REVISITING REGIONALISM IN SOUTHERN AFRICA

INSTITUTE FOR GLOBAL DIALOGUE

FRIEDRICH EBERT STIFTUNG

Proceedings of the Fourth Southern African Forum on Trade (SAFT), held in Pretoria, South Africa, on 3–4 September 2007

Cover photographs:

Three Zimbabwean youths seeking a better future cross the border between Zimbabwe and South Africa at Beit Bridge. Greg Marinovich / PictureNET Africa

South African president Thabo Mbeki, centre, watches as Angolan president Eduardo Dos Santos, right, greets Namibian president Hifikepunye Pohamba at the 27th meeting of SADC heads of state held in Lusaka, Zambia, in August 2007. Tsvangirayi Mukwazhi / PictureNET Africa

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Acronyms and abbreviations

ACP	African, Caribbean, and Pacific
AfDB	Africa Development Bank
AGOA	African Growth and Opportunity Act
Agribank	Agricultural Bank of Zimbabwe
AISA	Africa Institute of South Africa
ASEAN	Association of South East Asian Nations
AU	African Union
AWEPA	Association of European Parliamentarians
BDA	Angolan Development Bank
BDC	Botswana Development Corporation
BEDCO	Basotho Enterprise Development Corporation
BIDPA	Botswana Institute for Development Policy Analysis
BLNS	Botswana, Lesotho, Namibia, and Swaziland
CCBG	Committee of Central Bank Governors
CD	chief director
CDSM	Centre for Defence and Security Management
CEMAC	Economic and Monetary Community of Central Africa
CET	common external tariff
CMA	common monetary area
CMI	Christian Michelsen Institute
CODESRIA	Council for the Development of Social Science Research in Africa
COMESA	Common Market for Southern and Eastern Africa
COMFI	Committee of Ministers Responsible for Finance and Investment
CSGR	Centre for the Study of Globalisation and Regionalisation
CSIR	Centre for Scientific and Industrial Research
DBN	Development Bank of Namibia
DBSA	Development Bank of South Africa
DBZ	Development Bank of Zambia
DES	deputy executive secretary
DFIs	development finance institutions
DFID	Department for International Development
DFRC	SADC Development Finance Resource Centre
DRC	Democratic Republic of Congo
DSC	Defence Staff Committee
EAC	East African Community
EASCO	East African Common Services Organisation
EBA	Everything But Arms
EC	European Commission

ECA	Economic Commission for Africa
ECDPM	European Centre for Development Policy Management
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EISA	Electoral Institute of South Africa
EPAs	economic partnership agreement
EPRI	Economic Policy Research Institute
ES	executive secretary
ESA	East and Southern African
ESAPs	economic structural adjustment programmes
ESRF	Economic and Social Research Foundation
EU	European Union
FANR	Food, Agriculture, and Natural Resources
FAO	Food and Agriculture Organisation
FES	Friedrich-Ebert-Stiftung
FIP	finance and investment protocol
FLS	Frontline States
FOPRISA	Formative Process Research for Regional Integration in Southern Africa
FSAPs	financial sector assessment programmes
FTA	free trade area
GDP	gross domestic product
GEAR	Growth, Employment and Redistribution
GSP	general system of preferences
ICM	Integrated Committee of Ministers
ICOR	incremental capital/output ratio
ICPs	international co-operating partners
ICT	information and communications technology
IDBZ	Infrastructure Development Bank of Zimbabwe
IDCSA	Industrial Development Corporation of South Africa
IFC	International Finance Corporation
IFIs	international financial institutions
IGAD	Inter-governmental Authority on Development
IGD	Institute for Global Dialogue
IMF	Inernational Monetary Fund
IOC	Indian Ocean Commission
ISDSC	Inter-state Defence and Security Committee
I&S	Infrastructure and Services
LDC	least-developed country
MDB	multilateral development bank
MDC	Malawi Development Corporation

MDC	Mtwara Development Corridor
MDF	Malawi Development Fund
MDGs	Millennium Development Goals
MERCOSUR	Common Market of the Southern Cone
NDC	Namibian Development Corporation
NEPAD	New Partnership for Africa's Development
NEPRU	Namibia Economic Policy Research Institute
NIC	newly industrialised country
NORAD	Norwegian Agency for Development Co-operation
NTBs	non-tariff barriers
OAU	Organisation of African Unity
ODA	official development assistance
OPDSC	Organ on Politics, Defence and Security Co-operation
PAFMECA	Pan-African Freedom Movement for Eastern and Central Africa
PAFMECSA	Pan-African Freedom Movement for Eastern, Central, and Southern Africa
PAP	Pan-African parliament
PFTA	preferential free-trade area
PPDF	Project Preparation and Development Fund
PPI	private provision of infrastructure
PPPs	public-private partnerships
PSC	Peace and Security Council
PSP	Policy and strategic planning unit
PTA	preferential trade agreement
RECs	regional economic communities
RI	regional integration
RISDP	Regional Indicative Strategic Development Plan
RPTC	Regional Peacekeeping Training Centre
RPTF	Regional Preparatory Task Force
RTAs	regional trade agreements
RTPF	Regional Trade Facilitation Programme
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCBRIG	SADC brigade
SADCC	Southern African Development Co-ordination Conference
SADC-ICP	SADC International Co-operating Partners
SADSEM	Southern African Defence and Security Management Network
SAFT	Southern African Forum on Trade
SAPP	Southern African Power Pool
SARPCCO	Southern African Regional Police Chiefs Co-operation Organisation
SCUs	sector co-ordinating units

SDF	SADC Development Fund
SDIs	spatial development initiatives
SH+SP	Social and Human Development and Special Programmes
SIPO	Strategic Indicative Plan for the Organ on Politics, Defence and Security Co-operation
SMEs	small and medium enterprises
SNCs	SADC national committees
SPS	sanitary and phytosanitary
SRDBs	sub-regional development banks
SRM	self-regulating market
STAP	short-term action plan
TBTs	technical barriers to trade
TDCA	Trade, Development, and Co-operation Agreement
TIB	Tanzania Investment Bank
TIFI	Trade, Industry, Finance, and Investment
TNF	Trade Negotiations Forum
TRALAC	Trade Law Centre for Southern Africa
UN	United Nations
UNCTAD	UN Trade and Development Conference
UNDESA	UN Department for Economic & Social Affairs
UNDP	UN Development Programme
UNDPKO	UN Department for Peacekeeping Operations
UNECA	UN Economic Commission for Africa
WTO	World Trade Organisation
ZDB	Zimbabwe Development Bank

Introduction

Hubert René Schillinger

On 3 and 4 September 2007, the Institute for Global Dialogue (IGD) and the Friedrich-Ebert-Stiftung (FES) jointly hosted the fourth Southern African Forum on Trade (SAFT) on the theme of 'Revisiting regionalism in Southern Africa.' Like its predecessors, the fourth SAFT provided a platform for critical debate and reflection on trade-related matters, bringing together from the region academics, activists, policy-makers, and senior officials working in the field.

This latest meeting of the SAFT was aimed at revisiting the approach to regional economic integration adopted by the Southern African Development Community (SADC) from both a normative and an empirical perspective. One objective was to provide a basis from which to assess the current trajectory of regional integration and co-operation in SADC beyond the milestones for deeper integration set by SADC itself. This was done by taking a step back, and having a fresh look at different models of regionalism with regard to their respective potential in meeting the socio-economic and political development challenges of Southern Africa.

Broadly speaking, there are two competing visions of regionalism and regional order. The prevailing approach is 'open regionalism,' also referred to as 'neoliberal regionalism,' 'outward-oriented regionalism,' or 'new regionalism.' The opposing view is that of 'developmental regionalism' or 'closed regionalism,' during the revival of the regionalism debate in the 1990s also labelled 'old regionalism.'

Originally *open regionalism* was used to describe a form of regionalism that is based on the principles of unilateral liberalisation, as well as non-discrimination, meaning that negotiated tariff reductions in regional trade agreements (RTAs) were offered to both members and non-members alike. The concept is now used in a more general sense to characterise regionalist schemes that are fundamentally about engaging with globalisation and the global market (Nesadurai 2002: 12–13). A liberalised and harmonised single global system of free trade and capital flows, driven by market forces, is the aim. Regions and RTAs are conceived as building blocs to a liberalised world economy, by providing a way out of the collective action problems that stifle co-operation among larger numbers in the multilateral arena (as currently experienced in the World Trade Organisation [WTO] Doha round). In developing countries, engagement with globalisation through open regionalism seems to be primarily driven by the desire to attract global production capital to the region in question 'through the carrot of a single market' (ibid: 19). One school of thought within the open regionalism paradigm stresses that schemes of North–South integration (such as economic partnership agreements [EPAs]) are likely to be more beneficial to developing countries than South–South integration, through a) lower costs from trade diversion; b) higher credibility of policy reforms locked in through agreements with Northern partners (Matthews 2003: 7); and c) greater potential for technology and knowledge transfers.

As already mentioned, the competing vision of a *developmental regionalism* is not a new paradigm. As 'old regionalism', it is associated with attempts in the 1960s and 1970s at state-led regional development in Africa, Asia, and Latin America, characterised by collective self-reliance, 'de-linking', import substitution, protection of regional markets from easy penetration by economic interests from outside, development of new industries through cross-border co-ordination to exploit the economies of scale of a larger home market, functional co-operation in joint infrastructure projects, etc. The experience of developing countries with regional integration schemes designed on this basis was generally disappointing, resulting in only very low levels of integration. The failure of this first generation of developing-country integration schemes has been largely attributed to the resistance to give up sovereignty for economic development, and inherent problems with import substitution, as well as conflicts over the distribution of the costs and benefits of regional integration (Matthews 2003: 6). Typically, such conflicts occurred as a consequence of trade diversion, which resulted in regressive transfers. Poorer members found themselves subsidising the inefficient industries of their relatively better off and more industrialised neighbours.

Despite its disappointing history, there has been renewed interest in the concept of a developmental regionalism, since the notion of a 'developmental state' came back to the centre of development-policy debate. Deriving from that notion, developmental regionalism encapsulates the idea of state activism and state intervention in markets to promote national developmental agendas. It also re-emphasises the importance of a broad domestic manufacturing base for sustained growth and development. Through a more selective and regulatory approach to liberalisation, it seeks to harness the potential from intraregional trade for industrialisation and efficiency gains. Unlike in the 'old regionalism' model, in today's concept, regional industrial co-operation does not preclude integration into the wider global economy, but may serve as a vehicle to achieve global competitiveness (UNCTAD 2007: 114). Policies addressing economic asymmetries and supply-side deficits are key not only to the political success of developmental regionalism. This implies net financial transfers to poorer members, as in the case of the EU's structural or cohesion funds, or the new structural convergence fund of the Common Market of the Southern Cone (MERCOSUR). (The Southern African Customs Union [SACU] revenue pool is another example of a compensatory mechanism to smaller and weaker members of a regionalist scheme, albeit one that is not linked to structural policies.)

During the SAFT discussions, the large majority of participants saw a developmentally inspired regionalism as the preferred option for SADC. However, it is still open for debate whether the prerequisites for, or ingredients of, developmental regionalism (developmental vision, strong and committed leadership, state capacity, meritocracy, the 'ability to mobilise the nation around economic development within the capitalist system', and the willingness to give up and 'pool sovereignty', among others) exist in contemporary Southern Africa, or are likely to develop any time soon. While some authors (for example, Andreasson 2007) seem to be quite sceptical, others, like Rok Ajulu in his contribution to this volume, are slightly more optimistic (Ajulu 2007).

Although ideal-type models are useful as yardsticks to assess and advocate policies pertaining to or impacting on SADC integration, this does not mean that either one of the two paradigms of 'open regionalism' and 'developmental regionalism' can fully capture what can be empirically observed in the current integration process.

The predecessor of SADC, the Southern African Development Co-ordination Conference (SADCC), was founded in 1980 to provide political and economic protection for its members against apartheid South Africa. It had provisions for infrastructure assistance, and co-ordination of sectoral policies and development aid, aiming at reducing the dependency on South Africa. SADC replaced SADCC in 1992 and in 1994 adopted South Africa as a member, later followed by Mauritius (1995), the Congo and – temporarily – Seychelles (1997), and Madagascar (2005). Like its predecessor, SADC was not initially a trade group, trade links being provided by the preferential trade agreement (PTA) of the Common Market of East and Southern Africa (COMESA), SACU, and various bilateral trade agreements.

Therefore the adoption of a SADC trade protocol in 1996, with negotiations completed in 2000, provided a decisive new dimension to the SADC regionalisation project. Some analysts even see this as a complete paradigm shift towards the then new orthodoxy of an open-market-led integration paradigm (open regionalism). With its (over-)ambitious targets of having in place a SADC free trade area (FTA) by 2008, a SADC customs union by 2010, a SADC common market by 2015, and a SADC monetary union by 2016, and the launch of a SADC currency by 2018, the trade protocol (and the Regional Indicative Strategic Development Plan [RISDP]) quite obviously tries to emulate the classical EU path to integration. Whatever the motives for this course of action were, institutional arrangements such as customs unions or common markets are not, per se, incompatible with a strong developmental orientation.

In addition, the market-integration agenda continues to coexist with the traditional approach of providing 'regional public goods' through policy co-ordination and harmonisation, as well as functional and sectoral co-operation, including infrastructure and development finance (for a detailed account of the evolving development finance architecture in SADC, see Kufeni 2007). The establishment of the Organ on Politics, Defence and Security

Co-operation (OPDSC) in 1996, and the adoption of its Strategic Indicative Plan (SIPO) in 2004, also seems to have been guided by strong developmental impulses. According to the foreword of the SIPO document, 'The SIPO is not an end itself … it is an enabling instrument for the implementation of the SADC developmental agenda embodied in the Regional Indicative Development Plan' (Van Nieuwkerk 2007: 1).

SADC regionalism today can perhaps best be described as a difficult hybrid of the developmental regionalism of regional co-operation, and the open regionalism of greater integration with the world economy via internal liberalisation and extra-regional (free) trade agreements (such as EPAs with the EU).

Whether the current hybrid is the way forward to achieve the organisation's overarching aim of eradicating poverty in the region is a matter of debate. Part of SAFT was allocated to a stock-taking exercise of the progress that SADC has made so far in its integration agenda. Perhaps unsurprisingly, the audits revealed stark gaps between lofty goals, milestones, and performance indicators on the one hand, and the reality on the ground on the other.

SADC's market-integration agenda, which is to start with the implementation of an FTA beginning 2008, seems to face major obstacles, such as complex rules of origin, lack of enthusiasm for trade liberalisation by many member states, low levels of intraregional trade, tariff and non-tariff barriers, and overlapping memberships (Mulaudzi 2007). Compounded by a weak implementation capacity on the part of the SADC secretariat, these obstacles have the potential to delay or even completely derail a meaningful process.

As trade is supposed to be 'the main catalyst for deeper regional co-operation and integration' in SADC (ibid), this state of affairs does not bode well for the entire regionalisation project. However, the perception of the pivotal role of trade in regional integration in general has been contested by others:

> Trade policies and intensity of trade relations are not sufficient to hold an area together. The gains from trade seem uncertain, small, unevenly distributed and unpredictable in the long run. Therefore it is the other objectives which must be significant. If these are not equally strong for all members then it may be necessary for those who want the region to survive to 'pay' the other members. This may be direct or by including additional forms of integration which are more important to the others (Page 2001: 17).

Even if trade policies and trade relations are less important for integration than SADC's RISDP suggests, the picture does not become much rosier. In all other areas of integration discussed during the forum, the balance of challenges and achievements did not look very different from those for market integration.

The RISDP, SADC's blueprint for socio-economic development, was criticised during discussions as being a document 'long on exhortations and short on deliverables'. In security co-operation, SIPO does not seem to be able to provide much strategic guidance either.

With more than 130 objectives, it was described as 'unwieldy and unimplementable', an expression of the still irreconcilable political outlooks and priorities of member states, between proponents of traditional state security and adepts of a human-security agenda. However, the current situation in security co-operation might be viewed in a more positive light by evoking the notion of 'progress through process' from the new institutionalism approach (Van Nieuwkerk 2007).

Institutional restructuring, from a decentralised structure of sectoral policy co-ordination in the hands of individual member states, to unified policy co-ordination and programme implementation in the hands of a revamped SADC secretariat, began in 2001. The results so far also leave much to desire. Kaunda (2007) concluded in his paper that SADC was 'ineffective because of its institutional weaknesses'. According to him, 'the organisational structure is not sufficiently co-ordinated, and the secretariat is politically disempowered'. Without proper institutionalisation of SADC, some observers already warn against the 'risk of a backlash' against integration, given the uneven regional development and serious concerns among small countries (for example, regarding the adjustment costs/revenue losses of trade liberalisation) (Van Nieuwkerk 2007).

Looking at the multitude of trade negotiations that SADC and constituent parts of it, especially South Africa and SACU, are currently engaged in, a backlash must be seen as a real possibility. Negotiations are taking place simultaneously at the bilateral (for example, with the United States, China, and India), regional (the EPAs of SADC and East and Southern Africa [ESA]), and multilateral (WTO) levels. Observers deplore poor policy co-ordination, and a weak regional trade negotiation infrastructure. Without effective policy co-ordination and strategic support from the secretariat, there can be hardly any strategic thinking and policy coherence, for example, based on a common industrialisation policy. From a developmentalist perspective this would be fundamental.

This state of affairs is all the more a concern as stakes are increasingly higher, because, as Trudi Hartzenberg commented in discussion, the 'level of ambition (in international trade negotiations) extends to new-generation issues (such as trade in services, government procurement, competition policy) which used to be national policy preserve'. Under such circumstances, national interests once again gain the upper hand in many of these negotiations, leading to conflicts and strained relationships among member states. This, again, has implications for SADC's regionalisation project. The EPA negotiations with the EU, which supposedly were to strengthen regional integration, turned out to be to be particularly divisive and counterproductive in that regard (for details on the SADC–EPA negotiations, see Mushiri 2007).

Hence, neither through the 'neoliberal' nor through the 'developmentalist' lens does all seem to be well in SADC. Whether these are mere teething problems of a 'region in the making' (Hettne & Söderbaum 1998) or serious signs of stagnation or even decline in 'regionness', is not yet clear. Van Nieuwkerk presents in his paper three alternative scenarios, into which SADC might develop in the future:

- a 'mature SADC,' where 'a favourable socio-economic environment and wise leadership allows for institutional governance, reflecting deeper and mutually beneficial integration';
- a 'fragile SADC,' where 'uneven development and poor leadership aggravate a polarised relationship between the region and a domineering South Africa'; and
- a 'disintegrating SADC,' where 'unfavourable socio-economic conditions and visionless leadership allow for a regression in the nature of the relationships among countries in Southern Africa' (Van Nieuwkerk 2007).

If the state-centred integration process of formalised regionalisation stalls or fails, the question will be whether sufficient 'soft infrastructure' of human, contractual, and commercial relations within the region, and nuclei of regional identity, have already been built to sustain an 'informal,' spontaneous, market- and society-driven process of regionalisation from below, which can either substitute for formal processes, or generate enough pressure on political decision-makers to provide responsible regional leadership.

It might be the task of one of the next Southern African Forums on Trade to study and discuss the various aspects of such a 'regionalism from below.'

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Keynote address: the policy dimensions of trade in the SADC region

Ben Turok

I HAVE BEEN asked to discuss the meaning and importance of 'developmental regionalism' for the states and people of Southern Africa, and to indicate an appropriate role for policy-makers, parliamentarians, and civil society in shaping this debate.

Relevant to these wide-reaching policy issues are some of the data from the 2007 International Monetary Fund (IMF) report drawn up for the 2007 Article IV Consultation. South Africa accounts for over a third of sub-Saharan Africa's gross domestic product (GDP). The country's direct investment in other parts of Africa has doubled since 2000, amounting to R3,7 billion in 2004. Sixty of the top companies listed on the JSE have direct ownership of foreign affiliates in Africa, while another 26 are holding companies with investments in Africa. South African banks operate in 17 countries.

South Africa belongs to a common monetary area (CMA, with Lesotho, Swaziland and Namibia); SACU (the CMA plus Botswana), and SADC. It accounts for two thirds of the combined SADC GDP, and about 60 per cent of intra-SADC trade. A possible FTA is under discussion.

South Africa also has trade agreements with many other countries, notably the EU (that is, the trade, development and co-operation agreement [TDCA]). In addition, SACU is negotiating with the United States, India, and China, as well as negotiating an economic partnership agreement (EPA) with the EU.

Since 1994, South Africa has pursued a policy of opening up, with substantial lowering of tariffs in the pursuit of greater competitiveness. However, the country's exports in world markets are at the same level as in the late 1990s, with South Africa's market share falling throughout the period. These trends support the case for greater efforts in trade with the whole of Africa and the SADC region.

The policy arena

It can be seen that there has been a degree of regional integration in Southern Africa for some time. However, developmental regionalism is an entirely different matter, going way beyond considerations of customs union, trade preferences and the like. In current debates, regionalism is seen in the context of a united Africa, based on political unity, economic co-operation and much else.

Certain policy reference points should be signalled in this regard. The foundations for this approach were laid in the 1980 Lagos Plan of Action by Adebayo Adedeji, which was endorsed by the Organisation for African Unity (OAU) and the UN, but attacked by the World Bank's infamous Berg Report, and then shelved. The Lagos plan argued that Africa was 'over-dependent on the export of basic raw materials and minerals' and should instead 'promote the goals of rapid self-reliance and self-sustaining development and economic growth' in the pursuit of 'a far-reaching regional approach based primarily on collective self-reliance'. This would 'pave the way to an African Common Market leading to an African Economic Community' (OAU 1980).

Adedeji persisted with his views when he was head of the UN Economic Commission for Africa, but with little success. In the early 1990s, his concern shifted to the role of South Africa in Africa, displaying much skepticism about whether South Africa would play a significant role in identifying with the rest of the continent, rather than strengthening relations with Europe. He convened a conference in Windhoek in January 1994, and published the resulting papers in a book entitled *South Africa and Africa: Within or Apart?* (Adedeji 1996).

The South African parliament began considering this theme at a special committee established to consider the AU, and, in particular, the creation of the Pan-African parliament (PAP). A research project was initiated and various papers developed to consider the particular features of developmental regionalism, as opposed to the orthodox model of customs union, free trade, etc. 'Identification and analysis of economic integration strategies in Africa', a 2002 research proposal submitted by the Africa Institute of South Africa (AISA), argued that the success of both the AU and NEPAD hinged on regional integration. This document urged the need for a conceptual road map and analysis of the content of regional economic communities (RECs) as integration models. Such analysis had to deal with diversifying the export base, harmonisation of currencies and industrial policy, encouraging complementarities, and overcoming resistance to integration (AISA 2002). In another submission, the Economic Policy Research Institute (EPRI) (31 July 2002) argued for political-led integration that supports broader socio-economic development. The question of political will was thus seen as a central issue. Unfortunately, neither proposal was pursued.

NEPAD introduced a strong emphasis on regional integration as the foundation for Africa's unity. It stated that 'Nepad is a holistic, integrated sustainable development initiative for the economic and social revival of Africa' (Progress Report, July 2002: 2), and: 'The regional economic communities remain the building blocks for Africa's economic integration' (Action Plans, July 2002: 7). This approach has had much formal endorsement from multilateral agencies, but has led to little in concrete terms. In part this is because the developmental aspect of regionalism has often been displaced by more conventional criteria. A meeting in Cape Town on 18 January 2005 of ministers of finance with the Commission for Africa stated: 'The potential for regional integration is largely unrealised. By removing African barriers to trade – in tariffs, trade facilitation, customs administration, sea and air regulation – accelerated regional integration can provide a springboard to creating more competitive industries on a global stage, and increasing growth.'

During many of these discussions, one theme stood out as a necessary dimension of developmental as opposed to formal regionalism, namely the fact that right across Africa, state boundaries were artificial, and often ignored by rural people who traded as though these boundaries did not exist. There is evidence that even in the Southern African region, a considerable amount of informal trading bypasses customs posts. Clearly developmental regionalism ought to take account of such linkages and build on them, even if they derogate from customs receipts.

Unfortunately, many officials do not share this view, and instead concentrate on the money they can glean from cross-border trade as a contribution to the national fiscus. My personal experience when in Tanzania confirms this view. I proposed to the Zimbabwean, Kenyan, and Zambian embassies that a publishing initiative in which each of the four countries could join as both publishers of academic books and as a market would be highly beneficial, effectively creating a common market with no duties. I was told that the loss of duties was an obstacle and Zimbabwe, for instance, preferred to import books from the United Kingdom at low tariffs, for reasons I could not discover.

SADC's RISDP is discussed elsewhere in this volume. Gabriel Oosthuizen (2006) has done an admirable job of setting out the broader dimensions of developmental regionalism, which go way beyond trade. But these proposals have yet to find their way into the wider arena of policy-making and public consciousness. Indeed, it may be that as long as the negotiators remain locked into financial considerations alone, the absence of a positive environment for regionalism could frustrate the whole project. Oosthuizen (ibid: 229) says, 'It is sometimes unclear whether a socioeconomic co-operation treaty, the RISDP, its implementation framework, … reflects current policies and strategies in a particular area of co-operation.'

What role for policy-makers?

Experience thus far with creating a favourable environment for developmental regionalism is that neither the AU and its institutions, nor the Commission for Africa, are able to give adequate impetus for it to happen in a reasonable time frame. In part, this is due to the preponderance of national interests in decision-making, with the broader goals of African unity and NEPAD not bearing the same weight as national concerns. Not even the fairly active Economic Community of West African States (ECOWAS) has made any major visible gains in integrating the regional economies. Policy-makers have to make far more deliberate efforts to ensure that a broad vision pervades all the discussions about regionalism. They have to go beyond the kind of formulations found in the protocol for the creation of a SADC parliament, which refers to 'regional cooperation, self-reliance and economic efficiency' but gives little direction on a deeper form of regional integration (SADC 2003: article 3.4).

In a new book on China, Will Hutton (2007: 184) argues persuasively that economic advance requires much more than investment and trade. It requires a favourable democratic environment, supportive public institutions and values, and 'soft infrastructure'. He stresses the importance of a 'network of democratic institutions constituting a public realm rather than just representative government'. His approach goes much further than the 'good governance' requirements of the donor institutions of the North, and poses a challenge to intellectuals and policy-makers when we consider the requirements of regional integration.

In short, our discussions should focus as much on the commitment of the relevant governments and our societies, as on the more technical issues, such as physical infrastructure, trade barriers, investment, opportunities for business, constitutional and legal instruments, and the like, important as they are (*NEPAD Dialogue*, 8 September 2006).

The stubborn clinging to sovereignty continues to be a major hurdle. 'Integration is constrained because countries guard their sovereignty, protocols take long to ratify and implement, and countries find it easier to liberalise the movement of people rather than goods and investment (World Bank 2007).'

There is also the problem of external interests. Foreign investors in Africa's minerals and other natural resources do not have the same motivation towards creating regional entities. This is confirmed by analysis of official development assistance (ODA), now a major contributor towards many African countries' budgets. Discussions by the World Bank and other multilateral institutions have confirmed a tendency – revealed by a campaign on monitoring ODA, led by the NEPAD Contact Group of African Parliamentarians and the Association of European Parliamentarians (AWEPA) – for individual donor countries to be reluctant to share information and co-ordinate efforts which would diminish relations with their own 'patch'. In other words, they prefer country-to-country relations, rather than region-to-region relations.

The PAP obviously has an important role to play, though it is constrained by a lack of finance and by tensions with the AU and the Commission for Africa. Members of the PAP could also exert pressure on their governments to decide finally on which regional economic blocks each country will belong to.

African research institutions such as the Council for the Development of Social Science Research in Africa (CODESRIA) could help a great deal, if they could shake off their deep pessimism about the prospects of a more progressive Africa under its current leadership. Africa's civil-society organisations could also provide some momentum, if they, too, could engage more effectively in the public terrain occupied by governments and formal African institutions. When the AU and its structures do engage in consultations with civil society, they should resist official efforts to confine discussion to formal institutional arrangements at the expense of more fundamental political concerns.[1]

Conclusion

Momentum towards real integration through developmental regionalism, as the foundation for Africa's unity, will have to depend on more than technical negotiations for customs unions, free trade and the rest. It requires buy-in from many different sectors of society for reasons that go beyond immediate national interest. Intellectuals and activists can make a useful contribution in placing much greater emphasis on the social and political benefits of building the 'soft infrastructure' associated with 'public goods' and the 'public realm' as the sound foundation for developmental regionalism. Perhaps the harsh conditions that the great powers continue to impose on Africa through EPAs and other instruments – including farming subsidies, non-tariff barriers, and other measures that exclude Africa's products, while demanding access to Africa's domestic markets – will be enough to awaken the urge for more rapid progress for African unity.

Endnotes

1 As at the AU-civil society consultative meeting in Abuja on 22 January 2005.

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Open versus developmental integration – what options for SADC?

Rok Ajulu

Revisiting 'new regionalism' in the contemporary global context

The origins of regionalism in Africa date back to the early days of the movements for the decolonisation of the continent. At the All-African Peoples' Conference in Accra, Ghana in 1958, the idea of regionalism was discussed in terms of an economic strategy to rectify the economic hurdles posed by the size of African economies. These ideas went on to underpin the early continental initiatives, ultimately culminating in the formation of the OAU, which was very much underpinned by the ideas of regionalism. Kwame Nkrumah's idea of a united Africa was predicated on creating a single regional bloc, with sufficient political and economic clout, capable of facilitating and negotiating more effectively with the economically powerful former colonial masters. Thus the artificial division between the 'old' and 'new' regionalism is not really relevant to the African debate. The continental experience is one of a continuous attempt to place regionalism at the centre of the transformative agenda, which runs all the way from 1958, to the most recent initiatives centred on the AU and NEPAD.

Thus the current resurgence of regional economic integration in Africa is neither new nor unique. However, it must be acknowledged that the resurgence of the 'new' regionalism is now spurred on by the contemporary transformation of the global economy. Contemporary globalisation and its dislocative effects on societies at the marginal poles of global economy have provoked a Polanyian reaction – a 'second movement' to contain dislocations associated with a globalised penetration of the outer markets. It is in this sense, perhaps, that Bjorn Hettne (2005) poses the question whether the 'new' regionalism is indeed an integral part of globalisation, or whether it is a political reaction against that process. Grugel and Hout (1999) suggest that regionalism may be seen as a self-conscious strategy for competing within a globalised framework. Regionalism, he suggests, can therefore be a defensive or an offensive state strategy, or it can combine both elements. The idea of regionalism as a defensive or an offensive strategy is one that strikes relevant resonance for a region like SADC, a point that we will return to below.

Globalisation and regionalism

Globalisation has become a catchword, associated with all kinds of meanings, depending on the ideological trenches occupied by respective scholars. Some see it purely in economics terms, a revolution in the process of global production, particularly the technology revolution, which has changed production systems and global financial flows, thus creating the so-called global village. Others, of course, emphasise its socio-cultural aspects, the homogenisation of cultures, and the Americanisation of global tastes (Shaw 1998). I have come to prefer Ake's political-economy-based definition of globalisation – 'the march of capital all over the world in search of consumers and markets' (Claude Ake, cited in Nabudere 2000). In other words, it is the process of opening up the world market to the powerful global players, a project inevitably driven by the most powerful – the core states and the big multinational corporations. To this extent, therefore, it is possible to argue that there is nothing particularly new about globalisation; ever since the European industrial revolution, accumulation on a global scale has been characterised by the march of capital all over the world in search of consumers and markets.

But contemporary understanding of globalisation is more than that. It is also about growing structural differentiation globally. In other words, globalisation should be seen as a process, which is propelled by contradictory tendencies. On the one hand, economic globalisation has unleashed productive forces throughout the world, leading to the expansion of markets; the insertion of technology into the processes of production, and hence the improvement of productive capacities; and massive increases in profits for multinational corporations. On the other, it has also manifested a tendency to fragment, differentiate, and marginalise social forces and countries incapable of catching up with its processes. Uneven development long associated with capitalist expansion is probably the most visible trademark of globalisation in its contemporary form.

Precisely because of the specificity of the Third World's historical integration into the world economy, the unevenness of globalisation has been at its most intense in the developing countries. The accelerated globalisation of the world economy has particularly had a negative impact on African states. While the global political restructuring associated with globalisation has no doubt had some positive spin-offs – the collapse of undemocratic and repressive regimes, and, of course, the acceleration of the so-called democratisation process in Africa – the predominant tendency, however, has been the increasing marginalisation of the continent. Declining resource bases and the continued peripheralisation have more or less redefined the global playing ground for the weak and the poor. Thus, increasingly, smaller and weaker states have lost the means and clout to engage globalisation processes.

But at the same time, these processes have fostered centres of economic growth and dynamism in some of the regions in the South, thus intensifying the uneven development inherited from the prior forms of global accumulation processes, and creating growing separation within the South. In this way, contemporary globalisation has also engendered much competition between and within the countries of the South. Thus, states in the South have increasingly come under pressure to conform to the new demands of the globalisation processes. The new divisions have been between those countries and regions that can adapt to the new globalising agenda, and those that are either unwilling or incapable of adjusting. Contemporary globalisation has equally rendered the nation state 'border-less.' Research and development of technology have facilitated the free flow of information across international borders on an unprecedented scale. Capital, particularly financial capital, now flows freely across borders, with devastating consequences for the so-called emerging economies. This has further engendered competition among the weaker countries for investments, foreign direct investment (FDI), and other resources.

More significantly, however, contemporary globalisation has also rendered the classical notion of the nation-state all but meaningless. The traditional understanding of the nation-state – associated with the theories of realists and neo-realists, and based on the assumption that the traditional nation-state had comprehensive control over its territory and population, and a capacity to operate as a unitary, autonomous actor in an anarchic international system (Stubbs & Underhill 1994) – can no longer hold true for a majority of the African states. These countries have been collectively subordinated to a worldwide 'market totalitarianism.' In other words, contemporary globalisation has imposed the unprecedented power of a few overwhelmingly wealthy and powerful countries over the many weaker states in the international system.

Thus, if we were to summarise the challenges posed by contemporary globalisation and the current regime of accumulation, these would be identified as follows:

- a new phase of capitalist expansion and control of the global market through the revolution in communications technology – globalisation, to paraphrase Lenin, currently represents the highest stage of imperialism;
- the emergence of the 'market' as the central organising principle of global economic activity, in other words, the triumph of the 'market' on a global scale;
- the integration of financial markets across the globe, and the intensified mobility of financial capital across the globe, unencumbered by state restrictions;
- the construction and reconstruction of institutions of global governance and the deployment of these as the instruments of globalisation of the world market – that is, global rule-making institutions, of which the WTO is probably the best example; and
- the tendency towards the weakening of the nation-state, and gradual loss of sovereignty in the economic sphere by the smaller, economically weaker states.

Thus for the weaker states to survive in this somewhat hostile environment, they have been forced to think creatively on how to adapt to the changing situation. It is in this sense that it is argued that globalisation has created 'competition states'. Far from disappearing, the states in the South have been forced to reinvent themselves, to reconstitute and reconfigure themselves, to be able to fight for survival in this new hostile terrain. It is this power of a reconstituted state – some call it the 'activist state' – pioneering new forms of engagement, and forging new forms of alliances with transnational corporations and multilateral institutions of global and economic governance, that is going to be the key to new regionalism projects.

It is in this sense that the resurgence of 'new' regionalism is seen, or rather should be seen, as a defensive state strategy. It forms part of a broad response to the challenges of globalisation. Analysts have long recognised that most developing countries do not have the resources to cope with globalisation on their own. They need to pool their resources in regional arrangements which will allow them collectively to confront the daunting challenges of the global markets, and strengthen their bargaining power on the global stage. Given the far-reaching impact of globalisation, this has been seen not as a matter of choice, but rather as an imperative. In other words, regional integration is meant to make it possible for weaker countries to engage and benefit from the global economy.

An important aspect of these attempts at regional integration has been the quest to address the constraints of market size and growth, which as Tsie (1999) suggests, are not only important to the location decisions of multinational corporations and decisions about FDI, but also to the industrialisation policies of the integrating countries. It is equally important to point out that these new initiatives at economic integration are predicated on the assumption that engagement with the global economy is unavoidable. They do not seek to 'de-link' their participants from the global economy, but rather to engage with globalisation in ways that benefit the weak and the poor. Because of this, it is commonly assumed that successful engagement with the global economy must be state-driven; in other words, these integration exercises must be aimed at governing markets at regional levels. This is seen as a viable – and perhaps the only possible – path to sustainable development in the age of globalisation. It is this broad perspective that has led to the proliferation of regional integration processes over the past two decades.

Approaches to regional integration

Regional integration in the continent has been predominantly pursued through three main approaches:

- market integration;
- regional co-operation; and
- development integration.

Of the three, regional co-operation has been seen to present a softer option, as it allows the respective players room for flexibility. Regional co-operation simply consists of co-operation and collaboration among countries on matters of mutual interest. The old SADCC adopted regional co-operation throughout the 1980s, as a strategy geared towards lessening dependence on apartheid South Africa. Apart from its success in unifying the region against the apartheid regime, the SADCC's regional co-operation efforts did not result in much in the way of social dividends. However, some scholars have pointed out that regional co-operation can indeed lay the foundations for deeper market integration.

However, from a theoretical perspective, there are two competing visions of regionalism and regional integration models. The first, the market- or liberal-led integration model, or 'open regionalism', privileges the 'market', that is, the self-regulating market (SRM), over society. It is based on classical or neoclassical economic theory, which posits that the market should drive the integration processes. The other, 'closed regionalism', lays less emphasis on the market, and posits that the objective of integration is the achievement of social and economic development. To this extent, therefore, this model eschews the conventional wisdom of speedy liberalisation of the world economy. Below we take a look at these models in slightly more detail.

Market integration

Historically, market integration has followed the theory of customs union developed by Jacob Viner's (1933) economic treatise, *The Customs Union Issue*. This presented a robust defence of the neoclassical free-trade theory, which insisted on unhindered free trade without regional barriers throughout the world. Viner argued that the regional exchange of goods and services was beneficial to all the parties within a customs union, as long as it created trade. Such exchange, he argued, enabled the most efficient producers to take a major share of the market, and to replace the less efficient ones. Although the latter would be thrown out of the market, he argued that this would nevertheless be beneficial, in that the most efficient producers would reduce the unit costs of production, resulting, in turn, in lower prices for consumers throughout the customs union. This would lead to an increase in the trade within the union as a whole, and would therefore be *trade-creating*.

In contrast, Viner posited that trade based on the protection of less efficient producers within the customs union would have the opposite effect – *trade-diversion*. Given their higher production costs, the less efficient producers would not be able to gain a larger share of the market unless they were protected by tariff or non-tariff barriers, as well as subsidies provided by the states in which they were located. This would eventually result in consumers paying more for those products or services. The result would be trade diversion from the more efficient producers, and eventually lead to a *reduction* in trade.

But market integration went beyond a customs union, the latter being only one of the stages in the integration process; that is, the abolition of discriminative practices and policies among various national economies, ultimately leading to a single, unified market. Thus market integration has been seen as a process that moves progressively through different stages and degrees of integration, and achieves the ultimate – a single market, and a political union. Historically, the stages have been identified as follows:

- FTA. This would be characterised by an arrangement whereby tariffs and other restrictions to trade are removed among member states, while member states continue to impose their own tariffs with regard to non-member states. Other scholars, however, see the preferential free-trade area (PFTA), where tariffs among member countries are lower than those imposed on outsiders, as the 'pre-integration' phase of market integration.
- Customs union. This stage entails the introduction of a common external tariff against non-member countries. In other words, the stage is a combination of an FTA plus a common external tariff.
- Common market. This stage sees the introduction of the free flow of factors of production into a customs union.
- Economic union. The introduction and harmonisation of fiscal and monetary policies.

The expected benefits from this type of market integration accrue from what Viner described as trade creation, and to the extent that there is more trade creation, market integration is deemed as successful. Other benefits accrue from the comparative advantage that the model imposes on member states. The gains have been identified as follows:

- increased production arising from specialisation according to comparative advantages;
- increased output resulting from better exploitation of scale of economies;
- improvement in the terms of trade of the group with the rest of the world;
- forced changes in efficiency arising from increased competition among the group; and
- integration-induced changes affecting the quantity or quality of factor inputs, such as increased capital inflows, and changes in the rate of technological advance.

However, a successful market integration project requires certain conditions to obtain. The following would be considered the minimum conditions for a successful implementation of market integration:

- a similar level of industrial development among member countries;
- harmonised national macroeconomic policies;
- regional macroeconomic stability;
- regional political stability;
- significant intra-regional trade;
- complementary industrial development among member countries;
- significant differences among member countries' factor endowments;
- significant distribution of the benefits of integration; and
- a political willingness to share some level of sovereignty.

It is fairly obvious that many of these conditions are lacking in SADC, as in the rest of the continent. As in SADC, most countries in Africa are at different levels of economic and industrial development, with few complementarities between their respective macroeconomic policies and minimal reciprocal intra-regional trade. In fact, intra-regional trade within SADC appears to be a one-way traffic from South Africa, the biggest economy in the region, to the rest of the member countries.

More critically, the self-regulating market has not proved to be an impartial tool of organising society. Markets, after all, can only reproduce the status quo, with the result that in the absence of the guiding hand of the state, polarisation becomes the most visible trade mark of this type of market-led integration. The well-endowed countries in the region receive a disproportionate share of the benefits, while the less endowed members become poles of stagnation. This was indeed the experience of the old East African Community (EAC). Given the nature of uneven development in the region, Kenya, with its relatively developed manufacturing, financial, and service sectors, enjoyed a competitive edge over the other two member countries, and therefore was the main beneficiary of the economic arrangement. To the extent that this issue remained unattended, the community for all practical purposes remained an unviable project.

Development integration

Historically, development integration emerged as a process to address the problems and dysfunctions of the pure market integration approach that we have discussed above. This approach recognises that when market forces are let lose on society, their tendency is to reproduce inequalities and widen economic differences between the less developed and the more developed areas. Development integration seeks to correct this situation by recasting the terms and the tenor of the integration process. It does this by focusing on three key objectives, as follows:

- redefining the objective of the integration process;
- addressing the controversial question of the distribution of the costs and benefits of regional integration; and
- addressing the issues of timing and level of interstate binding commitments.

Basically, the objective of the integration project is redefined on the basis of the issues of economic and social development. The integration model is linked to the theory of development, and the relationship between the state and market, to produce the desired outcome. Secondly, deliberate efforts have to be made to ensure that compensatory measures are in place. As we have indicated above, without these in place, the integration project is unlikely to take off. Compensatory measures might assume different forms: for example, SACU, which has worked with some degree of success, even though the recipient countries have remained far from satisfied. Thirdly, a high level of political commitment is required for all these processes to take off. Whereas market-led integration relies less on the state, and political intervention appears only to be required in the last stage of the integration process, developmental integration seems to emphasise the primacy of the state.

Like the market-led model, the developmental integration project requires similar conditions for success to be ensured. These are:

- a similar level of industrial development among member countries;
- harmonised national macroeconomic policies;
- regional macroeconomic stability;
- regional political stability;
- significant intra-regional trade;
- complementary industrial development among member countries;
- significant differences among member countries' factor endowments;
- significant distribution of the benefits of integration; and
- a political willingness to share some level of sovereignty.

The point is that under the developmental approach, these are not expected to happen of their accord. Rather, the role of the state is important in facilitating these conditions. Indeed, political intervention is the backbone of the development integration model, as the state is required to co-ordinate policy to create an enabling environment and to drive the process. Each state is also required to co-operate in organising the common political power of the member states. Without such common political commitments from member states, development integration is unlikely to function properly. This was also the experience of the old EAC. Kneld Phillips, the Danish economist who chaired the Phillips Commission to review the operations of the East African Common Services Organisation (EASCO), candidly admitted to this critical role of the state:

> We cannot expect the Common Market to function so long as there is no common political power to make decisions. Not to have a political power in this field would only be possible provided all three countries were following the principles of 19th century liberalism. As all three countries are practicing economic planning and all three wish to interfere in the economic development, it is necessary that there exist a responsible political body to govern the Common Market. As modifications would have to be introduced in the Common Market, and as a machinery will have to established, it is necessary to make a Treaty concerning the Common Market between the three countries … this machinery should have three levels, namely, political, official and a tribunal to solve disputes (cited in Nabudere 2005).

To conclude this section, therefore, I think we would be perfectly justified in arguing that the market-led integration process is unlikely to be a viable option in SADC. Conditions for its establishment do not exist in the region, and given the vast disparities among member states in SADC, it would only serve to accentuate these differences, and this would indeed be a recipe for a regional disaster. But while the development integration model would seem to be the more appropriate option, it would require a greater degree of commitment from the member states, and this does not render it any easier to implement. In particular, this paradigm confronts member states with three distinct challenges:

- the requisite political will to confront the sensitive question of sharing sovereignty;
- willingness to reconfigure their states and create the 'activist state'; and
- political boldness to confront the question of governing the market.

It does not seem to me that the member states have demonstrated a political willingness to move in this direction, and despite commitment to the strategy of development integration, the organisation remains steeped in the ambits of globalised neoliberal integration.

What options for SADC?

If what we have said above about globalisation and its impact on African economies is correct, then it follows that we must address ourselves to the question of taming the market in the epoch of accelerated globalisation. The lesson of the past decade is precisely that the unbridled free market is a danger to the majority of humankind. In a speech in 1998, president Mbeki warned of the market's inability to banish poverty, and therefore the need to challenge the 'market' as the modern God (Mbeki 1998a). In the same speech, he correctly pointed out that the mere existence of the global institutions of governance, especially the WTO, IMF, and World Bank, is a clear indication that intervention in the market has always been a matter of fact. The UN Development Programme (UNDP) *Human Development Report* makes the same point:

> ... when the market goes too far in dominating social and political outcomes, the rewards of globalisation spread unequally and inequitably ... Markets, they conclude, need institutions and rules, and too frequently in the global setting, they have not been adequately subjected to the control of either (UNDP 1999: 2).

The argument against market fundamentalism and the need to tame it is thus compelling. In fact, the intellectual and ideological panic that we have witnessed within the international financial institutions (IFIs) over recent years is precisely about this increasingly negative image of the neoliberal paradigm. Indeed, the overwhelming rejection of the Washington Consensus that has been witnessed throughout the South has set the stage for a scenario in which the role of the state in economic development can no longer be wished away. Thus, for all practical purposes, developmentalism is coming back on to the agenda.

However, it must be conceded that the problems confronting African economies are not only the negative impact of market fundamentalism, but that, more seriously, these economies remain small and fragile. As a recent report of the Economic Commission for Africa (ECA) points out, the limited market size of many countries, their failure to exploit the potential of inter-African trade through development and co-ordination of development plans at subregional levels, and the lack of harmonisation of standards, present obstacles to sustainable economic regeneration (ECA, cited in Asante-Darko 1999). Thus, states at subregional levels are confronted with the challenge of not only taming the market, but, more crucially, initiating creative policies to overcome these obstacles. So the challenge is not simply one of the state setting out to 'repair market failures', but rather of a very activist engagement with the idea of development. In other words, what is needed is not less, but more, of the state, albeit a very creative one.

The idea of developmentalism

The idea of developmentalism goes beyond the question of the state's role in promoting economic development. It is not the regulatory orientation of the typical liberal democratic state, where the state plays a facilitative role – macroeconomic stability, provision of physical infrastructure, etc. Nor is it the old-style Soviet command economy. State developmentalism is about governing the market to achieve certain goals. In his study of the Japanese developmentalism model, Johnson (1982) argues that, while basically dedicated to market principles, the Japanese developmental state was pre-eminent in 'setting substantive social and economic goals for market agents'. The developmental state went beyond merely establishing legal and institutional frameworks, and letting the private sector 'do its own thing'. Developmentalism was always a political project, designed to achieve the political goal of equity in the world market.

Furthermore, the idea of a developmental state is not new. It straddles the intellectual traditions and practices of the last two centuries (see, for example, White 1988; Amsden 1989 & 1994; Chenery & Syrquin 1975; Gerschenkron 1966; Wade 1990). At the centre of its theoretical elaboration is the idea that late starters, as in Germany and Japan, needed the intervention of the state to achieve industrialisation and competitive penetration of the global market. The much-heralded success of the newly industrialised countries (NICs) in deploying the state to tame domestic and international forces, and to harness them to national economic interests (Hoogvelt 1997), was but one in a long chain of what Wade has called 'governing the market' to achieve rapid industrialisation.

Towards developmental regionalism

The idea of developmental regionalism is a fairly recent development (see, for example, Tsie 1999; Hettne and Soderbaum 1998). An important element of this paradigm is the realisation that successful participation in the global economy may be achieved through membership of one or other regional trading block. It is argued that individual economies, such as those in Africa, lack the capacity to cope with the challenges of globalisation, and, therefore, they need to come together to enhance their bargaining power vis-à-vis the multinational corporations, IFIs, developed nations, and of course, the international institutions of governance.

Regional trading blocks, it is argued, have the advantage of a larger market and therefore the attraction to global operators is increased. Through regional blocks, states hope to control that which they are not capable of achieving internationally. But, more importantly, developmental regionalism, as Tsie (1999) argues, is indisputably a state-initiated project, one which is embedded in the market economy, and an initiative through which the state seeks to regulate capitalism at the regional level, because it has proved difficult to do so at the national level.

Developmental regionalism is thus an attempt to govern the market at a regional level. In the manner in which it is discussed here, it is important to emphasise that it is not state capitalism. The primary purpose of state intervention in a developmentalist state is to promote the interests of the private sector to achieve certain national or, as in this case, regional goals. Private firms continue to run their enterprises according to the logic of the market, but subordinated to the broader logic of the political project of the region. The state has to provide the political leadership and economic incentives, bureaucratic regulation (credit, finance, taxation), and bureaucratic capacity, to prioritise those specific interests or sectors capable of achieving global competitive advantage.

The role of the state is thus limited to providing concessionary assistance to those sectors of the economy considered capable of achieving dynamic comparative advantage. This is why Tsie (ibid: 7) argues that developmentalism of this type is not incompatible with globalisation. The two, he argues, are mutually reinforcing, but in ways which do not conform to the multilateralism of the WTO.

Historically, developmental states have not often demonstrated adherence to democratic accountability. At the height of their successes, the NICs were particularly notorious for their nasty authoritarianism and kleptocratic tendencies. Despite impressive economic performance in the 1960s and 1970s, and improvement in socio-economic indicators (Hoogvelt 1997: 213–4), the question of accountable governance remains. Despite periodic elections, democratic accountability is only now gradually taking place. This raises the question whether indeed development and democracy can constitute two sides of the same coin.

The crucial question, however, is whether developmentalism, in the terms in which it was experienced in the NICs, is possible any longer, given the existing balance of forces internationally. Despite the reverses market fundamentalists have suffered over the past few years, an expanded role of the state in economic activity remains a heresy to the dominant players in the global market. Or, put in other words, the global playing field remains rather uneven, while the dominant players seek protectionist measures to protect their markets, the weaker members must liberalise at all costs.

And this brings us to our final question: what type of state and political class is capable of driving a regional developmental project? And this is probably the biggest challenge confronting the project of regional developmentalism. What is clear from the above analysis is that the project we have outlined requires a particular kind of a state at regional level – a regional developmentalist state. Such a state, as Mkandawire (2001) points out, is developmentalist because it sets as its mission that of ensuring development. The state elite, he argues, must be able to establish ideological hegemony, so that the developmental project becomes a hegemonic project.

The developmental states of South East Asia were predicated on a certain kind of political leadership and authoritarian ruling elite, largely corrupt, with equal measure of kleptocratic practices! But they nonetheless established a hegemonic project, shared a degree of commitment to the 'national interest', and were thus capable of privileging the national interest above that of their narrow individual interests – a patriotic authoritarian ruling elite, for want of a better description.

Unfortunately, the present corps of sub-Saharan Africa's ruling elites have no such loyalties. Ours is a kleptocratic and predatory crowd who have concentrated mainly on deploying public office for purposes of individual private accumulation. If what we have said about regional developmentalism is correct, then it follows that it requires a different alliance of class forces – democrats and patriots with deep sense of commitment to the public good. Can the present horde of leaders be entrusted to carry this project through?

The prospects of developmentalism in SADC

Perhaps the SADC economic integration project provides an experimental theatre where these debates could be teased out. SADC constitutes one of the more economically successful regional blocs in the continent. The historical context of capitalist accumulation in the region has unwittingly bequeathed to it a relatively integrated regional market. The economic integration project thus has a fairly solid foundation in the region.

A number of aspects of the integration project are crucial to this debate:

- First, since its founding in 1992, SADC has more or less accepted the principle of development integration, and the 'co-ordinated development of infrastructure, production and harmonisation of macro-economic policies' have been accepted as the basis for deeper, mutually beneficial regional integration.
- Second, the founding document also accepts the idea that SADC integration should be driven by equity, balance, and mutual gain.
- Third, over the past three years, the state has spearheaded the co-ordinated development of regional infrastructure such as the Maputo Corridor, Trans-Kalahari Highway, and Trans-Caprivi Highway. These are essentially political projects (Tsie 1999).

However, it is important to add that these state-led initiatives are not necessarily incompatible with market-led neoliberal integration. The predominance of neoliberal macroeconomic models in the region does suggest that this remains a terrain of contestation, and a neoliberal integrationist project cannot be ruled out altogether.

But, more significantly, SADC is the home of the contemporary African political and economic regeneration project – NEPAD, the AU, and multilateral diplomacy have all been associated with the Mbeki presidency. These are essentially attempts at 'constructive engagement' with globalisation. On paper and in speeches at multilateral fora, Mbeki's African regeneration project appears opposed to market fundamentalism. At the opening of the ministerial meeting of the Non-Aligned Movement in Durban in 1998, he addressed himself to the negative tendencies of globalisation. The process of globalisation, he said,

> … ineluctably results in the reduction of the sovereignty of states, with the weakest being ourselves, being the biggest losers – those who are already the worst off, suffer losses of the first order as a result of a marginal adjustment by another … (Mbeki 1998b).

A month later, at the African Renaissance Conference in Johannesburg, he was back on the same theme: '… the much acclaimed beneficial effect of the process of globalisation,' he declared, is by no means automatic. He pointed out that it was absurd and unacceptable that 'poor countries such as ours in Africa as a consequence of their foreign debt burden become net exporters of capital' (Mbeki 1998c). The African conditions, he has argued, describe exactly the negative consequences of the process of globalisation.

But it was in his statement at the close the 12th summit of the Non-Aligned Movement, in Durban on 3 September 1998 that he was more explicit in his critique of globalisation. The 'free market path of development,' he declared, 'has failed to live up to the expectation of the people of the South':

> The message that comes across is that 'the market is a cannibal that feeds on its own children' … it feeds on the emerging adolescent it has spawned, taking advantage of the fact that this fattened being, described as being in transition, is fat enough to be an attractive meal and not yet fat enough to defend himself or herself from attack by the cannibal progenitor … So does it come about that the market feeds on its most robust children, seemingly as an expression of a necessary condition of its existence … (Mbeki 1998d).

At the level of concrete policies and practices, South Africa appears to have embraced a very rigid and pragmatic neoliberal approach to economic development. So in rhetoric, judging from the President's pronouncements, there appears to be some degree of commitment to the idea of taming the market and embracing developmentalism. In practice, the evidence seems to point in a different direction. This ambiguity casts serious doubt on the prospects of developmentalism in the region.

Be that as it may, South Africa, by its own rhetoric, appears to be committed to the 'creation of the new political, economic and security world order which will succeed actually to assist in the life and death matter of ensuring that that the aspirations and the agenda of the weak and poor become an integral part of the actual agenda of the entirety of our world' (Mbeki: 1998d).

And so here we could argue that we have the leader of one of the most powerful economies in the region advocating a strategy of subordinating the logic of globalisation to the internal logic of the region. And how does he propose to do this? Mbeki proposes a different alliance of class forces:

> Surely, there must be politicians and business people, youth and women activists, religious leaders, artists and professionals from Cape to Cairo, from Madagascar to Cape Verde, who are sufficiently enraged by Africa's condition in the world to want to join the mass crusade for Africa's renewal? (Mbeki 1998b)

Does this mean that South Africa is prepared to lead a developmentalist agenda in the region? And how do we square this with South Africa's neoliberal 'growth, employment and redistribution?' economic programme, GEAR?

Conclusion

Let me conclude by posing the question: so what is new about all this? I think what is essentially new is the conjuncture at which these debates are once again being raised. In the context of an accelerating African crisis, the question of strategic engagement with globalisation has become more urgent than at any other time in the history of our continent. Africa has no alternative but to find a constructive way of engaging with the forces of globalisation.

The central thrust of my argument is that, with the requisite political will, it would be possible to imagine that a collective effort to deal with the forces of globalisation could very much be a possibility in SADC. Regionalism of the type we are proposing here is, after all, a political project. So the first step would be the creation of an enabling state – a strong state or an activist state, one which has administrative and bureaucratic capacity to pursue a developmentalist agenda. But this has been said before. Africa is indeed replete with failed successive attempts to forge this common platform.

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Will SADC create a free trade area by 2008 and a customs union by 2010?

Christopher Mulaudzi

In Southern Africa, as elsewhere in the world, regional integration is a fashionable phenomenon. Since the 1970s, Africa, in its attempt to reverse its mendicant relations with the West, has seen the proliferation of RECs, whose main goal is to manage better the integration of the continent into the world economy. Regional integration is also seen as a way to achieve rapid industrialisation and modernisation of African economies, by creating better trading opportunities. World Bank estimates suggest that between 40 and 60 per cent of world trade occurs within regional trading blocks. Seen from this perspective, regional integration is the most effective response to Africa's marginalisation in the world economy. SADC, one of the most recognisable RECs in Africa, is fast moving towards strong economic integration. In recent years, SADC has adopted a number of ambitious policies and protocols that are meant to deepen regional integration, and ultimately make the region an active participant in the global economy.

According to SADC's blueprint for economic development, the RISDP, trade is the main catalyst for deeper regional co-operation and integration. This, according to the RISDP, will stimulate economic development and drastically reduce poverty in the region. Inspired by the desire to integrate the region into the world economy, SADC had earlier signed the protocol on trade, which came into operation in 2000. The overall goal of the protocol, now incorporated into the RISDP, is to create an FTA in the region by 2008, a customs union by 2010, and common market by 2012. These goals, it is argued, will only be achieved through a deliberate effort to remove all obstacles to the free movement of goods, capital, labour, and services. The speedy creation of an FTA is seen as beneficial for the region, as it negotiates EPAs with the EU.

However, as will be shown in this paper, several factors threaten to derail the attainment of these goals and, thus, deeper integration. And the reasons for this originate mainly from within SADC itself. This paper argues that the implementation of the trade protocol's goals has taken place amid an astonishing lack of commitment by some member states. It argues that, unless the challenges discussed in this paper are addressed urgently and decisively, the SADC trade protocol and RISDP will be difficult to implement. The main obstacles include the following: complex rules of origin; lack of enthusiasm for trade liberalisation; low levels of intra-regional trade; tariff and non-tariff barriers; and overlapping membership of various regional integration institutions in eastern and Southern Africa.

The lack of implementation capacity is made worse by an inability of the SADC secretariat to drive and monitor the integration process effectively. During the August 2004 heads of state summit, SADC unveiled a new institutional structure, and promised to 'cut the talk and walk the walk'. Although much was made of a new 'business' approach to the implementation of SADC's programmes, there is very little evidence of this. Surprisingly, the restructuring of SADC did not increase the powers and authority of the secretariat, and therefore the body continues to function as an administrative organ of SADC, and is still hobbled by bureaucratic inefficiencies, staff shortages, and an inability to formulate significant policy proposals (Le Pere & Tjønneland 2005: 42–3). Unless SADC takes strong action to address these problems, the organisation will continue to fail to translate its grand plans into action, and ultimately fail to meet the deadline for the creation of an FTA in 2008.

Rules of origin

Rules of origin are used to authenticate that certain products are a result of economic activity taking place within a particular trading bloc. Although they were simple and straightforward at first, the current SADC rules represent a significant departure from the earlier ones, and have become an instrument for protection, and are, in the process, undermining the main goal of the trade protocol. This came about when negotiators and interest groups from certain member states made various demands on SADC on the rules of origin. They demanded a tightening of the rules amid concerns that that weak customs administration in some SADC states would result in non-SADC goods being granted preferential status. Other interest groups argued that rules of origin be used as instruments for actively promoting regional industrial development, by encouraging the use of intermediate inputs and raw materials available in the region (Kalenga n d: 4–5). The outcome was a complex, restrictive, and cumbersome set of rules of origin.

As a result, it appears as if the rules were designed to protect, rather than liberalise, regional industries. For example, in order for garments to receive preferential tariff treatment in intra-SADC trade under the protocol, it is not sufficient that they be cut and sewn in a member state; they will have to be made from cloth originating in the region. These requirements raise the cost of producing garments, and reduce the international competitiveness of SADC garment production. Apart from a reluctance to embrace trade liberalisation in practice, some key players in trade negotiations do not understand the impact that restrictive rules of origin, especially on sourcing of raw materials, have on the international competitiveness of regional economies (Flatters 2001). Indeed, evidence suggests they impose limitations on the benefits of preferential market access, and deny SADC producers access to internationally competitive inputs and raw materials, which would enable them to become globally competitive (Kalenga n d: 6).

Unless they are reformed and made simple, the protectionist nature of SADC's rules of origin will undermine the potential benefits of the trade protocol – such as higher levels of intra-regional trade – and frustrate SADC's integration into the world economy. The region will also become less attractive as an investment destination.

Tariff barriers and trade liberalisation

The trade protocol seeks to liberalise at least 85 per cent of all intra-regional trade by 2008, through an asymmetrical tariff phase-down formula among member states. Members of the Southern African Customs Union (SACU) are expected to eliminate their tariffs completely by 2008, while the remaining states have until 2012 to reduce theirs. The trade regime in SADC has been marked by reluctance on the part of some member states to create an enabling environment for the free movement of goods in the region. This is fuelled by fears that trade liberalisation will significantly reduce revenues received through trade taxes. This is understandable, given the fact that most SADC states depend on trade taxes for their revenues. With the exception of South Africa, all SADC countries draw more than 10 per cent of their total revenue from trade taxes. For countries such as Lesotho and Swaziland, trade taxes account for more that 55 per cent of total revenue.[1] While it might be noble for the SADC countries to harmonise their tariff structures, the main deterrent is the persistent existence of uncompetitive production structures, and high levels of underdevelopment, among regional economies. This makes it difficult for some member states to reduce their tariffs, since doing so would imply significant losses in revenue. Although SADC has noted these problems and the need for reform, neither SADC itself nor the more powerful states, such as South Africa, have shown a willingness to play a leading role in bringing about these reforms. This inability or unwillingness to translate the many bold declarations into actions serves as a constraint to regional development through integration.

Despite significant progress in the area of transport and communication, intra-regional trade remains unusually low for a region that seeks to become more integrated. This is made acute by the fact that regional economies are not diverse, and tend to produce similar kinds of raw materials for foreign markets. Apart from the key challenge of harmonising intra-regional trade policies, SADC members have highly diverse external trade policies. As a 2003 study by the European Centre for Development Policy Management (ECDPM) shows, SADC's main challenge is to harmonise the plans and activities of member states and ensure that there is a centrally co-ordinated, internally consistent set of principles and policies. And despite the presence of the trade protocol, SADC has yet to formulate a common external trade policy or a coherent trade policy framework. Indeed, the divergence in external trade policies is so wide that SADC is unlikely to achieve even some external tariff convergence in the near future.[2]

Conventional integration theory sees macroeconomic convergence as one of the preconditions for deeper economic integration. Yet there is no evidence of serious efforts at state and SADC levels in the region to move towards macroeconomic convergence, a scenario which deters deeper integration. Indeed, an analysis of macroeconomic variables suggests that some member states are still burdened, for example, by high levels of external debt and inflation rates. In Zimbabwe, for example, the inflation rate is stubbornly high, and the economic outlook is worsening everyday.

Non-tariff barriers

Intra-regional trade in SADC is undermined by the existence of extensive non-tariff barriers (NTBs) across the region. Although member states have agreed on the elimination of NTBs, such as cumbersome customs procedures, complex import and export licensing and quotas, and unnecessary import bans, the implementation of such agreements has been slow. Instead, contrary to article 6 of the protocol on trade, which stipulates that 'members shall refrain from imposing any new NTBs', some countries have continued to do so, unilaterally and with impunity, examples being periodic import bans or restrictions on certain goods, temporary surcharges, and additional levies. Agricultural products have been especially vulnerable to these restrictions. Incidents of these violations since the protocol came into effect include Botswana imposing a 25 per cent import duty on flour in response to alleged 'dumping' from South Africa during the first three years of the protocol coming into being. Namibia, too, replaced its local-purchase requirement with a ban on flour imports. Swaziland requires a permit to be granted by its National Agricultural Marketing Board, which restricts the number of permits being granted. Mauritius controls all flour imports through its State Trading Corporation. South Africa made it a requirement that all domestically sold wheat flour be enriched with vitamins. Zambia imposed substantial cash-deposit requirements on wheat flour in transit from South Africa to the Democratic Republic of Congo (DRC) (Kalenga n d). All these factors continue to hinder intra-regional trade, and have the capacity to derail the smooth creation of an FTA in the region, as envisaged, in 2008.

The 2004 mid-term review of the protocol on trade revealed that, if left unattended, the problem of NTBs will have a negative impact on the benefits of the FTA. The report states that NTBs in the SADC region have extensive scope, as they impede intra-regional trade and act as the new instruments of protectionism. Significant progress in the elimination of NTBs in specific areas of concern has been called for. Yet despite this, there have been some policy-makers who, in some cases, have attempted to substitute NTBs for reduced tariff barriers (SADC 2004). An astonishing feature of SADC's approach to these problems is how little has been done to remove these obstacles effectively. This reluctance does not augur well for the smooth creation and implementation of an FTA by 2008.

Overlapping membership

The number of regional institutions pursuing similar integration agendas in eastern and Southern Africa produces what is called a 'spaghetti' phenomenon. These institutions overlap geographically, structurally, and through shared membership. They have a common desire to create customs unions. These include the recently revived EAC, COMESA, SACU, and SADC. The literature on regional integration in Africa is replete with examples of how overlapping membership has impeded deeper integration in the region. Although institutions such as the AU have identified this as an impediment to continental integration, the problem continues unabated. Most states belong to more than one regional organisation, and some continue to look for additional membership in other RECs. Affiliation to more than one organisation is not only unsustainable economically and geographically, but it poses a great threat to the achievement of the development plans of the RECs.

Five SADC members belong to SACU, while Mozambique remains the only SADC member that does not belong to any other organisation. Eight SADC members are affiliates of COMESA: Angola, the DRC, Malawi, Madagascar, Mauritius, Swaziland, Zambia, and Zimbabwe. An astonishing scenario which arises out of multiple memberships includes the following contradictions: Zambia is a member of both SADC and COMESA. Under the SADC protocol on trade, Zambia has to remove tariff barriers to South Africa, a fellow SADC member, by 2012. However, Zambia, due to its membership of COMESA, has to create a common external tariff (CET) by 2008, which excludes and discriminates against South Africa. Thus, Zambia has to promote free trade with South Africa and yet maintain tariff barriers against that country. Madagascar, Malawi, Mauritius, and Zimbabwe find themselves in the same predicament.

Swaziland, being both a member of SADC and the only SACU member affiliated to COMESA, has to implement three FTAs and three customs unions. The SACU CET obliges Swaziland to maintain tariff barriers against non-SADC COMESA states (despite it being a member of the COMESA FTA), while at the same time agreeing to implement a COMESA CET against SACU members. Swaziland relies on COMESA derogations, allowing it to access the COMESA FTA while simultaneously applying the SACU tariff regime against COMESA imports (Gibb 2006: 11–3).

According to Gibb (ibid: 13), overlapping membership comes with many operational and legal difficulties. Some of these problems include the following:

- overstretched national negotiating capacities, which could be a serious problem for a region whose member states are not endowed with excellent human capital;
- membership fees that have to be paid in foreign currency to the various regional institutions;
- a reluctance to implement policies and commit to agreements that are contrary to a country's national interest, which retards efforts at deeper integration, and makes a mockery of the entire integration exercise;

- additional costs on governments and the private sector, as a result of having to comply with different rules of origin; and
- complications arising from negotiating bilateral trade agreements with third parties, for example, EPAs.

Overlaps not only create rivalry and tension among trading blocs, but also result in the duplication of projects among them. An example of duplication is the implementation of two identical power projects by COMESA and SADC. COMESA is implementing the North–South Power grid, which will link three SADC members – the DRC, Zambia, and Tanzania – with Kenya. SADC, on the other hand, is working on the power link that will connect Zambia, the DRC, and Tanzania to the Southern African Power Pool. The lack of co-ordination and rationalisation of projects only serves to prolong the integration agenda. A disturbing feature of this scenario is that while SADC's RISDP identifies the need to eliminate multiple memberships, it sets no targets and time frames for this.

In spite of these challenges, countries steadfastly defend their multiple memberships in the belief that they minimise losses by spreading risk. In the pursuit of their national interests, countries desist from signing and/or implementing certain protocols that are perceived to be inimical to such self-interests (Gibb 2006: 14).

One of the major problems preventing deeper integration is that SADC members who are also affiliated to the African, Caribbean, and Pacific (ACP) group of countries lack a common position on negotiating EPAs with the EU. Members such as the DRC, Madagascar, Malawi, Mauritius, Zambia, and Zimbabwe are using their dual membership of both COMESA and SADC to negotiate these agreements. Other SADC members have opted to negotiate their agreements within the ambit of SADC. This weakens the region's negotiating power, and will make it difficult for some members to benefit from the European Development Fund (EDF).

Conclusion

Unless regional governments show more serious commitment to a common integration agenda by eliminating some of the key obstacles to deeper integration, the region will miss the deadline for the creation of an FTA in 2008 and a customs union by 2010. Failure to do so will further undermine the region's role in the global economy and its poverty eradication goals, and perpetuate its many problems internally. In the process, it will become difficult for SADC to shed the 'talk shop' appellation at a time when it needs to improve its image.

Policy considerations

The discussion has shown that several issues prevent SADC from deepening integration and reaping the benefits of participating in the global market. In order to address these problems, the following recommendations are made:

1. SADC should seriously address the weaknesses in the trade protocol so as to enable producers to take advantage of attractive sourcing opportunities in the region and elsewhere. This includes simplifying the rules of origin, and ensuring speedy action on tariff and NTBs.
2. To foster deeper integration, SADC has to address seriously obstacles to integration, such as the unskilled labour force, poor infrastructure, lack of foreign direct investment, etc.
3. Given the elitist nature of the SADC project and challenges for SADC citizens, regional elites should show sufficient levels of commitment to a common regional agenda, and translate into action, with strict time frames, some of their many admirable goals and declarations.
4. Member states should use human-development strategies to capacitate their civil-service personnel for an effective implementation of the SADC programmes, and make Southern Africa an attractive work destination for citizens with rare skills.
5. SADC and other regional groupings need to improve closer working relations among each other, especially in their infrastructure projects, to maximise the gains to be made from the trade area in practical terms. Such secretariat and political-level co-ordination will also eliminate unnecessary tensions among these groupings.
6. To address the issue of uneven development, SADC needs to replicate successful bilateral projects, such as the Maputo Development Corridor and the Lesotho Highlands Water Project, throughout the region as catalysts for meaningful social and industrial development.
7. Given the fact that it is not technically possible to belong to more than one regional grouping, the AU has to fast-track its Banjul summit decision to rationalise the RECs.
8. The SADC secretariat is the main executive organ responsible for the formulation of SADC's trade policies in the region, and for overseeing their implementation. It needs to be capacitated with professionally trained staff and the requisite authority to monitor the integration process effectively.

Endnotes

1 Indeed, the other problem that needs to be resolved is that of huge disparities in the tariff structures of various SADC member states. Some countries have lower tariffs, as a result of either unilateral reforms, or reforms implemented under the IMF and World Bank structural adjustment programmes. Thus, the harmonisation of tariff structures will entail significant adjustment costs,

with some tariff lines being raised while others are lowered, as members agree to the set CET rates. For a detailed discussion see Nhara 2006.

2 http://www.ecdpm.org/Web_ECDPM/Web/Content/Content.nsf/0/fa55f51ce62b74bbc12.

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The contribution of development finance institutions to SADC integration

Stuart Kufeni

The RISDP, the blueprint for SADC's development and integration agenda, recognises the importance of resource mobilisation in order to achieve the goals of sustainable economic growth, employment generation, and poverty alleviation. In this regard, it also recognises the need for an efficient financial sector, and a development finance system in particular, as a crucial conduit for investment capital (SADC 2003).

Since the 1970s, national development finance institutions (DFIs) have operated primarily as retailers of development resources from donors, private investors, and financial institutions into developing countries. They are, therefore, acknowledged as critical instruments for the implementation of poverty eradication and development strategies. Except for the early 1990s, which saw their popularity wane as they faced illiquidity and financial distress, bringing their relevance under severe scrutiny, DFIs have remained crucial to development in SADC.

With globalisation, coupled with regional integration initiatives, DFIs have assumed an even more prominent role, as underscored at various fora, such as the Monterrey consensus (UN 2002), sponsored by the UN Department for Economic & Social Affairs (UNDESA), and most recently the Africa Roundtable on 'Rethinking the role of national development banks' held in Johannesburg, South Africa in November 2006. Consequently, the challenge now facing SADC DFIs, as with others in other regions, has been to re-establish their credibility as agents of development and regional integration, while adapting to the evolving domestic and global financial systems.

This has resulted in individual SADC DFIs going through various stages of financial reparations and restructuring to gear themselves for the increasingly competitive environment. At the regional level, a new development finance system is emerging that not only provides a platform for SADC DFIs to collaborate and adopt best practices in their operations, but also presents a viable framework within which to support the regional development and integration agenda. This system has its origins in the recommendations of the Percy Mistry (et al) development finance study report of 1998 (Mistry & Kritzinger van Niekerk 1998). The adoption of the SADC finance and investment protocol (FIP) by SADC heads of state in August 2006, in Maseru, Lesotho further provides SADC DFIs with the enabling legal framework within which to pursue their developmental mandate.

The remainder of this paper, which seeks to review how DFIs contribute to regional integration in SADC, is structured in five sections. The first section looks at SADC DFIs in the historical context of African DFIs, as well as their characteristics and trends, with a focus on areas of activity and ownership. Reference is also made to how some DFIs are reforming. Section two covers the role of DFIs in SADC and section three, the emerging SADC development finance system. The fourth section looks at how the role of SADC DFIs could be enhanced to become effective instruments of development, and policy recommendations arising from that. The last section concludes the paper.

SADC DFIs

Historical context

DFIs began to emerge in developing economies following the establishment of the World Bank as a multilateral development bank (MDB) in 1945. Their primary role then was to intermediate development finance from the World Bank, other MDBs, and donor sources for investment and projects.

Through its private-investment arm, the International Finance Corporation (IFC), the World Bank was instrumental in the establishment of national DFIs in Africa and other regions. While the IFC took shareholding in the DFIs, together with other developed countries' donor organisations, the World Bank provided lines of credit for projects.

Thus, national DFIs were viewed as retailers and essential conduits for development finance funds. Reflecting their intermediation role, particularly during the 1970s, the DFIs' liabilities were dominated by foreign funds. The concentration of foreign loans highlighted, in part, the unavailability of development funds in the African domestic economies, which were characterised by low savings and underdeveloped financial systems, as well as the high import requirements of the projects that were being funded.

In the 1980s most projects funded by African DFIs were primarily government-promoted development projects, in line with announced socio-economic objectives under the auspices of poverty alleviation and development strategic plans. This reflected the ownership structures of the DFIs with a majority of them, over 90 per cent, owned entirely by governments.

It was only in the 1990s that foreign private sector sources of finance, through such instruments as public-private partnerships (PPPs) and private provision of infrastructure (PPI), became prominent on the books of DFIs. This is not unique to Africa, as similar patterns are observed in other developing regions in Asia and Latin America.

The emergence of DFIs, and the reliance by African countries on foreign sources for long-term finance, reflected fundamental market gaps in local financial systems. With financial systems either nascent or at the intermediate stage of development, most developing countries had neither active capital markets nor instruments to mobilise long-term funds. Capital markets, where they existed, remained dominated by government instruments, mainly bonds.

Consequently, availability of adequate resources to crucial sectors, such as infrastructure (energy, transport, dams and water, and telecommunications), small and medium enterprises (SMEs), and agriculture, was restricted.

Various reasons accounted for the well-below-demand flows of resources to these sectors, among these, perceived *high risk*, especially for SMEs across all sectors of the economy; the *long gestation period* of some projects, especially those involving infrastructure; and *low financial returns*, particularly for projects with high social benefits, such as housing.

Because of the significant socio-economic benefits that developing economies derive from investments in such key areas, government intervention to address these market gaps became an imperative. Consequently, DFIs were established to fill this gap.

But, by the mid-1980s, the currency of DFIs began to wane as their relevance began to be questioned by the MDBs and donor institutions that, yesteryear, had advocated and were instrumental in their establishment. These sentiments came on the back of the debt crisis, but, more fundamentally, they were fanned by the poor and deteriorating financial performance of DFIs, which was reflected by huge non-performing portfolios and, for some, virtual insolvency.

Several reasons are proffered for the poor performance of African DFIs then, and the following are often cited:

Political interference

As governments were the sole shareholders of DFIs, their interference was manifest in directed credit towards projects that, though yielding significant social benefits, were not financially viable and were not commercially sustainable.

Poor management and governance

Governments, through the supervising ministries, appointed boards and management that were not competent, and had not much say against political interference.

Lack of effective supervision

Responsible government ministries did not exercise due supervision over the DFIs under them. In addition, the acts under which most DFIs were established contained few or no financial prudential guidelines. This contrasts with prudential requirements under banking services acts.

Impact of economic structural adjustment programmes

The economic structural adjustment programmes (ESAPs) that governments were implementing to gear themselves for globalisation impacted negatively on DFIs on various fronts. The general shrinkage of the economies – as a direct result of higher import costs (due to devaluations), higher borrowing interest rates (domestic) on loans, and increased competition from cheaper imports – impacted adversely on the portfolio of the DFIs as their borrowers failed to service loans.

Exchange risk exposure

The realignment of local currencies under ESAPs, which often led to devaluations, resulted in severe foreign-exchange losses by DFI clients who had borrowed from their predominantly foreign-funded lines of credit.

Poor fiscal performance

Fiscal restraint accompanying most ESAPs, which included reduced subventions to public enterprises among its measures, was not at all compatible with increased financial support for DFIs. Governments could not be seen to support insolvent institutions. Thus, the fiscus as a source of low-cost funds for DFIs dried up.

Declining resources from MDBs and donors

As was the case with governments, poor financial performance by DFIs resulted in MDBs cutting lines of credit, while official donors also withdrew their support.

The sum total of all these factors was financially distressed DFIs, with limited options for financial support. Most were largely left to fend for themselves, and to undertake difficult and, in some cases, drawn out institutional restructuring. SADC governments and individual DFIs reacted differently to this situation, as the following section will illustrate.

Characteristics and recent trends

According to the Mistry development finance study, about 40 national DFIs exist in the SADC region. Of the 36 for which data was available at the time of the study, 25, or about 70 per cent, are wholly owned by the state, while the remainder are corporate entities. Activities of the DFIs are mostly sector specific, addressing such areas as infrastructure, housing, agriculture and rural finance, industrial development (encompassing manufacturing, mining, and construction), micro-enterprises, and SMEs. Among the 36, six are for SMEs, one for infrastructure, two for housing, seven for agriculture, eight for industrial development, and nine are multi-sectoral.

The SADC DFI Network[1] consists of a membership of 25 DFIs, and displays similar characteristics. As annex 1 shows, most members (21, or 84 per cent) are wholly state-owned, and four have government-private ownership. In terms of areas of specialisation, seven DFIs are multi-sector, six in the SMME sector, five in industrial development, three each in agriculture and infrastructure, and only one in housing. Thirteen of the DFIs are established by statutory instruments, while the remaining 11 are corporates.

Of the 25 DFIs, three also undertake commercial banking activities, and are deposit taking. The network members range in size from the Industrial Development Corporation of South Africa (IDCSA), with an asset base of more than US$8 billion, to the Basotho Enterprise Development Corporation (BEDCO), with total assets of about US$5 million, at the lower end.

With the exception of a few DFIs, such as the Development Bank of Southern Africa (DBSA), the IDCSA, the Industrial Development Corporation of Zimbabwe, and the Botswana Development Corporation (BDC), most national DFIs in SADC faced financial distress in the 1990s. This resulted in available resources to DFIs drying up, particularly from MDBs, which by then had switched their attention to quick-disbursing short-term structural adjustment loans, in support of the economic reforms that governments were implementing.

To restore financial viability, SADC governments and DFIs undertook restructuring exercises which generally involved one, or a combination of, the following actions:

Portfolio restructuring

This involves the scaling down of lending activities and suspension of all new projects. To reduce the burden on ailing DFIs, most governments opted to convert their loans to equity or preferential shares, so as to facilitate the ring-fencing of the bad book, which was subsequently hived off the balance sheet of the DFI. As a source of income, some DFIs were allowed to continue managing the bad book on behalf of government, at a fee. This was the case, for example, with the Tanzania Investment Bank (TIB) and the Development Bank of Zambia (DBZ).

Diversification to commercial banking activities

To sustain themselves, some DFIs switched to commercial banking activities, with some being registered as such under the relevant banking acts, and thus falling under the direct supervision of central banks.

A number of the SADC DFIs have gone the commercial-bank route. Among these are the Agricultural Bank of Zimbabwe (Agribank), TIB, and Swaziland Savings and Development Bank (Swazibank). To illustrate, as at 31 December 2005, deposits constituted more than 40 per cent of Agribank's liabilities. TIB relies heavily on deposits, which constituted more than 90 per cent of its liabilities as at 31 December 2005.

While some DFIs have managed to keep afloat and turn their loss positions around through the assumption of commercial banking activities, this has, however, been attained at some cost to national development objectives, as they were no longer performing as originally mandated. TIB is a case in point. As a result, as part of its second-generation financial reforms, the Tanzanian government is resuscitating its development finance system, which will see TIB at its centre, transformed to its original developmental mandate.

Closure/establishment of new DFIs

Some SADC governments have opted to close non-performing DFIs altogether, or alternatively to restructure and strengthen them, and reassign them new mandates. This is observed in Namibia, Zimbabwe, Angola, and, more recently, Malawi.

The Development Bank of Namibia (DBN) was established in 2003 to replace the Namibian Development Corporation (NDC). The setting up of the DBN also saw the consolidation of the Development Fund of Namibia under its management. The latter was set up with a mandate for SME development. DBN is also responsible for managing the book of the defunct NDC, but this is off balance sheet.

The Infrastructure Development Bank of Zimbabwe (IDBZ) was officially launched in August 2005, to replace the Zimbabwe Development Bank (ZDB). The latter was established to provide long-term project finance to medium- and large-scale corporates. However, owing to poor financial performance, it transformed its book and increasingly undertook short-term lending, thus competing directly with commercial banks. This created a market gap, leading to the establishment of IDBZ.

Early this year, 2007, the government of Malawi announced its decision to liquidate the Malawi Development Corporation (MDC), which was struggling under the burden of a non-performing portfolio. A new DFI, the Malawi Development Fund (MDF), will be established in its place to finance mainly SME projects. The fund, which will be commercially run, will have majority private ownership.

Angola and Madagascar have also announced their intention to establish new development banks. Consequently, in March 2006, the Angolan Development Bank (BDA) was established, building on previous development finance structures that operated under government ministries. Madagascar is still to establish its DFI.

Continued government subventions

Some DFIs, while undertaking some of the above measures for sustainability, continued to receive direct budgetary support from governments. But due to fiscal constraints, in some cases these fall short of funding requirements. This has been observed in the case of DFIs that are predominantly in the SME and rural agriculture sector.

Role of DFIs in SADC

Development finance mobilisation

SADC governments have, since the 1980s, been undertaking financial sector reforms with the aim of eliminating financial repression, to ensure that banks and other financial institutions become efficient in mobilising financial resources to support development. In spite of significant progress in this area, albeit at varying degrees, gaps for long-term finance, especially for crucial investment in infrastructure, have continued to exist in the capital markets of most SADC countries. As a consequence, in line with their developmental mandates, SADC DFIs have occupied this economic space.

The financing gaps are partly attributed to the short-term nature of commercial bank lending activities, but more fundamentally to underdeveloped financial systems and capital markets, which have also limited the capacity of SADC economies to generate savings.

Underdeveloped financial systems

According to the classification of the IMF's international finance statistics, in the SADC region, only the financial systems of South Africa and Mauritius are at the advanced stage of development, while the majority (nine) of the countries are at the intermediate level. At primary level are post-conflict countries, namely the DRC and Mozambique. In the same category is the recently joined SADC member, Madagascar (see table 1).

Table 1: Classification of SADC financial systems

Advanced	Intermediate	Primary
South Africa	Angola, Botswana,	DRC
Mauritius	Lesotho, Malawi,	Madagascar
	Namibia, Swaziland,	Mozambique
	Tanzania, Zambia, and	
	Zimbabwe.	

Source: IMF international finance statistics

As for equity markets, very few countries have active stock exchanges. In SADC, the largest and most active stock exchange is the South African one. Other active exchanges are in Zimbabwe and Mauritius. Looking at Africa as a whole, according to the UN Economic Commission for Africa (UNECA) (2004) report, the total capitalisation of the three major stock exchanges in Africa – South Africa, Morocco, and Egypt – accounts for over 80 per cent of the total for the continent.

Low domestic savings

Domestic savings remain largely untapped in developing countries, and SADC countries are no exception. This is partly explained by the underdeveloped and generally shallow capital markets, as demonstrated above, which are characterised by low participation levels, inefficient and inadequate financial systems, and lack of adequate market instruments. At the same time, the savings to GDP ratio in SADC countries, at around 19 per cent on average, is low when compared to Asian countries, with rates in excess of 25 per cent (see table 3 below).

Reduced foreign direct investment

As mentioned previously, in the 1990s, as a result of scepticism on the part of MDBs and official donors regarding the relevance of DFIs, capital flows from these sources to developing countries were reduced – especially in Africa, which has always had the least flows. In the case of the MDBs, resources were redirected towards structural adjustment programmes. At the same time, however, flows from the private sector increased significantly, and more than compensated the fall in MDB flows and official donor assistance.

When compared to other developing regions, Africa has faired most poorly in attracting foreign capital. According to the UNCTAD *Economic Development in Africa* report (2005), Africa attracted 2,7 per cent of world FDI. Developing countries as a group received 30,7 per cent of total world flows, with Africa accounting for the least flows (2,7 per cent) when compared to Asia and the Pacific region (19,2 per cent), and Latin America and the Caribbean region (8,9 per cent).

SSA received 1,9 per cent of the world flows; 1,8 per cent if South Africa is excluded. The report also observes that, not only has Africa experienced the lowest flows of FDI, but also that its share, both at regional and global level, has been on the decline for the past three decades (see table 2).

Table 2: FDI flows to developing countries

Country group shares as per cent of world flows	Period average				
	1970–1979	1980–1989	1990–1999	2000–2003	2003
Developing countries	25,3	22,7	30,4	24,8	30,7
• *Africa*	4,4	2,3	1,5	1,8	2,7
• North Africa	0,7	0,9	0,5	0,5	0,8
• Sub-Saharan Africa	3,8	1,4	1,1	1,4	1,9
• Sub-Saharan Africa • Sub-Saharan Africa excluding South Africa	3,4	1,3	0,9	1,1	1,8
• *Latin America & Caribbean*	13,6	7,9	11,1	8,6	8,9
• *Asia & the Pacific*	7,4	12,5	17,7	14,3	19,2

Source: UNCTAD 2005

Demand for development finance

Against the scenario of low domestic savings and declining FDI outlined above, the role of SADC DFIs is to mobilise resources to underpin sustainable development, and thus accelerate integration in the region.

Development finance requirements for the region are estimated by UNECA (1999) at 6,4 per cent of GDP for SADC. According to UNECA, to achieve a GDP growth rate of 6,2 per cent annually, in line with the Millennium Development Goals (MDGs),[2] an investment to GDP ratio of 37,8 per cent is required. And with a savings ratio of 19,6 per cent and foreign flows of 30 per cent of GDP, SADC will need to mobilise an additional 6,4 per cent of GDP – the financing gap. This compares with a financing gap 9,2 per cent for the whole of Sub-Saharan Africa (see table 3).

Table 3: Development finance needs

Variable (per annum)	SADC	Sub-Saharan Africa
Required GDP growth rate (per cent)	6,2	6,8
Incremental capital/output ratio (ICOR)	6,1	5,0
Domestic savings ratio (per cent)	19,6	14,9
Required investment/GDP rate (per cent)	37,8	33,0
Required external finance (per cent of GDP)	18,2	18,1
Current ODA flows (per cent of GDP)	11,8	8,9
Deficit/residual finance (per cent of GDP)	6,4	9,2

Source: UNECA 1999

To close the gap, investment is required in such critical areas as infrastructure services delivery, coupled with private sector development, especially through SMEs, and these constitute a greater part of the mandate of DFIs.

Financing infrastructure investment

The RISDP recognises infrastructure provision as an integral component of the SADC development agenda, and its crucial role in the attainment of economic growth and sustainable poverty reduction. Studies sponsored by the World Bank amply demonstrate the strong correlation between infrastructure services provision and the attainment of the MDGs.

Investment in economic infrastructure, especially regional infrastructure, such as transport corridors, telecommunications systems, and energy pools, is crucial to the enhanced competitiveness of the private sector through reduced costs of doing business and increased trade opportunities, and it facilitates regional integration. Poor port facilities, poor roads, and unreliable internal transport systems have resulted in high business costs in SADC. Thus, coupled with the removal of trade barriers, by providing infrastructure SADC governments will address supply-side constraints, and pave the way for regional integration through enhanced trade, and therefore the achievement of the regional goals of an FTA in 2008 and a customs area in 2010. However, the pivotal role of infrastructure notwithstanding, investment in infrastructure in Africa, and in SADC in particular, has lagged behind other developing regions, and is well below essential levels for the achievement of sustainable economic growth.

According to an UNCTAD (2006) report, low-income countries need gross investment in infrastructure of 7,5 to 9 per cent of GDP. Actual investment levels are 4 per cent of GDP, resulting in a deficit of about 5 per cent. These statistics are by and large representative of most SADC economies.

The low levels of infrastructure investment are a reflection of inadequate maintenance and underinvestment, largely as a result of a switch of ODA to social sectors, coupled with reduced direct budgetary funding – reduced 'fiscal space'. According to the UNCTAD report, between 1980 and 1998, infrastructure funding as a percentage of total budget expenditure declined from 6 to 4 per cent for Africa, from 12 to 5 per cent for Asia, and from 11 to 6 per cent for Latin America.

However, regardless of this trend, in Africa, government remains the major source of infrastructure finance, with PPI taking up well below the global average of 20–25 per cent. There is, therefore, a need for African governments, including those in SADC, to devote efforts towards increasing private sector participation in infrastructure by ensuring that a conducive investment, and policy and regulatory, environment exists. This becomes an imperative, more so in view of the declining ODA to the infrastructure sector. However, in view of the large financial outlays required for infrastructure in the region, the PPI will not be able, at least in the medium term, to meet the required financial resources fully. This means that

SADC governments, directly and through DFIs, will still have to provide the bulk of the finance, or at least 'seed money', especially for large scale projects.

Besides mobilisation of resources and supportive investment arrangements, the SADC region faces other challenges that need to be tackled if the region is successfully to benefit from infrastructure investment and achieve eventual integration. These include a good PPI/PPP strategy, both at national and regional levels; and a regional framework for co-ordinating comprehensively all areas relating to infrastructure services delivery.

In addition, as highlighted in a SADC study, many of the projects identified at national and regional levels have not been developed to a level for take-up by the private sector – they are not bankable (Michael Jordan and Associates 2003). This is in spite of available private sector facilities such as the Emerging Infrastructure Fund, as well as multilateral and regional development banks and some national DFIs, such as the DBSA, with a regional investment mandate, that have the capacity to invest in financially and economically viable infrastructure projects. To address this gap, the study recommended the establishment of a Project Preparation and Development Fund (PPDF), whose mandate will be to develop a project deal pipeline. This would be accompanied by the development of the necessary capacity in the private and public sectors to include skills in appraisal, planning, design, and management of infrastructure projects. The section on the SADC DFRC below covers the PPDF in more detail.

Private sector development

The RISDP also recognises the need to integrate the private sector in policy and strategy formulation and programme implementation, and acknowledges the importance of the SME sector in fostering private sector development and activities. SMEs account for more than 50 per cent of SADC economies, and in spite of this they have continued to face problems of access to finance, especially long-term project finance. As a result, the full potential of the sector as a major employer and means of livelihood for a majority of the population of SADC has not been fully exploited. This is largely attributable to the perception by commercial banks of the SME sector as risky.

DFIs play a critical role in promoting private investment growth, through the provision, not only of long-term finance, but also of the requisite business support services. A vibrant private sector, supported by an efficient economic infrastructure system, underpins regional trade by addressing supply-side constraints by ensuring cost-effective availability of quality goods and services.

The SADC development finance system

Africa boasts a number of sub-regional development banks (SRDBs), and in Southern Africa these include the COMESA/PTA Trade and Development Bank, established in 1985, and the East African Development Bank, which was set up in 1967. Their major role is to intermediate funds between multilateral development banks and official donors on one side, and DFIs on the other. Additionally, they intermediate private and institutional savings through lines of credit and interventions in capital markets by means of bonds.

SADC took a different approach on the basis of the 1998 development finance study. In place of an SRDB, the study recommended the establishment of a development finance system encompassing three pillars: a SADC DFI Network, a SADC Development Finance Resource Centre (DFRC), and a SADC Development Fund (SDF). The first two have since been established; the SDF is still to be put in place.

The emerging development finance system provides a framework within which SADC DFIs could contribute effectively to regional development and integration under the RISDP. In this regard, activities at all three levels not only reinforce each other, but derive directly from the RISDP.

SADC DFI Network

The DFI Network was established in May 2000 and its membership presently stands at 24 national DFIs in 11 countries. The network is a flexible arrangement that enables DFIs to work individually, or in collaboration with other members, to mobilise resources on domestic and international capital markets for investment in national and regional projects.

More specifically, the network, among other objectives, provides a platform for:

- collaborating on projects in SADC;
- pooling resources to mobilise intra- and extra-regional funds for development projects;
- taking equity in each other's institutions;
- investing jointly in new structures where necessary;
- collaborating on appropriate institutional mechanisms to facilitate co-operation and development finance in SADC;
- capacity building, including exchange of personnel;
- information technology, policy research and analysis, and technical co-operation;
- strengthening the creditworthiness of members, including credit ratings;
- developing common best-practice approaches for the efficient and optimal use of development finance for projects; and
- encouraging cross-border strategic alliances and operational partnerships, at both the national and the regional level.

The co-operative approach of the network allows for a unified or consensus-building approach to delivery on the development agenda of the region. In this respect, the SADC DFIs are able to identify, raise funding for, and undertake projects of greater economic impact to regional goals, such as infrastructure projects under spatial development initiatives (SDIs), including transport, port facilities, power pools, and telecommunications.

Stronger DFIs, such as the DBSA and the IDCSA, are able, under the network umbrella, to support weaker ones, and build them into stronger investment partners. For instance, they could lead the way in cross-border investments, while adopting risk-mitigation measures to help smaller DFIs raise resources, and to support regional projects.

The network also provides an advocacy forum to improve on the policy and regulatory environment for the DFIs to improve their effectiveness as agents of development. Advocacy is also extended to improving the investment environment by targeting appropriate macroeconomic and investment policies, for instance, the regulatory and policy framework for PPPs. Thus, the regional approach embodied in the SADC DFI Network, under guidance of the RISDP, augurs well for the integration and developmental goals of SADC.

SADC DFRC

The DFRC was established in July 2003 under the SADC principle of subsidiarity, following its approval by the SADC council of ministers in October 2002. As the institutional hub of the network, the DFRC is mandated to render critical support to the DFI Network as facilitator and catalyst, to improve the operational efficiency of its members. To achieve this, the activities of the DFRC fall under the following key areas:

Institutional strengthening

The emphasis is on capacity-building initiatives and training in areas such as project appraisal, risk analysis, and project management; staff exchanges; and technical assistance.

Financial sector strengthening and reform

Focus in this area is on supportive policy and advisory work, aimed at ensuring a conducive policy environment to enable DFIs and other financial intermediaries to mobilise resources efficiently for development; and to allow for the strengthening and deepening of a vibrant financial sector and supportive capital markets in the region.

Infrastructure/PPP delivery

This does not only involve capacity building in respect of the facilitation of PPPs, but is also targeted at ensuring that increased project activity on PPPs takes place; for instance, through setting up of PPP-facilitation units. The DFRC facilitated the setting up of a PPP-facilitation unit at the National Development Corporation in Tanzania, which is appraising three projects on the Mtwara Development Corridor (MDC). Three more units are earmarked for Malawi and Mozambique. In addition, as part of capacity building, the DFRC has facilitated the development of quantitative techniques and methods for PPP project appraisal for SADC DFIs and relevant government departments.

SME development

The emphasis is on both the financing of SMEs and the requisite business support services to sustain SME activities.

The DFRC's activities over the past three years have covered all four areas to varying degrees, using strategic development partners, including member DFIs such as the DBSA and the IDCSA. In all areas, the guiding principle is to develop courses and models in line with best practices, successfully pilot them, and roll them out to the rest of the SADC region. These four areas, though not exhaustive, support the RISDP key focal areas of infrastructure, trade development, and food security. Annex 2 is a summary of the relationship between DFRC activities and those of the RISDP.

The SADC Development Fund

As pointed out above, a SADC PPDF was recommended as the third pillar of the SADC development finance system, to address the problem of the lack of bankable projects or 'deal pipeline' for investors. The PPDF is expected to perform the following functions:

- as its prime objective, to play a catalytic and intermediary role to facilitate the development of projects up to the stage of take-up by investors;
- to provide technical and advisory services to project developers, both public and private; and
- to enhance the business environment for regional projects by assisting in the identification and removal of barriers to the successful conclusion of project deals.

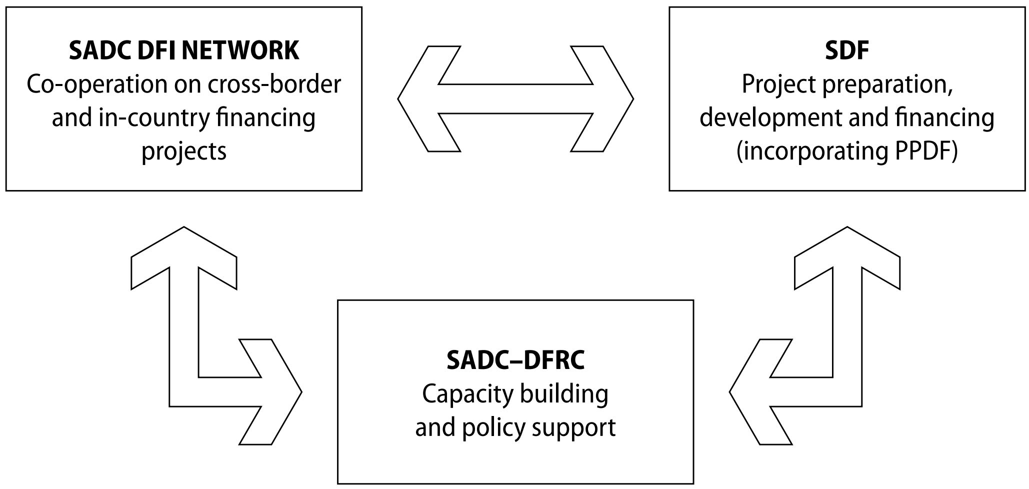
While the PPDF will be instrumental in packaging projects for investors, it will not duplicate, but rather complement, the functions of other existing financial institutions, including the DFIs.

Following the initial study recommending its establishment, subsequent phases of the PPDF project addressed its modus operandi (phase 2) and implementation modalities, including hosting criteria (phase 3). At their meeting of 27 July 2007, the SADC committee of ministers responsible for finance and investment (COMFI) approved the establishment of the PPDF, and it was also agreed that the DBSA would host the institution. Initial capital of US$5 million for the PPDF will come from Germany.

At the same time, the July 2007 COMFI meeting also confirmed the establishment of a SADC Development Fund. It was then agreed that, while the establishment of the PPDF would continue, work on the SDF should commence, beginning with the terms of reference. These will take into account the PPDF, and how it will relate to the SDF. It is most likely that the PPDF will be incorporated into the SDF, and will be one of its various windows, one of which is likely to be for project funding.

Figure 1 illustrates the working arrangement among the three arms of the emerging SADC Development Finance System.

Figure 1: Working framework for the DFI Network, DFRC & PPDF



The effectiveness of DFIs as agents of development in SADC

As SADC DFIs transform and adapt to changing global trends in financial markets, and if they are to contribute effectively to the development and integration of the region, there are a number of areas, some of a policy nature, that they, together with SADC governments, have to attend to. These range from corporate governance to regulation and supervision.

Corporate governance

For financial sustainability, it is crucial that DFIs are run commercially, and that governments are not seen to direct their operations. Increased private equity would go some way towards addressing this. Private equity would not only help leverage additional resources, but would also help to build private-investor confidence in the institution, as it usually results in broad-based boards for DFIs. This has been observed in the case of the governments of Zambia and Malawi, who have invited private sector participation in their DFIs. In the case of the former, this saw one of the region's large DFIs, the DBSA, take up equity in, and extend a line of credit to, the DBZ in 2005.

In setting up new DFIs or strengthening existing ones, it is important that best-practice governance structures are in place, clearly separating the roles of the shareholders, the board and the management. The management must be selected on merit, and must be seen to run the DFIs under the guidance of the board.

Regulation and supervision

A contributory factor to the failure of the DFIs in the 1980s was the lack of robust regulatory and supervisory structures, and these have to be addressed as part and parcel of financial sector reforms. Most DFIs were established by means of legislative acts, and administered by specific ministries, depending on the sector of focus. Compared to the private companies' acts, the acts governing DFIs have tended to fall short on prudential guidelines – more so when compared to the stringent Basel guidelines for banking institutions which are administered by central banks.

In some SADC jurisdictions, through central banks, governments are pushing for comprehensive supervision of the financial sector, encompassing non-banking institutions, such as mutual funds, asset managers, and development banks, that hitherto where not under the supervision of central banks. This is accompanied by the consolidation and rationalisation of the various acts. The subjecting of DFIs to the exigencies of financial services acts, complemented by the registration of DFIs under companies' acts, for purposes of privatisation/corporatisation, is viewed by most investors as improving the governance environment for DFIs. Of course, criteria for supervising DFIs would have to recognise their special characteristics, such as sources of capital, and would therefore not be the same as those for banks.

Common guidelines for SADC DFIs

Most SADC DFIs, as observed previously, are not regulated or supervised by central banks. Only in a few cases, where they are registered as deposit-taking institutions, are they subject to internationally accepted financial guidelines of central banks. Benchmarking to international standards with regard to financial performance monitoring and good corporate governance improves the creditworthiness of DFIs, and thus enhances their capacity to mobilise resources.

For effectiveness, it is important that key stakeholders – such as the SADC Committee of Central Bank Governors (CCBG), through its secretariat; IFIs; the stronger DFIs, such as the DBSA and the IDCSA; and banks – are involved in the standards-determination process so that they have buy-in. The minimum guidelines will address financial performance and governance areas, among others, that are critical to the sustainability of DFIs.

The adoption of common prudential standards or guidelines by SADC DFIs has to be placed within the overall framework of enhancing the creditworthiness of DFIs. Hence it will reinforce efforts discussed above, and it would also form a basis for credit rating of DFIs, which is also crucial for accessing foreign and domestic capital markets.

The SADC DFI Network provides a platform for such benchmarking. Cognisant that SADC DFIs are at different levels of development and adaptation to global changes, *minimum prudential guidelines* could be adopted for its members by the network, to be attained within a given time frame. The DFRC, through its activities, including credit rating of DFIs and corporate governance courses, has already taken up this call.

Holistic approach to DFI reforms and establishment

For comprehensiveness and a holistic approach, SADC governments should undertake the reform of DFIs and development-finance systems within the framework of broad financial sector reforms, including financial sector assessment programmes (FSAPs) facilitated by the IMF and World Bank. This approach allows countries to identify gaps in the provision of long-term finance, and the underlying causes. This, in turn, allows governments to define the mandates or intervention areas for new DFIs, assuming the case for setting them up is sufficiently justified by a feasibility study. Conversely, to the extent that the gaps are the result of regulatory or policy causes, the need to set up a DFI could be dispensed with. Emphasis would then be placed on strengthening the existing development-finance system by putting in place enabling policies and regulations.

Conclusion

DFIs are recognised as indispensable agents of economic development in SADC. Through interventions in infrastructure delivery and private sector development, whereby they address supply-side constraints by ensuring efficient production and transportation of goods critical for enhanced intra- and extra-regional trade, they also contribute to regional integration.

For as long as SADC financial and capital markets are underdeveloped, and risks associated with long-term developmental projects are unmitigated, DFIs remain a key catalyst and contributor to the development agenda of SADC. This situation is likely to persist until financial systems in SADC mature to levels comparable with those in developed countries, and only then would the need for DFIs fall away. Over time, DFIs will have to evolve into full-fledged merchant or universal banks. Their counterparts in East Asia and Latin America are already way ahead on this, with some having evolved into diversified conglomerates providing various financial services.

SADC DFIs have to adapt to increasing global competition, especially in view of reduced recourse to budgetary subventions and declining flows from MDBs and ODA. The accent should also be on private sector savings pools – domestic and foreign. To intermediate resources from international capital markets effectively, DFIs will have to improve on their creditworthiness, and this calls for action on various fronts, including the intervention of the governments as shareholders and as policy-makers.

In most cases, SADC governments will have to consider privatisation of the DFIs, coupled with stronger supervisory structures, to ensure adherence to prudential financial practices in line with broadening the supervisory mandates of central banks that now incorporate non-banking institutions. This will enhance the creditworthiness of DFIs, and increase their ability to leverage more resources, especially on foreign capital markets.

The emerging SADC Development Finance System, consisting of the DFI Network, the DFRC and the Development Fund, presents a viable platform for harnessing the full potential of DFIs as effective and efficient agents of development. The network offers a vehicle for sharing best practices, and collaboration within the developmental framework of SADC as articulated under the RISDP. The network also provides a regional forum for debate and consensus-building on policies, and implementation of the regional development and integration agenda towards the achievement of the goals of sustainable growth, employment generation, and poverty eradication.

The SADC DFI Network, with the participation of the secretariat of the SADC CCBG and IFIs such as the Africa Development Bank (AfDB), should actively work towards the establishment of minimum prudential guidelines to be observed by its members. In the medium term, this should be complemented by credit rating of the DFIs. The DFRC has long recognised the importance of guidelines and credit rating, and has included these as deliverables under its current work programmes.

Finally, to ensure sustainability of DFIs, SADC governments also have a significant role to play through the implementation of appropriate and investment-friendly macroeconomic and financial sector policies. In addition, with regard to the establishment of DFIs, it is crucial that governments correctly identify financing gaps and analyse their causes, so that appropriate policy, regulatory, and institutional measures are implemented. Feasibility studies or FSAPs would allow for a systematic evaluation of the need for setting up DFIs, or whether the market failures need to be addressed through policy or regulatory-related measures.

Endnotes

1 The membership of the SADC DFI Network consists of national DFIs members and was initially established through a memorandum of understanding in 2002. It was formalised through the SADC FIP in August 2006.

2 There are eight MDGs with 15 targets each, which are to be monitored through Africa's achievements by the year 2015 on 48 indicators. The eight are: eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empowerment; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria, and other diseases; ensure environmental sustainability; and develop a global partnership for development (http://www.undp.org/mdg/).

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Annex 1: SADC DFI Network – ownership & sector focus

Country/institution	Ownership structure	Statutory/ Corporate	Sector Focus	Deposit Taking
1. Botswana				
Botswana Development Corporation	Government	Corporate	Industrial development	x
Citizen Entrepreneurial Development Agency	Government	Corporate	SME	x
National Development Bank	Government	Statutory	M/S	x
2. Lesotho				
Basotho Enterprise Development Corporation	Government	Corporate	SMME	x
Lesotho National Development Corporation	Government	Statutory	Industrial development	x
3. Malawi				
Malawi Development Corporation*	Government	Statutory	M/S	x
4. Mauritius				
Development Bank of Mauritius	Government	Corporate	M/S	x

Country/institution	Ownership structure	Statutory/ Corporate	Sector Focus	Deposit Taking
5. Namibia				
Agricultural Bank of Namibia	Government	Statutory	Agriculture	x
Development Bank of Namibia	Government	Statutory	Infrastructure & SMME	x
National Housing Enterprise	Government	Statutory	Housing	x
6. Mozambique				
GAPI	Government	Statutory	SME	x
7. South Africa				
Development Bank of Southern Africa	Government	Statutory	Infrastructure & M/S	x
Industrial Development Corporation	Government	Corporate	Industrial development	x
Land & Agricultural Bank	Government	Statutory	Agriculture	x
8. Swaziland				
Swaziland Savings & Development Bank	Government	Statutory	M/S & com banking	
Swaziland Development Finance Corporation	National trust & government	Corporate	SMME	x
Swaziland Industrial Development Company	Govt & private (IFIs)	Corporate	Industrial development	x
9. Tanzania				
National Development Corporation	Government	Corporate	Industrial development	x
Small Industries Development Organisation	Government	Statutory	SMME	x
Tanzania Investment Bank	Government/ private	Corporate	M/S & invest-ment banking	
10. Zambia				
Development Bank of Zambia	Government/ private	Statutory	M/S	x
11. Zimbabwe				
Agricultural Development Bank of Zimbabwe	Government	Corporate	Agriculture	
Industrial Development Corporation	Government	Corporate	Industrial development	x
Infrastructure Development Bank of Zimbabwe	Government	Corporate	Infrastructure & M/S	x
Small Enterprises Development Corporation	Government	Statutory	SMME	x

Source: SADC-DFRC development finance institutions database; *under liquidation; M/S = Multi-sector

Annex 2: DFRC support of SADC focal areas

DFRC focal areas	Impact on SADC focal areas
1. Institutional strengthening of DFIs *Through*: • *Training* – corporate governance, investment appraisal, risk analysis, project finance etc. • *Secondments & placements* • *Technical assistance* • *Advisory services* • *Systems and processes* • *Business support services for SMEs* • *PPP facilitation units*	**1. Trade development** *Addressing supply side constraints:* • By strengthening DFIs to invest in SMEs, infrastructure, agriculture, agriculture, and other productive sectors of SADC economies
2. Infrastructure/ PPPs • Facilitate provision of infrastructure through PPPs and direct investment by DFIs	**2.1 Infrastructure** • Facilitate infrastructure provision **2.2 Trade development** • Trade facilitation through construction of transport routes and port facilities **2.2 Food security** • Facilitate construction of agricultural infrastructure – dams, irrigation, storage facilities, etc. • Efficient transportation of agricultural produce, intra-country and regionally
3. Financial sector strengthening & capital markets development Implementation of policy research recommendations: • Capital markets development study • Long-term finance instruments for SMEs • Credit-rating methodology • SME/big business linkages • Procurement policies for SMEs • Regulatory framework for non-banking institutions	**3.1 Trade development** • Strengthen DFIs as efficient agents & conduits for resources to finance trade and SMEs (supply) • Facilitate trade by improving policy environment & address financial supply constraints **3.2 Infrastructure** • Policies and financial instruments supportive of PPPs and investment in infrastructure
4. SME development • Business support services & mentoring • Develop SME/big business linkages • Financing instruments • Client/project monitoring • Entrepreneurship development	**4.1 Trade development** *Address supply side by:* • Increased productive capacity of SMEs • Enhanced export growth – export-oriented SMEs • Beneficiation for value addition & product quality • Agro-processing **4.2 Food security** • Increased productivity & availability of food • Stimulate supply of agricultural products

The effectiveness of institutional restructuring in SADC

Jonathan Mayuyuka Kaunda

This paper seeks to assess critically the effectiveness of institutional restructuring in SADC. It provides a status report on the current institutional architecture of the SADC secretariat;[1] an assessment of the progress (or lack thereof) in restructuring; and recommendations on how to strengthen the secretariat to provide more effective strategic support for the regional organisation's integration imperatives. The paper briefly describes the core structure of the secretariat, and provides a situational analysis focusing on the principal offices of the executive secretary, deputy executive secretary, chief director, directors, and the policy and strategic planning unit.[2]

Rationale for restructuring

Changed objectives and the quest for institutional focus and effectiveness were the drivers behind the restructuring of SADC. When the SADCC was formed in 1980, its objectives were to mobilise and co-ordinate development assistance, co-operate on regional development projects, especially in transport and communications infrastructure, and reduce dependence on apartheid South Africa (Mandaza & Tostensen 1994). The conference provided the platform upon which regional economic co-operation could be built (Isaksen 2002: 15).

The original founding member states (Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe) were later joined by Namibia, in 1990, and South Africa, in 1994. The current membership includes the DRC, Madagascar, and Mauritius. The Seychelles, which had joined in 1997 and withdrew in 2004, was expected to rejoin the organisation in 2007. That would bring the number of SADC member countries back to 15.

The Declaration and Treaty of 1992 established the SADC, whose objectives are broader and more ambitious that those of the co-ordinating conference. The purpose of the community was to deepen regional co-operation and integration. SADC has a common agenda, aimed at:

- promoting development, poverty reduction, and economic growth through regional integration;
- consolidating, defending, and maintaining democracy, peace, security, and stability;
- promoting common political values and institutions which are democratic, legitimate, and effective;
- strengthening links among people of the region; and
- mobilising regional and international private and public resources for the development of the region (SADC 2001: article 5A).

The organisational structure to serve the co-ordinating conference had been decentralised, with a small secretariat based at Gaborone. The initial organisation was project-based, with policies, strategies, and management done by member countries through sector co-ordinating units (SCUs) and commissions that were spread among the member countries. The 1992 treaty sought to transform the co-ordinating conference into a community, and was the vehicle for deepening regional co-operation and integration. This required new structural arrangements and organisational processes; hence the restructuring of the secretariat. The main thrust of the structuring process was abolition of the SCUs and centralisation into four (later five) directorates, based at the secretariat headquarters.

The original SADCC was set up through a memorandum of understanding. However, in the late 1980s the organisation's loose organisational structure was perceived to be inadequate and inappropriate for the purposes of deepening regional co-operation and integration. Regional policy-makers sought to establish a more effective organisation, with legal status and powers (Isaksen & Tjønneland 2001: 6). In 1997, consultants proposed a restructuring of the organisation (Chipeta 1997). Thereafter, in 2001, SADC approved a complete institutional overhaul that was aimed at the establishment of a more efficient secretariat, which was expected to provide stronger leadership, a more focused regional programme of action; and closing the gap between policies and implementation (Tjønneland, Isaksen, & Le Pere 2005: 7). Several consultations occurred between 2001 and 2005, when the council of ministers approved the existing organisational structure.

The current organisational structure

The current organisational structure was endorsed and implemented as from February 2005. The restructuring process, which commenced in 2001, was directed at enhancing service delivery and improving resource utilisation. Its objective was to improve the efficiency and effectiveness of SADC policies and programmes, through implementation of a coherent and co-ordinated strategy for deeper co-operation and integration. A core concern of the restructured SADC was an emphasis on the eradication of poverty (see figure 1: The organisational structure of the SADC secretariat, page 76).

Two major changes were introduced by the restructuring process. The first was the clustering of the 21 SCUs, which had been headquartered in 14 different member countries, into four secretariat directorates: Food, Agriculture, and Natural Resources (FANR); Social and Human Development and Special Programmes (SH+SP); Infrastructure and Services (I&S); and Trade, Industry, Finance, and Investment (TIFI). Subsequently, the directorate for the OPDSC was established, taking the total number of directorates to five.

The second change was the formulation and adoption of two indicative plans that provide the road maps for deepening regional co-operation and integration. These are the RISDP and SIPO.

Decision-making and consultation structures

The current institutional decision-making and consultation structure consists of the summit of heads of state and government, which is the supreme decision-making body; the troika, which is the steering committee for the organisation; the OPDSC (with its own troika for decision-making); the Council of Ministers; the Integrated Committee of Ministers (ICM); the Standing Committee of Officials; the secretariat; the tribunal; the SADC national committees; and other permanent and ad-hoc special committees.

SADC secretariat

The SADC secretariat is the principal executive instrument for SADC, and has several responsibilities:

- strategic planning and management of SADC programmes;
- implementation of decisions of the summit; troika of the summit; OPDSC; troika of the Organ on Politics, Defence, and Security Co-operation; council; troika of the council; ICM; and troika of the ICM;
- co-ordination and harmonisation of the policies and strategies of member states;
- submission of harmonised policies and programmes to the council for consideration and approval;
- monitoring and evaluating the implementation of regional policies and programmes;
- mobilisation of resources, co-ordination and harmonisation of programmes, and projects with co-operating partners;

- organisation and management of SADC meetings, financial and general administration, representation and promotion of SADC; etc.

The management of the secretariat has the following principal officers:

- the executive secretary, who heads the SADC secretariat, and is assisted by the head, policy and strategic planning; head, legal counsel; and director, politics, defence, and security affairs;
- the deputy executive secretary, who oversees the administrative and support system organised around the principal finance officer and the heads of the management units for administration, human resources, information and communications technology (ICT), corporate communications, and conference services; and
- the chief director, who superintends the work of the operational programme directors of FANR, SH+SP, I&S, and TIFI.

Status of institutional restructuring

The following brief assessment concentrates on the principal offices/officers of the SADC secretariat, structural and functional relationships, and the challenges posed by the process of restructuring. Implementation of the restructuring process has been quite difficult. It has been slow and 'opaque', with little indication of a change in the bureaucratic mindsets of SADC officers (European Commission 2005). In general, the process has been characterised by uncertainty with regard to staff from the member countries, as the system of secondment from member countries lost steam. Member states also do not fulfil financial obligations for staffing the secretariat. Thus the commitments of member countries to make restructuring successful are in doubt. The latter factor, especially, raises concerns over the sustainability of staff capacity within the secretariat.

Executive secretary (ES)

The functions of the ES, as the chief executive officer of the secretariat, are clearly defined in the SADC treaty. There have been orderly transitions between the office holders. However, the ES does not posses substantive decision-making powers, and is merely an administrator for the secretariat. The centralisation of the secretariat was not accompanied by delegation of decision-making to the secretariat. Substantive decision-making powers are vested in the highest political structures, because even the integrated council of ministers and troikas have to refer to the council of ministers and summit for approval of priorities and final decisions. The ES and directors thus appear to lack the strategic direction, power, and clout necessary for effective execution of their mandates. The council of ministers and summit appear, therefore, to be responsible for decisions that should otherwise be the preserve of management. This may be interpreted as political interference in operational issues that ought to be the preserve of the secretariat structures. This situation leads to delays, uncertainty, and generally, inefficiency in the operations of the SADC secretariat.

Deputy executive secretary (DES)

Even though this post is established by treaty, the treaty does not clearly define the DES's functions. According to the organisational chart, the DES assists the ES in overseeing the performance of the administrative and support functions, and is not directly involved in the supervision of the technical/operational directors. On the other hand, the programme directors' functions are supervised by the chief director (CD). There are no clearly defined lines of authority and supervision between the DES and the CD. The current organisational structure seems to imply that the DES does not supervise the CD, and can only supervise the directors of FANR, SH+SP, I&S, and TIFI if the ES is out of office. Basically, the DES only possesses delegated powers, and is ineffective with regard to supervision of the operational directorates of the secretariat.

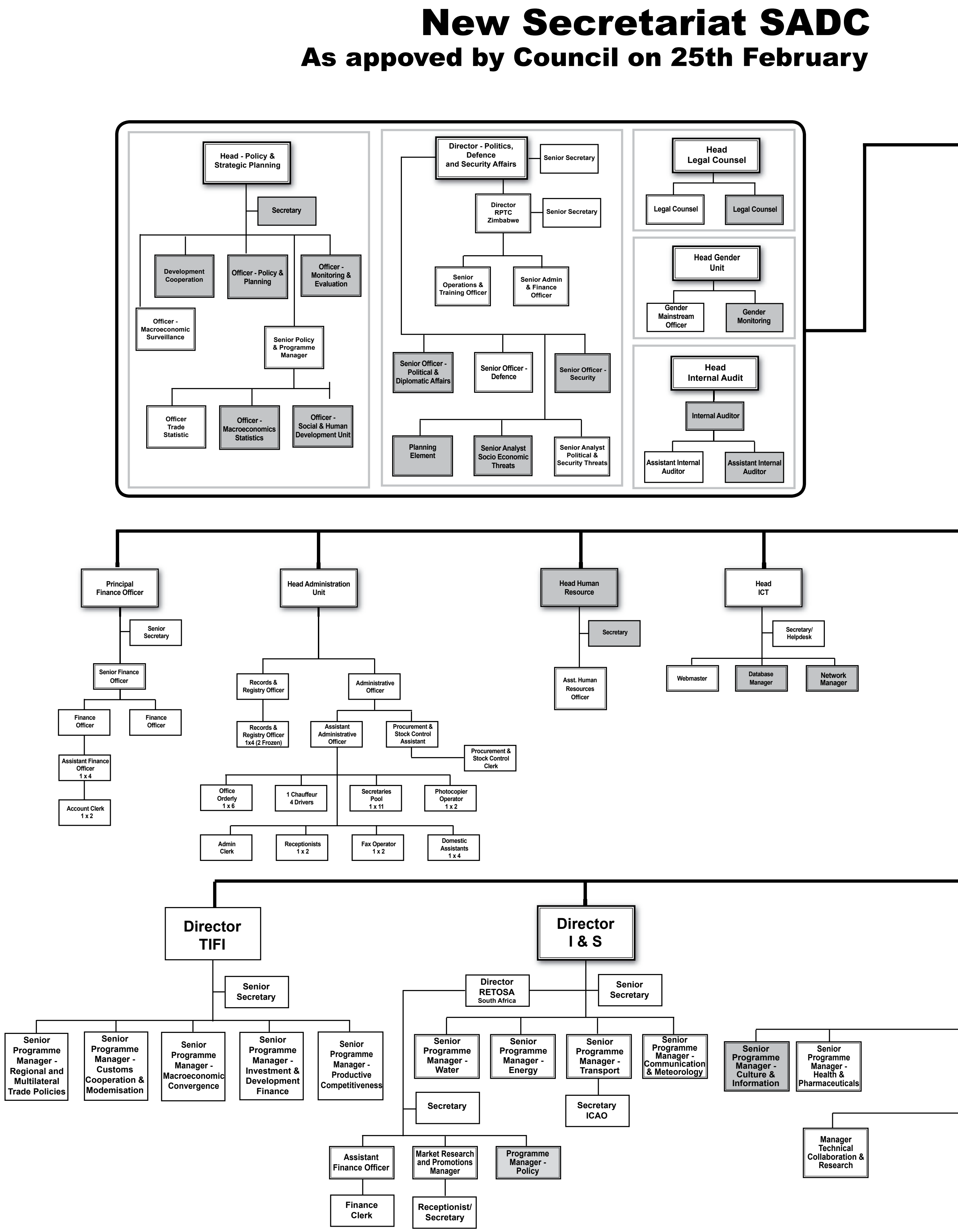
DES–CD relations

As mentioned above, the DES oversees the administrative and support functions, and performs delegated duties as determined by the ES. The CD has operational supervision of the four directorates (apart from that of the organ). The CD does not report to the DES, nor has the DES any supervisory role over the CD, who reports directly to the ES (except when the DES is acting as ES). This implies that the functional and reporting relationships of the offices of the DES and CD are not clearly defined. Co-operation and co-ordination are not guaranteed by this structural arrangement. This is a major structural disjoint that could potentially cripple the functioning of the SADC secretariat. It is only due to the absence of an incumbent CD that there is currently no open functional conflict between the two offices.

Office of the chief director

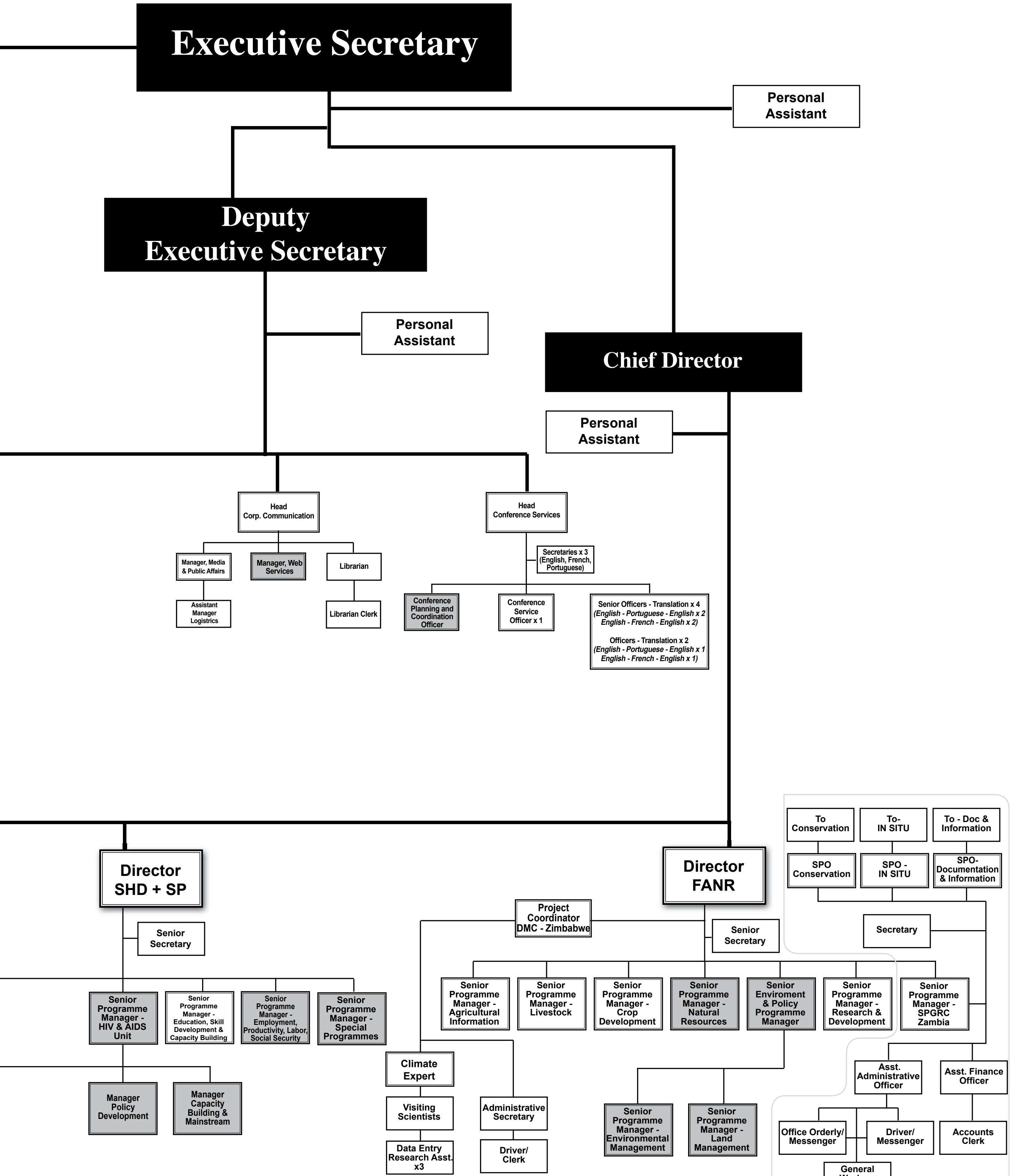
There is at present no substantive incumbent in this position, apparently because of difficulties in identifying and recruiting the appropriate officer. The position has been vacant for more than two years, since the departure of the previous CD. The problem of recruitment to the post is partly due to the SADC recruitment system, which is based on a quota system. For example, the top three positions (ES, DES, and CD) must be staffed by officers from different countries, and there must also be gender balance. In the current situation, in which the ES and DES are men, the CD should be a woman, and preferably from South Africa (whose quota is unfilled). However, SADC remuneration and conditions of service do not seem to be attractive enough for South Africans. Therefore, it has been difficult to recruit a woman, and a South African at that, into the post of CD. The other major problem of the office of the CD (which supervises the directorates) is that it does not have a monitoring and evaluation function. It is, therefore, impossible for the CD to track the progress of the operational programmes of the directorates accurately.

Figure 1: The organisational structure of the SADC secretariat[3]



Organisational Structure

2005, Grand Baie, Republic of Mauritius



LIGHT SHADED AREAS REPRESENT FROZEN POSITIONS

The operational programme directorates

Four directorates have been established since 2001, as they replaced the 21 SCUs. The fifth directorate – for politics, defence, and security co-operation – is also operational. The directorates were initially staffed with seconded officers from member countries, but they currently suffer from inadequate staffing from member countries. As pointed out above, it appears there is little commitment on the part of member states to cough up resources for the continued secondment of staff to the secretariat. The demise of country-based SCUs seems to have undermined member states' commitment and drive. Under the pre-restructuring institutional set-up, member countries seem to have 'owned' the sectors that they were co-ordinating. However, the centralisation of co-ordination at the secretariat (though the ICM) somehow led to the loss of this 'ownership' by member states. This may account for the member countries' apparent lack of commitment, and reluctance to fund the substantive staff positions.

Some of the directorates benefit from the services of officers provided by international co-operating partners, but these are only advisory, and cannot occupy the substantive positions that are supposed to be filled by officers from member countries. Additionally, the quota system implies that some of the officers may not necessarily be the best qualified, skilled, or experienced for the post. Staff shortages and doubtful merit do not guarantee high levels of performance. In addition, the staffing constraint means they are too thinly spread to accomplish the tasks assigned to the directorates. There is also the apparent lack of commitment of some SADC officers. An apparently strong penchant for international travel, which attracts substantial allowances, seems to take them away from their stations too frequently, adversely affecting the performance of their functions. The frequent travel may also be influenced by the desire to top up on low remuneration.

A combination of the lack of decision-making powers, staff shortages, inadequate financing for recruitment of staff to substantive positions, doubtful commitment of staff, and low levels of remuneration therefore appear to undermine the effectiveness of the directorates.

The directorate of the OPDSC

The protocol on politics, defence, and security co-operation gives the SADC secretariat the duty to service the organ. However, the existence of a second troika that determines the working of this directorate, and the directorate's separate and distinctly different operating culture and reporting procedures, make it appear to be above both the CD (who supervises the other directorates) and the DES (who oversees the administrative and support functions). This is because the organ appears to be undertaking a separate co-operation and integration process, with its own separate priorities. As such, its director reports directly to the ES, rather than to the CD. But even so, the relations of this directorate to the organ troika appear to be more pronounced and stronger than its relations with the ES. It therefore appears the directorate of the OPDSC is out of synchronisation with the rest of the management of the SADC secretariat.

Relations of the operational programme directorates (FANR, SH+SP, I&S, and TIFI) and the directorate for the organ

The technical or operational programme directorates were organised in line with the desire to operationalise the objectives of the RISDP. The directorate for the organ is there to fulfil the objectives of the SIPO. The RISDP and SIPO are mutually dependent and reinforcing, in that social and economic development requires peace, security, and stability. On the other hand, social and economic development also ensures better provision for peace, security, and stability. However, the RISDP and SIPO are not harmonised and co-ordinated. Their complementarities have not been worked out, despite their interrelationship. Actually, the officers operating the organ appear to be cocooned in complete isolation from other SADC officers, and do not appear to know or appreciate the broader objectives of the RISDP. They concentrate on state-centred, national, and military security concerns, apparently oblivious of the broader human or 'soft' security concerns. Meanwhile, the staffs in the other directorates do not seem to know or appreciate what the operations of the directorate for the organ are, and in turn they concentrate only on the social and economic welfare dimensions of human development. The operationalisation of the RISDP and that of SIPO are, therefore, disjointed, instead of being complementary to each other. This is a major setback for attainment of deeper regional co-operation and integration.[4]

Policy and strategic planning unit (PSP)

This unit was established in 2005 to assist the ES in planning, co-ordinating, and harmonising policies and strategies to achieve the goals of SADC, specifically to support the implementation of the RISDP and SIPO within the framework of the common agenda. However, this unit is severely understaffed. Secondly, its relationship with the five directorates is unclear. There is resentment that this office is tasked with monitoring and co-ordinating the implementation of the RISDP, which is generally perceived to belong rightfully to the office of the CD. At another level, the directorate of the organ does not seem to be linked in any way with the PSP unit.

SADC national committees (SNCs)

The national committees are supposed to be formed in each member state, and to consist of key stakeholders – that is, government, the private sector, civil society, non-governmental organisations, and workers' and employers' organisations. Each SADC national committee is supposed to reflect the core areas of integration and co-ordination in their composition. Their responsibilities are to:

- provide input at the national level in the formulation of regional (SADC) policies, strategies, and programmes of action;
- co-ordinate and oversee, at the national level, implementation of SADC programmes of action;

- initiate projects and issue papers as an input to the preparation of the RISDP, in accordance with the priority areas set out in the SADC common agenda; and
- create a national steering committee, sub-committees, and technical committees.

To fulfil these responsibilities, each member country must establish a national SNC secretariat, which should produce and submit reports to the SADC secretariat at specified intervals. The funding for the SNCs is supposed to be provided by member states.

The status and operations of the SADC national committees varies considerably. Angola and Mozambique have set up robust structural and operational units. But they are largely ineffective in most of the other countries, such as South Africa, Botswana, and Malawi. A common feature of the national committees in most of the member states is that they are ineffective because of structural weaknesses, and the lack of dedicated staff and budgets.[5] They are not fully developed, and have few or no actual relationships with the SADC secretariat in day to day operations. They do not seem to have business plans that are harmonised with the business plans of the SADC secretariat.[6] The co-ordinators of the national committees are country ministerial officers with other functional responsibilities. They are not functionally dedicated only to the co-ordination of SADC, hence their SADC role appears to be part-time and ad hoc. In fact, most are based in ministries of foreign affairs (rather than of development planning and co-ordination). They generally lack capacity, and their roles at country level do not seem to be clearly articulated. The SADC secretariat is operating without input and support from the SNCs (Delegation of the European Commission in Gaborone 2007). The national committees are, therefore, ineffective in implementing the RISDP programme of action.

Effectiveness of the restructured SADC secretariat

The brief overview of the principal structures of the SADC secretariat indicates that organisational restructuring is incomplete, and has so far not indicated any improvements in the operational effectiveness of the secretariat. Three areas of concern are the adequacy of human resources, availability of financial resources, and overall efficiency of operations and effectiveness of the secretariat.

Human resources

SADC lacks adequate human resources for operationalising both the RISDP and SIPO. A number of posts have been frozen for the past few years, because the organisation cannot afford to pay the salaries of the officers who would work in these positions. The dysfunctional operation of the quota system weakens the SADC secretariat, because it does not necessarily promote meritorious recruitment, and creates a situation in which certain crucial posts cannot be filled.

Financial resources

SADC is still dependent on the international co-operating partners for its programmes and operations. It seems unable to mobilise resources internally, as can be seen in the failure to fund posts for substantive positions that are supposed to be filled by staff from the member states. This is another challenge to the successful implementation of the RISDP and SIPO.

Efficiency and effectiveness

Most SADC staff members spend too much time in meetings and on missions away from their station. The frequent absences of staff make SADC directorates inefficient and ineffective in fulfilling their mandates. Although technical assistance personnel somewhat mitigate the poor staffing situation, these are temporary appointees who do not adequately fill the shoes of member-state officers, let alone impart the necessary skills and experience to SADC nationals. National committees exist in name only, and are not well integrated into the functioning of the SADC secretariat.

Conclusion

Generally, SADC is ineffective because of its institutional weaknesses. The institutional weakness is compounded by inadequate financing of the organisation's secretariat. The implementation of the RISDP is slow, uneven, and inconsistent. That of SIPO is expected to be similarly challenged by the same constraints. The RISDP and SIPO are not co-ordinated and harmonised in implementation, despite their interrelatedness and complementarities. SADC's organisational structure is not sufficiently co-ordinated, and the secretariat is politically disempowered. There is a dearth of both human and financial resources to fulfil the objectives for regional co-operation and integration. SADC needs strengthening through further capacity-building, restructuring, and empowerment of the ES and the directors. There are a number of recommendations that may assist in strengthening the capability of the SADC secretariat to fulfil its functions.

Recommendations

a. Give the ES adequate decision-making powers, and have the political organs (the summit and council of ministers) concentrate on policy rather than operational decisions. Similarly, the directors should be given operational decision-making powers in their (technical) areas of jurisdiction.
b. Clarify the respective functions, roles, and responsibilities of the DES and the CD. One of the posts could be abolished so that there is a clearer hierarchy and chain of command. Alternatively, there should be two deputy executive directors; one responsible for administration and support services, and another for operational programmes.

c. Have all directors report to the same superior, rather than having different reporting lines.
d. Abolish the quota system, and recruit staff on merit.
e. Strengthen the PSP office by streamlining its functions, and create a separate unit for monitoring and evaluating the implementation of the RISDP and SIPO. Preferably, the monitoring function should be part of the responsibility of the supervisor of the directorates.
f. Member countries should build up the capacity of national committees, and integrate them fully into the operational structures of the SADC secretariat.
g. Resuscitate ministerial co-ordinating units in member countries, to enable better co-ordination of SADC activities at national levels of implementation.

Endnotes

1 The SADC secretariat organisational structure, as approved by the council of ministers on 25 February 2005 at Grand Baie, Mauritius, valid as at 31 August 2007.

2 Acknowledgements to all the people, too numerous to list here, from whose insights I have benefited in both formal and informal interactions, including past and current staff at the SADC secretariat and researchers in the Formative Process Research for Regional Integration in Southern Africa (FOPRISA) network. Special appreciation to Dr Themba Mhlongo, former chief director at the secretariat; Prof Chinyamata Chipeta and Prof Haidari Amani, both of whom are consultants to FOPRISA; and, from the CMI, Jan Isaksen and Elling Tjønneland.

3 See full organisational structure, as approved by the council of ministers on 25 February 2005, in the annex to this paper.

4 Observation shows that the organ for politics, defence, and security co-operation is a distinctly separate organisation within SADC, running in parallel to all other operations (of the other four directorates). The organ's functions are centred on 'sensitive' issues that represent 'narrow' state security, such as intelligence, military, police, and immigration issues that are dealt with in the context of interstate interactions. The other 'soft' security issues, such as food, nutrition, hunger, disease, and people safety and security are not integrated into the work of the organ. In other words, SIPO, in its implementation, altogether ignores 'soft' security issues. One could argue that the other social and economic security issues should be the concern of the RISDP, which is the focus of the other four directorates. The point is, whereas the RISDP and SIPO are supposed to be complementary, they are not; there is a 'disjunction' between SIPO and RISDP concerns and the manner in which they are operationalised. This is due to the apparently parallel nature in which the two indicative programmes are being implemented. There is a need to harmonise the implementation of the two road maps for regional integration.

5 An assessment of the SNCs, funded by the United Kingdom DFID, was conducted during 2004–2005. It found that only Angola had dedicated staff for the SNC, whereas all other member countries had either inadequate or part-time staff. Almost all the SNCs had no dedicated budgets, and some even had no government budget allocation at all. Invariably, all the SNCs dealt only with RISDP issues, and none covered SIPO-related issues. All other countries had either not attempted to link, or were having problems linking, national development plans with the RISDP, with only

Mauritius actively attempting to rationalise the national development plan with the RISDP and NEPAD (AU) initiatives (see Delegation of the European Commission in Gaborone 2007).

6 Interviews with SADC staff reveal that the secretariat does not have up to date information about the national committees.

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The Titanic is sinking! Progress with security co-operation in Southern Africa

Anthoni van Nieuwkerk

> *Peace, security and political stability are the linchpins for socio-economic development.*
> Pakalitha Mosisili, prime minister of Lesotho (SADC 2004: foreword)

> *… there is no dispute that SADC is relatively the most peaceful region in Africa with an undisputed emerging market.*
> Joao Ndlovu (2006)

In 2004, the political leaders of SADC adopted a strategic security framework meant for promoting the interests of the regional organisation. The SIPO was designed to be the operational side of the organisation's security structure, the OPDSC. As the foreword to the SIPO document notes, 'The SIPO is not an end in itself … it is an enabling instrument for the implementation of the SADC developmental agenda embodied in the Regional Indicative Strategic Development Plan (RISDP). The core objective of the SIPO therefore, is to create a peaceful and stable political and security environment through which the region will endeavour to realise its socio-economic objectives' (SADC 2004: 5–6).

This paper seeks to understand the community's progress with the implementation of SIPO, and hence, the promotion of peace, security, and political stability in the region. Another way to frame the issue is to ask whether the SADC's approach to security, and hence its security structures and operational plans, is appropriate and effective in advancing the organisation's key objectives, namely poverty reduction and socio-economic development.

This paper flows from the author's ongoing research on security in Southern Africa.[1] It revisits the origins of the region's security co-operation, followed by a scan of current developments. The paper then offers some interpretations. By applying an institutional explanation it finds that, despite progress with functional co-operation, the idea of a developmental path from the informal and ad hoc to formal, rules-based governance in the security arena should be treated with caution. Indeed, it agrees with proponents of the 'security community' school that SADC is limited in its evolutionary growth. Finally, learning from economists who examined trade and economic integration in the region, the paper alerts the reader to the complexities of a region marked by one dominant economy and a range of weak states, which leads to the larger question regarding the motives of the actors and their incentives.

SADC's genesis

Formal, interstate co-operation in Southern Africa is a relatively new phenomenon. The roots of this practice lie in the region's complex colonial past, whereby European powers maintained an exploitative presence in the region, primarily for economic purposes. Wars of liberation gave rise to security co-operation (via the Pan-African Freedom Movement for Eastern and Central Africa [PAFMECA], the Pan-African Freedom Movement for Eastern, Central, and Southern Africa [PAFMECSA], and, especially, the Frontline States [FLS] alliance, formed in the 1970s) and economic co-operation (via SADCC, established in 1980).

Largely in preparation for a liberated South Africa, the region reconfigured its co-operative strategies by establishing SADC in 1992. As it grew in membership (from nine to 14) and objectives (from socio-economic co-operation to integration), SADC's structure and operations had to be refined. This process was initiated in 1999 and concluded in 2001. It also formalised peace and security co-operation by establishing comprehensive decision-making architecture. In 2004, it adopted an implementation plan.

The nature of the integration project

SADC is first and foremost an arrangement facilitating economic integration in order 'to ensure, through common action, the progress and well-being of the people of Southern Africa' (SADC 1992). SADC's genesis reflects this priority. When the SADCC was formed in 1980, it adopted the slogan 'Southern Africa – towards economic liberation'.

The current (1992+) SADC vision is one of

> … a common future, a future within a regional community that will ensure economic well-being, improvement of the standards of living and quality of life, freedom and social justice and peace and security for the peoples of Southern Africa (SADC 2006).

However, as the academic literature on regionalism and human security makes clear, this is a task not easily achieved, requiring a range of objective and subjective preconditions.[2] Indeed, at the time when SADC's leaders were contemplating the future management of power relations, a throng of policy analysts recommended the need for SADC to adopt the 'new', widened definition of security (for an overview of these debates, see Zacharias 2003). The uncritical assumption was that this would lead to 'the elimination of war' (a phrase coined by Deutch) and sustainable human development – features of a 'security community' (Booth and Vale 1995). Much was to be said for being inspired by the mood of the time – the dawn of a new post-Cold War, post-apartheid era – and, as a result, the caution from some analysts (and policy-makers), namely not to underplay the impact of the violent political history of the region, was discounted.[3]

And indeed, analysts and policy-makers alike hoped that a regional grouping such as SADC would evolve into a 'secure community' on the basis of exhibiting four conditions: active engagement with security and development challenges; a timeline for achieving objectives; an inclusive process, allowing for state and civil society input; and institutionalisation of the process (Schoeman 1998).

However, the model never fully accounted for the long-term impact of the historical experiences of the region, and with the onset of the wave of democratisation in Southern Africa, some of these fault lines rose to the surface (Matlosa 2003).

Indeed, the eruption of the Great Lakes crisis vaporised the naïve beliefs of many of the theoretical community-builders. In 1999, one assessment was that SADC appeared unable to meet the first three conditions, and partially met the test of institutionalisation (Van Nieuwkerk 1999).[4] A few years later, Landsberg and Baregu (2003) concluded that SADC's security architecture remained 'elusive', operationalisation of the OPDSC was not guaranteed, and the gap between policy and practice needed to be closed. Tjønneland (2005) came to similar conclusions in a thorough overview of the SADC security system.

Several years later, we still argue that the SADC project can progress, but only on the basis of careful phased planning towards meeting these four conditions. And institutional development is still a key requirement. On this issue, Hansohm (2005) observed:

> The formation of a regional integration (RI) arrangement requires that regional institutions be developed to which important facets of national economic and political decision making will be subordinate. Its successful establishment … requires a major transition, which can easily trip participating countries up. This may explain why the conclusion of RI arrangements is not matched by the active participation of member states in the integration exercises …

This paper argues that the deepening of regional co-operation in the area of peace and security similarly requires institutional governance in the sense that regional institutions be developed 'to which important facets of national decision making will be subordinate' (see also Mulaudzi 2006). Of course, this is not the only way in which countries have to pursue security co-operation: alternative avenues include 'functional co-ordination' (to deal with, say, cross-border theft), or coalition or alliance formation (similar to networking – whereby a number of countries come together for a short period of time to pursue policy objectives in a specific issue-area). But the language of the SADC treaty and the OPDSC protocol is clearly written with more in mind! The question then becomes, can SADC make the transition to institutional governance as specified above?

Institutional evolution

Regional co-operation in the 1980s, even if informal and limited, succeeded in realising a number of regional development projects, mainly in the infrastructure and food security sectors (Lambrechts 2001). The activities of the FLS alliance, in its quest to eradicate colonial rule and apartheid in Southern Africa, additionally brought about a sense of regional identity, and briefly promoted a shared political vision (Omari 2000). The SADCC was transformed into SADC in 1992, reflecting the changing regional – and external – environments. Most importantly, South Africa joined SADC in 1994, as did the DRC in 1997. However, a year later a major regional war erupted, involving the DRC and a number of other SADC member states. At the same time, an attempted coup destabilised the small country of Lesotho. SADC's unresolved security structures (the organ chaired by Mugabe) played a controversial role in the attempt to resolve these crises (Williams 2001). In following the logic of 'no development without stability', broad institutional refinement was therefore called for. As Tjønneland (2005) notes, in March 2001, an extraordinary SADC summit approved the proposed recommendations for far-reaching changes in SADC's institutional framework, and the structure for executing its 1992 mandate. These included changes in SADC's governing structures at the regional and national level, but also, most importantly, a plan for the centralisation of the 21 sector co-ordinating units and commissions located in 12 of its member countries. These units were brought together in four clusters in a strengthened SADC secretariat in Gaborone.

At the council of ministers meeting and summit in Blantyre in August 2001 these changes in SADC structures were further consolidated. The SADC treaty was amended to take into account these institutional changes. In addition, the summit signed a protocol on politics, defence and security co-operation, which provided for an OPDSC under the SADC summit. The organ has its own set of regional structures, and mechanisms for policy formulation and implementation.

The SADC SIPO

The foreword to the printed version of SIPO (dated August 2004) states that the SADC protocol on politics, defence and security co-operation is intended to serve as an instrument for dealing with the region's political and security challenges, and that the SIPO was formulated to assist with the implementation of the protocol:

> The SIPO is not an end in itself ... it is an enabling instrument for the implementation of the SADC developmental agenda (embodied in RISDP). The core objective of the SIPO therefore, is to create a peaceful environment ... to realise the region's socio-economic objectives (SADC 2004).

The SIPO was designed to do three things: provide guidelines for action (strategies and activities); shape the institutional framework for the day to day activities of the organ (including the protocol and the mutual defence pact); and align the regional peace and security agenda with that of the AU (in particular the standby force and aspects of good governance).[5]

There seem to be a variety of reasons for the production of an implementation plan that contains over 130 objectives with no clear hierarchy, and no serious effort to produce a business plan for the operationalisation of the organ.[6] First of all, the manner in which the document evolved is important for understanding its shape. SADC's preference for consensual policy-making resulted in a number of countries adding their voices to the activities of the working group set up to construct the guideline in the first place. The resultant document reflects more accurately the combined national interests of 14 countries, instead of a strategic management tool to guide organ activities. As such, it reminds us of the delicate nature of security perspectives and preferences among members of the SADC.

Secondly, the management of the organ's affairs takes place in the context of a small (and weak) administrative infrastructure and capacity. This has obvious implications for SADC's ability to prioritise, implement, monitor, and evaluate mechanisms and plans relating to its peace and security agenda. The choice to run a 'minimalist' organ directorate relates to divergent political outlooks and priorities of its member states, whereby some governments are preoccupied by state (or regime) security issues, while others emphasise human security. As some analysts provocatively argue, the organ was created to ensure the self-preservation of SADC and its 'governing elites' (Makoa 2005; Van Zyl Slabbert 2006). Governments have also adopted different approaches to dealing with internal challenges, reflecting the region's varied experiences with democratisation (Nathan 2004; Tjønneland 2005).

It would therefore be misleading to expect the SADC secretariat to be engaged in political decision-making relating to regional peace and security: it exists by design of the member states, in order to carry out political instructions. Put differently, the SADC treaty and the mandates of the secretariat and directorate restrict it to being an administrative (or implementation, monitoring, and evaluation) unit with no political decision-making powers. SADC member countries have not (yet) chosen to establish a regional institution with supra-national power in the areas of defence and security – critically, a precondition for moving the institution towards a security community. Given these strictures, the relationship between the secretariat and individual members becomes key, as does leadership. In short, the organ is not more than the sum of its parts, and, given its inbuilt shortcomings, the parts become key. What is it that the participating member countries want from the SADC security agenda? Although it has been attempted before (Cawthra & Van Nieuwkerk 2004), this question remains difficult to answer without additional research into the national security agendas of SADC member states.

Status of implementation

The rather exhaustive list of objectives, strategies, and activities contained in the SIPO document can be summarised to include democracy-building; peacekeeping training; police co-operation, especially regarding cross-border crime; disaster management; conflict management (with the emphasis on conflict resolution); and food security. In the (much) longer term, the organisation plans to promote institution-building, peace enforcement. and harmonisation of foreign policies. But where is the current focus?

Some analysts believe the focus to be wrong altogether. For example, Makoa (2005) has serious reservations about the ability of the organ to act as an integrative, democratic force in the region, and points to its 'inability' to deal with political crises in Angola, Zimbabwe, Swaziland, and the DRC (see also Nathan 2004). This, in his view, demonstrates its lack of credibility and legitimacy ('protecting governments rather than people'), leading to his call for the organ to realise its potential by being democratised; that is, opened up to the people, presumably via introducing parliamentary oversight over the institution. This debate, of course, raises questions about the nature of the integration project, which lies beyond the scope of this paper. It is also necessary to point out that the organ's so-called 'inability' to deal with political crises seems to be a misreading of the nature of SADC decision-making: as the previous director of the OPDSC directorate at the SADC headquarters maintains, it chose to deal with political crises in a diplomatic and 'stability-enhancing manner' (Ndlovu 2006).

If we believe the organ to be of value in the broader integration process, then we can focus on an analysis of its implementation. Tjønneland (2005) sees three emerging priority areas: small arms, elections management, and peace-support efforts. On the first issue, he notes that the Southern African Regional Police Chiefs Co-operation Organisation (SARPCCO) seems to be making more progress than the organ secretariat itself (although it must be noted that the former is not formally part of the latter). Regarding peace-support operations, he notes progress, but also the emergence of various problems: the failure to get the Regional Peacekeeping Training Centre (RPTC) re-activated, the absence of a mandate for the SADC brigade (SADCBRIG) deployment, the question of the financing of a deployment mission, and finally, contrary to UN doctrine, the absence of any meaningful civilian involvement in the activities of the standby force. Again, it must be noted that the putative SADCBRIG can only be understood from the perspective of the AU's continental security architecture and plans (Van Nieuwkerk 2003).

Why co-operate?

Security co-operation, as part of regional economic integration, is not obvious. By this we mean there is no automatic link. A region's members can progress economically without necessarily trusting each other's armies. Despite this, African leaders seem to accept that countries ought to co-operate in the security arena in order to improve the prospects of economic integration (the logic upon which the African renaissance and NEPAD are built). In our case, in Southern Africa, such trust and acceptance should not be assumed lightly. Many observers of SADC and the politics of the region ask whether or how SADC provides human security to the people of the region. They argue, instead, that the positions of SADC members on the key regional challenges (trade, growth and development, security, and stability) are driven by national interest rather than regional interest. As we have learnt from the realist school, national interests drive countries' foreign policies, are seen as a must-have, and are 'hard and measurable'. By contrast, regional co-operation is often a nice-to-have, and is 'hard to measure'. Yet, despite the obsession with traditional, Western notions of statehood and survival, the Southern African region has developed a form of political and economic co-operation. How does one explain this phenomenon? One approach is to examine the institution upon which such co-operation rests.

Institutions, as a form of social organisation, display three key characteristics: a set of formal and informal rules, which structure social action; change and stability, which are stages in an institutional life cycle; and strategic action, which plays an important role in driving change, while norm-driven behaviour is key to sustaining institutional rules over time (Powell & DiMaggio 1991; Lowndes 1996).

Using the new institutionalism approach, some writers assume progress through process. Smith (2004), for example, argues that through the process of institutionalisation, relations among states in a co-operative arrangement (such as the EU, which he examined) progress from narrow instrumental rationality (characterised by intergovernmentalism) to a more collective or social rationality (characterised by legitimate procedures of governance and corresponding changes in their domestic policies). One can distinguish the following stages or steps in such a process (wisely allowing for overlap and inconsistency), which is repeated here with a view to its applicability to the SADC arena.

Establishment of the policy domain as an intergovernmental forum. The start is often a conscious, public decision among a number of actors to organise their co-operation in an issue-area. In the case of Southern Africa, the FLS alliance historically played this role, although it must be acknowledged that the alliance itself was a product of PAFMECA, later changed to include the Southern African nationalist movements seeking independence (Omari 2000).

Information-sharing. Once actors have agreed to co-operate, they may then begin a discourse about the means and ends of their co-operation. This can initially be mere discussion about policy co-ordination ('cheap talk') or specific co-operative policy actions ('results'). As goal-oriented communication intensifies, the demand for greater structure grows, and co-operation becomes more likely. Arguably, the Defence Staff Committee (DSC), later renamed the Inter-state Defence and Security Committee (ISDSC), as a mechanism of the FLS, played this role.

Norm creation and codification. Once communication moves beyond 'cheap talk', institutionalisation takes on a new dynamic, involving the generation of norms. As officials learn to trust each other and develop a shared understanding of what their co-operation actually involves, it becomes possible for them to establish clearer obligations regarding ends and means of a specific policy domain. Smith examined various types of norms: informal customs, or the traditions and practices that emerge in day-to-day interactions among officials; norms that are codified into written norms; a further transition of norms to rules, as specific rights and obligations applicable to certain situations; and, finally, the transition from rules into formal laws. Again, arguably, the SADCC started to play this role from 1980 (Mandaza and Tostensen 1994).

Organisations. Behavioural norms are not the only manifestation of institutionalisation. The establishment of a permanent organisation to administer some policy domain represents an additional degree of institutionalisation. Such formal organisations can change the nature of co-operation. At the very least, organisations can provide some institutional memory concerning previous decisions. At the most, the organisation itself can become an autonomous actor with policy influence. In the case of Southern Africa, the establishment of SADC in 1992 indicated that the region was moving up a level in terms of institutionalised political and economic co-operation (Le Pere and Tjønneland 2005).

Smith finally identifies governance as a further evolution of co-operation, where states consider co-operation as a unified whole. This, in his opinion, requires a policy process whereby governance is seen as the authority to make, implement, and enforce rules in a specific domain.

We can display the above process in the following format:

Table 1: Institutionalisation of security co-operation in Southern Africa

Process	Application
1. Establishment of a policy domain as an intergovernmental forum	PAFMECA / PAFMECSA / FLS Alliance
2. Information sharing	DSC / ISDSC
3. Norm creation and codification	SADCC
4. Organisation	SADC
5. Governance	Unclear

Analysis

This process has seemingly allowed for informal patterns of security co-operation in Southern Africa (primarily focused on the struggles against colonialism and apartheid) to be formalised (that is, rules-driven and forward-looking) with the establishment of organisational structures. Whether the restructured SADC of 2001 and its OPDSC, and the range of recently adopted policy frameworks in the area of security co-operation (including the 2001 protocol on politics, defence and security co-operation, the mutual defence pact, and SIPO) can be seen as approaching the fifth level of institutional co-operation (governance) is a question to be examined. The other side of the same coin can be stated thus: to what extent are SADC member states willing and able to harmonise national decision-making (structures and practices) in order to enhance the region's security authority to make, implement, and enforce rules? In a recent seminal analysis of SADC, Oosthuizen (2006: 325) concludes that it provides an 'evolving, institutionalised, rules-based forum within which the members meet regularly to discuss and argue about political and security issues' – a strong vote in favour of seeing SADC as having evolved governance capabilities, or displaying 'appropriate' behaviour.

Enhancing national decision-making for regional security governance?

There is no question that SADC, through its newly established organ and related structures (including SIPO), has made progress. The organ directorate can rightly claim that the region experiences relative peace and security (although not entirely because of the organ!), and that the focus should be on responding to the human security agenda. From the organ directorate's perspective, these issues have been identified as in need of further operationalisation. Yet, in reviewing the status of SIPO, there are also some worrying signals. The first, and most obvious, relates to the ongoing signals from the directorate, which lead to perceptions of secrecy and unaccountability as far as the organ and its directorate are concerned. International co-operating partners (ICPs) and civil-society members alike register frustration, on a regular basis, at the lack of engagement with the organ and directorate. Secondly, although the focus (in SIPO and the organ directorate) seems to be firmly on meeting the region's human security challenges, there appears to be an obsession with SADCBRIG (launched in August 2007). As analysts have pointed out elsewhere, it is a military obsession, whereby the AU request for standby arrangements is interpreted as needing a militarist response, leaving civilian input and participation behind, if not deleted from planning altogether. Hence, the questions of deployment mandate, decision-making, and training remain pertinent.

In order for SIPO and its managers to move beyond some of this criticism, it is suggested that the proposed SADC–civil society partnerships, as identified by the acting director of politics, defence and security during the SADC consultative conference of 2006, be activated expeditiously (although, at the time of writing, this has not happened). Apart from establishing a much-needed channel of communication, such structured engagements will allow both sides to pursue matters in a manner that will benefit the broader integration project. Over and above such confidence-building measures, it will also provide ICPs with an additional channel through which to engage with the organ.

On a another level, and following from the argument that one ought not to expect the organ directorate to lead with political decision-making in the areas of politics, defence, and security, it is recommended that individual member countries examine their own approach and commitment to the organ's objectives. Does the RI project, and the pursuance of peace and stability, resonate with the country's own broad vision of the future? Does the country get an adequate return on its investment in SADC? Is committing to SADC (in terms of human and physical resources) in the national interest? Crucially, how do the regional peace and security policy frameworks integrate with domestic policies? What is the view of SADC among the general public? Is there a regular review of the regional/national interface? As with the

AU peer review process, these questions ought not to be answered by government and state managers alone: civil society has a critical role to play. One has to gather responses to these kinds of questions from the 13/14 member states in order to determine whether SADC is really being held together by 'common values and norms' – and is transiting from the regime security to the human security paradigm, so that it resembles a truly regional, democratic integration project.

Conclusions

Flowing from this analysis, and based on discussions with a range of SADC-watchers, we propose that SADC's future is not yet clear, and might develop into one of various 'futures'. This leads us to three scenarios.

- A 'mature SADC' – a favourable socio-economic environment and wise leadership allows for institutional governance, reflecting deeper and mutually beneficial integration. SADC follows a holistic (integrated and comprehensive) approach to trade, economic, and security integration, accompanied by a negotiated road-map with realistic time lines and implementation capacity.
- A 'fragile SADC' – uneven development and poor leadership aggravate a polarised relationship between the region and a domineering South Africa. SADC follows a two-level, variable-speed approach to integration: fast-tracking trade and economic integration among a core group of countries, with sporadic security co-operation, accompanied by separate RISDP and SIPO implementation plans.
- A 'disintegrating SADC' – unfavourable socio-economic conditions and visionless leaders allow for a regression in the nature of the relationships among countries in Southern Africa – driven by narrowly defined national interests, unregulated markets, or a combination of both. Co-operation is replaced by competition, resulting in conflict and, in the longer run, violent disagreements.

What needs to be done to link economic and security co-operation and integration? If it is possible to inculcate sets of common governance values and norms among the ruling elites (which can be shared by, say, the prime minister of Mauritius, the Swazi king, and the president of Zimbabwe), then surely we can apply the criteria of the security-community school of thought. SADC's evolution into a 'secure community' can be measured by it exhibiting four conditions: *active engagement* with security and development challenges; a time line for achieving objectives; an inclusive process, allowing for state and civil society input; and *institutionalisation* of the process. The reader is invited to do the calculations – which of these conditions are being met?

Can we take a leaf out of the book of the economists working on understanding SADC integration? Recent research results show interesting trends which seem to support some of the findings of this paper.

In a recent article on the process of monetary integration in SADC, Keith Jefferis (2007) considered the economic prerequisites and implications for a monetary union (an objective of the AU), and then looked at the extent to which key variables (inflation, interest rates, and exchange rates) are converging in SADC. He concludes that there is a core 'convergence' group comprising the CMA countries – South Africa, Lesotho, Namibia, and Swaziland – plus Botswana, Mauritius, Mozambique, and Tanzania, whose macroeconomic performance satisfies some of the criteria for monetary union. The remaining SADC countries – Angola, the DRC, Malawi, Zambia, and Zimbabwe (Madagascar is not mentioned, but probably falls into this category) make up a 'non-converging' group that cannot yet be considered potential candidates for monetary union. However, Jefferis notes that even within the convergence group, countries remain far from satisfying the other prerequisites for monetary union, including significant intra-regional trade, and full capital and labour mobility. He also notes major political constraints, including the vexing question of South Africa's role in the RI project.

A recent research paper from FOPRISA makes an additional range of conclusions regarding SADC integration (Hansohm & Shilimela 2006). Its key conclusions deal with the so-called 'risk of a backlash' against RI in Southern Africa. The argument is that uneven regional development, if not balanced by institutional RI, notably competition and industry policies, presents a danger that needs to be addressed urgently. Coupled to this is the role of small countries in the process of RI, especially in relation to the dominant economy of South Africa. The authors argue that 'it is generally, but wrongly, assumed that every government is keen on RI. But in reality it needs to be recognised that small countries have serious concerns' (ibid: 43). These concerns include policy autonomy, credibility of commitments, adjustment costs, and risk. It is worth exploring the latter concern in more detail for reasons that will hopefully become clear. The authors argue that the small countries face the risk that a large country will not adhere to the agreement. This and the short-term adjustment costs would pose significant risks to the small countries. These concerns, they argue, apply very much to the situation in the SADC region, and can explain 'why the progress of RI is not faster than it is' (ibid: 59). These concerns are reinforced by the vast differences between rich and poor countries in the region in terms of capacity. They come to an interesting further conclusion: 'This leads to the research question on the motives of the actors and their incentives – largely ignored. It is an urgent question because only an understanding of the incentives actors face will allow policy recommendations that are successful in terms of contributing to policy change' (ibid).

In late 2005 Le Pere and Tjønneland published an assessment of SADC. Their overview of challenges included the question of deepening economic integration through trade liberalisation and financial integration. For them, the implementation of policies lagged behind, and the move towards economic integration was progressing at an uneven and slow pace. This, in their view, was a reflection of overlapping memberships in competing trade organisations, and of the inability to take common positions in negotiations with third parties. Poor implementation may also reflect competing and different visions within SADC about the type of regional integration members wish to realise and make manifest (Le Pere and Tjønneland 2005: 43). In the security arena they noted that the operationalisation of SIPO 'has been desultory at best'. SADC still had to operationalise, prioritise, and develop implementation mechanisms for its engagement with politics, defence, and security. In doing this, they noted, SADC will be confronted by the divergent political outlooks and priorities of its member states. Overall, they concluded that despite strong support for the project from core countries (Mozambique, Botswana, Zambia, Mauritius, and South Africa) 'there is an absence of common political positions and common values among member states which impacts on the ability of SADC to develop common policies and unified approaches'. They believed this to be evident in the two critical areas of integration, namely economic and political security, 'where member states may not share the same perspectives about the desired path to integration'.

A comparison with the integration attempts in other parts of Africa shows that the so-called 'regional economic communities' (as defined by the AU) suffer from a similar set of constraints in enhancing human security. In a perceptive paper on these processes in the Horn of Africa, Dr Adams Oloo (2007) identifies the following constraints: the lack of clearly defined political interest; the principle of non-interference in internal affairs of member states; lack of commitment by member states; limited resources and capacity; proliferation and misuse of small arms; pastoralism; the inflow of refugees; lack of follow-up on policies and decisions; lack of co-ordination and harmonisation among different institutions; and the still largely top-down approach to decision-making and development. Except for the specific problems of small arms and pastoralism, which are particular to the Horn of Africa, one can see that the Inter-governmental Authority on Development (IGAD) and SADC are burdened by similar constraints on the promotion and enhancement of human security in terms of regional co-operation.

Finally, how dependent is the SADC integration project on the role of South Africa? For many this is crucial, which is why, in some quarters, there is concern with a perceived lack of interest by the South African government in SADC matters (anecdotally, a diplomat recently pointed out that he found it odd that the hegemon does not occupy a single senior position at the SADC secretariat). Le Pere and Tjønneland argued that South Africa was shifting its interest and energies to an engagement with continental structures (AU, NEPAD, etc), an area perceived to deliver a greater return on investment. In SADC, South Africa seems to be promoting market-led integration, which by all accounts is proceeding along the lines of the second scenario developed above. It appears to be not really interested in SIPO's recovery – what incentive does it have to be so? After all, it increasingly works with the AU Peace and Security Council (PSC), the UN Security Council, and the UN Department for Peacekeeping Operations (UNDPKO) on matters relating to peace-making, -keeping and -building. However, our detour to the economists' terrain of analysis also alerted us to the other side of the picture – the dynamics involved in the roles small countries play in the regional integration process. In particular, we have identified the threat of backlash – that is, small countries might choose to avoid making deep commitments to RI because of fears of taking too much of a risk (that is, the assumption may be that South Africa is committed to RI in the same way smaller countries are – but what if it is not?). Consequently, the probability of the second and/or third scenarios outlined above playing out in the near future looms uncomfortably large.

Endnotes

1 In particular, research under the umbrella of the FOPRISA programme, accessible at www.foprisa.org, as well as the Southern African Defence and Security Management Network (SADSEM) and FES project on security in Africa.

2 See, for example, the September 2004 edition of *Security Dialogue*, in which a special section provided a broad overview of human security debates, ten years after the popularisation of the concept by the UNDP.

3 One such analyst remarked that 'colonialism, cold war, liberation wars and anti-racial discrimination are regarded as part of the political vocabulary of the entire SADC region' (Macaringue 2006).

4 See also Isaksen & Tjønneland 2001; Nathan 2004. See Ngoma 2005 for an optimistic view.

5 According to SIPO, its scope includes the following issues in various sectors:

The political sector:

- to protect the people and safeguard the region against domestic instability;
- to promote the evolution of common political values and institutions;
- to prevent, contain, and resolve conflict by peaceful means;
- to promote democracy and human rights;
- to observe and encourage states to implement the UN Charter, AU CA;
- to develop the peacekeeping capacity of national defence forces;
- to enhance regional capacity re disaster management and co-ordination of international humanitarian assistance; and
- to develop a common foreign policy approach on issues of mutual concern.

In the defence sector:

- to protect the people and safeguard the region against domestic instability;
- to promote regional co-operation on matters related to security and defence;
- to consider enforcement action as a matter of last resort;
- to consider the development of a collective security capacity and conclude a mutual defence pact to respond to external military threats;
- to observe conventions and treaties on arms control and disarmament;
- to develop peacekeeping capacity; and
- to enhance regional capacity re disaster management and co-ordination of international humanitarian assistance.

The state security sector (intelligence services):

- to protect the people and safeguard the region against domestic instability;
- to promote regional co-operation on matters related to security and defence ;
- to prevent, contain, and resolve conflict by peaceful means;
- to consider the development of a collective security capacity, and conclude a mutual defence pact to respond to external military threats; and
- to develop close co-operation between the police and state security services.

The public security sector (law enforcement agencies):

- to protect the people and safeguard the region against domestic instability;
- to promote regional co-operation on matters related to security and defence;
- to consider enforcement action as a matter of last resort;
- to promote democracy and human rights;

- to develop close co-operation between the state security and defence forces;
- to observe conventions and treaties on arms control and disarmament;
- to develop peacekeeping capacity; and
- to enhance regional capacity re disaster management and co-ordination of international humanitarian assistance (SADC 2004).

6 In December 2004, in Maputo, a UNDP-funded conference for senior security-sector officials from SADC rejected proposals for the urgent implementation of a range of SIPO objectives. Observation of the proceedings made it clear that SADC members did not share a common understanding nor vision of the organ or its activities. However, the formal communiqué produced by the organ directorate steered clear of revealing these underlying tensions. By 2007, the SADC summit merely 'noted' the report of the outgoing OPDSC chairperson, which 'highlighted the implementation of the SIPO and in particular human resources requirements for its implementation' (SADC communiqué 2007).

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The Regional Indicative Strategic Development Plan: problems and prospects

Garth le Pere and Elling Tjønneland

SADC has experienced and been subject to the convulsive changes that have accompanied globalisation and trade liberalisation. Its regional integration agenda has been further complicated and shaped by the integration and expansion of the EU; the evolving but highly contested trade diplomacy in the WTO; the free-trade agreement between South Africa and the EU; institutional and programmatic developments in the AU and NEPAD; and the implications of the new trade and development framework with the EU under the Cotonou Agreement.

As if these weighty imponderables were not enough, uncertain political processes in its member countries continue to exert a profound impact on SADC's future, albeit with varying effects. These range from successful democratic transitions to continuing civil strife and communal violence. While parliamentary elections and open pluralism are becoming vectors of change, the region cannot escape poverty, underdevelopment, political turmoil, and the HIV/AIDS pandemic. It is against this background that SADC has had to redefine its raison d'etre. New and ongoing initiatives include rationalising the architecture of SADC, including its extensive review of development policies; streamlining its sectoral co-ordination approaches; restructuring the secretariat; and implementing a range of important protocols, especially those relating to politics, defence and security co-operation, trade, energy, water, small arms, and so on.

However, this restructuring of SADC, approved by summit in March 2001, is complete only in a formal sense. A number of obstacles will have to be overcome before the proper institutional mechanisms are in place. Under the old SADCC structure, the work suffered from a lack of a proper focus, and many of the activities were national development projects and did not really have any regional scope. Their implementation was at best uneven. The new SADC treaty, adopted in 1992, attempted to give the organisation a new focus, based on integration and good governance. Regional policies and guidelines for action were developed by adopting a series of protocols spelling out the aims and objectives for each sector or policy area, supplemented by less comprehensive declarations and memoranda of understanding (MOUs) in areas where no protocol had been developed.

SADC has put considerable effort into developing strategic programmes to ensure a proper regional focus for its activities. The main programme has been in the social and economic field, with the development and adoption of the 2003 RISDP. In assessing this document and its ability to realign and refocus SADC policies and strategies, some issues are particularly important. Has the RISDP succeeded in giving SADC a proper regional focus for its activities? Has it managed to prioritise? What are the main obstacles and opportunities for implementation?

Challenges and priorities

After much delay, the RISDP was completed and approved in 2003. It identifies challenges and priorities in a wide range of areas, leading in turn to 12 priority areas for intervention. The plan lists strategies and activities for each of these intervention areas. These are general and comprehensive, but do not provide SADC with clear regional and operational priorities. More guidelines to emerging priorities were developed through the 2004 RISDP implementation framework, which provides detailed implementation plans of 15 years, five years, and one year (2005–2006) for each of the four directorates.

This was followed by the preparation, in the second half of 2004, of business plans for these directorates, a list of priorities, and ranking of existing and potential RISDP projects.

The final approval of budgets and priorities may lead to some changes, but a fairly clear picture of SADC's intentions emerges from these documents, and is confirmed by interviews at the secretariat in February 2005. The overarching priorities for SADC over the next five years are as follows:

- integration of markets and economic development;
- a trade facilitation mechanism;
- financial market integration;
- macroeconomic convergence;
- infrastructure, including ICT;
- statistics; and
- emergency services, including HIV/AIDS and food security.

The intention is that all activities and projects shall be assessed according to these priorities, and how they contribute to SADC's overarching objectives. Furthermore, the documents make a distinction between 'soft' projects, to be implemented by the secretariat, and 'hard' projects, to be implemented by member states and other regional institutions, where the secretariat will have only a monitoring and evaluation function.

'Soft' projects typically revolve around policy formulation, harmonisation, and implementation; programme monitoring and implementation; and the co-ordination of regional integration. They often involve issues such as capacity building and institutional development, research, feasibility studies, and the like. 'Hard' projects are dominated by infrastructure, and often include physical development such as transport networks, energy interconnectors, water resources, and ICT infrastructure. 'Hard' projects will often relate to a subset of SADC countries, while 'soft' projects more often involve the whole SADC region.

SADC is in the process of finalising a priority portfolio of projects. Some 125 projects were identified and ranked in the current draft business plan from November 2004. Of these, 46 have been moved to a provisional priority list which, by February 2005, had still not been formally approved. The list comprises 15 'hard' projects and 31 'soft' projects. Fact sheets (project description, funding status, etc) have been developed for most of these priority projects. One of the 'hard' projects is particularly comprehensive and a rather special case: the SDIs, or development corridors. The initiatives comprise a long list of different projects and different corridors, and fall within SADC's sphere of influence, but are developed and managed independently, primarily through the regional SDI support unit, based at the DBSA in South Africa. These documents and emerging priorities show that the SADC secretariat is making serious efforts and progress in giving the organisation's social and economic agenda a sharper regional focus. The selected projects also correspond to overall priorities. Question marks may be attached to some of the projects, but overall the priorities convey an impression and image of regionalism and economic integration.

Will SADC succeed in implementing these priorities? One obstacle is limited institutional capacity, which in particular could have an impact on the secretariat's ability to make progress on 'soft' projects. This ability presupposes strong directorates as well as functioning national committees (or at least strong focal points). Furthermore, the secretariat has very little capacity to monitor and evaluate project implementation, which is likely to cause delays in project planning, launching, and implementing. On the other hand, the number of projects is relatively small and the directorates, once fully staffed, should have sufficient capacity to oversee them.

The 'hard' projects partly struggle with a different set of problems. Where strong regional agencies or project-management units are in place, implementation capacity may be stronger – particularly within certain areas of infrastructure. The main challenge is rather to develop proper regional policy frameworks which can provide clear guidelines for the development and implementation of projects. The directorates in the secretariat are crucial to ensuring that such frameworks are in place. The energy sector is a typical example. Several major projects in this area have been developed and implemented by regional agencies such as the Southern African Power Pool (SAPP), but these projects suffer from the absence of clear political guidelines and direction.

Capacity constraints will cause delays, but they can be overcome. The bigger challenge remains whether sufficient political will and commitment exist to ensure that SADC's ambitious social and economic objectives are achieved. Important insights into the obstacles and challenges facing the region are provided by SADC's trade policy, together with the implementation of its trade protocol, the promotion of its finance and investment strategies, and adoption of its finance and investment protocol.

SADC's trade policy, and finance and investment strategy

When considering SADC's trade policy and finance and investment strategy, it is useful to situate this against the broad backdrop of its socio-economic environment by examining some basic indicators and characteristics. The countries of Southern Africa had a combined population of 211 million in 2003, and a GDP of US$230 billion. South Africa accounts for 70 per cent of the region's GDP.

Economic performance varies widely across countries, reflecting the diversity of macroeconomic performance management. Recent economic performance has been sluggish, with real GDP growth at 2,6 per cent during 2000–2002, and improving slightly to 3,3 per cent in 2003 and 4,1 per cent in 2004. Per capita income has also deteriorated: in 2002, the average was US$812, down from US$1 004 in 2001. This is indicative of rising levels of poverty due to poor economic performance, and this is associated, inter alia, with the debilitating effects of HIV/AIDS, the challenges of post-conflict reconstruction, malnutrition, unemployment, declining life expectancy, and low access to basic services and infrastructure. Zambia has the highest level of poverty with 86 per cent of the population estimated to be living below the poverty line, followed by Zimbabwe (74 per cent), Mozambique (69,5 per cent), Angola (67 per cent), Swaziland (66 per cent), Malawi (54 per cent) and Tanzania (51 per cent). Inequality within the region is also high, with a regional Gini coefficient of 0,58 (World Bank 2004: 307ff).

Macroeconomic convergence has evolved unevenly in SADC. It has been faster among the five countries that make up SACU, namely Botswana, Lesotho, Namibia, Swaziland, and South Africa), and with the possible exception of Mauritius, has remained low for the rest of the SADC countries. The average inflation for SACU countries in 2000–2003 was 8,2 per cent, compared with 46,5 per cent for non-SACU countries, and 32,4 per cent for the region as a whole. Similarly, fiscal deficits are much lower among SACU countries, at 1,6 per cent of GDP for 2000–2003, while the remaining SADC countries average 5,6 per cent. A number of countries, such as Mozambique and Tanzania, have been implementing economic reforms that have reduced inflation and fiscal deficits. However, there have been significant slippages in Zimbabwe, the DRC, and Angola. Trends in the evolution of external debt show a similar picture of closer convergence within SACU and slow convergence among the rest. Mauritius and the other SACU countries (with the possible exception of Lesotho) have relatively low external debt ratios of below 25 per cent of GDP, while the remaining SADC countries have debt-to-GDP ratios of over 80 per cent, with Malawi being the most indebted country (World Bank 2004: 153ff).

Economic activity in SADC is dominated by the services sector, which includes tourism, transport, and business services. In 2003, the sector accounted for 67 per cent of GDP, followed by industry and agriculture, which accounted respectively for 24 per cent and 9 per cent. The services (44 per cent) and agriculture (37 per cent) sectors are also the largest employers of labour. The manufacturing sector accounts for a significant part of the economic base of South Africa, Mauritius, Swaziland, and, although in rapid decline, Zimbabwe. Together with their agricultural and mining sectors, these countries produce most of the region's exports. The services and manufacturing sectors dominate the intra-regional import trade.

Trade integration

Trade integration is also erratic, with total intra-regional trade accounting for 22 per cent of SADC's total trade for 1999–2003. SACU countries, but particularly South Africa, account for a substantial share of intra-regional imports and exports. To compound matters, there is a disjuncture between trade and integration, in both regional and global terms. Although a number of countries now pursue export-oriented strategies as part of their economic reforms introduced in the 1980s and 1990s, intra-SADC tariffs remain high and uneven across countries. For example, Tanzania's exports to Zimbabwe face a tariff of up to 94 per cent. SACU presents an interesting case: while trade within it is fully liberalised, SACU as a whole has been highly protected. Although South Africa's average tariffs against other SADC countries are relatively low, ranging from 0 to 10 per cent, the tariff regime is highly protective of certain imports. For example, tariffs against other SADC countries range from 13–31 per cent for clothing, 10–20 per cent for textiles, and 49–100 per cent for food processing. This situation is exacerbated by negotiating bilateral agreements within the region that exclude others, such as that between SACU and a collective of Malawi, Mozambique, Tanzania, and Zambia, which allows for tariff-free access for textile products in SACU under a quota system.

Most of SADC trade is with the EU, the United States, Japan, and, lately, increasingly with China. All SADC countries, including those in SACU, have large trade deficits with South Africa, principally because of South Africa's overall competitiveness, but also due to its somewhat restrictive trade policies; for example, in the case of textiles and appliances. Much of the region still relies on primary exports, mainly agricultural and minerals, and is thus vulnerable to external shocks and vagaries of commodity prices. The challenge facing SADC is thus to diversify and increase intra-regional trade to levels similar to other developing-country regional communities, such as in South America's MERCOSUR and Asia's Association of South East Asian Nations (ASEAN). This will require that SADC countries deepen, harmonise, and liberalise their trading regimes, while also seriously addressing the supply-side constraints – particularly weak infrastructure, human capital, investment, and production platforms – that continue to impede intra-SADC trade.

Intra-SADC trade has benefited from the signing of the 1996 trade protocol, which came into effect in 2001. The objectives of the protocol are to:

- further liberalise intra-regional trade in goods and services on the basis of fair, mutually equitable, and beneficial arrangements;
- ensure efficient production within SADC, reflecting the current and dynamic comparative advantages of its members;
- contribute towards the improvement of the climate for domestic, cross-border, and foreign investment;
- enhance the economic development, diversification, and industrialisation of the region; and
- establish an FTA in the region.

Given different levels of preparedness, a five-year special trade arrangement has been made that allows Malawi, Mozambique, Tanzania, and Zambia to export textiles and clothing products under a 'single stage transformation' rule of origin into the SACU market duty free, but, as noted, subject to quota limits. All other trade outside the special agreement will take place under the 'double stage transformation' rule of origin.

Implementation of the protocol recognises the principle of asymmetry in order to reduce the negative trade balance other countries have with South Africa. Under this arrangement, SACU will phase down tariffs in eight years by 2008, while the rest of SADC will do so in 12 years, by 2012. As such, non-SACU countries prepared two offers: one to South Africa and one to the rest to SADC. The SACU offer was made conditional, in order to compensate the other members of SACU – Botswana, Lesotho, Namibia, and Swaziland (BLNS) – which were liberalising their imports much faster than the other non-SACU countries. The offer was made conditional upon the BLNS countries being able to maintain the preferences they were enjoying in trading with non-SACU countries in SADC, even under other preferential arrangements, not related to SADC. In pursuit of this, some of the BLNS countries insisted on getting enhanced market access for selected exports of significance to their economies.

SADC is making some progress in its implementation, but is lagging behind the set time schedules. In any case, the suggested target dates (FTA by 2008, customs union by 2010, and common market by 2015) appear unrealistic. The design of the protocol and its implementation suffer from critical weaknesses that threaten to undermine potential benefits. In particular, the trade protocol has failed to ensure a phased elimination of non-tariff barriers (NTBs). According to Hess (2000), the most important NTB impediments are communication problems; customs procedures and charges; transport problems; lack of market information; lack of services such as financial, electricity, and technical support; and standards and certification restrictions. Some SADC member states are continuing to introduce such barriers, which undermine the credibility of the protocol and make it irrelevant in the eyes of traders and investors.

The recently completed mid-term review of the trade protocol is a first important opportunity to address the critical implementation issues and shortcomings (Kalenga 2004).

Related challenges are the time and scarce resources SADC spends on responding to global developments and certain initiatives. This applies in particular to EU efforts to negotiate free-trade agreements with the ACP countries through EPAs by December 2007. (This will take place under the Cotonou agreement, which is the successor regime to the Lomé convention, which governed trade and development co-operation among ACP states for 25 years) (Lambrechts 1999). From an EU perspective, EPAs are supposed to be vehicles for economic development, and should promote the integration of ACP members into the global economy. They ought also to be compatible with WTO rules governing free-trade agreements, and must cover substantially all trade, commonly understood to be more than 90 per cent of all trade.

SADC has not succeeded in taking a common stand in these negotiations. Member countries have pursued different interests, and many have even opted to negotiate through COMESA, and outside SADC. This has weakened SADC's integration agenda, and undermined its ability to establish a SADC customs union. Thus, for purposes of EPA negotiations, SADC has been reduced to seven countries – the BLNS, Angola, Mozambique, and Tanzania. Some critics argue that this is symptomatic of the divisive nature of EPAs, and that this shrinkage in numbers will have negative consequences for SADC's integration agenda, and further undermine it by reducing the policy and developmental space needed to address region-wide social and economic issues. The 'defection' of five countries with dual membership to COMESA has increased its ranks to 16 for purposes of EPA negotiations, for which it has formed the Eastern and Southern Africa bloc. There are three major causes for concern about the lack of uniformity between the Southern and Eastern African configurations. First, neither of the two groupings has established a customs union, nor have they fully implemented FTAs. Second, in the SADC region, the BLNS countries form part of a customs union with South Africa that already has an agreement with the EU on free trade, development, and co-operation. Even though the BLNS countries were not part of the South Africa–EU negotiations, they have a common external tariff with South Africa, and thus the agreement is de facto between SACU and the EU. Thirdly, most of the Southern and Eastern African countries are least-developed countries (LDCs) and, according to WTO rules, should not be obliged to conclude free-trade agreements (Ochieng & Sharman 2005).

The most striking aspect of the SADC and COMESA groupings is that of the 23 countries that constitute them (and excluding South Africa), only seven are not LDCs: Botswana, Namibia, and Swaziland in SADC; and Kenya, Mauritius, Seychelles, and Zimbabwe in COMESA. It is, therefore, doubtful whether full reciprocity will benefit the LDCs, and whether their economies are capable of standing up to the rigours and strains that trade liberalisation will impose on them. Nevertheless, LDCs face a Hobson's choice: there are not many other options apart from negotiating EPAs with the EU. They could opt for the EU's Everything But Arms (EBA) initiative once Lomé trade preferences expire in December 2007. EBA extends duty-free, non-reciprocal access to the EU market to all LDCs, even those that are not signatories to the Cotonou agreement. Accordingly, such countries can export all originating products duty free, and without any quantitative restrictions, except arms and munitions and, over a transitional period, rice, sugar, and bananas. In addition, there is no time restriction on the EBA initiative and preferences are set to last indefinitely. However, the EBA is not a contractual agreement, but a special preference granted by the EU that could be withdrawn at any point and for whatever reason. Furthermore, the other ACP countries will then be placed on a level playing field with all LDCs, which could erode their current comparative advantage in the EU market (Stevens & Kennan 2005; Le Pere 2001).

Further complicating trade matters in SADC is America's unilateral African Growth and Opportunity Act (AGOA) of 2000, which seeks to assist African countries in their regional integration efforts. It provides African countries with general duty- and quota-free access to the United States market, and extends a general system of preferences (GSP). The extension of AGOA to 2015 is widely interpreted as a United States attempt to lock African countries into a free-trade agreement, not dissimilar to EPAs. In June 2003, the United States initiated discussions on a free-trade agreement with SACU. Until these can be renegotiated, AGOA benefits are subject to highly restrictive eligibility criteria. These include establishing or making continuous progress towards a market-based economy; enacting legislation to protect private property; incorporating an open, rules-based trading system; and minimising government interference through price controls, subsidies, and public ownership. As a consequence, only 37 sub-Saharan African countries are eligible to export to the United States under AGOA. Although two-way trade between the United States and Africa increased by 36 per cent in 2003, only a small number of countries, such as South Africa, Angola, and Nigeria, have a large share of both imports and exports. Oil makes up the bulk of AGOA exports, with Angola being the chief beneficiary. It is estimated that 85 per cent of non-oil AGOA exports to the United States originate in SADC in the form of textiles and clothing (the BLNS and South Africa), and automobiles, transport equipment, and agricultural products (South Africa) (Lee 2004). However, an assessment by the UNCTAD questions the extent to which duty-free access under AGOA has been a boon for African exporters, and argues that there is no causal linkage between preferential tariffs and an increase in exports to the United States (UNCTAD 2003). In addition, the expiry of the multi-fibre agreement this year means that the textile and clothing industries in China, India, and other Asian countries will be able to compete more freely with African products favoured by AGOA.

Whether a free-trade arrangement between SACU and the United States will be more beneficial, and less restrictive, remains to be seen, but the negotiations are bound to be long and arduous, and will challenge the ability of SACU countries to conduct technically and substantively complex multi-level negotiations. The menu of complicated and controversial negotiating issues will include 'US agricultural subsidies and trade remedies; government procurement; an investment agreement and associated dispute settling procedures; labour and environmental standards; and intellectual property rights' (Draper 2004: 74). Besides the United States and EU, free-trade agreements are also being contemplated between SADC and MERCOSUR, SADC and ASEAN, SACU and China, and SACU and India. It strains the imagination whether such an intricate web of free-trade agreements will be sensitive to the region's imperatives of poverty reduction, development, asymmetrical treatment, and differentiation. Nevertheless, the sluggish implementation of the trade protocol, overlapping memberships in competing trade organisations, and the inability to take common positions in negotiations with third parties, does not necessarily imply that SADC member states are opposed to trade liberalisation and a deepening of economic integration. There may, however, be competing and different visions within SADC about the type of regional integration they wish to see. This is reinforced by the very wide differences between the member states in the size, structure, and strength of their economies.

SADC will at best move at a very uneven speed ('variable speed') in reaching the goals of integration, with some countries moving relatively fast towards realising them, but others lagging behind ('variable geometry'). One scenario is a split of SADC on these issues, ending up with two or more economic groupings – one based on an expanded SACU, the other centred on one or two northern groups.

Financial integration and investment

The objectives of financial and investment integration are to accelerate movement towards regional macroeconomic stability and convergence through prudent fiscal and monetary policies. This includes providing a co-operative framework for finance; promoting the development of sound investment policies, and encouraging savings; and stimulating investment flows and technology transfer. The targets set in the RISDP are very ambitious: increasing the level of saving to at least 25 per cent of GDP by 2008, and 30 per cent by 2012; increasing domestic investment to at least 30 per cent of GDP by 2008; finalising the legal and regulatory framework for dual and cross-listing on the regional stock exchanges by 2008; and achieving interconnection of payments and a clearing system by 2008.

A finance and investment protocol (FIP) has been under consideration for almost ten years, and has only recently been concluded. The key objective of the FIP is to establish a common market for facilitating the free movement of capital, labour, goods, and services. The FIP and the trade protocol are meant to be mutually reinforcing vehicles for regional economic integration. The FIP seeks to improve co-ordination between finance and investment with a view to diversifying and expanding SADC's productive sectors, enhancing trade, and promoting development and poverty eradication. The protocol also covers institutional and administrative arrangements, and provides mechanisms for its implementation. The ICM plays a politically enabling role, while the committee of ministers for finance and investment, with the committee of central bank governors, are the key players in the implementation of the FIP, which is broadly based on the 'best endeavour' approach. The draft protocol consists of 13 MOUs that have been incorporated as annexes in the FIP. Annexure 3, for example, encourages member states to harmonise their tax regimes and to co-operate on tax matters. Importantly, annexure 2 sets out macroeconomic targets for 'convergence'. These indicate that before 2008, public debt should fall below 60 per cent of GDP; current-account deficits should reach an undefined 'sustainable' level; inflation should be down to single digits from 2004–2008, should be less than 5 per cent on average from 2009–2012, and should decrease to about 3 per cent during 2012–2018. In terms of implementation, a unit for macroeconomic monitoring and surveying target performance will be located within the secretariat, forming part of a monitoring and evaluation unit envisaged under the RISDP.

These challenges, therefore, anticipate an important role for the financial sector in mobilising long-term savings, and channelling these into productive investment. Commercial banks are the most significant financial intermediaries in SADC. Other players in the financial sector include investment banks, insurance companies, leasing-finance institutions, development banks, and the capital market. Foreign and state ownership in the sector are very pronounced, though the private sector has made some inroads in recent years. Following financial sector reforms that were introduced in the 1980s and 1990s as part of the overall structural adjustment programmes, noteworthy liberalisation of the sector has occurred. A number of South African banks have also made their presence felt in the SADC region, concentrating mainly on financial trade and investment rather than retail banking.

SADC has formed the committee of central bank governors to assist in broadening and deepening financial integration. The committee's mandate is to spearhead the harmonisation of financial sector policies and ensure greater financial co-operation in the region, with an emphasis on enhancing the proficiency of payment systems of member countries, and improving banking regulation and supervision.

The SADC Association of Stock Exchanges has been established as well, to promote dual listing procedures, reduce exchange-control restrictions, and share information technology. SADC has also set up a regional Development Finance Resource Centre (DFRC), and the SADC-wide Development Finance Institutions Network, made up of national DFIs. The DFRC functions as the hub of the network and, together with a proposed SADC development fund, would be critical for supporting DFIs in their efforts to address seriously and concretely the challenges of development and poverty reduction.

In relative terms, and compared to Africa's other regional economic communities, SADC has been successful in attracting FDI. Between 1999 and 2002, this amounted to US$22,1 billion, representing 44 per cent of FDI flows into Africa. South Africa has emerged as a critical 'growth pole' for attracting investment into the region, receiving US$10 billion in 1999–2002 (or 45 per cent of inflows into SADC, and about 20 per cent into Africa). Other major FDI destinations within SADC include Angola, Tanzania, and Mozambique. A distinctive development is the emergence of South Africa as a major investor in the region, especially in financial services, mining and quarrying, clothing and textiles, tourism, and retail trade in food and beverages (Grobbelaar 2004: 98).The growth of FDI inflows into the SADC region reflects progress that has been made in removing investment restrictions, and in attempts to create an environment that is conductive to a better-functioning private sector. As a result, private sector organisations such as the Association of SADC Chambers of Commerce, the Southern African Enterprise Network, and the Small Enterprise Advisory Council now play a key role in the processes of encouraging and promoting regional integration and co-operation.

Finally, SADC is striving towards establishing a common market by 2015, the overall goal of which will be to facilitate trade and financial liberalisation, competitive and diversified industrial development, and increased investment for more intensive regional integration and extensive poverty eradication. In this context, SADC countries have all ratified the trade protocol, while paradoxically the FIP still lags behind. The preferred strategy in SADC is to begin with the FTA, which is set to be implemented by 2008, and then begin negotiations to establish a SADC-wide customs union by 2012. It hopes to bring about a common market by 2015. Using this logic, more than 85 per cent of products should be traded at zero tariff by 2008. In addition, the RISDP emphasises export diversification towards manufacturing, and increasing intra-regional trade to at least 35 per cent by 2008. These objectives will be achieved by gradually eliminating tariffs, adopting common rules of origin, harmonising customs rules and procedures, removing non-tariff barriers, and liberalising trade in services.

However, the ambition of a common market has to contend with a range of intractable constraints on regional integration in the SADC sphere. Therefore the long march to a common market will have to overcome numerous obstacles. These include the lack of macroeconomic convergence and stability; overlapping and contending regional memberships; the region's fragile social environment, including high levels of poverty and the HIV/AIDS pandemic; chronic food insecurity; political instability and poor governance; weak infrastructure linkages; and paralysing institutional constraints.

Conclusion: advancing co-operation, and challenges ahead

SADC is an old institution – it turned 25 in 2005, and is thus one of the oldest regional communities on the continent. But SADC is still very much a regional community in the making. It has progressed rapidly at the formal levels of policies and agreements, but its institutions are still weak, and the organisation has not made significant advances in the implementation of protocols and regional decisions.

In 2001, SADC approved an ambitious programme for a major overhaul of the organisation. Through institutional reform, SADC hoped to be able to establish a more efficient and effective head office and secretariat which could provide stronger leadership, ensure a more regionally focused programme of action, and close the gap between policies and implementation.

Achievements

The conclusion emerging from the discussion above is that the institutional restructuring has been completed only in a very formal sense. SADC has successfully managed to close down the decentralised and country-based sector co-ordinating units; the head office secretariat has been expanded, reorganised, and strengthened; and new governing structures have been put in place. In 2005, the organisation is thus expected to be in a better and stronger position to address the major development challenges facing the region. However, there are still major shortcomings and weaknesses. The SADC secretariat – the engine room of the organisation – is still a weak institution, and is struggling with bureaucratic inefficiencies, shortages of staff, and limited capacity to monitor and propose policy solutions. The reorganisation took more time than expected and the restructured secretariat only became fully operational in early 2006. The institutional reform process has also been characterised by a lack of transparency, poor communication, and a failure to engage properly with key stakeholders in civil society and the private sector.

The secretariat has also been expanded to provide administrative support to the OPDSC. This unit remains particularly weak, and it will take some time before it is in a position to provide strong support to SADC's work in this area. The co-ordination, communication, and division of labour between the SADC secretariat's work in the social and economic field, and in politics and security, are also particularly weak and undeveloped. The restructuring of SADC was not intended to increase the political power and authority of the secretariat. The secretariat is still in a legal sense an administrative unit, with all policy decisions being made by its governing structures. Because SADC has a hierarchy of such structures, the duplication and an unclear division of labour between its two parallel governing structures – one for social and economic issues and one for political and security issues – remain problems. A second and far bigger challenge stems from the fact that SADC decisions are based on the principles of consensus. SADC's governing structures do not have supra-national decision-making powers and have no real enforcement powers if a member country fails to adhere to or implement a decision. This has also contributed to a situation where the leaders of the organisation – the two SADC troikas – have been unable to provide strong leadership.

The new restructuring has facilitated the emergence of specialised regional implementation bodies outside the secretariat, but they labour under insufficient political frameworks and guidance from the secretariat. The efforts to set up implementation mechanisms in member countries through SNCs have so far been only partly successful.

While SNCs have been established, in most cases these committees have not emerged as efficient national vehicles for a deepening of regional co-operation and integration.

SADC has, however, made a number of important decisions in establishing a programme of action that can be implemented, and which will help the organisation forge a stronger regional focus and ensure prioritisation. The two key documents are the RISDP, covering social and economic issues, and SIPO. These documents attempt to address many of the key challenges facing the organisation and its vision of promoting a development community.

The emerging social and economic programme of action is based on the overarching objective of deepening economic integration through trade liberalisation and financial integration. The secretariat has succeeded in drawing up work programmes to ensure a stronger regional focus and prioritisation. The implementation of policies still lags behind, and the move towards economic integration is progressing at an uneven and slow pace. This is a reflection of overlapping memberships in competing trade organisations, and the inability to take common positions in negotiations with third parties. The poor implementation may also reflect competing and different visions within SADC about the type of regional integration members wish to realise and make manifest.

By comparison, the operationalisation of SIPO has been desultory at best. SADC still has to operationalise, prioritise, and develop implementation mechanisms for its engagement with politics, defence, and security. In doing this, SADC will be confronted by the divergent political outlooks and priorities of its member states.

The operationalisation of the RISDP and SIPO also suffers from insufficient attention to a number of overlapping areas. This relates in particular to a number of governance issues, with the implementation of SADC's anti-corruption protocol being a major example.

Moving forward?

For SADC, a key challenge is to become more effective, and to begin to close the gaps between protocols and implementation, between rhetoric and action. SADC is in a better shape to do so in 2007 than it was in 2001 – the foundations have been laid through institutional reform and through the process of identifying key priorities for action and intervention.

For this potential to be realised, it is crucial that the political will and commitment from member states are transformed into strong and unequivocal support for SADC, and underpinned by the progressive implementation of its regional co-operation and integration agenda under the RISDP and SIPO.

Institutional reform cannot replace political commitment. It can reasonably safely be concluded that there is the required political support for the SADC project from the member states. However, the support and commitment are probably much stronger from some of SADC's original core members, such as South Africa, than from some of more recent members. Core member countries such as Mozambique, Botswana, Zambia, Mauritius, and South Africa are deeply concerned about the organisation. They appear to be taking a strong interest in the restructuring, and would like the reform process to be successful. This is also emphasised by their generally very strong participation at SADC summits.

However, the basic political commitment to SADC also masks the often very different political outlooks and interests among member countries, and the huge disparities in development challenges in the region. There is an absence of common political positions and common values among member states, which impacts on the ability of SADC to develop common policies and unified approaches. This is also very evident in the two main issues discussed above – economic integration and political-security integration – where member states may not share the same perspectives about the desired path to integration. In particular, member states are reluctant to give up some of their national sovereignty for a future common good. The SADC summit and the meetings of its governing bodies are still primarily 'talking clubs' where political leaders meet and exchange views, rather than supranational decision-making organs. The secretariat itself remains small and characterised by bureaucratic paralysis, with little power and few resources to implement regional decisions, and its capacity to research and propose policy solutions is limited. Outside the arena of formal institutions and policies, the level of integration leaves much to be desired: the level of SADC identity among the populations of the region is underdeveloped – many are not even aware of SADC – and intra-regional trade is negligible.

SADC's future crucially depends on the role of South Africa as the regional power

South Africa has remained strongly committed to SADC, but has struggled to translate this into action. This may partly be the result of its search to define its proper role as a regional power. Nevertheless, multilateralism is emerging as a strong component in its Africa policy. The limited capacity of South African government departments is another problem, which has also become evident with the country's strong emphasis on making the AU and NEPAD more effective and results-oriented. This has reduced its capacity to engage with subregional issues. On technical aspects, several South African government institutions, perhaps especially the Development Bank, have played and are continuing to play an important role. A final issue to be mentioned is the often limited co-ordination between government institutions. Many South African government departments and agencies have engaged with SADC, but the lessons learnt from this may not have been sufficiently processed and translated into coherent policy responses and solutions.

A renewed South African commitment may now be emerging, as illustrated by both president Thabo Mbeki's state of the nation address in February 2005, and the country's strong focus on the OPDSC during its tenure as chair. A successful outcome will also to some degree depend on the extent to which South Africa manages to build an alliance with other SADC member states. Its potentially strongest political allies here remain Mozambique, Botswana, Zambia, Mauritius, and Lesotho. Namibia and Angola, on the other hand, have not been equally close, and in the case of the former this may have some impact on the activities of the OPDSC now that it has taken over as chair, although South Africa will remain part of the troika for another year. A final note should also be made regarding the role of NEPAD. The partnership has a range of activities, which occur at the continental, regional, and national levels. Do they undermine and weaken or do they reinforce and strengthen SADC's programmes and projects?

NEPAD formally relies on SADC and the regional economic communities for implementation. Although there was an element of 'institutional rivalry' between the SADC and NEPAD secretariats, mechanisms to facilitate communication, dialogue, and a division of labour are now coming into place. More importantly, SADC's new strategies and emerging programmes of action (RISDP and SIPO) are harmonised with the strategic plans and priorities of NEPAD and the AU. NEPAD's 'comparative advantage' and areas where it may assist in moving SADC forward include, firstly, its role as continental advocate and fundraiser. It is in a better position to negotiate with the world, sensitising it to African problems, and in identifying external blockages to development and mobilising external funding for major programmes. A second area where NEPAD interventions may help SADC is its role as an agent of pressure on national governments. Its chief instrument here is the African peer review mechanism and its ability to address governance issues. This work is potentially of great benefit in assisting the OPDSC's efforts to operationalise its strategic objectives, especially in relation to politics and governance issues. NEPAD's important contribution in the sphere of peace and security – it spawned the idea of the AU's peace and security council – may be less relevant in the sense that SADC is already relatively far advanced in developing policies for peacekeeping and peace-building. It should also be added that NEPAD and the

AU are far ahead of SADC in developing modalities for engaging with civil society, and for securing transparency and good communication.

The final and most challenging area is the relationship between SADC and NEPAD in developing and delivering social and economic development projects. An interesting pattern is developing at the level of project development and implementation. NEPAD is not an implementation agency, but it is becoming fairly efficient as a facilitator and planner. NEPAD has been strong in bringing in other specialised agencies and consultancy companies to offer solutions and provide project proposals. In some areas they have been far more efficient than SADC. This includes, in particular, priority areas such as ICT, where SADC still has to engage effectively, or in areas where it currently has weak capacity, such as tourism or higher education and research.

In the field of trade and financial integration, on the other hand, NEPAD has left most activities relating to Southern Africa to SADC. The closest interaction appears to be in the field of infrastructure development, particularly in the transport and energy sectors. SADC submitted its proposal – basically a list of old and new SADC projects – to NEPAD for inclusion in NEPAD's continent-wide infrastructure short-term action plan (STAP) from 2002. NEPAD picked some of these items for inclusion in STAP. For these priority projects, NEPAD is expected to be able to provide additional resources and facilitate fast-track implementation, with the African Development Bank acting as the lead agency. A similar development is taking place relating to the SDIs or development corridors, which are highlighted and prioritised in both NEPAD and SADC documents. The development of SDI projects is essentially run by South Africa's Development Bank (see more on SDIs in the section on RISDP above).

The SADC/NEPAD interaction has helped to fast-track some priority projects. However, the current status of the projects also illustrates familiar constraints. Among these, the capacity to implement remains a bottleneck, and the contributions of these projects to regional economic development suffer from the absence of clear policy guidelines and regional frameworks.

The future of SADC seems open and contingent, on the basis of a range of reflective considerations in this paper about SADC, its historical genesis, and contemporary institutional and political evolution. That future will depend critically on how it manages the multiple agendas relating to its integration imperatives, and security and governance challenges. However, the sparks that will create the necessary impulses for a successful SADC originate in its foundational values as a development community. As Vale (2001) has observed, 'the notion of Southern Africa – like the notion of Europe – is a single and indivisible one'. How SADC's future as an indivisible region evolves will ultimately be determined a number of factors. First is the will and leadership of its members; second, the extent to which democratic pluralism becomes embedded in and across countries; third, whether a strong coalition of members and societies emerges which can drive the SADC project. Lastly, there is the extent to which policy learning and institutions become consequential in improving the quality of life of the region's citizens.

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Economic integration in SADC and the economic partnership agreement negotiations

Stella Mushiri

Background

SADC is made up of 14 member states[1] which are at different levels of economic development, and thus face diverse development challenges. South Africa is disproportionately the largest and most developed economy in the Southern African region, while its fellow SADC partners include eight least developed and five developing countries. With the exception of South Africa, the SADC region remains a marginal player in international trade markets, despite concerted efforts being made to integrate more into the international economy and at a regional level.

Prior to the 1990s, SADC was mainly a co-ordination conference[2] that primarily pursued a political integration agenda. However, the SADC treaty was amended in 1992, with the intention of transforming it into an economic community, which is now also pursuing economic integration objectives at both regional and international levels. SADC has set for itself a very ambitious timetable for achieving its regional integration objectives. In pursuance of this, it has developed the RISDP and SIPO were developed. These two documents lay the foundation for deepening regional integration in SADC. The benchmarks for deepening economic regional integration have been set as outlined below.

Establishment of an FTA by 2008[3]

The SADC protocol on trade was signed in 1996. Its implementation commenced in 2000, although negotiations for pertinent non-tariff issues – such as rules of origin; technical barriers to trade, including sanitary and phytosanitary (SPS) services; trade in services; etc – are still ongoing. The phasing in of tariff reductions under the FTA takes into account the level of development of individual member states, with those that are more developed accelerating their tariff reductions, and the least developed allowed to back-load their tariff reductions. In this regard, the SACU[4] region would front-load the elimination of its tariffs, followed by Mauritius and Zimbabwe, which would mid-load, and, lastly, the least developed countries would be allowed to back-load.

The implementation of the protocol has not been without challenges and setbacks, with seven of the 11 countries that are implementing reported to be on track with regard to meeting their tariff reduction commitments and obligations, while four are facing serious implementation challenges, and are lagging behind.[5] Implementation of the FTA will require all participating countries to have liberalised 85 per cent of their imports by value by July 2008. Efforts are under way to assist the countries that are behind in complying fully with the commitments and obligations they accepted during the negotiation process, and make the deadline. This is a major challenge, particularly in terms of possible fiscal revenue losses for the countries, as this would now mean implementing drastic tariff cuts over a very short period. Implementation of the SADC FTA will be complete by 2012, when the remaining 15 per cent of imports that were designated as sensitive products will be fully liberalised.

Establishment of a customs union by 2010

SADC has given itself a three-year time frame within which it has to work towards establishing its customs union, with preparatory work having commenced in 2007. Its members recognised right from the beginning that the process leading to a customs union would not necessarily be preceded by the attainment of a fully-fledged FTA. Thus, despite the fact that some of its members are struggling to implement the FTA, SADC has lately embarked on an ambitious programme to fast-track the establishment of a customs union, as set out in its RISDP. Very limited time is available to undertake all the work, and go through all the processes, that will be required to enable the implementation of a customs union, especially taking into account the fact that SADC member states are still implementing different trade policies, and are far from developing a common external tariff. It is, therefore, almost a certainty that the SADC customs union will not be achieved within the anticipated timelines. It is not clear yet whether an expanded and restructured SACU would form the basis of a SADC customs union, or whether it would be developed independently. In the latter case, it is possible that two customs unions could emerge from SADC if SACU chooses not to disband, which would not necessarily aid the region's economic integration agenda.

SADC has developed a road map that will guide the customs union process. Its main elements and tasks consists of:

1. the establishment of an institutional framework comprising a customs union task force – composed of customs, trade, finance, and economic development experts – that will spearhead the preparation, co-ordination, and implementation of the customs union, and to provide guidance on customs union studies, complemented at national levels by interdepartmental task teams and a ministerial task force that will monitor and make decisions on issues arising out of the negotiations;
2. the development of a revenue collection and sharing mechanism; and
3. the development of a legal framework – for developing a common regional trade policy and instruments. These include:

- common tariff nomenclature and common external tariff;
- common customs legislation, practices, and procedures;
- common valuation system;
- common trade remedy measures;
- common technical trade regulations (standards, SPS, technical barriers to trade [TBTs], etc); and
- development of a customs union protocol.

The RISDP also sets out targets for establishing:

- a common market by 2015;
- a monetary union by 2016; and
- a single currency by 2018.

and work is already in progress to develop instruments that will facilitate the implementation of these.

Multiple trading arrangements and overlapping membership in Southern and East Africa

SADC member states are involved in negotiating, and/or are implementing, multiple trading arrangements. These include numerous bilateral preferential and free trade agreements already entered into, or being negotiated, between individual SADC member states, and between individual SADC member states and non-SADC member states, and WTO[6] negotiations at a multilateral level.

A number of initiatives aimed at growing intra-regional trade while also deepening integration of the region's economies are under way in Southern and East Africa.

- **COMESA FTA and customs union**
  Eleven countries are implementing the COMESA FTA, which will evolve into a customs union by 2008. Preparations for the customs union are at an advanced stage, and the CET is already being finalised.
- **SADC FTA and customs union**
  Thirteen countries have signed the SADC protocol on trade, of which 11 are currently implementing, with another expected to start soon. The FTA will be fully established

by 2008. Although some countries are facing implementation challenges, plans are under way to fast-track the FTA into a customs union, which should be operational by 2010.

- **SACU**
  SACU has been in existence for a very long time and is functional, with a CET in place, although it is yet to operate fully as a customs union.
- **EAC customs union**
  The EAC customs union was established during 2005, and has a CET in place, but much still needs to be done to make it fully operational.

In addition to these, a multitude of bilateral preferential trade agreements exist, with more being negotiated, including among SADC member states, which can be taken to imply a lack a confidence in the ability of the SADC trade protocol to deliver desired market access, as a result of, among other flaws, stringent rules of origin. The membership of the various groupings and trading arrangements each country is participating in are shown in table 1.

Memberships of these regional trading arrangements overlap. While this does not pose significant problems for the existing FTAs and bilateral preferential trade agreements, more serious problems are anticipated should, in addition to the already existing SACU and the EAC, the COMESA and SADC customs unions become a reality.[7] In the meanwhile, problems relating to overlapping memberships are already being experienced, and became more apparent when countries in the region chose to negotiate EPAs under three configurations. Five SADC member states have opted to align with the ESA EPA group, eight are with the SADC EPA, and the DRC is negotiating with the Economic and Monetary Community of Central Africa (CEMAC) (of which it is not even a member). Further complications within the SADC ESA group arise from the fact that six of the eight countries are members of two customs unions – five are members of SACU, and hence de facto members of the Trade, Development, and Co-operation Agreement (TDCA) entered into between South Africa and the EU, while Tanzania is a member of the EAC, together with Kenya and Uganda, which are aligned to the ESA EPA group.

The eight countries negotiating an EPA under the SADC configuration are facing challenges arising from the implementation of multiple trading arrangements. A number of problems have manifested as a result of these challenges. Firstly, heavy administrative and financial burdens have been imposed on national governments whose resources are already stretched. In terms of human resources, capacity and related problems exacerbated the already inadequate negotiating and analytical skills, thus overburdening the staff dealing with trade matters. Secondly, the negotiation process has been weighed down by difficulties experienced in formulating negotiating positions, due to lack of common trade policies, sometimes creating conflicts and tensions, which in turn slowed down and complicated the negotiating process. The third, major challenge is fragmentation and duplication of efforts, whereby a country employs scarce resources to achieve similar objectives for different trading arrangements.

Table 1: Membership of regional economic groupings and trading arrangements*

	COMESA	COMESA FTA	EAC	IOC	IGAD	SACU	SADC	SADC FTA	ESA EPA	SADC EPA
Angola							•	•		•
Botswana						•	•	•		•
Burundi	•	•	•						•	
Comoros	•			•					•	
DRC	•						•			
Djibouti	•	•			•				•	
Egypt	•	•							•	
Eritrea	•				•				•	
Ethiopia	•				•				•	
Kenya	•	•	•		•				•	
Lesotho						•	•	•		•
Madagascar	•	•		•			•		•	
Malawi	•	•					•	•	•	
Mauritius	•	•		•			•	•	•	
Mozambique							•	•		•
Namibia						•	•	•		•
Rwanda	•	•	•	•					•	
Seychelles	•			•					•	
South Africa						•	•	•		•
Sudan	•	•			•				•	
Swaziland	•					•	•	•		•
Tanzania	•		•				•	•		
Uganda	•		•		•				•	
Zambia	•	•					•	•	•	
Zimbabwe	•	•					•	•	•	

*COMESA – Common Market for Southern and Eastern Africa; EAC – East African Community; IGAD – Intergovernmental Authority on Development; IOC – Indian Ocean Commission; SACU – Southern African Customs Union.

Notes:

1. Mozambique and Angola are the only countries that are members of only one regional trading arrangement – SADC. Both countries were previously members of COMESA.
2. Angola and Madagascar have acceded to the SADC trade protocol but are not yet implementing.

SADC EPA negotiating structure

SADC EPA preparations and actual negotiations, at all levels, are being co-ordinated and led by Botswana,[8] which also plays the role of 'spokesperson' in discussions with the European Commission (EC). Botswana also provided the chief technical advisor who heads the EPA unit based at SADC secretariat. The EPA unit does not have a negotiating mandate, but provides technical support and expertise, co-ordinates and manages the negotiation process, and provides secretarial services for meetings. To expedite preparatory work, each

SADC EPA country has been assigned responsibility for co-ordinating activities on a specific negotiation issue.

As illustrated below, negotiations with the EC are taking place at three levels: the ministerial, senior officials, and at the EPA negotiating forum. Senior official representation of SADC negotiators is at the level of permanent secretaries and Brussels-based ambassadors, and at director level for the EPA negotiating forum. EPA-related work at the country level is undertaken through the national negotiation task forces that bring together government officials and non-state actors, including the private sector.

Ministers of trade

↑

Senior officials

↑

EPA negotiation forum

↑

National negotiation task force

The Regional Preparatory Task Force (RPTF) – which comprises national authorising officers, the EPA unit, and the SADC secretariat – was established in 2005. Although it falls outside the negotiation structures, it plays a crucial function of ensuring efficient delivery of support to finance EPA preparatory activities and processes throughout the region.

At the level of the African, Caribbean, and Pacific states (All ACP), one of the major outcomes of first phase of EPA negotiations was the agreement, by both the ACP and the EC, that EPAs need to be accompanied by appropriate development-support measures, in order to allow ACP countries and regions to maximise the benefits they should be deriving from EPAs. A joint EC-ACP RPTF was set up mainly to facilitate the implementation of this.

Negotiating time frames and implementation of the joint road map

EPA negotiations are taking place in two phases. The first, which was completed in October 2003, was at conducted at the All ACP level. During this phase, the ACP identified six areas within which the negotiations should be conducted. These are:

- market access issues;
- agriculture and fisheries issues;
- development issues;
- trade in services;
- trade-related areas; and
- legal issues.

The second phase of EPA negotiations is being conducted at the regional level. The SADC–EC EPA negotiating phase was launched in July 2004, at which meeting a joint road map for negotiations was agreed. The following negotiation timetable was set:

Stage 1: focusing on setting out priorities and preparations for negotiations, and intended to run from July to December 2004.
Stage 2: focusing on undertaking substantive negotiations, and intended to run from July 2005 to June 2007.
Stage 3: finalisation and preparation for implementation, to be done between July and December 2007.

The implementation of the second stage kicked off in July 2005, when SADC ministers of trade agreed on the prioritisation of negotiation issues, as listed below:

- development dimensions and regional integration;
- market access, covering agriculture, fisheries, and non-agriculture products;
- SPS measures;
- standards and other TBTs;
- rules of origin;
- trade facilitation and customs co-operation;
- trade remedies,
- trade in services;
- legal provisions and dispute settlement; and
- institutional arrangements and implementation modalities.

In developing its negotiation positions and strategy, SADC was guided by a number of objectives or principles. Firstly, SADC strongly believes that the EPA should positively contribute to the economic development of its respective economies by helping to address supply-side constraints, and related competitiveness and production weaknesses. The second principle emphasised the importance of the EPA in complementing and strengthening regional integration programmes and processes in SADC, including facilitating the implementation of the protocol on trade. The third principle advocates for the recognition of differences in the levels of economic development and vulnerability among SADC countries. Special and differential treatment, which goes beyond WTO rulings, should thus be granted, and not only limited to longer transitional periods and technical assistance. In addition, special attention should be provided to the LDCs, namely Angola, Mozambique, and Tanzania. Lesotho, being a member of a customs union, is excluded, although it is classified as an LDC.

At the beginning of 2006 (March), SADC presented to the EC its 'Framework proposal for the EPA negotiations between SADC and the EU'. The framework makes two notable proposals:

- that, in an effort to enhance regional integration, South Africa should be included as a full participant in the SADC-EU EPA negotiations, and the alignment of the TDCA and EPA process; and
- that trade in services, investment, and other trade-related issues be negotiated in a co-operative manner that will not result in region-wide binding obligations.

Consultations within the EU took longer than expected to complete, with the official EC response to SADC being made only in March 2006, resulting in the loss of a year of negotiation time. In addition to agreeing to the inclusion of South Africa, the EC proposed:

- differential treatment to the South and less-developed countries in terms of market access into the EU;
- that South Africa should commit more on new-generation issues;
- the inclusion of trade in services, investment, government procurement, intellectual property rights, competition, labour, environment, etc; and
- maintaining that non-reciprocity of duty-free, quota-free market access is not WTO-compatible, that Angola, Mozambique, and Tanzania would therefore have to make offers. The cost of reciprocity to SADC will certainly be high, as the EU will enjoy greater market access into the economies of SADC countries, which will mean increased competition for domestic producers, especially in view of the fact that the SADC FTA is not yet fully implemented.

Negotiation challenges

Progress, though slower than originally anticipated, continues to be made in the negotiation process, despite the numerous challenges facing the SADC group. The major challenges are enumerated below.

Institutional weaknesses: These have been observed at both the country and regional levels. They have mainly manifested as, or been attributed to:

- weak negotiation structure, whose flaws were exacerbated by the poorly defined roles and mandate of the EPA unit, which were initially not clearly understood;
- understaffing and inadequate technical and analytical capacity – this affects both the EPA unit and member states;
- support and participation by the SADC secretariat being half-hearted, and not being coherent;
- little or no collaboration between the ESA and SADC in developing and negotiating strategies and positions, and in undertaking actual negotiations; and
- non-state actors not being actively involved in the negotiation process. This is also likely to pose implementation challenges.

Divisive negotiating process: The process of negotiating the SADC EPA-EU has been rather divisive, with some of the problems internal to SADC, and others originating from the EC.

Contrary to the underlying objective of the SADC EPA, that it would strengthen regional integration, Southern Africa's regional integration agenda is being undermined by the following factors:

- EPA configuration problems: as indicated in table 1, five SADC member states are negotiating under the ESA grouping,[9] while eight are negotiating under the SADC configuration (of which recent developments indicate Tanzania is now negotiating with the EAC, and is likely to end up signing an ESA-style EPA), and the DRC is negotiating under CEMAC;
- difficulties in SADC of developing and presenting unified positions and trade-liberalisation offers;
- divergent views and interests within the SADC group – conflicts have lately arisen from the possible inclusion of trade in services and other new-generation trade issues;
- the inclusion of South Africa, which already has an FTA with the EU (the TDCA,[10] which Botswana, Lesotho, Namibia and Swaziland [the BLNS countries] are also implementing de facto), created further complications, especially as it is proposed to treat South Africa differently; and
- valuable negotiating time lost due to delays in the EU response to SADC's formal proposals of March 2006.

Capacity-building in SADC and resource-mobilisation difficulties: SADC and its member states continue to experience difficulties in accessing funding to support capacity-building for negotiations,[11] mainly due to stringent and cumbersome EU procedures. This has often forced the EPA unit to source funding from other donors, despite having been allocated €7,5 million by the EU for supporting negotiations.

Differences of opinion in SADC and EU: Although there is nothing unusual about negotiating parties taking divergent views on pertinent issues, these should be narrowed down as negotiations proceed. Listed below are key issues that will have far-reaching implications for the SADC countries, on which both sides seem to hold strong positions:

- the development dimension: in view of the magnitude of developmental work needed to enhance the productive and competitive capacity in the individual SADC states, their main concern is whether the SADC–EU EPA will result in additional funding to what is already promised under the Cotonou agreement;
- inclusion of new-generation issues, some of which will result in the EPA overtaking the WTO agenda: this is obviously not in the best interests of some SADC countries, which are also struggling with other international negotiations; the proposed inclusion of trade in services is the most contentious and divisive issue, unless flexibility is allowed to enable SADC countries not to have to make commitments upfront, which would mean that the signing of EPA would not be conditional upon some SADC countries (South Africa in particular) making binding commitments on services;
- concluding the EPA within the agreed time frame: the negotiating targets were missed, and at the time this paper was written stage 2 was still in progress. This raises

questions as to whether the SADC–EU EPA will be concluded in time, and whether SADC will be ready to implement on 1 January 2008. The EU believes it is possible, and is not prepared to apply to the WTO for a waiver to extend EPA negotiations beyond 31 December 2007. SADC is somewhat less optimistic, but believes that an EPA will be signed on time if the EPA will initially cover market-access issues only. This would mean that negotiations for non-market access issues could continue after the signing of the EPA, and would be done in tandem with the implementation of the signed aspects of the agreement.

Implementation challenges

The implementation of EPAs is expected to pose challenges for Southern African countries, be they in implementing the SADC–EU, or ESA–EU, EPAs. These countries are already struggling to implement the numerous existing trade agreements to which they are party, each with its own tariff liberalisation schedules, rules of origin criteria, and other conditions and standards that they may be required to comply with. This places severe strain on the customs administrations, and also on the traders, who often do not have ready access to all the relevant information on the various trading arrangements.

The failure to complete substantive negotiations for the SADC–EU EPA within the agreed time frames has meant that the newly signed EPA agreement will be implemented without necessarily going through the preparatory and finalisation stage as originally planned. Even if the EPA is signed within the agreed time, teething problems are inevitable. It is highly unlikely that SADC governments and traders would be prepared and ready to implement on 1 January 2008, as governments would not have had a chance to communicate the detailed provisions of the agreement to their private sector constituencies and traders. The fact that the private sector has largely not been actively involved in the negotiation process, and is thus uninformed about intricate details, further aggravates the situation, and undermines its ability to take advantage of the new agreement.

Tariff liberalisation in the context of the EPA will pose a serious challenge to SADC countries, not only in terms of domestic producers facing increased competition from goods originating from the EU,[12] but also in terms of significant revenue losses to the fiscus. It is estimated that such losses could amount to 30 per cent of import revenues. For SADC countries, apart from South Africa, trade taxes are an important source of government revenue, and some of the smaller and vulnerable economies will find it difficult to withstand significant revenue losses. This underscores the urgent need to have in place, prior to implementation, transitional arrangements and compensation schemes that will mitigate against hardships arising from implementing the EPA. Unfortunately, no such facilities are in place yet.

SADC's options

With only four months, at time of writing, remaining to the 31 December deadline, and much still to be done to complete negotiations and prepare for ratification and implementation, and no chance of the WTO waiver being extended, pressure is mounting for the SADC countries to speed up and conclude negotiations, and be in a position to sign the agreement. SADC has two options – to sign or not to sign. The first option will entail accelerating the conclusion of the ongoing market-access negotiations, and signing a framework agreement with the EC by the deadline. This will mean that details of non-market access and trade-related issues will then be negotiated in the future.

The consequences of opting not to sign an EPA by 31 December 2007 will mean that the LDCs could choose to trade under the EBA category, and forego an opportunity to negotiate a more favourable agreement, while the SACU countries would continue to implement the TDCA. However, should any of the LDCs graduate to developing-country status, and not opt to join and sign under other EPA configurations in the ESA region, then they will have to trade under the generalised system of preferences, which is less favourable than the EBA.

What is mostly likely to happen is that SADC will sign an EPA, with SACU, Angola, and Mozambique each concluding trade-liberalisation offers that will govern EU access into their markets. SACU's market-access offer will differentiate between the BLNS and South Africa. It is unlikely that Tanzania will sign a SADC EPA, as it has to make a joint trade-liberalisation offer with fellow members of the EAC. This will probably mean that Tanzania will sign an ESA EPA instead.

Endnotes

1 Angola, Botswana, DRC, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe.

2 SADC was then the Southern Africa Development Co-ordination Conference (SADCC).

3 A six-month extension has been granted, and the protocol is expected to be established by July 2008.

4 Comprising Botswana, Lesotho, Namibia, South Africa, and Swaziland. The SACU countries, being members of a customs union, are implementing a joint liberalisation offer, and because of this the BLNS countries were forced to reduce their tariffs at the same pace as South Africa, the most developed country in the SADC region.

5 This excludes Angola and Madagascar, which have signed the protocol, but are yet to implement. Implementation by Madagascar is imminent, and its tariff-reduction schedule is in the final stages of approval by the Trade Negotiation Forum (TNF). Angola is still putting together its tariff phase-down offer, which must be tabled before the TNF and negotiated. This leaves out SADC's 14th member, the DRC, which has not acceded to the trade protocol.

6 All SADC states are members of the WTO.

7 Both the COMESA and EAC customs unions will be based on the same CET, and hence these can seemingly co-exist. However, complications could arise if Tanzania, which is already a member of a customs union, opts to join the SADC customs union, or opts to become a member of SACU.

8 However, lately, since it formally joined the negotiations in early 2007, South Africa has increasingly taken the lead.

9 Madagascar, Malawi, Mauritius, Zambia, and Zimbabwe.

10 The trade, development and co-operation agreement entered into by South Africa and the EU.

11 Apart from the countries of the south, which is better resourced and has also had more experience in negotiating multilateral agreements, the other SADC countries need financial support to enable them to build their technical capabilities (for both state and non-state actors) as they go through this process. The situation of the latter group of countries is worsened by the multiple trade negotiations they are participating in.

12 Consumers usually perceive imported European goods as being cheaper and of better quality.

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