

PN-ACD - 221  
98704

# **1995 THEME DOCUMENT SADC: RESOURCES, INSTITUTIONS AND CAPACITY FOR INTEGRATION**

**SOUTHERN AFRICAN  
DEVELOPMENT COMMUNITY**



---

**Lilongwe, Republic of Malawi  
1 - 3 February 1995**



## **EXECUTIVE SUMMARY**

The case for regional integration in Southern Africa has already been made, particularly in the seminal 1992 theme document, "SADC: Toward Regional Integration" and in the comprehensive study by the African Development Bank (ADB) entitled "Economic Integration in Southern Africa" which was released early in 1994. This theme document: "SADC: Resources, Institutions and Capacity for Integration" will focus on establishing the necessary conditions for the mobilisation of resources, particularly the region's own resources, institutions and capacity to support the integration process. Although the focus is on the mobilisation of the region's own resources, it is expected that these will be used to leverage the flow of international resources.

Certain basic principles and assumptions should be accepted in order to provide a point of departure for the analysis. These do not relate to the approaches to regional integration as such, but rather to the kind of organisation which could best enhance the prospects of the mobilisation of resources, capacity and institutions to support the integration process. These principles and assumptions are discussed in the background section of this document. Suffice at this stage to mention just a few for the purpose of illustration.

The document contends, that the existence of a competitive environment and a "free market" to allocate resources, among competing demands is basic to their most efficient use, which is in turn a necessary condition for the successful mobilisation of resources, capacity and institutions. It is also important to recognise that much of the resources, capacity and institutions are in the hands of individuals and private companies and hence the necessary conducive environment will have to be created for these resources to support regional integration.

### **Financial and capital resources.**

For the mobilisation and efficient utilisation of resources at a regional level, there is need for macro-economic convergence. A first step towards macroeconomic convergence in the region is the co-ordination of monetary and fiscal policies to ensure the reduction and harmonisation of interest and inflation rates. The establishment of macroeconomic stability requires the constant monitoring of government deficits and a strategy for their reduction.

For the creation of a regional climate for investment and growth, there is a need to harmonise tax regimes and tariff rates. This is important because disparities in tax regimes and tariff rates, distorts intra-regional cost structures for the production of goods and services.

Standardisation of tax laws, incentives and concessions, coupled with low corporate tax rates, targeted concessions and transparency, will create an environment which will enhance cross-border investment, regional trade and development.

One of the most important pre-conditions for a positive outcome regarding the mobilisation of the resources is the legal existence of property rights and the inviolability of these rights. In much of the region title to land, patent and intellectual rights remain ill defined and the relevant legislation either unclear or non-existent. It is also necessary that a transparent legal framework for the emergence of money and capital markets be established. The money and capital market instruments are indispensable in the development of institutions for trade financing, investments and overdraft facilities for exporters.

Greater investment efficiency is a necessary condition for the mobilisation of resources. The restrictions on capital movements constrain investment and the more efficient use of resources. In virtually all member states there are controls on, at least the capital account. These controls should be reviewed particularly to facilitate cross-border investment. Since cross-border investment has the added advantage of countervailing trade imbalances, measures aimed at facilitating the flow of capital across borders should receive urgent attention.

Though there is heterogeneity in the financial structures of SADC member States, there are a number of common problems. The financial sector in most member States fail to deliver the much needed long-term finance for investment and often provide only a narrow range of financial products to the investor. These products normally include government bonds and treasury bills, bankers acceptance, debentures, commercial papers and other securities. Furthermore, the financial sector is not able to support small and medium scale enterprises and emerging indigenous businesses.

Negative interest rates and directed credit, has crippled the development of financial institutions and has often led to a massive problem of non-performing loans, particularly, to parastatals. Part of the regional strategy for mobilising resources, therefore, should be to restore the role of commercial banks as intermediaries which allocate resources in a competitive environment. It is also important to recognise that development banks, insurance companies, and provident funds are part of the strategy for the efficient mobilisation and utilisation of financial resources.

The creation of export guarantee schemes is necessary to promote trade, because the exporter won't lose money in case of unforeseen events, such as the insolvency of a trade partner or the shortage of foreign exchange. The guarantee is often used as security for bridging loans to maintain production. It is also used to raise loans in the commercial banks, thus obviating the need for the creation of specific facilities for export credit or a pre-shipment finance.

In order to bring about the necessary environment for the mobilisation of financial and capital resources the following measures are proposed

- (a) A sector on finance and investment be created in order to focus on the following
- \* the movement towards macroeconomic stability and convergence particularly the reduction of budgetary deficits, inflation rates, etc
  - \* the co-ordination of structural adjustment policies and programmes, and particularly as they affect exchange rates, and,
  - \* to receive proposals from the central bankers on monetary and financial coordination and integration.
- (b) The present system of meetings of central bank governors and officials should be continued. However, the agenda for discussion should be more focused. The purpose should be to co-ordinate reforms, the development of commercial banking, monetary and capital markets, create instruments for long-term lending and credit guarantees, etc and arranging assistance for member states that require such assistance
- (c) One stop investment centres must be strengthened and established where they do not exist with the specific aim of facilitating cross border investments. Countries should simplify and standardise their requirements for cross border investment. The development of a common framework will greatly simplify implementation which is consistent throughout the region
- (d) A regional development bank should be established to support the development of infrastructure in member States

#### **Capacity and Expertise**

Clearly, there is an urgent need to improve the performance of the public services through better management and incentives, selection and promotions based on merit and more emphasis on professional standards. For the efficient delivery of services and in the light of the prevailing budgetary constraints SADC governments should consider trimming the size of the public service and privatising some of their operations. Concomitantly, the affected civil servants should be assisted to find alternative employment

More skilled manpower should be trained, particularly in management, science and technology. Since few member States can afford the full range of educational and training facilities required in a modern state, arrangements should be made for the common use of available facilities. The same facilities should

be used to provide continuing life-long education and retraining to meet the requirements of a fast changing economic environment

For this effort to succeed a number of constraints will have to be overcome, admission, certification, etc will have to be harmonised and the academic years synchronised. The vice-chancellors and principals of the region's tertiary training institutions should work out the administration and certification standards that will be recognised throughout the region in order to facilitate the movement of students, staff and other professionals

The SADC scholarship fund should be strengthened for the joint use by the tertiary level institutions. Increased resources for such a fund should be obtainable from governments, private sector and cooperating partners

The centuries old system of migrant labour in Southern Africa poses serious policy challenges for the member States. The more recent movement of skilled manpower within the region has further exacerbated the problem. One of the practical ways of reducing the worsening problem of migrant workers and the "brain drain" within the region is to create the necessary conditions for growth across the whole region. To that end cross-border investment, particularly by member States in a structural trade surplus situation, should be facilitated

Sporting and cultural exchanges should be actively promoted by removing visa and work permit requirements for cultural visits, the exchange of locally produced radio and television programmes, the use of books written by the regions authors in the school system, etc

By speedily adopting the protocol on the free movement of people and border crossing procedures, the community spirit will be enhanced. The abolition of visas, the standardisation of customs and immigration formalities and the installation of a community spirit among officials charged with administering these procedures will all enhance community building. In addition, there is need to provide more capacity at certain border points in order to get rid of long queues which are costly to business and the ordinary traveller. Some border posts should be opened for 24 hours. Border crossing procedures touch on the lives of many SADC citizens and their simplification will demonstrate in a concrete way the benefits of regional integration and the community

The protocol on trade should speedily be adopted to give priority to the phased reduction of import duties on goods originating from within the region. The consequences of the reduction of tariffs on the public revenues of the member states should be established and an appropriate compensatory mechanism worked out. The protocol should also provide for the establishment of a credit guarantee facility in each member State. In this connection the assistance of more established credit guarantee institutions in the region should be sought

There is consensus among all the member States of SACU that the agreement establishing the Southern African Customs Union (SACU) be renegotiated. In doing so, consideration should be given to moving the Union to the level of a common market with free movement of labour. This may, in fact, amount to mere formalisation of a de facto situation, as it is very doubtful that the current movement of labour within SACU and indeed, from non-SACU members can realistically be stemmed in the near future.

### Institutions

The community building process is long, complex and difficult, requiring good and dedicated staff capacity. The current loose and often part-time staffing arrangements inherited from the old SADC is not adequate for the task at hand. Changes are required to give the Secretariat more capacity to undertake policy formulation, strategic planning and to monitor the progress of community building in member States. This will require a capacity in the Secretariat for data collection and to follow national policies.

Increased capacity is also required in the member States by way of full time staff. To this end, it is recommended that in the short-term full-time coordinators of Community affairs be appointed in each member State. In the long-term each member State should establish a ministry of Community affairs in order to give the integration process the necessary political status and profile. In addition the embassies of member States in the host country should be staffed by some officers trained to follow the Community building process. Such embassies should also be equipped to service the main Community meetings.

The SADC Consultative Conference has been one of the main features of the Organisation. The Conference is intended to provide the Organisation's cooperating partners the opportunity to engage in a dialogue with the member States in order to establish a policy framework for their assistance to the region. The time has come to translate the Conference into a more formal arrangement providing for contractual and mutually beneficial relations in such areas as investment and trade.

Independent Community institutions should be established on the basis of the agreements and protocols. In establishing these institutions every effort should be made to involve the operators, such as the power utilities, the railways, the airlines, etc. As far as possible these operators should pay and manage these regional structures with the coordinating member State only providing the policy oversight. To this end the on-going efforts to establish the Southern African Power Pool (SAPP) and the Southern African Regional Air Transport Authority (SARATA) should be expedited.

It would be ill-advised to create regional institutions for all of the Community's activities. Much of the work of building the Community should be left to national structures. Issues such as the supervision of financial regulations, and the enforcement of

Community regulations are best left to national jurisdictions. However, these would require agreement on standards, legal process, etc. A machinery should, therefore, be set up to harmonise legislation, regulations, etc. in areas of interest to the Community, e.g. in the area of exchange controls or bank supervision.

Many Community-wide institutions will emerge on their own depending on the creation of an enabling environment across the region. For instance the emergence of region-wide professional bodies such as for accountants, architects, medical practitioners, etc. can be relied upon to establish their own regulatory mechanisms, thus enhancing capacity and the movement of resources (expertise) within the region.

The SADC parliamentary forum which was established in 1993 should become a regular feature of the SADC calendar. This forum will bring the concerns of the ordinary people into the integration process and will serve as a barometer of the success of the process.

The integration process has to be informed by an on-going research effort. To this end a small body should be established to determine the agenda for research on issues of integration and to coordinate the networking of research by the regions' researchers in the universities and elsewhere. Such a body should be independent of the Secretariat to provide another source of opinion on matters of integration.

All these recommendations will require action by both regional and national institutions. In this regard, the Secretariat must play the role of initiator, facilitator and monitor.

## 1 BACKGROUND

### 1 1 The Issues

1.1.1 One of the major shortcomings of the Organisation for a long time, has been its inability to mobilise significant levels of the region's own resources for the implementation of its projects and programmes. Previous theme documents referred to the problem of resource mobilisation for development and integration in the Southern African region. The 1989 theme document focused on "the Productive Sectors - Engine of Growth and Development". Attention was drawn in that document to "the shortage of skills in the region for project preparation and operation of enterprises" as a constraint to growth and development. In 1990, the theme was "SADCC The Second Decade - Enterprises, Skills and Productivity". Once again the issue of skills and the need to develop them in the region was emphasized. The theme for 1991 was devoted entirely to the development of human resources. The title was "SADCC Human Resources Primary Factor in Development". Specifically, that theme document states that "to achieve lasting and sustainable development, the region has to significantly increase the productivity of its people through better education, skills development, management and promoting science and technology and entrepreneurship". The need to strengthen the capacity to plan and manage development is also emphasized in that theme document.

The basis for integration and community building in Southern Africa was formulated in the theme documents of 1992 and 1993, with the titles "SADC Towards Economic Integration" and "A Framework for Building the Community", respectively. As a follow up to these theme documents and concern about the region's inability to mobilise its own resources to underpin development and integration in Southern Africa, the meeting of the Council of Ministers, held in Mbabane, August, 1993 decided that the 1995 theme document should address the issues of the mobilisation of resources, institutions and capacity for integration.

1.1 2 In August, 1992, a Treaty was signed converting SADCC from a co-ordinating conference to a community. While the old SADC concentrated on intensifying cooperation, mostly by coordinating activities of member States, the new mission envisaged in the Treaty is more complex. Building an economic community calls for deeper economic cooperation and integration providing for cross-border investment, trade, free movement of capital, labour and goods and services across national boundaries. This raises a host of complex problems in the areas of economic and monetary

policy, institutional and legal questions, mechanisms and procedures, etc

- 1 1 3 Previous theme documents, the African Development Bank (ADB) study and many research reports by universities in the region have noted the heterogeneity of member States in economic performance, institutional structures and capacities to implement integration such that the process requires a multi-speed approach. Countries who are able to move faster to high forms of cooperation and integration should proceed e.g. the countries of the Southern African Customs Union (SACU) may be interested in moving to a common market while remaining within SADC. Presently there are plans to renegotiate the SACU agreement with a view to enhancing cooperation and integration.
- 1 1 4 The 1995 theme document addresses the questions of how financial/capital, institutional and human resources can be mobilised at national levels and linked with the regional level for more efficient utilisation. Further, the theme document will spell out appropriate conditions for mobilising resources and the capacities needed with respect to human resources and institutional set up.
- 1 1 5 The performance of the economies of the region, the role of central banks, commercial banks and development banks are considered and their potential contribution to mobilising resources articulated. The operation of these institutions provide a framework for the money and capital markets to develop and create a climate, where government, non-governmental institutions and the private sector automatically contribute to mobilising of resources for integration.
- 1 1 6 The promotion of industries and trade of member States are seen in relation to national strategies and how these contribute to the integration process. In this regard discussions of export guarantee schemes and cross-border investment are made. It is stressed that only when a level of mutual confidence exists can intra-regional trade increase.
- 1 1 7 The existing development financing system does not fulfil the requirements for mobilising additional financial resources for integration. Therefore, measures are proposed, where the development financing system will be geared towards regional demand.
- 1 1 8 Southern Africa is endowed with enormous natural resources. Despite this potential wealth, the region has remained economically backward and many of its people poor and lacking in the basic social amenities. Unemployment remains high, representing not only

hardships for the individuals involved and their families, a source of anti-social activities and crime but also production and income opportunities foregone by the region. Most of all a waste of human resources and potential.

- 1.1.9 The document lays considerable emphasis on simplifying bureaucratic procedures for crossing borders with respect to goods and services with the objective to convince ordinary citizens in the region of the advantages of establishing a community.

## 1.2 Basic Principles

In order to mobilise regional resources the economic policies followed by member countries must facilitate the process. It has been stated by economists that a market based system is most suited for efficient mobilisation and utilisation of resources. A number of other principles necessary for the mobilisation of resources with a view to increasing capacity for integration can be stated as follows.

- 1.2.1 There must be a realisation by all member States that there will be costs and benefits in regional integration. Regional integration is, however, based on the assumption that all stakeholders will be net beneficiaries. Admittedly some may benefit more than others, hence the need for compensatory mechanisms and corrective measures, to ensure balance and equity in the distribution of benefits. In addition regional integration arrangements will only endure under conditions of mutually balanced and equitable relationships.
- 1.2.2 The mobilisation of the regions resources, institutions and capacities for integration, must have as a point of departure the facilitation of the movement of people, goods and services across borders. The abolition of visas and standardised procedures of crossing borders, will greatly improve the integration process. In any case, there will be no point, tackling the more complex issues of integration, such as monetary convertibility, before the basic problems, such as easier cross border movements and transaction by ordinary people and business persons are achieved. Such measures, that touch on the lives of ordinary people in their day to day activities will demonstrate the relevance of regional integration and help build a strong constituency for the process.

- 1.2.3 In the past, nationalism and concerns about political instability drove member States to insist on national self-sufficiency. This resulted in a situation where member States undertook projects at great expense when importing the products or services from their neighbours would have been more cost effective. The region is littered with examples of costly national projects aimed at self-sufficiency in food production, electricity generation, air transport, etc. A new and positive approach will be required which will see national security, not in terms of national self-sufficiency but in terms of inter-state agreements, mutually beneficial economic links and diversified sources of supply of strategic commodities and services. Other confidence building measures should also be pursued in the security area, such as settlement of interstate dispute mechanisms, the signing of non-aggression treaties, etc.
- 1 2 4 Any stock of resources mobilised will quickly be eroded unless they can be put to the most productive use. Competition and the market are still the best mechanisms for allocation of resources and ensuring that resources are directed at activities that yield the highest return. As an integral part of the mobilisation of resources, institutions and capacity, measures should be put in place to promote competition and to avoid the accumulation of monopoly power.
- 1 2 5 It is necessary for the region to create conducive conditions not only for foreign investors but for domestic ones as well. In the context of improving the investment climate, regional cooperation and integration has to play an important role in the creation of a bigger and effective regional market. It is important to underline that for the effective mobilisation of resources, institutions and capacities, there must be confidence that regional arrangements will, endure, be stable and transparent. This is particularly important as much of the concrete activities in the integration process will be carried out by private individuals and companies risking their own resources for a return.
- 1 2 6 The bulk of these resources will be utilised by creating the enabling environment for private agents, companies and individuals to promote integration in their own interest. Such measures as a harmonised legal regime on property rights, land tenure, cross-border investment and an overall supportive macroeconomic environment will be required to place private resources, institutions and capacities in a position to promote the integration process.

- 1 2 7 The establishment of institutions to underpin regional cooperation and integration is essential. The first type is composed of institutions at a regional level e.g. Regional Compensation Fund, etc. The second set of institutions are those established at national levels, which can be coordinated at regional level such as legal and regulatory standards for bank supervision.
- 1 2.8 Considerable resources can be released in the region through the establishment of more regional professional bodies of various categories e.g. accountants, architects, doctors, teachers, economists, etc. These bodies will create their own regional code of conduct, regulatory regimes, etc. A climate must be created to allow practitioners to operate across boundaries without being subjected to new requirements in every country.
- 1 2 9 Resources in the form of savings have been greatly undermined by budgetary deficits in most countries in the region. These deficits together with the losses from parastatals, have created a situation where private corporate and household savings are the only mobilisable resources. For this reason national and regional efforts must seek to maximise availability and accessibility of these resources to the economic agents in the region by creating possibilities for these resources to move across borders in search of higher returns.
- 1 2 10 Policies, rules and regulations of member States must facilitate cross border investment by creating a favourable climate. Such a climate includes, regional macro-economic stability and predictability, the convergence of fiscal and monetary policies, market based exchange and interest rates, the development of money and capital markets, etc. The business community has a pivotal role to play in economic integration both as agents and as beneficiaries.
- 1 2 11 The support that SADC enjoyed from international cooperating partners in the form of financial and technical assistance has contributed to the development of institutional capacity for integration. The sustainability of existing capacity and its further expansion require effective use of the support from cooperating partners at regional and national levels, turning it into sustainable programmes. This process will require a thorough review of administrative procedures and decision-making process on the sides of the donors and recipients, alike.
- 1 2 12 The question of policy sequencing is important for a successful regional integration and cooperation programme. Legal and regulatory constraints at

national levels must be removed first, before measures to encourage cross border investment can be put in place.

1 2 13 The facilitation of border crossing procedures for both goods and services must precede the free movement of labour, currency convertibility, payment mechanisms, rules on the repatriation of profits, double taxation agreements, etc

### 1 3 Approach

To fulfil the requirements of this theme document, the following approach was adopted

- (a) At the SADC Secretariat, a desk study of the problem was undertaken. This was combined with interviews with officers for the purpose of clarifying the parameters of the theme document. A programme of visits to member countries was worked out including the institutions to be visited, and issues to be investigated.
- (b) The team first visited South Africa and Zimbabwe. After Zimbabwe, part of the team visited Zambia, Angola, Namibia and Botswana. The other part of the team visited Lesotho, Swaziland, Tanzania, Malawi and Mozambique. Specific institutions visited in all countries included Central Banks, Commercial Banks, Ministries of Finance, Commerce and Industry, Civic institutions, Ministries of Labour, Chambers of Commerce, Ministries of Information, institutions of higher learning, such as universities, colleges, research organisations, and SADC institutions based in member countries. Issues discussed were concerned with the possibilities for free movement of capital and labour, inflation rates, levels of employment, deficit financing, financial instruments, levels of financial broadening and deepening, cultural exchanges, possible role of commercial banks, exchange rate management, credit policies, role of national institutions and organisations in enhancing regional co-operation, integration and coordination.
- (c) After the visits, the team re-assembled to incorporate the findings and to write the first draft. The draft was sent out to member countries for comments. These were used as the basis of the final draft.

### 1 4 The Lay Out

1 4 1 The document starts by discussing the current resource situation in the region, emphasizing the constraints to resource mobilisation. Special attention is paid to the size of government budget deficit and its influence on price levels and hence interest rates.

This is done mainly to focus on the role of interest rates in resource mobilisation e.g. while high inflation rates means high interest rates in order to have positive real interest rates, this has influence on the level of investment and employment which will be low because of the high cost of capital.

1 4.2 The influence of the size of budget deficit is also tied up with the activities of the central bank, regarding its method of financing the government deficit. The central bank also creates conditions under which the whole financial sector operates. In this sense, the way the commercial banks operate is conditioned by the rules and regulations laid down by central banks. In this way a discussion of central banks is followed by that of commercial banks.

1 4 3 The significance of commercial banks with respect to short-term supply and demand of resources is crucial. A discussion of this sub-sector of the financial system and the constraints facing it is carried out. This is followed by the long-term sources of resources such as capital markets, insurance and development banks.

1 4 4 The institutions and capacity for integration is discussed. The discussion focuses on community institutions and national institutions of relevance to the integration process. Capacity for integration is seen from the point of view of availability of regional expertise. In this regard, training is emphasized.

## 2 FINANCIAL/CAPITAL RESOURCES MOBILISATION

### 2 1 Overall Constraints

2 1 1 All countries in the region continue to restructure their economies. In some countries, an IMF/World Bank programme of structural adjustment has been the modus operandi of such restructuring while this has occurred in others as part of the day to day economic management. The result has been movement towards market based economic systems and to some extent towards macro-economic convergence at a regional level. A lot has been achieved during the last decade but much more still needs to be done to achieve macro-economic stability and growth. As can be seen from the table (Annex I), inflation rates in some member countries have declined during the period 1980-1993. However, for others it has increased considerably.

The inflation rate, if it is too high (double digit), then it constrains savings as real interest rates will tend to be negative. High interest rates in such circumstances, will affect the level of investment.

through high cost of capital. While the general trend of inflation decline is acceptable for most SADC countries during 1980-1993, efficient mobilisation and utilisation of resources will require that the levels further decline to say 5-7%. If this can be achieved, then the constraint on resource mobilisation will be reduced.

2 1 2 It has been realised by SADC member States that the poor performances of their economies during the 1980s and part of the 1990s acts as a constraint to the mobilisation of resources. Macro-economic instability is still being experienced in a number of SADC countries, with relatively high inflation rates, often caused by excessive budget deficits linked to weak monetary control and over-valued exchange rates. The result of some policies being followed in the region, especially excessive deficit financing, has been the crowding out of private investment, and the ballooning of domestic and external debt problems. In response to these problems, national governments have sometimes adopted measures not consistent with regional integration. Up until now, it can be shown that some of the policy measures have resulted in misallocation of resources, accumulation of large foreign debts and loss of credit worthiness.

2 1 3 The experience of some SADC member countries has been that some parastatals are loss making. The losses have been financed through the budget, resulting in large budget deficits which have contributed to inflation. Inflation in most SADC member States, was still moderate in the early 1980's but by 1990's rose to almost unmanageable proportions in some countries (see table). Public sector spending (parastatals included) is said to average about 50% of GNP for most SADC countries. This concentration of resources in public hands has correspondingly denied resources to non-governmental sectors. In some cases, almost all credit in the country went to the parastatals and the government. The issue of parastatals need to be re-examined in the region. Not only from the point of view of privatisation but also possibilities of employee-ownership schemes, opening them to competition, mainly from within the region and devising schemes of dealing with natural monopolies, e.g. in electricity, telecommunications, etc.

2 1 4 From the point of view of resource mobilisation, some policies of the past and still practised by some countries have led to low savings rates. Savings are, in fact, the engine of growth of incomes and productive capacity. The higher the savings ratio the more rapid will be the growth of incomes and productive capacity. Savings are determined by the growth of incomes and productive capacity, such that

countries with low savings often find themselves in a vicious cycle of poverty i e low savings ratio lead to low growth of incomes and productive capacity leading to low savings Other factors which influence savings are the way economic production and distribution is carried out Economic policies of governments, with respect to exchange and interest rates, did not recognise the influence of the market in determining these rates The population composition, attitudes towards thrift, the variety of financial products on the market, services provided by governments, the incidence of taxation, the size of government budget deficit, etc are all important factors which influence savings and hence the mobilisation of resources

2 1 5 In an effort to raise credit for development projects, some member States have sought to direct credit, including state ownership of commercial banks, various regulatory measures aimed at securing low interest rate capital, and forced institutions to extend credit often to unprofitable projects This has weakened the financial sectors of member countries In almost all countries of the region one finds development finance institutions established to supply long-term capital However, governments have sometimes leaned on development finance agencies to fund unprofitable social projects resulting in difficulties in the repayment of loans, thus threatening the solvency of these institutions This has constrained the supply of long-term finance/capital resources

2 1 6 Policies of artificial low interest rates aimed at securing resources for development in the past, have resulted in the negative performance of the financial sector Low and negative interest rates reduced incentives to save in financial assets Credit rationing, arising from low interest rates has resulted in the already well endowed benefiting most Exchange controls, created black markets for foreign currency and instead of normal trade developing, smuggling became one of the ways of conducting intra-regional trade

An acute foreign exchange shortage led to large current account deficits The narrow export base of most of the national economies in the region, with high concentration on primary commodities, has been unable to support the currencies and their convertibility and left governments saddled with volatile exchange rates Severe external indebtedness and extreme aid dependence are results of poor external debt management and inadequate debt relief The weak international reserve positions of most member States have led to loss of control of fiscal

and monetary policy instruments to the International Monetary Fund, World Bank and foreign donors. In many instances, projects and programmes financed by donors are not necessarily those that would promote economic growth. In such circumstances, there is no relationship between investment and growth.

2 1 7 The current efforts in the region to correct the mistakes of the past have resulted in policy reforms aimed at improving the efficiency and competitiveness of the national economies. The reform packages, consist of measures to move to market determined interest and exchange rates, reduction of public spending and establishment of macroeconomic policies supportive of market based economic structures. The success of these policies will ultimately depend on the seriousness of their implementation. In some cases, implementation seems half-hearted resulting in continued macroeconomic instability, e.g. some countries continued to maintain a high budget deficit and yet liberalised exchange and interest rates. Sustainable economic development and growth can only be achieved through macroeconomic stability, financial sector development and promotion of investment.

## 2 2 Specific Constraints

The macro-economic conditions for the mobilisation and efficient utilisation of resources, are discussed in relation to constraints imposed on institutions responsible for such mobilisation. In this regard, the discussion shall focus on

- (a) Government institutions, especially the ministries of finance, which, through the size of budget deficit influence macro-economic stability, e.g. by contributing to inflation which constrain savings through negative interest rates or too high interest rates which restrict investment.
- (b) Central banks and their policies on money supply (hence, interest rates), exchange rates, exchange controls and regulations regarding the activities of commercial banks, discount houses, building societies, money and capital markets, can either encourage or discourage mobilisation of financial/capital resources. Restrictive regulations by central banks can constrain mobilisation of resources.
- (c) Commercial banks' ability to mobilise financial/capital resources is contingent on the regulatory frame imposed by government policy, which determines their (Bank's) attitude to risk and the degree of financial deepening and broadening. Commercial banks are particularly important with regard to the mobilisation of short-term finance. The

ease with which credit can be extended by these institutions and their ability to encourage savings, are important considerations in resource mobilisation

- (d) Money, debt and capital markets are important as sources of long-term capital mobilisation. The level of their development will reflect the general availability of long-term capital resources. The more sophisticated these vehicles are the more available will be long-term capital resources.
- (e) Development finance institutions, established, in most cases to mobilise long-term financing, to create competence regarding project appraisal and viability analysis, are important for mobilising financial/capital resources. Poor performance by these institutions constrains mobilisation of resources.

### 2 3 The State Budget

2 3.1 The document is not concerned with the mobilisation of state budgetary resources but rather it focuses on off budget financial/capital resources. As such, this section is concerned with the manner in which the mobilisation of off budget resources is affected by the size of the budget deficits.

2 3 2 There is no agreement among economists as to the optimum size of the government budget deficit. However, empirical evidence from Latin American and some African countries show that deficits higher than 6% of the GDP are not sustainable in the long-run. World Bank figures indicate that for most SADC countries budget deficits lie between 8-15% of GDP. However these figures are even higher for some SADC countries. The unsustainability of these deficits is connected to their influence on prices. The correlation between high deficits and inflation is now a proven fact in international economic literature. For this reason, measures of structural adjustments usually centre around the size of the government budget deficit. In this sense, therefore, the size of the budget deficit becomes a constraint on the mobilisation of resources.

2 3 3 Policy reforms currently being put in place throughout the region, are concerned with addressing problems of deficit financing. Considerable efforts are on the reduction of the size of government budget deficits. However there is need to examine the size of the government budget. The exact role of governments in economic development and the areas where governments should be active and what the private sector should do need to be clarified.

- 2.3.4 It is clear, that, member countries are moving towards a system of smaller government budgets and are leaving greater share of economic activities to the private sector. Governments are privatising parastatals, allowing private banks to operate in countries where only state owned banks existed previously and moving to market based economic structures
- 2 3 5 A number of the problems can sometimes be resolved by member countries learning from each other. Sharing experiences and borrowing methods of resolving the issues from each other can go a long way in providing lasting solutions
- 2 3 6 In summary the importance of reducing the size of government budget deficits has been stressed, the significance of co-ordinating structural adjustment policies and their implementation emphasized. The impact of implementing these policies in other member countries must, therefore, be recognised
- 2 3 7 For these reasons, the theme document recommends the institutionalisation of meetings of ministers of finance and their senior officials. Experiences of member countries with regard to implications of reducing the size of budget deficits should be shared. Countermeasures, such as cushioning the population against the social effects of implementing structural adjustments can emerge for the benefit of people of the region. It is suggested that, this approach will develop better ways of mobilising non-government resources for the development of the region as a whole
- 2 3 8 The meetings of the ministries of finance will need to focus on the following
- (a) Macroeconomic stability and convergence must be in place to enable businesses to make long-term investment plans
  - (b) The structural adjustment policies have created situations where all countries in the region are moving towards market based economies. There is need to coordinate the implementation of these policies
  - (c) Most member countries have introduced the 'bureaux de change' and foreign exchange retention schemes. These are commendable interim measures towards convertibility of currencies. The effects of these measures on regional integration need to be examined by ministries of finance

- (d) One stop investment centres must be established where they do not exist, and strengthened in all member countries with the specific aim of facilitating cross border investment. Countries need to simplify and standardise their requirements for cross border investment.

#### 2 4 Central Banks

The role of central banks in the mobilisation of resources has been recognised in the region. Consequently, the region has already institutionalised meetings of central bank governors and officials

- 2 4 1 The significance of central banks in the development of the whole financial sector cannot be over-emphasized. This is particularly important in view of present reforms by member countries aimed at establishing economic environment supportive of market based productive and distributive systems
- 2.4 2 A move away from money creation as a method of financing government deficits to the use of central bank market operations, implies that financial systems of the region will develop money and debt markets as the centre pieces of their operations. One cannot overemphasize the significance of such a move as the basis for the creation of capital markets and evolution of cross border investment
- 2 4 3 The present system of exchange control and administratively established exchange rates cannot be the basis for cross border investment. The necessity of such investment have already been discussed and established in many SADC documents. Suffice it to state that a recent SADC commissioned study on this topic which has presented arguments for cross border investments for leveraging investment flows from outside the region
- 2 4.4 Member States of SADC have all realised the importance of market driven interest and exchange rates. The reforms under way in all SADC countries proves this assertion. Even in countries where commercial banks and central banks were administered as one institution, there are moves under way for separating these institutions. Further, there is also a recognition that it is necessary to allow private banks to operate
- 2 4 5 It is recommended that central banks identify in their meetings measures to assist countries who are in transition to put in place structures that can establish a market driven financial system

2 4 6 To conclude, the present system of meetings of central bank governors and officials should be continued. However, the agenda for discussion should be more focused, especially through intensifying information about constraints faced by member countries regarding policy reforms. There is necessity for the SADC Secretariat to service the meetings and provide focus for discussions by distributing well researched papers

2 4 7 For this reason, SADC must collect information from member countries about the economies, policy issues and reforms in order to assist the focus of the meetings. This holds also for other institutions established by the community. The purpose should be to co-ordinate reforms, exchange information, suggesting countries to be assisted and the form of assistance from other member countries. An environment for improving and increasing regional resources can benefit from the following

- (a) Macro-economic stability to be maintained while reform is carried out in the financial sector. Financial sector reforms must be accompanied by reforms in the real sectors of the economy. As countries move to liberalised trade arrangements, financial sector convergence at a regional level will facilitate increased trade. Important in this regard are two issues
  - 1) that there is co-ordination between reforms in the financial sector and real sector,
  - 11) that a proper sequencing of reforms is observed
- (b) The focus of the financial sector reforms should be on the commercial banking sector. In view of the underdeveloped state of capital markets, the commercial banking sector is the major source of credit. The development of money markets will provide for the sale of government securities, banker's acceptances, various types of bills, debentures and establish a method of accommodation by central banks. Resources, presently not available in some countries, can be made available through the development of money and debt markets
- (c) The development of various financial intermediary institutions must be such that fragmentation and excessive market segmentation is avoided. The range of financial intermediary institutions must not be too wide, but offer a wide variety of products and services. An efficient banking

sector, operating under clear regulatory frame with sufficient flexibility will be needed at national levels for efficient mobilisation and utilisation of resources

- (d) A regular forum of central bank governors and their officials should discuss problems of the financial sector development, its role with regard to the overall economy, identifying bottlenecks and proposing solutions

## 2 5 Commercial Banks

The bulk of resources beyond the conventional government budgetary system are mobilised by the commercial banks. Focus on the way commercial banks mobilise and allocate these resources in a competitive environment is crucial. The role of commercial banks must, therefore, be reassessed from the point view of mobilisation of domestic resources and promotion of efficient utilisation of such resources

2 5 1 There is considerable heterogeneity in the level of development of the financial sector in the region. The heterogeneity is best understood when member States are categorised as follows

- (a) Member States where the financial sector has been completely state owned
- (b) Member States where there is some state ownership of financial institutions side by side with private ownership
- (c) Member States where the financial institution are privately owned

2 5 2 Despite this heterogeneity, there are number of common problems with specific reference to this sector, e g it has failed to deliver the much needed short and long-term finance for investment, the need to reform the regulatory and supervision structures, etc. The policy of negative interest rates and directed credit in some countries, has crippled financing institutions by non-performing loans. This is particularly the case with regard to loans directed to parastatals, who have mostly failed to repay the loans, leading to possibilities of insolvency of the banking systems

2 5 3 Previously it has not been possible to have a common approach to the commercial banking sector in the region. This has been because of differing ideological positions, where some member countries believed in state owned banks while others believed in privately owned ones. Presently all SADC countries are moving to market based banking systems and it is now possible to have a common approach on the role

that could be played by commercial banks, as non-governmental institutions, in mobilising resources. The legacy of previous systems of organising the financial sector in SADC member countries, still presents constraints for the mobilisation of resources. The following is a summary of the situation.

- (a) In countries where the commercial banking sector is under state ownership, credit was directed to funding of parastatals. Little credit was allocated to the private sector. Unfortunately, because of the poor performance of the parastatals, loans were not repaid, resulting in central governments often rescuing the banks from insolvency. Lack of monitoring capacity at some central banks has created a situation where policy instructions were not properly followed. Even bank regulations are sometimes not properly monitored due to lack of capacity of some central banks. Recently, state owned banks have lost the monopoly positions as governments have allowed for the creation of privately owned commercial banks. Even in this regard, the environment under which these banks operate needs to be improved. Both financial sector broadening and deepening would assist greatly in mobilising resources. The constraints in this regard are related to issues of solvency of the banking system, the extent to which regulations and rules are transparent, etc.
- (b) Some countries of the region have a mixed banking system with state and private banking sectors. In this case, government and parastatals' loans are a higher proportion of total loans. Although the private banks are well managed, credit ceilings tend to limit loans to the private sector. It has been observed that in this case, there is often the problem of over-liquidity in the banking system. It is difficult to encourage mobilisation of resources where there is already over-liquidity. Although these problems are most common in banking systems with mixed government and private ownership, they also exist in the other two systems. A major constraint has also been the accessibility of loans to small businesses.
- (c) Most of the countries in the region have privately owned banking system. Banks are generally well managed, they are viable and operate on sound principles of profitability. The major constraints in these countries are related to financial broadening and deepening i.e. the geographic distribution of banking.

services nationally, particularly in rural areas and the variety of financial services provided to the consumers

- 2 5.4 There are problems which cut across the three types of ownership of commercial banks. However, it is important to emphasize that in terms of financial broadening and deepening the state owned banking systems are the least developed. This is due, partly to the centralistic nature of the ownership, which prevents wide extension to the remote parts of the country. Further, as regards deepening, the lack of innovation with respect to a variety of financial products such as various types of bonds, debentures, commercial papers, bankers acceptance, etc. The market operation of central banks are generally limited, resulting in less efficient money and debt markets
- 2 5 5 At times financial repression and directing of credit is commonly experienced in all countries. This is due, mainly to governments' concern for certain sectors that it wants to develop and, therefore, directs credit at low interest rates to these sectors. The policy prescriptions in this regard suppresses the development of market related interest rates and often resulting in negative real interest rates. A policy of this type does not encourage savings and often there is a large discrepancy between the savings ratio and investment ratio
- 2 5 6 However, cutting across all types of ownership is access to credit. Small businesses often suffer in all three types of ownership patterns because of the reluctance of banks to extend credit to this sector. The reasons for this reluctance are
- (a) that small businesses are regarded as risky,
  - (b) that small businesses are not able to fulfil the three main criteria for credit i.e character of the borrower is often unknown to the banks, often the small borrower is not able to provide a business plan, which shows how borrowed funds would be repaid and lastly small borrowers do not have collateral,
  - (c) that in economies where the state owns banks, there is unwillingness to support capitalistic and individualistic borrowers. On the other hand, in countries where banks are privately owned, these are often owned, through shares, by large corporations. These get first preference with regard to credit

- 2 5 7 In this regard, therefore, four major constraints are observed, (a) that directed credit has resulted in non-performing loans, threatening the solvency of banks, (b) that there is a problem of over-liquidity arising out of credit ceilings and the state taking the lion's share of savings, (c) that lack of financial broadening and deepening limits the extent of resource mobilisation and (d) small businesses are largely left out of the financial system. It is clear, therefore, that a mechanism needs to be devised to extend credit to small borrowers. It is being suggested that the SADC secretariat investigate the possibilities of establishing credit guarantee schemes, either at national and or regional level, to resolve some of the constraints of borrowing by small businesses.
- 2 5 8 To resolve the afore-mentioned constraints, there should be investigation into how, in countries where these constraints are severe, technical assistance could be provided to reduce the severity of the constraints, mainly from more advanced member countries.
- 2 5 9 The pivotal role of commercial banks in mobilising national and regional resources has been recognised. There has been considerable progress in deregulating the financial sector in most member countries. In all member countries privately owned banks are now allowed to operate. In some countries this is very recent so that progress, though visible, more time will be needed before proper conclusions can be drawn. Directing of credit has been discontinued, exchange and interest rates are more or less market determined.
- 2 5 10 In countries where commercial banks were earlier nationalised, there is movement towards privatising them. Bad debts in such cases were assumed by governments to give the new banks a better start. This is important because market determined exchange and interest rates and undirected credit allocation, will enable private commercial banks to mobilise savings and direct them in areas of highest returns to capital.
- 2 5 11 For countries with a mixed ownership of the banking system, return to fiscal prudence will go a long way to solving the problems of over-liquidity. Fiscal prudence will make it possible to reduce government and parastatal borrowings, increase private borrowings and together with the reduction of deficit financing, will go a long way to resolving the problems of over-liquidity as a constraint to mobilising savings. Further, the development of new financial products will create avenues for placing funds by surplus units.

2.5 12 Some attempts have been made in establishing properly functioning money and debt markets for short term debt instruments. Discount houses operate in a number of SADC member States but are absent in the majority of cases. A money market could assist governments to rely more on open market operations by central banks to control money supply instead of credit ceilings. This would solve constraints of over-liquidity, particularly in case where financial deepening is also encouraged

2.5.13 Issues pertinent to improving the environment of commercial banking in the region, must aim at increasing the availability of long-term and short term financing and the share of resources to the private sector.

A regional strategy for mobilising resources through the commercial sector will include the following:

- (a) that the problems of insolvency of national commercial banks be addressed with a view to restoring their role as intermediaries which allocate resources in a competitive environment;
- (b) that banks are encouraged, through appropriate incentives, to undertake long-term lending to the private sector. A supportive environment in this regard could be the development of money and capital markets in countries where these are absent;
- (c) that the SADC secretariat investigates possibilities of establishing credit guarantee schemes at national levels to resolve problem of credit to indigenous and emerging business-persons in the region,
- (d) that facilities be provided for the indigenous and emergency business persons, to assist them with project preparation in order for them to present bankable projects when applying for credit

## 2.6 Financial Markets

2.6.1 Financial markets, comprises of money, debt and capital markets. The distinction between these markets is important because it clarifies what the focus of the region should be, especially in view of the much talked about desire to establish stock exchanges.

2.6.2 Money and debt markets trade in government stock, bankers acceptances, debentures, commercial papers and other securities. The participants in these markets

are central banks, commercial banks, discount houses, large corporations, individuals, etc. with central banks acting as the backbone of the whole system. These markets are central in inter-bank transactions and in relation with the non-banking sector

2 6 3 Money and debt markets are also important as tools of monetary control by authorities and can be used by them as sources of government borrowings. In their developed form, these markets are used as source of private borrowings, since companies can sell commercial papers or debentures for funds. They are also important as a way of mopping up excess liquidity in the banking system and through accommodation by the central banks can be used to supply liquidity to the banking system when required. They assist banks to keep minimum liquidity for daily transactions and rediscount instruments when they need cash

2 6 4 Indeed, many economists have argued that it is important to develop these markets first before one attempts to develop capital markets. Crucial institutions for the functioning of money and debt markets are

- (a) Well functioning central banks which sell and buy government bonds of various types to the market
- (b) A private sector which sells and buys debentures, banker's acceptances, commercial papers, certificates of deposits, from and to the market
- (c) Well developed commercial banking system which buys and sells short-term primary and secondary securities
- (d) Other non-banking institutions interested in short-term securities

2 6 5 It is important to stress that only short-term primary and secondary securities are sold in this market. Primary and secondary securities of three years or less duration are regarded as short-term, while those longer than three years are sold on capital markets

2 6 6 Most SADC member states already have functioning money and debt markets. However, these are not well developed for most member States. In some cases they sell only government bonds and treasury bills. Except in a few member States, the private sector companies do not participate actively in these markets

2 6 7 It is the money markets that must be strengthened before capital markets are established. From the point of view of mobilising non-budgetary resources,

there is need to strengthen central banks so that they can play their role as the backbone of money and debt markets. It is also important to have well functioning commercial banks, which are indispensable players in these markets.

## 2.7 Capital Markets

It is in capital markets that long-term securities of over 3 years, are sold and bought. The main participants in these markets are insurance companies, leasing companies, building societies, investment banks, commercial banks, and other financial actors who want to tie capital over periods longer than three years. It is not possible to discuss all participants in this market, however, a short discussion of stock exchanges and insurance companies is made.

### 2.7.1 Stock Exchange

Stock markets operate well in an environment where accounting and auditing procedures are of high standard, settlement procedures are good and corporate financial analysis is advanced in order to make sound judgement on investments. The stock markets cannot function when the commercial banking system is weak. It is a fact, therefore, that before stock markets can be established, it is a prerequisite that a sound commercial banking system is in place. The ideal situation calls for improvement in the macroeconomic fundamentals, before establishing stock markets in the region. However, countries with advanced stock exchanges should engage in a programme of technical assistance, to countries without stock exchanges, with a view to developing the market in the region.

Many have suggested that for most countries of the region, it is the development of money and debt markets which should be given priority. It is often stated that the development of the treasury bond market forms the backbone of money and debt markets. With the bond market at the centre of the money and debt market, it is possible to create framework for the development of long-term lending. It also becomes a basis for the development of securitised corporate borrowing and eventual cross border borrowing through the stock exchanges.

### 2.7.2 Insurance

Although there is considerable desire to establish stock markets in many SADC member States, for most of them such a step is too early. Their money and debt markets only sell and buy government bonds and treasury bills. There is no active participation by the private sector in these markets and as such a wide range of instruments are not sold, such as debentures,

commercial papers, bankers acceptances, certificates of deposits, etc. For most SADC countries, it is necessary to encourage commercial banks into a wider range of activities, including lending for long-term purposes. Given appropriate incentives, commercial banks could provide services which include long-term lending. This is important, especially, given that some development banks have, for all practical purposes, collapsed. Economic agents are starved for long-term finances. As is known, without long-term financing, there can be no investments in infrastructure. Institutional flexibility is essential for the way forward regarding commercial banks.

2 7 3 In cases where the stock market is not well developed, it is not possible for insurance companies to invest in diversified instruments, especially shares, unit trusts, and other primary and secondary securities. As such, most insurance funds get invested in building houses, which may not necessarily be the best way of spending these long-term resources. In developed capital markets, insurance companies are major participants in these markets.

2 7 4 Purchase of shares and securities are a means by which insurance companies provide long-term financing to the economy through, mainly, the private sector. The development of the insurance sector, therefore, needs immediate attention as a way of mobilising capital resources. Two considerations are important.

(a) Supervision and regulations governing the insurance industry needs to be standardised at regional level. This is particularly important when the insurance industry is privatised and reinsurance schemes expand at regional level.

(b) Countries with experience and expertise in the area of insurances can assist the weaker countries to establish insurance companies. Restrictions should be removed to make it possible for insurance companies to establish themselves in the region. The introduction of new products, market pricing and transfer of skills and technology should be guided by principles agreed upon in the whole region.

### 3. DEVELOPMENT FINANCE

The establishment of development banks in the member countries was aimed at

- (a) Providing long-term finance which commercial banks could not make available for industrialisation and development. This is particularly important in member countries where capital markets did not exist
- (b) Create capacity for appraisals of projects and credit risk analysis
- (c) Provide a conduit for donor finance, especially as donors are reluctant to fund the private sector directly.

3 1 General experience in the region is that most of these development banks are in great financial distress and in some cases insolvent. Often they are pressured to finance projects of high social but low financial returns resulting in balance sheet and cash flow problems. The projects they are pressured to finance, in some cases should have been carried out with budgetary funds. Instead of fulfilling the objectives for which they were established, development banks become a drain on investible long-term resources. Another issue to be considered is the capitalization of national development banks. It has been argued that one of the problems faced by national development banks has been under-capitalization. It is also recommended that in assessing the viability of national development banks, focus should be on management. In reforming and restructuring development banks member States must be mindful of the need of co-ordinating such action with those taking place in the real economy, in government finance, in money and capital markets. Piece-meal approaches must be resisted very strongly.

3 2 The piece-meal approaches consist of advice to governments to reform the real sector of the economy, without due regard to the financial sector or government finance. At times, a World Bank team comes to advise on industrial restructuring, without proper consideration to agricultural pricing or import liberalisation. These actions affect the same economy and the sequencing of policies in this case is important. For these reasons, there is need to co-ordinate reform measures in all sectors of the economy.

3 3 For balance, equity and mutually beneficial integration to take place in Southern Africa, the physical infrastructure of water, roads, telecommunications, the financial infrastructure of banks, trade and financing facilities and overall investment climate and legislation, etc has to be comparable across the region. Although much of this should, rightly be left to the national governments, there is a major role for the Community in those areas that gave

SADC its raison d'etre in the first place is cooperation in the development of the region's infrastructure. This will ensure effective cooperation in the development of the region's infrastructure and hence integration of the region. In the past, the resources for the development of the region's infrastructure has come from outside. While outside assistance will continue to be required, there will be need to mobilise the region's own resources and to use outside assistance in a manner that would ensure that

- (a) outside assistance is not a one-off event but is used in manner that is self generating and in a way that can leverage the flow of private resources, both from within the region and from outside;
  - (b) the expenditure on regional programmes is carried out in a manner that would have impact on the region's economies. This means that special efforts should be made to purchase goods and services from within the community for all projects and programmes
- 3 4 In the past, efforts of using outside assistance to promote the purchase of goods and services from within the region have failed on account of institutional weakness, prejudice against goods and services produced from within the region and donor connivance to promote the use of their own firms and exports
- 3 5 To make progress in this area and to achieve the above requirements some sort of an intermediary facility is required. Normally this role should be played by a regional development bank. However, the experience of national development banking in the region is a failure. In addition, there are already two players in this area - the African Development Bank (ADB) and the Development Bank of Southern Africa (DBSA) and perhaps the PTA development bank for East and Southern Africa
- 3 6 There is nothing wrong with development banking in principle as such provided that they are run on sound financial basis without political interference. There are, therefore, three alternatives
- (a) Establishing a new regional development bank for Southern Africa. The disadvantage of this approach is that it might take time to establish such a new institution. However, pressing problems of developing infra-structure in the region point to the need to establish an own regional Development Bank, capitalised along the same principles as the ADB. This is the most desirable alternative
  - (b) Obtaining an agreement with the ADB to establish an autonomous branch in Southern Africa. This approach will have the advantage of tapping on the capacity and experience of the ADB. However, it will also take

time, as the consent of the rest of the membership of the ADB would have to be secured and the relevant agreements concluded. There is also the disadvantage that such an institution would remain a subsidiary of the ADB rather than an autonomous regional financial institution

(c) The restructuring of DBSA to turn it into a truly regional institution. The disadvantage of this approach is that this is a South African institution which may be called upon to attend to South Africa's own considerable reconstruction needs. However, the capacity and experience of the DBSA can be useful if the decision is to create a free standing regional development bank

3 7 A strategy for the solution of constraints in development finance institutions must be preceded by an analysis of each national development bank. The analysis must focus on the scale of the problem of insolvency, management capabilities, levels of capitalization and the nature of the lending policies being followed. At a regional level, one can group national development finance institutions into illiquid, and liquid, with the graduation of the institutions' position on such a scale. The nature of intervention at national and regional levels will be spelt out e.g. should the national institution be rescued, shut down and/or the consequences of action taken.

The development agenda being political, there is a high risk of political considerations, overshadowing financial considerations. However, financial institutions must be governed primarily by financial considerations.

It is often argued that long-term lending involves greater insecurity and usually contain political considerations regarding society's long-term objectives. If this is the case, can it also be argued that part of their revenue should arise directly from the budget? A regional strategy will develop clear guidelines to member States so that needed structural reforms may be co-ordinated

The issue of the ownership structure of development finance institutions will need to be studied. Should commercial banks be stakeholders? Why should they be wholly government owned? Answers to these questions will produce a regional strategy that can contribute to resolving of constraints of insolvency and financial distress.

### 3.8 Cross Border Investments

SADC has commissioned a study on cross border investments, which contains the arguments why such investments are necessary. Here, it is only necessary to state as follows

- (a) that cross border investments counteract trade imbalances through creating productive capacity in depressed areas or countries. The new capacity created can later be a source of export goods, thus correcting the initial imbalances,
- (b) opening of production capacity implies training and retraining of local human resources, such that skills and technology are enhanced. In this way skills and technology are transferred among member countries,
- (c) for cross border investment to take place, rules concerning repatriation of profits must be transparent and uniform through out the region,
- (d) market related exchange and interest rates must obtain in the region. This will create uniformity regarding the macroeconomic environment under which cross border investment takes place,
- (e) legal procedures regarding property rights must be more or less uniform and transparent throughout the region

It has been shown, however, that the ease with which cross border investment takes place is enhanced when macroeconomic stability and convergence is in place. Further, the development of the financial system is a necessity to ease the movement of funds from one country to another. Intra-regional currency convertibility is ideal as it would reduce the red tape associated with the movement of currencies

### 3.9 International Cooperating Partners

SADC and its member States are very committed to raising their own financial resources to finance projects and programmes. However, SADC appreciated that it would not be possible for the organisation to meet all its financial requirements for development from its own internal resources. In this respect, member States decided that, the mobilisation of international understanding, goodwill and support, would be one of SADC's cardinal objectives. Over the last fourteen years, SADC has built a core of International Cooperating Partners (ICPs), who have followed closely the development of the organisation. The ICPs have been very generous to the organisation in terms of the levels of resource flows to both the national and

regional programmes and projects Resources from outside the region will continue to be necessary to supplement the region's own resources However, it must be emphasized that foreign resources to the region can only supplement and not replace own efforts. Over reliance on foreign aid must be reduced to facilitate proper planning and avoid excessive interference from outside

#### 4. MOBILISATION OF THE REGION'S CAPACITY AND EXPERTISE

4.1 SADC has recognised that the primary cause of underdevelopment in Southern Africa is not so much the shortage of financial/capital resources per se, but more the interplay of poor policy environment, the weak institutional capacity and the low level of expertise aggravated by the inadequate husbandry of these resources. The low level of the involvement of people in the political process and governance were also identified as the other constraints to development and growth in the region.

4.2 This is not in any way intended to under play the importance of financial and capital resources in the development and reconstruction of the region, but an attempt to get the priorities right and an assertion that good policies, programmes and projects will attract national, regional and international resources on the basis of their own intrinsic value The proper approach is, therefore, to establish good policies and to formulate good projects. This requires good institutional capacity and expertise

4.3 A number of past SADC theme documents have sought to address these issues The theme document for the 1990 Consultative Conference entitled, **SADC: The Second Decade, Enterprise, Skills and Productivity** highlighted the shortage of manpower as one of the "fundamental constraints to the realisation of the organisation's objectives", and urged member States to take urgent and effective measures to address the situation The same theme document further observed that

"In the world of tomorrow, the value of knowledge will over shadow that of natural resources, and will further diminish the relative power of nations rich in natural resources. Since the carrier of knowledge is the individual, particularly the entrepreneur, it is critically important for the future of the region that conditions are created that will allow people to reach their full potential "

4.4 The 1991 SADC Consultative Conference returned to the same subject in the theme document entitled, **SADCC: Human Resources - Primary Factor in Development**. This document also identified "persistent shortages of highly trained professionals, managers, entrepreneurs and policy analysts, and the absence of an environment which is conducive to the

application of skills (as) among the most essential constraints to the development of the region". It further observed that

"Increases in the supply of trained people have often not led to increases in productivity due to the inadequate management of personnel, uncondusive working conditions, including insufficient incentives, and the absence of a supportive environment to reward good performance "

4 5 Both these two theme documents saw the issues in human resource development as those that relate to

- \* increased investment in the development of human skills,
- \* the development of both personal and institutional capacities, particularly as they relate to the management of both private and public institutions,
- \* the mastery of science and technology;
- \* the democratisation of the development process, to ensure that people have a meaningful involvement in decisions and actions that affect their lives,
- \* the application of a merit based system of appointments and promotions to key positions particularly into public institutions,
- \* the financing of the development of human skills,
- \* the under-development of democratic institutions and traditions which don't allow for open debate, research and publication, activities which go to the very heart of academic and intellectual life and free enquiry, and,
- \* unfavourable economic political and social conditions generally

4 6 Certainly since 1990 the political and economic environment has been greatly liberalised The conduct of public affairs is now characterised by open debate and dissent, free enterprise is now an accepted and recognised as an important part of the national economy and not a pariah which has to be extinguished These changes are important prerequisites to mobilisation of human and also capital resources

However the available capacity and expertise has been greatly affected by the adverse economic conditions which have prevailed in most of the region for more than two decades These have led to the collapse of real wages and

other monetary incentives and the decay of institutions for lack of resources to maintain them to say nothing about the resources to build new ones. All these have worsened the working environment particularly for the highly skilled and the more ambitious

- 4 7 This situation has led to the migration of the highly trained, talented and mobile manpower and the erosion of what ever capacity had been created following independence. There are fears that with the coming of majority rule, the migration of skilled manpower within the region will accelerate particularly to South Africa where wages are generally higher and working and living conditions better.
- 4 8 Some of these factors are within the powers of the Governments to alleviate. Member States should take action to bring professionalism to public institutions especially the national civil service by practising the strict application of a merit based appointments and promotions system. The on-going economic and political liberalisation reforms, if carried out to their logical conclusion, should result in the improvement of the overall work environment, stemming of the brain drain and improved economic productivity and performance overall. Action is required to train more people particularly in science and technology including making facilities available for life long education, to improve the incentives, and to rehabilitate public institutions such as the universities, research institutions, training colleges, etc. These are serious resource constraints which will have to be overcome by greater privatisation of public expenditure to give more resources to these areas.
- 4.9 The movement of skilled manpower within the region will place SADC member States in a policy dilemma. The migration of skilled people, while good for the receiving countries, represents a "brain drain" for the sending countries. And yet the receiving countries need the skills and will go outside the region if they did not have access to skilled manpower in the region. The policy dilemma which the region faces is, therefore, whether or not to discourage the movement of skilled manpower within the region. Another factor to consider is that even if the movement of skilled manpower within the region could be stopped, there is no guarantee that such manpower would stay within the region. In any case any active discouragement of the movement of skilled labour, even if it was achievable would be contrary to the spirit and substance of regional integration. The solution is to train more people in order to increase the overall stock of available manpower and to create conditions for economic growth in the whole region.
- 4 10 Another issue that constitutes an immediate policy challenge for the region is how to approach the age-old labour system which has traditionally sent unskilled and

semi-skilled labour to the South African mines, but also into that country's agriculture and industry. Recent statistics indicate that nearly 200,000 migrant workers from the rest of the region were employed in the South African mines in 1989. More were employed in that country's agriculture and industry.

- 4 11 Increasingly other countries in the region are hosts to large numbers of illegal migrants from their neighbours. With the lure of better prospects for jobs and living conditions in South Africa and elsewhere in the region, illegal migration is also likely to accelerate. The long borders and the ethnic and family ties that cut across national boundaries make any physical controls very difficult, to say the least.
- 4 12 Here again the SADC member States will have potentially conflicting interests. Unemployment in South Africa is estimated at over 40% of the economically active population. South Africa may, therefore, want to stop labour migration on account of its own huge unemployment problems but also out of the distaste of the social consequences of the system itself. For the sending countries, migrant labour eases their own unemployment problems and, especially for Lesotho and Mozambique, represents a source of financial resources in the form of remitted incomes and foreign exchange. For instance it is estimated that the remittances of migrant workers represents 50% of Lesotho's GNP and a significant part of Mozambique's foreign exchange earnings. Lesotho and Mozambique miners are often the most skilled and experienced and hence any precipitous end to their recruitment would lead to a temporary loss in productivity in the mines.
- 4 13 Looked at in the context of regional integration and specifically the mobilisation of the regions resources, migrant workers can be considered a legitimate export commodity for the sending countries, without which they would not be able to pay for imports and to participate meaningfully in intra-regional trade. Hence, the positive sum approach would be for the region to help create alternative export possibilities for the supplier countries through increased cross-border investment. For instance, South African firms, given proper incentives through such measures as double taxation agreements, the availability of foreign exchange, etc. should be encouraged to invest in the neighbouring countries in order to countervail the current structural trade imbalance which limits export possibilities and, therefore, represents a constraint to the mobilisation of investment in the region. Past studies, and in consultations with the member States, it was quiet clear that outgoing cross-border investment was not commonly embraced and was often seen as a loss to the national economy.

4 14 Hopefully a convincing case has been made that out-going investment can be good for both the country of origin and the host country, particularly in situation of an acute trade imbalance, as is often the case in Southern Africa, especially in order to mitigate the problem of migrant labour both skilled and unskilled before it overwhelms the region with serious consequences for peace and stability

4 15 **Incentives**

The structure of the incentives will remain dependent on the economic performance of the member States. In the meantime innovative measures are required to improve incentives in order to improve productivity and to reduce the "brain drain". First and foremost the real wages and salaries should be improved. Under the existing conditions of budgetary stringency, often brought about by the structural adjustment programmes, the solution is to reduce the employment levels in the public service and to get more done with fewer workers. This should be coupled with public service reform to improve management and to bring about greater professionalism.

4 16 Laying off workers at any time is a painful and politically very risky exercise. It is also, as already indicated, a waste of a very important resource. Equally innovative measures should, therefore, be put in place for retraining and other assistance to establish the affected workers in new areas of employment, especially in agriculture, which has suffered most from the rural-urban drift particularly involving the able bodied and the most educated. Opportunities for gainful employment exist also in commerce and industry and services. The necessary regional and international resources should be mobilised to ensure the success of this exercise and to minimise its negative social effects.

4 17 Every year billions are spent on technical assistance. These funds and other support should be used for this purpose, as the proposed redeployment and improved human resource management should lead to the reduction of the current levels of technical assistance. In any case much of the technical assistance often arises not out of the absolute shortage of skills but rather out of the lack of confidence in the locals to perform, at least as well as the foreign counterparts. To make matters worse expatriates are often paid far more than their local counterparts for the same job and even where the local is better qualified.

4 18 **Training**

The increase in the stock of trained manpower is basic to finding a long term solution to the problems that the region currently faces in this area. When there is a crude equilibrium between the supply and demand of skilled manpower, available skills would be efficiently utilised on

a region-wide basis and the price and other working conditions would be determined by the market, common legislation on labour standards and the extent to which the workers themselves will be organised to agitate for their rights

4 19 A few member States have or can afford to have the full range of training facilities required by a modern economy. In these circumstances, arrangements should be made aimed at the common utilisation of available national training facilities South Africa's entry into SADC has provided the region with a greater range of more advanced training facilities and more opportunities for training within the region at a fraction the cost of training abroad Most member States provide for the intake of students from the rest of the region Such a practise should be more formalised and should provide for reciprocal treatment in such areas as fees, accommodation, etc

4 20 SADC has recognised the critical importance of human resource development to overall socio-economic progress by establishing the Human Resources Sector coordinated by Swaziland. The sector has mounted a number of programmes aimed at addressing the needs of the region in this area The projects include such important areas as management training, SADC Scholarship Fund, which should now be targeted at promoting training within the region The Southern African Centre for Cooperation in Agricultural Research has developed a blue print for the training of professional manpower for the sector of Agriculture and Natural Resources The result has been the mounting of post-graduate training programmes at four of the region's universities which take students from the entire region These universities are Bunda College in Malawi (Animal Science), University of Zambia (Crop Production), University of Zimbabwe (Agricultural Economics), and, Sokoine University of Agriculture in Tanzania (Agricultural Engineering/Irrigation Management) Similar programmes should be mounted in key priority areas such as management, engineering, medicine, etc

4 21 In order to achieve a more widespread common use of training facilities a number of constraints would have to be overcome. First the school curricula would have to be harmonised Second there should be a system of the mutual recognition of admission and certification standards across the region Other constraints which will have to be overcome are that

\* member States which have already established tertiary level institutions either feel a need to do so or because of national prestige What ever the basis for these institutions the numbers of students are too small to justify the facility in cost terms The result has been a deterioration of standards If the common use of training institutions is to be achieved

the existing institutions will have to be rationalised, taking into account considerations of both cost and equity,

- \* even where there is agreement to share facilities only a few places are reserved for outside students. If the common use of facilities is to succeed, meaningful numbers of students from the rest of the region would have to be admitted, if need be quotas would have to be agreed

- 4 22 Considerations of balance and equity would require that training facilities in the weaker States are strengthened. Every country should feel that they are an important part of the training network. There should also be a harmonisation of the various aspects of tertiary training such as vacations, the semesters, etc in order to facilitate the exchange of students and staff
- 4 23 In the past the common use of the few available secondary schools and universities and the free movement of the peoples of Southern Africa was very common. The common use of facilities will have another important side benefit - promoting greater social contacts among the people of the region who are most likely to hold leadership positions in their countries and, therefore, in a position where they can influence the course of the integration process. In order to facilitate the cross-border training and exchange of students and staff, the Southern African scholarship fund should be strengthened with contributions from both within and from outside the region and from the private sector
- 4 24 In pursuance of greater social integration and understanding among the peoples of the region, cultural exchanges should be encouraged through such activities as sporting, the exchange of radio and television programmes. Greater use should be made in the schools of literature written and produced within the region, as opposed to the current situation where literature is dominated by authors from outside the region and forms the bulk of reading material in the secondary schools and the universities

In conclusion, the following recommendations are made

- (a) Clearly, urgent measures are required to improve the management and the productivity of public institutions particularly the public service training, modern management methods, merit based promotions and the establishment of appropriate fora, involving the highest political leadership, to debate national policy issues

- (b) In order to enable the governments to afford enhanced pay scales, the size of the public service should be curtailed through the privatisation of some of the government's activities
- (c) In the strengthening of the public institutions particular attention should be given to the development of capacity for policy formulation and project design and formulation. In this regard institutes for public policy research should be established, where they do not exist.
- (d) There should be a clear linkage between effort and productivity and reward. This would constitute a repudiation of the current pervasive dependence on hand-outs by governments.
- (e) Entrepreneurship should be promoted through training programmes, business extension and the creation of the necessary financial infrastructure, credit guarantee institutions, etc
- (f) Each member States should formulate a policy for the sustainable development and maintenance of facilities for quality education and training at tertiary level taking into full account the public and private resources likely to be available. Since few countries in the region are likely to afford the full range of training facilities required in a modern state, programmes for the common use of national training facilities should be developed. In this regard school curricula, admission criteria and the certification standards should be harmonised across the region. In addition the current SADC scholarship facility should be expanded and re-focused to give priority to training within the region which is more cost effective
- (g) In a fast changing economic environment, the workers skills should constantly be upgraded. Facilities should, therefore, be created for lifelong education. Evening classes, distance education programmes and others should be put in place. Such programmes will also enhance the utilisation of the expensive plant and manpower in tertiary institutions
- (h) Institutes should also be created to promote scientific enquiry and the greater mastery of science and technology
- (i) The solution to the current migrant labour problem involving both the skilled and unskilled manpower is to increase the stock of trained manpower through training and the promotion of cross-border investment particularly by countries which enjoy a trade surplus in intra-regional trade, such as South Africa and

Zimbabwe. Such cross border investment will also have the benefit of expanding trade in both directions

- (k) Cultural exchange programmes should be strengthened, including the use of text books and other materials produced by the regions authors and artists.

## 5 INSTITUTIONS

- 5 1 The issues of institutions and capacity are multi-faceted. Their range includes the competence of both the regional and national institutions to carry-out the tasks at hand. In this case regional integration for community building. As community building has to be a broad-based process, there will be those institutions that will be created by the governments directly. Others will emerge from individuals acting in their own self-interest, inspired by an enabling environment.
- 5 2 The founders of SADC eschewed a large regional bureaucracy in favour of a system of decentralised responsibility for the implementation of its programmes by governments of the member States. Hence, each member State was allocated a sector to coordinate using its own manpower and financial resources and or external assistance. Only in two sectors were regional institutions established, called commissions: the Southern African Transport and Telecommunications Commission (SATCC) and the Southern African Centre for Cooperation in Agricultural Research (SACCAR). Although these are coordinated by member States, their staff are regionally recruited and they are funded by all the member States through contributions to their budgets.
- 5 3 The old SADC emphasised the use of existing national institutions properly adapted to carry out regional functions. This approach has merits, particularly, in ensuring the involvement of the member States in the daily management of the affairs of SADC and avoids the problems and cost associated with bureaucratization. However the founders of SADC did not see this loose structures as a permanent feature of the organisation. Formal regional structures were to be established where concrete benefits of such regional institutions could be established.
- 5 4 This approach had limited success, essentially out of the weakness of the national institutions themselves for the reasons, that have been discussed elsewhere in this document. Unfortunately, some of the national structures established to carry out regional functions largely failed to rise to the task at hand and never managed to graduate from the status of a sector coordinating unit to a regional institution. This inadequate performance of the existing SADC structures has been a subject of a number of reviews and lengthy debate within the organisation.

According to the paper (Management of Regional Cooperation) submitted by the Secretariat to the meeting of the Council of Ministers in January 1994, some of the constraints during institutional development are identified as

- (a) the management of cooperation had to be executed through ten civil services with different styles and approaches to management. This made it difficult to evolve a common SADC management system,
- (b) each bureaucracy in turn provided financial, human and material support to the Unit according to its own "capacity",
- (c) the support to each unit, differed from country to country, reflecting the resource endowment of the respective countries. It was, therefore, difficult to evolve or realise SADC terms and conditions of services, work ethic and management styles for the staff of the units,
- (d) in some countries, staffing levels of these units have been on a part-time basis, and in others, provisions have been totally inadequate for tasks to be performed,
- (e) it has been difficult for the Secretariat to pull a common managerial thread across these Units, principally because of the national status of the sector coordinating units (financing and manning), and the inherent differences among national civil services

5 5 The agenda that the Community building process takes place on the basis of these structures, which have already proven inadequate to the existing tasks of coordination, must be reviewed with the aim of restructuring the units for a more complex tasks of regional integration. With that in mind the SADC Council of Ministers took the following policy on the creation of community institutions

- (a) the institutional structures of the community must provide for the active involvement of the member States in the formulation of policies, strategies and programmes and the implementation of the activities of integration,
- (b) community institutions and procedures should be independent, of, and outside the control of any individual member State

5 6 It would be impractical and ill-advised for the process of integration to seek to create institutions for everything. The approach to be adopted should be to create structures only for those activities that are best done at the regional level, the rest and most of the activities for

regional interaction should be left to national institutions. For instance, the reasons of achieving economies of scale and financial efficiency, it may be necessary to establish a regional airline or a regional electricity authority. However, a host of activities, although they form an integral part of the integration process, will be best left to national jurisdictions, at least in the initial stages. Issues of the supervision of financial institutions even where they operate across border, certification, standards, legal process, etc are best left to individual member States. However, this requires that there is mutual confidence and recognition of national systems and standards. Hence, a machinery or machineries should be adopted to agree on common systems and standards in areas that are central to the integration process such as domestic taxes, property rights, prudential regulations, etc. In other words, there should be a convergence between national and regional systems.

5 7 **Central Institutions**

The Treaty establishing the community has already a number of institutions which are central to the management of the affairs of the SADC. These are, The Summit of Heads of State and Government, The Council of Ministers, The Standing Committee of Officials and The Secretariat. The summit meets once a year and the Council and the Standing Committee of Officials twice a year. The only institution that serves the organisation on a full-time basis is the small Secretariat.

5 8 Obviously much of the roles of the technical structures of SADC will be defined by the agreed protocols on the various aspects of integration. What can be said at this stage is that the structures which must superintend the implementation of various agreed protocols will have, by necessity, to be truly regional institutions, independent of influence of any one member State. In as far as the involvement of member States is concerned, the current position of the two commissions can show the way. Depending on the agreement on protocols for specific areas of integration, commissions can be established under the policy oversight of a member State, in the manner of the current arrangements with respect to SATCC and SACCAR.

5 9 However as part of the overall effort to mobilise resources, institutions and capacities there is need to re-examine the constitution and financing of regional institutions. Central to this re-examination should be to involve the operators centrally in the constitution and funding of regional institution in their own sectors. Take the electricity utilities in the energy sector for instance. In time the ongoing programme to establish a regional electricity grid will necessitate the establishment of a unit to plan the development of the sources of power, the related infrastructure and the most

optimal utilization regime. The region's power utilities should be encouraged to establish and pay for such structures themselves. This would obviate the need for member States to create and pay for such structures.

5 10 All that would be required, for the coordinating member State would be to create a minimal capacity to maintain policy oversight and to provide a link between the utilities and the official organs of SADC. In this respect, the on-going efforts to establish a Southern Africa Power Pool (SAPP) and the Southern Africa Regional Air Transport Authority (SARATA) should be expedited.

5.11 Such an arrangement could also be applied in railways, telecommunications, postal services, ports, etc. The additional advantage of such arrangements would be to bring a large and important section of the region's institutions directly into the integration process. The success of such initiatives will depend on the ability of member States to accept new ways of doing things and the creating of political space for these arrangements to manage their affairs.

5 12 This brings up another major policy point. All the economies of the region have a large and influential parastatal sector with command over a substantial part of the region's resources. More often than not these parastatals supply basic services such as power, water, telecommunications, etc. under monopoly conditions. Very often the result is substandard and expensive service. In many cases these parastatals are protected by national legislation which excludes the entry of the competitors. While the parastatals may still have a role to play in the region's economies, their role should be that of facilitators and not competitors. They should move to new areas as soon as the private sector is ready to take over their established areas of activity. Where this is not possible, measures should be taken to expose the parastatals to cross-border competition.

5 13 If the community is to come off the ground with its very complex agenda and function effectively and to the benefit all its members, it will require full time and focused attention of all the member States, particularly in the early stages. Currently the affairs of the community are looked after by the national contact points on a part-time basis. Each member State should, therefore, create a ministry of community affairs in the long run, headed by a minister in order to bring focus and status to the integration process. The Minister should be supported by national embassies in Gaborone manned by qualified personnel. Such an arrangement could also lead to the development of conference and support services in Gaborone, which would obviate the need for member States to incur great expense in hosting meetings.

- 5.14 If integration is to take firm root, it has to become part of the fabric of national economic, political and social life in every member State. Ways should, therefore, be found to involve civil society in the process of regional integration. Initially the involvement of the elected representatives could serve as proxy for the involvement of civil society. Later on community-wide civic and other organisation will emerge.
- 5.15 Even in the best of times regional integration is a complex process requiring on going and forward looking planning and policy analysis. This in turn requires up-to-date data and qualified personnel. In this regard SADC should establish its own capacity for on-going research. This need not be an elaborate structure, but small unit which would set the agenda for research on issues of regional integration and seek to carry it out through networking with existing institutions that are already involved in research such as the universities.

#### **SADC's Cooperating Partners**

One of the institutions which was established right at creation of the of the old SADCC was the Annual Consultative Conference. These conference bring together representatives of the member States and the donor community to discuss the implementation of regional programmes. In the early days the major emphasis was on the mobilisation of resources for the programmes through donor pledges. Later there was an unsuccessful attempt to shift the focus of the conferences toward policy dialogue between the two sides. The new SADC inherited this institution.

Another more recent innovation has been the Nordic/SADCC Initiative. This was intended to move cooperation beyond aid to emphasis more the promotion of investment and trade flows between the Nordic and the SADCC countries. The flagship of the initiative is the NORSAD Fund which is based in Lusaka, Zambia. Otherwise the initiative has failed to live to its early promise. It seems that the problem has to do with institutional weaknesses, lack of involvement of the private sector, and the restrictive trade policies of the Nordic countries.

The region will continue to need the support of the international community for some time to come. The proposed regional bank, the compensation arrangements, the regional scholarship fund, etc will require resources well beyond the capacity of the member States in the early stages of the integration process.

However it is important that these relations should move beyond aid to emphasis more mutually beneficial investment and trade relations. This would require a level of transparency and predictability that can only be bestowed

by an agreement between SADC and its partners based on the principle of reciprocity. Predictability is important for any significant investment flows to take place. In this regard the Nordic/SADC Initiative should be reinvigorated and the recent meeting between SADC and the European Union should be seen in that context.

### Other Institutions

There is a host of national institutions which can be called upon to carry out regional functions. Non-governmental organisations such as the commercial banks, business organisations, the parastatals, etc. For instance, it has been suggested elsewhere in this document that more developed commercial banks should assist in the development of commercial banking elsewhere in the region. It has also been suggested that truly regional commercial banks should be allowed to emerge by lifting the current restrictions regarding cross-border investment and cross-border shareholding.

A number of parastatals have offered to open their training facilities to trainees from their counterparts on a reciprocal basis. Others such as the South African power utility, ESKOM have advanced and ample training facilities which they are prepared to make available to other power utilities.

Business organisations have also offered to join hands across borders in order to address the problems of investment and trade. In this connection, the issue of the non-availability of investment financing for emergent indigenous business is one that the region's business community want to be addressed by any regional arrangements. A business forum should be created to address these and other concerns by business community.

However, there are problems to be overcome. There is often discrimination against bodies from elsewhere in the region. If integration is to proceed, firms and other business organisations must receive equal treatment in all the member States regardless of their nationality - the so called national treatment. National policies and legislation will have to be changed in order to achieve this.

Other constraints which will have to be overcome include the language barrier; shortages of foreign exchange to support training in other member States; different educational standards; etc. With some effort these barriers should be overcome to enable the spontaneous movement toward integration to emerge.

In conclusion the following recommendations are made:

- (a) The central institutions of the organisation should be strengthened through
  - 1) the appointment in each member State of full time officials to deal with the matters of Community building. These should be supported by appropriately staffed embassies accredited to the Community. Later a ministry of Community affairs should be established;
  - 11) truly regional institutions should be established following agreement on the specific protocols to take the place of the current sector coordinating units which have proved inadequate to the task of regional integration,
  - 111) operators should be closely involved in the creation and running of Community institutions in the relevant sectors. In this connection the current efforts to establish the Southern African Power Pool should be supported,
  - iv) The Secretariat should also be strengthened if it is to play a central role in the Community building effort through the addition of more qualified staff
- (b) The Parliamentary Forum should become a regular feature in the SADC calendar and its meetings should be adequately prepared for
- (c) It will be ill-advised to create institutions for all aspects of the integration process. Many activities of the integration process should be left to national jurisdictions. In addition a conducive environment should be created to enable region-wide institutions in such areas as the professions and cross-border business coalitions to emerge. Toward this end policies and other discriminatory practices should change to give all bodies the same treatment as their national counterparts.
- (d) The parastatals which often enjoy monopoly positions in the national economies should have their activities unpackaged with a view to privatising aspects of their operations. Where this is not possible nor desirable the parastatals should be subject to cross-border competition

- (e) A new relationship with SADC's Cooperating Partners should be established emphasising more investment and trade and based on reciprocity and mutual benefit and providing for predictability and transparency which will enable the business community to plan their activities with greater confidence

## 6 WAY FORWARD

Mobilisation of resources, improving the institutional arrangements and ensuring adequate capacity for integration are complex topics. Since resources and capacity are scarce, there is need to prioritise the proposed actions and to sequence events taking into account the realities of member States to implement the recommendations. For this reason, the theme document divides the necessary action into short-term (less than 3 years), medium term (3-7 years) and long - term (7-15 years). Further, the recommendations are grouped into those that are general in character, and those that are specific to resources, institutions and capacity for integration. In order to operationalise these recommendations, the Secretariat will play the role of initiator, facilitator and monitor.

### 6 1 General

- 6 1 1 There is necessity that theme documents should build on each other in a systematic way. This is to make sure that agreed actions are taken and monitoring is simplified. It is necessary to evaluate the past theme documents in order to appreciate the degree of implementation of agreed policies and to spell out measures for areas where no action was taken.
- 6 1 2 There is need to establish a reliable and relevant data base at the Secretariat for all member countries. This should include economic statistical profiles, economic policies, legal and regulatory regimes, taxes, tariffs and background economic reports.

### 6.2 Financial/Capital Resources

#### 6 2 1 Short-Term

For the short-term recommendations to be carried out in a systematic manner, there is need to establish a finance and investment sector for SADC. The sector should be supported by the regular meetings of Central Bank Governors and officials, Ministers of finance and officials. The most important tasks to be addressed in the short-term are:

- (a) Financial sector reforms in the region, including financial broadening and deepening, with a view to promote investment and trade. In this connection, it should examine the possibilities

of Export Credit Guarantee Schemes and Credit Guarantee Schemes for small businesses.

- (b) Establishment of a Regional Development Bank.
- (c) Standardisation of rules and regulations for bank supervision.
- (d) Ways to provide technical assistance to countries with a weaker financial system
- (e) Propose how to strengthen the inflow of foreign investment into the region, focusing specifically on policies to be adopted.
- (f) Standardise and harmonise the concepts of property rights (titles, patents and intellectual).

#### 6.2.2 Medium term

- (a) Co-ordination of monetary and fiscal policies aimed at movement towards macroeconomic convergence at the regional level
- (b) Develop strategies for government deficit reduction in order to contribute to macroeconomic stability in the region.
- (c) Initiate harmonisation of tax regimes and tariff rates in order to create a regional climate for investment and growth Standardisation of tax laws, incentives and concessions
- (d) Free capital movement should be a top priority and relevant laws and regulations should be introduced
- (e) Development of money and debt markets should be enhanced as a pre-requisite to the building of stock exchanges and general development of capital markets.
- (f) Strengthening of the regional development bank.
- (g) One stop investment centres must be strengthened and established where they do not exist, with a specific aim to facilitate cross border investment
- (h) Re-define objectives and tasks of parastatal organisations.

### 6.2.3 Long-Term

- (a) Further steps to harmonise monetary and fiscal policies with the objectives of achieving closer co-ordination. During this period, discussions on possible single currency should be put on the agenda
- (b) Mechanisms for common tax and tariff should be put in place, and the complete elimination of tariffs and non-tariff barriers.
- (c) Complete free movement of capital and labour.
- (d) Harmonisation of social safety nets, unemployment benefits, etc

## 6 3 Institutions

### 6.3.1 Short-Term

- (a) Full time officers should be appointed at the National contact points to manage the community building process
- (b) Following the adoption of sector protocols, community institutions should be established. SADC appointed officers should staff sector coordinating units (commissions) and the Secretariat must be strengthened
- (c) The operators themselves should be brought into the institutional set up for the relevant sectors. Where-ever possible these operators should financially support regional institutions in relevant areas. In this context, the establishment of the Southern African power pool and similar institutions should be expedited.
- (d) The SADC Parliamentary Forum should become a regular feature of the SADC calendar

### 6 3 2 Medium term

- (a) Ministry of Community Affairs should be create in every member State.
- (b) Member States should extend, on a reciprocal basis, to each others institutions, companies, etc national treatment
- (c) The activities of parastatals should be examined with a view to privatising aspects of their operations. Where this is not possible, parastatals should be subjected to cross border competition

- (d) Some agreements between SADC and its cooperating partners should be renegotiated, providing for predictable and mutually beneficial relations in the areas of investment and trade

#### 6 4 Capacities and Expertise

##### 6 4.1 Short-term

- (a) Measures should be taken to reform the public services of member States in order to improve performance. Some of the measures necessary include applying modern management methods, promotions based on merit and improving conditions of service
- (b) In order to offer enhanced salaries and incentives in the face of budgetary constraints, the size of the public service should be reduced through privatising some of the government activities
- (c) In the strengthening of the management of public institutions special attention should be given to the development of capacity for policy formulation, project design and implementation. In this regard, institutes for public policy research should be established where they do not exist
- (d) Visa requirements to travel within the region by residents of member States should be abolished. Some border points should be open 24 hours to facilitate movement of people, goods and services. Visa and work permit requirements for cultural workers should be abolished

##### 6 4.2 Medium Term

- (a) The Vice-chancellors of the region's universities should work to harmonise curriculum, admission requirements and other factors relevant for the greater exchange of students and staff of tertiary level institutions.
- (b) To achieve greater exchange of students and staff and to facilitate training within the region, the current scholarship fund should be expanded with funding from member States, private sector and cooperating partners
- (c) Cultural and information exchange should be fostered by promoting the use of books authored by the region's own writers. The production of joint television programmes should be encouraged.

- (d) An information handbook should be compiled about training institutions in the region to be distributed to libraries, universities, government institutions, etc.

6 4.3

Long-term

- (a) The Vice-chancellors of universities and other tertiary institutions should work out a programme for the common use of institutions of higher learning and research. They should also work out arrangements for life-long education in the region.
- (b) World class facilities for science and technology research should be established or strengthened in the region for the joint use of member States.

## ECONOMIC PERFORMANCE IN THE SADC REGION

Country	Population Million	Total GNP (US\$ Billion)		Real GNP Growth Rate %	Average Inflation Rate % (Measured by CPI)		Economically Active Population (mill)
	1993	1980	1991	1889	1980	1993	1990
Angola	10.4 (a)	4.36	6.01				4.1
Botswana	1.44	0.8	3.33	9.3	13.6	12.7	0.4
Lesotho	1.9	0.63	1.05	2.7	15.7	9.3	0.8
Malawi	9.3 (a)	1.16	1.99	3.5	11.8	22.8	3.5
Mozambique	15.9	2.38	1.16	1.1		30	8.4
Namibia	1.49	1.77	2.05	1.6	14.8	8.5	5.4
Swaziland	0.83 (b)	0.43	0.87	6.8	20.6	12	0.3
Tanzania	26.7 (c)	4.89	2.42	2	30.83	23.5	12.6
Zambia	8.94	3.28	3.39	0.7	11.6	187.6	2.6
Zimbabwe	10.6	5.36	6.22	3.6	5.4	18.6	3.9
South Africa	40.8		91.16	1.5	14.4	9.5	12.4

Adopted from Establishment of a Common Regional Investment Environment  
in SADC Though Harmonised Macro-economic Policies Commonwealth Secretariat, 1993  
EIU Country Reports 3rd quarter of 1994  
Economic Integration in Southern Africa African Development Bank 1993

a) Official estimates

b) EIU estimates

c) EIU country Report – Estimates based on census results