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)

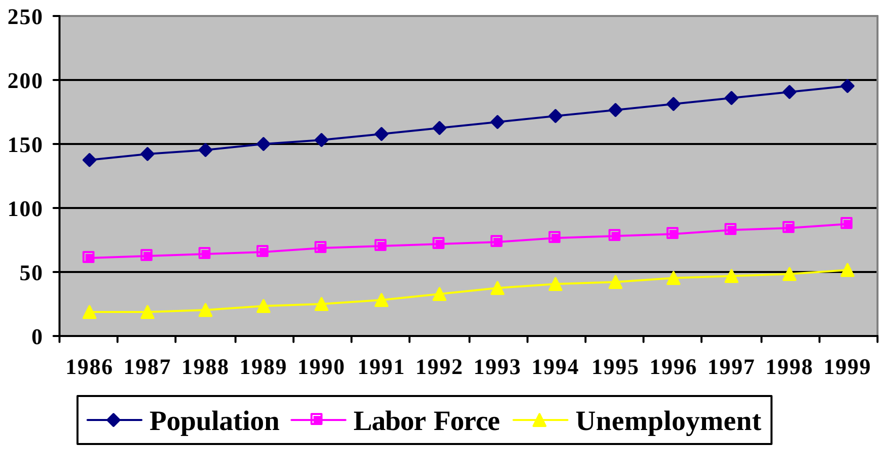
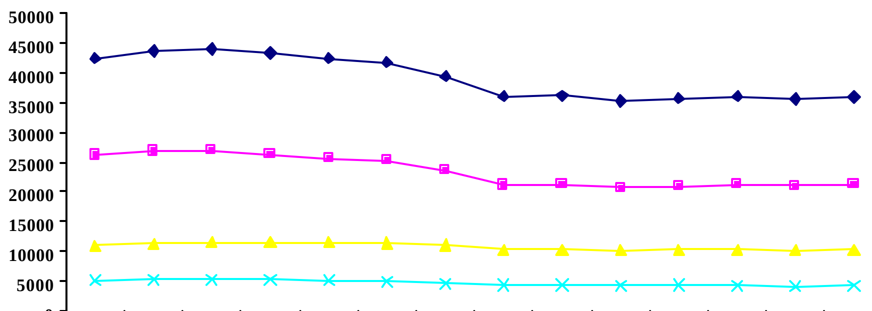


Figure 1.2 Sectoral Distribution of Employment



	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

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.

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

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.

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[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)

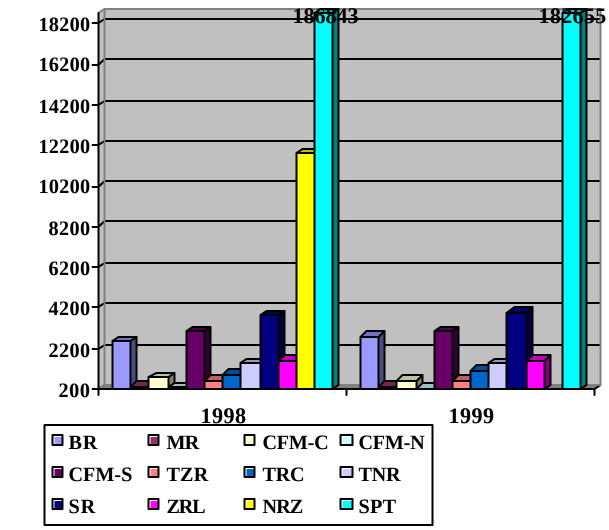
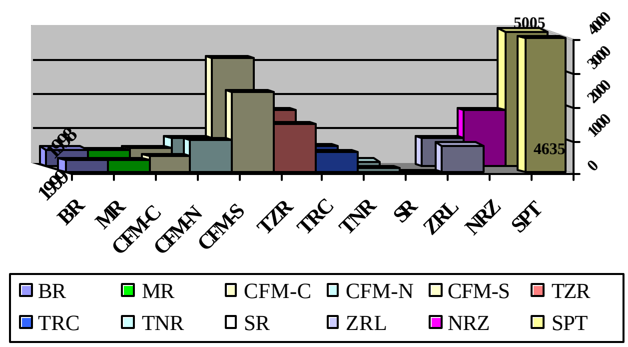


Figure 1.4 Number of Passengers (000)



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.

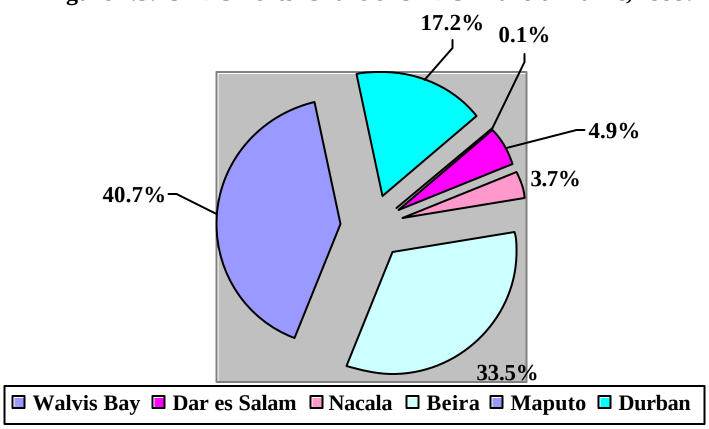
3 *Maritime Transport*

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*

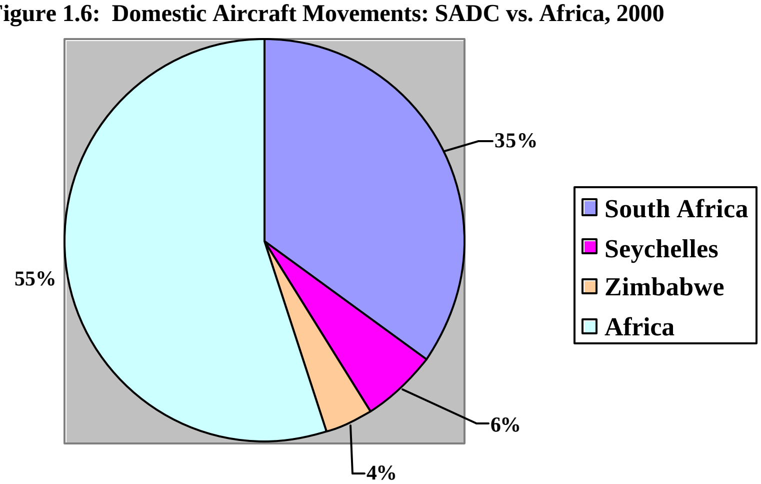
While good progress has been made on the legislative and institutional sides, SADC has much more to accomplish on civil aviation issues. The performance of this sector is hindered by legal constraints including barriers to entry, traffic safety concerns, inadequate airport cargo terminals, inadequate 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 (%)

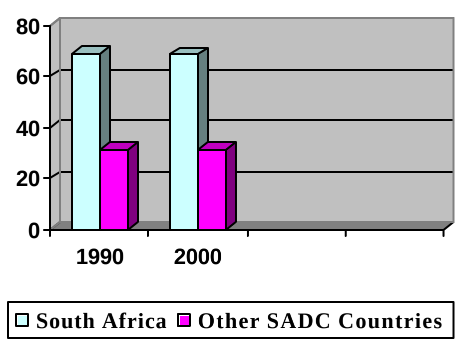
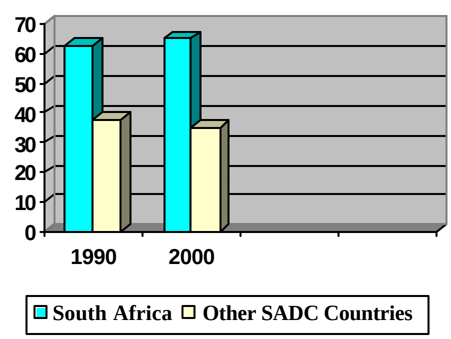


Figure 1.8: Share in Total Volume of Exports US$ (%)



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.

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;
- 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.

(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.

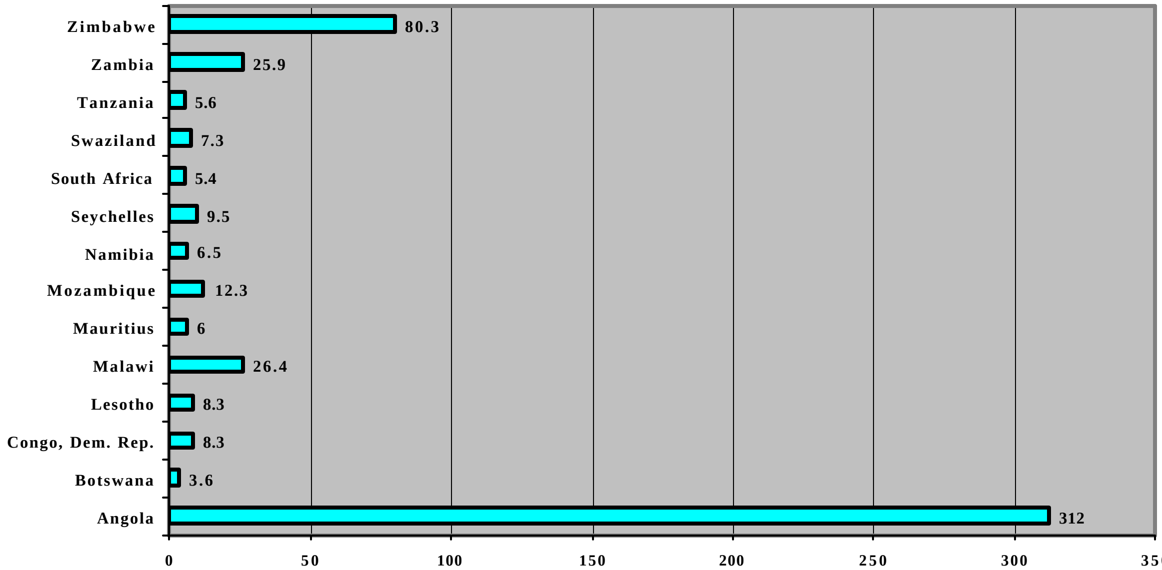
(iii) Real Interest Rates

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.

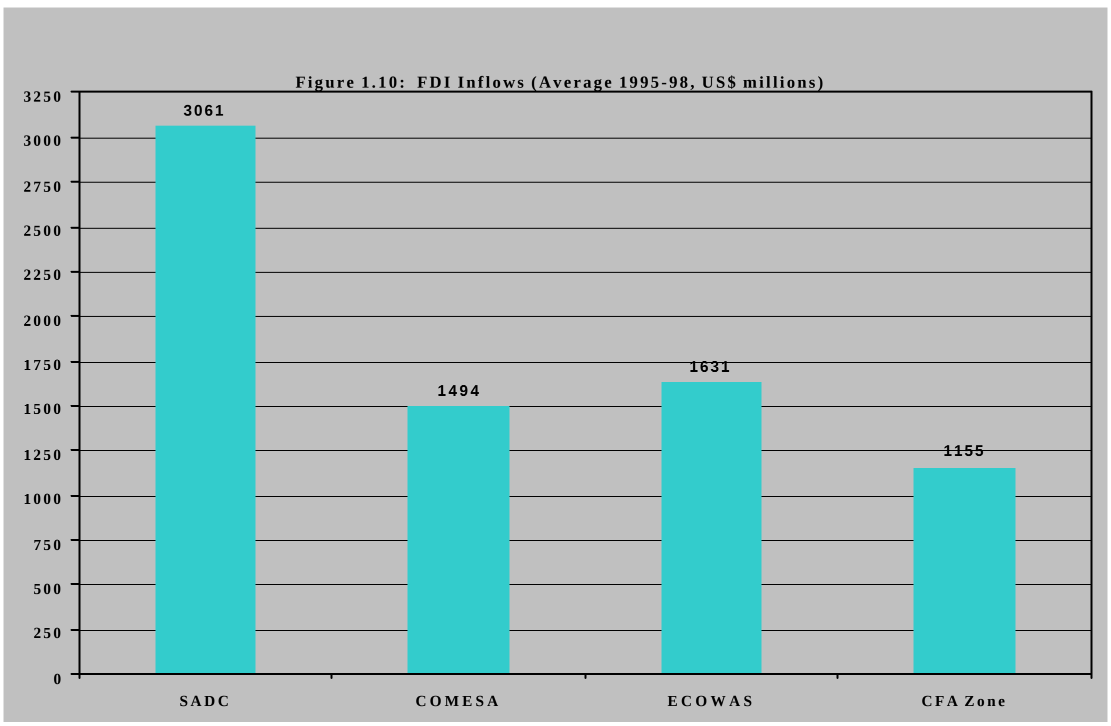
Axiomatic though it is that high growth requires high levels of *investment*, evidence suggests that in SADC this relationship is somewhat distorted[21]. A high proportion of the gain from investment is lost with SADC economies investing inefficiently because of: imperfect domestic markets, weak institutions, 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 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 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 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



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

[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

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[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

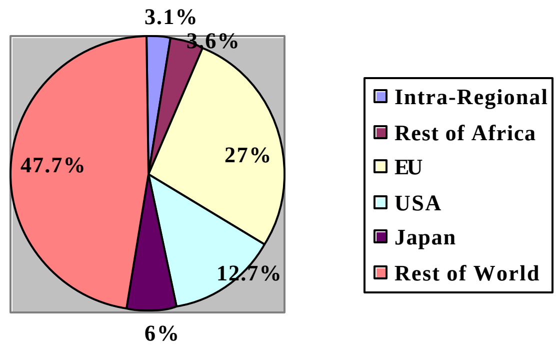


Figure 1.12: SADC - Destination of Exports, 1999

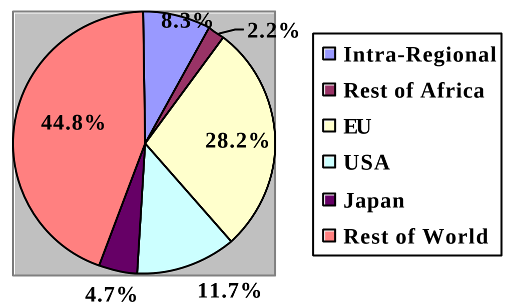


Figure 1.13: COMESA - Destination of Exports, 1990

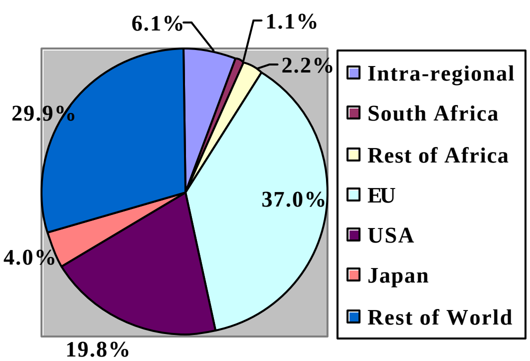
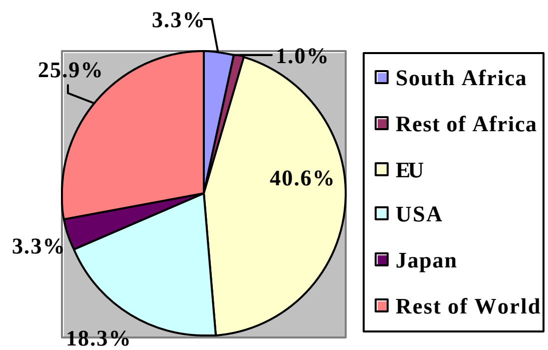


Figure 1.14: COMESA - Destination of Exports, 1999



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.

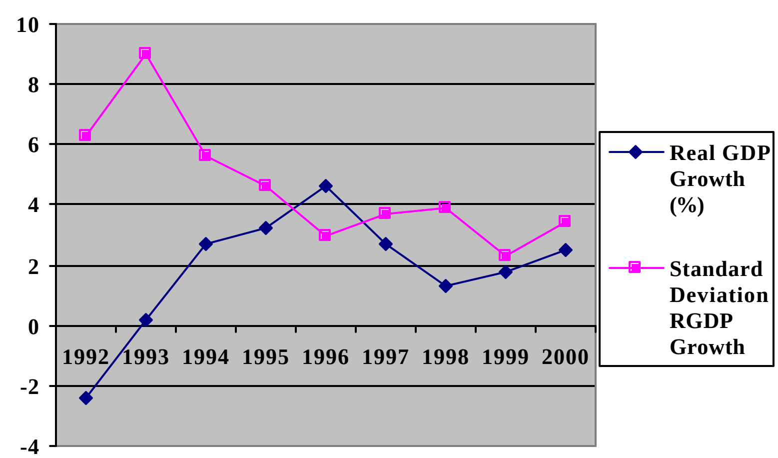
(ix) Economic Growth (see Attachment 2)

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.

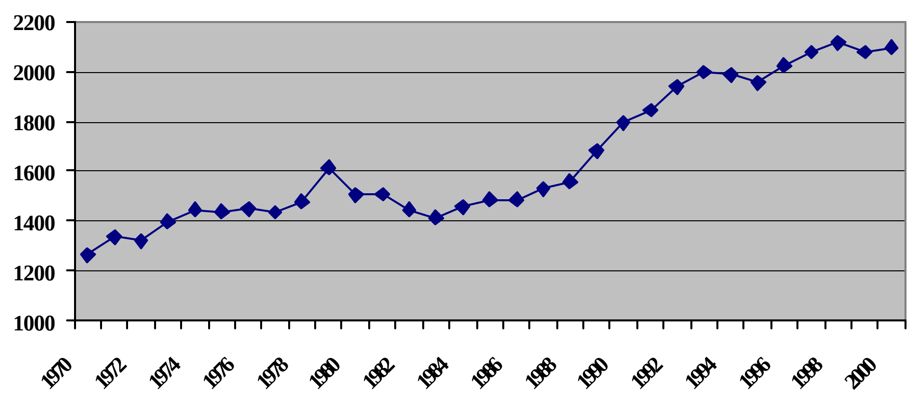
In general, since 1985, the gap between SADC

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.

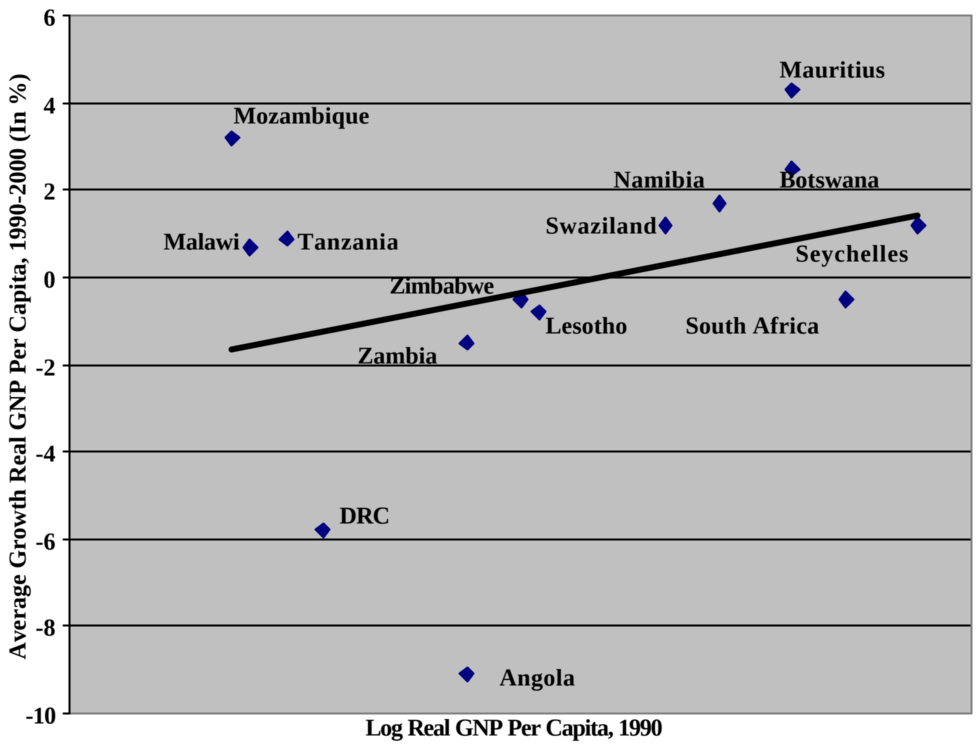
Figure 1.16: Evolution of Income Divergence in SADC
(Standard Deviation of Real GNP per Capita)



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-

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.

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).

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.