DISCUSSION PAPER

REGIONAL INTEGRATION IN SOUTHERN AFRICA

OVERVIEW OF RECENT DEVELOPMENTS

Lolette Kritzinger-van Niekerk
Emmanuel Pinto Moreira

December 2002

REGIONAL INTEGRATION AND COOPERATION
AFRICA REGION
THE WORLD BANK

Africa Region Human Development Department
1818 H Street NW
Washington DC 20433 USA

Callisto Madavo, Vice President
Paula Donovan, Sector Director
Philippe Le Houerou, Sector Manager
Lolette Kritzinger van-Niekerk, Task Team Leader

A copy of this report may be obtained from:
Internal Document Unit
The World Bank
1-202-473-4641

For further information about the Africa Region Regional Integration Unit, please send an e-mail message to the following address: promandheuyer@worldbank.org

Cover design by World Bank Printing and Graphics Department

REGIONAL INTEGRATION IN SOUTHERN AFRICA

Overview of Recent Developments

Lolette Kritzinger-van Niekerk
Emmanuel Pinto Moreira

December 2002

Foreword

This study is published by the World Bank in its informal series of Discussion Papers on regional integration in Africa, and specifically covers recent developments in Southern and Eastern Africa. In accordance with the April 2, 2001 Board Presentation on the Africa Region's greater focus and new approach to regional integration, the teams for regional integration in southern and eastern Africa have:

- renewed interaction with the Southern Africa Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) in order to establish their objectives and priorities for regional integration in their respective arrangements;
- undertaken an update of the Bank's knowledge base on the status of and prospects for regional integration in southern and eastern Africa.

The purpose of this background paper is to inform the Bank and others about challenges and opportunities for strengthening socio-economic integration in southern Africa, and specifically in SADC, by:

- highlighting some salient political, socio-economic and geographical features of the sub-region,
- giving an overview of recent developments in regional integration in southern Africa, and
- giving an indication of selected international development partners' support for regional integration in sub-region.

Without the benefit of 'regional' economic and sector work, the paper provides a 'broad-brush and impressionistic' picture of selective developments within the southern African region. Each of the issues covered requires further study, while some other important issues might not have received attention at all.

The paper finds that the political, institutional and socio-economic environment between countries in the southern Africa region is heterogeneous in the extreme, converging in policies, but not necessarily in outcome. Together with the multiple memberships of countries in regional integration arrangements, this is posing particular challenges and opportunities for regional cooperation and integration efforts and no less to development partners' support for integration in the sub-region. Currently, SADC finds itself in the midst of major reforms of its institutions, processes and management as well as of its regional integration agenda. One of the outcomes of SADC's restructuring process would be a regional indicative strategic development plan. This plan would also be important for the Bank in designing a responsive regional integration assistance strategy with the sub-region

We hope that this paper would contribute not only to updating the Bank's knowledge base on regional integration in the southern and eastern Africa region, but also to wider discussions and debate that will help the sub-region move forward towards a better future.

Marie-Françoise Marie-Nelly
Program Manager Regional Cooperation and Integration, SSA
The World Bank
December 2002

TABLE OF CONTENTS

Lolette Kritzinger-van Niekerk (AFTP1), Task Team Leader, and Emmanuel Pinto Moreira, Consultant, prepared this report as a broad introductory and background work on regional integration in southern Africa for the World Bank to promote its dialogue aimed at a coherent support initiative for regional cooperation and integration in the sub-region. Members of the southern Africa team provided valuable inputs for and comments on earlier drafts.

LIST OF BOXES

LIST OF FIGURES

LIST OF TABLES

Acronyms and Abbreviations

AASA	Airlines Association of Southern Africa
ACP	African, Caribbean and Pacific States
ADI	African Development Indicators
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
AIDS	Acquired Immune Deficiency Syndrome
ANC	African National Congress
ANG	Angola
ANSARA	Association of Southern African National Road Agencies
ASEAN	Association of South Africa East Asian Nations
ASYCUDA	Automated System for Customs Data Analysis
AU	African Union
BBR	Beitbridge Bulawayo Railway
BLNS	Botswana, Lesotho, Namibia, Swaziland
BOT	Botswana
BR	Botswana Railways
CARICOM	Caribbean Community
CAS	Country Assistance Strategy
CBI	Cross-Border Initiative (See RIFF)
CCBG	Committee of Central Bank Governors
CEAR	Central East African Railway
CEMAC	Central African Economic and Monetary Union (Communauté Economique et Monétaire de l'Afrique Centrale)
CET	Common External Tariff
CFA	Communauté Financière Africaine
CFM	Caminhos de Ferro de Mocambique
CFM-C	Caminhos de Ferro de Mocambique-Centro
CIDA	Canadian International Development Agency
CIF	Cost, Insurance and Freight
CISNA	Committee on Insurance, Securities and Non-Banking Financial Authorities
CMA	Common Monetary Area (SACU members minus Botswana)
CMG	Corridor Management Group
COMESA	Common Market for Eastern and Southern Africa
CNS/ATM	Communications Navigation Surveillance/Air Traffic Management
CPCs	Corridor Planning Committees
CU	Customs Union
DANIDA	Danish International Development Agency
DBSA	Development Bank of Southern Africa
DCA	Department of Civil Aviation
DFI	Development Finance Sub-Committee
DMC	Drought Monitoring Centre
DRC	Democratic Republic of Congo
EAC	East African Community

ECA	Economic Commission for Africa
ECOWAS	Economic Community for West African States
EDF	European Development Fund
EEC	Commission of the European Communities
EIB	European Investment Bank
EPZ	Export Processing Zone
ESW	Economic Sector Work
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FESARTA	Federation of East and Southern African Road Transport Association
FISCU	Finance and Investment Sector Coordinating Unit
FOB	Free On Board
FTA	Free Trade Area
GATS	General Agreement on Trade in Services
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GNP	Gross National Product
GSP	Generalized System of Preferences
GTZ	German Association for Technical Cooperation
HCB	Hydroelectrica de Cahora Bassa
HDI	Human Development Index
HIV	Human Immune Deficiency Virus
HRD	Human Resources Development
HS	Harmonized System
HSCU	Health Sector Coordinating Unit
HYCOS	Hydrological Cycle Observing System (SADC)
IBRD	International Bank for Reconstruction and Development
ICAO	International Civil Aviation Organization
IDA	International Development Association
IFC	International Finance Corporation
IGAD	Inter-Governmental Authority for Development
ILO	International Labor Organization
IMF	International Monetary Fund
IMO	International Maritime Organization
IOC	Indian Ocean Commission
IPA	Investment Promotion Agency
IPP	Independent Power Producer
IRRN	Interconnected Regional Rail Network
IT	Information Technology
ITF	International Transport Workers Unions
ITU	International Telecommunications Union
JTC	Joint Trade Commission
KADCO	Kilimanjaro Airport Development Company
LDC	Least Developed Country
LES	Lesotho

MAL	Malawi
MACSS	Mauritius Automated Clearing and Settlement System
MAUR	Mauritius
MDC	Maputo Development Initiative
MFN	Most-Favored Nation
MICAP	Micro Action Plans
MIGA	Multilateral Investment Guarantee Agency
MINEDAF	Meeting of Ministers of Education in Africa
MPL	Model Legislative Provisions
MOU	Memorandum of Understanding
MOZ	Mozambique
MR	Malawi Railways
NAFTA	North American Free Trade Agreement
NAM	Namibia
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
NORAD	Norwegian Agency for Development
NORTEL	Northern Telecom
N-PICT	National Protocol Implementation Coordination Team
NPIW	National Protocol Implementation Workshops
NTB	Non-Tariff Barriers
NRZ	National Railways of Zimbabwe
OECD	Organization for Economic Cooperation and Development
ODA	Official Development Assistance
OHADA	Organisation pour l'Harmonisation du Droit des Affaires en Afrique
OPEC	Organization of Petroleum Exporting Countries
PMAESA	Ports Management Association of Eastern and Southern Africa
PPP	Purchasing Power Parity
PRSP	Poverty Reduction Strategy Papers
PTA	Preferential Trade Area for Eastern and Southern Africa
QR	Quantitative Restrictions
RAPID	Regional Activity to Promote Integration through Dialogue and Policy Implementation
RERA	Regional Electricity Regulatory Association
RETOSA	Regional Tourism Organization of Southern Africa
REVOCA	Regional Vehicle Overloading Control Association
REWU	Regional Early Warning Unit
RIA	Regional Integration Arrangement
RIAS	Regional Integration Assistance Strategy
RIFF	Regional Integration Facilitation Forum (See CBI)
RMI	Road Maintenance Initiative
RISDP	Regional Indicative Strategic Development Plan (SADC)
ROO	Rules of origin
RPK	Revenue Passenger Kilometer
RSA	Republic of South Africa
RSIS	SADC Railways Rolling Stock Information System
RTA	Regional Trade Arrangement
RTRP	Regional Telecommunications Restructuring Program

SA	South Africa
SAA	South African Airways
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
SAMSA	South African Maritime Safety Authority
SAPOA	Southern African Postal Operators Association
SAPP	Southern African Power Pool
SARA	Southern African Railways Association
SATA	Southern Africa Telecommunications Authority
SATCI	Southern African Tuberculosis Control Initiative
SATTC	Southern Africa Transport and Communications Commission
SARB	South African Reserve Bank
SCU	Sector Coordinating Unit
SDI	Spatial Development Initiative
SIDA	Swedish International Development Agency
SIMA	Statistical Information Management and Analysis
SITC	Standard International Trade Classification
SITCD	SADC Industry and Trade Coordination Division
SPT	Spoornet
SR	Swaziland Railway
SSC	Sub-sectoral Committees
STEP	SADC Transport Efficiency Project
SWA	Swaziland
TAAG	Linheas Aereas de Angola
TAN	Tanzania
TAZARA	Tanzania Zambia Railway Authority
TCM	Technical Comité Meeting
TCU	SADC Tourism Coordinating Unit
TNR	Namibia Railways
TOR	Terms of Reference
TRC	Tanzania Railways Corporation
TRAC	Trans African Concession
TRASA	Telecommunications Regulators Association of Southern Africa
TWGs	Technical Working Groups
TZR	Tazara Railways
UEMOA	Union Economique et Monétaire Ouest Africaine
UNAIDS	United Nations Program on HIV/AIDS
UNCTAD	United Nations Commission for Trade and Development
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
USA	United States of America
USD	United States Dollar
USAID	Agency for International Development (USA)
VAT	Value Added Tax
WB	World Bank
WDI	World Development Indicators
WDR	World Development Report

WRTC	Water Resources Technical Committee
WTO	World Trade Organization
WTO	World Tourism Organization
ZAM	Zambia
ZIM	Zimbabwe
ZRL	Zambia Railways Ltd.

REGIONAL INTEGRATION IN SOUTHERN AFRICA

OVERVIEW OF RECENT DEVELOPMENTS

Executive Summary

1 SALIENT POLITICAL, INSTITUTIONAL AND SOCIO-ECONOMIC FEATURES OF SOUTHERN AFRICA

Membership of a regional integration arrangement is a political choice of any one country, whether based on political, social, geographic and/or economic considerations. A salient feature of Eastern and Southern African (ESA) is the existence of multiple overlapping regional agreements, namely the Southern African Customs Union (SACU), Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), Indian Ocean Commission (IOC) and Inter-governmental Authority for Development (IGAD). These regional integration arrangements (RIAs) are supplemented by regional arrangements such as the Regional Integration Facilitation Forum (RIFF) and the Multilateral Monetary Agreement (MMA). Most of the countries belong to at least two of these regional groups, except for Mozambique. For instance, South Africa and Botswana are members of both SADC and SACU, while Namibia and Swaziland hold membership of three regional integration agreements, are part of the common monetary area and also participate in the RIFF.

From a brief overview of these RIAs within the ESA region, it is apparent that conflicts may arise from multiple memberships in RIAs, which have similar mandates but different modalities for achieving these. If these RIAs were seen as variable geometry and multi-speed approaches to regional integration, they could have reinforced regional integration, particularly in the areas of sectoral cooperation. However, as practiced in the sub-region and in the absence of thorough planning and effective management, these seem to result in confusion and conflict for both governments and the private sector. Membership fees and participation in the activities of these RIAs are also costly, while particularly SADC and COMESA do not effectively use non-payment as a sanction mechanism on participation.

The southern Africa region constitutes a small market, smaller than that of Turkey and about 5% of the United States market, but within the African context, SADC's aggregate gross domestic product (GDP), amounting to US$187.7 billion in 2000, is more than double that of the Economic Community for West African States (ECOWAS) and equivalent to more than half (56%) of Sub-Saharan Africa's aggregate GDP. SADC's total volume of exports (estimated at US$66 billion) is three times that of the CFA Zone and more than double that of ECOWAS. With almost 200 million inhabitants in 2000, the sub-region's total population, which is about a third of that of sub-Saharan Africa (SSA), is nearly double that of the CFA zone.

However, intra-regionally, socio-economic development is highly uneven, with long-term internecine war in some countries contributing to such development patterns, as indicated by the following:

- Diversity in political regimes and differences in levels of political stability characterize the sub-region. Over the past few years some countries in the sub-region have witnessed consolidation of a democratic culture, good governance, the rule of law and respect for human rights. Angola and the DRC (with nearly 40% of the sub-region's population) are slowly emerging from decades-long internecine war, which also drew in other southern and central African countries. The second most economically diversified country, Zimbabwe, is facing a serious political and economic crisis, which have resulted in its de-linking from international and regional financial support.

- The combined sub-regional population of almost 200 million is unevenly distributed. South Africa (SA), Tanzania and the Democratic Republic of the Congo (DRC) have 64% of the population, with the remainder unevenly distributed among the other 11 countries. The five smallest countries in terms of population (Botswana, Lesotho, Mauritius, Namibia, and the Seychelles) account for only 3.4% of the sub-regional total.
- SA accounted for nearly 70% of the sub-region's total GDP of US$187.7 million in 2000. The five smallest (Seychelles, Lesotho, Swaziland, Malawi and Namibia) accounted for 4%. SA's economy was 138 times larger than that of Lesotho, the second smallest economy.
- The average GNP per capita for the sub-region (in nominal dollars) was US$932 in 2000, with a difference of nearly 90 times between the highest (Seychelles) and lowest (DRC). The United Nations Development Program (UNDP) *human development index* (HDI) ranked Mauritius[1] the highest among SADC countries (71st of 175 countries with an HDI of 0.761) and Mozambique the lowest (168th with an HDI of 0.341).
- About 40% of the sub-region's population or 76 million people is estimated to be living in extreme *poverty*. Poverty is increasing despite the recent higher growth rates in the sub-region, due to increasing *unemployment.* Unemployment is estimated to have increased from 30.5% in 1986 to nearly 59% (51 million people) in 2000. Even in Botswana and Mauritius, which are among the region's best economic growth performers, unemployment is rising.
- Whereas SADC countries appear to be performing well in providing universal *basic education* (except Mozambique and Tanzania) they are under-performing (including SA) in providing secondary and tertiary education. This could be seen as a serious *structural weakness, given the increasing importance of skills in the globalizing world economy* (with knowledge-intensity being crucial in enhancing competitiveness). The sub-region is facing yet another threat to its development in having the highest adult HIV/AIDS prevalence rate in the world. Estimated HIV/AIDS prevalence rates among adults in 1999 ranged from about 36% in Botswana, 25% in Zimbabwe and Swaziland, and 20% in SA and Zambia. Estimates indicate that the adverse social and economic impact of HIV/AIDS will be substantial, affecting GDP growth, labor supply, income inequality, domestic saving, productivity, and human, physical and social capital. The spread of the HIV/AIDS pandemic will most probably further compound the problem of poverty in the region in the foreseeable future.
- *Insufficient and often poorly maintained infrastructures* as well as limitations in regional linkages, no less due to legislative and administrative constraints, are deterrents to trade and investment.
- In terms of *economic structure*, the sub-region seems to be struggling to diversify its productive base with progressive industrialization remaining elusive in most countries. Between 1970-98, the share of agriculture in GDP *increased* in Zambia and Zimbabwe, while in Mozambique, Namibia, SA, Tanzania, Zambia and Zimbabwe the share of industry in GDP decreased as did the share of manufacturing in the more industrialized countries of the sub-region (SA and Zimbabwe). Overall, *economies in the sub-region are largely undiversified, resulting in a lack of complementarity, which limits the scope for trade, except between SA and the rest of the region.* The economies are reasonably open, and given that most countries in the sub-region are heavily dependent on exports of primary and semi-processed agricultural and mineral commodities, the sub-regional economy

[1] Seychelles, a small island-state, is excluded.

remains excessively vulnerable to rainfall variations and commodity price fluctuations. As an emerging market, SA is vulnerable to the volatility in financial flows for such markets. The impacts of financial volatility on the SA economy are transmitted through both the real and financial sides of the economy to other SADC countries due to trade and financial linkages between these economies.

Stabilization and adjustment experiences have seen significant convergence in the broad policies that have been pursued, although the outcomes of such policies and programs are varying significantly, even widely in some instances, across countries. Since the beginning of the 1990s, seven countries, have been undertaking International Monetary Fund (IMF)/World Bank (WB) financed stabilization and adjustment programs, six are implementing home-grown programs (SA, Botswana, Swaziland, Namibia, Seychelles and Mauritius), while Angola and the DRC have opened lines of communication with the Fund and the Bank and are receiving post-conflict reconstruction support. Overall over the last decade, the outcomes of adjustment in the sub-region have been mixed, although the sub-region has made some progress in macroeconomic stabilization.

- *Macroeconomic stabilization:* Most SADC countries have undertaken reforms, including measures aimed at improving monetary and fiscal policies and management. Their interest rates are more flexible and they have been eliminating preferential interest rates for state-owned enterprises; they have strengthened their tax administrations and have been broadening their revenue bases through the introduction of e.g. value-added tax; and they have been liberalizing their exchange control regimes and adopted flexible exchange rates. Mauritius and Zambia have achieved the highest degree of external current account and capital account liberalization on the sub-continent. Fiscal deficits have fallen sharply and inflation is under control in many countries. In 2000, eight countries (Botswana, Lesotho, Mauritius, Namibia, the Seychelles, SA, Swaziland and Tanzania) recorded single digit inflation levels. However, given some of the countries' aid-dependence and high debt-burdens, their maintenance of sound macro-economic policies may, for the foreseeable future, depend heavily on massive debt write-downs; very large continued aid flows; and very large foreign direct investment flows, the latter which are unlikely to materialize quickly. The absence of any one of these three essential conditions, therefore, would jeopardize the sustainability of sound macroeconomic policies and the apparent macroeconomic achievements.
- *Financial system reforms:* SADC countries have been opening up competition within their financial systems, are becoming more compliant with international standards of rules of supervision, and are moving towards increased central bank autonomy. According to an IMF study on financial sector development in SSA, Botswana, Lesotho, Namibia, and Tanzania have taken steps toward full autonomy of their central banks[2], while the independence of the South African Reserve Bank is constitutionally enshrined, giving it full(er) responsibility to conduct monetary policy with price stability as its ultimate goal. Except for SA, however, financial markets remain small, narrow and shallow.
- *Strengthening of investment frameworks:* Several SADC countries have also reformed the legal, judiciary and regulatory frameworks governing business activities, including through accession to multilateral conventions and entering into bilateral investment treaties. Many state-owned enterprises have been or are in the process of being restructured and privatized, while private sector involvement in the management, financing and provision of infrastructure is encouraged through a range of modalities – albeit at varying speed and scope. They are actively promoting investment including through offering a host

[2] See **IMF, 1998**. *Financial Sector Development in Sub-Saharan African Countries*. Occasional Paper No. 169, IMF, Washington D.C.

of investment incentives. Although, on aggregate, the sub-region has maintained its proportional level of *foreign investment flows* to Africa (about 35-37%) between 1990 and 1999, it has failed to attract a proportionate share of growing foreign direct investment (FDI) flows to developing countries. Its share in 1999 was roughly 50% of that in 1990. Furthermore, it failed to attract the kind of investment that buttresses economic development, i.e. investment in industry, specifically the manufacturing sector, which is necessary for production and trade diversification. They have attracted largely resource-seeking FDI and project finance, associated with privatization and public-private provision of infrastructure. Intra-regionally, cross-border investment, particularly from SA and Mauritius, has increased.

- *Liberalization of trade and exchange regimes:* Trade flows across SADC in the last decade have been influenced by changes in: tariffs, non-tariff barriers (NTBs), exchange rates and various types of trade taxes and subsidies including export incentives. Non-SACU governments in SADC have changed their policies unilaterally; while changes in bilateral trade agreements with SA and in macroeconomic policies (e.g. fiscal and monetary policies) also have had an inevitable impact on trade competitiveness in relation to neighboring countries. Although recorded intra-regional trade levels remain low, a distinct outcome of changes in the sub-region's trade regimes has been a growing annual trade surplus for SA vis-à-vis the rest of SADC.

Debt burdens and aid-dependence: Five of the eight low-income countries in the sub-region[3] can be considered as severely indebted[4], while one is considered a moderately indebted low-income country. Due to their debt overhang, high sovereign risk perceptions and generally underdeveloped financial systems, access remains limited or closed to official sources of funds, apart from on highly concessional terms, as well as to international and domestic capital markets. Many of the countries thus remain highly dependent on official development assistance for filling the savings-investment gap. *Aid dependence* in SADC remains high: in 1999, it has received US$19.7 per capita in aid, roughly the same level as in 1980, and more than the average of US$18 per capita for SSA.

Economic growth has recovered in many countries since 1995. In 2000, real GDP growth was estimated at more than 8% in the Democratic Republic of Congo (DRC), more than 7% in Mauritius, nearly 6% in Botswana and more than 5% in Tanzania[5]. However, of particular concern is the poor growth performance of the largest economy, SA, and the second-largest SADC economy, Zimbabwe, which has been experiencing a socio-economic and political setback, with threatening disruptive implications for regional integration in SADC. The slowdown in growth since the 1980s and in particularly since the latter half of the 1990s in SA and Zimbabwe, reflects in the declining growth levels for the sub-region as a whole.

Overall, the sub-region's economies share important failures. So far, their efforts have failed to achieve: sufficiently high and sustainable rates of *growth*; sufficient expansion of *employment* opportunities and sufficient progress with *poverty alleviation*. These failures reflect, in turn, their inability to improve the quality of investment; to enhance human or social capital sufficiently and to increase labor mobility to the extent that circumstances warrant within and across the countries[6].

Socio-economic performance and outcomes in the sub-region are attributable to both policy reforms and other influences. Exogenous

[3] The low-income countries in SADC are Angola, the DRC, Lesotho, Malawi, Mozambique, Tanzania, Zambia and Zimbabwe.

[4] Severely indebted low-income countries are Angola, the DRC, Malawi, Mozambique, Tanzania and Zambia, while Zimbabwe is classified as a moderately-indebted low-income country.

[5] World Bank, SIMA, Regional Database, 2001.

[6] **SADC Finance and Investment Sector Coordinating Unit, 2000**. *Executive Summary of the Studies on Convergence & Adjustment, Investment and Development Finance*. Pretoria, FISCU, June 2000.

influences such as adverse changes in climatic conditions, political instability and deteriorating risk perceptions as well as the global economic environment and commodity markets have been driving a wedge between domestic economic policies and outcomes. In addition, other non-policy factors operating in the sub-region's economies such as their weak institutional, financial and physical infrastructure and administrative capabilities may also explain the observed discrepancies between policies and outcomes and the shared failures in terms of low economic growth, unemployment and poverty. These issues raise a question for intensified cooperation on macroeconomic policies at regional level as to whether such cooperation would necessarily result in better outcomes for individual countries or the sub-region as a whole? The answer to this question is not clear. In contrast, these issues clearly point to strengthening cooperation on the structural issues, which are weakening the link between policies and outcomes. These structural weaknesses are observed in all countries in the sub-region, albeit to different extents, and include weak financial systems, infrastructural inefficiencies, and insufficient human capital and institutional capabilities.

SA, by virtue of its size and level of economic development, is perceived to pose a threat to other countries in the sub-region, given the potential for unbalanced development within the RIA. However, it is also widely seen as an important regional actor - both as a resource upon which other SADC countries can draw in the sphere of technical expertise and as a catalyst for deeper economic integration. Moreover, the sheer size and purchasing power of the South African economy holds important benefits for other SADC member countries whose economic development has been constrained by small and weak domestic economies.

2 INTENTIONS AND PROGRESS WITH REGIONAL INTEGRATION IN SOUTHERN AFRICA

From the brief overview of recent developments in regional integration in southern Africa, it is observed that the countries in the sub-region have identified many common challenges amenable to region-wide solutions ranging from macroeconomic issues, trade and industry, education and health to infrastructural developments and service delivery. In SADC, member states have developed a number of protocols which provide a legal framework for their cooperation in various areas such as transport and communications, industry and trade, finance and investment, natural resource management, water, mining, energy, health, education, human resource development and on aspects of security and politics. The protocols, when signed and ratified, are mechanisms for locking countries into the same policies and approaches to development. For SADC, the development and negotiation of protocols are seen as progress *per se*, given that the time for this often allows preparation on the country level for their implementation - by adopting appropriate policies and associated institutional mechanisms for their implementation. This then often explains the long time taken for such protocol development and negotiation. By August 2001, 10 regional legal instruments have come into force, another 10 have been signed or ratified but are not yet in force, while a host of others are in the preparation phase.

Currently, there is no mechanism in place for monitoring and evaluating the direction and pace of regional integration. This background paper has also not attempted to design such a monitoring and evaluation system. In stead, it has merely reported on progress made in cooperation of the various sectors, and even then such progress cannot be unambiguously attributed to membership of the RIA. Many policy and institutional changes in the constituent countries have come about through unilateral decisions, although their pace of implementation might have been accelerated through complementary regional-level obligations. On the one hand, it seems that political problems, inappropriate institutional mechanisms and the uncoordinated pace in implementing sectoral programs and projects are bogging down regional integration. On the other hand, it seems that much progress has been made in some discrete areas of cooperation, i.e. either in entire sectors or in specific sub-sectors.

Henceforth, the shift in SADC's agenda from sectoral cooperation to market integration would require not only continued cooperation in specific sectors/areas, but also stronger linkages within and between the various sectors or areas of cooperation if it were to be successful. Thus, the implementation of the Trade Protocol has given rise to new challenges to the sub-region's objective of economic integration, foremost of which is the strengthening of multisectoral linkages and the coordination of the activities of the various sectors within the framework of market integration. The few protocols in force, and then only for a short period, has not been sufficient to achieve greater policy credibility and anchor all member countries to continued pursuit of sound policies. However, the implementation of the Trade Protocol has set in motion a seemingly self-accelerating mechanism for regional economic integration as the adoption of certain sectoral protocols necessitates the adoption of others, especially where the interests of the private sector are concerned. Unlike in the past, SADC is now forced to deal, over the short term and in very practical ways, with sectorally crosscutting issues such as e.g. competitiveness, regional dimensions of poverty and trade efficiency. The issues embodied in e.g. the trade efficiency concept namely customs, transport, banking and insurance, information for trade, business practices and telecommunication have been the responsibility of mainly four SADC sectors: trade and industry; finance and investment; transport, communication and meteorology; and employment and labor. Up till now, the interface between these sectors as captured by the trade efficiency concept has not been pursued in a region-wide, integrated and coordinated way, mainly due to the institutional division of sector coordination among member states, apart from the predominant paradigm of cooperation and harmonization as opposed to integration.

Deeper integration in the sub-region has been precluded therefore also by SADC's decentralized, sectorally- and project-based institutional arrangements. Some of the institutional constraints have related to the SADC Secretariat's lack of power, authority and resources required for facilitating regional integration; the sector coordinating units' highly uneven capacity to pursue and implement policies; the SADC Program of Action's lack of a clear regional focus; the limited capacity to mobilize the region's own resources and resultant over-dependence on external financial resources; and the failure to address governance, peace and security issues in the wake of growing political divisions within SADC. SADC's decision to realign its institutional machinery and processes with its regional integration agenda, by clustering its 20 odd sectors into four directorates and centralizing these within a strengthened Secretariat, as well as that of designing and managing a regional development strategy are thus important steps towards deeper regional integration. Apart from a more clearly articulated and focused 'common agenda', deeper regional integration would critically hinge on the speedy implementation and smooth functioning of the new regional institutional mechanisms.

3 INVOLVEMENT OF 'INTERNATIONAL COOPERATING PARTNERS'

The sub-region is attracting huge annual amounts of grant funding from bilateral and multilateral sources such as the EU and its constituent countries as well as the USA, and to a lesser extent from the African Development Bank, the World Bank and sub-regional institutions such as the Development Bank of Southern Africa. Bilateral cooperating partners such as the EU and OECD countries are making grant funds available for SADC's regional coordination function, regional 'public goods and services' and/or multi-country projects. In relation to the EU and the USAID, the World Bank is not only a relative newcomer to the regional integration arena in southern Africa, but in terms of grant financing, even if leveraged by trust and other funds, it is also a 'small player' on the supra-national level, particularly for the coordination function. However, as the experience of the DBSA shows, a small budget need not be equated with insignificance. This is particularly so for multi-country or regional goods and services which require implementation on the country level whether through projects, which could be amenable for financing through Bank financial products, or policy and institutional reforms, which could lend themselves for inclusion in Bank country operational work. Similar to the lack of a centralized and accessible management information system for monitoring and evaluating progress in SADC's cooperation and integration agenda, SADC seems to have failed to comprehensively record the sourcing and application of funds for its SPA. In the last section of the document an attempt is made to record some of the international cooperating partners' involvement in SADC. However, much more detailed information would be required on the content of at least the EU's and USA's support programs to identify opportunities for leveraging its much larger allocation of grant funding with that of the Bank's own resources, should that be deemed desirable. This type of information is particularly important to avoid overlap in support, which seemingly exists even between the sub-region's two major international cooperating partners – the EU and USA. Furthermore, a good grasp of the *modus operandi* of the various international cooperating partners would be critical for the Bank to form 'smart partnerships', particularly given its relatively limited resources for regional cooperation activities that cannot carry any cost recovery.

REGIONAL INTEGRATION IN SOUTHERN AFRICA
Overview of Recent Developments

Introduction

In accordance with the presentation to the Board on 2 April 2001 on the Africa Region's greater focus and new approach to regional integration in Africa, the teams for regional integration in Eastern and Southern Africa have:

- renewed interaction with the Southern Africa Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) in order to establish their objectives and priorities for regional integration in their respective arrangements; and
- been updating its knowledge base on the status of and prospects for regional integration in Eastern and Southern Africa.

The purpose of this background paper is to inform the Bank about challenges and opportunities for strengthening socio-economic integration in southern Africa by:

- highlighting some salient political, socio-economic and geographical features of the sub-region,
- giving an overview of recent developments in regional integration in southern Africa, and
- indicating the current involvement of the sub-region's most important international development partners.

The paper focuses on the southern Africa region for the following reasons:

- The World Bank Africa Region's first regional strategy paper focused on southern Africa. The *Southern Africa Regional Strategy Paper* was presented to the Board in April 1998 and included the countries that are falling within the geographic remit of SADC[7].
- Since 1998, the Bank has extended a number of grants for SADC initiatives and has undertaken some economic work, although the latter has been largely confined to the SA-SADC trade relationship and sub-regional transport issues.
- In contrast with COMESA and the EAC, an understanding of the regional integration process and dynamics in SADC has been more difficult due to *inter alia* its Program of Action which has lacked a clear regional focus, the wide scope of its Program of Action or regional integration agenda, spanning some 20 sectors, and its hitherto decentralized institutional structure. Since March 2001, SADC has embarked upon a process of aligning its institutions and management processes with its vision, objectives and principles. This process is envisaged to take place over a two-year period. In addition, it is designing a regional development strategy within the context of a broadened set of objectives, and redefined priorities and underlying principles for regional cooperation and integration.

Although the paper focuses on the southern Africa region and the SADC regional integration agreement, it provides a brief overview of the multiple, overlapping regional arrangements, both in mandate and membership, among the countries in the wider SADC/COMESA economic space. The differences between the SADC and COMESA regional trade agreements receive specific attention, given the fact that nine countries (out of SADC's 14 and

[7] The Seychelles and the Democratic Republic of the Congo have not been covered by the April 1998 Strategy, but are included in the group of southern African countries as they have acceded to SADC subsequently. The Comores, Madagascar and Reunion, which are members of COMESA, but not SADC, have also not been included in this overview of southern Africa. Tanzania, another SADC member, has been included in the southern African group of countries due to its functional relations (mainly infrastructural and to a certain extent trade) with this group although it has probably closer socio-economic ties with Kenya and Uganda within the East Africa Community (EAC).

COMESA's 20) hold membership of both arrangements.

Given that the Bank has done little analytical work on regional cooperation and integration in ESA, from which this paper could draw, it rather provides a broad-brush and impressionistic picture of selective developments within the southern African region. Each of the issues covered could represent an area for further study, while some important issues, equally worthy of in-depth analysis, are not explored at all. For example, although of great importance to the region's development, the paper does not attempt to provide detailed descriptions or analyses of international trends and changes in the sub-region's or its constituent countries' international relationships, beyond a mere description of the current involvement of major international development partners and of the nature of e.g. the Cotonou Agreement and the Africa Growth and Opportunity Act. Analysis of the impact of these international trade and development relationships as well as that of South Africa's international economic relations on socio-economic developments in the sub-region may require attention through separate study.

The document is organized as follows:

- **Part I** highlights some salient political, institutional, socio-economic and geographical features of the sub-region. The countries within southern Africa are heterogeneous in the extreme, posing particular challenges for cooperation and integration at the sub-regional level. This discussion also includes a brief outline of the various regional integration arrangements within which the countries under consideration hold membership. Some of these, such as the Southern Africa Customs Union Agreement (SACU) and the Multilateral Monetary Agreement (MMA) may explain the findings in terms of macroeconomic stability, economic growth and patterns of trade across countries in southern Africa. Apart from these two, similar impacts of the other regional integration arrangements seem to be limited due to the slow implementation of their strategies and programs. Their major contribution, at this stage, lies in accelerating the convergence in policies and in institutional reforms associated with these policies. However, as the implementation of the various regional agendas evolve, it is anticipated that the countries' multiple obligations to conflicting regional agendas would intensify. This is most apparent in the area of trade as represented by the SADC, SACU, COMESA and EAC arrangements.
- **Part II** gives an overview of recent developments in regional integration in southern Africa, largely from the perspective of SADC, dealing with the progress made in specific areas ranging from trade and finance to the infrastructural and human resource areas, while also outlining the agreed changes to SADC's institutional machinery and intentions to focus its 'common agenda'.
- **Part III** outlines the involvement of the sub-region's major development partners in its regional integration endeavors and highlights the support provided for this purpose by the World Bank.
- **Part IV** concludes with a few remarks on the way forward for the Bank in the immediate future.

PART I POLITICAL, INSTITUTIONAL AND SOCIO-ECONOMIC ENVIRONMENT

I.1 Introduction

This part of the document, first, gives a brief overview of the regional integration arrangements in the region, second, discusses the prevailing political environment, and, third, gives an overview of the socio-economic environment, including recent economic adjustments and outcomes.

I.2 POLITICS OF REGIONAL INTEGRATION (See Attachment 1)

I.2.1 Multiple Membership of Regional Integration Arrangements

Membership of a regional integration arrangement is a political choice of any one country, whether based on political, social, geographic and/or economic considerations. In Eastern and Southern Africa, one salient feature is the evidently large number of overlapping regional integration agreements, namely SACU, SADC, COMESA, EAC, IOC and IGAD. These RIAs are supplemented by regional arrangements such as RIFF and the MMA. As indicated in Table 1.1, most of the countries belong to at least two of these regional groups, except for Mozambique. For instance, Botswana and SA are members of two RIAs, namely SADC and SACU, while SA is also part of the common monetary area. Namibia and Swaziland, two other SACU member countries, hold membership not only of SADC but also of COMESA, are part of the common monetary area and also participate in RIFF.

Table 1.1: Eastern, Southern and Indian Ocean Countries' Membership in Selected Regional Integration Arrangements

	SADC	COMESA	SACU	EAC	IOC	IGAD	MMA	RIFF
Angola	•	•						
Botswana	•		•					
Burundi		•						•
Comoros		•						•
Congo, Dem. Rep.	•	•						
Djibouti		•				•		
Egypt		•						
Eritrea		•						
Ethiopia		•				•		
Kenya		•		•		•		•
Lesotho	•		•				•	
Madagascar		•			•			•
Malawi	•	•						•
Mauritius	•	•			•			•
Mozambique	•							
Namibia	•	•	•				•	•
Rwanda		•						•
Seychelles	•	•			•			•
Somalia						•		
South Africa	•		•				•	
Sudan		•				•		
Swaziland	•	•	•				•	•
Tanzania	•			•				•
Uganda		•		•		•		•
Zambia	•	•						
Zimbabwe	•	•						•

Notes: SADC: Southern African Development Community; COMESA: Common Market for Eastern and Southern Africa; SACU: Southern African Customs Union; RIFF: Regional Integration Facilitation Forum; EAC: East African Community; IOC: Indian Ocean Commission, IGAD: Inter-Governmental Authority for Development. MMA: Multilateral Monetary Agreement.

I.2.2 Overlapping Mandates but Different Approaches to Regional Integration[8]

A number of these institutions have also similar mandates, but their modalities for achieving similar objectives vary widely. The two most significant regional integration agreements in terms of membership, COMESA and SADC, are following very different approaches to regional integration. Since its inception as the PTA, COMESA has been following an approach based on classical Vinerian arguments, looking at the benefits of regionalisation to derive almost exclusively from a trade angle. Its integration programs are thus centered on trade, e.g. removal of tariff and non-tariff barriers; programs embodied in the concept of trade efficiency; and other trade-related issues such as trade and investment, trade and competition policy, trade and labor migration (not labor standards yet), trade and finance (payment and settlement systems, currency convertibility, trade finance, etc.), trade and procurement policy, etc. However, although seemingly functioning smoothly on the regional level and in pushing forward its regional integration agenda, the latter has not necessarily been effectively supported by country-level institutional changes and by addressing prevailing structural constraints, which are required to successfully implement this agenda.

In contrast, SADC, stemming from the economic independence desires and political security needs of the Front Line States, has had a development approach to regional integration. For it, the strongest argument for regionalisation has been hinging on issues other than trade, with structural weaknesses being regarded as the critical constraint to intra-regional trade. Thus, up till now, it has followed largely a sectoral cooperation approach to regional integration. The implementation of its trade protocol, however, heralds an era of market integration for SADC, a move which is also firmly entrenching the overlap in mandate with COMESA and which, in turn, is associated with potential conflicts for governments and the private sector operators. Furthermore, it is particularly in the area of sectoral cooperation where the variable geometry approach is appropriate for regional integration, but the implementation of its trade protocol would require thorough planning and effective management to bring the various sectoral cooperation initiatives within its market integration framework, apart from further strengthening intra-sectoral cooperation.

I.2.3 Multiple Membership Seems to be Inefficient and Costly

Multiple membership of overlapping RIAs with different trade regimes can introduce particular complexities and concerns for such countries - their governments and private sector. Suffice to say that it is particularly joint members of SADC and COMESA that are increasingly facing confusing and conflicting situations as the respective integration agendas are deepening. Traders have to operate within a number of trade regimes each with its own tariff rates, rules of origin and procedures. The risk of trade deflection becomes high as goods that have been preferentially imported from say Kenya (a member of one of these regimes) by say Malawi (a member of both regimes) are subsequently preferentially re-exported to say SA (a member of only the other regime). The official barriers to trade become very porous in such situations. Whilst it is technically possible (although difficult) for the COMESA and SADC FTAs to co-exist, it will be impossible for any member state to belong to more than one regime when (if) they adopt a Common External Tariff (CET) and become a Customs Union (CU), unless each regime adopts the same CET and the same CU regulations. Should COMESA become a CU in 2004, those COMESA countries that are also

[8] See **Imani Development, 2001.** *Rationalization of Regional Integration Institutions in Eastern and Southern Africa. An Overview of the Current Situation* and separate studies on SADC, COMESA, EAC, SACU, RIFF, IGAD & IOC for the Global Coalition for Africa Economic Committee meeting of 2-3 May, 2001, SA.

Table 1.2: Mandates of Regional Integration Groupings in Eastern and Southern Africa

Mandate	COMESA	RIFF	EAC	IOC	IGAD	SACU	SADC
Sustainable growth and development	x	x	x	x	x	x	x
Economic cooperation	x	x	x	x	x	x	x
Harmonisation of macro-economic policies	x	x	x			x	x
Investment facilitation	x	x	x	x			x
Development of science and technology	x		x	x			x
Natural resource management	x		x	x			x
Food security	x		x		x		x
Peace and security	x		x	x	x		x
International representation	x		x				x
Private sector development	x	X	x	x			x
Free trade area	x		x	x		x	x
Customs union	x		x			x	
Monetary and economic union	x		x				
Development of infrastructure	x		x		x		x
Free movement of persons	x		x				x
Development of social services	x		x	x			x
Cultural cooperation	x		x	x			x
Political cooperation	x		x	x	x		x

Source: Adapted by Authors based on various annual reports.

participating in the SADC FTA[9] implementation program may well be in violation of GATT Article XXIV if they seek to maintain preferential tariffs for imports from the SADC countries.

In addition, for Namibia and Swaziland, their joint membership of COMESA and SACU has become a dilemma with the introduction of the COMESA FTA. These countries have been unable to implement preferential tariffs for other COMESA countries and cannot introduce free trade for imports from other COMESA countries in terms of this FTA. The SACU agreement CET cannot be broken by some members granting preferences in terms of other FTA regimes, unless all the other members agree to this arrangement. SA, Botswana and Lesotho have not given their consent to such action by Namibia and Swaziland, because once the CET wall is broken it would be very difficult to prevent goods illegally crossing to other SACU members without payment of duty. This is probably also in violation of GATT Article XXIV paragraph 8 (a) (ii).

The constituent countries' overlapping and differential membership of several RIAs have tempered the expectation that the EAC would introduce an FTA and CU based on the COMESA model. Tanzania is a member of SADC and purportedly favors adoption of SADC rules by the EAC, whilst the other two countries are already trading in terms of the COMESA FTA. Nevertheless, the EAC also aims to become a CU in 2004, posing particular problems for Kenya and Uganda should COMESA also achieve its 2004 CU target date.

The dilemma of the multiple memberships is not confined to trade issues, but also extends to other areas ranging from finance, where divergent solutions to development or compensatory funds and payment and settlement

9 The SADC Trade Protocol, signed in 1996 and with implementation that has commenced on September 1, 2000, aims at establishing a SADC Free Trade Area within eight years. The agreement allows for tariff cuts on 12,000 defined product areas in the sub-region. By 2008, 85% of intra-SADC trade would be tariff free and from 2008 to 2012, sensitive products will be liberalized to create the FTA.

systems are sought, to the infrastructural sectors, where different policy harmonization options and strategies are being pursued in e.g. telecommunication and transport.

The multiplicity of membership in RIAs is also a burden on limited institutional capacities and resources. Membership of several RIAs increases both the direct and indirect costs of membership and participation. Budgetary contributions from member states towards the administration costs only of the various RIAs for the year 2000 were approximately as follows: COMESA: US$6 million; EAC: US$2 million; IGAD: US$2 million; IOC: US$0.4 million; and SADC: US$9 million. These direct costs excluded costs for participation in meetings and events, and in the case of SADC, the financing of sector coordinating units. From a review of membership payments, it seems that some countries find it increasingly difficult to meet their financial commitments to the respective RIAs as indicated by e.g. the cumulative (annual) arrears in membership contributions and as in the case of SADC, also in the under-funding and understaffing of the hitherto decentralized institutional structure. Furthermore, they find it difficult to fully implement all their commitments and to fully participate in the activities, even meetings, of the various RIAs.

Although the problems of overlap and multiple memberships cannot be resolved through closer working relations between RIAs, it should be acknowledged that since 2001 SADC and COMESA and COMESA and the EAC have been working more closely in areas such as regional trade analysis, capacity building and facilitation; transport, e.g. air transport; and on the EU/ACP relationship within the Cotonou framework as well as on multilateral trade issues. Both the Cotonou Agreement and NEPAD provide a further stimulus for closer functional cooperation between RIAs such as SADC, COMESA and the EAC.

In addition to regional arrangements, most SADC countries are engaged in or considering bilateral trade and investment agreements[10]. Malawi, Mozambique, and Zimbabwe, respectively, have seven, eight and ten bilateral agreements with other SADC countries. Angola has six, while South Africa and Botswana have four bilateral trade agreements with other SADC member states (See Attachment 1 for further information). Significant differences in the interpretation and enforcement of the terms and conditions of these bilateral trade agreements have resulted in disruptions in local industries serving markets covered by bilateral agreements.

[10] See Attachment 1, Box 1h.

I.2.4 Trade and/or Development Agreements within the International Context make for a Fluid Operating Environment in Southem Africa

In addition to regional and within-SADC bilateral agreements, major international trade and/or development cooperation frameworks, notably the WTO, the Cotonou Agreement, the Everything-but-Arms Initiative, the SA-EU Trade and Development Cooperation Agreement (SA-EU TDCA), the USA's African Growth and Opportunities Act (AGOA), a potential US-SACU FTA and other relationships currently being negotiated (e.g., China-SACU and Mercosur-SACU), are having both national and regional level impacts. They are influencing the respective SADC members' economies and their options for international relations, as well as the socio-economic dynamics and agreements on a regional level.

The WTO framework and Cotonou Agreement are evolving, while the SA-EU TDCA and relationships with the USA, China and Latin America are unfolding, making for a particularly fluid operating environment in southern Africa and beyond. Within the next five years the SADC WTO members will negotiate the 'development round', while those being members of the ACP-EU Partnership Agreement will negotiate Economic Partnership Agreements. With regard to the latter, difficult choices are facing not only the respective countries e.g. Botswana, Lesotho, Swaziland and Namibia whom through SACU are *de facto* but not *de jure* part of the SA-EU- TDCA, but also the entire sub-region, e.g. in the question of whether SADC should join COMESA, the EAC, the IOC and/or IGAD in a regional Economic Partnership Agreement with the EU in order for such an agreement to result in a WTO compatible FTA by 2020. It is apparent that the Cotonou Agreement would not be 'regionally neutral' as it exposes the difficulties inherent in the multiple membership of overlapping regional agreements. It is not clear how all the SADC countries would negotiate as a group with the EU when 10 of its 14 members may be members of three different customs unions from 2004, while one member, SA, has already entered into a legally binding trade and development agreement with the EU.

In contrast, AGOA is a trade and development agreement between individual countries and the USA for a fixed period and currently provides 11 SADC countries, designated as eligible for this agreement, with liberal access to the USA market. It is also promoted as a 'regionally neutral' cooperation agreement as it allows for cumulation among AGOA beneficiary countries – an AGOA beneficiary may include imports from other AGOA beneficiaries in meeting the GSP requirement of 35% value added. However, according to recent announcements, it seems that the US and the SACU countries may negotiate an FTA in the near future, implying a move away from AGOA trade preferences to individual countries to a reciprocal trade

Table 1.3: Existing Bilateral Trade Agreements - SADC Member States

	Ang	Bot	DRC	Les	Mal	Mau	Moz	Nam	SA	Swa	Tan	Zam	Zim
Ang		T					T	T			T	T	T
Bot	T				T			S	S	S		T	T
DRC													
Les		S					T	S	S	S			
Mal		T					T		T	T	T	T	T
Mau									T				
Moz	T			T	T				T	T	T	T	T
Nam	T	S		S					S				T
SA		S		S	T	T	T	S		S			T
Swa		S		S	T		T	S	S		T	T	T
Tan	T				T		T			T		T	T
Zam	T	T		T	T		T			T	T		T
Zim	T	T		T	T	T	T		T	T	T	T	

Source: Adapted by authors based on **DBSA, 1996.** *Bilateral agreements on trade concluded by SADC Member States*. Development Paper no 111, January 1996. Midrand, DBSA.

agreement between the US and an African RIA.

I.2.5 Implications for the Bank

The ESA regional landscape makes for a fluid operating environment: the unfolding intra-regional efforts towards deeper integration, notably towards forming CUs, and evolving international trade and development relationships are increasingly exposing problems of overlap and multiple membership; while the five SACU countries seems to be pulling away from the non-SACU SADC members in terms of the evolving international relationships with the EU, USA, China and Latin America. These forces could well result in different RIA configurations – whether in depth or geographical/sectoral coverage – than at present. To strengthen the basis of regional development in the ESA, for the immediate future, options for the Bank include:

- providing support within the wider SADC/COMESA economic space by identifying potential opportunities for functional cooperation on very specific issues, such as by bringing the non-SADC COMESA countries within the folds of the SADC payment and settlement initiative, which the Bank is already supporting. Such support could be focused on approaches which deal with the structural weaknesses on a country level, but within a 'common framework' if then not in either the COMESA or SADC's regional frameworks. This option would depend on *inter alia* the SADC-COMESA and COMESA-EAC task forces identifying common issues for harmonization or joint programs, which, in turn, would reflect their needs in the Bank's support for such issues. Furthermore, opportunities for functional cooperation within common frameworks may also arise from continental or international agreements such as the Yamoussoukro Decision on the liberalization of access to air transport markets in Africa or strengthening of the architecture of the international financial system. The usefulness of concerted liberalization efforts for strengthening regional integration by a group of countries, e.g. RIFF, is debatable as they do not embed national/unilateral action within a coherent, enforceable regional framework[11]. However, they are useful forums for information exchange and as a peer-pressure mechanism.
- in its Economic and Sector Work on regional integration issues in southern Africa, to identify and analyze specific areas of current and future conflict and overlap. A focus area for such research over the short-term may be to analyze the implications for active member countries of both SADC and COMESA (specifically Zambia, Zimbabwe, Malawi and possibly Mauritius) and of SADC, COMESA and the EAC (Tanzania, Kenya and Uganda)[12] of rationalizing their regional and bilateral trade agreements with countries within the sub-region; and
- encouraging or supporting on regional-level (in the case of a CU) and country-level (as far as members of FTA's are concerned), the lowering of trade barriers vis-à-vis the rest of the world. This support should not only entail that for liberalization of trade in goods, but also in services as well as for addressing institutional and structural constraints inhibiting their competitiveness and supply response within a more open economic environment. This option stems from the hypothesis that, regional trade integration, particularly among developing countries, could be regarded as second-best type policies, although it could not be stated *a priori* whether any one regional trade agreement would be detrimental to member countries without closer analysis. In general and under reasonable assumptions, analysis has indicated that regional trade integration among small countries could be trade

[11] RIFF's predominant regional framework is that of COMESA.

[12] Angola, the DRC and the Seychelles have neither acceded to the SADC Trade protocol nor are they trading within the COMESA FTA of October 2000. Swaziland & Namibia receive derogations in terms of the COMESA FTA as they are members of SACU. Mozambique and Tanzania are members of SADC only, although the latter is also a member of the EAC, aiming to establish a CU. Nine countries have acceded to the COMESA FTA are Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe

diverting and thereby lowering member countries' welfare. In this context, a key step to minimize any costs of trade diversion would be to sufficiently lower protection against non-member countries to counter trade-diverting effects.

I.3 THE POLITICAL SITUATION IN THE SOUTHERN AFRICAN REGION (See Attachment 2)

Political stability, peace and security are preconditions for the success of a regional integration arrangement. Therefore the 1998/99 Southern Africa Regional Strategy Paper commended the demise of apartheid, the independence of Namibia, the return to civil order in Mozambique and noted the prospects for peace, democracy and development in the sub-region. It also expressed concerns about the unresolved civil strife in Angola and the Democratic Republic of Congo at the time.

Table 1.4: Political Issues

Country	Political System/Stability	Legal System	Media Independence
Angola	1994 Peace accord ha been shattered since the end of 1998, but prospects improved for maintenance of peace since the death of Unita's top leadership.	Code Civil, 'law habit' is absent	Media dominated by MPLA; Unita has had own radio broadcasts
Botswana	Stable democracy – no change in ruling party since independence in 1967; unitary political dispensation	Roman Dutch legal system	Government-owned media, but ready availability of other publications
DRC	Unitary republic, but no nation-state yet. Peace talks underway for establishment of inclusive 2-yr interim government up till the first national election since 1960.	All executive, legislative and military powers are vested in the president. Uncertain legal system based on Belgian civil law and tribal law; lack of 'law habit', problems with property rights and enforcement of contract	Sporadic crackdowns on media for "discrediting" government
Lesotho	Monarch as head of stat e. Present constitution and restoration of multi-party democracy since 1993; strong military influence	Roman-Dutch legal system	State-owned broadcasting, but wide availability of alternatives; censorship under earlier military rule
Malawi	Democracy restored in 1994 after three decades of single-party rule	English Common Law	Opening up after democratization
Mauritius	Stable democracy with coalition governments; republic since 1992	English Common Law for procedural and commercial purposes; Code Civil for substantive issues	Active press; competition in broadcast media
Mozambique	Constitutional reform in 1990, 1st multi-party elections in 1994; engaged in democratic nation building	Code Civil; 'Law habit' property rights and enforcement of contracts evolving	Some relaxation following 1994 elections
Namibia	Stable democracy	Roman Dutch legal system	Relatively large number of newspapers for small population; radio and television dominated by public broadcaster
Seychelles	Unitary Republic. Democracy restored in 1991 after 14 years of single-party rule.	Based on English common law, the Napoleonic Code & the amended 1993 Constitution	Government control of some strategic media
Swaziland	Traditional monarchy; slow movement towards political system modernization	Parallel systems of Roman-Dutch law and customary law	Press strictly controlled; permission required to publish critical articles
South Africa	Constitutional Democracy since 1994; three-tiered governmental system	Roman Dutch Legal System	Press Freedom & in dependent media
Tanzania	Constitution adopted in 1997; Multi-party democracy re-introduced in 1992; separatist movement on island of Zanzibar	English Common Law; leasehold title to land; 'law habit' evolving	Rapid growth in independent media in recent years
Zambia	Democracy; multi-party elections since 1991; coup attempt in October 1997	English Common Law	Government-owned press; radio and television permitted to criticize the government
Zimbabwe	Constitutional democracy; *de facto* one party rule since independence in 1980	Roman Dutch Legal System; Property rights to farm land has become uncertain	Tightly controlled government newspapers, radio and television, and low tolerance for critical independent press.

Source: Compiled by Authors

Similar to their uneven levels of socio-economic development and performance, the countries in southern Africa are diverse in their political systems and the prevailing levels of political stability, which are posing particular challenges for cooperation and integration in the region. Political systems range from a traditional monarchy to constitutional democracies on a continuum from *de facto* one-party rule, unclear division between legislative, administrative and judicial powers and functions and state-control of the media to decentralized political, fiscal and administrative functions, widespread participation by civil society and media independence. In general, democracies are young and fragile, with many of the countries in a stage of democratic nation building, with the occasional setback as witnessed by constitutional amendments and clampdowns on freedom of speech.

Over the past few years some countries in the sub-region have indeed witnessed consolidation of a democratic culture, good governance, the rule of law and respect for human rights. This is reflected in a number of positive developments, such as the holding of 'free and fair' national and/or sub-national elections and the smooth transfer of power between ruling parties such as in Mauritius and changes in leadership, such as in Botswana and South Africa. Notwithstanding these positive developments, international political risk perceptions of the sub-region have deteriorated due to a number of factors. These include:

- The internecine wars in **Angola** and the **DRC** (with nearly 40% of the sub-region's population), with both countries slowly emerging from conflict situations supported by regional and international efforts to find lasting and/or generally observed diplomatic solutions to these wars and or internal strife. The DRC war(s) also drew in neighboring countries such as Angola, Namibia, Zimbabwe, Rwanda and Burundi and at times countries such as Chad and Libya, with one country yet to fully withdraw from such military involvement.
- The political and economic crisis in **Zimbabwe** closely linked to the 20-year one-party rule, the persona of its incumbent leader(s) and its direct involvement in the DRC war.
- Controversial constitutional amendments in **Namibia** and **Zambia** and their direct and involvement in the wars in the DRC and the DRC and Angola, respectively.
- The need for SADC's military involvement to restore civil order in the **Kingdom of Lesotho,** thereby creating a precedent on regional level.
- The incidents of civil discontent with the current political dispensation in the **Kingdom of Swaziland** and apparent intolerance with dissenters calling for constitutional reforms.
- The **disagreement on the sub-regional level** about the incorporation of SADC's political arm within the framework of the SADC Treaty, as well as on appropriate and consistent approaches to deal with peace, security, and political issues in member countries led to political division among countries.

On the sub-regional level, in March 2001 the Extraordinary Summit decided to bring the political arm of SADC within the folds of the Treaty institutions through the establishment of the Organ on Politics, Defense and Security Co-operation, thereby renewing the efforts and resolve to attend to matters of regional security, peace and politics. In August 2001, all but one member signed the long-awaited Protocol on Politics, Defense and Security Cooperation. The Organ will deal with issues such as the following: military, peacemaking, peacekeeping and peace enforcement; conflict prevention, management and resolution; crime prevention; intelligence; foreign policy; disaster management; and human rights, indicating the depth and breadth of regional cooperation on these matters.

1.4 THE SOCIO-ECONOMIC SITUATION IN SOUTHERN AFRICA (See Attachment 2)

1.4.1 A Relatively Small Sub-Regional Market but Size More than 50% of SSA's GDP

The sub-region constitutes a small market, smaller than that of Turkey and about 5% of the United States market, but within the African context, SADC's aggregate gross domestic product (GDP), amounting to US$187.7 billion in 2000, is more than double that of ECOWAS and equivalent to more than half (56%) of SSA's aggregate GDP. SADC's total volume of exports (estimated at US$66 billion) is three times that of the CFA Zone and more than double that of ECOWAS. With almost 200 million inhabitants in 2000, the sub-region's total population, which is nearly a third of that of SSA, is e.g. nearly double that of the CFA zone. While, gross national product (GNP) per capita fell over the past two decades (US$ 932 in 2000 compared with US$1023 in 1980), the sub-region still has had the highest level of income per capita compared to other regional arrangements in the continent. The 2000 income per capita was $US932, almost three times that of ECOWAS.

Table 1.5: Population, GDP, Exports and Income, 1970-2000

Groups	Population (million)			Nominal GDP ($US billion)			Exports (Volume, 1995 $US billion)			GNP per capita $US, (Atlas Method)		
	1970	**1980**	**2000**	**1970**	**1980**	**2000**	**1970**	**1980**	**2000**	**1970**	**1980**	**2000**
SADC	88.8	116.1	199.2	32.4	130.6	187.7	32.2	35.7	65.9	355	1023	932
COMESA	149.8	200.4	346.7	24.0	76.0	97.8	NA	15.1	28.2	NA	NA	260
WAEMU	30.0	39.7	70.0	4.4	21.8	27.8	3.6	6.4	10.5	155	529	384
CFA ZONE	43.9	57.9	101.1	6.8	36.5	45.9	5.7	10.4	19.1	161	577	439
ECOWAS	101.7	133.7	236.3	21.0	97.2	81.9	14.4	22.1	29.3	176	622	316
SSA	288.6	380.7	658.6	63.8	270.9	333.2	52.1	66.6	112.1	205	648	492
SSA (excl.. SA)	266.5	353.2	615.8	46.3	191.1	204.9	29.1	42.6	69.3	159	509	306
SSA (excl.. SA and Nigeria)	213.3	282.0	488.9	33.9	124.0	164.2	NA	29.0	56.1	155	446	318

Source: World Bank, SIMA, Regional Database, 2001.

1.4.2 Wide Disparities in Socio-Economic Development among Countries within the Sub-region, associated with Small and Weak Markets

(i) Vast differences in population size and dispersion

The combined sub-regional population is almost 200 million, but the countries display **vast differences in population size**. SA, Tanzania and the DRC have 64% of the population, with the remainder unevenly distributed among the other 11 countries. The five smallest countries (Botswana, Lesotho, Mauritius, Namibia, and the Seychelles) account for only 3.4% of the sub-regional total. Six countries' populations numbered less than 10 million people. The population growth rate from 1999 to 2000 ranged from 1.1% in Mauritius to 3.2% in Angola and the DRC. Furthermore, these countries also display **a wide dispersion in population density.** Eleven of the 14 countries have urban populations constituting less than 50% of their total populations, with only SA (50.4%), Botswana (50.3%) and the Seychelles (63.8%) exceeding this level of urbanization. Population density varied in 1999 from 2.8 and 2.1 people per km^2 for Botswana and Namibia, respectively, to 114.7 in Malawi, 176.9 in Seychelles and 576.3 people per km^2 in Mauritius. Population density varied between 20 and 70 people per km^2 for the DRC, Mozambique, Zimbabwe, SA, Swaziland and Lesotho (in ascending order).

Table 1.6: Population Density and Urbanization

	Land Area Km^2	Population (million)			Population Density			Urban Population as % of Total Population		
		1970	1980	2000	1970	1980	1999	1970	1980	2000
SADC	***9 066 840***	***88.8***	***116.1***	***199.2***	***9.8***	***12.8***	***21.5***	***24.9***	***27.8***	***36.8***
Angola	1 246 700	5.59	7.02	12.72	4.5	5.6	9.9	15	21	34.2
Botswana	566 730	0.64	0.91	1.60	1.1	1.6	2.8	8.4	15.1	50.3
DRC.	2 267 050	20.27	27.01	51.39	8.9	11.9	21.9	30.3	28.7	30.3
Lesotho	30 350	1.06	1.35	2.15	35.0	44.3	69.3	8.6	13.4	28
Malawi	94 080	4.52	6.18	11.04	48.0	65.7	114.7	6.0	9.1	24.9
Mauritius	2 030	0.83	0.97	1.18	406.9	475.8	576.3	42	42.4	41.3
Mozambique	784 090	9.40	12.10	17.58	11.9	15.4	22.0	5.7	13.1	40.2
Namibia	823 290	0.79	1.03	1.74	0.96	1.25	2.1	18.6	22.8	30.9
Seychelles	450	0.05	0.06	0.08	119.1	143.1	176.9	26	40.8	63.8
South Africa	1 221 040	22.09	27.58	42.80	18.1	22.6	34.5	47.8	48.1	50.4
Swaziland	17 200	0.42	0.57	1.05	24.4	32.8	59.2	9.7	17.8	26.4
Tanzania	883 590	13.69	18.58	33.70	15.5	21.0	37.3	6.7	14.8	32.9
Zambia	743 390	4.19	5.74	10.09	5.6	7.7	13.3	30.2	39.8	39.6
Zimbabwe	386 850	5.26	7.01	12.11	13.6	18.1	30.8	16.9	22.3	35.3

Source: World Bank, SIMA DATABASE, 2001.

(ii) Uneven levels of income across and within countries

The average **GNP per capita** for the sub-region (in nominal dollars) was US$932 in 2000, with a difference of nearly 90 times between the highest (Seychelles) and lowest (DRC). Fairly clear-cut groupings emerge with regard to **GNP per capita**: Mauritius, SA and Botswana (and Seychelles) fall in the highest grouping with real GNP per capita of US$3000 - 9920 in 2000; Swaziland and Namibia in a second grouping with GNP per capita of US$1400 - 1890; Zimbabwe and Lesotho in a third grouping with GNP per capita of US$550 - 690; and Mozambique, Tanzania, Malawi, Tanzania and Zambia in the poorest grouping with GNP per capita of US$110 - 320. Roughly the same groupings emerge when countries are ranked in terms of the UNDP Human Development Index. The UNDP's 1998 **human development index (HDI)** ranked Mauritius the highest among SADC countries (61st out of 175 countries with an HDI of 0.761) and Mozambique the lowest (168th with an HDI of 0.341).

Table 1.7: Social Data

Country	GNP per capita (Nominal 2000) US$	HDI Index 1998	HDI Rank 1998	Illiterate population as share of population 15+ (%), 2000	Life expectancy (years), 1998
Angola	270	0.405	160	NA	46.5
Botswana	3630	0.593	122	21.9	46.1
DRC	110	0.430	152	37.0	50.8
Lesotho	550	0.569	122	16.2	55.5
Malawi	170	0.385	163	39	42.3
Mauritius	3900	0.761	71	15	70.6
Mozambique	220	0.341	168	54.5	45.2
Namibia	1890	0.632	115	12	54.5
Seychelles	9920	0.786	53	NA	71.7
South Africa	3090	0.697	103	14.3	63.4
Swaziland	1400	0.655	112	19.7	56.3
Tanzania	260	0.415	156	23.2	47.2
Zambia	320	0.420	153	21.1	42.6
Zimbabwe	690	0.555	130	10.6	50.9

Source: Various UNDP Human Development Reports, Authors' calculations and SIMA Data Base, 2001.

About 40% of the sub-region's population or 76 million people are estimated to be living in **extreme poverty**. Poverty is increasing despite higher growth rates in the sub-region, due to increasing **unemployment.** Unemployment in the southern African region was estimated by the DBSA at 18.6 million in 1986 or 30.5% of the population and increasing to more than 50.9 million in 2000 or 58.7%. Unemployment is rising even in Botswana and Mauritius, which are among the best economic growth performers in the region.

The graphs indicate the total population, labor force and unemployment in the SADC countries[13] and employment (in 1000) by sector. It is estimated that employment in the sub-region declined by 16.2% between 1986 and 1998, with the decline of 18.7% in the agricultural sector exceeding that of the industrial sector, while the decline in the services sector was only 6.6%. Employment in the agricultural sector dipped significantly from 1992, when a severe drought hit the SADC area, and then stabilized only four or five years later.

Figure 1.1
Population, Labor Force, and Unemployment (million)

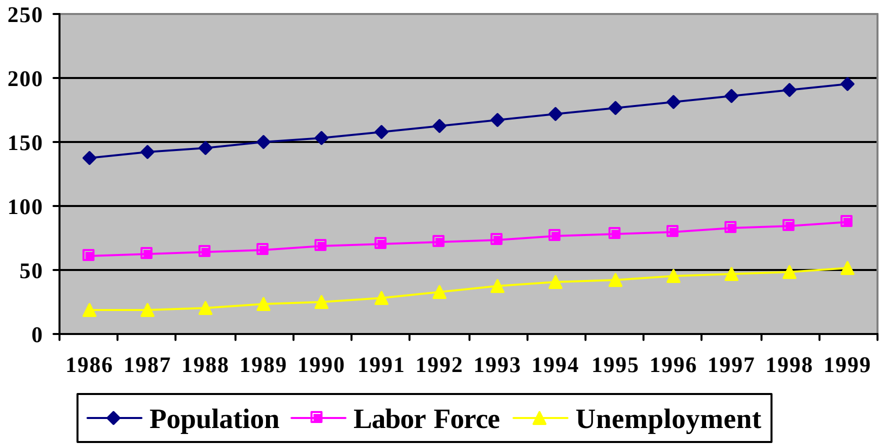
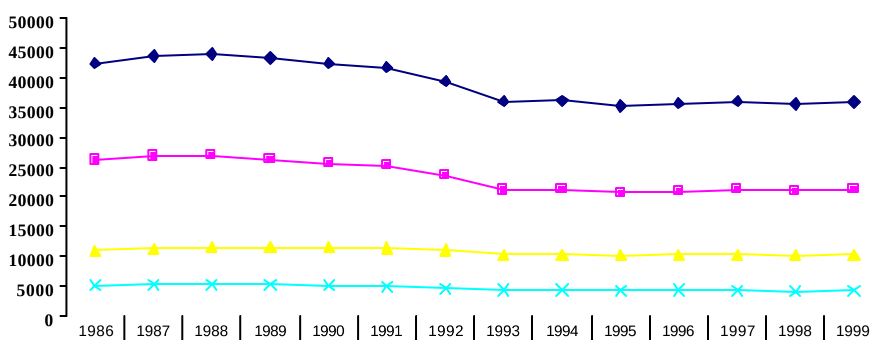


Figure 1.2 Sectoral Distribution of Employment



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total	42429.1	43572.4	43920.5	43219	42436.6	41699.9	39390.6	35997.4	36114.1	35268.9	35662.1	36046.6	35549.1	35853.7
Agriculture, etc	26225.4	26873	26960.5	26250.4	25640.8	25290.8	23594.9	21205.8	21340.6	20666.5	20900.1	21244.3	21047.8	21258.5
Services	11004.6	11397.8	11581.4	11639.6	11636.5	11439.8	11103.4	10391.6	10393.7	10244.7	10359.8	10426.8	10278.2	10341.8
Industry	5199.11	5301.54	5378.59	5328.98	5159.35	4969.28	4692.32	4400.05	4379.77	4357.77	4402.16	4375.54	4223.13	4253.4

[13] Figures 1.1 and 1.2 use data from **DBSA, 2001.** *Regional Support Strategy.* Unpublished Mimeo.

Given the near-absence of official unemployment benefits in the SADC countries, the unemployed people are apparently surviving through unrecorded economic activity in the subsistence and informal sectors or through income remittances and support by family members and friends, owing to the traditional, private social security network found in Africa. A huge proportion of the labor force in the sub-region is thus surviving on very low incomes from sporadic employment or from income in unrecorded economic activity. Should such incomes be indeed very low and sporadic, a significant proportion of SADC's population seems to be extremely vulnerable to relatively minor mishaps.

The 1999 SADC Employment and Labor Annual Report attributes the declining trend in formal employment to *'the negative impact of economic reforms on the economies of the region, especially with regard to the labor-shedding effects of privatization and the 'contractionary consequences of liberalization, lack of skills and technology on the part of labor, lack of information on the availability of job opportunities and, to a large extent, some laws and regulations in most Member States are still restrictive on labor mobility and international migration of workers within the SADC region.'* It also notes that the region is beset by a number of labor-market problems such as those related to the low rate at which productive employment opportunities are being created, the low levels of productivity, adversarial industrial relations, resulting in work stoppages, and the generally low levels of income in many of the countries.

(iii) Low levels of human development - a structural economic weakness, compounded by HIV/AIDS

- **Relatively low levels of skills**

The relatively low level of **skills**, although showing a lesser degree of diversity across the sub-region, is one of its most important

Table 1.8: Education Indicators for SADC and COMESA Countries

Country	Adult Literacy %		Enrolment ratio %			Public education expenditure, as % of total government expenditure, 1996-97	Pupil/Teacher Ratio (1996-97)
	Rate 1999	Index (1985=100) 1999	Primary school (net), 1997	Secondary school (net), 1997	Tertiary school (gross), 1996-97		
Angola	45/1	n.a.	34.7	31.2	n.a.	4.7/6	n.a.
Botswana	76.4	121	80.1	88.8	5.8	20.2	25:1 prim; 17:1 second.
Burundi	46.9	140	35.6	17.1	n.a.	18.3	n.a.
Congo, Dem. Rep.	60.3	149	58.2	37.1	n.a.	n.a.	n.a.
Djibouti	63.4	136	31.9	19.6	0.3	n.a.	34:1 prim, 22:1 second
Eritrea	52.7	139	29.3	37.9	1	n.a.	44:1 prim, 22:1 second
Ethiopia	37.4	158	35.2	24.8	0.8	13.7	n.a.
Kenya	81.5	128	65	61.1	n.a.	16.7	n.a.
Lesotho	82.9	111	68.6	72.9	2.4	25/6	47:1 prim; 24:1 second.
Madagascar	65.7	124	58.7	n.a.	2	16.1	n.a.
Malawi	59.2	123	98.5	72.6	18/4	16.2	62:1
Mauritius	84.2	109	96.5	68	6.1	18.3/4	14:1 prim; 24:1 second.
Mozambique	43.2	150	39.6	22.4	0.5	17.4	60:1 prim; 30:1 second
Namibia	81.4	115	91.4	80.7	n.a.	25.6	29:1
Rwanda	65.8	141	78.3	n.a.	n.a.	n.a.	n.a.
Seychelles	84/1	n.a.	n.a.	n.a.	45/4	24.1	17:1 prim; 13:1 second.
SA	84.9	108	99.9	94.9	57/4	23.9	36:1 prim; 28:1 second
Sudan	56.9	141	50.9/2	21.2/5	n.a.	9/4	29:1 prim; 26:1 second
Swaziland	78.9	119	91/3	38	6	18.1	34:1 prime; 19:1 second
Tanzania, U. Rep. of	74.7	131	48.4	5.6/5	0.6	21.1/6	36:1 prim; 17:1 second
Uganda	66.1	130	74.3/4	12.0/4	1.9	21.4/4	n.a.
Zambia	77.2	122	72.4	42.2	n.a.	7.1	40:1 prim; 25:1 second.
Zimbabwe	88	116	93.1	59.2	6.6	33/6	29:1 prim; 27:1 second

Source: UNDP Human Development Report 2000; UNESCO Database 2000 and Country statistics

Note: 1/ 1997 data; 2/ 1996 Gross enrolment; 3/ 1996 data; 4/ 1995 data; 5/ Gross enrolment; /6 Member states estimates *structural weaknesses, given the growing importance of skills in the globalizing world economy* (with knowledge-intensity being crucial in enhancing competitiveness). Whereas SADC countries appear to be performing well in providing universal *basic education* (except Mozambique, Tanzania, the DRC and Angola) they are under-performing in providing secondary and tertiary education. Most SADC member states have net enrolment rates at primary education level within the range of 80-100%. Illiteracy rates have thus fallen over the last three decades. In 2000, SADC recorded the lowest level of adult illiteracy rates (27%) among the comparator group of regional arrangements in SSA. However, the performance of secondary and tertiary levels of education lags far behind the potential of the region - it is estimated that, on average, less than 50% of students progress to secondary school level, and less than one percent to tertiary education.

Another phenomenon eroding the skills base of the sub-region is the brain drain through emigration of entrepreneurs and high-skilled people, particularly as experienced by SA. Intra-regionally the composition of skills is shifting across countries. It is particularly the southern part of the sub-region that is attracting higher-level skills, apart from being host to large numbers of low-skilled illegal immigrants, whether displaced by political or economic hardship from their home countries.

Although countries in the sub-region have made some progress in developing human resources, education and training in most if not all the countries face problems and challenges that include:

- a growing number of students in the wake of high population growth rates;
- a weak link between resource allocation on education and training and outcomes in terms of quantity, quality and relevance, *inter alia* due to low levels of existing infrastructure, instruction and learning material and qualified and motivated trainers/teachers; and the weak relationship between educational and training programs and labor markets;
- gender disparity in enrolment rates for higher levels of education;
- a brain drain, within the region from the other countries largely to SA, and from SA to the rest of the world; and
- the social, economic and financial impact of HIV/AIDS on the education and training systems.

- **Health and HIV/AIDS**

Although life expectancy has increased in SADC over the last three decades from 46 years in 1970 to 51 years in 1998[14], high infant and maternal mortality rates and a high burden of communicable diseases, such as tuberculosis, malaria and diarrhea, characterize the region. Countries in the sub-region such as Angola, Botswana, the DRC, Malawi, Mozambique, the Eastern and Northern parts of South Africa, Tanzania, Zambia and Zimbabwe, suffer from endemic and epidemic malaria. An estimated 65% of the sub-region's population is afflicted by endemic malaria.

The sub-region faces a further threat to its human development efforts and economic potential. During the late 1990s the countries in the sub-region have become increasingly aware of the fact that they would also have to seek region-wide solutions to the common problem of HIV/AIDS. The following description of the devastating consequences of infectious diseases in the African continent as a whole summarizes the situation in southern Africa, the region with the highest prevalence rate of HIV/AIDS (among adults) in Africa.

> *'Two-thirds of the world's HIV/AIDS cases are in Africa. Every three seconds an African child dies - in most cases from an infectious disease. In some countries one in five children die before their fifth birthday. Almost 90% of deaths from infectious disease are caused by a handful of diseases: acute respiratory infections, diarrheal diseases, HIV/AIDS, malaria, measles,*

[14] World Bank, SIMA, Regional Database, 2001.

tuberculosis, and sexually transmitted infections'[15].

water-rich north. The southern states are already reaching the limits of water availability while the northern states are in need of development.

Table 1.9: The Economic Impact of AIDS in Southern Africa (1999, unless otherwise noted)

	HIV Prevalence (% of population, age 15-49)	Estimated AIDS Deaths	Demand for AIDS Health Services[1] (% of GDP)	Health Expenditure 1994-98 (% of GDP)
Botswana	35.8	24,000	1.8	2.0
Lesotho	23.6	16,000	0.9	4.8
Malawi	16.0	70,000	0.8	NA
Mozambique	13.2	98,000	0.6	1.0
Namibia	19.5	18,000	1.3	3.8
SA	19.9	250,000	0.7	3.0
Swaziland	25.3	7,100	0.9	2.3
Zambia	20.0	99,000	1.3	2.8
Zimbabwe	25.1	160,000	1.6	2.2

Sources: **UNAIDS**, *Report on the Global HIV/AIDS Epidemic* (Geneva: UNAIDS, 2000); and IMF Estimates.
Note: [1]Estimated cost of treating all AIDS patients at local standards. In practice, rationing may reduce cost s.

The United Nations Program on HIV/AIDS (UNAIDS) estimated that at the end of 1999, about 36% of the adult population in Botswana, 25% in Zimbabwe and Swaziland, and 20% in South Africa and Zambia was infected. These figures are even more alarming when compared to the average prevalence rate in SSA as a whole (8.6%) and the world (1.1%).

The implications of HIV/AIDS for the region go beyond the scope of health issue and patient care to embrace the devastating social and economic impact of this disease. The social and economic impact of HIV/AIDS could be substantial through its effects on GDP growth, poverty, labor supply, income inequality, domestic saving, productivity, and human, physical and social capital (see Box 1.1).

(iv) Insufficient and/or inefficient infrastructure and services - an obstacle to production & trade and development in general, especially for landlocked areas

- **Water**

The constituent countries of southern Africa are experiencing large imbalances between water availability and water usage. The overall picture is one of a water-deficient south as against a

[15] **World Bank, 2000**. *Can Africa Claim the 21st Century.* A World Bank Report, p. 109, Washington D.C. 2000.

The extent to which each country utilizes its resources through annual freshwater withdrawals indicates that, apart from South Africa most of the countries only exploit a small percentage of the water available to them and then largely for irrigation.

In a recent World Bank mimeo[16], the authors argue that Africa's (and for that matter southern Africa's) unique water legacies of hydrological variability, low investment in water storage capacity to buffer variability, and the shared nature of many of its rivers are significant contributory factors to the prevalence, depth and continued existence of poverty. Hydrological variability results in constant economic risk to both small and large investors and to nations at large. The perception of risk is exacerbated by periodic, but endemic, catastrophic droughts and floods.

[16] **World Bank, 2002**. *Water Resources and Poverty in Africa: Essential Economic and Political Responses*, Unpublished Mimeo prepared by D. Grey and C. Sadoff for the African Ministerial Conference on Water, April 2002

Box 1.1: Development Impacts of HIV/AIDS in Southern Africa [1]

The economic effects of the HIV/AIDS epidemic are expected to be substantial: The main direct impact will be concentrated in the public sector. The increase in health care expenditures, the erosion of revenue bases and the multiplicity of deaths of public sector workers will exert pressures on government budgets. The estimated costs of HIV/AIDS would range from 1.6% of GDP (South Africa) to 14.5% of GDP (Mozambique). The combination of early loss of qualified employees, absenteeism and prolonged sick leaves may result in a decline in productivity and the quality of public services. The impact on public sector pension funds is also expected to be substantial. Pension expenditures may likely fall as a result of the diminution of the number of government employees reaching retirement age. Death-related benefits and pensions for surviving dependents are estimated to rise to 5% of wage bills. In Botswana, orphan allowances may well exceed 1% of GDP by 2010.

Likewise private sector performance would be adversely affected. The major channels include the adverse impact on the productivity, reduction of labor supply and the increase in death-related benefits. The overall cost of an infected employee is estimated at up to 50-100% of the worker's salary. A study conducted by Metropolitan Life for the manufacturing sector, in South Africa, reached the conclusion that, due to AIDS, the costs of death-related benefits across all employees will more than double between 1997 and 2007 (from 5.5% to 12% of total payroll). Estimates suggest that some Southern African countries will lose over 25% of their skilled and educated population. The impact on labor supply, the likely upward pressures on workers' wages, and the lowering of human capital may result in a decline in total factor productivity.

The combination of an increase in medical spending and a decrease in income stemming from the fact that ill adult family members can no longer work may result in a dissaving.

GDP growth may also decline. Recent studies suggest a reduction in annual GDP growth by one to two percentage points. Estimates by IMF staff reach a similar conclusion: GDP per capita in 2010 may be about 5% lower in the most affected countries than it would be without the impact of HIV/AIDS.

The reduction in economic growth and income will result in an increase in poverty. In turn, poverty will facilitate the rapid spread of HIV/AIDS as household food and heath spending declines, reducing resistance to opportunistic infections. According to the U.S. Census Bureau, by 2010 life expectancy will fall by half from approximately 60 years to 30 years for the worst affected countries in the sub-region. Many orphans may grow up without the support and guidance of their parents. It was estimated that the epidemic could create a generation of orphans reaching up to 10% of the population in some countries.

[1] This Box has been adapted from the **IMF, 2002**. *The Economic Impact of HIV/AIDS in Southern Africa.* **World Economic Outlook**, October 2000, Focus on Transition Economies. International Monetary Fund, Washington, DC.

Table 1.10 SADC: General Water Statistics

Country	**Population without access to (%)**		**Internal renewable water resources per capita 1998**	**Annual freshwater withdrawals**	
	Safe Water	**Sanitation**		**As % of water reserves 1987-95**	**Per capita 1987-95**
Angola	68	84	15, 376	1.3	57
Botswana	7	45	1, 870	3.9	84
DRC	66	31	19, 001	NA	10
Lesotho	38	62	2, 395	1.0	30
Malawi	63	94	1, 690	5.3	98
Mauritius	2	0	1, 915	16.3	410
Mozambique	37	46	5, 350	0.6	40
Namibia	43	66	3, 751	4.0	179
South Africa	33	47	1, 011	29.7	359
Swaziland	40	30	2, 836	24.9	1, 171
Seychelles	NA	NA	NA	NA	NA
Tanzania	62	14	2, 485	1.5	40
Zambia	73	36	9, 229	2.1	216
Zimbabwe	21	48	1, 182	8.7	136
SSA	48	55	6, 283	1.5	132
World	NA	NA	6, 918	7.3	626

Source: Adapted from UNDP Human Development Report 1998.

Note: NA: Data not available.

In a number of SADC countries, safe water for household consumption is a scarce resource. For instance, in Angola, the DRC, Zambia, Tanzania, and Malawi, about two-thirds of the population lack access to safe potable water. Moreover, the quality of the region's waters has sharply deteriorated over the last few decades due to a combination of factors such as mining and industrial pollution, nutrient enrichment and sediments from poor agricultural practices, and untreated sewage reaching water bodies. This situation is compounded by inadequate regulatory measures and poor control. As a result, the poor quality of water is one of the primary causes of disease and poor health within the region.

- **Energy**

The region has large energy resources in various forms such as: hydro-power, concentrated mainly in central Africa on the Zambezi and Zaire Rivers, although there is additional potential in a number of other countries; coal, but as is the case with hydro-power, it is not uniformly distributed; natural gas in Namibia, Angola, Mozambique and SA; while it is also rich in renewable energy resources such as solar energy.

The region's total energy production and consumption are relatively low compared to international standards. In 1999, SADC produced 7.62 quadrillion British thermal units (Btu) of commercial energy (2% of total world production) and consumed 5.14 quadrillion Btu (1.3% of total world production); it generated 112.8 million metric tons of carbon emissions; and its total installed electric generating capacity was 49541 megawatts (MW). At the same time, total electricity generation for the whole of SADC was 215.06 billion kilowatt hours (bkwh). Net hydroelectric generation was 21.26 bkwh. Zambia and the DRC are the largest generators with respectively 7.6 bkwh and 5.16 bkwh.

However, the sub-region displays large electricity imbalances across and within countries. Although there are on aggregate surpluses of electricity within the region, in 1999 less than 40 million people or about 22% of a total regional population of more than 180 million have had access to electricity in their homes. South Africa (58 % of dwellings have access), Namibia (27 % of dwellings have access), Swaziland and Zimbabwe (both 21 % of dwellings have access), have made considerable progress in terms of national electrification over the past few years, but from a regional point of view the situation has in fact deteriorated in Angola, the DRC, Malawi, Mozambique and Tanzania as the annual number of new connections is considerably lower than the growth in the number of households in these countries. The electrification drives also tend to focus more on urban and peri-urban areas while the rural population is increasingly being marginalized. The result is that the majority of the population relies upon wood fuel (75% of the total energy consumed by the residential sector) as their main source of energy. This contributes to environmental degradation.

Most, if not all, SADC countries are undertaking steps to reform their energy sector with the purpose to attract private investment and broaden access to electricity to domestic consumers, but the restructuring process has been rather slow. There have been a variety of constraints to developing the sub-region's energy potential including economic, institutional, political and technical barriers such as: inadequacies in the legal and regulatory frameworks; dominance of publicly owned entities; limited experience with attracting private sector investors; government interventions (subsidies); small national markets; shortages of equipment; inability of SADC utilities to meet demand; and tariff and pricing rules. Most countries' retail tariffs are below the economic cost-of-service. For instance, average international retail prices range from 6 to 10 cents/kWh, compared to 3 to 5 cents/kWh for the less advanced SADC countries. To overcome some of these problems, the electricity utilities in the region are cooperating under the Southern Africa Power Pool (SAPP) initiative to provide reliable and economically viable electricity supply to consumers of the SAPP members.

- **Transport**

A well-developed transport and communications infrastructure has tremendous economic advantages in facilitating production and trade, while also having the potential to attract FDI. A recent paper[17] argues that improving transport infrastructure in Africa is an important factor for increasing the continent's trade. It demonstrates that if improvements in infrastructure services could halve transport costs in the region, this would stimulate increases in trade volumes by a factor of five. Currently, the unit cost of transporting goods in the SADC region is much higher on average than that in the US and other developed countries. Apart from the unit cost, large distances must be covered in the sub-region with the result that total transportation costs are also quite high, particularly for the landlocked countries. Freight costs are thus an important economic consideration in the sub-region's intra-regional and international trade and in market- and efficiency-seeking investment. Although much progress has been made in improving transport services in the region, the sector remains to varying degrees a constraint to development on the national and sub-regional levels.

1 Roads

SADC is endowed with approximately 900,000 kilometers of road of which the primary road network represents more than 100,000 kilometers, the secondary roads less than 300,000 kilometers and the tertiary roads about 489,000 kilometers. While the primary road network is in good condition, the secondary and tertiary roads are not and require substantial improvements. Moreover, the conditions of roads vary across countries. Generally, the quality of roads in the southern countries (SACU and Zimbabwe) is superior to that in the north. The road sector has suffered from *inter alia* civil strive (Mozambique Angola and the DRC), natural disasters such as the recent floods in the eastern part of the sub-region or lack of maintenance and often a combination of these factors. The trends in using larger vehicles, high axle-mass loads, the failure to control overloading, and the continued inefficiency of rail in some countries, have led to an increasing diversion of rail freight to road transport. This, in turn, has increased the need for road maintenance.

The effectiveness of *road traffic* is adversely affected by the consequences of heavy goods vehicle overloading and by high levels of road accidents. In order to solve these problems, SADC has undertaken reforms aimed at controlling vehicle overloading. While *road transport services* are regarded as adequate in the region, their efficiency is hampered by e.g. restrictions to market entry, delays at border posts and operating limitation.

[17] **Limao N. and A.J. Venables, 1999**. *Infrastructure, Geographical Disadvantage and Transport Costs.* World Bank Development Research – Policy Research Working Paper 2257

2 Railways

The SADC region is equipped with 14 operating, mainly government-owned, railways. Eleven of these railways form the Interconnected Regional Rail Network (IRRN), which serve the major ports of the region. SA's SPOORNET dominates the network and accounts for nearly 62%of services[18]. The graph shows the decline in use - for both freight and passengers - of railways as a mode of transport in the sub-region and the distribution of services among the railways in the sub-region.

The performance standards of rail transport have suffered from a number of inadequacies: shippers had to deal with more than one railway for through-freight shipments, which delayed quoting of freight rates; appropriate wagons were frequently unavailable; transit times were long also due to poor maintenance of tracks and delays at border crossing; consignment delivery times were unpredictable; and information difficult to obtain on wagon and consignment locations (except in SA, Namibia and Swaziland, using Spoornet's SPRINT system). However, the railways are now attempting jointly to raise performance standards, *inter alia* through the introduction of the Rolling Stock Information System (RSIS) and establishment of the Southern African Railways Association (SARA), which deals with governments, and played a role in the operation of the RSIS and in standardization of operational issues for the efficient functioning of the integrated regional railway network.

Figure 1.3 Freight Tonnage (000 MT)

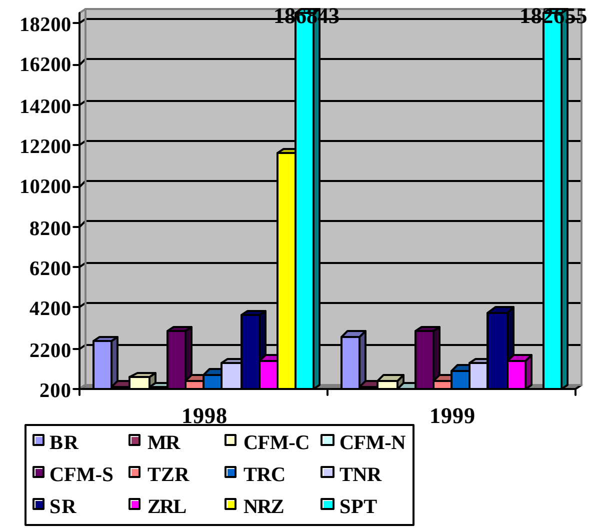
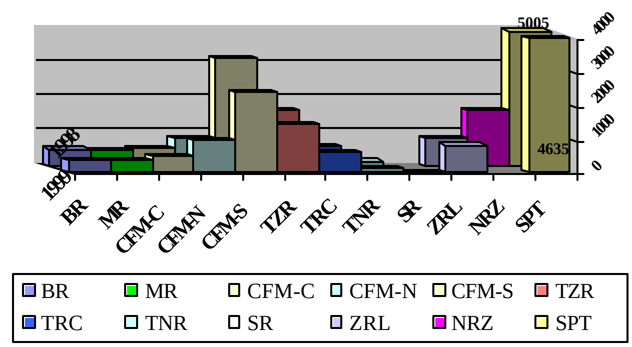


Figure 1.4 Number of Passengers (000)



Source: For both Figures 1.3 and 1.4, Authors based on data from SATCC Annual Report, 1999-2000.

Note: For both Figures 1.3 and 1.4: BR: Botswana Railways ; MR: Malawi Railways; CFM-C:Caminhos de Ferro de Mocambique-Centro. This is the acronym of the Mozambican Rail and Port Parastatal, central section comprising port of Beira and machipanda line to Zimbabwe; CFM-N: Norte-northern section comprising Nacala port and rail line to Malawi/Lichinga ; CFM-S:Sul-southern section comprising Maputo port and rail lines to South Africa, Swaziland and Zimbabwe; TZR: Tazara Railways ; TRC: Tanzania Railways Corporation; TNR: Namibia Railways; SR: Swazi Railways; ZRL: Zambia Railways Limited; NRZ:National Railways of Zimbabwe; SPT: Spoornet.

18 Estimate from Official SADC Trade, Industry and Investment Reviews, various editions from 1997-2001.

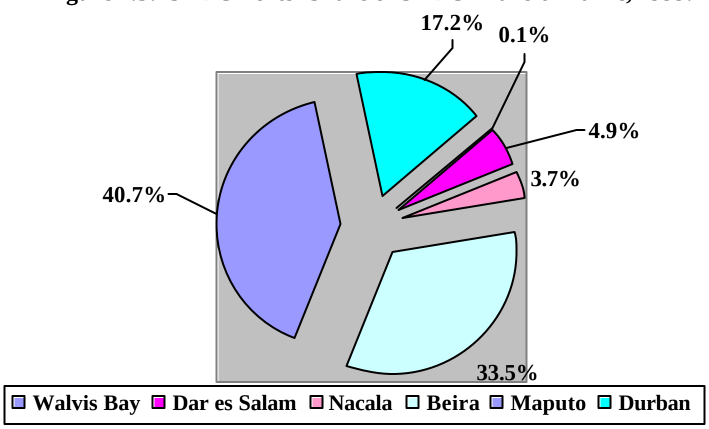
3 *Maritime Transport*

The SADC region comprises a system of 15 ports, excluding those in the DRC and the Seychelles. The main transit ports are Dar es Salaam, Nacala, Beira, Maputo and Durban along the Indian Ocean and Walvis Bay on the Atlantic coast. The port of Durban is the region's major dry cargo port. It handles about 50% of the region's containerized cargo. Most of the cargo handled by the port is for South Africa. However, the port also handles traffic for Zimbabwe, Botswana, Swaziland, Zambia, Lesotho, Malawi and Mozambique. The Tanzanian port of Dar es Salaam also handles transit cargo for Zambia, the DRC and Malawi and for non-SADC member countries such as Uganda, Rwanda and Burundi.

4 *Civil Aviation and Air Transport Service*

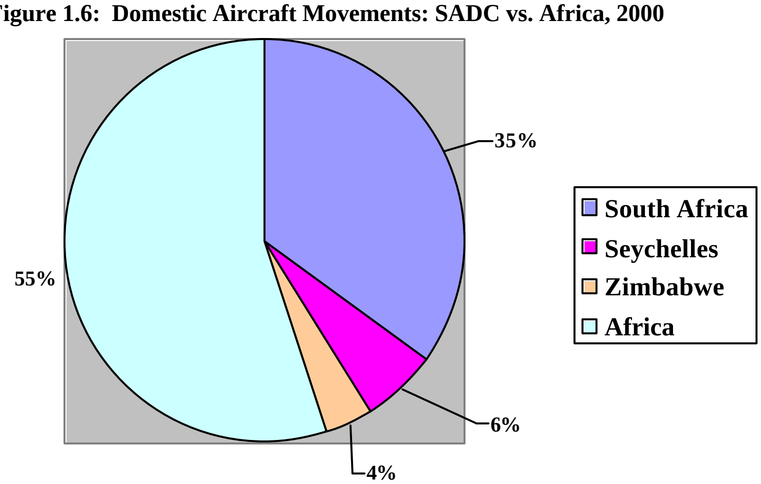
While good progress has been made on the legislative and institutional sides, SADC has much more to accomplish on civil aviation issues. The performance of this sector is hindered by legal constraints including barriers to entry, traffic safety concerns, inadequate airport cargo terminals, inadequate intra-country connections, with Johannesburg International serving as a hub for air transport in the sub-region. Market liberalization has been slow and government-owned airlines dominate the airline

Figure 1.5: SADC Ports' Share of SADC Transit Traffic, 1999.



Source: By Authors based on data from SATCC Annual Report, 1999-2000.

Figure 1.6: Domestic Aircraft Movements: SADC vs. Africa, 2000



sub-sector. In nine SADC countries (Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, the Seychelles, Tanzania, and Zimbabwe), airline companies are dominated by state interests that hold 100% of the shares. Few countries possess an airline company with mixed ownership. Ownership of Air Mauritius is shared between the government (51% of shares is held through Air Mauritius Holdings, Ltd.), other local institutions, British Airways, Air France and Air India. South Africa Airways (SAA) was 75% government owned, with Swissair having bought 25% of SAA shares. Subsequently, due to Swissair's financial troubles, the 25% stake in SAA was bought back by the South African government.

5 *Performance of SADC Airline Industry*

While SADC Members States are signatories to the International Civil Aviation Organization (ICAO), SADC Airlines do not submit statistics to ICAO, making it difficult to assess the industry's performance. However, the Airline Association of Southern Africa (AASA) has provided traffic statistics for July to December 1999 (See Attachment 3). According to this source, three SADC countries (SA, Seychelles and Zimbabwe) feature in the list of the top 10 countries in Africa with respect to domestic traffic movements. SA is by far the largest domestic market in the continent with 35% of total Africa's traffic movements (See chart 1.6).

In 2000 SADC airlines carried 3.6% more passengers, performed 5% better in terms of revenue passenger kilometers (RPK) and carried 5.9% more freight than in 1999. In 2000 passenger traffic totaled 10.2 million, which was an improvement of more than 12% compared to the 1999 figures. These figures show that the growth potential for SADC airline industry is huge. However many obstacles hamper its performance. The SADC airlines are generally inefficient, poorly managed and grossly unprofitable. Fuel prices and labor cost affect productivity. The graph also shows the skewed distribution of SADC domestic traffic movements as well as that in Africa as derived from figures provided in the 2000-2001 SATCC-TU Annual Report. As a result of these problems, intra-regional air passenger services do not adequately meet market demand, is expensive and time consuming (except for traveling to and from Johannesburg).

Recently, there has been some movement towards liberalizing the airline industry and developing a regulatory framework along the lines of the Yamoussoukro Declaration, which became effective on 12 August 2000. The aim of this initiative is to reach full integration by 2002. (See Box 1.2).

Table 1.11: Top 10 African Domestic Aircraft Movement Forecast, 2000-2012

Country	2000	2001	2002	2007	2012
South Africa	131,653	136,102	140,710	157,490	176,564
Kenya	270,032	28,501	30,232	37,944	47,769
Algeria	23,287	24,558	25,836	31,518	35,694
Egypt	22,637	23,873	25,115	30,638	34,697
Seychelles	21,593	22,792	24,176	30,343	38,200
Ethiopia	20,844	22,555	24,632	34,593	48,582
Madagascar	17,660	18,641	19,773	24,817	31,243
Morocco	14,200	14,975	15,754	19,219	21,765
Zimbabwe	13,079	13,521	13,978	15,645	17,540
Cape Verde	12,921	13,537	14,127	16,557	19,404
Rest of Africa	68,558	71,658	74,778	87,576	101,861
Total Domestic	**373,343**	**390,713**	**409,111**	**486,340**	**573,319**

Box 1.2 The Yamoussoukro Decision: The Liberalization of Access to Air Transport Markets in Africa

Definition and Objectives: The Yamoussoukro Decision is an initiative to the gradually liberalize scheduled and non-scheduled **intra-Africa** air transport services. The Yamoussoukro Decision was signed in November 1999, endorsed by the Heads of State and Governments at the OAU Summit in Lomé (Togo) in July 2000 and became effective on 12 August 2000. The aim is to establish arrangements on the gradual liberalization of both scheduled and non-scheduled intra-Africa air transport services. The Decision takes precedence over all multilateral and bilateral agreements affecting air transport services between and within signatory States.

Granting of Rights and Designation: Article 3 of the Yamoussoukro Decision stipulates that State Parties grant to each other the free exercise of the rights of the first, second, third, fourth and fifth freedoms[1] of the air on scheduled and non-scheduled passenger, cargo and/or mail flights performed by an eligible airline to/from their respective territories. However, a State Party may limit its commitment in respect to fifth freedom rights for a period no longer than two years. A State Party has the right to designate at least one airline to operate the intra-Africa air transport services (Article 6). It may also designate an eligible airline from another State Party to operate air services on its behalf. It can also designate an eligible African multinational airline in which it is a stakeholder and the other State Parties shall accept this airline.

Eligibility Criteria (Article 6.9): To be eligible, an airline should: (i) be legally established in accordance with the regulations applicable in a State Party to this Decision; (ii) have its headquarters, central administration and principal place of business physically located in the State concerned; (iii) be duly licensed by a State Party as defined in Attachment 6 of the Chicago Convention; (iv) fully own or have a long-term lease exceeding six months on an aircraft and have its technical supervision; (v) be adequately insured with regard to passengers, cargo, mail, baggage and third parties in an amount at least equal to the provisions of the International Convention in force; (vi) be capable of demonstrating its ability to maintain standards at least equal to those by ICAO and to respond to any query from any State to which it provides air services; and (vii) be effectively controlled by a State Party.

Monitoring Body (Article 9): A Sub-Committee on Air Transport of the Committee on Transport, Communications and Tourism has been established. It will be responsible for the overall supervision, follow-up and implementation of this Decision. An African Air Transport Executing Agency will be established to ensure successful implementation of the Decision. Its responsibilities include: (i) to formulate and enforce appropriate rules and regulations; (ii) to promote healthy competition; and (iii) to ensure that consumer rights are protected.

Bank's Involvement and Implementation Status: The Bank supports Western and Central Africa to implement the Yamoussoukro Decision through an IDF grant of US$ 300,000. 23 Western and Central African countries (ECOWAS, CEMAC and Mauritania) have signed a Memorandum of Understanding (MOU) to set out the guidelines for: (i) implementing the liberalization process; (ii) strengthening safety and security in the sector; and (iii) sustaining financing of air transport in Western and Central Africa. These countries established a Coordination and Monitoring Committee comprising representatives of the signatory states and an Implementation Committee with a limited number of countries (Mali, Nigeria, Guinea, Congo and Central African Republic). In March 2001 in Bamako (Mali), these two committees were formally established. The Bamako meeting also approved an implementation program comprising four themes: (i) Updating national legislation and bilateral agreements to comply with the Yamoussoukro Decision; (ii) Developing an action plan to improve safety and security and develop an appropriate technical regulation mechanism to comply with ICAO standards; (iii) Set up a regional economic regulatory body; and (iv) Review the financing of the sector.

Source Adapted by authors based on **Economic Commission for Africa**, **1999.** *Decision Relating to the Implementation of the Yamoussoukro Declaration Concerning the Liberalization of Access to Air Transport Markets in Africa, December 1999.*

Note: [1]**First freedom traffic right**: Right of an eligible airline of one country to fly over the territory of another country (Technical Freedom); **Second freedom traffic right**: Right of an eligible airline of one country to land at an airport of another country for technical reason; **Third freedom traffic right**: Right of an eligible Airline of one State Party to put down, in the territory of another State Party, passengers, freight and mail taken up in the State Party in which it is licensed; **Fourth freedom traffic right**: Right of an eligible Airline of one St ate Party to take on, in the territory of another State Party, passengers, freight and mail for off-loading in the State Party in which it is licensed; **Fifth freedom traffic right**: Right of an eligible airline of one State Party to carry passengers, freight and mail between two state Party in which it is licensed.

SADC has endorsed the Yamoussoukro Decision for the gradual liberalization of scheduled and non-scheduled intra-African air transport services. SADC has already started with preparations to implement the Yamoussoukro Decision. It has drafted an implementation plan and has analyzed the impact (positive and negative implications) of the plan. It also held a regional Yamoussoukro Decision Promotion Conference. The airlines and the aeronautical authorities and other stakeholders participated to address pertinent issues and facilitate implementation.

SADC Member States seem to fully support the development of competition rules and arbitration rules to harmonize the Decision with national laws and ICAO rules. They will take into account developments in other sub-regions and are working particularly closely with COMESA and the EAC in this regard. In addition, mechanisms for monitoring implementation of the Yamoussoukro Decision would be established.

- **Communications**

Although the sub-region remains inadequately equipped with communications services, the region has made progress in the 1990s. The number of fixed lines has grown and is around 6,747,824 - equivalent to an average regional teledensity of nearly five per 100 inhabitants. However, the range varies from country to country. While in Seychelles more than 24 out of 100 inhabitants on average are equipped with fixed telephone lines (the highest level of equipment within the region), in Malawi, less than one inhabitant out of 100 has access to a telephone line - the lowest level in the region. On a region-wide basis, the penetration of the fixed network is low, representing only one-quarter of the world average. In some countries (Lesotho, Malawi, Mozambique and Zambia) the waiting time for a telephone line exceeded 7 years and even ten years in 1999. Network growth since 1993 has lagged behind demand, which is reflected in longer waiting lists for connections. This is discouraging many individuals from applying for fixed lines. Furthermore, although varying across countries, the quality of fixed-line services remains generally poor by international standards, as measured by the rate of unsuccessful local calls, intra-country call completion rates, and the occurrence of faults. This situation is attributed to:

- traffic congestion due to capacity limitation;
- institutional inefficiency; and
- maintenance problems, including due to inadequate skills, funds and lack of complimentary infrastructure. For example, in certain countries microwave routes are not easy to maintain because they need a parallel transport network to allow for such maintenance.

The mobile network has experienced remarkable growth as witnessed by the proliferation of cellular phone operations, internet services providers, and the use of electronic mail in the region. It was estimated that electronic mail operations grew by 30% and mobile cellular access by 60% in only one year from 1997-1998.

Table 1.12: Growth in Mobile Telephony

Services	1997	1998	% Growth
Basic telephone subscribers	5 232 615	6 134 385	17
Mobile cellular access	1 628 052	2 750 698	60
Internet hosts	138 509	178 576*	30

Source: ITU; * July 1999.

Mobile telephony has an extremely important role to play in SADC for two reasons:

- the poor state of the fixed network and the high cost of extending it; and
- telephony that can be extended more rapidly into rural areas and to poorer households via the cellular networks which have been innovative in introducing prepaid cards. The prepaid market is the most rapidly growing one in previously under-serviced areas in the sub-region.

Because telecommunications are so important in socio-economic development, it is assumed that governments in the sub-region would encourage the expansion of the mobile network. To the contrary, high duties (of 60-70%) on handsets are imposed in some countries in the sub-region, resulting in relatively expensive handsets. Even in South Africa duties have again been imposed, after an initial period of zero-duties. The cost of handsets thus remains a deterrent to greater use, although costs of handsets and service fees have declined due to increased competition. Such policies in the sub-region result in revenue gains for the fiscus, but it adds to transaction costs for economic activity and retards the extension of telephony to poorer groups in society. Although the cellular network has become an essential part of business in the sub-region, there are still countries in which roaming is impossible or difficult due to a failure to establish roaming agreements or to a lack of signaling links.

Due to all these problems, the sub-region is lagging behind international standards, although it compares well with the averages for SSA, excluding SA.

Table 1.13: Size of Information Infrastructure Relative to Population, Selected Indicators, 1999

Region	Main Telephone lines per 100 inhabitants	Mobile phones per 100 inhabitants	Leased lines per 1000 inhabitants
Asia and Pacific	7.1	3.1	1.0
East/Central Europe and Central Asia	23	4.5	0.8
Latin America and Caribbean	14	6.6	1.3
Middle East and North Africa	11	4.0	1.3
SSA	3.5	1.9	1.1
SSA excl. SA	0.8	0.3	0.04
Southern Africa (1998)	**4.7**	**1.67**	N/A
Subtotal non-OECD	9.3	3.6	1.0
OECD	56	33	38

Source, InfoDev, World Bank, in *Telecommunications Policy*

Table 1.14: Main Telephone Lines, SADC Countries

	Main telephone lines			Main telephone lines per 100 inhabitants		
	1995 (unit =1000)	1999 (unit=1000)	Growth (%) 1995-1999	1995	1999	Growth (%) 1995-1999
Angola	52.7	96.3	16.3	0.49	0.77	12.1
Botswana	59.7	123.8	20.0	4.09	7.69	17.1
DRC	36.0	20.0	-13.7	0.08	0.04	-15.8
Lesotho	17.8	21.0	5.7	0.88	1.02	5.1
Malawi	34.3	41.4	4.8	0.35	0.39	2.6
Mauritius	148.2	257.1	14.8	13.21	22.36	14.1
Mozambique	59.8	78.1	6.9	0.34	0.40	4.2
Namibia	78.5	108.2	8.4	5.06	6.38	6.0
Seychelles	13.1	19.6	10.6	17.41	24.42	8.8
SA	4002.2	5492.8	8.2	10.14	12.53	5.4
Swaziland	21.1	30.6	9.7	2.32	3.12	7.7
Tanzania	90.3	149.6	13.5	0.30	0.46	10.6
Zambia	76.8	83.1	2.0	0.95	0.93	-0.6
Zimbabwe	152.5	239.0	11.9	1.40	2.07	10.3
World	691601.0	906713.6	7.0	12.15	15.16	5.7
Africa	12579.6	18617.1	10.3	1.77	2.43	8.2
Americas	221402.5	271006.1	5.2	28.71	33.27	3.7
Asia	183492.4	297140.6	12.8	5.41	8.32	11.3
Europe	263183.7	307809.6	4.0	33.24	38.66	3.9
Oceania	10942.7	12140.2	2.6	38.81	40.38	1.0

Source: International Telecommunications Union (ITU), World Telecommunications Indicators, 2000-2001.

Table 1.15: Waiting List, SADC Countries

	Waiting list for telephone lines			Total demand 1999 (Unit= 1000)	Satisfied demand 1999 (%)	Waiting time (years) 1999
	1995 (unit=1000)	**1999 (unit=1000)**	**Growth (%) 1995-1999**			
Angola	Na	21.1	NA	117.5	82.0	1.5
Botswana	11.5	11.8	1.2	135.6	91.3	0.7
DRC	6.0	NA	NA	NA	NA	NA
Lesotho	5.4	20.0	54.5	41.0	51.2	> 10
Malawi	24.9	31.6	6.1	72.9	56.7	> 10
Mauritius	46.6	29.1	-11.2	286.2	89.8	1.2
Mozambique	16.5	39.7	24.5	117.8	66.3	7.0
Namibia	7.0	5.4	-6.1	113.6	95.2	0.7
Seychelles	2.9	1.8	-39.1	21.4	91.8	1.3
South Africa	136.6	116.2	-7.7	5609.1	97.9	0.3
Swaziland	12.8	15.3	6.2	45.9	66.6	5.8
Tanzania	118.0	29.6	-29.2	179.2	83.5	1.6
Zambia	34.4	12.3	-22.6	95.4	87.1	7.2
Zimbabwe	101.9	109.0	3.4	348.0	68.7	5.1
World	41114.9	34497.2	-4.3	914480.3	96.3	0.6
Africa	3642.7	3610.3	-0.2	21913.2	83.8	2.2
Americas	2620.6	4955.8	17.3	270429.2	98.2	0.4
Asia	13419.1	11987.2	-2.8	295235.5	96.1	0.4
Europe	21420.4	13932.9	-10.2	314872.5	95.7	1.3
Oceania	12.2	10.9	-2.8	12029.8	99.9	NA

Source: International Telecommunications Union (ITU), World Telecommunications Indicators, 2000-2001

Table 1.16: Telephone Tariffs, SADC Countries

	Residential		Business		Local call (US$) 1999	Subscription as a % of GDP per capita 1998
	Connection (US$) 1999	Monthly subscription (US$) 1999	Connection (US$) 1999	Monthly subscription (US$) 1999		
Angola	39	3.9	72	7.2	0.06	20.7
Botswana	49	3.3	49	3.5	0.02	1.4
DRC	NA	NA	NA	NA	NA	NA
Lesotho	73	4.1	NA	NA	0.02	10.1
Malawi	27	2.3	27	2.3	0.03	23.0
Mauritius	79	2.4	119	4.0	0.04	0.8
Mozambique	38	8.7	38	8.7	0.09	46.6
Namibia	42	7.7	42	8.6	0.05	5.3
Seychelles	88	10.5	88	11.5	0.17	1.9
South Africa	34	9.1	34	11.9	0.08	3.8
Swaziland	26	2.3	61	4.0	0.05	2.4
Tanzania	48	4.1	48	4.1	0.08	21.2
Zambia	21	2.1	63	4.2	0.05	2.0
Zimbabwe	18	2.0	18	2.0	0.03	3.2
World	94	6.5	128	10.4	0.08	5.6
Africa	71	4.9	94	6.5	0.09	12.8
Americas	100	7.9	134	16.3	0.06	3.3
Asia	113	5.1	152	9.2	0.05	5.2
Europe	103	7.9	151	10.1	0.10	1.0
Oceania	57	9.2	69	14.2	0.11	3.9

Source: International Telecommunications Union (ITU), World Telecommunications Indicators, 2000-2001.

- **Regional Postal Services and Networks**

According to SATCC-TU, in 1999, the region was endowed with 4818 Post Offices and Postal Agencies. There were 4.3 million Privates Boxes, an increase of nearly 7% from 1998. The number of applicants for private boxes declined by almost 30% from 63 000 in 1999 to 45 000 in 2000. Performance of this sector is hampered by poor quality of service, low productivity and unsatisfactory service standards. In general, the service standards are not met in all mail operational routes.

(v) Uneven development of financial systems, many of which could be described as underdeveloped and/or with shallow and narrow financial markets *(*see Attachment 2*).*

Departing from the viewpoint that financial systems are important for economic growth and development, southern African countries provide a mixed picture in terms of their prospects for growth should this hinge on their financial systems. In general, there is a trend towards financial market liberalization, with the most disadvantaged countries in this regard engaged in extensive financial sector adjustment and reform programs. The following summary gives an indication of the status of the financial sector in the sub-region:

Table 1.17: Some Features of Financial Systems in the Southern African Region

Country	Financial system features
Angola	Banking system reforms underway. However, the money & capital markets remain underdeveloped with informal money markets filling the vacuum.
Botswana	Central bank conducts traditional central bank role in an autonomous and efficient manner. Small but efficient banking sector carrying out normal retail and commercial and merchant banking activities. Stock exchange with 15 listed companies & market capitalization of US$1 042 million in 2000.
DRC	Financial sector is underdeveloped & functions unreliably. Commercial banks mostly subsidiaries and associates of Western banks. The governor of the Central Bank, respected for his capabilities among his colleagues in the sub-region, has been re-instated in his governing role of central bank activities.
Lesotho	Member of SACU & MMA, with limited monetary & fiscal policy autonomy. Financial sector is small – central bank, commercial banks, an insurance sector and DFIs.
Malawi	Financial sector liberalization and modernization underway. Active commercial banks, a merchant bank and DFIs. Malawi Stock Exchange extremely small, with 2/3 listed companies and one stockbroker.
Mauritius	Highly sophisticated financial structure & has next to SA, probably the most developed (not the largest) system in the sub-region. Capital market is limited. The Stock Exchange of Mauritius has 41 listed companies with a market capitalization of US$1 485 million in 2000, but with low turnover activity.
Mozambique	Financial sector adjustment program underway; commercial banking and insurance are gaining ground; and a stock exchange was launched in 1999, trading largely in treasury bills. Informal financial sector still playing an important role.
Namibia	Member of SACU & MMA, with limited monetary & fiscal policy autonomy. Domestic money and forex markets are nascent but developing rapidly. Stock exchange opened in 1992 & has 21 listed companies, with market capitalization value at US$410 million.
Seychelles	Financial system administratively efficient, but liquidity management is complicated by the thinness of financial markets; international and state-owned banks operate in the country.
SA	Highly sophisticated, strong & liberalized financial system. JSE had 649 listed companies with market capitalization value of US$213 billion in 2000. Formalized exchanges for futures & options and for debt instruments are active and growing. SARB has full autonomy in conducting monetary policy.
Swaziland	Member of SACU & MMA, with limited monetary & fiscal policy autonomy. Strong commercial banking sector & money market; stock exchange small & illiquid.
Tanzania	Rapid liberalization of financial sector; opened a stock exchange in 1997.
Zambia	Liberalization of financial system underway; active commercial banking sector & money market. Lusaka Stock Exchange established in 1994 & had 4 listed companies in 2000.
Zimbabwe	Sophisticated and dynamic financial system, and most restrictions have been reviewed. Stock Exchange since 1974 & had 69 listed companies with a market capitalization value of US$2 751 million in 2000.

(vi) Uneven economic size, undiversified production structures and commodity dependence

- **Uneven economic size**

SA accounted for nearly 70% of the sub-region's total GDP of US$187.7 million and about two-thirds of SADC's total volume of exports in 2000. The five smallest (Seychelles, Lesotho, Swaziland, Malawi and Namibia) accounted for 4%. SA's economy was 138 times larger than that of Lesotho. SA's dominance in economic size is also associated with economic strengths such as its relatively sophisticated financial markets, its physical and social infrastructure, its

Table 1.18: GDP and Exports: Share of Individual Countries

	Share in Nominal GDP (%)				Share in Total Volume of Exports, $US (%)			
	1970	1980	1990	2000	1970	1980	1990	2000
SA in SADC	55.3	61.7	68.8	68.6	69.2	67.7	62.5	65
Nigeria in ECOWAS	12.5	64.2	28.5	40.4	46.7	58.5	46.7	45.4
Côte d'Ivoire in WAEMU	33.0	46.6	38.7	40.0	37.2	48.3	53.6	51.3
Cameroon in CEMAC	47.7	45.9	47.7	47.8	29.4	33.0	37.1	35.7
Cameroon and Côte d'Ivoire in CFA Zone	38.2	46.3	42.8	43.0	34.3	42.3	46.0	44.3

Source: Authors' calculations based on Data from World Bank, SIMA, Regional Database, 2001.

business capacity, etc. This predominance is even more evident when comparing SA's data to that of counterparts in other SSA regional arrangements. In 2000, Nigeria represented 40.4% of ECOWAS' GDP and 45.4% of its exports. Similarly, Côte d'Ivoire accounted for 40% of the West African Economic and Monetary Union (WAEMU) aggregate GDP and 51.3% of its volume of exports. For Cameroon in the Central African Economic and Monetary Union (CEMAC), the percentages are 47.7% and 35.7%, respectively.

- **Undiversified economic structure**

Overall, **economies in the sub-region are largely undiversified.** In terms of *economic structure*, the sub-region has not transformed its productive base sufficiently with progressive industrialization proving elusive in most countries. Between 1970-98, the share of agriculture in GDP *increased* in Zambia and Zimbabwe, while in Mozambique, Namibia, South Africa, Tanzania, Zambia and Zimbabwe the share of industry in GDP decreased as did the share of manufacturing in the most industrialized countries (South Africa and Zimbabwe). **The lack of complementarity in production limits the scope for trade, except between SA and the rest of the region.**

- **Impact of Terms of Trade Variability: 'Income effect'**

The economies in the region are reasonably open, and given that all countries in the sub-region, including SA, are heavily dependent on exports of primary agricultural and mineral commodities, **the sub-regional economy remains excessively vulnerable to rainfall variations and to commodity market fluctuations.**

With regard to the overall evolution of the terms of trade, SADC countries may be classified in two categories. The first group includes countries that have benefited from an improvement in the terms of trade: Angola, Mauritius, the Seychelles, the DRC, South Africa, Zimbabwe, and Lesotho. Gains in income in terms of GDP due to terms of trade improvement range between 0.003% (Lesotho) and 0.7% (Angola). In particular, the first three countries have recorded a significant rise in their terms of trade: Angola since the mid-1990s; Mauritius, in the mid–1970s and mid–1980s, and the Seychelles, in 1987–88, 1992-93 and 1997–98. This reflects the substantial gain in income that these countries have derived from the long-term evolution of barter terms of trade.

The second group is comprised of countries that have lost from the evolution of the terms of trade: Zambia, Tanzania, Namibia, Mozambique, Malawi, Swaziland, and Botswana. The loss of income in terms of GDP caused by deteriorating terms of trade ranges between -1.5% (Zambia) and -0.3% (Botswana). In Zambia, the improvement in terms of trade observed in 1983–90 and mid 1990s, reflecting the rise in diamond export prices, did not fully compensate huge declines observed in the early 1970s and within the period 1996–99. In the case of Tanzania, changes in the terms of trade

Figure 1.7: Share in Nominal GDP (%)

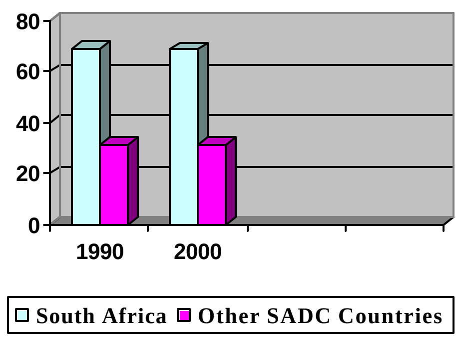
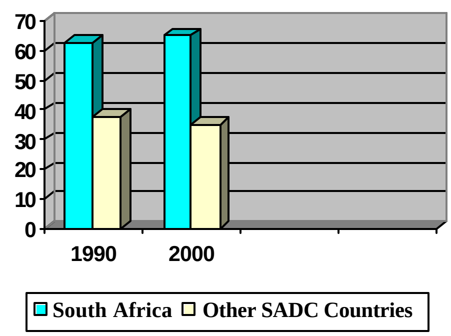


Figure 1.8: Share in Total Volume of Exports US$ (%)



Source: By Authors based on Data from World Bank and SIMA, Regional Database, 2001.

have been negative since 1988. The impact in terms of income is a loss equivalent to nearly one percent of GDP.

- high levels of savings and investment to support sustained growth;
- running low budget deficits of a size which could be financed on a sustainable basis without crowding out private investment;
- moving gradually but progressively towards fully open current and capital accounts;
- adopting an open market economy approach with emphasis on export growth and diversification of non-traditional exports, as well as efficient import substitution which is not dependent on prolonged protection;
- development strategies which build on agriculture, tourism, etc, and realize the full productive and employment potential of small scale enterprises and the informal sector;
- reducing aid dependence and exiting from the external debt trap;
- enhancing the investment climate; and
- rationalizing government and the public sector by focusing the role of the state and parastatals on those activities which they can perform efficiently.

Table 1.19: Contribution of Each Sector to GDP in SADC Countries

	Agriculture Value Added % of GDP				Industry Value Added % of GDP				Manufacturing Value Added % of GDP				Services, etc Value Added % of GDP			
	1970	**1980**	**1990**	**1998**	**1970**	**1980**	**1990**	**1998**	**1970**	**1980**	**1990**	**1998**	**1970**	**1980**	**1990**	**1998**
Angola	NA	NA	18	12	NA	NA	41	51	NA	NA	5	6	NA	NA	41	36
Botswana	28	11	5	4	31	45	56	46	7	5	5	5	41	44	39	50
DRC	15	25	30	NA	42	33	28	NA	NA	14	11	NA	43	42	42	NA
Lesotho	35	24	17	11	9	29	43	42	4	7	13	NA	56	47	41	47
Malawi	44	44	45	36	17	23	29	18	NA	14	19	14	39	34	26	46
Mauritius	16	12	12	9	22	26	32	33	14	15	24	25	62	62	56	58
Mozambique	NA	37	37	34	NA	34	18	21	NA	NA	10	11	NA	28	44	45
Namibia	NA	11	12	10	NA	55	37	34	NA	9	13	14	NA	34	51	56
Seychelles	NA	7	5	4	NA	16	16	24	NA	7	10	13	NA	78	79	72
SA	7	6	5	4	38	48	40	32	23	22	24	19	55	46	55	64
Swaziland	33	24	14	16	28	32	43	39	12	22	36	32	39	44	43	45
Tanzania	NA	NA	48	46	NA	NA	16	15	NA	NA	9	7	NA	NA	36	39
Zambia	11	14	18	17	55	41	45	26	10	18	32	11	35	44	37	56
Zimbabwe	17	16	16	19	31	29	33	24	18	22	23	17	52	55	50	56

Source: World Bank, World Development Indicators (WDI), 2000.

1.5 ECONOMIC REFORMS AND OUTCOMES

1.5.1 Economic Reforms (See Attachment 2)

Since the beginning of the 1990s, seven countries, have been undertaking IMF/World Bank supported stabilization and adjustment programs, six have been implementing home-grown programs (SA, Botswana, Swaziland, Namibia, Seychelles and Mauritius), while Angola and the DRC have opened lines of communication with the Fund and the Bank. Across the countries, there seems to be a shared view in the importance of:[19]

- orderly, transparent economic management to achieve internal and external balance with reduced volatility and full utilization of capacity;
- monetary stability with low inflation, positive but low real interest rates and stable exchange rates;

(i) Macroeconomic reforms

Although there are differences in the pace and sequencing of reforms across countries, on the fiscal side, most countries are: reforming their tax structures, including by introducing taxes such as VAT, improving their tax administrations; implementing public

[19] **SADC Finance and Investment Sector Coordinating Unit, 2000**. *Executive Summary of the Studies on Convergence & Adjustment, Investment and Development Finance.* Pretoria, FISCU, June 2000.

expenditure reform, including through right-sizing civil service, reallocation of expenditure between recurrent and capital outlays, changes in their sectoral priorities, public investment reform; reform of budgetary processes; and enhancement of debt management policies and practices. Monetary policy reforms include moving away from directed credit policies and other direct interventions and controls on interest rates as well as introducing exchange rate flexibility. They have been opening up competition within their banking systems through privatization of state-owned banks and are becoming more compliant with international standards of rules of supervision, while moving towards increased central bank autonomy.

Table 1.20: Income Effect of Terms of Trade Variability

Countries	Period	Income Effect (Average in% of GDP)
Winners		
Angola	1985-98	0.7
Mauritius	1970-2000	0.6
Seychelles	1986-2000	0.5
DRC	1970-99	0.3
SA	1970-2000	0.2
Zimbabwe	1977-2000	0.04
Lesotho	1970-2000	0.003
Losers		
Zambia	1970-2000	-1.5
Tanzania	1988-99	-0.9
Namibia	1981-99	-0.8
Mozambique	1981-99	-0.7
Malawi	1970-2000	-0.6
Swaziland	1970-2000	-0.3
Botswana	1983-2000	-0.3

Source: Authors' calculation based on data from World Bank SIMA Database.

Note: The 'income effect' of changes in the terms of trade in a given year is calculated by multiplying the value of exports of goods and nonfactor services in 1995 dollars for that year by the percentage change in terms of trade index. The result is calculated as a percentage of GDP in 1995 dollars for that year. The average over the period was therefore calculated depending on the availability of data.

(ii) Changes in investment regimes

Many SADC countries have undertaken actions to improve their investment climates through acceding to international conventions that guarantee the rights of investors; the adoption of new business laws and regulations aimed at facilitating investment procedures and encouraging FDI inflows, e.g. through reducing investment licensing requirement, introduction of investment incentives, often associated with EPZs, privatization, adoption of public-private partnerships in the provision of infrastructure, active encouragement of foreign partners as shareholders in restructured assets; and by actively promoting investment through their investment promotion agencies. (See Attachment 2).

(iii) Trade reforms

In the 1990s, many ESA countries made remarkable progress in liberalizing their external sector. Trade reforms took place unilaterally, bilaterally as well as on a multilateral basis, while SADC-COMESA countries have also liberalized their trade within the COMESA framework. Trade reforms within the region include the following elements (see Attachment 2):

- *Reduction or elimination of nontariff barriers* (NTB) such as import and export quotas, bans, state trading and other NTBs. At the end of 1998, three SADC countries (Lesotho, Malawi and Zambia) had eliminated all NTBs that were in place at the beginning of the decade, with the exception of restrictions related to health, environmental, and security reasons. Mauritius, Mozambique, SA and Tanzania maintained only a few restrictions on imports. Two COMESA (non-SADC) countries, Madagascar and Kenya had also made progress in eliminating NTBs.
- *Reduction in maximum and average import tariffs:* Many SADC countries, including the

Seychelles, Zambia and the SACU members, have substantially reduced maximum and average import tariffs. The SACU countries and Malawi, Mozambique, Uganda, and Zambia have the lowest trade taxes (less than 15% in 1998) among ESA countries.

- *Simplification of the tariff regime:* Most ESA countries have simplified their tariff systems. The foremost reformer countries (Kenya, Uganda and Zambia) have reduced the number of non-zero rates to only three.
- *Reduction or elimination of export taxes:* In this field, ESA countries have also accomplished remarkable progress in reducing export taxes. Apart from Burundi and the DRC, ESA countries have lowered export taxes to less than five percent of exports.
- *Liberalization of exchange restriction:* ESA countries have substantially liberalized their exchange regimes. At the end of 1999, 10 SADC countries (Botswana, Lesotho, Malawi, Mauritius, Namibia, the Seychelles, SA, Swaziland, Tanzania and Zimbabwe) had removed restrictions on current international transactions and adopted the obligations under Article VIII of the IMF's Articles of Agreement.
- *Reductions in exemptions:* In this area, ESA's record of progress has been limited. As of 1998, many countries continued the practice of exemptions. For instance, Mozambique and Zambia use discretionary exemptions to promote foreign investment. In Mauritius, the share of total exempted imports in total imports increased by about 10% during the 1990s.

1.5.2 Economic Outcomes

(i) Budget Performance

Budget deficit control depends partly on the ability of governments to raise revenue domestically despite reduced revenue from trade taxes under adjustment. In all SADC countries (except Zambia, Tanzania and Malawi) the government revenue-to-GDP ratio has been rising between 1990-2000. The ratio is below 20% only in the DRC, Malawi, Mozambique and Zambia. There is a strong (and expected) correlation between countries with ratios below 20% and high aid dependency.

Apart from the Seychelles and, to a lesser extent, Mauritius, all SADC countries have improved their fiscal position between the first and second half of the 1990s. On average, budget deficits have been reduced in a number of countries. The control of both current and capital expenditures, the reforms of the tax administration (including the improvement of tax collection and the broadening of the tax base), and privatization of parastatals were the underlying elements of these improvements (see Attachment 2).

This general observation conceals different evolutions over time. Angola and Malawi have significantly reduced their budget deficits by almost half and 3%, respectively (see Attachment 2b). The combination of a rise in oil prices and the depreciation of the currency have changed these countries' fiscal positions from high deficits in the early 1990s to surpluses in 2000. An increase in revenue, from income taxes and taxes on international trade as well as the fall in wages and salaries as a proportion of GDP helped control the budget deficit in Malawi. However, Malawi's fiscal position remains highly dependent on grants.

Since 1996, Zambia has embarked upon a stabilization effort with a tightening of the fiscal balance. A number of restrictive measures have aimed at controlling the budget, including a sharp fall in purchases of goods and services and capital expenditures. On the revenue side, actions were undertaken to improve the collection and remittances of fees and charges. Revenues were also drawn from specific measures such as vehicle registration fees. While budget deficits declined throughout the 1990s, it is worth noticing that fiscal performance in Zambia is also related to grants from abroad.

Mozambique and SA have improved their fiscal performance as well, while Mozambique's fiscal position is also highly dependent on grants.

Since 1996, budget deficits have been declining in Mozambique, but this trend was interrupted in 2000 mainly due to the impact of floods. On the contrary, SA has maintained a declining trend in its fiscal deficit since 1994. Significant improvements in tax administration, particularly in the area of income taxation, increases in excise revenues, and a strengthened tax administration explain these records.

Overall, fiscal deficits in Tanzania and Zimbabwe also depend strongly on grant receipts. Swaziland and Lesotho's fiscal performance have deteriorated since the late 1990s, reflecting a relaxation of budgetary control.

Botswana has enjoyed good performances in its public finance, owing to the large revenues from exports of diamonds and prudent fiscal policy. However, given the heavy fiscal reliance on revenues from diamonds, international diamond market conditions have a significant influence on budgetary outcomes. E.g. the past good budgetary performance of the 1990s was somewhat lost in 1997 when the budget surplus (including grants) shrank drastically to 2.6% of GDP in 1999 compared with more than nine percent in 1992 due to a slump in international diamond market conditions.

(ii) Inflation

When observing trends in inflation over the past three decades in SADC, three categories of countries can be distinguished. The first includes countries whose inflation performances worsened and reached two or three digit levels: Angola, the DRC and, to a lesser extent, Malawi, Zambia, and Zimbabwe. In some cases, high inflation rates reflected the consequences of political instability and civil strife as in the cases of Angola and the DRC. In other cases, macroeconomic mismanagement, with sharp nominal exchange rate depreciation, or exogenous factors such as droughts that affected agricultural production were the main roots of high inflation and sometimes hyperinflation[20].

The second group includes countries where inflation declined but remained at high levels. Mozambique and Tanzania fall into this category. These countries have undertaken stabilization programs to correct macroeconomic imbalances. However, policy reversals as well as exogenous elements led to a resumption of inflation. Within the third group, inflation has declined steadily and seems to be under control. Continued efforts to stabilize prices through restrictive monetary and fiscal policies resulted in sharp falls in inflation rates. Mauritius, Seychelles and the SACU/CMA countries, Botswana, Lesotho, Namibia, SA and Swaziland belong to this category.

However, these general trends may gloss over inflation performances from year to year, specific cases, and recent developments. Indeed, over the past decade, individual SADC countries have enjoyed different fortunes regarding the evolution of inflation rates. In the early 1990s, Angola and the DRC experienced high inflation rates. The worsening of their political and economic situations, a sharp rise in broad money growth (12 850%) and currency depreciation (99.9%) were the combined factors explaining hyperinflation in the DRC during 1991-94. Since 1996, inflation has declined steadily and remains at relatively lower levels in the DRC. Although inflation rates have seen a falling trend since the mid-1990s in Angola, the increase in prices accelerated in the last two years of the decade. These increases were associated with an accommodating monetary policy, a major realignment in the exchange rate, and the effect of public utility prices and supply bottlenecks that the country's civil war produced.

Botswana and SA have made remarkable progress in keeping inflation under control. In Botswana, inflation has steadily decelerated since 1993 associated with the evolution of prices (tradable goods) in SA. The tightening of monetary and fiscal policies, the adoption of a formal inflation targeting policy in February

20 According to P. Cagan (1956), hyperinflation is defined as beginning when inflation levels exceed 50% a month. Based on this criterion, Zaire's hyperinflation began in October 1991 and ceased in September 1994. See **P. Beaugrand**, *Zaire Hyperinflation, 1990-96. IMF, WP/97/50.*

2000 and the fall in unit labor costs resulted in the weakening of inflation in SA. Closely tied through their financial and trade linkages with SA, it is not surprising that inflation in Lesotho, Namibia, and Swaziland have followed a similar path than that in SA. On the contrary, in the Seychelles inflation accelerated in 1999 and further in 2000, reflecting many regulations and price controls (for example on alcoholic beverages, electricity, and other utilities). As in many other SADC countries, the tightening of monetary and fiscal policies was the underlying reason for the fall in inflation rates in the late 1990s in Tanzania.

In Zambia, while inflation increased in the early 1990s as a result of expansionary financial policies, the abundant food supply and the tightening of financial policies dampened inflationary pressures. However, inflation rates remained at relatively high two-digit levels in 2000. The reduction in inflation rates observed in Malawi and Mozambique during the end of the 1990s has been reversed, when in 1999 and 2000 inflation accelerated again in both countries. The sharp depreciation of the exchange rate against the US dollar at the end of April 2000 and the increases of petroleum prices have put pressures on prices in Malawi in 2000. High private and public expenditure levels (demand) after the floods in the first quarter of 2000 and monetary expansion resulted in the resurgence of inflation in Mozambique in 2000.

Overall most SADC countries have performed well in stabilizing inflation rates, particularly since the early 1990s. As indicated in the table, over the last decade, six countries (Lesotho, Mauritius, Namibia, Seychelles, SA, and Swaziland) recorded single digit inflation. In 2000, this number increased to eight countries (Botswana, Lesotho, Mauritius, Namibia, the Seychelles, South Africa, Swaziland and Tanzania). Sound macroeconomic policies and inflation targeting (SA) are the underlying factors contributing to the lowering of inflation within the region.

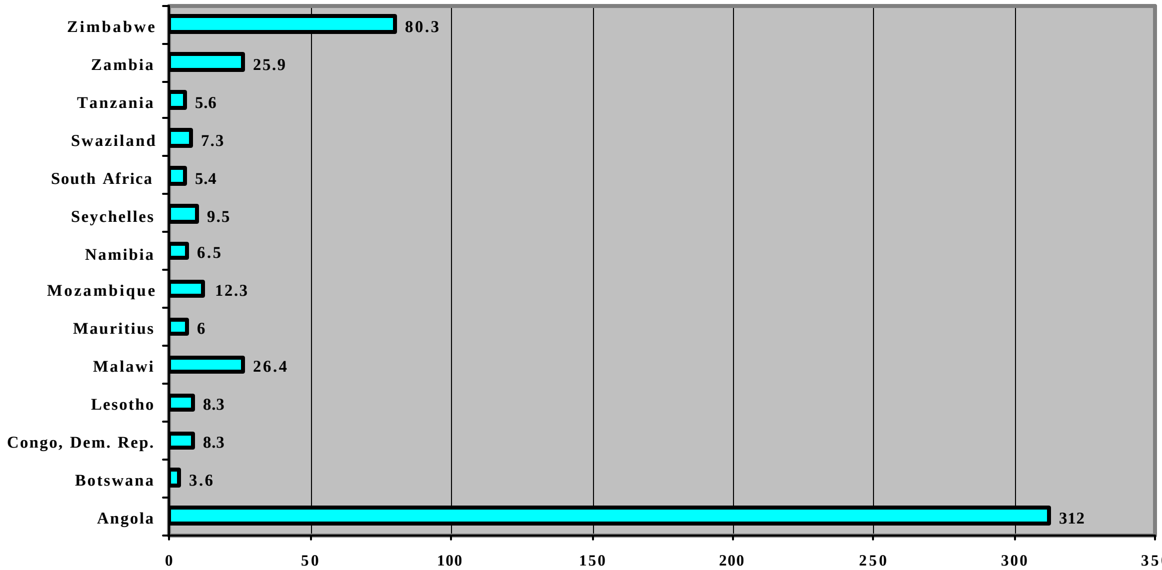
(iii) Real Interest Rates

Though the inflation picture is mixed, *real interest rates* show a more positive, consistent and less volatile trend. In the mid-1980s few SADC countries had positive real interest rates. By the mid-1990s that number had increased significantly. Apart from Seychelles (in 1999 and 2000) and Swaziland (in 2000), all SADC countries have recorded positive real interest rates since 1998 (see Attachment 2). Interest rate regimes (and structures) have been liberalized and stabilized in eight SADC countries; but problems persist in Angola, Malawi, Tanzania and Zambia. The shift towards positive real interest rates across most of SADC raises a fundamental question about the level at which real rates should settle and the shape of the yield curve between short and long maturities of deposits and debt. The opening of capital accounts in SADC should lead to converging regional rates at first and, eventually, to convergence with global interest rates with a risk premium. The size of the premium will depend on market perceptions of credit risk, political risk, exchange risk and the general economic outlook for different member countries. If logic and international experience are taken as reliable guides, the level and structure of rates (and the steepness of the yield curve) will obviously need to be higher in the weaker SADC economies than in the stronger ones.

(iv) Savings and Investment

With regard to the *savings and investment performance* in SADC economies undergoing adjustment, no clear pattern is discernible across the sub-region. Lesotho is an outlier because the Lesotho Highlands Water Project is so large relatively to the size of its economy that it distorts the investment picture completely. Mauritius and the other small SACU economies (BNS) – which have been under the least adjustment pressure – have relatively high savings and investment ratios which have either increased or been sustained between 1990-2000. In Mozambique, Tanzania, Zimbabwe and Angola investment is high (sometimes off a very low base) but funded principally by aid or FDI

Figure 1.9: Inflation Rate in 2000 (Change in Consumer Prices Index)



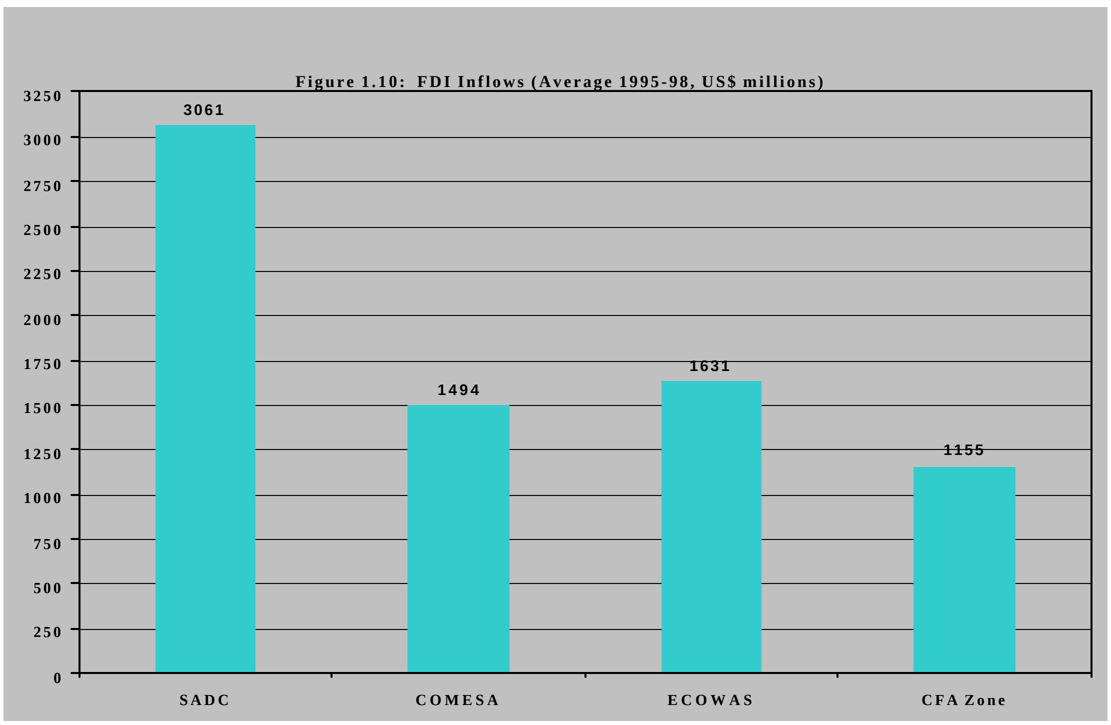
(project finance and privatization) because these countries have low domestic savings ratios. Axiomatic though it is that high growth requires high levels of *investment*, evidence suggests that in SADC this relationship is somewhat distorted[21]. A high proportion of the gain from investment is lost with SADC economies investing inefficiently because of: imperfect domestic markets, weak institutions, and weak infrastructure. Consequently, current consumption is foregone and saving is increased to finance investment, but the deferred gains (from future output) on the supply-side do not materialize as expected, seemingly resulting in a 'double wastage'. On the face of it, this situation may call for higher levels of savings and investment to offset the effects of 'frictional losses', but it could be questioned whether SADC could afford such a 'margin for inefficiency'. It would be difficult therefore to estimate precise targets for investment and savings as a proportion of GDP for SADC to sustain a particular growth rate in the sub-region.

As far as foreign direct investment (FDI) is concerned, SADC as a group attracted only US$691 million on average in the early 1990s, but FDI to the region has quadrupled in the second half of 1990s standing at US$3061 million on average in 1995-98 (see Attachment 2). This figure accounts for more than half

[21] Although no attempt was made to calculate an ICOR up till 2000, a previous attempt for the period 1991-95 showed an investment-to-GDP ratio of 18% and a weighted average growth rate of 1%, yielding a correspondingly high ICOR of nearly 20 for SADC (excluding the DRC and Seychelles). Excluding South Africa, the investment-GDP ratio for the remaining 11 countries was nearly 24%, with average real GDP growth of 2.4%, giving a corresponding average ICOR of 5.3. This average appears 'reasonable', but it incorporates both exceptionally high values (23 for Zimbabwe) and negative values (Angola and Zambia), corresponding to situations of continued investment accompanied by declines in GDP. It should be noted though that the very high ICOR for the 1991-95 period could be partly attributed to the poor growth performance during that period associated with the region-wide drought of 1991/92, which was the most severe on record. It had a devastating effect on the economic performance of most SADC countries. Other factors that affected growth included rapid political changes in Angola, Mozambique and South Africa. From 1995, climatic conditions were equally erratic, characterized by alternative periods of floods and droughts in different parts of the region, while political instability has continued, involving other countries as well as those forming part of the 1991-1995 calculations.

(55%) of all FDI flows directed to the sub-continent. Individual SADC countries appear to have performed relatively well compared with other SSA countries. Six SADC countries (SA, Angola, Zambia, Lesotho, Tanzania and Namibia) were among the 10 top recipient countries of FDI in SSA during the second half of the 1990s. SA has emerged as a strong pole for attracting foreign investment to the region, with more than 27% of FDI to SSA being directed to SA from 1995-1998.

With regard to the type of FDI flows, it seems that privatization and public-private provision of infrastructure have been serving as avenues for foreign investment, while most countries are investment. Efficiency-seeking investment, in turn, requires[22] a combination of adequate and efficient infrastructure, a workforce with skill levels that allow for a timely and cost-efficient production and delivery of goods to international markets, supported by liberal trade policies and easy access to the export markets. An example of 'efficiency-seeking investment', although somewhat of a different type, may be that in the sugar industry, taking advantage of both Mozambique's agricultural potential and lower wage levels. For both market- and efficiency-seeking investment, regional integration efforts, not only in terms of reduction in intra-regional tariff and non-tariff barriers, but also in terms of an open competitive market and the



Source: Authors based on data from World Bank, SIMA Database, 2001.

also attracting resource-seeking foreign investment flows, for example oil in Angola, diamonds in Botswana and Namibia, copper in Zambia and gold in Tanzania. In general, efficiency- and market-seeking investment flows remain proportionately small. The small absolute size of the markets and limited effective demand due to widespread poverty serve as important deterrents to market-seeking improvement of intra-regional infrastructural facilities to link the small, and in some cases segmented markets in the region, would be of great importance. Such integration could also lead to a flow of FDI wanting to take advantage of an intra-regional division of labor. The

22 **UNCTAD**, *World Investment Report*, various issues. UNCTAD: Geneva

spatial development corridors such as the Nacala, Beira and Maputo development corridors could play a significant role in this context. SA accounts for 50% of other SADC countries' FDI inflows. Mauritius and Zimbabwe are also sources of cross-border investment into other SADC countries.

(v) External Performances: Current Account Balance

Perhaps the greatest progress under adjustment has been made in foreign exchange markets after several rounds of devaluation and the liberalization of *exchange rates*. Ten SADC countries had almost eliminated premia in parallel markets for forex by the mid-1990s; but such premia persisted in Angola and Mozambique. Adjustment of exchange rates has had a positive impact on the relative prices of tradable and exchange rates across SADC (except Angola and the DRC) are now closer to equilibrium levels than they were before. However, there is considerable concern across SADC about the volatility in the external value of the South African Rand (SAR) – the region's anchor currency – and its implications for the region.

An analysis of trends in current account position reveals three categories of countries. A country whose external position worsened drastically throughout the period, Angola, represents the first category. The deficit increased from 2% of GDP in the decade 1980-90 to 34% in the period 1992–99 and stood at more than 60% in 1999.

The second category includes Malawi, Mozambique, the Seychelles, Tanzania, Zambia, and Zimbabwe. In these countries, the current account also deteriorated over the two periods. In Mozambique, the deficit increased by ten percentage points. Meanwhile due to a deterioration of macroeconomic policies, it more than doubled in the Seychelles. In Zimbabwe, weakening of economic policies, rising investor skepticism, depressed commodity prices, and the slowdown of external financing were the major underlying factors that put pressure on the balance of payments. While the current account slightly improved in 1999, it has deteriorated since 2000 due to a further weakening of macroeconomic policies and performance, disruptions in farming activities, erosion of competitiveness and deteriorating country risk perceptions.

The third category is represented by Botswana, Namibia, and Swaziland, which enjoyed current account improvements. Among these countries, Botswana's record is noteworthy, with a surplus that rose sharply from 1.7% of GDP to 6.6%. Its external position has improved steadily over the past two decades, owing to a combination of rapid export growth, prudent fiscal management, and earnings from the sustained accumulation of financial resources. The increasing surpluses along with the significant inflows in the financial account have led to an increase in international reserves from a level of 4.5 months of imports in 1982 to 20 months of imports in 1990. However, a deterioration of diamond market conditions in 1998 had a significant effect on Botswana's balance of payments. The current account surplus fell sharply from 11.3% of GDP in 1997 to 3% in 1998. This movement has continued over the period 1999-2000.

(vi) Trade

As a result of the liberalization of their trade regimes the average trade restrictiveness index for the region has fallen from 9.7 in the early 1990s to less than 6 in 1998[23]. In general, SADC countries are good performers with regard to trade liberalization: as of 1998, nine out of 14 members of SADC (Botswana, the DRC, Lesotho, Malawi, Namibia, South Africa, Swaziland, Mozambique, and Zambia) have moderately opened or fully opened their trade regimes.[24]

Like all regional trade arrangements in SSA, intra-regional trade in ESA remains low, although trade intensified since the early nineties, particularly within SADC, while SA is prominent in terms of intra-regional trade

---

[23] **IMF, 2000.** *Trade and Trade Policies in Eastern and Southern Africa*. Occasional Paper No. 196, IMF: Washington, DC.

[24] This result is based on Sachs-Warner Criterion.

volumes and patterns. In 1999, the share of intra-regional imports of total imports amounted to 12% in SADC and four percent in COMESA compared with four percent and 13% in WAEMU and ECOWAS respectively. At the same time, the share of intra-regional exports of total exports, representing less than nine percent in SADC and COMESA, is roughly identical to that of West African regional integration arrangements.

This low level of intra-regional trade reflects the structure of production of countries composing these regional groups and which are dominated by few commodities exports to international markets. It is also due to the poor quality of infrastructure and financial linkages, as well as the restrictions on trade and exchange regimes adopted by most of the countries in previous decades. Indeed, in many ESA countries, the practice of multiple exchange rate systems, surrender requirements for export proceeds, high tariff protection, restrictive import licensing requirements, and other restrictive nontariff barriers have limited the scope of intra-regional trade. According to IMF staff estimates, the overall degree of restrictiveness for the whole region was relatively high: in the early 1990s it was 9.7% (on a scale from 0 to 10, where 10 indicates the most restrictive regime). Using data from the IMF Direction of Trade Statistics, the main features of SADC intra-regional trade can be summarized as follows[25]:

Table 1.21: Intra-regional Trade in Selected Sub-Saharan African Regional Trade Arrangements in 1999

Regional Trade Arrangements	Imports (% of total)	Exports (% of total)
SADC	11.7	8.3
COMESA	3.7	7.6
WAEMU	3.6	8.9
CEMAC	NA	2.0
ECOWAS	13.1	8.4

Source: Adapted by the Authors based on IMF Data (Direction of Trade Statistics), 2000.

SADC Imports

The degree of dependence on imports of each SADC country from other SADC countries:

- SA: degree of dependence extremely low. In 1998, less than two percent of South Africa's imports came from other SADC countries.
- Other SACU countries: very low degree of dependence on imports from non-SACU SADC countries.
- Mauritius and Tanzania: relatively low dependence on imports, about 11%, from SADC.
- Malawi, Zambia, and Zimbabwe: very high degree of dependence on imports from other SADC countries - between 40 and 55%.

SADC Exports

In terms of exports, the figures are as follows:

- SA: 24% of its exports go to SADC.
- Mozambique: the most dependent of all SADC countries on exports to SADC, most of which go to South Africa and, to a lesser extent, Zimbabwe.
- Malawi, Zambia, and Zimbabwe: moderately large shares of their exports go to SADC (21, 20 and 24% respectively).

South Africa accounts for more than 70% of the imports of other countries in the region and enjoys a large and growing trade surplus with the region, estimated at $US4 billion in 1999. The BLNS countries, Malawi, Mozambique, Zambia, and Zimbabwe are the most dependent on imports from South Africa. The degree of reliance on South Africa's imports ranges from 35% to 60%[26].

Trade relations have also intensified since the early 1990s within SADC. The share of intra-regional exports of total exports has more than doubled: it rose from 3.1% in 1990 to 8.3% in 1999 (see graphs). In contrast, intra-COMESA exports have remained unchanged.

25 **IMF, 2000.** Occasional Paper No. 196, *op. cit.*

26 **IMF, 2000.** Occasional Paper No. 196, *op. cit.*

Figure 1.11: SADC - Destination of Exports, 1990

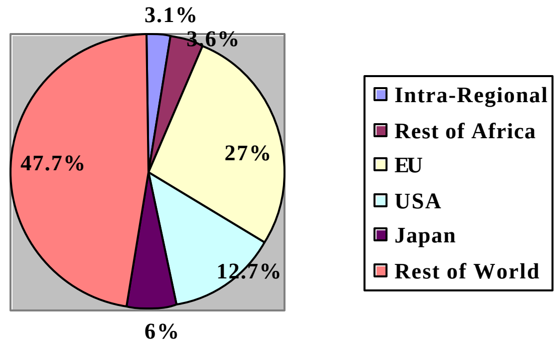


Figure 1.12: SADC - Destination of Exports, 1999

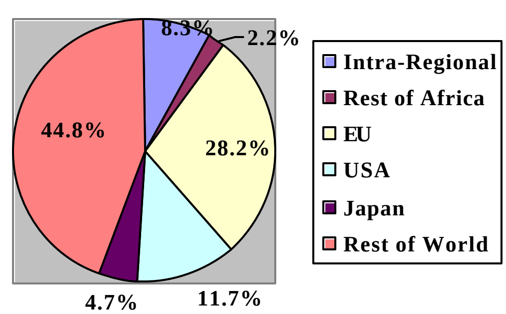


Figure 1.13: COMESA - Destination of Exports, 1990

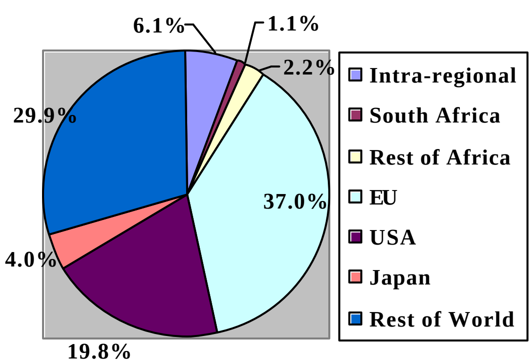
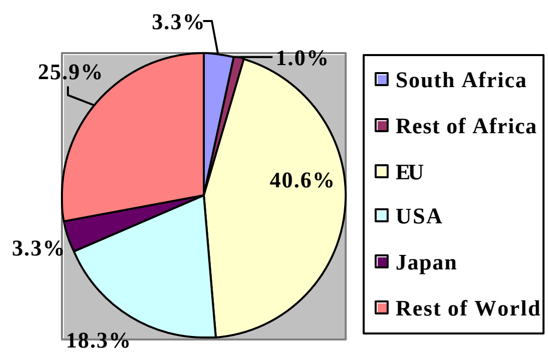


Figure 1.14: COMESA - Destination of Exports, 1999



Source: By Authors based on IMF data, Direction of Trade Statistics, 2000.

This record reflects the liberalization reforms undertaken by most SADC countries as well as the intensification of links between other SADC countries and SA following the demise of the apartheid regime. SA has displaced some ESA countries' imports previously originating from industrialized countries. At the same time, SA's exports to the European Union have increased.

Table 1.22: SADC and COMESA: Intraregional and Extraregional Trade

	Imports (%)		Exports (%)	
	1990	1999	1990	1999
SADC trade				
Intra-regional	5.2	11.7	3.1	8.3
By SACU from/to rest of SADC region	0.3	1.4	1.2	5.9
By rest of SADC region from/to SACU	3.3	8.6	0.5	1.2
Between rest of SADC region	1.6	1.6	1.4	1.2
Extra-regional	94.8	88.3	96.9	91.7
Rest of Africa	1.3	1.6	3.6	2.2
European Union	42.8	38.9	27.0	28.2
United States	10.5	10.1	12.7	11.7
Japan	8.1	5.5	6.0	4.7
Rest of World	32.0	32.2	47.7	44.8
Total	100	100	100	100
COMESA trade				
Intra-regional	3.9	3.7	6.1	7.6
Extra-regional	96.1	96.3	93.9	92.4
South Africa	3.7	8.9	1.1	3.3
Rest of Africa	1.5	0.7	2.2	1.0
European Union	44.0	36.2	37.0	40.6
United States	8.8	9.7	19.8	18.3
Japan	5.0	4.2	4.0	3.3
Rest of World	33.2	36.6	29.9	25.9
Total	100	100	100	100

Source: Adapted by Authors from IMF, Direction of Trade Statistics, 2000.

(vii) External Debt and Aid Dependence

Most SADC countries have experienced an increasing external debt burden over the past two decades. External debt in terms of GDP has more than doubled in Angola, the DRC, Mozambique and Zimbabwe. In several countries, the debt burden has exploded. On average over the period 1992-2000, it represented 173% of GDP in Angola, 175% in DRC, 124% in Malawi, and 116% in Tanzania, 202% in Zambia and 238% in Mozambique (see Attachment 2). In contrast, the external debt of Botswana, Namibia and SA has remained stable at relatively low levels in terms of GDP.

Due to their debt positions, low country creditworthiness and generally underdeveloped financial systems, access to official sources of funds, other than on highly concessional terms, and international and domestic (and others in the region) capital markets remain limited if not inaccessible. These countries remain highly dependent on official development assistance for filling the savings-investment gap. To this end, FDI flows have made a small contribution, but such FDI remains largely of the resource-seeking and project-finance type.

Consequently, *aid dependence* in SADC remains high at roughly the same level in 1999 than in 1980 as measured in net ODA per capita. Given some of the countries' aid-dependence and high debt-burdens, their maintenance of sound macro-economic policies may, for the foreseeable future, depend heavily on massive debt write-downs; very large continued aid flows; and very large foreign direct investment flows, the latter which are unlikely to materialize quickly. Thus, in the absence of any one of these three essential 'conditions' the sustainability of sound macroeconomics might be difficult to obtain.

Table 1.23: Net ODA per capita, 1970-1999

	1970	1980	1990	1999
SADC	**2.6**	**19.5**	**34.2**	**19.7**
Angola	0.0	7.5	29.2	31.4
Botswana	22.3	117.1	115.1	38.3
Congo, Dem. Rep.	4.4	15.8	24.0	2.7
Lesotho	9.3	70.1	82.3	14.8
Malawi	8.2	23.2	59.1	41.3
Mauritius	7.4	34.3	83.9	35.5
Mozambique	0.0	14.0	70.8	6.9
Namibia	NA	NA	89.8	104.4
Seychelles	75.0	337.4	513.4	162.2
South Africa	NA	NA	NA	12.8
Swaziland	14.5	88.6	70.0	28.4
Tanzania	3.7	36.5	46.1	30.1
Zambia	3.2	55.5	61.7	63.1
Zimbabwe	0.1	23.4	34.8	20.5
Groups	1970	1980	1990	1999
SADC	2.6	19.5	34.2	19.7
ECOWAS	4.0	16.2	28.3	16.5
SSA excl. SA and Nigeria	4.4	26.1	45.0	22.8
SSA	3.6	19.4	33.8	18.0

Source: World Bank, SIMA Database, 2001.

(viii) HIPC and Poverty Reduction Strategy

Poverty, compounded by high levels of external debt, is a widespread phenomenon in the ESA region. Many SADC/COMESA countries are eligible for the HIPC (Heavily Indebted Poor Countries) initiative. There are 41 HIPC countries in the world, of which 13 are located in the ESA region: five are SADC countries (Angola, Democratic Republic of Congo, Malawi, Mozambique, Tanzania and Zambia), and seven COMESA non- SADC countries (Burundi, Ethiopia, Kenya, Madagascar, Rwanda, Sudan, Uganda). Table 1.24 below shows the status of the ESA HIPC countries regarding the Debt Relief Initiative. In April 1998, Uganda became the first country to reach its completion point under the HIPC Initiative. Uganda has received assistance equivalent to approximately US$650 million in nominal terms, or 20% of its outstanding debt; which reduced Uganda's NPV of the debt-to-export ratio to less than 200%. The IMF has provided funds covering about US$80 million of debt service over the next nine years. Malawi, Mozambique, Tanzania, Zambia, Madagascar and Rwanda have reached their completion point (floating completion point). In Mozambique, in 1999, the IMF and IDA agreed to increase the assistance beyond the US$2.9 billion originally committed in April 1998 to ensure Mozambique reaching the agreed debt sustainability target of an NPV of debt-to-export ratio of 200%. The total debt-relief package was about US$3.7 billion, or US$1.7 billion in NPV terms. Table 1.25 indicates that ten ESA countries have already prepared Interim PRSPs and 3 of those have even completed their PRSPs.[27]

[27] In order to benefit from the initiative the Debt Relief Initiative requires HIPC countries to complete a Poverty Reduction Strategy Paper (PRSP), laying out the policies and programs aimed at the poor that will be implemented with the money saved from debt payments.

Table 1.24: Southern African Heavily Indebted Countries and Status in Debt Relief Initiative, October 2001 *US$ Millions)*

Country	Decision Point	Completion Point	Assistance Levels[1]					Reduction of NPV of debt	% Reduction in NPV of debt[2]	Estimated total nominal debt relief (US$ million)
			Total	Bi-lateral	Multi-lateral	IMF	WB			
SADC countries										
Angola[4]	Not yet reached									
Congo, Dem. Rep.	Not yet reached									
Malawi	Dec-2000	Floating	643	163	480	30	331	643	44	1000
Mozambique[3]	Apr. 2000	Floating	254	159	95	16	53	1970	NA	4300
Tanzania	Apr. 2000	Floating	2026	1006	1020	120	695	2026	54	3000
Zambia	Dec-2000	Floating	2499	1168	1331	602	493	2499	63	3820
COMESA (non-SADC countries)										
Burundi	Not yet reached									
Ethiopia[5]	Not yet reached									
Kenya[4]	Not yet reached									
Madagascar	Dec-2000	Floating	814	457	357	22	252	814	40	1500
Rwanda	Dec-2000	Floating	452	56	397	44	228	453	71	810
Sudan	Not yet reached									
Uganda[3]	Feb-2000	May-00	1003	183	820	160	517	1003	50	1950

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

Notes: NA: Data not available.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.

2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt - relief-mechanisms.

3/ For Mozambique and Uganda the decision and completion point refer only to the enhanced framework of the HIPC

4/ Angola and Kenya are expected to achieve debt sustainability after receiving debt relief under the traditional mechanisms

5/ Preliminary document updated on Feb. 2001. It foresees Decision Point to be reached by fall 01

Table 1.25: The PRSP and ESA Countries

Country	Stage of PRSP Process
Lesotho	• Interim PRSP presented in June 2000; • WB/IMF assessment, February 5, 2001
Malawi	• Interim PRSP, August 2000
Mozambique	• Interim PRSP presented on February 16, 2000; • WB/IMF assessment of Interim PRSP, March 2000; • Final PRSP, approved by Council of Ministers, April 2001; WB/IMF assessment of final PRSP, August 2001
Tanzania	• Interim PRSP submitted to WB/IMF August 2000; • WB/IMF assessment of Interim PRSP, Nov. 2000; • Final PRSP submitted on 2001
Zambia	• Interim PRSP, July 2000; • WB/IMF assessment July 2000
Ethiopia	• Interim Nov. 2000; • WB/IMF assessment presented in January 01
Kenya	• Interim PRSP, early 2000; • WB/IMF assessment July 12th, 2000
Madagascar	• Interim PRSP presented on Nov. 20, 2000
Rwanda	• Interim PRSP presented in November 2000
Uganda	• PRSP, March 2000; • WB/IMF assessment March 2001; • PRSP Progress Report March 2001.

Source: World Bank, 2001. Adapted by authors from **IMF, 1999.** *Debt Relief for Low-Income Countries. The Enhanced HIPC Initiative*. Pamphlet Series No 51. IMF, Washington, DC.

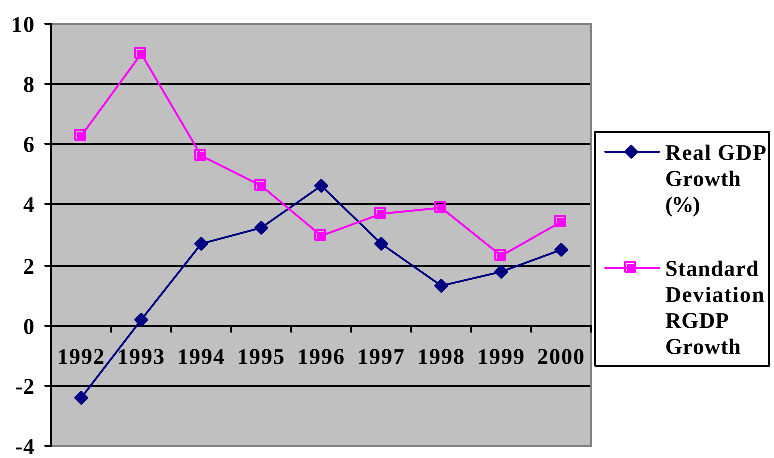
(ix) Economic Growth (see Attachment 2)

In the 1970s, a number of SADC countries recorded high growth performance. Among the SACU countries, the strong growth performance of particularly Botswana is noticeable. In Botswana, the driving force behind the rapid economic growth of the 1970s has been the mining industry. The discovery of diamond mines at the end of 1960s and subsequent exploitation boosted growth enormously. Mauritius and the Seychelles have also enjoyed strong growth in the 1970s, at seven percent and about nine percent, respectively. This buoyant economic growth was primarily related to the dynamics of the tourism sector and in Mauritius also to the creation of an export-processing zone.

Since the 1980s, growth has lost its momentum in the sub-region. The deterioration of the terms of trade, following sharp falls in the prices of the subregion's major exported commodities (petroleum and copper) coupled with policy failures, has reversed the good performance of the 1970s. The extent of this economic slowdown varies across countries. In most SADC member countries, including Lesotho, Malawi, the Seychelles, SA and Zambia, growth fell sharply under four percent on average, in the decade (1980-90) prior to SADC's creation. At the same time, Botswana still recorded an annual average increase in real GDP of two digits (10.3%). In general however, growth declined drastically by six percentage points on average over the first eight years of SADC's existence: 4.3% in 1992-2000 compared to 10.3% in the preceding decade. While Mauritius' economic growth slowed in the period 1980-90, annual average growth remained relatively strong at 4.4%, higher than the population growth rate and increased in the 1990s to 5.4%. Both Swaziland and Zimbabwe, despite improved growth performance between 1970-79 and 1980-90, recorded an economic slump in the 1990s, with an annual average decline in real GDP growth of approximately four percentage points.

Overall, economic growth has recovered in SADC since the mid-1990s, and more particularly since the late 1990s. Apart from Lesotho and Zambia in 1998 and Zimbabwe in 2000, SADC countries have enjoyed continuous real growth during the past three years. The major contributing factors to the recovery of growth within the region are the increase in foreign direct investment, particularly in Angola, SA, Mauritius, Mozambique and Botswana, the sound macroeconomic policies, structural reforms and the buoyant export sector.

Figure 1.15: Evolution of Real GDP Growth in SADC



Source: By Authors based on Data from World Bank, SIMA Database, 2001

(x) Income Convergence in SADC?

An analysis of income-convergence in SADC reveals an increasing widening of real income differences between SADC countries over the last three decades. While in 1970, the ratio of the country with the largest GNP per capita (SA) to that of the smallest (Malawi) was 32:1, this gap grew considerably and stood at 90:1 in 2000, representing the ratio of the Seychelles' GNP per capita to that of the DRC. In fact, the dynamics of income convergence-divergence suggest three different phases: 1970-79, 1980-84 and 1985-2000. In the 1970s, income differences between SADC countries widened gradually as represented by the regular increase in the standard deviation of real GNP per capita. Within this period, the most striking divergences are those between SA, the Seychelles, Mauritius and Botswana with Malawi and the DRC.

In 1979, while declining, the gap between SA's GNP per capita and that of Malawi remained high. With the DRC, this gap increased throughout the decade and stood at 13:1 in 1979 as compared with 10:1 in1970. In the meantime, Seychelles' income per capita, which rose steadily, represented 30 times and 15 times that of Malawi and the DRC in 1979. The figures for Mauritius relative to those of these two countries are 13 times and six times. It is noteworthy that the differences between SA and its SACU partners have narrowed. This situation is well illustrated by the decline of the ratio of SA's real income per capita to that of Lesotho from 13:1 in 1970 to 6:1 in 2000.

This trend changed within the first half of the 1980s. While some countries (Lesotho, Mauritius, Namibia and Swaziland) kept the income gap with SA unchanged, others (for instance, Botswana) reduced the difference in income level with the most industrialized country in SADC.

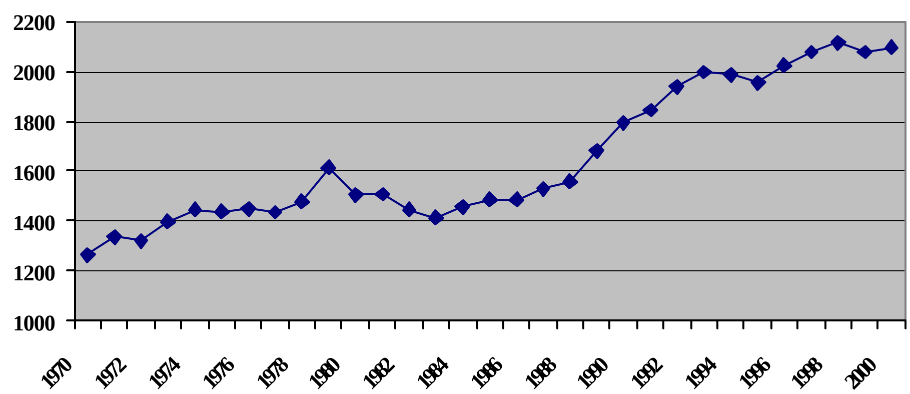
In general, since 1985, the gap between SADC

Table 1.26: Selected Income Per Capita Differences Between SADC Countries

	1970	1979	1990	2000
South Africa/Malawi	32	26	27	25
South Africa/DRC	10	13	17	29
South Africa/Lesotho	13	7	5	6
Seychelles/Malawi	24	30	42	44
Seychelles/DRC	7	15	27	90
Seychelles/Angola	NA	NA	12	35
Seychelles/Mozambique	NA	NA	45	36
Seychelles/Tanzania	NA	NA	34	35
Mauritius/DRC	3	6	13	33

Source: Authors' calculations based on data from World Bank, SIMA, Regional Database, 2001.

Figure 1.16: Evolution of Income Divergence in SADC
(Standard Deviation of Real GNP per Capita)

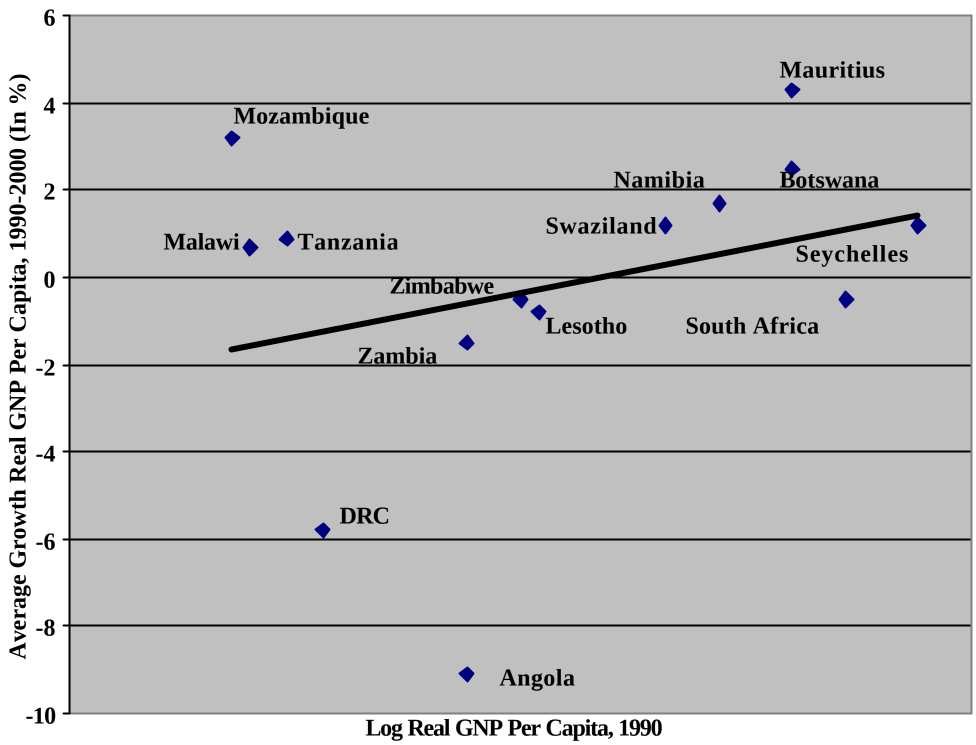


countries' real income per capita has been widening. As GNP per capita increased in Botswana, Mauritius, and the Seychelles, the differences between the performance of these countries and least developed SADC countries rose drastically over time. For example, in 2000, Seychelles's real income per capita represented 35 times that of Angola, Mozambique and Tanzania. At the same time, the ratio of Mauritius's real income per capita to that of the DRC stood at 33:1 (See Table 1.26).

The graph below shows that using the second and most common measure of convergence (β-convergence), there is no pattern of convergence among SADC countries. On the contrary, divergence in income level seems to have increased during the 1990s as expressed by the trend lines. Almost all below-average countries, measured in real GNP per capita, had below-average growth rates over the two periods. However, there may exist a 'club of convergence' between SACU countries.

The absence of convergence among southern African countries may stem from exogenous factors such as differences in external shocks – different impacts of oil and exchange-rate shocks of the 1970s - and policy responses. It may also be due to domestic factors, such as political conditions, the impact of civil wars in some countries (as in Mozambique) and political instability (for example in the DRC).

Figure 1.17: Convergence-Divergence of Real Income Per Capita, 1990-2000



Source: By authors based on data from World Bank, SIMA, Regional Database, 2001.

1.6 CONCLUDING REMARKS

A number of **overlapping regional integration arrangements (RIAs), in terms of mandate and membership**, exist in southern Africa, i.e. SACU, SADC, COMESA, the IOC and the

EAC, supplemented by arrangements such as the MMA and the RIFF (formerly the CBI). All the countries, except Mozambique, are members of two or more RIAs. However, as practiced in southern Africa and in the absence of thorough planning and effective management, these result in confusion and conflict for both governments and the private sector. RIAs are also costly in terms of multiple membership fees and participation in their activities, while non-payment is not effectively used as a sanction mechanism on participation, particularly by SADC and COMESA. However, in spite of many efforts to argue the economic case for rationalization of these RIAs with the countries in the sub-region, also by UNECA and the GCA, membership of multiple RIAs is motivated by non-economic factors as well, resulting in political expediency precluding drastic rationalization options for the foreseeable future. A way out for the Bank is to promote cooperation, whether in the harmonization of policies and regulatory frameworks or in project investment, within specific functional areas across the wider SADC/COMESA economic space, while analytical work should be undertaken on particular areas to equip the Bank in its understanding and for advocacy of feasible and sustainable regional cooperation and integration options within and between RIAs.

The countries within southern Africa are heterogeneous in the extreme, posing particular challenges for cooperation and integration at the sub-regional level as indicated by the following salient features:

- Political systems vary greatly among countries in southern Africa, which is mirrored in the levels of freedom of voice, the existence and enforcement of independent, consistent, transparent and competent legal frameworks and judicial systems, etc. Although some countries in the region have experienced a deepening in their democratic culture, in others peace and stability remain elusive goals, while the flexibility of constitutions and some non-democratic political systems is being tested. Over the past few years, the political risk perceptions of the sub-region have thus deteriorated.

- Socio-economic development is highly uneven in the region. Incomes remain low, populations are small and dispersed, financial markets and infrastructure are weak and inefficient, the limited human capital is threatened by the HIV/AIDS pandemic and economies are largely undiversified, limiting the scope for trade and constraining investment.

- In spite of widespread macroeconomic and structural reforms and convergence in policies, macroeconomic outcomes are mixed. Nearly half of the countries are crippled by debt burdens and remain dependent on official development assistance. Some distinct economic problems are shared by most of the southern African countries. These range from persistent negative resource balances combined with a weak relationship between investment and growth; high unemployment, open, but unbalanced, trade and capital accounts with the developed world; weak international reserve positions, insufficient economic growth to alleviate poverty, to increasing levels of unemployment.

- A unique feature of SADC is the extent of one country's economic predominance in relation to the situation in other SSA regional arrangements. SA is by far the largest economy in the region with its GDP representing nearly 70% of that of the sub-region and since the end of its economic isolation and subsequent accession to SADC in 1994, it has had a profound impact on intra-regional trade patterns. Its share in SADC's total volume of exports was 65% in 2000. Indeed, SA has emerged as the single economy that is linked to all other SADC countries in terms of trade.
- The more successful SADC economies have begun to diversify their economic bases and

made themselves more attractive business addresses. Many SADC countries have moved from gloomy socio-economic prospects to a more promising phase of economic and social development. For example, Mauritius, described in 1967 by British economist James Meade as an example of a country where the ‘outlook for peaceful development is poor’ has since developed and diversified its economy. In 30 years, income per capita increased fourteen fold, reaching US$3900 in 2000 compared to US$280 in 1970. Real GDP growth averaged seven percent in the 1970s and more than five percent between 1992 and 2000. Another example is Botswana, the best growth performer in the SADC region, albeit with an economy still largely based on diamond production and exports. Due to prudent economic policies, amongst others, Botswana was assigned sovereign ratings in the ‘A’ grades by Moody’s and Standard and Poor in the first half of 2001. These ratings are the most favorable awarded to any country in Africa, and are comparable to ratings for countries such as Greece, Malta and Slovenia. In contrast, countries such as Angola and the DRC are struggling to emerge from decades of internecine war, while the second largest economy in SADC, Zimbabwe, has been experiencing a backward political and economic slide, associated with adverse region-wide spillover effects. In general, over the last three decades, and particularly since 1985, an increasing widening of real income per capita differences between SADC countries is observed.

PART II REGIONAL INITIATIVES AND ACTIVITIES (see Attachment 3)

II.1 INTRODUCTION

This Part of the paper, **first**, discusses progress made in the various areas constituting the sub-regional or common agenda. These areas or 'sectors' are grouped, for discussion purposes, similar to the groupings of sectors that will constitute the new SADC directorates. This discussion is rather uneven, due to the uneven level of cooperation or integration in SADC and, in some cases, to limited information on the various sectoral groupings as published in official SADC documentation such as sectoral annual reports. **Second,** the paper gives an overview of the current institutional and agenda changes, which SADC is undertaking to align its institutions and common agenda with its vision, objectives and principles.

II.2 PROGRESS IN THE PROTOCOL DEVELOPMENT PROCESS (see Attachment 3)

Accession to the SADC Treaty commits member states to accepting a series of principles, objectives and strategies on mutually beneficial and equitable cooperation and integration; to participating in the structures and institutions of SADC; and to negotiating a series of protocols to give practical effect to its aims. Specific obligations are to be contained in the respective protocols, which have to 'spell out the objectives and scope of, and the institutional mechanisms for cooperation and integration' [Treaty Art. 22(1)]. These protocols are to be negotiated by the member states and, after approval by the Summit, become an integral part of the Treaty.

As at the end of August 2001:

- **10 Protocols and Instruments have entered into force.** They are: the Declaration and Treaty of SADC & Protocol on Immunities and Privileges; the Protocols on Shared Watercourse Systems, Energy, Transport, Communications & Meteorology, Combating Illicit Drug Trafficking, Trade and the Amendment protocol on trade, Mining, Education and Training, Development of Tourism, as well as the Charter of the Regional Tourism Organization of Southern Africa (RETOSA) and the Memorandum of Understanding on Cooperation in Standardization, Quality Assurance, Accreditation and Metrology in SADC (SQAM).
- **10 Protocols have been signed but not entered into force due to insufficient numbers of signature or ratification, i.e.** the Protocols for Health; on Wildlife Conservation and Law Enforcement; on Shared Watercourses (revised version); on the Politics, Defense & Security; Control of firearms, ammunition and other related materials, Corruption, and on Legal Affairs; Culture, Information and Sport; the Protocol on the Tribunal and the Rules of Procedures Thereof; and the Protocol on Inland Fisheries and Marine Fisheries and Resources.
- **Protocols which are in the process of development/under preparation include those on**: the Forestry; Food Security, Crops, Livestock Production and Animal Disease Control and Agricultural Research and Training; Facilitation of the Movement of Persons; Environment; and Finance & Investment.

The small number of protocols that have been ratified by the Member States reflects the myriad of problems that have beset protocol development in SADC up till now. These include: development of protocols according to international models rather than being tailored to specific conditions in the Region; insufficient capacity to negotiate agreements before protocol design as well as insufficient institutional capacity, human and financial resources to implement protocols; inadequate involvement of all sectoral stakeholders (private sector and civil society at large) in the design and implementation of protocols; and insufficient prior analysis of the costs and benefits of regional integration efforts through particular protocols for the respective Member States, resulting in a lack of political commitment. It is also noticeable that SADC's latest members, i.e. the DRC and the Seychelles, have largely failed to accede to or sign protocols up till now, while also failing to contribute their membership fees. Among the founder members of SADC, Angola is also lagging behind in protocol accession.

In an attempt to avoid such problems, it should be noted that the Finance and Investment Sector is following an approach of simultaneously developing a broad principles framework for its protocol, while concluding a set of Memoranda of Understanding on functional cooperation in various areas within the Sector. It is believed, that through such a pragmatic approach the pitfalls of many other SADC protocol processes will be avoided and that SADC-wide 'ownership' will be achieved over the short term, thereby enabling broad-based acceptance and ratification by the time that the protocol would be tabled for signature. Furthermore, over the long-term, it will facilitate the necessary degree of SADC-wide and Member State political and budgetary commitments to greater regional economic and monetary integration.

The fact that most of the protocols have entered into force only since 1998 indicates that SADC still stands rather at the very beginning of its regional integration process. Therefore, up till now, the gains from cooperation and integration within SADC may relate more to non-traditional gains of RIAs such as 'lock-in' into policy reforms and improved international bargaining as a group, rather than to the traditional gains of an open regional economic space[28]. However, the implementation of the Trade Protocol has set in motion a seemingly self-accelerating mechanism for regional economic integration as the adoption of certain sectoral protocols necessitates the adoption of others, especially where the interests of the private sector are concerned.

[28] **World Bank, 2000.** *Trade Blocs.* Policy Research Report. World Bank: Washington, DC.

II.3 TRADE, INDUSTRY, FINANCE AND INVESTMENT

II.3.1 Trade

The SADC Trade Protocol was signed in 1996 and came into force in January 2000 when 11 countries signed and ratified it (Angola, the DRC and the Seychelles have not signed or ratified). The SADC Ministers of Trade agreed to implement the Protocol on 1 September 2000, with implementation hinging on a Member State depositing its instrument of implementation with the SADC Secretariat. By August 2001 all 11 signatories had deposited their instruments of implementation. The first round of tariff cuts commenced with implementation (during the period September 2000-July 2001), the second round of tariffs cuts were scheduled for 1 January 2002 and annually thereafter.

Part 1 of the protocol deals with definitions and objectives; Part 2 provides for the elimination of tariff and non-tariff barriers to intra-SADC trade and allows for general exceptions on the grounds of public morals, public order, health, safety and security considerations; Parts 3 & 4 provide for rules of origin, cooperation in customs administration, trade facilitation, cooperation in technical standards, sanitary and phytosanitary regulations as well as trade remedies such as anti-dumping and countervailing measures; Parts 5, 6 & 7 deal with trade-related issues such as the promotion of cross-border investment, trade in services, intellectual property rights, competition policy and trade development; Part 8 regulates trade relations, including preferential trade agreements, coordination of trade policies and cooperation with third parties; and Part 9 provides for institutional arrangements and dispute settlement procedures, the ratification process and the depository of the instruments of ratification.

During the period between signing of the 1996 protocol and the amendment protocol signed in 2000, the SADC countries were involved in a long and intensive negotiation process to find agreement on matters such as the schedules in terms of which member states undertake to phase out tariffs on goods originating in each other's territories; rules of origin on the basis of which SADC products would qualify for duty-free trade; market access arrangements for textiles & clothing, sugar and other sensitive products; strengthening of customs cooperation and the elaboration of other mechanisms for trade facilitation; the creation of a dispute settlement mechanism for the efficient and speedy resolution of trade-related disputes between SADC member states; and the institutional framework to support protocol implementation.

II.3.1.1 Limitations and Implications of the SADC Trade Protocol

Through the Trade Protocol, SADC countries have made a clear commitment to liberalizing trade within the group. Although the trade protocol is a step towards increased co-operation and integration within SADC, the agreement is limited in a number of respects.

An assessment of progress towards zero tariff rate on intra–SADC imports reveals that the pace of liberalization is very slow. For instance, the share of agreed tariff reductions is very small in the first four years. No SADC country has committed to achieve more than 50% of its tariff reduction in the first four years. At the end of eight years of implementation of the Trade Protocol, a number of countries will have achieved only 75% or less of the target of intra-SADC tariff-free trade[29]. For instance, SACU members, which are the speediest liberalizing countries, offered only 47% of their liberalization of SADC imports in the first four years (See Table 2.1) Zambia and Zimbabwe are the second speediest countries with 39% and 37%, respectively, of their tariff reductions provided in the first four years. At the end of eight years, SACU members are once again the speediest countries offering 99.5% of completely free trade. Tanzania is the second speediest with a commitment to achieve 88% of the free trade on non-SA SADC imports, while Mauritius and Mozambique follow with a plan to achieve 73% and 76% of the free trade target on non-SA SADC imports. Malawi and Zimbabwe lag far behind with 40% and 38%, respectively, of their free trade targets on non-SA SADC imports unachieved at the end of eight years (See Table 2.2).

Furthermore, the Protocol leaves much room to participant countries to maintain protection: some goods and sectors are excluded from the agreement; and countries are allowed to practice anti-dumping and safeguard measures to protect their infant industry (Articles 18 and 20), while particularly Article 21 allows countries to suspend trade liberalization obligations.

In a number of sectors (for example, textiles and garments, sugar, wheat flour and food products using wheat flour, spices, plastics, machinery and equipment, motor vehicles and components and certain products in Chapter 90), complex rules of origin were set to protect SADC countries' industries. The sugar agreement allows major producing countries to access the South African market at preferential prices higher than the world market prices.

The implementation of the Trade Protocol will have revenue implications for all of the SADC countries. The revenue losses would differ from country to country, depending on their relative reliance on import duties. The estimated loss in terms of total revenue is expected to be insignificant for SA (0.1%) and relatively modest for Tanzania (1.6%)[30]. In contrast, the estimated revenue loss of more than 4% could be of some consequence for Malawi, Mauritius, Zambia, and Zimbabwe. It is also important to note that indirect revenue loss may stem from trade diversion particularly in the case of non-SACU SADC countries. The main reason for this likely effect is related to the importance of SA's exports in the trade flows composition of these countries. SA supplies over 75% of the imports for products representing 22% of

[29] The indicator used to assess the phase-in of the trade protocol is the reductions in trade weighted average tariff rates applicable to intra-SADC trade.

[30] These estimates are derived from **IMF, 2000**. *The Revenue Implications of the Elimination of Intra-SADC Tariffs.* IMF: Washington, DC.

Table 2.1: Proportion of Liberalization Achieved in First Four Years (%)

	Offer to RSA	Offer to Rest of SADC
SACU	NA	46.8
Malawi	1.0	12.0
Mauritius	26.4	7.4
Mozambique	9.2	8.7
Tanzania	8.3	31.4
Zambia	18.5	38.7
Zimbabwe	18.6	37.4

Source: Derived from SADC Trade Protocol Project 2001.

Table 2.2: Proportion of Liberalization Achieved in First eight Years (%)

	Offer to RSA	Offer to Rest of SADC
SACU	NA	99.5
Malawi	70.4	60.0
Mauritius	70.4	72.5
Mozambique	62.7	76.3
Tanzania	87.3	87.9
Zambia	62.7	76.9
Zimbabwe	68.3	57.7

Source: Derived from SADC Trade Protocol Project 2001.

Malawi's imports, 21% of Zambia's, 17% of Zimbabwe's, 4% of those of Mauritius and 1.5% of Tanzania's.

The considerable and growing trade imbalance between SA and the non-SACU SADC countries could be seen as a divergent force in terms of the distribution of perceived or real gains and costs of integration. Should the preferences allowed by SA within the regional free trade agreement, together with its current policy measures to encourage reverse flows of investment capital to the region prove to be insufficient equilibrating compensatory measures, the risks are high of other SADC economies incurring large welfare losses with South Africa realizing the counterpart gain. If these risks materialize they could exacerbate negative spillovers for them, such as further de-industrialization in other SADC economies and increased illegal labor migration into the SACU countries, particularly SA, Botswana and Namibia. Thus, if a potential intra-regional rift is to be avoided, SADC may need to consider not only trade preferences for its least developed members, as is being done in the implementation of the Trade protocol, but also other ameliorative measures.

II.3.1.2 Relationships with other Regional Groupings – The Case of COMESA

The SADC Trade Protocol allows for Member States to continue with their existing preferential and other trade-related arrangements, provided that they are not inconsistent with the Protocol provisions. However, given that nine SADC countries are also members of COMESA, it is particularly the ongoing evolution of this RIA's trade agenda that may result in inconsistencies in provisions, difficulties in enforcing provisions and other problems, no less for the countries being members of both the RIAs.

(i) Differences in Rules of Origin.

According to the requirements provided by both SADC and COMESA Trade Agreements, significant difference may appear in the interpretation of rules of origin. Both agreements allow goods that have been wholly produced in a Member State to be accepted as originating in a Member State if they are consigned directly from a Member State to a consignee in another Member State. The difference appears when dealing with partially produced goods with imported materials. COMESA has recently changed its rules of origin. Its new rule indicates that to qualify as an 'originating good', (i) the c.i.f. value of imported materials contained in such good shall not exceed 60% of the total cost of the materials used in the production of such good, or (ii) the value added resulting from the process of production accounts for at least 35% of the ex-factory cost of the goods[31], or (iii) the goods are classified or become classifiable under a tariff heading other than the tariff heading under which they were imported. By contrast, sub-paragraph b) of Rule 2 of the SADC Amendment Trade Protocol allows goods that incorporate imported materials to qualify provided that such materials have undergone 'sufficient working or processing in any Member State'. In addition, SADC's rule appears less restrictive. Non-originating materials may be used in the manufacture of a product provided that their total value does not exceed 10% of the ex-works price[32] of the product.

(ii) COMESA Free Trade Area: Implementation Status and Related Issues

In 1993 COMESA countries agreed to establish a Free Trade Area by 2000. In October 2000, the FTA entered into force with 9 members: Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe. The other Member Countries of COMESA have not joined but are applying tariff reductions from 0% to 80%.[33] Table 2.3 summarizes the status of these countries:

Two issues seem to emerge from the implementation of the COMESA FTA, so far, namely (i) the rules of origin issue, and (ii) the need to eliminate non-tariff barriers (NTBs). Given the importance of NTBs for implementation of the FTA, the COMESA Secretariat has commissioned a study, which provides an initial overview of existing NTBs and their application across some COMESA countries.

The COMESA FTA is regarded as a first step towards deeper regional integration. The next step will be the introduction of a Common External Tariff (CET) and a Customs Union, which is expected to be in place by December 8, 2004. Although the preliminary agreement on CET rates specified four tariff rates of 0%, 5%, 15% and 30% on capital goods, raw materials, intermediate goods and final goods respectively, the rates may have to be adjusted to reflect the lower rates already achieved by a number of countries. Moreover, a Draft COMESA Tariff Nomenclature harmonizing classification of goods has been prepared by the Secretariat. COMESA Member States have decided to establish a specialized committee and to conduct workshops in order to consider all technical details. Before the CET could enter into force there are a number of problems that would have to be resolved. For this purpose the Secretariat has identified the following activities:

- Study and decide on problems stemming from multiple memberships of some countries to different Free Trade Areas and Customs Unions in the region (SADC, COMESA, EAC, SACU).
- Analyze the impact of the introduction of the CET in terms of revenue loss and competitiveness.
- Study the possible implementation of a revenue-sharing scheme. For the moment, COMESA has decided that upon introducing the CET each country will collect and keep its own import taxes.
- Agree on the conditions for temporary admission, re-exportation of goods and transit of goods. This is a key issue for the grouping, since it affects directly the free circulation of goods within the FTA. A Customs Bond Guarantee Scheme has been designed and is being implemented by the Member States.

---

31 Only Egypt has maintained a 45% value added criteria.

32 'Ex-works price' means the price paid for the product ex work to the manufacturer in any Member State in whose undertaking the last working or processing is carried out, provided the price includes the value of all the materials used, plus the profit and minus any internal taxes which are, or may be, repaid when the product obtained is exported.

33 Angola, DRC and Ethiopia, 0%; Burundi and Rwanda have achieved 60% tariff reduction; Comoros, Eritrea and Uganda, 80%.

Table 2.3: Tariff Reduction in COMESA

Country	Rate of Tariff Reduction
Burundi	60%
Comoros	80%
Eritrea	80%
Rwanda	60%
Uganda	80%
Angola	Nil
DRC	Nil
Ethiopia	Nil
Namibia	Pending derogation dialogue to join the FTA
Swaziland	Pending derogation dialogue to join the FTA

Source: COMESA, Briefing Paper prepared for the World Bank and the IMF, September 2001.

II.3.1.3 The Way Ahead

Initially, the SADC Trade Protocol negotiations have been focusing largely on tariff reductions on goods, neglecting negotiations on services and NTBs. While tariff reductions on goods are important to achieve trade liberalization, the deepening of regional integration would require urgent attention to be paid to particularly the removal of NTBs and quantitative restrictions. The success of the Trade Protocol is directly related to the elimination of all obstacles to trade. Another area that deserves particular attention is trade in services. An improvement in service provision in areas such as financial services, telecommunications and transport services may facilitate trade in goods among SADC countries and is therefore complementary to trade reforms.

The long-term success and the dynamics of the Protocol will also depend on private sector involvement. Therefore, beyond the Trade Protocol, the improvement of the entire business environment becomes an important element of SADC agenda if it were to achieve deeper integration. Enhancing the regulatory framework and strengthening enforcement of business laws, rules and regulations are essential elements that will send clear signals to the private sector about SADC's willingness to facilitate investments. Furthermore, complementary reforms such as strengthening of financial sector cooperation and elements embodied in the trade efficiency concept would need urgent attention.

II.3.2 Finance and Investment

II.3.2.1 Background to Cooperation

After South Africa was allocated the responsibility for SADC Finance and Investment in 1995, the SADC Ministers of Finance adopted the following broad sector objectives:

- to encourage movement towards regional macroeconomic stability through prudent fiscal and monetary policies;
- to provide a framework for cooperation in the area of finance in collaboration with central bankers, other regulatory and supervisory authorities, commercial banks and other financial intermediaries to mobilize resources for investment;
- to promote the coordination of national structural adjustment programs; and
- to promote the development of sound investment policies of member states in order to establish an enabling environment for investment in the region.

II.3.2.2 Cooperating Mechanism and Cooperation Agenda

To achieve these objectives, the Finance and Investment Sector established a Finance and Investment Sector Coordinating Unit, FISCU[34], to coordinate the sector's work and serving as a secretariat and clearing house, facilitator, catalyst and mechanism to encourage intra- and inter-sectoral cooperation in the sub-region, and two main committees, namely the *Committee of*

[34] FISCU were abolished in 2001 and its activities have been incorporated in a centralized Directorate for Trade, Industry, Finance and Investment, within the SADC Secretariat.

Central Bank Governors to focus on monetary policy and issues, and the *Committee of SADC Senior Treasury Officials* to focus on fiscal policies and issues:

- The **Committee of Senior Treasury Officials** comprises government officials drawn from the different Finance Ministries, and any other Ministries that deal with finance and investment issues. Accordingly, this committee is concerned chiefly with government policy issues. Reporting via the Committee of Senior Treasury Officials are various sub-committees formed by the SADC Ministers of Finance at their meeting in July 1997. These are the sub-committees on Macroeconomic Policy, Taxation, Development Finance, and Investment. The Committee of Senior Treasury Officials maintains a watching brief over two independent structures, namely the Committee on Insurance, Securities and Non-Banking Financial Authorities (CISNA) and the Association of Accountants and Auditors.
- The **Committee of Central Bank Governors (CCBG)** consists of the governors of the SADC central banks and their officials and deals with development of well-managed financial institutions and markets, cooperation regarding international financial relations, and monetary, investment and foreign exchange policies. The Secretariat of the Committee, which is responsible for coordinating the Committee's activities, is located in the South African Reserve Bank. The Committee also has a Working Group, which meets regularly to discuss the progress of the projects in which the Committee is involved. The Working Group is chaired by the Secretariat, with participation by the fourteen SADC countries being on a rotating basis - representatives from three SADC countries attend each meeting. The Finance and Investment Sector Coordinating Unit (FISCU) has also attended the meetings of the Working Group, to enable it to fulfill its task of coordinating the activities of the Committee of Governors and the Committee of Treasury Officials. Also linked to the Governors' Committee are two private sector associations, the Committee of Stock Exchanges and the SADC Bankers' Association.

This **Committee for Central Bank Governors** has done or is doing the following (see Attachment 3):

- It has developed an information bank on policies and structures of SADC central banks and the financial markets in SADC Countries;
- It is monitoring exchange controls of the countries and annually report on the status pertaining in the region;
- It coordinates training of central bank officials in SADC, maximizing the use of the region's training facilities and expertise; promote training in the field of central banking;
- Is developing the payments, clearing and settlement systems of SADC countries, by assisting them to develop a strategic framework for their payments system; and will be looking next at integration objectives;
- Is developing a statistical database. A central monetary and financial statistical database for the region has been set up, while the definition of the variables have been established;
- Is devising legal and operational frameworks of central banks. A steering committee is formulating recommendations on central banks legislation for the region. Study areas include the legal basis, ownership and structure of central banks, the relationship between central banks and the government and relevant institutional arrangements.

The CCBG has also established an Information Technology Forum (IT Forum) to support the initiatives of the CCBG and to support the improvement of the information technology function in each SADC central bank. A project aiming at defining a common architecture for banking supervision has been launched.

With regard to the payment system project, amongst others, Mauritius has made great strides in improving its payment system through the adoption of the **Mauritius Automated Clearing and Settlement System** (MACSS) (See Box 2.1).

The **Eastern, Central and Southern African Federation of Accountants**, the **SADC Organization of Supreme Audit Institutions** and the **Eastern and Southern African Association of Accountants-General** met at a workshop in 1999 and again in 2000 to jointly discuss matters relating to the accounting and auditing profession in the broader sub-region and to decide how to institutionalize cooperation among the private-sector and public-sector related initiatives that they respectively represent.

Box 2.1 Mauritius Automated Clearing and Settlement System (MACSS). An Example of Progress in Payment System.

On December 15, 2000, the Mauritius Automated Clearing and Settlement System (MACSS) was introduced based on Real Time Gross Settlement (RTGS) principles to meet international standards for safety, soundness and efficiency.

Definition:
MACSS is a system that electronically links all the commercial banks in Mauritius to the Bank of Mauritius via a secure, reliable and efficient payments network. It is a large-value interbank payment system that allows funds to be transferred between two counter parties immediately.

Advantages:

- The MACSS provides a customer the opportunity to link electronically all transaction accounts within the banking system. In addition, the time at which a customer's account is debited is entirely within its control because he/she can determine the time at which the payment instruction – a credit transfer or payment order is processed.
- The customer will therefore benefit from the speed, certainty and security of its transactions. The banks also share these advantages. Also, the MACSS provides opportunities to the banking industry to offer new cash-management related services that take advantage of intra day finality.
- The MACSS can be used to send funds from any account with a commercial bank in Mauritius to any other account maintained with a commercial bank in Mauritius.
- A commercial bank receiving the payment instruction incurs no risk in making the associated funds immediately available to its customer because each payment will be settled across the books of the Bank of Mauritius on a transaction-by-transaction basis in real time.
- There are no unsettled debts left between the banks as the funds are transferred between the banks at the same time as the payment instructions. There is therefore a risk reduction.

The East and Southern Africa Banking Supervisors (ESAF) have formalized their cooperation through an MOU with a view to implement and maintain internationally acceptable standards of banking supervision across the sub-region.

The **Committee for Insurance, Securities, and other Non-bank Financial Regulators** has identified some areas where cooperation could take place, including training opportunities, implementing, regulating and operating central securities depositories in member countries, accounting disclosure, and the harmonization of legislation concerning collective investment schemes. Possible other strategic issues to be addressed include: (i) the supervision of intermediaries; (ii) harmonization of listing requirements; (iii) stock-broker qualifications; and (iv) consumer protection.

The inaugural meeting of the **SADC Banking Association** was in March 1998 and is cooperating on issues such as good banking practices; money laundering; and robberies, fraud and fraud prevention.

The **Committee of Stock Exchanges in SADC** was formed in late 1997 and has identified a number of projects: (i) harmonization of listing requirements; (ii) development of a model for clearing and settlements (based on international standards); (iii) electronic communication; and (iv) common level entry exams for stock-brokers.

Since the level of development varies greatly between the stock exchanges of the different S ADC member states[35], membership of the Committee is to a large extent a learning exercise for a number of members. One concrete action early on in this Committee's existence was by the JSE, which made its systems (back office, accounting, etc) available to other stock exchanges in the region.

Since its establishment, the following exchanges have harmonized their listing requirements based on 13 principles extracted from the JSE's listing requirements: Botswana, Malawi, Namibia, Zimbabwe, Tanzania and Mauritius. This was done on the premise that common listing requirements could lead to cross-border investments and dual listings. The JSE has also offered its technology platform to other exchanges in SADC – a common trading platform would facilitate the movement of capital and give foreign investors access to all stock listed in the region. The Namibian Stock Exchange was the first to take up the offer and subsequently achieved record trade volumes. The Committee has also reached an advanced stage in preparing recommendations for a central depository system for the region, under its electronic clearing and settlement project. The SADC exchanges have also successfully completed the rationalization of entry-level examinations for stockbrokers, aimed at improving the level of expertise in the region's financial markets.

The Tax Sub-committee, chaired by SA, was established in July 2000 and subsequently an MOU on Tax Policy Harmonization has been sighed. Its primary objective is 'coordination of taxation policies to the extent necessary to improve efficiency in tax collection, safeguard regional tax bases and reduce obstacles to intra-SADC trade and investment. Amongst others, the sub-committee is tasked with compiling a comprehensive SADC tax database; determining a common policy on tax incentives, especially those aimed at attracting FDI; working towards the elimination of barriers to intra-SADC trade; identifying and promoting areas in which coordination of direct taxation would significantly enhance the attractiveness of SADC as an investment area; working towards coordination of direct and indirect taxes; minimizing opportunities for tax fraud and smuggling and building institutional capacity in member states with particular emphasis on tax policy-making and revenue collection.

The Macro-economic Policy Sub-committee, chaired by Mauritius, has investigated the feasibility of achieving macroeconomic convergence in the sub-region and subsequently SADC member countries have signed an MOU to implement macroeconomic policies that would eventually result in the economies converging on inflation, budget deficits, debt and levels of external account positions. According to the MOU, the Committee of Ministers of Finance and Investment will establish a collective surveillance procedure to monitor macroeconomic convergence in the region, to determine specific targets, to assess progress relative to these targets and to provide advise on corrective measures.

The **Investment Sub-committee**, currently consisting of the investment promotion agencies (IPAs), is developing a joint website to communicate investment information and opportunities in the region, is in the process of developing a consolidated regional investment promotion strategy, is implementing joint training programs for IPAs and is developing an MOU on a Regional Investment Agreement.

The Development Finance Sub-committee is facilitating cooperation among development finance institutions (DFIs) in the sub-region. The CEOs of DFIs in the region have signed a broad framework MOU in May 2000, which outlines the various areas for their cooperation. Subsequently they have decided to pool resources and establish a development finance resource centre that will coordinate training and other capacity building activities, with a view to establish viable DFIs in the region, which would then work within a closer network approach.

[35] SADC member countries with stock exchanges are Botswana, Malawi, Mozambique, Mauritius, Namibia, SA, Swaziland, Tanzania, Zambia and Zimbabwe.

They are also investigating the feasibility of a regional development fund for SADC.

II.3.2.3 Protocol Development Process and Way Forward

During the annual meeting of the SADC Ministers responsible for Finance and Investment in July 1998, the Ministers adopted an Aide Memoire, which set out the approach to developing a Protocol for the Sector. Work has begun on drafting a SADC Finance & Investment Protocol and at their annual meeting in July 1999, Ministers reached consensus on the process and timetable for developing the SADC Finance and Investment Protocol. The process is as follows: (i) Sectoral sub-committees and associations to develop and conclude principles guiding memoranda of understanding (MOUs) in each of their respective areas by July 2000; (ii) A period of at least one year for MOUs to be developed and operationalized and for reviewing progress (July 2000 to June 2001); (iii) Development of a sectoral protocol and specific attachments over a two-year period (July 2001 to June 2003); (iv) Agreement on a SADC Finance and Investment Protocol by July 2003; and (v) Ratification by parliamentary legislatures of Member States by July 2004.

To further the regional integration agenda, the question of integrated financial markets beyond that envisaged in the sub-sectoral finance and investment groupings requires consideration of issues such as:

- How to increase access to financial services? Access relates to (i) availability of finance, i.e. physical access; and (ii) affordability, i.e. income and other quantitative and qualitative constraints as well as price efficiency of various financial service.
- The free movement of capital remains an issue for many SADC countries and would require elimination of exchange controls within SADC, as a crucial issue for financial system integration.
- How could stronger regional financial markets be developed? What is the scope for developing a comprehensive regional financial regulatory framework? Even in the case of no exchange controls, movement of funds and securities across borders may be inhibited by 'friction points' associated with legal and regulatory differences among countries as well as for bureaucratic or administrative reasons. As part of establishing a common financial sector infrastructure is the issue of accounting and auditing and corporate governance standards. Although the issue is touched upon in different sub-groupings of the sector, it requires coherent and more comprehensive treatment.

II.3.3 Industry

II.3.3.1 Background

The former SADC Trade and Industry Sector Coordinating Unit developed an Industrial Development Policies and Strategy document in 1989, which has not been officially replaced yet despite major political changes, socio-economic development paradigm shifts and the move towards deeper integration in SADC. Amendments to this document have been proposed at various occasions to the Sector Ministers, but these have not been adopted yet.

The SADC Industrial Development Policies and Strategy document seems to focus on the manufacturing sector and although it acknowledges the linkages with the resource-based sectors, the strategy does not elaborate on measures to develop these sectors. Critical issues for the industrialization process in SADC, which will have to be taken into account in the amendments or a new Policy and Strategy document, would be to clarify what issues on industrial development would call for regional actions versus those amenable to national level actions. Furthermore, linkages between economic sectors, particularly cross-cutting issue, and between the economic and infrastructural, trade, finance, investment, labor and human resource development sectors would warrant particular attention, no less with a view to address constraints to industry and firm-level competitiveness as well as to contemplate the thorny issue of existing and potential industrial polarization in the region.

The remainder of this section focuses on the mining sector, which has been incorporated within the new sectoral grouping related to trade, industry, finance and investment.

II.3.3.2 Mining

Mining is the backbone of most SADC economies. It represents an important source of foreign exchange earnings, output formation and employment within the region. In 2000, it accounted for nearly 60% of the region's foreign exchange earnings equivalent to 10% of GDP and about 5% of formal employment. SADC countries produce and export a number of mining commodities, including chromite, cobalt, diamonds, gold, manganese, copper, platinum, uranium and other industrial minerals. Moreover, the DRC is exceptionally abundantly endowed with mineral resources including copper, cadmium, petroleum, and diamonds. SA is the world's largest producer of gold, producing 430778 kg in 2000 followed by the USA 340000 kg in 1999 and Australia 265,000 in 2000.[36] It is also the world's largest producer of the platinum group of metals, followed by Russia, and accounts for over 46% of the total world production while having about 55% of global reserves. With 50% of world production, De Beers (a South African company) is the world's largest producer of gem quality diamonds. With regard to mining commodity exports, SADC countries' shares of the international market are relatively important and vary between 10 to 45%.[37]

On September 8, 1997, SADC signed the Protocol on mining to serve as an instrument for cooperation between member States. The Protocol entered into force on February 8, 2000. As of February 2001, ten countries (Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Tanzania, Zambia, and Zimbabwe) have ratified the Protocol. SADC has initiated an important Mining Program of Action comprising 38 projects spread into six sub-sectors: Information, Geology, Mining and Marketing, Mineral Processing, Environment and Human Resources Development. Considerable progress has been made in implementing these projects, in particular those under the Geology subsector, and the Mining and Marketing subsector. Most of the projects under the Environment subsector are either completed or nearly completed.

Table 2.4: Employment in the SADC Mining Industry 1994-2000

Country	1994	1995	1996	1997	1998	1999	2000
Angola	23638	24692	24220	25680	25215	24000	24000
Botswana	13272	12779	13024	13055	15255	14345	12961
DRC	NA	NA	NA	NA	NA	NA	NA
Lesotho	NA	NA	NA	NA	550	NA	636
Malawi	NA	NA	NA	NA	2700	3700	NA
Mozambique	974	1032	929	872	NA	NA	NA
Namibia	9693	9775	8540	8214	7686	5427	6248
South Africa	610294	595384	562249	551677	469045	436702	425752
Swaziland	1373	1301	1417	1220	NA	NA	NA
Tanzania	NA	NA	NA	NA	60000*	1000000*	1500000*
Zambia	47036	45461	42522	37150	36065	25000	NA
Zimbabwe	44835	82846	70087	53432	48449	48091	NA
Total	751115	773270	722988	691300	1675337	1532265	1978845

Source SADC Mining Sector Annual Report (July 2000-June 2001).
Note: NA: Data not available;
* Tanzania data includes informal sector employment.

(i) Reforms in the Mining Sector

Many SADC countries have improved the legal and regulatory framework in the mining sector to facilitate inflows of FDI and attract mining investment. For instance, in July 1999, Botswana's Parliament passed a new Mines and Minerals Act and introduced a new mining

36 SADC Mining Sector Annual Report (July 2000-June 2001).

37 See Official SADC Trade, Industry, and Investment Review, 1997-2001.

Table 2.5: Reforms and Policy Developments in the Mining Sector

Countries	Mining Reforms and Policy Developments
Angola	• Revision and regulation of the Mining Law 1/92 and the Diamond Law 16/94; • Establishment of company for commercialization of Angolan diamonds, and a new system for diamond marketing; • Reduction of the size of the diamond concessions for better control of mining and avoid sleeping investors; • Creation of the Guiche Unique for diamond security; • Creation of computerized Geological and Mining Data Base of the country; • Establishment of Geographical Information System (GIS).
Botswana	• 1999: New Mines and Minerals Act was passed by Parliament and became effective on 1st December 1999.
DRC	• February 2000: First Mining Policy Dialogue Seminar was held in Kinshasa; • The Government has committed to adopt an attractive set of mining regulations to encourage foreign investment.
Lesotho	• The Government is currently working on a new minerals Act.
Malawi	• The process of reviewing the current Mines and Minerals Act is underway.
Namibia	• New Diamond Act came into operation on the 1st of April, 2000.
SA	• A white paper on A Minerals and Mining Policy has been finalized in October, 1998; • A new Mine Health and Safety Act was implemented in January 1997; • The new Mineral Development Bill is currently being drafted.
Swaziland	• The existing mining legislation is being reviewed; • Legislation specific to small scale mining is being developed.
Tanzania	• The Government has undertaken the commitment to no longer directly involve itself in mineral exploration and extraction activities.
Zambia	• The Government has withdrawn direct participation in the operations of the mines. • A mining policy has been developed.
Zimbabwe	• Proposals for a revised and Consolidated Fiscal Framework for Mining has been developed. Mining incentives include: (i) corporate tax rate at 25%; (ii) mining companies have the right to carry over losses indefinitely; and (iii) exploration expenses may be deducted as it is incurred or carried forward until income is realized.

Source: SADC. Mining Sector Annual Report (July 2000-June 2001).

taxation system. South Africa has recently introduced its new Mineral Development Bill. Zimbabwe is developing a revised and consolidated fiscal framework for mining. Most SADC countries are supporting initiatives for developing Small Scale Mining (SSM) with the view to alleviate poverty. In Angola, the Government has considerably simplified licensing procedures for SSM activities. In addition, the supervision of their activities has been eased. SSM projects are not required to submit detailed reports on the operations carried out. Table 2.5 summarizes some of the main reforms that SADC countries have been undertaking.

(ii) Recent Investments in Mining

In many SADC countries, the mining sector has experienced remarkable development in recent years. In Lesotho, the Government signed an agreement on June 13th 2001 with Liqhobong Mining Development Company (Pty) Ltd (LMDC) on commercial development of the Liqhobong Diamond Mine. In Malawi, two companies, Granite Limited and Raval Building Contractors came on stream and are involved in extraction of Green Granite and various Dimension Stones. Mozambique is in a process of rehabilitating ten deposits destroyed during the war. These cover commodities such as rare earths, gold, gemstones, graphite, coal, iron, dimension stone, heavy mineral sand, bentonite and phosphates. In Namibia, progress has been achieved on the Langer Heinrich Uranium project. TCL mines re-opened in March 2000 under a new company, Ongopolo Mining and Processing Limited. In addition, Malawi is developing an offshore mining activity. Tanzania is developing a new gold mine through the Anshanti Goldfields Ltd/AngloGold company. Rehabilitation programs have started in mining sector in Zambia. In this regard, Bwana Mkumbwa Mining Limited is exploring the possibility of cross-border mining in the Democratic Republic of Congo for copper oxide ore. Moreover, Zambia Consolidated Copper mines, Smelter Company Limited is rehabilitating the Nkana smelter, Refinery and Acid Plants.

With the collaboration of the European Union, SADC has held mining investment forums to inform investors from Europe, North America, Australia, South Africa and Japan of potential benefits and high returns that may arise from investing in this sector.[38] These forums contributed to attracting new investments into

[38] Since 1994, two SADC Mining Investments Forums have been held with the collaboration of the European Union.

Table 2.6: Mineral Investment Projects in the SADC Mining Industry, 2000

Country	Company	Mineral	Cost US$ million (Unless otherwise specified)	Planned output per annum	Date of commencement and/or status
Botswana	1)Debswana Diamond Co. (Orapa Expansion Project) 2)Debswana Diamond Co. (Jwaneng Aquarium Project)	Diamonds Diamonds	275+ 76+	12 m carats -	In operation -
Malawi	Paladin	Uranium	60	-	-
Mozambique	Billiton (Mzal Project)	Aluminum	1.3 billion	250 kt	In operation
Namibia	1) Anglo American Plc Bateman and SNC-Lavalin (Skorpion Zinc Project) 2)Rossing Uranium Ltd 3)Rosh Pinah Zinc Co.	Zinc Uranium Zinc	450 5.8 4	150000 tons - -	1st quarter, 2003 Construction of ore sorting plant Expansions of ore production capacity
SA	Various Companies	Primary minerals, gold, platinum, processed minerals, other	3326	-	-
Tanzania	1)Ashanti Goldfields Ltd and Anglogold 2)Kahama Mining Corporation 3)Africa Masharki Gold Mines	Gold Gold Gold	165 350 80	500,000 ozt 400,000 ozt 200,000 ozt	June 2000 2nd quarter of 2001 Late 2001
Zambia	1)Chambishi Metals Plc 2)Chibuluma Mines Plc 3)Non-Ferrous Corporation Africa Mining Plc 4) Konkola Copper Mines	Cobalt, Copper Copper Copper Copper	130 34 150 523	4200 (Cu) 6000 (Co) 480000 tons - 160000 tons	 May 2001 February 2001 -
Zimbabwe	1)Zimplats and BHP Minerals 2)Rio Tinto 3)Sino-Zimbabwe Cement Project	Platanium Diamonds Cement	69.09* 13.36* 69.09*	2.2 m tonnes - 900 tonnes	2nd quarter of 2001 2002 In operation

Source: SADC. Mining Sector Annual Report (July 2000-June 2001).
Note: + at a Pula/dollar exchange rate of 4.7281 (February 2000); * At a Zim$/dollar exchange rate of 43.4197.

the mining sector, including the Golden Pride Mine in Tanzania, the Gamsberg zinc-lead deposits in the Northern Cape Province in South Africa and the Zimplats Platinum project in Zimbabwe. Other new investments include that of Chibuluma Mines Plc, which commenced the development of a new mine at Chibuluma South; construction of the Skorpion zinc project started in Namibia; the Mozambique Aluminum Smelter Project (MOZAL) started to produce metal in June 2000; while in Botswana, the Orapa expansion project, which has doubled the mine's annual production to 12 million carats, started in May 2000.

II.4 INFRASTRUCTURE AND SERVICES

II.4.1 Transport and Communications

The economic advantages of a well-developed transport and communications infrastructure include: (i) serving the need of other sectors. For instance, the expansion of tourism, agriculture or mining activities depends on adequate infrastructure systems; (ii) in the case of a sub-region such as SADC, the development of transport and communications will promote complementarities between the member countries, enhance intra-regional trade and may contribute to increasing the international competitiveness of the region's products and exports. For example, inadequate transport infrastructure services represents a critical obstacle to intra-regional trade and the high cost of transport in the sub-region - estimated at about 30-40% of the total value of goods sold within the sub-region - is an important non-tariff barrier to trade; and (iii) private sector involvement in infrastructural development and service delivery *per se* have the potential to attract considerable amounts of FDI.

II.4.1.1. Regional Cooperation and Integration through the

Transport, Communications and Meteorology Protocol

The Transport, Communications and Meteorology Protocol provides a comprehensive framework for cooperation in all modes of regional transport. It includes all policy, legal, regulatory, institutional, operational, logistical, technical, commercial, administrative and human resource issues related to the region's transport. In addition, it incorporates international, continental, regional and national dimensions of transport and all public and private actors in the region.

Chapters 4 (road infrastructure), 5 (road transport) and 6 (road traffic) provide a comprehensive, albeit ambitious, framework for achieving harmonization of regional road traffic and transport systems.

Chapter 7 provides a comprehensive framework for regional cooperation in rail transport. Its objective is to 'facilitate the provision of seamless, efficient, predictable, cost-effective, safe and environmentally-friendly railway service which is responsive to market needs and provides access to major centers of population and economic activity.' To this end, the provisions of chapter 7 include: a harmonized regional railway policy which incorporates a phased and coordinated economic and institutional restructuring of railways; monitoring the adequacy of rail infrastructure required to meet the region's developmental needs; cooperation on operational matters, the development and implementation of compatible technical standards in respect of infrastructure and operational equipment and human resource development.

Chapter 8 provides a comprehensive framework for regional cooperation in the areas of maritime and inland waterways transport. Its objectives are *inter alia*: to maximize regional and international trade and exchange; to provide appropriate frameworks for economic and concomitant institutional restructuring; to establish a customer-sensitive and demand-driven approach; and to promote the establishment of an integrated transport system. The substantive provisions contained in chapter 8 include: the development of harmonized maritime and inland waterway transport policies; a call for Member States to undertake appropriate institutional restructuring to improve port operations; the application of international standards and human resource development.

Chapter 9 creates a framework for cooperation in civil aviation. Its primary objective is to ensure the provision of safe, reliable and efficient services with a view to improving levels of service and cost-efficiency in support of socio-economic development in the region. In addition, it aims to overcome the constraints of small national markets, market restrictions and the small size of some SADC airlines in order to further ensure the competitiveness of regional air services in a global context.

The Protocol refers explicitly to the involvement of the private sector, restructuring of state enterprises and cooperation between the private and public sectors. It also seeks integration of regional systems through compatible policies and legislation, rather than through explicit operational or investment activities, and emphasizes the importance of competition as a means of improving the diversity of services. Specific obligations on Member States are in attachments. A number of attachments have already been prepared, including: (i) model legislation on flexible investment by the private sector in infrastructure and the provision of services; on establishing road funds, road boards and autonomous road agencies; on economic and institutional restructuring of railways, on port restructuring; and on the economic and institutional restructuring of the telecommunications industry and postal services; and (ii) MOUs on border-post design operations; on road vehicle overloading control; on economic and institutional restructuring of civil aviation; and on the establishment of regional multi-modal search and rescue systems.

In 1999, three attachments were incorporated into the Protocol, namely those on: (i) common definition of SADC regional trunk roads and common route numbers; (ii) harmonized codes and format for driving licenses; and (iii) establishment and management of the SADC permanent mission to ICAO.

II.4.1.2 Implementation Status of SADC Protocol On Transport, Communications and Meteorology (see Attachment 3)

The Protocol entered into force on 6th July 1998, but three countries (the DRC, the Seychelles, and Zambia) have to ratify it yet. Eight countries (Angola, Botswana, Malawi, Mauritius, Mozambique, Swaziland, Tanzania and Zimbabwe) have completed their national micro-actions plans (MICAPs)[39]. The signatory countries to the Protocol have made considerable progress in achieving policy, legal, and institutional reforms in accordance with the Protocol. Particular progress is evident in building an institutional framework for managing and implementing the Protocol as well as enhancing the business environment for attracting private investments.

(i) Institutional Framework for Managing and Implementing the Protocol

Each SADC country has formed a **national protocol implementation coordination team** (N-PICT). The team includes a national coordinator, sub-sectoral coordinators (SSCs) and deputy SSCs for each of the eight sub-sectors, namely roads, railways, maritime and inland waterways, civil aviation, integrated transport, telecommunications, postal services, and meteorology.

A number of SADC countries have established a **roads board**, an **autonomous road authority** and/or a **road fund** as required by the Protocol. For instance, eight countries – Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Tanzania and Zambia – have established road boards and road funds. Five SADC Member States – Malawi, Mozambique, Namibia, South Africa and Tanzania – have established autonomous road agencies (see Attachment 3).

At regional level, the railways sub-sectoral committees were established in April 2001. Many operator and other associations have been established, including: the Southern African Railways Association (SARA), the Airlines Association of Southern Africa (AASA), the Federation of East and Southern African Road Transport Association (FESARTA), the Ports Management Association of Eastern and Southern Africa (PMAESA), the Federation of Clearing and Forwarding Associations of Southern Africa (FCFASA), Southern Africa Telecommunications Administrations (SATA), Telecommunications Regulators Associations of Southern Africa (TRASA), and the International Transport Workers Unions (ITF).

(ii) Monitoring of Progress in Protocol Implementation

The effective monitoring of progress on Protocol implementation requires that SADC Member States submit quarterly reports based on the MICAPs. During the reporting year 2000-2001, it transpired that SA, Zambia, Namibia, Seychelles, the DRC, and Lesotho have not been able to complete their MICAPs. The main reason offered for this failure was the lack of financial resources subsequent to the termination of the USAID financed STEP/PAAS project at the end of 1999. A comprehensive monitoring and evaluation initiative of Protocol implementation is being impeded by the fact that most SADC countries have been failing to provide the required quarterly reports to SATCC-TU. For the period 2000/2001, only Namibia and Mozambique submitted all four quarterly reports.

(iii) Reforms to Attract Private Investments

SADC countries are also undertaking reforms to attract private sector investment in infrastructure and involvement in service delivery. As far as **ports** are concerned, these include concessioning of **ports** and restructuring of **port activities** (see Attachment 3). For example, Mozambique has concessioned most terminals in

[39] National micro action plans (MICAPs) are strategic planning instruments. They could also serve as a tool to detect and monitor delays in reforms on a case-by-case basis. MICAP development is supposed to be initiated by the National and Sub-sectoral Coordinators in an inclusive fashion.

the port of Maputo, the container terminal in the port of Beira and all port operations at the port of Nacala (as part of the privatization of CFM-North and the Nacala Corridor Development). Tanzania has concessioned the container terminal in the port of Dar es Salaam as well as all freight operations at the inland port of Kigoma on lake Tanganyika. Zambia concessioned the inland port of Mpulungu at the southern end of lake Tanganyika. In SA, PORTNET was split into two autonomous divisions: a landlord port authority division and a port operations division. Angola and Mauritius have passed Port Authority Acts.

The **road transport industry** has always been dominated by the private sector. However, more recently, the private sector has become involved in the provision of road infrastructure e.g. the N4 toll road, i.e. the section between Maputo in Mozambique and Witbank in SA. In addition, the private sector participates in road funds and road boards in eight countries (Lesotho, Malawi, Mauritius, Mozambique, Namibia, SA, Tanzania, and Zambia).

In the **railways sub-sector**, progress in the institutional framework relates to setting down the SADC Regional Trunk Route Network (RTRN) and the establishment of the Railway Sub-sectoral Committee in April 2001, with its primary functions being: (i) the coordination of policy, legislative and institutional reforms and (ii) the facilitation of the public/private sector partnerships. Although SADC has still a considerable way to go in reforming the railway system, some progress has been made in involving the private sector or other operators with a view to improve efficiency: Malawi has concessioned its national railway to a private consortium; Mozambique has agreed with the same consortium for concessioning of the CFM-North; Tanzania and Zambia are in the process of concessioning their railways; and Botswana, SA and Zimbabwe are considering strategies to attract the private sector in the development and operations of their railways. Although it would probably not be easy to reduce the SADC average railway tariff, which is in the order of 4 US cents per tkm, to the USA's levels of 1.5-2 US cents per tkm, progress is already discernible, e.g. from 1997-1999, real transport cost of a container on the Durban-Ndola railway route declined from US$3100 to US$2500.

Civil aviation is the sub-sector where progress have been mixed up till now. Only three countries (SA, Tanzania, and Zimbabwe) have autonomous civil aviation authorities. Seven countries (Angola, Malawi, Mauritius, Namibia, SA, Tanzania and Zambia) have established autonomous airport companies. Aeroport di Roma has acquired 20% of the SA airport company shares. In Tanzania, the private sector participates in the civil aviation sub-sector through the management lease by KADCO, a private SA consortium of companies, of the Kilimanjaro international airport. Tanzania's regulatory framework is not fully developed, but its Civil Aviation Committee has initiated a regulatory harmonization program that began in May 2000. SADC has also been establishing an integrated communications navigation surveillance/air traffic management (CNS/ATM) system to ensure air traffic safety.

With regard to **airlines and air transport services, t**he airline sub-sector is dominated by government-owned airlines. Few countries have restructured and privatized their national airlines partially or fully. Zambia is the only SADC country whose government does not currently own an airline - Zambia Airways has been liquidated after accumulating huge losses and credit. Linhas Aereas de Mocambique has been restructured and improved its operations by reducing its fleet, retrenching and setting up management information and financial system. SA has sold 25% shares of its national airline to Swissair (but bought back this equity stake when Swissair was liquidated early in 2002), while Swaziland has privatized its airline and taken 60% in the replacement airline, Airlink Swaziland.

II.4.1.3 Regional Cooperation in the Road Sub-sector

SADC has undertaken many actions to improve regional cooperation in the road sub-sector.

- **Harmonized road design standards:** Most member States are implementing the road design standards and specifications as agreed to on the sub-regional level. The following five documents represent these standards: (i) SATCC Standards Specifications for Road and Bridge works; (ii) SATCC Code of Practice for the Design of Roads, Bridges and Culverts; (iii) SATCC Code of Practice for the Design of Pavements; (iv) SATCC Code of Practice for the Geometric Design of Truck Roads and (v) SATCC Code of Practice for the Pavement Rehabilitation. In addition, the Association of Southern African National Road Agencies (ASANRA) was formed in March 2001. Its responsibilities include operational issues such as identification and harmonization of best practices of regional standards (material safety, design, construction and maintenance); development and harmonization of road management systems; implementation of harmonized road user changes and promotion of one-stop border concept.

- **Road traffic:** SADC has designed the Model SADC Driving License. Angola, South Africa and Zambia are already issuing the model license, while Malawi has made preparations to launch the license in 2001.
- **Road transport:** Efforts are made to improve cross-border traffic facilitation including through harmonization of axle load limits and gross vehicle mass. In addition, the creation of the Regional Vehicle Overload Control Association is underway to deal with issues regarding overload control in the region.

II.4.1.4 Transport Corridors

Southern Africa is endowed with well-established historical trade routes or transport corridors. Corridors carry 50% of SADC port throughput (excluding SA's bulk commodities) and nearly 100% of landlocked countries' exports/imports. Corridors (including their ports) carry more than 20% of intra-regional trade and almost 80% of the region's trade with the rest of the world.[40] Despite efforts to enhance the corridors' performance, key constraints persist, which limit the corridors' contribution to the sub-region's growth and development (see Box 2.2). However, the Maputo Development Corridor is an example of a concerted multi-country effort to address such constraints and, moreover, to turn a traditional transport corridor into a development corridor (see Box 2.3). Another example may be the Trans-Kalahari Corridor, involving three SACU countries, i.e. SA, Botswana and Namibia, which are working in a concerted fashion to address such constraints. However, the three countries have still to formalize some of the critical understandings reached before they could be fully implemented.

[40] World Bank estimates.

Box 2.2: Corridors: Opportunities, Strengths and Weaknesses

The Corridors are systems of physical infrastructure of transportation (by road or rail) that link major ports to their hinterland and to landlocked countries in Southern Africa. There are seven main corridor systems:

- Beira-Lusaka-Beira (Mode: Road/Rail); Beira-Lilongwe/Blantyre-Beira (Mode: Road);
- Maputo-Johannesburg-Maputo (Mode: Road/Rail); Maputo-Harare-Maputo (Mode: Rail); Maputo-Manzini-Maputo (Mode: Road/Rail);
- Nacala-Lilongwe/Blantyre-Nacala (Mode: Rail);
- North/South-Harare (via Beitbridge)-Durban (Mode: Road/Rail); North/South-Lusaka (via Plumtree)-Durban (Mode: Road/Rail); Nort/South-Lilongwe/Blantyre (via Tete)-Durban (Mode: Road/Rail);
- Tazara-Lusaka-Dar Es Salaam (Mode: Road/Rail); Tazara-Lilongwe-Dar Es Salaam (Mode: Road);
- Trans/Caprivi-Lusaka-Walvis Bay (Mode: Road);
- Trans/Kalahari-Pretoria/Johannesburg-Walvis Bay (Mode: Road).

Main import/export corridors are those linking the ports of Dar Es Salaam, Nacala, Beira, Maputo, Durban, and Walvis Bay to their hinterlands. There are also smaller road corridors: Johannesburg/Manzini; Durban/Manzini; Cape Town/Windhoek and Johannesburg/Windhoek through Upington.

Usefulness and Importance of Transport Corridors

The usefulness of transport corridor systems stems from the major benefits they provide to the region: (i) corridors facilitate intra-regional, inter-continental and domestic trade of SADC countries; and (ii) they ease regional transport and transit flows and increase transport efficiency. It was estimated that corridors carry 50% of SADC port throughput (excluding SA's bulk commodities) and nearly 100% of landlocked countries' export/imports. In terms of their contribution to intra-SADC trade and between those countries and the rest of the world, measured by freight tonnage, corridors (including their ports) represent 22% of intra-regional trade and 78% of the region's trade with the rest of the world. The relative importance of corridors depends on their transport mode and the performance indicator used. Measured by total international traffic carried, the North-South Corridor system is the most important one. This record reflects the fact that this corridor system is the most extensive of all and SA's dominant share in intra-regional traffic is moving along these axes.

Major Constraints and Weaknesses

There are several factors that limit the efficiency of transport corridors:

- **Cost-raising factors:** Long border post delays where the average waiting times can reach a high of more than 30 hours for Beitbridge (the most important road border post of the region) and Victoria Falls, and with incidents reported of shipments from Durban to Harare spending about one quarter, and from Johannesburg to Harare up to one third of the total transit time at the border. Furthermore, higher vehicle operating costs on certain substandard road sections, fuel price differentials, high tariffs, losses due to theft, costs of bribes/fines are, among others, elements that limit corridor efficiency. For instance, data for the port of Durban show that approximately 60% of the ships that arrived at the container terminal in 1995, 1996, and 1997 had been delayed by 20 hours on average while waiting time could last more than a week in some cases. The SADC rail tariffs range of US cent 3-5/tkm are considered high by international standards.
- The **economic** and **physical environment** influences corridors' performance. The low production levels, low population density, and long distances to either import/exports ports result in small traffic volumes.
- **Deficiencies in the business environment**: Poor policy and regulatory frameworks, management constraints e.g. cancellation of scheduled trains and unpredictable delays; lack of information systems to facilitate communication between the different rail companies and the absence of technical cooperation and marketing exert additional constraint on the corridors' performance. Railway transport also faces several problems including overstaffing, dependence on government subsidies and tariffs barely sufficient to cover operating costs.

Proposed Measures to Improve Transport Corridors Performance

These measures are stipulated in the SADC Protocol for Transport, Communications and Meteorology and aimed at committing and encouraging member states to implement reforms to improve the efficiency of their transport systems. In railways and ports, reforms include reducing the role of governments in operations, increasing private sector involvement in infrastructure ownership and operations and improving information systems. In order to promote regional co-operation and integration in transport corridors, SADC countries are urged to:

- Harmonize technical standards for infrastructure and operational equipment (such as signaling and communication systems);
- Establish regional traffic rights for railway operators across borders in order to enhance competition and minimize delays at borders posts;
- Standardize reporting and accounting procedures and performance indicators.

Similar measures are proposed to enhance cooperation between ports.

Actions Undertaken

Some SADC countries have taken measures to enhance performance of their transport system. Malawi has restructured and concessioned its railway system; Mozambique has signed a concession for its northern system; Zimbabwe has concessioned one main rail line from Beitbridge to Bulawayo and is promoting private sector involvement in its total rail system. Some measures have also been taken to address the issues of delays at border posts, low quality of border design and services and the lack of coordination and extension of operating hours. E.g., the coordination and extension of hours have resulted in significant reductions in delays at the Botswana border. The establishment of a good clearing facility at the Ressano-Garcia/Komatipoort border post has led to some improvements on the Maputo Corridor. For ports, there are already, among others: the harmonization of regional port policy and standards and the development and implementation of uniform port performance indicators based on the UNCTAD model.

Potential Gains of Improvement of Transport Corridors

Implementation of the proposed measures may result in a number of benefits: (i) reduction of costs: regional cooperation and integration in railways, road and ports may enhance the quality of service provided by corridors and their ports, with an immediate advantage being reduction of delays at the border posts. Estimates indicate that a reduction in ship delays could lead to potential annual savings of $US330 million from reduced user charges for transport and handling, savings on inventory costs and user benefits; and (ii) increases in productivity, improved financial management and service provided to customers at lower prices are potential gains stemming from private sector participation.

Box 2.3: The Maputo Development Corridor

Background

The Maputo Development Corridor (MDC) links the port of Maputo in Mozambique with Gauteng, the SA province that is the nation's industrial heartland and in which Johannesburg is located. In the 1970s the corridor was a major export route for SA and a significant generator of foreign exchange for Mozambique. However, after Mozambique's independence, political considerations led SA to develop alternative routes, primarily through Natal on SA's east coast. The combination of this event with the inefficiency in Mozambique's state-run ports and railways and disruptions from the country's civil war resulted in a substantial decline in the Maputo Corridor activity: Port volume fell from about 11 million tons per annum at independence in 1975 to about 1.6 million tons per annum in the mid-1980s.

The MDC was the first of the Spatial Development Initiatives (SDIs) to be initiated in 1995. The MDC has been developed through a joint initiative of the governments of SA and Mozambique and with the participation of various public and private groups including the World Bank. The initiative focuses on rehabilitation and upgrading of the traditional trade and transport links.

Core elements

- The upgrading/construction of a toll road linking Johannesburg in South Africa to Maputo in Mozambique
- The improvement of rail and port operations in Mozambique to re-establish competitiveness of the transport route.

The Key Objectives are

- To rehabilitate the core infrastructure along the corridor with minimum impact to the fiscus (road, rail, port, energy, border post);
- To maximize investment in both the inherent potential of the corridor area and in the added opportunities which the infrastructure rehabilitation will create;
- To ensure that the development impact of this investment is maximized, particularly to disadvantaged communities;
- To ensure sustainability by developing policy, strategies and frameworks that encompasses a holistic, participatory and integrated approach to development.

Key Activities and Progress

- Development of key infrastructure: the two governments decided to pursue the reconstruction of the Witbank-Maputo road (N4 Toll road) as a BOT toll road project. They awarded a 30-year concession to Trans African Concession (TRAC) in 1997, with a total anticipated investment of US $ 250 million.
- Rehabilitation of Maputo Port: the Government of Mozambique expected to achieve 'financial closure' by June 2001 for a 15-year management agreement with Mersyside Docks and the Harbour Company from Liverpool (UK).
- Concession of the Southern Mozambique Railways Network in two parts. First part (Limpopo line to Zimbabwe, the Global line to Swaziland and the marshalling yards near Maputo) has been concessioned to Consortia 2000 with the second part (Ressano Garcia line to South Africa) to be concessioned to Spoornet.
- Development of new energy supply: a common project between Eskom (SA), EDM (Mozambique) and the Swaziland Electricity Board, known as Motraco, with the objective of constructing electricity lines from South Africa into Mozambique.
- Upgrading of the border post between South Africa and Mozambique at Ressano Garcia.

Private Sector Involvement

- The Mozambique Aluminum Smelter (MOZAL): private partners involved are Billiton (47%), Mitsubishi (25%), the IDC of South Africa (24%) and the Government of Mozambique (4%). Future output expected is 500 000 tons of aluminum per year.
- The Maputo Iron and Steel Plant (MISP): construction of an iron and steel plant in Mozambique.
- Beluluane Industrial Park (BIP): establishment of an industrial free zone adjacent to Mozal. Joint venture involving CPI (Mozambique), Chiefton (Australia) and Grinaker (South Africa).
- Natural Gas Industry Projects: Sasol is constructing a 1000 km pipeline from the Mozambique gas fields to Secunda in Mpumalanga.

Impact of the MDC

- Private sector financing: it is estimated that some US$ 600 million (mainly private sector) in investment has been committed to the key infrastructure projects.
- Job creation: it is estimated that some 15000 jobs have been created in the MDC area through the larger infrastructure and sector projects.
- Movement of freight and people through the Ressano Garcia/Komatipoort border post have seen strong and steady growth. The number of 'import entries' has increased from 267 in 1995/96 to 4130 in 2000/01 or 58% per annum. 'Export entries' have increased from 8070 in 1995/96 to 112595 in 2000/01, or 55% per annum. Movement of people (both ways) through this border post have increased from 365 229 (1993) to 1 946 329 (2000) representing a growth of about 27% per annum[41].

World Bank's Involvement

The Bank Group has been directly or indirectly involved in supporting many of these projects through a combination of loans, grants, and technical assistance. The Maputo Corridor development is widely supported in Mozambique and SA, and it has raised considerable interest in neighboring countries such as Swaziland, Botswana, Namibia, and Zimbabwe. The initiative is fully consistent with the Bank's Country Assistance Strategies for Mozambique and SA, as well as with the 1998 Southern Africa regional strategy. It provides an attractive example of public-private partnership, with the private sector providing most of the investment.

[41] *Source: Immigration – Lebombo Border post*

II.4.1.5 Communications

As indicated earlier, although the SADC region is not well equipped in the area of communications, the region has made some progress in reforming the sector, resulting in a relatively rapid expansion of particularly the mobile network, while the fixed-line network has also seen some growth in the 1990s. At the turn of the century, the number of fixed lines stood at around 6,747,824 - equivalent to an average regional teledensity of five per 100 inhabitants, with access varying widely across countries. The sub-region still lags far behind other regions in the world, although it fares better when compared to the averages for SSA, excluding SA.

Chapter 10 of SADC's Protocol on Transport, Communications and Meteorology, adopted in August 1996, creates a framework for cooperation in telecommunications. It outlines a regional telecommunications policy; develops a common understanding of 'universal service'; creates a framework for monitoring regional telecommunications provision and maintenance; exhorts Member States to achieve cooperation in telecommunications; provides for a regulatory framework for the region's telecommunications; defines the responsibilities of national regulatory bodies; calls for the harmonization of technical standards; seeks to achieve cooperation in the realm of human resource development; and creates a framework for the region's relations with international bodies.

In order to take advantage of international technological developments and developing national telecommunications networks for the provision of reliable, effective and affordable telecommunications services, the objectives of regional cooperation are to:

- ensure adequate high quality and efficient services responsive to the diverse needs of commerce and industry in support of regional social and economic growth;
- achieve regional universal service with regard to telecommunications services and regional universal access to advanced information services; and
- enhance service interconnectivity in the region and globally.

The provisions of Chapter 10 of the Protocol provide a comprehensive framework for achieving these objectives. They define the roles of both the public and private sector in the provision of telecommunications, pronounce upon ways of procuring finance to implement the region's agenda, and establish an institutional framework for the implementation of a regional telecommunications network.

In the **telecommunication sub-sector**, in order to develop cooperation between member states, SADC countries have set up associations of telecommunications regulatory authorities and of telecommunications operators, namely Telecommunications Regulatory Association of Southern Africa (TRASA) and Southern Africa Telecommunications Associations (SATA). TRASA established its office in South Africa. TRASA's main objective is to enhance service provision by establishing efficient telecommunications networks and services within the region. One of its major activities is to develop guidelines on specific regulatory functions that its members can adopt and implement at the national level. Its main achievements include: (i) completion of a guideline on interconnection; (ii) development of a regional frequency band plan; and (iii) establishment of a joint telecommunications-broadcasting committee. With the restructuring of SATA in December 1999, this association has also modernized its functioning.

There are also a number of other developments noticeable in the telecommunications sub-sector, e.g. new mobile telephony operators are being licensed; internet demand is growing; and institutional frameworks are being transformed to enhance the competitive environment. Independent telecommunications regulatory bodies exist in Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, SA, Tanzania, and Zambia. Although the privatization process is progressing steadily, full private sector participation remains limited, while the process of enabling other fixed service operators to establish is slow. Lesotho is the only one that has completely privatized its telecommunications sub-sector, while Seychelles and SA have partially privatized their national telecommunications operations. Six of the incumbent fixed service providers (Lesotho, Malawi, Mauritius, Seychelles, SA and Zambia) are operating privately with strategic equity partners. Seven countries, Botswana, Mauritius, Seychelles, SA, Tanzania, Zambia and Zimbabwe have two or more cellular phone operators. Ten countries have more than two internet services providers each.

In the **postal services sub-sector**, the Protocol provides for an independent Postal Regulator which has as primary duty the promotion of consumer/user interests by encouraging competition and high standards of service from operators as well as by regulating prices. Five countries (Malawi, Mozambique, Namibia, SA and Tanzania) have established regulatory authorities and most countries have separated postal services from telecommunications. With regard to the **meteorology sub-sector**, Mozambique and Tanzania have established autonomous meteorology authorities or executive agencies.

Table 2.7: Policy and Regulatory Frameworks and Status of Privatization and Competition

Country	Policy and Regulation		Regulation	Market Operation		
	New Policy	New Law	Autonomous Regulator	Incumbent Privatization	Competition	
					Mobile	Internet
Angola	Y	Y	Y	N	N	F
Botswana	Y	Y	Y	N	D	F
DRC	n/a	n/a	n/a	n/a	n/a	n/a
Lesotho	Y	Y	Y	Y	N	N
Malawi	Y	Y	Y	Y	I/P	F
Mauritius	Y	Y	Y	Y	F	N
Mozambique	Y	Y	Y	N	I/P	F
Namibia	Y	I/P	I/P(R)	N	N	F
Seychelles	Y	Y	N	Y	D	F
South Africa	Y	Y	Y	Y	F	F
Swaziland	I/P	I/P	N	N	N	F
Tanzania	Y	Y	Y	I/P	F	F
Zambia	Y	Y	Y	Y	F	D
Zimbabwe	I/P	I/P	I/P	N	F	F
Progress/Y	11	10	9	6	7	10

Source : SATCC-TU. March 2001.
Note: n/a: Not available; Y:Yes; N: No; I/P: In progress; Non-basic: Services other than fixed telephone; F: More than two service providers; D: Duopoly progressing to full; R: Regulatory authority exists but yet to be strengthened under new law.

II.4.2 Energy

The sub-region is richly endowed with huge and a variety of energy sources. However, development of these resources is constrained by factors such as the shortage of equipment, the inability of SADC energy utilities to meet demand, and tariff and pricing rules. These and other obstacles limit energy's potential to serve effectively the needs of the people of SADC, with an average 75% of the SADC population lacking access to electricity, while in some countries energy supply is unreliable and expensive, contributing to an uncompetitive business environment.

II.4.2.1 The SADC Protocol on Energy: Objectives and Implementation Status

Recognizing that energy problems are common issues within the region and that countries may benefit from cross-border cooperation in the energy sector, SADC countries signed the Energy Protocol in August 1996, which then entered into force on April 17, 1998. The Protocol focuses on the following major objectives:

- Harmonization of national and regional energy policies, strategies and programs on the basis of common interest;

- Co-operation in the development and utilization of energy and energy pooling to ensure security and reliability of energy supply in the most efficient and cost-effective manner;
- Promotion of joint development of human resources and organizational capacity building in the energy sector; and
- Standardization in appropriate energy development and application.

With the exception of the DRC, Mozambique and the Seychelles, all SADC countries have ratified the Protocol (see Attachment 3). Implementation is under way in many member states. Since May 2000, SADC has been implementing a list of 43 projects representing a total amount of USD 608,04 million.

SADC has created the SADC Energy Commission Technical Unit with the view to pursue the realization of optimal social and economic benefits arising from the use of regional energy resources. In addition, the Energy Commission also aims at ensuring that the sector attracts the investments. It focuses primarily on harmonization of current policies, development of new policies, definition of regional strategies, and initiation and monitoring of macro resource planning issues at the regional level.

II.4.2.2 SADC Energy Sector Activity Plan 2000-2005

The SADC Energy Sector Activity Plan has recently been completed and serves as a key document guiding the activities of the SADC Energy Sector in the short and medium term. It includes 30 activities and defines priorities in four areas: energy trade; investment and finance; organizational development and capacity building and information and experience exchange.[42]

- **Energy trade:** The Southern African Power Pool (SAPP) has established principles and pricing schedules that form the basis for power exchange in the region. Reforms have been made to introduce new pricing regimes to ensure more sustainable and cost-reflective energy pricing. However, the effectiveness of the pricing regime may be hampered by high inflation. In fact high inflation, stemming from high currency devaluations, had led to tariff increases of over 100 per cent in local currency terms for some countries without any movement in real prices.

- **Investment and Finance:** The objective is to mobilize investment and financing for the energy sector, with focus on the following: (i) facilitation of financing of commercially viable regional investments projects; (ii) mobilization of finance for the biomass energy sector through appropriate valuation of the existing biomass resource base (i.e. forest stocks) and leveraging finance on the basis of such valuation; (iii) financing of priority pre-investment programs, task-force activities, expert assistance and studies as defined in the Action Plan; and (iv) mobilization of climate change funding to address the environmental concerns and challenges facing the SADC energy sector.

- **Training and Organizational Capacity Building:** The Energy Co-operation Policy and Strategy Document (1996) emphasizes the needs of well-trained human resources for SADC and cites the following as specific needs, amongst others: (i) professional managerial training at executive and middle management levels; (ii) organization development, (iii) strategy development and strategic management; (iv) energy policy, analysis and advocacy; (v) energy economic analysis; and (vi) finance mobilization through climate change and clean development mechanisms.

- **Information and Experience Exchange:** Areas which can benefit from exchange of information and experience include: (i) co-operation in energy sub-sectors that are characterized by a high degree of commonalties, e.g. biomass/wood fuel; (ii) co-operation to utilize synergies, e.g.

[42] Refer to SADC Energy Sector, Annual Report May 2000-June 2001.

standardization, joint policies and strategies; and (iii) co-operation to share resources, utilize economies of scale, and to strengthen the political impact of the SADC region in international bodies, e.g. joint representation in climate change fora.

The implementation of the SADC project 'Regional Energy Planning Network' has started officially in May 2000. SADC is also mobilizing financial and human resources to implement the SADC Energy Sector Program Action.

II.4.2.3 Energy Sector Reforms

The power sector is undergoing reform both at national and regional level in southern Africa. Reform agendas are generally motivated by:

- inefficiencies;
- technical weaknesses (particularly in the distribution area);
- poor financial performance of electricity supply industry participants (return on investment < cost of financing) and strong limitation on public sector financing;
- electricity prices being used as political instruments;
- unsustainable subsidies to various consumers groups; and
- an electricity supply industry structure that does not allow for efficiency through competition.

The purpose of reforms includes the need to attract private investment and to broaden access to electricity to domestic consumers. However, the process of restructuring is slow as indicated in Table 2.8. No SADC country has privatized state-owned electricity sector assets. Only South Africa and Zambia have established an energy regulatory body (the National Electricity Regulator-NER and the Energy Regulation Board-ERB, respectively). Mozambique has established an Energy Policy Coordination Unit and its National Electricity Council resolves disputes and makes recommendations to the government. Mozambique and Zimbabwe, to a certain extent, are the only SADC countries that have significant independent power producers (IPP), namely Hidroelectrica de Cahora Bassa (HCB) in the case of Mozambique. In Swaziland, the Electricity Act of 1963 is still the basis for energy regulation. There are no regulators in the DRC or Lesotho.

Table 2.8: Status of Reform in SADC Electric Sectors

	Average Electricity Price US cent/kWh	Private Power IPPs	Privatization of Assets	Restructuring	Regulatory Body	Interconnects
Angola		No	No	No	No	No
Botswana	15	No	No	No		Yes
Lesotho			No		No	Yes
Malawi	4.6	No	No	In progress	Quasi	No
Mozambique	5.0	Yes	No	No	No	No
Namibia	2.9	No	No	In progress	In progress	Yes
South Africa	2.0	No	No	In progress	Yes	Yes
Swaziland			No		No	Yes
Tanzania	10		No		No	No
Zambia	3	Yes	Some	Yes	Yes	Yes
Zimbabwe	3	Quasi	No	No	Yes	No

Source: USAID (The Regional Center for Southern Africa). Energy Program Sub-Strategy for Legal, Regulatory and Policy Assistance to the SADC Countries. March, 2001.

II.4.2.4 The Southern African Power Pool (SAPP): An Example of a Promising Regional Cooperation Initiative

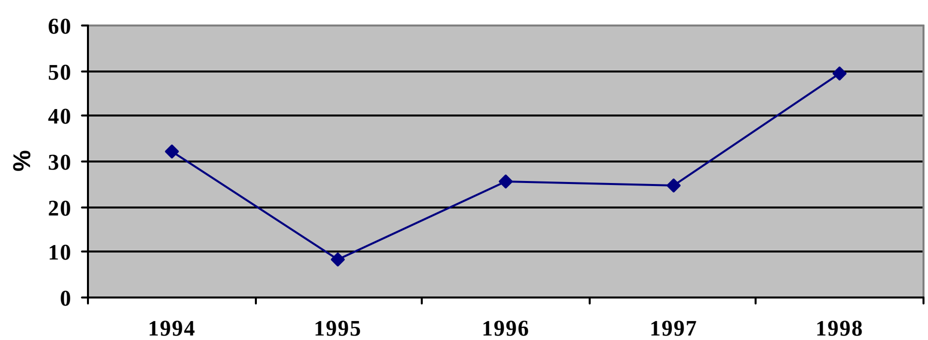
The SAPP is a cooperative effort in the energy sector, which aims at developing strong power interconnections between SADC Member States and providing reliable and economical electricity supply to the consumers of the SAPP Members.

The SAPP has a number of economic, social and environmental benefits that make it an important project. The Short Term Energy Market, which started live trading in April 2001, is expected to lower the average price of energy within the region. For instance, it is estimated that the average kWh price on an ESKOM-supplied long-term contract will be reduced by 50%. The SAPP would also reduce operating costs of existing national electricity power agencies. Indirect benefits may also stem from the SAPP as the reduction of electricity prices and the improvement of electricity supplies will raise industrial competitiveness of the region. In addition, the build-up of the Short Term Energy Market will be an incentive for attracting domestic and foreign investments in the energy sector. Savings from additional bilateral contracts are expected to be huge: a study by SADC on electricity power in the early 1990s, comparing integrated regional development with independent development, reached the conclusion that total savings will amount to US$785 million over the 1995-2010 period. The total savings amounts to 20% when compared to the costs that each country will support by following a self-sufficiency strategy. The savings are likely to be higher due to the fact that SA and the DRC have joined the SAPP. On the regional basis, the SAPP increases the regional system reliability and is a forum for regional solutions to electricity energy problems.

On the social side, the population of Southern Africa would benefit from the improvement and expansion of its electricity supply. Particularly, final consumers would benefit from the reduction of the price of electricity. In addition, some environmental benefits will derive from the displacement of thermal generation by hydropower.

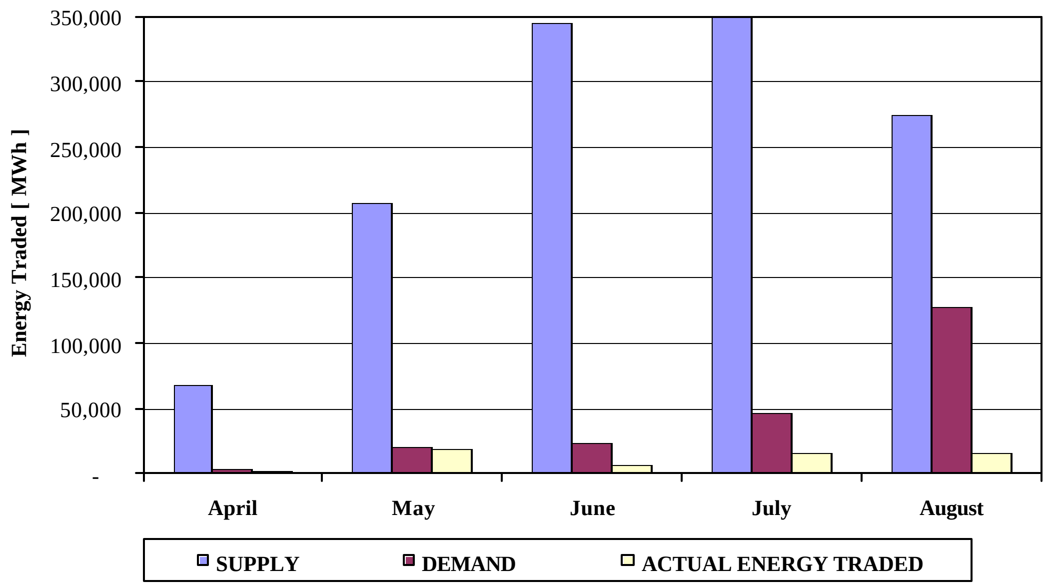
Since the creation of the Southern African Power Pool (SAPP) in 1995, regional electricity trade within the SADC region has increased tremendously. In 1998, the volume of electricity traded between SADC countries increased and reached the order of 1,500 MW and 11,500 GWh compared to 1000 MW and 7,700 GWh in 1997. The annual trading value exceeded the estimated value US$140 million. The following chart illustrates the increase in the volumes of electricity trade region within the SADC region from 1994 to 1998.

Figure 2.1: Annual Growth Rate of the Volumes of Electricity Trade, 1994-1998



Source: SADC Energy Sector, Annual Report May 2000-June 2001.

Figure 2.2: Energy Traded, 2001



Source: SAPP Coordination Centre, 2001

Eskom dominates the market - its exports represented about 50% of the regional electricity trade in 1998. Cahora Bassa is the other major regional trading player with an annual output estimated at 12,000 GWh. In 1998, it supplied approximately 600 MW of power on firm contracts to Namibia, Botswana, Zimbabwe, Swaziland and Lesotho. The DRC supplied 110 MW of peaking and mid-merit type power to SA. SA accounted for 83% of the total regional electricity demand of 33,310 MW in 1998. Zimbabwe was the second biggest market with about 6% while Zambia and the DRC represented 3% and 2% respectively. In terms of sectoral demand, industrial and commercial demand accounted for more than half of electricity demand in SA, but less than 40% in the rest of the region. Mining demand was less important in SA than in the rest of the region (20% and 30% respectively).

The priority projects that have been identified by the SAPP include the development of the link between Tanzania and Zambia, transmission from Mozambique to Malawi and the strengthening of linkages between Zambia and the DRC.

A new regional body, the **Regional Electricity Regulatory Association (RERA)**, was established. RERA has three main objectives:

- Capacity building and information sharing and skills training at national and regional level.
- Coordination of regional electricity trade, with the aims to provide a framework for cross-border trading and develop a policy, strategy and legislation to coordinate electricity trade.
- Regional regulation, with the main goals being the design of economic regulation for electricity interconnections and trade between SADC member states.

There are a number of constraints to the development of the regional power market. These include:

- An inadequate accounting system to deal with increasing energy trades;
- The lack of a system to monitor and predict electricity flows on tie-lines;
- Lack of transmission lines connecting non-operating members to SAPP;
- Insufficient capacity of some of the existing tie lines.

Box 2.4: The Southern African Power-Pool (SAPP)

Background

The Southern African Power Pool is an association of 12 member countries represented by their respective electricity power utilities. The members of SAPP include: Botswana Power Corporation (BPC, Botswana), Electricidade de Moçambique (EDM, Mozambique), Empresa Nacional de Electricidade (ENE, Angola), Electricity Supply Commission of Malawi (ESCOM, Malawi), ESKOM (South Africa), Lesotho Electricity Corporation (LEC, Lesotho), NAMPOWER (Namibia), Societé Nationale d'Electricité (SNEL, the Democratic Republic of Congo), Swaziland Electricity Board (SEB, Swaziland), Tanzania Electricity Supply Company Ltd (TANESCO, Tanzania), ZESCO Limited (Zambia), and Zimbabwe Electricity Supply Authority (ZESA, Zimbabwe). The SAPP is the first formal international power pool established outside Europe and North America. The SAPP covers an area of 9.09 million km^2 and the total number of electricity users of the combined national interconnected systems is estimated at 3.1 million.

Cooperation in the electricity sector is not a new phenomenon in Southern Africa. Two bilateral cooperative projects already existed in the late 1950s. The first project was set-up in 1958 between the DRC and Zambia, consisting of the construction of a line between Nseke in the DRC and Kitwe in Zambia, and aimed at supplying electricity to Zambian copper mines. The other project linked Zambia to Zimbabwe and consisted of the construction of the Kariba dam and associated hydro-electric power stations, which connected the two countries' power systems. SADC recognized the importance of energy to the development of the region and took the following actions to strengthen regional cooperation in the region:

- 1980: creation of a Technical and Administrative Unit (TAU) to act as a coordinating agency for the regional energy sector.
- 1990: establishment of the Electricity Sub-Committee (ESC), as a forum for the regional power utilities to discuss and plan the improvement of regional electricity supply.
- 1995: seven of the eleven SADC members signed the Inter-Governmental Memorandum of Understanding (IGMOU).
- September 28, 1995: The Southern African Power Pool entered into effect.

Main objective, priority and constraints

The SAPP aims at coordinating planning and operation of electric power systems among member utilities, reducing capital and operating costs through coordination and improving the reliability of the electric power systems. The multi-country electricity trade in the Pool is mostly done through long-term bilateral contracts. The SAPP focuses on the increase of trade through a short-term energy market in order to progressively replace some long-term bilateral contracts between members.

The SAPP Coordination Centre aims at implementing SAPP objectives and has four main functions: (a) technical oversight with emphasis on secure and reliable operation of the Pool; (b) facilitating the short-term energy market (matching bids and offers of energy by daily, weekly and monthly contracts); and (c) gathering and disseminating information, including technical and financial data; (d) liaising with national control centers and electricity regulators. It also provides a training facility for power market operators.

Physical constraints may hamper the expected advantages of the development of regional trade in electricity in SADC. These relate to insufficient transmission infrastructure such as missing links within and between national transmission lines, lack of connection of the non-operating members, and required reinforcement of existing internal transmission. These constraints limit the speed at which the system could have been developed.

World Bank involvement

Currently, World Bank involvement consists of providing support, including planned IDA credits of about US$260 million, to the Coordination Centre and appraisal of two of the three priority inter-connections that have to be either constructed or improved. These are the Malawi-Mozambique and Zambia-Tanzania transmission lines. The other priority is the strengthening of the link between the DRC and Zambia with possible rehabilitation of the Inga power plant and DC converter stations, but in which other development partners are involved. The aims of the Bank's involvement, in the SAPP include:

- facilitating regional electricity trade;
- ensuring that all participants in the market have equal access to information;
- financing assets for which private sector financing is difficult to obtain;
- enabling increased private sector involvement in generation;
- reducing need for onerous power purchase agreements.

II.4.3 Water

Given the general water insecurity of the sub-region, the imbalances in water availability and demand, deteriorating water quality and shared water courses, the countries in the sub-region have recognized the benefits that may be derived from regional cooperation on water issues, including reducing the costs and mitigating the risk of rainfall variability through coordinating their actions. Historically, there was extensive cooperation between southern African states in relation to particular river basins. Examples include the Lesotho Highlands Water Project (LHWP) and the Zambezi basin ZACPLAN project. Cooperation, however, was not coordinated on a regional level.

SADC member states have thus signed a Protocol on Shared Watercourse Systems in August 1995 and, subsequently a refined version of this protocol, the 'Revised Protocol on Shared

Watercourses' in August 2000. Although all SADC Member States but the DRC signed the Protocol, by mid-2001 only two countries (Botswana and Mozambique) have ratified it.

The main objectives of the protocol is to develop close co-operation for judicious and coordinated use of the resources of shared watercourse systems in the SADC region; to coordinate environmentally sound development of shared watercourse systems in the SADC region in order to support socio-economic development; to hold regional conventions on equitable utilization and management of the resources of shared watercourse systems in the SADC region; to consolidate other agreements in the SADC region regarding the common utilization of certain watercourse; and to promote the SADC integration process in accordance with Article 22 of the treaty establishing the Community.

For implementation purposes, the revised protocol has created regional institutions, such as committees of Water Ministers and Water Senior Officials respectively; a Water Sector Coordinating Unit and Water Resources Technical Committee and sub-committees. These are in addition to Shared Watercourse Institutions, which were the main institutional mechanisms for implementation of 1995 protocol. Although responsibility is still placed on the states within a river basin, which should establish appropriate institutions (watercourse commissions, authorities or boards) to cooperate with one another on matters pertaining to the rivers of the basin, a common watercourse would henceforth be managed within the context of the regional objectives and principles.

In order to improve the regional management of watercourses, a **Regional Strategic Action Plan on Water Resources** (1999-2004) was developed in 1998 and contains 44 projects in all. A list of 31 priority projects was established (see Attachment 3). In order to facilitate the implementation of the RSAP at national level, SADC has developed a networking structure called the National Focal Persons (NFP). The role of the NFP is to coordinate activities related to the implementation of the RSAP at national level and in close collaboration with WSCU. Many international agencies are supporting SADC's effort to improve water management within the region.

SADC has also developed programs and projects in order to address challenges such as floods/droughts, pollution and water supply and sanitation. These are: the SADC Hydrological Cycle Observing System (SADC HYCOS), The Groundwater Management Program for the SADC region, The Regional Project to Control the Infestation and Translocation of Aquatic Weeds and the Program on Water Supply and Sanitation for the SADC region. The Water Resources Technical Committee (WRTC) has appointed four Technical Sub-committees to oversee the implementation of these programs/projects. A Strategy on Floods and Droughts has also been initiated to take into account the devastating effects of recent events of floods. A Strategic Approach to improve Security Against Floods and Droughts has therefore been developed by the Water Resources Technical Committee in early May 2001. Key objectives include:

- To operationalize the recommendations contained in the indicative framework for floods and droughts management in the SADC region;
- To contribute as a building block to the SADC multisectoral disaster management strategy currently being developed by the SADC Secretariat;
- To develop the necessary capacity for vulnerability reduction against floods and droughts related in the SADC region.

The strategic approach focuses on five substantive areas to be pursued over the short-term (2001), the medium-term (2002-2003) and the longer-term (2004 and beyond). These areas are:

(i) Preparedness and Contingency Planning for Response: The objective is to identify contingency plans that will be needed at the regional and national levels to improve flood and drought preparedness for 2001-2002 rainy season.

(ii) Early Warning and Vulnerability Information Systems: The Water Sector along with other SADC technical units will identify and implement the most appropriate technical means in order to improve security of areas and communities most vulnerable to droughts and floods.

(iii) Mitigation Measures: The objective is to design appropriate policy, legal and institutional reforms to run the program. Floods and droughts monitoring, forecasting and warning systems will be developed particularly for the shared watercourse systems or river basins and flash flood prone areas.

(iv) Response: The main purpose is to assist disaster authorities to better identify rainfall, river flow and possible inundations changes. A particular focus will therefore be paid to hydrological and meteorological monitoring systems.

(v) Recovery: The Water Sector will attempt to provide support to the water authorities in SADC Member States to address issues related to national recovery. Its main action will be to help rebuild critical elements of the floods and droughts management systems that may be damaged/affected during the occurrence of disasters as well as other water-related infrastructure and services.

II.4.4 Tourism

The countries in the sub-region have acknowledged that they might benefit through cooperation in tourism and tourism-related matters through *inter alia* economies of scale and scope, resulting from the joint development of infrastructure, facilities, and services; joint marketing efforts; pooling of scarce resources for research and development, and education and training thereby avoiding unnecessary and expensive duplication; and through offering greater diversity in destinations and products. In order to develop the tourism industry, SADC countries have undertaken regional initiatives, including the signing of a Protocol on the Development of Tourism, the creation of the Regional Tourism Organization of Southern Africa (RETOSA).

II.4.4.1 Protocol for the Development of Tourism: Objectives and Implementation Status

The **Protocol on the Development of Tourism** was signed in Mauritius on September 14, 1998 and was ratified subsequently. It aims at using tourism as a vehicle to achieve sustainable social and economic development by increasing competitive advantage in the Region vis-à-vis other destinations, contributing towards the human resource development of the region through job creation and improving tourism service and infrastructure in order to foster a vibrant tourism industry. The Protocol also intends to create a favorable investment climate for tourism within the Region and improve the standards of safety and security for tourists. One of the main objectives of the Protocol is to facilitate intra-regional travel for the development of tourism. For this purpose, travel and visa restrictions should be eased or removed. The Protocol thus deals *inter alia* with matters related to cross-border travel, a unified, regional system of collecting and analyzing tourism statistical data, and the establishment of a regional quality and standards control policy, including the harmonization of registration, classification, accreditation and grading of tourism facilities and operators. In order to promote tourism within the region, SADC has undertaken a number of initiatives, including

- Preparation of five-year Tourism Policy and Development Strategies, the latest which is for 1999-2004;
- Contribution to the SADC Multi-sectoral HIV/AIDS Strategy and Plan of Action
- Harmonization of tourism legislation in the respective countries
- Creation of the Regional Tourism Organization of Southern Africa (RETOSA) in 1996.

Recently, a number of initiatives have sprung up at sub-regional level, which - in complementing RETOSA's overall marketing efforts - have started to address some of the above-mentioned investment and integration bottlenecks regarding nature conservation and tourism. Probably best known amongst them is the *transfrontier national park* concept to merge parks across countries such as the South African Kruger National Park and the Mozambican Gaza Park, which at a later stage may even be linked with the Gonarezhou National Park in Zimbabwe. Other approaches and initiatives are:

- the South-East African Tourism Committee (SEATOC), established in December 1997,[43] representing Southern Mozambique, the three Eastern Provinces of SA,[44] and Swaziland. SEATOC consists of representatives of Tourism Authorities, Government Departments and the private sector and is predominantly a marketing initiative;
- the Upper Zambezi Region Development Initiative (UZAREDI), which was formally established in November 1998,[45] comprising local authorities of four countries (Botswana, Namibia, Zambia and Zimbabwe)[46] bordering the Zambezi River up- and downstream from the Victoria Falls. The major objective of this initiative is the development of a sub-regional tourism master plan;
- an initiative between Botswana, Namibia and SA to jointly manage the Kalahari Gemsbok National Park, which is mainly following a nature conservation approach;
- an initiative along the border areas of northern Malawi and southern Tanzania also looking into the possibility of utilizing the tourism potential of the sub-region;
- the various cross-border tourism projects attached to the Maputo Development Corridor, the Lubombo SDI, and the Beira Development Corridor which all explore the potential for joint marketing and the development of a cross-border tourism infrastructure;
- an initiative between the border towns of Beitbridge (Zimbabwe) and Messina (SA) aimed at exploring a synergetic approach to make the best out of the existing tourism attractions and the busy border post;
- various 'borderland' initiatives instigated and promoted by the SDIs between the eastern part of SA, Mozambique, Swaziland and Zimbabwe.[47]

II.4.4.2 Tourism Development Strategy, 2001-2005, Actions and Projects

In order to develop the tourism sector, a Sectoral Strategic Development Plan was prepared in 1993 with a key objective to define a framework along which tourism development within the region would take place. This Development Plan ended in 1999 but has been followed by a new strategy. The objective of the new strategy is the same as that of its predecessor i.e. to promote equitable and sustainable growth of the tourism sector. One of its activities will be the evaluation of the implementation of the first tourism 5-year development strategy to learn from the experiences of the first five years and build on the successes achieved.

In addition to the new development strategy, SADC has been undertaking several actions to promote tourism within the region. These include the following:

- **UNIVISA System:** The main objectives of this system is to facilitate intra-regional travel for the development of tourism through the easing or removal of travel and visa restrictions and the harmonization of immigration procedures and movement of international tourists in the region in order to increase the market share and revenue of the region in world tourism.

---

43 The Mpumalanga Tourism Authority and the SADC-project of the KAF initiated SEATOC, which acts as a neutral broker between the interests of the different partners.

44 Northern, Mpumalanga and KwaZulu/Natal Provinces.

45 UZAREDI has two different roots: one is the KAF facilitated town partnership between Livingstone (Zambia) and Victoria Falls (Zimbabwe), the other an initiative by the Development Bank of Southern Africa (DBSA) to facilitate a nature conservation area along the upper Zambezi. The SADC-project of the KAF was instrumental in combining both initiatives into UZAREDI through a number of stakeholder meetings.

46 The local authorities are: Kasane (Botswana), Katima Mulilo (Namibia), Livingstone and Sesheke (Zambia) and Victoria Falls (Zimbabwe).

47 De Beer, et. al. (1998)

- **Harmonization of standards:** The objectives of this project are to design and implement a standard grading and classification system for hotels, other accommodation establishments and ground operators and to achieve harmonization of service standards throughout the region.
- **Model Tourism Legislation:** The objective is to develop model legislation on tourism within SADC, which would be used to help member states align their national tourism legislations to that of SADC.
- **A Regional Website:** The goal is to establish, disseminate and maintain relevant information with particular emphasis on tourism development policy of SADC member states.
- **A Common Tourism Signage Policy:** The main aim is to help tourists by developing effective signs guiding them to various facilities and services.

II.5 FOOD, AGRICULTURE AND NATURAL RESOURCES (FANR)

II.5.1 Background

Over the years, the agricultural sector has remained a cornerstone of economic activity in the sub-region. In 2000, it accounted for more than 11% of SADC's aggregate GDP. Its share of GDP varied from 3% (Botswana, Seychelles and SA) to more than 30% (DRC, Tanzania, Malawi and Mozambique). Agriculture's contribution to the region's employment is estimated at 70-80%, while it is a major source of foreign earnings for most SADC Member States. Although the agricultural sector's share in GDP varies widely among countries in the sub-region, due to its linkages with the manufacturing and other economic sector and with large portions of the population based in rural areas (often dependent on subsistence or small-scale farming), variations in agricultural performance, in general, has a significant impact on overall growth, macroeconomic stability (particularly through food prices) and poverty.

According to SADC sources, of the gross available land base in the sub-region, about 5% is under crops, 41% is rangeland, 33% is forest and woodland, and 21% is classified as unsuitable for agricultural use. Potential for the extension of the arable area is significant in Angola, the DRC, Mozambique, Tanzania and Zambia. SADC has thus considerable unexploited natural resources available for agricultural production. Furthermore, irrigation development is limited and uneven in the sub-region: of the total 2 million irrigated hectares, 1.2 million or 60% is in SA due to either high costs of shortage of water. Agricultural systems throughout the SADC countries are characterized by dualism with commercial agriculture on relatively large holdings alongside traditional subsistence farming on fragile ecosystems. The market is thus highly differentiated into an array of production and marketing modalities, from the local informal to the highly sophisticated formal large-scale export markets competing in the global marketplace. These different sectors each play

Table 2.9: Agricultural Sector Contribution to GDP, 1990-2000

	1990	1995	1998	1999	2000
Angola	17.9	7.7	13.0	6.4	5.8
Botswana	4.7	4.1	3.4	3.0	2.6
DRC	56.0	56.8	46.5	53.8	53.0
Lesotho	23.8	17.8	17.8	17.3	16.9
Malawi	39.8	30.8	37.4	38.9	38.0
Mauritius	12.1	9.7	7.6	5.4	6.4
Mozambique	28.0	29.0	31.2	30.4	30.0
Namibia	9.4	8.8	4.8	5.1	5.3
Seychelles	4.8	4.2	3.0	3.2	3.0
South Africa	5.3	3.9	3.3	3.1	2.9
Swaziland	11.2	12.4	11.6	11.6	10.4
Tanzania	47.2	43.6	41.2	41.9	41.6
Zambia	16.0	7.1	6.1	6.8	5.6
Zimbabwe	14.8	13.5	18.1	17.0	17.0
SADC	12.3	8.8	9.4	9.2	11.3

Source: SADC. FANR, Annual Report, July 2000-June 2001.

distinctive roles in SADC's economic growth performance, on the one hand, and fulfill a particular function in the redistribution of income and wealth and employment creation, on the other. The agricultural production systems in the region are generally undiversified, with the respective national economies being heavily dependent on a few primary commodities. With fairly similar climatic and agro-ecological conditions, region-wide agricultural production patterns, especially for the major staple cereal maize, tend to fluctuate in tandem, which, among others, also limit the scope for regional agricultural trade.

Food insecurity is compounded by exogenous factors. The sub-region is particularly vulnerable to vicissitudes of the weather, as illustrated by recent severe droughts in 1992 and 2001/2002 and floods in 2000, adversely affecting the entire regional economy as well as the large portion of the population dependent on the agricultural sector. Indeed, the 2000 floods in the region had a particular disastrous impact on crop output and also led to a human disaster in three SADC countries, namely Mozambique, Zimbabwe, and Botswana.[48] Furthermore, SADC has acknowledged that a number of other environmental and agricultural factors contribute to drought and famine in the sub-region: a combination of unequal distribution of land, poor farming methods and unfavorable land tenure and ownership have led to declines in productivity of grazing land, falling crops and diminishing returns from water supplied. Thus, closely related to exogenous shocks influencing the productivity of the agricultural sector and circumstances in rural areas, is the significant development challenge posed by land reforms, which stems from land distribution and ownership patterns and land administration. The nature and degree of land problems vary in each member depending on political, cultural, geographical and historical considerations. Recently, the SADC Member States have acknowledged that unresolved land issues could disrupt the regional economic and political situation. They have thus added this issue to the

Table 2.10 Land Tenure in Selected Southern African Countries (approximate % of national territory)

Country	Private/ Freehold/ Lease hold	Communal/ tribal/ customary	Conservation/ minerals/ water catchment reserves and other state land
SA	72	14	14
Namibia	44	43	13
Zimbabwe	41[1]	42	16
Botswana	5	70	25
Swaziland	40	60[2]	-
Lesotho		95[3]	5

Source: **Adams M., 2002.** *Tenure Security, Livelihoods and Sustainable Land Use in Southern Africa.* Paper presented at a SARPN Conference, 4-5 June 2002

Note: 1) includes small-scale farm leases and resettlement up to 1999
2) includes Swazi Nation Land (SNL) held under customary tenure and SNL land leased to companies by the Monarch
3) includes leases in urban areas (all land in Lesotho is vested in the Monarch in trust for the nation)

Overall, the SADC region is characterized by a food deficit situation as illustrated by the combined all-cereals deficit of 499,000 tons for marketing year 2000/2001. Furthermore, household food security in SADC is of major concern. The per capita consumption of staples (cereals and cassava) was only 36, 60, and 71kg annually for Angola, Mozambique, and Tanzania, respectively, compared with 191 and 181kg for Botswana and Lesotho in the late 1990s. This is irrefutable evidence that many households in the poorer SADC countries suffer dire food stress levels. Food security is not only a production issue, but primarily a poverty issue that could probably be more effectively addressed through expansion in household income and economic growth. For example, both Botswana and Lesotho are deficit producers and reliant on commercial food imports yet have higher per capita consumption rates.

48 It has been estimated that nearly 700 people lost their lives in Mozambique, over 70 people in Zimbabwe and 13 people in Botswana.

regional agenda by the proposal to design a regional framework for addressing the land issue and to seek coordinated land reform approaches among the countries in the sub-region.

SADC has started with cooperation in the agricultural sector more than 20 years ago. Indeed, together with the infrastructural sectors, cooperation in the food and agricultural sector dates back to the inception of SADCC in 1980. Against this background, SADC has developed a multidimensional regional strategy aiming at ensuring food security, agricultural and natural resources development in the region so as to meet the growing demand for food, fostering efficient development, utilization and conservation of natural resources, improving the capacity of the agricultural and natural resource sector to transform the national economies and thereby to raise living standards in a sustainable way in the sub-region. Over the years, this sector has seen considerable expansion in activities and today it is accounting for more than 50% of the SPA. It has also seen different institutional configurations. Today, the FANR cluster of sectors include those on food security, agricultural research and training, crops, environment and land management, livestock production and animal disease control, marine and inland fisheries, forestry and wildlife. Prior to its recent centralization in 2001/2002, each of the FANR sub-sectors was coordinated through units hosted by different member states. In spite of the existence of a FANR Sector Development Unit, planning for the FANR cluster of sectors has remained dispersed thus militating against the development and implementation of an integrated and common vision for agricultural development, growth and competitiveness, food security and other objectives. Moreover, the lack of coordination with other sectors such as those in infrastructure, finance, investment and trade has left the implementation of whatever integrated regional food, agricultural and natural resource strategy rather ineffective and partial.[49]

The movement toward a market-based economy in the region, agricultural policy and trade harmonization, and involvement of the private sector in agro-business can be seen as major factors enhancing the agricultural sector's competitiveness. On the other hand, low levels of development of SADC economies in terms of hard infrastructure (transport and communication), soft infrastructure (skills, institutional and technological development) and access to financing and financial services e.g. for production, trade and insurance are among the factors that work against improved competitiveness of the food, agriculture and natural resource sectors. For example, due to high transport costs in SADC, producer price recovery, that is, farmers' shares of the commodity price, is low compared to other developing regions such as Asia and the developed world. In terms of intra-regional trade the cost of transport also machinates against cross-border trade. High transport costs are reflected in the wide differential in prices paid by consumers and those received by primary producers. The absolute margin in Africa is 55% compared to 20% for Asia. Of this margin transport and residual transaction cost make up 38.5% and 23.1% respectively. Moreover, SADC's rural telecommunication system is extremely weak making access to market information and trade opportunities imperfect or non-existent. The lack of electricity distribution services in rural and other agricultural areas, which limits irrigation, crop processing, and mechanization options, is a deterrent to labor productivity. Another factor of importance for agricultural market development is the removal of intra-regional trade barriers – both tariff and non-tariff – and the vexing question of global agricultural trade barriers.

II.5.2 Regional Strategy, Policy Objectives and Institutional Arrangements

No protocol exists for the food security, crop, livestock production and animal disease control and agricultural research and training. Although a protocol development process has been initiated for the food security sub-sector, a collective protocol development process for

[49] The SADC Food Security and Rural Development HUB has been created to focus on rural strategy and policy, capacity building, information generation and exchange, trade policy, regional integration, policy analysis, and could go some way in dealing with these problems over the medium to longer term.

these various sub-sectors is called for due to the strong linkages between them.

With the view to address constraints to agriculture development and food insecurity, SADC has developed an integrated policy and strategy. The strategy relies on a broader approach of food security that goes beyond agriculture and food production. Its ultimate objective is to eliminate poverty and economic vulnerability. The main policy objectives are the following:

(i) increasing agriculture production and productivity so as to ensure food security;
(ii) ensuring the effective management and conservation of natural resources;
(iii) generating domestic savings and foreign exchange to finance a transformation of the region's agriculture-dependent economies;
(iv) improving the living conditions of rural populations in SADC's member countries.

With the purpose of addressing the growing food insecurity problem, in August 1999, SADC decided to transform the Food Security Unit into a Sector Development Unit (FANRSDU), which has responsibilities in the areas of providing policy direction, ensuring information flows, monitoring and evaluation and of ensuring that programs within the five FANR sectors and two institutions, the Plant Genetic Resources Unit and the Regional Early Warning Unit, all which have been based in different countries, are not duplicated.

The FANRSDU is responsible for the following functions:

- Creating the capacity for policy analysis;
- Policy, development and harmonization and program planning, management and coordination;
- Service FANR meetings;
- Monitor and evaluate sector programs;
- Institutional capacity building and human resource development; and
- Continuing the implementation of the existing food security program.

As food security becomes a policy objective that cuts across many sectors, the FANRDU has the duty to maintain the existing strategic alliances with the other sectors. It also cooperates closely with the following sectors:

(i) The Water Sector in the area of green water;
(ii) Environment and Land Management Sector (ELMS) in the area of land use planning;
(iii) Transport Commission to facilitate the mobilization of investment to support agricultural production;
(iv) The Human Resources Development Sector in the area of training;
(v) The Trade Sector in providing input for the improvement of trade in agricultural products.

II.5.3 Food Security Program

The objectives and strategies for food security are set out in the FANR Food Security Strategy Framework of 1997. The food security program comprises a number of programs and projects:

- *Regional FANR Coordination and Cooperation Program:* This program provides technical and financial support so as to facilitate cooperation within SADC on all food security, agricultural development, and natural resources development issues. The main functions are developing sectoral policy and strategies and coordinating the activities of the overall cluster of FANR sectors.
- *Regional Information System for Food Security:* This program aims at generating and exchanging information between SADC Member States in various aspects of food security, including policies and data. Specifically, the project aims at collecting data on the agricultural resource base of the region; disseminating results of the data collected; developing crop suitability model; promoting capacity building in agricultural resource management; and promoting coherent agricultural production and trade policy planning and infrastructure support.

- *Food Policy Analysis and Research:* The main objective of this program is to provide and enhance capacity at a regional level so as to coordinate food policy in SADC region.
- *Regional Drought Mitigation Program:* Most Southern African countries have experienced at least one drought in the past ten years. Accordingly, it was decided that a regional approach would be required to mitigate the damaging effects of drought on all areas of activity in the region and thus to establish the Drought Mitigation Program.
- *The Regional Early Warning System:* This program aims at improving food security through provision of advance information on the food and nutrition situation to facilitate national and regional policy and decisions for dealing with food shortages, surpluses and problems. This program also provides technical support in the collection, dissemination and usage of information.
- *Regional Program for Communication and Development:* The main objective of this program is to promote the use of communication for development, identify and implement appropriate policies for economic development, poverty alleviation and improvements in living standards within the region.
- *Food Security and Rural Development Hub:* This is a regional resource facility, which serves as catalyst for rural development within SADC through capacity building and resource mobilization at local and regional level. The main activities include: (i) Assisting national governments in rural development and agricultural strategy formulation, policy analysis and research, program preparation, implementation, monitoring and evaluation; (ii) Supporting regional policy analysis network in food, agriculture and natural resources and promote regional integration in trade, investment, phytosanitary regulations and programs; and (iii) Supporting national and regional capacity building through training and fellowship programs.
- *Regional Food, Agriculture and Natural Resources Policy Analysis Network (PAN):* The objective of this network is to provide a link between universities in SADC and in other parts of the world, and between researchers and policy-makers. The network could become a conduit for funds to support policy research into food security and wider economic issues facing the region.
- *Regional Food Security Training Program:* The program aims to enhance policy development, management and implementation.
- *Local Indigenous Knowledge Systems (Links):* This program was launched in 1998 and is active in a number of countries, including Swaziland, Tanzania, Mozambique and Zimbabwe. It aims to raise awareness on the rural populations' use and management of bio-diversity and to acknowledge indigenous farmer knowledge, practices and skills, which are natural ecosystem friendly.

The food security program is also supported by a *Vulnerability Assessment Committee*, which serves as a regional watchdog on vulnerability assessment issues, including methodologies and coordination, in the sub-region. This committee comprises members from FANRDU, its sub-sectors and international organizations such as FAO and the World Food Program (WFP).

Four projects namely, SADC Food Security and Rural Development HUB, Regional Food Security Training, Agricultural Potential Information System and Technical Assistance Program account for nearly two-thirds of the funding of projects in this sector, with SADC Food Security and Rural Development HUB accounting for more than 25% of the total funding.

II.5.4 Agricultural Research and Training

In recognition of the importance of agriculture research and training to food security, trade and industrial development, SADC has prioritized this sub-sector with the view to strengthen National Agricultural Research Systems (NARS) in Member States. The main functions of this sub-sector is to provide SADC countries with the capacity to plan, implement, manage, monitor and evaluate research and training activities to improve productivity in agriculture sector. The Southern African Centre for Cooperation in Agriculture Research and Training (SACCAR) aimed to coordinate the regional policy in this regard. It has been responsible also for developing managerial, projects such as the sorghum and millet improvement project, maize and wheat improvement project, grain legume improvement project, agro-forestry research project, regional vegetable research project, and the animal agriculture research network.

Table 2.11: Regional Collaborative Networks Coordinated by SACCAR

Sub-regional collaborative networks	Executing agency	Coordination site	Date of creation	Status of the program
Agro-forestry Research Program	ICRAF	Zimbabwe	1988	Ongoing. CIDA grant
SADC Animal Agriculture Research Network (S-AARNET),	ILRI	Kenya	1998	Non active
Southern African bean research network (SABRN),	ICRISAT	Malawi	1986	Ongoing, AFDB-CIAT grant
Biosystematics Network for Southern Africa (SAFRINET),	ARC (South Africa)	Pretoria	1996	Ongoing, Bio net International
Groundnut and Legume Improvement Program (GLIP),	ICRISAT	Malawi	1986	Ongoing, GTZ
SADC Land & Water Management Training and Research Program (L&WMRP),	SRCU	Botswana	1987	Under negotiation for a second phase, EU
Maize and Wheat Improvement Network (MWIRNET),	CIMMYT	Zimbabwe	1994	Under negotiation for a second phase, EU
Southern African Root Crops Research Network (SARRNET),	IITA	Malawi	1994	On going USAID
Sorghum and Millet Improvement Program (SMIP),	ICRISAT	Malawi	1984	Ongoing USAID
Regional Collaborative Network for Vegetable Research and Development in the Southern African Region. (CONVERDS)	AVRDC	Tanzania	1991	Ongoing, Internal Funds
The SADC Plant Genetic Resources Centre (SPGRC)	SADC NARS, Nordic Gene Bank	Zambia		Ongoing, Nordic Countries

professional and technical skills, introducing modern agricultural production technologies, and providing mechanisms for information exchange within the region.

The regional programs currently being implemented in the sub-region are called research networks, which go beyond the simple promotion of information exchanges or added value of research activities of different partners. They are based on groups of NARS scientists addressing issues of common concern, with co-operation mechanisms between the partners to implement research activities with regional programming and coordination. SACCAR has developed and are coordinating a number of

II.5.5 Crops

The Crop sub-sector's mandate is to promote production and productivity of crops by focusing on crop development policies, crop protection, trade in crops, processing and utilization of crops as a means to food security and promoting trade and economic development in the region. In this sector, regional cooperation thus focuses on the following areas:

- Harmonization of sanitary and phytosanitary standards;
- Controlling the spread of migratory pests and diseases;
- Harmonization of pesticide registration procedures and regulations;

- Harmonization of seed laws to promote trade on seed and planting material; and
- Promotion of horticultural production and marketing.

The Crop Program consists of 14 projects, not all, which are necessarily of a regional nature, amounting to an estimated US$24.9 million but of which only a quarter has been funded (see Attachment 3).

II.5.6 Livestock Production and Animal Disease Control

The livestock industry accounts for a large share of employment, capital and agricultural inputs in SADC region. While the sub-region is endowed with millions of cattle, sheep, goats, pigs and poultry, it still remains a net importer of livestock and livestock products.

SADC has developed a regional strategy that aims to enhance livestock production and improve control of animal disease. In this regard, an institutional framework has been developed with the establishment of four livestock sector sub-committees in the following areas: epidemiology and information; veterinary laboratory diagnostics; and veld, animal production and marketing. Moreover, the SADC livestock sub-sector has developed the following projects:

(i) *Livestock Feed Resources:* This project aims at documenting current use patterns, location and available quantities of feed resources.

(ii) *Indigenous Chickens:* The project intends to develop appropriate extension packages for poultry production in rural areas.

(iii) *Development of Multipurpose Goats:* The objective is to develop goat goods such as meat, milk, skin and fiber.

(iv) *Livestock Marketing:* The overall aim of the project is to bring about sustainable livestock development through improved marketing of livestock and livestock products within the region.

(v) *Control of Parasites:* The objective is to improve small ruminant productivity in the traditional sector through improved management and effective control of parasites.

II.5.7 Fisheries

According to SADC sources, the sub-region has potential to harvest 3,5 million tonnes per annum of which about 71% is from marine waters. The SADC coastline stretches to nearly 10,000 km^2 with five Member States (Angola, Namibia, Mozambique, SA and Tanzania) bordering the ocean. About 1.5 million people are employed in the fisheries sector and at least 5.5 million people are dependant on the sector.

A Fisheries Protocol was signed in August 2001, but has not entered into force. It aims at promoting responsible and sustainable use of the living aquatic resources and ecosystems and to drive the policies and strategies for fisheries development in the region. Its objectives are to:

- Promote and enhance food security and human health;
- Safeguard the livelihood of fishing communities;
- Generate economic opportunities for nationals in the Region;
- Ensure that future generations benefit from these renewable resources; and
- Alleviate poverty with the ultimate objective of its eradication.

II.5.7.1 Marine Fisheries and Resources

This sub-sector is an important source of employment and foreign currency income for SADC. The regional policy aims at:

(i) raising production an improving processing methods;

(ii) undertaking marine research;

(iii) protecting and enhancing marine and coastal environments;

(iv) providing training and assistance to promote profitability in operations;

(v) maximizing foreign exchange value of fish exports; and

(vi) strengthening and developing small-scale and artisanal fisheries.

The regional strategy focuses on the following activities: establishment of a regional research network; promotion of common approaches to entering into fishing agreements; facilitation of the adoption of a common import and export strategies; promotion of intra-regional trade in fish products; and enhancement of labor-intensive and value-adding technologies and industries; and development of mariculture.

The regional program comprises six projects:

- *Regional Fisheries Information Systems:* It aims at improving sustainable utilization of SADC's fisheries resources to contribute to the national economies and development objectives of coastal communities.
- *Assessment of Marine Fisheries Resources:* This project aims at developing enhanced scientific capability for the best use of marine living resources.
- *Marine Fisheries Training:* The goal of this project is to uplift the socio-economic conditions of fisheries communities in SADC member States.
- *Monitoring, Control and Surveillance of Fishing Activities:* The main objective is to improve management of fisheries resources.
- *Harmonization of Marine Fisheries Policy within SADC Coastal Countries:* The project aims to identify and analyze priority marine policy issues at the regional level. The purpose is to develop a medium term strategy to support SADC's process of harmonization of marine fisheries policy.
- *Benguela Current Large Marine Ecosystem Project:* The objective is to integrate the management of the Benguela current ecosystem.

II.5.7.2 Inland Fisheries

The SADC region is endowed with abundant inland fisheries resources. This sub-sector is an important source of employment, food security and food diversity in SADC region, in particular, in rural areas[50]. Inland fisheries coordination comprises four sections with specific objectives. These include:

- *Information Section:* Its main objective is to coordinate the management of fisheries information, in particular, to facilitate the flow of information within and between the member States.
- *Training Section:* Its objective is the development of the human resources base in the region.
- *Research and Development Section-Capture Fisheries*: This section aims at coordinating research programs on shared fish resources to generate information on improved knowledge of the resource base; implementing efficient fish resources utilization, improved resource management and effective control mechanisms.
- *Research and Development Section-Aquaculture*: The sector aims to identify which indigenous species are the best candidates.

The sub-sector has a number of projects, including the following:

- *Regional Fisheries Information Program:* It aims at establishing an effective and sustainable information exchange network in the SADC Inland Fisheries Sector. Phase I of this project, which includes, among other things, the training of IFSTCU staff and provision of computer hardware and software for the Unit, has been completed, with financial and technical support from the Icelandic International Development Agency (ICEIDA).
- *Aquaculture for Local Communities Development (ALCOM):* This main objective of the project is to establish improved management and use of available aquatic resources for food security. The program is active at the local community level through pilot projects in Malawi, Tanzania, Zambia and Zimbabwe.
- *SADC/GEF Lake Malawi/Nyasa Biodiversity Conservation:* The project aims to assist the three riparian States, Malawi, Mozambique and Tanzania, in creating the scientific, educational and policy basis for conserving the biological diversity of the Lake and its ecosystem.

[50] It is estimated that the Inland Fisheries Sector (IFS) provides close to one million jobs.

- *Zambia/Zimbabwe Fisheries Project on Lake Kariba:* The main objective is to set up a system of joint fisheries research and management in order to facilitate the utilization of the shared fisheries resources on Lake Kariba. The project started in 1989. It is currently in its consolidation phase that will focus on setting up and implementing a mechanism for joint fisheries research and management of the Lake Kariba fisheries resources.

II.5.8 Forestry

The total forest area of the region is 3.97million km^2. The region is endowed thus seemingly endowed with a huge potential in forestry. However, forest degradation and desertification are key constraints to the region's forest resources.

SADC Member States have not signed a protocol on forestry cooperation yet, but the protocol development process is in an advance stage. According to the draft protocol, it would aim at promoting the development, conservation, sustainable management and utilization of all types of forests and trees and the trade in forest products throughout the Region in order to alleviate poverty, generate economic opportunities for the peoples of the Region, achieve effective protection of the environment, and safeguard the interests of both the present and future generations. Its objectives for Member States are to:

- assist and support each other to address issues of common concern including deforestation, genetic erosion, climate change, forest fires, pests, diseases, invasive alien species, and law enforcement in a manner that makes the best use of the technical, financial and other resources in the Region;
- co-operate in the sustainable management of shared forests, taking account of other protocols to the Treaty;
- facilitate the gathering and monitoring of information and the sharing and dissemination of information, expertise and technology concerning forests, forestry and forest industries, throughout the Region;
- develop human resources in the forest sector through establishing regional facilities for building technical capacity and other means;
- promote trade and investment based on the sustainable management and utilization of forests, including developing and agreeing on common standards for sustainable forest management and forest products;
- harmonize approaches to sustainable forest management, forest policy, legislation and enforcement, and issues of international concern;
- respect the rights of communities and facilitating their participation in forest policy development, planning, and management with particular attention to the need to protect traditional forest-related knowledge and to develop adequate mechanisms to ensure the equitable sharing of benefits derived from forest resources and traditional forest-related knowledge without prejudice to property rights; and
- promote the intangible, cultural and spiritual values of forests;
- establish equitable and efficient ways of facilitating public access to forests especially by neighboring communities.
- establish appropriate institutions and funding mechanisms to support the implementation of this Forestry Protocol; and
- take other appropriate measures to give effect to this Protocol.

Currently, the sub-region cooperates in the forestry sector on the basis of the revised Forestry Policy and Development Strategy of 1997. Development projects have been set up within six regional forestry programs: forestry training and education, improved forest resources management, environmental management, improved knowledge of the resource base, forest resource utilization and marketing, forestry research. The following are, among others, some of the forestry projects.

- *Improvement and Strengthening of Forestry Colleges in the SADC Region-Phase III*. This project aims at strengthening and improving technical forestry education and training programs and institutions in the

SADC region. The project has regional and national components. At the regional level, the main objectives consist of developing curriculum, extending training, developing college management, forestry education and training. At the national level, the aim is to strengthen technical forestry/agriculture colleges through bilateral agreements to be implemented under the overall SADC project agreement. The third phase of this project (1997-2001) started in July 1997 and is funded mainly by the Government of Finland that has provided US$5.2 million.

- *Management of Indigenous Forests*. The project aims at instituting sound forest management practices for the indigenous forest of the SADC region; compiling and disseminating lessons/experiences on pilot activities on the management of indigenous forest resources in SADC; and developing multiple land use plans.
- *Regional Forest Inventory*. The objectives of the project are: (i) to undertake an extensive forest inventory of the SADC region; (ii) to assist member States in developing appropriate national forest management inventories; (iii) to establish a network for the exchange of forest inventory information and expertise among member States.
- *Tree Seed Centers Network*. The objectives of the project are among others: (i) to support and strengthen SADC member States in the gathering of information on tree seeds in the SADC region; (ii) to establish a network for the exchange of information and tree seeds among SADC member States; (iii) to develop a follow-up project. The Canadian government has agreed to extend the funding for the extension of the project.
- *Southern African Biodiversity Support Program*. The project aims at improving the availability and accessibility of biodiversity information and its application in conservation planning and management. The Global Environmental Facility (GEF) has secured the core funding of the project, US$4.5 million. World Bank, USAID, CIDA, GTZ, NORAD and Ford Foundation has co-financed US$2.79 million.
- *Establishment of a Plant Resources Network in the SADC Region*. The project aims at contributing to the Rio Convention on Biodiversity; developing strategies for biodiversity conservation; and facilitating sustainable utilization of economically useful plant resources in the SADC region. The Government of Italy has secured funding for the implementation of the project in 11 member States.
- *SADC Timber Association*. The project aims at establishing the SADC timber Association in which the private forestry sector individuals and institutions will play a leading role in the development of the region's forest industry.
- *Strengthening of Forestry and Forest Products Research Institutions in the SADC Region*. The objective of this project is to develop an institutional framework for effective management and use of research capabilities in forestry and forest projects.
- *Development of a Forestry Information Management Network in the SADC Region*. The objective of the project is to strengthen capabilities of SADC member States in data collection and management and develop a computer-based information exchange in the Forestry Sector.

II.5.9 Wildlife

The SADC region is endowed with wildlife rich areas and lands where many elephants, predators and a plethora of birds, freshwater fish species, diversity of mammals and endemic plants thrive. For example, nearly 40% of African elephants reside in the SADC region.

SADC has developed a regional cooperation program aimed at promoting the wildlife sector through sustainable utilization of wildlife resources. An institutional framework has been set up with the creation of the Wildlife Sector Coordinating Unit (WSCU). The Protocol on Wildlife Conservation and Law Enforcement was signed in August 1999, but has not entered into force. It seeks to establish common approaches to the conservation and sustainable use of wildlife resources in the SADC region. It emphasizes the principle of conservation and sustainable use of transboundary wildlife resources and advocates transfrontier conservation areas. The Protocol also acknowledges other regional agreements e.g. on co-operative enforcement operations directed at illegal trade in wildlife Fauna and Flora. An implementation plan for the Protocol has been drafted but not adopted yet. A program comprising a number of projects has been developed with the view to exploit the potential of the wildlife sector. These are the following:

- *Regional Wildlife Training Program*. The objective of this project is to improve the returns from the SADC region's natural resource base by upgrading the professional competence of its wildlife management agencies.
- *Regional Development of Community Based Management and Utilization of Wildlife Resources*. The project aims at developing community based management and utilization of wildlife resources and their productivity.
- *SADC Regional Rhino Conservation Program*. The main goal of the project is to contribute to the long-term conservation of the region's biodiversity by targeting two key species - the Black Rhino and the White Rhino.
- *Wetlands Conservation Program*. The project aims at: (i) promoting awareness of the role of the wetlands amongst policy-makers, resource planners and resource managers; (ii) to train personnel in wetlands planning and management and protection; and (iii) to provide national governments with the resources to undertake inventories of wetlands.

II.5.10 Land and Environment

The focus of the SADC Environment and Land Management Sector (SADC-ELMS), originally established in 1985, was on land utilization and soil conservation. In the beginning of the 1990s, water resources and environmental management were added to its mandate, thereby shifting the focus from soil and water conservation to sustainable land management, environment and natural resource management. In 1999, the SADC Ministers of Environment directed SADC-ELMS and the SADC Secretariat to begin the process of developing the Protocol on Environment.

The SADC Protocol on Environment will be an overarching legal framework committing SADC Member States to co-operation on all issues and priorities relating to environment and natural resources. It will bind Member States on key environmental and natural resource management priorities namely: (i) land degradation and desertification control; (ii) pollution and waste management; (iii) water resource management; (iii) climate change; (iv) biodiversity; and (v) agriculture.

The vision of the ELMS is the achievement of sustainable utilization of natural resources and effective protection of the environment in order to improve the livelihoods of present and future generations in the SADC region and the mission is to promote environmental sustainability by developing and implementing appropriate policies, strategies, programs and protocols for environment and natural resources management in the region; development of capacities of local communities and decision-makers and building partnerships for resource mobilization for implementing the SADC environment and sustainable development agenda.

The SADC Policy and Strategy for Environment and Sustainable Development provides overall policy guidance for management of environment and natural resources for sustainable development and identifies five strategic categories for action:

- Assessing environmental conditions, trends and progress made and needed for sustainable development;
- Reducing significant threats to human health, ecosystems and future development;
- Breaking away from unsustainable to sustainable development for the benefit of present and future generations;
- Managing shared natural resources on an equitable and sustainable basis; and
- Accelerating regional integration and capacity building for sustainable development.

The Environment Sector has developed various policy frameworks for outlining commitment by SADC Member States to co-operate and harmonize their activities on the following:

- Environmental Information Systems Data Policy Framework
- Natural Resources Management Policy
- SADC Environmental Education Policy
- SADC - ELMS Gender Strategy

The SADC-ELMS Program of Action, influenced by concerns regarding food security and poverty, places a strong emphasis on land management. Furthermore, it includes issues related to climate change, waste management and pollution control. More specifically, it includes the following broad programs

- *Land Management Program:* aimed at the development and spread of sustainable land management systems based on partnerships between governments, NGOs, the private sector and rural communities and land users, for the application of production oriented conservation and management of the region's land resources and to combat land degradation and eradicate poverty.
- *Capacity Building and Methodology:* for integrating conservation into farming systems (ICFS); land husbandry; integrated land use planning (ILUP); economics of sustainable development; and innovative rural action learning areas (IRALAS)
- *Land Degradation and Desertification Control Program:* aimed at combating land degradation and mitigate the effects of drought in the SADC region, leading to improved living conditions in particular at the local community level; and initiating a process for coordinating of SADC regional activities in this area and supporting implementation of National Action Programs under UNCCD.
- *Partnership and Capacity Building for Resource Mobilization for UNCCD Implementation in Southern Africa:* a Sub-regional Support Facility for Southern Africa (SSFSA) has been established to support SADC Member States' action program implementation and enabling activities for the implementation of the SADC regional action program under UNCCD.
- *Environment Management Program:* aimed at (a) monitoring, assessing and reporting on environmental conditions and changes in the region; (b) raising the level of environmental awareness and environmental education and to build national capacities in this regard; and (c) developing and implementing harmonized environmental policies, strategies, regional guidelines and standards.
- *Environmental Information Systems (EIS) Program:* to create awareness and understanding and capacity building for collection, management and exchange of information/data for the sustainable management of environment and natural resources. A SADC EIS Data Policy Framework was developed recently.
- *SADC EIS Technical Unit (SETU):* aimed at collection, management and exchange of data/information on environment and natural resources.
- *SADC EIS Training and Education Sub-Program (SETES):* aimed at strengthening capacity in environmental information systems in SADC member states. The University of Botswana, Department of Environmental Science, is hosting SETES, with a number of other countries and universities also being involved.
- *Environmental Education (EE) Program*: aimed at enabling environmental education practitioners in the SADC region to strengthen the environmental education process through enhanced and strengthened environmental education policy, networking, resource material and training capacity.
- *Environmental Monitoring Program*: aimed at assessing and reporting regularly on environmental conditions and trends in the SADC region. For this purpose it has been designing an indicator framework and has contributed towards the Africa Environment Outlook in 1994 and currently to a revised version. It is also developing Environment Monitoring Instruments aimed at updating and harmonizing existing guidelines already developed by SADC-ELMS to those of international environmental conventions.

The program is also establishing a database on environmental standards / guidelines / quality control issue to be disseminated to Member States.

- *Environmental Impact Assessment (EIA) Program:* aimed at promoting sustainable utilization of the regions natural resources and effective protection of the environment by improving capacities and competence in EIA nationally and regionally.
- *Brown Environment Management Program*: aimed at (a) strengthening the analytical, decision-making, legal, institutional and technological capacities for achieving sustainable development in the sub-region; (b) increasing public information, education and participation on environment and development issues in Southern Africa; and expanding regional integration and global co-operation on environmental and natural resources management for sustainable development. For implementation of the program, institutional structures and linkages with existing relevant institutions have been established and the program has seen some action in the areas of pollution and waste management; and compliance with the United Nations Framework Convention on Climate Change, specifically the management of chlorofluorocarbons (CFCs) and on intra-regional transboundary air pollution management

II.6 SOCIAL AND HUMAN DEVELOPMENT

It is noted by SADC (1997)[51] *'…that the most binding constraint to development of the region is inadequate professionally and technically qualified and experienced personnel to plan and manage the development process effectively'*. In this context, it calls for a 'holistic' approach to human resource development, which is defined as: *'…encompassing all efforts and activities intended to make people productive and that goes beyond the narrow focus on education and training and skills development to encompass their interrelated aspects: education, training and skills development; employment, entrepreneurship, labor and productivity; social welfare, health and shelter."*

In the southern Africa region, cooperation initiatives exist in areas such as education and training, employment and labor, health, HIV/AIDS and mainstreaming of gender.

II.6.1 Education and Training (see Attachment 3)

As far as education and training is concerned, the challenges faced in the sub-region are largely common to all countries and dissimilar only in degree. In principle and policy, all countries in the sub-region emphasize access, equity, quality, efficiency, relevance and democracy in their educational and training policies. Although the share of education and training spending in budgetary allocations has increased during the 1990s, in about half of the countries education and training absorbs about 20% of their national budgets, all countries are facing resource constraints. In practice, resources are allocated largely towards basic education - primary, junior secondary schooling and non-formal basic education - with limited (remaining) resources being thinly spread across higher education, teacher education, technical and vocational education, adult education and curriculum development. In most countries universal access to primary & secondary education, and in Mozambique and Malawi even for basic education only, would require large additional resources for the expansion of infrastructure and instruction/learner material, in primary and secondary schools and for teachers training.

The quality of education in the region is hampered by a number of factors such as the

[51] **SADC, 1997.** *Discussion Paper on a Regional HRD Strategy and Strategic Policy Framework for SADC*. Mbabane: SADC HRD Sector Coordinating Unit, Mimeo; **SADC, 1997**. *Employment and Labour Sector*: Progress Report 1996/1997. Lusaka, Mimeo; **SADC, 1997**. *Employment and Labour, Report*. Maputo, Mimeo; **SADC, 1997**. *Gender and Development: A Declaration by Heads of Government of the Southern African Development Community*. Gabarone, Mimeo; **SADC, 1997**. *Record of Council of Ministers Held in Blantyre*. Gaborone, Mimeo; **SADC, 1997**. *Record of the Meeting of Ministers and Social Partners of the Employment and Labour Sector*. Pretoria, Mimeo.

high pupil/teacher ratios, high pupil/classroom ratios, un- or under-qualified teachers, inadequate textbooks and instructional materials. These factors, coupled with declining teacher salaries (in real terms) render teacher motivation, professional development and management areas of concern. At the tertiary level, under-funding, low pay and staff departures are seen to be undermining delivery.

Education, particularly tertiary education and training, is still not regarded as being in support of the needs of the economy, having an unduly emphasis on formal training. However, recently most countries have attempted to address this problem by vocationalizing education and broadening the non-formal education curricula to providing education for industry and education for self-employment or enterprise education.

In general, these and other factors make for a weak link between educational spending and outcomes in terms of quantity, quality and relevance of education and training in relation to labor markets and trends in the real economy as determined by trade and capital movements in the region.

SADC countries have thus embarked on a series of national and regional initiatives to address the issue of education and specifically higher education and training. One of these is the development of the SADC Protocol on Education and Training tabled for signature on September 8, 1997. The Protocol entered into force in July 2000. As of February 2001, all Member States except Angola, the DRC, Mozambique, the Seychelles and Zambia have ratified the Protocol. The objective of the Protocol is '*to progressively move towards equivalence, harmonization and standardization of the education systems in SADC to reinforce community building and regional identity*'[52]. The Protocol has defined a number of areas of cooperation, reflecting its detailed objectives. Commendable progress has been made in the various areas of regional cooperation since the establishment of the Sector. These areas (see Attachment 3 for a more detailed list of regional initiatives/projects in the area of education and training) include the following:

- *Regional Cooperation in policy for education and training:* In this area, a major development is the development of the project to improve regional capacity in education policy formulation, planning and management.
- *Regional cooperation in basic education:* The Technical Committee on Basic Education was established in March 2000. Its main objective is to develop a strategic plan that will serve as a framework for implementing the Protocol.
- *Regional cooperation on intermediate education and training:* A SADC Technical Committee on Intermediate Education was established through its inaugural meeting in February 2001.
- *Regional cooperation on distance education:* A Technical Committee on Distance Education was established in April 2000 to spearhead cooperation in this area.
- *Regional cooperation in education and training for people with disabilities/special needs:* A major activity undertaken by the Technical Committee during 2000-2001 was the development of a Strategic plan and financing proposal thereof.
- *Regional cooperation on scholarship and training awards:* The SADC HRD Sector has continued to receive short-term scholarship offers from donors in areas such as management training for small and medium enterprises; geological data management; tourism destination management, etc.

Other initiatives include the MINEDAF (Meeting of Ministers of Education in Africa). The MINEDAF VII Secretariat in Pretoria has developed a database and website for Ministers of Education to interact and share information. The Human Resources Development Sector is currently developing the SADC Student and Staff Exchange Program, and which is scheduled for implementation in 2002. In this program,

[52] **SADC, 1999,** *Human Resources Development, Annual Report*

each SADC country commits itself to train a certain number of students from the region other than its own in its own institutions on an annual basis in designated priorities areas. In order to facilitate mobility of students and citizens in the region for purposes of study or work, SADC has initiated the comparability of qualifications program. SADC is also in a process of developing an action plan for the region in higher education as well as establishing the Technical Committee on Higher Education and Training with the view to spearhead the development of higher education in the region.

II.6.2 Employment and Labor Initiatives (see Attachment 3)

The current focus of the SADC Employment and Labor Sector is on social security, occupational safety and health, training and education, labor relations, eliminating the use of child labor, acceding to international labor conventions and gender issue. This focus seems to be less concerned with the causes underlying the regional economy' continued problems with low labor absorption capacities. In the wake of various economic reforms by almost all the countries, this issue may require more attention at both the national and regional levels than is currently the case. Indeed, the national economic reforms, with or without intensive regional economic co-operation, seem to preclude the resolution of the pervasive problems of unemployment and under-employment, which are endemic to all the countries except Mauritius. On the resolution of this issue hinges the sustained capability of Member States to deliver social services such as education, training and health, because it relates to the need to create viable economic bases for both the state and households.

Furthermore, the current employment and labor agenda seems to favor the developmental implications of employment and labor markets in the context of increasing regional co-operation rather than regional labor market allocation issues such as those of intra-regional low-skilled and high-skilled labor migration with South Africa as the centripetal force. Nevertheless, this Sector has developed a draft protocol on the free movement of persons, aimed at the eventual elimination of all restrictions on the movement of persons between Member Countries. However, this protocol has not been signed yet by Member States and it seems that particularly South Africa and Botswana have been reluctant to sign this protocol.

III.6.3 Health and HIV/AIDS

Recognizing the poor quality of health status in the sub-region and its widespread implications, SADC has established a Health Sector in 1997, which aims at promoting, coordinating and supporting the individual and collective effort of member States to provide people of the region with a high quality of health services. SADC countries have also signed a Health Protocol in 1999. The Health Sector has adopted a program of actions with the following components:

- Standardization of Data and Surveillance;
- The establishment and coordination of the SADC HIV/AIDS Task Force and HIV/AIDS policy analysis work;
- Epidemic Preparedness;
- Bulk Purchasing – a system of coordinated procurement of anti-TB drugs for countries of Southern Africa;
- Human Resource Mobilization;
- Reproductive Health;
- Disaster Management.

Apart from actions undertaken at the national level, SADC also launched a program of fighting HIV/AIDS at the regional level. The HIV/AIDS Multi-Sectoral Task Force has developed a **SADC Strategic Framework and Program of Action on HIV/AIDS** for 2000-2004, which was approved by the SADC Council of Ministers in August 2000. A five-year regional plan has been developed with the purpose of enhancing overall coordination and capacity in HIV/AIDS initiatives. Ten sectors are involved: Heath; Tourism; Mining; Transport and Communications; Labor and Employment; Information Culture and Sports; Human Resource Development; Finance and Investment; Industry and Trade; and Food Agriculture and Natural Resources. Each of the relevant sectors incorporates sector-specific initiatives to combat HIV/AIDS and for risk mitigation in their programs. For example, the Transport Sector has launched a project to combat the spread of HIV/AIDS in the road transport sector of SA, Zimbabwe and Mozambique. The focal point of the project will be the main transport corridors in Mozambique: Maputo and Beira/Tete. Actions will particularly target long-distance truck drivers and their sexual partners.

Efforts are being made to prevent and control HIV/AIDS and other communicable diseases. For example, SADC countries agreed to collaborate on the development of a vaccine that is appropriate for the region. The Southern African Tuberculosis Control Initiative (SATCI) was adopted to fight tuberculosis. The SADC Health Ministers adopted the malaria framework in May 2000 and the Malaria Task Force was established to design a plan for implementing effective malaria control in the SADC region. The main goal of the project *Roll Back Malaria in the SADC Region* is to halve malaria mortality and morbidity by the year 2010 with further reduction of the 2010 morbidity and mortality figures by 50% and 75% respectively by 2015. Similar initiatives are on the way to respond to the cholera epidemic.

The health sector enjoys major support from the donor community for combating and dealing with HIV/AIDS. DFID has made available £7.5 million over a 5-year period to reduce HIV/AIDS related risk behavior among BLNS people most vulnerable to infection; and the EU made available Euro7.5 million over a 4-year period to increase the capacity of SADC sectors in identifying multisectoral solution for HIV/AIDS. UNAIDS has provided US$140 000 and US $315 000 has been provided by the US to review policies that have an impact on HIV/AIDS in SADC Member States and for harmonization of such policies.

II.7 SADC: RECENT INSTITUTIONAL DEVELOPMENTS[53] (see Attachment 3)

SADC's institutional mechanisms, systems, procedures and approaches are remnants of its past. These have been superimposed on a regional agreement that is pursuing not only sectoral cooperation any more, but also market integration and harmonization of policies and strategies, leading to internal tensions in the functioning of the organization. Since 1992, the inappropriateness of SADC's institutional mechanisms has become increasingly apparent due to the influences of a combination of factors, i.e. the broadening and deepening of the scope of the agreement; the expansion of membership, no less due to the accession of such a heterogeneous group of countries in terms of size, and levels of development and stability such as SA, Mauritius, the DRC and the Seychelles; and the shift in political and socio-economic development paradigms, finding expression in political and socio-economic reforms being unevenly implemented among Member States as well as between the regional and national levels. The broadening scope and deepening agendas of both SADC and COMESA[54] are also accentuating Member States' resource and institutional constraints to effectively participate in the plethora of meetings and activities of these institutions as well as to comply with their multiple regional obligations.

II.7.1 SADC Institutional Machinery: 1992-2001

The SADC institutional machinery and functioning suffered from a number of deficiencies and idiosyncrasies, including:

- That the governing structures of SADC remained similar to that of SADCC, with the

[53] See **Kritzinger-van Niekerk, L., 2001**. *Institutional Developments in the Southern Africa Development Community*. World Bank, SA Country Office. Unpublished Mimeo.

[54] That is apart from the resource demands of effective participation in other regional and global agreements and fora.

exception of the Tribunal (on which a Protocol was signed but only in 2000), and the creation of the Organ for Politics, Defense and Security (in 1996, but then suspended after 15 months, and again created, and this time within the folds of the overall SADC institutional mechanisms in 2001). A manifestation of the impasse on the Organ for Politics, Defense and Security as well as priorities of the international cooperating partners particularly of the EU and USA (rather than the Treaty) was the incorporation within the SADC Secretariat (which preferred and was equipped to deal with the socio-economic integration agenda only) various 'special programs' such as a regional drug control program, landmine clearance, integration of demobilized solders in society, measures against illicit trafficking in small arms, etc.

- In spite of a moratorium on the creation of new sectors, in order to consolidate work within existing sectors, which was declared in 1990 and reaffirmed in 1998, SADC continued unabated with the creation of new sectors. Aspects of the Legal Sector could have been a central coordinating function within the Secretariat, rather than a separate Sector. Other important issues have been neglected. For example, an issue, which has not found a 'champion' among any SADC country or cooperating partners in a comprehensive way, has been cooperation on statistics and information. The result has been that the small Statistical Unit within the SADC Secretariat, which is supposed to provide data required for planning, monitoring and evaluation of policies and programs (and arguably for a management information system) has remained extremely weak, while SADC has been suffering from a dearth of reliable and comprehensive information for its management, planning and monitoring. Up till now, the statistical unit has been supposed to deal with the *SADC statistical system*, composed of 'macro data' on different subject matters, i.e. national accounts, transport and communications, agriculture, fisheries and forestry, balance of payments, tourism, public finance, education, labor and employment, prices, population, environment, industry, trade, etc. In addition, the *SADC Program of Action* (SPA), i.e. all its sectors and associated programs and projects, was supposed to generate and provide data and information in order for SADC to complement the SADC statistical system to form a comprehensive *regional data and information system*. The decentralization of the SPA has effectively ruled out the possibility of proper integration and consolidation of the two information systems at the level of the Secretariat. There has been considerable overlap between the SADC statistical system and the SPA, but together they have still failed to provide SADC with a reliable, coherent, internally consistent and comprehensive regional data and information system.

- The admission of new members without following appropriate membership criteria has had a debilitating effect on regional integration. The admission of the DRC and, to a lesser extent, the Seychelles has contributed in many ways to a serious erosion of SADC's coherence. Furthermore, the accession of these two francophone countries has increased the running cost of the organization due to SADC having had to accommodate their language concerns in meetings and documentation in addition to the requirements of the lusophone members. Both the DRC and the Seychelles have not only been slow in acceding to existing protocols and signing of new ones, but have also fallen into arrears in membership contributions since their accession to SADC. The Seychelles has also introduced an awareness of the special conditions applying to small (and island) member states and brought these into relation with the equal member state contributions to SADC. With these two countries having failed to pay their membership contributions, in addition to some of the other Member States, the application of Article 33 of the Treaty on Sanctions has become impossible, while the peer-pressure approach has become largely ineffective.

- Another practice, a legacy of the SADCC approach, was to seek donor support for SADC activities in the same way and format than in the 1980s, in spite of a significant development paradigm shift (also on national level) in terms of the role of the public vis-à-vis private sector during the late 1980s and early 1990s. The practice of perpetuating the Annual Consultative Conference tradition, mainly to seek donor support for regional integration activities might have contributed to a delay in a reorientation of SADC in this regard. With ODA having shown a declining trend since the early 1990s, it is clear that SADC's resource mobilization strategy will have to shift from foreign donor assistance to promotion of domestic and foreign investment. It will not only become increasingly necessary to involve the region's private sector in the financing of the SPA, but also in its management and implementation. In the past, the SADC institutional mechanisms have not had adequate capacity to take maximum advantage of donor support. Specifically, SADC has had technical capacity constraints in the conception and design of projects for inclusion in the SPA, and experienced a related problem of absorptive capacity for resources made available by ICPs.

- SADC has also chosen to continue with the equal membership contribution system as under SADCC. Annual percentage increases have not been sufficient for funding the daily administrative expenses and staffing of the SADC Secretariat and Commissions as well as for the 'soft SADC projects' such as studies, creation of databases and capacity building. The resource constraints have been compounded by the decline in ODA from the international cooperating partners (which have also shifted resources to issues of their concerns). In spite of relatively moderate budget increases per annum, SADC has been increasingly suffering from late or outstanding membership fees. According to the Council of Ministers meeting Annotated Agenda of 23-24 February 2001, an amount of US$6,8m was outstanding as at 30 July 2000. Countries in arrears at that stage included the DRC, Seychelles, Tanzania, Zimbabwe, Zambia and Malawi.

  It is not clear what the annual operational cost of SADC institutions amount to. However, an estimate by the Review Committee on SADC's Institutions and Operations put that figure to at least US$43.2 million for the 2000/2001 financial year, consisting of:
  * US$15.47 million for SADC institutions such as the Secretariat (about US$6.6 million), the 2 Commissions (about US$3 million), other programs and institutions funded by SADC (US$2.5 million) and US$3.6 million for operational cost of the SCUs (which were by an large underfunded); and
  * US$27.5 million for Member States to attend meetings

  Were all SCUs funded at the average level of the 2 Commissions, which would have been more in line with SCU's task at hand, this amount would have increased to an estimated US$76m for 2000/2001.

- Apart from the remnants of the past such as the equal member state contribution and donor dependency, no attempt has been made to put in place a 'compensatory mechanism', structural and/or development funds. Currently, SA's[55] countervailing measures to compensate for potential disproportionate benefits in terms of trade and investment in the regional integration arrangement revolve around:
  * its modalities of implementing the SADC Trade Protocol (asymmetrical trade preferences). It attempted to negotiate these in a way where the extent of and timeframes for an asymmetric tariff reduction between

[55] Botswana and Mauritius do not have clear strategies in this regard. Largely self-interest rather than that of the rest of SADC inspires Mauritius' increasing cross-border investment and entrepreneurial activities in continental SADC.

itself and the rest of the region as well as the linkages between elimination of NTBs and tariff reductions would reduce the need for a regional compensation mechanism.

* more relaxed exchange controls for the rest of the region vis-à-vis the rest of the world;
* making the human and financial capacities of institutions such as the Development Bank of Southern Africa (DBSA) and the SA Industrial Development Corporation available for operating in the rest of the region (although there is a limit of 33.3% of shareholders' equity on such investment in place for the DBSA);
* encouragement of cross-border investment by public utilities such as Eskom and Transnet; and
* technical assistance for promoting the Spatial Development Initiative concept – which is slow to see implementation beyond the Maputo corridor.

These measures have not been seen as necessarily sufficient 'compensation' for 'balanced, equitable growth and development' in the region by the least developed member countries. Hence the debate on 'compensatory mechanisms', whether in the form of a structural and/or development fund has been kept alive in the region by all except for SA, Botswana and perhaps Mauritius. For SA, compensation mechanisms through automatic fiscal transfers have been regarded as a 'non-subject', no less as it has maintained that these are notoriously difficult issues in terms of calculation of benefits and costs, structuring and financing, apart from the fact that no country in SADC is sufficiently wealthy and developed to make significant annual fiscal transfers. It is interesting to note that countries such as SA and Botswana are also reluctant to support a protocol on free cross-border movement of labor, another aspect which would have had an influence on the size and scope of any such regional compensation mechanism. Thus from the perspective of the wealthier countries in the region, the debate may have to be steered towards the concept of structural and/or development funds, rather than automatic fiscal transfers in order to make headway on this issue.

- The small number of protocols that have been ratified by the Member States, reflect the myriad of problems that have beset protocol development in SADC up till now as indicated in section III.3.1.

Due to the misalignment between the deeper integration agenda of SADC and the sector and project-led institutions and values of SADCC, various problems regarding the functioning of SADC and its institutions presented themselves during the 1992-2001 period. These, severally or jointly, have been the topic of investigations since 1992. During 1996/97, SADC again reviewed its institutional mechanisms, policies, strategies and SPA aimed at a rationalization of these.

However, the September 1998 Annual Summit decisions regarding the recommendations coming out of this review were weak and tantamount to a rejection of proposals vital for transforming SADC's structures to cater for the requirements of development integration. At that time, the important challenge for SADC was to implement these diluted decisions in order to achieve streamlined structures and procedures aimed at a 'lean but efficient' intergovernmental machinery and to realign the current policies, strategies, programs, projects and practices to reflect the principles and objectives of regional integration as contained in the Declaration and the Treaty. Needless to say, the rationalization of the institutional structures did not take place, although there was a general refocusing of the SADC sectors more on policy harmonization away from identification and implementation of projects[56].

[56] This is not always clear without closer scrutiny of activities as SADC still upholds the tradition of calling all activities 'projects'.

The Review Committee, appointed in 2000, thus reiterated the problems and shortcomings of the current system[57], including:

- The main actors in the decentralized structures (SCUs, Commissions, the Secretariat, Sectoral and National Contact Points) having unclear lines of authority and accountability, resulting in poor communication, coordination and performance as well as duplication of efforts and resources;
- Disparity in and inadequate provision of resources and staffing by member States, leading to inequitable distribution of responsibilities and obligations;
- Different management and administrative procedures and rules, varying standards, qualifications and performance criteria for staff involved in the management of the regional program;
- Rapid increase of sectors resulting in a plethora of priorities and activities dependent on limited resources, which have led to a proliferation of meetings and an increase in associated costs;
- Under the current structure and circumstances, the Secretariat has been unable to execute its mandate as provided for in the Treaty, especially that of undertaking strategic planning and management; and
- Lack of an institutional framework in which Ministers responsible for Foreign Affairs could discuss and adopt common positions on matters pertaining to the organization in various international fora.

II.7.2 SADC Institutional Mechanisms and Systems, from 2001 onwards

At its Extra-Ordinary Meeting held on 9th March 2001 in Windhoek, Namibia, the Summit of Heads of States of SADC took a number of decisions aimed at restructuring SADC. The main points of this evolution are summarized below:

(i) SADC's Common Agenda

The common agenda should include the following:

- the promotion of sustainable and equitable economic growth and socio-economic development that will ensure **poverty alleviation** with the ultimate objective of its eradication.
- The promotion of common political values, systems and other shared values which are transmitted through institutions which are democratic, legitimate and effective; and;
- The consolidation and maintenance of democracy, peace and security.

In order to accomplish the above concerns, a ten year strategic development plan - a **Regional Indicative Strategic Development Plan (RISDP) -** will be developed based on the following priorities:

- **Economic**
  - * Development of measures to alleviate poverty with a view to its ultimate eradication;
  - * Agricultural development and sustainable utilization of natural resources;
  - * Development of a common market through a step by step approach while restructuring and integrating the economies of Member States;
  - * Harmonization of sound macroeconomic policies and a maintenance of an environment conducive to both local and foreign investment;
  - * Development of deliberate policies for industrialization; and
  - * Promotion of economic and social infrastructure development.
- **Political**
  - * To consolidate democratic governance;
  - * Establishment of a sustainable and effective mechanism for conflict prevention, management and resolution.
- **Social**
  - * Mainstreaming of gender in the process of Community Building through regional integration;

[57] **SADC, 2001**. *SADC Extraordinary Summit, Windhoek, Republic of Namibia: Draft Annotated Agenda, 9 March, 2001.*

- * Development, utilization and management of human resources;
  * Combating of HIV/AIDS and other deadly diseases;
  * Development of programs for the improvement of quality of Health and Social Welfare
- **Others**
  * Development of Science and Technology, Research and Development;
  * Development of an effective disaster preparedness and management mechanisms;
  * Consolidation of international cooperation with other regional groupings.

The Regional Indicative Strategic Development Plan (RISDP) will be developed and implemented over two, five-year periods. Its main objective is 'to provide SADC Member States, institutions and policy makers with a coherent and comprehensive development agenda on social and economic policies over the next decade (2002-2011)[58]. The design of the RISDP will take into account SADC's vision, mission, objectives and priorities as well as a set of principles pertaining to e.g. subsidiarity, additionality, dynamic and scale gains, variable geometry and scope, and development integration. Towards the beginning of 2002, the Secretariat has finalized a terms of reference, approach to the RISDP and an inception report to initiate the drafting first of a desk background study and then of the RISDP.

(ii) New Structure

The SADC Institutions would include**:**

- Summit
- The Troika. The practice of a Troika system consisting of the Chair, Incoming Chair and the Outgoing Chair of SADC
- Organ on Politics, Defense and Security
- Council
- Integrated Committee of Ministers
- Tribunal
- SADC National Committees
- Standing Committee of Officials
- Secretariat.

The structure of the **Secretariat** shall comprise the following:

- Deputy Executive Secretary;
- Legal Affairs;
- Internal Audit;
- Information, Communication and Technology including statistics and library services;
- Administration; and
- Finance.

Four Directorates would replace the Commissions and Sector Coordinating Units, namely on.

- Trade, Industry, Finance and Investment;
- Infrastructure and Services;
- Food, Agriculture and Natural Resources (FANR);
- Social and Human Development and Special Programs.

They will be based at the SADC headquarters. Their overall functions would include the promotion of regional integration and key issues such as gender mainstreaming, poverty eradication and promotion of sustainable socio-economic development.

The following **priority actions** had to commence immediately:

- Establishment of the Directorate for Trade, Industry, Finance and Investment (by August 2001);
- Establishment of the Directorate for Food, Agriculture and Natural Resources (by December 2001);
- Establishment of the Department of Strategic Planning, Gender and Development and Policy harmonization (by August 2001).
- Recruitment of the Chief Director (by August 2001). The old position of Chief Economist was abolished.
- Formulation of the Regional Indicative Strategic Development Plan.

58 **SADC Secretariat, 2001.** *Terms of Reference: Regional Indicative Strategic Development Plan.*

- The remaining Directorates to be put in place during 2002 and 2003.

The total costs of the new structure were estimated at US$12.1 million against the old structure's costs of US$ 16.2 million.

II.8 CONCLUDING REMARKS

Both SADC and COMESA are implementing or preparing to implement the areas, which they have decided, that could be best dealt with through a regional approach rather than on a national basis. COMESA is implementing regional integration in accordance with its Treaty, while SADC is converting its Treaty objectives and principles into concrete cooperation and integration obligations and actions through the development and implementation of sectoral protocols. This background paper did not attempt to give an account of progress in regional integration in terms of COMESA policies and programs, but rather focused on cooperation within the SADC framework.

Currently, there are no monitoring and evaluation systems in place to determine the 'destination' and pace of regional integration in SADC. This background paper has also not attempted to design such a monitoring and evaluation system. In stead, it has merely reported on progress made in cooperation of the respective sectors, and even then such progress made cannot be unambiguously attributed to membership of the RIA. For example, the levels and patterns of trade between South Africa and the rest of the region have occurred in the absence of any regional trade arrangements. Although policy harmonization across sectors and member countries are clearly discernible, many such policy and institutional changes in the constituent countries have come about through unilateral decisions, although their pace of implementation might have been accelerated through complementary regional-level obligations. Changes in the transport sector may be a case in point.

From the discussion in Part II it is thus not altogether clear to what extent and at what pace the sub-region is moving towards deeper integration. On the one hand, Part II finds that much progress has been made in some discrete areas of cooperation, i.e. in either entire sectors or in specific sub-sectors. On the other, it finds that political problems, inappropriate institutional mechanisms and the uncoordinated pace in implementing sectoral programs and projects seem to have been bogging down regional integration. Overall, it may be safe to say that SADC is still in the initial design and/or implementation phase of a framework for cooperation that would allow, in terms of the SADC Declaration,[59] for

- *'Deeper economic co-operation and integration, on the basis of balance, equity and mutual benefit, providing for cross-border investment and trade, and freer movement of factors of production, goods and services across national borders;*
- *Common economic, political, social values and systems enhancing enterprise and competitiveness, democracy and good governance, respect for the rule of law and the guarantee of human rights, popular participation and alleviation of poverty;*
- *Strengthening regional solidarity, peace and security, in order for the people of the region to live and work together in peace and harmony.'*

As far as its economic objectives are concerned, the implementation of its trade protocol heralds an era of market integration for SADC, although the current target date of 2012 for full implementation of the FTA also indicates the duration towards achieving a common market as mentioned in the Declaration. As far as the scope of developments towards a common market is concerned, much remains to be done in the areas of finance and services, apart from the goods market integration.

Nevertheless, the implementation of the Trade Protocol has set in motion a seemingly **self-accelerating mechanism for regional economic integration** as the adoption of certain

[59] **SADC, 1992**. *Declaration and Treaty of the Southern African Development Community*, pp. 1-11.

sectoral protocols necessitates the adoption of others, especially where the interests of the private sector are concerned. Unlike in the past, SADC is now forced to deal, over the short term and in very practical ways, with cross-sectoral issues such as trade efficiency. The broadening of the sectoral cooperation agenda by market integration has contributed, therefore, to a visibly increased sense of urgency among SADC stakeholders to e.g. address structural constraints to diversification and industrialization in order to realize the benefits of trade integration. SADC now clearly sees that its transport, telecommunications, energy, water, agriculture and human resource development sectors have a critical role to play in both enhancing intra-regional trade and developing the region's industrial capabilities. Large amounts of resources and major efforts are put into human and institutional capacity building for implementing cooperation agreements within these sectors on the national level. However, for SADC to fully exploit multisectoral linkages for purposes of regional integration, a much deeper understanding is required of the contribution of the various sectors, eg. specific infrastructural investments, and their maintenance and operations, to objectives such as diversification of production and growth in exports. Without this, one is merely left with a list of shortcomings or wish list of projects (as is clear from the Attachment elaborating on the 'projects' for cooperation within each sector), and unable to appreciate the particular importance of any specific project to the objectives of regional integration.

Another challenge is lying for SADC in meeting its objective of '*[d]eeper economic co-operation and integration, on the basis of balance, equity and mutual benefit,…*' The considerable and growing trade imbalance between SA and the non-SACU SADC countries could be seen as a divergent force in terms of the distribution of perceived or real gains and costs of integration. This may call for the design and implementation of regional equilibrating measures in a far more deliberate and structured way than at present where it is largely relying on SA's unilateral countervailing trade and investment measures to compensate for potential disproportionate benefits from trade integration.

Furthermore, **a significant challenge for SADC in the design of its Regional Indicative Strategic Development Plan, would be to avoid the pitfalls of its past** including the following:

- Unclear objectives, i.e. whether SADC is pursuing an approach of sectoral cooperation and policy harmonization or whether its approach is one of regional integration, with time-bound and in-built milestones or targets for the integration process.
- Insufficient pragmatism in prioritizing objectives, goals and intermediate targets for regional cooperation and integration, taking into account the capacities of Member States and their economies.
- Lack of clarity regarding the concepts of 'regional public goods' and regional priorities, i.e. whether these are a summation of national priorities or regional cross-sectoral and cross-border issues. Due to insufficient differentiation between national and regional priorities, some of its policies, programs and strategies have clearly failed to lead towards regional integration.
- Insufficient harmonization of national, regional, continental and global agendas.

A critical constraint to progress in its regional integration agenda has been SADC's **regional-level institutional machinery and functioning. These have precluded the development of linkages within and between sectors**, and thereby failed to draw them all within the framework of its market and broader development integration agenda. After changing from the Southern African Development Coordination Conference (SADCC) to SADC, the Development Community in 1992, SADC has only recently commenced with a process of realigning its institutional machinery and functioning with its regional integration agenda. The new institutional model implies greater responsibility to a centralized Executive Secretariat, which would include four directorates: Trade, Industry, Finance and Investment; Infrastructure and Services; Food, Agriculture and Natural Resources (FANR); Social and Human Development and Special Programs[60] and strengthened units such as that on knowledge and information. Thus, apart from a more clearly articulated and focused 'common agenda', deeper regional integration would critically hinge on **the speedy and smooth implementation, reorientation and functioning of the new regional institutional mechanisms.**

---

[60] The decision to create these directorates has been taken at the Extra-Ordinary Summit of Heads of State and Government of SADC, held in Windhoek, Namibia, on 9 March 2001. The phasing out of existing Commissions and sectors would be undertaken within two to three years and directorates would be established in accordance with the following time frame:

- March-August 2001: establishment of the Directorate on Trade, Industry, Finance and Investment;
- August-December 2001: establishment of the Directorate on Food, Agriculture, and Natural Resources;
- The remaining Directorates would be established in 2002 and 2003.

PART III DONOR STRATEGIES, INVOLVEMENT AND PROJECTS IN SOUTHERN AFRICA

International development partners of the southern African countries such as the World Bank, the International Monetary Fund, the European Union, the African Development Bank, the Development Bank of Southern Africa, and Japan are actively participating in the efforts to promote regional integration within the sub-region. The purpose of this section is to highlight regional work programs and projects of some of the major or prominent donors and financiers in ESA, with emphasis on SADC.

III.1 THE WORLD BANK PROGRAM AND PROJECTS

The World Bank is involved in various regional activities in ESA region. During the 2001/2002 financial year (F02) multi-year grant financing for regional integration in the sub-region (from either own funds or funds under its administration) amounted to US$3 million, with a further US$4.3 million from the Global Environmental. These grants were in addition to annual administrative budgetary outlays, the latter which also supported the preliminary work and pre-appraisal activities related to investment lending for a 'regional project' amounting to about US$225 million. The remainder of this section gives a broad indication of some of the Bank's regional activities in ESA.

(i) Regional Transport

For FY02, two main activities were scheduled. These included ongoing dialogue, including support to a SATCC conference, and air transport liberalization.

- *Ongoing dialogue and conference support:* Activities included an assessment of the Bank's operations in SADC countries; maintenance of contact with SATCC to obtain information on sectoral developments; support to preparations for the SATCC Transport Investors Forum; and definition of the main elements of a future regional transport and transit facilitation initiative.
- *Air Transport Liberalization:* In this area, the team initiated joint discussions with COMESA, SADC/SATCC and the EAC on their programs and especially their actions for the implementation of reforms. Subsequently it has deepened the dialogue with and technical advice to these three RIAs on various aspects of the Yamoussoukro Decision to promote its implementation.

(ii) Financial System Infrastructure

The main focus for FY02 was extension of a grant for the **SADC Payments and Settlement System,** for the implementation of payments system reforms aimed at harmonizing payment systems in SADC countries, and the **Financial System Infrastructure** grant. The main focus areas under this initiative, included: (i) Monitoring of the progress being achieved by the SADC IT Forum core team in implementing a Bank Grant for a web-site development; capacity building and training; development of software applications for off-site surveillance and advanced economic analysis tools; SADC telecommunications status and vulnerability analysis; annual conference; and forum coordination arrangements; and (ii) Technical advice, particularly, in regard to central bank computer assisted applications. Another grant-supported focus area was the strengthening of accounting and auditing capacities and frameworks in the ESA region.

(iii) Strengthening Statistical Capacity

The main activities financed through administered grant funds included: (i) Statistics capacity building to support development and implementation of evidence-based poverty reduction strategies in SADC member states. This is aimed at strengthening national statistical systems through developing statistical development plans and sequenced information strategies for poverty monitoring and evaluation. (ii) Strengthening statistical capacity and monitoring and evaluation through dissemination of the Second Generation Live Data-Base in 6 SADC countries.

(iv) Education

The SADC Capacity Development Initiative In Education Policy Development, Planning and Management grant includes support for development of effective capacity for education policy development, planning and management in the SADC Member States, the establishment of mechanisms for information capture and exchange on available resources and expertise in the region, and for creating mechanisms for documenting and sharing lessons of good practice. Activities include establishment of Project Management Unit and hiring of project staff; holding an Education Policy Forum; development of training plans for policy makers and planners; and creating a web-site and knowledge management work.

(v) Energy and Telecommunications: Southern African Power Market Project

In this area Bank activities largely revolved around preparation for the Southern Africa Power Market Project. For this project the Bank involvement would consist of providing support, both financing and advice, to the Coordination Centre and financing of the construction and upgrading of the Malawi-Mozambique, Zambia-Tanzania interconnections (see detail in previous section on Energy). Activities during FY02 included (i) preparation missions to the SADC countries involved in the project to make arrangements for the financing by the Bank of the proposed interconnections (Malawi-Mozambique, Zambia-Tanzania, Zambia-DRC) and to agree with the SAPP management on the scope of technical assistance package to the SAPP Coordination Centre to be included in the proposed Southern African Power Market project; (ii) review of the existing technical studies for the proposed interconnections and initiation of the new studies as required (e.g. in the case of the Zambia-DRC interconnection); (iii) preparation of economic analysis for the proposed interconnections that would take into account recent development in the regional power market; (iv) design of the legal structure of the project and preparation of the required agreements; (v) identification or design of the project implementation vehicles on the SAPP and national levels; and (vi) preparation of the Environment/Social Assessment.

(vi) Environment and Natural Resources Management

With regard to ***water resources management,*** the main activity was to identify and explore opportunities for joint management and development of the Zambezi River Basin (southern Africa's largest river basin), with a focus on analysis and riparian dialogue. Analyses was carried out in the context of ongoing SADC cooperation, such as the Southern Africa Power Pool (SAPP), as well as existing Bank and donor supported programs in each of the eight riparian countries (Angola, Botswana, Malawi, Mozambique, Namibia, Tanzania, Zambia and Zimbabwe).

With regard to the ***environment sector***, the main activity included the conceptualization of a Regional Environment Information Management System (PRISMES). Activities for this initiatives included (i) taking stock of on-going activities related to environment both in the Bank and in SADC countries; (ii) identifying the possible actors and beneficiaries; (iii) setting up the initial working group in the field; (iv) refining the program concept; (v) integrating GEF concerns in the proposal; and (vi) consultations with regional and national stakeholders as well as with other donors. Furthermore, a GEF grant supported project – the Regional Environmental Information Management Project – has been ongoing, with the aim of improving and strengthening natural resources management and planning in the Congo Basin through information provision to stakeholders.

(vii) African Connection Initiative

Grant-financed support to the ongoing African Connection Initiative is aimed at creating a forum to promote policy reform continent-wide. The objective is to use global connectivity and information technology to enhance Africa's competitiveness while improving living standards through effective access to services for health, education, agriculture, and other sectors. This initiative contributes to ongoing country programs (Lesotho, Senegal, South Africa and Uganda) and to regional programs.

(viii) Macro and Trade Dialogue

This main activities under this initiative was to identify the scope of analytical and capacity building support on an inter-regional COMESA-SADC basis, e.g. in the areas of NTBs, capacity building for the use of trade information bases, etc. Together with SADC and COMESA and some of their other development partners, such as the IMF, the Bank has also initiated analytical work on trade performance and integration in ESA.

Under this rubric, the Bank has also conducted preliminary work on clarifying concepts and points of departure for future assistance for regional integration. Similar to its approach for developing a country assistance strategy, on the regional level the Bank's assistance strategy would be responsive to SADC's RISDP, it vision, strategies and priority programs. During FY02 and up till now, that is the design phase of the RISDP, ongoing dialogue has taken place between the Bank and the RIAs in ESA to define ways to align the World Bank's program with their strategic priorities and to explore ways in which a Bank strategy for the sub-region could be developed and how Bank instruments and approaches could support such a strategy. In this process, a special effort has been made to ensure that country assistance strategies (CASs) are formulated within a broader regional perspective by explicitly taking into account elements of the Bank's assistance strategy that are directed toward deepening regional integration.

The completion of SADC's RISDP, therefore, will be crucial for a full-fledged Bank regional assistance strategy for this sub-region. At this point in time, potential areas for cooperation include trade, finance and investment and infrastructure. As SADC progresses with the formulation of the RISDP, the World Bank and SADC/COMESA is continuing with information exchanges and policy dialogue on areas of common interest.

III.2 THE IMF STRATEGY AND WORK PROGRAM IN ESA REGION

The main goals of the Fund's work in the area of regional integration in Sub-Saharan Africa are:

- To help reduce barriers to the free flow of goods, services, capital and labor;
- To encourage an outward-looking approach to integration;
- To assist in the improvement and harmonization of macroeconomic policies;
- To facilitate structural reform and regional cooperation through technical assistance;
- To provide surveillance of monetary and associated institutions.

In its regional initiatives, the IMF emphasizes the importance of cooperation between regional institutions in ESA and the dangers of retreats from open regionalism. It also intends to increasingly take into account integration initiatives in its country support programs. Furthermore, the IMF's activities on regional integration will seek close coordination with development partners such as the World Bank and European Union. The **core elements of the work program** are the following:

- **Technical assistance in the fiscal, monetary, financial and statistical areas**. In ESA the Fund initiated **regional surveillance** initiatives by preparing material on economic developments, prospects and policies for peer review and by participating at the RIFF and other activities in ESA at meetings of ministers and central bank governors. **Convergence issues** have been analyzed with the objective to forge greater policy consistency within and between the regional bodies. The Fund's African Department also prepared a paper that described recent development in regional integration in ESA and the Fund's overall approach.

- In ESA, the IMF's priorities are:
  - ∗ Ongoing promotion of consistent, outwardly oriented approaches to regional integration by all the RTAs in ESA through analytical material, use of RIFF and coverage in Article IV consultations and program negotiations of the implications of overlapping preferential commitments.
  - ∗ Ongoing technical assistance to COMESA and SADC in the areas of financial and monetary management (domestic and cross-border payments systems; harmonized supervision, regulation and accounting and auditing standards; regional capital markets, etc); response to the fiscal implications of trade liberalization (regional and multilateral); prevention of wasteful tax competition; macroeconomic indicators; and improved statistics and databases.
  - ∗ Assistance towards the development of policy convergence criteria, the closer integration of financial markets, and other work of COMESA and SADC.

- The IMF has initiated more analysis on the benefits of broad integration and cross-country issues. It is also considering new publications on African regional issues and encouraging rationalization of regional bodies. Recently, it has undertaken preparatory studies for the proposed cross-border payment system for COMESA and conducted two studies on the **fiscal implications of a free trade area** in SADC and COMESA: (i) *The Revenue Implications of the Removal of Tariffs on Intra-COMESA Trade*. *IMF*, December 1999; and (ii) *The Revenue Implications of the Elimination of Intra-SADC Tariffs*. IMF, February 2000.

III.3 THE EUROPEAN UNION PROJECTS IN ESA AND INDIAN OCEAN

The European Union is actively involved in regional integration in ESA region (See Attachment 4 for list of EU projects in ESA region).

(i) EU/SADC Regional Projects

The European Union support to SADC dates back to the mid-1970s when the Community allocated funds to the Southern Africa region under the first Lomé Convention in 1976. Since then, the European Commission has allocated about **ECU 490 million** for regional cooperation in Southern Africa. Under the 8th European Development Fund (EDF), which entered into force in mid 1998, the Commission has made **available ECU 121million over a five-year period** to assist regional cooperation in Southern Africa.

Other sources of financing available for SADC countries include: the SYSMIN facility that can benefit to countries that depend on the mining sector, resources of the European Investment Bank (EIB), humanitarian and rehabilitation aid, co-financing of NGO projects, support for democratization and human rights projects, etc. Under the Berlin Initiatives (created in 1994), the EU supports mechanisms for promotion of trade and investment between SADC and the EU; special programs such as clearance of landmines; reintegration of former military personnel (most affected countries are Angola, Mozambique, Namibia, South African and Zimbabwe); a SADC private sector business organization; electoral commissions; combating illicit drug trafficking; water and energy resources management; and combating of HIV/AIDS.

In respect of SA, special financial treatment is offered under a specific program called the 'European Program for Reconstruction and Development', which is a multi-annual program with a regional dimension. The main regional issues benefiting from financing under this program are: health and education, private sector development, governance and democratization.

(ii) Priority Areas of EU Financing Support

The financial envelope of ECU 121million of the EC to SADC is focused on two priority sectors: (i) infrastructure and services and (ii) trade, investment and finance.

In the area of **infrastructure and services**, examples of **projects** that are being financed or considered for financing are:

- **The Namibia Corridor**: rehabilitation of sections of road between Lubango (Angola) and the Namibian border;
- **Rehabilitation of sections of the Monze-Zimba road** in Zambia, which forms part of the North-South trunk road to the Zimbabwean border and the Trans-Caprivi highway in Namibia;
- **The Nacala Corridor**: rehabilitation of the railway line between Cuamba (Mozambique) and the Malawi border.

In the area of **trade, investment and finance**, financial support aims to assist SADC in the implementation of the Trade Protocol and other mechanisms of intra-regional trade and investment. Examples of projects include:

- **EU/SADC Investment Program,** which would include Industrial and Business Fora in the SADC region;
- Projects to improve the **training of statisticians** and the **development of statistical methodology.**

(iii) Other Activities Under Preparation

These include:

- A livestock development project focusing on combating animal diseases prevalent in the region;
- A sustainable regional training program for food and security issues;
- An intra-regional skills development program concentrating on maximizing the use of regional educational institutions;
- Assistance with the monitoring, control and surveillance of fishing activities in SADC coastal waters;
- A regional drug control program to help combat illicit drug trafficking and reduce the effects of drug abuse;
- Support for the implementation of the SADC plan of action to combat the spread of HIV/AIDS.

Other areas for investment projects that could benefit from funds of the European Investment Bank include: energy, water supply, telecommunications, transport and industrial development.

(iv) EU/COMESA Regional Projects

The following table shows that the EU has committed a financial envelope of EUR38 million through EDF 7 and 8 to support regional integration in COMESA. As of 22 February 2001, EUR15 million has been disbursed equivalent to 40% of the financial envelope. Detailed information regarding these projects is available in Attachment 4.

Table 3.1: List of Ongoing Regional Projects Funded by EDF 8/7 and Implemented by COMESA (As of February 2001)

	Financial Envelope (EUR '000)	Disbursed (EUR '000)	Undisbursed (EUR '000)
EDF 8			
1. Regional Harmonization of customs and Trade Statistics Systems	12,600	1,464	11,136
2. Regional Integration Program (Phase II)	8,500	3,308	5,192
3. Air Transport Liberalization	745	0	745
4. East Africa Regional Statistical Training	3,000	0	3,000
5. COMESA Africa Trade Insurance Agency	740	740	0
Sub-Total	**25,585**	**5,512**	**20,073**
EDF 7			
6. COMESA SQMT(1) Project	1,998	171	1,827
7. Computerization of Customs and Foreign Trade Statistics	1,000	759	241
8. TA Support in Info. Technology to COMESA Secretariat	500	252	248
9. Advance Cargo Information System (ACIS)	9,300	7,744	1,556
10. Preparation of Regional Export Services Agency (RESA)	150	75	75
Sub-Total	**12,948**	**10,001**	**2,947**
Total EDF 7+8	**38,533**	**15,513**	**23,020**

Source European Commission
Note: (1) SQMT Project: Standardization, Quality, Metrology and Testing Project.

III.4 DBSA'S FINANCING ROLE IN SADC

The SA Government has allowed the DBSA, a wholly-owned national government development finance institution to allocate 33% of its shareholder capital to other SADC countries. As the growing SADC portfolio illustrates, the Bank has a potentially significant developmental role beyond SA, which is driven by the South African Government's wider role in the region. The DBSA's focus is primarily on its core mandate of infrastructure funding, but in the rest of the SADC region, institutional coverage of non-core areas such as SMMEs and agriculture is also allowed, although to a limited extent. It provides loans, equity and technical assistance and does that in partnership with donors and other financiers. In contrast with donors such as the EU, USAID and others, but similar to the World Bank and the AfDB, the DBSA has limited annual grant financing for regional coordination functions. Its financing is more suitable for regional 'public goods and services' and or multi-country projects. It has nevertheless provided grant financing and technical assistance to e.g. the African Connection Initiative, the SADC Finance and Investment Sector, particularly for the work program of the Development Finance Sub-committee and to SATCC for regional transport initiatives.

The following table shows DBSA approved loans to countries in SADC.

Table 3.2: DBSA's Cumulative Loans by Country

	Rand million	%
South Africa	17,294	74.0
Botswana	242	1.0
Lesotho	1,449	6.3
Malawi	61	0.3
Mauritius	536	2.3
Mozambique	1,251	5.4
Namibia	770	3.3
Swaziland	568	2.5
Zambia	534	2.3
Multi-state	338	1.7
Total	23,104	100.0

Source: DBSA, Projects of 1999/2000. Building Foundations for Development.

III.5 USAID STRATEGY AND FOCAL AREAS

(i) Background for the USAID's Involvement in SADC

The USAID's involvement in SADC is informed by the view that Southern Africans see regional cooperation and integration as the way forward, with market integration becoming a priority. Awareness is growing in the region of the need for democracy and the rule of law to create and sustain a better environment for trade and investment is growing. However, the fragility of democracy in most Southern African countries, combined with underdeveloped democratic norms and standards, requires constant support to pro-democracy actors at both the regional and bilateral levels to assure that democracy takes firmer root. Additional development challenges are presented by the devastating HIV/AIDS pandemic, politico-military conflicts, and recent natural disasters. Although SADC enjoys strong popular support throughout the region, national governments that support SADC and a regional approach to major problems all too often demonstrate reluctance when asked for cooperation on specific issues and can be slow to implement agreed-upon protocols and policies. USAID, therefore, is helping the region meet these challenges by actively engaging SADC and its various structures, while simultaneously supporting private organizations that promote the adoption of region-wide democratic standards in governance and human rights, and public-private sector partnerships in trade, transport, agriculture and environmental management. USAID's regional program with SADC focuses on the challenges of regional integration that are largely cross-border in nature and beyond the manageable interest of USAID bilateral programs. Emphasis is on (i) developing regional norms and standards in democratic governance; (ii) implementation of SADC trade area; (iii) sustainable management of shared natural resources; and (iii) market oriented agricultural trade in technologies and commodities. All of these areas should stimulate regional integration and economic development at the national and regional levels.

USAID actively collaborates with other donors in the region. In promoting regional market integration, USAID works closely with European Union, the World Bank, and the African Development Bank. USAID collaborates with bilateral donors such as France, Germany and Canada on regional activities for improving communication and information exchange; transboundary natural resources management; and agricultural research. In SADC, programs are also complemented by work and funding from bilateral USAID missions such as in SA for HIV/AIDS and customs controls, which are to the benefit of the entire region. USAID's regional program also compliments bilateral development programs and broader U.S. foreign policy initiatives, such as the Africa Growth and Opportunity Act (AGOA).

(ii) Focal Areas

In 2001/2002, the USAID Regional Centre for Southern Africa (USAID-RCSA) program sharpened its focus in the following areas:

- building democracy,
- encouraging broad-based economic
- growth through regional market integration,
- sustainable management of shared natural resources, and
- expanding commercial markets for agricultural technologies and commodities.

Democracy and Governance: Formal structures for multi-party democracy are in place in most of the SADC nations. The effectiveness, however, with which these relatively new nations practice democracy, varies from the admirable to abysmal. USAID support for the promotion of democratic "best practices" throughout the region is generating increased momentum and achievement by key partners in the development of regional standards in areas such as anti-corruption initiatives, conduct of elections and political processes, and media diversity. If sustained, these strengthened standards will make undemocratic behavior less tolerable at both regional and national levels.

Economic Growth: USAID's investments over the past decade to improve rail and road infrastructure efficiency, liberalize customs and trade, support privatization and restructuring of telecommunications and railroads are contributing to the flow of trade and information critical to private sector development. FY 2001/2 activities focused on areas critical to the region's economic integration and growth, such as implementation of the SADC Trade Protocol and development of the Finance and Investment Protocol to facilitate foreign investment.

Sustainable Management of Shared Natural Resources: Unsustainable land-use practices, especially in wildlife areas and ecosystems, threaten the region's environment and economy. USAID's community-based natural resources management program has demonstrated that the sustainable use of wildlife and indigenous plants is a viable rural development approach. The 2001/2 program built upon this approach as a foundation for a new, more ambitious effort to promote cooperation across national boundaries in the management of shared resources such as water, wildlife and critical ecosystems.

Agriculture: Strong interest by Southern African countries to take advantage of global trade opportunities coincides with RCSA's new focus on promoting market oriented agricultural trade that focuses on improving access to improved technologies and establishing grades and standards. The RCSA program strives to expand commercial markets for agricultural technologies and commodities in the region by supporting the development of better technologies and the promotion of rules-based agricultural trade through market development and building capacity for rules-based agricultural trade.

The RSCA functions on a 5-year cycle-program, the current one which ends in 2003. Its 5-year budget amounts to more than US$100 million, which is supplemented by funds from the USA-SADC initiative as well as complemented by bilateral USAID program funding. About 60% of the RSCA's funding is allocated for the regional market integration program (falling under the above heading of economic growth). Projects for 2001/2 are elaborated upon in Attachment 4.

III.6 AFDB STRATEGY AND PROJECTS

The AfDB has financed a major study titled *Economic Integration in Southern Africa* during 1991-1993. This seminal work has had a material influence on thinking regarding regional integration in southern Africa. In addition, the AfDB has also financed the Trans-Kalahari Highway linking Botswana to Walvis Bay port in Namibia

Taking into account its past experience and lessons learned from regional integration in Africa, in February 2000 the AfDB's Board of Directors approved its new *Economic Cooperation and Regional Integration Policy*. According to this policy, the guiding principles for its intervention would be:

- Open regionalism;
- Private sector participation;
- Progressive integration using bottom-up and variable geometry approaches;
- Encouraging member countries to support regional integration initiatives;
- Addressing the compensation issue;
- Rationalizing regional integration activities;
- Promoting collaborative work with other institutions; and
- Promoting regional cooperation on crosscutting themes. The focal thematic areas would be: policy-based operations; regional cooperation in infrastructure; private sector promotion; institution building; and ensuring sustainable development

Subsequent to the approval of its new policy on regional integration, the following projects have been financed in southern Africa (up till the third quarter of 2001):

- *Africa Rehabilitation Project*, through a technical assistance fund (TAF) loan under the ADF of UA1.20 million.[61]

[61] AfDB's Unit of Account (UA) = US$1.26065 as at 31 March 2001

- *Southern African Development Community Integration Capacity Building*. This entails institutional support and technical assistance under a TAF to the amount of UA0.8 million to the SADC Secretariat in order to strengthen its role in promoting regional integration.
- *Tazama Pipelines* – Single Point Mooring Project. This project is for the renewal of the Single Point Mooring System (SPM) and is made up of the renewal of submarine and land pipeline to the Tazama Pipelines Tank farm and the provision of handling equipment at the SPM. The project has been funded by the ADF to the amount of UA8.0 million.
- *Public Procurement Reform in COMESA*. The project consists of the following components: (i) data collection on the existing public procurement laws, institutions and practices; (ii) forum of stakeholders; (iii) development of a COMESA model that guarantees transparency and accountability in public procurement; (iv) legislation to support a public procurement reform in each member state; (v) institutional reforms and capacity building in national public procurement agencies; (vi) training of public procurement agencies staff; (vii) creation of capacity for the procurement information collection and publication (dissemination) at the COMESA Secretariat; and (viii) creation of capacities to sustain good procurement practices in COMESA. A TAF to the amount of UA1.35 million was provided for this project.

III.7 CONCLUSION

In relation to the EU and the USAID, the World Bank is not only a relative newcomer to the regional integration arena in southern Africa, but in terms of annual grant financing, even if leveraged by trust and other funds, it is also a 'small player' in the area of regional coordination functions. However, as the experience of the DBSA shows, a small grant budget need not be equated with insignificance and available funds for regional coordination functions could be used to eventually support financing for 'regional public goods and services' or multi-country projects, while also providing 'seed capital' to crowd in the grant financing of other donors.

Given the paucity of detailed information on the EU's program, for both the EC's regional indicative program (RIP) and the EU-SADC 'Berlin Initiative' (and the relationship between these two), it is difficult to determine exactly what programs are being financed, how they are being implemented as well as the implementation schedule of these. The 'bottom-up approach' - of collating the various SADC sectors' information (project-by-project) - also to determine donor support for regional integration initiatives, is not yet sufficiently advanced to gain a clearer insight. However, what is clear from the past is that SADC has failed to absorb huge amounts of annual EU RIP allocations. The reasons for this (usually attributed to SADC's weak institutional capacity, but hardly ever to the EC's administrative procedures) might be an issue for closer investigation, no less to determine opportunities for the Bank to 'unlock' and 'leverage' such funds.

From the USAID program and experience, it seems their modus operandi might be the opposite of the more 'passive' EU approach. USAID is widely involved in SADC programs, but in a highly performance-driven way. Due to built-in incentives in the functioning of USAID-RCSA, they seem to have a much more hands-on approach in the management and implementation of issues that they support than the EU. The down side of such an approach is that the donor and regional initiatives would not necessarily be synchronized. A great advantage is that they can provide (substantial) grant funding for 'regional institutions' such as the SAPP coordination centre as well as being closely involved in institutional strengthening or day-to day- operations within the sub-region. This is also due to the size and quality of their field offices, and specifically the SADC-RCSA in Gaborone.

There seems to be some overlap between the respective programs of the EU and USAID-

RSCA. A case in point is their support for the Finance and Investment Sector, where the EU has allocated a large amount of money for the protocol development process, while USAID focuses on two or three sub-components of this sector such as macro-economic convergence and investment. This again underlines the need for close cooperation among donors in their support of regional integration in the sub-region.

PART IV CONCLUDING REMARKS

The purpose of this background paper has been to inform the Bank about challenges and opportunities for strengthening socio-economic integration in southern Africa and then specifically in SADC by:

- highlighting some salient political, socio-economic and geographical features of the sub-region,
- giving an overview of recent developments in regional integration in southern Africa, and
- indicating the current involvement of the sub-region's most important international development partners.

Without the benefit of 'regional' economic and sector work, the paper has provided a broad-brush and impressionistic picture of selective developments within the southern African region. Each of the issues covered requires further study, while some other important issues might not have received attention at all.

The overview of recent developments in the ESA region finds that the political, institutional and socio-economic environment in the southern Africa region is heterogeneous in the extreme, converging in policies, but not necessarily in outcome. Together with the multiple memberships of countries in regional integration arrangements, this is posing particular challenges and opportunities for regional cooperation and integration and no less to development partners' support for integration in the sub-region.

On economic grounds, these difficulties urgently call for rationalization of RIAs to strengthen the basis of regional development in southern and eastern Africa. However, given that membership of RIAs is a country's political choice, based not only on economic but also political, social and geographical considerations, collapsing these different RIAs into more rational regional groupings seem to be a matter for the longer-term, politics permitting. Various past attempts by SADC and COMESA (also their predecessors) to eliminate the overlap in membership have failed. Thus, in 2001, the two organizations agreed to cooperate and work together, although it is acknowledged that better cooperation and working relationships would not be able to address the overlap problems of membership and mandates. Current areas for cooperation include trade analytical work, capacity building and negotiations; transport issues such as the implementation of the Yamoussoukro Decision and transit facilitation; and international relations such as preparations for and negotiations with the EU and in the WTO. Both the EU/ACP Cotonou Agreement and the NEPAD/AU agreements have been providing further impetus to cooperation among RIAs such as COMESA, SADC and the EAC. The unfolding intra-regional efforts towards deeper integration, notably towards forming CUs, and evolving international trade and development relationships are increasingly exposing problems of overlap and multiple membership, while the five SACU countries seems to be pulling away from the non-SACU SADC members in terms of the evolving international relationships with the EU, USA, China and Latin America. These forces could well result in different RIA configurations – whether in depth or geographical/sectoral coverage – than at present.

Currently, the ESA regional landscape thus makes for a fluid operating environment. To strengthen the basis of regional development in the ESA, for the immediate future, options for the Bank include:

- Providing support within the wider SADC/COMESA economic space by identifying potential opportunities for functional cooperation on very specific issues, such as by bringing the non-SADC COMESA countries within the folds of the SADC payments and settlement initiative, which the Bank is already supporting. Such support could be focused on approaches, which deal with the structural weaknesses on a country level, but within a 'common framework'. This option would depend on *inter alia* the SADC-COMESA and COMESA-EAC task forces identifying issues for inter-regional harmonization or joint programs, which, in turn, would reflect their needs in the Bank's support for such issues. Furthermore, opportunities for functional cooperation within common frameworks may also arise from continental or international agreements such as the Yamoussoukro Decision on the liberalization of access to air transport markets in Africa or strengthening of the architecture of the international financial system. In contrast, the usefulness of concerted liberalization efforts for strengthening regional integration by a group of countries such as RIFF could be questioned, is that they do not embed national/unilateral action within a coherent regional framework which is enforceable (although RIFF's predominant regional framework is that of COMESA). Nevertheless they may serve as useful forums for information exchange and as a peer-pressure mechanism.

- In its Economic and Sector Work on regional integration issues in southern Africa, to identify and analyze specific areas of current and future conflict and overlap. A focus area for such research over the short-term may be to analyze the implications for active member countries of both SADC and COMESA (specifically Zambia, Zimbabwe, Malawi and possibly Mauritius) and of SADC, COMESA and the EAC (Tanzania, Kenya and Uganda)[62] of rationalizing their regional and bilateral trade agreements with countries within the sub-region.
- Encouraging or supporting on regional-level (in the case of a CU) and country-level (as far as members of FTA's are concerned), the lowering of trade barriers vis-à-vis the rest of the world. This support should not only entail that for liberalization of trade in goods, but also in services as well as for addressing institutional and structural constraints inhibiting their competitiveness and supply response within a more open economic environment. This option stems from the hypothesis that, regional trade integration, particularly among developing countries, could be regarded as second-best type policies, although it could not be stated *a priori* whether any one regional trade agreement would be detrimental to member countries without closer analysis. In general and under reasonable assumptions, analysis has indicated that regional trade integration among small countries could be trade diverting and thereby lowering member countries' welfare. In this context, a key step to minimize any costs of trade diversion would be to sufficiently lower protection against non-member countries to counter trade-diverting effects.

In addition, in its ongoing regional and country-level work: (i) country teams would have to take into account the national implications of regional commitments, while the reverse would equally apply, i.e. the regional implications of national decision-making (such as countries' trade regimes or seemingly domestic policies, which could have regional 'spill-over effects'); and (ii) the regional integration team would – for its interaction and involvement in ESA – have to gain a much deeper understanding of specific economic and sector issues through focused analysis of e.g. the implications of the myriad of international, regional and bilateral trade and investment agreements for country and the regional growth and development prospects. Other issues which seem to require further analysis and assessment are: a regional compensatory mechanism in a sub-region characterized by a collection of developing and least developing countries, none which are wealthy enough to afford large intra-regional fiscal transfers; trade and transport facilitation measures, in a region where tariffs seem not to be the most significant barrier to trade, but rather NTBs and behind-the-border constraints; competitiveness, also on a firm basis; the integration of financial markets; and regional

[62] Angola, the DRC and the Seychelles have neither acceded to the SADC Trade protocol nor are they trading within the COMESA FTA of October 2000. Swaziland & Namibia receive derogations in terms of the COMESA FTA as they are members of SACU. Mozambique and Tanzania are members of SADC only, although the latter is also a member of the EAC, aiming to establish a CU. Nine countries have acceded to the COMESA FTA are Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe.

dimensions of good governance concepts and practices.

This overview has also indicated that the sub-region is attracting huge annual amounts of grant funding from bilateral and multilateral sources such as the EU and its constituent countries and USA, and to a lesser extent from the African Development Bank, the World Bank and sub-regional institutions such as the Development Bank of Southern Africa. In its ongoing regional work in ESA there is ample opportunity for partnerships with other donors and financiers to strengthen the collective support to regional integration in the ESA region.

REFERENCES

Adams M., 2002. *Tenure Security, Livelihoods and Sustainable Land Use in Southern Africa***.** Paper presented at a SARPN Conference, 4-5 June 2002

African Connection Initiative, 2001. *Business Framework*. March 2001. SA: Midrand. Unpublished Mimeo

African Economic Research, 2000. *Economic Growth in SADC*. October 2000.

African Development Bank, 1999. *Economic Cooperation and Regional Integration Policy Paper*. November 1999. Abidjan: AfDB.

African Development Bank, 2000. *Multinational: Technical Assistance to the Southern Africa Transport and Communications Commission (SATCC)*. May 19, 2000. www.afdb.org

Beaugrand, P., 1997. *Zaïre Hyperinflation, 1990-96. IMF, WP/97/50.*

Blomstron, M. and Kokko, A., 1997. *Regional Integration and Foreign Direct Investment. A conceptual Framework and Three Cases.* World Bank, Policy Research Working Paper, No. 1750. Washington DC, 1997.

Bloom, D.E. and Sachs, J.D., 1998. *Geography, Demography and Economic Growth in Africa* Brookings Papers on Economic Activity 2, Washington, D.C.: Brooking Institution

Brummerhoff W. 1999. *Financial Integration In Southern Africa - A Perspective From The SA Reserve Bank*. Unpublished paper delivered at a Seminar hosted jointly by WITS, RAU and London University, Johannesburg, SA

Cobham, D. and Robson, P., 1994. *Monetary Integration in Africa: Deliberately European Perspective*. World Development, Vol 22, No 3

Collier, P., 1999. *On the Economic Consequences of Civil War.* Oxford Economic Paper 51: 168-83

Collier, P. and Hoeffler, A. 1999. *Loot-seeking and Justice-Seeking in Civil War.* World Bank, Development Research Group, Washington, D.C.

Collier, P. and Gunning, J.W., **1993.** *Trade shocks in developing countries: consequences and policy responses.* European Economic Review (Netherlands); 37:[557]-65 April 1993

Collier, P. and Gunning, J.W., 1998. *Explaining African Economic Performance*. Journal of Economic Literature 37 (March): 64-111.

COMESA, 2000. *Harmonization of Telecommunications Regulatory Framework in COMESA Activities*. Unpublished Mimeo.

COMESA, 2001. *Brief For the World Bank and International Monetary Fund on Selected COMESA Activities.* March and September 2001. Unpublished Mimeos

COMESA, 2001. *Progress Report on the Regional Integration Facilitation Forum (RIFF).* Nairobi, Kenya, August 27, 2001.

COMESA. *The COMESA Treaty*. www.comesa.int.

COMESA. *News and Publications: Final Communiqué of the Sixth COMESA Summit*. www.comesa.int.

DBSA, 1996. *Bilateral agreements on trade concluded by SADC Member States*. Development Paper No 111, January 1996. Midrand, DBSA.

DBSA, 2000. *Interim Report For the Six Months To September 2000.* www.dbsa.org

DBSA, 2001. *Regional Support Strategy*. Midrand: DBSA. Unpublished Mimeo, 2001.

DeRosa, D., 1998. *Regional Integration Arrangements: Static Theory, Quantitative Findings and Policy Guidelines.* World Bank Background Paper, 1998. Unpublished Mimeo.

East African Community Secretariat, 2001. *Brief For the Donors Consultative Meeting* and *Supporting Information for the EAC Development Partners Consultative Meeting*. Dar-es-Salaam, Tanzania. September 12th-13th, 2001.

Ebrill, L., Stotsky, J. and Gropp, R., 1999. *Revenue Implications of Trade Liberalization.* IMF Occasional Paper 180, Washington D.C., 1999.

Economic Commission for Africa, 1999. *Decision Relating To The Implementation Of The Yamoussoukro Declaration Concerning The Liberalization Of Access To Air Transport Markets In Africa*. United Nations Economic and Social Council, December 1999.

Economic Commission for Africa, 2001. *Annual Report On Integration in Africa. Synthesis of Findings and Way Forward*. October 2001. Addis Ababa: UN-ECA.

European Commission (Directorate General XVII For Energy), 1999. *Assessing the Integrated Regional Potential For The Widespread Introduction and Application of Appropriate Renewable Energy Technologies Within SADC*. September 1999.

European Commission, 2000. *Evaluation Of the Cross-Border Initiative*. January 2000.

European Commission, 2001. *Country Papers and Progress Reports for the Initiative to Facilitate Cross-Border Trade, Investment and Payments in Eastern and Southern African and Indian Ocean*. Volume 4, June 2001.

European Union. *The Cotonou Agreement*. *Partnership Agreement Between the Members of the ACP Group of States and the European Community*. www.acpsec.org/gb/cotonou/accord1.

Global Coalition for Africa, 2001. *Rationalization of Regional Integration Institutions*. Economic Committee Meeting. Pretoria, South Africa May 2-3, 2001.

Global Coalition For Africa, 2001. *Regional Integration in Sub-Saharan Africa: Toward Rationalization and Greater Effectiveness*. Economic Committee Meeting. Pretoria, South Africa May 2-3, 2001.

Global Coalition For Africa, 2001. *Promoting Agricultural Productivity And Competitiveness*. Economic Committee Meeting. Pretoria, South Africa May 2-3, 2001.

Haacker, M., 2002. *The economic consequences of HIV/AIDS in Southern Africa.* IMF Working Paper/02/38. February 2002

Hollingworth, B. 2000. *An Overview of the Water Sector in Southern Africa.* DBSA, unpublished mimeo.

Imani Development, 2001. *Rationalisation of Regional Integration Institutions in Eastern and Southern Africa. An Overview of the Current Situation and separate studies on SADC, COMESA, EAC, SACU, RIFF, IGAD & IOC* for the Global Coalition for Africa Economic Committee meeting of 2-3 May, 2001, SA.

IMF, 1997. *Investment Implications of Selected WTO Agreements and the Proposed Multilateral Agreement on Investment*. IMF Working Paper/97/60.

IMF, 1999. *Debt Relief for Low-Income Countries. The Enhanced HIPC Initiative*. Pamphlet Series No 51. IMF, Washington, DC.

IMF, 1999. *The Revenue Implications of the Removal of Tariffs on Intra-COMESA Trade.* IMF. Washington D.C. December 1999.

IMF, 2000. *The Revenue Implications of the Elimination of Intra-SADC Tariffs.* IMF. Washington D.C. February 2000.

IMF, 2000. *The Economic Impact of HIV/AIDS in Southern Africa". Focus on Transition Economies. World Economic Outlook*, October 2000.

IMF, 2000 & 2001. *Trade Statistics. IMF, Direction of Trade Statistics, 2000 and 2001.*

International Telecommunication Union, 2001. *World Telecommunication Indicators*. March 2001.

Jenkins, C. and Thomas, L., 1997. *Is South Africa Ready for Regional Monetary Integration?* Centre For Research Into Economics and Finance in Southern Africa Research Paper no 10, 1997.

Lewis, J.D., 2001. *Reform and Opportunity: The Changing Role and Patterns of Trade in South Africa and SADC*. Africa Region Working Paper Series Number 14. March 2001.

Lewis, J.D., 2001. *Policies to Promote Growth and Employment in South Africa*. World Bank. Southern African Department. Informal Discussion Papers Number 16, July 2001.

Limao N. & AJ Venables, 1999. *Infrastructure, Geographical Disadvantage and Transport Costs.* World Bank Development Research – Policy Research Working Paper 2257.

Mehran, S., Ugolini, P., et. al., 1998. *Financial Sector Development in Sub-Saharan African Countries*. IMF Occasional Paper 169, 1998.

Masson, P. and Pattillo, C., 2000. *Monetary Union in West Africa (ECOWAS): An Assessment of Its Feasibility and Options for Achieving It.* IMF Seminar Series (INTERNATIONAL); No. 2000-48.

Oyejide A., Elbadawi, **I., and Yeo, S. (eds.), 1999.** *Regional Integration and Trade Liberalization in Sub-Saharan Africa. Vol. 1* London: Macmillan

Phaleng Consultancies (PTY) LTD and Imani Development (PTY) LTD, 2001. *Final Report on the Provision of Data Collection and Analysis Services for the USAID/RCSA Strategic Objective, No. 2*. May 2001.

Pitman W.V. and Hudson J. 1997. *Regional Water Resources: Prospects for Trade and Cooperation* in **Kritzinger-van Niekerk L (Ed.),** *Towards Strengthening Multi-sectoral Linkages in Southern Africa***.** DBSA Discussion Paper, No. 33.

Robert Mattes, Michael Bratton, Yul Derek Davids and Cherrel Africa, 2000. *Public Opinion and the Consolidation of Democracy in Southern Africa: An Initial Review of the Key Findings of the Southern African Democracy Barometer*. Southern African Democracy Barometer. The Afrobarometer Series, Number 1, July 2000.

Robert Mattes, Michael Bratton, Yul Derek Davids and Cherrel Africa, 2000. *Views of Democracy in South Africa and the Region: Trends and Comparisons*. Southern African Democracy Barometer. The Afrobarometer Series, Number 2, October 2000.

SACU, 2000. *Regional Strategy Approach Paper 2000*. Draft, December 2000. Unpublished Mimeo.

SADC. *Various Annual Reports, Records of Council of Ministers Meetings, SADC Extraordinary Summit, Windhoek, Republic of Namibia: Draft Annotated Agenda, 9 March, 2001;* and *Cost Implications of the Restructuring of SADC Institutions, 2001*. SADC Secretariat, Gaborone, Botswana. Unpublished Mimeos.

SADC. *Culture, Information and Sports Sector.* Various Annual Reports.

SADC. *Employment and Labour Sector*: Various Annual Reports; *Record of the Meeting of Ministers and Social Partners of the Employment and Labour Sector.* Pretoria, Unpublished Mimeo, 1997; and *Discussion Paper on A Regional HRD Strategy and Strategic Policy Framework for SADC*. Mbabane: SADC HRD Sector Coordinating Unit, Unpublished Mimeo, 1997.

SADC. *Energy Sector.* Various Annual Reports and the *Southern African Power Pool Telecommunications Study. Final Report.* May 2001.

SADC. *Environment and Land Management Sector.* Various Annual Reports.

SADC. *FANR Sector*: *Overall Coordination and Food Security Sector; Southern Africa Centre for Co-operation in Agriculture Research and Training; Crop Sector; Forestry Sector: Maritime Fisheries and Resources Sector* and *Inland Fisheries; Livestock Production and Disease Control Sector;* and *Wildlife*. Various Annual Reports.

SADC. *Finance and Investment Sector.* Various Annual Reports.
SADC, 2000. *Executive Summary of the Studies on Convergence & Adjustment, Investment and Development Finance*. Pretoria, Finance and Investment Sector Coordinating Unit**,** June 2000.
SADC, 2000. *Macroeconomic Convergence and Adjustment Study*, by Riddell, R. C. as edited by Mistry P.S. and Kritzinger-van Niekerk, L. SA: Finance and Investment Sector Coordinating Unit.

SADC. *Gender.* Various Annual Reports.

SADC. *Health Sector.* Various Annual Reports.

SADC. *Human Resources Development Sector.* Various Annual Reports.

SADC. *Legal Affairs Sector.* Various Annual Reports.

SADC. *Various SADC Legal Instruments: 1992 Declaration and Treaty of the Southern African Development Community, Protocol On Combating Illicit Drugs, Protocol On Education and Training, Protocol On Energy, Protocol On Health, Protocol On Development Of Tourism, Protocol On Immunities and Privileges, Protocol On Mining, Protocol On Trade and Amendment Protocol On Trade, Protocol On Transport, Communications and Meteorology, Revised Protocol On Shared Watercourses, Charter Of The Regional Tourism Organization Of Southern Africa* (RETOSA), *Declaration On Productivity, Gender and Development: A Declaration by Heads of Government of the Southern African Development Community*. Gabarone, Botswana, Mimeos.

SADC. *Mining Sector.* Various Annual Reports.

SADC. *Official SADC Trade, Industry and Investment Review, Various Issues.*

SADC. *Regional Drug Control Programme*. Various Annual Reports and Unpublished Mimeos.

SADC. *Trade and Industry Sector.* Various Annual Reports.
SADC, 1997. *Study To Determine Tariff Reduction Schedules For The Implementation of the* ***SADC*** *Protocol on Trade.* Final Report. October 1997.
SADC. *Non-Tariff Barriers and Regional Trade Promotion*. Conference Report. Jointly Organized by SADC Secretariat, GTZ and Konrad Adenauer Foundation. Linvingstone, 26-29.11.1997.

SADC. *Transport, Communications and Meteorology Sector.* Various Annual Reports.
SADC, 1998. *Investment in Transport Act. Model Legislation*. SATCC, Maputo, Mozambique, May 1998.

SADC, 1999. *Border Post Legal Reform*. Consilium Legis for SATCC, Maputo, Mozambique,May 1999.
SADC, 2001. *Transport Investment Forum: Changing Transport for Growth and Integration in Southern Africa. Background Paper on Transport Investment Opportunities and Project Profiles*. Volume One, and *An Overview of the Southern African Regional Development Corridors*. Volume Two. SATCC. Windoek, 24-26 April 2001

SADC. *Tourism Sector.* Various Annual Reports.

SADC. *Water Sector.* Various Annual Reports.
SADC, 1992. *Integrated Water Resources Development and Management in the Southern African Development Community.* First Round Table Conference. SADC Water Sector Coordination Unit.
SADC, 1998. *Regional Strategic Action Plan For Integrated Water Resources Development and management in the SADC Countries (1999-2004)*. SADC Water Sector Coordinating Unit. September 1998.
SADC, 2001. *Terms of Reference of a Study to Quantify the Surface Water Resources of Southern Africa*. February 2001.
SADC, 2001. *SADC Water Sector Regional Strategic Action Plan For Integrated Water Resources Development and Management.* Progress Report 2001. September 2001.

Salman M.A.S. and Boisson de Chazoures, L, 1998. *International Watercourses. Enhancing Cooperation and Managing Conflict*. World Bank Technical Paper No. 414. Washington D.C. 1998.

Schwab, K. et. al., 2000. *The African Competitiveness Report 2000/2001*. World Economic Forum. Oxford University Press, 2000.

Stals, C.L., 1995. *The functions of the South African Reserve Bank and Closer Financial Cooperation in Southern Africa.* Address at the Annual Award Dinner of the Botswana Institute of Bankers, Gaborone.

Subramanian et al., **2000.** *Trade and Trade Policies in Eastern and Southern Africa*. IMF Occasional Paper, 196. Washington D.C. 2000.

Tsikata, Y.M., 1999. *Liberalization and Trade Performance in South Africa*. Discussion Paper No 13. The World Bank Southern Africa Department. July 1999.

UNCTAD, *World Investment Report*, Various Issues. UNCTAD: Geneva

United States International Trade Commission, 2000. *U.S. Trade and Investment With Sub-Saharan Africa*. Investigation No. 332-415. First Annual Report. December 2000.

United States International Trade Commission, 2001. *U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act*. Washington D.C. May 2001.

USAID, 2000. *Building Democracy in Southern Africa. Initiative for Southern Africa*. www.usaid.gov/. 2000.

USAID, 2000. *Support for Transport and Telecommunications Reform in Southern Africa: Protocol Implementation*. USAID. Regional Center for Southern Africa. Unpublished Mimeo, Gaborone, Botswana. October 6, 2000.

USAID, 2001. *Regional Economic Review*. January 2001. www.usaid.gov/

USAID, 2001. *Analysis of Tariff Reduction Offers for the SADC Trade Protocol*. RAPID Project: Support to National Working Groups on the Implementation of the SADC Free Trade Agreement. Unpublished Mimeo, Gaborone, Botswana, February 2001.

USAID, 2001. *Energy Program Sub-Strategy for Legal, Regulatory and Policy Assistance to the SADC Countries*. Center for Environment, Office of Energy, Environment, and Technology and the Regional Center for Southern Africa. Unpublished Mimeo, Gaborone, Botswana, March 2001.

USAID, 2001. *Non-Tariff Barriers and Other Obstacles to Trade in East Africa*. Nairobi (Kenya). Unpublished Mimeo, June 2001.

USAID, 2001. *SADC Regional Freight Transport Corridors: Commodities, Tonnages, and Freight Rates Per Mode*. A USAID-RCSA, RAPID Project. Unpublished Mimeo, Gaborone, Botswana, August 2001.

USAID, 2001. *Sub-Sector Strategy: Transportation.* RAPID Project. Unpublished Mimeo, Gaborone, Botswana. September 2001.

USAID, 2001. *Recommendations for the RCSA Customs Sub-Strategy.* RAPID Project Unpublished Mimeo, Gaborone, Botswana. September 4, 2001.

USAID, 2001. *Recommendations for the RCSA Trade Sub-Strategy.* RAPID Project. Unpublished Mimeo, Gaborone, Botswana, September 6, 2001.

USAID, 2001. *Sub-Sector Strategy: Telecommunications.* RAPID Project. Unpublished Mimeo, Gaborone, Botswana, October 17, 2001.

Winters, Alan 1996. *Regionalism versus Multilateralism.* International Trade Division, DECRG. World Bank, Washington DC.

World Bank, 1998. *Southern African Sub-Regional Strategy.* World Bank, Washington DC.

World Bank, **2000.** *Can African Claim the 21st Century?* World Bank, Washington, DC.

World Bank, 2000. *Trade Blocs*. World Bank Policy Research Report. Washington DC.

World Bank, 2001. *Institutional Developments in the Southern Africa Development Community*. World Bank, SA Country Office. Unpublished Mimeo prepared by L. Kritzinger-van Niekerk, AFTM1, April 2001.

World Bank, 2001. *Memorandum of the President for A World Bank Regional Integration Assistance Strategy for West Africa.* AFTM4, July 2001. World Bank, Washington, DC.

World Bank, 2002. *Water Resources and Poverty in Africa: Essential Economic and Political Responses*, Unpublished Mimeo prepared by D Grey and C Sadoff for the African Ministerial Conference on Water, April 2002

World Trade Organization (WTO), 2001. *Legal Texts: The WTO Agreements*. www.wto.org.

Yeats, A.J., 1998. *What Can Be Expected From African Regional Trade Arrangement? Some Empirical Evidence.* World Bank, Policy Research Working Paper, No 2004. Washington DC, 1998.

ATTACHMENT 1

TRADE AND / OR DEVELOPMENT ARRANGEMENTS IN SOUTHERN AFRICA AND BY SOUTHERN AFRICAN COUNTRIES

Attachment 1a

Regional Cooperation / Integration Arrangements in Eastern and Southern Africa

Box A.1.1 The Southern African Customs Union (SACU)

The Southern African Customs Union (SACU) was created in 1910 between the newly established Union of South Africa and the separate protectorates of Botswana, Lesotho, and Swaziland. The agreement was renegotiated in 1969 and Namibia joined this regional group in 1990. SACU currently comprises 5 member States: SA and the so-called 'BLNS' countries, namely Botswana, Lesotho, Namibia, and Swaziland.

A. Main Objectives

The SACU had three main goals:

- Encourage economic development and diversification of member countries;
- Focus on the economic and social development of less-advanced member States;
- Ensure that the benefits arising from intra-regional and international trade are equally shared among the member countries.

B. Rules

The 1969 SACU agreement stated that member countries should apply the customs, excise, sales, antidumping and safeguard duties to goods imported from third countries non-SACU members. The treaty left some room of freedom: a SACU-member could join other trade agreements, provided the terms of such agreements did not conflict with the provisions of the SACU agreement (SACUA). Each SACU-member kept its own legislation on quantitative restrictions on goods imported from outside the group. Goods grown, produced or manufactured in the SACU area could be freed from any duty or quantitative restriction. Member countries could also not impose any duties on imports from any other member of goods which were imported from outside SACU. In order to protect infant industries of less-developed countries, SACU-members, other than SA were allowed to apply additional duties or increase duties. For a common regional development purpose, all customs, excise, sales, and additional duties collected by SACU members were pooled and distributed to members. The BLNS Countries benefited from the highest shares of collected revenues to compensate for losses they might have incurred resulting from their participation in SACU. A revenue distribution formula was designed to compensate the smaller economies for the drawbacks of being in a customs union with a much larger and more developed country whose own trade and industrial policy determines tariff levels. A formula was used to calculate revenue shares for the BLNS countries, with SA's share of the revenue being the residual after payments to the smaller member states had been determined. To compensate the BLNS countries for polarization, loss of fiscal and industrial policy sovereignty and trade diversion, the formula had an in-built multiplier that enhanced BLNS revenue receipts by a nominal 42%. However, it was soon found that what the BLNS countries received in this way tended to widely fluctuate from year to year. This problem was addressed by the introduction of a stabilized revenue rate, i.e. the rate of revenue earned on imports and excisable consumption. Since 1977 the revenue rate had been stabilized by means of an averaging formula that ensures that deviations around a target level of 20 percent are kept to a minimum and within the band of 17% as a minimum and 23% as the maximum.

C. Negotiation of a New Agreement

The operations of the 1969 SACUA have been criticized by all the SACU members, each from their own perspectives. In 1994 when the new South African Government came to power the re-negotiation of the SACUA were initiated. The terms of reference of the renegotiation included the following, which encapsulated the criticism of the respective members:

- The lack of consultation and the democratization of SACU's decision-making procedures;
- The establishment of a permanent SACU authority (a secretariat) to regulate and manage the affairs of the institution as well as the provision of dispute settlement and customs tariff consultation mechanisms;
- Specific complaints of the BLNS economies, notably the price-raising effect of the South African tariff, delays in the disbursement of revenue and the perceived influence of SACU provisions and practices on the industrial development of the BLNS;
- An appropriate industrial strategy and closer cooperation regarding industrial development policies, including infant industry protection and the development of industries that are of major importance to the members of the Customs Union;
- The development of agriculture and agro-industries and the marketing of agricultural products in the CCA; and
- The retention or exclusion of excise duties as part of the revenue pool.

The renegotiation of the SACU Agreement was largely concluded in 2001, except for some institutional arrangements, and now requires ratification by the countries' parliaments. The new agreement envisages two major changes:

Institutional: The SACU Council of Ministers will decide external tariff changes and recommendations on such tariff changes will be made by a new Tariff Board (composed of independent experts) or the SACU Commission (senior officials reporting to the Council). A new secretariat, responsible for SACU's administration, will be established either in Lesotho, Namibia or Swaziland. This decision is still outstanding.

Revenue Sharing: Unlike the existing formula, the new one would be bound to the actual amount of customs and excise revenue collected. The new agreement simplifies the formula, eliminates the revenue floor and shortens the time lag between actual trade and distribution of tax receipts: According to this new formula, the total revenue accruing to each member state will be calculated as follows:

- Customs revenue will be distributed in proportion to the value of imports from other SACU countries;
- Excise revenue – 85% will be distributed on the basis of relative GDP of the five countries, and the remaining 15% will be distributed on the basis of per capita income, in the form of development assistance.

Box A.1.2 Multilateral Monetary Agreement (MMA)

The Multilateral Monetary Agreement (MMA) creates a CMA (Common Monetary Area) with four countries as members, namely SA, Lesotho, Namibia and Swaziland.

A. Major features are the following[1]

- The South African Rand serves as a *de facto* common currency that is widely used and accepted in the participating countries. In terms of the MMA, member states are entitled to issue their own national currency and all three smaller countries have made use of this provision. These currencies are *de jure* legal tender only in the issuing country.
- The currencies of these countries have been pegged to the South African Rand at par since their introduction and their banknotes are freely convertible into Rand, but are not legal tender in SA. Swaziland cancelled the legal requirement of a 1:1 linkage between the Rand and the Lilangeni in 1986, but has maintained parity to date.
- Owing to the parity maintained against the South African Rand by currencies of the three other member states, all countries in the CMA have the same exchange rates against outside currencies. The smaller CMA members, with the exception of Swaziland, do not have the option of changing their exchange rates to attain or maintain external competitiveness.
- The countries share a common pool of foreign exchange reserves primarily managed by the South African Reserve Bank. The other members nevertheless also have the right to hold foreign assets managed by them, which are adequate for their own immediate needs. In this regard, central banks and authorized foreign exchange dealers in these countries have access to the foreign exchange market in SA for permissible transactions and the South African Reserve Bank will, on request, make the required foreign exchange available.
- The system of exchange control in force in SA, as amended from time to time, is in all material aspects substantially in agreement with rules applied by the other three member states relative to third countries. The contracting parties are obliged to enter into consultations on related matters, particularly where control provisions of another contracting party are evaded.
- In terms of the provisions of the MMA, the government of SA must make compensatory payments to the other contracting parties. These payments represent an imputed return on the Rand currency circulating as legal tender in their areas. As Swaziland suspended the use of Rand as legal tender in 1986, it has since that time not been entitled to any payment in terms of this arrangement.
- The contracting parties hold regular consultations to facilitate and ensure continued compliance with the MMA with the view of reconciling their different interests in the formulation and implementation of monetary and foreign exchange policies for the CMA. For this purpose and for any matter arising from the MMA, a Common Monetary Area Commission was established, consisting of a representative and some advisers from each member.
- The MMA has a built-in flexibility to accommodate the changing needs of participants. Various bilateral agreements were entered into in the past, mostly between SA and one of the member states, to provide for greater autonomy for the other countries within the framework of continued monetary co-operation in the region.
- There are no restrictions on the transfer of funds, whether for current or for capital transactions to or from the areas of any other contracting party. Some exceptions are allowed. A party may, for example, apply restrictions as part of the prudential investment or liquidity requirements prescribed for financial institutions, provided that such restrictions do not discriminate against any other contracting party and that proper notification is given. The free movement of capital within the CMA in terms of the MMA is a crucial aspect of this agreement and possibly one of the major benefits to the smaller member states. This implies that there is no restriction on cross border investments from SA to the other members, which, of course, contributes to economic integration.
- Institutions in the public and private sector in the LNS countries, subject to relevant financial laws and policies applicable to counterparts in SA, have a right of access to the South African capital and money markets.

B. Some Implications for its Member States

- A relatively high level of monetary integration has been attained between the four members of the CMA and the agreement has proved to be relatively successful in its aims.
- Although the required legal linkage between the currencies of SA and Swaziland was cancelled in 1986, Swaziland has not floated its currency against the rand,
- The free movement of capital within the CMA could benefit the LNS countries in various ways. Foreign investors could for example channel their capital outlays through the stronger economy of SA. The free movement of goods in terms of the Customs Union Agreement between the four CMA members and Botswana is also partly facilitated by unrestricted capital flows within CMA.
- The depreciating value of the rand over the long period has increased the cost of imports from the rest of the world for the LNS countries. Their exports to the rest of the world, however, could have benefited from the ongoing depreciation of their currencies.
- The strict anti-inflation policy of the South African Reserve Bank during the past years has made itself felt throughout the CMA. Regional capital mobility has mostly ensured that interest rates within the region are determined simultaneously in the unified market.

Source **Brummerhoff W. 1999.** *Financial Integration in Southern Africa - A Perspective from the SA Reserve Bank.* Unpublished paper delivered at a Seminar hosted jointly by WITS, RAU and London University, Johannesburg, SA

Box A.1.3 East African Community (EAC)

Dating back to the 20th century, with another failed attempt to integrate between 1996 and 1997, the EAC was established by Treaty on July 7, 2000 and comprises three countries: Kenya, Uganda and Tanzania.

A. Main Objectives

The EAC seeks three priority objectives:

- Equitable development among member States;
- Establish a single market and investment area in the region; and
- Promote sustainable utilization of the region's natural resources and effective protection of the environment.

B. Areas of Priority

The EAC's programs and actions are aimed at:

- Facilitating the free movement of people, goods, services and capital;
- Providing adequate basic infrastructure;
- Harmonizing standards, specifications, trade documentation and investment policies;
- Harmonizing macroeconomic and sectoral policies;
- Providing trade financing and other facilities to the growth of exports;
- Achieving convertibility of the three East African currencies.

C. Work Agenda

The EAC's work agenda focuses on selected activities to accelerate the process of regional integration including:

- Trade liberalization, with the establishment of a customs union by 2004,
- Private Sector Development,
- Regional Infrastructure Systems,
- Natural Resource Development,
- Strengthening the Organizational Structure of the Secretariat,
- Institution Building, and
- Human Resource Development.

D. Achievements

The EAC's main achievements, among others, are: (i) the realization of full convertibility of the three East African currencies as well as full liberalization of the external current account, and progress towards the opening of the capital account; (ii) the development of a macroeconomic framework for the region to guide countries towards economic convergence; (iii) the involvement of the private sector organizations to promote cross-border trade and investments through the formation of East African Business Council; and (iv) the implementation of tripartite agreements for the avoidance of double taxation, road transport, and inland waterways.

Box A.1.4 The Indian Ocean Commission (IOC)

The IOC was created in 1984 by the General Agreement of Co-operation in Victoria (Seychelles) and comprises five members: Madagascar, Mauritius, Seychelles, Comoros and Reunion Island.

A. Mission

To contribute, through regional co-operation, to the permanent development of the Member States of the IOC.

B. Ten-year Objectives

- Strengthening of Political and Strategic Dialogue
- Preparing the region and its economic actors to face the challenge of globalization.
- Affirming and enhancing the Indian Ocean Identity
- Representing the region's interests in regional and international fora
- Promoting and facilitating sectoral co-operation

C. Areas of Cooperation

Areas of cooperation include:

- Trade
- Investment
- Flexibility in the movement of people
- Agriculture
- Fishing and ecosystem conservation
- Cultural, scientific, technical and educational areas

The IOC has a strong focus on the development of trade as reflected in the implementation of an Integrated Regional Program for Development of Trade (PRIDE). PRIDE contains two components:

- a general framework of actions aimed at liberalizing trade in goods and services, investment, capital movements, and the free circulation of people; and
- a program aimed at facilitating business contact and partnerships through trade exhibitions and organizations of trade missions.

The IOC members, being members of COMESA as well, also participate in the trade integration strategy of COMESA.

Box A.1.5 Intergovernmental Authority on Development

A. Creation and History

The Intergovernmental Authority on Drought and Development (IGADD) was formed in 1986. Its mandate was confined to the issues of drought and desertification. In the 1990s, the founding member States decided to revitalize the organization. Its mandate was expanded to issues of politics, economics, development, trade and security. On March 21 1996, the Heads of State and Government, at the Second Extraordinary Summit in Nairobi, approved and adopted a new charter, structure and new name for the Authority, which then became the Intergovernmental Authority on Development (IGAD). The member States are: Eritrea, Ethiopia, Djibouti, Kenya, Uganda, Sudan, and Somalia.

B. Three Areas of Cooperation

Priority areas of co-operation include:

- Conflict Prevention, Management and Resolution and Humanitarian Affairs;
- Infrastructure Development (Transport and Communications);
- Food Security and Environmental Protection.

C. Activities

The main recent activity is the establishment of two Sub-committees by the IGAD Council of Ministers. Their mission has been to deal with the civil war in Sudan as well as the conflict in Somalia.

Box A.1.6 Regional Integration Facility Forum (RIFF)

The Regional Integration Facility Forum (RIFF) follows on the Cross-Border Initiative that was launched in the early nineties. The RIFF is a loose regional initiative aimed at helping faster reforming countries in Eastern and Southern Africa and the Indian Ocean to promote trade and investment. It currently comprises 14 countries: Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe. The initiative is co-sponsored by the World Bank, the IMF, the EU and the African Development Bank.

A. Main Objectives

The object and purpose of the RIFF is to facilitate participating countries to manage and implement outward-oriented economic policy reforms. The initiative enables countries to fast track their reform process in order to increase cross-border trade and payments. The RIFF also promotes the interaction between private and public sector and their involvement in the design and implementation of economic policy measures.

B. Agenda

The RIFF focuses on four key areas:

1. Trade liberalization, including through: (i) reduction of tariffs and elimination of non-tariff barriers such as export and import licensing, and quotas; and (ii) simplifying customs documentation and procedures to facilitate trade. In the context of the Trade Road Map adopted in March 1995, the following objectives were added-up: (iii) reduction of the trade weighted average of external tariffs to no more than 15 percent; (iv) simplification of the tariff structure to one having no more than three (non zero) rates with a maximum rate of 20-25 percent covering all import-specific taxes and charges; (v) elimination of tariffs on intra-regional trade by 1998; and (vi) reduction in customs duty exemptions to a minimum consistent with international treaty obligations.

2. Payments and Exchange Systems, with the main goal being to open up the financial and liberalize the payment system. Measures include: (i) increasing competition in the financial sector and facilitating cross-border activities by commercial banks and other financial institutions; (ii) relaxing exchange controls and other restrictions on current account transactions; and (iii) relaxing controls on the capital account.

3. Investment, with the major objective being to improve the investment environment by: (i) simplifying investment codes and procedures, including a maximum period for approvals and a one-stop investment facilitation centre; (ii) investment guarantees; and (iii) elimination of double taxation.

4. Labor Markets, with the objective to ease the movement of persons by simplifying visa requirements and regulations for processing of residence and employment permits.

5. Institutional Development, aimed at the development of capacity building among the public and private sector in formulating and analyzing economic policies. The National Technical Working Groups established by the RIFF have the responsibility to advise respective governments on regional integration issues. Subsequently, Regional Technical Working Groups have been formed to address the latter issue.

C. Overall Effectiveness and Results Achieved

- The implementation of the RIFF agenda has been remarkable, though uneven. Uganda and Zambia have implemented many of the RIFF-supported reforms contained in the Concept Paper, while for some other countries such as Malawi and Zambia the RIFF has served as an incentive in favor of the implementation of the economic reforms. However, the agenda is far from accomplished.
- On the trade side, many countries have made progress in opening trade regimes. Five countries moved to open trade regimes compared to zero at the outset of the RIFF. As of January 2000, Kenya, Malawi, Rwanda, Tanzania, Uganda and Zambia have lowered their maximum tariffs to 25 percent or below while Madagascar has reduced its maximum rate to 30 percent. Five Countries (Comoros, Kenya, Rwanda, Uganda and Zambia) have met the RIFF target of no more than three non-zero rates. Seven countries (Kenya, Namibia, Rwanda, Swaziland, Tanzania, Uganda and Zambia) have reduced their trade weighted average tariff to 15 percent or less. However, progress towards the elimination of tariff exemptions remains modest. In most of the participating countries, government imports, parastatals and new investments still benefit from exemptions. The elimination of non-tariff barriers remains on the agenda. Many countries still apply import bans, quotas and import licensing. For instance, as of January 2000, bans and quotas were still required in Seychelles and import licensing in Namibia, Seychelles, Swaziland and Zimbabwe. Government owned monopolies exist in some countries: Comoros (petroleum), Mauritius (cement and petroleum), Namibia (food crops), Seychelles (a wide variety of goods), Swaziland (maize), Tanzania (petroleum) and Zambia (petroleum and maize).
- On financial issues, almost all countries have liberalized the current account and have moved to market determined exchange rates. Nearly all RIFF countries implemented Article VIII Sections of the IMF Articles of Agreement.
- In many countries the business environment has been substantially improved by the simplification of investment application and approval procedures.

D. Arguments in Favor of RIFF

Arguments for RIFF have included the following:

- As a 'virtual organization', it is a flexible regional structure that permits countries to join and or withdraw when they judge appropriate.
- It provides a regional framework for participating countries to determine the reform agenda and implement

economic reforms at their own speed.
- It facilitates collaboration between the co-operating partners and members to discuss trade and investment issues.
- It has addressed the missing 'regional dimension' within the Bank-Fund structural adjustment packages.

E. Arguments against RIFF

Arguments against RIFF have included the following:
- RIFF, a concerted liberalization effort for strengthening regional integration by a group of countries, does not embed national / unilateral action within a coherent regional framework which is enforceable (although RIFF's predominant regional framework is that of COMESA). Thus it could be seen as a forum for information exchange and as a peer-pressure mechanism rather than a 'useful' mechanism for regional integration.
- The initiative is only a mechanism to accelerate Bank-Fund supported structural reforms. It has had limited success in crowding in additional funds from donors.
- Swaziland and Namibia's ability to implement aspects of the RIFF agenda such as tariff reforms and relaxation of foreign exchange controls have been limited due to SA's non-participation in the initiative.

Box A.1.7 The Common Market for Eastern and Southern Africa (COMESA)

The Treaty establishing the PTA was signed in Lusaka in December 1981 and came into force on 30th September 1982, after being ratified by more than seven signatory States. COMESA was created in November 1993, by Treaty, superseding the Preferential Trading Agreement (PTA) for Eastern and Southern African States that existed since 1981. The Treaty was then ratified in December 1994. The inception of COMESA was to take advantage of a larger market size, to share the region's common heritage and destiny and to allow greater social and economic co-operation with the ultimate objective of creating an economic community. COMESA currently comprises 20 member states: Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe.

A. Main Objectives

The aims and objectives of COMESA, as defined in the Treaty and its Protocols, are to facilitate the removal of the structural and institutional weaknesses in member states, so that they are able to attain collective and sustained development. Specifically, the mandate of COMESA as envisaged in Article of 3 of the Treaty is:
- To attain sustainable growth and development of the member States;
- To promote joint development in all fields of economic activity and the joint adoption of macro-economic policies and programs;
- To co-operate in the creation of an enabling environment for foreign, cross border and domestic investment including the joint promoting of research and adaptation of science and technology for development;
- To co-operate in the promotion of peace security and stability among the Member States;
- To co-operate in strengthening the relations between the Common Market and the rest of the world, and the adoption of common positions in international fora; and
- To contribute towards the establishment progress and realization of the objectives of the Africa Economic Community.

B. Goals

The Treaty and Protocols establishing COMESA define the main objectives and can be summarized as follows:
- Setting-up of a **full free trade area** that ensures the free movement of goods and services produced within the COMESA region, and the removal of all non-tariff barriers;
- Establishment of a **customs union** with a single tariff rate that will be applied to goods and services imported from non-COMESA countries by 2004;
- The **free movement of capital and investment**. The adoption of common investment practices will facilitate capital and investment movement;
- The **free movement of persons** supported by the adoption of common visa arrangements;
- A progressive setting-up of a **payments union** based on the COMESA Clearing House; and
- Establishment of a **common monetary union by 2025**.

C. Areas of Priorities

The COMESA strategy has so far been to emphasize the removal of trade and investment barriers and with specific focus on trade liberalization and facilitation; payments systems; monetary cooperation; competition policy; aspects of the investment environment to promote private sector activity; immigration and free movement of persons. Although good progress has been made using this approach, the progress in this agenda remains incomplete. The agenda is expected to broaden during the next decade, by giving increased prominence to targeting the supply side of integration, by focusing on e.g. investment in the productive sectors and infrastructure, and promotion of financial markets. In implementing its vision and strategy, the following key targeted areas of development form the core of COMESA's integration agenda:
- Trade Development – moving towards a Customs Union and Monetary Union
- Investment Development - Industrial co-operation and development, including competition policy and public procurement system, capacity building, implementation of the COMESA agricultural strategy and private sector

support programs

- Infrastructure Development - transport infrastructure development, transport facilitation, liberalization of air transport services, harmonization and development of communication and information facilities, energy development, and environment conservation.
- Science and Technology Development – supportive policy environment, and adaptation and transfer of new and emerging technologies.

D. Recent Developments

The Free Trade Area: The COMESA Free Trade Area (FTA) has been effective since October 2000, when 9 countries became members of the FTA: Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe. At the time, the other Member Countries of COMESA did not join but were applying tariff reductions from 0% to 80%. A customs union with a common external tariff (of 0 percent, 5 percent, 15 percent, and 30 percent on capital goods, raw materials, intermediate goods and final goods respectively) is planned by the year 2004. The rules of origin indicate that to qualify as an 'originating good' (i) the c.i.f. value of imported materials contained in such good shall not exceed 60% of the total cost of the materials used in the production of such good, or (ii) the value added resulting from the process of production accounts for at least 35% of the ex-factory cost of the goods[1], or (iii) the goods are classified or become classifiable under a tariff heading other than the tariff heading under which they were imported.

In order to promote free trade, the COMESA Secretariat is currently implementing a program aimed at improving the transport and communications systems of the region, including through the adoption of Harmonized Road Transit Charges, a Yellow Card (vehicle insurance) Scheme, Customs Bond Guarantee Scheme, and an Advance Cargo Information System. Three specialized institutions, a Trade and Development Bank, Reinsurance company, and the COMESA Clearing House have been created to develop the financial infrastructure. In the area of institutional support, a Court of Justice has been established in June 1998 and provides COMESA with rules, which can be enforced through a court of law. The protocol on a free movement of persons is gradually implemented.

Other Activities, include:

- **Competitiveness and business environment:** COMESA has commenced a study on the impact of the CET on the competitiveness of the private sector.
- **Telecommunications:** the commissioning of a USAID-funded study on how to harmonize telecommunications policy and regulations; the COMTEL Project intended to create a regional terrestrial telecommunications interconnectivity; and the COMESA plans to foster E-Commerce in Southern Africa.
- **Transport:** the design of an infrastructural master plan for the COMESA region.
- **Financial Sector Cross-Border Payments and Settlements Systems:** the development of a cross-border or regional payment and settlement system (REPSS). Key issues that the region faces to establish a cross-border payment and settlement systems include: (i) the management and holding of regional currencies by central banks and the exposure risk; (ii) the issuance of letters of credit in local currencies; (iii) movement to market-determined exchange rates by all participants in the system.

Relationship with other RIAs: At the Sixth COMESA Summit held in Cairo, Egypt, 22-23 May, 2001, SADC and COMESA agreed to establish a joint COMESA / SADC Task Force at Secretariat level to coordinate the programs and activities of both institutions and to report on progress through their relevant policy organs. Collaboration is ongoing in a number of areas such as customs procedures, statistical trainings and a study on the impact of the various trade regimes on the private sector. Recently, the COMESA and EAC Secretariats have also entered into an agreement to exchange information and cooperate on programs.

[1] Only Egypt has maintained a 45% value added criteria.

Box A.1.8 The Southern African Development Community (SADC)

The Southern African Development Community was created in August 1992 to replace the former Southern African Development Coordination Conference (SADCC). SADC currently comprises 14 member states: Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, SA, Swaziland, Tanzania, Zambia, and Zimbabwe. The Treaty **principles** (Article 4) commit SADC and its Member States to:

- *'Sovereign equality of all member States;*
- *Human rights, democracy and the rule of law;*
- *Equity, balance and mutual benefit;*
- *Peaceful settlement of disputes.'*

A. Main Objectives

1. Economic

- eradication of poverty
- achieve development and economic growth, enhance the standard and quality of life of the peoples of Southern Africa and support the socially disadvantaged through regional integration
- promote self-sustaining development on the basis of collective self-reliance, and the interdependence of Member States
- promote and maximize productive employment and utilization of resources of the Region
- achieve sustainable utilization of natural resources and effective protection of the environment
- Combating and mitigating HIV/AIDS

2. Political and Security

- evolve common political values, systems and institutions
- promote and defend peace and security

3. Others

- achieve complementarities between national and regional strategies and programs
- strengthen and consolidate the long standing historical, social and cultural affinities and links among the peoples of the Region

B. Main Strategies

- Cooperation among member states in 20 sectors, including transport, health, tourism, mining, and water, through legally binding protocols.
- Establishment of a Free Trade Area within eight years after ratification as defined in the Protocol on Trade, signed in August 1996, and which commenced implementation on September 1, 2000. The agreement allows for tariff cuts on 12 000 defined product areas in the sub-region. By 2008, 85% of intra-SADC trade would be tariff free and from 2008 to 2012, sensitive products will be liberalized to create the FTA. Tariff and non-tariff barriers to trade will be phased out gradually and asymmetrically. The least developed countries in the group benefit from special treatment as embodied in the rules of origin and tariff reduction phasing. The so-called 'sensitive products' (in agriculture, agro-industry, and manufacturing, i.e. dairy products, wheat, sugar, cotton, fabrics, leather footwear, and vehicles) receive special treatment in trade liberalization among the members of the group.

C. New Structure, New Approach and New Priorities

Due to the misalignment between its institutions and strategy as well as the unfocused nature of its regional strategy, SADC has embarked on a major institutional restructuring and strategy refocusing initiative since early 2001. It is moving from an approach based on decentralized activities under the responsibilities of each member state to the creation of a centralized Secretariat that will conduct the regional economic integration agenda. At the Extra-Ordinary Summit of Heads of State and Government, held in Windhoek, Namibia, on 9 March 2001, SADC member states have agreed to establish an Organ for Politics, Defense and Security, SADC National Committees (in member states) as well as **four Directorates,** the latter within the SADC Secretariat and under which all the existing sectors will be clustered. These Directorates will be: **Trade, Industry, Finance and Investment**; **Infrastructure and Services**; **Food, Agriculture and Natural Resources** (FANR); and **Social and Human Development and Special Programs**. The centralization of existing sectors and their institutions would be undertaken within two years and directorates would be established in accordance with the following time frame:

- March –August 2001: establishment of the Directorate on Trade, Industry, Finance and Investment;
- August – December 2001: establishment of the Directorate on Food, Agriculture, and Natural Resources;
- The remaining Directorates would be established in 2002 and 2003.

Furthermore, SADC has introduced a new formula for membership contributions and has institutionalized a Troika management system for its major policy organs.

A **10-year Regional Indicative Development Plan**, with a rolling budget, will be developed to provide strategic direction to all components of its socio-economic integration agenda.

Attachment 1b

SADC Bilateral Trade Agreements

SADC BILATERAL TRADE AGREEMENTS, WTO REGIME AND SADC TREATY: CONFLICT OR COMPATIBILITY?

Bilateral trade agreements are being phased out under the new WTO regime since they may be contradictory to the concept of 'Most-favored nation (MFN)' treatment. Following the 'MFN' principle, a country which grants 'MFN' treatment to one WTO member is obliged to extend the same treatment to other WTO members. Bilateral trade agreements signed between SADC countries may therefore be incompatible with the 'MFN' principle, corner stone of the GATT process under WTO. In addition, the WTO has not been notified of these agreements. However, within the context of article XXIV that allows regional arrangement, these bilateral agreements may become compatible with WTO agreements. The SADC Treaty does not prohibit Member States from concluding bilateral trade agreements with each other or with third countries. Article 8 of the Treaty permits Member States to enter into agreements with other States, regional and international organizations provided that their objectives do not conflict with the objectives of SADC and the provisions of the Treaty. Moreover, the *enabling clause* provided by GATT Agreement recognizes the granting of special and differential treatment in favor of developing countries by developed countries as a permanent feature of the world trading system. The following describes such possibility:

> *Notwithstanding the provisions of article 1 of the general agreements, contracting parties may accord differential and more favorable treatment to developing countries, without according such treatment to other contracting parties.*

The provisions of paragraph 1 apply to the following:

- Preferential treatment accorded to products originating in developing countries in accordance with the General System of Preferences (GSP);
- Regional or global arrangements entered into amongst less developed contracting parties for the mutual reduction or elimination of tariffs and, in accordance with the criteria or conditions where contracting parties, for the mutual reduction or elimination of non-tariff measures, on products imported from one another.

Since SA is considered as a developed country, paragraph 1 of the enabling clause allows its bilateral trade agreements with other SADC countries to be compatible with WTO principles. However, in terns of paragraph 2(2), SA is not allowed to grant special tariff preferences to developing countries such as Zimbabwe, Malawi and Mozambique, on selective (therefore discriminatory) basis to the exclusion of other developing countries that meet the same conditions. SA may therefore be obliged to grant similar preferential treatment to other developing countries.

EXISTING BILATERAL TRADE AGREEMENTS BETWEEN SADC COUNTRIES

A number of bilateral agreements have been signed between SADC countries, which are summarized in Table A.1.1. However, a description of these is limited to a few due to a lack of information.

Table A.1.1 Existing Bilateral Trade Agreements- SADC Member States

	Ang	Bot	DRC	Les	Mal	Mau	Moz	Nam	SA	Swa	Tan	Zam	Zim
Ang		T					T	T			T	T	T
Bot	T				T			S	S	S		T	T
DRC													
Les		S					T	S	S	S			
Mal		T					T		T	T	T	T	T
Mau									T				
Moz	T			T	T				T	T	T	T	T
Nam	T	S		S					S				T
SA		S		S	T	T	T	S		S			T
Swa		S		S	T		T	S	S		T	T	T
Tan	T				T		T			T		T	T
Zam	T	T		T	T		T			T	T		T
Zim	T	T		T	T	T	T		T	T	T	T	

Source: Adapted by authors based on **DBSA, 1996.** *Bilateral Agreements on Trade Concluded by SADC Member States*. Development Paper No. 111, January 1996. Midrand, DBSA.
T= Trade agreement
S= SACU members

1 Angola

Angola has signed six bilateral agreements with other SADC countries, including Botswana, Mozambique, Namibia, Tanzania, Zambia and Zimbabwe. The Angola / Mozambique trade agreement is described below.

1.1 Angola/Mozambique

a) Objective and trade facilities

This trade agreement was signed in Luanda on September 5, 1978 and aims at strengthening the already existing trade and military relations between the two countries.

b) Most-favored nation treatment and other trade facilities

The MFN treatment is to apply to all aspects of trade between the two countries. However this treatment is not to apply to: (i) advantages that either country has or shall grant to neighboring countries to enhance cross-border trade and (ii) privileges and advantages that stem from the membership of either country to a regional organization, free-trade area of common market.

Freedom of movement of goods from a third country destined to one of the contracting parties or from either contracting party destined to a third country shall be guaranteed. Re-exportation of imported goods from the other party destined to third countries shall be submitted to the prior written authorization of the responsible persons of the importing country. Article 8 provides categories of products that shall enjoy free customs duties, rates and other related fees. These include the following: (i) sample and advertising material, without any commercial value, imported into the territories of either party from the other party; and (ii) products and equipment imported or introduced into the territory of one party by the other party intended for trade fairs or exhibitions, subject to the condition that these shall not be sold without prior written authorization of the importing party.

Table A.1.2. Traded Goods between Angola and Mozambique

Exports from Mozambique to Angola		Exports from Angola to Mozambique
All types of men's ladies' and spacers for railway sleepers	Zinc sheets	Dried fish
	Beans	Fish metal
Welding electrodes	Sugar	Fish oil
Coal flat -irons	Tea	Coffee
Irrigation pipes	Lemons	Wheat bran
Hoses	Desiccated coconut	Leather and fur
Jute and raffia bags	Fruit juice and jam	Peanut and coconut husk
Wooden furniture	Children's clothing	Electric wires and cables -plaster
Concrete lighting poles	All styles of men's, ladies and children's footwear;	Paper pulp
Railway sleepers in wood or concrete		Cardboard and paper
Tiles	Vehicle batteries	Petrol and derivatives
Matches	Alarm clocks	
Ball-point pens	Transformers for mercury vapor lamps	
Various types of ploughs	Ballasts for fluorescent lamps	

Welders Hand rakes Levelers Cooking oil Condensed milk Preserved and tomato paste Pasta Margarine Cashew nuts Cassava and cassava flour Trailers under 40 tons Trailers-tanks One, two or three-axle trailers Railway coaches Cranes Locks Sheets and pipes in asbestos cement	Bicycles for men Bicycles for children Tricycles for children Refrigerators Bottles for beer and soft drink Household products in aluminum Items in hardened glass Textile All types of ploughs Disk harrows Manual mills for cereals Hammer mills Square and pointed shovels Nails, metal fences, bolts and barbed wire Taps and valves Metallic and hospital furniture	

Source: Adapted by Authors based on **DBSA, 1996**, *Bilateral agreements on trade concluded by SADC member States. Development Paper No. 111, January 1996.* Midrand: DBSA.

2 Botswana

In addition to its membership of SACU, Botswana has trade agreements with Angola, Malawi, Zambia and Zimbabwe. The agreements with the last two mentioned countries are described below.

2.1 Botswana/Zambia

a) Objective

The main objective of this agreement, as emphasized in Article 1, is to promote the mutual import and export of products, goods and services between the two countries.

b) Most-favored nation treatment and other trade facilities

The MFN treatment is to apply in all matters related to trade. However, the two parties shall ensure that this provision is consistent with any customs union, free trade area, or other international trade agreement to which either party is or may become a member. Article 7 of the agreement indicates the categories of goods that shall be exempted from duties and charges. These include: (i) articles sent as samples; (ii) articles sent for exhibition, competition and fairs; (iii) tools and machines used in connection with the assembly and installation of equipment; and (iv) articles to be transformed or repaired or materials necessary for such equipment, provided that these articles or materials are not sold, leased or lent, and are re-exported on or before the date to be agreed upon with the importing country in each case.

c) Rules of origin: Potential conflict with COMESA's rules? The agreement indicates that goods or products shall be accepted as originating in the country of a contracting party if:

- they have been wholly produced in the country of the contracting party; or
- they have been produced in the country of the contracting party and the value of the materials imported from a foreign country which have been used at any stage of the production of the goods does not exceed 70% of the ex-factory value of the goods, provided that the last process in the production or manufacture of those goods has taken place in the country of the contracting party.

The import content rule may be contradictory to that of COMESA and hamper trade between these two countries. For instance, if Zambia (member of COMESA) produces a good with imported materials from a partner of COMESA (say Zimbabwe), it may be difficult to determine which rule should be applied for such a good to be qualified as originating in the country. Within the context of the above agreement, the value of the imported materials shall not exceed 70%; while the corresponding rule for COMESA is that the c.i.f. value of such materials may not exceed 60%.

2.2 Botswana/Zimbabwe

a) Objective and preferential tariffs

This trade agreement seeks to expand trade between the two countries and serves as a means for employment creation. Article 5 of this agreement indicates that goods originating from either contracting party shall be free of customs duty when entering the territory of the other party. However, a contracting party may apply an equivalent duty or tax where this is a countervailing duty or tax to: (i) sales or similar taxes levied and paid in the importing country; (ii) excise duties or other taxes levied and paid on goods produced in the importing country.

b) Rules of origin

The provisions of this agreement apply to goods grown, produced or manufactured in the territory of either contracting party. In addition goods must be exported directly to the territory of the other party. To qualify as originating from either contracting party, goods grown or wholly produced in the territory of either contracting party shall be:

- mineral products extracted from its soil
- vegetable products harvested or gathered therein
- live animals born and raised therein
- products obtained therein from live animals
- products obtained therein by hunting or fishing
- forest products harvested herein, and
- goods obtained therein exclusively from products specified in the list above, inclusive of this paragraph

  goods manufactured wholly or partly from imported materials, parts or components in the territory of either contracting party shall be deemed to originate in the territory of either contracting party and shall be determined in accordance with the rules of origin contained in the Attachment.

In terms of Article 6, the agreement leaves some room for the imposition of restrictions. After consultation with each other, either party may impose: (i) export restrictions temporarily applied to prevent critical shortages of foodstuffs; (ii) import and export restrictions necessary to the application of standards or regulations for the classification, grading or marketing of commodities; (iii) import restrictions that do not discriminate among exporting countries on agriculture and fisheries products necessary to the enforcement of government measures; (iv) import and export restrictions on wild animals; (v) import and export restrictions on arms, ammunition and implements of war; and (vi) import and export restrictions on gold and other precious metals in any form, currency, and rough uncut precious stones. The agreement prohibits dumping practices. Article 12 stipulates that goods exported to the territory of the other contracting party that are priced below the fair market value of such goods in the exporting territory of the other contracting party, as determined in accordance with GATT rules, and inflict material damage on the economy of that contracting party, will be subject to countervailing or antidumping duties.

3 Malawi

Malawi has signed seven bilateral trade agreements with other SADC countries, including with Mozambique, SA, Zambia, Zimbabwe, Botswana, Swaziland and Tanzania. The first four agreements are described below.

3.1 Malawi/Mozambique.

a) Objective

This agreement signed in Blantyre on October 23, 1984, aims at expanding trade between the two countries with the ultimate goal of accelerating their economic development and diversifying their economies.

b) Most-favored nation treatment

The 'MFN' treatment shall be applied to imports and exports between the two countries. However, the agreement forbids the implementation of such provision to: (i) goods imported from the country of either contracting party which are wholly produced in the country of a third party, without prior written consent of the contracting party; and (ii) advantages, concessions and exemptions which either contracting party has or grant to adjacent countries to facilitate frontier traffic or to partners countries of a customs union or a free trade area or monetary zone already established; or to other countries with which it has entered into a specific trade agreement.

Table A.1.3 Traded Goods between Malawi and Mozambique

Goods to be exported by Malawi to Mozambique		Goods to be exported by Mozambique to Malawi
Fish-fresh, smoked or dried	Staples, studs, spikes, etc. of iron or steel	Salt
Cassava, dried	Water pumps	Prawns
Tea, packed	Articles for sport	Rasped coconut
Rice, bulk and packed	Fishing nets, twine	Cooking coal
Flour of cereals	Polypropylene bags	Steam coal
Sunflower seeds	Biscuits	Cement
Molasses	Hoes	Ropes and sisal thread
Beer	Animal-drawn agricultural implements	Glassware
Beverages	Canned vegetables, fruits, juices and jams	Radio
Animal feeds	Processed nuts	Mosquito gauze
Tobacco (processed and unprocessed)	Nut butter	Dry cells
Electric current	Carpets and rugs	Fruits (fresh)
Pharmaceuticals	Blankets	Harwood timber
Paints and enamels	Enamel hollowware	Beans
Cosmetic and toilet preparations	Metal beds, furniture, doors and windows (or steel)	
Polishes and waxes (including candles)	Spices	
Sheets, strips, plastic	Plastic ware	
Piping and tubing (PVC)	Liquors and spirits	
Articles of leather	Zips	
Veneers and sheets for plywood	Bath towels and napkins	
Swan wood	Matches (panga) and grass-cutters	
Industrial plywood and backboard	Toothpaste	
Boxes, cases, crates and any other wood-based products	Spare parts	
Plastic crates	Agricultural products (e.g. beans, peas, maize, etc.)	
Ready-made garments (cotton, cotton polyester)	Seeds for planting	
Textile (cotton, cotton polyester)	Electricity transmission poles	
Footwear	Meat and meat products	
Sheets and plates, tinned, unworked, of iron or steel	Poultry and poultry products	
Wire nails of iron or steel		

Source: Adapted by Authors based on **DBSA, 1996**, *Bilateral Agreements on Trade Concluded by SADC Member States. Development Paper No. 111, January 1996.* Midrand: DBSA.

3.2 Malawi/SA

This trade agreement has been considered as the most successful. It has helped Malawi increase its exports so that 25 percent value-added Malawian products have had duty-free access to the South African market.

a) Objective

The trade agreement was concluded on June 19, 1990; is **non-reciprocal** and aims to decrease the huge trade imbalance between Malawi and South Africa; and provides for duty-free access into SA for Malawian goods except for those agricultural products that require a permit.

b) Trade facilities

The agreement authorizes all goods grown, produced or manufactured in Malawi to access SA's market free of customs duty. However, imports of coffee, tea and sugar are subject to control when entering SA. Goods grown, produced or manufactured in SA are to be imported into Malawi under a certain rate of duty, but exports of rough and uncut diamonds produced in SA shall be free of export duty for industrial use in Malawi. In addition, to facilitate exports to SA, the agreement stipulates that under normal trade and market conditions in any calendar year import permits shall be issued for quantities not less than 300 000 kilograms of un-manufactured tobacco; 750 metric tons of groundnuts, shelled or with the shell; and 100 metric tons of processed groundnuts. Malawi also exports other agricultural products to SA, including coffee, tea, and sugar.

c) Rules of origin

Goods are qualified as being:

- originating from SA if the last process of manufacture has been performed in SA, and such goods contain not less than the 'specified country content'; or have been subjected in SA to a specified process of manufacture;
- originating from Malawi if at least 25% of the production cost of those goods shall be represented by materials produced and labor performed in Malawi, and the last process in the production or manufacture of such goods shall have taken place in Malawi.

3.3 Malawi/Zambia

a) Objective

This trade agreement came into force on October 10, 1978 and simply aims at expanding trade between the two countries.

b) The most favored nation treatment and trade facilities

The MFN treatment shall apply to all imports and exports between the two countries, except to: (i) goods imported from the country of either contracting party which are wholly produced in the country of a third party, without prior written consent of the other contracting party; (ii) advantages, concessions and exemptions which either contracting party has granted or may grant to adjacent countries or to fellow member countries of a pre-existing CU or a FTA or a monetary zone and other countries with which it has entered into specific or technical cooperation. In addition, the agreement permits the two parties to grant each other licenses for the importation and exportation of goods specified in table 4 below.

c) Rules of origin.

Goods are considered as having been grown, produced or manufactured in the country of the contracting party that supply them if at least 25% of the production of such goods is represented by materials wholly produced in such country and the last process in the production or manufactured of such goods has been taken place in such country.

Table A.1.4 Traded Goods between Malawi and Zambia

Exports from Zambia		Exports from Malawi
Blankets	Fishing nets	Timber
Radios and radiograms	Explosives	Fish-fresh, smoked or dried
Rock drilling bits and other mining input	Fertilizers	Bone meal and fish meal
Machine sewers and rivets	Footwear	Cane sugar, raw or refined
Parquet-flooring fingers or assembled panels	Cooper and cooper products	Cottonseed cake and groundnut cake
Furniture-steel or otherwise	Lead	Pipe tobacco
Cement	Zinc	Footwear
Lime	Bottled beer	Tarpaulin PVC
Talc	Pharmaceutical products	Hessian
Asbestos cement products	Kapiri glass bottles	Ploughs and cultivators
Cups, saucers and other household crockery	Day-old chicks	Metals beds, furniture, doors and windows
Lead acid batteries and dry cells	Tobacco	Clothing other than clothing made wholly from cotton
Doors, window frames and metal beds	Groundnuts	Radios and radiograms
Metal cabinets	Chrome ore	Blankets
Clothing	Tin concentrates Bedspreads	Fishing-flies
		Rice
		Dry cell batteries
		Putty
		Toilet paper reels
		Handbags and suitcases
		Safety matches

Source: Adapted by Authors based on **DBSA, 1996**, *Bilateral Agreements on Trade Concluded by SADC Member States. Development Paper No. 111, January 1996.* Midrand: DBSA.

3.4 Malawi/Zimbabwe

a) Objective

This bilateral trade agreement came into force on October 1st 1986 and aims at promoting, developing and facilitating trade and economic relations between the two countries.

b) The most favored nation treatment and trade facilities

The agreement allows each contracting party to grant to the other MFN treatment to goods originating from each country. However, this provision is not to be applied to advantages, concessions and exemptions either contracting party has granted or may grant to neighboring countries or under a FTA, a CU, a monetary zone or an economic community to which it participates.

The following goods could be imported/exported free of customs duties, taxes and other similar levies or charges not related to the payment for the services: (i) samples of goods or commodities and publicity materials required for obtaining orders and for advertising; (ii) goods imported temporarily for trade fairs and exhibitions; (iii) goods or commodities imported temporarily for repair and re-exportation; (iv) goods from a third country and transported through the country of one of the contracting parties destined for the country of the other contracting party.

Table A.1.5 Traded Goods between Malawi and Zimbabwe

Exports from Malawi	Exports from Zimbabwe
Accounting machines, calculating machines and similar machines incorporating a calculating device, statistical and data-processing machines	Compound lard
Hardboard	Vermouth
Handicrafts	Parquet blocks
Fishing-flies	Veneer sheets
Fishing-nets and sports nets	Plywood and blackboard
Candles	Gramophone records
Brushwork	Brushwork

Source: Adapted by Authors based on **DBSA, 1996**, *Bilateral Agreements on Trade Concluded by SADC Member States. Development Paper No. 111, January 1996.* Midrand: DBSA.

3.5 Malawi/Botswana

These two countries have shared a customs union agreement since 1965. However, most companies do not know about its existence. The agreement allows all goods grown or produced in Botswana to be exempted from import duty.

4 Mozambique

Mozambique has signed eight bilateral trade agreements with other SADC countries, including SA, Tanzania, Zimbabwe, Swaziland, Angola, Lesotho, Malawi, and Zambia. The first four agreements are described below.

4.1 Mozambique/SA

a) A non-reciprocal trade agreement

This agreement signed in 1989 is a **non-reciprocal tariff concession** granted to a short list of specified goods of Mozambican origin by the SA to enter the country in the form of full rebate of the import surcharge or customs duty. The list of products is open-ended.

b) Most-favored nation treatment

MFN duties are charged on Mozambican goods coming into SA. If the duty is less than 3% it is lifted, but subject to quotas. Goods not included in the Attachment or imports in excess of the quotas do not qualify for the rebate of import surcharge or customs duty. SA grants tariff rebate to specified goods of Mozambican origin. This tariff concession takes the form of a full rebate of the import surcharge on customs duty.

c) Rules of Origin

Goods are considered to originate from Mozambique if at least 35% of the production cost of such goods is represented by materials produced and labor performed in Mozambique.

d) Re-export

Goods imported from Mozambique under this preferential tariff arrangement are only for consumption in SA. For any export of goods of Mozambican origin from SA to the other SACU countries (Lesotho, Swaziland, and Namibia), the import surcharge and the difference in duty must be paid to the South African customs authorities before re-exporting again.

Table A.1.6 List of Mozambique Quotas

Description of products	Quotas in tons or USA $
Fish, fresh or chilled,	}
Fish, frozen	} 2000 tons
Fish, dried	}
Crayfish	200 tons
Shrimps and prawns	2500 tons
Crabs, frozen	500 tons
Langoustines	1000 tons
Squid	100 tons
Octopus	100 tons
Clams, live, fresh, chilled	50 tons
Clams, frozen, dried, salted	50 tons
Cashew nuts	1000 tons
Citrus fruit	5000 tons
Coconut oil	5000 tons
Cashew nuts, shell, liquid	500 tons
Cottonseed oil cake	6000 tons
Cigarettes	USA $600 000
Cotton fabrics	USA $500 000
Texlene/Trevira woven fabrics (70% polyester, 30% viscose)	USA $835 000
Clothing	USA $790 000
Blankets	USA $250 000
Asbestos-cement roofing tiles	USA $300 000
Wooden furniture	USA $500 000
Handicrafts	USA $300 000

Source: Adapted by Authors based on **DBSA, 1996**, *Bilateral Agreements on Trade Concluded by SADC Member States. Development Paper No 111, January 1996.* Midrand: DBSA.

4.2 Mozambique/Tanzania

a) Objective

This trade agreement aims at facilitating the increase of the volume of trade between the two countries.

b) Most-favored nation treatment

The MFN treatment applies to import, storage, transit of goods and their transportation and clearing from bond. It also applies to sample and advertising materials as well as materials forwarded for testing or experimental purposes or for display in fairs and exhibitions, including equipment materials and containers necessary for this purpose. The MFN does not apply to the following: (i) privileges and advantages granted by any of the two parties to neighboring states to facilitate cross-border trade; and (ii) privileges and advantages arising out of joining a regional organization, common market agreement, customs union or a free trade zone by the two contracting parties.

c) Rules of Origin

The country of origin is the country in which the products have been produced and manufactured or in which the final stages of the main processing have been carried out. In the case of unprocessed agricultural products it will be the country in which the production of such products is actually carried out.

4.3 Mozambique/Zimbabwe

a) Objective

The objective of this trade agreement is to increase the volume of trade between the two countries and contribute to their development.

b) Preferential tariffs

Article 1 of the agreement indicates that goods grown, produced or manufactured in the territory of either party may be imported into the territory of the other free of customs duty. Article 3 states that such goods shall also be exempt from the imposition of any quantitative import or export restrictions. However, a contracting party may impose an equivalent duty or tax where this is a countervailing duty or tax to: (i) sales or similar taxes levied and paid in the importing country; and (ii) excise duties or other taxes levied and paid on goods produced in the importing country. In addition, after consultation, either party may impose: (i) export restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party; (ii) import and export restrictions necessary to the application of standards or regulations for the classification, granting or marketing of commodities; and (iii) import restrictions that do not discriminate among exporting countries, on agricultural and fisheries products necessary for the enforcement measures.

c) Rules of Origin (Article 2)

The following categories of goods are considered as grown or produced in the territory of a contracting party:

- Mineral products extracted from its soil;
- Vegetable products harvested or gathered therein;
- Live animals born and raised therein;
- Products obtain therein from live animals;
- Forest products harvested therein;
- Fish and other fish products gathered therein or from its marine economic zone; and
- Manufactured goods if they qualify under the rules of origin contained in the Attachment.

d) Complementary agreement of execution

Article 5 indicates that the two countries agree to the importation and exportation, free of customs duties and other similar levies or charges, not related to the payment for services, of the following:

- Samples of goods and publicity materials required only for obtaining orders and for advertising purposes, which are not for sale and are of no commercial value;
- Goods imported temporarily for experiments and research activities;
- Goods imported temporarily for the purpose of trade fairs and exhibitions;
- Goods imported temporarily for effecting repairs and which are re-exported;
- Goods originating in or from a third country and are transported through the country of one contracting party destined for the country of the other contracting party.

Table A.1.7 Traded Goods between Mozambique and Zimbabwe

Exports from Zimbabwe to Mozambique	Exports from Mozambique to Zimbabwe
Cattle (bovine)	Fish, fresh or frozen
Beef and veal-fresh and frozen	Prawns, frozen
Canned meat	Pineapples
Dairy products	Desiccated coconut
Maize	Salt (coarse)
Wheat and bran	Fuel
Untreated tobacco	Diesel
Seeds	Cut wood (non-coniferous)
Medical and pharmaceutical products	Railway sleepers
Insecticides and disinfectants	Ammonium sulfate
Tires and rubber inner tubes (sizes that are not manufactured in Mozambique)	Copra and copra oil
Paper and printing cardboard as well as paper or cardboard including the containers	Tires and inner tubes in rubber (sizes not manufactured in Zimbabwe)
Agricultural machinery	Marble
Textile	
Clothing	

Source: Adapted by Authors based on **DBSA, 1996**, *Bilateral Agreements on Trade Concluded by SADC Member States. Development Paper No. 111, January 1996.* Midrand: DBSA.

4.4 Mozambique/Swaziland

a) Status and Objectives

This trade agreement was signed in Maputo on October 22, 1977 and aims at promoting and developing economic, industrial and technical cooperation between both countries.

b) Most-favored nation treatment

The 'MFN' treatment applies to all aspects of trade merchandise and products from both countries, and import and export licenses. However this provision does not apply to:

- Benefits granted by a party to its neighboring countries to improve the border trade;
- Advantages resulting from the membership of a customs union or from a free or preferential trade arrangement.
- Goods originating from either party and imported by the other party will not be re-exported unless authorized by the exporting party.

5 Namibia

Apart from its trade links with SACU countries, Namibia has signed only one bilateral agreement with one country in southern Africa, namely Zimbabwe.

a) Status and Objectives

This trade agreement was signed on August 17, 1992 and aims at improving the existing trade relationship between the two countries.

b) Preferential tariffs

As mentioned in article 1, goods of origin may be imported into the territories of the other party free of customs duty. The parties also agreed to the importation and exportation, free of customs duties, taxes and other similar levies or charges, not related to the payment for services, of the following products (Article 6):

- Samples of goods and publicity materials required only for obtaining orders and for advertising purposes, which are not for sale and are of no commercial value;
- Goods imported temporarily for the purpose of trade fairs and exhibitions;
- Goods imported temporarily for experiments and research activities;
- Goods imported temporarily for effecting repairs and which are re-exported;
- Goods originating in or from a third country and are transported through the country of one of the contracting parties destined for the country of the other contracting party.

c) Rules of origin

Article 2 provides categories of goods to be considered as grown or produced in the territory of a contracting party:

- Mineral products extracted from its soil;
- Vegetable products harvested or gathered therein;
- Live animals born and raised therein;
- Products obtained therein from live animals;
- Forest products harvested therein;
- Fish and other marine products gathered therein or from its marine economic zone;
- Products obtained therein exclusively from products specified in the list above.

The two countries also agreed to facilitate freedom of transit through their respective territories of goods originating from the countries of either of them and destined for a third country, or from the country of a third party and destined for the country of either of them.

6 Tanzania

Tanzania has signed six bilateral agreements with other SADC countries, including Angola, Malawi, Mozambique, Swaziland, Zambia, and Zimbabwe. The agreement with Zambia is described below.

6.1 Tanzania/Zambia

a) Objective

The objective of this trade agreement is to encourage, expand and develop economic cooperation between both countries.

b) Most-favored nation treatment

The 'MFN' treatment applies to goods and commodities of both countries in all questions regarding customs duties, fees and charges, the regulations and formalities relating to customs procedures on transit and the warehousing of goods (Article 3). The importation and exportation of the following will be free of customs duties, taxes and other similar duties not related to the payment for services:

- Samples of goods and publicity material of no commercial value;
- Objects and goods imported for the purpose of fairs and exhibitions on condition that they may not be sold;
- Goods originating in or from a third country and transported through the country of one of the contracting parties and destined for the country of the other contracting party.

In addition, re-exportation of goods exchanged between both countries is subject to the prior written consent of the country of origin of such goods.

c) Rules of Origin

Article 4 (ii) stipulates that goods will be considered to have originated from the country of either of the contracting parties if the finished goods were produced or manufactured in that country, or in the case of partly manufactured goods if the final operations took place in that country and have altered to an appreciable extent the character, composition and value of such goods imported into that country.

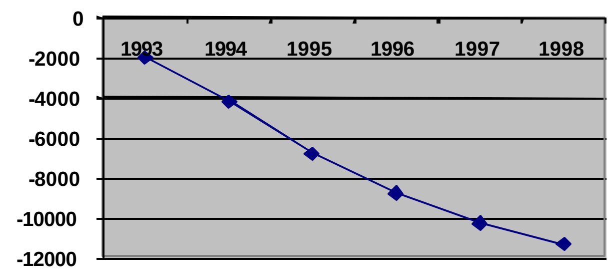
7 South Africa

SA has signed bilateral trade agreements with three countries in Southern Africa: Zimbabwe, Mozambique and Malawi.

7.1 SA/Zimbabwe.

This agreement has a long history and is dated prior to the foundation of GATT. It turned into a bone of contention between the two countries. While the 1964 agreement allowed Zimbabwean clothing and textiles to enter the South African market at a customs rate of 20%, in 1992 SA raised the tariffs on many Zimbabwean goods. This had huge ramifications for the Zimbabwean economy in terms of industry closures and job losses. A new agreement on textiles and clothing was reached in August 1996. However, the growing negative trade balance between the two countries led SA to increase the quotas allocated to Zimbabwe producers in the clothing and textiles sector.

Figure A.1.1 Zimbabwe/South Africa Trade Imbalance, 1993-98, Z$ (Unit=1000)



Source: By Authors, data from **IMF, 2000. *Direction of Trade Statistics.***

a) Preferential tariffs

Article 5 of the agreement stipulates that goods produced in Zimbabwe will enter SA at the rate of duty specified for such goods in Attachment B of the Agreement. Goods produced in SA shall be admitted into Zimbabwe at a specified rate of duty. Rough and uncut diamonds produced in SA and exported to Zimbabwe must be free of export duty if certified as being for industrial use in Zimbabwe.

b) Other facilities

Quantitative import and export restrictions other than those in force in the agreement must not be imposed upon the movement between the countries or the parties of goods produced in those countries.

c) Rules of Origin

The provision of this agreement applies to goods produced in the country of either party and entered for consumption in the country of the other party. However, manufactured goods must not benefit from the terms of this agreement in the case of: (i) clothing manufactured in Zimbabwe and specified in Parts III and IV of Attachment B of the Agreement, unless the Zimbabwean content of such clothing is not less than 20%, and all the operations, such as cutting and sewing required to manufacture such clothing from piece goods, have been performed in Zimbabwe; (ii) other goods manufactured in Zimbabwe unless the last process in the manufacture of such goods has taken place in Zimbabwe and the Zimbabwean content of such goods is not less than 25%; (iii) in the case of goods manufactured in SA, unless the last process of manufacture has been performed in SA, and they must contain no less than such proportion of the material and labor of SA and they must have been subjected to such process of manufacture in SA.

Attachment 1c

Eastern and Southern Africa's International trade and / development relations

The African Growth and Opportunity Act

1 Objectives

On May 18, 2000, the 'Trade and Development Act of 2000' which included the Africa Growth and Opportunity Act (AGOA) was signed. It has the following five objectives:

- Expand Africa's access to the USA markets and improve the ability of African nations to increase growth and ease poverty;
- Increase trade between the US and SSA;
- Expand the US assistance to regional integration efforts in SSA;
- Reduce tariff barriers and non-tariff barriers to trade;
- Negotiate trade agreements.

2 Eligibility Criteria [1]

Countries are eligible for AGOA benefits if they are determined to have established or are making continual progress toward establishing the following:

- A **market-based economy** (that protects private property rights, incorporates an open-rules-based trading system, and minimize government interference in the economy);
- The rule of law and political pluralism (political pluralism and equal protection under the law);
- The **elimination of barriers to US trade and investment** (provision of national treatment and measures to create an environment conducive to domestic and foreign investment, protection of intellectual property, resolution of bilateral trade and investment);
- A **system to combat corruption** (such as signing and implementing the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions);
- **Economic policies to reduce poverty** (increase the availability of health care and educational opportunities, expand physical infrastructure, etc.);
- **Protection of human rights and worker rights** (the right of association, the right to organize and bargain collectively, etc.);
- **Elimination of certain child labor practices**;
- Countries must be GSP eligible in order to receive AGOA's trade benefits, but the reverse does not hold, i.e. GSP eligibility does not automatically translate into AGOA eligibility.
- The country does not engage in activities that undermine US national security or foreign policy interests and does not engage in gross violation of internationally recognized human rights or provide support for acts of international terrorism and cooperates in international efforts to eliminate human rights violations and terrorist activities.

Table A.1.8 AGOA Eligible Countries

Countries and Membership	Date Declared AGOA Eligible	Date Declared Eligible for APPAREL PROVISION	Date Declared Eligible for SPECIAL RULE for APPAREL
SADC and COMESA			
Malawi	October 2, 2000		October 2, 2000
Mauritius	October 2, 2000	January 18, 2001	N/A
Namibia (SACU)	October 2, 2000		N/A
Seychelles	October 2, 2000		N/A
Swaziland (SACU)	January 17, 2001		January 17, 2001
Zambia	October 2, 2000		October 2, 2000
SADC Non COMESA			
Botswana (SACU)	October 2, 2000		N/A
Lesotho (SACU)			
Mozambique	October 2, 2000		October 2, 2000

[1] Section 104 of the AGOA: Eligibility Requirements.

South Africa (SACU)	October 2, 2000	March 7, 2001	N/A
Tanzania	October 2, 2000		October 2, 2000
COMESA Non SADC			
Djibouti	October 2, 2000		October 2, 2000
Eritrea	October 2, 2000		October 2, 2000
Ethiopia	October 2, 2000		October 2, 2000
Kenya	October 2, 2000	January 18, 2001	October 2, 2000
Madagascar	October 2, 2000	March 6, 2001	October 2, 2000
Rwanda	October 2, 2000		October 2, 2000
Uganda	October 2, 2000		October 2, 2000
CEMAC			
Cameroon	October 2, 2000		October 2, 2000
Central African Republic	October 2, 2000		October 2, 2000
Chad	October 2, 2000		October 2, 2000
Congo (Republic of)	October 2, 2000		October 2, 2000
Gabon	October 2, 2000		N/A
WAEMU and ECOWAS			
Benin	October 2, 2000		October 2, 2000
Guinea Bissau	October 2, 2000		October 2, 2000
Mali	October 2, 2000		October 2, 2000
Niger	October 2, 2000		October 2, 2000
Senegal	October 2, 2000		October 2, 2000
ECOWAS Non WAEMU			
Cape Verde	October 2, 2000		October 2, 2000
Ghana	October 2, 2000		October 2, 2000
Guinea	October 2, 2000		October 2, 2000
Nigeria	October 2, 2000		October 2, 2000
Sierra Leone*	October 2, 2000		October 2, 2000
Others			
Mauritania	October 2, 2000		October 2, 2000
Sao Tome and Principe	October 2, 2000		October 2, 2000

Source: Adapted by authors from **US Treasury Report, 2001, http://**www.agoa.gov**.**
Note: ***Effective date of designation of the Republic of Sierra Leone as an AGOA beneficiary country to be determined by the USA Trade Representative.

3 Trade Benefits

- **Preferential Tariff Treatment for Certain Articles:** In general, the President of US may provide **duty-free treatment for any article** described in section 503(b)(1)(B) through (G), **if**, after receiving the advice of the International Trade Commission, the President determines that **such article is not import-sensitive** in the context of imports from beneficiary SSA countries.

- **Rules of Origin.** The duty-free treatment shall apply to any article (described in section 503(b)(1)(B) through (G) of AGOA) that meets the requirements, except:
  - If the cost or value of materials produced in the customs territory of the USA is included with respect to that article, an amount not to exceed 15% of the appraised value of the article at the time it is entered that is attributed to such US cost or value may be applied toward determining the required percentage; and
  - The cost or value of the materials included with respect to that article that are produced in one or more beneficiary SSA countries shall be applied in determining such percentage.

- **Duty-Free / Quota-Free Treatment of Certain Textiles and Apparel**.
  The following types of textiles and apparel products imported from eligible SSA countries can enter the USA duty-free and quota-free:
  - Apparel articles assembled in SSA countries from fabrics wholly formed and cut in the USA, from yarns wholly formed in the USA;
  - Apparel articles cut and assembled in beneficiary SSA countries using USA thread, from fabrics wholly formed in the USA from yarns wholly form in the USA;
  - Sweater knit to shape from cashmere or certain wool.
  - Apparel cut or knit to shape and assemble in SSA third-country yarn or fabric in short supply;
  - Hand loomed, handmade and folklore articles;

- Certain other apparel products will be duty-free and quota-free up to a specified cap that is based on USA total apparel imports in a previous 12-month period.

  The specific products covered under the cap are:
- Apparel assembled in SSA from fabric wholly formed in SSA from US or SSA yarn;
- Apparel articles assembled in SSA from non-US, non-SSA fabric.

  Limitations on Benefits for these two categories of apparel are as follows:
  Based on the share of total USA apparel imports, measured in square meter equivalents, in previous 12-month period for which data are available.
  October 1, 2000-September 30, 2001: 1.5%
  October 1, 2001-September 30, 2002: 1.78%
  October 1, 2002-September 30, 2003: 2.06%
  October 1, 2003-September 30, 2004: 2.34%
  October 1, 2004-September 30, 2005: 2.62%
  October 1, 2005-September 30, 2006: 2.90%
  October 1, 2006-September 30, 2007: 3.18%
  October 1, 2007-September 30, 2008: 3.50%

- **Quotas on Imports from Kenya and Mauritius:** Existing USA quotas on textile and apparel products imported into the USA from Kenya and Mauritius will be terminated within 30 days after the US Government has determined that each country has adopted an effective visa system to prevent the transshipment of textile and apparel articles and the use of counterfeit importation documents.

- **Special Rule for Apparel applying to Lesser Developed AGOA Eligible Countries:**

  - **Definition of LDCs**: countries that have a per capita GNP of less than $1,500 a year in 1998 (World Bank's measure).
  - **Special Treatment:** they may export apparel wholly assembled in their countries, regardless of the origin of the fabric ('third country' fabric rule), through September 30, 2004.
  - **Eligible countries**: All SSA countries except Botswana, Equatorial Guinea, Gabon, Mauritius, Namibia, Seychelles, and SA.

4 AGOA Implementation Status Report: Country Eligibility Determinations

- The visa systems of Botswana, Ethiopia, and Malawi were approved.
- So far **nine** AGOA beneficiaries (all belong to SADC and/or COMESA) have their **visa systems approved**: Kenya, Lesotho, Madagascar, Mauritius, SA, Swaziland, Botswana, Ethiopia, and Malawi;
- Eight other countries have submitted their visa applications: Uganda, Mozambique, Zambia, Ghana, Nigeria, Namibia, and Tanzania (in chronological order);

The nine countries approved account for **94% of current exports from SSA** to the United States.

Box A.1.9 AGOA II: Terms

The terms for AGOA II being considered include:
- Confirming the duty-free status of knit to shape apparel if this has not been resolved by administrative action in the interim;
- Correcting the mistake in the AGOA provision concerning sweaters made of merino wool of 18.5 microns or finer;
- Removing from the tariff rate quota (TRQ) apparel made in SSA from African-origin yarn/fabric as a way to *de facto* increase the size of the TRQ and at the same time provide incentives for use of African yarn/fabric;

- Expanding the folkloric and handmade provisions of AGOA to include textiles and apparel made in traditional designs or where handmade elements contribute a significant portion of value;
- Modifying the *de minimis* exception so that it would apply to 7% of either the value or weight of apparel that otherwise is eligible for duty-free;
- Creating a new short supply procedure that would permit duty-free access for African yarns and fabrics that are not made in the USA; and
- Raising the $1,500 per capita cut-off between LDCs and non-LDCs so that more countries (probably just Botswana and Namibia) would be eligible to use third-country fabric.

Source: Adapted by authors based on information collected from *The African Coalition for Trade (ACT), Trade Report August 31, 2001*.

5 USA Trade Links with SSA and AGOA Beneficiary Countries

SSA accounts for **less than 1% of US merchandises exports**, and less than **2% of US merchandise imports**. In comparison, the region accounts for 3.6% of global exports and 3.7% of total imports for the EU. However, the USA is SSA's largest single market, purchasing 19% of the region's exports in 1999. The United Kingdom was second at 6.8%, and France third at 6.4%. The EU absorbed 40% of SSA's exports. Two-way trade between the US and SSA recovered strongly in 2000. Total trade (imports plus exports) soared 50% to $29.4 billion.

Table A.1.9 US Trade with SSA (US$ Million)

	1997	1998	1999	2000	Change1999-2000
USA Exports	6,174.9	6,694.0	5,568.5	5,925.8	6.4%
USA Imports	16,418.7	13,139.6	14,042.9	23,480.4	67.2%

Source: USA Trade and Investment Policy toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act. The First of Eight Annual Reports, May 2001.

USA exports to SSA grew 6.4% to $5.9 billion, although sales did not recover all the ground lost in 1999 from the record 1998 total. The increase was led by sales of aircraft to SA and Kenya, and oil field equipment to Nigeria. The top four markets - SA, Nigeria, Kenya, and Angola - accounted for 72% of US sales in 2000, with SA accounting for 52%, Nigeria for 12%, Kenya for 4%, and Angola for 3.8%. The major US merchandise exports included the following product categories: aircraft and parts; oil and gas field equipment; motor vehicles and parts; industrial chemicals; computers and peripherals; construction machinery and parts; telecommunications equipment; and agricultural machinery.

In 2000, USA exports to the AGOA group of countries were **$5.3 billion**, or **90% of USA exports to SSA**. Principal export items were: Aircraft and parts, oil and gas field equipment, wheat and meslin, ADP equipment, and motor vehicle parts.

Table A.1.10 Leading USA Exports Markets in SSA

Country	2000 Export Value ($ Millions)
SA	3,084.7
Nigeria	718.5
Kenya	238.0
Angola	226.0
Ghana	190.8
Ethiopia	165.2
Equatorial Guinea	94.9
Cote d'Ivoire	94.9

Source: USA Trade and Investment Policy toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act. The First of Eight Annual Reports, May 2001.

Table A.1.11 Leading USA Exports to SSA

Item	2000 Export Value ($ Millions)
Aircraft and parts	780.5
Oil and gas field equipment	343.0
Wheat	309.8
Motor vehicles and parts	257.5
Industrial chemicals	231.9
Computers, peripherals, and software	219.3
Construction machinery and parts	189.3
Telecommunications equipment	139.5
Agricultural machinery	68.5
Used clothing and textiles	60.7

Source: USA Trade and Investment Policy toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act. The First of Eight Annual Reports, May 2001.

USA imports from SSA surged by two-thirds to nearly $23.5 billion, due to soaring prices for crude oil. The major imports from SSA are: crude oil ($16.3 billion, or 69% of USA imports from the region), platinum group metals, and partially refined petroleum products.

Table A.1.12 Leading USA Imports from SSA

Item	2000 Export Value ($ Millions)
Crude oil	16,289.8
Platinum group metals	1,528.8
Partially refined petroleum products	969.4
Woven or knit apparel	748.1
Iron and steel products	494.9
Diamonds	433.4
Ferro- and nonferrous ores	399.1
Cocoa beans and products	311.0

Source: USA Trade and Investment Policy toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act. The First of Eight Annual Reports, May 2001.

USA imports from the AGOA-eligible countries totaled $19 billion, or about 81% of total imports from SSA in 2000, with the leading import items being crude oil, platinum, diamonds, and ferro-alloys. After crude oil, platinum, and diamonds, imports of woven and knit apparel experienced the strongest expansion in 2000, growing by 28%.

The USA merchandise trade deficit with SSA doubled in 2000 to $17.6 billion. The cumulative imbalance over the last five years is nearly $52 billion in Africa's favor. However, the associated transfer of financial resources benefits only a handful of African countries, particularly those that supply substantial amounts of crude oil or strategic minerals to the United States. Nigeria, Angola, Gabon, and SA accounted for nearly 94% of the USA trade deficit with SSA in 2000. The first three were major oil suppliers, while SA provided platinum and diamonds.

Although this increase in trade with the AGOA beneficiaries might have occurred in anticipation of the AGOA benefits, 2001 data (up till September 2001) indicates that AGOA seems to have led to substantial increases in trade values and volumes as well as new investment and job opportunities. The benefits have not been equally distributed among the eligible countries, though, with the main beneficiaries being Ghana, Kenya, Lesotho, Madagascar, Malawi, Mauritius, SA, Senegal, Tanzania, Uganda and Zambia.

The Cotonou Agreement
A New Partnership between the EU and the ACP Countries

1 Broad Overview

The new EU-ACP agreement, the so-called Cotonou Agreement, follows a 25 year-period of Lomé Conventions. It was signed in Cotonou (Benin) on June 23, 2000 and defines **three areas** of cooperation namely **politics**, **economics and trade**, and **finance**.

Box A.1.10 The Cotonou Agreement

Objectives

The Cotonou Agreement seeks to promote and expedite the economic, cultural and social development of the ACP States, with a view to contributing to peace and security and to promoting a stable and democratic political environment. The **ultimate goal of this partnership** is to reduce and eventually eradicate poverty through the objectives of sustainable development and gradual integration of the ACP countries into the world economy. Sustainable economic growth, developing the private sector, increasing employment and improving access to productive resources are therefore major objectives of this partnership.

To achieve these objectives, an **integrated approach** taking into account at the same time political, economic, social, cultural and environmental aspects of development will guide development strategies that the EU will initiate in each ACP country. The agreement also encourages **regional and sub-regional integration processes**, which foster the integration of the ACP countries into the world economy in terms of trade and private investment.

Five pillars underpin the new EU-ACP Agreement

1 A Comprehensive Political Dimension: The Agreement strongly emphasizes the role of political dialogue between ACP and EC to address all issues of mutual concern and ensure increased impact of development cooperation. It also focuses on peace-building policies to prevent and solve conflict. For this objective to be effective, the Agreement will focus in particular on regional initiatives and the strengthening of local capacities. The partnership also addresses the issue of good governance. A new specific procedure will be launched and will be applied in cases of corruption involving EDF money or in any country that benefits from EC's financial support where corruption appears to be an impediment to development.

2 Participatory Approach: The new agreement contains innovative provisions to promote participatory approaches. The objective is to ensure that civil society and economic and social players take part in the design and implementation of economic policies and programs.

3 Strengthened Focus on Poverty Reduction: Poverty reduction is a central objective of the new Agreement. The Agreement proposes a **global strategy for development** ACP Member States and the EC will work together to establish a consolidated and effective strategic framework for poverty reduction and measure progress according to results. An **integrated approach to poverty reduction strategies** is to be developed to ensure complementarity and interaction between the economic, social, cultural, gender, institutional and environmental dimensions of policies and strategies. It focuses on three areas:

- economic development with particular emphasis on private sector development and investment; macroeconomic and structural policies and reforms; and sectoral policies.
- social and human development focusing on social sector policies; youth issues; and cultural development.
- regional cooperation and integration.

In addition, cooperation also includes additional themes such as gender equality, environmental sustainability, and institutional development and capacity building.

4 New Framework for Economic and Trade Cooperation: It aims to strengthen the mutual effects of trade cooperation and development aid.

5 Reform of Financial Cooperation: Reforms include the evolution in the nature of aid towards budgetary assistance/sector programs, rationalization of the instruments of cooperation and programming reform.

2 Cooperation Strategies

Cooperation strategies will focus on four areas, namely economic development, social and human development, regional cooperation and integration, economic and trade cooperation and some cross-cutting issues (gender, environment and natural resources, and institutional development and capacity building).

2.1 Economic development

In this area, the partnership will support:

- *Investment and private sector development* by creating a favorable environment for private sector investment; and the development of a dynamic, viable and competitive private sector;

- *Macroeconomic and structural reforms and policies* by supporting ACP efforts to implement (i) macroeconomic growth and stabilization through disciplined fiscal and monetary policies that result in the reduction of inflation, and improve external and fiscal balances, by strengthening fiscal discipline, enhancing budgetary transparency and efficiency, improving the quality, the equity and composition of fiscal policy; and (ii) structural policies designed to reinforce the role of the different actors, especially the private sector by improving the environment for increases in business, investment and employment. In addition, ACP countries are encouraged to liberalize trade and foreign exchange regimes and current account convertibility; strengthen labor and product-market reforms; encourage financial systems reforms to help develop viable banking and non-banking systems, capital markets and financial services, including micro-finance; improve the quality of private and public services; and encourage regional cooperation and progressive integration of macroeconomic and monetary policies;
- *Economic sector development* through the support to sustainable policy and institutional reforms and the investments necessary for equitable access to economic activities and productive resources;
- *Tourism* by promoting the development of the tourism industry in ACP countries and sub-regions.

2.2 Social and Human Development

In this area, cooperation will focus on:

- *Social sector development:.* The objective will be to support ACP States' efforts to develop general and sectoral policies and reforms which improve the coverage, quality of and access to basic social infrastructure and take account of local needs and specific demands of the most vulnerable and disadvantaged, thus reducing the inequalities of access to these services.
- *Youth Issues:* Cooperation will support the establishment of a coherent and comprehensive policy for realizing the potential of youth so that they are better integrated into society.
- *Cultural development:* The objective will be to preserve, promote cultural values and identities to enable inter-cultural dialogue.

2.3 Regional Cooperation and Integration

Cooperation will support:

- developing and strengthening the capacities of regional integration institutions and organizations set up by the ACP States to promote regional cooperation and integration;
- fostering participation of LDC ACP States in the establishment of regional markets and sharing in resultant benefits;
- implementation of sectoral reform policies at regional level;
- liberalization of trade and payments;
- promoting cross-border investments both foreign and domestic, and other regional or sub-regional economic integration initiatives; and
- taking account of the effects of net transitional costs of regional integration on budget revenue and balance of payments.

Cooperation will also address common problems, including: infrastructure, particularly transport and communications; the environment; water resource management and energy; health, education and training; research and technological development; regional initiatives for disaster preparedness and mitigation; and other areas, including arms control, actions against drugs, organized crimes, money laundering, bribery and corruption.

2.3 Thematic and Cross-Cutting Issues

Three main issues will be addressed:

- *Gender issues:* The objective will be to help ACP countries strengthen policies and programs that improve, ensure and broaden the equal participation of men and women in all spheres of political, economic, social and cultural life;
- *Environment and natural resource:* In this area, the partnerships aim at: (i) mainstreaming environmental sustainability into all aspects of development cooperation and support programs

and projects implemented by the various actors; (ii) building and/or strengthening the scientific and technical unit human and institutional capacity for environmental management for all environmental stakeholders; and (iii) supporting specific measures and schemes aimed at addressing critical sustainable management.
- *Institutional development and capacity building:* The partnership will support the efforts of ACP States to develop and strengthen structures, institutions and procedures that help to: (i) promote democracy, human dignity, social justice and pluralism; (ii) promote universal and full respect for and observance and protection of all human rights and fundamental freedoms; (iii) develop and strengthen the rule of law; and improve access to justice; (iv) ensure transparent and accountable governance and administration in all public institutions.

3 New Framework for Economic and Trade Cooperation

Economic and trade cooperation will rely on three main principles:
- Full conformity with the provisions of the WTO;
- Building on regional integration initiatives of ACP States;
- Ensuring special and differential treatment for all ACP countries, maintain special treatment for ACP LDCs and take into account the vulnerability of small, landlocked and island countries.

3.1 General aspects

The new agreement has developed a framework to strengthen the mutual effects of trade cooperation and development aid. ACP countries and the EC will establish new trade arrangements with the purpose of accelerating trade liberalization between the parties. Economic and trade cooperation has four main objectives:
- promoting smooth and gradual integration of ACP economies into the world economy;
- enhancing production, supply and trading capacities;
- creating new trade dynamics and foster investment; and
- ensuring full conformity with WTO provisions.

To fulfill these objectives, a **new trading arrangement** will be introduced after a preparatory period. **It will enter into force by 1st January 2008** at the latest when liberalization of the trade process will start and which is to last for a transitional period of at least 12 years. The present regime will be maintained during the preparatory period (2000-2008). The EC will facilitate access to the EU's market to all imports from LDCs on the basis of GSP. Protocols on sugar, and on beef and veal will be maintained but will be reviewed in the framework of negotiations for new trading arrangements. In 2004, the situation of non-LDC ACP countries not in a position to enter into economic partnership agreements (EPAs) will be assessed and alternative possibilities will be examined. In 2006, the Community will assess progress in negotiation of the EPAs.

BOX A.1.11 Summary of the Timetable for Trade Negotiations and Liberalization Process

2000: Start liberalization of almost all imports from all LDCs on the basis of GSP.

2000-2002: Preparatory period to strengthen regional integration processes and the ACP countries' capacity to conduct trade negotiations.

2002-2008: Negotiations for a new trading arrangement.

2004: Assess situation of non-LDC ACP countries not in a position to enter into EPAs and examine alternative possibilities.

2005: By 2005, LDCs' exporters will have free access for essentially all their products on the EU market.

2006: Assess progress in negotiation of EPAs.

2008: (i) New trading arrangements to enter into force by 1st January 2008 at the latest; (ii) Start liberalization of trade by 2008, at the latest, during a transitional period of at least 12 years.

For the purpose of strengthening trade cooperation, a **Joint ACP-EC Ministerial Trade Committee** will be established. It will mainly focus on current multilateral trade negotiations and will examine the impact of the wider liberalization initiatives on ACP-EC trade and the development of ACP economies.

3.2 Cooperation in trade-related areas

- **Cooperation in international fora:** ACP countries and the EU will cooperate closely to defend their common interest in international economic and trade cooperation in particular in the WTO, including participation in setting and conducting the agenda in future multilateral trade negotiations. In addition the EU will provide ACP countries with technical assistance to enable them implement their commitments.
- **Trade in services:** The EU and ACP countries agreed on the objective of extending, after they have acquired some experience in applying the MFN treatment under GATS, their partnership to encompass the liberalization of services in accordance with the provision of GATS. The EU will support the ACP States' efforts to strengthen their capacity in the supply of services, in particular services related to labor, business, distribution, finance, tourism, culture and construction and related engineering services.
- **Competition Policy:** The EU and ACP countries undertake to implement national or regional rules and policies including the control and the prohibition of agreements between undertakings, decisions by associations of undertakings which prevent, restrict or distort competition.
- **Protection of Intellectual Property Rights:** The agreement underlines the importance of adherence to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) to the WTO. The Community, its Member States and the ACP States may consider the conclusion of agreements aimed at protecting trademarks and geographical indications for products of particular interest of either Party.
- **Standardization and Certification:** The objective will be to remove unnecessary technical barriers and to reduce differences between ACP countries and EU member states in those areas, so as to facilitate trade. The agreement reaffirms the commitment of both parties under the Agreement on Technical Barriers to trade, annexed to the WTO Agreement (TBT Agreement).
- **Sanitary and Phytosanitary Measures:** The Cotonou Agreement recognizes the right of each Party to adopt or to enforce sanitary and phytosanitary measures necessary to protect human, animal or plant life or health. To this end, both parties reaffirm their commitments under the

Agreement on the Application of Sanitary and Phytosanitary Measures, annexed to the WTO Agreements (SPS-Agreement).

- **Trade and Environment:** The development of international trade should ensure sustainable and sound management of the environment, in accordance with the international conventions. The objectives of the cooperation will be to establish coherent national, regional and international policies and reinforce quality controls of goods and services related to the environment.
- **Trade and Labor Standards:** The EU and ACP countries reaffirm their commitment to the internationally recognized core labor standards, as defined by the relevant International Labor Organization (ILO) Conventions. Cooperation should be enhanced in the following fields: (i) exchange of information on the respective legislation and work regulation; (ii) the formulation of national labor legislation and strengthening of existing legislation; (iii) educational and awareness-raising programs; and (iv) enforcement of adherence to national legislation and work regulation.
- **Consumer Policy and Protection of Consumer Health:** Cooperation will aim at improving the institutional and technical capacity, establishing rapid-alert systems of mutual information on dangerous products, and exchanging information and experiences on the establishment and operation of post market surveillance of products and product safety.
- **Tax Carve-out Clause:** The MFN treatment granted in accordance with the provisions of this agreement, or any arrangement adopted under this Agreement, does not apply to tax advantages which the Parties are providing or may provide in the future on the basis of agreements to avoid double taxation or other tax arrangements, or domestic fiscal legislation.

4 Trade Regime Applicable during the Preparatory Period (2000-2008)

4.1 General Trade Arrangements

- Products originating in the ACP States will be imported into the Community **free of customs duties and charges** having equivalent effect. The list of products is elaborated in the Report to Attachment I to the Treaty.
- The Community will not apply any quantitative restrictions or measures having equivalent effect to imports of products originating in the ACP States. Exception: prohibitions and restrictions on imports or exports or goods in transit justified on grounds of public morality, public security, etc.
- The EU shall take necessary measures to ensure more favorable treatment than that granted to third countries benefiting from the MFN clause for the same products.

4.2 Concept of 'Originating Products'

Products considered as originating in the ACP States are:

- **products wholly obtained in the ACP States** (mineral products extracted from their soil or from their seabed; vegetable products harvested there; live animals born and raised there; etc.);
- **products obtained in the ACP States incorporating materials** which have not been wholly obtained in the ACP countries, **provided that such materials have undergone sufficient working or processing in the ACP States**.
- **Cumulation of origin:** materials originating in the Community or SA or in a neighboring country shall be considered as materials originating in the ACP States when incorporated into a product obtained there. There is no need for such material to undergo sufficient working or processing.
- **Non-originating materials can be used in the manufacture of a given product provided that:** (i) their total value does not exceed 15% of the ex-work price of the product; and (ii) any of the percentages given in the list for the maximum value of non-originating materials are not exceeded through the application of this paragraph.

4.3 Special Undertaking on Sugar

The EU has undertaken for an indefinite period to purchase and import, at guaranteed prices, **specific quantities of cane sugar** (raw or white), which originate in the ACP States.

‘Agreed quantities’ for delivery in each 12-month period (expressed in metric tons of white sugar) for some Eastern and Southern African States are: Kenya: 5000; Madagascar: 10000; Malawi: 20000; Mauritius: 487200; Swaziland: 116400; Tanzania: 10000; and Uganda: 5000.

4.4 Protocol on beef and veal
Customs duties other than ad valorem duties applicable to beef and veal originating in the ACP States shall be reduced by 92%.

Reduction applies to the following quantities (expressed in boneless meat per calendar year and per country) are for: Botswana: 18916 tons; Kenya: 142 tons; Madagascar: 7579 tons; Swaziland: 3363 tons; Zimbabwe: 9100 tons; and Namibia: 13000 tons.

4.5 The Second Banana Protocol
The Community will examine and where necessary take measures aimed at ensuring the continued viability of the ACP countries’ banana export industries and the continuing outlet for their bananas on the Community market.

4.6 Potential Benefits of the New Trade Framework
- The agreement puts a particular emphasis on the interaction between trade reforms and human and social development policies. The new trade agreement may therefore support and complement **pro-poor policies**.
- A central point of the agreement is to make the trade regime between ACP countries and EU **fully compatible to the WTO regime**. This should enhance the trade environment and facilitate foreign investment. In addition, a key task of the agreement is to strengthen ACP countries’ capacity to negotiate WTO arrangements to best serve their needs.
- The agreement with the EC, by locking-in the economic reforms, will act as an **anchor**. The **credibility effect** would lead to more investment, strengthen economic growth and alleviate poverty.

LDCs (39 of them being in the ACP group) are granted a special treatment. By 2005, LDCs’ exporters will have free access for essentially all their products to the EU market.

5 Financial Cooperation

5.1 Principles and Guidelines
- *Coherence and flexibility:* Development finance cooperation will be consistent with the objective, strategies and priorities established by the ACP States, at both national and regional levels. One programming exercise per country/region, re-grouping of the EDF instruments.
- *Evolution in the nature of aid towards budgetary assistance/sector program:* The ACP country must be responsible for its own policies and programs, including choosing projects and programs; implementing and managing projects and programs, maintaining projects and programs, etc.
- *Indications, not entitlement:* Allocations are no longer automatic and will be subject to revision in the light of developments in *need* and *performance*. Performance will be rewarded.

5.2 Eligibility Criteria
Entities or bodies eligible are: (i) ACP States; (ii) Regional or inter-State bodies to which one or more ACP States belong and which are authorized by those States; and (iii) joint bodies set up by the ACP States and the Community to pursue certain specific objectives.

5.3 Financial Instruments
The Agreement stipulates two instruments:
- The **grant envelope for support to long-term development** (€10 bn from the 9th EDF + €1.3 bn for regional programs): Each country will be allocated a lump sum, from which a range of different types of operations can be financed. The most important difference is that no resources

are locked into a specific purpose, which allows for flexibility and the re-deployment of resources as necessary.

- The **Investment Facility** (IF) to replace the Lomé IV risk capital and interest-rate subsidy facilities: The European Investment Bank will manage the IF. It will function as a revolving fund and the returns accruing from its operations will flow back to the Facility. It is aimed at developing businesses in ACP countries and will finance income earning, commercially and economically viable private businesses and if they meet these requirements, public enterprise. It will participate in privatizations and aim to stimulate the investment of internal and external savings. The Facility will thus guarantee ACP countries a certain level of resources available for private sector development.

Resource allocation from the grant facility will be allocated on the basis of an evaluation of *needs* and *performance*.

- *Needs criteria* include: per capita income, population size, economic and social development indicators (HDI), level of indebtedness and dependence on export earnings.
- *Performance criteria*: progress in implementing institutional reforms; country performance in the use of resources (transparency and accountability in the management of resources and quality of budget management); effective implementation of current operations; poverty alleviation or reduction; sustainable development measures; macroeconomic and sectoral policy performance.

The allocation to each country will be divided into two elements: (i) A Base Case to cover the forecasted, regular support the Community will provide; (ii) A High Case to cover unforeseen needs, debt relief and additional support in case of fluctuations in export earnings.

Programming of resource allocation will be based on a single **Country Support Strategy** (CSS), which will cover implementation of all operations financed from the grant envelope. The CSS will include an analysis of the political, economic and social context of the country and outline the country's own development strategies. This analysis will serve as a basis for a suitable orientation of the use of Community aid. An Operational Indicative Program will complement the CSS.

The agreed system does not imply a carry-over of the current Stabex and Sysmin Instruments, but it does allow for **additional support in the case of fluctuations in export earnings**. However, no set amount has been earmarked for this purpose; eligibility for the support has been linked to whether the loss jeopardizes overall macroeconomic stability; and entitlement to additional support limited to 4 successive years. **Eligibility criteria for additional support** are:

- a **10%** (**2%** in the case of least-developed countries) **loss of export earnings** from goods compared to the arithmetical average of the earnings in the first three years of the first four years preceding the application year; **or**
- a **10%** (**2%** in the case of LDCs) **loss of export earnings from the total of agricultural or mineral products** compared with the arithmetical average of the earnings in the first three years of the first four years preceding the application year for countries where the agricultural or mineral export revenues represent more than 40% of total export revenues from goods; **and**
- a **10% worsening in the programmed public deficit** for the year in question or forecast for the following year.

Investment and Private Sector Development Support is aimed at promoting sound policies and strategies for investment and private sector development through financial and technical assistance. Investment will be encouraged through investment promotion, investment guarantees (use of risk insurance as a risk-mitigating mechanism, guarantee funds covering risks for qualified investment), and investment protection (Articles 74, 77 and 78).

Other Areas of Financial Support include:

- *Debt and Structural Adjustment Support:* Resources provided in the Agreement will be used to contribute to debt relief initiatives approved at international level for the benefit of ACP countries.

- *Support for Sectoral Policies:* This support will be provided through sectoral programs, investments, rehabilitation , technical assistance, etc.
- *Microprojects and decentralized cooperation:* Cooperation will also support micro-projects at local level that have an economic and social impact on the life of the people.
- *Humanitarian and emergency assistance:* Humanitarian and emergency assistance will be accorded to the population in ACP States faced with serious economic and social difficulties of an exceptional nature stemming from natural disasters, wars, etc.

Technical Cooperation: The EU will assist the ACP States in the development of national and regional manpower resources, the sustained development of the institutions critical for development success. Objectives include: strengthening ACP consulting firms and organizations, exchange arrangements involving consultants from both ACP and EU firms, transfer of know-how, increase national and regional capabilities, etc.

Financial Resources: Under the 9th EDF €13.5 billion would be made available, which are to be allocated for:

- Long term allowance: €10 billion
- Regional allowance: €1.3 billion
- Investment Facility: €2.2 billion

6 Regional Cooperation

The Regional Programs:

- should correspond to programs of existing regional organizations with a mandate for economic integration. **In case the membership of several relevant regional organizations overlaps, the regional integration should correspond to the combined membership of this organization (Article 7)**.
- will be subject to a system of rolling programming. A **Regional Support Strategy** (RSS) and an operational indicative program will be established by region and subject to regular review. The performance will be measured according to the progress and prospects of regional cooperation and integration. There will be no annual review of these programs, but only a mid-term and end-of-term review.

Regional Programming: Programming will take place at the level of each region. It means: (i) preparation and development of a **Regional Support Strategy** (RSS) based on the region's own medium-term development objectives and strategies; (ii) a clear indication from the Community of the indicative resource allocation from which the region may benefit during the 5 year period as well as other relevant information; (iii) preparation and adoption of a **Regional Indicative Program** (RIP); and (iv) a review process covering the RSS, the RIP and the volume of resources allocated to each region (Article 8).

SADC and COMESA agreed in Cairo (Egypt) in May 2001 to have a joint RSS. However, there will be two regional programs: (i) COMESA, the EAC, IOC and IGAD for an amount of €223 million, and (ii) SADC for €101 million. In addition about €30 million will be allocated to South Africa.

At the beginning of the period covered by the Financial Protocol, each must receive from the Community an indication of the volume of resources from which it may benefit during a 5-year period. Determinants of this allocation are: needs and progress and prospects of regional cooperation and integration (Article 9).

7 General Provisions for the Least-developed, Landlocked and Island ACP States (LDLICs).

- **Least-Developed ACP States:** The Agreement provides for their special treatment in order to enable them to overcome the economic and social difficulties hindering their development (Article 85).
- **Landlocked ACP States:** The Agreement allows for specific provisions and measures to support landlocked ACP States in their effort to overcome the geographical difficulties and other obstacles hampering their development.
- **Island ACP States:** The Agreement also allows for specific provisions and measures to support island ACP States in their efforts to overcome the natural and geographical difficulties and other obstacles hampering their development.

Box A.1.12 Everything-but-Arms Initiative

On February 26 2001 the European General Affairs Council adopted an amendment to the EU's Generalized Scheme of Preference, the so-called 'Everything-but-Arms' Initiative (EBA).

This initiative extends duty and quota free access to all products originating in LDCs, except arms and ammunition. To the exception of fresh bananas, rice and sugar, all agricultural products are included. The three sensitive products will be liberalized gradually:

- **Fresh bananas**: full liberalization will take place between January 1, 2002 and January 1, 2006. The EU will gradually reduce the full EU tariff by 20% every year.
- **Rice**: EBA provides for full liberalization between September 1, 2006 and September 1, 2009 by gradually reducing the full EU tariff to zero. In the meantime, LDC rice can enter the EU market duty free within the limits of a tariff quota. This quota will increase annually.
- **Sugar**: full liberalization will be phased in between July 1, 2006 and July 1, 2009 by gradually reducing the full EU tariff to zero. In the meantime, as for rice, LDC sugar can access the EU's market duty free within the limits of a tariff quota, which will increase annually.

In order to protect EU producers against difficulties, the EU will monitor imports of these three sensitive products and apply safeguard measures if necessary. The Commission will report to the Council in 2005 on the extent to which LDCs are really benefiting from EBA, and whether the EU's provisions on rules of origin, anti-fraud and safeguards are adequate.

The EBA regulations foresees that the special arrangement for LDCs should be maintained for an unlimited period of time and not be subject to the periodic renewal of the EU's scheme of generalized preferences.

Box A.1.13 The World Trade Organization (WTO) and Regional Trade Arrangements Conflict or Compatibility?

Background

When the international community embarked on the Uruguay Round (UR) negotiations, the need to create an institutional structure to oversee the world trading system became increasingly evident. The result was the WTO aiming to oversee and coordinate the functioning of the multilateral trading system. It provides the institutional and legal foundation for the multilateral trading system and entered into force on January 1, 1995.

The WTO is headed by a Ministerial Conference, composed of all WTO members, which meets once every two years. However it is the General Council that is in charge of the management of the organization. The General Council has also two specific tasks: it acts as the Dispute Settlement Body and serves as the Trade Policy Review Body.

The WTO Agreement has five functions (Article III), namely:

- to facilitate the implementation, administration and operation and further the objectives of the multilateral and plurilateral trade agreements;
- to provide a forum for multilateral and plurilateral trade negotiations;
- to settle disputes that may arise between members;
- to conduct trade policy reviews; and
- to cooperate with the World Bank and the IMF aimed at achieving coherence in global economic policy making.

WTO and Regional Trade Arrangements

The fundamental principle of the GATT/WTO is non-discrimination incorporated in the **most-favored-nation (MFN) rule**. This rule requires a signatory (member) country to extend to all other contracting parties any advantage, favor, privilege and immunity affecting trade charges that it grants to another contracting party.

This principle may seem to contradict the establishment of regional trade arrangements (RTAs) between signatory countries to the GATT/WTO. However, GATT/WTO explicitly allows the creation of RTAs provided that these arrangements respect certain rules. This constitutes the most important exception to the principle of non-discrimination. **Article XXIV** of GATT/WTO provides a number of rules governing such trade agreements including:

- Parties to a RTA must eliminate duties and other restrictive regulations of commerce with respect to 'substantially all' trade between the constituents customs territories (paragraph 8).
- The level of external protection applied to third countries by signatories to an RTA, must not 'on the whole' be higher or more restrictive after the formation of the RTA compared to the level prevailing in each of constituent territories prior to the formation of the RTA (paragraph 5).
- All RTA agreements are to be promptly reported to the WTO for examination by WTO members, which then may make recommendations (paragraph 7).
- Member States of a RTA must adopt rules that minimize any possible harmful impact of such RTA.

ATTACHMENT 2

SOCIO-ECONOMIC AND POLITICAL INFORMATION

ATTACHMENT 2a

POLITICAL SITUATION IN SOUTHERN AFRICA

Similar to their uneven levels of socio-economic development and performance, the countries in southern Africa are diverse in their political systems and the prevailing levels of political stability, which are posing particular challenges for cooperation and integration in the region. Political systems range from a traditional monarchy to constitutional democracies on a continuum from de facto one-party rule, unclear division between legislative, administrative and judicial functions and state-control of the media to decentralized political, fiscal and administrative functions, widespread participation by civil society and media independence. In general, democracies are young and fragile, with many of the countries in a stage of democratic nation building, with the occasional set-back as witnessed by constitutional amendments and clamp-downs on freedom of speech.

Over the past few years some countries in the sub-region have indeed witnessed consolidation of a democratic culture, good governance, the rule of law and respect for human rights. This is reflected in a number of positive developments, such as the holding of 'free and fair' national and / or sub-national elections and the smooth transfer of power between ruling parties such as in Mauritius and changes in leadership, such as in Botswana and South Africa. Notwithstanding these positive developments, international political risk perceptions of the sub-region have deteriorated due to a number of factors.

- In **Angola**, the long-running civil war is no nearer to a military solution, as UNITA still has the financial capability to sustain the conflict in the foreseeable future. However, after long refusing to speak with armed UNITA again, the prospects for some form of dialogue between the government and UNITA have improved since the death of the UNITA leader, Jonas Savimbi, and his second-in-command. Currently, large swathes of the country, dislocated by decades of war, are under no effective administrative control, while there is growing disquiet among the urban poor about the government's inability to address the deepening socio-economic crisis. Donors and International Finance Institutions, including the World Bank, are increasingly involved in post-conflict reconstruction. Apart from the civil strife within Angola, over the past three years, the country has also been drawn into conflicts in Congo-Brazzaville and the DRC. The deterioration in relations between Angola and Zambia may see further clashes along the Angola-Zambia border, although a formal war with Zambia seems unlikely.

- The internecine war in the **DRC**, which has drawn in countries in southern Africa and as far away as Chad and Libya. The DRC has enjoyed very little by way of a meaningful constitutional environment since its independence in 1960. The country was governed under a one-party system for most of the time from 1965 to 2001. Integration of this vast territory has been incomplete even under colonial rule and the society is organized around local and regional nodes rather than being a nation state. To all intents and purposes there is no government or administrative system in the generally accepted sense of the term. The inadequacy of transport and communications infrastructure makes the establishment of centralized or provincial administration beyond the major centers problematic, leaving such governance and administration to traditional leaders and their control structures. Due to the war, the DRC government administers roughly half of the country, i.e. the triangle between Kinshasa, Mbandaka and Lubumbashi, with the rest of the territory under control of various sub-national movements along ethnic or socio-economic fault lines. The DRC war has actually been five wars and linked-zones of conflict, each with its own logic, involving Angola, Burundi, Rwanda, Uganda and Sudan. In addition, at times the wars have drawn in countries such as Chad and Libya, while some SADC member States, notably Zimbabwe and Namibia, apart from Angola, have provided troops and other military assistance to the DRC Government on a bilateral basis.

  Since the end of January 2001, when Joseph Kabila was sworn in as president, the prospects for implementing the Lusaka peace accord have improved considerably. He has been taking a vastly different tone than his late father in favoring dialogue with the DRC's neighbors, countries such as France, Belgium and the USA, and the UN in order to bring the peace process back on track. This is auguring well for regional and international initiatives to find a diplomatic solution to the conflict. The record of the DRC's new government particularly within the first few months has been one of delivering on most of its commitments. Political activity has been freed, the diamond sector was liberalized, restrictions were lifted on the use and circulation of foreign exchange, new mining and investment codes are being prepared, respected technocrats have been put in place in the main economic posts in cabinet and dialogue has been opened with the IMF and World Bank. Without a political solution to the war in the DRC, and others linked to it, there is a real danger that this conflict(s) will cause immeasurable damage to the economies of the central and southern African regions. Regional efforts to find political solution to the DRC's problems are ongoing and countries such as Botswana and SA have been particularly prominent in these efforts.

- The political and economic crisis in **Zimbabwe** is closely linked to the 20-year one-party rule and persona of its current President. Although being a constitutional democracy, Zimbabwe has been, *de facto,* a one-party rule since independence in 1980. The presidency has wide-ranging powers in terms of the 1980, including intervening in the electoral process. What has resulted is the mind-set of a one-party state, with all the institutions applicable to that. Over the past three years, a range of erratic political and economic decisions has brought about a realignment of political forces, growing economic hardship that is assuming regional and ethnic dimensions, and mounting public dissatisfaction. Although attempts to strengthen the presidency by way of further amendment to the constitution were frustrated in a referendum at the beginning of 2000, the head of state still enjoys massive powers. President Mugabe's candidacy for the March 2002 Presidential election seemed to have been at the heart of the political and economic turmoil afflicting Zimbabwe. The run-up period to the Presidential election saw heavy-handed clampdowns on incidents of 'public disorder' or dissidents from the ruling party, 'fast-tracking' of land resettlement initiatives, and political expediency in the economic management process. These forces are still contributing to a delay in Zimbabwe's economic recovery.

- Other incidents which have contributed to the deteriorating political risk perceptions of the sub-region, include the following:

  - The constitutional and political turmoil between 1993 and 1998 in the **Kingdom of Lesotho** which culminated in an appeal to other southern African states for assistance, leading to military involvement of SADC (by SA and Botswana) in Lesotho during September 1998. This incident has set a precedent in regional peacekeeping efforts, which raised the question of how similar requests would be handled in future. In Lesotho, the constitutional dispensation is now under review. An Interim Political Authority – a multiparty organ – has been set up in 1998 to assist in electoral reform and preparations for the June 2002 elections.
  - The amendment to **Namibia**'s constitution to allow President Nujoma to stand for a third term in office (the ruling party has stated that Mr. Nujoma would not seek a fourth term as President though). This amendment was seen by *inter alia* the investor and donor community as a serious abrogation of Namibia's commitment to the principles of constitutional democracy. These perceptions were exacerbated by the subsequent parliamentary discussion about the removal from the constitution of provisions for the payment of compensation for land acquired for redistribution. The current favorable prospects for implementation of the Lusaka Peace Accord in the DRC augur well for the withdrawal of Namibian troops from that country.
  - In **Zambia**, since 1998, the controversial amendments that have been made to the constitution of this young democratic system and political actions against political opponents, which have pointed to a slide back towards authoritarianism. However, President Chiluba, under pressure from domestic, regional and international role-players, did not seek a third term as President and leadership changed hands peacefully towards the end of 2001.
  - Pressures to modernize **Swaziland's** political system, in a milieu characterized by restrictions on trade union and political party activity. Swaziland has been without a constitution since

1973. Its absolute monarch, King Mswati III has appointed a constitutional commission to investigate and recommend on the democratic modernization of the traditional monarchy, but proceedings have been protracted, while its contents seem to call for a permanent ban on opposition politics and an expansion of royal powers. The royal house is increasingly being tested through occasional incidents of civil discontent with the slow pace and direction of political transformation.

On the sub-regional level, the intervention of some SADC members in Lesotho, on the appeal of this country, to re-establish law and order in its territory, together with the SADC diplomatic initiatives to resolve the conflict in the DRC, indicates that regional security has become an important part of the SADC cooperation arrangement. In contrast, regional security matters have also been serving as a disintegrating force and source of regional tension, with the military interventions by Angola, Zimbabwe and Namibia in the DRC. These were seen from within the regional context as bilateral decisions, rooted in the then unresolved conflict over the autonomy of the SADC Organ for Politics, Defense and Security. From 1994, when SA acceded to SADC till the beginning of 2001, the regional institutional structuring of political, defense and security issues turned into a long and acrimonious disagreement between:

- those (mainly Zimbabwe, whose Head of Government was the Chair of the Frontline States) arguing that an institutional mechanism to deal with such issues should function under separate chairmanship from SADC and on the same flexible and informal basis as the Frontline States operated prior to the end of apartheid rule in South Africa. This implies that such an institutional mechanism would, in fact operate parallel to SADC, but would be a nominal part of SADC; and
- those (mainly South Africa) arguing that the SADC Treaty does not provide for an institutional mechanism on politics, defense and security to be separately constituted under a separate chair and with a mandate separate from that of SADC.

Thus, the 1996 effort to formalize these issues within a SADC Organ for Politics, Defense and Security, was again abandoned in 1997 in order to avoid ongoing negative fall-outs from the dispute on the Organ. However, the March 2001 Extraordinary Summit on the Rationalization and Review of SADC has decided to bring the political arm of SADC within the folds of the Treaty institutions, thereby renewing the efforts and resolve to attend to matters of regional security and politics. The Organ will deal with issues such as the following: military, peacemaking, peacekeeping and peace enforcement; conflict prevention, management and resolution; crime prevention; intelligence; foreign policy; disaster management; disaster management and human rights, indicating the depth and breadth of regional cooperation on these matters. In August 2001, all but one member signed the long-awaited Protocol on Politics, Defense and Security Cooperation. Related Protocols signed at the time are those on: Control of Firearms, Ammunition and other Related Materials, and on Corruption, while that on Combating Illicit Drug Trafficking were signed already in 1996.

Box A.2.1: Objectives of the SADC Protocol on Politics, Defense and Security Cooperation

- Protect the people and safeguard the development of the Region against instability arising from the breakdown of law and order, intra-state conflict, inter-state conflict and aggression;
- Promote political cooperation among State Parties and the evolution of common political values and institutions;
- Develop common foreign policy approaches on issues of mutual concern and advance such policy collectively in international fora;
- Promote regional coordination and cooperation on matters related to security and defense and establish appropriate mechanisms to this end;
- Prevent, contain and resolve inter -and intra-state conflict by peaceful means;
- Consider enforcement action in accordance with international law and as a matter of last resort where peaceful means have failed;
- Promote the development of democratic institutions and practices within the territories of State parties and encourage the observance of universal human rights as provided for in the Charters and Conventions of the organization of African Unity and United Nations respectively;
- Consider the development of a collective security capacity and conclude a Mutual Defense pact to respond to external military threats;
- Develop close cooperation between the police and state security services in order to address cross border crime and promote a community based approach to domestic security;
- Observe, and encourage State parties to implement United nations, African Union and other international Conventions and treaties on arms control, disarmament and peaceful relations between states;
- Develop peacekeeping capacity of national defense forces and coordinate the participation of State parties in international and regional peacekeeping operations; and
- Enhance regional capacity in respect of disaster management and coordination of international humanitarian assistance.

ATTACHMENT 2b

MACROECONOMIC, FINANCIAL, TRADE & SOCIAL INFORMATION

Table A.2.1: SADC Countries: Population and Basic Economic Indicators, 1970-2000

Countries	Population (million)	Income, GNP per capita ($U.S.), Atlas Method	ECONOMY				
			Nominal GDP (million $U.S.)	Real GDP / capita (1995 $U.S.)	Investment/ GDP (%)	Savings/GDP (%)	Exports +Imports/GDP (%)
Angola							
1970	5.59	NA	NA	NA	NA	NA	NA
1980	7.02	NA	NA	723	NA	NA	NA
2000	12.72	270 (a)	8600	521	33	NA	101*
Botswana							
1970	0.64	160	100	590	42	18	80*
1980	0.91	1230	1100	1678	37	34	101
2000	1.60	3630	5600	3896	22	16	49*
Congo, Dem. Rep.							
1970	20.27	240	4900	400	15	12	24
1980	27.01	630	14400	313	10	10	26
2000	51.39	110 (b)	8700	139	12	12	40*
Lesotho							
1970	1.06	110	100	226	10	-28	NA
1980	1.35	490	400	364	37	-52	112
2000	2.15	550 (a)	900	514	78	-19	107*
Malawi							
1970	4.52	60	300	121	26	11	48
1980	6.18	190	1200	160	25	11	47
2000	11.04	170	1900	158	17	3	60*
Mauritius							
1970	0.83	280	200	1190	10	11	61
1980	0.97	1240	1100	1802	21	10	84
2000	1.18	3900	4800	4419	25	23	84*
Mozambique							
1970	9.40	NA	NA	NA	NA	NA	NA
1980	12.10	280 (c)	3500	166	6	-11	28
2000	17.58	220 (a)	3900	202	31	6	35*
Namibia							
1970	0.79	NA	NA	NA	NA	NA	NA
1980	1.03	NA	2200	2214	31	38	121
2000	1.74	1890 (a)	3200	2130	27	14	90*
Seychelles							
1970	0.05	370	20	2852	NA	NA	65
1980	0.06	2110	150	4882	38	27	61
2000	0.08	9920	460	7313	34	14	74*
South Africa							
1970	22.09	790	17900	4100	23	19	38
1980	27.58	2540	80500	4620	23	31	54
2000	42.80	3090	128800	3925	16	19	40*
Swaziland							
1970	0.42	240	100	784	23	32	NA
1980	0.57	970	600	1046	30	6	156
2000	1.05	1400	1200	1401	13	25	201*
Tanzania							
1970	13.69	NA	NA	NA	NA	NA	NA
1980	18.58	NA	NA	NA	NA	NA	NA
2000	33.70	260	9000	193.4	18	5	25*
Zambia							
1970	4.19	440	1800	699	28	45	80
1980	5.74	630	3900	584	23	19	66
2000	10.09	320	3400	396	19	8	51*
Zimbabwe							
1970	5.26	390	1900	607	18	18	38
1980	7.01	950	6700	620	17	14	9
2000	12.11	690	7200	653	2	5	64*

Source: World Bank SIMA Database
Notes: (a) stands for 1999, (b) stands for 1998 and (c) stands for 1982. * means data for 1999.

Attachment 2b.1

SADC Countries: Economic Structure and Growth Performance

Box A.2.2: Economic Structure

Contribution of agriculture to GDP

In the 1960s, agriculture was the main source of output in many SADC countries. Agriculture's value added represented more than one-third of GDP in Lesotho and Swaziland, almost 30% of GDP in Botswana, and more than 40% of output in Malawi (See Table 3). Since the mid–1970s, the output structure has changed drastically in most of the countries. Agriculture's contribution shrunk in favour of industry and services. Botswana, Lesotho, Mauritius, and Swaziland represent the most striking examples of this evolution. The discovery of diamonds and the development of a diamond-based industry in Botswana have resulted in an increase in the share of industry in GDP to 46% in the late 1990s compared with 31% in 1970. In the meantime, agriculture contribution to GDP fell from 28% in 1970 to 4% in 1998. In Lesotho and Swaziland where the formation of output is derived in large part from industry and services, the formation of important agro-industry and tourism sectors are the underlying factors explaining the changing pattern. In the particular case of Mauritius, an important tourism–based industry, along with the export processing zone, has changed the economic structure from a sugar based–economy to a manufacturing economy. It is important to note that, with the exception of SA, Mauritius is the only SADC country that has developed a significant manufacturing sector. In 1998, one quarter of its output stemmed from manufacturing value added.

Contribution of Mining to GDP

SADC countries produce and export a number of mining commodities, including chromite, cobalt, diamonds, gold, manganese, copper, platinum, uranium and other industrial minerals and mining is the backbone of most national economies. Angola produces petroleum, diamonds, iron ore, phosphates, copper, gold, bauxite, and uranium. Botswana exports diamonds, copper, iron ore, and silver. Malawi is endowed with unexploited deposits of uranium and produces coal and bauxite while Mozambique's natural resources include coal, titanium, and natural gas. Namibia is the fourth-largest exporter of non-fuel minerals in Africa and the fifth-largest producer of uranium in the world. Namibia is also rich in gems and minerals and produces high quality diamonds and gold mines, while exporting copper, zinc, and lead. SA is a producer of a variety of natural resources, including gold, gem diamonds, coal, iron ore, uranium, platinum, and natural gas. Tanzania exports tin phosphates, iron ore, coal, diamonds, gemstones, gold, natural gas, and nickel. Zambia's sub-soil is rich in copper, cobalt, zinc, lead, coal, emeralds, gold, silver and uranium; the country also has hydropower potential as do both Tanzania and Zambia. Like Tanzania, Zimbabwe produces iron ore, coal, and gold and is rich in chromium ore, asbestos, nickel, vanadium, lithium, tin, and metals. The DRC is exceptionally endowed with mineral resources including copper, cadmium, petroleum, and diamonds. Overall, mining represents an important source of foreign exchange earnings, output formation and employment within the region. In 2000, it accounted for nearly 60% of the region's foreign exchange earnings equivalent to 10% of GDP and about five percent of formal employment. With regard to mining commodities' exports, SADC countries' shares of the international market are relatively important and vary between 10 to 45%.[1]

Contribution of manufacturing to GDP

The contribution of manufacturing sector to GDP is still insignificant in many countries with the exception of South Africa and Mauritius. This situation reflects the number of constraints that the sector faces. The production costs are relatively high due to the prices of working and investment capital, high lending rates and high utility tariffs. Also, the shortage of skilled and qualified workers explains the weak competitiveness of many countries and the slow growth of the manufacturing sector. In particularly the land-locked countries, high transaction costs associated with transport and, often compounded by poor economic infrastructure, also explain the poor performance of the manufacturing sector.

Table A.2.2: Share of Manufacturing Sector to GDP (In percent)

Country	1992	1993	1994	1995	1996	1997	1998	1999
Angola	12.5	5.7	4.9	4.0	3.4	4.4	6.5	NS
Botswana	4.0	4.9	4.5	4.9	5.0	4.9	4.8	NS
Lesotho	12.5	14.6	13.8	15.2	15.3	15.7	17	16.6
Malawi	15.0	11.8	17.4	16.1	14.2	13.6	13.2	NS
Mauritius	12.5	23.2	23.3	23.7	24.2	24.4	24.7	25.0
Mozambique	11.3	15.5	11.2	13.3	14.5	15.4	14.7	9.8
Namibia	7.4	13.2	12.5	12.4	10.1	14.2	NA	16.5
South Africa	25.0	23.5	23.4	24.3	23.7	23.9	23.7	18.2
Swaziland	NS	27.4	27.6	27.8	25.8	25.9	NA	NS
Tanzania	8.1	7.5	7.4	7.2	7.4	6.9	NA	8.3
Zambia	36.0	26.4	24.7	9.9	11.8	11.8	12	10.7
Zimbabwe	20.1	21.0	19.1	19.2	15.7	15.4	15.2	NS

Source: Official SADC Trade, Industry and Investment Review, 1997-2001.
Note: NA: Data not Available; NS: Share insignificant between 0 and ±0.5

Contribution of tourism to GDP

The southern African region is endowed with abundant natural resources, cultural diversity, and eco-tourism that make it potentially attractive destination for tourists. The countries in the sub-region have acknowledged that the promotion of travel and tourism (T&T) could be an important contributor to economic growth, job creation, export earnings and FDI. According to the World Tourism Organization (WTO), the sub-region was one of the most popular international tourist destinations in Sub-Saharan Africa in 1999. Three countries - Zambia, Zimbabwe, and SA - were among the four top African countries that recorded the highest increase in tourist arrivals in 1999.[1] Tourism arrivals increased by 26% in Zambia and 17% in Zimbabwe while SA's record was relatively smaller, 3.2%.

Travel and tourism is a major contributor to economic development in most countries in the sub-region. It is estimated that the sub-region's T&T Industry contributed to nearly 4% of GDP in 1999. It accounted for nearly one-third of Mauritius's aggregate GDP and one-fifth of that of Namibia and Seychelles. The sub-region's capital investment in T&T amounted to US$3.5 billion in 1999, almost 11% of total investment.

This sector is also an important source of employment. A World Travel and Tourism Council (WTTC) report estimated that employment in the sub-region's tourism sector was nearly 1.3 million directly and about 3.4 million indirectly in 1999. The contribution of this sector to job creation is particularly appreciable in Mozambique, South Africa, and Tanzania (See Table below). According to the WTTC, in SA, one job is created for every eight visitors in the T&T Economy, and one job for every 20 visitors in the T&T Industry. However, SA's tourism potential is far for being fully exploited. Tourism employment as a percentage of total employment is relatively low and accounted for 6% in the T&T Economy in 1999. In addition, expansion of the tourism industry is limited by the capacity of the enterprises, which provide transport, accommodation, entertainment and travel services. Most of them are small and medium enterprises staffed by less than 50 employees. In absolute terms, SA's capital investment was the highest in the SADC region and equaled US$2.4 billion, followed by Mauritius (US$0.2 billion) and Tanzania (US $0.2 billion). However, SA's capital investment in T&T was low and represented 12.1%t compared to that of Mauritius's 20.1%. Although the SA's expenditure on T&T in 1999 - US$137.2 million - was the highest in the region, the contribution of this sector to GDP was relatively low, less than 9%.

Table A.2.3: Travel and Tourism Economy figures. 1999 Estimates

	T&T Economy GDP (US$ million) *	T&T Economy as % of total GDP	Employment in T&T ('000)	Capital investment in T&T (US$ million)
Angola	352.5	5.2	127.5	62.9
Botswana	585.7	12.0	35.8	113.3
DRC	545.4	6.2	389.4	75.6
Lesotho	36.6	4.9	28.2	40.4
Malawi	117.8	3.9	96.6	15.6
Mauritius	1200.3	27.9	55.5	266.9
Mozambique	217.3	9.4	677.8	81.3
Namibia	560.8	20.9	58.3	65.4
Seychelles	232.2	20.7	36.8	31.2
South Africa	9086.2	8.2	648.2	2431.7
Swaziland	133.7	8.8	19.4	27.0
Tanzania	738.2	11.4	817.7	195.6
Zambia	395.6	7.0	197.2	60.1
Zimbabwe	466.7	12.4	228.8	59.7
Total SADC	**14 669.0**	**9.0**	**3417.2**	**3526.7**

Source: *SADC's T&T-Economic Driver for the 21st Century*, WTTC, July 1999.
Note: *Goods and services produced for visitors, etc., strongly dependent on T&T spending.

SA receives most international tourists and is the main beneficiary international tourism receipts in the sub-region. In 1998, the World Tourism Organization ranked SA 25th out of the 40 most popular tourist destinations in the world and the only SSA country on the top 40 list.

Table A.2.4: SADC Tourists arrivals and receipts - 1998

	International tourist arrivals ('000)	International tourism receipts (US$ millions)	Average receipts per tourist (US$)
Angola	50	9	180
Botswana	740	185	250
DRC	32	2	63
Lesotho	115	20	174
Malawi	215	8	37
Mauritius	570	502	881
Mozambique	NA	NA	NA
Namibia	510	339	665
Seychelles	131	120	916
South Africa	5981	2 366	396
Swaziland	325	40	123
Tanzania	447	431	964
Zambia	382	90	236
Zimbabwe	1 600	246	154
Total SADC	**11 098**	**4 358**	**393**
Total Africa	**24 903**	**9 551**	**384**

Source: Tourism Market Trends, World Tourism Organization, 1999.

Development of the tourism industry in the sub-region suffers from a number of constraints: First, transport costs are generally high and the quality of transport and telecommunications infrastructure is poor. This results in additional constraint to tourism performance. For example, protection of national airways inhibits competition and competitive price setting of airfares. Intra-regional flight connections manifest a hub-and-spoke pattern with Johannesburg International as the hub, adding to the cost of travelling in the sub-region. Second, cross-border movement is inhibited by the lack of a tourism univisa, adding to transaction costs for travellers both in time and money. Third, hazardous factors such as road accidents and diseases (malaria and HIV/AIDS) are raising risk perceptions of potential tourists. Fourth, political factors such as regional conflicts, crime, social unrest, urban terrorism, and wars are compounding these negative perceptions.

Table A.2.5: Trends in Economic Growth over the Last Three Decades

Countries	First Decade pre-SADC Average over 1970-79	Second Decade pre-SADC Average over 1980-90	Eight Years of SADC Existence									
			Average over 1992-2000	1992	1993	1994	1995	1996	1997	1998	1999	2000(b)
SADC	3.2	2.2	2.2	-2.4	0.2	2.7	3.2	4.6	2.7	1.3	1.8	2.5
Angola	NA	2.3 (a)	0.4	-5.1	-23.8	1.4	10.3	10.0	6.2	3.2	2.7	3.2
Botswana	15.5	10.3	4.3	3.0	2.0	3.6	5.1	6.9	4.0	3.5	4.5	5.9
Congo, Dem. Rep.	0.2	1.0	-1.8	-10.5	-13.5	-3.9	0.7	-0.9	-5.7	3.0	8.0	8.5
Lesotho	7.9	3.8	3.7	4.8	3.8	3.4	4.5	10.0	8.0	-5.0	2.5	2.5
Malawi	6.2	2.0	2.9	-7.3	9.7	-10.2	16.7	7.3	3.8	2.0	4.0	3.2
Mauritius	7.0	4.4	5.4	6.2	5.4	4.1	4.7	5.7	5.5	5.6	3.4	7.7
Mozambique	NA	0.1(a)	5.7	-8.1	8.7	7.5	4.3	7.1	11.1	11.9	7.3	3.8
Namibia	NA	1.2 (a)	3.2	7.1	-1.7	6.4	3.7	2.1	2.6	2.4	3.1	3.9
Seychelles	8.9	2.7	2.9	7.2	6.2	-0.8	-0.6	4.7	4.3	2.0	1.5	2.5
South Africa	3.3	2.0	1.8	-2.1	1.2	3.2	3.1	4.2	2.5	0.6	1.2	2.2
Swaziland	5.5	6.9	2.8	1.3	3.3	3.5	2.7	3.9	3.7	2.0	2.0	3.0
Tanzania	NA	NA	3.2	0.6	1.2	1.6	3.6	4.5	3.5	4.0	4.7	5.2
Zambia	1.5	1.2	0.8	-1.7	6.8	-8.7	-2.5	6.6	3.3	-1.9	2.4	4.0
Zimbabwe	3.8	5.3	1.1	-8.4	2.4	5.4	0.3	10.2	2.8	3.7	0.1	-5.5

Source: World Bank, SIMA, Regional Database and Author's Calculations.
Note: Average over period 1981-90.
Data for 2000 are estimates.

Box A.2.3: Growth Performance of SADC Countries, 1995-2000

At the onset of the 1990s, economic activity deteriorated significantly in a number of SADC countries. Angola recorded a sharp decline of nearly 24% in real GDP growth in 1993, while the DRC entered into six consecutive years of economic downturn in which real GDP growth fell sharply by more than seven percent annual average throughout 1989-94. Output growth shrunk drastically in Malawi in 1992 (-7.3%) following five consecutive years of economic growth. In 1994, real GDP plunged in Zambia (-8.7%) and contracted in the Seychelles (-0.8%). The continued rapid growth observed in Botswana at the end of 1980s and early 1990s, ceased in 1992-93, with real GDP growth averaging slightly more than two percent compared with seven percent in 1990-91

The mid-1990s witnessed economic recovery in SADC. The pace of economic activity regained momentum, reflecting gains stemming from the implementation of stabilization programs combined with structural reforms in various areas, including the liberalization of trade and exchange systems; civil service and tax administration reforms; and privatization of state owned enterprises. However, this economic upturn differs among countries and varies from year to year.

In 1995 and 1996, Botswana and, to a lesser extent, South Africa experienced relatively rapid growth. Real GDP grew in both countries by an annual average of six percent and slightly higher than three percent, respectively. While the main sources of growth in Botswana were the dynamics of diamond output and the strong demand for diamonds in the mid-1990s, economic expansion in South Africa resulted from a combination of manufacturing sector performances and buoyant activity in the financial markets[1]. The electricity, water, and gas sectors also contributed to growth as these sectors benefited from rising demand in neighboring countries and the program of providing the less developed regions of the country with electricity and water. In 1998 and 1999, growth slowed as a result of a contraction in the manufacturing sector, the termination of the export incentive program, the consequences of the financial crisis in East Asia, and movements in the real effective exchange rate. Nevertheless, Botswana's growth continued its solid path, averaging four percent between 1997 and 1999. The main factors accounting for Botswana's record were the performance of finance, transport, and construction sectors, which recorded double-digit growth rates in 1998–99. Real domestic demand also grew reflecting an increase in private consumption. Public investment rose as a result of the implementation of development projects under the Eighth National Development Plan (NDP8). In 2000, economic activity remained strong in Botswana– where GDP grew at approximately six percent– and recovered modestly in South Africa. Real GDP grew by 2.2% and is estimated to rise further between 3.5% and 4% in 2001 based on IMF Staff estimates. Malawi's economy recovered from a sharp fall of -10.2% in real growth in 1994, which stemmed from severe droughts. Real GDP expanded by almost 12% on average in 1995–96. Favorable weather conditions along with the liberalization in the agricultural sector, boosted agriculture production. Yet, growth subsequently lost its pace, expanding by only 3.2% in 2000.

Like most of SADC's countries, growth rose in Zambia in 1996 by 6.6% compared with a cumulative drop of -5.7% on average in the two previous years. This economic turnaround was stimulated by favorable weather conditions that increased agriculture production during 1995 and 1996. Particularly, the production of maize, Zambia's major staple food, almost doubled. The Production of other crops, including sunflower seeds, seed cotton, and soybeans, rose by more than 100%. The Mining sector was also a source of growth,

[1] In Botswana, diamond production averaged about 16 million carats during 1990-94 and increased to 17 million during 1995-96. Following the ORAPA 2000 project that was expected to increase mining output to about 26 million carats by the year 2000, demand for diamonds rose significantly.

increasing by 12%. It featured copper and cobalt production that rose by two percent and 70%, respectively. Other sectors that added to economic growth were wholesale and retail trade (13%) and restaurant and hotels (18%). Growth slowed, halving in 1997 (to 3.3%) and declining further in 1998 (by about two percent). However, in 2000, real GDP expanded by four percent above the population growth rate.

Mauritius, Mozambique, Swaziland and Tanzania have recorded a long–lasting period of growth. Particularly, Mauritius's GDP has been growing solidly since 1981. Apart from 1983 and 1999, real GDP growth has regularly exceeded 4%, an average greater than the population growth. In 2000, real GDP is estimated to hav e grown by more than seven percent, a level comparable to many of the fastest-growing Asian countries.

Since 1993, real GDP growth has been strong in Mozambique increasing by almost six percent on average during the period 1992-2000 more than nine percent in the period 1996-99. However, economic performance remains fragile and exposed to adverse external shocks 2000, economic growth fell drastically to 3.8% as a result of the devastating floods that hit the southern and central regions of the count February and March of 2000. Agricultural production as well as small manufacturing and services were most affected by the floods.

Swaziland has also enjoyed a long path of growth since 1980. However, since 1991, growth has been modest ranging between two to three percent on average. Tanzania has moved from its disappointing growth rates of the early 1990s to remarkable performances in the mid-1990s. This situation particularly reflects the improvement of the macroeconomic stance since 1995. Indeed, the newly appointed government has reinforced macroeconomic and structural adjustment policies, restraining fiscal position and reforming tax administration in order to increase revenue. Agriculture and manufacturing production rose in response to these reforms. In 1998-2000, real GDP grew at an annual average of more than four percent, exceeding the population growth rate estimated at less than three percent.

Lesotho, Malawi, Namibia and the Seychelles also experienced increases in real GDP throughout the 1990s. However, their records remain fragile and subject to weather conditions and terms of trade fluctuations. In the specific case of the Seychelles, real growth slowed in the late 1990s, stemming from the contraction in the tourism activity and its spillover effects through the rest of the economy.

Angola enjoyed strong growth in the mid-1990s with real GDP growth increasing on average by 10% in 1995-96 from a low level in previous years. Yet economic growth fell drastically to 2.7% in 1999 as a result of the resumption of civil war in late 1998. Economic activity in the non-oil sector was particularly affected by the instability of the business environment. However, in 2000 growth recovered slightly. Zimbabwe is the only SADC member state to record negative growth in 2000, reflecting mainly the devastating effects of Cyclone Elaine on crops and infrastructure as well as the economic impact of the current political situation.

Attachment 2b.2

SADC Countries: Fiscal Performance

Table A.2.6: Trends in Budget Deficit/Surplus (including & excluding all grants (a), Annual Average in % of GDP)

	Pre-SADC	During SADC Existence	Eight Years of SADC Existence								
Countries	**Average over 1985-90**	**Average over 1991-95**	**Average over 1996-99**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000(f)**
Angola	-13.7	-29.4	-15.8	-56.9	-21.7	-20.1	-26.6	-20.4	12.4	-13.9	-18.1	13.0
	-13.7	-29.4	-15.8	-56.9	-21.7	-20.1	-26.6	-15.8	-17.9	-15.1	-20.4	12.4
Botswana	13.8	6.5	0.9	9.5	8.7	3.1	1.8	6.4	3.8	4.0	2.6	2.0
	12.0	5.5	0.7	8.5	7.1	2.2	1.5	6.0	3.7	-4.1	-2.7	2.0
DRC	NA	NA	-8.0	NA	NA	NA	NA	NA	NA	-9.2	-6.8	-5.1
	NA	NA	-10.0	NA	NA	NA	NA	NA	NA	-11.1	-9.0	-5.7
Lesotho	-5.2	3.3	1.0	2.5	4.9	5.3	4.5	3.5	3.4	0.5	-3.5	-8.4
	-11.6	-2.4	-2.5	-3.6	-0.3	0.6	0.1	-0.8	-0.8	-2.8	-5.8	-11.0
Malawi	-5.7	-9.8	-6.2	-11.1	-6.9	-20.0	-7.6	-8.8	-9.5	-2.3	-4.0	-4.2
	-9.5	-15.5	-12.2	-13.9	-9.7	-31.6	-16.1	-13.6	-13.3	-10.7	-11.1	-10.1
Mauritius	-2.4	-3.0	-4.6	-2.3	-2.2	-3.0	-5.5	-7.4	-5.7	-3.1	-2.2	-1.6
	-3.1	-3.2	-4.8	-2.4	-2.4	-3.3	-5.8	-7.6	-5.9	-3.2	-2.5	-1.9
Mozambique	-7.7	-3.6	-2.3	-2.7	-3.6	-5.3	-3.2	-2.9	-2.5	-2.4	-1.5	-6.0
	-13.8	-15.7	-11.3	-16.5	-15.5	-19.2	-13.0	-9.9	-11.7	-10.6	-12.9	-11.8
Namibia	NA	NA	-4.3	NA	NA	NA	NA	-5.9	-3.9	-3.7	-3.8	-3.7
	NA	NA	-4.6	NA	NA	NA	NA	-6.2	-4.2	-3.9	-4.2	-4.1
Seychelles	NA	-11.0	-15.9	-5.8	-11.4	-16.5	-16.1	-10.7	-13.4	-25.0	-14.4	-8.4
	NA	-10.4	-16.4	-7.1	-13.0	-17.2	-16.7	-11.3	-13.8	-25.5	-15.0	-9.3
South Africa	-4.1	-6.3	-4.9	-7.4	-8.9	-6.2	-5.2	-5.4	-4.5	-5.1	-4.7	-3.7
	-4.2	-6.5	-4.9	-7.8	-9.0	-6.2	-5.2	-5.4	-4.5	-5.1	-4.7	-3.7
Swaziland	NA	-0.9	-2.4	-0.1	-3.6	-3.6	-2.5	-2.4	-2.6	-2.4	-2.1	-1.9
	NA	-1.9	-3.2	-1.5	-4.7	-4.6	-3.3	-3.2	-3.4	-3.3	-3.0	-1.9
Tanzania	-2.6	0.5	0.1	3.2	-1.4	1.6	-3.4	-1.9	1.8	0.2	0.4	-1.6
	-5.7	-2.1	-2.8	0.8	-4.8	-1.7	-5.2	-3.9	-1.4	-2.6	-3.3	-5.4
Zambia	-10.4	-5.2	-1.5	-2.5	-5.6	-6.5	-4.3	-0.5	-0.2	-3.2	-2.0	-3.8
	-12.1	-12.7	-7.9	-12.6	-13.6	-11.8	-9.5	-6.6	-5.3	-9.8	-10.0	-13.1
Zimbabwe	-7.7	-7.0	-6.8	-6.8	-6.1	-6.7	-10.1	-7.7	-7.5	-2.4	-9.4	-15.5
	-8.7	-8.7	-8.0	-8.4	-8.1	-8.6	-11.9	-9.0	-8.5	-4.0	-10.4	-19.4

Source: World Bank, SIMA, Regional Database and Author's Calculations.
Note: (a) First numbers represent fiscal deficit, including all grants while the second ones represent fiscal deficits, excluding all grants.

Table A.2.7: Government revenue (In % of GDP)

	Government revenue, incl. all grants as % of GDP			Government revenues, excl. all grants as % of GDP (%)		
	1980	1990	2000	1980	1990	2000
SADC	NA	NA	NA	NA	NA	NA
Angola	NA	25.6	46.6	NA	25.6	46.0
Botswana	NA	49.9	46.6	NA	48.5	46.5
DRC	NA	NA	16.8	NA	NA	14.2
Lesotho	NA	48.5	42.7	NA	37.4	40.1
Malawi	24.1	23.7	21.5	19.8	21.0	15.6
Mauritius	NA	23.1	22.5	NA	22.8	22.2
Mozambique	15.3	22.5	23.4	13.5	12.8	14.4
Namibia	0	33.1	36.7	0	31.9	36.3
Seychelles	NA	49.6	53.3	NA	47.7	52.4
South Africa	6.0	26.3	27.5	6.0	26.1	27.5
Swaziland	NA	..	29.8	NA	NA	29.0
Tanzania	NA	18.1	14.4	NA	14.7	10.6
Zambia	NA	24.6	28.1	NA	20.3	18.8
Zimbabwe	11.8	27.8	35.3	11.1	27.0	31.4

Attachment 2b.3

Inflation, interest rates and exchange rates

Table A.2.8: Trends in Inflation (Changes in CPI, Annual Average in %), 1970-2000

	First decade pre-SADC	Second decade pre-SADC	Eight Years of SADC Existence									
Countries	Average 1970-80	Average 1981-90	Average 1992-2000	1992	1993	1994	1995	1996	1997	1998	1999	2000 (f)
SADC	16.3	10.7	14.3	21.2	18.2	17.7	17.2	15.7	15.4	10.0	6.5	8.0
Angola	NA	NA	646.4	495.8	1837.9	366.3	2672.0	4146.0	111.0	107.0	248.0	312.0
Botswana	11.9(a)	10.6	11.7	16.1	11.4	10.6	10.5	10.1	11.7	13.2	10.3	3.6
DRC.	37.8	58.6	689.5	4129.2	1986.9	23773.1	541.9	658.8	13.7	15.3	12.1	8.3
Lesotho	14.4(b)	13.4	9.8	17.2	13.1	8.2	9.3	9.3	7.3	7.3	7.3	8.3
Malawi	NA	16.1	33.5	22.7	19.7	34.7	83.3	37.6	9.1	27.4	45.3	26.4
Mauritius	13.2	8.2	7.0	4.7	10.5	7.3	6.0	6.5	6.9	4.9	8.7	6.0
Mozambique	NA	41.5	30.3	45.1	42.3	63.1	54.4	44.6	6.4	0.6	3.1	12.3
Namibia	NA	13.0	9.7	17.7	8.6	10.8	10.0	8.0	8.8	6.2	7.6	6.5
Seychelles	16.4(c)	3.0	0.6	3.2	1.3	1.8	-0.3	-1.1	0.6	-3.2	2.7	9.5
SA	10.0	14.6	8.6	13.9	9.7	9.0	8.6	7.4	8.6	6.9	5.2	5.4
Swaziland	10.7	13.4	9.4	8.2	11.2	13.8	12.3	6.4	7.2	8.5	8.0	7.3
Tanzania	12.4	30.6	22.2	21.8	25.3	33.1	29.8	28.0	21.0	12.8	7.9	5.6
Zambia	13.4(d)	45.4	61.1	169.0	188.1	53.6	34.9	43.1	24.5	24.4	26.8	25.9
Zimbabwe	NA	14.1(e)	29.8	42.1	27.6	22.2	22.6	21.4	18.8	31.8	56.2	80.3

Source: World Bank, SIMA, Regional Database and Author's Calculations.
Note: Average over period 1975-80; (b) Average over period 1976-80; (c) Average over period 1971-80; (d) Average over period 1974-80; (e) Average over period 1982-90. (f)Data for 2000 are estimates.

Table A.2.9: Three-Month Real Interest Rates, 1995-2000[1] (Treasury bill rates)

Countries	1995	1996	1997	1998	1999	2000	Average 1995-2000
Angola	NA	NA	NA	NA	NA	NA	NA
Botswana	NA	NA	NA	NA	NA	NA	NA
DRC	NA	NA	NA	NA	NA	NA	NA
Lesotho	2.5	4.8	6.3	7.7	3.8	3.1	4.7
Malawi	-36.8	-6.9	9.2	3.2	-1.9	9.9	-3.9
Mauritius	4.1	3.5	1.9	3.3	3.2	6.6	3.8
Mozambique	NA	NA	NA	NA	NA	4.3	4.3
Namibia	3.9	7.2	6.9	11.0	4.7	5.8	6.6
Seychelles	12.4	12.6	9.9	5.3	-1.8	-2.2	6.0
South Africa	4.8	7.7	6.6	9.7	7.6	4.7	6.9
Swaziland	-1.4	7.2	6.4	5.6	5.3	-1.6	3.6
Tanzania	13.9	-5.8	-6.5	-0.7	3.8	3.6	1.4
Zambia	4.9	9.7	5.1	0.5	9.4	5.3	5.8
Zimbabwe	5.4	3.1	3.2	0.5	-7.7	9.1	2.3

Source: WETA (August 15, 2001)
Note: [1] Three-month interest rate less twelve-month CPI inflation rate.

Table A.2.10: Real Effective Exchange Rates

	Real Effective Exchange Rate Index (1990=100)		
	1980	**1991**	**2000**
SADC	124	98	109.8
Angola	NA	NA	NA
Botswana	117	98	99
DRC	332	96	NA
Lesotho	118	66	74
Malawi	111	104	129
Mauritius	NA	NA	NA
Mozambique	118	85	NA
Namibia	129	98	83
Seychelles	91	99	122
South Africa	134	104	88
Swaziland	NA	NA	NA
Tanzania	NA	99	121
Zambia	135	93	138
Zimbabwe	165	66	NA

Attachment 2b.4

SADC Countries: Financial Systems

Box A.2.4: Some Aspects of the Financial Systems in SADC Countries

Angola

Following Angola's independence in 1975, foreign banks were nationalized. In 1991 the financial system was reformed. The Banco Nacional de Angola (BNA, which functioned as the central bank and a commercial bank) was restricted to central banking activities. The Banco Popular de Angola (BPA) remained in state hands, but changed its name to the Banco de Poupanco e Credito (BPC). A new state bank, the Banco de Comércio e Industria (BCI), also came into being. The Caixa de Crédito Agropecuaria e Pescas (CAP) was formed to support agricultural activities, but it developed into a slush fund with a large portfolio of bad loans. Insurance was limited to one state-owned company, the Empresa Nacional de Seguros e Resseguros de Angola (Ensa), formed in 1978. Local and foreign private banks also began operating in Angola after the 1991 reforms. In 2000 there were six commercial banks of which two were state-owned. Banking system reforms are underway; however, the money and capital markets remain undeveloped with informal money markets filling the vacuum.

Botswana

Botswana has a small but efficient banking sector. The central bank (Bank of Botswana) is conducting the traditional central bank role in an autonomous and efficient manner. Botswana has four commercial banks carrying out normal retail and commercial banking activities, leasing, property finance and merchant banking. The capital market in Botswana is not broadly based, having a small equity market and no debt market. The stock exchange, established in 1990 (with 9 listed companies and market capitalization of US$261 million), had 15 listed companies with a market capitalization of US$1 042 million in 2000, but its turnover ratio, measured in terms of value traded in dollar terms as a percentage of average market capitalization, has remained below 10%. The capital market is quite free. There is no capital-gains tax on the sale of publicly traded company shares, and dividends are not taxable. Foreign investors can trade freely in the stock market without bureaucratic controls. Botswana has two DFIs offering longer-term financing and specialized services targeted at specific sectors.

DRC

The financial sector in the DRC is underdeveloped and has functioned unreliably due to the impact of hyperinflation and extreme currency depreciation on transactions. The commercial banks are mostly subsidiaries and associates of Western banks. The largest is the *Banque commerciale congolaise* (formerly *Banque commerciale zairoise*), in which *Societe Generale de Belgique* has a 25% stake through its subsidiary *Belgolaise*. The 13 largest banks are grouped in the *Association congolaise des banques*. There is also a 40% state-owned investment bank, the *Societe financiere de developpement* (Sofide), which lends mainly to the manufacturing and agricultural sectors. With funding from the World Bank, the *Banque Centrale du Congo* (BCC) has undertaken an extensive audit of financial institutions in Kinshasa, which resulted in a decision to close or restructure insolvent operations. In an attempt to re-establish the credibility of checks, the government has passed a law that requires all government payments to be made by check. The BCC is benefiting from the SADC programs to strengthen the central banks' information technology system and to align the country's payments system with that of its neighbors.

Lesotho

The financial sector in Lesotho is limited. The Central Bank (created in 1982) acts as regulatory body and its functions include the implementation and control of monetary policy (including administering of exchange controls) as set out in the Banking Act and under the Multilateral Monetary Agreement (MMA) to which Lesotho subscribes, along with SA, Namibia and Swaziland. The rest of the formal financial sector in Lesotho consists of three commercial banks, namely Lesotho Bank, Standard Bank Lesotho Ltd and Nedbank Lesotho Ltd and insurance companies. The commercial banks have 16 branches, but have increased the number of agencies from 18 to 20. Apart from these financial institutions, the Lesotho National Development Corporation (LNDC) and the Co-operative Credit Unions, which operate under the Lesotho Credit Union League, also play an important role in providing specialized financing services. The Co-operative Credit Unions provide equity finance, financing for the acquisition of fixed assets and long-term loans. A review of the legal framework of the financial sector and the amendment of the Financial Institutions Act and the Central Bank of Lesotho Act commenced during 1997. A specialized bank, the Lesotho Agricultural Development Bank, was closed down in 1998. The Government will complete the financial restructuring of Lesotho Bank (which was government owned and experienced serious financial stress) with a view to privatization. Insurance services are provided by a number of brokers and South-African based insurance companies, with the strongest emphasis on life policies. The Lesotho National Insurance Company provides the widest range of services. The government divested half the shares in this company to private shareholders in 1995 and split the general and life assurance businesses into two separate subsidiaries.

Malawi

Malawi's government embarked on a program to liberalize its financial system in 1995-96. It aimed to move to market-determined interest rates, no direct controls over credit, and unrestricted access to domestic financing facilities for local and foreign investors. The Reserve Bank of Malawi (RMB) is relatively independent in setting monetary policy and issuing local currency. It also administers the Exchange Control Act and operates the fledgling market in government stock. The RBM has been struggling to oversee the financial sector. The Malawi Savings Bank (MSB) deteriorated to such an extent that the government provided financial support equal to 0.5% of GDP, strengthened its management and placed in under close prudential supervision. Malawi has six commercial banks, with the *National Bank of Malawi* and the *Commercial Bank of Malawi* operating countrywide. These banks offer all the conventional banking services including check accounts, registration of foreign capital with the Reserve Bank, short- and medium-term credit facilities, trade financing, export credit guarantees, foreign remittances and repatriation of capital. The capital market is in its infancy with 2 companies listed and only one stockbroker operating on the Malawi Stock Exchange. There are good prospects for further listings with the implementation of the privatization program. As recently as 1998, Malawi had still six DFIs, which are probably far too many for the size of its economy.

Mauritius

Mauritius has a highly sophisticated financial structure and has next to South Africa, perhaps the most developed financial system in SADC. There are a number of public and private commercial banks, both domestic and offshore, that extend short- and long-term credit to the industrial sector. Other financial institutions operating in Mauritius include insurance companies, mutual funds, pension funds, mortgage companies, leasing companies, investment companies and trusts, and the Stock Exchange of Mauritius

The central bank, the Bank of Mauritius, was established in 1967. Among other functions, the Bank administers the Banking Act of 1988, which provides the legal framework for the domestic and offshore banking sectors, laying great emphasis on the central bank's supervisory responsibilities and provides for annual meetings between the Bank of Mauritius, commercial banks and their external auditors. The operations of moneychangers and foreign exchange dealers fall under the provisions of the Foreign Exchange Dealers Act of 1995. In 2000, the financial sector comprised ten commercial banks, ten offshore banks and seven other non-bank financial institutions authorized to transact deposit-taking business. The three largest commercial banks are the government-owned State Bank of Mauritius, Barclays Bank and the Mauritius Commercial Bank. The major banks operate a well-developed branch network. Offshore banking was launched in 1989. Other important financial institutions include the Development Bank of Mauritius, the Mauritius Commercial Bank Finance Corporation, the State Finance Corporation, the Mauritius Housing Corporation and the Post Office Savings Bank. The money market involves inter-bank transactions and the trading of short-term Government/BoM bills. The capital market revolves around the securities exchange, which is the only organized market for shares and alimited number of bonds. The Stock Exchange of Mauritius was established in Port Louis in 1989 with 13 listed companies and market capitalization valued at US$268 million. In 2000, there were 41 listed companies with a total market capitalization of US$1 485 million, but turnover remained below 10%.

Mozambique

The development of the financial sector in Mozambique was dealt a heavy blow when all private banks were nationalized in 1978. They were merged into two state institutions, the Banco de Mozambique (the central bank) and the Banco Popular de Desenvolvimento (BPD). During the 1980s and early 1990s the banking system operated virtually as an extension of the national budget. Most credit was directed to loss-making state enterprises, real interest rates were negative, savings dropped sharply and the banks accumulated large bad debts. The reform of the financial sector began in 1992. In a first phase foreign banks were granted permission to invest in Mozambique, interest rates were deregulated, and the commercial activities of the central bank were transferred to a new state institution Banco Comercial de Mozambique (BCM). The BPD was privatized in 1996 and the BCM in 1997. The reform efforts significantly boosted the scope of the Banco de Mozambique to operate more independently and to expand its capacity to oversee the financial sector. The liberalization of the financial sector has attracted new entrants such that Mozambique has had 6/7 commercial banks, a credit union, a leasing company and an investment bank in 2000. The branch network has been expanded and banks have diversified their products and services. However, the informal money market that emerged in earlier mono-banking days is still being used extensively. An interbank money market was created in October 1997, but money and capital markets remain underdeveloped. In December 1991 legislation was approved which terminated the state monopoly of insurance and reinsurance activities. However, in 2000 there were no long-term insurers in Mozambique and the legislation regarding the insurance sector has been in need of updating. A stock market, the Bolsa de Valores de Mozambique has commenced operation in October 1999, trading largely in treasury bills. Listing among the fair number of candidates has been constrained by only a few having adequate accounting standards and management to bring confidence to the newly established market.

Namibia

The (central) Bank of Namibia was established in 1990 to take over functions previously performed by the South African Reserve Bank. The Central Bank, the Ministry of Finance and financial institutions are pursuing the development of new financial instruments and markets including parastatal bills, debentures and bonds, government treasury bills and negotiable certificates of deposit. The domestic money and forex markets are nascent but developing. Local inter-bank lending is limited due to the small size of the market with Namibian banks participating more in the SA inter-bank market. In 2000, Namibia had five commercial banks, two building societies, five insurance companies and nine public financial institutions, including four DFIs. Both the commercial banks and life insurance offices in Namibia were subsidiaries of South African organizations. All banks provide comprehensive domestic and international banking services. Short-term insurance and life insurance broking, estate planning and factoring are some of the ancillary services provided by banks. Several major SA companies have registered local entities in Namibia. The Namibian Stock Exchange (NSX) commenced operations in October 1992 with 3 listed companies and market capitalization valued at US$21 million. By 2000, it had 21 listed companies and a market capitalization of US$410 million, with a turnover ratio of less than 10%. The Stock Exchange has established an Unlisted Securities Market Authority to manage a separate trading system for shares of companies that do not meet the stringent requirements for a full board listing on the stock exchange.

Seychelles

The financial sector of Seychelles functions well, but markets are thin due to the small size of the economy. The Central Bank of Seychelles (CBS) is regarded as fairly efficient administratively, but it does not function independently from the government. Four international commercial banks operate in Seychelles: Barclays Bank (UK), Banque Francaise Commerciale-Océan Indien (France), Bank of Baroda (India) and Habib Bank (Pakistan). In addition, three state-owned national banks are also active: the Development Bank of Seychelles (which extends soft loans to companies in priority development areas with majority Seychelles shareholdings), the Seychelles International Mercantile Banking Corporation and the Seychelles Savings Bank.

South Africa

SA has a highly sophisticated financial system. The Reserve Bank of ***South Africa*** was established in 1920, and functions autonomously in the conduct of its main responsibility of formulating and implementing monetary policy to attain its mission. In 2000 there were 44 registered banks and mutual banks, 15 local bank branches of foreign banks and 61 foreign banks had approved local representative offices in SA. Other financial institutions include finance companies, participation mortgage bonds, unit trusts, insurance companies, pension funds, etc. The *Johannesburg Stock Exchange* (JSE) was established in 1887, and in 2000 it represented 649 listed companies with a market capitalization value of US$213 billion and a turnover ratio of 34%. The JSE accounted for 89% of the African regional market capitalization in 2000. SA has also a formalized exchange for futures and options contracts, SAFEX, and an exchange for debt instruments (gilts and semi-gilts), BESA – the Bond Exchange of SA. These financial structures are also complemented by a development finance system of 5 sectorally delineated DFIs, the largest of which are the Industrial Development Corporation and the Development Bank of Southern Africa, both of which operate also in the rest of Africa.

Swaziland [2]

The Central Bank of ***Swaziland*** was established as the country's monetary authority in April 1974 and took on other central banking functions in 1979. The present mandate of the Bank includes: issuance, service and redemption of domestic debt; external debt management; administration of exchange control, and formulation/implementation of monetary policy. The Central Bank also operates three lending schemes, namely the Export Credit Guarantee Scheme, the Small Scale Enterprise Loan Guarantee Scheme and the Public Enterprise Loan Guarantee Fund. There are four commercial banks and a building society operating in Swaziland. Instruments used in the money market include: stocks and treasury bills, bank acceptances and negotiable certificates of deposits. Swaziland has a well-developed commercial banking system that is served by SA's Nedbank, Standard Bank, First National Bank and the parastatal Swaziland Development and Savings Bank. The Swaziland Building Society provides long-term mortgage lending to all income groups. The Swaziland Royal Insurance Corporation, a 'private' enterprise of which 41% is government-owned, has an industry monopoly. The Insurance and Pensions Bill of 1993 has still not been passed, owing to a lack of political will, but if passed it would increase competition and efficiency. Several SA companies have indicated that they will enter the market if it is liberalized. The Swaziland Stock Exchange was opened in 1990 but ten years on only 17 companies with a market capitalization value of US$95 million are listed and trading levels remain small. According the Governor of the CBS, a very small proportion of the market capitalization can be ascribed to investments by indigenous small savers. Swaziland has two DFIs: and two other institutions involved in development finance, one of which is the *Tibiyo Taka Ngwane*, a national (royal) trust.

Tanzania

The Bank of ***Tanzania*** was established in 1966 with its objective being revamped in the new Bank of Tanzania Act of 1995 to maintain price stability with balanced, sustainable economic growth. In 1991, the financial sector was opened to private and foreign capital and forex and T-bill markets were liberalized. Steps are being taken to encourage the development of interbank and secondary markets for treasury bills and other securities. One of the aims is to provide liquidity for Tanzania's nascent capital market. The BoT has started to use repurchase transactions in government paper for monetary policy purposes and has introduced a special facility for seasonal lending to banks against collateral. The market, guided by the central bank's discount rate, determines interest rates. The BoT's regulatory and supervisory capabilities are being enhanced to meet the challenges created by the reforms and the expanding number of financial institutions. An electronic payments system was scheduled to be established in 2000/01. Sixteen foreign banks and nine non-bank financial institutions have been licensed to do business in Tanzania. More than 80 *bureaux de change* are in operation. The government decided in 1997 to privatize the state-owned National Bank of Commerce (NBC), which accounted for over half the banking deposits. In September of that year the Bank was divided into NBC (1997) and the National Microfinance Bank (NMB) and preparations began to privatize the two new institutions. A 70% stake was sold to ABSA, a SA commercial bank, in 2000, while the NMB was also placed under private management. The

---

[2] It should be noted that Swaziland's close association with South Africa in SACU and the CMA, limits autonomy in trade, monetary and fiscal policy. Interest rates in Swaziland cannot diverge significantly from those prevailing in SA because of the free movement of funds in the CMA, while the lilangeni remains at parity with the SA rand. Swazi banks have indeed placed their surplus funds in SA, in pursuit of higher returns. Although the renegotiated monetary agreement of 1986 gave Swaziland the legal right to break the parity condition, this is unlikely to occur. The Governor of the CBS, in his 2000 Annual Policy Statement noted that the currency relation with the rand has benefited Swaziland and expressed the opinion that this relation should be sustained.

privatization and restructuring of state-owned financial institutions also included that of the Tanzania Investment Bank, the Tanzania Postal Bank and the People's Bank of Zanzibar .A liberalized insurance regime took effect in May 1998 and a number of private insurance companies were licensed. Four DFIs have been operating in Tanzania, and a policy framework for microfinance regulation was submitted for government approval in 2000. A Capital Market Authority was established in 1994 to regulate the Dar es Salaam Stock Exchange, which has become operational in 1998. For this purpose, five broking companies were licensed in 1997. Two companies were listed by 1999, with their market capitalization value amounting to US$181 million. Financial sector reform is continuing, with the aim of fostering competition and efficiency in the supply of financial services, narrowing the spread between lending and deposit interest rates, and strengthening the mobilization and allocation of financial resources.

Zambia

Since independence, the Government of Zambia has played an active role in the banking sector, but under the pressures of structural adjustment, Zambia has been liberalizing its financial system. The Banking and Financial Services Act of 1994 was designed to provide an appropriate regulatory framework for the financial system. Under that Act the *Bank of Zambia* continues to exercise supervisory authority over the banking system. Its main responsibility is to protect the value of the country's currency and reducing inflation to single digit levels. Monetary control is exercised through indirect instruments such as open market operations. In 2000, Zambia had about 16 commercial banks both local and international. Many of these banks offer merchant and investment banking services. The Inter-market Discount House (IDHZ) of Zambia was established to help develop a local money market. IFC has made an equity investment of US$500 000 for a 20% stake in IDHZ. The number of building societies has been growing, catering for small depositors and concentrating on long-term mortgage loans. The emergence of a formal capital market in Zambia has had a positive impact on the economic and financial sectors. The Lusaka Stock Exchange (LuSE) began operations in February 1994 and by 2000 it had 4 listed companies with a market capitalization value of US$291 million. In addition to these developments, Zambia Enterprise Financing (ZEF) has been established to channel financial resources from the World Bank to the private sector through the domestic banking system. Finance Bank Zambia, the largest local private bank, has obtained a loan of US$6.5 million from the IFC for the same purpose. A venture capital fund has been set up with an initial capital base of US$15 million provided by a parastatal, the CDC and a number of European banks. One DFI, the Development Bank of Zambia (DBZ), has been re-organized as part of the financial sector restructuring program.

Zimbabwe

In Zimbabwe, the Reserve Bank (RZB) till recently enjoyed a large measure of autonomy in setting monetary and exchange rate policy with the aim of maintaining the internal and external value of the currency. On the back of high inflation and the collapse of the United Merchant Bank in 1998, the RZB introduced a number of changes for the banking sector and to remove some of the rigidities in the market brought about by the relatively fixed rediscount rate. They were to create a situation in which the market, instead of decisions by the central bank, would determine the cost of accommodation. Those regarding the money market included: the replacement of the rediscount rate and the overnight rate with a Reserve Bank rate, to enable the central bank to influence short-term interest rates, depending on market conditions; the introduction of anticipatory repurchase agreements to encourage banks to manage liquidity effectively; the replacement of end-of-week deposit figures as a basis for determining the 25% statutory reserve amount with a method that uses a weekly average liability position; and the introduction of a Treasury bill issue program of one-week periods to avoid untimely issues - the amount on offer to be determined by government's short-term funding requirements. As far as the banking sector was concerned, statutory deposits for commercial and merchant banks at the Reserve Bank of Zimbabwe were increased; any new entrants into the banking sector would have had to find twice as much capital than before to be considered for a banking license, while reporting procedures were tightened.

In 2000, Zimbabwe had a relatively sophisticated and rapidly growing financial sector comprising commercial and merchant banks, discount houses, building societies, accepting houses, a Post Office Savings Bank, insurance companies, pension funds, registered representative offices of foreign banks, a Credit Insurance Corporation which underwrote political and commercial risk, and three DFIs. Most restrictions on the sector were removed and banking regulations had been reviewed to make them more responsive to a market-led economy. The Zimbabwe Stock Exchange (ZSE) was established in 1974 and had 69 listed companies with a market capitalization value of US$ 2 751 million in 2000. The ZSE is open to foreign investors, within certain limitations.

Attachment 2b.5

Eastern and Southern African Countries: Foreign Debt, External accounts and Restrictions

Table A.2.11: Current Account Position (In % of GDP)

	Pre-SADC	Eight Years of SADC Existence									
Countries	**Average over 1980-90**	**Average over 1992-99**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000(b)**
Angola	-1.9 (a)	-34.2	-24.9	-26.2	-29.0	-40.9	-6.2	-19.7	-66.0	-60.8	NA
Botswana	1.7	6.6	5.7	11.3	5.7	6.9	13.6	11.3	2.9	-4.8	-6.3
DRC	-5.7	-8.5	-10.6	-6.3	-8.4	-8.5	-6.8	-12.4	-9.4	-6.0	NA
Lesotho	-37.1	-22.8	-33.3	-30.4	-17.4	-21.4	-20.7	-19.0	-20.2	-20.3	-18.9
Malawi	-11.0	-15.9	-21.1	-16.8	-23.8	-12.8	-11.4	-12.7	-17.3	-11.5	-15.6
Mauritius	-3.9	-1.7	-0.2	-3.2	-6.6	-0.4	1.2	-1.5	0.9	-4.1	-0.8
Mozambique	-21.5	-31.5	-41.7	-42.9	-41.9	-30.7	-23.7	-18.3	-20.3	-32.3	NA
Namibia	1.7	3.7	1.8	4.1	2.8	5.2	3.6	2.7	5.3	4.3	1.7
Seychelles	-5.2	-10.7	-1.8	-9.2	-4.5	-9.0	-11.1	-12.9	-18.4	-19.0	-23.3
SA	1.1	-0.4	1.5	1.2	0.1	-1.5	-1.3	-1.6	-1.6	-0.4	-0.7
Swaziland	-3.6	1.3	0.1	-6.1	3.3	2.2	-2.3	-3.4	20.9	-4.5	-2.9
Tanzania	-13.3	-19.0	-24.2	-27.2	-24.7	-20.4	-14.8	-11.1	-14.5	-14.8	NA
Zambia	-14.8	-16.5	-25.9	-15.5	-12.8	-14.4	-13.9	-13.7	-19.0	-16.7	-17.1
Zimbabwe	-3.6	-5.7	-13.0	-4.9	-4.8	-5.4	-2.2	-10.0	-5.6	0.5	-2.1

Source: World Bank, SIMA, Regional Database and Author's Calculations. Note: (a) 1985-90. (b) Estimates.

Table A.2.12: Total External Debt to GDP Ratio (%)

	Pre-SADC	Eight Years of SADC Existence									
Countries	**Average over 1980-90**	**Average over 1992-2000**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000(b)**
Angola	69.4(1)	173.3	174.2	200.3	275.2	219.4	138.6	127.9	174.0	127.7	121.9
Botswana	20.3	13.2	14.8	15.8	15.6	14.4	12.5	11.1	10.6	10.8	13.3
DRC.	75.0	175.5	133.8	125.7	172.3	209.1	218.8	202.3	189.3	172.3	155.5
Lesotho	45.3	71.7	59.8	66.1	74.0	72.6	71.3	64.5	78.8	81.5	76.6
Malawi	85.4	124.5	95.0	88.2	171.3	157.0	95.2	88.0	140.7	143.3	142.1
Mauritius	46.5	47.6	32.9	31.5	39.5	44.2	42.3	60.6	60.9	56.4	60.5
Mozambique	94.0(2)	238.3	262.4	247.8	320.8	311.8	261.2	217.4	212.7	152.6	157.7
Namibia	NA	5.6(3)	NA	NA	NA	NA	NA	NA	4.0	5.8	6.8
Seychelles	48.7	33.4	37.8	33.4	35.4	31.3	29.2	27.7	34.9	30.9	40.1
South Africa	NA	18.2(4)	NA	NA	16.0	16.8	18.1	17.0	18.4	19.0	22.4
Swaziland	43.3	24.5	22.9	21.0	20.7	18.5	18.1	28.0	20.5	35.7	35.0
Tanzania	132.2	116.6	145.1	159.5	160.4	140.9	113.3	92.8	88.8	72.9	75.7
Zambia	172.7	202.5	210.8	198.1	203.3	200.3	215.7	170.1	211.9	213.2	198.7
Zimbabwe	31.3	66.0	60.1	65.3	65.6	70.3	57.6	56.7	69.5	81.4	67.3

Source: World Bank, SIMA, Regional Database and Author's Calculations.
Note: (b): 2000 data are estimates. (1): period 1985-90; (2): period 1981-90; (3): period 1998-2000; (4): period 1994-2000.

Table A.2.13: Total External Debt to Export Ratio (%)

	Pre-SADC	Eight Years of SADC Existence									
Countries	**Average over 1980-90**	**Average over 1992-2000**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000(b)**
SADC	78.3	132.5	101.5	106.3	154.2	144.1	136.2	130.0	147.0	138.8	134.5
Angola	155.3(1)	244.5	247.3	342.5	342.7	286.9	186.3	183.1	291.3	193.1	127.3
Botswana	29.6	24.9	24.7	26.7	30.1	24.2	21.1	19.6	20.1	28.1	29.3
DRC	315.8	775.3	794.7	871.3	933.2	748.8	716.1	846.2	792.7	683.4	591.5
Lesotho	26.3	94.6	44.9	53.2	71.2	107.4	105.3	93.5	109.5	132.2	134.1
Malawi	352.3	477.8	403.2	537.1	569.1	525.7	440.9	355.2	465.5	453.9	549.7
Mauritius	83.7	71.4	50.5	48.7	63.4	71.8	65.1	90.6	81.0	81.3	90.0
Mozambique	1071.0(2)	1363.7	1417.2	1402.2	1774.0	1600.5	1400.3	1334.6	1440.8	1012.7	891.0
Namibia	NA	9.1(3)	NA	NA	NA	NA	NA	NA	6.6	9.6	11.0
Seychelles	74.2	52.7	66.7	60.2	67.5	57.3	45.8	40.2	48.5	43.1	44.9
South Africa	NA	71.1(4)	NA	NA	NA	69.8	70.8	71.6	66.6	69.2	71.7
Swaziland	52.0	22.7	23.8	20.5	19.4	18.4	17.8	27.4	21.0	29.3	26.4
Tanzania	1243.0	745.5	1202.6	1100.3	846.5	670.8	630.4	542.8	667.5	526.4	521.8
Zambia	454.9	614.0	552.6	589.1	571.6	519.6	621.0	494.0	716.6	771.2	690.4
Zimbabwe	186.5	187.4	218.3	213.1	189.3	181.5	158.4	157.7	182.1	169.4	216.8

Source: World Bank SIMA Database

Table A.2.14: Southern and Eastern Africa - External Financial Liberalization Indicators

Countries	Controls of current account transfers: On trade related payments	Controls of current account transfers: On investment related payments	Controls on capital and money market instruments	Controls on liquidation of direct investments	Foreign exchange accounts permitted: To residents	Foreign exchange accounts permitted: To non residents	Foreign exchange accounts permitted: Accounts in domestic currency convertible into foreign currency	Export proceeds repatriation requirements
SADC Countries								
Angola	Yes	Yes	Yes	Prior approval is needed from the MoF	Yes	Yes	No	Yes
Botswana	Yes	Yes, within quantitative limits		No	Yes	Yes	No	All exchange controls abolished on Feb. 99
Burundi	All transfers above 5,000$ require approval	Joint-stocks companies may transfer 100% of the return of foreign capital and of the shares allocated to foreign directors after payment of taxes. Transfer of rental income is permitted.	Capital transfers abroad by residents require individual authorization	Transfers of foreign capital on which a repatriation guarantee has been granted do not require individual authorization	Yes	Yes	yes	Since Nov, 99, only exports proceeds of coffee, cotton and tea.
Comoros	Yes	Repatriation of dividends and other earnings from non-resident investments is authorized and guaranteed.	Yes, except capital flows between Comoros and France, Monaco, WAEMU and CAEMC	n.a.	Yes, with previous approval	Yes, with previous approval	No	Yes
DRC	Yes	Yes	Yes	Yes	Yes	Yes, but since June 1999, these accounts cannot be in debit position	Yes	Yes
Djibouti	No	No	No	No	Yes	Yes	Yes	No
Egypt	No	No	No	No	Yes	Yes	Balances may be converted through the foreign exchange market	No
Eritrea	Since January 1, 2000, all restrictions on payments for current account are abolished	yes	Yes	No, for investments certified under the Investment Proclamation Law	Yes	Yes	Yes	Yes
Ethiopia	Yes, approval is needed	Yes	Yes	Yes, authorization is required	Exporters of services may open foreign exchange accounts with the Central Bank's approval	Yes, with previous Central Bank's approval	No	Yes
Kenya	No	No	Yes	No	Yes	Yes	Yes	No
Lesotho	No	No	Yes	No	Yes	Yes, with restrictions	Approval is required	Yes
Madagascar	No	No	Yes	Yes	Yes	Yes	No	Yes
Malawi	No with some limits	No, provided the investment is approved and registered	Yes	Repatriation of investments permitted	Yes	Yes, previous approval	No	Yes

Countries	Controls of current account transfers: On trade related payments	Controls of current account transfers: On investment related payments	Controls on capital and money market instruments	Controls on liquidation of direct investments	Foreign exchange accounts permitted: To residents	Foreign exchange accounts permitted: To non residents	Foreign exchange accounts permitted: Accounts in domestic currency convertible into foreign currency	Export proceeds repatriation requirements
		by the RBM		when foreign capital funded the original investment				
Mauritius	No	No	Yes	No	Yes	Yes	Yes	No
COMESA Non-SADC Countries								
Mozambique	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
Namibia	No, up to established limits	Yes	Yes	Yes	Yes	Yes, under certain conditions and previous approval	No,	Yes
Rwanda	Yes	Yes	Yes	Yes	Yes, but since Sept. 99, foreign currency withdrawals exceeding certain amounts require supporting documentation		No	Yes
Seychelles	No	No	No	No	Yes, but approval required	Yes	N.a.	Yes
South Africa	No	No, but prior approval is required for the payment of amortization of loans or depreciation of direct investments	Yes	No	Yes	Yes	No	Yes
Sudan	No, except insurance for imports must normally be taken out with local companies	No, except for amortization of payments on foreign loans to residents, that require certification from the Central Bank	No	No	Yes	Yes, with restrictions	Yes	Yes
Swaziland	Yes,	Approval required for interest payments and remittances of projects and dividends.	Yes	No	Yes	Yes, subject to approval	Yes, subject to approval	Yes, except for exports to the SACU countries
Tanzania	Yes	No, provided that all tax obligations have been met.	Yes	Yes	Yes	Yes	No, only for UN-related organizations	Yes
Uganda	No	No	No	No	Yes	Yes	Yes	No
Zambia	No, except for the requirement that no taxes are due	No, except for the requirement that no taxes are due	No	No	Yes	Yes	Yes	No
Zimbabwe	Yes	Yes	Yes, inward capital transfers not controlled, but outward capital transfers are.	No, with few exceptions and for all cases application must be submitted.	Yes	Yes	No, except when purchasing travelers check for holiday travel payment	Yes

Sources: IMF, Annual Report on Exchange Arrangements & Restrictions, 2000

Attachment 2b.6

Eastern and Southern African Countries: Trade Restrictions and Restrictiveness

Table A.2.15: Non-tariff Barriers to Imports in ESA Countries (As of December 1998)

	Quantitative restrictions		Restrictive Licensing Requirements		Import State Trading Monopolies	Other (a)
	Bans	Quotas	For all products	For some products		
COMESA Countries						
Angola	No	No	Yes	Yes	No	No
Burundi	No	No	No	No	No	Yes
Comoros	No	No	No	No	Yes	No
Ethiopia	No	No	No	Yes	Yes	No
Kenya	No	No	No	No	No	No
Madagascar	No	No	No	No	No	No
Malawi	No	No	No	No	No	No
Mauritius	No	No	No	No	Yes	No
Namibia	No	Yes	No	Yes	Yes	No
Rwanda	No	No	No	No	No	No
Seychelles	No	Yes	Yes	…	Yes	No
Swaziland	No	No	No	No	Yes	No
Tanzania	No	No	No	No	Yes	No
Uganda	Yes	No	No	No	No	No
Zambia	No	No	No	No	No	No
Zimbabwe	No	No	No	Yes	Yes	No
Non-COMESA SADC Countries						
Botswana	No	Yes	No	Yes	No	No
Lesotho	No	No	No	No	No	No
Mozambique	No	No	No	No	No	Yes
South Africa	No	No	No	No	No	Yes

Sources: World Bank and IMF staff reports.
(a) Includes countervailing duties, dumping, etc.

Table A.2.16: Non-tariff barriers to Exports in ESA countries (As of December 1998)

	Quantitative restrictions		Licensing (1)	Duties	Marketing Monopolies
	Bans	Quotas			
COMESA Countries					
Angola	No	No	Yes	Yes	No
Burundi	No	No	No	Yes	Yes
Comoros	No	No	No	Yes	No
Ethiopia	No	No	Yes	Yes	No
Kenya	No	No	Yes	No	Yes
Madagascar	No	No	No	No	No
Malawi	No	No	No	No	No
Mauritius	No	No	No	No	No
Namibia	No	No(2)	Yes(3)		No
Rwanda	No	No	No	Yes	No
Seychelles	No	No	No	No	No
Swaziland	No	No	No	Yes	No
Tanzania	No	No	No	No	No
Uganda	Yes	No	No	No	No
Zambia	Yes	No	No	No	No
Zimbabwe	No	Yes	Yes	No	Yes
Non-COMESA SADC Countries					
Botswana	No	No(2)	Yes(3)	No	No
Lesotho	No	No	No (2)	No	No
Mozambique	No	No	No	Yes	No
South Africa	No	No	No	Yes	No

Sources: World Bank and IMF staff reports.
Notes: (1) Only for restrictive (and not for statistics) purposes.
(2) Except for diamonds.
(3) All exports, except to SACU member countries, require a license. Within SACU, textiles and meat products require a license.

Table A.2.17: Sachs -Warner Classification of Trade Policy, 1980s and 1990s.

	1980s Overall	Late 1990s Overall
COMESA Countries		
Angola	Open	Closed
Burundi	Closed	Closed
Comoros	…	Closed
Congo Dem. Rep.	Closed	Open
Ethiopia	Closed	Open
Kenya	Closed	Open
Madagascar	…	Open
Malawi	Closed	Open
Mauritius	Open	Open
Namibia	…	Open
Rwanda	…	Open
Seychelles	…	Closed
Swaziland	…	Open
Tanzania	Closed	Open
Uganda	Closed	Open
Zambia	Closed	Open
Zimbabwe	Closed	Closed
Non-COMESA SADC Countries		
Botswana	…	Open
Lesotho	…	Open
Mozambique	Closed	Open
South Africa	Closed	Open

Source: IMF staff's calculations applying the Sachs-Warner Criterion for tariffs and nontariff barriers. According to this criterion, a country is classified as closed if its NTBs covered 40% or more of the value of trade or its average tariff exceeded 40%.

Attachment 2b.7

Eastern and Southern Africa Countries: Foreign Investment Flows and Investment Frameworks

Table A.2.18: Foreign Direct Investment Inflows (US$ million)

Groups	Average over 1991-95	Average over 1995-98
SADC	691	3061
South Africa	124	1528
COMESA(1)	658	1494
ECOWAS	887	1631
CFA Zone	269	1155
Sub-Saharan Africa	1807	5583

Sources: IMF and World Bank Staff Estimates. (1): Egypt Excluded.

Table A.2.19: Foreign Direct Investment Inflows - The 10 Top Recipient Countries[1]

Countries	FDI (Average 1991-94) US$ million	Countries	FDI (Average 1995-98) US$ million
Nigeria	618	South Africa	1528
Angola	395	Nigeria	984
Cameroon	148	Angola	570
DRC	131	Congo, Rep. Of	361
South Africa	124	Equatorial Guinea	314
Ghana	100	Cote d'Ivoire	255
Namibia	85	Zambia	160
Guinea	70	Lesotho	148
Zimbabwe	44	Tanzania	138
Swaziland	38	Namibia	127

Sources: IMF and World Bank Staff Estimates.
Note: [1]Egypt Excluded.

Table A.2.20: Foreign Direct Investment to GDP Ratio (In percent)

Countries	Pre-SADC	Eight Years of SADC Existence									
	Average over 1980-90	Average over 1992-99	1992	1993	1994	1995	1996	1997	1998	1999	2000(b)
Angola	1.7(1)	10.7	5.0	5.7	8.1	5.8	7.8	6.4	17.3	29.5	1.8
Botswana	4.2	0.0	-0.3	-7.1	-0.5	0.6	1.8	2.0	2.1	1.7	NA
DRC	0.5	0.2	0	0	0	0	0	0	0.3	1.3	13.5
Lesotho	1.6	23.1	0.3	22.7	29.7	31.6	29.5	28.4	21.9	20.6	3.0
Malawi	0.1	0.8	0	0	0	0	1.2	0.9	1.9	2.2	0.6
Mauritius	0.6	0.2	-0.5	-0.6	0.3	0.7	0.4	0.6	0.0	0.6	NA
Mozambique	0.1	3.2	1.3	1.5	1.5	1.9	2.5	1.8	5.4	9.2	NA
Namibia	NA	3.5	4.2	1.8	3.5	4.9	4.8	2.8	3.3	3.1	4.3
Seychelles	3.7	3.7	-0.7	1.4	3.4	5.2	3.3	8.3	5.2	3.7	0.3
South Africa	-0.2	-0.4	-1.5	-0.2	-0.6	-0.8	-0.2	1.0	-0.9	0.2	2.7
Swaziland	3.5	2.2	5.1	4.5	-0.1	0.8	1.9	2.6	0.8	2.5	NA
Tanzania	NA	1.7	0.3	1.4	1.4	2.0	2.1	2.0	2.0	2.1	4.4
Zambia	NA	3.0	0	0.1	1.2	2.8	3.6	5.3	6.1	5.2	0.2
Zimbabwe	-0.2	1.4	0.2	0.5	0.4	1.4	0.4	1.2	6.4	0.9	NA

Source: World Bank, SIMA, Regional Database and Author's Calculations.
Note: (b): data for 2000 are estimates. (1): period 1985-90.

Box A.2.5: Intra-regional Investment

Currently, **intra-regional investments** in SADC are concentrated in the following sectors:

- ***Mining***: strong South African presence in Zimbabwe (gold), Zambia (copper and cobalt), Botswana (diamonds), and Namibia (diamonds) and to a lesser extent also in Angola (diamonds); the major South African companies in this field are *Anglo American* and *de Beers* (also a subsidiary of Anglo American);
- ***Tourism***: strong South African presence in Zimbabwe, Zambia, Swaziland, Namibia, Lesotho, Mozambique, Botswana and to a lesser extent also in Malawi, Mauritius and Tanzania; the major companies involved in cross-border investments are *Southern Sun* and *Protea Hotels*; there is also a Mauritian presence in Zimbabwe;
- ***Transport***: strong South African presence in Mozambique (Maputo Development Corridor);
- ***Finance***: strong South African presence in Botswana, Lesotho, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe in the banking sector; the same pattern can be discerned in the insurance market, where again South African companies (such as *Old Mutual*) play a decisive role in the region; Zimbabwean banks (Standard Chartered [Zim], Barclays Bank [Zim] and First Banking Corporation of Zimbabwe) are present in Zambia, Tanzania, Botswana, and some other SADC countries;
- ***Manufacturing***: strong South African presence in Malawi (textiles), Mozambique (cashew processing, aluminum smelter), Namibia (fisheries), Swaziland (sugar refining), Zambia (breweries) and Zimbabwe (through shares in major holding companies such as *Delta Corporation*);
- ***Retail***: strong South African presence in Botswana, Lesotho, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe;
- ***Telecommunications***: South African presence in Mozambique, Namibia, Lesotho and Swaziland; Zimbabwean presence in Botswana and Zambia;
- ***Agriculture and fisheries***: strong South African presence at large-scale level in Namibia (fisheries), Swaziland (sugar) and Zimbabwe (cattle and crop farming) and at small-scale level also in Mozambique and Zambia. Mauritian companies have invested recently in sugar-mills in Tanzania and Mozambique.

Table A.2.21: Investment regime in Selected SADC Countries

	Investment Promotion Agencies			
	Name	**When and how established**	**Status and funding**	**Role in investment process**
Angola	Foreign Investment Institute (Instituto de Investimento Estrangeiro – IIE)	1996; Foreign Investment Law	Government created and funded	
Botswana	Trade and Investment Promotion Agency (TIPA)	1984	Under the Ministry of Commerce and Industry; government funded; soon to become an independent statutory body with full autonomy	A specialized agency, soon to be transformed into an independent parastatal; to provide information and assistance to investors and traders
DRC				
Lesotho	Lesotho Investment Promotion Centre (LIPC)	1967	Division of Lesotho National Development Corporation (LNDC, 90% government owned)	Assistance to potential investors in fulfilling requirements for starting a business
Malawi	Malawi Investment Promotion Agency (MIPA)	1991; Investment Promotion Act	Independent statutory body funded by government; board consists of representatives of government and private sectors	Main purpose is to provide a one-stop window facility for investors; sectoral priorities; assists in granting incentives and EPZ status
Mauritius	Mauritius Export Development and Investment Authority (MEDIA)	1984; Mauritius Export Development and Investment Authority Act	Autonomous; government-funded, but increasingly raises own funds (e.g. by charging user fees)	
Mozambique	Investment Promotion Centre (Centro de Promoçao de Investimentos - CPI)	1984; Act of Parliament	Government created and funded	
Namibia	Namibia Investment Centre (NIC)	1990; Foreign Investment Act	Located in the Ministry of Trade and Industry; government funded	Services all investors - domestic and foreign: one stop centre
Seychelles	Seychelles International Business Authority (SIBA)			
Swaziland	Swaziland Investment Promotion Agency (SIPA)	End 1997		Actively seeks partners for new business; assists foreign investors; provides fiscal incentives; antenna for European Union's CDI; development incentives determined by the Minister of Finance
Tanzania	Tanzania Investment Centre (TIC); Zanzibar Investment Promotion Agency (ZIPA)	TIC: Tanzania Investment Act, 1997 (replaced Investment Promotion Centre in 1998); ZIPA: operational since 1989	Independent statutory body funded by government and donors	TIC promotes, coordinates and monitors foreign and local investors; to be a one stop centre
Zambia	Zambia Investment Centre (ZIC)	1993 (Foreign Investment Act)	Independent statutory body; funded by government, donors and own revenue	Promotes, implements, coordinates and facilitates investment programs and policies; provides information on investment climate; identifies and promotes investment opportunities
Zimbabwe	Zimbabwe Investment Centre (ZIC)	1993; Act of Parliament	Independent statutory body; government funded	Approves investments and assists investors in negotiations with Department of Immigration and other agencies

Investment regime (continued)

Country	Other investment institutions	Investment incentives	Investment licensing	
			Institutions involved	Arrangements
Angola		5-10 years profit and dividend tax holiday for new investments in interior or in priority zones; exemption from industrial contributions or State taxes for acquisition of industrial sites for a period of up to 2 years if national inputs exceed 60%	Council of Ministers	Investment below US$5 million automatic
Botswana	Botswana Confederation of Commerce, Industry and Manpower; Botswana Development Corporation	Financial Assistance Policy (FAP): capital grants for jobs created, unskilled labor cost reimbursement, training grants, regional location benefits, assistance for indigenous investors, especially women	Ministry of Industry and Commerce, Department of Geological Survey	Licensing required for manufacturing and trading and mineral prospecting
DRC		Ad hoc arrangements with President		
Lesotho		Skills training grant; serviced plots and premises; equity, loans or loan guarantees to LNDC clients	Registrar of Companies	Registration within one month and after receipt of Certificate of Registration of Investment
Malawi		New investments US$5-10m: 5 year tax holiday or 15% corporate tax, up to 10 years for large projects; duty-free equipment for horticulture; expenses for 24 months before start-up allowed; 40% investment allowance on new capital expenditure, 20% for used, full rebate on heavy commercial vehicles	Registrar of Companies	Registration with Registrar of Companies only (unless industry involves health hazards or explosives)
Mauritius	Ministerial Committee chaired by Minister of Industry and Commerce issue incentive certificates when required	4 categories of special companies (strategic local, modernization and expansion, industrial building, pioneer) paying lower corporate tax rates (e.g. 15%), no dividends tax for 10-20 years, lower indirect taxes		
Mozambique		Exemption from indirect taxes on equipment, cars and raw materials for first production cycle; significant reductions in corporate and indirect taxes for up to 10 years for new entities; regional tax allowances		All activities in Mozambique are subject to licensing by, depending on the sector, the CPI, Ministry of Finance, Central Bank, Ministry of Justice; or other government agencies and ministries
Namibia	Registrar of Companies; Ministry of Trade and Commerce	50% tax abatement for 5 years, new investment relocation package, concessional loans for industrial projects, grants for prior studies		No license required
Seychelles				
Swaziland	Swaziland Industrial Development Corporation (first port of call for potential investors); Tibiyo Taka Ngwane; Trade Promotion Unit	Main incentives are fiscal in nature; 5-year tax exemption for new firms manufacturing for export	Ministry of Commerce and Industry; Registrar of Companies	Application for approval at Ministry; registration with Registrar
Tanzania		First-time investors: 5-year tax holiday, then up to 5% reduction on rate, similarly for withholding taxes; discretionary waiving of indirect taxes	TIC has powers to authorize foreign investments	
Zambia	Zambia Privatization Agency	Rural enterprises: 14,3% tax for first 5 years; agriculture: full allowance for land development; other capital: 20% per year or accelerated depreciation; special crop allowances		Licensing by relevant authorities before issuance of Investment Certificate; assistance from ZIC
Zimbabwe	Export Processing Zone Authority (ZIMTRADE)	No border taxes on productive capital equipment; permanent residency for personal investments above certain thresholds; additional incentives for rural growth point projects		ZIC Committee (ZIC and government ministries), except for large projects (Ministry of Finance)

Investment regime (continued)

Country	Restrictions on foreign investment	International investment agreements and institutions	International double taxation agreements	Foreign investor access to local loans
Angola	Some areas reserved for nationals	MIGA, ICSID	None	Access for investments in oil and mineral sectors only
Botswana	Joint ventures with Botswana Development Corporation (BDC) encouraged; permission needed for foreign direct investment in locally incorporated companies	MIGA, NY, Paris, WTO, OPIC, bilateral investment treaty (USA)	South Africa, Zambia, UK, Sweden	Access with prior permission of the Bank of Botswana
DRC	Uncertain			
Lesotho	None on foreign direct investment	MIGA, ICSID, NY, Paris, WTO, BITs (Germany, UK)	Mauritius, South Africa, UK, USA	Available, but remittances may be curtailed if local borrowings are excessive
Malawi	None on foreign direct investment	MIGA, ICSID, Paris, WTO, OPIC, BITs (Denmark)	South Africa, Denmark, France, Kenya, Netherlands, Norway, Switzerland, UK	No access at all
Mauritius	None on foreign direct investment	MIGA, ICSID, Paris, WTO, BITs, Article VII of IMF	Botswana, Mozambique, Namibia, South Africa, Swaziland, Zimbabwe and 20 others	Unrestricted access
Mozambique	Areas reserved for nationals; contradiction between general law and investment so that 25% local share is often stipulated as a requirement	MIGA; ICSID; OPIC; WTO; ICC	Mauritius	No restrictions, but credit and financing systems do not correspond to investor needs
Namibia	None	MIGA, ICSID, WTO, OPIC, BITs	Mauritius, South Africa, United Kingdom	Yes, but remittances may be curtailed if local borrowings are "excessive"
Seychelles	Foreign investment is encouraged, but the Seychelles government prefers joint ventures with foreign investors	MIGA, WTO	South Africa, Zimbabwe, negotiations under way with various other countries	
Swaziland	None on foreign direct investment	MIGA, Paris, WTO, ICSID, BITs (Germany, UK)	Mauritius, South Africa, UK	Yes, but remittances may be curtailed if local borrowing is 'excessive'
Tanzania		MIGA, ICSID, NY, Paris, WTO, BITs (Germany, UK, Netherlands, Switzerland)	Zambia, Canada, Denmark, Finland, India, Italy, United Kingdom, Norway, Sweden; a further 9 treaties being negotiated	Borrowing of funds from domestic banks by non-residents allowed
Zambia	No restrictions on foreign exchange dealing and no limitations on the import or export of foreign exchange in Zambia	MIGA, Paris, WTO, ICSID, bilateral investment treaties with Germany and Switzerland	Botswana, South Africa, Tanzania and 18 others	
Zimbabwe	In reserved areas (mainly services) up to 25% allowed in joint ventures with local firms	MIGA, NY, Paris, WTO, UNCITRAL, OPIC, BITs (Germany, Portugal, United Kingdom)	South Africa, Mauritius and 9 others	Restrictions on local borrowing by foreign investors removed in 1995

Investment regime continued

Country	Main Investment and Business Legislation and/or Policy Statements	Enforcement of contracts and property rights
Angola	Foreign Investment Law 15/94 (excludes petroleum sector investment, which has separate provisions)	Code Civil; "law habit" is absent
Botswana	Financial Assistance Policy 1992; Companies Act; Factories Act; Stock Exchange Act 1994; Stock Market Act 1995; Export Credit Re-Insurance Act 1996; Collective Investments Units Bill	Roman Dutch legal system
DRC	Code des Investissements, Act 88-028 of 1986, partly replaced by new stringent guidelines for foreign investment	Uncertain legal system based on Belgian civil law and tribal law;: lack of 'law habit', problems with property rights and enforcement of contracts
Lesotho	Pioneer Industries Encouragement Order 1987 and Regulations; Banking Act 1989; Industrial Licensing Act 1969; Trading Enterprises Order 1987 and Regulations; Companies Act 1984	Roman Dutch legal system
Malawi	Companies Act 1984; Banking Act 1989; Industrial Development Act 1967; Investment Promotion Act 1991; Capital Market Development Act 1990	English Common Law
Mauritius	Offshore Business Activities Act (1992), Freeport Act (1992), Offshore Trust (1992), Industrial Expansion Act (1993), International Companies Act (1993)	Procedural and commercial purposes: English Common Law; substantive issues: Code Civil
Mozambique	Law of Investment 3/1993; Mines Law 2/1986; Code of Fiscal Benefits for Investment 12/1993; Petroleum Law 3/1981; Law 15/1991 (Privatization); Decree 27/1991 (Enterprise restructuring)	Code Civil: lack of 'law habit', problems with property rights and enforcement of contracts
Namibia	Foreign Investment Act 1990; EPZ Act 1995; Stock Exchange Control Act 1985; Special Incentives for Manufacturers and Exporters 1995; Export Incentives 1994; Companies Act 1973; Close Corporation Act 1988	Roman Dutch legal system
Seychelles	National Development Plan (1985), Second National Development Plan (1990), Environmental Management Plan (1990), Investment Promotion Act (1994), Seychelles International Business Authority (1995), Economic Development Act (1995), Economic Citizenship Program (1996)	English common law, Napoleonic Code
Swaziland	Investment Code (1997), Companies Act, Financial Institutions Order (1975), Stock Exchange Act	Roman Dutch legal system
Tanzania	Tanzania Investment Act 1997; Zanzibar Investment Protection Act 1986; Petroleum (Exploration and Production) Act 1980; Banking and Financial Institutions Act 1991; Mining Act 1979; National Environment Act 1983; Income Tax Act 1973; Patent Act 1987; Trade and Services Marks Act 1987	English common law; only leasehold title to land and problems with "law habit"
Zambia	Investment Act 1993; Privatization Act 1992; Companies Act 1994; Mines and Minerals Act 1995; Lands Act 1995; Banking and Financial Services Act	English Common Law
Zimbabwe	Promotion of Investment: Policy and Regulations 1989; Zimbabwe EPZ Act 1994; Ministry of Finance Measures 1993; Companies Act 1981	Roman Dutch legal system

Investment Regime (continued)

Country	Export Provisions (customs, financing etc)	EPZ incentives	Export incentives outside EPZ
Angola	Export licenses & restrictions	No EPZ	Exemption from customs duties for export products in automatic exemption list; 50% exemption from customs duty on certain equipment and primary products; full exemption for certain products destined for development priority areas
Botswana	Duty drawback, export credit guarantee	No EPZ	No surcharge on machinery used for export production
DRC		No EPZ	
Lesotho	Manufacturers' rebate, comprehensive trade financing facilities	No EPZ	Central Export Development Fund
Malawi	Duty drawback, manufacturing in bond, EPZs	Low corporate tax (15%); no withholding tax on dividends; no duty, excise tax or VAT on inputs; transport tax allowance (25% of international costs); duty drawback on imports of raw materials, etc for manufacturing in bond	Manufacturing in bond; 12% of export revenues as tax allowance; transport tax allowance (25% of costs); no duties, surtax or VAT
Mauritius	EPZ, ESZ, offshore business, freeport, 4 special enterprise categories	Low corporate tax (15%), dividends exempted from taxation for 20 years, no indirect taxes, preferential rates on power and financing, complete exemption from taxes for offshore business and at freeport	Not applicable
Mozambique	Open environment in industrial free zones (IFZs); elsewhere 35% of export receipts must be surrendered	Full indirect tax exemption; no dividend tax for 10 years	Exemption from indirect taxes on inputs until recovery of investment value (maximum 5 years)
Namibia	EPZs	Exemption from corporate tax and indirect taxes; liberal labor and customs provisions; reimbursement of 75% of training costs; guaranteed convertibility	Tax exemption on 80% of profits from manufactured exports; export promotion grants (50% of direct costs); full retention of export receipts from "status" investments
Seychelles	International Trade Zone licenses for freeport & manufacturing operations	International Trade Zone (ITZ) incentives: exemption from business tax, social security tax, pension contributions, withholding tax and trade and exchange controls	Exemption from trade taxes; business tax rebate; business tax deductions for expenses in research, marketing, export promotion, traveling and entertainment; accelerated depreciation of capital investments
Swaziland	Export financing and credit guarantees available	Not applicable	
Tanzania	Duty drawback (since 1986); EPZ in Zanzibar	10 years corporate tax holiday; duty exemptions	100% retention of foreign exchange proceeds
Zambia		No EPZ	Special incentives to non-traditional exports, tourism (foreign exchange earnings 25%+ of turnover) and agro-based exports
Zimbabwe	Duty drawback, manufacture in bond, EPZs	5-year tax holiday, 15% corporate tax thereafter; exemption from indirect taxes (including fringe taxes for employees of EPZ companies); new companies which will export >80% can apply for EPZ status	Double deductions of export market development costs; right to borrow abroad

ATTACHMENT 3

REGIONAL INITIATIVES AND PROGRESS IN REGIONAL INTEGRATION

Attachment 3a

SADC PROTOCOLS:
IMPLEMENTATION STATUS AND ACHIEVEMENTS
(As at August 2001)

Accession to the SADC Treaty commits member states to accepting a series of principles, objectives and strategies on mutually beneficial and equitable cooperation and integration; to participating in the structures and institutions of SADC; and to negotiating a series of protocols to give practical effect to its aims. Therefore, specific obligations, including that in the economic field, are to be contained in the respective protocols, which will 'spell out the objectives and scope of, and the institutional mechanisms for cooperation and integration' [Art. 22(1)]. These protocols are to be negotiated by the member states and, after approval by the Summit, become an integral part of the Treaty. Article 21(3) identifies the following areas in which cooperation toward integration would be pursued - additional areas of cooperation are also permitted under Article 21(4) though: food security, land and agriculture; infrastructure and services; industry, trade, investment and finance; human resources development; science and technology; natural resources and environment; social welfare, information and culture; and politics.

Protocols thus represent the agreement by Member States on how to proceed in the implementation of certain agreed strategies for regional integration. The protocols define the areas, objectives, broad strategies and timeframes of sectoral co-operation and integration and often through their Attachment spell out the various steps necessary to implement such strategies. SADC has also agreed on how to ensure the implementation of the protocols:

- the protocol negotiation processes culminate in Summit signing the respective protocols. By signing these protocols, SADC Member States are committing themselves to principles and policies that will guide and bind them in specific areas;
- the ratification of the protocols by national parliaments in accordance with the respective constitutions;
- the deposition of the nationally ratified protocols with the SADC Secretariat; it requires the ratification and deposition of two thirds of the signatories to the protocol to let it enter into force;
- the elaboration of clear Attachment by panels of stakeholders and experts to determine the implementation strategies, if this has not been done as part of the protocol development process;
- the actual implementation of the agreed sectoral strategy for cooperation and integration within the agreed timeframe after the protocol has entered into force. This may require a deposition of instrument of implementation with the SADC Secretariat such as in the case of the Trade Protocol. (In order to honor their commitments, national laws, regulations, policies and procedures have to be brought in line with the provisions and intent of the respective protocols.)

The following indicates the status of protocols in SADC as at the end of August 2001:

- **10 Protocols and Instruments have entered into force. They are**:
  1. *Declaration and Treaty of SADC & Protocol on Immunities and Privileges*
  2. *Protocol on Shared Watercourse Systems (to be replaced by the revised version)*
  3. The *Protocol on Energy*
  4. The *Protocol on Transport, Communications and Meteorology*
  5. The *Protocol on Combating Illicit Drug Trafficking*
  6. The *Protocol on Trade and the Amendment Protocol on Trade*
  7. The *Protocol on Mining*
  8. The *Protocol of Education and Training*

9. *The Protocol on Development of Tourism*
10. The *Charter of the Regional Tourism Organization of Southern Africa* (Retosa)
11. The *Memorandum of Understanding on Cooperation in Standardization, Quality Assurance, Accreditation and Metrology in SADC* (SQAM).

- **10 Protocols have been signed but not entered into force due to insufficient numbers of signature or ratification are:**
  1. The *Protocol on Health*
  2. The *Protocol on Wildlife Conservation and Law Enforcement*
  3. The *Protocol on Shared Watercourses (revised version)*
  4. The *Protocol on Inland Fisheries and Marine Fisheries and Resources*
  5. The *Protocol on Legal Affairs*
  6. The *Protocol on the Tribunal and the Rules of Procedures Thereof*
  7. The Protocol on *Politics, Defense & Security*
  8. The Protocol on *Control of Firearms, Ammunition and Other Related Materials*
  9. The Protocol on Corruption
  10. The Protocol on *Culture, Information and Sport*

Protocols which are in the process of development / under preparation include those on:
1. Forestry;
2. Food Security, Crops, Livestock production and Animal Disease Control and Agricultural Research and Training;
3. Facilitation of the Movement of Persons;
4. Environment and Land Management; and
5. Finance and Investment.

It should be noted that the Finance and Investment Sector is following an approach of simultaneously developing a broad principles framework for its protocol, while concluding a set of Memoranda of Understanding on functional cooperation in various areas within the Sector. It is believed, that through such a pragmatic approach the pitfalls of many other SADC protocol processes will be avoided and that SADC-wide 'ownership' will be achieved over the short term, thereby enabling broad-based acceptance and ratification by the time that the protocol would be tabled for signature. Furthermore, over the long-term, it will facilitate the necessary degree of SADC-wide and Member State political and budgetary commitments to greater regional economic and monetary integration.

Table A.3.1: Protocols & Instruments which went into force

Countries	Treaty & Declaration	Shared Water-courses	Energy	Transport, Communi-cations & Meteorology	Combating Illicit Drug Trafficking	Trade		Mining	Retosa	Standards, Quality Assurance, Accreditation & Metrology
	Signed: 17/08/92 In force: 30/9/93	**Signed: 28/08/95 In force: 28/09/98**	**Signed: 24/08/96 In force: 17/04/98**	**Signed: 24/08/96 In force: 06/07/98**	**Signed: 24/08/96 In force: 20/03/99**	**Protocol Signed: 24/08/96 In force: 25/1/00**	**Implemen-tation instrument**	**Signed: 08/09/97 In force: 08/02/00**	**Signed & In force: 08/09/97**	**Signed: 09/11/99 In force: 16/07/00**
Angola	✓	✓	✓	✓	✓ (18/8/99)			✓	✓	
Botswana	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
DRC	✓ (28/02/98)									
Lesotho	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Malawi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mauritius	✓ (28/09/95)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mozambique	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Namibia	✓	✓	✓	✓	✓	✓		✓	✓	✓
Seychelles	✓ (24/06/98)									
South Africa	✓ (29/08/94)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Swaziland	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Tanzania	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Zambia	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Zimbabwe	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Source: By Authors based on SADC Report, Record of the Council of Ministers, Johannesburg, South Africa, 22-23 February, 2001.

Note: Subsequently, the Protocol on Development of Tourism was ratified. Detailed information on the signatories to various Protocols was not available, apart from the following:
Protocol on Energy: DRC, Mozambique and Seychelles are required to ratify the Protocol.
Protocol on Transports, Communications and Meteorology: DRC, Seychelles and Zambia are required to ratify the Protocol.
Protocol on Combating Illicit Drugs: Angola, DRC and Seychelles are required to ratify the Protocol.
Protocol on Trade: Angola, DRC, Seychelles are required to ratify the Protocol.
Protocol on Mining: Angola, DRC, Seychelles and Swaziland are required to ratify the Protocol.
Charter of the Regional Tourism Organization of Southern Africa (RETOSA): DRC and Seychelles are required to sign and ratify the Charter.
MOU on Cooperation in Standardization, Quality Assurance, Accreditation and Meteorology: Angola, DRC, Seychelles, and Swaziland are required to sign the MOU.

Table A. 3.2: Protocols signed but insufficient numbers of signature or ratification

Countries	Education & Training	Health	Wildlife Conservation & Law Enforcement	Shared Watercourses (Revision)	Tourism	Legal Affairs	Tribunal & its Rules & Procedure
	Tabled: 08/09/97 Ratified by:	Tabled: 18/08/99 Ratified by:	Tabled: 18/08/99 Ratified by:	Tabled: 7/10/00 Signed	Tabled: 14/09/98 Not signed &/or ratified by	Tabled: 07/08/00 Not signed & / or ratified by	Tabled: 07/08/00 Not signed & / or ratified by
Angola				✓		✓✗	✓✗
Botswana	✓	✓	✓	✓	✓✓		
DRC							
Lesotho	✓			✓	✓✓	✓✗	✓✗
Malawi	✓	✓		✓	✓✗	✓✗	✓✗
Mauritius	✓	✓	✓	✓	✓✓	✓✗	✓✗
Mozambique				✓	✓✓	✓✗	✓✗
Namibia	✓	✓	✓	✓	✓✓	✓✗	✓✗
Seychelles				✓	✓✗	✓✗	✓✗
South Africa	✓	✓		✓	✓✗	✓✗	✓✗
Swaziland	✓			✓	✓✓	✓✗	✓✗
Tanzania	✓			✓	✓✗	✓✗	✓✗
Zambia				✓	✓✗	✓✗	✓✗
Zimbabwe	✓			✓	✓✓	✓✗	✓✗

Source: By Authors based on SADC Report, Record of the Council of Ministers, Johannesburg, South Africa, 22-23 February, 2001.

Note: *Protocol of Education and Training:* Angola, DRC, Mozambique, Seychelles and Zambia are required to ratify the Protocol.
Protocol on Health: Angola, DRC, Lesotho, Mozambique, Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe are required to ratify the Protocol.
Protocol on Wildlife Conservation and Law Enforcement: All countries except for Botswana, Mauritius and Namibia are required to ratify the Protocol.
Revised Protocol on Shared Watercourses: DRC is required to sign the Protocol, while all countries except Botswana and Mozambique are required to ratify the Protocol.
Protocol on Legal Affairs: Botswana and DRC are required to sign the Protocol. All the SADC members States are required to ratify the Protocol.
Protocol on Tribunal and the Rules of Procedure: Botswana and DRC are required to sign the Protocol. All the SADC members States are required to ratify the Protocol.

Table A.3.3. Protocol on Immunities and Privileges

Country	Date of Signature	Date of Ratification
Angola	17/8/92	20/8/93
Botswana	17/8/92	7/1/98
DRC		
Lesotho	17/8/92	26/8/93
Malawi	17/8/92	5/5/93
Mauritius		
Mozambique	17/8/92	30/8/93
Namibia	17/8/92	14/12/92
Seychelles		
South Africa		
Swaziland	17/8/92	2/9/93
Tanzania	17/8/92	27/8/93
Zambia	17/8/92	16/4/92
Zimbabwe	17/8/92	17/11/92

Source: SADC, Record of the Council of Ministers held in Johannesburg, Johannesburg, Republic of South Africa, 22-23 February 2001.
Note: The Protocol entered into force on 30th September 1993.

Attachment 3b

Cooperation on Finance and Investment

After South Africa was allocated the responsibility for SADC Finance and Investment in 1995, the SADC Ministers of Finance adopted the following broad sector objectives:

- to encourage movement towards regional macroeconomic stability through prudent fiscal and monetary policies;
- to provide a framework for cooperation in the area of finance in collaboration with central bankers, other regulatory and supervisory authorities, commercial banks and other financial intermediaries to mobilize resources for investment;
- to promote the coordination of national structural adjustment programs; and
- to promote the development of sound investment policies of member states in order to establish an enabling environment for investment in the region.

These objectives provides for a rich agenda of regional cooperation and integration. On the **macroeconomic level**, it was interpreted to suggest the following:

- The need for coordination (initially), harmonization (in medium term) and eventual convergence (long-term) of key monetary and fiscal policies,
- Stability and convergence over time of exchange rates leading eventually to some degree of fixity across exchange rates for the currencies in the region;
- The importance of coordinating macro-financial policies with trade policies;
- The need to develop capacity to cope with the effects and consequences of financial market globalization;
- the need to achieve liberalization and gradual integration of the financial markets in the region;
- the need to achieve an integrated regulatory framework;

These areas would require cooperation on:

- monetary policies (inflation, interest rate and exchange rate) through an agenda pursued by central banks;
- fiscal policies (direct and indirect taxation, expenditure and subsidies and debt management policies) through an agenda pursued by ministries of finance;
- financial markets and systems, i.e. cooperation and among the banking sector: by closer co-operation among the region's commercial banks; development finance institutions; capital markets (stock, bond and derivative exchanges); investment banks; asset management companies, pension and mutual funds; insurance companies; non-bank financial companies (e.g. building societies) at retail levels; specialist mortgage lending finance companies
- regulatory frameworks, i.e. the development and extension of regional regulatory capacity over the financial system involving all financial market regulators, for example: by central banks (over banks, building societies, investment banks, etc.) and by securities and exchange commissions over capital markets.

As far as **investment** is concerned, the objectives were interpreted to include the following objectives:

- Harmonized improvements in basic investment regimes across SADC (e.g. in fiscal systems, direct and indirect tax regimes, in the stability of monetary policy etc.) and in particular with respect to opening up privatizations to investors on a regional basis;
- Promotion of increased domestic (public and private) investment, ensuring that private domestic investment is not discriminated against;
- Increasing foreign investment through developing common approaches to attracting foreign investment, and guarding against counter-productive intra-regional competition through incentives;

- Standardization and harmonization of general commercial legal environment (companies, tax, competition, trade, customs and excise and transit regimes) to establish a level playing field across the region with no direct or indirect barriers to cross-border investment whether direct or portfolio in nature;
- Ensuring equal access to domestic capital resources (whether equity or debt) and to domestic banking and capital markets to all investors (domestic, regional or foreign) on an equal basis;
- Establish safeguard measures to counteract destabilizing effects of FPI;
- Development of channels and safeguards to ensure flows of capital investment in parts of the region which, left to the market, would be denied such flows;
- Establishing foundations for regional investments (projects having cross-border multipliers) in infrastructure and large-scale regionally and globally competitive industry;

Cooperating mechanism

To achieve these objectives, the Finance and Investment Sector established a Finance and Investment Sector Coordinating Unit, FISCU[1], to coordinate the sector's work and serving as a secretariat and clearing house, facilitator, catalyst and mechanism to encourage intra- and inter-sectoral cooperation in the sub-region, and two main committees, namely the *Committee of Central Bank Governors* to focus on monetary policy and issues, and the *Committee of SADC Senior Treasury Officials* to focus on fiscal policies and issues:

Committee for Central Bank Governors: Approach, ToR & Projects

At the outset of their work, the Committee for Central Bank Governors established a pragmatic approach and framework for regional financial cooperation. This Committee's approach to closer regional financial cooperation is informed by the following[2]:

Financial activities in countries with more advanced financial systems are conducted at three distinctly different levels:

- At the top, the monetary authorities govern the system through their monetary policy action. The monetary authorities will normally include the Finance Department of Government, the central bank and supportive regulatory and supervisory authorities.
- In the middle, financial markets serve the function of price determination and resource allocation. The financial markets usually include a capital market, a money market and a foreign exchange market. These market are often further divided in specialized sub-markets such as an equity market, a bond market and a market for derivatives to provide more specialized services in the capital market.
- At the third tier there are the individual specialized institutions such as banks, insurers, finance houses and securities dealers to provide financial services to governments, businesses and the general public.

Cross-border financial cooperation amongst more advanced economies, for example within the EU, will proceed simultaneously at all three levels. However, major divergences in the stage of development at all three levels in the different participating members of any multi-national association can create serious difficulties in the process of economic integration. Even within the EU there is continuous pressure for a more differentiated approach, or a multi-speed approach, in which the more advanced members can reach the ultimate objectives of economic integration much quicker than others that may need more time to

1 Subsequently, FISCU was abolished at the beginning of August 2001 when its functions were centralized within the new SADC Secretariat Directorate for Trade, Industry, Finance and Investment.

2 **Stals CL, 1995.** *The functions of the South African Reserve Bank and Closer Financial Cooperation in Southern Africa.* Address at the Annual Award Dinner of the Botswana Institute of Bankers, Gaborone.

bring particularly the second and third tiers of their financial systems to a more competitive level before moving into the integration phase.

In the 14 member countries of SADC, there are major differences in the structure of the overall financial system. These differences apply to all three levels of the system, i.e. the monetary authorities, the markets and the financial institutions operating in each one of these countries. Monetary authorities do not always have the same objectives; financial markets do not even exist in some of the members, and independent and competitive financial institutions must still be established, nurtured and developed in some countries.

Thus in the initial stages, financial cooperation in SADC has to follow a bottom-up approach, with the attention first on the establishment, development and improvement of financial institutions that can provide the basic financial services required for real sector economic activities, rather than at the more ambitious level of macroeconomic integration.

The Terms of Reference of the Committee of Central Bank Governors reflect this approach, and indicate the following activities for its consideration

- Discuss the structures, philosophies and objectives of central banking;
- Exchange views on the main objectives of monetary policy and the monetary policy model applied in each country;
- Consult on the accounting and internal financial management practices of Central Banks;
- Review the participation of Central Banks in areas such as commercial banking, export promotion and development financing;
- Examine the role of the Central Bank in the development of domestic and capital markets;
- Discuss the role of Central banks in the establishment of sound and well managed banking institutions, including the responsibilities for bank regulation and supervision;
- Explore the involvement of Central Banks in international financial relations, such as the management of foreign reserves, exchange rate systems and the use of repatriation facilities for the bank notes of other members in the region;
- Assist in the development of national and intra-country clearing and settlement arrangements for financial transactions;
- Promote training in the field of central banking;
- Co-operate on the exchange of basic economic data and information on the banking system and structures; and
- Explore ways and means to combat money laundering in the banking system.

Attachment 3c

SADC Protocol on Education and Training

SADC has made great strides to achieve universal basic education. Most SADC member States have net enrolment rates at primary education within the range of 80-100%.[3] Illiteracy rates have fallen over the last three decades. In 2000, SADC recorded the lowest level of adult illiteracy rates (27%) as compared with those of other regional arrangements in Sub-Saharan Africa. The region is also well-endowed with high level of educational institutions. It is estimated that there are about 90 universities and technikons most of them concentrated in South Africa (21 universities and 15 technikons), Zimbabwe and Tanzania. The region has also seen the establishment of a number of private higher education and training

[3] See *SADC, Official SADC, Trade, Industry, and Investment Review, 1997-2001.*

institutions, mainly in these three countries. In 1999 564000 students were enrolled with 386000 being full time.

However, the performance of secondary and tertiary levels of education lags far behind the potential of the region. It is estimated that, on average, less than 50% of students progress to secondary school level, and less than one percent to tertiary education.[4] Another problem that SADC countries face is the gender disparity in enrolments. In all countries, school enrolments ratios for women are much lower than those for male adults. In Lesotho, fewer female students are enrolled in pure sciences and science programs. In Malawi, the female student population has never exceeded 28%and female enrolments in the science subjects are low despite the affirmative action at the University of Malawi. In most SADC countries, women are under-represented in certain fields of high and technical education such as science, management and engineering. The consequence of this gap is the scarcity of women in the labor force in certain positions and disciplines.

SADC countries have also taken steps to address the gender gap. For instance, countries like Malawi, Mozambique, Tanzania and Zimbabwe offer financial support for female students to undertake courses in fields where they are under-represented, have established quota systems for female enrolment and use positive discrimination in the recruitment of female lecturers to higher institutions of learning. In particular Mozambique has adopted an affirmative action program (the Convention on the Elimination of Discrimination Against Women) aimed at encouraging female participation through provision of scholarships for girls to follow science and mathematics courses. In Mauritius, the gender composition of enrolment is well balanced. At the University of Mauritius, women represented 47% of the student population in 1999.

However, education and training in the SADC region still faces problems and challenges that include: a growing number of students; the low level of existing infrastructure, instruction and learning material and qualified and motivated trainers / teachers; gender inequality; the social, economic and financial impact of HIV/AIDS on the education and training systems; and the weak links between educational and training programs and labor markets.

The **main objectives** of cooperation in Education and Training between SADC countries include:

(i) To develop and implement a common system of regular collection and reporting of information by Member States about the current status and future demand and supply, and the priority areas for provision of education and training in the Region;
(ii) To establish mechanisms and institutional arrangements that enable Member States to pool their resources to effectively and efficiently produce the required professional, technical, research and managerial personnel to plan and manage the development process in general and across all sectors in the Region;
(iii) To promote and coordinate the formulation and implementation of comparable and appropriate policies, strategies and systems of education and training in Member States;
(iv) To develop and implement policies and strategies that promote the participation and contribution of the private sector, non-governmental organization and other key stakeholders in the provision of education and training;
(v) To promote and coordinate the formulation and implementation of policies, strategies and programs for the promotion and application of science and technology, including modern information technology and research and development in the Region;

[4] See *SADC, Official SADC.*

(vi) To work towards the reduction and eventual elimination of constraints to better and freer access, by citizens of Member States, to good quality education and training opportunities within the Region;

(vii) To work towards the relaxation and eventual elimination of immigration formalities in order to facilitate freer movement of students and staff within the Region for the specific purposes of study, teaching, research and any other pursuits relating to education and training;

(viii) To promote policies for creation of a an enabling environment with appropriate incentives based on meritorious performance, for educated and trained persons to effectively apply and utilize their knowledge and skills for the general development of Member States and the Region;

(ix) To promote the learning of English and Portuguese as the working languages of the Region;

(x) To achieve gradually and over a period not exceeding twenty years from the date of entry into force of this Protocol, the implementation of the ultimate objective as stated in (k);

(xi) To progressively achieve the equivalence, harmonization and standardization of the education and training systems in the Region which is the ultimate objective of this Protocol.

The Protocol on Education and Training entered into force in July 2000. Progress has been achieved in putting in place institutional structures for its implementation. Four out of the seven committees have been established: Technical Committees on Scholarships and Training Awards, Accreditation and Certification, Basic Education and Distance Education. Moreover, the Human Resources Development (HRD) Sector Coordinating Unit (SCU) coordinates the implementation of the Sectoral Programs of Actions focusing on education, training and human resource development.

Regional Cooperation Activities.

- **Regional Cooperation in Policy Development**. This project started in October 2000. It aims at contributing towards capacity building to SADC member States to develop comprehensive and appropriate education and training policies through: (i) the development of program to train planners and those in policy making, development and planning; (ii) information dissemination on education policy, statistics and research; (iii) provision of opportunities and support to joint policy, research and initiatives among member states; and (iv) holding capacity building forums to allow for exchange of information and expertise.
- **Regional Cooperation in Basic Education**. A strategic plan was developed with seven strategic objectives: (i) to provide universal basic education for at least nine years of schooling; (ii) to provide special support to severely disadvantaged groups in order to balance access to education; (iii) to promote consciousness about SADC as a community; (iv) to facilitate cooperation for purposes of broadening the knowledge base and skills of curriculum developers, teachers and education managers; (v) to improve and sustain educational standards at primary and secondary levels; (vi) to provide learners with information and experience to facilitate the acquisition of life long skills; (vi) to design and develop curricula that facilitates comparability, harmonization and eventual standardization.
- **Regional Cooperation on Distance Education**. A Technical Committee on Distance Education was established with the following objectives: (i) Reviewing the provisions of the Protocol and making a baseline assessment of developments in this area; (ii) Developing a strategic plan for the next three years: July 2001-June 2004; (iii) Developing project proposals for sub-projects emanating from the program areas.
- **Regional Cooperation in higher education and training,** including access to universities, undergraduate studies and centers of excellence and specialization;
- **Regional Cooperation in research and development**;
- **Regional cooperation in life-long education and training**, including distance education, adult education, short-term courses, and seminars and workshops;
- **Regional cooperation in publishing and library resources.**

Regional Projects in Education, their objectives and funding status include the following:

SADC Inventory of Regional Training Institutions. The project aims at providing adequate and updated information on available educational facilities and opportunities in the region thereby promoting human resources/capital mobility within the region.

Funds for Studies and Experts in the Human Resources Development Sector. The project objective is to provide for short-term technical assistance and for studies and surveys to investigate critical issues relating to the program of action for the Human Resources Development Sector.

SADC Scholarships and Training Awards Program. The project aims to support training of SADC nationals in the critical areas of the region through sponsorship to training courses of a short or long duration at institutions inside or outside the region.

SADC Vocational Education and Technical Training Program. The main objective of the project is to develop a regional mechanism for cooperating in Vocational Education and Technical Training. In the long run, the project seeks to establish a centre of Specialization in the area of vocational and technical education in the region.

Harmonization, Rationalization and Strengthening of Education and Training Systems in the Southern African Development Community. The aim of the project is to strengthen the education and training systems of member States. Two initiatives are particularly important.

- *SADC Intra-Regional Skills Development Program*. This program aims to provide properly qualified personnel to give impetus to the productive sector in Southern Africa. The program focuses on the improvement of the quality and cost-effectiveness of post-secondary training by optimizing the use of available resources, achieving economies of scale and reducing the need and demand for overseas scholarships.
- *SADC Initiative in Educational Policy Development, Planning and Management*. The objective of the program is to enhance capacity in education policy development, planning and management with a view to achieving sustainable educational development in the SADC member States.

SADC Distance Education Program. The program aims at improving education and training through distance learning in then SADC region. A Regional Distance Education Centre would be established to serve and strengthen existing national educational institutions in the region.

SADC Science and Mathematics Program. The objective is to improve mathematics and science education in the SADC region. The project also aims at strengthening basic mathematics and science education through sharing of expertise and experiences, establish and strengthen a regional network of professionals in these fields and offer training opportunities to mathematics and science teachers.

Training for SADC Organs. The project aims to provide training to SADC staff namely: personnel of the Sector Coordinating Units, SATCC Commission, SADC Secretariat, Sector and National Contact Points.

Establishment of Two Regional Centers of Specialization for Public Sector Administration and Management (CESPAM). The objective of this project is to build capacity for regional training institution to offer education and training program in critical and specialized areas. In the long run, the project seeks to establish long term postgraduate (Masters Program) and short-term executive development program at the University of Botswana and the University of Zambia to train practicing managers and administrators.

Capacity Building for the Human Resources Development Sector Coordinating Unit. The project seeks to enhance the capacity of the HRD Sector Coordinating Unit to perform its task within the SADC Program of Action. The major components of the program are: (i)Development of a Strategic Plan for the HRD Sector; (ii) Regional Networking; and (iii) Resource Management.

Senior Managers Training in Road Traffic and Transportation of the SADC Region. The main objectives were to undertake in-service training of senior managers in road traffic and transport and to strengthen local training capability in road transport management and to create a pool of regional resource personnel.

Table A.3.4: Projects Directly Supervised by the SADC HRD SCU

	Estimated Cost US$ Million					Funding status US$ Million			Under Negotiation		Funding Gap	
Project Title	**Total**	**Foreign**	**%**	**Local**	**%**	**Secured**	**Source**	**%**	**Amount**	**%**	**Amount**	**%**
Inventory of Regional Training Program	-	-	-	-	-	-	-	-	-	-	-	-
SADC Scholarship and Training Awards Program*	-	-	-	-	-	-	-	-	-	-	-	-
Funds for Studies and Expects in the HRD Sector**	-	-	-	-	-	-	-	-	-	-	-	-
SADC Vocational Education and Technical Training Program	-	-	-	-	-	-	-	-	-	-	-	-
Harmonization, Rationalization, Strengthening of Education And Training Systems of SADC												
a) Intra-Regional Skills (Study)	0.075	0.075	100	0	0	0.075	EC	100	0	0	0	0
b) SADC Initiative (Project)	0.920	0.920	100	0	0	0.504	Netherlands	54	0.416	46	0	0
Strengthening of Regional Center of Specialization for Critical Areas	0.800	0.800	100	0	0	0.800	Germany	100	0	0	0	0
Capacity Building for HRD Sector (Study)	0.088	0.088	100	0	0	0.088	Belgium	100	0	0	0	0
Distance Education for SADC*	-	-	-	-	-	-	-	-	-	-	-	-
SADC Science and Mathematics (Study)	0.050	0.050	100	0	0	0		100	0	0	0.050	0
Total HRD Sectors Project	**2.933**	**2.933**	**100**	**0**	**0**	**1.467**		**51.7**	**0.416**	**14.8**	**1.050**	**33.5**

Source: SADC Human Resources Development. Annual Report, July 1999-June 2000.

Attachment 3d

SADC Gender Initiative

The responsibility for coordinating gender issues at the regional level has not been allocated to one of the SADC Member States because gender cuts across all sectors. A policy and institutional framework for mainstreaming gender into the SADC Program of Action was adopted by the Council of Ministers at their meeting in Windhoek, Namibia, in February 1997. It includes:

- A Committee of Ministers responsible for Gender and Women's Affairs;
- An Advisory Committee consisting of Government and NGO representatives from each SADC member State;
- A Gender Unit at the SADC Secretariat; and
- Gender Focal Points in the Sector Coordinating Units.

A number of important developments have taken place since the decision of Council.

- The Standing Committee of Ministers has met annually since 1997 and the Gender Unit was established at the SADC Secretariat in June 1998. The Unit has the overall responsibility to advise all SADC structures on gender issues and to ensure that a gender perspective permeates the entire SADC Program of Action and Community Building Initiative.
- A Declaration of Gender and Development was signed by SADC Heads of States and Government in Blantyre, Malawi in which they commit their countries to the following among others:
  - The achievement of at least 30%target of women in political and decision-making structures by 2005;
  - Promoting women's full access to, and control over, productive resources to reduce the level of poverty among women;
  - Repealing and reforming all laws, amending constitutions and changing social practices which still subject women to discrimination; and
  - Taking urgent measures to prevent and deal with the increasing levels of violence against women and children.
- In 1998 SADC Heads of State signed an Addendum to the Declaration, the Prevention and Eradication of Violence against Women and Children. It contains the following major elements:
  - Recognition that violence against women and children is a violation of fundamental human rights;
  - An identification of the various forms of violence against women and children in SADC;
  - A concern that the various forms of violence against women and children in SADC continue to increase and a recognition that existing measures are inadequate; and
  - Recommendations for the adoption of measures in a number of areas.
- A Plan of Action for Gender in SADC was also adopted during 1998. It identifies activities to be undertaken in the following areas: Policy and institutional framework for gender, Women's human rights, Women in power and decision-making, Women's access to economic structures and resources, Peace and stability, Gender capacity building, and Networking and information dissemination.

SADC Achievements

- During its first year of existence, the Gender Unit at the SADC Secretariat facilitated the adoption of the various documents referred to above, and coordinated the implementation of activities under the Plan of Action. SADC has, since the adoption of the various policies and instruments referred to above, made impressive achievements in the area of gender equality and mainstreaming:
- A regional program of action on women in politics and decision-making has been adopted. It is now being implemented and is already bearing fruits. This is reflected in the increase in the numbers of women MPs and Ministers in the countries of Botswana, Malawi and South Africa, which held

elections during 1999. A progress report in this area was presented to SADC Heads of State at their August 1999 Summit, and they further committed themselves to adopt special measures, such as constitutional or legislated quotas, and nominations to ensure the attainment of agreed targets. Regional training of trainers and empowerment for women in politics, as well as review conferences are planned to coincide with elections in various countries between now and 2005. Commitment to fund these activities has been secured at regional level, and member States have undertaken to ensure the funding for national level activities.

- A gender audit of policies, programs and activities is presently being carried out, whose major output will be concrete, sector-specific intervention in SADC member States. Gender sensitization and training workshops are being conducted at the SADC Secretariat and in the Sector Coordinating Units.
- Gender analysis of the SADC Trade Protocol has been carried out. It has been presented to the SADC Trade and Gender Ministers and to the Council of Ministers. The Gender Unit has been tasked with the responsibility of devising concrete regional programs and activities to ensure increased access to resources and economic structures in all countries of the region.
- Uniform reporting and accountability frameworks have been adopted by Gender Ministers and approved by Council to ensure the proper monitoring of member States' implementation of their commitments under the Gender Declaration and Addendum. Towards the end of 2000, a conference will be held in Lesotho to review member States' implementation of the Addendum on the Prevention and Eradication of Violence Against Women and Children.
- Gender Ministers also decided Member States would report on implementation of the SADC Declaration on Gender Development from February 2000 onwards.
- A strategic partnership framework in the field of gender equality and mainstreaming with the UNDP, UNIFEM and other UN agencies was adopted in 1999 by SADC Gender Ministers, to facilitate better coordination, avoid duplication and maximize the utilization of resources.
- In close collaboration with UNIFEM's Sub-Regional Office for Southern Africa, initiatives on gender budgeting have taken root and are spreading throughout the region.
- Reports and other publications detailing these activities have been published and are available from the SADC Secretariat. One such document is the SADC Gender Monitor, an annual journal which is being produced in collaboration with the Southern African Research and Documentation Centre, based in Harare. This journal monitors the implementation of the PFAs by SADC member States. A special edition of the SADC Gender Monitor was produced for the Beijing Plus Five session in New York in June 2000.

Since 2000, the challenge for SADC has been to ensure the implementation of the Plan in a manner that will move the SADC region towards gender equality early in the new millennium.

Attachment 3e

Cooperation on Labor and Employment Issues in SADC

In order to strengthen the labor and employment sector, SADC has initiated a wide-range of regional activities dealing with social security, occupational safety and health, training and education, labor relations, eliminating the use of child labor, accession to international labor conventions and gender issue. The following is a summary of the main cooperation initiatives:

- *Capacity Building of the SADC Employment and Labor Sector Coordinating Unit (EL SCU).* This project started in 1996 and aimed at strengthening the capacity and capability of the Employment and Labor SCU.
- *Study on the Formulation of Policies and Strategies for the SADC Employment and Labor Sector.* The project started in 1999. It aims to produce a policy document that will outline the objectives, strategies, priorities and the time frame required for their realization. A study on the formulation of policy and strategies for the sector has been completed.
- *Implementation of International Labor Standards*. This project that started in 1996 aims to encourage the ratification and implementation of ILO standards and to develop a reporting system on the applications of ILO conventions in the SADC region.
- *Creation of a SADC Regional Data Bank on Employment and Labor Issues*. The project was launched in 1998. It main objective is to create data bank on employment and labor in the SADC region to be based at the EL SCU in Lusaka.
- *Regional Program on Child Labor in SADC*. The project began in 1999 and aims at formulating policies and strategies that will promote common approaches to combating child labor and institute appropriate mechanisms for monitoring and enforcing legislation within the region.
- *Study on Labor Market Issues in Southern Africa*. This project that was launched in September 1998 aims to study the SADC labor market and establish a common, regional data bank that would facilitate the formulation of appropriate policies, strategies and programs on employment and labor issues in the region. The project will involve preparing sub-projects proposals on a number of labor market issues as appropriate.
- *Regional Program on Occupational Safety and Health (Working Conditions and Environment).* The project started in July 1997. Its main objective is to promote cooperation in the design and implementation of Occupational Health and Safety measures in the region at regional, national and enterprises levels. It also includes the updating and harmonization of Occupational Health and Safety Legislation in the region.

Attachment 3f

Cooperation on Transport and Communications

1 Roads

Table A.3.5: Progress in Roads Institutional Reforms in SADC, 2000

Country	**Road funds, boards and agencies**	
	Existence of dedicated road fund, autonomous road agency and road board	Plans for establishing road fund, road board and road agency
Angola	None	National policy and national strategy underway for establishment.
Botswana	None	National policy and strategy and legislation underway for establishment of the road fund and roads board. Autonomous roads agency need to be created.
DRC		
Lesotho	Road fund and road board have been established and fully operational	
Malawi	Road fund and road board have been established	National policy completed and some other tasks on national strategy and legislation underway for establishment of road fund and roads board and roads agency.
Mauritius	Road fund and road board h established	National strategy and legislation on road fund, roads board and roads agency underway.
Mozambique	Road fund already established. National policy completed. National policy and legislation underway for road fund, road board and roads agency.	
Namibia	Legislation completed, road fund, road board and road agency established.	
South Africa	Road fund, roads board and autonomous roads agency established.	National policy and strategy completed for road fund and roads board, and legislation is underway. For agency, national policy is completed and national strategy and legislation need to be completed.
Swaziland	None	National policy on road fund and roads agency completed. National strategy and legislation underway. Roads agency still need to be addressed.
Tanzania	Road fund in place but needs improvement. Road board established. Road agency under establishment.	Work underway to strengthen some legislation on road board.
Zambia	Road fund and roads board already in place.	National policy completed on road fund and roads board. Work on national strategy and legislation is underway. Work on roads agency still need to be done.
Zimbabwe	None	National policy completed. National strategy and legislation underway for road fund and roads board. Work on national strategy for creation of roads agency has started.

Source: SADC. Transport, Communications and Meteorology. Annual Report, July 1999-June 2000.

2 Railways

Table A.3.6: Railways

Countries	Main Achievements
Angola	
Botswana	Botswana Railways (BR) is in a privatization process.
DRC	
Lesotho	
Malawi	Malawi railways Ltd was concessioned (1994). The concessionaire started operated the rename "Central East Africa Railway (CESAR)" at the end of 1999.
Mauritius	
Mozambique	- January 2000: agreement was reached to concession the Mozambique Railways, CFM (N) and Nacala Port to the same concessionaire operating CEAR. - Mozambique Railways, CFM (S): A concession agreement on the Limpopo and Goba lines is expected to be signed soon to one concessionaire. - Ressano Garcia line: efforts are still underway to find a suitable concessionaire.
Namibia	
Seychelles	
South Africa	South African Railways (Spoornet) is in a restructuring process.
Swaziland	
Tanzania	- The Concession of the Tanzania Railways Corporation (TRC) is expected by the end of 2001 or early 2002. - Tanzania-Zambia Railway Authority (TAZARA): there is a consideration for feasibility of a joint venture concessioning between Chinese interests and private sector and their counterparts in Tanzania and Zambia.
Zambia	The Concession of Zambia Railways Ltd (ZRL) is currently in process.
Zimbabwe	National Railways of Zimbabwe (NRZ) is in a privatization process.

3. Ports

Table A.3.7: SADC Ports' Share of SADC Transit Traffic, 1998 and 1999

Port	Transit Traffic (000 tons)				Total Traffic (000 tons)		Transit Traffic as % of total Traffic		Percentage of SADC Transit Traffic	
	SADC		Other							
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
Dar es Salaam	244	731	413	233	3713	3564	17.7	27.0	4.85	12.87
Nacala										
Beira	185	116			642	462	28.8	25.1	3.68	2.04
Maputo	1685	1814	7		2144	2285	78.6	79.4	33.50	31.93
Port Louis	2048	2035			3102	3017	66.2	67.5	40.71	35.82
Richards Bay					4208	4119	0.0	0.0	0.00	0.00
Durban					80208	86407	0.0	0.0	0.00	0.00
East London	863	936			51751	52398	1.7	1.8	17.16	16.48
Port Elizabeth		5			1268	1607	0.0	0.3	0.00	0.09
Cape Town					7466	6719	0.0	0.0	0.00	0.00
Saldanha Bay					9726	8316	0.0	0.0	0.00	0.00
Walvis Bay			58		28808	30636	0.0	0.0	0.00	0.00
Namibe	5	44			1866	1736	3.4	2.5	0.10	0.77
Lobito					82	70	0.0	0.0	0.00	0.00
Luanda					385	470	0.0	0.0	0.00	0.00
					1599	1486	0.0	0.0	0.00	0.00
Total/Average	5030	5681	478	233	196968	203292	2.8	2.9	100.00	100.00

Source: SADC Transport, Communications and Meteorology. Annual Report, July 1999-June 2000.

Table A.3.8: Ports

Countries	Main Achievements
Angola	Port Authority Act establishing the "landlord" port authorities to oversee private sector involvement in terminal development and operations.
Botswana	
DRC	
Lesotho	
Malawi	
Mauritius	Port Authority Act establishing the "landlord" port authorities to oversee private sector involvement in terminal development and operations.
Mozambique	- Agreement was reached in September 2000 on an overall concession for the Maputo Port operations. - Agreement has also been reached to concession the Nacala Port in the same package with the Nacala railway concession.
Namibia	
Seychelles	
South Africa	Portnet has been split into a Port Authority Division and a Port Operations Division. The former is intended to be the "landlord" and the latter to be responsible for commercial and operations activities.
Swaziland	
Tanzania	Privatization of the container terminal in the Port of Dar es Salam was concluded in the second quarter of 2000.
Zambia	
Zimbabwe	

4. Civil Aviation

Table A.3.9: Top 10 African Countries for Domestic Traffic Movements Forecast

Country	1999	2000	2001	2002	2007	2012
South Africa	126982	131653	136102	140710	157490	176564
Kenya	25921	27002	28501	30232	37944	47769
Algeria	22306	23287	24558	25836	31518	35694
Egypt	21683	22637	23873	25115	30638	34697
Seychelles	20728	21593	22792	24176	30343	38200
Ethiopia	19638	20844	22555	24632	34593	48582
Madagascar	16953	17660	18641	19773	24817	31243
Morocco	13602	14200	14975	15754	19219	21765
Zimbabwe	12615	13079	13521	13978	15645	17540
Cape Verde	12553	12921	13537	14127	16557	19404
The Rest of Africa	66284	68558	71658	74778	87576	101861
Total Domestic	359265	373434	390713	409111	486340	

Source: SADC Transport, Communications and Meteorology. Annual Report, July 1999-June 2000.

Table A.3.10: Civil Aviation Reforms

Countries	Main Achievements
Angola	Autonomous airport company has been formed.
Botswana	Autonomous civil aviation in process.
DRC	
Lesotho	Privatization of the National Airlines.
Malawi	Autonomous airport company has been formed.
Mauritius	Autonomous airport company has been formed.
Mozambique	- Autonomous civil aviation in process. - Autonomous airport company has been formed.
Namibia	- Autonomous civil aviation in process. - Autonomous airport company has been formed.
Seychelles	
South Africa	- Autonomous civil aviation has been formed. - Autonomous airport company has been formed. - Partnership between Airports Company of South Africa (ACSA) and Aeropoti di Roma. Aeropoti di Roma acquired 20% of the company shares. - Partnership between the national airlines, South African Airways (SAA) and Swiss Air. - Air Navigations services are provided by an independent company (ATNS).
Swaziland	- Autonomous civil aviation in process. - Privatization of the National Airlines.
Tanzania	- Autonomous civil aviation has been formed. - Autonomous airport company has been formed. - The Kilimanjaro International is under long-term operating and development lease to a private company.
Zambia	Autonomous airport company has been formed.
Zimbabwe	Autonomous civil aviation has been formed.

Table A.3.11: Status of Airline Companies in SADC

Country	Company	Status	Remarks
Angola	Linhas Aereas de Angola	100% state-owned.	- Establishment of a new cargo airline, Air Gemini which is a private company. - Shareholding: local private investors and Portuguese interests that hold 70% of the shares.
Botswana	Air Botswana	100% government-owned.	Currently the only scheduled operator in the domestic market.
DRC			
Lesotho	Airways Corporation	100% government-owned.	Its operations to Johannesburg and Capetown have not been revived since late 1998.
Malawi	Air Malawi	100% government-owned.	
Mauritius	Air Mauritius	Ownership is mixed.	Air Mauritius Holdings, Ltd. (AMHL) holds 51% of the shares. Other local institutions, British Airways, Air France and Air India hold the rest. Air Mauritius Ltd. has invested in several companies; namely Mauritius Estate Development Corporation Ltd. (93.7%), Airport Catering Services Ltd. (80%), Pointe Coton Resort Hotel Company Ltd. (54.4%), Airports of Mauritius Co Ltd. (5%) and Mauritius Shopping Paradise Company Ltd. (41.7%). Air Mauritius has successfully made a profit during 31 years of its operation and is one of the seven largest companies by market value in Mauritius. In 1998, it carried 55% of the 1.5 million passengers that traveled to/from Mauritius.
Mozambique	Linhas Aereas de Mocambique	100% government-owned.	Operations hampered by high insurance cost and small, low growth market. Solution to overcome these impediments: Five year (1998-2002) corporate plan geared towards fleet re-equipment, yield improvement to 1.5% per annum and local factor improvement to 70% system wide.
Namibia	Air Namibia	100% owned by the government holding company, TransNamib.	1998 Performance: total of 223444 passengers, 56% of which were on the regional routes. Air Namibia lost approximately US$8.4 million in 1997/98. Plans to eventually privatize the airline.
Seychelles	Air Seychelles	100% government-owned.	
South Africa	South African Airways (SAA)	75% government owned.	Swissair has bought 25% of SAA shares. SAA has suffered financial losses for a number of years. Other commercial airlines: COMAIR, Airlink, and Sabena/Nationawide. Comair is a publicly owned company. It was listed on the Johannesburg Stock Exchange on 22 July 1998 and operates domestic and regional routes.
Swaziland	Airlink Swaziland (new company)	Ownership is mixed.	Royal Swazi National Airways Corporation which was 100% government owned was privatized in March 1999 to form a new company, Airlink Swaziland. The new airline is 60% owned by the government and 40% owned by SA Airlink
Tanzania	Air Tanzania Corporation (ATC)	100% government-owned.	It has shares in several companies, namely Dar Es Salaam Airport Handling Company (60%), the Tanzanian Airport Catering Company (50%), Alliance Air (10%) and In-flight Catering Services Ltd. (25%). In 1992, ATC was granted the operational autonomy.
Zambia	Zambian Airways and Eastern Air	Private operators	Zambian Airways takes over all regional and domestic operations. Eastern Air services the regional routes from Lusaka to Bujumbura, Lubumbashi, Harare, Dar Es Salaam, Lagos, Lilongwe, Port Louis, Mombasa and Maputo.
Zimbabwe	Air Zimbabwe	100% government-owned.	In 1997/98, the airline carried a total of 608,000 passengers and achieved an average load factor of 47.5%. It made a loss of US$4.7 million.

Table A.3.12: Member Airlines Performance Analysis (July-December, 1999)

Airline	Passenger Load Factor %	Overall Load Factor %	Passengers Carried	Cargo carried (Tn)	Average fleet age (years)		Punctuality (%)		
					Jet	Turbo	ı time	in 15 min	in 60 min.
Aero Zambia									
Air Austral	67%	64%	189,684	1,704	6			82%	
Air Botswana	61%	61%	79,464		10				
Air Malawi	42%		67,933	1,053	9	4	75%	92%	78%
Air Mauritius	61%	57%	168,082	4,232	12	6	95%	97%	99%
Air Namibia					12	13		85%	
Air Zimbabwe	64%	49%	219,715	1,989	12		88%	94%	97%
Airlink Swaziland	36%	36%	24,006	34	22				
Comair	64%		639,661	3,995			80%	99%	100%
East Coast Airways									
National Airways	73%		2,324	10		22	90%	92%	98%
Nationwide Air									
Safair	69%	70%	220	16,813	25	26	98%	99%	99%
South African Airlink	56%	56%	44,237			4	83%		
South African Airways	62%	45%	3,344,078	27,829	17		89%	94%	91%
South African Express	50%	50%	386,749	1	3	6	77%	91%	99%
Total/Average	59%	54%	2,166,153	48,682			86%	92%	95%
Projected Annual Data 1999	59%	54%	10,332,306	97,364	13	12			

Source: SATCC-TU Annual Report 2000/01

Table A.3.13: SADC Airline Performance

	1991	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Passengers (thousands)	9,788	9,053	8,834	11,722	12,472	14,127	15,946	17,861	20,006	22,100
RPKs (millions)	19,327	18,599	18,942	23,007	22,694	24,225	26,101	27,271	28,493	30,000
ASKs (millions)	31,933	30,760	31,504	34,611	33,896	38,516	39,712	41,663	43,710	45,000
Pax LF (%)	60.52	60.46	60.13	66.47	66.95	62.90	65.73	65.46	65.19	66.67
Freight TKs (millions)					6.98	735.00	772.00	813.00	856.00	1,000.00
Fleet value (US$ million)	2,241.3	2,364.0	2,476.9	2,490.4	2,286.2	2,390.1				
Operating revenue (US$ Mill)	2,741.4	2,505.4	2,433.8	2,185.1	2,435.0	2,274.8				
Operating expenditure (US$ Mill)	2,633.4	2,306.8	2,324.0	2,137.8	2,388.4	2,190.9				
Operating result (US$ mill)	108.0	198.6	109.8	47.3	46.6	83.9				
Employees	28,844	27,794	25,824	26,635	24,638	24,562	24,544	24,502	24,305	24,000
RPKs/employee (million)	0.67	0.67	0.73	0.86	0.92	0.99	1.06	1.11	1.17	
RevEx Ratio	1.04	1.09	1.05	1.02	1.02	1.04				
% RPKs Change	(0.68)	(3.77)	1.84	21.46	(1.36)	6.75	7.74	4.48	4.48	

Source: SADC airlines and airline industry publications

5. Telecommunications

Table A.3.14: Telecommunications Achievements

Countries	Main Achievements
Angola	
Botswana	- Cellular phone operators. - More than one Internet service providers. - New regulation law has been passed. - Autonomous and independent regulator has been established.
DRC.	- More than one Internet service providers.
Lesotho	- Partial Privatization of national telecommunications operations. - New regulation law has been passed.
Malawi	- An agreement with a strategic partner is in process. - Cellular phone operators. - More than one Internet service providers. - New regulation law has been passed. - Autonomous and independent regulator has been established.
Mauritius	- An agreement with a strategic partner is in process. - Cellular phone operators. - New regulation law has been passed. - Autonomous and independent regulator has been established.
Mozambique	- More than one Internet service providers. - New regulation law has been passed. - Autonomous and independent regulator has been established.
Namibia	- More than one Internet service providers. - New regulation law has been passed. - Autonomous and independent regulator has been established.
Seychelles	- Partial Privatization of national telecommunications operations. - Cellular phone operators. - New regulation law has been passed.
South Africa	- Partial Privatization of national telecommunications operations. - Cellular phone operators. - More than one Internet service providers. - New regulation law has been passed. - Autonomous and independent regulator has been established.
Swaziland	- New regulation law has been passed.
Tanzania	- An agreement with a strategic partner was scheduled in January 2001. - Cellular phone operators. - More than one Internet service providers. - New regulation law has been passed. - Autonomous and independent regulator has been established.
Zambia	- Cellular phone operators. - More than one Internet service providers. - New regulation law has been passed. - Autonomous and independent regulator has been established.
Zimbabwe	- Cellular phone operators. - More than one Internet service providers. - New regulation law has been passed.

Table A.3.15: Progress in Southern Africa Telecommunications Sector

Country	New Policy	National operators	Cellular Operators	Regulator	Fixed lines (k)	Per 100 inhabitants 1998	Cell subscribers 1998 (k)	Cellular density (per 100p)	As % of total tel subscribers	Internet subscribers (K) 1998	Total hosts	PCs per 100 inhbts 1998
Angola	Y 1997	Angola Telecom	Angola Telecom	Independent 2000	72.2	**0.70**	9.8	**0.14**	**12.0**	2.5	6	0.08
Botswana	Y Telecoms Act 1996	Botswana Telecommunications Corporation 1980	1. Vista Cellular 2. Mascom	Independent BTA, 1996	121	**7.4**	23.0	**2.7**	**18.4**	10.0	658	2.55
DRC	Not available	OPTC	Not available	Not available	21.0	**0.04**	8.9 [97]	**0.02**	**29.8 [97]**	0.2	….	……
Lesotho	Y	Lesotho Telecoms, bid for 70% Mountain Kingdom Consortium accepted	Vodacom Lesotho	Independent 2000	20.1	**0.97**	9.8	**0.48**	**32.8**	0.2	….	….
Malawi	Y, Telecommunications Act 1998	Malawi Telecoms 1999	Joint MTC & Telekom Malaysia 2. Celtel joint Malawi Dev Corp & MSI	Independent MACRA 1998	37.4	**0.4**	10.5	**0.097**	**21.9**	2.0	1	0.08
Mauritius	Y, Full competition by 2004, WTO commitment	Mauritius Telecom, 1992	1. Cell Plus 2. Emtel (50% Luxembourg)	Independent MTA 1998	245.4	**21.42**	60.5	**5.25**	**5.28**	12.5	575	8.73
Mozambique	Y, Telecoms Act 1992	TdM, corporate Exclusivity ends 2003	M-Cell (TdM & Detecon)) 2nd license expected	Independent INCM, 1992	86	**0.40**	6.7	**0.05**	**8.2**	3.5	156	0.21
Namibia	In progress	Namibia Telecom 1992	Mobile Telecommunications Co (MTC) owned by NT, Telia, Swedfund	Independent 1992, but not strengthened under law	113.9	**7.5**	19.5	**1.24**	**14.6**	5.0	2654	2.41
Seychelles	Y	Bharti Enterprises (India) – operator license	Operators: Cable & Wireless TSL (Telecom Seycelles Ltd – Bharti Enterprises	No	19.0	**24.97**	3.8	**..**	**16.7**	2.0	7	12.42

Country	New Policy	National operators	Cellular Operators	Regulator	Fixed lines (k)	Per 100 inhabitants 1998	Cell subscribers 1998 (k)	Cellular density (per 100p)	As % of total tel subscribers	Internet subscribers (K) 1998	Total hosts	PCs per 100 inhbts 1998
South Africa	Y, Telcoms Act 1996	Telkom SA partially privatized, SBC and Malaysia Telecom	1. Vodacom (Telkom joint venture) 2. MTN (private) 3rd license being deliberated	Independent 1996	5075.4	**12.47***	2500.0 [55000: 2000]	**8.32**	**33.0**	1266.0	144,445	5.16
Swaziland	In Progress	Swaziland Posts and Telecommunications Corporation (SPTC) – state monopoly	SPTC and MTN joint venture	No (SPTC)	29.0	**3.2**	4.7	**0.96**	**13.9**	1.0	278	….
Tanzania	Yes	1.Tanzania Telecommunication Company (TTCL), to be privatized MSI 2.Zansibar: TTCL and Zantel	1.Mobitel 2. Tritel 3. Vodacom Tanzania 4. MIC Tanzania Ltd 4. Zanzibar Telecom (Zanzibar)	Independent TCC, 1995	121.8	**0.4**	37.9	**0.12**	**23.8**	3.0	129	0.17
Zambia	Yes, Telecoms Act 1994 opened up private sector participation	Zambia Telecoms Company (ZamTel)	1. ZamTel 2. Telecel Zambia 3. Zamcel	Independent CAZ, 1994	77.7	**1.0**	12.0	**0.24**	**6.2**	3.0	303	0.68
Zimbabwe	In progress, does not comply with WTO commitment	Zimbabwe Posts and Telecommunications Corporation (ZPTC)	1, NetOne (ZPTC) 2. Econet Wireless 3. Telecel Zimbabwe	In progress	212.0	**1.89**	55.0	**0.48**	**20.6**	10.0	1031	1.14
Average	11*	2 with SEP, 2 in progress**	Competition in 7 ***	10 ****		4.7		1.67				

Sources: ITU; BMI-Techknowlege *Communications Technologies Handbook 2000;* SATCC Annual Report 2000;
Note: * SATCC; ** Various, *** SATCC; **** TRASA; ITU

Attachment 3g

Cooperation on Water

The constituent countries of southern Africa are experiencing large imbalances between water availability and water usage[5]. As a general trend, rainfall over Southern Africa increases northwards towards the equator. The more northerly river basins enjoy a much higher runoff per unit area than do their southern neighbors. For example, unit runoff for the Gariep (Orange) River basin as a whole is a mere 12 mm, whereas the average runoff for the Zambezi is around 90 mm. Unit runoff for the Zaire River basin, which straddles the equator, is over 300 mm. However, so far, large-scale utilization of water resources has been confined to the relatively poorly endowed southern rivers, i.e. the Gariep and the Limpopo. The overall picture is thus of a water-deficient south as against a water-rich north. The southern states are already reaching the limits of water availability while the northern states are in need of development.

Table A.3.16: Southern Africa River Basins

River Basin	Basin Area (Km^2)	River Length (Km)	Natural Mean Annual Runoff (Mm^3/a) (at the mouth of the river)
Buzi	31 000	250	2 500
Cunene	106 500	1 050	5 500
Cuvelai	100 000	430	Ephemeral
Incomati	50 000	480	3 500
Limpopo	415 000	1 750	5 500
Maputo	32 000	380	3 500
Nile	2 800 000	6 700	86 000
Okavango	570 000	1 100	11 000
Orange	850 000	2 300	11 500
Pungué	32 500	300	3 000
Rovuma	155 500	800	15 000
Save	92 500	740	7 000
Umbeluzi	5 500	200	600
Zaire	3 800 000	4 700	1 260 000
Zambezi	1 400 000	2 650	94 000

Source: Adapted from Pallet, J, (ed.), Sharing Water in Southern Africa. Desert Research Foundation of Namibia 1997.

Against international benchmarks, most SADC countries, particularly Malawi, South Africa, Zimbabwe, Zambia and Tanzania are among the less favorable countries in terms of the availability of fresh water per capita[6]. As demand rises under growing population pressures (at the average annual population growth rates of the mid-1990s) or through expansion (and change) of industrial and agricultural activity, the sub-region might be facing increasing water scarcity.

The extent to which each country utilizes its resources through annual freshwater withdrawals indicates that, apart from South Africa most of the countries only exploit a small percentage of the water available to them. In addition, most of the water available is used for irrigation. In a number of SADC countries, safe water is a scarce resource. For instance, in Angola, the DRC, Zambia, Tanzania, and Malawi, about two-thirds of the population lack access to safe potable water.

Cooperation in water resources now takes place in terms of the 'Revised Protocol on Shared Watercourses,' signed in August 2000 by all but one SADC country, i.e. the DRC. The status of signature and ratification of the Protocol is indicated below - by mid-2001 only two countries (Botswana and Mozambique) have ratified it.

---

5 Only 10% of the water resources of the sub-region are in SA, while the country accounts for more than 80% of total consumption. **Pitman W.V. & Hudson J. 1997.** 'Regional Water Resources: Prospects for Trade and Cooperation' in **Kritzinger-van Niekerk L (Ed.),** *Towards Strengthening Multi-sectoral Linkages in Southern Africa***.** DBSA Discussion Paper, No. 33. See **Hollingworth, B. 2000**. *An Overview of the Water Sector in Southern Africa*. DBSA, unpublished mimeo.

6 If the availability of fresh water per capita drops below 1667 m^3 per annum, the country is said to suffer water stress while less than 1000 m^3 per annum means water scarcity. This concept is however relatively limited since it does take into account factors such as variability and distribution.

Table A.3.17: Water Availability in the SADC Countries

Country	Total Annual renewable fresh water available by country (cubic kilometers)	1990		2025 (UN Medium Population Projection)	
		Per Capita Water Availability (cubic meters)	International Rank (1= driest)	Population (thousands)	Per Capita Water Availability (cubic meters)
Angola	158, 00	17,185	100+	26, 619	5, 936
Botswana	18.0	14,107	100+	2, 980	6, 040
DRC	1,019.0	27,220	100+	104, 639	9, 738
Lesotho	4.0	2,232	39	4, 172	959
Malawi	9.0	961	19	22, 348	403
Mauritius	2.2	2,081	35	1, 481	1, 485
Mozambique	58.0	4,088	65	35, 139	1, 651
Namibia	9.0	6,672	81	3, 049	2, 952
South Africa	50.0	1,349	26	70, 951	705
Swaziland	6.96	9,355	90	1, 647	4, 226
Seychelles	-	-	-	-	-
Tanzania	76.0	2,969	49	62, 894	1, 208
Zambia	96.0	11,779	97	19, 130	5, 018
Zimbabwe	23.0	2,323	40	19, 631	1, 172

Source: Engelman R. and Leroy P., 1995. *Sustaining Water: Population and the Future of Renewable Water Supplies* (Update). Population Action International. Washington, January 1995.

In order to improve the regional management of watercourses, a **Regional Strategic Action Plan on Water Resources** was developed in 1998 and a list of 31 priority projects was established

Table A.3.18. Watercourses Management: Projects

Proposed Projects	1999 2000 2001 2002 2003 2004
1. Regional Guidelines for Review and Formulation of Water Legislation	………………………
2. Regional Guidelines for Dam Safety Legislation and Procedures	……………………..
3. Capacity Building for Joint Integrated Basin Management	………………………………………………………
4. Consultative Forum on Water Issues	………………………………………………………
5. Program on Water Supply and Sanitation for SADC Region	………………………
6. Guidelines for Ground Water Management in SADC	…………………….
7. WSCU Capacity Building Project	…………………………………………
8. Implementation Program for the SADC Protocol on Shared Watercourse Systems	………………………………
9. Regional Guidelines for Water Policy Strategy in Eight SADC Countries	……………………..
10. Develop and Implement Water Sector Policy and Strategy	…………………………………………………….
11. Establish Regional Water Sector Policy and Strategy	………….
12. Economic Accounting of Water Use	………………………..
13. Study for Expanding Private Sector Involvement in Water and Sanitation	……………………
14. Assessment of Surface Water Resources	……………………………………………….…
15. Expansion of the SADC-HYCOS Project	……………………………………….
16. Regional Project to Control Infestation and Translocation of Aquatic Weeds	…………..
17. Training in Surveying, Mapping and Geographic Information Systems	………………………………
18. Upgrade and Modernize Water Resources Monitoring System in Lake Malawi	……………………………..
19. Rehabilitation of Joint Monitoring Systems- Angola and Namibia	………………………
20. Awareness-Building for Decision-Makers	………………………………
21. Involving the Media in Water Issues	……………………..
22. Human Resources Development Program	…………………………………………………….
23. WaterNet	………………………………
24. Promotion of Stakeholder Participation in Integrated Water Resources Management Activities	…………………………………………………….
25. Feasibility Study for Creating Fund to Support NGO and CBO Participation in SADC Activities	………….
26. Empowering Women	…………………………………………………….
27. Control and Development of Lake Malawi and Shire River	………………………………
28. Study of the Navigatibility of the Zambezi and Shire Rivers	………….
29. Stabilization of the Course of the Songwe River	…………………………………………
30. Lower Orange River Feasibility Study	………………………
31. Integrated Basin Management Plan for the Okawango River	……………………………………………….…

Source: **SADC Water sector Coordinating Unit, 1999**. *Integrated Water Resources Development and Management in the Southern African Development Community*, First Round Table Conference.

Table A.3.19: Ongoing SADC Water Projects: Objectives and Funding Status (US$ Million)

Project Title	Estimated Cost			Funding Secured		Funding under Negotiation	Financing Gap	Comments/Status
	Total	Foreign	Local	Amount	Source			
Zambezi River System Action Plan	**8.55**	6.74	1.81	5.44 1.81	NORDICS SADC		1.30	ZACPLAN Category 1 project funded by UNEP and the NORDICs are under implementation and nearing completion. ZACPRO 6 under implementation
Hydrological Cycle Observing System for SADC (HYCOS)	**3.00**	2.50	0.50	2.50 0.50	EC SADC			Under implementation
Program on Water Supply and Sanitation for SADC region	**0.12**	0.11	0.01	0.00 0.01	 SADC	0.11		Negotiation ongoing with Belgium
Regional Project to control Infestation and Translocation of Aquatic weeds	**0.26**	0.23	0.03	0.00 0.03	 SADC		0.23	Funding Sought
Groundwater Management Program for the SADC region	15.90	14.31	1.59	0.00 1.59	 SADC		14.31	Funding Sought
Total	**27.83**	**23.89**	**3.94**	**11.88**		**0.11**	**15.84**	

Source: SADC Water. Annual Report, July 1999-June 2000.

Attachment 3h

Cooperation in the Energy Sector

The region has large resources of energy in various forms such as hydro-power, concentrated mainly in central Africa on the Zambezi and Zaire Rivers, although there is additional potential in a number of other countries. The region is also well endowed with coal, but as is the case with hydro-power, it is not uniformly distributed. Only Namibia and Angola appear to have no exploitable coal reserves, but they do have gas reserves, together with Mozambique and SA. The region is also rich in renewable energy resources, such as solar energy for electricity generation and heating. The region's total production and consumption are relatively low compared to international standards. In 1999, SADC produced 7.62 quadrillion British thermal units (Btu) of commercial energy (2% of total world production) and consumed 5.14 quadrillion Btu (1.3% of total world production); it generated 112.8 million metric tons of carbon emissions; its total installed electric generating capacity was 49541 megawatts (MW), but the total electricity generation for the whole SADC was 215.06 billion kilowatt hours (bkwh). Net hydroelectric generation was 21.26 bkwh. Zambia and the DRC are the largest generators with 7.6 bkwh and 5.16 bkwh, respectively.

Table A.3.20. SADC Installed Generation in MW, 1999

Country	Installed MW	Thermal Generation in billion kWh	Hydro Generation in billion kWh
South Africa	38042	173.34	0.73
DRC	2548	0.11	5.27
Zambia	2436	0.04	7.60
Mozambique	2313	0.30	2.00
Zimbabwe	1961	4.05	1.73
Angola	596	0.48	1.00
Tanzania	596	0.50	1.75
Mauritius	365	1.15	0.11
Botswana	217	0.61	0.0
Malawi	308	0.03	1.00
Swaziland	131	0.2	0.18
Seychelles	28	0.16	0.0
Lesotho	-	0.0	0.0
Namibia	-	0.0	0.0
SADC	49541	180.97	21.26
SADC (excluding SA)	11499	7.63	20.53

Source: USAID (The Regional Centre for Southern Africa). Energy Program Sub-Strategy for Legal, Regulatory and Policy Assistance to the SADC Countries. March 2001.

Table A.3.21. SADC Net Electricity Generation in Billion kWh, 1980-1997

Country	1980	1990	1995	1996	1997	1980-97	Rate
South Africa	93	156	176	187	196	110%	4.5%
Zambia	9	8	8	8	8	-16%	-1.0%
Zimbabwe	4	10	8	8	8	71%	3.2%
Angola	1	2	2	2	2	27%	1.4%
Tanzania	1	2	2	2	2	41%	2.0%
Mauritius	0	1	1	1	1	178%	6.2%
Malawi	0	1	1	1	1	126%	4.9%
Botswana	0	1	1	1	1	47%	2.3%
Mozambique	14	0	1	1	1	-96%	-17.3%
Swaziland	0	0	0	0	0	52%	2.5%
Lesotho	0	0	0	0	0	NA	NA
Namibia	0	0	0	0	0	NA	NA
SADC	125	180	200	210	219	75%	3.4%
SADC (without South Africa)	32	24	23	23	23	-28%	-1.9%
Africa	190	306	346	359	376	98%	4.1%
Total World	8027	11311	12640	12962	13225	65%	3.0%

Source: USAID (The Regional Centre for Southern Africa). Energy Program Sub-Strategy for Legal, Regulatory and Policy Assistance to the SADC Countries. March 2001.

Energy Projects: Objectives and Funding Status

As of May 2000, SADC is implementing a list of 43 projects representing a total amount of US$ 608.04 million.

- *General Support to the Energy Sector Technical and Administrative Unit-TAU*. The main objective of this project is to provide technical, financial and administrative support to strengthen the TAU.
- *Documentation Centre for Energy Sector*. This project aims at ensuring proper management of large flow of information, data and documents within the Energy Sector. It was established with the assistance from the Norwegian Agency for Development Co-operation (NORAD).
- *Establishment of the Regional Energy Planning Network (RPEN) in the SADC Region*.
- *TAU/TU Office Facilities*. The main objective of the project is to improve the working conditions and performance of the Sector's coordinating structure.
- *Regional Petroleum Training Centre*. The Norwegian Agency NORAD has committed to support phase III of this project.
- *Management Development and Specialists Training for the SADC Petroleum Sector*. The project aims at training and development of professional core management staff of the national oil companies and the member States' ministries responsible for energy.
- *Petroleum Exploration Program*. NORAD is one of the donors involved in the project.
- *Investigation of Possible Harmonization of Laws, Rules, Standards and Regulations, including Environmental Protection and Safety in the Petroleum Sector*.
- *Manpower Development and Training for the Coal Sub-Sector*. The objective of this project is to develop a training need survey to provide a basis for planning a manpower development and training program for the Coal Sub-Sector.
- *Regional Rural Electrification Program*. The project intends to identity the institutional and socio-economic settings and framework for Rural Electrification in SADC member States. Phase I of the project was successfully completed in 1991.
- *Specialized Training in the Field of Electric Power Phase III: Five-year Regional Power Sector Training Program*. The main objective of the project is to identify training needs for electricity utilities' personnel and formulate a training program. Phases I and II were successfully completed in 1987 and 1991 respectively. The objective of Phase III is to implement the training program defined during Phase II.
- *Plan for Integrated Utilization of the CUNENE River Basin*. The objective of the project is to develop a master plan to utilize the CUNENE River Basin's water resources fully. The project is currently implemented and financed by ICE (Portugal) funds.

- *KAFUE GORGE Regional Training Centre*. The objective of this project is to continue providing specialized training for hydropower personnel from the SADC countries.
- *ANG 3.2 Interconnection of the Northern, Central and Southern Grids in Angola and Possible Extension to Namibia*. The project aims at studying the technical and economic feasibility of interconnecting the three main electricity grids in Angola. It also intends to consider possible interconnection with Namibia.
- *ANG 3.3 Completion of the Gove Hydroelectric Development: Feasibility study*. The first Phase of the project (feasibility study) is completed.
- *ANG 3.4 Provision of a Communication and Information System for the Angolan National Power Grid*. Phases I and II, part 1: Study and implementation, Northern System. The project seeks to improve communications in the Angolan power system in order to prepare for possible connection to neighboring countries.
- *ANG 3.6 Repair of Gove Dam*. The objective is to restore the Gove Dam to regulate the Cunene River's flow.
- *BOT 3.4 Second 220 kV Line Morupule-Gaborone. Implementation*. The project has been deferred until around the year 2002-2003.
- *LES 3.2 Transmission Network Development in Lesotho. Phases III, IV, V, VI, VII (Reformulated 1991)*. The project aims to improve quality and reduce the cost of electricity to the consumer. It also intends to reduce consumption of diesel fuel, kerosene, and wood fuel. Both the Governments of Sweden and Norway financed the project on a bilateral basis. The project is completed.
- *LES 3.6 MUELA Hydropower Project*. The objective of this project is to increase the Lesotho installed capacity in order to promote general development of the underdeveloped Highlands region.
- *MAL 3.6 Malawi/Zambia Power Cooperation in the Border Region*. The objective of this project is to provide electricity supply as an alternative source of energy to the rural areas on both sides of the Malawi-Zambia border.
- *MOZ 3.2 275 kV Interconnection between Mozambique and Swaziland*. The objective of this project is to enable more reliance and increased security of supply between the three countries Mozambique, RSA and Swaziland, and at the same time broaden the regional access to the cheap Cahora Bassa hydropower.
- *MOZ 3.5 Mozambique-Malawi Interconnection of Electricity Supplies- Phase III*. The objective of the project is to promote regional co-operation and significantly reduce possible major costs by delaying construction of large generation facilities. In February 1998, both Governments of Mozambique and Malawi signed the agreement for the interconnection of the two systems.
- *MOZ 3.7 Reconstruction of Mavuzi Hydropower Station. Implementation*. The project aims at finalizing the refurbishment program for Mavuzi power station.
- *MOZ 3.13 Control Centre for the Supply of the Beira Corridor and Mozambique-Zimbabwe Tie Line*. The objective is to upgrade the power control centre in the EDM Central Region to take account of planned national and regional power system improvement in the Provinces of Manica and Sofala, and adjacent areas in Zimbabwe.
- *NAM 31 Power Supply Cooperation in Border Regions between Angola and Namibia*. The project aims to provide supply to electricity to the border areas of Namibia and Angola.
- *TAN 3.6 Supply of Sumbawanga in Tanzania. Phase II: Implementation*. The project seeks to determine the preferred least cost scheme to supply Sumbawanga in Tanzania with power from Mbala in Zambia. Phase I, Load Flow Cost Estimate Study was completed in October 1992. Phase II was approved in 1993. Construction of a 66 kV transmission line from Mbala in Zambia to Sumbawanga in Tanzania is in progress.
- *ZAM 3.6 Refurbishment of Victoria Falls Power Station*. The objective of the project is to refurbish the Power Station in order to improve the reliability of power supply to Western Province of Zambia, Northern Botswana and Northern Namibia. The European Investment Bank and the Zambia Electricity Supply Corporation Limited put up ECU 175,000 and ECU 21,700 respectively. The World Bank and other donors have undertaken a Power Rehabilitation Project (PRP) to rehabilitate the generation, transmission and distribution systems of Zesco in the amount of about US$ 200 million.

- *ZAM 3.7: 132KV Tie-Line Zambia-Malawi*. The project seeks to extend the study performed on project ZAM. 3.1 to feasibility level and establish whether an interconnection of the Zambia and Malawi power systems at 132kV is feasible.
- *ZAM 3.8: 330/220 KV Tie-Line Zambia-Tanzania. Feasibility Study*. The objective of the project is to demonstrate whether an interconnection of Zambia and Tanzania power systems at either 330kV or 220kV would be a technically and economically sound project.
- *ZAM 3.9: Power Cooperation between Zambia and Namibia*. The project seeks to provide hydroelectric power to enhance development of the great agricultural potential of Northern Namibia and generally improve the reliability and increase the capacity of power supply to the region.
- *SADC Capacity Building on Utilization of Renewable Technologies*. The main objective is to improve the living standards and reduce poverty of the rural people and enhance the sub-region industrialization and energy supplies.
- *Development of National Wood fuel Strategies and Plans*. The project aims to develop comprehensive wood fuel strategies and implementation plans for each Member State. It also intends to provide data to assess national capabilities for the implementation of wood fuel programs.
- *Rural Energy Planning and Environmental Management Training Program*. The project aims to stimulate and contribute to the human resource development efforts in the SADC region for sustainable rural energy development, utilization and environmental management. It also aims to develop training program and conduct rural energy planning and environmental management courses in the SADC region on a sustained basis.
- *Strengthening the Coverage of Wood fuel and Environmental Protection in Relevant SADC Training Institutions*. The objective of the project is to strengthen the coverage of wood fuel and environmental protection issues in relevant training institutions in the SADC region.
- *Program for Biomass Energy Conservation*. The project aims to enhance capacities and commitments of governments and developments institutions/organizations to plan and implement integrated biomass energy conservation programs. It also intends to contribute to the improvement of quality of life for the poor rural and urban populations by enabling them to fulfill their energy needs in a socially and environmentally sustainable manner.
- *SADC Industrial Energy Management*. The objectives of the project are to develop energy management expertise in SADC through training and technology transfer. It also aims to determine the energy use patterns and potential for savings in selected sub-sectors (Food and Beverages, and Mining and metals) and develop an industry-government network to promote and coordinate energy management in the various industrial sub-sectors. In addition, the project seeks to develop a capability within Member States engineering firms to plan and undertake energy management projects.
- *Demand Side Management Opportunities for SADC Utilities*. The objectives of the project are to identify sectors/sub-sectors where there are inefficient or peaking end-uses of electricity. It also aims to determine a series of utility demand side management investment programs to encourage industry, commercial establishments and other consumers to adopt these cost-effective means to improve efficiencies or reduce peaking. In addition, the project seeks to bring tariffs in line with the long-run marginal cost of supply to encourage wider user investment in energy efficient technology.
- *Energy Efficiency Improvements in SADC Heavy Industry*. The project aims to provide a preliminary assessment for energy savings potential in a variety of heavy industries, followed by detailed energy audits of plants designated as having a significant savings potential.

The following table indicates that the foreign funding requirement amounts to US$ 574.43 million while US$ 28.68 million in under negotiation.

Table A.3.22: Ongoing SADC Energy Projects: Funding Status (US$ Million)

Project Title	Estimated Cost			Funding Status		Funding under Negotiation	Financing Gap	Comment/Status
	Total	Foreign	Local	Secured	Source			
Overall Coordination								
General Support to the Energy Sector-TAU	29.88	23.82	6.06	6.06 21.34 2.48	ANG NOR Bel, Bra, Can, EC, SWE, FRA, POR, UK			Under implementation
Energy Bulletin	-	-	-	-	-	-	-	Under Review
Documentation Centre for Energy Sector	0.31	0.31	-	0.31	NOR			Under implementation
Establishment of a Regional Energy Planning Network in SADC	2.50	2.50	-	2.50	Bel			Under implementation
TAU Office Facilities	1.50	-	1.50	1.50	SADC			Under implementation
Sub-Total	**34.19**	**26.63**	**7.56**	**34.18**		**0.00**		
Petroleum								
Regional Petroleum Training Centre Phase I and II Phase III Management Development and Specialist Training for the SADC Petroleum Sector	 - - 1.55	 - - 1.55	 - - -	 - - -	 - - -	 - - 0.00	 - - 1.55	 Completed Under reformulation Funding sought
Joint Petroleum Exploration Program Phase I Task Force Phase II Steering Committee Phase III Basin Studies Phase IV Joint Petroleum Exploration Program	 - - - 61.75	 - - - 52.13	 - - - 9.62	 9.62	 SADC	 - - - 27.73	 - - - 24.40	 Completed Completed Incl. under Phase IV Funding sought
Investigation of the possible harmonization of petroleum Laws, Rules, Standards, and Regulation Phase I: Inception Mission Phase II: Working Group I, II and III Phase III: Working Group IV and V Phase IV: Research and Study Project	 0.04 0.43 0.43 0.51	 0.04 0.36 0.36 0.44	 0.07 0.07 0.07	 0.07 0.07 0.07	 ANG ANG ANG	 0.04 0.36 - -	 - - 0.36 0.44	 Under negotiation Under negotiation Subject to Phase II results Subject to Phase II results
ANG 1.1 Oil Supply from Lobito to the SADC Region	-	-	-	-	-	-	-	Suspended
TAN. 1..3 Biostratigraphic Reference Collection	0.10	0.10	-	0.10	NOR	-	-	Under implementation
Sub-total	**64.81**	**54.98**	**9.83**	**9.93**		**28.13**	**26.75**	
Coal								
Manpower Development and Training for the Coal Utilization Sub-sector	0.11	0.11	-	-	-	-	0.11	Funding sought
Sub-total	**0.11**	**0.11**	**-**	**-**	**-**	**-**	**0.11**	
Electricity								
Regional Rural Electrification Program								

Project Title	Estimated Cost			Funding Status		Funding under Negotiation	Financing Gap	Comment/Status
	Total	Foreign	Local	Secured	Source			
Phase I: National Surveys	-	-	-	-		-	-	Completed
Phase II: Rural Electrification, Information, Research and Pilot Program	7.00	7.00	-	-		-	7.00	Funding sought
Specialized Training in the field of Electric Power								
Phase I: Pre-feasibility study	-	-	-	-	-	-	-	Completed
Phase II: Power Sector Training Needs	-	-	-	-	-	-	-	Completed
Phase III: Five Year Regional Power Sector Training Program	28.43	23.03	5.39	5.39	SADC	-	23.03	Funding sought
Plan for Integrated Utilization of the CUNENE River Basin	0.62	0.60	0.02	0.02 0.60	ANG POR	-	-	Under implementation
Computer Model for Analysis and Planning of SADC Transmission Systems								
Phase I: Preliminary Study	-	-	-	-	-	-	-	Completed
Phase II: SADC Power Grid Model	-	-	-	-	-	-	-	Withdrawn at EOM98
Coordinated Utilization of Regional Generation and Transmission Capacities								
Pre-feasibility Study	-	-	-	-	-	-	-	
Phase I: Inception	-	-	-	-	-	-	-	Completed
Phase II: Intermediate	-	-	-	-	-	-	-	Completed
Phase III: Institutional	-	-	-	-	-	-	-	Completed
Maintenance Developing Program Phases I and II	-	-	-	-	-	-	-	Withdrawn at the EMM/96
Kafue Gorge Regional Training Centre	10.08	9.11	0.97	0.58 6.77	SADC NOR/SWE	-	2.73	Under implementation
Phase III - Extension	4.09	2.56	1.53	1.53	SADC	-	2.56	Under implementat ion
Lightning Research	-	-	-	-	-	-	-	Withdrawn at the EMM/96
Interconnection of the Northern and Southern Electricity Grids in Angola								
Phase I: Evaluation study	-	-	-	-	-	-	-	Completed
Phase II: Implementation	-	-	-	-	-	-	-	
Part I: Northern System	-	-	-	-	-	-	-	Suspended
Repair of Gove Dam	-	-	-	-	-	-	-	Suspended
Interconnection of the Botswana and Zimbabwe	-	-	-	-	-	-	-	Completed
Second 220KV Line from Moropule to Gaborone	39.00	36.50	2.50	2.50	BOT	-	36.50	Deferred unt il 2002/3
Power Network Expansion for the Southern and Central Region of Lesotho								
Phase III	10.60	10.60	-	-	-	-	10.60	Funding sought
Phase IV	7.70	7.70	-	-	-	-	7.70	
Phase V	9.80	9.80	-	-	-	-	9.80	
Phase VI	4.50	4.50	-	-	-	-	4.50	
Phase VII	10.90	10.90	-	-	-	-	10.90	
LES. 3.6 Muela Hydropower Project	220.6	220.60	-	220.60	EU	-	-	Under implementation
MAL 3.2 Small Hydropower Plants in Malawi	-	-	-	-	-	-	-	Completed
MAL 3.6 Malawi/Zambia Power Cooperation in the	5.00	3.63	1.38	1.38	MAL, ZAM	-	3.63	Funding sought

Project Title	Estimated Cost			Funding Status		Funding under Negotiation	Financing Gap	Comment/Status
	Total	**Foreign**	**Local**	**Secured**	**Source**			
Border Region								
MOZ 3.2 Master Plan for the Electricity Supply of Swaziland and Mozambique	0.62	0.62	-	-	-	-	0.62	Reactivated in 1994. Funding sought
MOZ 3.5 Mozambique/Malawi Interconnection of Electricity Supplies (Phase II and III)	-	-	-	-	-	-	-	Phase II completed, Phase III to be prepared by MOTRACO Project.
MOZ. 3.7 Reconstruction of Mavuzi Hydropower Station, Mozambique	-	-	-	-	-	-	-	Under implementation
MOZ. 3.12 Cahora Bassa Power for SADC Phases I and II Feasibility Study Phase III Engineering Services and Implementation	- -	- -	- -	- -	- -	- -	- -	Completed Completed
MOZ. 3.13 Control Centre for the Supply of the Beira Corridor and Mozambique-Zimbabwe Tie-Line Phase I: Feasibility Study	0.12	0.12	-	0.12	-	-	-	Under implementation
NAM. 3.1 Power Supply Cooperation in Border Regions Between Angola and Namibia	9.40	9.40	-	6.40	NOR	-	3.00	Funding partially secured. Namibia side is funded by Norway. Angola side suspended.
SWA. 3.1 Dredging of Mkinkomo Reservoir Development	-	-	-	-	-	-	-	Completed
TAN. 3.6 Supply of Sumbawanga in Tanzania Load flow and Cost Estimated Study Phase I Phase II (Extension)	- 8.00	- 8.00	- -	- -	- -	- -	- -	Completed Funding sought
ZAM 3.2 Upgrading of Kafue Gorge Power Plant Phase II Extension (Training Centre) Phase III Provision of spare parts Phase IV Restoration after Fire Accident	54.70	50.22	4.48	50.22 4.48	NOR SADC	-	-	Under implementation
ZAM. 3.3 Refurbishment of the National Control Centre Zambia: Phase I Phase II ZAM. 3.5 Power Line Carrier Communications on the Northern Transmission System	8.50 -	8.50 -	- -	8.50 -	SWE -	- -	- -	Under implementation Withdrawn at the EMM/96
ZAM. 3.6 Refurbishment of Victoria Falls Power Station Phase I: Feasibility Study Phase II: Implementation	0.26 10.00	0.25 10.00	0.01 -	0.01 0.25 10.00	ZAM EIB -	-	-	Under implementation Under implementation
ZAM. 3.7 132 KV Tieline Zambia-Malawi Feasibility Study	-	-	-	-	-	-	-	Feasibility study completed. The next stage awaiting tariff negotiations
ZAM. 3.9 Power	15.94	14.55	1.39	1.39	ZAM,	-	14.55	Funding sought

Project Title	Estimated Cost			Funding Status		Funding under Negotiation	Financing Gap	Comment/Status
	Total	**Foreign**	**Local**	**Secured**	**Source**			
Cooperation Between Zambia and Namibia					NAM			
ZIM. 3.3 Upgrading of ZESA National Control Centre	-	-	-	-	-	-	-	Completed
Sub-Total	**465.85**	**448.18**	**17.67**	**320.74**		**0.00**	**145.11**	
New and Renewable Source of Energy								
SADC Program for financing Energy Services for small-scale Energy Users(FINESSE)	1.58	1.58	-	1.40 0.19	HOL OPEC	-	-	Under implementation
SADC renewable Energy Project	11.70	10.40	1.30	1.30	SADC	-	10.40	Funding sought
SADC Capacity Building on Utilization of Renewable Technologies	-	-	-	-	-	-	-	Funding sought
LES. 4.2 Solar Photovoltaic Power Generation in Rural Areas-Lesotho Pilot Project Phase I: Feasibility study	0.08	0.08	-	-	-	-	0.08	Funding sought
Sub-total	**13.35**	**12.05**	**1.30**	**2.88**	**-**	**-**	**10.47**	
Wood fuel and Other Traditional Fuels								
Support to TAU Wood fuel Section								
Phase I	-	-	-	-	-	-	-	Completed
Phase II (Extension)	0.78	0.68	0.11	0.11	SADC	-	0.68	Funding sought
Development of National Wood fuel Strategies and Plans								
Phase I: Dev. of TOR for LES/TAN	-	-	-	-	-	-	-	Completed
Phase II: Pilot Study LES/TAN	0.55	0.55	-	-		0.55	-	Negotiations with Norad
Phase III: Implementation	0.57	0.47	0.10	0.10	SADC	-	0.47	Funding sought
Rural Energy Planning and Environment Management Training Program	3.35	3.09	0.26	0.26 3.09	SADC HOL	-	-	Under implementation
Strengthening the coverage of Wood fuel and Environmental Protection in Relevant SADC Training Institutions	7.40	6.73	0.67	-	-	-	7.40	Funding sought
Sub-Total	**12.64**	**11.50**	**1.14**	**3.55**		**0.55**	**8.54**	
Energy Conservation								
Industrial Energy Management	10.00	10.00	-	**10.00**	**CAN**	-	-	Under implementation
Demand Side Management Opportunities for SADC Utilities	0.99	0.99	-	**0.99**	**CAN**	-	-	Under implementation
Energy Efficiency Improvements in the SADC Heavy Industry								
Phase I - Feasibility Study	0.40	0.40	-	-	-	-	0.40	Funding sought
Phase II and III - Implementation	1.58	1.58	-	-	-	-	1.58	Funding sought
Sub-total	**12.97**	**12.97**	**-**	**10.99**	**-**	**-**	**1.98**	
Grand Total	**603.9**	**566.42**	**37.50**	**382.28**	**-**	**28.68**	**192.97**	

Source: SADC Energy. Annual Report July 1999-June 2000.

Attachment 3i

Cooperation in Tourism

Apart from the Protocol on the Development of Tourism, SADC has initiated a **Regional Tourism Organization of Southern Africa (RETOSA)** in 1996. The main task of this organization is to form a partnership between SADC governments and the private sector. According to the Charter, RETOSA offers different membership categories, with full membership comprising of registered and nationally recognized private sector umbrella organizations and national public sector tourism authorities operating in Member States. Associate membership is available to fee paying, accredited members in SADC countries, whether of the public or private sector. Affiliate members are fee paying but from non-SADC countries. RETOSA's objectives are to: increase the profile of Southern Africa as a holiday destination in the tourist origin markets; to motivate tour operators in the source markets to expand their programs to the region and to package new ones to southern Africa; to increase the awareness of regional customers of the travel opportunities within SADC; and to expand the organization's database and to develop market research programs. For this purpose, RETOSA carries out a wide range of activities, including the maintenance of a regional tourism directory and web-site, production of tourism statistical reports, and research activities such as collaboration with the WTTC to undertake an economic impact study of tourism in the region. SADC has initiated a series of eight projects aimed at strengthening the tourism sector to make it a key area of growth and development in the region. These are:

- *Internal Distribution Network*. The main objective of this project is to set up an efficient network of incoming wholesalers to program and package comprehensive regional multi-destinations tours; to sell these internationally and regionally; and to handle incoming passenger flows.
- *Strategy for the Development of the Tourism Sector in the SADC*. This project aims to evaluate the implementation of the Sectoral Strategic Development Plan for the tourism sector launched in 1993 and to prepare a successor 5 year strategic plans for the sector (the current plan is for 1999-2004). It also aims to assess the perception of the key stakeholders on the role that the strategy has played in assisting tourism development in the region.
- *A Univisa System*. The aims of the project are to facilitate intra-regional travel for the development of tourism through the easing or removal of travel and visa restrictions and harmonization of immigration procedures; and to facilitate movement of international tourists in the region in order to increase the market share and revenue of the region in world tourism.
- *HIV/AIDS Strategic Plan for the Tourism Sector within the SADC region*. The project covers the period 2000-2004 and aims at formulating HIV/AIDS policy for the Tourism sector in the SADC region and reassuring tourists on the availability of high quality health care in the SADC region. It also aims to support community-based tourism in the SADC region through HIV/AIDS prevention activities.
- *Classification of Hotels and Tourism Plant*. The objectives of the project are to design and implement a standard grading and classification system for hotels, other accommodation establishments and ground operators and achieve uniformity of service standards throughout the region. It also intends to ensure acceptable international standards of services at all tourism plant in operation.
- *Study on Training of Trainers in the Travel and Tourism Sector for the SADC region*. The main objective of this project is to identify the demand for training in the Tourism and Travel sector and to make an assessment of the capacity of training institutions in the SADC member countries to train trainers during the period 2000-2004.
- *Women in Tourism*. The aims of this project are to ensure the development of a policy and institutional framework for gender mainstreaming in the policies and programs in the tourism sector. It also aims to monitor and evaluate the implementation of the 1997 SADC Declaration on Gender and Development and the Gender Program of Action with respect to the tourism sector.

The following table summarizes the funding status of these projects.

Table A.3.23: Ongoing SADC Tourism Projects: Funding Status (US$ Million)

Project Title	Estimated Cost			Funding Secured		Funding under Negotiation	Financing Gap	Comment/Status
	Total	Foreign	Local	Amount	Source			
Internal Distribution Network	0.020	0.020					0.020	Ongoing
Strategy for the development of the Tourism Sector in the SADC Region	0.140	0.140					0.140	New Project
Workshop on UNIVISA System	0.085	0.085		0.085	JICA		0.085	Completed
HIV/AIDS Strategic Plan for the Tourism Sector within the SADC Region	0.981	0.981					0.981	New Project
Classification of Hotels and Tourism Plant	0.020	0.020					0.020	In Pipeline
Training course on Tourism Statistics	0.065	0.065					0.065	New Project
Study on Training of Trainers in the Travel and Tourism Sector for the SADC Region	0.100	0.100					0.100	New Project
Women in Tourism	0.120	0.120					0.120	New Project
Total	**1.531**	**1.531**		**0.085**			**1.446**	

Source: SADC Tourism Sector. Annual Report, July 1999-June 2000.

Attachment 3j

Food, Agriculture And Natural Resources

The following tables summarize the funding status (amounts in US$ million) of projects in the FANR cluster of sectors.

Table A3.24: FANR Sector Development Unit (US$ Million)

Project Title	**Estimated Cost**			**Funding Secured**		**Funding under negotiation**	**Financing Gap**	**Comment/Status**
	Total	**Foreign**	**Local**	**Amount**	**Source**			
Technical Assistance Prog. For FANR Coordination	3.52	2.20	1.32	1.32	SADC	-	2.20	Under Implementation
Food Security and Rural Dev. HUB	10.75	10.75	0.00	7.50	WB, FAO, JICA, IFAD, FRA	-	3.25	Under Implementation
REWS Phase II	2.50	-	2.50	2.50	SADC	-	-	Under Implementation
Remote Sensing for ESW	2.40	2.40	-	2.40	EU, NET	-	-	Under Implementation
Regional Information System	1.95	1.95	-	-	-	-	1.95	Project scaled down and funding sought
Regional Food Security and Nutrition Information System	1.88	1.88	-	1.88	NET	-	-	Phase I completed
Regional Food Security Database Project	2.77	2.77	-	2.77	UNDP	-	-	Under Implementation
Agriculture Potential Info. System	3.90	3.90	-	-	-	-	3.90	Funding being sought
Regional Food Security Training	6.50	4.50	2.00	4.50 2.00	EU SADC	-	-	Under Implementation
Regional Communication Program	1.50	1.50	-	1.50	ITA, SADC	-	-	Under Implementation
Grand Total	**37.67**	**31.85**	**5.82**	**26.37**		**-**	**11.30**	

Source: SADC. FANR, Annual Report, July 2000-June 2001.

TableA.3.25: Agricultural Research and Training (US$ million)

Project Title	Estimated Cost			Funding Secured		Funding under negotiation	Financing Gap	Comment/Status
	Total	Foreign	Local	Amount	Source			
Land & Water Management Program. Phase I-(Training Component) **Phase II**	- 4.65	- 4.65	- -	- 4.65	- EU	- -	- -	Completed in Oct. 1994 Under Implementation
Management of Black Cotton Soil	-	-	-	-	-	-	-	Under Reformulation
Sorghum and Millet Improvement Program. Phase III	10.37	10.07	0.30	7.29 2.78 0.30	USA FRG SADC	-	-	Under Implementation
Grain Legume improvement	10.81	10.31	0.50	1.60 0.50 0.32	FRG SADC ADB	-	8.39	Bean & Groundnut under Implementation. Cowpea to restart when funding available (sought)
Training in Research Management Phase I **Phase II**	- 0.18	- 0.18	- -	- 0.18	- ADB	- -	- -	Completed Under Implementation
Agro-forestry Research Program	9.11	9.11	-	9.11	CIDA	-	-	Under Implementation
SADC Plant Genetic Resource Centre	22.6	11.0	11.6	11.6 11.0	SADC NORDICS	-	-	Under Implementation
Maize & Wheat Improvement	6.05	5.20	0.85	5.20 0.85	EEC SADC	-	-	Under Implementation
Strengthening Faculties of Agriculture, Forestry and Veterinary Medicine	17.0	13.4	3.6	10.8 0.05 2.55 3.6	FRG UK GTZ SADC	-	-	Eight MSc Programs underway. Additional funding sought
Dairy Livestock Productivity Improvement in large and smallholder farmers in Southern Africa	13.3	9.35	3.95	3.95	SADC	-	9.35	Funding sought
Regional Collaborative Network for Vegetable Research and Development	10.23	8.5	1.73	1.0 1.73 0.82	BMZ SADC BMZ	-	6.68	Funding sought
Network on Drought Animal Power and Other Farm Power Equipment	-	-	-	-	-	-	-	Being developed
Southern African Root & Tubes Crops Research Network (SARNET)	**8.61**	**7.0**	**1.61**	**7.0** **1.61**	**USA** **SADC**	-	-	Under Implementation
Wool & Mohair Improvement	**2.30**	**2.27**	**0.03**	**0.03**	**SADC**	-	**2.27**	Funding sought
Biosystematics Networks for Southern Africa (SAFRINET)	**3.64**	**3.44**	**0.20**	**0.32**	**SADC**	-	**3.32**	Under Implementation
Total	**118.85**	**94.48**	**24.37**	**88.84**		-	**30.01**	

Source: SADC. FANR, Annual Report, July 2000-June 2001.

Table: A.3.26: Crop Sector (US$ Million)

Project Title	Estimated Cost			Funding Secured		Funding under negotiation	Financing Gap	Comment/Status
	Total	Foreign	Local	Amount	Source			
Support to the Coordination Unit	1.70	1.00	0.70	1.00	BEL	-	0.70	Additional Funding being sought
SADC Soil Fertility Analysis Services	0.75	0.75	-	-	-	-	0.75	Funding being sought
Regional Food Reserve Project	0.0	0.0	-	-	-	-	0.0	Under review
Regional Post Production Food Losses Reduction & Food Processing - Phase II	3.60	3.60	-	-	-	-	3.60	Funding sought
Feasibility Study on Regional Seed Production & Supply	-	-	-	-	-	-	-	Completed
Regional Seed Technology and Information Centre	4.17	2.55	1.62	-	-	-	4.17	Funding being sought
Plant Quarantine	1.01	1.01	-	-	-	-	1.01	Funding being sought
Production and Breeding of Vegetable Seed	0.20	0.20	-	-	-	-	0.20	Funding being sought
Harmonization of Seed Laws	0.86	0.86	-	-	-	-	0.86	Funding being sought
Seed Production on Small Scale Farms in SADC	5.55	5.55	-	-	-	-	5.55	Funding being sought
Small Scale Seed Production for Self Help Groups	3.68	3.60	0.08	3.60 0.08	GER SADC	-	-	Under implementation
Regional Seed Quality Laboratory and National Sub-Units	0.06	0.06	-	-	-	-	0.06	Funding sought
SADC Seed Security Network	0.20	0.15	0.05	0.15 0.05	AUSTRIA SADC	-	-	Pre-implementation Phase started in June
Improved Irrigation in the SADC Region	0.50	0.48	0.02	0.48 0.02	AUSTRIA SADC	-	-	Study completed and recommended projects
Regional Irrigation Development	0.70	0.65	0.05	0.05	SADC	-	0.65	Funding being sought
Strengthening and Coordination of Migrant Pest Control	1.40	1.12	0.28	1.12 0.28	FRG SADC	-	-	Under implementation
Grand Total	**24.38**	**21.58**	**2.80**	**6.83**	**-**	**-**	**17.55**	

Source: SADC. FANR, Annual Report, July 2000-June 2001.

Table A.3.27: Livestock Production and Animal Disease Control (US$ Million)

Project Title	Estimated Cost			Funding Secured		Funding under negotiation	Financing Gap	Comment/Status
	Total	Foreign	Local	Amount	Source			
Regional Heartwater Research & Vaccine Production	4.0	4.0	-	4.0	USAID	-	-	Under implementation
Training of Animal Health Auxiliary Personnel Region	0.11	0.11	-	0.11	SWE	-	-	Arrangement are underway for 5th course to be held in Zambia
Training on Capacity Building of National Veterinary Services	0.2	0.2	-	-		0.2	-	Funding is being sought. Negotiations ongoing with FAO
Emergency CBPP Control in SADC	5.3	5.3	-	-	-	5.3	-	Negotiations ongoing with Japan and EU
Regional Rangeland Management & Training	5.3	5.3	-	-	-	-	5.3	Newly reformulated project
Management of Farm Animal Genetic Resources in SADC	2.3	2.3	-	2.3	UNDP	-	-	Under implementation
Assistance for the Establishment & Organization of the National Laboratory in Angola	5.2	2.4	2.8	2.8	SADC	-	2.4	Under implementation. Additional funding sought.
Regional Foot & Mouth Disease Control-Phase II	15.7	15.7	-	15.7	EEC	-	-	Under implementation

Regional Training Centre for Meat Inspection & Meat Technology-Phase II	4.8	4.8	-	0.0		4.8	-	Funding under negotiation
Regional Tsetse & Trypanosomiasis	28.8	28.8	-	28.8	EEC	-	-	Under implementation
Total	**71.71**	**68.91**	**2.80**	**53.71**		**10.30**	**7.70**	

Source: SADC. FANR, Annual Report, July 2000-June 2001.

Table A.3.28: Marine Fisheries (US$ Million)

Project Title	Estimated Cost			Funding Secured		Funding under negotiation	Finan-cing Gap	Comment/Status
	Total	Foreign	Local	Amount	Source			
SADC Regional Fisheries Information System	2.70	2.70	-	2.70	DFID	-	-	Under implementation
Support to SADC Fisheries Coordination Unit	0.13	0.13	-	0.13	ICE, NOR, FRG	-	-	Under implementation
Assessment of Marine Fisheries Resources of the SADC Region	20.0	20.0	-	1.33 0.18	GTZ, ICE, NOR SADC			
Marine Fisheries Training	-	-	-	-	-	-	-	New project
Harmonization of Marine Fisheries Policy within SADC Coastal Countries	0.25	0.25	-	0.25	FAO	-	-	Yet to be developed
SADC Monitoring Control and Surveillance of Fishing Activities	16.1	16.1	-	16.1	EU	-	-	Funding secured: 6.2 (RIP) & 9.8 (NIP)
Large Marine Ecosystem Benguela Current	14.0	14.0	-	14.0	GEF	-	-	Under implementation
Total	**53.18**	**53.18**	**-**	**34.69**	**-**	**-**	**18.49**	

Source: SADC. FANR, Annual Report, July 2000-June 2001.

Table A.3.29: Inland Fisheries (US$ Million)

Project Title	Estimated Cost			Funding Secured		Funding under negotiation	Finan-cing Gap	Comment/Status
	Total	Foreign	Local	Amount	Source			
Regional Fisheries Training Program	9.67	9.67	-	2.2	NORAD, ICE	-	7.47	Funding sought
Regional Fisheries Information Program	7.26	6.09	1.17	0.05	-	-	7.21	Phase I completed. Phases II & III not funded
Aquaculture for Local Communities (ALCOM) Phase 2	9.27	9.27	-	7.07 2.20	SWE BEL	-	-	Phase I completed
Support to SADC Fisheries Coordination Unit	0.97	0.80	0.17	0.80 0.17	ICE SADC	-	-	Under implementation
Conservation of Biodiversity of Inland Waters of the SADC Region	10.0	10.0	-	10.0	CIDA	-	-	Under implementation since June 1995
Zambia/Zimbabwe	8.34	8.34	-	0.77 7.57	DEN NOR	-	-	Under implementation
Total	**45.51**	**44.17**	**1.34**	**30.83**		-	-	

Source: SADC. FANR, Annual Report, July 2000-June 2001**.**

Table A.3.30: Forestry (US$ Million)

Project Title	Estimated Cost			Funding Secured		Funding under negotiation	Finan-cing Gap	Comment/Status
	Total	Foreign	Local	Amount	Source			
Regional Forestry Inventory Project	15.0	15.0	-	-	-	15.0	-	Funding under negotiation
Tree Seed Centre Network	14.0	14.0	-	14.0	CIDA	-	-	Under implementation
Southern Africa Biodiversity Program	8.89	7.29	1.6	7.29 1.6	GEF *et.al.* SADC	-	0.0	Under implementation (GEF, USAID, CIDA, WB & Food Foundation total contribution $7.29 m)
Improvement & Strengthening of Forestry Colleges in the SADC	5.2	4.1	1.1	0.6	FIN, SADC	3.5	1.1	Additional funding sought

Region (Phase III)								
Management of Indigenous Forests	5.3	5.3	-	5.3	FRG	-	-	Under Implementation
Establishment of Plants Resources Regional Network in SADC	1.0	0.94	0.06	0.94	ITA	-	0.06	Under implementation
SADC Timber Organization	0.2	0.2	-	-	-	-	0.2	Funding sought
Strengthening of Forestry and Forest Products Research Institutions in SADC	29.19	27.34	1.85	0.07	SADC	-	29.12	Funding sought
Development of Forestry Management Information Network in the SADC Region	2.5	1.7	0.8	-	-	-	2.5	Funding sought
Centre for Advanced Practical Forestry Training	4.6	4.6	-	4.6	NOR	-	-	Under implementation
Total	**85.88**	**80.47**	**5.41**	**34.4**		**18.5**	**32.98**	

Source: SADC. FANR, Annual Report, July 2000-June 2001.

According to SADC information, cooperation in the **Environment and Land Management sub-sector (SADC ELMS),** is represented by six projects:

- *Capacity Building for Environmental Impact Assessment (EIA) in the Southern African Development Community Region:* Its main objectives are amongst others: (i) to assist member states to develop environmental impact assessment (EIA) guidelines for national projects implementation; (ii) to run courses and workshops for capacity building for EIA with national institutions, NGO's and CBO's.
- *Plan of Action for Kalahari-Namib Region:* The primary goals are: (i) to design sustainable land use management systems as an overall strategy of controlling and reducing desertification; (ii) to gain a better understanding of existing practices and evaluate the capability of recommended activities and practices from the point of view of the indigenous knowledge of the local communities.
- *SADC Environmental Information Systems Program:* The objectives of this project are: (i) to improve the collection, storage, exchange and management of environmental data for sustainable development in the SADC region; (ii) to strengthen capacity in environmental information systems in Member States. The First Phase of the Project was funded by UNEP.
- *Environmental Education (E.E.) Program:* This project aims at enabling interaction among SADC Environmental Education agencies by optimizing information sharing and building capacity for environmental problem solving and effective environmental management to achieve sustainable living. It also aims at enabling networking partners, at all levels, to strengthen environmental education process for equitable and sustainable development in the SADC region. The three-year EE program came to an end in June 2000. A five-year program has been developed to continue EE activities. SIDA has agreed to fund this program and DANCED will fund one of the components.
- *Land Degradation and Desertification Control Program:* Two objectives: (i) to combat land degradation and desertification and mitigate the effects of drought in the SADC Region, leading to improved living conditions, in particular at the community level; (ii) to initiate a process of coordinating designed SADC sub-regional activities to combat land degradation and desertification and mitigate the effects of drought and support member states in the development and implementation of National Action Programs. Phase I of Sub-Program I on Support to National Capacity Building started in January 2000. The subsequent phases will start once the Phase I has been completed.
- *Strengthening of Desert Research Foundation of Namibia (DRFN):* The objective is to institute a capacity for the DRFN to provide training and research and improve information access such that all SADC members have available the necessary expertise and information with which to implement the Convention to Combat Desertification. The First Phase of this project is under implementation.

In addition, the sector is also initiating development of transboundary projects for environment and natural resources management. These include:

(i) Integrated Management of Natural Resources in the Limpopo Basin, under the Integrated Land and Water Management program of the World Bank;
(ii) SADC Regional Waste Management Program;
(iii) Transboundary Air Pollution in Southern Africa;
(iv) Management of Persistent Organic Pollutants in Southern Africa; and
(v) Clean Technology Initiative.

The SADC Council of Ministers at its meeting in Swaziland, February 2000, approved the development of a SADC Protocol on the Environment.

Attachment 3k

Institutional Restructuring of SADC

The 1999 Maputo Summit instructed an exercise to review and rationalize the institutions and operations of SADC. The Council of Ministers then constituted a Review Committee at officials level consisting of the Mozambique (Chair), Namibia (Deputy Chair), South Africa (Outgoing Chair) and Zimbabwe (Chair of the Organ) and approved the following Terms of Reference (TOR) for this Committee.

- Examine the objectives and functions of SADC as provided for in the Declaration and the Treaty with a view to elaborating a common agenda for the Community in line with the objectives
- Study the program and activities of SADC in order to streamline and prioritize the program of action in line with the elaborated common agenda
- Prioritize the activities with the aim of achieving sustainable growth and development to impact on *economic growth and* poverty reduction
- Review the current institutional structure and organizational frameworks with a view to making it consistent with the priorities of the organization;
- Review and streamline the management structure of all SADC institutions including the Organ on Politics, Defense and Security;
- Examine the decision-making process in order to recommend a speedy and effective implementation of the organization's activities
- Review the current funding methods of the SADC activities and recommend a sustainable resource mobilization strategy consistent with the priorities of the Community;
- Examine sustainable ways in which all stakeholders could participate in the funding of the regional development program
- Criteria for future membership of SADC

In consideration of the issues identified by the Review Committee and its recommendations, the 2001 Windhoek Summit thus approved a range of far reaching recommendations pertaining to the principles, objectives, strategies, institutional structure and management system of SADC as well as steps for implementation of the reforms. These recommendations or Summit summarized below, and in some instances these are supplemented by a note on potential caveats in the decisions.

1 Principles, Objectives, Strategies and Strategic Priorities:

- Member States were unanimous that the objectives of SADC as provided for under Article 5 of the Treaty remain relevant and valid, but Summit agreed that:
  - The **ultimate objective** in addressing poverty should be **poverty eradication** and that this ultimate objective be included in the objectives, priorities and Common Agenda of SADC
  - **Combating of HIV/AIDS** be included in SADC **priorities**.

- The **hierarchy of objectives (*'the Common Agenda'*)** should be:
  - o The promotion of sustainable and equitable economic growth and socio-economic development that will ensure poverty alleviation with the ultimate objective of its eradication;
  - o Promotion of common political values, systems and other shared values which are transmitted through institutions which are democratic, legitimate and effective; and
  - o The consolidation and maintenance of democracy, peace and security.

- While the objectives in the Declaration and Treaty are well defined, in practice, the SADC Common Agenda has neither been quite clear nor has its implementation and progress in its realization been subject to regular performance monitoring and measurement. Since 1992:
  - o There has been little pragmatism in prioritizing objectives, goals and intermediate targets for regional cooperation and integration, taking into account the capacities of Member States and their economies.
  - o There has been little differentiation between national and regional priorities. Consequently policies, programs and strategies failed to lead towards regional integration.
  - o There has been a lack of clarity on what is meant by regional priorities, whether it is a sum total of national priorities or regional cross-sectoral issues.
  - o There has been insufficient harmonization of natio nal, regional, continental (vis-à-vis the Abuja Treaty) and global agendas.

  Against this background, Summit approved the use of appropriate **selection criteria** for Common Agenda activities and their prioritization such as:

  - o **subsidiarity,** implying that activities should be undertaken at levels of government where they can best be handled; i.e., at global, regional, national or sub-national level;
  - o **integration,** implying that activities should be undertaken which directly integrate markets for goods, services and factors of production (capital and labor);
  - o **development, facilitation and promotion of trade and investment,** suggesting that activities should be undertaken which develop, facilitate or promote trade and investment;
  - o **dynamic and scale gains,** implying that activities should be undertaken which can be carried out through regionally coordinated investments or operations by means of which substantial cost savings and investment and employment benefits could be realized; and
  - o **additionality,** implying that activities should be undertaken that increase regional output, capacity or resources.

- Given the principles, objectives, strategies and common agenda issues and coherence among these as well as the problems experienced in making progress with the regional integration agenda[7], Summit directed that a **Regional Indicative Strategic Development Plan** be designed, based, *inter alia,* on the following priority areas:
  - * *Economics:* development of measures to alleviate poverty with a view to its ultimate eradication; agricultural development and sustainable utilization of natural resources; development of a common market through a step-by-step approach, while restructuring and integrating the economies of member States; harmonization of sound macroeconomic policies and maintenance of an environment conducive to both local and foreign investment; development of deliberate policies for industrialization policies; and promotion of economic and social infrastructural development.
  - * *Political:* to consolidate democratic governance; and establishment of a sustainable and effective mechanism for conflict prevention, management and resolution.
  - * *Social:* Mainstreaming of gender in the process of community building; human resources development, utilization and management; combating of HIV/AIDS and other deadly (multi-

[7] An overview of current SADC programs has revealed a plethora of activities that do not necessarily or at least directly support the objective of regional economic integration. All those activities compete for the same scarce human and financial resources and are sometimes even duplications. There is therefore need for a focused and time-bound agenda around which all other activities could evolve.

country common?) diseases; and development of programs for the improvement of quality of health and social welfare.

* *Others:* development of science and technology, research and development; development of effective disaster preparedness and management mechanisms; and consolidation of international cooperation with other regional groupings.

2 Institutional structure, 2001

Summit also approved the following recommendations regarding the institutional structure and functioning of institutional mechanisms:

(i) Summit

The functions of Summit should remain in accordance with the Treaty (Article 10), including having the responsibility to decide on

- The overall regional policies;
- The creation of regional institutions;
- The admission of new members;
- The adoption of legal instruments for the implementation of the provisions of the Treaty;
- The appointment of the Chairperson and Vice chairperson; and
- The appointment of the Secretary General.

The Summit shall be the supreme policy-making body for the Organization to which all other, structures will be reporting through the Council of Ministers. Summit should meet at least twice a year.

(ii) Organ

The Organ shall be responsible for matters related to Politics, Defense and Security in the region. It shall operate on a Troika system and its Chairperson shall report to the Chairperson of the Summit. The Chairperson & Vice-Chairperson of the Organ shall rotate on an annual basis. The Chairperson of the organ shall not simultaneously hold the Chair of the Summit. The structure, operations and functions of the Organ shall be regulated by the protocol on Politics, Defense and Security Cooperation. It was agreed that the Member State holding the Chair of the organ should provide the Secretariat services. Subsequently, the latter decision has been reviewed in favor of the SADC Secretariat providing secretariat services for the Organ. It was argued that a temporary secretariat (changing on an annual basis from country to country) might be appropriate if its function would be confined to organization and management of Organ meetings. However, a temporary secretariat would have difficulty to deal effectively with an enriched range of functions such as supply of information, interaction with the conflict management divisions at the OAU (AU) and UN, management of an early warning information system to sensitize the Organ and its sub-structures of developments in SADC, monitoring the implementation of decisions of Summit, undertaking strategic control, planning and management of the programs of the Organ, etc.]

(iii) Council

The Council's functions should remain as provided for under Article 11 of the SADC Treaty. Council will oversee the effective implementation of SADC policies and programs, with the Integrated Committee of Ministers reporting to it. The Council will be composed of Ministers responsible for SADC Affairs in Member States and shall report to the Summit. Council shall also meet at least twice per annum.

(iv) Tribunal

This is an autonomous legal body and its functions should remain as provided for under Article 16 of the Treaty.

(v) Integrated Committee of Ministers

The Integrated Committee of Ministers will oversee each of the core areas of co-operation, (namely Trade, industry, Finance and investment; Infrastructure and Services; Food, Agriculture and Natural Resources [FANR]; Social and Human Development and Special Programs.) and shall report to Council. This committee should provide policy guidance to the Secretariat, make decisions on matters pertaining to the Directorates as well as monitor and evaluate their work; and should monitor and control the implementation of the proposed Regional Indicative Strategic Development Plan, once this is approved by Council. This committee should have decision-making powers ad referendum to ensure rapid implementation of the programs that otherwise would wait for a formal meeting of Council.

(vi) Committee of Ministers of Foreign Affairs, Defense & Security

The Committee of Ministers of Foreign Affairs, Defense & Security shall report to the Organ. In addition, Ministers of Foreign Affairs shall meet as and when required.

(vii) Standing Committee of Officials

This Committee shall be a technical advisory committee to Council as provided for in the Treaty (Article 13) and a clearinghouse for all documents to be submitted for consideration to Council. However, Article 13(a) should be relaxed to allow for an official from the Ministry that is the SADC National Contact Point, rather than only from the Ministries of Finance or Economic Planning.

A potential problem with this decision is the following: within SADC, decisions are made by consensus. As previously, the Standing Committee of Officials may again present a bottleneck in decision-making in terms of either time or quality of proposals submitted to Council.

(viii) SADC National Committees and Sectoral Committees

These Committees should be composed of key stakeholders notably government, the private sector and civil society in Member States. Their main functions will be to provide inputs at the national level in the formulation of regional policies, strategies, the SADC Program of Action as well as coordinate and oversee the implementation of these programs at the national level. These committees shall also be responsible for the initiation of projects and issue papers as an input to the preparation of the Regional Indicative Strategic Development Plan. These committees will be working closely with the Secretariat to provide inputs from national levels.

(ix) Secretariat

Being the main executing organ of the organization, the Secretariat has communication links with all policy organs and functionally reports to Council through the Committee of Senior Officials. The Secretariat should be strengthened to effectively perform its functions as provided for under the Treaty's Article 14. The Secretariat should also perform the following functions:

- Gender mainstreaming in all SADC programs & activities;
- Provision of technical and advisory services to the Commissions and SCUs until such time that they are transformed;
- Organization and servicing of the meetings of the Troika and any other committees established by the Summit, Council and the Troika on an ad hoc basis;

- Submission of harmonized policies and programs to the Council for consideration and approval;
- Monitoring and evaluating the implementation of regional policies and programs;
- Collation and dissemination of information on the community and maintenance of a reliable database;
- Development of capacity, infrastructure and maintenance of intra-regional information communication technology;
- Mobilization of resources, coordination and harmonization of the programs and projects with cooperating partners;
- Devising appropriate strategies for self-financing and income-generating activities and investment;
- Management of special programs and projects; and
- Undertaking of research on Community Building and the integration process.

Functional Relationships within the Secretariat:

- **The Executive Secretary:** The Executive Secretary shall be the Chief Executive Officer of the Organization responsible for the overall functioning of the Secretariat and shall report to Council as provided for under Article 15 of the Treaty. In the performance of her/his duty, the Deputy Executive Secretary shall assist the Executive Secretary. In this regard, the Executive Secretary shall delegate some of her/his responsibilities to the Deputy.
- **Structure of Secretariat:** The key institution within the Secretariat is the Department of Strategic Planning, Gender and Development and Policy Harmonization. The Chief Director shall report to the Executive Secretary and shall be the head of this Department, which shall comprise four Directorates: The Directorate on Trade, Industry, Finance and Investment should be established by August 2001, that on Food, Agriculture and Natural Resources by December 2001 and the remaining Directorates in 2002 and 2003.

    - *The functions of the Trade, Finance, Industry & Investment Directorate* will be: harmonization of policies and gender development strategies and programs; market integration; macroeconomic issues; investment promotion; industrial development, particularly SMEs; development of mining and beneficiation of mineral resources; sustainable and equitable economic development; inter-regional and multilateral economic cooperation; functional, efficient and development-oriented financial sector; the acquisition, adaptation and application of science and technology to enhance competitiveness.
    - *The functions of the Infrastructure and Services Directorate* will be: harmonization of policies and gender development strategies and programs; harmonization of transport and communications policies; coordination of development, maintenance and administration of transport, water and energy infrastructure; promotion of an enabling environment for investment; coordination of development of tourism infrastructure and related services.
    - *The functions of the Food, Agriculture and Natural Resources Directorate* will be: Ensuring sustainable food security policies and programs; harmonization in phytosanitary, sanitary, crop and animal husbandry policies;
    - Development of measures to increase agricultural output and the development of agro-based industries; harmonization of policies and programs aimed at effective and sustainable utilization of national resources such as water, wildlife, fisheries, forestry, etc.; development and harmonization of sound environmental management policies.
    - *The Functions of the Social and Human Development and Special programs Directorate* will be: harmonization of educational, skills development and training policies, strategies and programs; harmonization of policies towards social welfare for the vulnerable groups; harmonization of health care policies and standards; harmonization of employment policies and labor standards; coordination of policy development to effectively combat the HIV/AIDS pandemic and all other communicable diseases; management of special programs such as combating illicit drugs, small arms trafficking as well as de-mining; ensuring the management of the SADC regional disaster management centre; harmonization and coordination of

cultural, information and sports policies and programs; harmonization of policies at local, national and regional level

- The heads of the Directorates, Gender Advisor Commission, Commissions and SCUs (while these are still in existence) will be members of a Strategic Planning, Gender and Development and Policy Harmonization Board, which will be chaired by the Executive Secretary. This Board shall be a consultative Body that will make regular inputs into the work of the integrated Ministerial Committee to serve as a Think-Tank for Community Building, regional integration and development. It has direct functional relationship with SADC National Committees and technically advises the Integrated Committees of Ministers
- The Structure of the Secretariat should also have the following units: *legal affairs; internal audit*; *knowledge and information*, including statistics and library services; *administration and support services* (responsible for personnel, conferences, record-keeping, procurement and stock control and management and disposal of assets) and *finance* (responsible for budgeting, treasury and accounting). The Legal Affairs, internal Audit, Knowledge and Information, Finance, Administration and Support Services Units shall report to the Office of the Executive Secretary.

(x) Commissions and SCUs

Commissions and SCUs should be phased out within a period of two years, but while they continue to exist, the Commissions and SCUs will technically report to the Executive Secretary through the Strategic Planning, Gender and Development and Policy Harmonization Department. Further recommendations are the following:

- Commissions and the SCUs should be responsible through the proposed Strategic Planning, Gender and Development and Policy Harmonization Department;
- Additional regional funding in line with agreed priorities (jointly identified with Integrated Committee of Ministers & the Strategic Planning Department) should be provided for the operations & programs of SCUs. (This shall be based on a percentage to be decided upon as determined by the medium-term expenditure framework budget presented for consideration by Council). However, additional cost has to be shared between the host countries and regional resources in order to meet the set standards and agreed priorities;
- Council has to determine the structure and staffing levels of Commissions & SCUs, depending on the priorities, functions, efficiency and cost-benefit consideration;
- Minimum staffing requirements, standards, performance indicators/criteria and procedures in the Commissions and SCUs should be established and standardized in preparation for the transformation;

(xi) Management System

- **The Troika:**

The Troika management system, having been introduced during SA's 3-year term as SADC Chair, should be formalized and provided for in the Treaty. It should function as a Steering Committee to ensure speedy decision-making and facilitate timely implementation of decisions as well as provide policy direction to SADC institutions in between regular SADC meeting. The Troika shall comprise the Outgoing, Incumbent and Incoming Chairperson, but other Member States may be co-opted into the Troika as and when necessary. The Troika system shall operate at the levels of Summit, Organ, Council and Standing Committee of Officials.

- **Other management systems and procedures:**

Given the problems associated with the current management system within SADC, e.g. delays in decision-making processes associated with the hierarchical structure of the organization; lack of common procedures, rules and regulations among SADC institutions; overlapping reporting channels;

lack of prioritization, common standards, benchmarks, timeframes, performance indicators and monitoring & evaluation mechanisms; and varying application of modern management systems and techniques across SADC institutions, it was recommended that Summit approve the following:

- A 10-year Regional Indicative Development Plan, with a rolling budget, should be developed to provide strategic direction to all Sectors;
- A Harmonization Board should be established;
- Decisions-making authority should be delegated to the various institutional levels as appropriate;
- Rules, procedures and regulations of the organization should be streamlined;
- Clear reporting channels should be adhered to;
- SADC National Committees should be established as fora for consultations and consensus building;
- A broader, inclusive management structure for the Secretariat should be put in place, comprising the Executive Secretary and his Deputy, the Chief Director, four Heads of Directorates and Heads of the Units / Departments attached to the Office of the Executive Secretary;
- Resource allocation should be on the basis of identified priorities;
- Standards and performance indicators for SADC institutions should be set and capacity building measures should be put in place;
- Job specifications, descriptions and grading of regional staff and functions of various structures should be clearly defined;
- Appropriate information and communication technology should be established at the Secretariat for purposes of promoting and enhancing data collection, information dissemination and managing databases for planning and management purposes;

(xii) Resource mobilization

Given the fact that about 80% of funds for SADC's project portfolio come from foreign sources and that 'hard' projects that can carry some cost-recovery have not been packaged in a way, which would attract private sector e.a. financing, it was recommended that Summit approve:

- Investigation into the establishment of a Regional Development Fund and the development of Investment Programs to generate additional resources for the organization to implement the SPA with a view to ensure sustainability; and
- Investigation into and putting into place a deliberate strategy for the involvement of stakeholders notably the private sector in the funding and implementation of the SPA

(xiii) A change in membership contributions:

Due to the disparities in levels of income and wealth among countries as well as in the direct benefits that they derive from membership in SADC (e.g. the two island Member States), Summit was invited to approve that a study be undertaken to establish an equitable formula for membership contributions – on the basis of criteria agreed upon through consensus by Member States.

(xiv) Admission of New Members

There are criteria, which have been approved by Summit in 1995 and that remain valid for accession of new member Countries, however admission procedures require streamlining in order to properly allow assessment of membership application before consideration by Summit. Thus Summit approved the following recommendations:

- The moratorium on admission of new members should be maintained;
- The region should consolidate its current membership rather than expanding it; and
- Procedures for admission of new members should be amended and improved to include a provision for Council to consider applications before submission to Summit.

ATTACHMENT 4

INVOLVEMENT BY INTERNATIONAL DEVELOPMENT PARTNERS IN REGIONAL INTEGRATION IN SOUTHERN AFRICA

Attachment 4a

DBSA's activities in SADC countries

Table A.4.1: Loans to SADC Member States up till FY1999/2000

as at 31 March

(Millions of rands)

COUNTRY	Cumulative Total @ 31/03/94		94/95		95/96		96/97		97/98		98/99		1999/2000		Total	
Multi-state	-	0.0%	-	0.0%	-	0.0%	44	1.8%	200	4.7%	150	7.3%	-	0.0%	394	1.9%
Botswana	-	0.0%	-	0.0%	-	0.0%	-	0.0%	242	5.7%	-	0.0%	-	0.0%	242	1.1%
Malawi	-	0.0%	-	0.0%	-	0.0%	-	0.0%	48	1.1%	-	0.0%	6	0.3%	54	0.3%
Lesotho	561	6.8%	35	3.6%	-	0.0%	213	8.7%	389	9.1%	251	12.3%	-	0.0%	1,449	6.9%
Mozambique	-	0.0%	-	0.0%	3	0.3%	(0)	0.0%	410	9.6%	185	9.1%	-	0.0%	598	2.8%
South Africa	7,695	93.1%	946	96.4%	1,081	99.6%	2,124	87.1%	2,176	51.0%	1,406	68.8%	1,273	63.4%	16,701	79.2%
Namibia	-	0.0%	-	0.0%	-	0.0%	-	0.0%	263	6.2%	-	0.0%	220	11.0%	483	2.3%
Swaziland	5	0.1%	0	0.0%	1	0.1%	59	2.4%	325	7.6%	25	1.2%	97	4.8%	512	2.4%
Zimbabwe	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Zambia	-	0.0%	-	0.0%	-	0.0%	-	0.0%	210	4.9%	26	1.3%	82	4.1%	318	1.5%
Tanzania	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Mauratius	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	330	16.4%	330	1.6%
Seychells	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
TOTAL	8,261	100.0%	981	100.0%	1,085	100.0%	2,439	100.0%	4,263	100.0%	2,043	100.0%	2,008	100.0%	21,081	100.0%

Attachment 4b

Selected Regional Activities of the World Bank in Southern Africa

Box A.4.1: World Bank Projects for Environment and Natural Resources Management in SADC

SADC Regional Water Activities

The Bank's direct involvement in regional water issues in southern Africa is recent and can be dated from early 1998 when the Bank supported the SADC Water Sector in the finalization of the Regional Strategic Action Plan (RSAP) for Integrated Water Resources Development and Management- 1999-2004; and when the Bank attended SADC Water Sector's First Round Table Conference in Geneva from 10-11 December 1998. The main goal of this conference was to promote policy dialogue, build consensus and mobilize resources to implement the region's long-term policies and strategies in water resources management.

The Bank has since been supporting SADC Water Sector Coordination Unit (WSCU) in developing project concept notes (PCNs) for identified priority interventions and advising to formulate the right strategies to implement the RSAP. With the assistance of the Bank and other donors, including United Nations Development Program (UNDP), USAID, DFID, Swedish International Development Agency (SIDA), African Development Bank (AfDB), Development Bank of Southern Africa (DBSA), SADC Water Sector Coordination Unit has developed 3 1PCNs for proposed projects, mostly designed to put the enabling environment for sustainable management of the sub-region's scarce water resources. Among the 31 priority interventions, the Bank has expressed interest to support only 4 of them, including:

- Protection and Strategic Use of Ground Water for Drought Management in SADC, which constitutes part of the project: "Guidelines for Ground Water Management in SADC";
- Integrated Land and Water Management in SADC;
- Regional Project to Control Infestation and Translocation of Aquatic Weeds;
- Implementation Program for the SADC Protocol on Shared Watercourse Systems.

The first three are Global Environment Facility (GEF)'s projects while the fourth is expected to be an institutional development technical assistance to be provided with other donor partners.

The Bank is also a **member of SADC's Water Strategic Reference Group** composed of key donors, including UNDP, USAID, DFID, AfDB, SIDA, DBSA, DANIDA, and a few others and the Development Bank of South Africa. The role of this group is to provide strategic advice for the implementation of the "Strategic Action Plan" defined by SADC Water Unit.

Apart from this, the Bank has also been conducting three 'small' internal studies to lay the basis for in-depth analytical work related to SADC Regional Water. These are:

- **Support for Flood Mitigation in the SADC Region:** This project was launched following on the devastating floods in the sub-region. The main purpose is to assist countries affected by flood (Mozambique, South Africa, Swaziland, Zimbabwe) to come together and discuss how to establish some institutional mechanisms to exchange information and coordinate activities at the operational level. The effort may lead to the creation of a regional centre for disaster management which may ultimately include Zambia and Malawi. Some initial progress has been made in supporting multi-country facilitation for flood mitigation in southern Africa. The major actions activities so far relate to: (i) Taking stock of the different ongoing activities, studies and technical assistance being provided by different donors, agencies and international NGOs. (ii) Participation in the October'2000 International Mozambique Flood Conference.
- **Stakeholder Analysis of Zambezi River Basin:** The analysis involves the entire basin with eight riparian countries: Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Zambia, and Zimbabwe. Though the Republic of South Africa is not a riparian state, its stakes and potential roles are to be examined as well. The purpose is to explore the stakes, positions and underlying interests of the riparian nations and to identify constraints to and opportunities for cooperation in the joint management of the Zambezi River Basin. About 30% of this analytical work has been executed with the use of trust funds.
- **Strategy Paper for SADC Regional Water:** The purpose is to define and streamline Bank work in line with the SADC's 'Regional Strategic Action Plan (RSAP) for Integrated Water Resources Development and Management', through demonstrating the links and implications of integrated water resource management (climate variability, drought, flood, WRM policy framework, legal and institutional framework) and macroeconomic performances at national and sub-regional levels.

Other examples of Bank activities aimed at regional co-operation on water issues in SADC include:

- **The SADC-HYCOS (Hydrological Cycle Observing System):** A project was prepared with the assistance from the EU and World Meteorological Organization to build capacity for the development of regional water resources information systems.
- **The Southern African FRIEND (Flow Regimes from International Experimental and Network Data):** where support included those for (i) a common hydrological database architecture standard for national hydrological services in seven SADC countries; (ii) human resources development; and (ii) research into the spatial and temporal characteristics of extreme hydrological events.
- **Freshwater Quality Monitoring Program:** a program developed within the UNEP/WHO/GLOBAL Environmental Monitoring System (GEMS) water program in co-operation with WMO and the United Nations Educational, Scientific and Cultural Organization (UNESCO). This program is already active in several regions and provides education and logistical support.
- **The WaterNet Project:** has been developed at the University of Zimbabwe and is a regional initiative that offers graduate-level training in water resources management, as well as research and information exchange.
- **The Lesotho Highlands Water Project:** a joint project between Lesotho and South Africa to meet the increasing demand for water in the Vaal river system and generate hydropower in Lesotho is currently the largest infrastructure project in the region.
- **The Zambezi River Basin Action Plan (ZACPLAN):** aimed at fostering regional co-operation among the Zambezi basin states for environmentally sound management of the common water resources of the common water resources. The Zambezi River Basin Action Plan Project (ZACPRO2) is one of ZACPLAN's projects.
- **Program for Regional Information Sharing and Management on Environmental and Sustainable Development:** aimed at assisting the SADC Member States to improve planning and management of natural resources in the region. Specific objectives include: to ensure appropriate circulation of environmental information; to promote active involvement of decision-makers in environmental information use; to provide users with environmental information that meets their needs; and to strengthen national capacities for environmental information management.

Box A.4. 2: World Bank Support for the SADC Payment System Project

When the SADC Treaty was approved in 1992 by a Summit Meeting of the Heads of State of the participating countries, South Africa was given the responsibility of administrating the Finance and Investment Protocol. The South African Reserve Bank initiated the establishment of the SADC Committee of Central Bank Governors as a premise of financial sector cooperation among member countries. The main goal of the Committee is to promote the exchange of experience and incite countries to help each other to build adequate structure for the central bank, the private banking sector and the financial markets.

Weaknesses in the payment system can result in the lack of confidence in the banking system, inefficient use of the available money stock, and constitutes an impediment to the development of financial sector. Recognizing these risks, the **SADC Committee of Central Bank Governors** has taken the lead to foster financial cooperation among Member States through concrete initiatives such as the SADC Payment System Project.

The **main objective** of the project is to help each SADC country build an appropriate payment system strategy. The project also aims at defining a coordinated regional approach to cross-border payments. Recognizing that a sound regional payment system derives from a robust domestic system, the project focuses primarily on the strengthening of national payment system.

The **14 SADC countries** are expected to participate to the project. International organizations involved in the project include the **Bank of International Settlements (BIS), the IMF and the World Bank.**

The implementation of the project has four phases:

- **In the short term (Phase 1),** the objectives are to initiate the project, sensitize the financial stakeholders in each of the countries in respect of payment system; gather information and develop capacity building in the SADC region.
- **In the medium term (Phases 2)**, the main goal is to define a vision and strategy for the payment system reform of each SADC country.
- **In the long term (Phases 3 and 4)**, the project will focus on the implementation of the vision and strategies for each of the SADC countries to support free trade within the region and the development of a unified vision and strategic framework.

Project approach and initiatives: The project aims at developing capacity through the organization of meetings (workshops and seminars). The main goal of these meetings is to create and enhance awareness on payment system, develop payment system knowledge and relationships between central and commercial bankers. The project also comprises a green book, a website, a newsletter (Vulindlela) and a video.

Attachment 4c

Table A.4.2. International Agencies Active in the SADC Water Sector

Agency	National Level	Regional Level
Canadian International Development Agency (CIDA)	Swaziland, Mozambique, Zimbabwe, South Africa	Wetlands, hydrology, hydro-power
Denmark Co-operation for Environment and Development (DANCED)	Botswana	
Deutsche Gessellschaft fur Technische Zusammenarbeit (GTZ)	South Africa, Zambia, Zimbabwe	
Department for International Development (DFID)	Namibia, South Africa, Zimbabwe, Mozambique, Lesotho, Tanzania, Zambia	FRIEND project, Water Management
European Union (EU)		SADC-HYCOS
Global Water Partnership (GWP)		Protocol Implementation, SATAC
Norwegian Agency for Development Co-operation (NORAD)	Tanzania, Zambia, Zimbabwe, Namibia	Wetlands, Zacplan
Netherlands International Development Agency (IDGIS)	Mozambique, Zimbabwe, Lesotho, Tanzania, Zambia	Wetlands, Zacplan
Swedish International Development Agency (SIDA)	Namibia, Zimbabwe, Zambia, Tanzania, Botswana	Awareness and education program, shared rivers, SADC-WSCU, OKACOM, Zacpro 6, ZAMCOM
United Nations Development Program	All countries	SADC Water Round Table Process, Komati Basin, UNSG Special Initiative on Africa
World Bank	Angola, Malawi, Namibia, Mozambique, Lesotho, South Africa, Zimbabwe, Zambia	SSA Hydrological Assessment
Global Environment Facility (GEF)		Lake Malawi, Lake Victoria, Okavango
World Metrological Organization (WMO)		SADC-HYCOS
Japan International Co-operation Agency (JICA)	South Africa	

Source: E Soderstrom, USAID, Botswana

Attachment 4d

Donor Support to COMESA

EU Support to COMESA

Table A.4.3: EU Projects in COMESA

PROJECT DESCRIPTION	PERIOD OF SUPPORT	VALUE (EURO)
Phase II – ASYCUDA/EUROTAGE Project: Regional Harmonization of Customers and Trade Statistics Systems Project	4 years form 1999	12.8 million
Phase II – COMESA Regional Integration Project	5 years from 1999	8.2 million
Phase I – Advanced Cargo Information system (ACCS) and Standard, Quality, Metrology and Testing (SQMT)	Completed (10 months from January 2000)	0.83 million
TOTAL		**22.83 MILLION**

Other project activities supported by the EU include: (i) Part of the 4 co-sponsors supporting the Regional Integration Facilitation Forum (RIFF) successor to the Cross-Border Initiative; and (ii) From mid 1998 through to 1999, the EU assisted COMESA with technical and financial resources for the following:

- compilation of the Common Tariff Nomenclature (CTN) and operations and administrative structures for the Common External Tariff (CET) in a COMESA customs union;
- the Monetary Harmonization Program and Regional Trade Facilitation Project at the Clearing House in Harare – Zimbabwe

The United States Agency for International Development (USAID) support to COMESA

Support to COMESA from USAID largely began from 1998 with the signing of Limited Scope Grant Agreements for: Economic Cooperation; and, Conflict Prevention and Mitigation between two parties. Under these Limited Scope Agreements, USAID has offered financial and technical support to COMESA of the order of US $ 8.2 million. Examples of the areas of support provided by USAID include the following:

- compilation of a handbook, "COMESA and the World Trade Organization: Challenges and Opportunities in the WTO Round";
- Capacity building support to the COMESA Court of Justice;
- Review and enhancement of the COMESA Rules of Origin Protocol;
- Extension of the Third–Party Motor Insurance (Yellow Card) Scheme to more countries in the Southern African region outside COMESA i.e. Mozambique and SACU member countries;
- Preparation of the Regional Investor Road Map.

Table A.4.4: Economic Growth Partnership Program from 1998-2000

LSGA Components	FY1998	FY 1999	FY2000	TOTAL
Business Partnership	$ 610,000	$ 570,000	$ 0	$1,180,000
Reg. Telecommunication Harmonization	$ 250,000	$ 0	$ 290,000	$ 540,000
Global Information Infrastructure	$ 600,000	$ 42,000	$ 450,00	$1,092,00
WTO Training and Dissemination	$ 250,000	$ 250,000	$ 400,000	$ 900,000
Regional Investors' Roadmap	$ 300,000	$ 200,000	$ 350,000	$ 850,000
Regional Trade Analytical Agenda	$ 500,000	$ 0	$ 0	$ 500,000
COMESA Institutional Strengthening	$ 200,000	$ 190,000	$ 200,000	$ 590,000
Global Technology Network	0	0	$ 300,000	$ 300,000

*Eastern Africa Sub-Regional Support Initiative for the Advancement of Women

Contributions by other International Cooperating Partners

COMESA has entered into a number of cooperation agreements with various other ICPs. Examples of the support being received by COMESA are set out below in the table below.

Table A.4.5: Support by Other International donors to COMESA

ICP ORGANISATION	NATURE OF SUPPORT	VALUE (US$)
United National Development Program (UNDP)	Trade Development and Promotion Program. Executed jointly with the ITC-UNCTAD/WTO	Not indicated
	Development of the Growth Triangle Investment strategy pilot program covering Zambia, Malawi and Mozambique. Also funded the feasibility study.	0.1 million
	COMESA Regional Inland Fisheries Resources Management	0.038 million
	Study to develop a common agricultural policy for the COMESA region	0.06 million
IMF/World Bank	IMF studies to assess the Impact of the FTA on Government Revenues of COMESA member states World Bank support to the Regional Trade Facilitation Project to provide Political risk cover for COMESA imports and exports	Not indicated Not indicated
	IMF support to develop a program of work for examining the fiscal implications of the CET and, a framework for closer monetary cooperation	Not indicated
World Trade Organization (WTO)	COMESA has observer status to a number of WTO bodies	Not applicable
Food and Agricultural Organization (FAO)	Support to the project on Upgrading Quality and Safety in fish	0.344 million
Commonwealth Secretariat (COMESA)	Funded the regional workshop on the establishment of a Common Marine Fisheries Investment and Management Policy	Not indicated
	Establishment of a COMESA Horticultural Association in six COMESA countries	Not indicated
	Support in trade issues with WTO, ACP-EU and electronic xxxxx	Not indicated
Common Fund for Commodities (CFC)	Study on Production and Marketing of value-added Fishery Products	Not indicated
United Nations Industrial Development Organization (UNIDO)	Supporting projects in the Iron and Sector of COMESA countries to enhance productivity	Not indicated
Canadian International Development Research Centre (IDRC)	Supporting a Research Network established to carry out studies on Regional Integration and Multi-Lateral Economic Arrangements	Phase 1 – 0.5 million Phase II – 0.273 million
Organization of African Unit/African Economic Community (OAU/AEC)	Supported a study on Public Procurement Rules; and a workshop on the COMESA Trade Regime for French speaking member states	Not indicated
Economic Commission for Africa (ECA)	Assisted COMESA in finalizing the re-structuring and re-organization of the Secretariat	Not indicated
	Sponsored COMESA to phase II of the Tokyo International Conference on African Development (TICAD-II), a Japanese funded project	Not indicated
African Development Bank (ADB)	Have a cooperation Agreement which enables COMESA member states access ADB financing support within the framework of the regional integration programs Public Procurement Reform Project: harmonization of public procurement rules, regulation & procedures through COMESA Directives on Public Procurement. The project also aims to improve national procurement systems, to strengthen capacity of the COMESA Member States in public procurement, and to encourage more awareness of procurement opportunities within COMESA.	Not applicable Approved US$1.5 million grant

The COMESA draft budget for 2001 indicated the following support from donors, although a large number of activities still required funding at the time:

Table A.4.6: Areas of support

Support area	Costs USS	Donor
Regional Customs Bond Guarantee System	196,000	USAID
Barriers to trade in insurance services	10,000	UNCTAD
Regional Road Investors Map Implementation program for growth triangles / SDIs	9,000 10,000	Donor Donor
Private sector promotion and networking	250,000	Donors
Policy framework for & mainstreaming of gender	250,000	Donors
Harmonization of SPS, health & environment regulations	20,000	FAO/CAB
Upgrading of quality and safety of fish	344,000	FAO
Agriculture & industrial policy & strategy	30,000 30,000	FAO Donor
Increase production of value-added fisheries products	378,525 36,750	CFC FAO
Increase rice production Enhanced cooperation on issues of peace & security	339,000 223,217	CFC USAID
Operationalize Regional ATI	600,00	EU
• Publication of quarterly air transport journal • Establishment of Air Transport Regulatory Board • Implementation of Phases I & II of the air transport liberalization program • Adoption of air transport competition rules	377,000	EU

• Establishment of Comesa airports facilitation committee		
Strengthen Drought Monitoring Centers – Harare, Nairobi	10,000	WMO
Installation of METEOSAT 2nd generation ground receiving stations	?	Donors
Launch COMTEL company	50,000	USAID & NTO's
Harmonization of telecoms regulations	390,000	USAID
Revised harmonized road transit charges	20,000	USAID
Updating of hydrographic maps for coastal and inland waterways	NA	WMO, IMO, PMAESA
Develop Program of cooperation on postal services	NA	Donors
IT networking of coordinating Ministries	208,000	USAID
Regional Competition Policy Policy on Public Procurement Determine impact of CET/FTA on govt. revenues & competitiveness	200,000 50,000 550,000	EU EU EU
Install Payroll System – at Secretariat	25,000	USAID

Attachment 4e

USAID-RCSA Support for SADC[1]

1 Increased Regional Capacity to Influence Democratic Performance

STATUS: Continuing
PLANNED FY 2001 OBLIGATION AND FUNDING SOURCE: USD 1,251,000 DA
PROPOSED FY 2002 OBLIGATION AND FUNDING SOURCE: USD 1,364,000 DA
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE**: 2004

The USAID Strategic Objective (SO) in Democracy and Governance (DG) was developed in close collaboration with Southern Africans, and is based on the premise that in the SADC region, with its unique history, countries and societies are more inclined to look to fellow member states than to outside the region when it comes to democratic norms and practices. Therefore, USAID's basic approach is to support key partners in the region who foster and advocate for democratic 'best practices.' This effort is critical given the tendency of governments in the region towards a consensus approach that, without active interventions by pro-democratic institutions, could result in adoption of democratic norms and practices based on the 'least common denominator.' USAID's regional democracy program is focused in three areas: 1) anti-corruption initiatives; 2) electoral and political processes; and 3) media pluralism, freedom and sustainability. USAID continues to support regional partner organizations to develop linkages and mutually supportive information and advocacy networks to promote democratic values, norms and processes.

2 A More Integrated Regional Market

STATUS: Continuing
PLANNED FY 2001 OBLIGATION AND FUNDING SOURCE: USD 9,000,000 DA
PROPOSED FY 2002 OBLIGATION AND FUNDING SOURCE: USD 5,000,000 DA
INITIAL OBLIGATION: FY 1995 ESTIMATED COMPLETION DATE: FY 2004

This initiative enhances Southern Africa's prospects for economic growth by supporting removal of trade barriers. The activities support the establishment of the SADC Free Trade Area (FTA) as well as the improvement of telecommunications, transport and electric power infrastructure efficiency among the member states of SADC. Historically, the region economic potential was hampered as each country or grouping of countries (the five SACU countries) operated as nine separate markets with in the region. An integrated regional market will allow for economies of scale and lower infrastructure costs through shared systems, as well as the freer movement of goods and services, all of which will boost economic activity, employment and incomes.

[1] This section draws on information provided by the USAID Regional Centre for Southern Africa, Gaborone. Similar and comparable information could not be readily obtained for the USAID Regional Centre, located in Kenya, providing support for regional activities in the Eastern Africa region.

During FY 2000 the regional market integration initiative contributed to several key improvements including: (i) the launching of the SADC FTA, (ii) further intra-SADC import tariff reductions; (iii) the development of private sector advocacy to support trade policy reform; (iv) further improvement in telecommunications services; (v) the establishment of the Coordination Centre at the Southern African Power Pool (SAPP) to promote short-term electricity trade in the region; (vi) policy changes in road and rail transport that will allow private sector to compete with public sector monopolies in these areas, thus creating a more competitive environment in the region; and 7) further progress in establishing the RCSA-funded rail cargo tracking system.

3 Broadened U.S.-SADC Cooperation

STATUS: Continuing
PLANNED FY 2001 OBLIGATION AND FUNDING SOURCE: $1,000,000 ESF
PROPOSED FY 2002 OBLIGATION AND FUNDING SOURCE: $1,000,000 ESF
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE**: FY 2004

The purpose of this Special Objective (SpO) is to strengthen the relationship and develop stronger economic ties between the member states of SADC and the United States (U.S.). In recognition of the need to strengthen the relationship, the U.S. Government (USG) and SADC have agreed to conduct an annual U.S. - SADC Forum. The Forum aims to facilitate dialogue regarding regional issues of mutual interest and critical importance. The inaugural forum was held in April 1999. A second Forum was held in May 2000. These Forums have brought together senior US government officials and high-ranking SADC and national officials to explore issues of mutual concern, demonstrate USG and SADC commitment to the region, and further assist the SADC states to develop a sense of common identity and position in dealing with the broader global community. To this end, a set of mutually agreed activities, financed through Economic Support Funds (ESF), is being undertaken to further the U.S.-SADC Forum agenda.

Activities supported by this program included the following: (i) assist SADC in developing the legal basis necessary to successfully stimulate investment and expand trade by providing training related to intellectual property rights from the Department of Commerce's Commercial Law Development Program; (ii) provide a Trade Advisor to the SADC Secretariat to assist in the implementation of the SADC Trade Protocol through provision of analytical expertise and policy advice. The Advisor will also help strengthen the institutional capacity of the SADC Secretariat; (iii) provide assistance to conduct analysis of the trade data and revenue implications of implementing the proposed SADC FTA; (iv) provide support for SADC's regional HIV/AIDS activities; (v) assist SADC in the development of desert ecotourism; (vi) assist SADC in disaster preparedness management and; (vii) provide technical assistance and training to SADC member s on the use of a natural resource base; (viii) increase Southern African capacity and management experience in conflict prevention and resolution; and (ix) create three model border facilities to serve as demonstration projects.

4 Increased Regional Cooperation in the Management of Shared Natural Resources

STATUS: New (approved 1/2000)
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: USD 2,976,000 DA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: USD 3,336,000 DA
INITIAL OBLIGATION: FY 2000 **ESTIMATED COMPLETION DATE**: FY2004

Southern Africa's most valuable resources -- water, migratory wildlife, and major ecosystems --are shared-- as they are contiguous areas that span 3-4 countries. Actions in one country's wildlife preserve affect the wildlife in the adjoining country. These shared natural resources are important both for the food security of the population directly depending on them as well as for the tourist industry in the region. Therefore, USAID's strategy aims to promote sustainable cross-border management of these resources. Cooperation in natural resources management is imperative, not only to protect these limited resources but also to enable the region's nature-based tourism industry to thrive. USAID is implementing its strategy by promoting the establishment of Transboundary Natural Resources Management Areas (TBNRMAs). These are relatively large tracts of land that straddle the borders of two or more countries and incorporate a large-scale ecosystem. The TBNRMAs present an exceptional environment for implementing viable practices for sustaining improvements to the environment while simultaneously ensuring that rural communities directly benefit from the increased economic activity. USAID also supports creation of a policy environment in governments, SADC sector coordinating units, NGOs and training institutes that provide support services to the nascent TBNRMAs. Investments in improved ecological monitoring inform management decisions and reinforce implementation of the overall strategy.

USAID support has resulted in significant progress in preliminary activities needed to establish four TBNRMAs, and advanced negotiations with SADC/Environmental Sector coordinating units for drafting a regional environmental protocol. With regard to the TBNRMAs, participating governments agreed in principle to the establishment of the Four Corners TBNRMA, located at a popular tourist destination. USAID's implementing partner, the International Union for Conservation of Nature (IUCN) led a participatory process whereby an agreement was reached to establish a TBNRMA on the Zambezi River. Donor support stimulated the governments involved to take steps to establish the Gaza-Kruger-Gonarezhou TBNRMA--the world's largest game park, which includes Kruger National Park, Southern Africa's most popular tourist destination. The framework for the establishment of the Limpopo River Basin TBNRMA is established through the SADC Water Protocol on Shared Watercourses.

USAID has supported the development of a SADC Environmental Protocol and the ratification of the SADC Wildlife Management and Law Enforcement Protocol. Both of these protocols contribute to the formulation of common standards in the management of shared natural resources. IUCN concluded a seven-country assessment that forms the basis of a Sport Hunting Policy for the region.

USAID support to NGOs resulted in adoption of environmental education as a key principle in at least one country in the region. USAID scholarships resulted in an additional 20 people being trained in wildlife management at the South African Wildlife College. A further 25 government planners were trained in natural resources accounting through an activity co-managed by the universities of New York and University of Pretoria. As a result of this training, these planners are now able to factor environmental costs into government accounting calculations and also to attach market-related prices to alternative development scenarios.

5 Expanded Commercial Markets for Agricultural Technologies and Commodities in the SADC Region

STATUS: New (Approved January 2000)
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: USD 3,122,000 DA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: USD 3,300,000 DA
INITIAL OBLIGATION: FY 2000 **ESTIMATED COMPLETION DATE**: FY 2004

This SO supports increases in household incomes and food security in Southern Africa through commercialization of dryland agriculture and the adoption of improved food crop varieties and animal health products. USAID's market-based strategy for agricultural development in the region addresses essential supply and demand constraints including non-tariff barriers related to agriculture, i.e., grades and standards, sanitary and phytosanitary regulations, transfer of germplasm, and intellectual property rights. Private sector agribusiness and agro-industrial associations will promote free trade policies, laws and regulations. USAID is working with selected Southern African countries, each of which has a comparative advantage in the target commodities, stimulating regional trade and investment.

In the area of technology development, USAID supported the development of 21 new technologies in FY2000. These include a farm level mechanical grain cleaner capable of economically removing sand and stones from the sorghum before milling. This process makes sorghum purchased from small farmers more acceptable by sorghum processing industries. Demand for sorghum by milling industries is expected to increase. Farmers are benefiting directly from marketing a higher quality and higher-priced product. The South African Root Crops Research Network (SARRNET), a USAID-funded project, introduced a motorized chipping and flour-making machine for cassava farmers in Malawi. The machine produces better quality chips, cassava flour, and cassava starch. Women who are, generally, the primary processors, can save several hours of daily processing time with this new machinery. As a result, farmers are able to increase profits by selling their higher quality improved chips directly to private industry.

In the area of private sector participation in commercialization of technology, nurseries established by NGOs and farmer's organizations planted 187 hectares of cassava and 165 hectares of sweet potatoes, to multiply improved planting material in preparation for the 1999/2000 planting season. This has resulted in the planting of approximately 229,000 hectares of cassava and 13,000 hectares of new varieties of sweet potato. Because family farmers frequently trade planting material amongst themselves, this process sustains the program at the community level. However to expand distribution, higher levels of commercialization is required. Meeting this need are NGOs and related organizations that buy planting materials from public multiplication sites established by SARRNET and then sell the improved materials both directly to farmers or via community-level outlets. The NGOs also provide a certain level of extension services to farmers.

In technology adoption, a total of 1059 tons of sorghum and 49 tons of pearl millet improved seed were distributed to farmers for the 2000/1 planting season. Approximately 296,000 farmers, 15% of total sorghum farmers in the region, used the improved seed. The USAID-funded Sorghum and Millet Improvement Project (SMIP) activities continue to promote regional germplasm sharing, generate genotypes for commercialization and promote alternative seed delivery systems. Eighteen NGOs, two private organizations and 27 public institutions participated in multiplication and distribution of cassava and sweet potato planting materials.

As a result of USAID-supported education and advocacy in the area of market expansion, over 15 industries in four countries have started or substantially increased industrial use of cassava as a substitute for imported commodities. Several additional industries are showing an interest. In Malawi, four main industrial consumers of cassava flour have increased total utilization to 1,160 tons. This amount has a potential to increase to over 7,000 tons. Sorghum and pearl millet grain used for industrial purposes increased by nearly two percent in 2000. As a result, USAID-supported technology has helped industries in the region realize huge savings. A textile manufacturing company in Malawi, which produces over 12,000,000 meters of cloth per year, is saving US$108,000 per year by using cassava starch.

In the area of food security and income generation, adoption of drought-tolerant crops has enhanced food security in the region. The SARRNET 2000 survey report on the use of cassava and sweet potato confirmed that root crops contributed over 30% to the national food balance sheet.