SADCC: THE PRODUCTIVE SECTORS – ENGINE OF GROWTH AND DEVELOPMENT

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C O N T E N T S

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1. GENERAL BACKGROUND

1.1 The SADCC countries have an estimated population of 73.4 million, occupying a land area of about 4.9 million square kilometres, and a gross domestic product of approximately US$22.5 billion (1987). Agriculture remains the mainstay of the SADCC regional economy, contributing about 34% of the region's GDP, employing about 79% of the total labour force, and contributing about 26% of the total foreign currency earnings.

1.2 The region is exceptionally rich in mineral resources. In 1986 it exported over US$3.2 billion worth of minerals, accounting for about 63% of the total exports of US$5.1 billion. Despite this abundance in mineral resources, the historical pattern of their exploitation and development has not encouraged their down-stream processing within the SADCC countries. Consequently, the mineral exports of the region are mainly semi-processed products. Manufactured goods account for less than 12% of export earnings. Meanwhile manufactured items account for more than 70% of imports in most SADCC member States, with fuel imports making up most of the balance. Import dependence varies greatly, averaging 20% for consumer items compared with 43% in intermediate goods and 70% for capital goods.

1.3 The water resources of the region comprise eight major drainage systems: Komati, Kunene, Limpopo, Okavango, Orange (Senqu), Ruvuma, Sabi (Save), Shire, and the Zambezi rivers. It has some of Africa's biggest lakes, namely, Lake Bangweulu, Lake Malawi/Nyasa/Niassa, Lake Tanganyika, and Lake Victoria. In addition, there are some man-made lakes, the notable ones being Lake Cahora Bassa and Lake Kariba on the Zambezi river which are the main contributors to the region's 6,760 MW of installed electricity generation capacity. Additionally, the coastal countries of Angola, Mozambique, and Tanzania have enormous stretches of ocean to complete the regional water resources inventory.

1.4 Despite the region's enormous natural resource endowment, the SADCC countries, as a group, remain amongst the world's poorest and most underdeveloped; the difference being merely of degree between them; with Botswana, Swaziland and Zimbabwe being top of the league in per capita incomes estimated at US$1200, US$730, and US$550, respectively, in 1987. Per capita food production in the region has declined to the extent that in 1988 an estimated 1.9 million tonnes maize grain equivalent (MGE) will be required in commercial imports and food aid. Industrial output has also declined drastically in recent years, in the face of widespread shortages of foreign exchange and often inappropriate macro-economic policies.

1.5 SADCC governments, among others in the developing world, have recognised that the world economic system within which they operate, puts them at a very serious and crippling disadvantage. The New International Economic Order (NIEO) mooted by the world community during the mid-1970's was still-born; and the North-South Dialogue has practically been abandoned. Central to the concept of the NIEO and the North-South dialogue are the twin elements of production and trade, and the mechanisms and modalities for redressing their chronic historical imbalance between North and South. Grim as the global attitude has hitherto been, there is some hope arising from the ACP/EEC association and the Nordic/SADCC Initiative, that with great determination and innovation, new approaches to more equitable North-South economic relationships are possible. However, the fundamental problems in North-South economic relations, including non-remunerative prices for the South's raw materials and protectionist tendencies in the North are as intractable as ever.

1.6 Against this background, SADCC has become keenly mindful of the imperative for the regional economy to be developed as rapidly as feasible, towards self-reliance. After the necessary initial emphasis on infrastructure programmes, especially transport and communications, as the foremost priority, SADCC has since 1986, embarked upon the most formidable challenge in its effort towards collective regional economic self-reliance, namely production and trade. This is clearly reflected in the themes of the Annual Consultative Conferences of 1987 (Investment in Production) and 1988 (Development of Infrastructure and Enterprise). As part of the continuing dialogue and action in this complex area, it has been decided that the 1989 Conference theme should be _The Productive Sectors: The Engine of Growth and Development_.

1.7 This document endeavours to articulate the issues attendant to this theme, indicate the measures which SADCC and its member governments are pursuing, and propose an agenda for continued dialogue within SADCC, between SADCC and her cooperating partners, and with the enterprise communities, of both the region and outside. The document is not a blue-print for enterprise investment, but rather a framework for placing the enterprise sector at the centre stage of regional productive sector development. Hence the document addresses the following issues:

* constraints to investment and the development of increased business activity in the region;

* review of measures taken at the national and regional levels to overcome these constraints in order to enhance the efficiency of investment and the international competitiveness of regional firms;

* proposed additional measures to enhance the efficiency of investment and the international competitiveness of regional firms;

* proposals for an institutional framework for regional cooperation in the productive sectors; and

* proposals for institutional arrangements for strengthening regional cooperation in the productive sectors.

2. REVIEW OF CONSTRAINTS ON INVESTMENT IN THE SADCC REGION

2.1 It will be recalled that the April 1, 1980 Lusaka Declaration which established SADCC aimed at:

* the reduction of economic dependence, particularly but not only, on South Africa;

* forging of links to create a genuine and equitable regional integration;

* mobilisation of resources to promote the implementation of national, inter-state and regional policies; and

* concerted action to secure international understanding and support within the framework of the strategy for economic liberation.

Since that time, SADCC undertook to translate the principles embodied in the Declaration into a coherent programme. Many activities have taken place, all of which have helped in either eliminating some of the obstacles to development, or have at least emeliorated the severity of the problems. However, there remain several real and perceived constraints to investment and general business activity in the region.

2.2 The SADCC countries, like other developing countries, are still suffering from the two oil shocks of the 1970's which dramatically increased the import bills of all except Angola - the region's sole oil producer and exporter. The impact of these shocks on the economies of the industrial countries generated high inflation and slower growth, worsening the terms of trade between non-fuel primary commodities and manufactured goods. The world recession of the early 1980's was deepened by policies of deflation and restriction in the money supply, reducing demand for commodity imports and raising international interest rates on capital and credit.

2.3 The pressures of declining export earnings, deteriorating terms of trade, and hence purchasing power, the drying up of capital in-flows, and the consequent heavy burden of debt servicing have compelled most SADCC countries to impose tight rationing of foreign exchange for imports. The result has been suppressed import demand, not only for disposable consumer goods, but also for essential inputs for agriculture, industry and mining; and for capital goods to replace worn-out machinery and sustain economic production and expansion. Furthermore, as supplier's credit is normally easier to obtain for finished rather than intermediate goods, borrowing to maintain consumption levels compounded the situation.

2.4 Member States have recognised that some of the policies and regulations governing investment and trade at the national level do have a negative impact on the business environment. For example, severe regulatory and legislative regimes regarding among others, corporate taxes and dividends repatriation, are known to have contributed to the decrease in the level of new local and foreign investment in the region.

2.5 The SADCC countries taken individually, constitute too small a market for competitive production in many product categories. The small market size has consequently been identified as a constraint to investment and development at the individual country level; whereas it is accepted that the cumulative regional market has considerable potential to alleviate this problem. The main barriers to increased trade within the region can be summarised as:

* the low level of end-product production, leading to limited availability of goods and services;

* non-complementary production structures, limiting the scope for two-way trade.

* to the extent that goods and services are produced, poor knowledge on the part of importers of their availability;

* poor knowledge on the part of exporters of market opportunities in other countries;

* imagined or real higher costs or lower quality of products;

* historical bias against local products in favour of foreign products, and historical trade connections, including special interests of those involved to maintain the status quo, e.g. wholesalers and importers

* shortages of foreign exchange in the importers' country, and limited credit facilities in the exporter's country;

* unreliable or costly transport services leading to uncertainties over deliveries;

2.6 The decline in the rate of growth of GDP in most SADCC countries has been due partly to the reduction in investment in the productive base, including rehabilitation of existing capacity. Financing from abroad has also fallen as the external environment has deteriorated for the majority of member States. The resumption of growth implies that member States devote a much larger share of domestic resources to investment. This will be difficult to achieve because of a number of constraints which may be summarised as follows:

* in some member countries, the financial environment is too fragile to support substantial increases in investment. Fiscal deficits are too high and attempts at reducing such deficits usually result in reduced expenditure for development rather than consumption. This in turn, results in under-utilisation of existing capacity, and hardly any installation of new productive capacity;

* distortions in prices tend to prevent optimal resource allocations. The most common distortions arise from the management of interest rates and currency exchange rates. Uncompetitive interest rates and overvalued currencies discourage savings and reduce the efficiency of investment;

* the allocation and utilisation of scarce resources, especially foreign financing, on projects whose viability and ability for resource re-generation are not assured;

* restrictions on private investment, especially on that by foreign entrepreneurs, limit the scope of financial and capital flows into the SADCC region. Remittances of earnings and dividends on direct investment as well as fees on technology transfers are subject to varying restrictions in some of the SADCC member countries;

* external payments difficulties arising from serious balance of payments problems, are a dis-incentive to new investment. Scarcity of foreign exchange has been as much a source of discouragement to new investment as it has depressed the operations of existing investments;

* inordinate delays in the processing of licenses, administration of price controls and foreign exchange allocations;

* shortage of trained manpower and entrepreneurial skills; and

* persistent acts of aggression and destabilisation by South Africa and its surrogates.

2.7 In most member States, most major companies, banking, insurance and trading organisations are dominated by foreign interests. This makes it difficult to re-direct investment and trading patterns, and to retain profits for re-investment within the region. As a way to overcome this constraint there is need to establish genuinely regional companies in these areas, through regional joint-ventures; as well as joint-ventures between regional and foreign enterprises.

2.8 The total outstanding debt of SADCC member States in 1986 (except Angola), was 90 percent of their combined Gross National Product (GNP). For example, in the case of Zambia, external debt was over 200 percent of GNP; for Malawi, long-term disbursed and outstanding debt was almost 80 percent of GNP, for Tanzania it was 82 percent, and for Mozambique long-term debt constituted 74 percent of GNP. In these four countries, debt continues to be a major burden. Debt service ratios would have been much higher than recorded for these countries on the basis of scheduled debt service payments, had the structure of the majority of the external debt not been of a concessional type. Re-schedulings have also had the effect of lowering the ratio.

2.9 Monetary and financial cooperation amongst SADCC countries depends to a great extent on the flow of trade between them, and this flow itself depends on the pattern and ownership of investment, and the ownership and exploitation of resources in these countries. The development of monetary and financial cooperation for investment will certainly call for increasing trading relationships, as well as closer political cooperation between these countries. After all, the region must provide the first market for the productive investment.

2.10 The exchange rate policies of some SADCC countries constitute another important area of macro-economic management which tends to discourage investment. The historically built-in bias in colonial territories towards importation, and against investment in domestic industrial production and exports, tended to influence post-colonial exchange rate policies. The limited utilisation of national currencies within the region has also inhibited the growth of intra-regional trade and other economic relationship.

2.11 Pricing policies which favour consumers at the expense of producers, represent a serious impediment to investment. This is especially so in agriculture, where prices paid to rural producers have often been at dis-incentive levels, in order to maintain low food prices for the urban populations. Inadequate marketing infrastructure, including the distribution of inputs, and poor credit systems represent other serious constraints to agricultural productivity in the region. In addition, the long gestation periods associated with medium and large-scale agricultural and mining projects require appropriate financing, which is not readily available from local financial institutions. This means that, for investments of this nature, pricing policies should take full account of these facts.

2.12 The shortage of skills in the region for project preparation (for example, feasibility studies, design, execution, etc.) and for the operation of enterprises is another constraint to productive development. This shortage of skills means that member States have to incur large costs to finance expatriate technicians and professionals. In general, SADCC member countries recognise the need to develop local entrepreneurship and to encourage the participation of the region's citizens in the enterprise sectors.

2.13 Technological dependence represents another significant constraint to localising production within the region. For example, in much of the manufacturing and mining industries, appropriate research and development (R & D) activities have not been designed and implemented in order to enlarge the technological base, and reduce costly importation of technology, some inappropriate for our situations.

2.14 The attitudes of part of the region's business community has also not helped the situation. Many do not identify fully with national and regional aspirations, and give the impression that they would rather make their fortunes as quickly as possible at minimum risk and cost. If the region is to prosper, a new breed of businessmen is required, willing to make a long-term commitment to the development of the region and to share the costs and risks of investment, on the understanding that they will also share in the benefits.

2.15 Another limiting factor to investment and development in the region is the weak physical and economic infrastructure, and service sectors, e.g. transport and communications, information, etc.

2.16 Natural disasters, particularly droughts, constrained investment in the region. For agriculture, these periodic droughts mean more capital outlay on irrigation facilities. Investors in agro-industry would, therefore, tend to locate their industries in regions/areas where adequate water supply is assured.

2.17 Persistent acts of aggression and destabilisation by the minority regime of South Africa continue to pose a serious threat to the development of the regional economy, particularly in Angola and Mozambique for peace and stability are essential pre-requisites for economic development.

2.18 The interplay of the various constraints mentioned in the foregoing has resulted in a situation considered not conducive, in some cases hostile, to enterprise investment and general business activity. SADCC governments have recognised this situation, and both individually and collectively through SADCC, are implementing measures to correct the situation.

3. REVIEW OF MEASURES TO OVERCOME THE CONSTRAINTS

3.1 "We are all keenly aware that some of our policies in the past may not have facilitated increased investment, and we are determined to overcome this obstacle. A major factor in adjusting for economic growth and stimulating investment is the creation of a climate conducive to viable enterprise in which both the private and public sectors have roles to play. As economic reform is a pre-requisite for growth and investment, many of our member States have initiated policy reforms and adjustment programmes, designed with or without the help of the IMF and/or The World Bank, to achieve this objective".

Statement made by Hon. Dr. B. Chidzero on behalf of the SADCC Governments at the 1988 SADCC Annual Consultative Conference.

3.2 SADCC member States are taking a number of steps aimed at addressing the constraints to investment, in order to facilitate local and foreign investment in the productive sectors:

* new or revised investment control regulations have been, or are being introduced, aimed at attracting more investment, including arrangements for the repatriation of earnings, financing and incentive schemes for investors and exporters, etc.;

* at the regional level, the investment policies and mechanisms of member States have been compiled and published; a detailed study of the Investment Codes and Regulations of member States with a view to assessing if, and how they might be rationalised and/or harmonised is under preparation;

* macro-economic management is being tightened, e.g. many member States are adjusting the exchange rates of their currencies, easing exchange control regulations etc.;

* excessive price controls, and the resultant distortions to relative prices are being relaxed. For example, under the economic recovery programmes, Tanzania and Zambia have considerably reduced the number of items on their price control lists, and instituted pricing systems more favourable to the agriculture sector;

* Botswana and Zimbabwe have passed legislation enabling off-shore investment by their corporate sectors where it results in benefits such as employment or the creation of enlarged markets. It is expected that most of this cross-border investment will take place in the region and that other member States will follow the example of Botswana and Zimbabwe and pass similar legislations.

3.3 Further measures with considerable potential for alleviating many of the problems associated with capital movements, both regionally and internationally, are in hand, particularly foreign exchange availability for productive investments and trade. The most important of these are:

* the Export Pre-Financing Revolving Funds;

* the Export Credit Facility;

* the NORSAD Fund;

* the Cross Border Investment Facility.

Feasibility studies for the first three have been completed, and a study of the last one is underway. Implementation decisions have already been taken with respect to the NORSAD Fund and Export Pre-Financing Revolving Funds.

3.4 The SADCC Businessmen's Seminars of October 1986 (Victoria Falls), February 1987 (Gaborone) and February 1988 (Harare) went some way in bringing business people together to share experiences, exchange information and explore market prospects for their products and services, as well as opportunities for investment. One of the major results of these contacts was the realisation that there were so many business activities in each of the member States which were of interest to business people from the other countries. A further important result of these seminars was that member State Governments were able to learn of the concerns of the business community, both local and foreign in a regional context.

3.5 In response to these concerns, at the 1988 SADCC Annual Consultative Conference, the Hon. Dr. B. Chidzero stated as follows on behalf of the SADCC member States:

> I wish to assure the enterprise community from the SADCC region and from outside, that we welcome their contribution and will do everything possible and appropriate to maintain a policy environment conducive to the viability of their investments.

3.6 SADCC intra-regional trade remains low mainly because of the obstacles identified in Section 2 above. SADCC member States have over the years instituted some bilateral arrangements for mutual trade. Examples of these arrangements are:

* bilateral trade agreements;

* joint commissions.

SADCC is reviewing these arrangements with a view to increasing their impact.

3.7 Since its inception, SADCC has recognised the importance of cooperation in trade development. <u>The Lusaka Declaration</u> states:

> For trade development we recognise that many of us have existing bilateral and multilateral trade and customs arrangements. But even within these constraints we believe that there is room for substantial increases in trade among ourselves. To this end existing payment systems and customs instruments will be studied in

order to build up a regional trade system based on bilaterally negotiated annual trade targets and product lists.

3.8 However, the elaboration and implementation of concrete programmes for increased intra-regional trade has taken a long time for two main reasons:

* SADCC recognises trade as a function of production. Priority, therefore, had to be given to strengthening the infrastructure and productive bases, to assure the production and distribution of tradeable goods. The SADCC approach is to "let production push trade, rather than trade pull production".

* SADCC member States, being conscious of, and party to other collective initiatives to promote intra-regional trade, were anxious to avoid conflict and duplication.

3.9 Thus, after a long period of intensive consultations and evaluations within SADCC, a formal programme of Intra-Regional Trade Development has been approved, whose main elements are:

i) a system of direct trade measures and bilateral trade agreements;

ii) reciprocal preferences (taking into account the existing obligations of member States);

iii) supplementary financial mechanisms to facilitate intra-regional trade; and

iv) trade promotion.

The integration of the measures to encourage increased investment in production with those to facilitate increased trade is critical to ensuring the completeness of the process of regional productive development.

3.10 Work is currently in progress to develop a coherent regional industrial strategy with the major objectives of enhancing complimentarity in production structures, establishing inter-sectoral linkages particularly with agriculture and mining, and creating conditions for easier access to the regional market.

3.11 In the early years, the SADCC transport and communications programmes focussed on the development of the region's physical infrastructure. Now that these programmes are largely underway, emphasis is shifting to operational coordination and training to ensure the most cost-efficient use of regional facilities as part of the overall effort to improve the region's investment environment.

4. OTHER PROPOSALS FOR OVERCOMING CONSTRAINTS AND ENHANCING EFFICIENCY OF INVESTMENT

4.1 In the foregoing sections the constraints to investment in the region have been reviewed, and the on-going initiatives to overcome them have been discussed. This section makes additional proposals for overcoming these constraints, with a view to enhancing efficiency in investment, and the international competitiveness of firms in the region.

4.2 The structure of the economy of the region is dominated by primary production, whilst industrial production is still at a relatively low level. There is very little investment in the production of intermediate and capital goods. Consequently, the degree of import dependence is highest in these sectors. The regional strategy for investment in production should, therefore, address the problems of production structures and import dependence; specifically the following:

* on the basis of the objectives stated in national and regional plans, priority needs to be placed on investment in the production of capital and intermediate goods for use in the productive sectors. This will form the basis for the production of consumer goods to meet basic needs.

* the utilisation of indigenous resources, particularly raw materials and other resources, should be a key element of the strategy. This would reduce the import content of products, creating greater value added, forging intra-SADCC trade linkages and making investment opportunities available to all member States according to their indigenous resource endowments.

4.3 The smallness of individual country markets inhibits specialisation, tapping the advantages of economies of scale and promoting efficiency in production in the region. One of the strongest potential benefits from regional coordination of investment in production lies in the planning of investments on the basis of complementarities arising from resource endowments, infrastructure, specialisation, economies of scale, avoidance of duplication, risk reduction and the equitable distribution of gains. Any regional strategy should therefore, take advantage of economies of scale and specialisation to create and develop efficient production lines, not only taking advantage of the large regional market, but also using it as a springboard into international trade. The key to regional cooperation in production is rationalisation of productive capacities and their support services, and deliberate avoidance of unprofitable competition and duplication.

4.4 The major sectors of production have been adversely affected by the paucity of foreign exchange to import intermediate inputs for operation, and to replace and expand plant and equipment. In some cases, capacity under-utilisation is a result of gaps in production (e.g. absence of textile chemical production causing capacity under-utilisation in the textile industry). New investments in the production of these inputs can be an effective and efficient way to reduce import strangulation on existing productive capacities. Priority should be given to investments in those activities which are capable of facilitating rehabilitation and recovery of utilisation levels in the productive sectors. Efforts should be made to cooperate to relieve the supply constraints by procuring inputs from within the region. This can be implemented even on the basis of the currently rather limited complementarity in the productive structures in the region. Exploiting more fully the existing complementarities would provide the basis for more integrated production structures.

4.5 For those countries where existing plant is obsolete or in disrepair, investment in rehabilitation will be an efficient means to increase output. However, in order to contribute to the objectives of restructuring production, investments in rehabilitation should be selective, and in favour of production processes that reduce import dependence and phase out inappropriate technologies.

4.6 Investment in production in the region has been constrained by a number of factors related to the institutional structures and policy environment. Given the priority placed on public investments in social services and infrastructure, SADCC member countries will encourage the enterprise sector to invest more in the productive sectors. This encouragement will take the form of flexible policies on:

* investment legislation and regulations;

* movement of capital, dividends and profits;

* taxation, fiscal and monetary incentives;

* flexible pricing and marketing controls; and

* enhancing administrative and institutional efficiency.

4.7 With respect to investment law and regulations, Mozambique introduced a new law in 1987, and Angola, Tanzania, Zambia and Zimbabwe are in the process of revising their investment laws and regulations. At the regional level, the study on the rationalisation and possible harmonisation of investment codes has just been completed. Harmonization of the investment codes should, however, not only streamline areas of conflict, but should principally promote coordinated regional investments and consolidate the regional market for intra-SADCC trade. In order to enhance the confidence of foreign investors, the Council of Ministers, in January 1988, agreed to urge member States to accede to, and ratify the Multilateral Investment Guarantee Agreement (MIGA) of the World Bank. To-date, three member States have joined the scheme, one is in the process of joining and the rest are still studying the matter.

4.8 With respect to bureaucratic and institutional delays, the SADCC Council of Ministers, in January 1988, decided to urge member States to establish one-stop investment offices. Such an office is now operational in Botswana, and active consideration is being given to setting one up in Zimbabwe. The SADCC Secretariat in collaboration with the Business Councils will draw-up guidelines for the establishment and operation of these offices.

4.9 To facilitate regional cooperation in the areas of production and trade, there is need to relax policies on mobility of capital and skills within the region. In particular, the high dependence on very expensive expatriate personnel from outside the region in some countries could be reduced by facilitating movement of skilled personnel from to the region. In addition to the study on the feasibility of a cross-border investment facility which will examine the financial and legislative constraints to investment across national boundaries, there is to be a survey to establish from the business community itself the institutional and procedural problems they encounter in conducting business in the region.

4.10 There is a crying need to increase the stock of trained manpower in the region particularly with business and technical skills. This must be tackled without any further delay if the shortage of skills is not to become the foremost constraint to investment and business activity in the region.

4.11 The relationship between the currencies of different countries is determined by the level of general economic, and especially trade, relationships between those countries. At its meeting in January 1988, Council of Ministers noted that:

the existing relationships among, and the limited level of utilisation of SADCC national currencies outside the respect countries constitute a major barrier to investment and trade in the region.

Council, therefore, instructed the Secretariat, in consultation with Central Banks and other monetary authorities, to examine this issue with a view to making practical recommendations.

4.12 Investment in production will require supportive services in the areas of standardisation and quality control, information, technology, training, marketing, transport and communication and financing. The following proposals are aimed at alleviating the constraints in these areas.

* Member States have gained varying experiences which could be exchanged not only as a way of developing linkages in terms of ideas but also as a way of enhancing collective solutions to similar problems. The potential areas for such exchange of information and experiences include project preparation and implementation, solutions to technical problems and scientific exchange, as well as exchange of business and trade information.

* Technology policy is an important element in facilitating implementation of the approved strategies in the productive sectors. Yet technology policy is articulated weakly, if at all, in the plans for investment in production. Consequently, the investment programmes in the region often over-rely on technology from outside the region. To be consistent with the overall strategy in the productive sectors, technology policy, and R & D activities in particular, must address how investment in production will be made less import dependent, and how technologies can be better adapted to the conditions in the region. In this context, technology policy and R & D should be oriented towards:

  i) import saving innovations;

  ii) adaptation of technologies to conditions in the region;

  iii) designing, developing and commercialising technologies within the region.

The promotion of investment in production will call for regional cooperation in the mobilisation of financial resources. This cooperation will require member States to coordinate broad policies, create a favourable institutional framework and effective financial instruments as a pre-requisite for greater flow of financial resources into and within the region. In this context, the following specific proposals should be considered:

i) the establishment of indigenous financial institutions will facilitate local control of domestic financial resources.

ii) The Gaborone seminar of businessmen (February 1987) recommended the establishment of a regional stock market to help overcome the shortage of investment capital in the region. Such facilities would require appropriate national legislation to provide for listings and the sale of shares bonds and stock across national boundaries.

The issuance of bonds and stock is another common instrument for mobilising capital which is not commonly used in the region. Yet another investment instrument is joint venture and the purchase of equity in enterprises across national boundaries. The feasibility and viability of these facilities, both at national and regional levels, will be investigated.

iii) in reviewing the savings and investment profiles in different member countries of SADCC, it is evident that domestic savings are grossly inadequate to support the required levels of investment in production. Against this background, the SADCC member States need to review, and put in place policies and instruments which will encourage domestic savings, as well as enable the re-deployment of those savings into productive investments. However, the most critical constraints to increased domestic savings are the low levels of employment and earnings in the member States. This is associated with the general level of under-development of the regional economies.

5. A PROGRAMME AND INSTITUTIONAL FRAMEWORK FOR REGIONAL COOPERATION IN THE PRODUCTIVE SECTORS

5.1 Generally, developing countries have followed two approaches to regional cooperation:

* the first is the concentration of authority in centralised planning and executive bodies at the regional level;

* the second is the classical 'free market' approach which entails the creation of a common market.

SADCC has avoided both of these approaches in favour of decentralised regional coordination of national development efforts; and has placed greater emphasis first on strengthening infrastructure and the productive base, rather than starting with mechanisms of liberalising trade. Coordination places primary executive and operational responsibility for regional activities on national rather than supra-national institutions, with regional agencies, such as the Sector Coordinating Units and the Secretariat, providing the link between various national entities.

5.2 A leading constraint to regional cooperation in production and trade is the similarity of the production structures and output patterns of national productive sectors, in the early stages of development. One of the strongest potential benefits of the regional coordination of investment is the ability to plan developments on the basis of complementarities. One element of regional cooperation should be to design projects which have "spread effects" in local resource utilization and linkages. The following examples are illustrative:

5.2.1 The Zambezi Valley is both a boundary and a link for Angola, Botswana, Malawi, Mozambique, Zambia and Zimbabwe. Wildlife utilisation in this area could create an industrial complex involving the safari and tourist operations, game meat, trophy and leather industries.

Irrigation schemes could be set up in the valley to utilise the Zambezi River waters. Zimbabwe has had some success, with large scale core estates influencing production of the same crops from the surrounding commercial and communal farmers, who all benefit from economies of scale. There is a rudimentary road, water and rail network in this area which could be developed to connect projects on either side of the river, in the different countries. In like manner, the potential of the other river basins and lake systems within the region could be exploited.

5.2.2 Swaziland's and Zimbabwe's south eastern low veld areas grow and process sugar cane, cotton, wheat, maize, citrus, and raise both livestock and wildlife. The Triangle plant supplies all of Zimbabwe's ethanol which is blended with petrol. Local skills are responsible for all the operations of this complex. The ethanol produced in an expanded plant or several plants could provide a renewable energy resource for SADCC countries. It could go a long way, especially if this is blended with petroleum from Angola, to satisfy SADCC energy requirements from regional resources.

5.2.3 The complex comprising Chiredzi, Triangle, Buffalo Range, Gonarezhou, Hippo Valley, Mkwasine, Chisumbanje and Middle Sabi on the Zimbabwe side could be extended to Mozambique to grow similar crops using water from the Sabi, Tokwe and Chiredzi rivers. This area has some of the best soil for cotton and sugar cane growing in the region. There already is a project report for the development of about 40,000 ha. under irrigation at Chisumbanje alone. This could quite easily extend into Mozambique and meet a fair amount of wheat requirements for both Mozambique and Zimbabwe. The manpower, soil, water, technology and raw materials are already in place on the Zimbabwe side. There already is a road and railway linking this area to Mutare (road) and Maputo (railway).

5.2.4 The above scenario for sugar cane could be developed in the south eastern low veld in Swaziland in conjunction with Mozambique, and in the Shire valley of Malawi also in conjunction with Mozambique.

5.2.5 High quality tea is produced in the eastern highlands of Zimbabwe. The expertise on tea, plus the abundant water in this area could be applied on the Mozambican side, across the Pungwe River, forming one of the biggest complexes of tea production in the whole region.

5.2.6 The Agriculture and Rural Development Authority (ARDA) of Zimbabwe has undertaken a feasibility study on rubber production in the same area, both on an estate farming and small holder basis. The prospects are promising in Zimbabwe, and seem to carry an even greater promise on the Mozambican side down the Pungwe River. There are a few rubber trees already growing very well at Katiyo Estate in Zimbabwe. Location of a processing plant either on the Mozambican or Zimbabwe side could further augment this area's productivity. The area could quite easily be linked up to Beira through the Cahora Bassa-Beira road, which is already tarred. This could be a much shorter route to Beira port than going via Mutare.

5.2.7 The area south of Plumtree based at Ngwezi in Zimbabwe, extending into Botswana, has a potential for the development of an agro-industry based on cotton, maize, wheat, and livestock. Zimbabwe's ARDA already runs a successful irrigation project there, fed by the water from the Ngwezi Dam. Opening up more land both in Botswana and Zimbabwe, and building other dams in this area could sustain even greater production of these crops, which could be a basis for a successful agro-industry incorporating food processing for both people and livestock.

5.3 In the industrial sector, a possible form of regional cooperation is decentralised component production, where parts of a product are produced in different countries for final assembly in one country. Tractor or vehicle assembly could take place in one or two member States using components manufactured in other member States, and the finished product could be marketed in all the countries of the region, and even beyond. Other possible areas of regional cooperation in industrial development are:

* an iron and steel and engineering industry based on Angola's and Zimbabwe's iron ore;

* an electrical and electronic industry based on Zambia's copperbelt;

* a petro-chemical industry based on Angola's petroleum;

* a nitrogen fertiliser and synthetic chemicals industry based on Mozambique and Tanzania's natural gas;

* a salt, potash and other chemicals industry based on Botswana's salt deposits.

5.4 The common usage of mineral processing facilities, e.g. smelting plants, equipment manufacture and repair maintenance, is already provided for in the Mining Sector programme. Current cooperation between Botswana's Selebi-Phikwe Copper/Nickel mine and Zimbabwe's Empress Nickel Refinery, demonstrates the potential mutual benefits derivable from joint development and utilisation of capital and skills intensive facilities.

5.5 In the area of commodity marketing, regional cooperation mechanisms can be established to handle similar products for more than one member State. The common marketing arrangements currently in place between the Botswana Meat Commission and the Zimbabwe Cold Storage Commission, with regards to beef exports to Europe can be applied to other products. In the case of copper, the Zambian Metal Marketing Corporation (MEMACO) has built up a sizeable cadre of very experienced metal marketing staff who have, over the years, acquired the confidence of several international customers. Given MEMACO's experience and overseas infrastructure, they could serve as agents for the other smaller copper producers in the region, with substantial benefits for both.

5.6 In the Tourism Sector, cooperation is already planned in:

i) regional travel distribution networks;

ii) joint participation in regional and overseas fairs and workshops;

iii) establishment of joint promotional offices;

iv) joint production of brochures and other publicity material;

v) international and regional market research featuring all destinations in SADCC;

vi) regional multi-destination route planning and development.

5.7 Joint ventures between regional enterprises in the development and management of hotels and other tourist facilities also offer substantial potential for regional cooperation. Already, useful experiences are being gained through the cooperation between Botswana's Marakanelo and Zimbabwe's Cresta groups of hotels; and Mozambique's national enterprise for the hotel industry and Zimbabwe's Tourist Development Corporation.

5.8 The identification of investment projects should be based on economic criteria, including the resource endowments and capacities of each member State. This process of identification would best take place through consultation within the enterprise sector in the region, and between potential regional and external investors on the one hand, and the SADCC Governments of existing SADCC programmes. It is important that enterprise sector representatives be involved at every stage of project development, through, say the Business Councils. Once these projects have been identified and their feasibility confirmed, agreements involving all the parties concerned, including the enterprise and investment institutions, should be concluded.

5.9 To implement regional projects, it will be necessary for SADCC governments and their appropriate institutions to encourage the establishment of joint venture companies, and to provide for a system of cross-border capital movement, on the basis of reciprocity, for specific SADCC supported projects. This would lead to projects benefiting two or more countries with the host or originator country being in a position to invite equity holding from other member States. In addition, it is possible for the region's financial institutions to be used more effectively to channel funds from those SADCC countries which have investible surpluses, to directly productive projects in other member States.

5.10 The Beira Corridor Group, a consortium of enterprises from a number of SADCC countries, has been involved in the rehabilitation of the infrastructure and services of the Beira Port Transport System. Members of the Group are also involved in mining and agricultural developments in the corridor area. The Beira Corridor Group is indicative of a model which could be used to undertake a number of productive sector investments in the region.

5.11 The creation of the parastatal sector is normally a response by the governments to any one or all of the following factors:

* to bridge the gap created by a lackluster performance of the private sector in providing essential economic services required for the national development effort;

* to ensure national ownership and control of strategic economic assets;

* to provide a vehicle for investment in high risk but strategic sectors of the economy where the private sector may be reluctant to be involved.

5.12 The parastatal sector enjoys some advantages over other business entities, especially private enterprise, when it comes to ready availability and accessibility of investment resources and instruments by governments. A further advantage enjoyed by parastatals is that they are in a position to access productive investment capital much more readily from multilateral and external bilateral development financing institutions. Given these rather unique opportunities available to it, the parastatal sector, especially National Development Corporations (NDC's) and Development Financing Institutions (DFI's), has a very important role to play in the mobilisation and application of investment resources. Firstly, a number of these parastatals are themselves direct investors in operational enterprises in the various sectors of the productive economy. Secondly, and probably more importantly, the parastatals can serve as catalysts to encourage the private sector, to activate and re-assure it (the private sector) on both the viability and security of its investments.

5.13 There is no question that parastatals, on their own, cannot overcome the daunting challenges of investment, production and trade facing the region; but the catalytic role they can play has tremendous potential to unleash the enormous investment capacity of the private sector. Metaphorically the SADCC governments and their parastatals can provide the "oil" which will lubricate the "engine of growth".

5.14 As the Hon. Dr. Bernard Chidzero so aptly stated at the 1988 Annual Consultative Conference, ..."investment in production cannot depend upon concessional financing". Parastatals normally benefit extensively from sub-commercial loans, and sometimes even grants afforded by bilateral and multilateral development agencies. The proceeds from these sub-commercial loans can be passed on directly or indirectly to productive and/or strategic service enterprises. In this context, the parastatal sector is uniquely poised to perform yet another catalytic role of mobilising sub-commercial capital resources for on-lending to the enterprise sector at accessible and affordable terms.

5.15 A related "agency" role that would seem uniquely appropriate for the parastatal sector is that of " special fund administrators". Official development assistance ear-marked for the productive sectors can be channelled through, or administered by parastatal entities that enjoy the confidence of both the donor and the host government. A preliminary SADCC study (November 1987) on Development Finance Institutions (DFI's) in the region noted that a number of these institutions have been utilised as special fund administrators by both governments and external aid agencies. In the context of regional cooperation in financing productive investments, this "agency" role of the DFI's can and should be harnessed to the full, in supporting the regional enterprise sector to access investment capital.

5.16 In order to provide for an active involvement of the parastatal sector both as direct investor, and catalyst for other investors in regional productive development, it is necessary that an in-depth appraisal of the regional parastatal organisations be undertaken. Such an appraisal should address the mandates and ownership structures of, and the legal and regulatory instruments governing them, in order to provide a basis for restructuring and re-orienting the policies and operations of the relevant parastatal entities towards a more effective regional participation.

5.17 The growing emphasis which SADCC is according to investment, production, and trade calls for a review of the regional cooperation framework, since the composition of the anticipated key actors in these sectors must now include more actively the business community. SADCC member States have already agreed to encourage and support the formation of business councils in their respective countries, to promote dialogue and coordination with the enterprise sector, and to provide a forum for the business community to have an input to matters of regional cooperation in SADCC.

5.18 Therefore, it is necessary to make appropriate adjustments in order to accommodate the needs and concerns of this group. In order to formalise relationships, and create a sense of certainty and obligation with regard to business dealings, there is need for Business Councils to establish mechanisms to enable businessmen to enter into contractual arrangements. A businessman is more assured of his supplies if these are being supplied under contract than if purchases are ad hoc, and there is no real assurance of continuity of supply and quality. To facilitate efficient coordination of investments, production, and trade at the regional level, it is important that a "focal point" be established at each national level, preferably a suitable parastatal or the business council with appropriate delegated powers.

5.19 The SADCC member States have recognised that a four-way collaborative effort is imperative for a meaningful start-up of, and sustained regional cooperation in the complex area of investment, production and trade. This four-way partnership involves:

* the regional organisation itself, SADCC;
* national policy organs;
* The enterprise sector, both parastatal and private, local and foreign; and
* bilateral and multi-lateral cooperating partners.

It is further recognised that there can be no sustained systematic cooperation in production and trade at the regional level without a conducive and supportive environment at the national level. Another crucial underpinning of regional cooperation in productive investments and trade is the principle of mutual benefit and reward.

The Political Will

5.20 The impediments and obstacles to stronger regional cooperation in productive investment and trade have been identified. It is apparent that the resolution of a major proportion of these constraints rests with national administrations and their institutional structures. SADCC member States are therefore urged to take the necessary policy measures including the adoption of the necessary enabling legislation to facilitate investment across national boundaries and access to the regional market. Reference has already been made in this regard, to new legislation in Botswana and Zimbabwe allowing off-shore investment by their firms and companies.

5.21 SADCC member States recognise that in the area of investment in production, the enterprise community must play a primary role, and have often stated their commitment to take appropriate measures to facilitate this process. What now remains is the translation of this "political will" into concrete and practical actions to establish a conducive investment environment. In order to allay the stated concerns of the business sector, it is important that governments periodically re-affirm this political will and commitment, both at the national and regional levels.

Security of Investments and Reciprocal Obligations

5.22 SADCC is a voluntary association of sovereign states with a declared common purpose, but without any binding legal instruments prescribing the obligations of the participating states. This has hither-to not been necessary, and perhaps shall continue to be so. However, when it comes to the sensitive areas of cross-border investments, trade etc., involving both public and private enterprises, it is essential that some minimum guarantees on the security of such investments should be put in place. These guarantees are mainly established at the national level, through formal legislative processes. Besides, it will be necessary to make provisions for the responsibilities and obligations of the parties involved in the regional investment efforts.

Responsibilities of the Enterprise Sector

5.23 SADCC member governments welcome and recognise the important role played by the enterprise community in the promotion of investment and production in the region. It is necessary for the enterprise community to reciprocate by showing a long-term commitment to the economic development of the region. So far, SADCC has nurtured the establishment of the business councils. It is the responsibility of the business community to ensure that these work, and provide an effective instrument for business contacts throughout the region and a forum for addressing issues of concern to the business community.

6. CONCLUSION

6.1 SADCC has described the constraints to investment and trade in the region, how much has been achieved to overcome these problems and how much more still needs to be done. The important role of a genuine regional business sector has been recognised and woven into the fabric of the proposed solutions to the problems facing the region in this area. It is SADCC's sincere hope that its cooperating partners can support these efforts with the same level of enthusiasm as they have shown for the regional infrastructure programmes. The international business community should in time also find fewer obstacles in investing in and trading with the region.