

Technical Report

Third SADC Macroeconomic Convergence Workshop

SADC Macroeconomic Convergence Monitoring and Surveillance Unit



SUBMITTED TO

USAID Regional Center for Southern Africa
SADC Secretariat in Gaborone, Botswana

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Contents

1. Introduction	1
2. Summary of Workshop Themes	3
Macroeconomic Convergence Targets	3
Country Convergence Programs	5
Macroeconomic Monitoring and Peer Review	6
MSPU Location and Staffing	9
3. Summary of Recommendations	11
Macroeconomic Convergence Targets	11
Country Convergence Programs	12
Macroeconomic Monitoring, Surveillance, and Performance Unit	13
References	15
Appendix A. Recommendations of the Third Workshop on SADC Macroeconomic Convergence in Relation to Macroeconomic Monitoring, Surveillance, and Performance Unit; Country Convergence Programs; Convergence Targets; and Peer Review Mechanism	
Appendix B. Meeting Minutes of the Third Workshop on SADC Macroeconomic Convergence	

1. Introduction

On June 26–27, 2003, the Third SADC Macroeconomic Convergence Workshop was held in Maputo, Mozambique. Two earlier workshops, both organized by the Macroeconomic Subcommittee of the Finance and Investment subsector of the Trade, Industry, Finance and Investment Directorate (TIFI) of the SADC Secretariat, were led by SADC’s Senior Macroeconomic Policy Adviser, Dr. Moeketsi Senaoana. Funded by the Regional Centre Southern Africa of the U.S. Agency for International Development (USAID/RCSA) and coordinated by Nathan Associates Inc., the workshops lay the groundwork for proposals to governments and are critical in keeping governments and the SADC Secretariat mutually informed.

The first workshop, which took place July 9–10, 2001, in Johannesburg, was organized in consultation with the Secretariat of the Committee of Central Bank Governors. The purpose of the workshop was to gain a better understanding of the concept and process of macroeconomic convergence. A second objective was to assist the subcommittee in drafting a memorandum of understanding (MOU) between SADC member states on macroeconomic stability and convergence. On July 31, SADC ministers of finance and investment unanimously endorsed a draft MOU and the workshop report.

The second workshop was held in Gaborone August 28–29, 2002. The purpose was to disseminate research; to discuss the state of macroeconomic convergence in SADC, the design of the convergence process, and the functioning and composition of the monitoring, surveillance, and performance unit (MSPU) envisaged in the MOU; and to decide on next steps.

The purpose of the third workshop was to discuss the results of Dr. Clive Gray’s study of the establishment of the MSPU in the SADC region and to work on next steps, including the implementation of macroeconomic convergence. Workshop delegates generated “Recommendations of the Third Workshop on SADC Macroeconomic Convergence in relation to the Macroeconomic Monitoring, Surveillance, and Performance Unit (MSPU); Country Convergence Programs; Convergence Targets; and Peer Review Mechanism.” Dr. Senoana (SADC), Jon Shields (IMF), and Professor Eric Schaling (Shape Economic Consultancy and RAU) compiled the report, which was accepted by SADC member states at the workshop. It is presented in Appendix A.

In this report we summarize the themes that emerged during the third workshop’s presentations and discussions, followed by recommendations. Meeting minutes are provided in Appendix B.

2. Summary of Workshop Themes

The themes of the third workshop were macroeconomic convergence targets, country convergence programs, macroeconomic monitoring, surveillance and peer review, and location and staffing of the Monitoring, Surveillance, and Performance Unit (MSPU).

MACROECONOMIC CONVERGENCE TARGETS

In his presentation, “An Overview of Macroeconomic Convergence Implementation to Date,” Dr. Senoana stressed that implementation must be done at the level of SADC member states. The Memorandum of Understanding (MOU) on macroeconomic convergence signed in August 2002 identifies indicator variables (e.g., inflation rate, fiscal deficit, net present value of debt, and the balance and structure of the external account). For purposes of implementation, SADC member states must decide how to use numerical values or targets for the variables and how to monitor progress toward these targets.

Convergence Targets and Ultimate Objectives

In “Principles and Experience of Monitoring and Surveillance of Macroeconomic Convergence,” Jon Shields described macroeconomic convergence targets as fundamental to the process envisaged in the MOU. If the ultimate objective of macroeconomic convergence is full monetary union, convergence among countries must be rigid and will require very precise quantitative targets. If the ultimate objective is a free-trade zone and an economically integrated community, convergence will consist of stable, predictable macroeconomic policies that are consistent over time, rather than identical results for all member states. This objective will still require credibility but less numerically precise targets.

How can the impression that the MSPU has the “right” model for all countries be avoided? Will a “one size fits all” approach to convergence be destabilizing? The ultimate objective of regional integration is growth, and stability derives from growth. At the same time, stability is not an end but a means that enables growth. The objectives of stability and growth are therefore not in conflict. Whether convergence is destabilizing depends on when targets should be met: a long time horizon implies flexibility and looser policies than a short horizon.

Rather than comparing SADC member states to the European Union (EU) perhaps SADC should be compared with other African economic blocks. On the one hand, SADC is leading the way through the MOU, which is unique because it exists in the absence of explicit plans for monetary union. On the other hand, the EU evolved gradually from small regional groupings of subsets of countries to larger groups and SADC may be following the same route. In recognizing that the speed of convergence varies by country, perhaps SADC countries that are doing well could lead the process, setting an internal standard and providing incentive for others.

Targeting Strategies

In “The Logic of Implementing Macroeconomic Convergence in SADC: Implications for the Functioning of the MSPU,” Professor Schaling described macroeconomic convergence targets and summarized ideas and progress on targeting strategies as follows:

- The SADC Council of Ministers for Finance and Investment (COMFI) will determine targets for each indicator agreed to in the MOU (per Article 6). These targets were termed “absolute targets” during the second workshop held in Gaborone in August 2002. Absolute targets and absolute target horizons still need to be decided. “A Macroeconomic Convergence Program for SADC Phase I” recommended that SADC countries target macroeconomic indicators at the same levels such that (1) national outcomes for macroeconomic indicators do not diverge widely from those of other member states, and (2) outcomes lie in a low range. Participants in the second workshop endorsed this recommendation.
- Countries that consistently meet all targets will belong to a “convergence club.” Club membership will signal to investors that a country meets global best-practice standards for macroeconomic stability. Outliers who have not yet fully achieved targets will be recognized for making progress.
- The great variation in performance of countries in the region complicates the design of convergence mechanisms and standards. Outliers can make rapid progress once they start to manage their economies prudently. Although targets should reflect the ability to improve swiftly, rapid improvement should also be recognized even if targets have not been met. It would be useful to specify convergence timeframes and intermediate targets while protecting the status of absolute targets.
- Intermediate targets need to be realistic, achievable, contain a timeframe, and be accompanied by comprehensive strategies that build on strengths and address weaknesses.
- Each country will have to set intermediate targets for indicators over a 3-year period (per Article 6 of the MOU).

Target Credibility and Peer Review

What will happen when a country does not meet macroeconomic convergence targets, even when implementing prudent policies? The SADC Secretariat said that focusing on qualitative targets will stymie assessments. Targets should be flexible, but widely varying programs are not desirable. Self-evaluation requires guidelines. Here, the MSPU could check the accuracy and consistency of self-assessments.

Indeed, defining the exact role of quantitative indicators is difficult. Concrete, definable goals are necessary; concrete numbers focus policies; and “respectable” numbers enhance credibility. Coupling common (absolute or long-run) targets for SADC with country-specific intermediate targets (with the latter emerging from member states’ individual convergence programs) offers an excellent way of uniting long-run credibility and short-term flexibility. At the same time, one must recognize that great deviation between performance and a target impugns the credibility of the target, rendering it useless as a means for establishing credibility.

If it is unrealistic to assume that all countries will achieve a 3 percent inflation rate in the near future, it may be better to aim for reasonable timeframes for individual countries according to their circumstances. After common targets are imposed on all states, flexibility in movement must be accommodated. Then, if countries move too slowly—given their individual timeframes—they can be publicly criticized under a peer review mechanism. Here, a convergence club is practical. Perhaps the speed of convergence, as well as the levels of target variables, should be a part of the implementation debate.

It is unlikely that a country will move at once from, say, Club 0 (no targets met) to Club 4 (all targets met). Perhaps the average performance of “higher” performing clubs could be used as intermediate targets for “lower” performing clubs.

COUNTRY CONVERGENCE PROGRAMS

Using four hypothetical, reasonable targets,¹ “A Macroeconomic Convergence Program for SADC Phase I” found that no country in SADC met all targets. Clearly, convergence programs need to be developed at national levels to sustain the good economic performance that may already be present.

In “The Role of Macroeconomic Convergence Programs,” Mr. Shields described the features that country-level programs should have. They should provide for demonstration of how progress toward macroeconomic stability will be achieved; be in a form that can be subjected to peer review; take into account the value of learning by experience; and enhance domestic capacity.

Most countries have annual data so starting with an annual national convergence program is recommended. Programs should also be

- Based on member states’ existing programs and decision cycles (e.g., IMF programs and the budget cycle).
- Concentrate on how the economy is doing and what needs to be done in the immediate future. This is more important than specific data. Here lies the importance of self-appraisal
- Sufficiently flexible, possibly based on scenarios and broad policy options under those scenarios, and allowing for studies on special topics, such as structural reform or past policy failures.
- Synchronized, with all states submitting their convergence programs at the same time. Synchronizing the submission of all convergence programs with member states’ fiscal cycles would make them far more useful. If programs were submitted by March or April, countries would have already embarked on their fiscal policies, and information on economic variables from the previous year would be available. After the programs were submitted ministers could meet in August, leaving ample time for program appraisal in the March–June period.

¹The targets were as follows: CPI inflation rates must be in the 6–9 percent range, the ratio of the budget deficit to GDP of any SADC country must be in a ± 3 percent range, the ratio of the net present value of public or publicly guaranteed debt to gross national income (GNI) must be no larger than 40 percent, the current account deficit as a percentage of GDP must be no larger than 6 percent.

The programs also need to contain projections on macroeconomic convergence indicators. Projections could be anchored to long-term objectives and the 3-year targets. It is very important to have a very detailed set of projections and/or forecasts for the first (upcoming) year. The numbers in the program should cover the main sectors of the economy; that is, the real economy, the inflation outlook, fiscal accounts (expenditure, revenue, deficit, financing). On the monetary side it is important to include base money growth and the balance of payments (current account). The program should be specific about proposed policy instrument-setting and show expected outcomes contingent on policies and economic shocks. Here, precision is less important than the principle. Annual convergence programs should be lodged in 3–5 year horizons (projections).

MACROECONOMIC MONITORING AND PEER REVIEW

Mr. Shields' "Principles and Experience of Monitoring and Surveillance of Macroeconomic Convergence" dealt in part with whether macroeconomic surveillance mechanisms (formal or informal) have worked. There is no real evidence that they have, but they have probably prevented crises. The following are components of successful surveillance mechanisms:

- Macroeconomic projections for 1–5 year horizons. The horizon up to about 18 months is important because the main focus of policy is usually short-term.
- An explicit and readily understandable link between policy instruments, intermediate targets, and ultimate objectives.
- Understanding of the structural effects of policy (e.g., on the labor market, public sector, regulatory environment).
- Understanding of the international effects of policy (i.e., how do domestic policy settings affect economic performance in other regions or countries that have economic ties with the initiator of the policy?).
- Individual country forecasts based on realistic assumptions about crucial input variables (or economic data) such as rate of growth in the economies of main trading partners, oil prices (ideally these are similar in individual countries of the larger economic block).
- Accountability for outcomes.
- Peer support as well as peer pressure (e.g., OECD, G7).

A surveillance mechanism that has these elements would be useful to SADC member states. It could, for example, convey an understanding of how the policies of South Africa, the largest economy in SADC, affect the rest of the region. Or it could, through special studies, help SADC member states come to grips with many of the same international economic issues while offering considerable economies of scale in study efforts.

Mutual stability in SADC should also be encouraged. SADC's situation is in some ways less complicated than that of the OECD, which must deal with widely diverging views. In SADC the external forces of, say, the world economy, more obviously confront those countries. Moreover, SADC already has a common framework or context such as the poverty reduction strategy paper (PRSP), something lacking in the OECD.

General recommendations for SADC include

- Strengthen policies,
- Improve regional credibility,
- Improve the trade environment, and
- Promote stable exchange rate movements.

If SADC desires full monetary union, it must first get basic economic structures right. And this requires convergence in the sense of a “similarity of structures.”

What Must Be Done to Reach Goals

To strengthen policies, improve credibility, improve the trade environment, and promote stable exchange rates SADC member states need to

- Practice self-appraisal in a public environment (e.g., regional ministerial meetings) and make sure this appraisal enters the public domain through publications;
- Have candid discussions in SADC and add regional expertise (e.g., through the MSPU);
- Establish a regional view;
- Share experience of structural (institutional, market) issues;
- Get the private sector on board;
- Liaise with SACU and COMESA to tackle issues that concern all regional groupings; and
- Discuss transnational issues, such as trade.

On the issue of conditionality it was asserted that developing countries should move toward country-ownership. Monitoring and surveillance in SADC should move away from external surveillance to self-appraisal. Indeed, here the initiative comes from SADC, not from external organizations such as the IMF. The new initiative would be in addition to existing alternatives and it could improve existing processes, such as the PRSP. Perhaps the best way to work with conditionality is for individual countries to announce their own national programs and policies and to have external organizations subscribe to them.

Credibility and Incentives for Peer Review

Peer review works best when driven by mutual interests. SADC could collect information about countries and analyze their problems in public, have ministers discuss problems and make such discussions public, and have ministers meet privately, possibly aided by technical advisers or consultants.

Surveillance, Monitoring, and Peer Review

Clive Gray’s “Issues and Options for the SADC Monitoring and Surveillance Unit (MSPU)” dealt in part with information requirements for monitoring and surveillance. The most important of several

existing databases (for the proposed purposes of the MSPU) is the Committee of Central Bank Governors (CCBG) SADC-wide database already available on the Internet. The IMF's African Department has a comprehensive database on African countries, and distilling the needed data from it is a straightforward exercise. The World Bank's World Development Indicators database is also available, but its data are not current for the variables needed for SADC monitoring and surveillance. The WAEMU Commissioner responsible for monitoring and surveillance stresses the importance of improving the quality of statistics from individual countries. The IMF and the World Bank have offered assistance in this regard.

Data quality in SADC is not yet reliable. (SADC has started an initiative of improving data quality across the region.) If the MSPU uses CCBG data then it should liaise with the Secretariat of the CCBG. If the MSPU cannot solve its problems directly, then they can be delegated to the original country sources behind those data (e.g., the national central banks or treasuries).

In contrast to the CCBG, the IMF uses individual countries' data definitions. So data are not harmonized. Comparing economic performance across SADC would be difficult using unharmonized data. And, as what one wants or needs to measure changes, so do the data required. It was decided that CCBG data will be used, but supported by other sources, such as IMF data. The MSPU will liaise with the relevant organizations such as member states' statistics agencies.

Conduct of Peer Review

Who should conduct peer review? Ministers? Top officials? Top officials aided by the private sector and possibly academics? Involvement of ministers is an integral part of the MOU. Corollary issues pertain to filtering technical details before ministers discuss economic developments: how can information be crystallized and how can ministers be induced to be candid with each other? Consider this scenario: when governments are involved in the macroeconomic convergence process they will devise national convergence programs. The MSPU will assess these programs and report to the ministers, possibly with comments from technical committees, such as the Macroeconomic Subcommittee or a technical working group. Private sector involvement is desirable. Before the ministers meet, officials from central banks and treasuries will review the convergence reports. This process will involve communicating with the press and publishing statements and reports.

The SADC Secretariat preferred the peer review mechanism to be at the highest level (i.e., ministerial), with input from central bank governors. Perhaps a subcommittee of SADC finance ministers could be augmented by one or two SADC central bank governors. (The minister whose country is being reviewed should not be on the subcommittee or panel.)

The Chair advised against too many meetings. Ministers are already burdened with World Bank, IMF, and other SADC meetings. Perhaps peer-review discussions by the ministers should be scheduled to take place during regular (existing) meetings.

Perhaps, following the MOU, ministers should be responsible for peer review, but be able to delegate most of the work to senior treasury officials (such as the permanent secretaries). Ministers will not have time to read through all the technical material. The CCBG representative reiterated that treasury officials and senior central bank officials should process the required information and documents for the ministers.

When the MSPU issues a country report critical of a member state the report will go to senior officials before it goes to the ministers, and officials will have to take a position before the ministers have even seen the reports. And, when a minister of country X criticizes country Y how will this affect relations between the heads of state of countries X and Y?

MSPU LOCATION AND STAFFING

In his presentation, “Issues and Options for the SADC Monitoring and Surveillance Unit,” Dr. Gray pointed out that “A Macroeconomic Convergence Program for SADC Phase I” outlined a structure for the MSPU that would be a good option for the medium-to-long term. For the short term, Mr. Gray proposes recruiting only one senior and one junior economist for the MSPU. He also proposes locating the MSPU in the SADC Secretariat while recognizing that the unit might have greater credibility if it were located outside SADC structures.

Location Issues

Much discussion ensued regarding the advantages and disadvantages of locating the MSPU within or outside a SADC structure. Locating the unit outside a SADC structure would signal political independence, bolster credibility among investors, and spur independent thinking and analysis. But it would also imply doubts about SADC’s credibility.

Locating the unit within a SADC structure would help mobilize political will, coordinate and avoid wasting scarce resources, and improve chances for financial sustainability. The unit, however, could be subject to various impediments.

The MSPU’s independence might not be guaranteed if it were in the Secretariat. But if the unit reported directly to the chief director rather than an operational directorate it would have more authority over its own work. If the MSPU were very high in the SADC hierarchy its independence could be protected and its leverage increased. A politically independent unit with external consultants within a SADC structure could work to signal independence and supplement its own staff.

Staffing Issues

Much discussion also ensued regarding appropriate levels and types of staffing. Most agreed that a staff of one or two persons was inadequate. After all, the unit will have to focus on at least four macroeconomic variables and their interdependencies, while assessing 14 convergence programs for 14 countries and visiting various countries.

The staff, regardless of the MSPU’s location, could consist of core staff and temporary workers (external consultants). And staffing the unit with the best people from member states’ central banks and national treasuries would help build capacity. It was also asserted that consultants should be used only when necessary and not be a part of the regular staff configuration. The benefit of consultants, however, is that they express views that regular staff members are unlikely to express and, because they are not regular staff, their views are more accepted internally.

Before deciding on number and type of staff, however, the unit’s operational tasks must be defined. It is likely that core staff will have to be supplemented with consultants. At the same time, the unit will still have to develop institutional capacity. Once the workload of core staff is settled,

budgeting and other staffing can begin. The SADC Secretariat pointed out that funding will be sorted out later and that the terms of reference should be defined now. From that will follow a decision about a minimum number of staff.

The Chair summarized as follows: Start with a slim MSPU. If the workload becomes too big, resolve bottlenecks with consultants. The head of the MSPU must have a background in economics and/or statistics, be able to interpret data, be independent, and be a good communicator with excellent writing skills.

3. Summary of Recommendations

The MOU on Macroeconomic Stability and Convergence specifies that

1. The Committee of Ministers for Finance and Investment (COMFI) will establish a collective surveillance procedure to monitor macroeconomic convergence in the region, determine specific targets, assess progress relative to these targets and provide advice on corrective actions.
2. Each member state will present to the COMFI an annual convergence program that will include a review of recent economic developments in the member state; progress relative to previous targets; medium-term objectives for the agreed convergence indicators; and specific targets for these indicators over a 3-year period.
3. The COMFI will evaluate and monitor these programs, determine whether they satisfy common guidelines, advise on possible changes, compare outcomes with previous programs, and make recommendations deemed appropriate in accordance with the Treaty.
4. The COMFI will issue a communiqué explaining its assessments.

To help give effect to these goals it is proposed that a Macroeconomic Convergence Monitoring, Surveillance and Performance Unit (MSPU) be established for the SADC region.

MACROECONOMIC CONVERGENCE TARGETS

1. COMFI will determine targets for each (convergence) indicator agreed to in the MOU.² Absolute target levels and absolute target horizons still need to be decided.
2. Countries that consistently meet all targets will belong to a “convergence club.” Membership will signal to investors that a country meets global best-practice standards for macroeconomic stability. The great variation in country performance in the region will be accommodated by giving special recognition to progress made by outliers, even though they have not achieved targets. Similarly, poor progress or deterioration will be noted.
3. It is important to endorse quantitative targets and associated timeframes for convergence on a country-by-country basis while protecting the status of the absolute targets. For example, once they start to manage their economies prudently, outliers can make rapid progress while still not meeting targets. Targets should reflect the ability to improve swiftly, but rapid improvement that falls short of targets should also be recognized.

² Participants in the second macroeconomic convergence workshop in Gaborone, August 28-29, 2002, termed these “absolute targets.”

4. Country-specific targets need to be realistic, achievable, contain a timeframe, be flexible in the face of unanticipated exogenous shocks, and be accompanied by comprehensive strategies that build on strengths and address weaknesses.
5. Each country will have to set targets for indicators over a 3-year period.
6. Countries that have a PRSP and/or that are undertaking programs supported by international cooperating partners will need to ensure consistency between its national convergence targets and those implied under the PRSP or country programs.

COUNTRY CONVERGENCE PROGRAMS

Workshop participants recommended that country convergence programs address the following:

1. *Macroeconomic stability.* Assessment of progress toward the common guidelines specified by COMFI.
2. *Overview of economic developments and commitments.* An overview of the domestic (and international) economy and the government's expectations about economic developments. This should be consistent with the government's multilateral and other stability-oriented programs. It should include an assessment of the impact of recent institutional reforms and stability programs undertaken by the member state.
3. *Policy approach.* The broad policy approach and priorities of the member state. This should include timeframes and the government's approach to sequencing of economic reforms.
4. *Targets and objectives.* The 3-year targets for the specified indicators as well as the medium-term objectives for the agreed convergence indicators. The program must spell out the adjustment paths toward the achievement of targets. These paths should take the form of sectoral projections (real economy, inflation, government revenue and expenditure, debt, monetary framework and balance of payments) over a 3-year period.
5. *Assumptions.* The main assumptions about expected economic developments and important economic variables relevant to the realization of the convergence program.
6. *Policy measures.* A description of budgetary and other economic policy measures, including structural and institutional reforms, being taken and/or proposed to achieve program objectives. It should include an assessment of the effects of these measures on the economy.
7. *Identification of risks and sensitivity analysis.* An analysis of how changes in the main economic assumptions would affect the projected outcomes of the program, especially the convergence indicators, and an identification (and assessment) of major risks.
8. *Technical assistance.* A description of technical assistance to be rendered by or requested from the MSPU.

MACROECONOMIC MONITORING, SURVEILLANCE, AND PERFORMANCE UNIT

Workshop participants agreed that peer review should be done by ministers and central bank governors through subcommittees. As envisaged in the MOU, the COMFI will evaluate and monitor the annual convergence programs submitted by member states. To minimize the number of meetings involving finance ministers, it is recommended that convergence issues be discussed during the regular meetings of COMFI. Central bank governors should also be involved in the assessments. Subcommittees of COMFI might also assist in the evaluation of specific programs.

Objectives of the MSPU

The MSPU will assess the convergence programs presented by member states and the performance, policies, and outlook of members relative to program goals and prepare a framework to assist members in preparing their macroeconomic programs. Specific tasks will include

- Monitoring macroeconomic developments;
- Securing access to a macroeconomic database;
- Verifying and assessing the impact of policies;
- Evaluating the macroeconomic projections and policy options of each member state as described in its country convergence program;
- Assessing the progress of member states toward convergence targets; and
- Producing timely, accurate reports for COMFI on macroeconomic developments, prospects, and policies in the region, and on country convergence programs and their potential impact on individual countries and the region.

As envisaged in the MOU, COMFI will evaluate and monitor annual convergence programs submitted by member states. To minimize the number of meetings involving finance ministers, convergence issues should be discussed during regular COMFI meetings. Central bank governors should also be involved in the assessments. COMFI subcommittees might also help evaluate specific programs.

MSPU Location and Staffing

The MSPU should be located in the SADC Secretariat, but its independence must be guaranteed so that ministers and other stakeholders can be confident in the objectivity of the unit's analysis and reports. The unit should therefore be directed by an individual of high stature who reports to the SADC executive secretary on administrative matters only. At start-up, the unit should have a small, core staff. Its director should have advanced qualifications and experience in macroeconomic management and excellent communication skills. Supporting staff will require advanced qualifications in economics or economic statistics. Experts should be commissioned case by case.

References

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- Nathan–MSI Group. 2003 (forthcoming). Establishment of the Macroeconomic Convergence Monitoring, Surveillance and Performance Unit (MSPU), in the SADC Region.
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Appendix A

**Recommendations of the Third Workshop on SADC
Macroeconomic Convergence in Relation to Macroeconomic
Monitoring, Surveillance, and Performance Unit; Country
Convergence Programs; Convergence Targets; and Peer
Review Mechanism**

Appendix B

MEETING MINUTES FOR THE THIRD WORKSHOP ON SADC
MACROECONOMIC CONVERGENCE

THURSDAY, JUNE 26, 2003

9:00–9:30 Official welcome by host

The workshop was officially opened by the host country, Mozambique.

9:30–9:45 Overview of macroeconomic convergence implementation to date, Dr. Moeketsi Senaoana, SADC macroeconomic policy adviser

Dr. Senaoana provided an overview of the macroeconomic convergence process in SADC. He stressed that the current stage is the implementation stage. Implementation must be done at the level of SADC member states. The Memorandum of Understanding (MOU) on Macroeconomic Convergence was signed in August 2002. The question is now how to implement this MOU by setting numerical values (targets) for the indicator variables identified in the MOU, such as the inflation rate, the fiscal deficit, the NPV of debt and the balance and structure of the external account. An important related question is how to monitor progress in SADC towards these targets.

An earlier study, *A Macroeconomic Convergence Program for SADC Phase I* (Nathan-MSI Group [2003]), focused on the state of macroeconomic convergence in SADC. Using four hypothetical, reasonable targets,³ that report found that no SADC country met all targets. Therefore it is clear that now convergence programs need to be developed at national levels. These programs also need to sustain the good economic performance that may already be present.

A second report by Nathan assessed member states' institutional capacity to design convergence programs. The point was to see how SADC—working with the member states—can improve member states' capacity to implement and monitor macroeconomic convergence. The preceding makes clear that SADC needs to develop a Macroeconomic Performance and Surveillance Unit (MSPU). The purpose of this workshop is to debate this MSPU. The discussion and analytics of the implementation of the macroeconomic convergence process must be closely synchronized with the timetable for finalizing the SADC Finance and Investment Protocol, and its associated deadline, which has been set for September 2004. Finally, Dr. Senaoana mentioned the expected outcome of this workshop: workshop delegates adopt recommendations regarding the MSPU.

Discussion and Questions

South Africa asked whether it would be possible to focus on the quantitative side of things (i.e., macroeconomic convergence targets). Dr. Senaoana answered that South Africa is right to raise this issue, but that now is not the right time to talk about it, better to postpone until later when it fits the flow of the workshop program better.

³The following targets were used: The CPI inflation rates must be in the 6–9 percent range, the ratio of the budget deficit to GDP of any SADC country must be in a ± 3 percent range, the ratio of the net present value of public or publicly guaranteed debt to gross national income (GNI) must be no larger than 40 percent, the current account deficit as a percentage of GDP must be no larger than 6 percent.

Tanzania acknowledged that no country in SADC meets the targets identified in the Nathan–MSI Group report and asked whether there have been recommendations to countries about what they can do to meet those targets. Dr. Senaoana answered that the initial assessment of convergence in SADC was more of an analytical exercise, a preliminary assessment before other stages of implementation. Botswana explained to Tanzania that the targets used in the study were simply hypothetical targets. The line of reasoning was that if we had those targets, what would those targets then imply for macroeconomic convergence in SADC. Tanzania subsequently agreed with Botswana.

9:45–10:30 Principles and experience of monitoring and surveillance of macroeconomic convergence, Mr. Jon Shields, IMF

Mr. Shields started his talk by outlining the issues he wanted to address. First is to think about what a surveillance/monitoring process might involve. The idea is to draw on the experience of other regional groups to see which convergence exercises have been successful. From that he would draw out lessons for SADC but would also indicate where SADC differs from other regional groups.

He mentioned that the macroeconomic convergence targets are fundamental to the process envisaged by the MOU. However, this left two approaches. One is to have very precise quantitative targets. The other is to work with more informal, less numerically precise targets. He pointed out that if the ultimate objective of the SADC macroeconomic convergence process is to achieve full monetary union, then clearly the first approach is the right approach. The reason is that in this case convergence among countries should be rigid.

Suppose SADC decides for the second, less rigid approach. Then the ultimate objective is not full monetary union, but rather a free-trade zone and in general an economically integrated community. Also under this scenario one wants macroeconomic policies to be stable and predictable, and to be consistent over time. However, under the second scenario there is really no need for identical outcomes across countries, although there remains a strong need for credibility. How can the SADC region remain stable and do as it says.

Under the second scenario the surveillance mechanism does not necessarily involve specific targets, but there is a fairly clear idea behind the surveillance mechanism, what macroeconomic stability means in operational terms—even without explicit targets. The latter type of surveillance mechanism follows the spirit of about 40 years of OECD work and traditions such as the IMF World Economic Outlook and monitoring by the private sector.

Another important question is whether macroeconomic surveillance mechanisms (either formal or less formal) have worked. According to Mr. Shields there is no real evidence that they did work, but then he pointed out that perhaps those mechanisms prevented crises. So we did not experience crises that could have materialized in the absence of surveillance. An example of the latter is the response to the oil crisis in 1974. By having talks about the recycling of petrol dollars, overly negative beggar-thy-neighbor responses that would have worsened the crisis were avoided. In the context of the G7 an example is talks in the 1980s regarding the then overly strong US Dollar. Other examples of informal surveillance are the Manila and ASEAN groups, and in Europe the precursor of the ERM, the so-called Snake exchange rate arrangement. Of course in Europe these mechanisms have worked because there was some real convergence achieved there.

Then Mr. Shields identified the building blocks of a successful surveillance mechanism:

- There should be a set of macroeconomic projections at, say, 1-to-5-year horizons. Projections of up to about 18 months are especially important because the main focus of policy is usually short term.
- There should be a link between policy instruments, intermediate targets, and the ultimate objectives of policy. This link should be explicit and understood.
- The structural effects of policy (that is, on the labor market, the public sector, and the regulatory environment) should also be understood.
- What are the international spillover effects of policy (i.e., how do domestic policy settings affect economic performance in other regions or countries that have economic ties with the country or region that initiates the policy?)
- Individual country forecasts must be based on realistic assumptions regarding crucial input variables (or economic data) such as the rate of growth of the economies of main trading partners and oil price. (These would be similar ideally in the countries of the larger economic block).
- In the end somebody should be accountable for the outcomes.
- Peer pressure is clearly important, but so is peer support (e.g., OECD, the G7).

How might these components help SADC?

First, the largest economy in SADC is South Africa. So, the international spillover effects of South Africa's policies are clearly important for the rest of the region. Second, it is important to get the structural side of things right. The issues the SADC economies face in the world economy are similar. So studies could be done that address these issues, and such studies would have considerable economies of scale. Third, it is important to encourage mutual stability in SADC. The SADC situation in a way is easier than that of the OECD, in that in OECD there is a wide divergence of views. In SADC the external forces of, say, the world economy, more obviously confront those countries. Moreover, in a SADC context there already is a common framework or context such as the PRSP; this common framework is lacking in the OECD context.

Then Mr. Shields suggested the following aims (recommendations) for SADC:

- Stronger policies
- Regional credibility
- Improve the trade environment
- Promote stable exchange rate movements
- If a full monetary union is desired, it is important to get the basic structures of the economies right prior to that; as indicated above this requires convergence in the sense of a similarity of structures.

How can these aims be realized?

- Practice self-appraisal in a public environment (at regional ministerial meetings), and make sure this appraisal enters the public domain through publications.

- Have candid discussions in a SADC context and add regional expertise, e.g., through the MSPU.
- Establish a regional view.
- Share experience of structural (institutional, market) issues.
- Get the private sector on board.
- Liaise with SACU and COMESA to be able to tackle issues that concern all regional groupings.
- Discuss transnational issues such as trade.

Discussion and Questions

South Africa raised the issue of conditionality. Developing countries should move towards country-ownership. According to South Africa, the idea of monitoring and surveillance in SADC is that we should move away from external surveillance, and instead have countries survey themselves.

Mr. Shields responded that it is important to realize that here the initiative comes from SADC, not from external organizations such as the IMF. The new SADC initiative would come on top of existing alternatives. It could also improve existing processes, such as the PRSP. He also said that in his view the best way to work with conditionality is where an individual country, or SADC member state, announces its own policies, and the external organization then adopts or endorses those national policies.

The SADC Secretariat asked how can we avoid giving the impression that the MSPU has the right model at hand that applies to all countries universally? Is it possible that this “one size fits all” approach to convergence can be destabilizing rather than stabilizing?

Mr. Shields responded that the ultimate objective of regional integration is to create growth, and that the stability objective is derived from that. So stability is not an aim in itself but is needed to provide a platform that will help enable growth. Therefore there should be no conflict between stability and growth objectives. On the second question of whether convergence can be destabilizing, Mr. Shields answered that this depends on the timeframes adopted. This relates to when targets should first be met. Obviously, a longer time horizon implies more flexibility and less tight policies than a shorter horizon.

Mauritius said that with respect to structural reforms it appeared unwise to compare southern Africa with Europe.

Mr. Shields responded that in his view in the context of macroeconomic convergence, the structural issues are more important than the stability issues. For example, a big impediment in Europe for the UK to join the euro zone is the fact that the UK labor market differs structurally from labor markets in continental Europe. In addition, the monetary transmission mechanism also differs because of the higher incidence of short-term debt in the UK than in mainland Europe.

Dr. Senaohana asked what would be the major impediment for SADC if it wanted to move to full monetary union.

Mr. Shields mentioned that whether or not a region should adopt a common currency can be answered by listing the arguments provided by optimal currency area (OCA) theory. This theory lists

the pros and cons of joining a monetary union. Arguments in favor are (1) being part of a larger same currency-denominated trade area, (2) the possibility of importing a credible monetary policy from the regional central bank. Arguments again include the “one size fits all” problem: countries have different economic structures and face different (idiosyncratic) economic shocks. Therefore, it will be very difficult to have a monetary policy that has the right stance in all countries participating in the union.

Namibia asked how the peer-review system will be operationalized. How can we make it credible and incentive-compatible?

Mr. Shields answered that all the initiatives under discussion are essentially “new-world.” There are few if any previous examples. In the past, G7 processes worked. The bottom line seems to be that things tend to work when there are mutual interests. At a practical level he suggested (1) collecting information about countries and analyzing their problems in public; (2) having ministers talk about those problems and make this discussion public; and (3) having ministers meet also privately (by themselves), possibly with the aid of technical advisers or consultants

Botswana asked whether a monetary union and trade integration can’t go hand in hand. That is, let’s first go for trade integration and then follow up with a monetary union. Mr. Shields agreed with this proposed sequencing.

Swaziland asked whether it made sense to compare SADC with the EU. Shouldn’t we compare SADC with other African economic blocks? Also the point was raised that perhaps EU standards could be too high and therefore unrealistic.

Mr. Shields agreed. SADC is leading the way through the MOU. That MOU is unique in the sense that it exists in spite of there being no explicit plans for monetary union.

Namibia mentioned that the EU gradually evolved over time from small regional groupings of countries (such as Benelux) to eventually larger groups. Is SADC following the same route? Maybe SADC countries that are doing well could lead the process. Then there would be an incentive for other countries to follow. This relates to the concept of variable geometry. Mr. Shields agreed.

Botswana felt that the peer review discussion could be further focused. What is the experience of West Africa? Do they benefit, does the peer review mechanism work there? Mr. Shields mentioned that their experience is mixed.

South Africa asked whether there has been a study on the benefits and costs of monetary union in Africa. Mr. Shields answered that there has been recent work on this by Paul Masson. Professor Schaling mentioned that he conducted a large study commissioned by the South African National Treasury on an optimal currency arrangement for the CMA countries and SADC.

10:45–11:45 Issues and options for the SADC Monitoring and Surveillance Unit, introduction by Dr. Clive Gray, summarizing consultant’s report and WAEMU experience

Dr. Gray started his talk by pointing out that his report is based on visits to six SADC countries and consultations with officials to collect input and feedback. The purpose of his report is to outline options rather than make final recommendations. Dr. Gray apologized for the absence of a Commissioner from WAEMU responsible for surveillance.⁴ The WAEMU consists of eight

⁴ The WAEMU Commission is the equivalent of the SADC Secretariat.

countries, seven of which are former French colonies. He referred delegates to the 3-page summary of the report, to read up on the WAEMU experience. The report argues that a modest level of monitoring and surveillance is the most relevant demand for SADC. In the absence of firm targets, the report looks at a mechanism that in the short run will present and compare economic performance of member states.

Dr. Gray referred to A Macroeconomic Convergence Program for SADC Phase I, (Nathan-MSI Group [2003]), written by Professor Schaling, and pointed out that the report outlined a structure with respect to the MSPU that would be a good option for the medium to long term. In the short run, Dr. Gray's report is less ambitious than the Nathan-MSI Group's report and proposes recruiting only one senior and one junior economist to be MSPU staff. He proposes locating the MSPU within the SADC Secretariat. However, maybe there would be greater credibility if the unit were located outside the existing (somewhat bureaucratic) SADC structures. So, his report really indicated two options.

In terms of the information requirements for the monitoring and surveillance, Dr. Gray's report refers to several existing databases. The most important for the proposed purposes of the MSPU is the SADC-wide database from the CCBG. This database is already available on the Internet. There is also a comprehensive database on African countries compiled by the African Department of the IMF. It is a straightforward exercise to distill the data needed for SADC from that database. In addition, there are the World Bank's World Development Indicators, whose only drawback is that the data are not up-to-date with respect to all variables needed for monitoring and surveillance in SADC.

Documentation from the WAEMU Commissioner responsible for monitoring and surveillance indicated that work on improving the quality of the statistics from individual countries is very important. Both the IMF and the World Bank have offered assistance in this regard.

Interestingly, WAEMU works with eight convergence criteria. Three of those, with respect to inflation, the fiscal deficit, and debt, are similar to those in the SADC MOU. The WAEMU criterion with respect to the external account relates to the non-accumulation of payment arrears. The remaining four WAEMU criteria concern secondary guidelines.

Dr. Gray points out that regarding future performance, member states' present dealings with the IMF and the World Bank can almost be seen as convergence programs. For example, under the IMF's Article IV consultation implied reports project several years of key macroeconomic variables. Moreover, those projections indicate that there is some degree of macroeconomic convergence in SADC to be expected in the near future.

Discussion and Questions

Swaziland started by saying that apparently convergence is not such a monster, judging from the experience of WAEMU. Of course, for SADC it is crucial that the political will is present to drive the process. Perhaps this political will can be mobilized thorough the African Union. Swaziland asked where the unit should be located, and what impediments it would face if it were embedded in existing SADC structures. To answer the question of whether the unit should be located within or outside SADC it would be important to ask ourselves whether we like how SADC is functioning presently. Those—according to Swaziland—are principles that can be used to recommend where the unit

should be located. Perhaps, if the unit were to be located outside SADC, it could be more politically independent, and that could be preferable.

Mozambique agreed with Swaziland that everything depends on political will. Therefore it was suggested that maybe the macroeconomic convergence process should join forces with NEPAD. Mozambique argued that we needed to finish this workshop with a concrete recommendation for our ministers.

Malawi argued that the quality of the data is very important, and that the required quality is not there at the moment. This is also true for Malawi. However, SADC has started an initiative of improving data quality across the region. According to Malawi, the MSPU does not need to be a stand-alone unit. If we follow the logic of Swaziland, then placing the unit outside SADC would imply that we do not feel SADC itself is very credible. In addition Malawi pointed out that too many missions to member states from both the IMF and the MSPU could be overly taxing for officials. Therefore, it was argued that MSPU missions should liaise with IMF missions so as to increase efficiency. This broad idea was later endorsed by Mr. Shields.

Botswana pointed out that the MSPU would have to start work on macroeconomic convergence targets. In terms of the structure, it was suggested to avoid a big cumbersome unit. However, according to Botswana, one or two staff is definitely not sufficient. The unit would be unable to provide advice. Botswana identified a gap in Dr. Gray's report in the sense that the report does not discuss the option of bringing in consultants. Botswana agreed with Mozambique and Swaziland that indeed it is important that sufficient political will is mobilized.

South Africa asked how we think we can finance the surveillance mechanism (i.e., the MSPU) in the long run in a sustainable manner.

Angola also mentioned political will, but pointed out that there already is political will because that is evident from the fact that we already have a MOU on macroeconomic convergence. What must be done, according to Angola, is to give instruments to SADC ministers to make sure the macroeconomic convergence process is implemented. Angola proposed that member states practice self-assessment with respect to the macroeconomic convergence targets and then submit this self-assessment to the MSPU or other relevant body. According to Angola, the issue of credibility will not be solved by delegating the monitoring and surveillance to outside people.

Lesotho thought that the MSPU should be located within the SADC Secretariat. This in order to promote political will.

Dr. Gray answered that six countries were chosen from SADC because of financial constraints. There were no a priori reasons to go for the six chosen. Dr. Senoana assisted in choosing this subset.

11:45–13:00 Logic of Implementing Macroeconomic Convergence in SADC: Implications for the Functioning of the MSPU—Professor Eric Schaling, SHAPE Economic Consultancy and Rand Afrikaans University

Professor Schaling mentioned that the topic of his presentation is to set out the implications of the macroeconomic convergence process in SADC and the associated targeting constraints for the functioning of the MSPU. At the Second Macroeconomic Convergence Workshop in Gaborone, member states noted that the targeting strategy goes to the heart of how the macroeconomic stability mechanism and the associated MSPU will work. They felt that further technical work was required.

Professor Schaling set out the implications of the macroeconomic convergence process in SADC and the associated targeting constraints for the functioning of the MSPU.

He finds that the most effective way for the MSPU to perform is to focus on performance rather than surveillance. This does not mean that the MSPU should forfeit its surveillance function. Far from it; instead he sees the future MSPU as playing the role of a constructive football coach with the member states in the roles of the individual players of the (SADC) team. Thus, we should see the MSPU as a constructive coach, rather than the “economics police.”

First, Professor Schaling pointed out that the establishment of an MSPU is an institutional requirement for fostering and monitoring regional economic integration through macroeconomic convergence. Then, he summarized the findings of Nathan/SHAPE research on macroeconomic convergence: A Macroeconomic Convergence Program for SADC Phase I and A Macroeconomic Convergence Program for SADC Phase II.

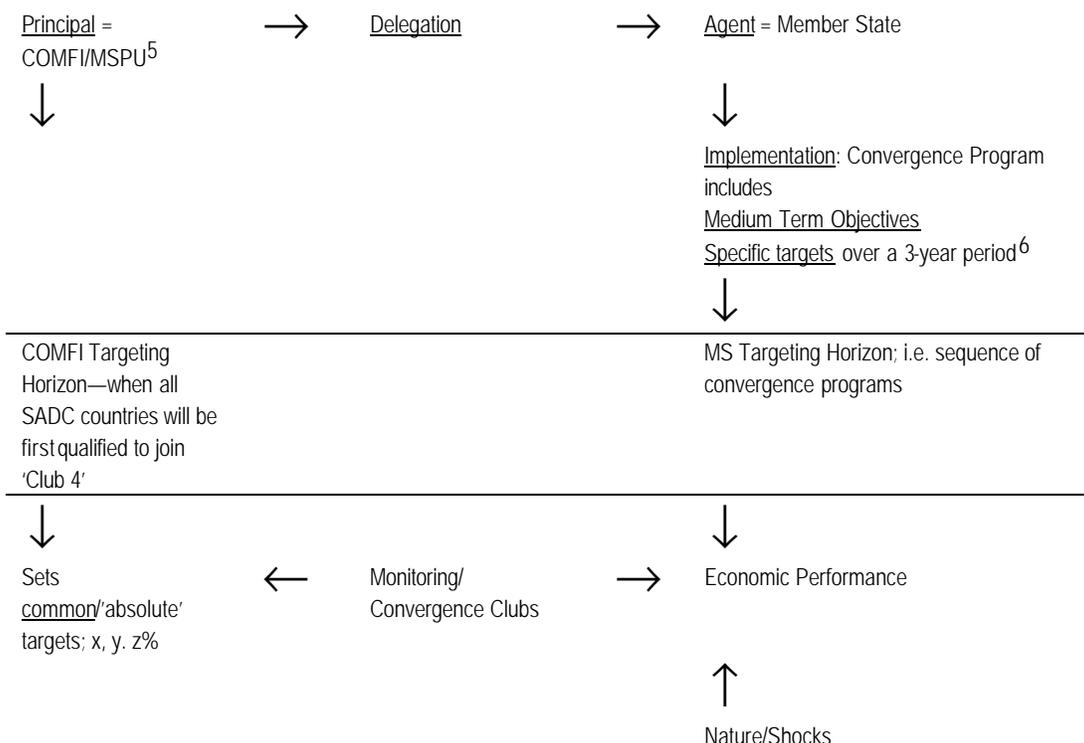
On the basis of these reports and the two previous convergence workshops, Professor Schaling summarized ideas about targeting strategies as follows:

- The SADC Council of Ministers for Finance and Investment (COMFI) will determine targets for each of the (convergence) indicators agreed to in the MOU (Article 6). These targets have been called the absolute targets by the participants of the second Macroeconomic Convergence Workshop. Here (absolute) target levels and (absolute) targeting horizons still need to be decided. However, earlier research on target design (the Phase 1 report) recommended a strategy of *common targets*; that is all SADC countries target the relevant macroeconomic indicators at the same level. The idea behind this recommendation is that this strategy achieves convergence in the sense that (i) national outcomes of macroeconomic indicators should not diverge widely from those of other member states; (ii) these outcomes should lie in a low range. This recommendation was endorsed by the participants of the second Macroeconomic Convergence Workshop.
- Countries that meet all the targets on a consistent basis would be acknowledged by being proclaimed as belonging to a special category of members (the convergence club) that have achieved macroeconomic stability. The idea is that this achievement will be an important signal to investors from Africa and abroad that the country meets global best-practice standards for macroeconomic stability. Second, the great variation in country performance in the region will be accommodated by giving special recognition to progress made by outliers, even though they have not achieved the targets.
- The great variation in performance of countries in the region makes it difficult to design the convergence mechanism and standards. As the past few years have shown, outliers can make rapid progress once they start to manage their economies more prudently. While the targets should reflect this ability to improve swiftly, the system should also give recognition for such rapid improvement even if the ultimate target has not yet been achieved.
- It would be useful to specify convergence timeframes and intermediate objectives for these countries, while protecting the status of the absolute targets. The intermediate targets need to be realistic and achievable, contain a timeframe, and be accompanied by comprehensive strategies building on existing strengths and addressing current weaknesses.

- Each country will have to set specific intermediate targets for the relevant indicators over a three-year period (per Article 6 of the MOU).

Professor Schaling illustrated these points in the following figure.

Macroeconomic Convergence: Implementation and Respective Responsibilities



Professor Schaling explained the figure:

- Convergence happens at the “work floor”—member states use their own timeframes. This is evident from the fact that convergence programs include medium-term objectives set by individual countries.
- Countries using their own timeframes effectively decide on targeting horizons (here defined as when the relevant objective is first to be met) for medium-term objectives.
- It follows that the relevant convergence targeting horizon (defined as when all four objectives are first to be met and the country can join Club 4) can be operationalized as being no longer than the minimum number of (possibly partially) successful convergence programs (each comprising a 3-year period).

⁵ In fact, the MSPU can in turn be seen as an (politically independent) agent of COMFI.

⁶ Note that this is not a proper targeting horizon in the sense of a timeframe set out by COMFI when targets are first supposed to be met, but is more a reporting requirement, and as such defines the length of an individual convergence program.

- Thus, as a factual process driven by member states' individual programs convergence is necessarily a bottom-up process; the macroeconomic outcomes (including averages and differences)⁷ at the SADC level are by definition the aggregation of the economic performance of individual member states.
- The principal, or COMFI/MSPU, sets the common or absolute targets. Recap that SADC is not embarking on convergence for convergence's sake; therefore one has to choose benchmarks associated with best practice in macroeconomic management. The proposal—according to the consensus at the second workshop—is “Compare us (SADC) with the best—otherwise we cannot be sure we are moving up the ladder.”
- However, COMFI/MSPU cannot choose the SADC-wide convergence targeting horizon independently of the convergence process just described. Because convergence is a bottom-up process, the COMFI/MSPU is constrained by the progress of individual states. It cannot act as a “Baron von Munchausen” and lift the region as a whole out of the “swamp of economic stagnation.” In a way, one can define the effective SADC-wide convergence targeting horizon as determined by the slowest economic performer in the region (i.e., by that country that needs the most 3-year convergence programs to qualify for Club 4).
- One can infer that the COMFI/MSPU's intermediate targeting strategy (which sits between the present and the moment when all SADC countries are members of Club 4) promotes member states as quickly as possible from club to club. For this promotion to work, member states will need assistance or stimulation from COMFI/MSPU.
- It follows that the most effective way for the MSPU to perform its role as macroeconomic performance and surveillance unit is to emphasize performance over surveillance, taking on the role of coach for the SADC team. The performance of the team (the degree of macroeconomic convergence at the SADC level) depends on the skill of individual players. Coach and players depend on each other. The coach pursues the goal of macroeconomic convergence to better the lives of people in member states. The coach is truly the servant of players and the team.

Discussion and Questions

Botswana pointed out that perhaps the contrast implied by principal-agent distinction between COMFI and member states is a bit stark. Also Botswana thought that the possibility that the actual speed of convergence in SADC could be constrained by the slowest member state was very unattractive. Professor Schaling responded that the principal-agent distinction was metaphorical, an abstraction to help us think about the issues, rather than something to be taken literally.

⁷ In *A Macroeconomic Convergence Program for SADC Phase I*, Professor Schaling defines averages and differences that are subsequently used to describe the state of convergence in SADC.

14:15–15:15 The role of macroeconomic convergence programs, Jon Shields, IMF

Mr. Shields discussed the possible contours of macroeconomic convergence programs extensively. Programs that are likely to be used over the next few years should ideally have the following features:

1. Demonstration of how progress towards macroeconomic stability will be achieved
2. They should be in a form that can be subjected to peer review
3. Learning by experience and enhancing domestic capacity are very important

Now, on the latter point there is clearly a variable capacity between countries. Therefore, according to Mr. Shields we should start with something that can be conducted with very limited capacity. He thought it best to do a (national) convergence program once a year. One reason for this is that most countries have annual data and to get data at greater frequency may be too difficult initially.

He also thought that convergence programs should be based on existing programs/decision cycles of member states, much like IMF programs (PRSP) and the budget cycle. It is important to be efficient, and build on what is already there.

Also in the program one should concentrate on the main message; how the economy is doing and what should be done in the immediate future. This is more important than the specific country figures (data). Here, according to Mr. Shields, is where a country's self-appraisal comes in.

Also we must make sure that country programs are sufficiently flexible. So, one should sketch several scenarios and outline the broad policy options under those scenarios. He also thought it wise for programs to allow for special studies on special topics such as structural reforms, past policy failures.

He proposed that in addition to following an annual cycle, all programs by member states should be synchronized. This means that all convergence programs for all SADC member states should be submitted at the same time. Synchronizing them with member states' fiscal cycles would be even more practical. For example, if programs were submitted by March or April (1) countries would already have embarked on their fiscal policies and (2) there would already be some information on the realizations of relevant economic variables from the preceding year. Following the submission of the convergence programs, ministers could meet in August, leaving enough time for program appraisal in the March–June period.

The programs also need to contain projections on the macroeconomic convergence indicators. Those projections could be anchored to long-term objectives and the 3-year specific targets. It is very important to have a very detailed set of projections and forecasts for the first (upcoming) year. The numbers included in the convergence program should cover the main sectors of the economy; that is the real economy, the inflation outlook, fiscal accounts (expenditure, revenue, deficit, financing), and on the monetary side it is important to include base money growth, the balance of payments (current account). The program should also be specific about proposed policy instrument-settings and it should show expected outcomes conditional on both policies and economic shocks. Here, according to Mr. Shields, precision is less important than the principle. The yearly convergence programs should be lodged in 3–5 year horizons (projections).

Discussion and Questions

Lesotho asked what happens when there is a deviation between economic outcomes and the macroeconomic convergence targets. What would the implications be when, say, policies were prudent, but outcomes still deviated?

Mr. Shields pointed out that the situation mentioned by Lesotho would be a good platform for a constructive discussion, and for a country to indicate how it plans to get back on track. Also the concept of peer review/support might be useful here.

The SADC Secretariat expressed the view that focusing on qualitative rather than quantitative aspects of the targeting strategy would block the assessment process. Although the targets should not be cast in stone, they should respond to the dynamics of reality. Targets should be flexible. According to the SADC Secretariat we don't want to see programs that are too varied across the region. For self-evaluation we need proper guidelines. Member states need to evaluate themselves. In this line of thinking, the role of the MSPU would be to check the consistency and accuracy of this self-assessment.

Mr. Shields responded that the definition of the exact role of quantitative indicators is a difficult area. He pointed out that we need concrete definable goals, and that concrete numbers are extremely useful to organize and manage policy, so the numbers are very important to help focus policy. Also there is a need to employ respectable numbers to enhance credibility.

On the point of how credible the numbers are in case of substantial deviations between economic performance and those targets Mr. Shields pointed out that there is a need for flexibility, added to those specific numeric targets.

Mr. Shields thought that Professor Schaling's proposal of common (absolute or long-run) targets for SADC coupled with country-specific intermediate targets (with the latter emerging from member states' individual convergence programs) would be an excellent way of marrying the concepts of (long-run) credibility and short-term flexibility.

The Chair pointed out that Mr. Gray used the IMF's 4–5 year forecasts. Those forecasts (at this horizon) would be useful for SADC as well.

Dr. Senoana mentioned that the credibility of a target also depends on a country's deviation from that target. If there are massive deviations between economic performance and a target, then the target is simply not credible, and it would not be credible to talk about that target.

South Africa wondered whether a set of really ambitious targets would be achievable at all.

Botswana insisted that we go back to the idea of convergence clubs. According to Botswana it would be unrealistic to assume that all countries will achieve, say, a 3 percent inflation rate in the near future. It is better to ask ourselves what would be reasonable timeframes for individual countries given their individual circumstances. After imposing common absolute (long-run) targets on all member states, we must accommodate flexibility in movement. Then if countries are moving too slow—given their individually tailored timeframes—they should be publicly criticized under the peer review mechanism. Here the tool of the convergence club would be very practical. Botswana felt that in addition to talking about the levels of target variables, in the debate on the implementation of macroeconomic convergence, we should also incorporate the concept of the speed of convergence.

Mr. Shields mentioned that in the context of the implementation of macroeconomic convergence we also need to think of the issue of overlapping regional groups. This relates to the issue that some

countries belong not only to SADC but also to other economic blocks such as SACU or COMESA. One option would be to design the SADC convergence mechanism in such a way that it would be not too specifically targeted at SADC, so that other countries or groupings could then buy into this as well.

Mr. Gray asked whether there would be scope for civil society to buy into member states' convergence programs. The idea here is to follow existing practices with respect to the PRSP process (coordinated by the IMF). One idea would be to establish a national council for economic policy.

The Chair responded to Botswana by pointing out that using the concept of the convergence club, indeed there is a need for flexibility in movement. A country cannot move from say, CLUB0 (no targets met), to CLUB4 (all targets met) in one go. He suggested that perhaps we can work out the average performance of the better performing clubs (the "higher" clubs), and use that average performance as intermediate targets for the "lower" clubs. The Chair also asked whether the IMF could help SADC with the training of local people and review its budget for training. He mentioned that several SADC officials attended those IMF courses in the past and found them very useful. The Chair then reiterated his explicit request for technical training assistance for SADC by the IMF. He also said that it is important that messages come from individual countries. As an example he mentioned Mauritius, which had just produced a so-called Economic Agenda. If countries/member states could do something similar, then that would definitely be a step in the right direction.

15:30–17:30 Establishment of the SADC Monitoring and Surveillance Unit: role structure, size, location, and relationship with the SADC Secretariat, Dr. Clive Gray

Dr. Gray stressed the need to obtain formal consensus on the above. The Chair raised the following issues:

- Do we need an independent MSPU?
- How will it be financed?
- Will it have teeth?

The Chair emphasized the need to get a very precise picture of the unit.

Discussion and Questions

Malawi expressed the view that the MSPU should be located within the SADC structure. Locating the unit outside SADC would imply that we do not feel that SADC is a credible organization.

Angola expressed two concerns. First, these days there are a lot of institutions that raise the same concerns. Therefore, in order not to waste resources there is a need for coordination. We ought to be in agreement, and we must not reinvent the NEPAD wheel. Second, Angola thought that the unit should be within SADC. However, what will be its competence in terms of its mandate and actual powers? Shouldn't non-performing member states be reprimanded by their own heads of states, rather than by the MSPU?

The Chair asked Dr. Gray to specify the proposed structure of the unit. He responded that in his report he recommended a team of two economists (either within or outside the SADC Secretariat).

Mr. Shields suggested that the unit be (politically) independent, but still within SADC. Here, an interesting example is the West African Monetary Institute. That unit is very responsive, but also independent. He then suggested that the MSPU should also work with external consultants along

with its core staff, and that this would have the added benefit of signaling independence. Mr. Shields expressed concern that if the unit were both small and located within SADC, it would not be powerful enough.

Botswana said that ideally you want the “economics police” to be completely independent, to be able to signal credible messages to investors. Also, SADC needs independent thinking and analysis. Therefore, ideally the MSPU should be completely removed from SADC.

The SADC Secretariat pointed out that we may not be able to guarantee the independence of the MSPU if it were located within the Secretariat. Now there are two broad options. The first is to go for outsourcing, whereas another possibility would be to have the unit within the Secretariat, but then to have the unit report to the Chief Director, not to an operational Directorate. In the latter case the unit would have more authority over its own work.

The Chair suggested that the MSPU be located very high in the SADC hierarchy to protect its independence and increase its leverage.

Dr. Gray pointed out that in the case of WAEMU, reports prepared by the surveillance unit of the relevant Commissioner go through on behalf of—that is by authority of—the Commissioner. In WAEMU national governments are then very willing to consider these reports. Here he referred to page 27 of his forthcoming report “Establishment of the Macroeconomic Convergence Monitoring, Surveillance and Performance Unit (MSPU), in the SADC Region.”

Botswana suggested locating the unit in the Secretariat. The idea was not to “have a baby that would become bigger than the mother.” Botswana also suggested that the unit make use of external consultants.

Swaziland asked about the unit’s tasks and basic duties, as well as benchmarks or targets for countries. Quantitative targets must be decided first.

Professor Schaling questioned whether a MSPU with two staff would be able to fulfill its tasks. It will have to focus on at least four macroeconomic variables and their relevant interdependencies, while assessing the convergence programs for 14 countries.

Namibia also raised the issue of the appropriate size of the unit. Dr. Gray proposed in his report to limit the unit to two people. Even with only four macroeconomic indicators there is a need for high-quality information. In addition, there will be a need for country visits by the MSPU. Therefore, Namibia agreed with Professor Schaling’s earlier point on the dangers of understaffing the unit. As an example Namibia pointed out the number of staff the IMF needs just to conduct Article IV consultations.

The Chair emphasized the need to get the right number of people. It would be a mistake to saddle the organization with too many staff.

Dr. Gray asked whether the representatives of the SADC Secretariat have a view on the appropriate size of the unit and its location.

The SADC Secretariat suggested locating the MSPU in the Secretariat. The reason is that resources in SADC are scarce, and if the unit were located there, there would be better guarantees for it to be a (financially) sustainable activity.

The Chair suggested that some of the MSPU staff could be contract staff.

Botswana raised the following point. Suppose you need 50 people for the MSPU. Would one like to have two groups of staff, i.e. core drivers plus temporary workers? This refers to Mr. Shields’

earlier suggestion to have a lean organization with a limited core (senior) staff sitting within the Secretariat, and outsource some of the operational tasks to consultants.

Dr. Senoaona pointed out that it is important to define the tasks of the core group. So, once we have an idea about the workload of core staff we can start budgeting and suggest how many staff one needs for those core tasks. A similar argument applies for the operational level of the MSPU. What would be its operational tasks, and how many staff do we need for that? Finally, the core will most likely have to be complemented with independent consultants. Notwithstanding the availability and usefulness of consultants, the unit will still have to develop its own institutional capacity. The second point Dr. Senoaona raised has to do with the relation between the core of the MSPU and SADC member states. What will be the relevant counterpart agencies of the core at national level?

In his reply to Dr. Senoaona, Mr. Shields referred to the OECD country or structural surveys. There the process works as follows. A couple of member countries are nominated as reviewers/ investigators. Applied to the MSPU process this would mean then that SADC country X reviews, analyzes, or peer reviews country Y's convergence program.

The Chair stated that we must come up with a mission statement for the unit. Also we need to think about job descriptions. In addition there is a lot of outstanding work on the macroeconomic convergence criteria (targets).

The SADC Secretariat pointed out that we do not need to worry about funding issues. Those will be sorted out later. The suggestion is to start now with a small unit, and then let that grow. So, we should indeed define the terms of reference (TOR) of the unit now, and following from the TOR, its minimum number of staff.

South Africa agreed with Namibia and Professor Schaling that we do need serious capacity in the MSPU to execute relevant tasks. South Africa prefers to have the MSPU outside the SADC Secretariat.

Angola pointed out that even if the MSPU is located in SADC, it can still work with external consultants.

Swaziland indicated that what is needed is efficiency. How many people are needed depends on the workload of the unit. So, to talk about staff numbers is preliminary. Also where the unit is located is less important than its efficiency.

Mauritius also mentioned the need for capacity building. We should try to staff the unit with the best people from member states' central banks and national treasuries.

Malawi thought that we put too much emphasis in the discussion on consultants. We should basically use consultants when needed, and that's it.

The Chair summarized the preceding discussion as follows. We should start with a slim MSPU. If the workload becomes too big, then we can solve the bottlenecks with consultants. Additional benefits of working with consultants are that (i) they tell you things that you wouldn't hear from regular staff, and (ii) the fact that those different views are expressed by consultants makes them more acceptable internally.

Botswana mentioned the example of JP Morgan. If that company wants to examine Germany it hires a German for the job.

Mauritius pointed out that page 4 of the paper presented by Professor Schaling that morning contains discussion on the TOR of the MSPU.

Angola proposed starting the unit with two people.

The Chair closed the discussion with the appointment of a drafting team (consisting of Professor Schaling, Mr. Shields, Dr. Senoana, and Dr. Gray) to compile recommendations on the MSPU, country convergence programs, convergence targets, and the peer review mechanism. A first draft of this document will then be tabled for discussion by delegates on day two of the workshop, and we hope to agree on recommendations at the close of day two.

FRIDAY, JUNE 27, 2003

8:30–9:30 Modus Operandi of SADC Monitoring and Surveillance Unit: data collection, report preparation, structure, distribution and publication- Panel discussion

1. Country counterpart agencies
2. The structure and staffing of the Unit
3. Job descriptions

Dr. Gray said that when he visited six SADC countries before writing his report, opinions were strongly against establishing special units to work on SADC convergence programs. Because the unit faces a serious budget constraint, hiring staff for just the macroeconomic convergence process could prove too expensive. Rather, it was suggested to Dr. Gray to use existing macroeconomics staff of member states for the unit-induced workload. Dr. Gray proceeded to point out that WAEMU has national councils of economic policy. These councils have been helped by the Commission of WAEMU (an organ similar in spirit to the SADC Secretariat) in a logistic sense. So, the MSPU may want to study the WAEMU case. With respect to staffing and job description, the idea is that the required skills already exist within SADC.

The SADC Secretariat pointed out that it is not the idea that member states have to create new structures for the implementation of the macroeconomic convergence process in SADC. There already exists SADC national committees that deal with all SADC issues. Therefore, it would be possible to have a core group within these committees. Also we can make use of existing institutions (e.g., NEDLAC in South Africa), and similar institutions in other countries could play a useful role.

The Chair restated that data collection should not be a problem since we already have the SADC Committee of Central Bank Governors (CCBG) database.

Dr. Gray asked for some feedback from the informal panel of countries that he visited. Botswana emphasized that there is no need to create new parallel structures in the form of the country counterparts.

South Africa confirmed the point made earlier by the Secretariat that indeed there already exist structures at national levels. For example, in the South Africa National Treasury units deal with issues such as regional integration and macroeconomic policy. So, there should be no major problems here.

The Chair restated that we want a slim unit. Second, the person that will be heading the MSPU must be independent, a good communicator and have excellent writing skills. He or she must also be able to interpret data and should have a background in economics and/or statistics.

9:30–10:30 Function of the Secretariat of SADC Committee of Central Bank Governors and possible collaboration with the Monitoring and Surveillance Unit-Panel Discussion (CCBG Documents)

Dr. Gray refers to the SARB representative from the CCBG. The CCBG Representative (South Africa) explains the data collection process. National central banks (NCBs) verify then submit data to the Secretariat of the CCBG. There will be some information published in July 2003. In addition, some of the gaps with respect to the Democratic Republic of Congo and Seychelles will also shortly be filled. The CCBG data are very useful and are also supplied to the SADC finance ministers before their meetings. Swaziland pointed out that the CCBG database is quite reliable.

Professor Schaling pointed out that a few years ago he found some of the fiscal data on Zambia to be inconsistent with corresponding data from the IMF. Zambia mentioned that the definition of the data is uniform (i.e., across SADC there is a similar template, so that the numbers are comparable across SADC).

Botswana mentioned that if the MSPU uses CCBG data then they should liaise with the Secretariat of the CCBG. If the MSPU cannot solve its problems directly, then it can be delegated to the original country sources behind those data (e.g., the national central banks or treasuries).

Mr. Shields asked whether we have information about the users and uses of the CCBG database. Has there been exposure to the outside world? The CCBG representative answered that national governments in SADC definitely use the information. Mr. Shields still wanted to have more specific information about uses. Was the database ever quoted? Have there been specific uses, special purposes? The SADC Secretariat answered that academics use the database quite a lot. In addition, SADC itself uses the data. However, the Secretariat wanted to know why the CCBG has somehow been isolated or typecast for a special linkage with the MSPU? For example, shouldn't there also be links with the subcommittee on taxation?

Dr. Senoana answered that there was no specific reason for choosing the CCBG. For example, there is also the SADC statistical unit. He just wanted input from the SADC central banks. Dr. Senoana suggested that the CCBG may want to try to increase the distribution of its data. Perhaps something could be done beyond the website. Perhaps it could start distributing hardcopies of that information, in addition just putting the information on the internet. The Chair agreed with Dr. Senoana. He pointed out that you only go to a website when you need something specific.

Botswana noticed that it is important that the CCBG and the MSPU cooperate, for example, with respect to the setting of macroeconomic convergence targets. At the moment there is little coordination on this between SADC and the CCBG. Dr. Senoana apologized for this lack of coordination.

The CCBG representative explained that it is the task of the CCBG to collect data, specifically, monetary data. The governors requested an annual publication regarding those data. So, indeed there will appear an additional publication in hardcopy, in addition to what is available on the web. The CCBG representative also said that setting macroeconomic convergence targets is the prerogative of delegates at this workshop.

The SADC Secretariat suggested that we can perhaps link the SADC website to other relevant sites (e.g., the CCBG database). This would not only aid coordination and communication, but could also be useful for the functioning of the MSPU.

The Chair asked whether all relevant indicators needed per the MOU are part of the CCBG website. Mozambique thought that not enough progress had been made with respect to the implementation of the MOU.

Mr. Shields pointed out that during his career in the UK information was never optimally used from either the Bank of England or Treasury sources. What often happened was that the Bank of England was subjected to Treasury-dominated meetings. The lesson from this is to try to set up a structure in SADC that minimizes tension and maximizes information flow between constituent parts. This may be quite complicated for SADC, because we are dealing with a central bank and a national treasury for each of the 14 SADC countries, or 28 institutions. However, a simple start would be to check that all SADC Ministers of Finance subscribe to (e.g., the CCBG database) and are happy to work with those data.

Dr. Senoana responded to Mozambique's perception that there was little progress on the implementation of the macroeconomic convergence process. He pointed out that the MOU was signed in August of 2002. Since then there has been technical input from the SADC Secretariat. About five issues have been sorted out:

1. An assessment of the state of convergence in SADC. A first draft of a report by Professor Schaling appeared in November of 2002, and is now published by Nathan (See A Macroeconomic Convergence Program for SADC Phase I.)
2. Immediately after the ministers signed the MOU, Professor provided technical input on macroeconomic convergence targets. That input was presented at the second convergence workshop in Gaborone in August 2002. This work was also part of the Phase 1 report.
3. Before the MOU can be implemented, capacity gaps must be checked. Those capacity gaps were discussed with member states in April 2003.
4. Today and yesterday we have been discussing the MSPU. Ministers will receive our advice on this.
5. We are trying to engage the IMF and the SADC Secretariat in designing implementation programs. This can start anytime now. The idea is to use one consultant per subset of, say, four SADC countries. On this a formal letter has been sent to the IMF.

Mauritius suggested that for the four targets that have been identified a link has to be created from the SADC website to the CCBG website.

The Chair said that if there are discrepancies between, say, IMF and SADC data definitions, then these differences should be explained.

Mr. Shields mentioned that the IMF African Department has its own database for African countries. Those data are based on individual countries' data definitions, so are not harmonized as is the case for the CCBG numbers. He asked delegates whether they thought it would be useful for the IMF to continue work on this database. The SADC Secretariat pointed out that if the IMF data are not harmonized, it would be quite difficult to compare economic performance across SADC using those numbers. The Chair insisted that like be compared with like. As what we want or need to measure changes, so do the data required to measure it. We will use the CCBG data, but those data

can be supported by other sources, such as IMF data. The MSPU will liaise with the relevant organizations such as member states' statistics agencies.

10:45–11:45 Modalities for presenting information on SADC Member State economic performance to the Committee of Finance Ministers and procedures of peer review-Panel discussion

The Chair pointed out that the question on the table now is who should do the peer review? Should it be done by the Ministers? A second school of thought – according to the Chair – is to have the peer review be done by (top) officials. Yet another scenario is to have it done by top officials aided by the private sector plus, say, academics. In the context of the second scenario it is important to realize that once the Trade Protocol is completed, the SADC Macroeconomic Subcommittee will be dismantled. Swaziland thought that we cannot delegate the peer review to the ministers.

Mr. Shields preferred peer review by the ministers. He feels the involvement of the ministers is an integral part of the MOU. A different question relates to the filtering out of the technical details before the Ministers discuss economic developments. Here the question is how information can be crystallized. Another question relates to how ministers can be induced to be candid with each other. Mr. Shields sketched the following scenario. When governments are involved in the macroeconomic convergence process they will put together convergence programs at national levels. These programs will then be assessed by the MSPU. The MSPU will then report to the ministers, possibly with comments from technical committees like the Macroeconomic Subcommittee or a technical working group. We would also like to have private sector involvement. Mr. Shields suggested that when the ministers meet, there could be a prior (technical) meeting of officials (from Central banks and treasuries) who can go through the convergence reports. In this process there will also have to be communication with the press as well as published statements and reports.

The SADC Secretariat said that we would like the peer review mechanism to be at the highest – that is ministerial – level. Also needed are inputs from central bank governors.

Dr. Gray suggested that we could work with a subcommittee consisting of some of the SADC Finance ministers augmented with one or two SADC central bank governors.

The SADC Secretariat added to this that the minister whose country was being reviewed would not be on that subcommittee or panel.

The Chair insisted that we must not organize too many meetings. Ministers are already burdened with World Bank, IMF, and other SADC meetings. Mr. Shields suggested that peer-review discussions by the ministers be scheduled to take place during regular (existing) meetings of the ministers.

Botswana suggested that, following the MOU, the ministers be responsible for the peer review, but delegate most of the work to senior treasury officials (like the permanent secretaries). The argument is that the ministers will not have time to read through all the technical material.

The CCBG representative supported Botswana and reiterated the point that treasury officials and senior central bank officials should process the required information and documents for the ministers.

Angola pointed out that it is likely that the MSPU will issue statements that may be critical of some of the member states. If the MSPU country reports go to the senior officials before they go to the ministers, then the officials will have to take a position before the ministers see the relevant

reports. An added complication is that if the minister of country X criticizes country Y, what would that mean for the relations between the heads of states of countries X and Y?

The Chair expressed the consensus so far: peer review should be done by the ministers and central bank governors through subcommittees.

14:00–15:30 Consideration of Workshop Report and Recommendations

Draft 2 of Recommendations of the Third Workshop on SADC Macroeconomic Convergence in relation to Macroeconomic Monitoring, Surveillance, and Performance Unit; Country Convergence Programs; Convergence Targets; and Peer Review Mechanism compiled by Dr. Senoana, Mr. Shields, and Professor Schaling, was presented by Mr. Shields. Professor Schaling noted delegates' comments for incorporation into the next draft.