEAR framework was achieving macroeconomic stability in South Africa. The previous chapter showed that South Africa is well on track to meeting the SADC convergence targets for all specified indicators. While in large part failing to generate higher growth and employment, GEAR has achieved a far greater degree of stability than was the case prior to its adoption (the persistent volatility in the exchange rate notwithstanding). South Africa's external liberalisation and integration with the SADC region ran parallel to this process. Despite enthusiasm for further liberalisation waning in recent years, it seems highly unlikely that South Africa would seek to backtrack on existing commitments, or shy away from achieving SADC's stated goals regarding economic integration.

## Botswana

Like South Africa, Botswana has not adopted a formal macroeconomic convergence program based on the MoU on Macroeconomic Stability and Convergence. Nevertheless, Botswana's macroeconomic policy framework has seemingly been effective in creating a stable economic environment, and, as shown in the previous chapter, the country is also on track to meet most, if not all of the SADC convergence targets.

Botswana's broad policy frameworks are delineated in medium-term focused National Development Plans (NDP), which have been a constant feature since independence in 1966. NDP 9, entitled "Towards Realisation of Vision 2016: Sustainable and Diversified Development through Competitiveness in Global Markets", covering the period April 2003 to March 2009, forms the focus of this discussion. What are its key characteristics?

As suggested by its title, NDP 9 is anchored in the understanding that Botswana is a small economy, and that exploiting global markets is therefore essential to sustained growth and diversification. Many policy initiatives are therefore targeting Botswana's competitiveness and productivity. These include measures to generate a highly skilled labour force, encouraging more research and development, and improving Botswana's financial depth. Above all, "the Plan recognises that continued sound macroeconomic policies will be essential



prerequisites for effective engagement in the international market" (Tabengwa and Salkin, 2006 p. 62).

NDP 9 is an impressive, comprehensive policy framework, and prioritises the following issues (See: Tabengwa and Salkin, 2006, p. 62 f.)

- Economic diversification
- Employment creation
- Poverty alleviation
- The maintenance of macroeconomic stability
- Financial discipline
- Public sector reform
- Environmental protection
- Rural development
- Human resource development (including the fight against HIV&AIDS)
- Science and technology development
- Disaster management

The government does not appear eager to intervene 'vertically' in the economy, i.e., by way of sector-specific strategies that favour an identified set of industries over others:

"The Government sees its primary role in the diversification process to be to provide an environment that is conducive for private sector initiatives and innovations to take effect and be successful. In this respect, Government seeks to maintain favourable macroeconomic conditions in terms of competitive exchange rates, low tax rates, an environment free of exchange controls, easy access to credit and price stability. Policies and programmes, such as the Privatisation Policy, the International Financial Services Centre and the review of the National Policy on Incomes, Employment, Prices and Profits, among others, are intended to help Government to achieve these objectives" (Tabengwa and Salkin, 2006, p. 68)

This is significant, as Botswana is part of SACU, which is dominated in every respect by South Africa, and which, as discussed above, is in the process of developing a new set of industrial policies that are best characterised as 'vertical', sector-specific interventions. The directions South Africa chooses, in particular the industries it chooses to promote with various policy instruments (including tariff protection), could have far-reaching implications for all of the economies in SACU, Botswana

included. To the extent that these impacts are difficult to predict (both in South Africa and in SACU), it is in the interests of all SACU members to cooperate and communicate to the fullest extent possible during the development and implementation of industrial policies of the sort South Africa is seeking to introduce. Unfortunately, such cooperation and coordination does not seem to have taken or be taking place.

Turning to Botswana's macroeconomic policies specifically, the following may be observed. The central challenge in Botswana, as in South Africa and every SADC economy, is how to maintain stability in the face of large, relatively frequent exogenous shocks. These shocks influence all facets of an economy, including prices, output, real incomes, foreign exchange, public budgets and expenditure, and so on. The second central element of Botswana's approach to macroeconomic policy-making is how to create and sustain an environment conducive to private sector development. Private sector growth is seen as the surest and quickest way to reduce unemployment and poverty.

In addressing the first challenge, policy seeks to ensure at least the following three things. First, the government saves during (commodity) booms in order to be able to maintain consistent expenditure levels during major downturns (in other words, fiscal policy is inherently counter-cyclical). A large portion of the savings is channelled into the economy through state-owned companies, who most often use the funds to finance capital expenditure programmes. NDP 9, as with all preceding Plans, also seeks to maintain a balanced budget over the six years it is in operation—deficit spending is not viewed favourably, as debt repayments constrain the Government's ability to spend on other, more productive projects.

Second, through mineral exports and excess government savings, a healthy stock of foreign currency has been developed and will be maintained. This creates confidence in the investor community, as it signals a willingness and ability on behalf of the Bank of Botswana to intervene in currency markets when deemed necessary. Foreign exchange reserves also enable Botswana to maintain a relatively open trade policy regime, within the parameters of the SACU Agreement. But most important: "The strategy of accumulating international reserves led to foreign exchange earnings that became a major source

of recurring revenues to Government: in essence, the strategy amounted to converting one non-renewable, depleting asset (diamonds) to another sustainable income generating asset (profitable foreign investments)" (Tabengwa and Salkin, 2006, p. 71).

Third, mining revenues are re-invested by the government in projects that improve the environment in which the Botswana economy operates. This includes spending on hard infrastructure (roads, railways, etc.) and soft infrastructure (human capital).

We now turn to monetary and exchange rate policies. Botswana's twin goals in this area are to maintain a low and stable rate of inflation, and to maintain a balance between support for non-traditional export industries and internal monetary stability. Through a managed float, pegged to a basket of currencies, exchange rate policy is designed in part to contribute to monetary stability, while monetary policy is crafted with a view to maintaining a stable real exchange rate at a level that supports Botswana exporters. In any economy, the real exchange rate is clearly linked to domestic inflation; Botswana strives to keep domestic inflation below the average prevailing in the economies of its major trading partners (of which South Africa is the most important). To do so, Botswana has adopted an inflation targeting policy, which relies on adjusting the interest rate; for 2005 the target inflation range was 3-6%. This is identical to the prevailing target in South Africa, but Botswana is striving to generate the conditions under which the upper limit may be reduced.

On trade policy Botswana's position is clear: to ensure the widest and most reliable possible access for its exports, particularly in Southern Africa, and to allow producers and consumers access to the widest choice of well-priced inputs and final consumption goods. Apart from SACU and WTO activities, Botswana is also engaged in the ongoing Economic Partnership Agreement negotiations with EU; was party to the SACU-USA FTA talks before they collapsed; is a full member of the SADC Trade Protocol; and has been involved in or affected by bilateral agreements between SACU and the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland, recently finalised), as well as the Mercosur (Brazil, Argentina, Paraguay, Uruguay and now Venezuela almost finalised) and will be involved in or affected by bilateral initiatives with India and China, should either of these come

to fruition. And of course Botswana was deeply involved in crafting the 2002 SACU Agreement.

In practical terms, given Botswana's proximity to South Africa and the two countries' membership in SACU, many Botswana businesses consider the South African market a natural extension of their own. Policy changes in South Africa (such as the ones mentioned above) will have direct impacts on both Botswana investment in and exports to South Africa.

Botswana therefore has a long, proud history of effective economic management, guided by its National Development Plans. Since the thrust of these has been to conduct policy in a responsible, conservative, prudent fashion, Botswana is well on track for meeting the targets established by the RISDP; indeed, many of them were met some time ago and have been maintained.

## Namibia

Namibia, like its two SACU partners described above, has not adopted any official policy framework explicitly concerned with the SADC convergence targets. And, for the most part, Namibia is also well on track for meeting its RISDP targets.

Namibia's overall macroeconomic framework is comprised of long- and medium-term plans. Concerning the latter, the third National Development Plan (NDP3) is due to replace NDP2 at the end of 2006. Each NDP covers five years. Vision 2030, crafted towards the end of the 1990s, stipulates Namibia's overarching long-term objectives (principal among them is creating a modern, industrialised Namibian economy by 2030). Vision 2030 anchors and guides all thinking on NDP, as well as budget decisions.

However, Namibia is not fully in charge of either its monetary or trade policies. Namibia is a member of the Common Monetary Area (CMA), along with South Africa, Lesotho, and Swaziland. South Africa dominates this arrangement. As such, Namibia's monetary and exchange rate policy is not crafted independently, but is dictated by South Africa's monetary authority, the (independent) South African Reserve Bank (SARB). As mentioned earlier, the SARB operates an inflation target, with interest rates the primary tool for meeting this

target. Also as mentioned, the target inflation band is from 3% to 6%. The SARB does not attempt to manage the South African exchange rate.

Despite not being able to adjust its own monetary or exchange rate policies, it is argued that Namibia has benefited from CMA membership in at least three ways. First, there are no exchange rate fluctuations between Namibia and South Africa, Namibia's largest trade partner. Second, "... since South Africa's economy is larger and more diversified, any event affecting a particular sector has less impact on the economy as a whole, and hence on the exchange rate, than it would be in a small and less diversified economy such as Namibia's" (Schade and Motomola, 2006, p. 31). In other words, instability in the South African economy notwithstanding, CMA membership improves monetary stability in Namibia, adding to investor confidence and the ease of doing business. Third, Namibia's inflation rate has been reduced greatly, and over the last two years has remained below 5%. This is well below the target level specified in the MoU on Macroeconomic Stability and Convergence.

Namibia's situation regarding trade policy is similar, in that it, like Botswana, is a member of SACU. This implies that trade policy, specifically tariff decisions, are taken at the customs union level, where South Africa's priorities again dominate. Nevertheless, Namibia shares in the SACU and SADC ideals of functioning, integrated regional economies that provide the proper platforms for deeper and more beneficial integration into the world economy (Schade and Motomola, 2006, p. 45). But it should be noted that, except for South Africa, SADC countries play an unimportant role in Namibia's trade. The European Union is Namibia's second most important trade partner. Regionally, only trade with Angola has, in recent years, shown strong growth.

Namibia's SACU membership also means that it is party to or involved in negotiating an array of bilateral and regional trade arrangements, such as the SACU-Mercosur, SACU-EFTA, SACU-USA, and possibly SACU-India and SACU-China deals. Namibia is also a full member of the SADC Trade Protocol; is a member of the WTO; and is also part of the Cotonou Agreement between the European Union and the so-called African Caribbean and Pacific (ACP) countries. Since Cotonou

will expire at the end of 2007, Namibia is part of the ongoing Economic Partnership Agreement (EPA) negotiations with the EU. One each is being crafted for different groupings of countries in Africa; Namibia is part of the SADC-EPA.

Fiscal policy in Namibia is forged independently. It is hence considered by the Namibian authorities an especially important tool for tackling macroeconomic instability, and is best characterised as cautious and prudent. Fiscal policy is also intended to contribute to economic growth and job creation in Namibia, without simultaneously being a source of macroeconomic instability.

External borrowing is supposed to be limited to specific sectors; borrowing is generally only undertaken to finance state capital expenditure aimed at improving the economy's productive capacities. Furthermore, the Namibian government's revenues have always been sufficient to cover recurrent expenditures, meaning that budget deficits and the associated debt are usually not cause for concern.

Nevertheless, Namibia's budget deficits are sometimes relatively large, and vary greatly year on year (from a low of 7.5% in 2003/04 to a projected surplus in 2006/07). However, the budget was balanced in 2005, and projections suggest surpluses or only small deficits through to 2008. The deficit is thus expected to be below the SADC targets for 2008 and 2012. Namibia's stock of foreign debts represents less than 5% of GDP, which is also well within target levels. Finally, as firm proof that the government seeks to maintain fiscal responsibility, it should be noted that no money is owed to the World Bank or IMF, and that the government has maintained a surplus with the Bank of Namibia since independence, despite the Central Bank Act allowing otherwise.

### **2.1.2 Central and Eastern SADC Countries**

**W**e now move onto the five central and eastern SADC countries, Tanzania, Zambia Zimbabwe, Malawi and Mozambique. We begin with Zimbabwe, as it is currently facing the largest challenges of any economy in the region.

## Zimbabwe

Zimbabwe's macroeconomic policy framework is in constant flux, having to constantly respond to rapid changes in the real economy. The government is in an on-going crisis-management mode, but at the same time is ostensibly committed to meeting Zimbabwe's Millennium Development Goals. There is therefore little chance that Zimbabwe's policymakers are driven or even guided by SADC convergence targets.

Between 1998 and 2005-06, Zimbabwe has launched no less than four macroeconomic policy packages. The first, the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST), ran officially from 1996 to 2000. This was followed in 2001 by the Millennium Economic Recovery Programme (MERP), which was in turn replaced by the National Economic Revival Programme (NERP) in 2003. The 2005-06 framework, entitled "Towards Sustained Economic Growth", is a set of short-term stabilisation policies, based on initiatives introduced under the NERP.

The NERP's central goal was to restore agriculture-led economic growth to Zimbabwe, but it also sought to address, inter alia, issues such as high and rising inflation, de-industrialisation, the mining sector's slack performance, foreign exchange shortages, poor energy supply and transport networks.

The "Towards Sustained Economic Growth" document seeks to build on this by strengthening macro-stabilisation efforts and implementing sector-specific initiatives focusing on the following areas (see: Zwizwai, 2006, p. 26)

- Agriculture development
- Industrialisation
- Infrastructure development
- Investment promotion
- Social services delivery
- Poverty reduction
- Economic empowerment
- Youth development and improvements in gender equality
- Macroeconomic stability
- Strengthening institutional capacity

Enough time has passed to analyse whether the macro-stabilisation initiatives of this policy framework have met with any success. The aim at inception was to immediately reduce inflation to 200% or less, to double-digit levels in 2005 and then single-digit levels thereafter. Inflation in 2006 has broken through the 1000% barrier; the upward trend shows no signs of reversing. Zimbabwe is now at risk of hyper-inflation, despite currency revaluation efforts by the Reserve Bank of Zimbabwe (RBZ). This is of course symptomatic of more fundamental problems driven by a chronic breakdown in real formal economic activity in Zimbabwe. It is unclear how macroeconomic policies of any sort will gain a significant foothold until this trend is reversed.

Interesting in all this is that Zimbabwe's fiscal problems do not appear severe. According to official data, its budget deficit in recent years has not risen above 5% of GDP. Moreover, Zimbabwe is also actively seeking ways of improving public finance management, by developing a financial management legal framework; by improving the Public Finance Management System; and by improving financial management in state owned enterprises. Finally, the government is also seeking to improve revenue levels by widening the tax net; improving capacity at the Zimbabwe Revenue Authority; introducing mechanisms for taxing the informal sector; and limiting tax exemptions to social needs only.

The RBZ controls monetary policy in Zimbabwe, and is expected to formulate and implement policies complementary to fiscal initiatives undertaken by the government. However, it seems the RBZ is not confined to a narrow focus on monetary issues. In his December 2003 maiden Monetary Policy Statement, the Governor announced that monetary policy would seek to help the government address all of the major socio-economic challenges facing Zimbabwe. This would involve the re-generation of a productive real economy characterised by (see: Zwizwai 2006, p. 29)

- Low and stable inflation;
- A stable currency;
- Rising savings and investment;
- Reduced unemployment;
- Adequate foreign exchange flows;
- Thriving, vibrant and disciplined private and public sectors;
- A culture of discipline, hard work and honesty among all Zimbabweans;



- A Zimbabwe with a positive image in the financial and investment circles the world over;
- A Zimbabwe which timeously pays its debts and honours all obligations to which it is a party, financial or otherwise;
- A Zimbabwe which upholds property rights and welcomes investment from across the globe for the betterment of its people;
- A Zimbabwe which is a beacon of hope for all its citizens, a regional economic power house of consequence.

As mentioned, the RBZ is failing to bring inflation under control, despite adopting a restrictive policy stance. Zimbabwe's exchange rate and foreign exchange reserves are two more challenges proving exceedingly difficult to overcome. From the late 1990s until 2003, Zimbabwe operated a fixed exchange rate system. Evidence of overvaluation (the starkest being the growth of a significant black market for Zimbabwean dollars) led the authorities to consider options. A 'controlled auction' system has been preferred over other possibilities (such as a free or managed float). The controlled auction system involves a range of controls and regulations, and is managed by the Currency Exchange, a body operating under the supervision of the RBZ. However, given Zimbabwe's precarious balance of payments situation and ever-weakening currency (in real terms), it is not clear that policy is yet starting to turn things around.

Trade policymaking in Zimbabwe has undergone huge shifts in emphasis since independence in 1980. Many developing countries experimented with import substitution during the 1980s, content with protection at home, the necessary corresponding export incentive schemes, and preferential access to overseas markets where possible. Zimbabwe was no different, being content with Lome Convention preferences for some farm exports to Europe and a narrow preferential trade agreement with some Southern and East African countries. The trade regime was complemented by extensive government control of foreign exchange earnings, which it used to manage the country's import requirements in accordance with development priorities. The broader framework under which these policies were crafted was fundamentally socialist in nature.

Everything changed in 1990 with the adoption of the Economic Structural Adjustment Programme (ESAP). Some external liberalisation took place (tariffs, quotas, and licensing requirements were all reformed to a greater or lesser degree), and controls on foreign exchange allocations were relaxed. Zimbabwe, along with most SADC countries who found themselves in a similar situation during the early 1990s, is now much more active on the trade front. It is a full member of the WTO, the SADC Trade Protocol, and the COMESA FTA. Given Zimbabwe's economic strengths relative to many of its SADC neighbours when the Trade Protocol was under negotiation, it committed itself, along with Mauritius, to be a 'second phase' liberaliser. That is, Zimbabwe (and Mauritius) was to begin its tariff phasedowns immediately after the SACU countries, and before the rest of the SADC Trade Protocol signatories.

Zimbabwe also undertakes a variety of export promotion activities, including incentives, the promotion of new industries, and the seeking of new markets. East Asia, specifically China, has become a key pillar in the drive for new markets, in what has been called Zimbabwe's 'Look East' policy. Whether this is purely trade strategy or part of broader foreign policy objectives is unclear, but it seems clear that the drive eastwards is in response to deteriorating relations with former colonial and other western powers.

## Tanzania

Tanzania is the only country in this study sample to officially formulate macroeconomic policies according to the targets and guidelines set out in the SADC MoU on Macroeconomic Stability and Convergence. Following adoption of the MoU, the government assembled a Task Force comprising officials and researchers from the Ministry of Finance, the President's Office, the National Bureau of Statistics, the Central Bank of Tanzania (BoT), and the Economic and Social Research Foundation. This Task Force immediately began work on Tanzania's National Macroeconomic Convergence Programme, using as a basis the SADC Macroeconomic Convergence Implementation Programme Guideline Template.

Tanzania's overarching aim, as enshrined in the Tanzania Development Vision 2025, is to ensure that Tanzania has graduated from being classed a Least Developed Country (LDC) to a middle-income country by 2025. Tanzania is currently amongst the ten poorest countries on earth. The official strategy for achieving this goal is known as the National Strategy for Growth and Reduction of Poverty (NSGRP), finalised in 2004, and supported by Tanzania's Poverty Reduction Strategy Paper (PRSP), which was crafted in 2000 as part of the World Bank's Enhanced Highly Indebted Poor Countries (HIPC) initiative. Tanzania's four key development objectives are to accelerate output growth; to reduce income poverty; to improve human capabilities and social well-being; and to contain extreme human vulnerability.

The salient feature of the context in which all of this is occurring is the country's ongoing structural reform process. Beginning in the mid-1980s, Tanzania is still engineering its transition from a socialist, planned economy where the state played a large role, to a market-based economy driven by private sector activity. The required institutional reforms have centered on reducing the power of the Planning Commission, traditionally chaired by the State President, and increasing the influence over policymaking of the Ministry of Finance and the BoT.

In the mid-1990s the BoT became extremely powerful, stipulating limits on government spending and taking charge of the management of Tanzania's public debt. Hence despite reform, the Ministry of Finance still was not fully in charge of the country's finances. Nevertheless, in 1996, budgetary planning came under the auspices of a Medium Term Expenditure Framework (MTEF), prepared by the Ministry of Finance. This replaced a policy framework entitled the Rolling Plan and Forward Budget, which had been the responsibility of the Planning Commission, but, by 1996, had "...become virtually irrelevant for economic management" (Mashindano et al., 2007, p. 70). However, it remains unclear how autonomous the Ministry of Finance is in managing Tanzania's finances.

The central innovation of the MTEF's introduction was to delineate a far stronger link between planning, policy, and budgeting. Introducing a medium-term outlook and the associated increase in certainty and predictability also improved budgetary outcomes, which in the past

had been hampered by a focus on short-term planning and annual spending only.

Tanzania is now striving to achieve greater degrees of fiscal responsibility and prudence. The government's official deficit target before grants (aid) is equal to or less than 10% of GDP annually. This is double the 2008 target set in the MoU on Macroeconomic Stability and Convergence. Although the deficit before grants had averaged 3.8% of GDP between 1995 and 2004, it exploded from just less than 5% in 2001 to almost 10% in 2004. This makes the role played by grants crucial: the fiscal deficit after grants has averaged just 0.2% of GDP over the same time period and in 2004 sat at 3.4% (up from 1.6% in the previous year). Thus, with the grants Tanzania receives, it looks likely to achieve the SADC fiscal deficit target of no more than 5% by 2008. Nevertheless, the widening gap between government spending and revenue in recent years should be of concern enough to warrant policy changes in some areas.

The main aim in this regard is to improve revenue streams, not necessarily by raising tax rates (although some tax exemptions may be re-considered), but by improving revenue collection. This requires reform within the Tanzania Revenue Authority, particularly as regards its effectiveness in collecting customs revenue. The Tanzanian government does not appear willing to tackle its deficit problems via reduced spending. On the contrary, government spending is expected to rise in the near future, driven by priority areas identified under Tanzania's Poverty Reduction Strategy, and also by a projected increase in public sector wage costs.

Monetary and exchange rate policy in Tanzania is the sole domain of the BoT, but, as mentioned, the BoT is also a key player in fiscal policy formulation. Its primary role "... is to ensure Tanzania follows prudent fiscal and monetary policies consistent with high growth of the economy" (Mashindano et al., 2007, p. 95). The BoT's mandate, however, also includes an explicit focus on protecting the value of the Tanzanian shilling through any means "... consistent with an acceptable rate of inflation" (Mashindano et al., 2007, p. 95). Such a rate is considered to be less than 5% annually, although it appears the BoT does not operate a strict inflation targeting regime. Indeed, inflation over the past 5 years has averaged about 10%, and ineffective liquidity

management is considered the fundamental underlying cause. Excess liquidity, which injects inflationary pressures into the economy, is largely due to strong inflows of financial aid, which cannot be sterilised fully or without some cost to Tanzania's real or financial economy. Nevertheless, by targeting growth of Tanzania's broad money supply (M2), the BoT is meeting with some success in fighting inflations, which has been endorsed by the IMF.

A secondary aim of the BoT, which it works toward in collaboration with the Ministry of Finance, is to undertake difficult reforms in Tanzania's financial sector, to engineer a greater degree of financial depth. Many development experts argue that insufficient financial sector sophistication places significant constraints on an economy's ability to attract foreign investment (direct or otherwise), and manage market-based risks effectively.

Tanzania operated a fixed exchange rate system until 1990, after which it gradually began to introduce flexibility. This helped address the relatively large exchange rate premium that existed on parallel currency markets. In 1994, the BoT implemented the necessary systems to allow the Tanzanian shilling to be fully market determined. The shilling has depreciated steadily in real terms since 2001, and according to the IMF, is now more reflective of underlying fundamentals (Mashindano et al., 2007, p. 94 f.).

We now turn to Tanzania's trade policy framework, which has undergone sweeping changes since the decision to turn to the market took root in the 1980s. Tanzania is a WTO Member, but regionalism seems higher on Tanzania's list of political and economic priorities.

Tanzania was party to the original East African Community (EAC, along with Kenya and Uganda), established in 1967, but disbanded only ten years later in 1977. Among the major reasons for its failure were the increasingly difficult political situation in Uganda (under Idi Amin); and the differing economic directions taken in Tanzania (towards socialism) and Kenya (towards capitalism), the Community's largest economy.

The EAC was officially revived in 2001, a process in which Tanzania played an active role. Tanzania has since, in 2005, joined the EAC Customs Union, which aims at completely free internal trade, and has set out ambitious goals vis-à-vis the customs union's external tariff. It

will operate within three bands only, the highest being 25% (applicable mainly to finished goods). The middle band, at 10%, is predominantly for intermediate goods; all capital equipment, raw materials, and meritorious goods (like pharmaceuticals) are placed in the bottom band, which is zero-rated. This is a significant commitment (on behalf of all EAC members) to external and internal (within the customs union) liberalisation.

Tanzania is also a member of the SADC Trade Protocol, and is steadily implementing its commitments in that regard. Due to liberalisation under the SADC Trade Protocol and the EAC, Tanzania's tariffs are now below the (simple) average for SADC as a whole, a reduction since the mid 1990s of 7% (Mashindo et al., 2006, p. 104). Tanzania is also undertaking an active trade facilitation programme, including measures such as legal and regulatory reforms, improved technical capabilities, and research on the links between poverty and trade.

The biggest challenge facing Tanzania's trade policy and future strategy is its membership of multiple regional arrangements in Africa: SADC and the EAC. The EAC is already operating a customs union, which is one of SADC's medium-term goals (by 2010). Since no country can be a member of more than one customs union, tough choices lie on the horizon. In the meantime, there are significant transaction costs associated with multiple membership, caused, for example, by the business complexities of having more than one set of rules of origin for the same product.

Overall, it is clear that Tanzania is attempting to cement an orthodox approach to macroeconomic and trade policymaking. More importantly for SADC integration is the fact that Tanzania has crafted and is following a national convergence plan, implying that the targets in the SADC MoU on Macroeconomic Stability and Convergence are important considerations when policy decisions are taken. On the trade front, Tanzania has, through its EAC commitments, undertaken to implement significant tariff reductions and other forms of trade liberalisation. Indeed the regional integration agenda seems to be the only important driver of trade policy in Tanzania, a situation that is not necessarily desirable over the longer term.

## Zambia

Zambia's recent economic history is not dissimilar to Tanzania's. Zambia too spent many years experimenting with import-substitution-based socialism, beginning structural reforms as recently as 1989. As in all cases where Structural Adjustment Programmes (SAP) driven by the International Financial Institution (IFI) were implemented, these reforms involved two broad areas: macroeconomic stabilisation, and a significant reduction of state intervention in the economy (through subsidies, state owned companies, price controls, tariffs, and so on). Of these, privatisation of some state assets, reform of remaining state companies, and reform of the civil service are ongoing.

Importantly, all of these reforms were driven or dictated by IFI and bilateral donors, and pay no attention to SADC targets. During the 1990s, Zambia produced a variety of planning and other policy documents to ensure ongoing donor support. These include(d) (Mwanawina, 2007, p. 22):

- Public Investment Programmes (2000-2002 and 2001-2003)
- Sectoral Investment Programmes
- Five-year Institutional Strategic Plans
- Zambia's PRSP (2002-2004)
- A three year rolling Medium Term Expenditure Framework (MTEF)

The PRSP and the new Transitional National Development Plan (TNDP) set out Zambia's development goals and currently guide medium and long term macroeconomic policymaking. However, they work within the parameters of the three-year IMF Poverty Reduction Growth Facility (PGRF), funding for which comes to an end in 2006. The effectiveness of the loan was enhanced by debt relief under the Heavily Indebted Poor Countries (HIPC) initiative of the World Bank. More relief came in the form of the G7 debt cancellation drive, which committed to writing off 100% of all outstanding HIPC debt. Zambia now owes external governments and institutions only USD 500m.

While all these different initiatives and frameworks seem confusing, they are all intended to bring about greater macroeconomic stability, an economic environment more conducive to investment and private sector development, and ultimately growth, jobs, and poverty

reduction. Moreover, these goals and the corresponding policies are moving Zambia in the direction required by the RISDP, despite not being informed by the RISDP targets themselves. For example, Zambia's 2005-07 macroeconomic goals were to (Mwanawina, 2007, p. 25):

- Average 5% annual real GDP growth
- Reduce inflation to 5% by 2007
- Reduce the fiscal deficit to 0.7% of GDP by 2007
- Build international reserves sufficient for 1.3 months import cover by 2007
- Reducing external and internal debt

Specific targets for 2005 included:

- Increasing spending on poverty reducing programmes to 13% of GDP or 42% of the total budget.
- Restricting growth of the money supply to 16%
- Maintaining stability in the foreign exchange market

Some of these goals make it clear that in some areas Zambia has many challenges to meet if it is to achieve the targets in the MoU on Macroeconomic Stability and Convergence in the required time frame. Nevertheless, as mentioned above, and if these targets can be achieved over the medium term, the country will be taking positive steps towards converging on SADC target levels.

Zambia's major problem has always been and continues to be demand management. Fiscal policy has been restrictive since the mid-1990s, but since 2000 it has also begun to focus on incentives to stimulate the supply-side of the economy. Included in this was a reduction in tax rates and concomitant drive to widen the tax base. These measures are needed in order to better balance domestic demand and supply, which, if achieved, would encourage greater price stability, more stable public revenue flows, and so on. It would also ease the burden on the current account of the balance of payments.

However, fiscal restraint is not without costs, and in Zambia's case cuts to current expenditure have led to deterioration of vital physical and socio-economic infrastructure. Capital expenditure has also not kept pace with requirements. These two trends have jointly contributed to the creation of an environment hostile to private sector development;



business costs are high, and human capabilities are lacking. Compounding these, and the reforms above notwithstanding, is a tax policy that has "...revolved around the need to generate revenue rather than creating an efficient allocation of resources" (Mwanawina, 2007, p. 26). And tax reform during the 1990s has arguably worsened the situation, with marginal rates being reduced selectively, ad hoc exemptions being common, and the incentives for those not escaping the net to evade payment increasing.

The Bank of Zambia is in charge of Zambia's monetary policies, as well as being responsible for supervision of the country's financial sector. Its primary functions are to (Mwanawina, 2007, p. 28):

- Licence, supervise and regulate the activities of banks and financial institutions so as to promote the safe, sound and efficient operations and development of the financial system
- Promote efficient payment mechanisms
- Regulate all matters relating to the currency
- Support the efficient operation of the exchange system
- Advise Government on matters relating to economic and monetary management

Unlike fiscal policy, monetary policy in Zambia is not restrictive, with real interest rates having been negative for many years. This has not, however, resulted in the increased savings and investment that were expected when this more liberal interest rate policy was adopted. It has also arguably allowed money supply growth to advance too rapidly, which would in turn fuel inflation.

Structural adjustment policies also meant that, in 1993, Zambia's exchange rate became fully market determined; this was done to rationalise and stabilise demand and supply for the Kwacha. This does not mean, however, that there is a strict policy requiring the BoZ to refrain from intervening in currency markets for stabilisation purposes. Nevertheless, exchange rate volatility in Zambia has been problematic, and, according to some studies, is heavily influenced by flows of donor funds. Because these are often not driven by economic relationships, their impact on the exchange rate is sometimes difficult to predict and, therefore, manage (Mwanawima, 2007, p. 31).

Trade liberalisation has been the most pronounced element of Zambia's structural adjustment, and has much attention. Needless to say, many blame Zambia's current problems on the rapid and comprehensive opening of both its trade and international financial transactions regimes.

Official non-tariff barriers had been significantly reformed by 1990, as had an array of licensing restrictions on exports. As early as 1993, Zambia's tariffs ranged from a minimum of 20% to a maximum of 40%, and the 10% import licensing fee had been abolished. Further tariff reduction was initiated under the IMF-World Bank-EU-African Development Bank sponsored Cross Border Initiative (CBI) , and again when Zambia joined the COMESA FTA in 1999.

The CBI initiative called for the following from participating countries:

- removal of all tariff barriers on intra regional trade by 1998
- immediate abolition of all non-tariff barriers
- minimisation of the risk of trade diversion and promotion of integration into the world economy
- harmonisation of external tariffs by the end of 1998 with no more than three non-zero rates, an average trade weighted tariff rate of 15%, and a maximum of band of 20-25%.

Joining the COMESA FTA has taken Zambia's liberalisation, especially vis-à-vis countries in its region, a step further. Zambia's trade-weighted average MFN tariff came down to 12.3% after implementing the COMESA FTA reduction requirements; on intra-COMESA trade it dropped to a low 4.9%. Non-zero tariffs on intra-COMESA trade now range from 2% on some raw materials and capital equipment to 10% on finished goods (exemptions and rebates for the importation of capital equipment for projects under the oversight of the Zambia Investment Center notwithstanding). Tariff liberalisation will have proceeded under Zambia's implementation of the SADC Trade Protocol, but the net result is not yet clear as Zambia is in the group of countries that was allowed to backload its reduction commitments.

Zambia is a member of the WTO, and also benefits from preferential access to the EU under the Cotonou Agreement and to the US under AGOA. However, the supply response has been limited, with non-

tariff barriers (such as standards) and competition from other preference-receiving countries being cited as reasons why. Zambia is also a landlocked country, which significantly increases the transport costs of exporting to major OECD markets.

## Malawi

Malawi is, like Zambia and many other SADC countries, formulating macroeconomic policies according to criteria unrelated to the targets set out in the MoU on Macroeconomic Stability and Convergence. It has not as yet formulated a SADC macroeconomic convergence program.

It is also a country still dealing with the consequences of structural adjustment, and its policy direction is primarily influenced by its access to the IMF PRGF and the World Bank's enhanced HIPC initiative. Malawi was required by the IFIs to formulate its PRSP in order to be able to benefit from debt relief under the HIPC and the PRGF. It drew on a range of previous Malawian policy experiences, including the Poverty Alleviation Programme (PAP), the 1987-1996 Statement of Development Policies, and the Social Dimensions of Adjustment Project (designed to minimise the social costs of SAP).

Two further plans have been developed since the advent of the PRSP: the 2004 Malawi Economic Growth Strategy (MEGS) and the 2006-11 Malawi Growth and Development Strategy (MGDS). MEGS was conceived to complement and address perceived problems with Malawi's PRSP, which included, *inter alia*, too little attention on the role the private sector should play in increasing growth and reducing poverty, and too much attention afforded to the development of small-scale enterprises, to the exclusion of larger ones.

However, the MGDS has now integrated, built upon, and replaced both the MEGS and the PRSP. It is currently Malawi's primary policy framework for achieving the targets set out in the country's Vision 2020, and also in the country's MDG. It retains the four pillars of the PRSP (sustainable growth, social protection, social development, and good governance) and adds infrastructure development as the fifth. Its overarching goals are to (Chipeta, 2006, p. 62):

- resume economic growth fast enough to bring about the Government's Vision
- create new wealth for the people and more jobs
- gradually emerge as an industrial nation capable of transforming agricultural primary commodities, other raw materials and minerals
- transform Malawi from a predominantly importing and consuming country to a producing and exporting country
- increase supply of goods and services for domestic and international markets
- increase domestic and foreign financing and investment in agricultural processing and industrial production.

These are clearly uncontroversial, long-term goals. How to achieve them is by far the more difficult policy challenge. With such a bewildering array of policy frameworks, plans, and projects that Malawi has formulated, replaced, and discarded over the years, the risk of losing focus and coordination at the implementation level is high. And despite the fact that all argue in favour of the same intermediate steps, such as macroeconomic stabilisation, improved governance, and a need to address a range of social issues such as HIV&AIDS, "... there is insufficient selectivity and prioritisation [in the MGDS document], especially with respect to focus actions for agriculture, education, health and transport ... in some cases there is insufficient distinction between strategies, the means adopted for addressing particular problems, and policy objectives ... A policy objective is not a strategy and a strategy is not a policy objective" (Chipeta, 2006, p. 64).

However, over the short-term the PRGF (which runs from 2005-08) objectives, and the policies they require, take precedence. These objectives are to (Chipeta, 2006, p. 60):

- raise the rate of economic growth to 6% per year, with an emphasis on rural incomes
- run a fiscal surplus to reduce the government's domestic debt to less than 15% of GDP from over 24%
- reduce core inflation to the 5-8% range
- build international reserves to at least two months of imports; and
- increase health services and educational opportunities

Notably, only four of the eight main SADC macroeconomic targets are mentioned in the PRGF and the MGDS. These are core inflation, the GDP growth rate, the fiscal balance, and gross reserves; excluded are central bank credit to government, the current account deficit, external debt, and the domestic savings rate. Moreover, the targets that are mentioned in the PRGF and the MGDS are not the same as those required by the MoU on Macroeconomic Stability and Convergence.

Nevertheless, the PGRF and the MGDS guide macroeconomic policymaking at present. The PGRF lays out specific fiscal targets that the government must meet in order to retain access to the facility. These targets strongly incentivise prudence, with an emphasis on trying to attain and then maintain a balanced budget. Government revenues targets were easily met, and spending is becoming more transparent and better regulated. For example, line ministries are now required to submit expenditure returns each month. This ensures not just that budget constraints are observed, but that the funds are actually spent. In many African countries a lack of skills in the civil service often results in under-spending by departments and other government institutions.

Monetary policy is watchful. Inflation is a perennial problem in Malawi, so efforts are focused on reducing money supply growth. Presumably, Malawi lacks the financial depth for the central bank to be able to control monetary conditions with interest rates. The PRGF's target for core inflation is 5-8%, which happens to be within the SADC target for 2008 and, if 5% is achieved, 2012.

However, a significant concern stems from the fact that Malawi's monetary policy is not yet the sole domain of an independent central bank. Given the voluminous literature arguing against governments being allowed to control an economy's monetary conditions, it is good to see that is slowly being addressed as part of a SADC-wide initiative. The sooner Malawi's monetary policy is controlled by an independent central bank, the sooner monetary policy becomes credible. Until this is the case, however, inflation expectations in the economy are essentially unmanageable.

Adding to the concerns over Malawi's ability to effectively control inflation is its willingness to intervene in foreign currency markets to influence the exchange rate. Most often these adjustments are downwards, in order to stimulate exports and reduce imports (Malawi's

current account deficit is also a long-running concern). However, these depreciations are often if not always self-defeating, as they feed directly into domestic Malawian inflation. This erodes, in terms of the real exchange rate, any temporary competitiveness gains afforded by the nominal depreciation (although South Africa does not seek to influence its exchange rate, market-driven depreciations yield similar results). Moreover, as mentioned, it fuels inflation, which is already difficult to control.

Malawi's trade policies are, like Zambia, largely a function of structural adjustment programs, beginning in 1981, which sought to free the internal market, diversify the export base, and simultaneously integrate Malawi more effectively with the world economy. Liberalisation began in earnest in 1988, and at first was largely unilateral. Maximum tariffs of 70% in 1988 were reduced to 25% by 1999; exchange controls for imports of non-essential commodities were abolished in 1988, while the removal of licensing requirements followed in 1997. Tariff rationalisation also took place with the integration of customs duties and special import levies into one tax, and by reducing the number of tariff bands. Exports were also boosted by removing export taxes and the export surrender requirement.

These unilateral initiatives were complemented on the bilateral front. Indeed, of all SADC members, Malawi has the highest number of bilateral trade deals with Southern African countries (three so far, with Botswana, Zimbabwe and South Africa; negotiations with Zambia were concluded in 2002, and with Mozambique in 2005, but nothing has been implemented; Swaziland and Tanzania are also under consideration). One may ask why Malawi's activity on the bilateral front is so high when it is also party to the COMESA FTA and the SADC Trade Protocol. The reason is primarily to do with the SADC Trade Protocol's restrictive rules of origin, which Malawi has generally been able to improve upon in bilateral negotiations.

Malawi acceded to both the COMESA FTA and the SADC Trade Protocol in 2000, although the latter is planned to become a full FTA by 2008 only. Liberalisation under the Protocol has proven challenging. All Category A products (capital goods and raw materials) were designated for immediate liberalisation, with which Malawi has complied fully. Countries were also required to be phasing down

tariffs on Category B goods (intermediate inputs of various sorts) as soon as the Protocol came into force, but Malawi has not done so, citing budgetary constraints. However, tariff revenue on intra-SADC trade cannot be significant, as intra-SADC trade is generally a very small proportion of each member's total global trade. More likely reasons include fear of competitive pressure, and the fact that Malawi is on the list of countries that were allowed to backload reduction commitments.

Malawi has also been a member of the WTO since 1995, and is an active participant in the Doha Development Round. However, these multilateral negotiations apply little pressure to Malawi to liberalise further, for two reasons. First, Malawi's tariffs are already quite low. And second, as a Least Developed Country (LDC), Malawi is afforded significant special and differential treatment, meaning that it will be virtually exempt from undertaking any reform in this Round.

Finally, Malawi has also benefited from preferential access to the EU through the Cotonou Agreement and the Everything but Arms initiative; and to the US through AGOA. It is currently partaking in the EPA negotiations with the EU, which are required to turn Cotonou into a WTO-legal reciprocal agreement.

## Mozambique

Mozambique continues to recover from its devastating civil war, which officially ended in 1992, as well as the 2000 floods, and is now consistently amongst Africa's most rapid growers. Importantly, in the contemporary African context, this is being achieved in the absence of oil.

Mozambique's long-term goals are captured in the 2025 Agenda, a comprehensive document that guides policy on all levels. Its four 'pillars' are to seek improvements in (Sambo and Ubisse, 2006, p. 63):

- Human capital (education and health)
- Social capital (peace and political stability, ethnic diversity and national cohesion, social justice, regional asymmetries)
- The economy and development
- Governance

Mozambique employs five year plans, called Government Programmes, formulated after each election cycle, to work towards the 2025 goals. These are generally broader than the specific items and targets set out in Mozambique's PRSP, but the current Programme (2005-09) is certainly in consonance with what the PRSP is seeking to achieve. Areas of intervention include education (at all levels), health (from basic care to combating the 'big three', namely HIV&AIDS, tuberculosis, and malaria), physical infrastructure, rural and agricultural development, governance and the rule of law, and good macroeconomic management.

Fiscal policy in Mozambique has undergone substantial reform over the years. It now consists of three distinct elements, viz., the Medium Term Fiscal Scenario (MTFS, which has a five year horizon), the Economic and Social Plan (PES, which is annual), and the State Budget (also annual). Until recently coordination across these has been lacking, meaning that there are weak links between the stated aims (of the Government Programme and the PRSP), the planning instruments, and the policies themselves. However, the MTFS is now being used to coordinate more effectively the medium term goals and the annual spending (as done under the PES and the State Budget).

Specifically, the MTFS hopes to achieve the following (Sambo and Ubisse, 2006, p. 85):

- Improving budgetary discipline
- Improving the inter-sectoral and territorial allocation of resources
- Predicting better the resources available for implementation of the PRSP
- Promoting efficiency in the utilization of public resources
- Provide credibility and legitimacy to the planning and budgeting processes

The desire to improve internal revenue generation in the last decade has resulted in significant tax reform and improvements in collection. These have led to a reduction in marginal tax rates and an expansion of the tax base. A value added tax has also been introduced, tax administration has undergone continued modernisation, and increased levels of transparency in the use of public funds have been achieved.



However, internally generated revenues have not grown significantly, and reducing the fiscal deficit has thus proven problematic.

Indeed, despite the reforms, government revenues as a percentage of GDP have remained relatively stable at about 12% over the last six years, and, worryingly, tariff revenue as a share of government funds has increased in the last five years. If Mozambique is to liberalise its trade regime without contributing to macroeconomic stability, this trend must be reversed. One immediate improvement in revenue will come from the tax that some of Mozambique's mega projects (e.g. the Mozal aluminium smelter) are due to begin to pay. Reinforcing this will be a concomitant reduction in fiscal incentives that were provided to these projects in the investment phase.

Also encouraging is that, although the fiscal deficit (before grants) remains stubbornly above 10% of GDP, government spending as a share of GDP is not escalating. Current expenditure has hovered around 13% of GDP, while investment spending has varied from 3.5% in 1999 to 14.4% in 2001, down to 9.4% in 2003. Nevertheless, the importance of grants to the stability of Mozambique's public finances should not be ignored. For example, in 2004 the fiscal deficit was reduced from 11.7% of GDP to just 4.4% by inflows from grants (foreign aid accounts for about half of Mozambique's annual budget). As with the growing reliance on tariff revenues, steps must be taken to ensure this situation does not become a structural problem.

Monetary policy is the sole domain of the Bank of Mozambique. The Bank is expected to take the following into consideration when formulating its policies (Sambo and Ubisse, 2006, p. 89):

- Orient credit policy towards promoting the country's economic and social development
- Discipline private sector banking activities
- Manage external provisions in order to maintain an adequate volume of payment instruments necessary to international trade

Mozambique is a classic case of a developing country lacking financial depth. The weak, relatively unsophisticated financial system cannot manage risk well, resulting in low access to credit (even by Sub-Saharan African standards) and high interest rates. These are serious impediments to private sector development in Mozambique.

Deepening Mozambique's financial system is thus a top government priority.

The 1992 law creating the Bank of Mozambique states that its primary role must be to preserve the value of the Mozambican currency, the Metical. However, "The country has a flexible exchange rate regime without Central Bank intervention" (Sambo and Ubisse, 2006, p. 89). Furthermore, Mozambique also aims to keep inflation below double-digit levels (although it is not clear whether this is an officially adopted policy). If the Bank never intervenes in foreign currency markets, and if that is an officially adopted policy, it is not clear how the Bank could easily adhere to its primary mandate of protecting the value of the Metical. Furthermore, Metical fluctuation would influence inflation rates. In the absence of an explicit policy to keep inflation low, the Bank's role in fighting inflation is also not clear. In general, central banks cannot simultaneously target the exchange rate and the inflation rate, as policies focused on one also influence the other, but tend to act in opposing directions.

Given these challenges, it is clear that Mozambique has much to do to ensure that its monetary policy framework, together with the financial systems it governs, are able to contribute to macroeconomic stability into the future.

Mozambique's trade policy is focused on improving market access (especially OECD markets) for its exports, as a means of catalysing and expediting modernisation and industrial development in the economy. Mozambique pursues this objective through the WTO, which it joined in 1995, and through regional and bilateral initiatives. Concerning the latter, it is party to the Cotonou Agreement (and the associated EPA negotiations), the SADC Trade Protocol, and has separate agreements with Zimbabwe and Tanzania. Mozambique has also secured a Trade and Investment Framework Agreement with the USA.

Most economists will argue that trade policy is not just about securing better market access for one's exports. Indeed, by far the larger gains arise from the reforms to domestic policies and regulatory frameworks that trade liberalisation necessitates or encourages. Mozambique has embarked on a trade liberalisation program, reforming tariffs (in 1996 and 2002) and removing other barriers to the flow of goods and services. Specifically, the maximum tariff on

final consumption goods was reduced from 35% to 30%, and will decline to 20% (on intra-SADC trade) by 2006 as part of its SADC Trade Protocol commitments (note this does not mean Mozambique's average MFN tariff on final goods will drop to 20% too).

Like many countries, Mozambique's tariffs escalate in line with value addition. The average tariff on raw materials is 2.5%; on fuels 5%; and on equipment and intermediates 5% and 7.5% respectively (merchandise classifications as described in Sambo and Ubisse, 2006, p. 93). However, tariff revenues aside, it is unclear why there should be a tax on the imports of raw materials and fuels-this only raises input costs in the economy, and steps should be taken to create the conditions that would allow these to drop to zero.

Last, Mozambique has also taken steps to upgrade its customs procedures and simplify documentation requirements, and to improve capacities to manage border transactions more efficiently and effectively. These initiatives all help to facilitate trade, which is a necessary supporting measure if the benefits of changes to higher-level policies are to accrue.

### 2.1.3 Indian Ocean Island Countries

#### Mauritius

**M**auritius presents an interesting case in the SADC integration debate. It is situated a long way from Africa's east coast, and has little in common-historically, culturally, or politically-with the continental states that decided in 1980 to form the original Southern African Development Coordination Conference (SADCC). Being an island state that has had to 'go it alone' for long periods, it is also arguably much more concerned with its global links than its links with Africa specifically. Nevertheless, Mauritius joined SADC in 1995, is party to the SADC Trade Protocol, and is committed to the SADC integration project.

Mauritius's macroeconomic outlook is guided by a long term strategy known as 'Vision 2020'. The original, forward-looking study was undertaken in 1997; the Government published the 'National Strategy for Sustainable Development' in 2000. This medium-term policy framework has the following broad ambitions (see: Sobhee and Bhowon, 2007, p. 105):

- Open and equal opportunity for the talents of all people
- Good governance
- Innovative development in applied science
- Technology and applied entrepreneurial management
- Greater emphasis on promoting consumer interests
- Sound macroeconomic management
- Improving infrastructure and support services
- Enrichment of human resources
- Partnership development beyond the national frontier

Sustaining and improving Mauritius's economic growth record is the overarching goal towards which each of the above is expected to contribute. Remaining open to the global economy, coupled with good macroeconomic management, are considered vital for increasing the recent 3-4% growth rates to 5-6% over the medium term. The sugar industry, manufacturing, tourism, and financial services are expected to be key drivers in this regard.

However, Mauritius's sugar sector faces serious challenges in the near-term resulting from the EU's sugar reform program, which will severely limit the preferences Mauritian exporters have enjoyed for many years (a similar story applies to Mauritian clothing and textile exports to the USA and EU, although Mauritius does still enjoy preferential access to the USA market under the African Growth and Opportunity Act). Competition in the EU market - where most of Mauritius's sugar exports are destined - will intensify, with many expecting Brazil to make large gains in market share.

Over the period 2001-05, good macroeconomic management has contributed to Mauritius being able to consistently achieve all but one of the targets set out in the MoU on Macroeconomic Stability and Convergence. The budget deficit, which hovers between 5% and 6% of GDP, is the only indicator Mauritius has had limited success with (see the previous chapter for more details on Mauritius's successes and failures regarding macroeconomic convergence).

Mauritius, therefore, does not exhibit the same sort of fiscal discipline that has been achieved in Botswana and, to a slightly lesser degree, South Africa. Over time, this places a significant and steadily increasing burden on the fiscus, as total debt rises along with the costs of servicing it. In Mauritius, total debt as a share of GDP has risen from 47.4% in

1999 to 60.9% in 2003, while debt servicing as share of GDP has risen sharply from a low of 2% in 2000 to just over 6% in 2003. If these trends are not reversed, they will pose risks to macroeconomic stability in Mauritius in the not-too-distant future.

However, that is not to say that the budgeting process itself is not transparent and disciplined, or that accountability is lacking. Indeed, Mauritian budget estimates often turn out to be accurate predictors of actual spending undertaken by the government. The principal failing seems to be ineffective spending, i.e., Mauritius " ... fails on the other two core budgetary outcomes: allocative efficiency and effective service delivery" (Sobhee and Bhowon, 2007, p. 43). Addressing these implementation issues may contribute to a lower overall projected spending, in turn reducing the deficit over time.

On monetary policy, the central concern at present is excessive monetary growth (liquidity) in the Mauritian economy, and the inflationary implications thereof. A recent rise in net foreign asset ownership has injected more liquidity at the Bank of Mauritius than has been able to sterilise through bond issuance. However, sluggish private sector credit extension and low inflationary expectations seem to have effectively offset any potentially negative consequences of this rise in liquidity, and inflation has not increased to any significant degree. Another contributing factor is the benign global conditions (especially low global inflation) that have prevailed since about 2002. Nevertheless, the Bank of Mauritius, in August 2005, raised interest rates by 1% to offset future inflation growth.

Overall, the principal aim of the monetary authorities is to ensure monetary growth is consistent with the country's inflation target and forecasted growth in real activity. This is achieved through changes in interest rates, although it is not clear whether or not Mauritius operates under an official inflation targeting monetary policy regime. Fortunately for Mauritius, both its nominal and real exchange rates are not volatile (a 30% depreciation/appreciation has taken 10 years), although maintaining stability of the real exchange rate is a policy goal.

As mentioned, Mauritius is an open economy, reliant on trade for a significant portion of its good overall economic growth and performance. In response to the worsening economic conditions and failed attempts at import substitution, experiments with Export

Processing Zones (EPZ) began in the 1970s. As it rapidly became evident that these EPZ on their own were not providing the intended solutions to Mauritius's problems, a host of other structural reforms were also undertaken. These included, inter alia, better exchange rate policies, restraining wage growth, reducing public deficits, and more liberal trade policies. Many of these reforms are ongoing, but conditions were improving, particularly in the export sector, as early as the 1980s. Mauritius today remains committed to achieving an open, liberal economy, part of which involves ongoing liberalisation of the trade regime.

Trade reform has involved a simplification of and reductions in tariffs, especially since 1994, and the elimination of a host of non-tariff barriers. Regarding the former, Mauritius has succeeded in reducing the number of tariff bands from 60 to just 8, and the highest tariffs from 600% to 80% or below. However, it should be stressed that 80% is high by today's standards, implying that work remains in reducing tariff peaks.

The Ministry of Foreign Affairs and International Trade takes the lead in this regard, but works closely with the Finance, Industry, Economic Development, Health, and Agriculture Ministries. Consultations with relevant business stakeholders take place under the auspices of the Joint Economic Council, an umbrella organisation for business groups, and the Mauritius Chamber of Commerce.

In addition to the WTO, Mauritius is a member of a number of regional organisations, including the Indian Ocean Commission (IOC), COMESA (since 1982), and SADC (since 1995). It was one of the first to liberalise trade with IOC and COMESA partners, and, under its SADC Trade Protocol obligations, 85% of tariffs on imports from SADC members will be reduced to zero by 2008, and by 2012 all tariffs will have been eliminated.

Mauritius was a founding member of COMESA, established in 1982. Its commitment to that regional organisation is thus considerably older than its SADC membership. Under the COMESA FTA, in force since 2000, Mauritius's COMESA trade has increased greatly, but remains a relatively small part of Mauritius's global trade (about 6% in 2004). This may increase further when the COMESA Customs Union, to which Mauritius is a signatory, is implemented. However, it is clear that COMESA, and therefore probably SADC too (SADC trade is only 3%

of Mauritius's total), does not represent a very important portion of Mauritius's overall external trade.

But more important, since Mauritius is a member of many different regional organisations, "... national trade policy is not tinted by a specific SADC colour..." (Sobhee and Bhowon, 2007, p. 65). If anything, because of the presence of South Africa, Mauritius is more defensive in SADC than it is in COMESA or the IOC. It has not gone unnoticed that, before reduction commitments Mauritius made under the SADC Trade Protocol, its tariffs were amongst the highest in SADC. It is also no coincidence that negotiations under the SADC Trade Protocol were intense, with Mauritius seeking to protect as much as possible. Reportedly, however, since SADC tariff reductions began, few negative impacts have been felt by Mauritian producers, implying that the risks presented by being in a free trade area with South Africa have been overstated.

Mauritian policymaking appears driven primarily by domestic concerns more than SADC priorities. International developments, such as the loss of preferences in the EU, are also very important motivators. Even in the regional context there seems little good reason to assume that the SADC agenda is prioritised by the Mauritian government, since Mauritius is also a member of COMESA. Nevertheless, as is true of South Africa and Botswana, Mauritius is already on target for most of the goals set out in the MoU on Macroeconomic Stability and Convergence.

## Madagascar

Madagascar is a late entrant onto the SADC stage, having joined only in 2004/5. It is thus very unlikely that Malagasy policy up until now has been informed by the goals and targets of the SADC RISDP. Instead, Madagascar's approach to economic policy is guided broadly by its PRSP and the Vision for Madagascar. These dictate the following necessities: continuing the transition from a subsistence to exchange; prudent, responsible management of the economy; and a commitment to openness, both to the region and globally.

Reforms to that effect began in the late 1980s, under pressure from international institutions, notably the World Bank. They were developed

in response to the consistent economic decline since independence in 1960, attributed mainly to state control of productive assets. As such, privatisation and deregulation spearheaded the process. However, growth was not forthcoming until 1997, when another raft of reforms was enacted. Between then and 2001, economic growth rose significantly to average 4.6% annually, the best in over 40 years. This halted during the 2001/02 political crisis, and the country has been in recovery mode ever since.

As such, Madagascar, one of the poorest countries in the world, is only just setting out on its quest for material improvements in the lives of the average Malagasy. The country's PRSP targets an investment/GDP ratio of at least 20%, of which it is intended that the private sector will contribute 12-14%; and an economic growth rate of 8%. All of these represent enormous challenges.

Monetary policy is determined autonomously by the Central Bank of Madagascar (BCM). Its stated aim is to control inflation, as it is believed domestic price stability contributes positively to exchange rate stability. Both would clearly support the creation of the stable macroeconomic environment required for private sector development.

The BCM's main policy levers for controlling credit are the standards found in most parts of the world these days: interest rates and reserve requirements for commercial banks. Madagascar has no official inflation target, but since inflation has been a problem in the past, the BCM tends to adopt a conservative stance. In 2004, for example, the BCM's core lending rate rose as high as 16% to fight a spike in inflation that peaked at just over 14%. Similarly, the reserve requirement for commercial banks was raised from 12% to 15% in 2004.

The BCM is also mandated to keep the exchange rate as stable as possible. It does so by intervening in the market when deemed necessary. Short run interventions are aimed simply at maintaining some balance between demand and supply for Madagascar's currency, the Malagasy Ariary (MGA). Long run management is less interventionist, seeking instead to control internal asset development, thereby regulating demand for and supply of the MGA.

Targeting inflation while simultaneously managing the exchange rate throws up obvious challenges, as the two are co-dependent, and tend to re-enforce rather than counteract each other. For example,



when the BCM raises interest rates to combat inflation, foreign capital inflows tend to rise, and, all else equal, the MGA strengthens, in turn dampening inflationary pressure further. If not managed expertly, such cyclical swings, which can easily go further than policymakers expect, can prove very damaging to macroeconomic stability. Thus the biggest challenge the BCM faces is establishing a balance between external and internal needs.

Fiscal policy since 2003 has prioritised Madagascar's economic recovery, while budget planning with the help of external finance, has focused on some of the objectives of the country's PRSP. Broadly, these are (Rakotonjatovo and Ramilison, 2007, p. 66):

- Better physical infrastructure (roads, ports, airports, telecommunications).
- Development of the human capital (health and education).
- Private sector development (incentives, financial support).
- Improved tax revenues (to reduce the need for tariff revenue and external financing), but through better and more efficient collection and a widening of the tax base, not through increased tax rates.

Total government expenditure rose by a whopping 55% from 2003 to 2004, increasing its share of total GDP from 19.5% to over 25%. A large chunk of the increase is attributable to growth in public investment expenditure (up 91.5%), which bodes well for Madagascar's future. Even more encouraging is that despite these increases, the overall fiscal deficit (including grants) in 2004 totalled a relatively low 5.7% of GDP, although this is substantially higher than the same figures for 1999 and 2000. Therefore, the above-mentioned goal of growing internally generated government revenue is clearly important if public spending is not to contribute to instability over the longer term.

Trade policy reform began in the late 1980s as part of the broader structural adjustment Madagascar was trying to put in place. Since state control and import substitution were the dominant frameworks prior to these reforms, extensive, painful liberalisation has taken place. It has been coupled with a focus on export promotion and better market access for Malagasy exports. The timeline provides a sense of how and when, and to what extent, restrictions on imports and exports have been liberalised since 1987.

- 1987-88: Import licenses cancelled (with some exceptions); other quantitative restrictions simplified; lifting of some import bans.
- 1988-92: Liberalisation of agricultural exports (except vanilla); quality certification limited to coffee, shellfish, meat, vanilla; export taxes eliminated (except on vanilla); export permits cancelled (with some exceptions).
- 1994: Maximum tariff reduced from 50% to 30%.
- 1997: Elimination of vanilla export tax; abolition of limitations on wheat imports.
- 1999: Simplified the tariff structure, with a maximum rate of 30%.
- 2000: free trade with the Comoros, Mauritius, and COMESA

Madagascar's drive for a more open market economy is hampered by its dependence on tariff revenues, which in 2003 still accounted for over half of all tax revenue. However, in the SADC context this is less problematic, as tariff revenue from SADC imports counted for a much lower share (8%). This implies that intra-SADC liberalisation, in as far as revenues are concerned, should not present an insurmountable challenge. Indeed, estimates suggest that fully free trade with SADC countries would decrease overall fiscal receipts by only 1.1%.

Formal non-tariff barriers have been greatly reduced, and these days relate mainly to observing standards. For example, licenses for the importation of telecommunications equipment are needed in order to ensure conformity with Madagascar's communications standards and technologies. Nevertheless, there are still 63 different standards with which imported produce must comply, and for proof of which importers must obtain certificates from the Ministry of Trade. For exports, the only restrictions that remain are in the form of an export tax on wooden products. It is imposed in order to raise funds for Madagascar's re-forestation projects, as well as to curb trade in forest products, which has in the past contributed to significant deforestation on the island.

Turning to trade strategy, as mentioned earlier, Madagascar is striving deeper integration into the world economy. It joined the WTO and COMESA in 1995; the COMESA FTA in 2000 and COMESA Customs Union in 2004; the IOC in 2000 (although tariff reductions as part of this arrangement apply to bilateral trade with only Mauritius); and

SADC in 2004 (acceding to the Trade Protocol in mid-2005). Madagascar is also part of the Eastern and Southern Africa (ESA) group for the ongoing EPA negotiations with the European Union.

## 2.2 Labour Market Policies

Labour market policies and the social-economic realities that inform them are by their very nature more country- and time-specific than fiscal, monetary, or trade policies. International Labour Organisation (ILO) standards and best practice aside, there is also no real objective set of benchmarks against which countries could be compared. This makes the job of cross-country comparisons much more difficult.

That said, however, in many newly independent SADC countries, labour legislation developed in response to worker exploitation under colonialism, or in South Africa's case under apartheid before 1994. Moreover, labour movements often played an important political role in liberation struggles. As such, labour in some SADC countries is well organised, and actively promotes strong protection of worker rights. Moreover, a number of SADC-wide protocols and codes of good practice related to workplace conditions already exist, and almost all SADC countries have ratified the ILO Core Conventions, "... covering areas of Freedom of Association and Collective Bargaining (C.97 and C.98); Elimination of Forced Labour (C.29 and C.105); Abolition of Child Labour (C.138 and C.182); and Elimination of Discrimination (C.100 and C.111)" (Tabengwa and Salkin, 2006, p. 50). Implementation challenges aside, SADC labour market policies certainly do not seem terribly underdeveloped.

However, there are still significant challenges that need to be met. First, because so many of SADC's labourers operate in the informal sector, they by definition have no access to any existing labour regulations, and are thus afforded no protection from exploitation whatsoever. And second, formal labour market regulations and workplace conditions differ significantly across countries in the region. This motivated SADC members to adopt the Program of Action for Employment and Labour. It not only seeks improvements in employee and social protection in member states, but also the regional

harmonisation of the relevant standards and practices. Key focal points are:

- Occupational health and safety
- Social dialogue and social protection
- Productivity improvement (the SADC Protocol on Education and Training is important here)
- Labour standards
- Developing a database on employment and labour issues
- Labour migration

It is hoped and expected that as SADC members reform their labour regulations, they bear these objectives in mind. This would contribute to the creation of a broadly consistent set of regulations in all countries, a critical step in labour market integration. This, in turn, is a crucial precondition for establishing a viable common market in SADC by 2015.

Three more cross-cutting issues should be borne in mind. First, picking up on point five above, regional employment-related data is very poor, with few countries carrying out regular, comprehensive surveys (in South Africa, where such surveys are carried out regularly, changes to definitions and sampling techniques mean that it is still very difficult to accurately track trends).

Second, even if such surveys were commonplace and accurate, a large proportion of SADC countries' workforces operate outside the formal sector. Coupled with the lack of formal sector data, this makes it very difficult to track national trends, and even harder to assess workplace conditions, the quality of workers' skills and training, and various other factors that should inform labour market policy formulation.

Third, and possibly most pressing going forward, the global labour market is changing radically due to the emergence of China and India onto the world stage. This process is integrating well over one billion relatively low cost and productive workers into the global labour market, drastically altering the global division of labour, and placing significant pressure on wages to adjust downwards.

Wage pressure should in principle not be a concern for many SADC countries, as real incomes in SADC are already very low (South Africa,

Botswana, Namibia, Mauritius and perhaps still Zimbabwe are the obvious exceptions). However, wages are not the only costs associated with labour; in SADC, as in many parts of the developing world (but not China), non-wage labour costs tend to be high, incentivizing the substitution of labour with capital (depending on technology), and discouraging investment in workforces. In order to avoid wage-cutting and retrenchment being the primary responses to increased competitive pressures, governments should be making every effort to ensure that businesses are able to cut costs elsewhere, including those non-wage labour costs associated with burdensome regulation.

### **2.2.1 SACU Countries**

#### **South Africa**

South Africa's apartheid past, defined in large measure by gross exploitation of black labour, gross income inequality, and high poverty and unemployment rates, informs every aspect of the country's modern labour market legislation. The Constitutional Court has expressed its view on apartheid as follows:

"Apartheid systematically discriminated against Black people in all aspects of social life. Black people were prevented from becoming owners of property or even residing in areas classified as 'White', which constituted nearly 90% of the land mass of South Africa; senior jobs and access to established schools and universities were denied to them; civic amenities, including transport systems, public parks, libraries and many shops were also closed to Black people. Instead, separate and inferior facilities were provided. The deep scars of this appalling programme are still visible in our society."

The legacy of such pernicious social engineering greatly complicates labour relations in now-democratic South Africa, especially since a large proportion of business ownership and middle management is still white. This is not to imply that white businessmen in South Africa are all racist, but rather to observe the obvious fact that, without transformation at these levels, trust and mutual respect between business and labour will, given the country's history, be difficult to cultivate.

Indeed, these problems of distrust and suspicion, evident in the adversarial nature of business-labour interactions, have motivated a strongly institutionalised set of labour regulations, the spirit of which is rooted in the human rights provisions of the country's 1996 Constitution. The intention is to create an objective, rules-based system for governing industrial and labour relations, particularly as regards dispute settlement and provisions for redress in case of unfair dismissal. The government is strongly committed to enforcing fairness.

The primary institution for dealing with the disputes is the Council for Conciliation, Mediation and Arbitration (CCMA), a quasi-court structure intended to be the first port of call for disputes that cannot be resolved internally. The CCMA, however, does not have jurisdiction over all disputes, and also is not able to reconcile all disputes that are brought before it. These cases are taken to the Labour Court, presided over by judges, not Commissioners. Finally, CCMA decisions do not develop legislation by precedent.

Apart from the Labour Regulations Act, which governs the foregoing and more, South Africa has since 1994 also passed the Basic Conditions of Employment Act, the Employment Equity Act, and the Broad Based Black Economic Empowerment Act. Other aspects of labour legislation concern skills development, employment of non-citizens, labour migration (temporary workers), and minimum wages.

South Africa does not, however, have in place a single minimum wage law. Rather, intensive, sector-specific collective bargaining procedures, driven by powerful trade unions, determine wage rates for different industries. However, these bargaining council determinations apply to a minority of workers (the formally employed). It has been estimated that between 70% and 80% of the country's workers operate outside these arrangements, and are consequently afforded no minimum wage protection whatsoever (Kalaba et al., 2006, p. 52 ff. ).

Of concern is that this system is self-reinforcing, as the formally employed successfully resist any cuts in real wages. This makes it difficult for those outside the formal sector to exert the downward pressure on wages necessary to at least be part of the solution to South Africa's unemployment problem (that is, unemployment in South Africa, or any economy, cannot be entirely structural).

This goes to the heart of the debate in South Africa regarding labour market rigidity. But, as is the case in Mozambique (see below), non-wage labour costs are possibly even more problematic. CCMA procedures, amongst others, and the alarmingly high rate of CCMA activity, make retrenchment of labour costly, in turn dis-incentivizing hiring. This is reportedly especially true for small businesses and entrepreneurs, which should have the potential to be sources of string job creation, but cannot always afford the legal and other costs required to ensure the ability to comply with labour legislation. Instead, labour is substituted with capital.

Adding to the problems are severe skills shortages (particularly technical), health problems (South Africa has one of the highest HIV prevalence rates in the world), low productivity, and a rickety school system. Indeed, although the Department of Education is constantly working on improvement to its policies and to school curricula, the fact remains that South Africa's teachers are not plentiful enough, skilled enough, or paid enough. In general, the legacy of the apartheid state's explicit policy of developing an inferior schooling system for blacks is still very much a problem today. Most worrying is that education spending regularly comprises a large part of the annual national budget, but is evidently not delivering results.

## Botswana

Botswana's labour market regulations divide into two pillars: the Incomes Policy (1972, amended most recently in 2004) and the various acts affecting labour laws. The Incomes Policy's basic *raison d'être* was twofold. The first was to institute a minimum wage; the second was quite different and unusual: to regulate wage growth and avoid rapid increases in income inequality.

At the time, mineral extraction projects and urbanisation processes were just beginning to gather momentum, but in an economy that was still overwhelmingly rural and subsistence based. Hence the government was seriously concerned about potential "manpower shortages, rapid wage escalation, widening income disparities, urban migration, growing urban unemployment and social tensions" (Tabengwa and Salkin, 2006, p. 75). The easiest way to attenuate these problems was to ensure

moderate wage growth in urban areas and on mines. In fact, until quality education and skills development systems could begin to bear fruit (which has since occurred in Botswana, making the Botswana on average the best educated nation in the region), this was seen as essential to ensuring macroeconomic and social stability.

Wage restraint is relatively easy to achieve in government and in parastatals, which in Botswana are both major employers, through statutory means. It is especially important for the parastatals that have been afforded monopoly rights, which is considered necessary in some cases to ensure universal access to services.

The private sector is another matter. Hence elaborate institutional structures-the National Employment, Manpower, and Incomes Council and the Wages Policy Committee-were established and mandated with the task of seeking voluntary compliance with the provisions of the Incomes Policy. 1990 revisions to the Policy, which also renamed it the Revised National Incomes, Employment, Prices and Profits Policy, introduced the following (See: Tabengwa and Salkin, 2006, p. 76):

- Statutory minimum wages in the private sector as a means of protecting Botswana workers from monopsonistic exploitation
- Deregulated private sector salaries for skilled labour, since market forces, the need to remain competitive and the profit motive are "expected to constrain the degree to which salaries can be raised in the private sector".
- Government accepts responsibility for general training for the economy. Employers are expected to train for their specific needs.
- Manpower planning in order to provide important input for planning education and training facilities and programmes.
- Expatriate remuneration should be based on employers getting "value for money", and localising posts at the earliest opportunity.
- Government policy on prices and rents is to encourage competition, which will curtail unjustified increases in prices and excessive profits. Where prices need to be regulated because of actual or potential monopolistic exploitation, prices should reflect costs.
- Increasing productive employment in both the formal and informal sectors is the preferred way to raise social welfare. That would be more sustainable and more likely to spread the benefits of development more widely throughout the country, as well as reduce



the interrelated problems of unemployment, poverty and income inequality.

Botswana's labour legislation is scattered across seven different acts: the Employment Act, the Workers Compensation Act, the Trade Unions Act, the Employers' Organisations Act, the Employment of non-Citizens Act, the Factories Act, and the Trade Disputes Act. Industrial Court precedents also contribute to continual legislative development.

Most of Botswana's labour laws have undergone revision since 1990, to ensure ongoing compliance with international standards. Particular focus has been applied to strengthening collective bargaining procedures and trade union movements (ratification of the ILO Convention on the Freedom of Association and Collective Bargaining took place in 1997). And, in general, these reforms are in line with those that have occurred in other Southern African countries, especially South Africa. Thus they contribute to regional harmonisation goals, and, obviously, the push to achieve fair labour standards across the entire region.

However, recognising that conflicts are unavoidable, Botswana has also paid attention to dispute settlement procedures. Internal dispute resolution is the preferred outcome, third party mediation a second best outcome, while courts are considered a last resort. Most important of all, every effort is made to ensure all dispute settlement procedures are efficient, and cheap. As is the case in South Africa, Mozambique, and other SADC countries, non-wage labour costs associated with impediments to retrenchment are a major disincentive to cost-conscious businesses that might otherwise absorb more labour.

Taking Botswana's incomes policies and labour laws together, it is clear that labour market regulation is highly sophisticated and complex. The institutional-legal structure required to make these laws and policies effective is equally so. Critical to ensuring the system continues to operate smoothly is commitment to the principle of inclusive, cooperative decision-making that gives voice to the concerns of government, business and labour. And, unlike in South Africa where these relationships are often adversarial and hence counter-productive, Botswana affords paramount importance to partnership, cohesion, and

the inculcation of a belief that all parties are working towards similar ends.

However, the fact remains that unemployment, which in 2003 stood at 23%, is still a serious challenge. This is particularly worrying given Botswana's relatively high educational attainment rates. Therefore, the difficult question of whether or not the labour market is flexible enough to absorb Botswana's excess labour must be asked and answered. Social stability and fair labour standards-the two principal drivers of Botswana's labour regulations-are worthwhile goals, but should they be upheld at the expense of that quarter of the workforce that cannot be employed?

## Namibia

Namibia faces the three interrelated challenges of high unemployment (under the broad definition the official unemployment rate in 2001 stood at 31%), high poverty rates, and extreme income inequality (Namibia's Gini coefficient is 0.6; 1 indicates pure inequality). These are all in some way connected to its colonial past, as was the glaring lack of labour-friendly laws and regulations at the time of independence (from South Africa) in 1990. The government response came in 1992 with the Labour Act, amended only once since then, in 2004. It covers, inter alia, issues such as freedom of association, conditions of employment, collective bargaining procedures, occupational safety and health provisions, and social security.

The Affirmative Action (Employment) Act followed in 1998, as it became clear that the country's transformation would require stronger legislation. The Act targets a much more representative workforce (race and gender are both relevant considerations here), requires regular reporting to government by companies with more than 25 employees (thus putting a substantial administrative burden on medium-sized companies), and seeks the implementation of training programmes focused on promoting to higher positions people from formerly disadvantaged backgrounds.

Namibia's labour unions are active, and collective bargaining determines wages in most sectors of the economy. Namibia does not have a statutory minimum wage, but through the collective bargaining process these have been set in the construction, agriculture, and private

security sectors. The 2004 amendment of the Labour Act provides for the establishment of a national wage commission, but such an institution is yet to be created. And, although its exact intended role is not clear, it would assess the merits of an income policy, part of which would presumably be a statutory national minimum wage.

Although there appear to be few restrictions on hiring and firing (employment equity considerations aside), Namibia's labour market is regarded as being too rigid (Schade and Matomola, 2006, p. 57 ff.). National policies on leave (general, maternity and compassionate) and severance pay have been cited as some of the reasons why; minimum wage laws would add to rigidities. However, when compared to other countries in SADC, such as South Africa, Namibia's legislation and regulatory framework seems relatively simple and un-inhibiting.

Rather, Namibia's problems with unemployment are more likely to be functions of more fundamental problems, such as poor skill levels, low productivity (compounded by HIV&AIDS challenges), low investment rates, and generally unsatisfactory economic performance. Outside of the formal education system, a national training system seeks to improve skill levels amongst Namibians. It is regulated by the National Vocational Training Act of 1994, which establishes a number of institutions, including a Vocational Training Board and a Vocational Training Fund (and the levies to finance it), to facilitate apprenticeships and other vocational trainees.

## **2.2.2 Central and Eastern SADC Countries**

### **Zimbabwe**

**Z**imbabwe presents an interesting case. At independence in 1980 there was an obvious need to improve worker protection and workplace conditions. However, labour was poorly organised and politically weak, requiring the government to take the initiative. A minimum wage was immediately introduced, along with a raft of other rules and regulations, many of which afforded extraordinary powers to the Labour Minister (such as control over the termination of an employee's contract). Paradoxically, however, collective industrial action was outlawed, severely limiting any nascent labour union power (although union membership is certainly legal).

Many amendments to Zimbabwe's Labour Relations Act have been passed over the years. None of the changes have altered basic worker rights, but changes made in 1992 under structural adjustment saw government partially withdrawing from the labour market and establishing employer-employee codes of conduct, Work Councils and Employment Councils, and dispute settlement mechanisms. Changes made in 2002 focused more attention on promoting provisions such as protection against workplace discrimination, the right to a democratised work environment and to partake in decisions affecting employees, and so on.

Despite the reduction of the government's direct intervention in labour matters, the Minister still holds far reaching powers. The Minister, for example, still specifies the minimum wage, can instruct employers to grant or negotiate wage increases, or prohibit increases below a chosen amount. However, in reality, the Minister often simply requires employer and employee organisations to partake in Employment Councils and deal with these matters themselves. In other words, collective bargaining processes determine wage levels in Zimbabwe, which become legally binding once finalised.

How relevant is any of this to Zimbabwe's current situation? Unemployment is at record levels (over 70% by some estimates), largely due to the country's deteriorating economy. As production across all sectors, but especially in agriculture, continues to contract, so employment declines. IMF estimates suggest over 350 000 jobs were lost between 1998 and 2004. That number is likely to be much higher now. Until Zimbabwe's polity and economy begin to function normally again, it is impossible to assess whether the labour market is 'too rigid' or not. That is, it is hard to know how labour regulations affect employment levels with such powerful exogenous forces at play.

On the other hand, it is not difficult to analyse Zimbabwe's existing legislation to assess whether or not it is in line with SADC provisions and goals. As and when the government returns its attention to labour issues, these goals will hopefully be high on its list of priorities.

Finally, it must be noted that Zimbabwe boasts one of the best educated and qualified labour forces in SADC. This suggests that once the political and economic turmoil passes, the process of revitalising once highly productive sectors and industries will not be retarded by a

lack of skills. Nevertheless, maintenance of and improvements to the Zimbabwe systems and adult training programmes should not be ignored.

## Tanzania

Like all of the countries discussed thus far, Tanzania struggles with very high unemployment levels (an estimated 30% of the workforce are either un- or under-employed; the official unemployment figure for 2000/01 was 14.8%). The economy simply does not generate enough jobs (about 40,000 annually) to meet the needs of the 700,000 new job seekers entering the labour market each year.

The government, recognising that the causes of unemployment extend far beyond labour market regulations, formulated in 1997 National Employment Policy and the Tanzania Investment Policy, both of them to "encourage investments in industry, agriculture and services in order to create more jobs. The National Strategy for Growth and Poverty Reduction accords resource allocation priority to sectors such as agriculture, education, health, transport and communications and water as a way of reducing widespread poverty and creating employment to the people" (Mashindano et al., 2007, p. 18). Specifically, the following goals have been identified:

- Expanding education at all levels
- Initiating vocational education and training programmes
- Providing incentives for investment in industry
- Introducing funds to assist development activities of women, youths and petty traders

Tanzania's labour legislation, particularly concerning labour standards, is concerned with adhering to international best practice. The country has ratified all ILO standards, and has amended or repealed all existing laws that do not comply. The result of this process is the 2004 Employment and Labour Relations Act. It covers all aspects of worker rights (including union membership and rights to collective bargaining) and worker protection, and delineates explicit employment standards, "... including hours of work, remuneration, leave, unfair termination of employees and other incidents of termination" (Mashindano et al., 2007, p. 117).

Despite very poor employment data-only two labour force surveys have been carried out, in 1990 and 2000-the impacts of these reforms may still be discussed. The main change has been a reduction in public sector employment, offset to a large degree by a rise in private sector employment (although not completely). The informal sector still provides an estimated 60% of all employment. Tanzania thus needs to complement its work on raising investment and growth rates with a strong focus on improving the skills base of the workforce and, ultimately, productivity.

Finally, Tanzania needs to go much further than just bringing its legislation in line with ILO conventions, for two main reasons. First, these relate to labour standards only, which form only one part of a comprehensive set of labour market regulations. Second, Tanzania must ask whether or not following international best practise so closely, which amounts to adopting a 'one size fits all' approach, is appropriate for Tanzania's specific conditions. As mentioned earlier, labour legislation tends to be a function of history, culture, and often unique socio-economic conditions.

## Zambia

Zambia's labour regulations are governed by the National Employment and Labour Market Policy, ratified by the government in 2004. Unlike in many of the countries discussed in this chapter, the central purpose of Zambia's legislation appears to be employment creation and improving efficiency in the labour market. "This policy is seen as one of the measures the Zambian authorities have put in place to reverse the continued economic decline in the country" (Mwanawina, 2007, p. 39).

This does not mean, however, that policymakers in Zambia do not see a need to protect against worker exploitation. Indeed, preventing forced labour, child labour, and discrimination in the workplace; promoting the freedom to associate amongst workers; and improving working conditions and earnings are all elements in the country's labour market policy package. Indeed, aside from deregulating the labour market and making it more adept at responding to the challenges of globalisation, the four broad (social) aims of the policy are (see: Mwanawina, 2007, p. 39):

- Safeguarding the rights at work
- Improving working conditions, equality and productivity of labour
- Provision of social protection/security
- Strengthening social dialogue and labour market information system.

Zambian policy also recognises the desperate need to improve basic and advanced education in the country, as well as adult worker training programs. These systems used to be strong and well-maintained, but began to deteriorate along with the economy's stagnation, a process that began in the 1970s. Now, there are serious challenges in raising the quality and quantity of teachers and vocational trainers, along with the quality of the necessary physical infrastructure (schools, books, etc).

Overall, therefore, Zambian labour market policy clearly seeks to achieve balance between regulations and flexibility, and the supporting systems that feed high quality workers into the labour market.

## Malawi

Malawi adopts a similar 'internationalist' approach to labour market regulation. It is also "...basically consistent with that of SADC. Malawi's labour market policy framework aims at developing harmonious relations in the labour market through promotion and maintenance of industrial peace, provision of social security, employment and job placement services, maintenance and enforcement of occupational safety and health in the workplace, and the development of requisite skilled human resources for national development" (Chipeta, 2006, p. 95).

Malawi's wages and salaries policy underwent major revisions in 1992. Prior to this, from 1964, the government had in place both minimum wage and wage restraint policies. Unfortunately, it had no means for effective monitoring and enforcement, despite the establishment of the Wages Advisory Board and various Councils. Abuse of these policies-workers could arguably have been getting better deals through collective bargaining procedures or some other form of interaction with employers-coupled with an inability for wage revisions

to keep pace with inflation (because they were so infrequent), led to the 1992 re-think.

Public sector wages were indexed to inflation, and revision was required when either the CPI rose by at least 20%, or two years since the last revision had passed. The Wages Advisory Board was strengthened and required to meet at least once annually in order to ensure the smooth operation of this system. Private sector employers were simply expected to follow the public sector's lead.

The government's appropriation of wage-setting in the Malawian economy has historical-political causes. Under colonial rule trade unions and decentralised collective bargaining processes largely determined conditions of employment, including wages. The post-independence government saw a need to reduce the political power of the unions, as well as to reduce labour costs. It thus greatly reduced, by law, the role unions could play in wage setting processes. It also reduced the number of legal unions to just five, one each for the services, agriculture, transport, and construction sectors (manufacturing being the notable exception).

The dilution of union power was further compounded by government seeking a closer working relationship with the Employers Consultative Association of Malawi, an umbrella employers' organisation established in 1963. The resulting power relationship meant workers had very little say in the policies governing their wages or their working conditions.

Reprieve for the union movement came in 1994 with the ending of Malawi's one-party system. The new government moved Malawi back to a situation in which a) unions are legal, indeed encouraged and strengthened, and two union federations now exist; b) wages are set through decentralised collective bargaining processes; and c) tripartite forums, arranged by government, are the official arenas in which labour, employers, government may discuss and negotiate all issues affecting workers in Malawi.

Have these changes reduced distortions in Malawi's labour market? One study, conducted in 1992, recommended that a far more flexible, market-based approach than the one in place then be adopted. Specifically, it suggested that government should assign a greater role to unions and employer associations, and implement a bargaining system. The post-1994 reforms seem to have moved decisively in this



direction. The 1996 Labour Relations Act and 2000 Employment Act build on this by attempting to provide some degree of statutory protection to labour.

Both Acts seek to deregulate the labour market, promote speedy and inexpensive dispute settlement, promote the advancement of human rights as they relate to labour issues, and promote the stability required to attract more investment. Specifically, the Labour Relations Act provides for wages and employment conditions to be determined through collective bargaining procedures, and ensures freedom of association.

However, union membership in Malawi is pitifully low (about 33,000 workers were unionised in 2002), meaning that employers and government still hold sway over much of Malawi's labour-related legislation. This situation will have to change drastically if more Malawian workers are afforded the basic protection provided for in the two Acts mentioned above.

## Mozambique

The World Bank has estimated that the cost of retrenching labour in Mozambique is twice that of the regional average. This is one of the reasons why the country consistently ranks very low on the World Bank's ease of doing business rankings.

As is the case in most countries where labour markets are highly regulated, the costs of compliance discourage employers from hiring new workers. More specifically, they seek ways of substituting labour with more capital. This in turn often means that what protection is afforded applies to a relatively small share of the national workforce (the formally employed). It also often means that informal sector employment accounts for a large share of the national total. Finally, employers operating in tight labour environments are often unenthusiastic about investing in their workforces (with training and other skills development programs).

All of the characteristics listed above are relevant to the Mozambican economy. China and India only magnify the problems. Thus, even if the World Bank's estimates are wildly inaccurate in an absolute, country-specific sense, the fact that the same methods are applied in other

countries and produce figures that are not nearly as high as Mozambique's suggests that serious labour market reform is required.

These reforms should clearly not be limited to simplifying labour laws and increasing labour market flexibility. The government should be equally concerned with improving the quality of the country's workforce. This begins with high quality education and high educational attainment rates, but, for those unable to return to educational institutions, other measures, such as training and skills development programs must be put in place. Since half of Mozambique's population has no education at all, and only 7.5% have secondary or tertiary qualifications, adult training is paramount.

Specifically, Mozambique's country report argues that it could be doing better all of the following (Sambo and Ubisse, 2006, p. 119):

- Decentralize the decision-making about training courses and capacity building contents to the level of training institutions
- At the national level, identification of priority areas, complemented by selected sector analysis should be included in the planning process
- Involvement of employers in all planning processes to ensure more effective implementation of training programs

These of course assume that education and training facilities are of a high enough quality to provide the labour market with the right mix of capabilities. This assumption may not be warranted; and if not, the government should make improving the quality of training institutions a high priority.

### **2.2.3 Indian Ocean Island Countries**

#### **Mauritius**

**M**auritius's Country Report focused more on trends in the labour market (employment, remuneration, etc.) than the regulatory frameworks governing it. As such one must turn to other sources, and in this case the US State Department's Country Report on Human Rights Practices, compiled by the department's Bureau of Democracy, Human Rights, and Labour, is used extensively (see US State Department, 2001).

According to this source, worker rights are well protected in Mauritius, and working conditions are generally of a high standard.

The right to associate and join unions is constitutionally guaranteed, both inside and outside the Export Processing Zones (EPZ). Membership is nowhere near universal, especially in the EPZ, but all workers are protected by the nation's labour legislation.

The government also administers a minimum wage, which varies according to sector. The largest difference in minimum wage levels is between the average of the EPZ and the rest in the economy. Interestingly, the minimum wage in the former is higher. Further, for the majority of workers the actual market pay rates are well in excess of the minimums.

Under the country's Industrial Relations Act, workers also have the right to strike, although there are fairly restrictive conditions on strike action. As such, the government retains a degree of control over strike activity, despite the fact that the incidence of strikes in Mauritius has never been high.

A lack of human resources in the Ministry of Labour means that monitoring and enforcement is a problem, especially in the EPZ. However, voluntary compliance with most regulations is reportedly relatively high. This is probably because Mauritius's Constitution explicitly protects the rights of workers to organise in unions, and to engage in collective bargaining over all relevant issues. This collective bargaining process brings together employers, government, and unions, and negotiated outcomes on wages and other conditions of employment are binding. For public sector and parastatal workers, wages are also always adjusted for inflation, a process overseen by the Pay Research Bureau. This Bureau also compiles five-yearly reports on the state of employment, remuneration, and working conditions in the public sector, and makes recommendations accordingly.

Mauritius is also actively seeking ways to ameliorate unemployment (which, although relatively high by international standards, is amongst the lowest in SADC). These include (see: Sobhee and Bhowon, 2007, p. 82):

Rs 300 million in the 2004/05 and 2005/06 national budgets for training, including:

- Special training programmes in a number of areas, including horticulture, livestock, plumbing and machinery.
- 600 graduates and diploma holders will benefit from the Skills Development Programme.

- Rs 45 million allocated to ICT training for School Certificate and Higher Secondary School Certificate holders. It is targeted to train some 5,000 Certificate holders over a period of 2 years
- Rs 165 million for the (Industrial and Vocational Training Board)
- Special training in air conditioning and refrigeration and automotive trades, clothing and textiles, jewellery, repairs and maintenance of equipment.

Promotion of entrepreneurship:

- Setting up of a Support to Entrepreneurs Programme (STEP) to provide support each year to 5 selected high potential entrepreneurs. An investment grant of 50% of the project value, up to a maximum of Rs 500,000, will be offered to selected projects.
- Establishment within STEP of the Young Entrepreneurs Scheme targeting a selection of up to 100 young entrepreneurs. The package will consist of a grant of Rs 50,000 and a loan of Rs 50,000 with a grace period of 2 years on capital and interest to start-up a business.

Other budgetary support measures:

- Creation of a Workers Hardship Relief Scheme, under which workers facing financial hardship in the future due to closure of their enterprises will receive a one-off payment of Rs 6,000 to meet their subsistence needs.
- A new training scheme intended for developing skilled manpower and increasing productivity in the EPZ is being introduced. 1,000 persons will be trained as machinists; each trainee will receive a stipend of Rs 3,000 per month for the duration of the training.

## Madagascar

Madagascar's labour market regulation - mostly contained in the Labour Code - is relatively well developed, although implementation and enforcement are challenges yet to be met effectively. As was the case with the Mauritius Country Report, Madagascar's lacks information on regulatory frameworks, so information provided by the US State Department is again heavily relied upon here (see US State Department, 2001). According to the State Department, Madagascar's "Constitution

and the Labour Code provide workers in the public and private sectors with the legal right to establish and join labour unions of their choosing without prior authorization ... Approximately 80% of the labour force of 5 million is engaged in agriculture. Union members account for only approximately 5% of the total labour force" .

It states further that, "Both the Labour Code and the Constitution provide for the right to bargain collectively. The code states that collective bargaining may be undertaken between management and labour on the initiative of either party; however, collective bargaining agreements are rare in practice and, where they exist, do not provide necessarily for acceptable conditions of work. The Government often is involved in the bargaining process, in part because of the large percentage of public employees who are union members ... The Labour Code and the Constitution also include the right to strike. This right extends to export processing zones (EPZ) ... The code requires workers to exhaust conciliation, mediation, and arbitration procedures before striking; however, these requirements have not deterred significantly any strikes."

Regarding labour standards, the State Department notes that, "The Labour Code and implementing legislation prescribe working conditions and wages, which are enforced by the Ministry of Civil Service, Labour, and Social Laws ... The Labour Code sets rules and standards for worker safety and worksite sanitation ... Ministry officials monitor labour conditions; however, they usually are able to cover only the capital region effectively" .

Monitoring and enforcement is indeed a problem for the Malagasy authorities: "The International Labour Organization has noted a number of instances in which the Government has failed to bring law and regulation into conformity with existing conventions or otherwise submit texts for ILO review, including those addressing forced labour, freedom of association, safeguarding of machinery, hygiene in commerce and offices, and weight limits. In most instances, these failures indicated legislative and bureaucratic inaction rather than abuses" .

Madagascar's National Policy on Employment, adopted in 2004, is focused more on tackling Madagascar's unemployment problems than on conventional labour market regulation issues discussed above. The

policy hopes to achieve the following (see: Rakotonjatovo and Ramilison, 2007, p. 84):

- Favouring environment convenient to growth, to investment and to employment,
- Supporting private sector,
- Improving the access of the informal sector and the rural sector employees to education and to vocational training for better productivity,
- Developing income-generating activities,
- Ensuring the access of the vulnerable social groups to the labour market.

A range of financial arrangements, institutional reforms, and monitoring-oriented reforms, as well as other accompanying arrangements are being put in place to give effect to the goals and targets set out by the National Policy on Employment. On monitoring specifically, a follow-up evaluation system, requiring the holding of five yearly assessments of the state of employment, as well as the impacts of the Policy itself. This is very likely to be similar to the Mauritian Pay Research Bureau, mentioned above, but in this case not necessarily limited to public sector employees.

## 2.3 Synopsis

On macroeconomic policy in the ten SADC countries studied, the following three broad trends are apparent. First, every country except Tanzania formulates growth and development targets, and the policies it deems necessary to achieve them, with little consideration for SADC priorities. In many countries, especially those in the central and eastern parts of SADC, policy is designed in collaboration with the International Finance Institutions. In SACU, countries design policy according to national priorities where possible; being members of a customs union obviously constraining trade policy options. Namibia's monetary policy is constrained by membership of the CMA. But, as is commonly understood, SACU's trade policies and the CMA members' monetary policies reflect primarily South Africa's priorities. And South Africa does not consider SADC macroeconomic convergence objectives when designing its policies. In short, all but Tanzania are driven by a widely-varying array of national-level (i.e., non-SADC) imperatives. Zimbabwe's are arguably the most fluid, and therefore challenging.

That said, however, the second noticeable trend is that, according to existing policy documents, all countries adhere to very similar policy frameworks. All are committed to achieving macroeconomic stability through orthodox fiscal and monetary policies, and all are committed (in varying degrees) to greater openness to trade and investment. These two broad objectives are not necessarily complementary, as poorly managed external liberalisation can contribute greatly to increased macroeconomic volatility, and arguably has done so in many of these countries. However, all governments seem to realise that globalisation cannot be ignored, and that they must trade to survive, leaving only the question of how best to manage these realities.

Nevertheless, and this raises the third important point, despite this widespread commitment to similar, relatively orthodox macroeconomic and trade policies, the required degree of convergence, within the required time-frame, is not guaranteed. Each of the ten countries faces significant economic and social challenges, and some, such as Malawi, simply will not meet most of the targets. This should not lead to a situation in which the RISDP's credibility is eroded. These countries,

one hopes, will simply need more time.<sup>1</sup> However, in order to ensure the RISDP remains a legitimate SADC policy document, the Secretariat must work harder and more closely with national governments to ensure that they do not lose sight of SADC's goals. This would presumably also require far greater coordination with international organisations, such as the IMF and World Bank, as well as donor countries, all of which play a big role in policy formulation in SADC (especially the central and eastern SADC countries, as well as Madagascar).

On trade policy, each of the ten countries is nominally committed to further liberalisation and deeper regional trade and investment integration. But resistance to liberalisation that actually leads to material changes, especially in the larger economies (i.e. South Africa), is a real challenge that must be met. The African Union's vision of an African Economic Community built on functioning, integrated regional building blocks will never be realised as long as neighbouring countries feel compelled to protect parts of their economies from each other.

The hard question, as always in regional integration schemes, is whether or not so-called 'open regionalism' is desired. Currently it seems that creating 'fortress SADC', whereby internal barriers are low but barriers to the rest of the global economy are high, is what policymakers have in mind, but it is by no means certain that this is desirable (even if the internal barriers can in fact be removed). Much of what SADC economies need for their own development and growth does not exist in the region, and must be procured at the lowest cost possible. On the other hand, a more open form of regionalism, whereby SADC countries open to the world and each other at the same time, poses significant risks to productive capacity in the region, and would diminish prospects for the establishment of regional manufacturing platforms and regional supply chains. However, it cannot be ignored that a single SADC economy, which would be no larger than Turkey, does not offer sufficient purchasing power, scale, or scope, for truly competitive, productive industries to emerge.

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<sup>1</sup> A different view would stress that because of the divergence across countries, the future and success of macroeconomic convergence in SADC hinges less on all countries subscribing to a similar (orthodox) view on economic management, but on the ability of governments to implement policies effectively and bring about real change. Realising this also means that if the policies in use do not affect material improvements in macroeconomic stability, they ought to be reconsidered, even if this risks that country's chances of meeting SADC convergence targets.



On labour market policy, it is very clear that all SADC countries in this sample are strongly committed to protecting worker rights, delivering a high quality work environment, and creating the sort of socio- and political-economic setting conducive to growing the economy and increasing the quantity of jobs available. In many cases the ILO's core principles are adopted in full. This is a healthy situation for SADC to be in. However, it does not mean a) that labour market regulation in any one country is simple or transparent, b) that they are similar across all SADC countries, and c) that they actually contribute to the goals they set out to achieve. On the last point, as is the case in Mozambique, for example, inflexible labour markets almost certainly hamper private sector development, especially small businesses, employment creation, and capital formation. Furthermore, much labour policy is a function of troubled histories, and is therefore politically very difficult to change. Given these problems, it seems clear that SADC has the most work to do in harmonising regional labour market regulations, and ultimately integrating labour markets in more meaningful ways.

The final important consideration concerns policy coherence at the national level. Prudent macroeconomic policies will only be effective if there is strong coordination across fiscal and monetary authorities. More important, even if they are effective, they will not deliver growth and prosperity on their own. All they will achieve is macroeconomic stability. Yet this is crucial to the development of effective policies in other areas, but raises further concerns. Much of the needed reforms in SADC countries imply substantial adjustment in the real economy (but hopefully not of the wrenching kind that occurred under structural adjustment programmes). In order to allow policy reforms to affect real change, the economy must be flexible. Producers must be able to respond to new opportunities, and adjust to new threats. An important part of this is flexible labour markets, one of the hallmarks of all the successful East Asian economies. Another important part is strong, efficacious state machinery, and meaningful interaction and cooperation between it and private actors. Perhaps the most important ingredient is a skilled and healthy workforce.

The list could go on forever. The point is simply that policy harmonisation under the banner of regional integration, while important, must be buttressed and complemented by effective national-level policymaking in *all* of the relevant flanking areas if it is going to spearhead more rapid human development in the region.

### **3 Impact of Policy Frameworks: A Comparative Analysis**

#### **3.1 Relationship between Macroeconomic Policies and the Social Sector**

According to the MoU, numeric targets have been set and these undeniably have got significant impacts on policy making. In this section we address those implications for the social sector. In the first place, the motivation to reduce inflation rates would have positive effects on the welfare of all citizens of any member state because a reduction would increase the real income per capita and hence the purchasing power of each and every citizen. Since inflation disproportionately affects the poor citizens, a reduction would make more goods and services accessible to the poor and needy citizens. Thus achieving the 9% inflation level in 2008 and lower rates ultimately will be a gain for the entire population. Furthermore, lower prices would encourage greater financial resource mobilization, through increased savings as real balances would improve subsequently. This policy of reducing inflation rates would thus be commensurate with the objective of attaining savings ratio of 25%.

Inflation is generally the consequence of persistently high fiscal deficits. To support lower inflation rates, fiscal imbalances have to be reduced, through greater fiscal discipline. Whereby excessive borrowings from the central bank and overall public debt would correspondingly decrease. In fact, reduction in external debt would further help the economy to keep debt servicing low and to arrest the depletion of foreign currency reserves. This is assuming that the reduction of external debt would not be replaced with rising domestic debt, which could result in crowding out private investment.

However, such policies could have severe impacts on the social sector, depending on the respective policy choices. Many member states have huge social spending commitments particularly on education, health and public infrastructure. These are essential but expensive services. Cutting down such expenditure items would impact the social sector badly. Besides, there are support programmes approved for the poor people whose reductions would make poverty worse. In the long run,

fiscal discipline does bring its benefits in terms of greater confidence in the economy inviting foreign investors as well as domestic private sector to increase their investment outlays. Higher FDI and greater domestic investment would trigger higher economic growth. Lower public debt also reduces the future tax liabilities of consumers in each member state where the debt to GDP ratio is very high. In the short run, control over imports and external reserves would lower the standard of living if they were meant for private consumption in the short term whereas in the long run increasing the import cover would ensure less vulnerability to external shocks. Indeed, import cover constitutes a buffer and primarily ensures greater food security at times of economic crises.

Reduced credit from the central bank would ensure that inflation rates are kept low and to the advantage of citizens in terms of higher purchasing power. However, this rule may tighten up fiscal resources and the state might be finding it rather difficult to finance the huge national social commitments instead. While in the short run this policy may constitute a hurdle for the public sector, it would be of great assistance in the long run when greater confidence would have been established among private agents and the international community of investors. Higher FDI and private capital formation would engender more growth, a broader tax base and opportunities for the state to provide such social services which once were sacrificed.

Moreover, encouraging more private sector savings and fiscal austerity would altogether encourage greater capital mobilization in the long run as an essential engine for sustained economic growth and macroeconomic stability. Expansion of the tax base as more growth sets in favours additional financial resources that would help in the fight against income inequality, poverty and other social ills.

The overall view emanating from the 10 countries studied clearly reveals that there may not be any automatic relationship between macroeconomic performance and the social sector. In fact, there may be more conflict between policies aimed to achieve certain macroeconomic targets and the social targets. While the latter would require higher and more customized public expenditures, for instance, to combat poverty, HIV&AIDS, regional imbalances, human resource development and women's empowerment, they would constitute a very heavy burden for the other sectors of the economy and also

tightening of government budget constraint. Thus there exists a trade-off between improvements in the social sector and better macroeconomic performance or faster convergence. In recent years, over the period 1998-2004, with the exception of Mauritius, all the countries have experienced a significant fall in their HDI ranking. The major element explaining this is the drop in life expectancy due basically to the pronounced incidence of HIV&AIDS on the populations of the countries studied. It has proven to be very difficult for governments concerned to take a serious commitment in the struggle against HIV&AIDS due to the increasing pace of infected patients and the accompanying exorbitant medical care required. The lack of financial resources and other prerogatives of these governments have constrained effective public intervention. While there have been marked changes in a positive sense with respect to human resource development and adult literacy, Angola, Mozambique and Tanzania have below average net primary enrolment rates. On the other hand, infant mortality rates have improved due to greater vaccination and immunization in most of the SADC member states but would still be high in countries like Angola, Malawi, Mozambique and Zambia.

The reduction in HDI ranking in all but one (Mauritius) countries is also a sign that overall indicators of the social sector may not be faring well relative to other countries. In Zambia, for instance, compared to other member countries, 'Under-Five Mortality Rate per 1000 Live-births' has increased from 181 in 1970 to 192 in 2002.

In the next part, we analyse each policy separately in order to broaden the discussion and to understand how far these policies may impact on the social sector differently.

### **3.1.1 Policies to Address Inequality and Poverty**

In Mauritius, poverty has been reduced significantly over the past few decades to a level which is reported to be around 11%. This is the fruit of providing free education and specific poverty-related policies such as micro credit and community-based development schemes to empower the poor and vulnerable groups. However, sometimes macrosocial indicators may not correctly reflect other problems such as worsening income inequality, degradation of law and order and increasing insecurity.

As opposed to the case of Mauritius as a small developing island state, Madagascar has widespread poverty very marked regional imbalances between rural and urban in access to safe drinking water, sanitation and poverty level. Policies which have been set up to address the economic and social sectors are impressive but would depend on various factors before they deliver their fruits. Such policies would in fact depend on institutional quality and enforcement as well as the subsequent economic success of the country in the near future.

In Mozambique, with respect to the social sector, poverty remains a central issue. Altogether, accessibility to safe water is still very low particularly in the rural areas, life expectancy has dropped and the number of cases of HIV&AIDS remains high. The increasing growth of GDP over the past five years could be the best channel to redistribute the dividends among a larger segment of the population. The country had 38% of its population earning less than 1 USD per day in 2002. With high inflation, it would be even more difficult for these people to survive. Given that this economy is under construction it is expected to have more socially integrated policies in the near future.

Poverty in Zambia is still a major concern for the government. The country had the highest proportion of people living below 1 USD in 2002 (63.7%). Furthermore, while it has fared relatively well in the other social indicators, there has been a worsening in its HDI from a rank of 153 in 1998 to 164 in 2002. The high public expenditure level has not been successful in reducing poverty in the country nor in improving other social indicators like health care and its derivatives.

With respect to the social sector, the government of Malawi is pursuing the MDG as other member states. However, the achievements to date may not reveal an interesting picture though constant efforts have been made to reduce regional imbalances through rural development and other poverty alleviation programmes. The decline in poverty is in fact too low as there are still more than 50% (52.5%) people who are poor in this country. The analysis of poverty is a major problem due to data limitations. Thus, it would be difficult to keep track of the evolution of poverty and its monitoring in the absence of reliable figures or statistics. As in Zambia, public expenditure level is high and there is yet more to be done when it comes to social security and poverty reduction. Poverty reduction programmes have simply been

ineffective either in reducing regional imbalances or setting up long run human resource development or empowerment support schemes.

In Tanzania, there is still 20% of the population earning less than 1 USD per day and, after South Africa, it is one of the most populated countries being studied. Hence a great number of people are affected by poverty and the policies to combat poverty are still to bear their fruits.

In spite of its smallness in terms of population, Namibia still has a poverty rate of approximately 28%. Emphasis on poverty alleviation schemes is yet to be materialized. Also, actions are being undertaken to reduce societal and regional imbalances as well as improving gender equality and equity in this country.

Poverty in Botswana remain a big challenge and rising unemployment will further exacerbate the problem if proper human resource development plans are not initiated. It has also been found that there exist very few linkage effects among the different sectors of the economy implying that growth of one sector may not necessarily lead to the development of other sectors of the economy. With a small population and a relatively rich economy, Botswana has not been very successful in combating poverty. Income inequality appears to be highly skewed and the government fiscal policy has to tackle this big problem.

In South Africa the poverty gap, reflecting the depth of poverty measured using statistical poverty lines, has been rising in the last years (1995 – 2002). Although the number of people getting less than 2 USD a day has dropped slightly, the number of those getting less than 1 USD a day has increased. This suggests that more and more people are getting poorer, falling from the “relatively poor” into the category of the “absolutely poor”. Hence, the success of policies in achieving macroeconomic targets and the numeric convergence targets has not necessarily helped in combating income inequality and poverty. At this stage, it would be important to observe that spending patterns of public expenditure which are on the ICT and infrastructure may not necessarily comply with those of the RISDP which emphasises expenditures that would directly address the welfare of the poor and needy directly.

For all the countries, labour and trade policies adopted have very little to convey in terms of reducing income inequality, poverty and the vulnerable groups. These policies in fact care to address exclusively job

creation and competitiveness while ignoring the macroeconomic implications for the low income and poor citizens who may not be captured at all in the export-growth nexus.

### 3.1.2 Human Resource Development Policies

In the case of Mauritius, there has been an improvement in the HDI ranking and in general policies adopted have been successful in improving infant mortality rate, life expectancy, people having access to safe water, primary enrolment rate and human resource development at all levels including post secondary. Vocational institutes established in the 1990s have been revitalized to cater for the changing needs and skills of the economy and they have been playing a major role in providing the necessary apprenticeship to the drop outs at primary and secondary levels.

In contrast, the macroeconomic policies adopted in Madagascar, so far, have not resulted in significant improvements in educational attainment. This could be argued from the HDI which dropped from 0.44 to 0.35. In decomposed form, this would be translated into problems in the education, health and quality of life in sub-sectors. The level of illiteracy is still high although the government of Madagascar aims at achieving better educational coverage for all children and altogether tries to improve on the quality of education. With respect to the health sector, infant mortality rate is still high and there is still much to be done with respect to HIV&AIDS pandemic, leprosy and other tropical diseases.

In Mozambique, improvements have been registered in terms of higher literacy rate, school enrolment and reduction in child mortality. Government is committed to improve human capital and has been investing in people rather significantly. Furthermore, while it has fared relatively well in the other social indicators, there has been a worsening in its HDI from a rank of 153 in 1998 to 164 in 2002. Despite this fact, there have been marked improvements in enrolment and literacy rates in this economy. Zimbabwe has already a good stock of human capital acquired through past investments made in people but this stock is threatened as more people are migrating elsewhere due to the problems which currently exist.



In Malawi with respect to human resource development, there is much to be done as well. Besides the limited physical infrastructure and overcrowded classes, there have been high dropouts in schools. Thus the quality of education and human capital formation which are the mantras for high growth performance would in the long run impede on the growth rate of this country. The quality of education has to be improved further to ensure a more productive and competitive work force in Tanzania that could be well prepared for the challenges of globalization. Recent policy developments have shown that Namibia would further improve its human capital stock, both in terms of quantity and quality, with the necessary investment by the public sector. In Botswana, several human resource development programmes have been launched in an attempt to acquire better skills and a more productive labour force. Policies have been successful in South Africa too to improve literacy rates across different age groups and to attain very high levels of enrolment in different sectors of the education system.

As highlighted previously, these policies may have little value to add in terms of fighting against poverty, high income inequality and measures to mitigate the effects of HIV&AIDS on the labour force.

### **3.1.3 Health and HIV Policies**

In the sample of countries discussed, Mauritius and Madagascar have the least number of people who are HIV positive. Particularly in Mauritius, the incidence of HIV&AIDS is found to be significant among drug addicts. The lack of data and follow up by the concerned authorities show to what extent there is ineffective commitment by either the civil society or the government to deal with this issue. In other areas of health, Mauritius has been performing reasonably well following the high expenditure, which the government has been incurring over the past few decades. However, in Madagascar, health care is still a big problem due to the limited budget of the state and the geographically dispersed inhabitants across this big country. Life expectancy has dropped which could play against future sustainable development and cases of HIV&AIDS have increased in recent years.

In other countries where the pandemic has a greater incidence, there are several policies which have been put in place to combat HIV&AIDS. However, each country's ability and effectiveness depends on the financial resources it has at hand. While in all other areas of health care there have been major improvements, be it in vaccination, child mortality rates and under-weight children, there has not been much progress in combating HIV&AIDS. In the sample of countries, it is found that Botswana has the highest rate of HIV&AIDS infected adults. In Madagascar, Malawi, Mozambique, Namibia, Tanzania and Zambia this rate is less than 20% and far less than 5% in Mauritius. This has led to a decline in life expectancy and a loss of ranking as far as HDI is concerned. In one country case, Zambia, 'under-five mortality rates' has increased recently over 1970 figures.

### **3.1.4 Policies to Reduce Regional Imbalances**

It has been observed that countries in the SADC have large populations of poor people concentrated in the rural and sub-urban areas and there are also wide regional disparities existing among rural and urban areas in terms of socio-economic infrastructure. These tend to be more pronounced in countries where policies of rural development have been weak. Very often, as it is seen in countries like Botswana, Mozambique, Tanzania or Zambia, there is a much higher incidence of contracting health problems in the rural areas. Lack of public infrastructure and necessary support programmes have exacerbated the disparities between urban and rural. The country reports indicated that measures are being or have been taken to address rural poverty through the agricultural extension policies in Madagascar, Malawi, Mozambique, Tanzania and Zimbabwe. The policies would make provision for greater agricultural credit, access to finance and strengthening the agricultural and farming production techniques. However, the effectiveness of such measures has yet to be shown and translated into lower rural poverty or significant decline in regional imbalances. In countries like South Africa, Botswana and Namibia, rural development is expected to be addressed through the national strategies aiming at improving infrastructure, road and communication networks and empowerment programmes for vulnerable groups. In Mauritius, the situation is different

given that the country is small. There is no significant difference between the rural and urban areas as would exist in much larger countries in SADC. However, there are pockets of poverty which are found in coastal regions and in both urban and rural areas. Empowerment programmes and national strategies have been adopted to try and integrate these pockets in the overall development strategy of the country.

In a general African context, but having relevance to SADC economies, Pieterse (2005) criticizes the lack of initiatives to strengthen local governance, which may constrain efforts to reduce regional imbalances. More consistent fiscal decentralization reforms are needed to address the pressing socio-economic needs of the rural citizens.

### **3.1.5 Sustainable Development Policies**

In the country reports it is often found that countries have not got rigorous policies to address the issue of sustainable development and yet these countries of the SADC work very closely with mother nature and the physical environment, namely, exploiting sub-soil assets like Namibia, South Africa, Botswana and Mozambique whereas others are exploiting exclusively land and forestry resources such as Zambia, Zimbabwe and Malawi and coastal and marine resources Madagascar, Mauritius, Namibia, Tanzania, Mozambique and South Africa. Sustainable development is a prerequisite for continued economic progress while protecting at the same time the physical environment in terms of minimizing destruction of this environment. Conservation of biodiversity through protection of forestry, land and marine resources and reduction in CO<sub>2</sub> emissions are generally among the measures adopted. Overexploitation of resources may compromise the resource needs of future generations and hence create what is known as generational inequity. While it may be mentioned amongst other policies it has been loosely recognized as a means to reduce rural poverty and to ensure sustainability of output growth. Environmental policies have yet to be integrated robustly in policy making to ensure a more holistic approach to economic development.

### **3.1.6 Gender Policy Issues**

Despite its high growth performance, there is still discrimination made against women in Mauritius in terms of job recruitment and in promotion exercises. Women have been facing an increasing problem of domestic violence and illtreatment throughout the island. Public policies have failed to address these issues and they are worsening.

This issue has not been given proper attention to actually ensure that women participate more in economic activities and be adequately represented in different sectors of the economy. Policies mentioned in the country reports relate basically to broad rather than specific measures adopted to improve gender equity and equality in favour of women. This balance is very important for the development of the family and children. A correct representation would lead to an improvement of overall family welfare making women more independent financially. In many of the countries studied it has been found that poverty and HIV&AIDS are more prominent among women and in the rural areas. Since policies have been weak to empower women in the SADC countries, not much advancement has been made or is expected to take place in the near future.

## **3.2 Policies for Deepening Regional Integration within SADC**

In this part of the chapter we identify the major obstacles to deepening regional integration following the analyses of the previous part of this chapter and make recommendations for policy reforms to improve conditions pertaining to both the economic and social sectors as prescribed in the RISDP. These reforms have to be undertaken jointly in a holistic manner to ensure that major improvements are made within the shortest time span. The policies proposed are also evaluated.

### **3.2.1 Policy Recommendations**

To ensure that the social sector issues are addressed altogether, there should be greater participation of all stakeholders concerned in policy making from public and private sectors as well as rural and urban authorities. Besides co-ordination, linkages among different sectors, in particular, economic and social sectors, should be consolidated as far as possible such that growth dividends eventually

trickle down to the maximum segments of the population. Thus, rigorous measures are required to deal both with the economic and social sectors simultaneously. The Table below summarises the policies that need be adopted to strengthen macroeconomic convergence and to deepen regional integration in the SADC:

**Table 3: Policy Implications of Deepening Regional Integration**

Macroeconomic Constraints Identified	Member Countries Concerned	Macroeconomic Reforms Suggested
Lack of Fiscal Discipline and Low Revenues	Madagascar, Malawi, Mauritius, Mozambique, Tanzania and Zambia	<ul style="list-style-type: none"> <li>• Schemes to detect and control for tax evasion</li> <li>• Greater tax penetration: broadening Tax base without creation much distortion</li> <li>• Better tax administration through a credible and effective body</li> <li>• Rigorous expenditure auditing and accountability</li> <li>• Identifying national income-public expenditure linkages</li> <li>• Private Public Partnership</li> <li>• Agreement to co-finance projects and improve fiscal stance,</li> <li>• Encourage more efficiency and private sector endeavours</li> <li>• An independent central banking system</li> <li>• Avoid dependence on external grants</li> </ul>
High Debt Burden	Malawi, Mozambique Tanzania and Zambia	<ul style="list-style-type: none"> <li>• Align public expenditure with Public Revenue and avoid huge fiscal deficits</li> <li>• Adopt more export-led growth strategies</li> <li>• Revisit the whole tax system</li> </ul>
Low Savings and Capital Formation	Malawi, Mozambique, South Africa, Tanzania, Zambia and Zimbabwe	<ul style="list-style-type: none"> <li>• Methods to Promote FDIs through greater human and physical capital formation</li> <li>• Financial sector reforms to mobilize savings through more attractive schemes: index-linked savings Fiscal incentives to promote savings and investment</li> <li>• Lower public spending to reduce crowding out of private investment especially in Malawi, Namibia and Zambia More effective public administration</li> </ul>
Low Growth	Botswana, Namibia, South Africa and Zimbabwe	<ul style="list-style-type: none"> <li>• Increase Savings</li> <li>• Increase Investment</li> <li>• Diversification of the economy</li> <li>• Research and development</li> </ul>

Macroeconomic Constraints Identified	Member Countries Concerned	Macroeconomic Reforms Suggested
High Inflation	Madagascar, Malawi, Mozambique, Zambia and Zimbabwe	<ul style="list-style-type: none"> <li>• Contractionary fiscal and monetary measures</li> <li>• Reduction in debt monetisation</li> <li>• More independent central bank</li> <li>• Agricultural price stabilisation</li> <li>• Measures to mitigate extreme weather conditions in Madagascar, Malawi and Mozambique</li> </ul>
Vulnerability to External Shocks and Trade Policies	Botswana, Namibia, Mauritius and South Africa	<ul style="list-style-type: none"> <li>• Diversification of the economy</li> <li>• Contingency plans to mitigate climate change impacts or extreme weather conditions in agrarian economies</li> <li>• Adoption of competitive strategies through creativity and durability of products</li> <li>• Effective exchange rate management</li> <li>• Design national policies consistent with regional initiatives</li> <li>• Encourage factor mobility: labour, FDI and technology among the states</li> </ul>
Regional Imbalances	All SADC countries	<ul style="list-style-type: none"> <li>• Strengthen decentralisation</li> <li>• Financial incentives to create SME and to formalize markets</li> <li>• Creation of a reliable data base for tracking and monitoring progress</li> <li>• Empowerment programmes for women and children</li> </ul>
Labour Policies	All SADC countries	<ul style="list-style-type: none"> <li>• Integrate labour and trade policies in macroeconomic reforms</li> <li>• Design national policies consistent with regional initiatives in these two areas</li> <li>• Encourage factor mobility</li> <li>• Both labour and trade policies should be capable of addressing pressing social sector needs: poverty alleviation, income inequality and gender</li> <li>• Coherent regional policies towards addressing HIV &amp; AIDS incidence on labour, labour productivity, competitiveness and trade performance</li> </ul>

Social Sector Constraints Identified	Member Countries Concerned	Social Sector Reforms Suggested
Poverty Incidence	Botswana, Madagascar, Malawi, Mozambique, Namibia, Tanzania, Zambia and Zimbabwe	<ul style="list-style-type: none"> <li>• Methods to reduce income inequality</li> <li>• Reshuffling public spending plans to attend to more needy areas like poverty and health care</li> <li>• Microfinance schemes for greater self-employment</li> <li>• Human resource development schemes to promote self-reliance and to improve labour skills</li> <li>• Compulsory education and support programmes to enable the poor and needy to make use of educational facilities</li> <li>• Rural development programmes with serious commitments</li> <li>• Improvements of road and communication networking</li> <li>• Sustainable development strategies</li> </ul>
HIV&AIDS Incidence	Botswana, Malawi, Mozambique, Namibia, South Africa, Zambia and Zimbabwe	<ul style="list-style-type: none"> <li>• Identifying and combating the causes of the pandemic</li> <li>• Greater political will to be created</li> <li>• Greater involvement of the Civil Society</li> </ul>
Women's Empowerment	All the SADC member states	<ul style="list-style-type: none"> <li>• Enactment of new laws to protect and empower women</li> <li>• Promote the education of women</li> <li>• Rural development schemes</li> <li>• Equal Opportunity Act for women in a recruitment exercise</li> </ul>



### 3.2.2 Challenges to Proposed Policies in the SADC

At this stage, it is rather obvious that for countries like Madagascar, Malawi, Mauritius, Mozambique, Zambia and Tanzania, the main problem is fiscal administration. If these countries tend to reduce their fiscal deficits by properly reorganizing public expenditure and public revenue, they may easily in the long run converge towards much better indicators. Mauritius, Tanzania and Zambia have relatively high growth rates to be able to do so. Moreover, since it is found that there is direct correlation between high inflation, high fiscal deficits and low savings, a policy of fiscal austerity may easily improve the rate of convergence of these countries. However, in the case of Zimbabwe, there should be greater political stability and commitment to address economic reforms in the most rigorous manner to prevent economic output from declining. Without political reforms and good governance, it would be really tough for this member of the SADC to meet any target in the near future. The other set of countries which do not have fiscal deficit problem but either suffer from low capital formation and growth rates are Botswana, Namibia and South Africa which would have to convince savers in the case of South Africa through measures mentioned in the table and hence promote increased investment. In the case of Namibia there should be an attempt to diversify the economy further and to adopt supply side measures to boost up production thereby creating a more conducive environment to encourage enterprises to invest. The diversification process in Botswana must accelerate to reduce the economy's vulnerability to external shocks. It would also be wise to link up the high propensity of public spending in this economy with more growth generating channels just in case higher public spending might be crowding-out private sector activity and growth of GDP.

With respect to the social indicators, it could be seen that there are two major concerns, namely, poverty alleviation and HIV&AIDS common to all the member states. In certain economies which benefit from relatively high growth rates and which would remain at these levels for some more time, such as, Tanzania, Mozambique, Zambia where there are acute social problems, the state has all its chances to redistribute more evenly the growth gains across different segments of the population. Moreover, support programmes should also address

the problems of health and HIV&AIDS altogether but with utmost care not to worsen the fiscal stance. Botswana, Madagascar, Malawi and Namibia have already got high levels of public spending and it would thus be advisable in order not to worsen the fiscal position of these countries to reshuffle public expenditure patterns and gear them towards providing the essence to the poor and needy. This obviously would involve some opportunity cost which in the long run would pay off. In the case of Mauritius, the relatively fair growth rate and the patterns of spending could serve both to reduce the problems of poverty and HIV&AIDS which is not as acute as in other member states. In South Africa, the HIV&AIDS is more problematic than poverty as far as the figures are concerned. The average growth rate may not allow for better allocation of the GNP across different layers of the population, but given that fiscal deficit is rather low, the government may slightly increase its support to combat the plague without worsening its fiscal position. A reorganization of public expenditure may also help to eliminate unproductive items to minimize the resulting opportunity cost. These policies should all in all take into account the existing gender bias against women in order to empower and make them financially more independent and less vulnerable.

Some other but more general challenges that may occur while harnessing policies to deepen regional integration in the SADC pertaining to the 10 countries studied are:

- Trade off between economic and social commitments
- Weak linkages among economic sectors and between economic and social sectors
- Presence of the informal sector
- Political commitment and leadership in addressing reform measures
- Evolution of world economic conditions
- Centralised decision making processes and public sector imperfections
- Not well organised civil society
- Legacy of high population growth rates and HIV/AIDS incidence
- Extreme climatic conditions affecting agricultural output and prices

### 3.3 Synopsis

This chapter has shown the relationship between macroeconomic policies and the achievements among 10 member countries of the SADC in the social sector, their implications, including challenges, for deepening regional integration. It has been seen that two thirds of the countries studied; namely, Madagascar, Malawi, Mauritius, Mozambique, Tanzania and Zambia, have problems with their fiscal stance characterized with high public expenditure, fiscal deficit and external debt levels. Fiscal imbalances tend to spill over into other economic complexities that prohibit countries from having low inflation, low debt monetization, low external debt, high growth rates due to suppressed capital formation. On the other hand, countries that fare well in terms of their fiscal stance have low growth rates such as Botswana and Namibia because they have not sufficiently diversified their economies and have become highly vulnerable to external shocks. Those countries having low savings rates such as Malawi, Mozambique, South Africa, Tanzania, Zambia and Zimbabwe have to encourage greater capital formation through fiscal management, reduction in inflation and more attractive savings packages.

It was also noted that macroeconomic policies should have strong microeconomic underpinnings such that economic policy reforms are consistent with the crying needs of the social sector. Institutions in these countries should try to strengthen the linkages between the economic and social sectors so that they do not operate in compartments and are disorganized. As it stands, there are very limited linkages between economic and social sectors exacerbated by poor connections with the external and labour sectors. Policies adopted conform to an incremental and sector-wise approach implying that there is little or no synergy across the sectors of the economy. This is particularly discouraging because they may threaten the effectiveness of good policy making in achieving the necessary targets.

Now, the policies, which have been suggested in this research, are going to address precisely the tendency to achieve the macroeconomic targets and to speed up macroeconomic convergence among the SADC countries. These policies as indicated are subject to limitations and would very often require new laws, political commitments and

leadership as well as good governance. These go beyond the usual domain of economic and social policy making which SADC countries have to address to achieve more integrated development and to fulfil their collective objectives. While the case of Zimbabwe remains a tough and divergent one, there are promising cases when one sees the high growth rates of certain economies, which in the past have been lagging behind such as Mozambique, Tanzania and Zambia. More importantly, SADC governments should be committed to implement policies that are consistent with the MoU targets rather than exclusively biasing them towards national priorities.

## 4 Other Factors that Impact on the Regional Integration Process in SADC

This chapter compares and synthesizes important factors that impinge on the regional integration process in SADC other than those that have been covered in the previous chapter. Main factors are lack of adequate infrastructure, environmental degradation, lack of adequate human capital and capacity, governance problems, food insecurity, and inequality in the distribution of income. Other factors are unemployment and lack of popular participation in regional integration issues. Since each country study covers only a few of these factors (without implying that the other factors do not matter), this chapter will not be organised around the identified factors. Instead, the material will be presented by country, where, following the classification used in Chapter 2, the various countries will be grouped into SACU countries, central and eastern SADC countries, and Indian Ocean island countries. Zimbabwe and Madagascar have been left out because the respective country studies did not elaborate in depth on such other factors that affect regional integration.

### 4.1 SACU Countries

#### Botswana

**Economic Infrastructure:** Botswana has built an impressive stock of economic and social infrastructure, including tarred roads to virtually all parts of the country, an electricity system, a telephone system, water systems to most communities, schools and health clinics, government offices, and a substantial stock of modern sector housing. This infrastructure is in good condition and reliable. The main concern relates to the high cost of housing, water, electricity, telephones and other telecommunications, which is impacting negatively on the competitiveness of the economy.

**Lack of Human Capital and Capacity:** Botswana has achieved notable success in human development, transforming the population from being largely uneducated, illiterate and unskilled to being literate, with a basic 9-10 years of education and some training in basic skills

for the world of work. There have been dramatic, rapid increases in the numbers of Botswana with secondary and tertiary qualifications, as well as with technical and professional qualifications, although the latter are still in short supply.

While there have been some positive changes in the development of skills and education, to achieve one of the ambitious long-term objectives to have an Educated and Informed Nation by 2016, Botswana is still facing a number of challenges in this area. These challenges include meeting the unsatisfied demand for educated and skilled personnel, which is one of the major constraints to Botswana's economic development; and matching training with the requirements of the job market. Progress in these fields would go a long way towards reducing dependence on expatriate personnel. Although some progress has been made in training local experts that are capable of holding top positions that were originally held by expatriates, Botswana still faces an education policy challenge that should ensure that all training institutions, from primary to tertiary level, are set up in such a way that they address the skills gap that exists in the economy. Human resources need to be geared towards the needs of the country and to the job market, in particular so that many citizens may enter the labour market with appropriate skills that match the employment opportunities. In this regard, Botswana faces the challenge of matching the human resource requirements and provision across sectors by establishing proper frameworks and management processes and developing a culture of life-long learning. The effect of HIV&AIDS upon the future availability of skilled and experienced personnel must also be fully taken into account in the planning process.

**Environmental Degradation:** Botswana's environmental problems are typical of a country with desert-type climatic and vegetation features - low and unreliable rainfall, scarce water supplies, sandy and infertile soils, scrubland and short grass. The more than trebling of the country's population since independence in 1966 has placed many of these resources under increasing stress and strain. The increasing population has raised the rate of use of the natural resources, while the adverse climatic conditions, compounded by the potential effect of global climatic changes on weather patterns, impact negatively on the rate of

growth of the resources and their renewal. According to the country study, Botswana's environmental problems can be categorised as:

- The degradation of rangeland pastures
- The depletion of water resources
- The over-use of woodland and field products
- Pressure on wildlife
- Pollution, waste and sanitation

In view of the increasing level of environmental degradation, the Government has committed itself to promoting sustainable utilisation of the country's resources, as well as to ensuring that the environment is taken care of. Civil society organisations are also playing an increasingly important role in raising public awareness of the environmental issues and problems in the country. One of the vision 2016 objectives is to ensure that by 2016, renewable resources will be used at a rate that is in balance with their regeneration capacity and that Botswana's wildlife will be managed for the sustainable benefit of the local communities, and in the interests of the environment as a whole. Also, the national vision envisages that the country will be taking strong measures to limit pollution that would otherwise have resulted from rapid industrialisation by 2016. Furthermore, a number of policies and environment-related legislation for promoting sustainable resource use are in place to avoid depletion of resources and environmental degradation.

Botswana is also party to several international conventions, protocols and other agreements on environment and natural resource use, which aim to protect the environment. While efforts are underway to avoid the worst state of environmental degradation, ensuring that the necessary awareness campaigns for the public, who are users of natural resources and the environment, are conducted remains a challenge for Botswana.

## Namibia

**Cost of Infrastructure:** Namibia has good and reliable infrastructure. Its transport infrastructure of roads, railway lines, airports and seaports is in good condition. This infrastructure provides access to all parts of

the country. Water, electricity and telecommunications networks also work reliably, although they do not cover the whole country. The main concern is that the costs are reportedly high compared to other countries. This reduces the competitiveness of the economy and limits access to market information, particularly among smaller enterprises.

**Environmental Challenges:** Fragile physical features are the cause of environmental problems in Namibia. Being desert in some parts and semi-desert in others, the country receives little rainfall, is prone to droughts and is short of water. The rest of the country is covered by either bare infertile soil or scrubland with short grass. According to the country study, environmental challenges are created by a growing population and its demand for land for survival, and by additional economic activities that result in pressure on scarce resources such as water, rather than through monetary or fiscal policy decisions of the government.

Being aware of this fragile environment, the government has accorded appropriate priority to its protection. Namibia is one of a few countries that have included protection of the environment in the Constitution. Furthermore, sustainable development is one of the cornerstones of Namibia's long-term Vision 2030 and is part of many national policies, such as Namibia's Green Plan, and is the core of several laws being processed. But, in themselves, policies and laws are not enough. Namibia will need to build capacity to monitor adherence to the policies and laws. In addition, the government has declared approximately 17% of Namibia's land area as protected areas that are used as National Parks. Not all of these areas are accessible to visitors. Its wetland areas in the south at the mouth of the Orange River have received international recognition as a Ramsar site.

Despite these efforts, there are indications of growing environmental degradation in Namibia, such as:

- Loss of biodiversity in both communal and commercial agricultural areas.
- Decline in wildlife numbers because of population pressure in communal areas, while certain predators are nearing extinction in commercial areas, such as lions, wild dogs, white-headed vulture, bateleur and the Cape vulture.



- Pressure on scarce water resources in arid areas that tourists visit to enjoy unique landscapes. Off-road driving causes severe damaged to flora and fauna, and in particular to the populations of certain birds that breed on the ground. Finally, having many tourists at the same spot at the same time reduces the value of the pristine landscape and wildlife and can result in long-lasting negative impacts.
- Pressure on limited water resources in other areas. Water is one of the most limiting factors on further economic development. Rainfall is highly variable and unpredictable; underground aquifers are feeling the pressure of increased water consumption, and perennial rivers are far away from industrial centres and major towns.
- Deforestation, soil degradation and loss of biodiversity.
- Water pollution.

**Lack of Human Capital and Capacity:** According to the country study, among other things, lack of human capital and capacity in Namibia exist at the level of:

- Implementing, monitoring and evaluating government policies.
- Monitoring impacts of deepening integration and trade liberalisation.
- The workforce.
- Forward and outward looking entrepreneurs.

The weak capacity for implementing policies reflects a general lack of skills and qualifications in the country. Capacity building must therefore be accorded high priority.

**Unemployment and Inequality in the Distribution of Income:** Unemployment rates and income inequality are at high levels in Namibia. Therefore, both need to be addressed not only because they subdue domestic demand, but also because they could lead to rising social tensions and subsequently disturb the business climate.

Namibian society is characterised by a highly skewed income distribution, reflected in a Gini-coefficient of 0.6 based on the 2003/04 household survey. A progressive tax system including a tax threshold for the first NAD 36,000 earned per annum and a zero VAT rate for the staple foodstuffs millet and maize are two tax measures employed to

address this imbalance. Poor households in particular benefit from various social transfer schemes, such as non-contributory social pensions, pensions for ex-combatants that are paid in addition to the social pensions, and foster parent grants. Social pensions in particular contribute greatly to the income of households in rural, communal areas. Although pensions are meant to improve the standard of living of the elderly, in actual fact they benefit the whole extended family living with them. Furthermore, employees in the formal sector benefit from a social security system that includes sick leave benefit, maternity leave benefit, and death benefit. The social security scheme does not reduce poverty directly, but it prevents households from falling straight into poverty in any of the events covered by the system. Contributions to this system are shared equally between the employer and employee. The system is therefore not dependent on the income of government and payouts will not be affected by fiscal policy.

## South Africa

**Lack of Infrastructure:** South Africa has the best infrastructure in the SADC region. Nevertheless, according to the South African country study, the country is facing a number of challenges in transport and logistics, energy, telecommunications and water that need to be addressed urgently, not least because of the 2010 World Cup, which will be hosted there. Infrastructure sectors that are causing particular concern are freight transport and logistics, rail and port sectors where there are major bottlenecks to trade and growth. In the telecommunications sector, the main problem is the high cost of cell phones, which is discouraging investment.

**Lack of Human Capital:** Another constraint on economic growth in South Africa is shortage of skills caused by inadequate domestic supply and brain drain. It seems that the growth of output of trained human resources from the country's educational institutions does not match demand despite recent efforts by the authorities there to improve public funding and management of education, including maintenance of high enrolment rates, reform of education laws and policies, and unification of numerous educational jurisdictions.

Government needs to increase growth of the education budget in real terms to facilitate an expansion in financing of teacher development programmes, materials expenditure, classrooms and school buildings and other non-personnel related costs. Something must also be done to reduce high dropout rates in larger and poorer provinces such as KwaZulu Natal, Eastern Cape, Mpumalanga, Limpopo and North West; and to increase the university entrance pass rate.

**Inequality in Income Distribution:** As measured by the Gini coefficient, income distribution in South Africa is highly skewed. With the Gini coefficient rising from 0.596 in 1995 to 0.635 in 2001, the distribution of income appears to have become more unequal. Analysts blame the legacy of apartheid, the high rate of unemployment and ineffectiveness of redistribution policies for this situation.

Inequality in the distribution of income implies, first, that given available resources, social welfare is not maximised. Secondly, the welfare of the better off few is greater than that of the poor majority. Under the existing free enterprise economic system, most of the resources are therefore allocated to the production of goods and services of interest to the rich few, thus resulting in inequality in real income distribution and impairing employment creation as well, since luxury and semi-luxury goods that are produced are relatively capital intensive. Thirdly, as inequality in the distribution of income is inconsistent with the indigenous culture and value system, there are social effects that are disruptive of urban and rural life and detrimental to overall welfare

**Governance Problems:** The South African country study identifies failure to implement policies as a serious governance problem. The main reason for this situation is human resource constraint, especially in municipalities where there is lack of policy-making and management skills. Efforts that have been made to build human resource capacity at local government level have not yet yielded the expected results.

## 4.2 Central and Eastern SADC Countries

### Malawi

**Lack of Economic Infrastructure:** The write-up in the Malawi country study best illustrates the predicament that land-locked countries face in the SADC region. Transport costs account for 47% of the price of fertilizer (based on delivery at Kasungu), 24% of the pump price of diesel (inland costs from Beira only), and 12.5% of the auction price of tobacco (excluding transport from farms to the auction floors). Domestic transport rates in Malawi are equivalent to about USD 0.065 to USD 0.075 per km. Comparable rates in South Africa and Zimbabwe are much lower at about USD 0.02 on trunk roads and USD 0.035 on rural roads (World Bank, 2004). Malawi's internal transport costs are high due to the poor network of secondary roads, trucking cartels that keep prices high, restrictions on the operations of foreign vehicles, and high taxation on the transport sector.

The high external transport costs can partly be explained by geography, i.e. Malawi's long and uncertain links to the sea. The shortest routes to the sea are Nacala (815 km by rail from Blantyre) and Beira (640 km by rail, which is not operating, and 884 km by road). But over 70% of Malawi's trade goes through Durban, which is 2,600 - 3,806 km away, depending on the route, and 50% more expensive, and Dar-es-Salaam, which is 3,030 km by road. The shortest rail route through Nacala is not being fully used because of security problems, including theft of cargo during transit; unpredictability and inefficiency of the port authority; excessive bureaucracy in processing customs documents in Nacala; lack of flexibility in scheduling shipments; and occasional derailments during bad weather. In addition, as a port, Nacala is off the standard international routes, implying that unless the shipment is large enough to warrant making a call at Nacala, the goods often must disembark at Durban or Maputo from large internationally competitively priced ships and tranship to expensive coastal vessels. Then there are the problems of the small size of the country and hence trade and the imbalance between imports and exports, which are smaller, meaning that vehicles return empty and so imports must bear a larger share of the cost of transport (World Bank,

2004). It has been estimated by Jeffrey Sachs that being landlocked costs the average developing country 0.7% of growth per year.

According to an earlier study on the disadvantages faced by landlocked countries and by African countries, the representative landlocked country has transport costs 50% higher and trade volumes 60% lower than the representative coastal economy. Landlocked countries can overcome a substantial proportion of this disadvantage through improvement in their own and transit countries' infrastructure (Limao and Venables, 2001). The high transport costs of the international trade of regions located far from coasts and navigable rivers have been alluded to in another recent study (Gallup, Sachs and Mellinger, 1998). Distance and landlockedness also influence a country's access to large markets, constrain its ability to exploit economies of scale and, hence, lower its productive efficiency (Sachs and Warner, 1997).

Business enterprises in Malawi face high utility costs due to inadequate capacity and inefficiency in the provision of electricity, water and telecommunications.

In order to address these problems, the government has given priority to the development of infrastructure in the Malawi Growth and Development Strategy. The strategy contains actions for improving access to the sea; for improving the internal road network; for expanding capacity for supplying water; and for improving the reliability of electricity supply, including through interconnection into the Mozambique grid.

**Lack of Human Capital and Capacity:** Malawi lacks human capital in the form of education and skills of its population and capacity for implementing policies and programmes. According to the 1997/98 Integrated Household Survey, for example, only 17.7% of the population aged 15 years and above had attained the Primary School Leaving Certificate. The proportion among males at 24.1% was higher than that of females at 11.7%. The Survey also showed that only 3.5% of the population had attained the Malawi School Certificate of Education. The proportion of males who had done so at 5.3% was higher than the proportion of females at 1.7%. Beyond secondary school, only 1% of the population had completed tertiary education. As of 2002, the national literacy rate was 62% (76% male and 49%

female). The MGDS also addresses the relatively low education attainments.

Malawi has a relatively large civil service. But, with a high turnover rate, civil servants with long experience have left for greener pastures. This has adversely affected the capacity of the government to plan and implement programmes. The government has formulated a four-year plan to improve salaries and other working conditions of civil servants.

**Environmental Degradation:** The write-up in the Malawi country study also best illustrates the problem of environmental degradation outside of countries with desert-like conditions. Malawi has a total land area of about 9.4 million hectares. Out of this total, 4.6 million hectares, representing 49%, were under cultivation in 1992. However, at the unimproved level of land management among smallholder farmers then, only 31% of the total land area was suitable for cultivation. Hence, 18% of the cultivation was taking place on marginal or environmentally fragile land like steep slopes, river banks and valleys. This situation is believed to have become worse since then. The extension of cultivation to marginal areas, unsatisfactory land use practices, lack of appropriate conservation measures, deforestation and overgrazing have led to a loss of agricultural land productivity, mainly through soil erosion and declining soil fertility.

In 1992 the World Bank estimated that soil erosion in Malawi ranges from 13 metric tonnes per hectare per year to 29 metric tonnes per hectare per year. This averages 20 metric tonnes per hectare per year, contributing to mean yield loss of between 4% and 11% per year equivalent to annual income losses per hectare of between MK10 and MK29. In aggregate terms, Malawi is on average losing a total of about 160 million tonnes of soil per year. The cost associated with soil erosion was estimated at MK 1,155 million per year, which corresponded to 8.1% of the country's GDP in 1994. The figures do not go beyond 1994. All the same, this development is unsustainable and has serious implications for long-term land productivity.

About 37% of the total land area (3.5 million hectares) is classified as forests. This is composed of 0.73 million hectares of forest reserves, 1.09 million hectares of national parks and wildlife reserves and 1.7 million hectares customary land forests. It has been estimated that

aggregate consumption of fuelwood exceeds the level of sustainable yields by as much as 30%. There is continuous loss of forest resources, especially on customary land due to clearing of forests in excess of natural forest regeneration and forestation activities. The rate of deforestation has been estimated at 1.4% per year due to dependence on agriculture, dependence on fuelwood, high rate of population growth and excessive selling of wood to generate income. Deforestation results in depletion of surface water resources and in problems of siltation/sedimentation, reduced base flows and recurring drought conditions.

With respect to water resource degradation, Malawi is facing three serious problems. Not in order of importance, the first is chemical contamination of stream water in urban areas due to improper disposal of domestic and industrial wastes; and pollution by agrochemicals through water run off due to absence of proper biological and physical conservation measures on farms in rural areas. The second is the poor bacteriological quality throughout the year of major rivers due to inadequate sanitation facilities and the presence of other sources of organic pollution. As a result of this, it is estimated that 50% of all illnesses in Malawi are caused by water borne diseases. And the third is depletion of surface water resources caused by deforestation which leads to watershed loss, siltation/sedimentation, reduced base flows and recurring drought conditions.

**Governance Problems:** From the late 1960s Malawi was a one-party state with a life-long president. This effectively turned the regime into a dictatorial one. The regime remained so until 1994 when multi-party presidential and parliamentary elections were held. The return to multiparty democracy in 1994 brought with it an apparent reduction in violations of civil liberties and human rights. But, lack of transparency and accountability in the way that the affairs of the state are managed and wastefulness in the use of public resources have not improved. Furthermore, according to a number of surveys of businessmen, corruption cases and the media, corruption has become more pervasive, touching all aspects of life, in the public sector as well as in the private sector. There is a high level of corruption in public procurement, management of parastatals, management of government expenditure, provision of public services, among other activities.

As measured by the Corruption Perception Index (CPI) released by Transparency International, the level of corruption in Malawi is actually rising. In 2002, Malawi scored 2.9 on the CPI and ranked 68th within a group of 102 countries worldwide. The latest release of the CPI shows that corruption has worsened both in terms of the CPI score and the ranking. In addition to the CPI, public awareness of corruption in Malawi is high due to numerous high profile corruption cases reported over the past few years.

Persistence in the level of corruption in Malawi is due to weak governance. In 1995 Parliament passed a Corrupt Practices Act, which led to the establishment of the Anti-Corruption Bureau. The work of this body has been constrained by lack of a clear and comprehensive definition of corrupt practices and appropriate penalties, lack of independence, an inadequate budget and limited numbers of staff. Other aspects of weak governance that account for the high level of corruption include complexity and use of discretion in the rules governing the business environment; e.g., viz-a-viz taxes and incentives offered; and lack of transparency and accountability in the use of public money.

The high level of corruption in Malawi has increased the cost of doing business and affected the delivery of public services in general. Among other things, it can also adversely affect relations between Malawi and its creditors, who in the past suspended disbursements of loans and aid. Suspensions of resource flows in turn can adversely affect the effectiveness of foreign loans, and lead to massive deficit financing, with all that it implies in terms of inflation and high levels of domestic debt.

**Food Insecurity:** From time to time, Malawi as a nation suffers from food insecurity, a situation where the country is unable to produce enough food. For example, during the 1997/98 crop-growing season, the country did not produce enough food and had a maize shortage of 53,942 tonnes, the 1998/99 and 1999/2000 crop seasons experienced bumper maize harvests (see Chipeta, 2006, p. 129). During the two succeeding seasons, however, maize production was inadequate. When there is a shortfall in maize production, purchases of maize to relieve hunger puts pressure on the government budget and on the balance of payments. The shortfall also puts pressure on



the consumer price index since maize has a large weight in it. At the household level, Malawi has become chronically food insecure as many households are unable to produce or purchase enough food to meet their subsistence requirements. Food insecurity at this level also varies annually and seasonally. For example, whereas 8.0% of farm families were without food of their own during 1997/98, in the following season the percentage was down to 2.3 % (Malawi Government, 1999). Household food insecurity is felt most between October and April when food stocks are low or have run out.

## Mozambique

**Lack of Economic Infrastructure:** With a long coastline, most of the coastal towns can be reached by ship. At the time of independence, the major railway lines and roads connected coastal towns with the hinterland to their west. Since then, progress has been made in rectifying this colonial legacy.

The Mozambique country study points out that during the past five years, rapid progress has been made in extending and upgrading the road network, resulting in the reduction of the number of roads classified as bad. But the improvement seems to have been to primary and secondary roads mainly. The quality of tertiary roads is still a cause for concern. Yet these are the very roads that are crucial for the overall development of the country, particularly rural areas.

Although Mozambique is a major producer of electricity, less than 10% of the households have access to this form of energy. Most of the population relies on other sources of energy (wood, coal and kerosene). From the standpoint of development, the low coverage of electricity in the country hinders the expansion of business activities and, therefore, constraints economic development.

**Environmental Degradation:** Environmental degradation in Mozambique is not considered to be severe. Nevertheless, there are areas of concern that, if not attended to effectively, could result in serious damage to the environment in the future. These include rapid deforestation, which is adversely affecting biodiversity, with direct impact on the poorest strata of the population; small-scale mining activities carried out using rudimentary practices, which are causing

widespread pollution of river waters. These forms of environmental degradation are particularly rampant in the central and northern parts of the country.

**Lack of Human Capital:** The level of human development in Mozambique is low at all levels of the education ladder. The low level of human capital is one of the main constraints to the country's economic development. Mozambique also suffers from a wide imbalance between male and female enrolment rates in schools.

**Governance Problem:** The country study reported corruption as the main governance problem. Corruption is a widespread phenomenon in Mozambique. According to the Corruption Perception Index compiled by Transparency International, it ranks as one of the most corrupt countries in the world.

## Tanzania

**Lack of Adequate Infrastructure:** Inadequate and erratic power supply; poor roads, transport and telecommunication systems; water shortages for domestic and industrial use and other related infrastructure issues characterise the infrastructure landscape of Tanzania. This country needs to work out a strategy for developing its infrastructure taking into account its resource endowments.

**Inadequate Human Capital:** Another challenge relates to inadequate human capital and capacity for economic management. Experience has shown that well educated and skilled people are key for creating, sharing, disseminating, and using knowledge effectively to spur growth and innovation. The main challenges Tanzania and other SADC members are facing include expanding coverage to achieve universal access to basic and secondary education; providing quality tertiary education, which is generally weak; improving the linkages between formal and informal education systems; improving the productivity of labour; and raising the overall quality of learning. These are essential if SADC as a bloc is to improve its competitiveness in the global economy.

**Governance Problem:** Yet another important challenge relates to good governance. According to the country study, Tanzania performs well in the area of governance as measured by: voice and accountability,

political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. Studies done by Kaufman et, al. (2005), show that Tanzania performs better than other countries in the low-income category. However, there is room for improving its governance record.

**Environmental Degradation:** Data on environmental degradation in Tanzania is limited. A 2002 UNCTAD study on Tanzania observed that there is a growing awareness of the environmental impact of unplanned and unregulated economic and commercial developments, especially in sensitive coastal and rural areas of the country important to the country's growing tourism economy. According to the country study, however, there are other problem areas as follows:

Increased demand for energy and water supply for domestic and industrial purposes, which is contributing to environmental degradation. Currently, 95% of energy supply comes from biomass sources. Due to incorrect pricing, charcoal does not represent the full value of the wood being harvested. In terms of providing value-added to growth through energy and water supply, Tanzania's forests provide 'critical capital'. However, catchments forests are being depleted and their conservation is clearly a challenge to be addressed.

Increased agricultural production and intensification is also creating environmental problems. Large commercial rice farming in the Usangu Plains, for example, has reduced the dry season flow of the Great Ruaha River through intensified year round irrigation, which is negatively affecting water use by small scale farmers downstream.

Increased commercial fish production for export markets on Lake Victoria erodes a base of livelihood and food supply for local fishing communities. Similarly, the penetration of foreign vessels into territorial seas impacts negatively on the catch of fisheries.

Increased mining activities are posing a number of environmental threats to the local communities as well as to the miners themselves. The nature and extent of these threats cannot be assessed in detail due to lack of reliable data. However, large unfilled potholes, unfilled abandoned mines and use of mercury in gold mining are an environmental hazard.

The evidence provided about the environmental effects of large-scale mining suggests that mining communities may suffer a number of severe effects, spanning from direct and observable noise and erosion, to longer term pollution of air, water and soil, which in turn may have serious health consequences. Still, the evidence does not allow for extrapolation and more comprehensive analysis is required to have a better idea of the environmental implications of large-scale mining in Tanzania.

In order to protect the country from environmental degradation, Tanzania enacted the National Environmental Management Act in 2004. It also created the National Environmental Management Council to assist in the implementation of the legislation. Following the passing of the act, all foreign investors are required to undertake Environmental Impact Assessment studies in advance of their construction, and these are a precondition for construction and planning permits. FDI projects guaranteed by the Multilateral Investment Guarantee Agency must also undertake Environmental Impact Assessments to demonstrate that they do not damage the environment and are sustainable, especially in mining, oil and natural gas, and tourism projects in the wildlife parks and coastal areas.

The country study questions the effectiveness of the relevant policy framework, not least because small and medium enterprises (SME) are not required to undertake environmental impact assessment studies. On a positive note, there are plans to extend impact assessment requirements to SME once the necessary resources and skills become available.

## Zambia

The Zambian country study is quite brief on other factors that impact on regional integration in the SADC.

**Lack of Infrastructure:** The country study points out that poor transport infrastructure and the high cost of utilities are undermining the competitiveness of domestic industries. But, as a land-locked country, Zambia is also handicapped by the long distance to the sea.

**Lack of Capacity:** There is weak capacity in the design and implementation of the reform programme. There are also weak regulatory institutions for promoting competition.

**Weaknesses in Economic Governance:** There is weak economic governance, exemplified by:

- Unconstrained use of monetary policy, which has potential to adversely affect private sector investment, growth and poverty reduction.
- *Ad hoc* exemptions and selectivity in reducing tax rates, which can erode the tax base and make tax compliance difficult.
- Lack of capital investment, productivity, poor management and financial control, which can inhibit sustained economic growth.
- High domestic tax structure.
- Inadequate structural and competition promoting policies.
- Corruption and other structural constraints as well as the inadequate policy in some areas.

### 4.3 Indian Ocean Island Countries

#### Mauritius

**Inadequate Human Capital:** As regards human capital, the aim of Mauritius is to create a deeply democratic society anchored in a knowledge-based economy similar to that of Singapore. Such a strategy crucially depends on human capital and the quality of the labour force. According to the country study, Mauritius's current labour force is ill-equipped to match the labour force of knowledge-based societies. On average, a Mauritian worker has had seven years of education compared to more than ten years for the average worker in Singapore and nine years in countries, such as China and Korea. Thus, the education system has not been able to keep pace with the requirements of the country's fast growing economy, including new development poles such as Sea Food Hub, Knowledge Hub, ICT and outsourcing services. This requires trained manpower to respond to the needs of these sectors and also the preparedness of the Mauritian society to accept a greater number of foreign workers than what Mauritius has been experiencing so far, necessitating new approaches, new amenities, a change of policy and attitudes.

Furthermore, there is a need to place emphasis on gender mainstreaming, equality in the development of educational and training materials, recognition of the importance of vocational training and lifelong education.

**Environmental Degradation:** In the early stages of its development, especially during the first phase of industrialization, Mauritius neglected environmental factors to such an extent that serious damage was done to the lagoon through industrial pollution, lack of respect of environmental conventions such as the irreversible destruction of wetlands or wrong economic policy choices leading to massive growth of plastic wastes.

Since then, the environmental policy and institutional framework have been transformed through new environmental legislations and regulations accompanied by the setting up of new institutions such as a fully-fledged Ministry of Environment and the requirement of an Environmental Impact Assessment for major developmental projects. The challenge for mitigating environmental degradation is to effect a shift in policy from 'Environmental Protection Approach' to a 'Resource Management and Eco-development Approach'. This shift requires that policy-makers and other stakeholders understand and recognize that many environmental problems are economic problems. Indeed it is a question of 'sustainable island living' in which economic efficiency and environmental integrity should form part of a closely knitted web. This applies to any pole of development in Mauritius, such as sugar, textile, tourism or the recent emerging sector of Sea Food Hub.

**Governance Problems:** According to the country study, public institutions have played a key role in the socio-economic success of the country. Currently, however, the institutional effectiveness and the expertise of the bureaucracy are at stake through clientelist recruitment and promotion in the public sector. This is being exacerbated by ethnicity and casteism. The private sector has its own clientelist recruitment and promotion policies, which are not much different from those of the government. The ownership structure of private companies is dominated by a small group of family-owned companies. The current situation illustrates quite well the division of economic and political power. Since independence, the economic power has remained in the hands of a small minority of Mauritians of

French origin, while political power is in the hands of a majority of Mauritians of Indian origin and other small ethnic minorities. This has given rise to a 'dual segmented parallel labour market', one is controlled by the Government and the other by the traditional private sector. Methods of recruitment, procedures of promotion, salary and pension scheme for public sector jobs (which represent slightly less than 20% of a total labour force of some 490,000 nowadays) differ from those prevailing in the private sector. As salaries are generally much lower in the public sector than in the private sector, the flow from private to public sector is negligible. The problem of meritocracy or equality of opportunity is not thought to be of great concern to both sectors. It is only during the last political campaign (2005) that the necessity of having an Equal Opportunity Act has been put on the political agenda and the current government is preparing a bill to be introduced in the Mauritian parliament.

**Inadequate Involvement of Civil Society:** Mauritian Members of Parliament and their parties are very silent on the issue of regional integration. The same is true of other stakeholders, such as local authorities, trade unions, NGO and CBO. A few key NGO in Mauritius that are actively involved in regional integration processes are the exception. The outcome of the survey on civil society illustrates quite well the degree of awareness on SADC. This situation is not surprising because the Mauritian civil society is relatively weak when compared to government and the private sector. Consequently, the involvement of civil society in decision-making processes is negligible with the exception issues related to drugs and HIV&AIDS, which are emerging issues in Mauritius right now. Furthermore, SADC is not perceived as a politico-economic regional process but very often confused with the role of a donor agency by civil society.

The big challenge is on the one hand to make stakeholders understand the political vision of SADC and on the other hand to change the mindset of stakeholders for the need to have cross-sectoral partnership around regional integration issues and to treat regional integration in the SADC as a priority issue.

## 4.4 Synopsis

The richer SACU countries of Botswana, Namibia and South Africa have used their resources to develop transport, water, power and telecommunications infrastructure that is in good condition and works reasonably well. The main problem that they face is the high cost of utilities, which they are addressing through competition policies. The central and eastern countries of Malawi, Mozambique, Tanzania, Zambia and Zimbabwe have an inadequate network of good roads, water, power and telecommunications facilities, an issue that they must address through an increase in investment in infrastructure. Like the SACU countries, they also face high costs of utilities. In addition, the land-locked countries of Malawi, Zambia and Zimbabwe suffer from high transport costs partly due to long distances from the sea. For them, improving access to the sea is a matter of high priority on their development agenda.

All the countries covered in this study are affected by problems of air and water pollution, soil erosion, loss of soil fertility, and loss of biodiversity caused by rising population pressure on the environment and demands made on that environment by agriculture, mining, fishing, tourism, manufacturing industries and urbanisation. The problems are particularly serious in countries that have fragile natural environments, such as Botswana and Namibia, and in other countries with high population densities. These problems can spill over into other countries in the region. Governments are aware of environmental problems and their adverse impact on economic growth and development. Hence they have formulated laws, policies and established institutions to protect the environment. However, in themselves laws and policies are not sufficient. Governments need to strengthen enforcement of their laws and policies.

There is a general shortage of human capital and specialised skills in the SADC region, including technical and professional skills in Botswana and skills for a knowledge-based economy in Mauritius. In order to address this problem, educational institutions must relate training to the demands of the labour market. There is also a general shortage of capacity for implementing, monitoring and evaluating policies. In South Africa the problem is particularly serious at local



government level, where effective solutions must be found. And in Zambia the problem is in both human and institutional capacity.

Unemployment and inequality in the distribution of income are other common problems, but only the Namibian and South African country studies included them among other factors that impinge on regional integration. High rates of unemployment militate against the willingness of member states to agree on free movement of labour in the SADC region. Inequality in the distribution of income undermines demand for goods and therefore growth of intra-regional trade. Reducing unemployment requires adoption of measures to increase economic growth, especially in labour-intensive sectors; and to reduce rural-urban and other types of migration, among other things. And reducing inequality in the distribution of income requires effective measures for redistributing wealth.

Governance problems range from lack of transparency and accountability in the way that the affairs of the state are run corruption, especially in central and eastern countries. Tanzania is reported to have improved its governance, although more can be done to enhance it. In Zambia, the main problem that has been reported is weak economic governance. In South Africa, the main problem is failure to implement policies at local government level due to human resource constraints.

Food insecurity was mentioned in only one study, although it is a common problem in the SADC region. It has implications for the budget deficit because of the necessity to buy and distribute foodstuffs to the hungry on the part of governments, and for the current account deficit of the balance of payments because it may necessitate importation of foodstuffs.



## 5 Issues for Further Research, Consultancies and Policy Advice

This chapter synthesises needs for further research at national and regional level. It also synthesises the most urgent issues for consultancies and policy advice. It draws on all the ten country studies, particularly those on Botswana, Malawi, Mozambique, Namibia, Tanzania and Zambia, as well as the other chapters in this synthesis study.

### 5.1 Issues for Further Research

Issues for further research are those that will require a more rigorous technical framework for analysis than the one that was used in the country studies. Apart from the background or context, the justification, objectives of the study and sources of data, they will need testable hypotheses, a methodology that may use a specific economic model, and econometric, statistical or other techniques of analysis. The issues that have been identified in the country studies relate to macroeconomic convergence, implications and impact of regional integration, membership in overlapping regional integration schemes, links between trade and poverty, and diversification of industrial development.

#### Macroeconomic Convergence

Although SADC member states have generally failed to formulate and implement macroeconomic convergence programmes on time, they have either already met some of the convergence targets for 2008 or they are expected to meet a number of them, but not all, by the set period because of policy measures implemented under various policy frameworks, as explained in Chapter 2 above. The main success has been on primary macroeconomic convergence targets; that is, those for core inflation, budget deficit, foreign debt and current account deficit. Progress towards meeting the secondary macroeconomic convergence targets (specifically, growth, foreign exchange, savings and investment) has been less impressive. The limited progress in

meeting the secondary macroeconomic convergence targets reflects the fact that the attainment of macroeconomic stability in primary indicators does not necessarily translate into higher savings, investment and growth rates. The favourable performance under net central bank credit to government is a reflection of success in controlling budget deficits.

Since not all countries have met or are likely to meet the macroeconomic targets by 2008, all the macroeconomic target variables require rigorous research. If any research issues can be singled out at all, they are:

- The determinants of economic growth and convergence in the economies of SADC member countries.
- The behaviour and determinants of foreign exchange reserves in the economies of SADC member countries.
- The determinants of domestic savings and investment in the economies of SADC member countries.

Other issues that have been suggested in the country studies for rigorous research include:

- The potential impact of co-ordination of tax policies, liberalization of current and capital accounts, and integration of financial markets;
- Determinants of employment in each country, in urban and rural areas, and by employment status, gender and age;
- Cost-benefit analysis of dual membership in SADC and COMESA;
- Cost-benefit analysis of the SADC FTA, CU and Common Market;
- Cost-benefit analysis of currency devaluation;
- The costs and benefits of unilateral, bilateral and multilateral trade liberalization; and
- The potential and problems of currency convertibility in the SADC.

The Malawi country study stresses all these issues. The Zambian study emphasizes the issue of the tax structure and how it inhibits regional integration. This study also proposes a study on comparative advantage of individual SADC member countries.

## Implications and Impact of Regional Integration

The Botswana, Malawi, Namibian and Zambian country studies all suggest a need for investigating the implications and impacts of regional integration. Given the commitment to deepening SADC integration through macroeconomic policies aimed at achieving certain agreed macroeconomic convergence targets, liberalisation of trade and through common labour market policies, it is important that policy makers in SADC and its member states assess the economic and social impacts that integration will have, both in the short term and long term. Individual member states need to conduct research on the implications of similar policy initiatives that are being pursued in the context of other regional integration schemes to which they belong. These studies will help them to make a comparative assessment of the relative benefits of alternative regional integration schemes and identify best practices.

## Membership in Overlapping Regional Integration Schemes and Implementation Capacity

Out of the current fourteen member states that belong to SADC, five are also members of SACU, six are also members of COMESA, one is a member of the East African Community (EAC), and two are in the Indian Ocean Council (IOC). SACU is a customs union. The rest, with the exception of SADC, are free trade areas. But all, except SACU and IOC, plan to become common markets ultimately. The objectives of regional integration in the various agreements overlap and, as such, it is imperative that research be carried out on the possible benefits and the impact of the agreements on the long-term trade prospects and development goals of SADC member states. Such research will identify issues that should be aligned and pursued within a certain agreement, and more importantly, where the benefits are higher.

Furthermore, there is overlap in the negotiation and implementation of the various agreements and this duplication increases costs of fulfilling membership obligations. It is also a complex task to ensure that the negotiation mandates in the various arrangements do not conflict with economic objectives and those of the integration process.

The negotiation process itself requires capacity and expertise to handle the complex issues involved. It is, therefore, important for research to be conducted on the costs of membership and implementation of the various trade arrangements.

The appeal for research on these issues appears in the country studies on Botswana, Malawi, Namibia and Tanzania. The Tanzanian study is specifically appealing for research on rationalisation of overlapping regional integration arrangements. It is also appealing for a study on globalisation and how it affects the process of deepening regional integration.

## Research on Trade and Poverty Links

The Botswana country study points out that while SADC member states have made substantial progress in restoring macroeconomic stability, they still face widespread poverty and unemployment. Various programmes and policies have been put in place to address the high incidence of poverty and unemployment, but the incidence of both still remains high. As such, it is important that research should be conducted on identifying the possible links between trade, employment and poverty and on how regional integration through trade can be exploited to address the poverty and unemployment problems. Such research may not only provide information on why the linkages may have been weak, but it may also shed light on how to maximise the benefits and how to strengthen the linkages.

## Diversification and Industrial Development

The Botswana country study is also upbeat about the need for research on diversification and industrial development. With the possible exception of South Africa, Zimbabwe and Mauritius, the economies of most of the member countries of SADC have a low degree of diversification. This makes them vulnerable to external shocks, such as currency fluctuations and supply-side as well as demand-side shocks. These shocks have significant implications for economic growth, level of employment, government revenue, the budget deficit and the balance of payments. Diversification of regional economies through

establishment of manufacturing industries is one option that most countries have followed. Whether these industries will withstand competition from other countries as the region integrates is an open question. Focused research on how these industries will be affected, especially at the early stages of their development, is critical. Without such research and information, some countries may end up as losers from the integration process. Also, the issue of how economies may protect their industries as they open up markets to more free trade is important. For some countries, more competition may thwart the diversification exercise and result in greater dependency on imports.

## 5.2 Issues for Consultancies

There are a number of other issues that require investigation. But, we believe that these can be handled through less rigorous research, in the form of consultancies.

According to the Namibian country study, employment-creating economic growth is key to achieving SADC's macroeconomic targets and domestic policy objectives. Regional integration can result in stronger as well as weaker economic growth depending on the strengths and weaknesses of the economy. An analysis of capacity within the private and public sectors to exploit the opportunities provided by regional integration is essential. Such an analysis would identify bottlenecks, and suggest a strategy for overcoming them.

The monetary and trade policies of South Africa, Namibia, Lesotho and Swaziland are largely determined at regional level - by CMA and SACU, respectively. The degree of influence of regional decisions varies between the two settings. SACU provides a higher degree of influence for the smaller member countries than the CMA, through its new structures. The Namibian country study is suggesting that a review of the CMA structure could therefore be considered to broaden and deepen the consultative process, with the ultimate aim of establishing a regional central bank. A CMA central bank could become the anchor for SADC monetary integration. It points out, however, that a thorough study is required to weigh the pros and cons of such a regional bank and to assess whether it would change the current decision-making

structure. There would probably be a need to build capacity in the LNS countries in order to enable them to play a role within the bank.

On Taxation and Related Matters, the Finance and Investment Protocol (FIP) contains detailed provisions for co-operation in taxation and related matters. But it is not stated how co-operation in taxation will promote regional integration or assist SADC member states to achieve economic growth; sustainable, equitable and balanced economic development; poverty eradication; and human and social development. At the very least, this part of the FIP should have created an appropriate synergy with the Trade Protocol under which member states are reducing and harmonising their tariffs. But, unlike the part dealing with Investment, it has not done so. There is also no provision for cooperation in government expenditure, which, for example, can be done through joint provision of public goods in order to effect economies, and which would be consistent with the functional co-operation component of development integration.

In light of the above, the Malawi country study is recommending that commissioned research is required on the following subjects in order to inform the implementation of the FIP: taxation and regional integration; taxation and economic growth, development and poverty reduction in the SADC region; government expenditure and regional integration, and government expenditure and economic growth, development and poverty reduction in the SADC region.

On financial and capital markets, the FIP focuses on central banks, development finance institutions, commercial banks, non-banking financial institutions and stock exchanges. The main objectives are to improve the operational efficiency of these institutions, integrate non-banking financial institutions across countries, and effect internationalisation and standardisation of their practices. According to the Malawi country study, the FIP ignores the informal financial sector, which is the main source of credit for poor and non-poor households in low-income member states of SADC; the micro-finance sector, which, along with the informal financial sector, is the main source of credit for micro and small scale enterprises in low-income countries; and the insurance industry. The planned financial sector integration will not include micro-finance and informal financial sectors. While it may be argued that informal and micro-finance are matters



for individual member states, and not for inclusion in a legally binding protocol, recognition of their existence and what can be done to enhance their role would have a lot of educational value. There is also absence of a framework of supportive policies to induce commercial banks to undertake long-term lending and to lend to the small business sector.

Furthermore, the FIP does not consider what model of financial intermediation would be ideal for the region, given the objectives of SADC to promote sustainable, equitable and balanced economic growth and development and to eradicate poverty. This missing linking is mentioned in both the Malawi and the Mozambique country studies. The relevant part of the FIP also shows that not much background work or study was done before drafting it. The FIP leaves the task of carrying out the background work to the future. For example, in relation to the Promotion of Market Integration and Access, the FIP says that the member states have agreed that the Authorities (the financial regulatory bodies) should identify foreign institutional barriers to access to financial service industries; identify impediments to market integration throughout the region; and formulate and introduce appropriate strategies to address the identified barriers and impediments. And concerning the Development Programme, the FIP is saying that member states have agreed that the Authorities should assess the level of development of their financial services industries so that they can develop focused programmes for them. The assessment should address:

- Supply and use of financial products and services;
- Level of competition (but not level of co-operation and linkage);  
and
- Any barriers to financial sector development.

In other words, this part of the FIP is vague and incomplete, requiring a lot of work before it can be brought to a stage where it can be implemented.

Following from the above, commissioned research is required on the following themes: comparative models of financial intermediation and performance in the SADC region; institutional barriers to access to foreign financial service industries; constraints to financial market

integration within and across countries, involving formal, micro-finance and informal financial sectors; the level of development of financial services industries, including commercial banking and insurance services, in the region, with a focus on the supply and use of financial products and services, and on the level of co-operation and competition and barriers to financial sector development.

As we have pointed out above, in order to deepen SADC integration, there is need for a study on the rationalisation of overlapping regional integration schemes. This study should sort out the pros and cons for each member state and groupings of countries of belonging to multiple integration arrangements in an attempt to map-out a strategy for further deepening integration. Knowing the cost and efficiency of these multiple and overlapping membership arrangements could be of particular importance as an input into the formation of the proposed SADC Free Trade Area (FTA) envisaged between 2008-2012.

On paper, the benefits of deeper integration are unquestionable. In reality, the process of deepening integration can result into winners and losers - rather than achieve "Pareto" optimal gains - win - win situations. That is, no member state is made worse off through the process of deepening integration. According to the Tanzanian country study, an analytical study that informs SADC members on possible winners and losers, particularly taking into account the large more developed economy of South Africa (which can easily marginalize other small members) could be important in facilitating the deepening of integration. The study could raise possible alarms/unwarranted courses of action that could derail higher level of integration of the SADC regional block - thus initiating prompt mitigation measures before the situation becomes worse.

If we take globalisation to mean the rapidly increasing complex interactions between societies, cultures, institutions and individuals worldwide, then, it is a phenomenon that is associated with growth and transformation of trade, investment, finance, technology, social values, culture, political and other social changes that have far reaching consequences for regional integration. Studying how SADC member states can begin to prepare better to mitigate the disadvantages of globalisation and take advantages of the opportunities it offers could

be of vital importance. Particular areas of emphasis could be how to improve SADC competitiveness in a global economy.

### **5.3 Issues for Policy Advice**

These are issues that require neither research nor consultancy. They consist of appeals to member states and to SADC to improve economic and other data or to address issues solutions to which do not need background research as defined above or consultancies, also as defined above.

#### **Data Needs**

Drawing on the Botswana, Malawi and Zambian country studies, the primary sources of data that have been used in the country studies are the IMF and other multilateral organisations, most notably the World Bank. Data provided by the countries to these organisations are in accordance with internationally acceptable standards as defined by the IMF. The data on external reserves, which are the foreign assets of the banking system, and data on central bank credit to government are of an acceptable quality and comparable across SADC member countries. Data on other variables are believed to be less reliable and comparable. For example, the core inflation data are based on consumer price indices (CPIs) that vary in the degree of geographical and household coverage, as well as the items that are included. Some CPIs are, strictly speaking, not cost of living indices, since they exclude a number of important items of household expenditure.

The reliability of the current account deficit depends on the accuracy of the merchandise trade account balance, the factor and non-factor services account balance, and the private transfers account balance. In all these accounts, the fact that many transactions are not recorded officially means that the data are not accurate. The reliability of GDP data is adversely affected by not fully measuring incomes originating in the informal sector. Lastly, domestic savings data are also said to be unreliable because saving is estimated as a double residual in the national accounts. It is defined as the difference between gross domestic

product and total consumption, which is itself the residual expenditure category.

Member states are urged to improve the accuracy, reliability and comparability of their macroeconomic data and to address other problems with their economic and social data, such frequency, timeliness, disaggregation, coverage and consistency.

More timely data are needed to facilitate research on: poverty whose data are currently being compiled on a ten year cycle basis in some countries; trade, on which data are often late and not disaggregated to allow for more focused sectoral analysis; employment, where labour force surveys are either not conducted or they are conducted after 10 year periods; and on fiscal, monetary, education and training, health and capital market variables. Harmonisation of data collected in the region will allow for meaningful comparisons on what effects regional integration will have in the individual countries, as well as on monitoring the convergence programme. Further, more research can easily be carried out on some of the important links between trade and other important regional issues such as poverty and unemployment and its impact on social and economic development.

## Other Policy Advice

Other policy advice has been suggested by the Botswana, Namibian and Tanzanian country studies. Manufacturing industries in the region are already exposed to stiff competition from South African companies. Opening the borders to further competition will pose enormous challenges for them, especially infant industries. In order to gain from regional integration, SADC member states will need to enhance their institutional capacity for identifying opportunities from regional integration as well as to control the influx of goods more efficiently and effectively to protect domestic industries from unfair trade practices. National competition policies will need to be harmonised and institutions created to enforce them effectively and efficiently.

Lack of information about business opportunities is a major obstacle to increased trade within the region. Little is known about industries in other member countries, about their products and the inputs needed. The SADC secretariat may assist by initiating a web-based database

containing information about suppliers of goods in the region. It may furthermore consider supporting the participation of companies in trade fairs in the region or even establishing SADC trade fairs. This would create opportunities for companies to get in touch with potential customers in the region or to join forces. In addition, increased public relations' efforts are needed to inform the SADC population about member countries in general, and businesses in particular. This would help to shift the focus from existing traditional business links to new opportunities.

Exploring new markets abroad always entails risk for companies. New partners are unknown, particularly their reliability in fulfilling contractual obligations. Non-payment by new customers could pose a serious threat, especially for small and medium-sized enterprises. National governments or the SADC secretariat could consider establishing an export insurance to cover some of the risks inherent in venturing into new markets.

Regional integration is not simply about achieving certain economic indicators. It will only be meaningful if the people are involved and support the process. Therefore, a strategy needs to be developed to involve the public more extensively in the process and to inform them regularly on progress. Such an inclusive process would ensure that regional integration addresses the needs of the people, and ultimately benefits them. It would at the same time contribute to strengthening cooperation between the various institutions involved in and affected by regional integration.

In general, member states are performing well in implementing credible policies that are consistent with the SADC macroeconomic convergence programme. However, good performance in the macroeconomic framework has not resulted in reduced poverty levels in a number of countries. It is, therefore, essential for all SADC member states to develop social safety nets and income re-distribution mechanisms that will foster more equitable sharing of the benefits of economic growth.

Equally important is strengthening institutional structures for economic management and growth. It is vital for all SADC member states to strengthen the coordination of economic policy formulation and implementation. In particular, there is need to strengthen

monitoring and evaluation of the SADC macroeconomic convergence programme, implementation of the SADC Regional Indicative Strategic Development Plan, the SADC Trade Protocol and other agreements that are essential for deepening integration.

There is also a need to deepen integration through developing better trade-industry-infrastructure linkages, taking into account equity considerations. The SADC region as a whole has vast natural resources that can be strategically used to create a competitive industrial base, with South Africa playing a supportive role given her higher technological base compared with other member states.

## 5.4 Synopsis

In relation to macroeconomic convergence, the most problematic issues that require rigorous research concern the real economy and include economic growth, foreign exchange, savings and investment. Research should also be conducted on the rest of the macroeconomic convergence target variables, as well as on economic and social impacts of the various policy frameworks and on the costs and benefits of deepening regional integration.

The objectives of regional integration in the various agreements overlap and, as such, it is imperative that research be carried out on the possible benefits and the impact of the agreements on the long-term trade prospects and development goals of SADC member states. It is also important that research should be conducted on identifying the possible links between trade, employment and poverty and on how regional integration through trade can be exploited to address the poverty and unemployment problems. Focused research on how industries in the less developed member states will be affected, especially at the early stages of their development, is critical.

As regards consultancies, the main needs are for the following:

- An analysis of capacity within the private and public sectors to exploit the opportunities provided by regional integration.
- Consideration of a review of the CMA structure to broaden and deepen the consultative process, with the ultimate aim of establishing a regional central bank. A CMA central bank could

become the anchor for SADC monetary integration. However, a thorough study is required to weigh the pros and cons of such a regional bank and to assess whether it would change the current decision-making structure.

- A review of the process of designing regional policies and of consistency among the regional policies in order to increase effectiveness of those policies. At the same time, there is a need to review the process of monitoring and evaluating the impacts of regional policies with the aim of adjusting them when needed.
- The rationalisation of overlapping regional integration schemes.
- How SADC member states can begin to prepare better to mitigate the disadvantages of globalisation and take advantages of the opportunities it offers. Particular areas of emphasis could be how to improve SADC competitiveness in a global economy.

In terms of policy advice, it is recommended that:

- Member states take urgent measures to improve the accuracy, reliability and comparability of their macroeconomic data and to address other problems with their economic and social data, such frequency, timeliness, disaggregation, coverage and consistency.
- In order to gain from regional integration, SADC member states need to enhance their institutional capacity for identifying opportunities from regional integration as well as to control the influx of goods more efficiently and effectively to protect domestic industries from unfair trade practices. National competition policies will need to be harmonised and institutions created to enforce them effectively and efficiently.
- SADC consider supporting the participation of companies in trade fairs in the region or even establishing SADC trade fairs. This would create opportunities for companies to get in touch with potential customers in the region or to join forces. In addition, increased public relations' efforts are needed to inform the SADC population about member countries in general, and businesses in particular. This would help to shift the focus from existing traditional business links to new opportunities.
- There is need to strengthen monitoring and evaluation of the SADC macroeconomic convergence programme, implementation of the

SADC Regional Indicative Strategic Development Plan, the SADC Trade Protocol and other agreements that are essential for deepening integration.



## 6 Conclusions and Recommendations

This chapter summarises:

- the main factors that might constrain meeting the SADC macroeconomic convergence targets;
- the critical policy issues for meeting the SADC macroeconomic convergence targets and what policies should address them;
- consideration of issues of social impact in decision-making processes and what lessons can be drawn from them;
- the need for reconsidering chosen measures to deepen SADC integration;
- alternative scenarios, visions, options, plans/programmes for integration, if any; and
- general recommendations about necessary concerted actions from all SADC member states.

It draws upon all the ten country studies, considers the synthesis that has been carried out in previous chapters and takes into account the position of individual member states and sub-groups of member states.

### 6.1 Constraints on Meeting the SADC Macroeconomic Convergence Targets

The main factors identified in the country studies that might constrain achieving the SADC macroeconomic convergence targets are explained below under the various indicators.

#### Economic Growth

The ten country studies have shown that only Mozambique has already attained the growth target for 2008, with Tanzania not far off. Zambia may join this group as the rate of economic growth there has accelerated recently. But the evidence from the rest of the country studies casts doubt on prospects for meeting the growth target for 2008. The main constraints that these countries are facing are low rates of domestic investment, HIV&AIDS, inadequate human capital, landlockedness and transport problems, environmental degradation,

gender discrimination, inadequate foreign exchange reserves and unsustainable levels of external debt. Intensification of these problems could also derail the progress that has been made by Mozambique, Tanzania and Zambia.

## **Inflation**

In six out of the ten country studies, the 2008 inflation target has been attained in advance. These countries are Namibia, South Africa, Botswana, Tanzania, Mauritius and Mozambique. Malawi and Zambia are expected to meet this target before 2008. Madagascar is not far off from the target. Zimbabwe is an outlier with hyperinflation. The main constraints to attaining the inflation convergence target and sustaining it are droughts, oil price increases, increases in other import costs and currency depreciation.

## **Current Account Balance**

In seven out of the ten countries covered by country studies, namely, Botswana, Mauritius, Namibia, South Africa, Tanzania, Zambia and Zimbabwe, the 2008 target for the current account deficit had been met by 2004. Only in Malawi, Madagascar and Mozambique, the situation was less favourable. The current account balance is a mirror image of the domestic deficit, which is the sum of the budget deficit and the private sector deficit. The current account balance is, therefore, influenced by this domestic deficit. The other main constraining factors in these three countries are high import demand; inadequate trade development, promotion and facilitation; and unfavourable terms of trade. Large receipts of foreign aid and private capital mean that these countries can afford to run huge current account deficits, which are covered by the inflows.

## **Foreign Debt**

By 2004, all countries in the study on deepening integration in SADC had met the 2008 target for debt as percentage of GDP by 2004, except Malawi, Mozambique and Tanzania. All the three countries have

had their debt cancelled subsequently, making it more sustainable, but not necessarily helping them to reach the SADC macroeconomic convergence target. Inability to attain this target has to do with high levels of borrowing abroad, themselves caused by high budget deficits, low levels of domestic savings and high import demand.

## Foreign Exchange Reserves

Botswana, Tanzania, South Africa, Mauritius, Mozambique and Madagascar had met the 2008 target for foreign exchange reserves in 2004. Malawi, Namibia and Zambia were close to meeting this target. For Zimbabwe no data were available in the study but according to anecdotal evidence Zimbabwe is an outlier with ruefully inadequate foreign exchange reserves. An unsustainable level of foreign debt, high import demand and the level of export receipts and inflows of foreign aid and loans are the main factors constraining the attainment of the foreign reserves target.

## Budget Deficit

Out of the ten countries covered by country studies, all had met the 2008 target for budget deficit as a percentage of GDP by 2004, except Madagascar and Mauritius. The problem in these two countries is due to high levels of social expenditure.

## Net Central Bank Credit to Government

Low rates of budget deficit translate in low levels of borrowing by governments from central banks. Consequently, all countries had met the 2008 target for net central bank credit to the government by 2004.

## Domestic Savings Rate

Out of the ten countries covered by the country studies, only Botswana and Namibia has met the 2008 savings rate target by 2004. The rest had not. In Malawi and Zambia, domestic savings rates were even negative. This, therefore, is one of the problematic macroeconomic

convergence targets. The factors behind the unsatisfactory performance include high rates of time preference, budget deficits, inflation and unsatisfactory rates of economic growth.

## Domestic Investment Rate

None of the countries covered by country studies had met the 2008 target for the rate of domestic investment by 2004. Therefore, it is a bigger problem in the SADC region than the savings rate. Low level of domestic savings, inadequate foreign capital inflows, an unfavourable business climate, including a high level of corruption, are some of the factors that are constraining the attainment of the investment rate target.

## Other Indicators

As far as other indicators are concerned, the constraining factors are:

- Economic instability in relation to currency convertibility.
- The adverse balance of payments position in relation to liberalisation of exchange controls, and liberalisation of current account transactions by 2006 and capital account transactions by 2008.
- Administrative constraints in relation to gradual interconnection of payments and clearing systems in SADC by 2008, and finalisation of the legal and regulatory framework for dual and cross listing on the regional stock exchanges by 2008.

## 6.2 Critical Policy Issues for Meeting the SADC Macroeconomic Convergence Targets

The critical policy issues for achieving SADC macroeconomic convergence targets are savings, investment and economic growth policies.

Low savings and/or investment rates are experienced by Malawi, Mozambique, South Africa, Tanzania, Zambia and Zimbabwe. These countries need to adopt measures for promoting foreign direct investment, such as greater human and physical capital formation; use financial sector reforms to mobilise savings through more attractive

inflation-linked schemes; improve fiscal incentives to promote savings and investment; control public spending to reduce crowding out of private investment, especially in Malawi, Namibia and Zambia; and improve governance.

Botswana, Namibia, South Africa and Zimbabwe are beset by comparatively low growth rates. These countries need to increase their savings or investment rates, diversify their economies and invest in research and development.

Low levels of foreign reserves affect a larger number of countries in the SADC. These countries need to strengthen measures for developing, facilitating and promoting and diversifying exports.

### **6.3 Consideration of Issues of Social Impact in Decision-Making Processes**

Issues of social impacts are considered through wide consultations in decision-making processes in the SADC region. Governments of member states try to consult widely within governments themselves, including the legislature, the executive arm and the judiciary. They also leave no stone unturned in trying to consult civil society, and government officials and local representatives at the provincial or regional level, the district level, the area level and even at the village level in some countries. International financial institutions and other donors also try to consult stakeholders. But, few attempts are made to consult the poor and other beneficiaries directly. The view of civil society is that most of the strategies, plans and programmes emphasize economic issues at the expense of social concerns.

### **6.4 Reconsideration of Chosen Measures for Deepening SADC Integration**

Concerning macroeconomic convergence, it is recommended that SADC member states should align their policies and targets to those of SADC and incorporate them in all major domestic policy documents. In this connection, it is desirable that the IMF should take into account the regional obligations of member states in its dealings with their governments.

On the same issue, the values of a number of macroeconomic convergence target indicators are too ambitious for SADC member states. Therefore, it is recommended that they should be reviewed.

The affected target values are:

- The short-term and medium-term values of the target indicators for the current account deficit and domestic savings rate.
- The medium-term and long-term values of the external reserves target.
- The short-term values of the growth rate target and the external debt target.

Other targets that require review because they are too ambitious are:

- Finalisation of the legal and regulatory framework for dual and cross-listing on regional stock exchanges by 2008; and
- Gradual interconnection of payments and clearing systems in SADC by 2008.

## **6.5 General Conclusions and Recommendations**

It is recommended that all SADC member states adopt stability-oriented policies. This is in recognition of the fact that in order to accelerate growth of economic activity, investment and employment, and hence achieve reduction in poverty and unemployment in the SADC region, there is a need for increased cooperation and co-ordination in the formulation and implementation of macro-economic policies. It is incumbent upon each member state to eliminate all obstacles on trade, investment and movement of labour that may hinder the integration process, thus preventing other countries from participating effectively and benefiting from deeper integration in SADC.

This requires increased cooperation, co-ordination and management of macroeconomic stability and implementation of monetary and fiscal policies in the region that are a necessary condition for accelerating growth, trade and investment, employment creation, and achieving reduction in poverty and high unemployment. Without collective effort in dealing with the challenges that individual member countries encounter in promoting deeper SADC regional integration, the regional

integration process may be a failure, with some of the important RISDP objectives not being met.

Furthermore, it is recommended that all SADC member states should consider and agree on :

- Expanding the rationales for the Finance and Investment Protocol (FIP) and elaborating rationales for co-operation on taxation and related matters, including government expenditure, and for co-ordinating and harmonising fiscal policies.
- Making provision for differential treatment in favour of the least developed member states in all the components of the FIP.
- Including a provision for co-ordination in exploration of natural resources so as to improve opportunities for investment in the SADC region.
- Reducing the complexity and discretionary nature of investment incentives.
- Reviewing the feasibility of some of the macroeconomic convergence targets.
- Reviewing the need for a common approach to taxation in light of uneven and unequal development between member states.
- Elaborating rationales for co-ordinating and harmonising monetary policies.
- Including insurance, microfinance institutions and informal financial sector in the FIP.
- Making provision for linking commercial banks across the region.
- Promoting the integrated development of formal, microfinance and informal financial sectors within member states.
- Promoting a suitable model of financial intermediation.
- Drawing on existing studies on financial sector development and on taxation and economic growth in implementing the FIP, or conducting fresh studies on which to base the implementation of the FIP.
- Member states are also urged to review and, if possible, eliminate the following factors, which are constraining deeper regional integration:
  - The complicated and restrictive Rules of Origin;
  - Non-tariff barriers;
  - Overlap in membership of regional integration schemes; and

- Incompatibility and divergence in external trade regimes that will complicate the choice of a common external tariff.

## 6.6 Country Specific Conclusions and Recommendations

Five country reports - Botswana, Mauritius, Mozambique, Tanzania and Zambia - provided country-specific conclusions. They are summarised in the following chapter.

### Botswana

The economy of Botswana pursues policies that are in line with the SADC vision of promoting sustainable growth and reducing poverty. It also pursues policies that are targeted at other challenges that Botswana faces, mainly the high poverty levels, high unemployment and the HIV&AIDS problem. However, there are areas where these efforts need to be strengthened. Botswana can use the regional integration interface to enhance some of its policy aspects to become an effective player in the integration process, while also promoting its national interests. It is well known that the problems that exist are not the result of poor policies, rather they are largely the result of a failure to implement those policies. For Botswana to realise its vision, there is a need to address implementation problems, and to introduce stringent monitoring mechanisms at every level of the public sector. In specific terms, it is recommended that:

- Botswana should build capacity in the existing institutional structures to effectively implement policies that can address the problem areas that may reverse the achievements made on the SADC macroeconomic convergence targets and also identify areas where further regional integration can be used as a vehicle to achieve growth and development.
- Botswana should strengthen its diversification strategy so that other sectors of the economy, besides the mining sector, can play a more significant role in GDP growth.
- There is a need to strengthen the private sector. The private sector has a role to play in Botswana's development, given the potential the sector has for generating employment opportunities and growth.



- Botswana should integrate its trade policy into its planning process, since this will help to ensure that trade is given priority and that resources are committed towards pursuing trade initiatives that will benefit the economy.
- Efforts and initiatives aimed at attracting foreign investment need to be pursued with more rigour. FDI can play a significant role in the long term growth of the economy through the technology, skills and product innovation that it brings to the economy, which can impact positively on Botswana's diversification policy.
- Botswana needs to continue to deal with the HIV&AIDS challenge, particularly on its impact on the broader economy, such as on the supply of skilled labour, government resources, and positive developments made on the human development front. The war on trying to deal with the attitudes and stigma in particular need to be given a higher priority. There is need to intensify education regarding the diseases so that the country can slow down the rate of new infections.
- Industrial development should also form one of the priority areas for Botswana. This can contribute to more production and products in the market and enhance Botswana's export profile, which is imperative if Botswana is to compete successfully in the regional integration process and benefit from trade.
- Botswana has to strive to improve its labour productivity to become more competitive in the region.
- It also remains important for Botswana to remove obstacles to trade and investment.

## Mauritius

The phasing out of trade preferences that Mauritius enjoyed under the Lome Conventions has brought to the fore the need for structural adjustment in order to minimise economic dislocation. Mauritius must adopt a supply-side approach to identify high value-added products with diversified export markets must foster greater public-private partnership that will culminate in the use of limited resources for more competitive ends. This will also help to reduce public expenditure on the one hand and encourage more private investment on the other

hand. Government should be increasingly responsive to the demands of Civil Society, which should, as a matter of policy, be encouraged to participate in policy making processes. In fact, by virtue of their exposure to local problems, certain Civil Society groups are in a better position to provide relevant advice to policymakers. In order to help the poor and needy, the government must revisit the concept of vulnerability. Vulnerability is a broad term, which can apply to different categories of people and situations. Policies should therefore be designed to encompass the various forms of vulnerability to ensure that these are being dealt with effectively. Concerned authorities should monitor implementation of policies to make sure that actual progress is taking place.

## Mozambique

According to the IMF, the Mozambican financial system is young, small, bank-based, foreign-owned and highly concentrated. Although some reforms have been carried out in the financial sector in recent years, a lot more remains to be done; namely, in the areas of foreign currency management, greater Central Bank independence, payment systems, banking supervision, legal instruments to regulate extension of credit, capital markets and insurance, and money laundering prevention mechanisms. Under the ongoing reforms, the country needs to restructure the financial system so that it can play its rightful role in regional integration. The reinforcement of the Bank of Mozambique payment system is underway.

Also underway are reforms in the legal sector in order to improve the environment for the credit market. One of the biggest obstacles to doing business cited by Mozambican companies is high cost of credit and the difficulties of accessing it. The difficulties in recovering outstanding loans have been constantly pointed by the financial sector as a factor behind excessive conditionality for credit. The main reforms that must be implemented towards a sound credit market include:

- Developing out-of-court enforcement procedures or summary enforcement procedures;
- Modernising and linking the Mozambican property registries electronically; and
- Over the long term, increasing the type of property that is eligible as security.

## Tanzania

Tanzania is doing well in terms of implementation of credible macroeconomic policies as evidenced by reduced inflation rates, reduced fiscal and trade deficits, increased rate of economic growth, reduced public debt and better fiscal and monetary management. This performance is consistent with macroeconomic convergence requirements in the SADC region. However, good performance in the macroeconomic framework has not resulted in reduced poverty levels. Therefore, changes are needed in the macroeconomic policy framework to achieve faster growth, equity, poverty alleviation and external competitiveness. The changes that are required are:

- Articulation of the strategy for enhancing growth and reducing poverty (MKUKUTA in Swahili) to include a financing plan.
- Allocation of a larger share of development resources to fund programmes and projects under Local Government under whose jurisdiction the majority of rural people live. Equitable regional allocation of resources is essential to re-dress the current regional imbalance as well as reduce widespread poverty in rural settings.
- Mainstreaming trade, investment and industrial policies in growth and poverty reduction strategies.
- Review of the adequacy of the institutional arrangements for MKUKUTA formulation and implementation.
- Strengthening coordination of economic policy formulation and implementation.
- Strengthen private sector institutions. An important step would be to survey these institutions with respect to their role in the government - private sector dialogue, their satisfaction with the dialogue, and their capacity to effectively represent their constituents, including supporting regional arrangements and facilitating the country's global competitiveness. Capacity building for these institutions, especially that which is related to business development and contract negotiations, will be of particular value to improve Tanzania's competitiveness.
- Strengthen the capacity of institutions at the regional and district level to implement more fully MKUKUTA plans and strategies.

- Developing social safety nets and income re-distribution mechanisms that will foster more equitable sharing of the fruits of growth. This is essential because current relatively high growth has not translated into reduced poverty for the majority of Tanzanians.
- Establishing a strong regional co-operation unit that will be capable of reviewing and harmonising the regional integration requirements in an effort to facilitate movement towards convergence within agreed timeframes.

## Zambia

For Zambia, the country study has made the following specific recommendations:

- Make prudent use of monetary policy to enhance private sector investment, growth and poverty reduction.
- Avoid ad hoc exemption and selectivity by fiscal authorities.
- Provide capital investment, improve productivity, as well as management and financial systems in order to enhance sustainable economic growth.
- Make foreign aid predictable and in harmony with the country's development objectives.
- Review the domestic tax structure, cost of utilities, including energy and electricity.
- Improve the socio-economic infrastructure in order to enhance competitiveness of domestic industries.
- Improve structural and competition promoting policies.
- Improve regulatory institutions for promoting competition.

Table A1: Key macroeconomic indicators for the SADC region - by country

Country	Population (million (2004))	GNI (in USD bn) (2004)	GNI per capita (USD 2004)	PPP GNI 2 (USD capita) 2004	Aid (as % of GNI 2004)	GDP growth (% 2004)				
						2001	2002	2003	2004	2005
Angola	15	14.4	930	1,930	6.6	3.1	14.4	3.4	11.2	15.5
Botswana	2	7.7	4,360	9,580	0.5	2.1	5.5	5.4	4.9	3.8
DRC	56	6.4	110	680	28.6	-2.1	3.5	5.6	6.3	7.0
Lesotho	2	1.3	730	3,250	6.3	1.4	3.7	3.2	2.3	0.0
Madagascar	18	5.2	290	840	28.8	6.6	-11.9	9.4	5.4	15.5
Malawi	13	2.0	160	630	25.9	-4.2	1.0	4.4	6.7	2.6
Mauritius	1	5.7	4,640	11,950	0.6	7.6	4.3	2.7	4.2	4.0
Mozambique	19	5.3	270	1,170	21.4	9.2	7.4	7.1	8.4	6.8
Namibia	2	4.8	2,380	7,520	3.1	2.4	2.5	3.7	3.5	3.6
South Africa	46	165.3	3,630	10,960	0.3	2.3	3.6	1.9	3.7	5.1
Swaziland	1	1.9	1,660	5,650	4.9	1.7	3.6	2.2	2.1	1.8
Tanzania	38	11.6	320	670	16.2	6.2	7.2	7.1	6.3	6.5
Zambia	11	4.6	400	890	21.2	4.9	6.8	4.7	4.7	5.1
Zimbabwe	13	8.0	620	2,040	4.0	-2.8	-11.1	-9.3	-5.2	1.8
SADC Total	237	244.2	1,464	4,126	12.0	2.7	2.9	3.7	4.6	4.4
SSA-1	688.9	306.5	444.9	1,620	6.3	4.0	3.5	4.3	4.5	5.4
ESA	340.6	92.8	272.5		8.9	3.7	3.5	2.9	5.3	6.3

Source: SADC Secretariat estimates; World Development Report 2004- World Bank; Siib-Saliaraii Africa Regional Economic Outlook, October 2004 ~ International Monetary Fund - Article IV Consultations mission reports

<sup>1</sup>Gross National Income (GNI), the broadest measure of national income, is the sum of value added by all resident producers plus any taxes (minus less subsidies) not included in the valuation of output plus net receipts of primary income from abroad.

<sup>2</sup>PPP GNI is GNI converted to international dollars using Purchasing Power Parity (PPP) conversion factors. At the PPP rate one international dollar has the same purchasing power over domestic GNI that the U.S. dollar has over U.S. GNI. PPP rates allow a standard comparison of real price levels between countries. Sub-Saharan Africa.

Table A2: Macroeconomic Indicators

	Angola	Botswana	(DRC) Congo	Lesotho	Malawi	Mauritius	Mozambique	Namibia	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe
Population (millions - 2002)	14.0	1.74	54.9	2.24	11.2	1.2	18.1	1.9	45.4	1.06	33.6	10.4	11.6
% of SADC Population	5.1	0.6	20.1	0.8	4.1	0.4	6.6	0.7	16.6	0.4	12.3	3.8	4.2
GNI (USD bn - 2002)	9.2	5.1	5.0	1.0	1.7	4.6	3.9	3.3	113.5	1.3	9.6	3.5	6.2
% of SADC Region Total ON	15.5	3.1	3.0	0.6	1.0	7.7	2.3	2.0	67.6	0.8	5.7	2.1	3.7
GNI per capita (USD) - 2002)	657	2,931	91	446	152	3,833	215	1,737	2,500	1,226	286	336	534
Aid as % of GNI (2001)	3.4	0.6	5.3	5.5	23.4	0.5	28.2	3.4	0.4	2.0	13.3	10.7	1.8
Annual Percent Change in Real GDP (2003)	3.4	5.4	5.6	3.2	4.4	2.7	7.1	3.7	1.9	2.2	7.1	5.1	-9.3
Annual Percent Change in Consumer Prices (2003)	9.8	4.7	12.8	7.6	9.6	5.0	13.5	7.2	5.8	7.3	4.5	21.5	43.1
Balance of Payments on Current Account (GOV) (2003)	-4.9	11.0	0.6	-11.1	-8.1	2.6	-14.7	4.0	-0.8	-4.1	-2.4	-13.3	-4.4
Exports to EU as % of Total	13.7	59.6	60.8	-	31.3	71.3	6.37	-	38.9	-	32.0	16.6	18.0
Imports from EU as % of Total	52.2	45.2	41.6	-	9.8	41.5	14.6	-	44.9	-	23.6	10.0	10.1
Total Investment - % of GDP (2003)	12.8	25.0	12.2	34.1	9.9	23.9	28.4	22.7	16.8	19.4	18.6	26.0	1.9
Domestic Savings - % of GDP (2003)	7.9	41.0	12.9	23.0	1.8	26.5	13.7	26.7	15.9	15.3	16.1	11.9	-2.6
Overall Fiscal Balance, including Grants -% of GDP (2003)	-6.4	1.6	-4.7	0.7	-5.3	-6.0	-4.5	-3.6	-2.1	-6.3	-1.4	-6.0	-0.2
Overall Fiscal Balance, excluding Grants % of GDP (2003)	-4.2	1.0	-6.7	-1.4	-14.1	-6.3	-15.1	-3.8	-2.1	-8.1	-7.2	-12.9	-0.3
Government Revenue, excluding Grants as % GDP (2003)	37.5	52.2	7.7	40.3	22.3	20.4	14.3	33.0	24.4	26.0	11.4	17.9	23.7
Government Expenditure as % GDP (2003)	44.7	51.2	14.4	41.7	36.5	26.7	29.4	36.8	26.5	34.0	18.6	30.9	24.0
Trade Balance as % of GDP (2003)	29.2	13.5	-2.2	-44.5	-7.4	-5.6	-13.1	-10.8	2.3	-7.5	-6.3	-5.3	-4.6

Sources: Sub-Saharan Africa - Regional Economic Outlook, IMF October 2004; World Development Report 2004, World Bank.

IMF Staff calculations "COMESA and SADC: Prospects and Challenges for Regional Trade Integration, P. Khandelwal - IMF Working Paper, December 2004

**Table A3: Human Development Indicators**

	Angola	Botswana	(DRC) Congo	Lesotho	Malawi	Mauritius	Mozambique	Namibia	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe
HDI Ranking 1998	160	122	152	127	163	71	168	115	103	112	156	153	130
HDI Ranking 2002	166	128	168	145	165	64	171	126	119	137	162	164	147
Life expectancy at birth -in years (1998)	46.5	47.4	50.8	56.0	39.3	71.4	45.2	52.4	54.7	60.2	47.9	40.1	44.1
Life expectancy at birth -in years (2002)	40.1	41.1	41.4	36.3	37.8	71.9	38.5	45.3	48.8	35.7	43.5	32.7	33.9
% Population without sustainable access to improved water source (2000)	62	5	55	22	43	0	43	23	14	-	32	36	17
% Population on USD 1 per day (2002)	-	23.5		36.4	41.7	-	37.9	34.9	7.1	-	19.9	63.7	36.0
% One year olds fully immunized against measles (2002)	74	90	45	70	69	84	58	68	78	72	89	85	58
% Births attended by skilled health personnel (2002)	45	94	61	60	56	99	44	78	84	70	36	43	73
% Population with sustainable access to improved sanitation (2000)	44	66	21	49	76	99	43	41	87	-	90	78	62
% Children < 5 years under weight for age (2002)	31	13	31	18	25	15	26	24	12	10	29	28	13
1 II V prevalence - %ages 15 - 49 years (2003)	3.9	37.3	4.2	28.9	14.2	-	12.2	21.3	21.0	38.8	8.8	16.5	24.6
Tuberculosis per 100,000 people (2002)	398	338	594	449	462	137	547	478	366	769	472	588	452
Under-five mortality rate per 1,000 live births (1970)	300	142	245	190	330	86	278	155	-	196	218	181	138
Under-five mortality rate per 1,000 live births (2002)	200	110	205	87	183	.19	197	67	65	149	165	192	123
Adult literacy rate (% ages 15 and above 1998)	-	75.6	58.9	82.4	58.2	83.8	42.3	80.8	84.6	78.3	73.6	76.3	87.2
Adult literacy rate (% ages 15 and above 2002)	42.0	78.9	62.7	81.4	61.8	84.3	46.5	83.3	86.0	80.9	77.1	79.9	90.0
Youth literacy Rate (% ages 15 -24 1990)	-	83.3	68.9	87.2	63.2	91.1	48.8	87.4	88.5	85.1	83.1	81.2	93.9
Youth literacy Rate (% ages 15 -24 2002)	-	89.1	-	-	72.5	94.5	62.8	92.3	91.8	91.2	91.6	89.2	97.6
% Net primary enrolment ratio (1990)	58	85	54	73	50	95	45	83	88	77	50	79	86
% Net primary enrolment ratio (1990)	30	81	35	84	81	93	60	78	90	77	54	66	83





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# **Deepening Integration in SADC**

## **Macroeconomic Policies and Social Impact**

A Comparative Analysis of 10 Country Studies and  
Surveys of Business and Non-State Actors

### **Part 2**

Perception of Business and Non-State Actors in  
SADC Member States

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## List of Abbreviations

BLNS	Botswana, Lesotho, Namibia and Swaziland
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
CPI	Corruption Perception Index
CSO	Civil Society Organisation (s)
DRC	Democratic Republic of Congo
EAC	East African Community
EU	European Union
N	Number of cases
NSA	Non-State Actor (s)
RSA	Republic of South Africa
SACU	Southern African Customs Union
SADC	Southern African Development Community
SME	Small and Medium Enterprises
TI	Transparency International
USA	United States of America
USD	United States Dollar



## Executive Summary

The Friedrich Ebert Foundation in Botswana initiated a project focusing on deepening regional integration within SADC, in close consultation with the SADC Secretariat. Country reports on macroeconomic convergences were prepared. A survey of business people as well as Non-State Actors (NSA) was conducted in ten SADC countries in late 2005, to capture perceptions on regional integration within SADC and other regional groupings. Separate questionnaires were designed for the business sector and the Non-State Actors. The report analyses the responses from both sectors and compares the perceptions of the business community with those of civil society organisations on a SADC-wide level.

A total of 392 completed questionnaires were received from businesses, and 157 from Non-State Actors. The majority of responses from the business sector were received from Madagascar, a country which only joined the SADC organisation in August 2005. NSA from Botswana and Zambia responded in greater numbers than those in other countries. Most of the responding companies were private and large enterprises. A classification according to activity revealed that the majority of them were involved in the manufacturing and wholesale and retail trade sectors. Among the NSA, most of the respondents belonged to 'other civil society organisations' followed by 'industry associations'. The majority of these CSO have been in operation for over ten years, with most of them being members of regional umbrella organisations.

There is a wide range of support for regional integration at all levels amongst NSA and businesses, though slightly more so for integration at the SADC level than at the COMESA and EAC level. At the country level, the overall outlook is that of wide support for regional integration in general. The support and commitment towards regional integration is further demonstrated by the role that Non-State Actors play in its promotion. Debates on regional integration are common in all the countries. Non-State Actors have also been involved in policy-making, at both domestic and regional levels, although the need for strengthening capacity in order to increase their contribution in regional issues is a view unanimously expressed amongst individual countries.

Businesses - and NSA to some extent - express similar views in terms of how they perceive the impact of regional integration within SADC. Most businesses are convinced that deeper regional integration would improve the economic situation in their respective countries. The two groups also strongly agree that greater regional integration would increase competition on the domestic market, though the study reveals that their companies face strong competition from South African and Asian businesses. In general, respondents are positive that regional integration would boost new business and joint venture activities, as well as facilitate trade within SADC. Further regional integration is however envisaged to result in an influx of immigrants, which, it is felt, might contribute to the unemployment problem faced in most of these countries. Increased regional integration is expected not only to boost domestic production, but also to open up markets within and beyond the region. Perceptions on the impact of regional integration within SADC seem to apply to other regional blocks as well, namely COMESA and EAC.

The study found that there is a similar trend in terms of importing from within and beyond the SADC region. In terms of the export market, the EU was identified as the most important export destination. Within the region, South Africa, Zambia and Angola emerged as the key export destinations for most countries.

Having a conducive business environment is necessary if the volume of trade is to be increased. Most businesses regard both the domestic and the South African markets as the most favourable for trade. The business climate in other BLNS countries as well as the remaining SADC countries did not receive such positive views. Interestingly, only South Africa received a high positive rating in this regard in the region. A relatively substantial number of the respondents indicated that they do not know about the business climate in the BLNS and other SADC states. This lack of information is also highly significant concerning markets in other regions. Beyond the region, the Asian and the EU markets are considered as also being quite favourable.

Barriers continue to exist which are major hindrances to trade within the region. Customs procedures as well as the bureaucracy involved in obtaining the papers and documents required for carrying out trade activities are seen as very time consuming and a major barrier to trade.

The high transportation cost is also considered a significant trade barrier. The presence of corrupt officials and the current customs tariff remain other key hindrances to carrying out trade activities.

In view of this, the need for tariff reduction as the way forward for integration within SADC is strongly expressed. In order to take regional integration further, there is also a strong need to have in place well designed competition and trade policies for SADC as a whole. Removing existing restrictions to the free movement of services within the region was highly favoured. However, issues such as the introduction of a single currency and the establishment of a political union did not receive such strong support.

The study found widespread support for deeper regional integration in general and within SADC in particular. Owing to the lack of a majority representation of respondents in both categories, the results should be seen as a snapshot of the views of businesses and Non-State Actors in general, which was what the study aimed to achieve.



## Introduction

The Friedrich Ebert Foundation, Botswana office, in close consultation with the Southern African Development Community (SADC) Secretariat, initiated a project focusing on deepening regional integration within SADC. A survey of the business sector as well as Non-State Actors (NSA) was conducted to capture perceptions on regional integration within SADC and other regional groupings. The aim of this survey is to identify areas that need to be addressed to make regional integration a success. The results of the survey are presented in a comparative study that includes the ten Member States of SADC which participated in this project. Individual country studies were carried out, results have been published in the "Regional Integration in Southern Africa," Volumes 2-11.

Separate questionnaires were designed for the business sector and the NSA, each consisting of three sections: The first covers general information about the respondents. The second focuses on the perceptions of respondents concerning the possible impact that regional integration within SADC could have on the domestic economy and on their own businesses. The last section focuses on the extent of public debate on regional integration, as well as the involvement of respondents in this debate.

An analysis of the responses obtained from all the participating countries was carried out to assess the overall support for regional integration. This report analyses the responses and compares the perceptions of the business community with those of civil society. It further attempts to establish whether certain characteristics of responding companies, such as type of economic activity, company size or years in operation, influenced perceptions. The survey furthermore tries to establish whether perceptions differ within sub-groups of SADC countries, namely countries that belong to other regional groupings such as SACU or COMESA.

Chapter 1 outlines the main characteristics of the respondents. Chapter 2 looks at the level of participation and contribution by NSA and businesses to regional integration. Chapters 3 and 4 analyse perceptions regarding regional integration, including barriers to trade and the business climate within as well as outside the region. Chapter 5

focuses on the future path that respondents would like to see regional integration take. The last chapter attempts to draw some conclusions and make recommendations where appropriate. All relevant tables are presented in the appendix.

The aim of the survey is to provide a snapshot of perceptions within the two categories, rather than a countrywide representative picture for all economic sectors and the whole spectrum of civil society. Structured coded questionnaires were distributed to various businesses and NSA. The minimum number of completed questionnaires required per country in the business sector was 30, whilst a minimum of 10 was required for NSA. A total of 392 completed questionnaires were received from businesses in the ten participating countries, and 157 were received from Non-State Actors.

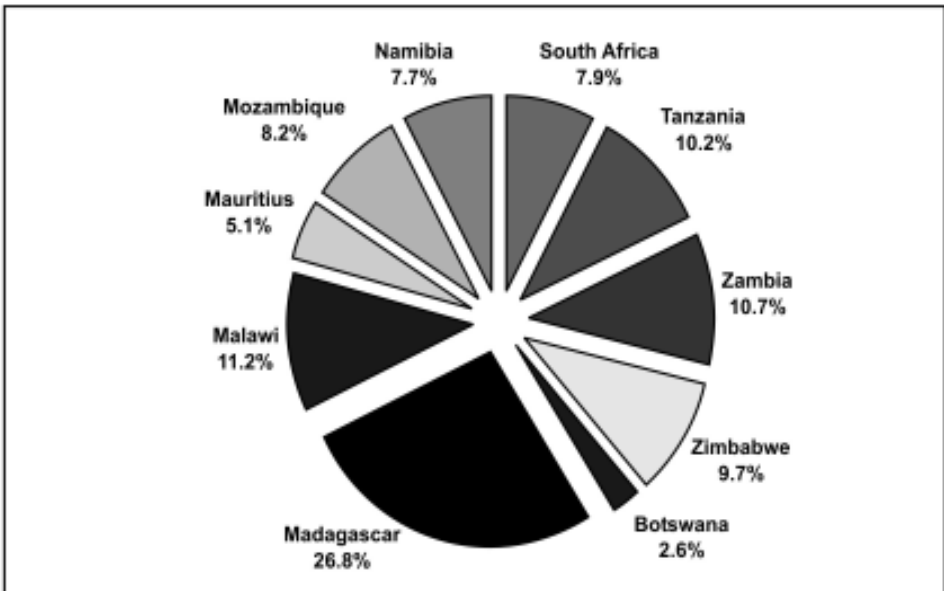
# 1 Characteristics of Respondents

This section presents the distribution of responses from countries that participated in the survey, and describes the characteristics of the respondents from the business sector and civil society organisations.

## 1.1 Participating Countries

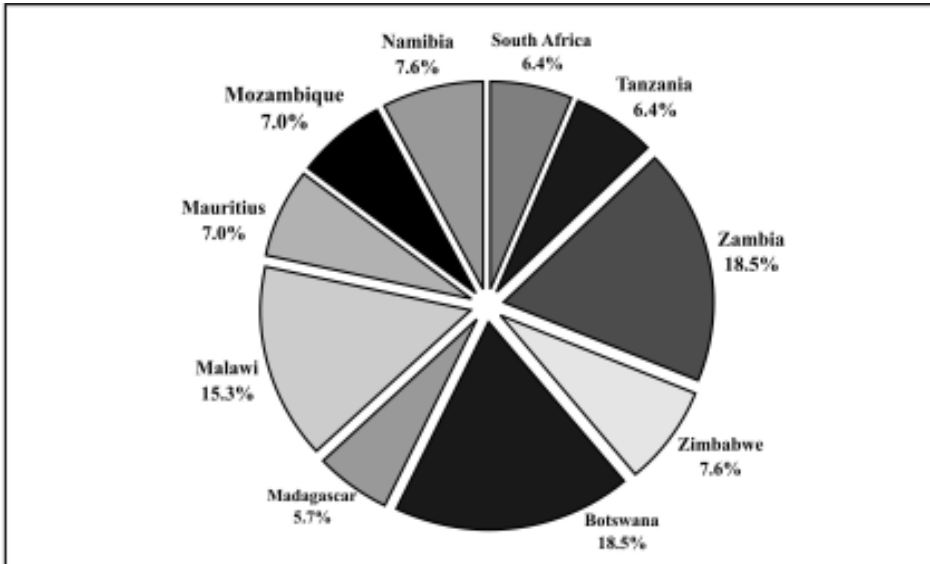
Returned questionnaires from the business sector in Madagascar, a country which only joined the SADC organisation in August 2005, outnumbered the responses of each of the other countries. However, all countries with the exception of Botswana and Mauritius met the required minimum of completed questionnaires. Of the 392 respondents from the business sector, 26.8% were from Madagascar (Table 1). The distribution of respondents by countries is shown in Figure 1 below:

Figure 1: Distribution of Participating Countries in the Business Sector



On the other hand, Madagascar fell short of the required minimum of responses from the NSA sector. Of the 157 respondents from the Non-State Actors, Botswana and Zambia led with 18.5% each, followed closely by Malawi with 15.3% (Table 2). The distribution is presented in Figure 2 below:

Figure 2: Distribution of Participating Countries among the NSA



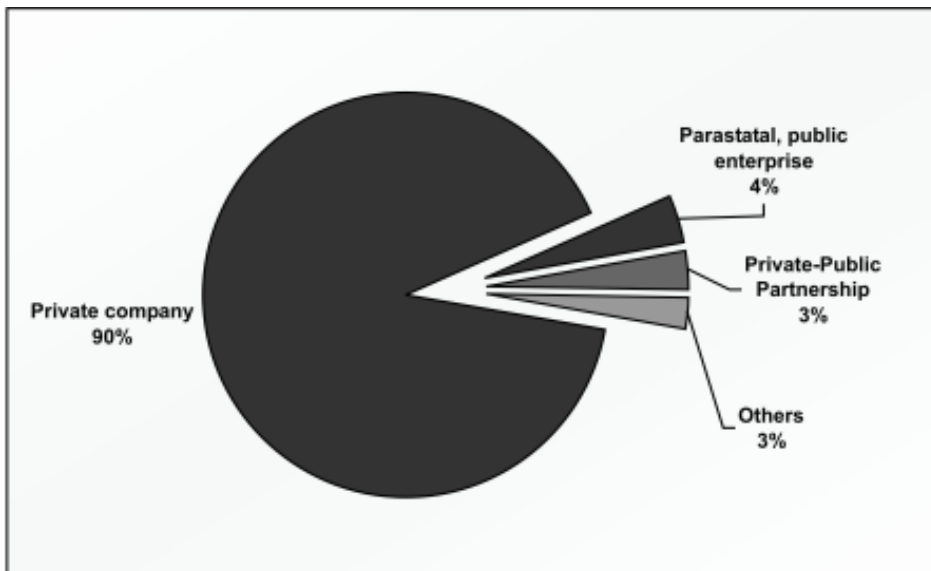
With the exception of a few, most of the countries barely met the required minimum response target (Table 1 & Table 2). The poor response rate in some countries could suggest either that respondents are not aware of the benefits of surveys, or that they are not particularly interested in SADC-related issues. It is possible that a wider distribution of the survey results could encourage a better response rate.

## 1.2 Businesses

90% of responding companies are private companies, whilst the remaining 10% is represented by the other three categories, as depicted in Figure 3 below. Over 50% of the business respondents employ more than 50 people, which indicates that the majority of respondents in the survey are large enterprises. Only about a third employs fewer than 25 workers (Table 3). The higher number of responses from larger companies could be due to the fact that such companies have a more sophisticated staff structure, thus enabling tasks such as completing these questionnaires to be handled by the appropriate personnel. The composition of businesses in the region as a whole is mainly dominated by SME. However, the low response rate from such businesses is an indication of their under-representation in the study. 67% of the businesses have been in operation for over ten years (Table 4).

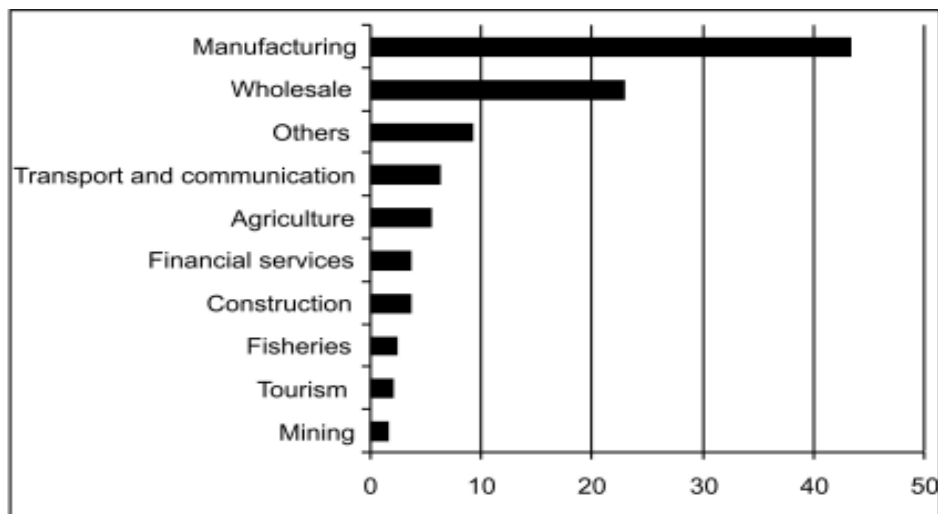


Figure 3: Type of Businesses



Over 60% of the responding businesses are engaged in manufacturing and wholesale and retail trade activities, with the majority in the manufacturing industry as shown in Figure 4. Manufacturing industries usually operate on a relatively large scale, and this could be a contributing factor that about 67% of the responding companies make an annual turnover of over USD 100,000. This holds for companies in general as well as for companies from countries that are members of more than one regional grouping.

Figure 4: Distribution of Respondents by Economic Activity



Further analysis by industry shows that the majority of the manufacturing companies are larger firms as they employ more than 50 workers. Companies in the wholesale and retail trade sector can be classified as mostly small- to medium-sized enterprises, as the majority of the respondents have fewer than 25 employees. Over 50% of the companies interviewed that have been in operation for over 10 years are found in the manufacturing sector, whereas the majority of those that have been operating for less than 2 years are wholesale and retail trade companies (Table 5 & Table 6).

In general, while the turnover of two-thirds of responding companies exceeds USD 100,000, this is true for 87% of companies based in SACU countries compared to 57% located in countries belonging to SADC and COMESA. On the other hand, 7% of businesses from SACU members realised a turnover below USD 50,000 compared to 26% of enterprises from the other group.

The proportion of companies importing goods from within SADC and from outside SADC is similar - 75% compared to 73%. The same proportion of businesses imports goods to the value of more than USD 100,000 from within and outside SADC - 32%. However, more companies import goods valued between USD 50,000 and USD 100,000 from outside SADC than from within - 15% compared to 9% (Table 8). However, conclusions concerning the total value of imports from within SADC and outside SADC can not be drawn from this information, since companies were asked to indicate the range of value and not to state the actual amount.

Apparently, businesses in SACU member countries are more extensively involved in imports, from both within and outside SADC. 50% of these businesses import items exceeding USD 100,000 per annum from within SADC, and 47% from outside. The same holds for only 25% and 22% respectively of enterprises from countries that belong to both COMESA and SADC (Table 8).

### **1.2.1 Main Export Destinations**

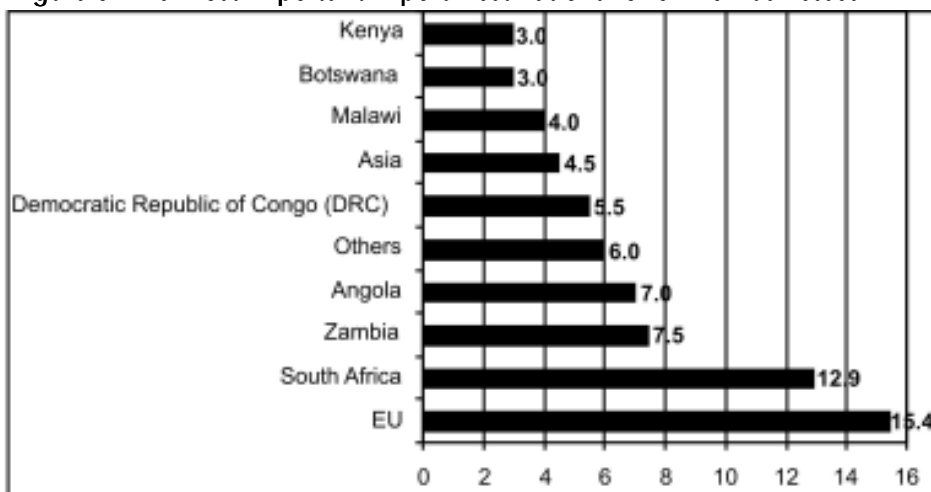
It would seem that companies are involved in export activities to a much lesser extent than in imports. The value of exports to other SADC countries exceeds USD 100,000 in only 22% of cases, and in

the case of exports to outside SADC for only 20%. Again, businesses from SACU countries are more involved in exports than from countries belonging to SADC and COMESA. The export amount for enterprises located in SACU exceeds USD 100,000 (exports within SADC) for 48%, and 39% (exports to outside SADC). The proportion stands at 11% and 9% respectively for entities based in countries being a member to COMESA and SADC (Table 9).

Overall, the domestic market dominates in terms of sales. On average it absorbs 73% of total sales of companies, while the most important export destination accounts for a further 25%. Since the survey comprises responses from sectors that are traditionally not exported-oriented, the dominance of the domestic market does not surprise. However, the significance of the most important export destination suggests that exports are highly concentrated on one export market.

The European Union (EU) tops the list of 'most important export destinations', with South Africa, Zambia and Angola following. The USA is less important as export destination than SADC and Asian countries. However, 17% of respondents indicated that they do not know the export destination, which could be because their exports involve middlemen.

**Figure 5: The Most Important Export Destinations for SADC Businesses**



The EU and the USA are regarded by the highest proportion of businesses (8% and 6%) as the second most important export

destination for SADC countries. Within the region South Africa, Malawi and Zambia featured well in this category (Table 10). Zimbabwe and Botswana were regarded by respondents as the third-most important export destination, together with the EU and Asia.

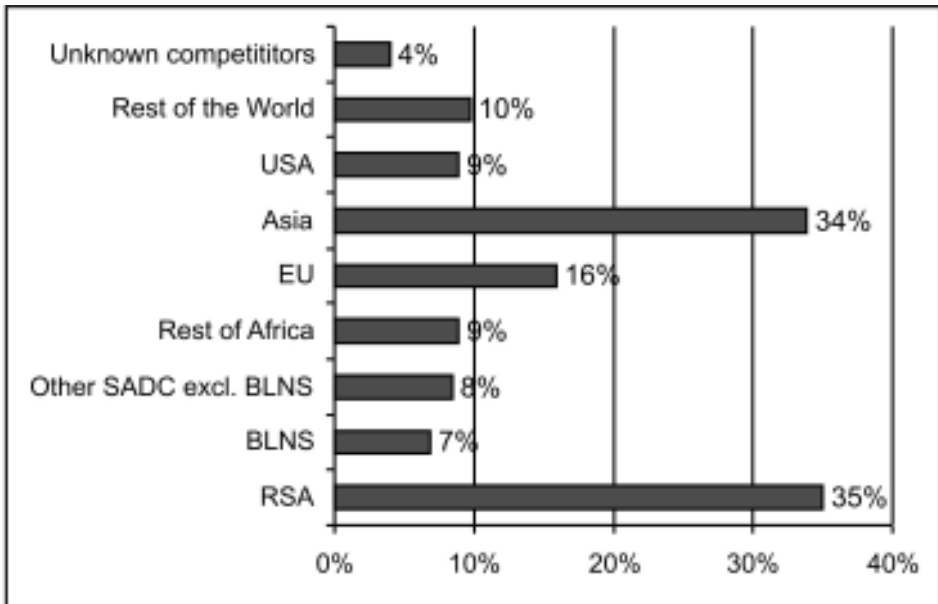
Angola plays an important role as export destination for companies in SACU. It ranked first as most important export destination (for 24% of companies) followed by South Africa and the EU (16% each). It took also the first place as second most important destination for exports together with Mozambique (12%), while Botswana and Namibia are holding the first rank as third most important destination (11% of companies; Table 11).

Companies from countries that are members of COMESA and SADC have different priorities concerning their export destination. South Africa, EU and Zambia are tipped as the most important destinations, while Malawi heads the list of second most relevant destination, followed by Zambia, the EU and South Africa. Zimbabwe features well as third most important export destination, followed by Botswana and Rest of Africa. However, a large proportion of respondents could not identify the major export destinations, which impacts negatively on how representative the responses are (Table 12).

## 1.2.2 Competition

35% of the respondents indicated that they face strong competition from South African companies, whilst 34% responded similarly for Asian companies (Table 13). Similar results were obtained from companies in SACU member countries. However, these countries indicated that apart from RSA and Asia, they also face strong competition from other BLNS countries. The results are not surprising as South Africa is the strongest economy in the region and tends to dominate most markets. Similar responses were obtained when businesses within South Africa were excluded from the analysis. 24% of the responding companies indicated that they experience moderate competition from the EU, while 15% claimed that they faced moderate competition from other companies within SADC, excluding the BLNS countries. Clearly, competition from African countries other than South Africa is not very strong.

Figure 6: Strongest Sources of Competition Faced by SADC Businesses

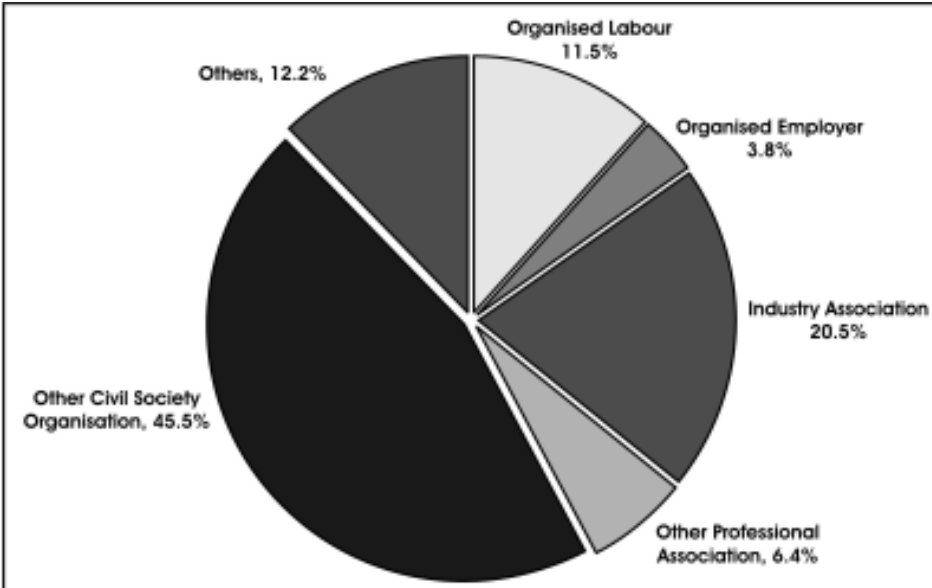


Further analysis of individual country responses on competition within the region and the continent as a whole strengthens the earlier suggestion that most competition is faced from South Africa. Respondents from Botswana in particular (70% of its respondents), followed by their counterparts from Malawi, Mozambique and Namibia (58%, 52% and 50% respectively) indicated that their strongest competitors are from South Africa. Though Namibia and Botswana have a very good economic standing in the region, both countries depend greatly on their primary sector and therefore trade is not diversified. Their limited manufacturing activities are mostly in direct competition with South African firms. Over 37% of South African respondents claimed that they face strong competition within their own country. Furthermore, South Africa (23%) as well as Namibia and Botswana (with 20% each) claimed strong competition from BLNS countries. Overall, competition from other African countries is barely an issue. This could be due to the fact that trade amongst African states is very limited, and that most African economies are not very diversified. The issue of transport links within and amongst African countries could be another contributing factor to limited trade activities.

### 1.3 Non-State Actors (NSA)

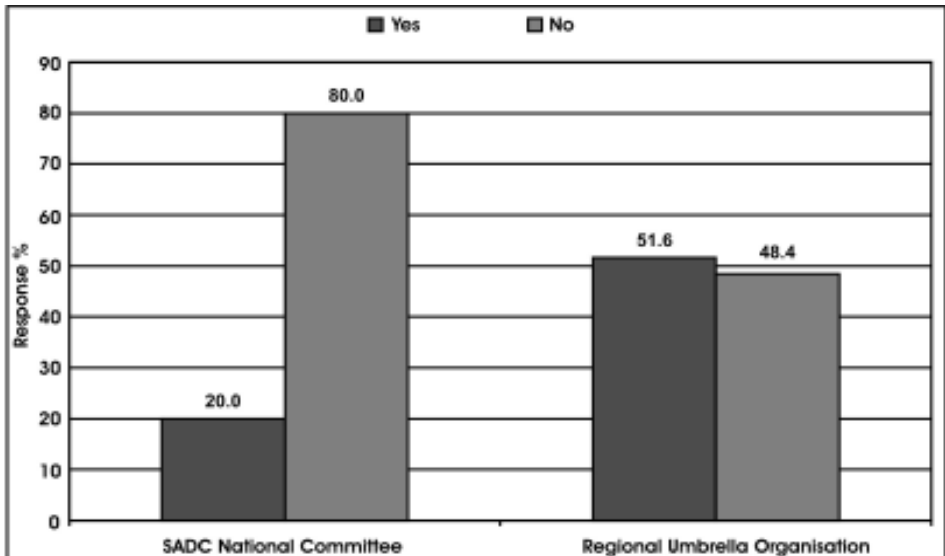
The majority of respondents are 'other civil society organisations', whilst 21% are industry associations (Table 14). Over 60% of the civil society organisations have been operating for more than 10 years, whilst about a fifth has been in operation for 5 years or less (Table 15).

Figure 7: Distribution of Respondents by Type of Civil Society Organisation



20% of the respondents are part of the SADC National Committee, and over 50% are members of regional umbrella organisations. This indicates that there are strong links between civil society organisations within the region.

Figure 8: Membership of Civil Society Organisations within SADC



Further analysis by type of organisation shows organised employers are more often represented in SADC National Committees than other organisations. Industry associations, organised labour and other professional associations were mainly members of regional umbrella organisations (Table 16).





## 2 Participation in and Contribution to Regional Integration

Both businesses and Non-State Actors have participated or contributed in some way to the promotion of regional integration. One of the sections in the questionnaire deals with the extent of public debate and awareness of the subject of regional integration in the various countries, and to what extent businesses and civil society organisations have been involved in such issues and in the making of policies that contribute towards regional integration.

### 2.1 Support for Regional Integration

There is strong support for regional integration at all levels amongst NSAs and businesses, though slightly more so for integration at SADC level than at COMESA or EAC level. Respondents from SACU countries are in line with these findings, while the NSA sector in countries that belong to both SADC and COMESA shows support for COMESA integration as well (Table 20).

Further analysis by business sector shows that the majority of respondents in each sector are in favour of deeper integration within the SADC region. The construction and the financial services' sectors express a stronger support for regional integration (62% of respondents each). This sentiment is shared also by the tourism, agriculture and transport and communication sectors, though to a slightly lesser extent (Table 35). Similar views were expressed by respondents from SACU Member States, particularly in the agriculture, construction and tourism sector. Among respondents from COMESA members, regional integration at SADC level received positive responses from the transport and communication as well as the mining sectors. The manufacturing sector is more sceptical than most other sectors about regional integration. 11% of respondents indicated they are in support of regional integration within SADC.

A breakdown of the responses by country reveals that respondents from all countries support regional integration. However, business respondents from Mauritius (33%) and Namibia (20%) seem to a greater extent to be less convinced of regional integration, while NSA

respondents from Namibia are the most sceptical (22%) followed by respondents from Tanzania and South Africa (Table 36). When analysed by organisation type, the majority stated that they are in favour of regional integration in general, and within SADC in particular (Table 37). Only industry associations support the idea to a lesser extent.

It is not surprising that respondents from SACU member countries are highly in favour of regional integration within SADC. It is however interesting to note that respondents from countries such as Madagascar, Malawi and Zambia that share membership with both SADC and COMESA are more in favour of integration at the SADC level than at the COMESA level (Table 20). The responses might suggest that the benefits from SADC integration outweigh benefits from COMESA integration.

Businesses and civil society organisations have also been involved in public debate on regional integration. A comparison of the responses shows that NSA participate more in public debate concerning all levels of regional integration than do businesses (Table 17). This is not surprising, since business people usually have little time for general political discussions, which tends to be more the domain of their sector's associations or other forms of representation. Responses from countries that are also members of SACU or COMESA reveal that participation in public debate on regional integration within SADC is stronger than on COMESA and EAC (Table 17).

Civil society organisations have continued to play an important role in promoting regional integration. Figure 9 below compares the various levels of NSA involvement in the public debate.

Figure 9: Efforts by NSA to Promote Regional Integration

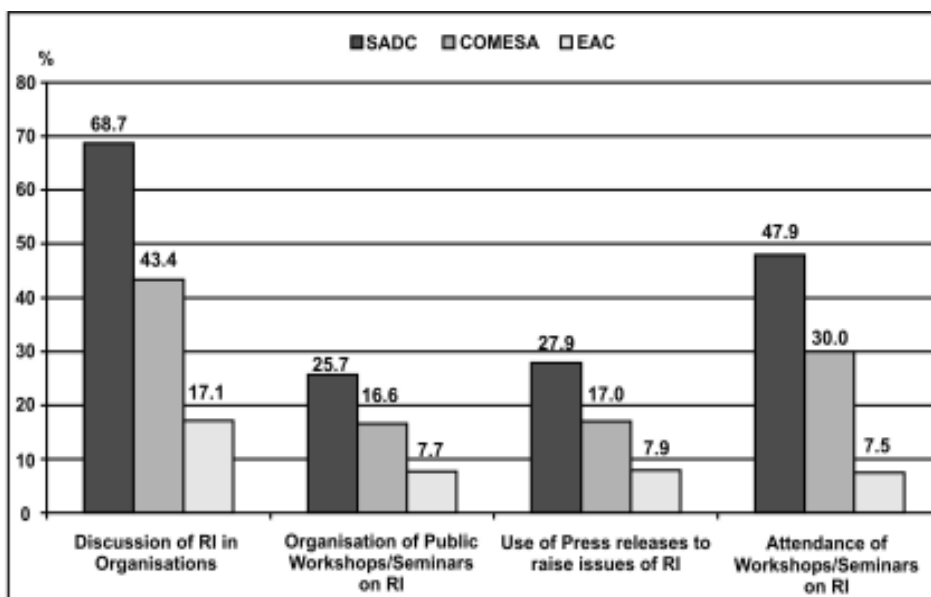


Figure 9 illustrates that NSA are more involved in internal discussions about regional integration and are participating more in workshops than organising events or issuing press releases. It is not surprising that very little is done in relation to raising issues on EAC, as only one of the SADC Member States also belongs to EAC, i.e. Tanzania. Thus, there is little need for workshops and seminars in the other countries concerning EAC issues.

Further analysis shows that respondents from SACU Member States are more involved in discussing regional integration within SADC (57% of respondents) than about COMESA integration (11%). Respondents from countries belonging to COMESA as well confirmed that their focus of discussion is SADC (70%), although integration within COMESA receives its fair share of attention (about 59%).

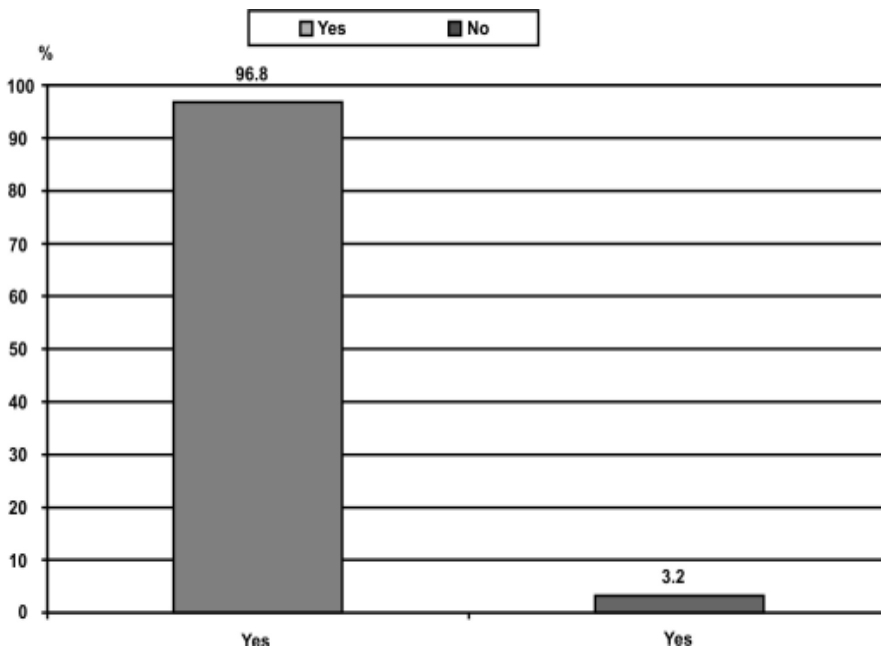
Attendance of workshops on regional integration issues is more common among NSA than among businesses in both sub-regional groups. Each sub-group focuses more on workshops and seminars concerning SADC than COMESA or EAC. Not much is done in terms of organising workshops and seminars on regional issues. The results show that only some 16% of SACU respondents get involved in organising such meetings concerning SADC, and hardly any referring to COMESA or EAC. Similar results are obtained for respondents from COMESA countries, though naturally COMESA issues play a more

significant role than among respondents from SACU. This is not surprising, as only one member of the SACU countries is also part of COMESA.

Despite attempts made by NSA to promote regional integration, Table 18 and Table 19 show that their participation in policy making is limited. Over 70% of the respondents claim that they do not receive invitations to attend SADC National Committee meetings. While 20% of the respondents are members of SADC National Committees, 11% say that they participate regularly in these meetings.

There is clearly need for capacity building among NSA in order to strengthen their role in regional integration issues. 90% of respondents confirmed the need for capacity building, as Figure 10 below indicates. This trend is similar when an analysis is conducted by country and type of organisations. All respondents from the various countries covered in the survey express a strong need to increase the capacity of NSA to allow them to participate more in regional issues. This shows that the belief that civil society organisations can contribute more to regional integration if given the opportunity is widespread in the region as a whole.

**Figure 10: Need to Increase Capacity among NSA to Participate in Committees Concerning Regional Integration**

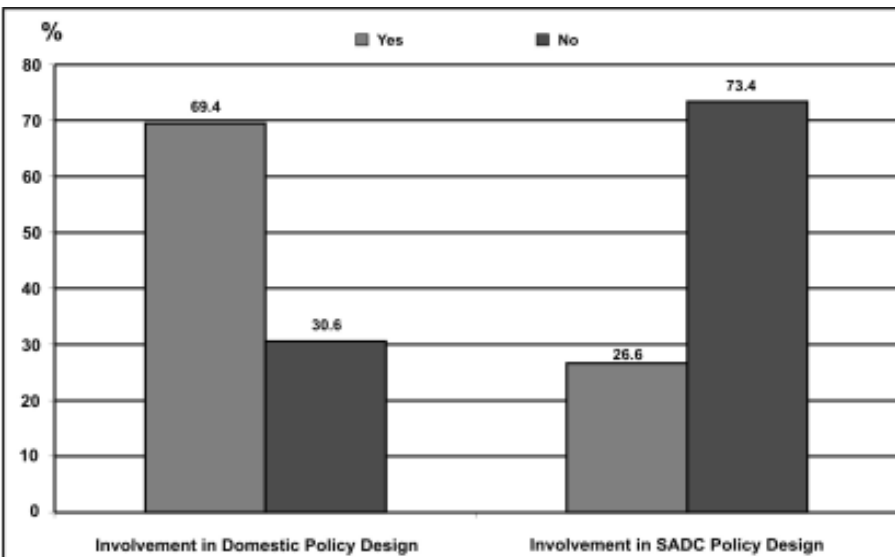


## 2.2 Policy Involvement

Aside from engaging in public debates and national committee meetings, Non-state Actors have been involved in policy making at both domestic and regional levels. Figure 11 below shows the involvement of NSA in the design of domestic and SADC policies. The figure reveals that NSA are more involved in domestic policy design than the design of policies at the SADC level. Similar results were obtained for responses from SACU and COMESA Member States. This indicates that although SADC Member States made a commitment to involve CSO more in policy making, there is still room for improvement. The involvement in policy design applies to all types of organisation, and ranges from 50% (organised labour) to 100% (organised employers: Table 21).

NSA furthermore expressed their opinions on how deepening regional integration could affect their role in policy making in their respective countries. About two-thirds of the respondents expect the role of NSA in general - as well as their own influence on domestic policies - to strengthen either strongly or slightly. Less than 10% anticipate a weakening of their position in policy making, while the same proportion is not sure about the impact of regional integration on their policy influence (Table 22).

Figure 11: NSA Involvement in Policy Design





### **3 Perceived Impact of Regional Integration within SADC**

This section analyses the perceptions of businesses and Non-State Actors on the economic impact of regional integration, and the trade barriers that companies in the region are currently facing. It also compares the perceptions on how regional integration affects businesses and NSA in general.

#### **3.1 Perceptions of Regional Integration**

Businesses and NSA to some extent express similar views in terms of how they perceive the impact of regional integration within SADC. The two groups strongly agree that increased regional integration would increase competition in the domestic market, benefit the economy in general and provide new export opportunities. Overall, respondents anticipate a decline of input and consumer goods' prices. Both groups of respondents are however split over the statement that it will reduce unemployment and business people do not expect labour costs to drop. On the other hand, respondents agree that regional integration could result in an influx of immigrants, though this was true for NSA to a greater extent than businesses respondents. With the expectation of an increase in the supply of labour, one would expect the cost of labour to decline, but this is not a sentiment expressed by business respondents. Comparisons based on the different regional grouping show similar results (Table 23).

Perceptions on regional integration within SADC seem to be shared with other regional blocks, namely COMESA and EAC. Most of the respondents (50% of NSA and 51% of businesses) indicated that they would have expressed the same views on the impact of regional integration within both COMESA and EAC as they did for SADC. About 42% and 33% respectively stated that they would have responded differently though not a lot, while the remainder of the respondents were not sure whether they would have changed their perceptions or not when questioned about COMESA and EAC. Respondents from countries belonging also to COMESA answered the question in the same way (Table 24).

Further analysis by type of NSA shows that the organised employer group has a highly positive perception as to how regional integration could affect employment and domestic production. All respondents in this group believe strongly that regional integration would boost new business and joint venture activities, as well as facilitating trade within SADC. Respondents from countries holding dual membership with COMESA and SADC are more positive about the possibility that regional integration could result in an increase in new business activities.

Taking the analysis further to include Member States of SACU, it is revealed that respondents from organised labour believe that regional integration would increase access to cheaper foreign labour.

### **3.1.1 Impact of Regional Integration on Domestic Businesses and Companies**

**B**usinesses were asked how regional integration could impact on their own operations. The responses of businesses do not indicate that regional integration would affect the labour market significantly. 50% of them would not expect to retrench employees, while 46% would probably employ more workers. The majority however do not expect to have access to cheaper labour. The NSA respondents express similar views on issues concerning the labour market (Table 25).

Both categories of respondents express a positive view on the impact of regional integration on domestic production, though slightly more so for NSA with 66% indicating that domestic production is expected to increase with regional integration. The majority do not expect companies and businesses to close down their operations as a result of regional integration. The expectation that regional integration would result in companies venturing into new business opportunities and seeking joint-venture opportunities with companies from other SADC nations is expressed by both groups of respondents. However, only NSA anticipate more investments abroad (Table 25).

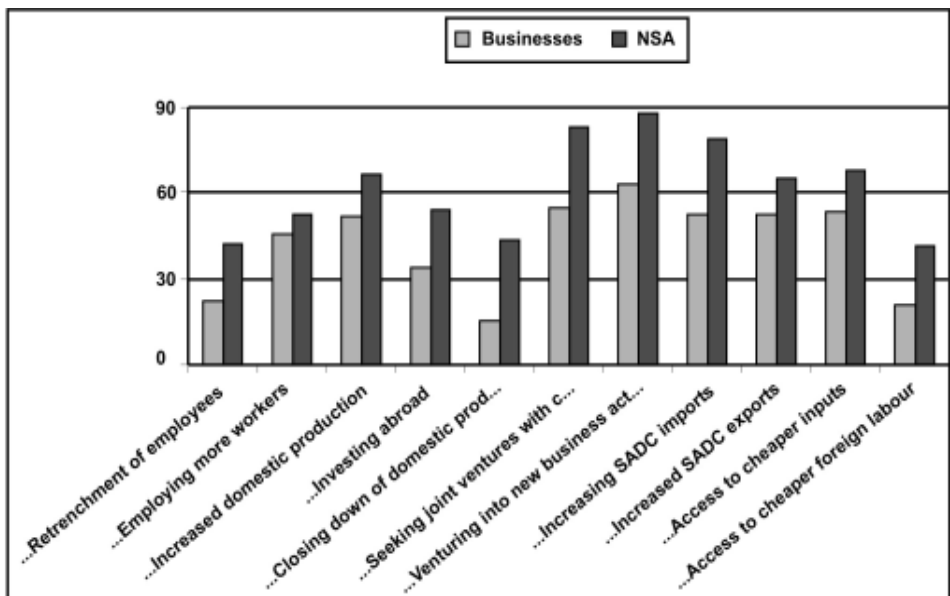
Most of the respondents anticipate that increased regional integration will result in access to cheaper inputs. Exports to and imports from other SADC countries are expected to increase with greater regional integration. This indicates that increased regional integration would not only boost domestic production, but could also



open up markets within and beyond the SADC region. It is also encouraging to note that negative impacts such as retrenchment and closing down of domestic production as a result of deeper integration received the lowest ratings, especially among the business community. The responses are similar when responses from companies in SACU and COMESA countries are analysed.

Figure 12 below shows that the majority of respondents are positive about regional integration in general.

**Figure 12: Likely Impact of Increased Regional Integration on Businesses, Responses from Businesses and NSA Compared**



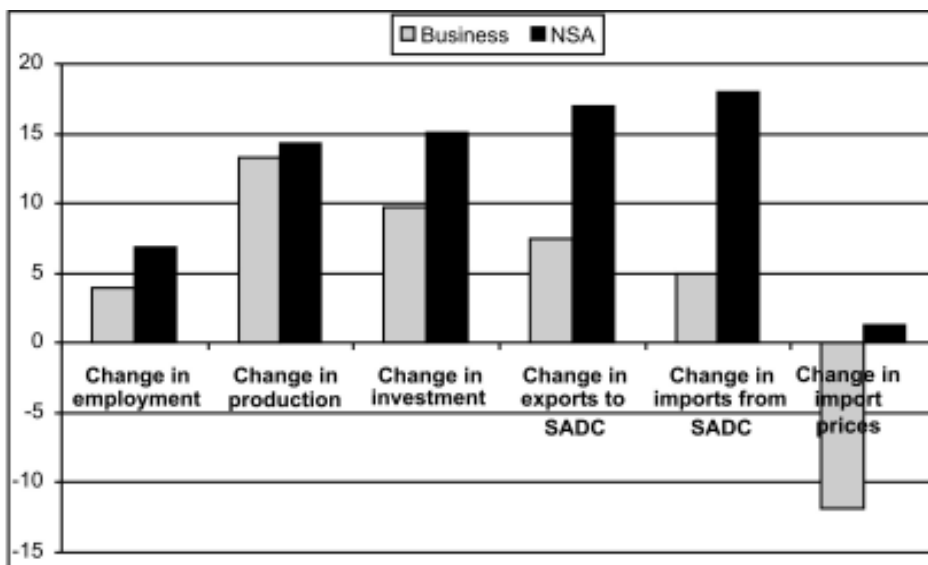
Similar sentiments are expressed when analysed further by sub-groups. Respondents from SACU Member States are more optimistic about new joint venture and business opportunities that further integration will bring. There is also a positive expectation among the business respondents on increased trade in the SADC region, though slightly more so for exports than imports among the business respondents. Respondents from COMESA Member States expressed similar views, though in terms of trade they are slightly more optimistic about increased import than export opportunities within SADC (Table 26).

Respondents were asked to quantify the impact of regional integration on their own business, using variables such as employment,

production or investment. The responses indicate that there is no consistent perception about the direction and magnitude of change. In addition, it was apparently challenging to put figures to the anticipated changes in variables. Responses from the business community varied between minus 200% and plus 1,000%. Even when extreme outliers were removed, the Standard Deviation remained very high, though it is much lower for estimates by the NSA sector than the business sector. The responses do nevertheless indicate a trend that supports the qualitative responses described in the previous paragraphs. Although business people anticipate retrenchment as well as additional employment of staff, overall the positive employment effect apparently outweighs the laying-off of workers. On average, employment is expected to increase by 4%, according to responses from the business sector, and by 7% according to NSA. Similar trends are observed in other variables. Production could increase by about 13%, investment by 10% and imports and exports between 5% and 8%. Apparently, business people are more optimistic about new export opportunities than about new sources of imports. While business people anticipate a considerable drop in import prices, respondents from the NSA sector expect prices to rise slightly.

It appears that respondents from SACU countries are more conservative concerning the employment effect than their counterparts from countries belonging to COMESA. Business people from SACU countries estimate the additional employment at 5%, while NSA respondents anticipate a decline in employment by 6%. Respondents from COMESA countries expect an increase by 11% (business sector) and 12% (NSA sector) respectively. Company owners in SACU countries expect imports to increase to a greater extent (16%) than exports (14%), while respondents from COMESA countries expect brighter export opportunities (increase by 14% as opposed to an increase in imports by 10%). Overall, respondents from both regional sub-groups expect changes in the same direction (Table 27).

Figure 13: Impact of Regional Integration on Selected Variables, Business and NSA Sectors Compared



### 3.2 Barriers to Trade

Various barriers hinder the magnitude of trade amongst SADC Member States. Whether such barriers are indeed being experienced and to what extent, is discussed in this section.

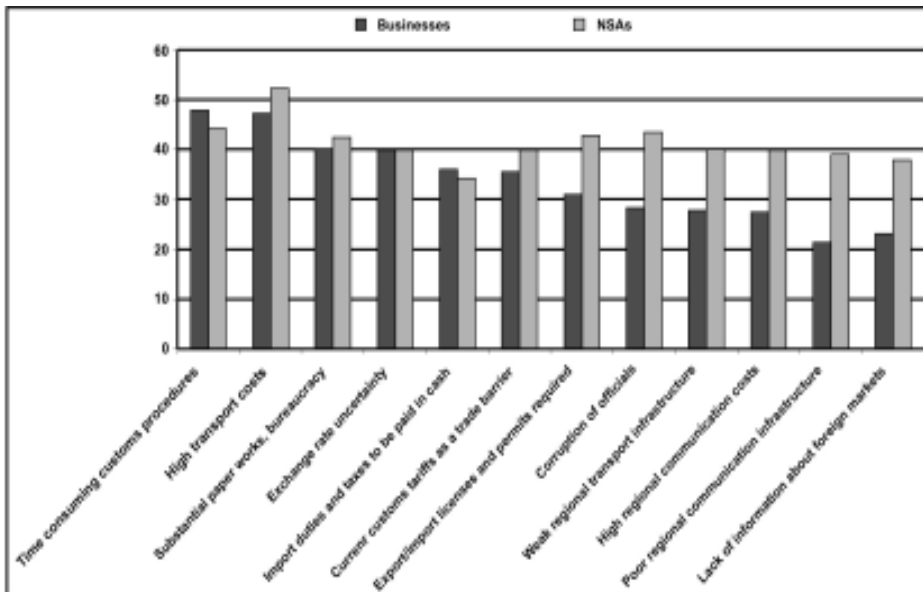
Of the 383 business respondents, 44% claim that they experience barriers when exporting and importing goods within the SADC region. 28% stated that they do not experience any barriers, whilst the remainder responded that it does not apply to their businesses, as they do not trade within SADC.

In analysing the experience of trade barriers based on specific sectors, more than 50% of respondents from the manufacturing sector experienced barriers to trade within the SADC region - a higher proportion than in any other sector. The manufacturing sector is usually involved in trade to a greater extent, since inputs are sourced from elsewhere in the region and the final product often exported because of the small domestic market. The strongest trade barrier the manufacturing sector faces is high transport costs. The construction and the agricultural sectors also experience trade barriers, though to a lesser extent than the manufacturing sector (Table 30).

Most of the trade barriers are identified as either being very relevant or relevant to both business community and civil society. Time-consuming customs procedures and high transport costs have been identified as highly relevant by businesses and civil society organisations alike. Table 28 reveals that businesses in Member States of SACU and COMESA have expressed similar views on the most common barriers to trade. Over 40% of NSA respondents perceive the presence of corrupt officials as a hindering factor to trade. The bureaucracy involved in obtaining the papers and documents required for trading were also key barriers identified by respondents from both groups. Business respondents in member states of SACU and COMESA expressed similar views on the issues of trade barriers. Both sub-groups identified the high transport cost as the most relevant barrier with 88% and 86% of the respondents respectively. NSA respondents from COMESA Member States also identified the poor regional communication infrastructure and the requirement of export/import licenses and permits as other major hindrances to trade (Table 29).

Figure 14 below shows the trade barriers identified as very relevant in the region from both NSA and businesses.

**Figure 14: The Most Relevant Trade Barriers as Identified by Businesses and NSA**



On the other hand, the absence of export insurance to cover payment risks as well as compliance to the sanitary and phyto-sanitary regulations imposed within the region are two of the barriers viewed by most of the business respondents as hardly or not at all relevant. The majority of the civil society respondents claim that the requirement of a visa for travelling abroad was hardly a relevant barrier to trade.

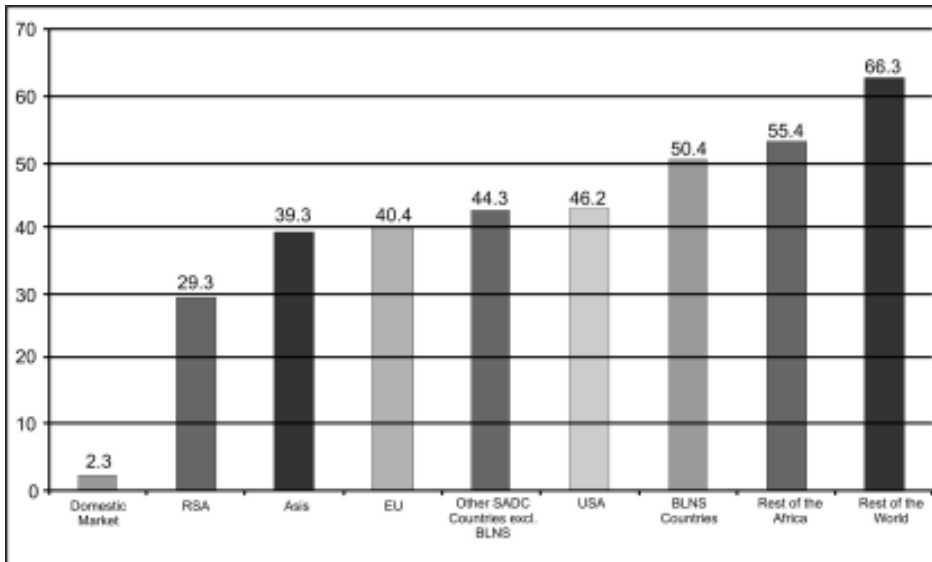


## 4 Perceived Business Climate in the Region and Beyond

A conducive business environment is required if the extent of trade and investment is to increase within the region. According to the respondents in the business community, the domestic market followed closely by the South African market is regarded as the most favourable one with 53% and 52% respectively. The Asian and European Union markets are also identified as being quite favourable, with 45% and 38% of the respondents attesting to this respectively (Table 31). The business climate in other BLNS countries as well as the remaining SADC countries receives very low ratings, and it is interesting to note that only South Africa received a high rating in this regard. This could be attributed to the fact that South Africa has the strongest economy in the region, and hence business people are familiar with the economy there.

Previous conflicts in some SADC Member States probably still influence the perceptions of business people. In addition, there is a widespread lack of knowledge about other economies. Quite a substantial number of respondents indicated that they do not know about the business climate in the BLNS countries, in other SADC states and the rest of Africa. This lack of information is also highly significant with markets in other regions. Figure 15 below shows the proportion of business people who claim to have no knowledge of the business climate in the identified regions.

**Figure 15: Proportion of Business People who did not know about the Business Climate in Specific Regions**



An analysis of the business climate by sector indicates that the financial services' sector finds the domestic market the most favourable, while the mining sector regards the business climate in the South African market as most favourable (83% of respondents) followed by the EU and Asian markets (75% each). The wholesale sector also perceives the Asian market as highly favourable, which could be due to the fact that goods from Asia are relatively cheap and this could have a positive impact on cost to these businesses. The BLNS market is seen as favourable, though to a lesser extent by the mining and transport and communication sectors.

Table 32 shows a comparison of the business climate rating by the different regional groups. Respondents from SACU Member States identified the South African market as the most favourable to which they have duty free access because of the customs union. They also identified the domestic and Asian markets as other favourable markets for doing business. Among the respondents from COMESA states, the domestic market received the highest rating, followed very closely by the South African and Asian markets.

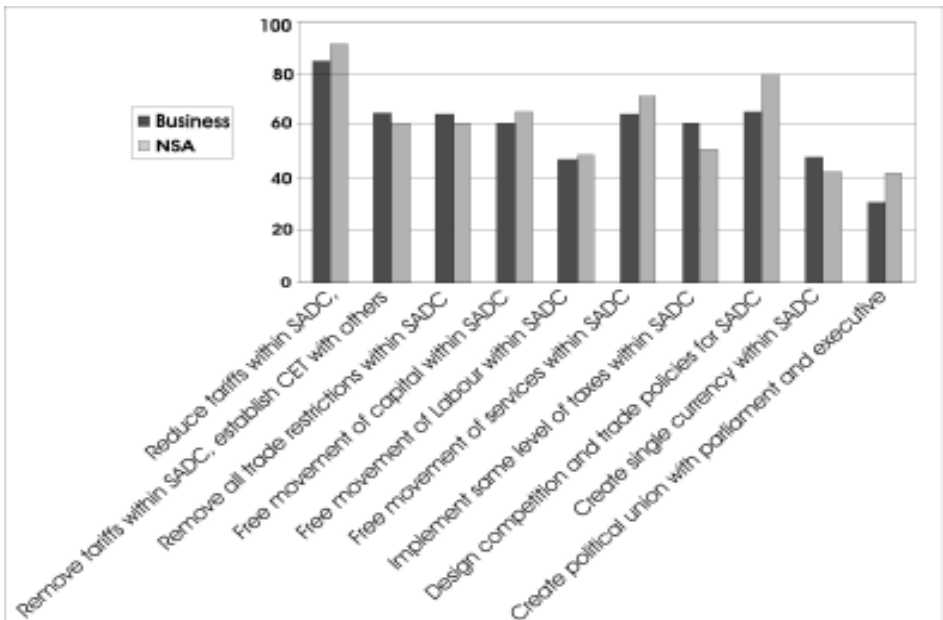


## 5 Future of Regional Integration

The business community and civil society were asked about how far they would like to see regional integration go in the future. Tariff reduction within SADC receives the highest percentage of positive responses, with 85% and 91% for businesses and NSA respectively (Table 33). The need to have well-designed competition and trade policies for SADC as a whole received a high positive response from both groups of respondents, as did the removal of restrictions to the free movement of services within SADC.

In slight contrast, while the business community focuses more on the removal of tariffs within SADC and the establishment of a Common External Tariff (CET) to all other countries, as well as the removal of all trade restrictions within the region, the Non-State Actors are more concerned with the removal of restrictions on the free movement of capital and services within the region, as well as the need to create a regional umbrella body for all NSA. Figure 16 shows a comparison of the expectations indicated by businesses and NSA. The figure shows that both groups have quite similar views when it comes to the future of regional integration.

**Figure 16: A Comparison of the Expectations of Businesses and NSA on the Way Ahead of Regional Integration**



Overall, respondents are less supportive about higher levels of regional integration. However, business people disapproved only the political union, while even the issue of a single currency received more votes in favour than against it. NSA, on the other hand, approved of political union with a very slight margin (42% in favour, 41% against), but were split on the single currency (43% voted for and against this option; Table 33).

Table 34 shows a comparison of the preferred future of regional integration of different regional blocks with both NSA and business respondents. Business and NSA respondents from SACU Member States favour a reduction in tariffs within SADC as well as having in place designed competition and trade policies for the region. Respondents from COMESA Member States expressed similar views as to the way forward for regional integration, though businesses were less supportive on the design of trade and competition policies.

## 6 Conclusions and Recommendations

The study shows that support for regional integration within SADC is widespread amongst businesses and Non-State Actors alike. The analysis reveals that at country level, there is overall support for regional integration in general, whilst at the sectoral level, support is more in favour of deeper integration within SADC. The study further reveals that respondents from countries that share a dual membership with SADC and COMESA favour regional integration more at SADC level than at COMESA level.

Support for and commitment towards regional integration is further demonstrated in the role that Non-State Actors play in its promotion. At the SADC level, this is often done through discussions within various organisations as well as at forums such as workshops and seminars. The results of the study reveal that NSA are more involved in domestic policy design than in the design of policies at SADC level. This shows that despite attempts made by NSA in this regard (and although most are members of regional umbrella organisations) there is still a concern that their participation is somewhat limited. The need to strengthen the capacity of NSA to increase their contribution in regional issues is a unanimous view amongst respondents from individual countries. In this regard, though SADC Member States have made a commitment to allow CSO to participate more in issues affecting regional blocks, they could strengthen NSA involvement further.

Most businesses are positive that deeper regional integration would improve the economic situation in their respective countries. At present most businesses claim to be facing significant competition from the South African and Asian markets. There is however a strong feeling that increased regional integration could increase competition further, especially in the domestic market, which is expected to improve efficiency among businesses. Domestic production is perceived to improve with deeper integration, though it would not necessarily result in the creation of additional jobs. The perception among Non-State Actors is that ensuring deeper integration within the region would open up markets and allow for new business opportunities. Most economies in the region experience high unemployment rates, and increasing regional integration is not expected to improve this situation.

There is a general concern that although deeper regional integration has its advantages, there are also downsides, notably an increase in the influx of immigrants, which is envisaged to aggravate unemployment problems.

The study found that there is a similar trend in terms of importing within and beyond the SADC region. Exports in most countries in the region are biased towards primary products, limiting the extent of trade within the region. This indicates that there is a need to diversify the economies in the region if trade is to be increased among Member States. The EU is identified as the most important export destination, which is not surprising since SADC countries benefit from preferential trade arrangements with the EU.

Increased regional integration is however expected to increase exports to and imports from other SADC countries. This indicates that not only would increased regional integration boost domestic production, but that it could also open up markets within and beyond the SADC region.

A conducive business environment is required if the magnitude of trade is to be increased within the region. The majority of businesses regard both the domestic and the South African markets as the most favourable for trade. The business climate in other BLNS countries as well as the remaining SADC countries is not deemed very favourable. This indicates that South Africa as the biggest economy in the region plays an important role where trade is concerned. It also points to the fact that political and macroeconomic stability are key issues that will improve the environment for trade within the region. More information on markets within and outside the region should be made available to promote and improve trade activities further, since a significant proportion of respondents has no knowledge about the business climate in other countries. Beyond the region, the Asian and the EU markets are also considered as being quite favourable for business activities.

In an attempt to strengthen regional integration, the issue of barriers that hinder trade should not be overlooked. Businesses claim to experience various trade barriers. Customs procedures as well as the bureaucracy involved in obtaining the papers and documents required for carrying out trade activities have been seen as very time consuming

and a major hindrance to trade. Efforts to improve the efficiency at customs border posts should receive utmost priority. High transportation costs are also seen to be a significant trade barrier. The infrastructure as a whole in the region is not highly developed and hinders trade within and between countries. The lack of direct routes to certain destinations within the region contributes to the high costs in this regard.

The study further reveals that the presence of corrupt officials remains another key hindrance to the ease of carrying out trade activities. The issue of corruption in general is of great concern within the region. This is indicated in the Corruption Perception Index (CPI) as reported by Transparency International (TI). According to the 2006 report of TI, only Botswana received a CPI score of close to 6. The rest of the countries in the region scored below 4.7. This issue needs to be addressed, as it is a key to good corporate governance.

SACU Member States also expressed deep concern on the current customs tariff. In this regard, the study shows a pressing need for tariff reduction as the way forward for integration within SADC. In order to take regional integration further, there is also a strong need to have well designed competition and trade policies in place for SADC as a whole. The study also revealed that there are restrictions to the free movement of services within the region. This is another issue that will need to be addressed if countries are to benefit from each other's skills and expertise through integration.

Based on this study, it is clear that there is great support from the business community and civil society organisations for deepening integration within SADC, in all the countries that participated. Despite some shortcomings, further integration is envisaged to improve economies in the region, which would be a positive step towards development.



# Appendix

**Table 1: Business Respondents by Country**

Country	Frequency	Percent
South Africa	31	7.9
Tanzania	40	10.2
Zambia	42	10.7
Zimbabwe	38	9.7
Botswana	10	2.6
Madagascar	105	26.8
Malawi	44	11.2
Mauritius	20	5.1
Mozambique	32	8.2
Namibia	30	7.7
<b>Total</b>	<b>392</b>	<b>100.0</b>

**Table 2: NSA Respondents by Country**

Country	Frequency	Percent
South Africa	10	6.4
Tanzania	10	6.4
Zambia	29	18.5
Zimbabwe	12	7.6
Botswana	29	18.5
Madagascar	9	5.7
Malawi	24	15.3
Mauritius	11	7.0
Mozambique	11	7.0
Namibia	12	7.6
<b>Total</b>	<b>157</b>	<b>100.0</b>

**Table 3: Number of Employees of Responding Companies**

Range	Frequency	Percent
< 5	42	10.7
6-10	33	8.4
11-24	50	12.8
25-49	50	12.8
50-99	58	14.8
100+	159	40.6
<b>Total</b>	<b>392</b>	<b>100.0</b>

**Table 4: Period of Operation of Businesses**

Period	Frequency	Percent
<2 years	22	5.6
2-5 years	53	13.5
6-10 years	53	13.5
>10 years	264	67.3
<b>Total</b>	<b>392</b>	<b>100.0</b>

**Table 5: Responses by Industry and Number of Employees**

Number of employees	1-5	6-10	11-24	25-49	50-99	100+
<b>N</b>	<b>42</b>	<b>33</b>	<b>49</b>	<b>50</b>	<b>57</b>	<b>159</b>
Agriculture	4.8%	0.0%	2.0%	10.0%	1.8%	7.5%
Fisheries	2.4%	0.0%	2.0%	2.0%	1.8%	3.1%
Mining	4.8%	3.0%	0.0%	2.0%	0.0%	1.3%
Manufacturing	14.3%	18.2%	18.4%	38.0%	68.4%	56.6%
Construction	0.0%	3.0%	2.0%	2.0%	5.3%	5.0%
Wholesale	47.6%	48.5%	38.8%	20.0%	14.0%	10.1%
Transport and communication	4.8%	9.1%	10.2%	8.0%	1.8%	5.7%
Financial services	2.4%	9.1%	4.1%	2.0%	1.8%	3.8%
Tourism	0.0%	0.0%	4.1%	6.0%	1.8%	1.3%
Others	19.0%	9.1%	18.4%	10.0%	3.5%	5.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>



**Table 6: Responses by Industry and Years in Operation**

Years In operation	< 2 years	2-5 years	6-10 years	> 10 years
<b>N</b>	<b>22</b>	<b>53</b>	<b>53</b>	<b>262</b>
Agriculture	0.0%	5.7%	9.4%	5.0%
Fisheries	0.0%	0.0%	3.8%	2.7%
Mining	0.0%	3.8%	1.9%	1.1%
Manufacturing	27.3%	32.1%	24.5%	50.8%
Construction	0.0%	1.9%	5.7%	3.8%
Wholesale	45.5%	22.6%	30.2%	19.5%
Transport and communication	9.1%	13.2%	1.9%	5.3%
Financial services	4.5%	3.8%	1.9%	3.8%
Tourism	0.0%	0.0%	3.8%	2.3%
Others	13.6%	17.0%	17.0%	5.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**Table 7: Distribution of Companies across Regional Bodies by Value of Turnover, as %**

	Annual Turnover				
	N	<25,000	25,000 to 50,000	50,001 to 100,000	>100,000
SADC Members	379	10.6	10.0	12.9	66.5
SACU-SADC Members	69	4.3	2.9	5.8	87.0
COMESA-SADC Members	239	13.0	13.4	16.7	56.9
EAC-SADC Members	39	2.6	2.6	2.6	92.3

**Table 8: Distribution of Companies across Regional Bodies by % of Imports Within and Outside SADC**

	Annual Imports from SADC					Annual Imports from Outside SADC				
	N	<25,000	25,000 to 50,000	50,001 to 100,000	>100,000	N	<25,000	25,000 to 50,000	50,001 to 100,000	>100,000
SADC Members	295	49.8	9.2	9.2	31.9	288	44.1	8.7	15.3	31.9
SACU-SADC Members	56	42.9	1.8	5.4	50.0	53	39.6	5.7	7.5	47.2
COMESA-SADC Members	196	55.1	9.7	10.2	25.0	187	53.5	9.1	15.5	21.9
EAC-SADC Members	22	50.0	18.2	4.5	27.3	29	6.9	6.9	24.1	62.1

**Table 9: Distribution of Companies across Regional Bodies by % of Exports Within and Outside SADC**

	Annual Exports to SADC					Annual Exports Outside SADC				
	N	<25,000	25,000 to 50,000	50,001 to 100,000	>100,000	N	<25,000	25,000 to 50,000	50,001 to 100,000	>100,000
SADC Members	269	62.1	9.3	6.3	22.3	256	67.6	7.8	4.3	20.3
SACU-SADC Members	54	44.4	5.6	1.9	48.1	52	51.9	5.8	3.8	38.5
COMESA-SADC Members	177	74.6	6.8	7.3	11.3	169	81.7	5.9	3.6	8.9
EAC-SADC Members	28	28.6	28.6	10.7	32.1	26	26.9	23.1	7.7	42.3

**Table 10: Most Important Export Destinations, in % of Total Responses**

	N	Angola	Botswana	Malawi	South Africa	Zambia	Zimbabwe	EU	Asia	USA	Others
Most important export destination	201	7			12.9	7.5		15.4			6.0
Second-most important export destination	186			4.8	7.0	4.8		8.1		5.9	5.4
Third-most important export destination	162		4.9				5.6	4.9	4.9		6.2

**Table 11: Most Important Export Destinations for Companies from SACU Countries**

	Most Important Export Destination		Second Most Important Export Destination		Third Most Important Export Destination	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Angola	12	23.5%	5	11.6%	1	2.8%
Asia	3	5.9%			3	8.3%
Botswana	4	7.8%	2	4.7%	4	11.1%
Democratic Republic of Congo (DRC)	1	2.0%	1	2.3%		
EU	8	15.7%	4	9.3%	2	5.6%
Kenya			2	4.7%	1	2.8%
Lesotho					1	2.8%
Malawi	1	2.0%			2	5.6%
Mauritius	1	2.0%			1	2.8%
Mozambique	1	2.0%	5	11.6%		
Namibia	4	7.8%	1	2.3%	4	11.1%
Rest of Africa			2	4.7%	2	5.6%
South Africa	8	15.7%	4	9.3%	1	2.8%
Swaziland	1	2.0%			1	2.8%
Uganda					1	2.8%
United Republic of Tanzania	1	2.0%	1	2.3%	1	2.8%
USA	1	2.0%	2	4.7%		
Zambia	1	2.0%	2	4.7%		
Zimbabwe			2	4.7%		
Others	1	2.0%	3	7.0%	4	11.1%
Don't know	3	5.9%	7	16.3%	7	19.4%
<b>Total</b>	<b>51</b>	<b>100.0%</b>	<b>43</b>	<b>100.0%</b>	<b>36</b>	<b>100.0%</b>

**Table 12: Most Important Export Destinations for Companies from Countries belonging to COMESA and SADC**

	Most important exp destination		Second most important exp destination		Third most important exp destination	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Angola	2	1.79%				
Asia	4	3.57%	3	3.13%	2	2.50%
Botswana	2	1.79%	4	4.17%	4	5.00%
Democratic Republic of Congo (DRC)	6	5.36%	1	1.04%	2	2.50%
EU	13	11.61%	6	6.25%	3	3.75%
Kenya	1	0.89%	3	3.13%	2	2.50%
Madagascar	4	3.57%	4	4.17%	2	2.50%
Malawi	1	0.89%	8	8.33%	2	2.50%
Mauritius	2	1.79%	2	2.08%		
Mozambique	2	1.79%	1	1.04%	3	3.75%
Others	10	8.93%	4	4.17%	3	3.75%
Rest of Africa	2	1.79%	2	2.08%	4	5.00%
South Africa	14	12.50%	6	6.25%	3	3.75%
Swaziland	1	0.89%				
Uganda			1	1.04%		
United Republic of Tanzania					2	2.50%
USA	2	1.79%	5	5.21%	3	3.75%
Zambia	12	10.71%	7	7.29%	2	2.50%
Zimbabwe	3	2.68%	4	4.17%	6	7.50%
Don't know	31	27.68%	35	36.46%	37	46.25%
Total	112	100.00%	96	100.00%	80	100.00%
Missing	137		153		169	

**Table 13: Share of Companies that Face Competition from Various Trade Destinations**

	N	Yes strong	Yes moderate	Yes weak	No
RSA	309	35%	22%	11%	32%
BLNS	262	7%	13%	11%	70%
Other SADC excl. BLNS	260	8%	15%	19%	57%
Rest of Africa	258	9%	12%	14%	65%
EU	265	16%	24%	17%	43%
Asia	278	34%	20%	13%	33%
USA	246	9%	12%	15%	63%
Rest of the World	226	10%	10%	14%	66%
Unknown competitors	125	4%	7%	6%	83%

**Table 14: Type of Non-State Actor**

Type	Frequency	Percent
Organised Labour	18	11.5
Organised Employer	6	3.8
Industry Association	32	20.5
Other Professional Association	10	6.4
Other CSO	71	45.5
Others	19	12.2
Total	156	100.0

**Table 15: Period of Operation of Participating NSA**

Years	Frequency	Percent
< 2	5	3.2
2-5	27	17.2
6-10	28	17.8
> 10	97	61.8
Total	157	100.0

**Table 16: Membership Affiliation of NSA Compared**

	Membership by type of organisation compared Organisation	
	SADC National Committee	Regional umbrella organisation
Organised Labour	11.1	61.1
Organised Employer	66.7	50.0
Industry Association	36.7	62.5
Other professional Association	20.0	60.0
Other CSO	9.9	49.3
Others, please state	26.3	31.6

Table 17: Participation in Public Debate on Regional Integration by Responses from Different Regional Blocks Compared

(a) SADC Respondents	Business Responses					NSA Responses				
	N	Yes, very much	Yes, but not so prominent	No	Don't know	N	Yes, very much	Yes, but not so prominent	No	Don't know
Within SADC	358	26.5	42.5	21.5	9.5	151	29.1	51	11.3	8.6
Within COMESA	336	17	30.4	39.6	13.1	144	22.2	31.9	30.6	15.3
Within EAC	333	10.8	14.1	35.4	39.6	142	9.9	16.9	46.5	26.8
<b>(b) SACU-SADC Respondents</b>										
In General	57	35.1	42.1	15.8	7.0	48	10.4	41.7	22.9	25.0
Within SADC	59	33.9	45.8	10.2	10.2	49	14.3	57.1	12.2	16.3
Within COMESA	46	2.2	19.6	45.7	32.6	46	0.0	15.2	50.0	34.8
Within EAC	46	15.2	26.1	56.5	2.2	45	0.0	11.1	40.0	48.9
<b>(c) COMESA-SADC Respondents</b>										
In General	223	20.2	45.3	24.7	9.9	85	27.1	48.2	15.3	9.4
Within SADC	229	26.2	40.6	24.0	9.2	84	33.3	50.0	11.9	4.8
Within COMESA	224	22.8	33.5	35.3	8.5	83	32.5	43.4	18.1	6.0
Within EAC	220	1.8	15.0	38.2	45.0	82	8.5	22.0	51.2	18.3

**Table 18: Invitation of NSA to SADC Committee Meetings**

	Frequency	Percent
Yes, regularly	17	11.2
Yes, sometimes	18	11.8
No	110	72.4
Don't know	7	4.6
Total	152	100.0

**Table 19: NSA Participation in SADC Committee Meetings**

	Frequency	Percent
Yes, regularly	17	11.1
Yes, sometimes	21	13.7
No, but was invited	5	3.3
No, was not invited	99	64.7
Don't know	11	7.2
Total	153	100.0

Table 20: Comparison of Responses from the Different Regional Blocks on Regional Integration

(a) SADC Respondents	BUSINESS RESPONSES					NSA RESPONSES				
	N	Yes, strongly	Yes, slightly	No	Don't know	N	Yes, strongly	Yes, slightly	No	Don't know
In General	353	46.2	36.3	7.1	10.5	150	59.3	26	6.7	8
Within SADC	355	45.4	36.6	8.5	9.6	150	60.7	29.3	6.7	3.3
Within COMESA	340	28.8	34.7	21.5	15.0	143	42.0	30.1	11.9	16.1
Within EAC	333	22.8	21.0	20.1	36.0	142	31.0	19.0	24.6	25.4
<b>(b) SACU - SADC Respondents</b>										
In General	57	56.1	24.6	10.5	8.8	47	36.2	34.0	12.8	17.0
Within SADC	60	51.7	33.3	10.0	5.0	48	45.8	31.3	16.7	6.3
Within COMESA	48	20.8	10.4	45.8	22.9	44	13.6	22.7	27.3	36.4
Within EAC	49	18.4	12.2	22.4	46.9	44	13.6	11.4	29.5	45.5
<b>(c) COMESA - SADC Respondents</b>										
In General	232	39.7	42.2	5.6	12.5	85	68.2	23.5	3.5	4.7
Within SADC	229	40.2	41.9	8.3	9.6	83	67.5	30.1	0.0	2.4
Within COMESA	226	28.8	42.0	16.8	12.4	82	56.1	35.4	3.7	4.9
Within EAC	218	17.0	23.9	16.5	42.7	80	37.5	25.0	22.5	15.0



**Table 21: Involvement in Policy Design by Type of NSA**

Type of Organisation	N	Yes	No
Organised labour	18	50.0%	50.0%
Organised employer	6	100.0%	0.0%
Industry association	32	87.5%	12.5%
Other professional association	10	60.0%	40.0%
Other civil society organisation	71	62.0%	38.0%
Others, please state	19	78.9%	21.1%
Total	156	69.2%	30.8%

**Table 22: NSA Perception on how Regional Integration Could Impact on Their Role in Policy Making**

	Involvement of NSA in general in policy making	Influence on domestic policy of your organisation
Strengthen strongly	30.1	30.5
Strengthen slightly	33.3	35.1
Weaken slightly	10.3	6.0
Weaken strongly	3.8	3.3
No changes expected	12.2	15.2
Don't know	10.3	9.9

Table 23: Perceptions on Regional Integration Compared by the Different Regional Blocks

	BUSINESS RESPONSES						NSA RESPONSES					
	N	Agree Strongly	Agree	Disagree	Disagree Strongly	Don't Know	N	Agree Strongly	Agree	Disagree	Disagree Strongly	Don't Know
<b>(a) SADC Respondents</b>												
Increase competition in domestic market	386	35.8	41.7	10.1	4.7	7.8	152	32.2	53.3	9.2	0.7	4.6
Reduce input prices	385	17.9	41.6	21.3	8.1	11.2	152	17.8	46.1	20.4	5.3	10.5
Reduce prices of consumer goods	386	17.6	49.7	18.9	4.9	8.8	148	16.2	54.1	15.5	3.4	10.8
Increased efficiency and competitiveness	386	25.1	44.0	11.9	3.9	15.0	154	24.0	46.1	21.4	2.6	5.8
Positive impact on turnover	383	20.6	39.7	20.6	6.8	12.3	152	9.9	36.8	34.9	5.9	12.5
Positive impact on other domestic producers	378	15.3	43.7	18.5	5.6	16.9						
Benefit the economy in general	330	28.8	49.1	8.8	2.4	10.9	139	18.0	59.0	8.6	2.2	12.2
New export opportunities	380	23.2	52.4	6.8	3.2	14.5	154	27.3	63.6	3.9	1.9	3.2
New investment opportunities	383	24.0	54.8	6.3	1.8	13.1	154	24.0	56.5	11.7	0.6	7.1
Reduce unemployment rates	386	11.9	31.6	31.3	9.3	15.8	151	9.9	33.1	33.1	11.3	12.6
Lower costs of labour	381	6.3	19.7	41.5	13.1	19.4	150	4.7	40.0	38.7	4.7	12.0
Influx of immigrants	379	15.8	31.9	24.8	6.6	20.8	152	27.6	41.4	20.4	2.6	7.2
Enhance human rights situation	375	4.8	29.3	25.9	12.0	28.0	154	13.0	29.9	24.7	9.7	22.7
Reduce political sovereignty	378	5.8	21.7	32.5	17.2	22.8	153	5.9	24.8	47.7	13.7	7.8
<b>(b) SACU-SADC Respondents</b>												
Increase competition in domestic market	70	22.9	52.9	18.6	4.3	1.4	49	26.5	49.0	14.3	2.0	8.2
Reduce input prices	68	22.9	52.9	18.6	4.3	1.4	50	12.0	48.0	22.0	6.0	12.0
Reduce prices of consumer goods	69	10.1	46.4	34.8	4.3	4.3	48	16.7	41.7	18.8	6.3	16.7
Increased efficiency and competitiveness	69	18.8	46.4	18.8	5.8	10.1	50	18.0	48.0	24.0	2.0	8.0
Positive impact on turnover	68	13.2	44.1	22.1	8.8	11.8	50	10.0	38.0	30.0	6.0	16.0
Positive impact on other domestic producers	68	13.2	48.5	16.2	10.3	11.8						
Benefit the economy in general	60	21.7	53.3	16.7	3.3	5.0	49	12.2	59.2	12.2	2.0	14.3
New export opportunities	69	21.7	55.1	11.6	1.4	10.1	50	16.0	70.0	6.0	2.0	6.0
New investment opportunities	69	23.2	55.1	10.1	0.0	11.6	49	16.3	55.1	16.3	0.0	12.2
Reduce unemployment rates	69	11.6	27.5	31.9	13.0	15.9	49	6.1	24.5	40.8	18.4	10.2
Lower costs of labour	68	8.8	20.6	41.2	11.8	17.6	49	6.1	38.8	36.7	6.1	12.2
Influx of immigrants	69	15.9	44.9	23.2	2.9	13.0	50	28.0	52.0	8.0	2.0	10.0
Enhance human rights situation	69	5.8	24.6	34.8	8.7	26.1	50	8.0	20.0	28.0	16.0	28.0
Reduce political sovereignty	69	4.3	30.4	42.0	11.6	11.6	50	12.0	22.0	48.0	10.0	8.0
<b>(c) COMESA-SADC Respondents</b>												
Increase competition in domestic market	244	35.7	40.6	7.8	5.3	10.7	84	34.5	53.6	8.3	0.0	3.6
Reduce input prices	247	20.2	38.1	19.0	8.5	14.2	83	19.3	47.0	19.3	4.8	9.6
Reduce prices of consumer goods	247	18.2	48.6	15.4	5.7	12.1	81	14.8	60.5	14.8	1.2	8.6
Increased efficiency and competitiveness	246	21.5	44.3	11.0	3.7	19.5	84	27.4	45.2	19.0	3.6	4.8
Positive impact on turnover	244	21.7	39.3	20.1	5.7	13.1	83	7.2	37.3	38.6	6.0	10.8
Positive impact on other domestic producers	240	14.6	42.9	18.8	4.2	19.6						
Benefit the economy in general	206	33.5	46.6	5.8	1.5	12.6	72	19.4	58.3	8.3	2.8	11.1
New export opportunities	242	24.4	49.6	5.4	3.3	17.4	84	32.1	64.3	1.2	1.2	1.2
New investment opportunities	243	24.7	54.3	5.3	2.1	13.6	84	26.2	60.7	8.3	0.0	4.8
Reduce unemployment rates	245	13.1	31.4	31.0	8.2	16.3	82	11.0	41.5	28.0	6.1	13.4
Lower costs of labour	242	7.0	18.2	38.0	15.3	21.5	82	3.7	36.6	43.9	4.9	11.0
Influx of immigrants	238	13.0	25.2	28.2	8.8	24.8	82	23.2	37.8	29.3	3.7	6.1
Enhance human rights situation	235	4.7	28.9	24.3	14.0	28.1	84	15.5	35.7	20.2	8.3	20.2
Reduce political sovereignty	237	6.3	14.3	31.6	20.7	27.0	84	3.6	22.6	50.0	16.7	7.1

**Table 24: Would you have answered differently if asked about other regional groupings?**

	Businesses, all		Business 'COMESA'		NSA, all		NSA 'COMESA'	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Yes, a lot	23	6.0	10	4.9	9	5.8	3	3.5
Yes, some	105	27.2	45	22.2	56	35.9	31	36.5
No, hardly any	96	24.9	45	22.2	39	25.0	19	22.4
No, not at all	100	25.9	56	27.6	39	25.0	27	31.8
Don't know	62	16.1	47	23.2	13	8.3	5	5.9
Total	386	100.0	203	100.0	156	100.0	85	100.0

**Table 25: Impact of Regional Integration on Domestic Business-a Comparison of Responses by Companies and NSA**

	BUSINESS RESPONSES					NSA RESPONSES			
	N	Likely	Unlikely	Don't know	Does not apply	N	Likely	Unlikely	Don't know
...retrenchment of employees	380	21.8	50.3	14.2	13.7	152	42.1	48.7	9.2
...employing more workers	380	45.5	34.2	12.1	8.2	153	52.9	37.3	9.8
...increased domestic production	381	52.0	24.7	11.8	11.5	151	66.2	27.8	6.0
...investing abroad	381	33.6	34.4	17.6	14.4	153	54.2	32.7	13.1
...closing down of domestic production	380	15.3	52.4	16.3	16.1	151	43.7	48.3	7.9
...seeking joint ventures with companies in SADC	382	54.5	18.8	16.8	9.9	152	82.9	13.2	3.9
...venturing into new business activities	382	63.1	16.0	14.1	6.8	153	87.6	9.8	2.6
...increasing SADC imports	379	52.5	22.7	10.8	14.0	157	79.1	17.0	3.9
...increasing SADC exports	378	52.4	19.6	7.4	20.6	153	65.4	28.8	5.9
...access to cheaper inputs	381	53.5	21.5	11.8	13.1	153	68.0	21.6	10.5
...access to cheaper foreign labour	377	20.4	47.7	15.4	16.4	147	41.5	51.0	7.5

**Table 26: Impact of Regional Integration on Domestic Businesses - a Comparison of Responses by Regional Groups**

	BUSINESSES RESPONSES						NSA RESPONSES					
	SADC		SACU		COMESA		SADC		SACU		COMESA	
	N	Likely	N	Likely	N	Likely	N	Likely	N	Likely	N	Likely
...retrenchment of employees	380	21.8	69	15.9	240	22.5	152	42.1	49	53.1	83	31.3
...employing more workers	380	45.5	69	37.7	240	48.3	153	52.9	51	37.3	82	63.4
...increased domestic production	381	52.0	69	40.6	241	48.3	151	66.2	50	54.0	82	72.0
...investing abroad	381	33.6	69	40.6	242	34.3	153	54.2	51	51.0	82	62.2
...closing down of domestic production	380	15.3	68	10.3	243	16.9	151	43.7	50	30.0	81	48.1
...seeking joint ventures with companies in SADC	382	54.5	70	75.7	241	49.0	152	82.9	50	78.0	82	87.8
...venturing into new business activities	382	63.1	70	65.7	242	62.4	153	87.6	50	78.0	84	91.7
...increasing SADC imports	379	52.5	69	46.4	240	56.3	157	79.1	51	70.6	83	84.3
...increasing SADC exports	378	52.4	68	57.4	238	47.1	153	65.4	51	70.6	83	62.7
...access to cheaper inputs	381	53.5	69	47.8	241	53.5	153	68.0	51	60.8	83	72.3
...access to cheaper foreign labour	377	20.4	68	23.5	239	17.6	147	41.5	50	66.0	78	26.9

**Table 27: Anticipated Change In Selected Variables, Responses from Business and NSA Compared**

(A) Overall	BUSINESS RESPONSES					NSA RESPONSES				
	N	Minimum	Maximum	Mean	Standard Deviation	N	Minimum	Maximum	Mean	Standard Deviation
Change in employment	314	-99	300	3.91	40.90	87	-55	90	6.83	24.01
Change in production	308	-99	300	13.33	47.89	91	-50	100	14.25	25.08
Change in investment	296	-99	400	9.71	46.24	87	-50	100	15.09	22.18
Change in exports to SADC	283	-99	150	7.51	37.72	85	-25	96	16.98	22.07
Change in imports from SADC	292	-99	150	4.91	38.36	88	-50	96	17.93	25.34
Change in import prices	280	-99	100	-11.84	37.18	77	-80	80	1.30	22.81
<b>(B) Dual-member countries</b>										
Change in employment	211	-70	300	10.54	30.89	51	-5	90	11.91	20.45
Change in production	210	-60	300	17.53	39.33	52	-15	100	14.03	23.94
Change in investment	197	-50	300	12.86	33.18	51	-1	100	14.02	23.62
Change in exports to SADC	190	-50	150	14.27	29.13	48	-3	96	17.25	25.03
Change in imports from SADC	196	-50	150	10.27	24.10	46	-3	96	16.84	23.17
Change in import prices	189	-100	100	-1.01	22.20	46	-80	60	-1.95	22.30
<b>(C) SACU countries</b>										
Change in employment	45	-70	200	4.51	35.81	27	-55	60	-6.00	27.49
Change in production	42	-80	200	13.18	38.91	28	-50	65	10.84	26.26
Change in investment	44	-30	200	13.32	35.34	24	-50	60	13.27	19.40
Change in exports to SADC	43	-20	100	14.38	18.34	28	-25	40	12.93	13.93
Change in imports from SADC	39	-10	100	15.64	25.29	28	-50	80	11.13	28.44
Change in import prices	38	-50	10	-6.08	11.19	23	-50	55	1.54	20.53

Extreme outliers have been excluded from the analysis of the business sector's responses, while the original data set has been used for responses from the NSA sector.

**Table 28: Relevance of Identified Trade Barriers by Businesses Compared**

	SADC			SACU			COMESA		
	N	Very Relevant	Relevant	N	Very Relevant	Relevant	N	Very Relevant	Relevant
Current customs tariffs as a trade barrier	214	35.5	29.4	50	36.0	28.0	83	39.8	42.2
Import duties and taxes to be paid in cash	211	36.0	27.0	48	33.3	29.2	83	37.3	32.5
SPS regulations as barriers	210	15.7	21.4	49	20.4	24.5	84	21.4	41.7
Rules of origin	210	21.0	31.0	49	30.6	30.6	83	33.7	37.3
Export / import licenses and permits required	213	31.0	24.4	50	42.0	42.0	83	48.2	37.3
Lack of transparency of rules and regulations abroad	208	22.6	29.8	49	28.6	34.7	84	33.3	38.1
Time consuming customs procedures	217	47.9	24.0	49	40.8	38.8	84	45.2	33.3
Substantial paper works, bureaucracy	209	40.2	27.8	49	38.8	44.9	83	39.8	39.8
Corruption of officials	216	28.2	28.2	49	32.7	18.4	84	45.2	32.1
Lack of information about foreign markets	212	23.1	28.3	50	40.0	36.0	84	36.9	46.4
Visa requirement for travelling abroad	214	25.2	27.1	50	22.0	38.0	83	32.5	36.1
Exchange rate uncertainty	218	39.9	25.7	49	38.8	36.7	84	41.7	38.1
Risk of non payment by customers abroad	213	27.7	23.0	49	34.7	24.5	84	21.4	41.7
No export insurance available to cover payment risks of exports	214	15.9	21.5	48	29.2	20.8	82	22.0	39.0
Poor regional communication infrastructure	215	21.4	38.6	50	24.0	34.0	84	47.6	31.0
High regional communication costs	215	27.4	41.4	49	34.7	46.9	84	38.1	47.6
Weak regional transport infrastructure	216	27.8	32.9	47	31.9	36.2	83	39.8	43.4
High transport costs	216	47.2	29.2	47	43.8	43.8	84	57.1	28.6
Weak law enforcement in export destination	209	18.7	27.3	48	22.9	29.2	82	15.9	46.3
Others	111	9.9	1.8	33	12.1	6.1	55	16.4	5.5

**Table 29: Relevance of Identified Trade Barriers, Responses by NSA**

	SADC			SACU			COMESA		
	N	Very relevant	Relevant	N	Very relevant	Relevant	N	Very relevant	Relevant
Customs Tariffs currently employed	153	39.9	35.9	50	36.0	28.0	83	39.8	42.2
Import Duties and taxes have to be paid in cash	149	34.2	30.2	48	33.3	29.2	83	37.3	32.5
Sanitary and phyto-sanitary regulations	152	23.0	32.9	49	20.4	24.5	84	21.4	41.7
Rules of origin	150	32.0	36.7	49	30.6	30.6	83	33.7	37.3
Export/import licenses and permits required	152	42.8	38.2	50	42.0	42.0	83	48.2	37.3
Lack of transparency of rules and regulations abroad	152	30.3	36.2	49	28.6	34.7	84	33.3	38.1
Time consuming procedures	154	44.2	36.4	49	40.8	38.8	84	45.2	33.3
Substantial paper works, bureaucracy	151	42.4	40.4	49	38.8	44.9	83	39.8	39.8
Corruption of officials	152	43.4	25.7	49	32.7	18.4	84	45.2	32.1
Lack of information about foreign markets	153	37.9	43.1	50	40.0	36.0	84	36.9	46.4
Visa requirements for travelling abroad	154	29.2	35.1	50	22.0	38.0	83	32.5	36.1
Exchange rate uncertainty	152	38.8	37.5	49	38.8	36.7	84	41.7	38.1
Risk of non-payment of customers abroad	152	25.0	33.6	49	34.7	24.5	84	21.4	41.7
No export insurance available to cover payment risks of exports	149	24.8	32.9	48	29.2	20.8	82	22.0	39.0
Poor regional communication infrastructure	154	39.0	34.4	50	24.0	34.0	84	47.6	31.0
High regional communication costs	153	39.9	43.8	49	34.7	46.9	84	38.1	47.6
Weak regional transport infrastructure	150	40.0	39.3	47	31.9	36.2	83	39.8	43.4
High transportation costs	153	52.3	34.6	47	43.8	43.8	84	57.1	28.6
Weak law enforcement in export destination	149	16.8	40.9	48	22.9	29.2	82	15.9	46.3

**Table 30: Share of Companies that Experience Trade Barriers by Sector in %**

SECTOR	Yes	No	Does Not Apply Since I Do Not Trade In SADC
Agriculture	42.9	28.6	28.6
Fisheries	33.3	22.2	44.4
Mining	33.3	16.7	50.0
Manufacturing	51.5	29.3	19.2
Construction	46.2	15.4	38.5
Wholesale	39.3	24.7	36.0
Transport and communication	30.4	39.1	30.4
Financial services	21.4	35.7	42.9
Tourism	28.6	57.1	14.3
Others	42.4	21.2	36.4
TOTAL	43.7	28.0	28.3

**Table 31: Rating of Current Business Climate in Identified Markets by Business Respondents**

Markets	N	Very favourable	Favourable	Less favourable	Unsatisfactory	Don't know
Domestic market	384	10.9	42.4	27.1	17.2	2.3
RSA	376	16.2	35.6	12.5	6.4	29.3
BLNS countries	373	2.9	20.9	15.0	10.7	50.4
Other SADC countries excl. BLNS	370	3.0	21.1	20.3	11.4	44.3
Rest of Africa	370	1.6	11.9	15.7	15.4	55.4
EU	369	10.3	27.6	13.6	8.1	40.4
USA	370	8.9	21.9	14.3	8.6	46.2
Asia	369	20.3	24.7	7.9	7.9	39.3
Rest of the World	368	0.3	16.0	10.9	6.5	66.3



**Table 32: Rating of Current Business Climate in Identified Markets by Different Regional Blocks Compared**

Markets	SADC			SACU			COMESA		
	N	Very favourable	Favourable	N	Very favourable	Favourable	N	Very favourable	Favourable
Domestic market	384	10.9	42.4	70	18.6	45.7	243	7.8	39.9
RSA	376	16.2	35.6	68	27.9	48.5	238	13.0	34.5
BLNS countries	373	2.9	20.9	68	4.4	38.2	236	3.0	17.8
Other SADC countries excl. BLNS	370	3.0	21.1	67	4.5	26.9	236	3.0	19.1
Rest of Africa	370	1.6	11.9	67	1.5	17.9	236	1.7	7.6
EU	369	10.3	27.6	65	6.2	30.8	236	10.2	27.5
USA	370	8.9	21.9	65	4.6	32.3	237	9.3	18.6
Asia	369	20.3	24.7	65	23.1	27.7	235	20.4	25.5
Rest of the World	368	0.3	16.0	64	1.6	26.6	235	0.0	11.1

Table 33: Comparison of the Preferred Degree that Regional Integration Should Take in the Future

	BUSINESS RESPONSES				NSA RESPONSES			
	N	Yes	No	Don't know	N	Yes	No	Don't know
Reduce tariffs within SADC	369	84.8	8.1	7.0	151	91.4	3.3	5.3
Remove tariffs within SADC, establish Common External Tariff to all other countries	376	64.9	25.5	9.6	149	61.1	22.8	16.1
Remove all trade restrictions within SADC	375	64.8	24.8	10.4	148	59.5	35.1	5.4
Remove restrictions on the free movement of capital within SADC	372	61.6	19.4	19.1	149	65.8	26.8	7.4
Remove restrictions on the free movement of labour within SADC	374	47.6	34.0	18.4	151	49.0	44.4	6.6
Remove restrictions to the free movement of services within SADC	374	64.4	17.4	18.2	147	71.4	20.4	8.2
Implement same level of taxes within SADC	373	60.6	22.0	17.4	150	51.3	36.0	12.7
Design competition and trade policies for SADC as a whole	375	65.6	14.1	20.3	151	79.5	11.3	9.3
Create single currency within SADC	377	47.7	38.2	14.1	152	42.8	43.4	13.8
Create political union with parliament and executive	375	30.7	39.2	30.1	149	42.3	40.9	16.8
Create regional umbrella organisation of Non-state Actors					138	72.5	8.7	18.8

**Table 34: Comparison of the Preferred Degree that Regional Integration Should Take in the Future by Different Regional Blocks**

	BUSINESS RESPONSES						NSA RESPONSES					
	SADC		SACU		COMESA		SADC		SACU		COMESA	
	N	Yes	N	Yes	N	Yes	N	Yes	N	Yes	N	Yes
Reduce tariffs within SADC	369	84.8	66	89.4	234	82.9	151	91.4	49	89.4	83	94.0
Remove tariffs within SADC, establish Common External Tariff to all other countries	376	64.9	69	76.8	236	57.2	149	61.1	48	76.8	82	53.7
Remove all trade restrictions within SADC	375	64.8	69	73.9	236	56.4	148	59.5	46	73.9	84	64.3
Remove restrictions on the free movement of capital within SADC	372	61.6	66	80.3	237	51.1	149	65.8	48	80.3	82	69.5
Remove restrictions on the free movement of labour within SADC	374	47.6	67	46.3	238	42.0	151	49	49	46.3	83	59.0
Remove restrictions to the free movement of services within SADC	374	64.4	66	78.8	239	56.5	147	71.4	47	78.8	81	72.8
Implement same level of taxes within SADC	373	60.6	67	64.2	237	57.0	150	51.3	49	64.2	83	53.0
Design competition and trade policies for SADC as a whole	375	65.6	67	85.1	239	56.1	151	79.5	49	85.1	83	81.9
Create single currency within SADC	377	47.7	67	38.8	240	46.3	152	42.8	49	38.8	83	51.8
Create political union with parliament and executive	375	30.7	67	34.3	238	25.6	149	42.3	49	34.3	81	50.6

**Table 35: Support for Deeper Integration Within SADC by Sector**

SECTOR	Yes, strongly	Yes, slightly	No	Don't know
Agriculture	52.9%	35.3%	5.9%	5.9%
Fisheries	44.4%	44.4%	0.0%	11.1%
Mining	40.0%	40.0%	0.0%	20.0%
Manufacturing	45.5%	37.0%	11.0%	6.5%
Construction	61.5%	30.8%	0.0%	7.7%
Wholesale	38.8%	38.8%	7.5%	15.0%
Transport & communication	52.4%	28.6%	14.3%	4.8%
Financial services	61.5%	15.4%	7.7%	15.4%
Tourism	57.1%	14.3%	14.3%	14.3%
Others	41.2%	44.1%	2.9%	11.8%

**Table 36: Support for Regional Integration in SADC by Country**

Country	Business Responses, %					NSA Responses, %				
	N	Yes, strongly	Yes, slightly	No	Don't know	N	Yes, strongly	Yes, slightly	No	Don't know
Botswana	10	30.0	50.0	0.0	20.0	29	51.7	31.0	13.8	3.4
Madagascar	102	38.2	39.2	8.8	13.7	9	44.4	55.6	0.0	0.0
Malawi	35	37.1	40.0	8.6	14.3	22	50.0	45.5	0.0	4.5
Mauritius	12	0.0	66.7	33.3	0.0	11	90.9	9.1	0.0	0.0
Mozambique	31	67.7	29.0	0.0	3.2	9	66.7	33.3	0.0	0.0
Namibia	25	52.0	24.0	20.0	4.0	9	44.4	33.3	22.2	0.0
South Africa	25	60.0	36.0	4.0	0.0	10	30.0	30.0	20.0	20.0
Tanzania	40	48.6	14.3	14.3	22.9	10	70.0	10.0	20.0	0.0
Zambia	42	33.3	52.4	7.1	7.1	29	72.4	24.1	0.0	3.4
Zimbabwe	38	68.4	31.6	0.0	0.0	12	83.3	16.7	0.0	0.0

**Table 37: Comparison of Support for Regional Integration by Type of Organisation**

Type of Organisation	Support for Regional Integration in General					Support for Regional Integration within SADC				
	N	Yes, strongly	Yes, slightly	No	Don't know	N	Yes, strongly	Yes, slightly	No	Don't know
Organised labour	18	44.4	38.9	11.1	5.6	18	55.6	27.8	11.1	5.6
Organised employer	6	50.0	33.3	0.0	16.7	6	83.3	16.7	0.0	0.0
Industry association	30	43.3	40.0	6.7	10.0	29	48.3	34.5	10.3	6.9
Other professional association	10	50.0	40.0	0.0	10.0	9	55.6	33.3	0.0	11.1
Other civil society organisation	68	72.1	14.7	7.4	5.9	69	66.7	27.5	4.3	1.4
Others	18	61.1	22.2	5.6	11.1	18	61.1	27.8	11.1	0.0
Total	150	59.3	26.0	6.7	8.0	149	61.1	28.9	6.7	3.4

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## **Madagascar**

CREAM – Centre de Recherches, d’Etudes et d’Appui à l’Analyse Economique à Madagascar

## **Malawi**

SAIER – Southern African Institute for Economic Research

## **Mauritius**

CEDREFI – Centre for Documentation, Research and Training on the South West Indian Ocean

## **Mozambique**

CPI – Centro de Promoção de Investimentos (Investment Promotion Centre – IPC)

## **Namibia**

NEPRU – Namibian Economic Policy Research Unit

## **South Africa**

SAIIA – South African Institute of International Affairs

TIPS – Trade and Industrial Policy Strategies

TRALAC – Trade Law Centre for Southern Africa

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ESRF – Economic and Social Research Foundation

## **Zambia**

INESOR – Institute of Economic and Social Research

## **Zimbabwe**

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