Towards Political and Economic Integration in Southern Africa
Proceedings of the 2007 FOPRISA Annual Conference

Edited by
Gavin Cawthra and Jonathan Mayuyuka Kaunda

FOPRISA Research for Regional Integration and Development **REPORT 6**

Botswana Institute for Development Policy Analysis
2008

The ***Formative Process Research on Integration in Southern Africa (FOPRISA)*** (www.foprisa.net) is a four-year programme that commenced on 01 May 2005 and will conclude on 30 April 2009. FOPRISA is a collaborative research process in which several policy research institutes and universities and the SADC Secretariat (www.sadc.int) are participating. The core participating institutions are the Chr. Michelsen Institute (CMI) of Norway (www.cmi.no); Centre for Defence and Security Management (CDSM) of the University of the Witwatersrand, South Africa (http://pdm.mgmt.wits.ac.za); Economic and Social Research Foundation (ESRF) of Tanzania (www.esrftz.org); Namibian Economic Policy Research Unit (NEPRU) (www.nepru.na); Southern African Defence and Security Management (SADSEM) network (www.sadsem.net); University of Botswana (UB) (www.ub.bw); and the host institution, Botswana Institute for Development Policy Analysis BIDPA) (www.bidpa.bw).

The overarching objective of the programme is to provide inputs that can assist SADC in its efforts to advance regional co-operation and integration in Southern Africa, through formative process research, whose aim is to provide data and analysis for organizational learning, for example, for the improvement of SADC's performance, operational approaches, procedures and mode of operation. FOPRISA liaises closely with the Policy and Strategic Planning Unit in the SADC Secretariat, to which the programme also gives direct research support, through the provision of a researcher who is based at the Unit. It also aims at building a strong regional policy research network, with research activities focused on improving the understanding of integration policy issues and enhancing research skills and analytical capacities in participating research institutes, as well as in the SADC structures. FOPRISA is funded by the Royal Norwegian Ministry of Foreign Affairs.

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Editorial note

The papers assembled in this volume were presented at the 2007 FOPRISA Annual Conference that was held at the Royal Hotel, Durban, South Africa, on 27 and 28 November 2007. The annual conference brought together individuals and institutions that participate in the research programme, as well as specially invited representatives of non-government organisations and international cooperating partners. The main purpose of the conference was to report on and discuss the research findings from activities undertaken from 2006 to 2007.

This volume is a collection of 16 of the 18 papers that were presented, covering four research themes: Democratic Development (Poverty alleviation and developmental democracy); Politics, Defence and Security Cooperation (Collective security, mutual defence and enforcement); Regional Trade and its Relations to the International Trade System (National trade policies); and Economic Harmonisation, Finance and Investment (SADC integration efforts and cross-border investments, and the roles of development finance institutions and central banks in SADC integration).

Two other outputs that were presented at the 2007 FOPRISA Annual Conference were published earlier in 2008 under the titles *Monitoring Economic Integration in SADC, 2006/2007: Overlapping Memberships of Regional Economic Arrangements and EPA Configurations in Southern Africa*, (Report 5) (ISBN 978–99912–71–41–5), by Rehabeam Shilimela and *From Aid Effectiveness to Poverty Reduction: Is Foreign Aid Donor Support to SADC Improving?* (Report 4) (ISBN 978–99912–71–40–8), by Elling Tjønneland.

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Abbreviations

	A
AADFI	Association of African Development Finance Institutes
ACP	Africa, Caribbean and Pacific
ADF	African Development Fund
AGOA	Africa Growth and Opportunities Act
AIDS	Acquired Immune Deficiency Syndrome
AIG	Accord Implementation Group
AMCP	African Monetary Cooperation Programme
AMU	Arab Maghreb Union
ANAPI	National Agency for Investment Promotion
ANIP	National Private Investment Agency
ARIPO	African Industrial Property Organization
ASEAN	Association of South East Asian Nations
ASF	African Standby Force
ASGISA	Accelerated and Shared Growth Initiative – South Africa
	B
BDA	Angolan Development Bank
BDP	Barrels Per Day
BECI	Botswana Export Credit Insurance and Guarantee Limited
BEDCO	Basotho Enterprise Development Corporation
BEDIA	Botswana Export Development and Investment Authority
BEE	Black Economic Empowerment
BLNS	Botswana, Lesotho, Namibia and Swaziland
BOI	Board of Investment
BOT	Build, Operate and Transfer
BRPS	Business Residence Permits
BTB	Botswana Tourism Board
	C
CAMI	Cadastre Minier
CBNRM	Community Based Natural Resources Management
CBO	Community-based organisation
CCBG	Committee of Central Bank Governors
CDCP	Centres for Disease Control and Prevention
CEDA	Citizen Entrepreneurial Development Agency
CEWS	Continental Early Warning System
CIS	Commonwealth of Independent States
CISANET	Civil Society Agriculture Network
CISGs	International Sale of Goods
CMA	Common Monetary Area
CMD	Conflict Management Division
COI	Certificate of Incentives
COMESA	Common Market for Eastern and Southern Africa

COSOMA	Copyright Society of Malawi
CPLP	Community of Portuguese Speaking States
CSCQBE	Civil Society Coalition for Quality Basic Education
CSO	Civil society organisation
CSPR	Civil Society for Poverty Reduction
	D
DBM	Development Bank of Malawi
DBN	Development Bank of Namibia
DBSA	Development Bank of Southern Africa
DFID	Department for International Development
DFIs	Development Finance Institutions
DFRC	Development Finance Resource Centre
DPW	Department of Public Works
DRC	Democratic Republic of the Congo
	E
EAC	East African Community
EBA	Everything But Arms
ECB	Electricity Control Board
ECC	Exchange Control Committee
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
ECP	Estrategia de Combate a Probreza
EDBM	Economic Development Board of Madagascar
EDF	European Development Fund
EHP	Essential Health Package
EPA	Economic Partnership Agreement
EPWP	Expanded Public Works Program
EPZ	Export Processing Zone
EPZA	Export Processing Zones Authority
EU	European Union
EWC	Early Warning Centre
	F
FAO	Food and Agricultural Organisation
FDI	Foreign direct investment
FIP	Finance and Investment Protocol
FIP	Finance and Investment Protocol
	G
GCC	Gulf Cooperation Council
GDA	Global Development Alliance
GDP	Gross Domestic Product
GNI	Gross National Income
GOM	Government of Madagascar

GOT	Government of Tanzania
GSP	Generalised System of Preferences
	H
HDI	Human Development Index
HIPC	Highly Indebted Poor Country
HIV	Human Immuno-Deficiency Virus
	I
IBRD	International Bank for Resettlement and Development
ICP	International Cooperating Partner
ICSID	International Centre for the Settlement of Investment Disputes
IDBZ	Infrastructure Development Bank of Zimbabwe
IDC	Industrial Development Corporation
IFC	International Finance Corporation
IFI	International Financial Institute
IFSC	International Financial Service Centre
IGAD	Inter-governmental Authority on Development
ILO	International Labour Organization
IMF	International Financial Fund
IMS	Integrated Manufacturing Strategy
INACOM	Angolan Communications Institute
IPA	Investment Promotion Agency
IPU	Inter Parliamentary Union
IRA	Industrial Relations Act
IRS	Integrated Resorts Scheme
	J
JICA	Japan International Cooperation Agency
	L
LAMP	Local Authority Managed Project
LDC	Least Developed Country
LEA	Local Enterprise Authority
LIC	Low-income country
LNDC	Lesotho National Development Corporation
LPP	Local procurement policy
	M
MAP	Madagascar Action Plan
MDB	Multilateral Development Bank
MDC	Malawi Development Corporation
MDC	Mtwara Development Corridor
MDG	Millennium Development Goal
MDP	Mutual Defence Pact
MEJN	Malawi Economic Justice Network

MEJN	Malawi Economic Justice Network
MEMARTS	Memorandum and Articles of Association
MERCOSUR	Mercado Comum do Sul (Southern Common Market)
MFDP	Ministry of Finance and Development Planning
MFPHP	Monetary and Fiscal Policies Harmonisation Programme
MIGA	Multilateral Investment Guarantee Agency
MONUC	United Nations Observer Mission in the Democratic Republic of The Congo
MOU	Memorandum of Understanding
MOZAL	Mozambique Aluminium Smelter
MP	Member of Parliament
MPRS	Malawi Poverty Reduction Strategy
MSC	Military Staff Committee
MSCPR	Multisector Committee on Poverty Reduction
MUB	Manufacturing under bond
	N
NACA	National Aids Coordinating Agency
NAMFISA	Namibia Financial Institutions Supervisory Authority
NAMPAADD	National Master Plan for Arable Agriculture and Dairy Development
NDC	Namibia Development Corporation
NDP	National Development Plan
NEC	National Employment Council
NEPAD	New Partnership for Africa's Development
NEPRU	Namibia Economic Policy Research Unit
NGO	Non-governmental organisation
NIC	Namibia Investment Centre
NPC	National Planning Commission
NPRAP	National Poverty Reduction Action Programmes
NPRS	National Poverty Reduction Strategy
NPRSF	National Poverty Reduction Strategic Framework
NRB	National Remuneration Board
NSPR	National Strategy for Poverty Reduction
NSX	Namibian Stock Exchange
	O
OAS	Organisation of American States
ODA	Official Development Assistance
ODC	Offshore Development Company
OECD	Organisation for Economic Co-operation and Development
OFDI	Outward foreign direct investment
OMAPI	Malagasy Office for Industrial Property
OPIC	Overseas Private Investment Corporation
	P
PCB	Prevention of Corruption Bureau

PAPA	Action Plan for the Reduction of Absolute Poverty
PEEPA	Public Enterprise Evaluation and Privatization Agency
POPP	President's Office – Planning and Privatisation
PPDF	Project Preparation and Development Fund
PPDF	Project Preparation Development Fund
PPI	Private participation in infrastructure
PPP	Public-private partnership
PRGF	Poverty Reduction and Growth Facility
PRPSP	Poverty Reduction Strategy Paper
PRS	Poverty reduction strategy
PRSAP	Poverty Reduction Strategy and Action Plan
PRSP	Poverty Reduction Strategy Paper
PSC	Peace and Security Council
PSIP	Public Sector Investment Plan
PSSC	Payment Systems Steering Committee
PW	Panel of the Wise
	R
RBM	Reserve Bank of Malawi
RDP	Reconstruction and Development Program
REC	Regional economic community
RISDP	Regional Indicative Strategic Development Plan
RMC	Regional Member Country
	S
SAARC	South Asian Association for Regional Security
SABF	South Africa Business Forum
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCBRIG	Southern African Development Community Brigade
SAG	Sectoral Advisory Group
SAP	Structural Adjustment Policy
SAPP	Southern African Power Pool
SDF	SADC Development Fund
SDI	Spatial Development Initiative
SEM	Stock Exchange of Mauritius
SF	Special Fund
SIPA	Swaziland Investment Promotion Authority
SIPO	Strategic Indicative Plan for the Organ
SMEs	Small and medium enterprises
SPTC	Swazi Post and Telecommunications Corporation
SRDB	Sub-regional development bank
SSA	Sub-Saharan Africa
SSR	Security sector reform

T

TEPS	Temporary Employment Permits
TIA	Tanzania Investment Act
TIB	Tanzania Investment Bank
TIC	Tanzania Investment Centre
TIFA	Trade and Investment Framework Agreement
TIFI	Trade, Industry, Finance and Investment Directorate
TNC	Transnational corporation
TNF	Tripartite Negotiating Forum
TRIMS	Trade-related investment measures
TRIPS	Trade-related aspects of intellectual property rights

U

UK	United Kingdom
UMC	Upper-middle-income country
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNESCO	United Nations Education, Science and Culture Organization
UNIDO	United Nations Industrial Development Organization
USA	United States of America
USAID	United States Agency for International Development

V

VAL	Voluntary Arbitration Law
VAT	Value added tax

W

WFP	World Food Programme
WIPO	World Intellectual Property Organisation
WSSD	World Summit for Social Development
WTD	Withholding tax on dividends
WTO	World Trade Organisation

Z

ZCTU	Zimbabwe Congress of Trade Unions
ZDB	Zimbabwe Development Bank
ZIC	Zimbabwe Investment Council
ZRA	Zambia Revenue Authority

THEME I: DEMOCRATIC DEVELOPMENT

Project I.b: Poverty alleviation and developmental democracy

Focus on assessment of poverty alleviation policies and strategies in social and economic development, regional cooperation and integration in SADC

Poverty Reduction and Developmental Democracy: A Conceptual Discussion

Arne Tostensen[1]

Africa is facing two formidable challenges: poverty reduction and deepening democratisation. This paper argues that these challenges are related, or at least ought to be. They ought not to be considered in a compartmentalised fashion but should be seen as closely inter-linked endeavours. The question is not whether or not there *is* a linkage, but rather what the *nature* of that linkage is and what social mechanisms operate to enable synergies. Above all, what policies can be put in place to make the efforts towards meeting those challenges mutually reinforcing?

The first part of the paper discusses the concepts of poverty and poverty reduction, with an emphasis on strategies to reduce poverty. No lengthy discussion of the concept of poverty as such is included; attention is directed rather to the strategic measures that states and other stakeholders are taking to reduce poverty. Special emphasis is placed on the so-called Poverty Reduction Strategy Papers (PRSPs) designed under the Heavily Indebted Poor Country (HIPC) initiative with allusions to comparable homegrown strategies for non-HIPC countries. Although acknowledging that poverty reduction is not the same as development, for simplicity and for the purpose of this paper, the two concepts are treated more or less interchangeably. The discussion on poverty reduction focuses on economic growth, especially its elusive pro-poor variants, and tangible benefits to the citizens in terms of income-generating activities, health services, education, water supplies, etc.

The second part of this paper addresses democratic transitions – both the initial transition and subsequent consolidation phases, with emphasis on the latter. A distinction is drawn between procedural democracy and substantive or developmental democracy. Procedural democracy refers to the rules of the political game as a method of making legitimate political decisions, while developmental democracy pertains to the output side of the formal democratic process.

The third part deals specifically with the concept of developmental democracy. It traces the early conceptualisation and brings it up to date. Questions are asked about the responsiveness to the needs of the poor by the new political elites brought to power by democratic means. Similarly, accountability to the electorate features prominently in the discussion.

The concluding section raises some issues for empirical investigation. When completed the empirical studies will reveal to what extent the posited inter-linkage between poverty reduction and developmental democracy is real or just an unfulfilled ambition. They will also generate some policy implications based on specific country circumstances.

Poverty Reduction

Collectively, with reference to the first Millennium Development Goal (MDG 1), the international community has set an ambitious goal for itself: to reduce by half the proportion of people living in extreme poverty – subsisting on less than US$1 per day – by the year 2015, taking 1990 as the baseline. Most developing countries (especially in Africa), as well as donor agencies – multilateral and bilateral alike – have adopted poverty reduction as their overriding objective. Notwithstanding firm commitments to poverty reduction, the conceptualisations of poverty and the analytical insights stemming from them vary from one country to another and among donor

agencies. These variations largely reflect their respective country circumstances or, as in the case of donors, their mandates and sector biases.

This paper will summarise what appears to be a broad consensus in general terms about poverty and poverty reduction. That is not to say that differing views do not exist. They do, and will probably always exist, but for the purpose of this paper we need a conceptual foundation to serve as a common point of departure for analysis and policy prescription.

Conceptualising Poverty and Poverty Reduction

Arguably, a broad consensus has emerged within the international community with regard to the conceptualisation of poverty and the attendant anti-poverty strategies, despite differences of nuance and emphasis. We shall not delve into a thorough conceptual discussion of poverty and its measurement. It will suffice to recapitulate some basic dimensions of the concept: deprivation, vulnerability, and powerlessness. These concepts should enable us to unpack poverty and unravel current understandings of it.

An important point of departure in unpacking poverty is to recognise that it is a relative concept. It makes sense only when compared with wealth. Wealth and poverty are therefore different sides of the same coin: integral parts of social relations of production and consumption in modern capitalist society. Poverty has been defined in a variety of ways depending on the analytical perspective from which one is approaching it. Writing about the African poor in a historical perspective Iliffe (1987: 2) claims that: 'A precise and consistent definition is not feasible.' However, a conventional contemporary definition sees poverty as the "inability to attain a minimum standard of living' measured in terms of basic *consumption* needs or the *income* required for satisfying them' (May 2001: 25).

This is the income approach to poverty wherein a certain minimum income – say, US$1 a day – is regarded as the bare minimum for survival. It is frequently referred to as absolute poverty or chronic deprivation. Therefore, being poor means being deprived of basic needs such as food, shelter, education and health. It entails not having enough to eat and therefore being vulnerable to hunger, malnutrition and to 'diseases of poverty'. Living at the margin also makes the poor particularly vulnerable to adverse shocks, both natural disasters and human-made calamities.

As alluded to above, another way of grappling with poverty is to recognise that it can also be relative. Relative poverty refers to the level of income or consumption in comparison to that of better-off groups – typically a statistical average. This is a useful perspective in so far as it allows for a differentiation between those trapped in chronic poverty and those who are comparatively well-off.

A third dimension to being poor is powerlessness or voicelessness. It is a form of deprivation that is not easily quantifiable. Because they are ignorant, disorganised and voiceless, the poor are ill-equipped to alter the social relations that made them poor in the first instance. In daily life, the poorest are often marginalised and rarely engage in normal participation in the life of the community; they are socially excluded and destitute at worst. On the measurement side, it must be stated that too much attention has been devoted to narrow money-metric indicators of poverty to the exclusion of qualitative assessments (Hanmer *et al.* 1999). However, the acknowledgement that poverty is a multi-dimensional concept and entails much more than just income and consumption is gradually taking hold.

How poverty is conceptualised bears decisively on the formulation of poverty-reducing strategies. Above all, analyses of causality are critical inputs to policies designed to bring the poor out of their predicament. Therefore, a quick glance at the causes of poverty is in order, if only to

provide the context for the discussion of poverty reduction strategies in southern Africa. They are as follows:

- *Landlessness*: this is the most pervasive cause of poverty in southern Africa. It is particularly pronounced in Lesotho, Malawi, Zimbabwe, Namibia and South Africa. Land reform must, therefore, be an integral part of poverty reduction strategies.
- *Lack of productive assets*: where land is not a problem such as in Botswana, Mozambique and Zambia, the lack of productive assets such as draught power and farming implements are root causes of poverty.
- *Lack of access to markets and finance*: owing to poor infrastructure and transport facilities, small farmers often fail to access markets for their produce.
- *Lack of access to finance*: financial institutions are often skewed against the poor who need access to credit for investment purposes. Others fail to utilise exiting assets which are thus rendered 'dead assets' in the economy.
- *Lack of basic capabilities*: studies have revealed that it is the uneducated, the functionally illiterate and the unskilled who constitute the bulk of the poor in the SADC region. Enhancing basic capabilities should, therefore, feature prominently in poverty reduction strategies as a means of empowerment.
- *Civil conflict*: this is the most pervasive cause of poverty in potentially rich countries such as Angola, the Democratic Republic of the Congo (DRC), Mozambique and Zimbabwe. Democratic governance is, therefore, a relevant and pertinent antidote to poverty in such countries. Hence, our concern with the notion of developmental democracy.
- *Entitlement failure*: this is a proximate cause of poverty in drought-prone countries such as Botswana and Namibia. It is usually the smallstock owner who is hardest hit in times of drought.
- *Debt burden*: the high level of indebtedness in several SADC countries has resulted in progressively less expenditure on the provision of social services because the bulk of foreign exchange earnings are devoted to debt servicing.

This list of the causes of poverty in southern Africa is not exhaustive; nor was it meant to be. It merely provides a background against which we can later assess the effectiveness or otherwise of PRSPs and homegrown poverty reduction strategies.

Since it is recognised that poverty is complex and multi-faceted, it follows that the strategies pointing a way out of poverty must be comprehensive and multi-pronged. Although not everyone would subscribe to it, the World Bank in its *World Development Report 2001/2002: Attacking Poverty* formulated a three-pronged strategy at a general level (World Bank 2000) that most stakeholders arguably subscribe to:

- Promoting opportunity
- Facilitating empowerment
- Enhancing security

Promoting opportunity is associated with economic growth and involves creating new jobs,

establishing credit facilities and expanding markets; building physical and social infrastructure in terms of roads, electricity, water supply, sanitation, schools, and health facilities. This is in itself banal and self-evident. The concern with equity is more significant, i.e., with the pattern and quality of economic growth, especially its distributive effects. In fact, most stakeholders are agreed that greater equity is necessary and that some degree of state intervention is required to support the build-up of human, land and infrastructure assets that poor people can own or have access to.

Facilitating empowerment implicitly recognises that poverty reflects unequal social and power relations. Powerlessness is the hallmark of poverty. Although acknowledging the intrinsically political nature of empowerment, most political elites and donor agencies shy away from its full implication: political struggle. Instead, there is much rhetoric about collaboration among poor people, the middle class, and other groups in society. It is not acknowledged that empowerment of the poor by necessity must mean the disempowerment of the non-poor – in relative terms – since the power concept is a relational one. Thus, poverty-reduction entails changing social and power relations – often in fundamental ways. Glossing over this fact will render any poverty-reduction strategy flawed.

Enhancing security requires action to mitigate the consequences of adverse shocks on the poor. As pointed out above, the poor are particularly vulnerable to contingencies and are constrained in their efforts to recover from them. Security can be enhanced through a variety of measures by civil society and the state such as social security schemes, specific emergency programmes, building up buffer stocks, and diversifying household income sources.

It is often claimed that there is no hierarchy of importance between the three strategic prongs; they are complementary and interdependent. We would assert, however, that empowerment should take precedence because it goes to the core of the poverty phenomenon, i.e., unequal power relations at all levels of society. A poverty-reduction strategy in terms of sustainable changes for the poor is unlikely to be successful if the underlying power relations are left fundamentally intact.

As always, the proof of the pudding lies in the eating. Although a broad consensus has emerged regarding the general precepts of anti-poverty policies, it is acknowledged that there is no 'quick fix' to the poverty problem, or a universal blueprint that will fit all situations. At the national and local levels, each country needs to design its own package of anti-poverty policies, tailored to the circumstances at hand and reflecting national priorities.

In assessing the resultant poverty-reduction strategies it might be useful to apply the hierarchy of interventions in terms of importance as suggested by Reginald Green (1994):

- *Primary redistribution*: enabling poor households to produce and earn more, in order for them to be able to fend for themselves on a sustainable basis rather than being dependent perpetually on relief and handouts. This is considered the core of an effective poverty-reducing strategy whose ultimate objective is the eradication of poverty altogether, however distant the achievement of that objective may seem.
- *Secondary redistribution*: providing basic health services, safe water, nutrition, education and extension services to poor households to raise their present and future productive capacities.

- *Tertiary redistribution*: building and reinforcing safety nets of cash or kind (particularly food) transfers to alleviate consumption shortfall due to conjunctural shocks such as droughts, floods or other natural or man-made calamities (e.g., civil strife and war).

In Green's schema above, primary redistribution is akin to the World Bank's two strategic prongs of 'promoting opportunity' and 'facilitating empowerment'. But it goes further by openly acknowledging the political dimension in underscoring its primacy. In other words, primary redistribution is accorded highest priority, rather than just being seen as complementary, on a par with other types of intervention. Secondary redistribution, on the other hand, is coupled mainly to 'promoting opportunity', but less to 'facilitating empowerment'. Finally, tertiary redistribution is almost synonymous with 'enhancing security'.

In the past, African states and the donor community alike have been criticised for limiting themselves to secondary and tertiary redistribution, mainly because primary redistribution would entail changing power relations in fundamental ways and the empowerment of the poor. However, it is significant that there has been a development in the mode of thinking about poverty reduction. Even the World Bank is talking about 'negotiated land reform'. To include empowerment as a key element in poverty-reduction strategies is a step forward towards addressing primary redistribution, even if it still seems a reluctant and only rhetorical concession that remains to be acted upon. The pendulum seems to have swung, from the erstwhile extreme liberalism with a minimalist or 'rolled back' state, towards judicious state intervention in selected fields to rectify the adverse effects on the poor of imperfect markets.

The HIPC initiative

Most African countries, but not all, are very poor and heavily indebted, in the first instance classified as least developed, and secondly as HIPC if poverty is compounded by indebtedness. In southern Africa, however, Botswana, Mauritius, Namibia and South Africa are classified as middle-income countries with a gross national income (GNI) per capita above US$1 200. Though not classified as HIPCs, those countries nevertheless face formidable challenges in reducing poverty among large segments of their populations. In other words, poverty reduction is on the agenda of all African countries notwithstanding their statistical averages suggesting otherwise. Since the combination of poverty and indebtedness is the rule rather than the exception in Africa, we shall recount an initiative taken by the World Bank and the International Monetary Fund (IMF), collectively referred to as the Bretton Woods Institutions.

The first HIPC initiative was launched in 1996, followed in 1999 by its successor, the Enhanced HIPC initiative (Birdsall *et al.* 2002; Teunissen and Akkerman 2004). They form laudable attempts towards large-scale debt cancellation rather than palliatives such as debt rescheduling and interest rate reduction. They are focused on the cancellation of debts owed to the IFIs and the regional development banks because a large proportion of the HIPCs' debts are owed to these multilateral institutions. But also bilateral and commercial creditors provide debt relief through this scheme.

The technical design of the original HIPC Initiative, as conceived by IMF and World Bank staff, made eligibility conditional on the maintenance of macroeconomic stability under IMF-approved programmes, for at least six years – referred to as the 'decision point' – and receipt of a permanent reduction in their official debt stocks only after another three years of a satisfactory policy environment to reach the 'completion point'. These conditions proved too stringent for most HIPCs. The eligibility criteria under the enhanced HIPC scheme were more lenient, therefore, and included the following:

- low per capita income;
- demonstrated good reform performance;
- ratio of net present value of debt to exports exceeding 150%; or
- ratio of net present value of debt to tax revenue exceeding 250% for open economies (i.e., minimum 30% export to GNP ratio) with substantial tax revenue (i.e., minimum 15% of GNP).

The entirely new element in the enhanced HIPC concept, however, was not only its broader coverage and softer conditions. Equally important was the linkage of debt cancellation to poverty reduction. To qualify for debt relief under the Enhanced HIPC initiative, a country is required to prepare a wide-ranging PRSP that demonstrates its intention to use the freed resources for poverty-reducing purposes. Not only must the PRSP document chart the course towards poverty reduction, its preparation should also involve broad participation by civil society and other domestic stakeholders. Such an inclusive process is meant to create 'national ownership' of the strategy and provide political legitimacy among the citizenry. The participatory preparation of the PRSP is also presumed to add instrumentality and facilitate its effective implementation.

Eligible countries begin receiving debt service relief once the decision point has been reached, i.e., once the *ex ante* conditions are fulfilled in terms of macroeconomic track record and the approval of the PRSP by the boards of the IMF and the World Bank. The permanent debt stock reductions are delayed until the completion point once the *ex post* conditions have been met in terms of process, performance benchmarks, and the use of HIPC resources.

The majority of African states have embarked on PRSPs as an avenue towards poverty reduction with financial assistance from the Bank and the Fund. The PRSP concept is so pervasive by now that querying its import and effectiveness is justified. Empirical country case studies are needed to address the issue of PRSP effectiveness in reducing poverty. It is also warranted to ask whether African countries that have embarked on homegrown poverty-reduction strategies differ in their approach from those of the HIPCs and, if so, how? Furthermore, are poverty-reduction strategies under the HIPC umbrella more effective than the homegrown non-HIPC strategies?

Designing a PRSP

To guide the preparation of PRSPs, the World Bank has published a two-volume *Sourcebook on Poverty Reduction Strategies* of 1 252 pages altogether, written mainly by Bank staff (Klugman 2002). The preface to these volumes states that they reflect the thinking and practices associated with the Comprehensive Development Framework (CDF), the *World Development Report 2000/2001: Attacking Poverty*, as well as experiences and best practices from elsewhere. It is asserted that the Sourcebook is not prescriptive and should not be taken as a recipe for a blueprint. Notwithstanding these disclaimers, the Sourcebook can be considered as the terms of reference for the preparation of PRSPs. It is replete with such phrases as 'a PRSP is expected to', which certainly suggest a prescriptive streak. The fact that the Sourcebook is extremely detailed reinforces its prescriptive nature. The conditionality inherent in the PRSP exercise under the HIPC facility is underscored by the fact that the respective boards of the Bank and the Fund must approve the resultant PRSP before funds can be released. It is justified, therefore, to consider the Sourcebook as the effective terms of reference for PRSPs.

Simply put, a PRSP is a recipe for reducing poverty in heavily-indebted, low-income coun-

tries that are eligible for debt relief under the HIPC initiative or concessional lending from the Intrnational Development association (IDA), or from the IMF through the Poverty Reduction and Growth Facility (PRGF). The PRSPs are meant to show how the funds that are released or freed will be spent with a view to reducing poverty in the countries concerned. Significantly, the acceptance of a PRSP by the IMF and World Bank boards is a stamp of approval that credible policies are in place with a view to reducing poverty and thus serves as a cue to bilateral donors to extend aid. Some 70 low-income countries are at various stages of a PRSP process, the great majority of them in Africa.

Certain principles underlie the PRSP processes, which should be:

- country-driven and -owned, predicated on broad-based participatory processes for formulation, and outcome-based progress monitoring;
- results-orientated, focusing on outcomes that would benefit the poor;
- comprehensive in scope, recognising the multi-dimensional nature of the causes of poverty and measures to redress it;
- partnership-orientated, providing a basis for the active and co-ordinated participation of development partners (bilateral, multilateral and non-governmental); and
- based on a medium- and long-term perspective for poverty reduction, recognising that sustained poverty reduction cannot be achieved overnight (Klugman 2002: Vol. 1).

The Sourcebook devotes an entire chapter to participation in an operational sense (Klugman 2002: Vol. 1, chapter 7). The participatory process is seen as a method for stakeholders to influence and share control over priority setting, policy-making, resource allocation, implementation and monitoring. The stakeholders include civil society organisations, ministries, and parliaments. The mass media play a special role in contributing to the transparency of the process by way of websites, newspapers, radio and TV programmes, etc. The role of Bank and Fund staff, on the other hand, is neither to drive the participation process nor to co-ordinate it, but rather to facilitate it.

Similar to participation, an entire chapter is devoted to governance (Klugman 2002: Vol. 1, chapter 8). Governance is broadly defined as the exercise of power through a country's economic, social, and political institutions in which are embedded the organisational rules and routines, formal laws and informal practices that shape the incentive structure for policy makers, overseers, and providers of public services. Key elements of good governance are transparency and accountability at all levels. It is asserted that the poor are likely to suffer most from bad governance. Hence, empowering the poor through participation is a means of enhancing governance. The governance aspect of the PRSPs appertains directly to the concerns of this paper: how do institutions of democratic governance promote development?

Pro-poor economic growth

There seems to be a worldwide consensus among analysts and policy makers that long-term per capita economic growth is a *necessary* precondition for sustainable poverty reduction. Indeed, one might say that growth and poverty reduction are two dimensions of the same phenomenon. However, economic growth is not a *sufficient* precondition for poverty reduction. In fact, high rates of economic growth can have very different impacts on income and consumption poverty under different conditions, varying in time and space. Whereas aggregate economic growth

over the long term may pull a number of poor people out of poverty through the 'trickle down' effect, more and more attention is drawn to the pattern and distribution of economic growth among social groups, including the poor. It is increasingly acknowledged that the distributional effects of growth are critical to poverty reduction. That is why the adjective 'pro-poor' is now almost invariably attached to the 'growth' noun in the policy debate on poverty reduction.

How, then, is the apparently elusive concept of pro-poor growth defined? It is recognised to be a vexing question on which some consensus has been reached but not by far in all its facets, as indicated by a recent overview (Klasen 2004). One study 'defined growth as pro-poor if poor households increased [their] income (or consumption, whichever measure is available for a given country) proportionally more than the non-poor, i.e., households above the poverty line' (Son and Kakwani 2006). Conversely, if growth is negative, say, in a recession, the effect is pro-poor (perversely so) if the income or consumption decreases proportionally less for poor households than for the non-poor.

The same study found that the economic growth performance of developing countries varied greatly over time and from one country to another. Not only do growth rates vary considerably, but also their impact on poverty per unit of growth. Furthermore, if inequality increases over a period, then the pro-poor growth rate will be lower than the observed growth rate of the mean income or consumption, and vice versa. This new measure of pro-poor growth captures gains and losses in the income (or consumption) of the poor, relative to the observed average growth rates, due to changes in inequality. The gains imply pro-poor growth, the losses anti-poor growth. This study concludes that global economic growth processes have generally not been pro-poor. Some countries were worse off than others. Low-income countries, heavily indebted countries and sub-Saharan Africa – the largely overlapping country groupings with the highest incidence of poverty – had a lower than average frequency of growth spells that were both positive and pro-poor.

What factors determine the growth patterns – whether they are positive or negative on average, and whether they are pro-poor or anti-poor? Surprisingly, Son and Kakwani (2006) found a statistically insignificant relationship between inflation and rates of mean growth, but a highly significant inverse statistical relationship between inflation and pro-poor growth. In other words, low inflation is associated with pro-poor growth. Similarly, contrary to conventional wisdom, low levels of trade openness were significantly associated with positive growth, and high levels of trade openness with negative growth. In other words, the statistical relationship between trade openness and the pro-poorness of growth was insignificant. Moreover, the study found an overall insignificant relationship between the share of agriculture in GDP and positive growth but a positive relationship where the agricultural share of GDP ranged between 20% to 30%. Statistically, these results indicate an insignificant association between the share of agriculture in GDP and pro-poor or anti-poor growth. From an institutional point of view, the rule of law was not found to have any statistical significant association with either mean growth rates or pro-poor growth; it appeared irrelevant. The caveat should be inserted, however, that the findings emerging from this cross-country analysis must be interpreted with caution. They depict only averages of a large number of countries; individual country experiences differ considerably. Hence, no specific policy conclusions can be drawn from this cross-country analysis which only serves as a reference point for further analysis taking individual country conditions into account.

While it is exceedingly difficult to achieve poverty reduction without sustained economic growth, the distributional aspect of growth is critical. It is not enough to consider the economic

growth rate in aggregate (Grimm *et al.* 2007). For when the richer segments of the population capture the lion's share of the benefits of growth, its poverty-reducing impact is limited or insignificant. From a pro-poor growth perspective, the key question is whether poor people are able to participate in economic growth, or otherwise benefit from it. This may be achieved through direct participation in productive activities, for example through increased real wages, new employment opportunities or increased returns from self-employment activities. The poor may also benefit indirectly from increased public spending on education, health care, water supplies, etc.,or private transfers made possible by increased revenues from growth. The extent to which the poor share in growth processes depends on many factors, including the pattern of growth, the nature of poverty, the institutional context, and the policy environment.

We still do not know enough about the policies and strategies that enable poor households to partake in and benefit from economic growth. But empirical findings from eight country case studies suggest that inequality affects the pro-poor impact of growth (Besley and Cord 2006). Rising inequality over the 1990s appeared to have cancelled out poverty-reduction gains from growth in fast-growing countries. These findings underscore that economic growth per se, although extremely important, does not explain the variation in poverty reduction. Initial inequality and changes in inequality over a growth period are also important factors which may restrict the access by the poor to the growth benefits.

Although the specific policies pursued by these eight countries differed, and exogenous factors affecting growth varied between them, some common strategic features emerged. A successful sustainable growth strategy needs, as its foundation, macroeconomic stability, well-defined property rights, trade openness, a good investment climate, an attractive incentive framework, well-functioning factor markets, and broad access to infrastructure and education. In addition, country-specific policies need to be designed to enable the poor to participate in, and benefit from, growth. Since labour is the most abundant asset of the poor, it is hardly surprising that the most successful experiences with poverty reduction have occurred where policy has supported the creation of attractive jobs, accessible to poor households. Given the concentration of poor households in agriculture, this strategy rests in part on making agricultural activities more productive. Improved access to markets and technology, strengthened property rights, and better methods of risk management each have a role to play. A complementary measure is to enable the rural poor to engage in productive off-farm activities and to take advantage of urban employment. Towards that end, improvements in the investment climate and infrastructure, expanded access to secondary education (particularly for girls), and reform of labour market regulations may all feature in such a strategy. Overall, three pillars – good macroeconomic and structural economic policies; political stability; and public investments in physical and human capital – were essential in facilitating private initiatives and investments among the non-poor and especially the poor. Political regimes and the quality of institutions also affected outcomes, but drawing firm conclusions about their precise impact on growth and poverty reduction was difficult.

In a paper drawing on case material from sub-Saharan Africa, Thorbecke and Mwabu (2006) sum up as key findings – not surprisingly – that the major correlates of poverty include: labour force participation and occupational status; race; location (e.g., rural/urban or regional breakdown); education; health; household size; gender (e.g., male- vs. female-headed households); age; dependency ratio; market orientation; ownership of or access to land and other productive assets; and marital status. On the basis of these findings they single out five elements that need to be incorporated into a pro-poor growth strategy:

- discontinuation of discriminatory policies against rural and agricultural development because most African populations still live in the countryside and derive an income from agriculture, notwithstanding rapid urbanisation;
- investment in human capital, i.e., education, health, including nutrition, water supplies and sanitation, in order to contribute directly to human welfare;
- improvement of intra-household distribution of consumption (such policies may be seen as intrusive but public safety nets for the most vulnerable could make a difference and render them less objectionable);
- making markets and public infrastructure accessible for the poor;
- facilitating the creation of job opportunities for the unskilled poor and investing in enhancing the skills of the unemployed.

There is no doubt that recent analyses of economic growth processes have added to our knowledge about the interface between growth and poverty reduction. A consensus appears to be emerging about a number of elements that can explain why certain patterns of growth are more pro-poor than others, notwithstanding remaining nuances of opinion. Recent theoretical strides based on empirical findings and insights have provided good analyses and *ex post* explanations of the growth–poverty reduction nexus – i.e., why different growth trajectories are more or less poverty-reducing. The challenge, however, is to use those theoretical insights to design prescriptive *ex ante* policies that can facilitate economic growth *and*, at the same time, contribute to poverty reduction in a major way (Gore 2007).

That challenge is formidable because it is not confined to the sphere of analysts and policy makers . Not only is the task complex in itself, but its challenging nature arises because poverty-reducing policies which entail empowerment of the poor may clash with entrenched power structures and forces whose material interests are attacked. Given that a disinterested poverty-reduction policy package were available, its adoption is likely to be resisted by the entrenched political and economic elites. Even if such poverty-reduction policies were adopted their implementation would most probably face resistance for the same reasons. In other words, we are faced with a political economy problem in the solution of which functioning political institutions must be considered. This brings us to the issue of developmental democracy.

Democratic Transitions

With the end of the Cold War, the 1990s saw a transition to democratic rule in a large number of African countries. Erstwhile autocracies were relegated to the rubbish heap of history, and replaced by a new democratic dispensation. On the face of it, single-party rule was supplanted by multi-party systems in which contending social interests were allowed to play out in elections through the agency of political parties. New constitutions and other legislation laid down the rules of the political game, and all political forces were expected to abide by them. Contestation between diverse parties was introduced through ostensibly free and fair elections at regular intervals, managed and overseen by independent electoral commissions. To protect the integrity of the rules of the political game an independent judiciary was established. Constitutional provisions guaranteed the respect and protection of human rights, including the freedoms of expression and assembly that are so fundamental to democratic practice. Key political institutions were set up to form the core of a liberal democratic system of governance: the legislature,

the executive and the judiciary. Additional institutions of restraint followed gradually, such as auditors-general, human rights commissions, ombudsmen, media regulators, anti-corruption agencies, etc.

Having gone through a transition from authoritarianism, the nascent democracies had all the trappings of a liberal democratic state, which conformed to the requirements of a procedural democracy in the formal sense. In other words, a formal political system for making legitimate decisions was in place. The atmosphere was euphoric at the time and expectations ran high that a new era would be ushered in and provide tangible benefits for the ordinary grassroots voters in terms of services (education, health, water supplies, etc.) and improved living conditions. On the face of it, democratic rule had been more or less consolidated.

About 15 years on, questions are being raised not only by a disillusioned electorate but also by analysts and political leaders about the expected output that has remained elusive. What went wrong? Why have the substantive promises of democratic rule remained unfulfilled? Why have the newly-installed democratic institutions not been working in favour of the poor? Tangible benefits from the new multi-party democracies have been elusive precisely because what actually occurred in the name of democratisation is what Claude Ake has referred to as 'the democratisation of disempowerment' wherein newly established multi-party systems merely allow rotating and competing sections of the ruling elite to exploit the vast majority of the largely rural population who remain disempowered (Aké 1995). Put differently, the people have been given the democratic right to elect governments that have no effective power to determine social or economic policy (Bienefeld 1995). In most cases such power has in fact been surrendered to the IFIs because of the debt crisis and the ensuing 'democratic austerity'.

This kind of democracy – referred to as procedural democracy – severely curtails possibilities of deploying popular power to challenge the fundamental contradictions and inequities of peripheral capitalism. It effectively keeps the poor voiceless and powerless to challenge the prevailing social relations of exploitation and domination. One of its most severe contradictions is summed up by David Held when he says: 'the formal existence of certain liberties is of little value if they cannot be exercised in practice ... although each step towards formal political equality is an advance, its liberating potential is severely curtailed by inequalities of class' (Held 1993: 21).

While not discounting the fact that introduction of *procedural democracy* represented a milestone, ordinary citizens are crying out for a *substantive democracy*.

At the 114th Assembly of the International Parliamentary Union (IPU) in Nairobi in May 2006, some of the 1 500 delegates voiced serious doubts about the quality of democratic rule (Mulama 2006). Against the backdrop of 'undemocratic' practices such as hefty selfish salary hikes for legislators and constitutional amendments to allow incumbent presidents to stand for re-election, parliamentarians wondered whether 'benevolent autocrats' would not do just as well as the leaders elected by means of democratic procedures in delivering the tangible outputs that the electorate wanted. In other words, they questioned the very legitimacy of a procedurally correct democratic system as long as it was apparently incapable of producing the substantive output that the electorate was waiting for during the pre-transition regime. Why, after one and a half decades of procedural democracy were the tangible outputs so meagre? This debate put in stark contrast the notion of procedural democracy as distinct from substantive democracy.

Few would disagree that procedural democracy is desirable. But it is unlikely to be sustainable by itself in the long run. Democracy will not endure as long as there is no improvement in the standard of living of the majority of the population. This is why it is important to go beyond

procedural democracy and explore prospects for developmental democracy in southern Africa. This kind of democracy also strives to achieve accountability, openness, transparency, respect for human rights, observance of the rule of law and free flow of information. But it goes beyond procedural democracy by simultaneously encouraging popular participation in decision-making processes affecting the lives of ordinary citizens and promoting the material welfare of the general populace. In other words, this kind of developmental democracy has an emancipatory import. This is what makes it preferable to procedural democracy because it is a significant improvement over the thin or skin-deep democracy that currently prevails in much of southern Africa.

Developmental Democracy

The academic discussion of developmental democracy predates the end of the Cold War. In the late 1980s Richard Sklar (1987) raised the matter in an article where he took issue with the many political scientists who at the time endorsed the idea of a developmental or modernising oligarchy. That idea was based on a notion that a choice had to be made between economic growth and democratic popular participation. The former was seen to require accumulation of capital for investment, whereas the latter would allegedly lead to populism and dissipation of resources. However, not content with a political theory *of* development that acquiesced in autocracy, Sklar instead launched a search for a political theory *for* development, i.e., a theory of political means. Although he did not move far towards advancing such a theory himself, he set the agenda for theorising (with a normative bent) about the linkage between democratic rule and development. In the terminology of this paper he was looking for a theory of substantive or developmental democracy.

Gordon White (1995: 28–30) discussed divergent views on the relationship between democracy and development. He discerned four strands:

- an optimistic view seeing liberal democracy as a powerful stimulus to development, mainly because it introduced accountability, participation and popular mobilisation;
- a pessimistic view that considers democracy a valuable long-term goal in its own right but a potential impediment to the early stages of development; democracy is considered a luxury the poor can ill afford because it would lead to indiscipline and loss of focus;
- a 'don't-expect-anything' strand which posits that democratic regimes are not legitimised by their performance and output but rather by their procedures;
- a fourth strand which posits that the nature of the political regime is not really the issue.

In the fourth strand, governance and state capacity are the key characteristics, which could, in principle, exist under any political regime. In other words, an effective developmental state could be either authoritarian or democratic. Empirically, however, authoritarian regimes in Africa have been singularly unsuccessful in establishing capacity for good governance and developmental efficacy. Similarly, liberal democracies have not done so well either in terms of tangible development output. Even so, on the face of it, key features of liberal democracies such as the selection of leaders through periodic competitive elections and vibrant public debate on salient issues and policies, are essential mechanisms for making a state responsive and accountable to the electorate.

The challenge is to construct a state which is both developmental and democratic, because both development and democracy are objectives independently of each other yet doubly desirable in combination. It should be recalled that even a minimalist procedural democracy is an achievement in itself that should not be belittled. But popular expectations go beyond those formalities to substantive output. Hence, a synergistic relationship between procedures and outcome is sought.

Apparently, the challenge is partly one of *state design*. At least three basic socio-economic functions are required for meeting the substantive expectations of democratic rule (White 1995: 31): regulative; infrastructural (in a broad sense); and redistributive. In order to fulfil these functions the state needs to have sufficient political authority and administrative capacity to manage the social and political conflicts that are bound to arise in the process. The two first functions are relatively easier to handle, whereas the redistributive one is likely to generate more controversy because it addresses the very core of developmental democracy: the allocation of the benefits of economic growth and social services among societal groups and classes. Furthermore, redistribution challenges entrenched interests that are reluctant to give up their privileged positions.

In particular, fulfilling the redistributive function requires not only a set of conventional political institutions of liberal democracy which may deliver what is generally referred to as 'good governance'. These institutions include an executive and a legislature; a judiciary and other institutions of restraint; political parties espousing distinguishable programmes; electoral systems with bodies administering free and fair elections; free and vibrant mass media; as well as the attendant respect for key human rights such as freedom of expression and association and the right to participation in public life. It also requires a culture of 'good politics': the actual conduct of the political game largely in accordance with its formal rules, and the peaceful mediation between contending social forces in the spirit of compromise as opposed to an attitude of 'winner-takes-all'. In such a conduct of good politics organised groups in civil society would play a rightful part. This latter point means that politics would be conceived of in a far broader sense that the activities within formally defined political institutions, including external factors such as the relationship with the donor community and globalised markets.

At the core of 'good politics' are two features related to the relationship between elected political leaders and their electorate: responsiveness and accountability (Gloppen *et al.* 2003). Responsiveness refers to the *ex ante* sensitivity of politicians and decision-makers to the voices and demands of the poor and the extent to which it is reflected in action or inaction. Accountability pertains to the *ex post* relationship between the electorate and bearers of rights and legitimate claims, on the one hand, and the elected leaders and institutional agents responsible for fulfilling those rights and claims, on the other. If the performance of elected leaders does not match the expectations of the electorate, they are held to account at periodic elections as the most central accountability mechanism, and possibly be removed. Similarly, non-performing institutions may be reformed essentially through the same mechanism. Civil society organisations are important articulation channels of demand from the grassroots both in terms of responsiveness and accountability. How effective civil society is in exerting influence on the powers that be depends on the nature of their relationship with parties and institutions and on their relative independence of domestic and international stakeholders such as donors.

It may be argued that the formal institutional trappings of liberal democracy are already in place in most African countries that have gone through a democratic transition since the early 1990s. In other words, state institutions of governance have in fact been crafted in accordance

with the precepts of developmental democracy. Nonetheless, that institutional framework does not yet seem to have worked in favour of the poor, at least not to the degree one would have hoped or expected. Why? Political scientists would immediately suggest that one reason might be that the democratic dispensation is not yet consolidated. Other reasons may be found in preexisting social and economic structures, and dominant cultural systems of thought and beliefs in which the nascent democracy is embedded. Those structures and systems are not necessarily democratic in nature. More likely they reflect entrenched power relationships. In such a situation, is an evolution from procedural to substantive democracy really feasible?

Some authors go as far as to suggest that democracy and development might be institutionally incompatible (Leftwich 2005). Essentially, societies cannot function without social institutions, i.e., broadly agreed rules and conventions governing an array of spheres of social interaction, including that of politics which is critical for the distribution of resources. Institutions are regulators of human behaviour. However, institutions also reflect and sustain power relationships. This does not mean that institutions are unchangeable; they do change over time, albeit mostly at a slow pace. For example, the transition from autocracy to democracy was a major institutional change, at least at the formal level. That said, for such formal institutional changes to take root a series of other institutional changes – formal and informal – are also required. But these concomitant changes may not be occurring at an equal pace.

Leftwich (2005: 695) argues that 'democracy is essentially a conservative system of power, geared to stability, not change'. His point is reinforced by the inertia of institutional change in non-political spheres that nevertheless impinge on politics. Development, on the other hand, is a turbulent and messy process which cuts across multiple institutional spheres. First, it must be understood as a transformative process which in developing countries involves quite radical and rapid change in the social, economic and political institutional framework. That presents, in itself, a formidable challenge of political economy coordination. Second, the process leading to development as distinct from economic growth involves the highly contested distribution of benefits. The distributive task would be facing entrenched institutions that are likely to impede development, especially where legacies of large inequality are involved. An illustrative example of redistributive action would be land reform which in most agrarian economies is seen as inevitable if a dent is to be made in the poverty problem. This is where Leftwich sees tension – or incompatibility – between the institutions of democracy being basically conservative and those institutional frameworks that are needed for developmental transformation. His view would fall within the pessimistic strand in White's schema.

Notwithstanding the institutional set-up, yet to some extent a consequence of the institutional structure, political leadership appears to play a key role in turning or not turning a procedural democracy in to a developmental one. It has been argued that African political leaders are predominantly predatory (Goldsmith 2004). Politics is a risky business and, as a result, leaders seek to enrich themselves as much as possible within the short time horizon they are in office because re-election is highly uncertain. Only two African countries are exceptions to such predatory rule: Botswana and Mauritius. This theory of leadership takes as its point of departure that politicians are non-ideological, pragmatic and self-interested. Their primary concern is to hold on to power because that power gives them the instruments of self-enrichment. Once in power, such leaders try to extract as large a share of the state's revenue as possible, only subject to certain institutional limits imposed on them.

Thus, security of office is a key variable that may explain the degree of self-enrichment. The prospect of losing power arguably induces leaders to engage in opportunistic behaviour and

maximise short-term gains in total disregard of the short- and long-term damage inflicted on the country they are supposed to serve. African leaders are simply attempting to maximise personal utility under conditions of extreme political uncertainty. By contrast, more secure leaders who have longer time horizons in office that dampen venality would be more inclined to serve the long-term public interest, in other words move in the direction of developmental democracy (Goldsmith 2004: 96). Another factor should be added: capturing state power is very attractive because the state still commands a disproportional share of the country's wealth in most of Africa; the private sector is comparatively small and in most cases not an alternative source of accumulation.

Is this a self-fulfilling leadership theory suggesting that it is well-nigh impossible to break the cycle of predatory venality? Or, can the exceptional cases of Botswana and Mauritius point to some directions out of the morass? Are Botswana and Mauritius just statistical outliers or rather illustrative cases which could help to solve the 'enigma' of developmental democracy? In terms of economic growth Botswana has sustained high rates for a long time, even though a large proportion of that growth is attributable to windfall diamond revenue. Although the distribution of growth has been less than satisfactory in bringing down the poverty level, considerable expenditure has been allocated to public services for the benefit of the poor and the not so poor, indicative of developmental democracy. Furthermore, Botswana has since independence in 1966 adhered to the principles of procedural democracy. Successive elections have returned the incumbent party to power to the extent that a dominant-party system has emerged. Succession of leadership has been smooth and orderly so as to produce a stable political system. Moreover, Botswana compares favourably on the Transparency International corruption index. Are these characteristics merely historical accidents? If not, what can be learned from the processes that led to such encouraging results?

A recent contribution (Fritz and Menocal 2007) to the debate on the developmental state recounts most of the above arguments. It reiterates that good governance, or at least 'good enough governance', takes centre stage in developmental states, rather than the apolitical, technocratic approaches that previously characterised the interventions by the donor community in its attempts to build developmental states with functioning institutions.

If institutional impediments to developmental democracy are as severe as claimed by some academics, and African leadership is as predatory as asserted, what are the chances of ever producing a developmental democracy? The answer must be found in the transmission mechanisms of the responsiveness and accountability of political leaders within the framework of procedural democracy. For procedural democracy does provide opportunities for holding leaders to account and make them succumb to the demands and expectations of the electorate and the poor.

It should be emphasised that democracy and autocracy are not a sharp dichotomy of political regime in real life even if it is a useful analytical tool; it is a matter of degree and there are variants of either. Similarly, procedural democracy and developmental democracy are also not a sharp dichotomy. Whereas some procedural democracies exhibit developmental tendencies others do not to the same degree. In other words, one may think in terms of a continuum rather than a dichotomy. The challenge is thus to strengthen the developmental tendencies of procedural democracies. How can this be done? We submit that the only avenue is to apply the transmission mechanisms of responsiveness and accountability which are an integral part of procedural democracy. These mechanisms can be used to counter the lethargic institutions that militate against developmental democracy. The most common accountability mechanism of

procedural democracy is elections, or recall provisions between elections if the legal framework allows. However, the electoral mechanism has proved inadequate. Therefore, two ancillary mechanisms of interest articulation are required as long as the political parties seem steeped in entrenched power structures: civil society action and independent mass media coverage. Such a route will inevitably take a long time to go. But it is probably the only option available.

The Role of Regional Groupings

It has sometimes been argued that regional groupings such as the southern African Development Community (SADC) could play a role in poverty reduction. There is no doubt a case for regional initiatives towards poverty reduction, but only in an indirect and complementary sense. It is the primary responsibility of the member states to promote development and reduce poverty within their respective territories. Placing a responsibility for poverty reduction at the regional level is only likely to create a regional overload. The subsidiarity principle must be applied: activities should be carried out at the level where they stand the best chance of being most effective. Regional ventures can contribute to facilitating economic growth in a variety of ways that transcends national borders. Building physical infrastructure linking states through grids of transport and energy is vital to small economies. Beyond infrastructure projects, regional groupings are also instrumental in dismantling tariff and non-tariff barriers and establishing trade regimes conducive to growth and regional integration, and to poverty reduction as a spin-off.

However, regional groupings are not well placed to address the growth distribution problem. The policy environments at the member state level can be harmonised to a certain extent through regional consultations but at the end of the day the member states are sovereign in determining what policy packages are best tailored to the national circumstances. SADC is not – yet – a supra-national entity that can impose uniform policies on its member states. Furthermore, whatever governance problems exist at the national level cannot be handled at the regional level.

Concluding Remarks

The above discussion shows that the transformation of procedural democracy into developmental democracy (operationalised as poverty reduction in this context) in the interest of the long-term legitimacy of democratic rule is a hard task to fulfil, with many hurdles to overcome. However, it seems that the provisions in procedural democracy of responsiveness and accountability as transmission mechanisms point in the right direction, even if the time horizon is likely to be long.

The empirical studies to be undertaken under the auspices of the Formative Process Research on Integration in Southern Africa (FOPRISA) should use the conceptual discussion above as their analytical framework, adapted, of course, to the research object at hand. Key research questions would include:

- To what extent can the country under scrutiny be characterised as a developmental democracy?
- What mechanisms have been operative to produce a modicum of developmental democracy?

- How can policies be formulated to ensure a 'fair' distribution of economic growth?
- To what extent have organisations of civil society been active in promoting responsiveness and accountability?
- Have the mass media played a significant role in holding politicians and policy makers to account through investigative journalism?
- To what extent and how have policies been influenced by external actors such as donors?
- What stakeholders have the upper hand in policy-making?
- How do existing institutions hamper the emergence of developmental democracy?
- Has the lack of developmental democracy undermined democratic rule? If so, how?
- Has economic growth been pro-poor or not? What factors determined whether or not growth was pro-poor? Do the poor themselves exert influence on policy development and formulation on poverty reduction?
- If not, what accounts for their voicelessness?
- Did the country under investigation chart a poverty-reduction strategy under the HIPC initiative?
- Did the country under investigation formulate its own homegrown poverty-reduction strategy?
- Did SADC play an indirect role in promoting poverty reduction at the national level? If so, in what way?

This list of questions is by no means exhaustive and could easily be extended. But it may serve as a start.

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Notes

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POVERTY ALLEVIATION STRATEGIES AND POLICIES IN SADC

BERTHA Z. OSEI-HWEDIE

Sub-Saharan Africa (SSA) is the poorest region in the world and continues to register increasing trends in poverty in what can be labelled the Africanisation of global poverty. The World Bank sums up the poverty situation in Africa succinctly:

> Out of a population of 580 million in the mid-1990s, more than 270 million Africans were living on daily incomes equivalent to less than a dollar a day, 250 million Africans did not have access to safe drinking water, and more than 200 million had no access to health services. About 140 million youths were illiterate. More than two million children die each year before reaching their first birthday (World Bank 2002: 37)

The Southern African Development Community (SADC) is the poorest sub-region, where poverty remains a fundamental developmental challenge and poses a moral dilemma. Most SADC countries are ranked among the lowest on the Human Development Index (HDI). The poverty situation is exacerbated by the fact that it is the epicentre of the HIV/AIDS pandemic, suffers from high racial and income inequalities, experiences recurrent of food crises and has a big informal sector.

The severity of poverty levels has pushed poverty to the top of the international, regional and national agenda since the 1990s. Internationally, there has been a renewed vigour to fight against poverty and make it a priority by international donors, especially the United Nations (UN) and its agencies. For the purpose of this paper, more emphasis is placed on national poverty alleviation strategies and policies with some reference to the regional level. Regional integration frameworks have become popular in the era of globalisation as instruments of development and poverty reduction, through integration into the world economy. At the national level, three factors are important: external pressure; the 1990s' 'Third Wave' democratisation process on the continent that highlighted the poverty problem as a result of a combination of greater political participation of the poor with and political and economic transparency; and the realization that poverty endangers sustainability of democracy. These prompted newly-elected governments to formulate strategies and policies to address poverty in a bid to respond to the needs of the majority for the sake of good governance, and to facilitate the consolidation of democracy.

The renewed emphasis by the donor community and developing states on poverty reduction and its eventual elimination, and pro-poor growth, arises from the realisation that poverty is the biggest obstacle to global development and democratic governance, as political and social inequalities associated with growing poverty undermine prospects for both economic recovery and consolidating democracy. According to Jazairy et al (1992), studies have shown that poverty limits economic growth and that poverty alleviation can contribute to economic growth and development. The prevalence of poverty, which is equivalent to lack of political and economic rights, is likely to contribute to social unrest and loss of legitimacy, and thus a threat to the sustenance of democracy (Arat 1991). However, this is not necessarily the case in SSA or SADC where the poor have largely been resigned to their fate or are not politically active. The political stalemate in Zimbabwe and the plight of the Basarwa in Botswana are some examples of this.

The focuses of the paper are fivefold. First, it explains the political economy of SADC to lay out the context of the poverty problem, provide the regional poverty profile, and discuss its causes. Second, poverty reduction strategies at the regional level are discussed, briefly. Third, selected national case studies of poverty reduction are undertaken, of both countries which have developed Poverty Reduction Strategy Papers (PRSPs) (see Tostensen in this volume for an explanation) and those which have national poverty reduction strategies (NPRS) but have not developed PRSPs. Thus, the study examines six SADC member countries: Malawi, Mozambique and Zambia (PRSPs); and Botswana, Namibia and Swaziland (non-PRSPs). Fourth, the paper compares the two sets of strategies and assesses successes and failures of anti-poverty strategies, policies and programmes, as well as their consequence for development and democracy. Fifth is the conclusion, followed by policy recommendations.

A survey of both secondary and primary materials formed the basis of the data. Desk research of the major writings on poverty alleviation served as the foundation of the research. Qualitative data was generated from interviews, using semi-structured interview guides during field research. The targets of interviews were government officials, civil society organisations (CSOs) and SADC Secretariat staff. Content analyses of government and donor agency documents, including consultancy reports, were also done.

The Political and Socio-economic Context

Political and economic liberalisation in SADC created expectations commensurate with developmental democracy. Most members make up part of the 'Third Wave' of democratisation, having resuscitated or introduced competitive elections in the 1990s. The Democratic Republic of the Congo (DRC) is the newest democracy, having held its first multi-party elections in 40 years in 2006. Botswana and Mauritius are the oldest and longest-surviving democracies in the region, with stable systems of governance.

Economically, SADC has both wealthy and poor member states in terms of gross domestic product per capita. Mauritius is the richest in the region followed by Botswana, South Africa, Namibia, and Swaziland, each of which has a per capita income of more than US$1 000. In the middle are Angola and Lesotho with a per capita income of more than US$550. The remaining members are the poorest with a per capita income of less than US$500. These include Zambia, Tanzania, Mozambique, Madagascar, Malawi, DRC, and Zimbabwe. All economies are externally oriented and depend on one or more primary exports, mainly minerals and agriculture commodities, which until 2003 suffered from declining terms of trade. Only Mauritius and South Africa have relatively diversified economies, with vibrant manufacturing and service sectors. The external orientation of the economies of member states has thwarted the development of a thriving intra-regional trade, which accounts for only 24% of total trade (SADC 2004). Shortfalls in export revenues have forced most member states to accumulate unsustainable debts from international donors, mostly the World Bank and the International Monetary Fund (IMF), and to depend on official assistance to finance their budgets.

Democratisation was expected to provide a legitimate and stable political environment conducive to economic recovery, reconstruction and development in the region. However, precarious conditions in the DRC, authoritarian tendencies and dominant one-party systems that have the tendency of disempowering the poor, as well as a limited political commitment and chequered successes in catering to the welfare of the poor majority, have meant that all SADC countries suffer from problems of poverty and consolidation of democracy, although conditions

vary. Similarly, although annual growth rates for the region have improved greatly with the liberalisation of economies – at 3.2% in 2002, above the population growth rate of 2.1% in 2002 (SADC 2004) – growth in most cases has not contributed substantially to poverty reduction. A growth rate of 7% and a relatively equal distribution of income and economic benefits are critical to the reduction of poverty and economic inequality.

Poor political and economic performance accounts for the controversy associated with labelling African states as developmental democracies. Leftwich (2002) and Edge (1998) classify some countries such as Botswana and Mauritius as developmental democracies while Mkandawire (2006a) sees all SADC states as non-developmental democracies because of their failure to reduce poverty, human deprivation and disempowerment of the poor. Mkandawire further observes that 'democracy per se does not eliminate poverty. It is rather the strategies of development…', hence his commendation of the authoritarian regimes of East Asia.

Regional Poverty Profile

Poverty levels are increasing in southern Africa, especially with the prevalence of low incomes and high levels of human deprivation. Seventy per cent of the region's population of 76 million live below the international poverty line of US$2 per day while 40% live below US$1 per day (SADC 2004). In the DRC, four-fifths of the population lives on US$0.20 a day. The incidence of poverty varies among member states: [1] DRC 80% in 2002, Zimbabwe 80% in 2007, Swaziland 69% in 2001, Madagascar 69% in 2005, Zambia 68% in 2004, Angola 62% in 2004, Lesotho 57% in 2003, Mozambique 54% in 2003, Malawi 52.4% in 2005, Tanzania 48% in 2000, South Africa 46% in 2007, Botswana 30% in 2003, Namibia 28% in 2004, and Mauritius 8% in 2002. The region is also characterised by a feminisation of poverty as women make up the majority of the poor (SADC 2004). Female-headed households suffer more from poverty compared to their male-headed counterparts, while child- or orphaned-headed households are most prone to poverty. Rural areas have the highest concentrations of the poor compared to urban areas.

SADC utilises a broad, holistic and multidimensional definition of poverty, which is similar to that of the World Bank and IMF. These include low income or consumption; deprivation, vulnerability and exposure to risks; and voicelessness and powerlessness of individuals, groups or communities.

There are a myriad of causes of poverty at the regional level, with variations for different countries. These include low levels of foreign direct investment (FDI); diseases such as HIV/AIDS; natural disasters such as floods and drought; bad government; free market reforms and structural adjustment programmes (SAPs); unemployment; lack of state welfare provision; civil wars; inherited underdevelopment from the the colonial era; and declining terms of trade in the global market.

Regional Strategies

The high incidence and increasing levels of poverty in member states prompted SADC to identify poverty alleviation as the topmost priority. The Regional Indicative Strategic Development Plan (RISDP) gives priority to poverty reduction and elimination as a means of realising the goals of sustainable development, gender equality in development and democratic governance. The Strategic Indicative Plan for the Organ (SIPO) views poverty alleviation as essential to the realization of peace, security and stability of the region. Before then, the SADC Treaty of 1992

identified poverty reduction as one of the goals of regional integration.

At the SADC level, poverty reduction strategies have gained prominence since the 1990s, primarily due to international donor initiatives and support in the majority of member states, and the need to adhere to good governance. For example, the Regional Forum on Poverty Eradication in Southern Africa held in Namibia in 1997 addressed three important issues. First, it analysed regional poverty and the need for the formulation of national poverty reduction action plans as mechanisms for better coordination and implementation of poverty reduction in each member country. Second, the forum emphasised the need for collaboration among all stakeholders, including the governments, people, non-governmental organisations (NGOs), community-based organisations (CBOs), the private sector, the media and international agencies in the formulation and implementation of policies and programmes targeted at poverty reduction. Third, it implored member states to prioritise poverty alleviation on their respective agendas (Economic Commission for Africa (ECA) 2006)

However, a regional approach to poverty reduction and alleviation is relatively recent, mooted only in 2001, long after national strategies had been formulated. Despite this, regional cooperation and ultimate integration, especially through the proposed Free Trade Area (with the removal of tariff and non tariff barriers), are seen as the mechanisms for poverty reduction and its eventual elimination. Regional efforts should also be viewed within the neo-liberal framework and broader goals of the UN Millennium Development Goals (MDGs) of halving poverty by 2015, as well as the increasing tendency of donors to channel development assistance through regional bodies rather than individual countries.

SADC has adopted several interrelated strategies that cut across sectors, designed to tackle poverty in its multidimensional nature. These include macroeconomic stability; high pro-poor growth capable of generating employment opportunities; and improvement in the delivery of social services, primarily health and education services to the poor. The RISDP emphasises three strategies for poverty reduction at the SADC level: creation of opportunities for the poor to generate wealth for themselves; empowerment of the poor; and reducing vulnerabilities and risks of the poor (SADC 2004: 56). These strategies are replicas of those advanced by the World Bank. It is important to note that the RISDP, as its name suggests, is 'indicative' in terms of pointing out to members the gravity of the poverty problem, identifying sectors which need national efforts to tackle poverty, and areas requiring regional cooperation for poverty eradication. Therefore, it is voluntary and not binding, without any enforcement authority on member states. This, in essence, re-emphasises the pivotal role of national efforts in poverty reduction, with the regional efforts confined to promoting a conducive environment for growth. However, the RISDP is expected to facilitate mobilisation of donor assistance and monitor the rate of implementation (SADC 2004).

States That Have Adopted PRSPs

One promising indicator of the seriousness with which governments attach to the problem of poverty is the fact that most SADC members have produced PRSPs under the auspices of the World Bank and IMF. These include Angola, the DRC, Lesotho, Madagascar, Malawi, Mozambique, Tanzania and Zambia. Most have full PRSPs, and have qualified for Highly-Indebted Poor Country (HIPC) relief, except Angola, Lesotho and Zambia (since 2006) (Table 1a). Mozambique, Tanzania and Zambia have benefited from debt relief. The remaining members have national poverty reduction strategies (NPRS) but not PRSPs, namely, Botswana, Mauritius,

Namibia, South Africa and Zimbabwe (Table 1b). These are relatively prosperous economies, except for Zimbabwe. The six case studies emphasise pro-poor growth as a developmental goal, understood as 'faster growth with greater equity and distribution to improve the livelihood of the poor in relation to the non-poor'. Thus, pro-poor growth has the twin objectives of 'faster growth and greater equity (McKinley 2007: 1). Kakwani, cited by McKinley, has defined pro-poor growth as a trend that allows the incomes of the poor to grow faster than those of the non-poor (McKinley 2007). Through their pro-poor growth strategies, NPRSs are thus in line with the MDGs.

Table 1: Overview of poverty reduction strategies in SADC
a) Poverty reduction strategy papers (PRSPs) in SADC 2007

Country	Interim PRSP	PRSP	First progress report	Second progres report	Third progress report	Second PRSP completion	HIPC country
Angola	Feb 2004	n. a	n. a	n. a	n. a	n. a	No
DRC	Jun 2002	n. a	n. a	n. a	n. a	n. a	Yes
Lesotho	Dec 2000	Jul 2005	n. a	n. a	n. a	n. a	No
Madagascar	2003	2005					
Malawi	Aug 2000	Apr 2002	Aug 2003	May 2005	n. a	n. a	Yes
Mozambique	Feb 2000	Apr 2001	Feb 2003	Mar 2004	Jun 2005	Mar 2005	Yes
Tanzania	Mar 2000	Oct 2000	Aug 2001	Mar 2003	Apr 2004	Jun 2005	Yes
Zambia	Jul 2000	Mar 2002	Mar 2004	Feb 2005	n. a	n. a	Yes/No

Source: Extrapolated from country PRSPs; adapted from Southern Africa Trust, Poverty Reduction Strategies, 4 October 2006, http://www.southernafricatrust.org/Poverty_Reduction_Strategies,html, retrieved 28 May 2007, p.2; PRSPs of the 8 countries.

b) National poverty reduction strategies 2007

Country	National poverty reduction strategy	Economic Status
Botswana	National Strategy Poverty Reduction (NSPR), 2003	Upper middle income country
Mauritius	National Action Plan for Poverty Alleviation (APPA), 2001	Upper middle income country
Namibia	National Poverty Reduction Action Programme (NPRAP), 2000 National Development Plan (NDP2), 2001-06	Lower middle income country
South Africa	Reconstruction and Development Programme (RDP), 1994 Growth, Employment and Redistribution (GEAR), 1996 Integrated Sustainable Rural Development Strategy (ISRDS), 2000 Urban Renewal Programme (URP), 2000 Accelerated and Shared Growth Initiative of South Africa (ASGISA), 2006	Upper middle income country
Swaziland	Poverty Reduction Strategy and Action Plan (PRSAP), 2005	Lower middle income country
Zimbabwe	PRSP impossible due to political turmoil. National Economic Development Priority Plan (NEDPP), 2006	Low income country

Source: NPRSs; adapted from Southern Africa Trust, Poverty Reduction Strategies, 4 October 2006, http://www.southernafricatrust.org/Poverty_Reduction_Strategies,html, retrieved 28 May 2007, p.3; PRS of the 6 countries.

The problem of poverty indicates that what SADC requires is developmental states capable of championing the needs of the majority. Critical to poverty reduction and alleviation is the role of the state, usually in partnership with donor agencies and NGOs as major players in the formulation and implementation of anti-poverty policies, programmes or measures, as well as the monitoring and evaluation of implementation of NPRSs. This partnership is significant to gauge the extent of state support for the poor, identify the gaps and challenges, and the degree of developmental democracy. This, in turn, might help to reorient policies and programmes of the government, donors and CSOs/NGOs so that they make progress on the poverty alleviation. Jazairy points out that poverty can only be overcome if policy makers fully appreciate 'the root causes of povert' and instil democratic and participatory values at every level in society, including national institutions, to allow the 'economic and social interests of the poor to be freely articulated and responded to' (Jazairy 1992: 17).What follows are brief discussions of strategies, policies and programmes in the six case studies and an analysis of the progress made thus far.

PRSPs of the Highly-Indebted Poor Countries (HIPCs)

Three HIPCs with PRSPs are examined, namely, Malawi, Mozambique and Zambia. The PRSPs have been initiated by the World Bank and the IMF but require a very active role by host governments. The PRSPs consist of policies and programmes to promote growth and reduce poverty, and addresss external financing needsform the basis for access to the IMF's Poverty Reduction and Growth Facility (PRGF).

According to the Integrated Household Survey of 2004/05, Malawi has an overall poverty rate of 52%, mostly due to a combination of limited access to land, low education, poor health, and unemployment. Thus, the Malawi Poverty Reduction Strategy (MPRS) of 2002 was designed to economically empower and benefit the poor through sustainable pro-poor growth, thereby reducing poverty.

The MPRS has four pillars. The first is the promotion of rapid sustainable pro-poor economic growth and structural transformation. The private sector is seen as the engine of growth with the government as an enabler of a conducive environment. Agriculture (as most poor live in rural areas) is identified as the core sector for growth and poverty amelioration through the provision of macroeconomic stability, technology, credit and infrastructure, as well as reducing gender imbalances through targeting women, and bringing down HIV/AIDS infections through sensitisation. Agriculture will be supplemented by developling micro-, small- and medium-scale enterprises in the areas of natural resources, manufacturing, tourism and small-scale mining. The second pillar emphasises the enhancement of human capital development through the provision of basic education and basic health. The third pillar seeks to improve the quality of life of the most vulnerable through availing safety nets including targeted free agriculture inputs, public works programmes that create jobs, nutrition programmes, direct social welfare assistance and transfers, and disaster relief. The fourth pillar is the promotion of good governance through transparency and accountability by public institutions and allowing popular participation in decision making. Moreover, the MPRS prioritises cross-cutting issues of HIV/AIDS, gender, environment and science and technology (Government of Malawi 2002). The MPRS was succeeded by the Malawi Growth and Development Strategy in 2006.

As one of the new democracies, with high growth rates of 6% between 1997 and 2003, 12.4% real GDP growth rate in 1997, and increased social welfare, health and education spending since the mid 1970s (SAIIA 2001), Mozambique's poverty declined from 69.4% in 1997 to 54.1%

in 2003 (Republic of Mozambique 2006). However, the fact that more than half the population still lives in absolute poverty poses enormous challenges for the government. While the civil war was the major cause of poverty, other causes have become paramount in the new century. These include a lack of formal social assistance, a lack of employment opportunities, limited access to credit, poor access to markets, disabilities, geographical remoteness, drought and floods, HIV/AIDS and gender inequality (Republic of Mozambique 2006).

The government formulated the Interim PRSP 2000–2004, then the PRSP 2001–2005. The poverty reduction strategy has six priorities, with an emphasis on rapid pro-poor economic growth by private sector investment and production and human development. The priorities include education, health, agriculture and rural development; basic infrastructure development; good governance; and microeconomic and financial management. The strategy has policies and programmes focusing on:

- universal primary education and quality education, with rapid development of secondary and informal education as well as technical-vocational training;
- primary health care with special programmes targeted at specific groups of the poor such as women and children, the fight against HIV/AIDS and other epidemics and the availability of personnel for this;
- agricultural and rural development through boosting agricultural output and availability of inputs, extension services, credit, land and markets;
- development of infrastructure such as roads for better access to markets, and communications, energy and water;
- good governance, rule of law and legality to allow for responsible and accountable government, especially in public expenditure on PRS projects; and
- fiscal, monetary and exchange rate issues as part of macroeconomic and financial management (Republic of Mozambique 2001).

The government went on to formulate the Action Plan for the Reduction of Absolute Poverty (PARPA), which prioritised 'greater integration of the national economy and [increasing] productivity' (Republic of Mozambique 2006). It's three pillars are: governance, human capital and economic development that form the basis of an integrated and balanced national development plan. The poverty reduction policies that are re-emphasised in the 2006/09 plan are those that promote quality education for citizens and developing technical and scientific skills; quality health; clean water supply and appropriate sanitation; the fight against HIV/AIDS; social assistance to vulnerable groups such as women; and cultural diversity and unity. The emphasis is on boosting productivity in sectors such as agriculture, transforming informal into formal sectors, improving basic infrastructure, and the development of the banking and financial systems (Republic of Mozambique 2006).

In Zambia, in spite of the smooth transition to democracy and economic recovery with an annual growth rate of 5% in the 2000s, poverty stood at 68% in 2004, a small drop from 73% in 1998. It remains highest in rural areas at 78%, compared to 53% for urban areas in 2004, compared to 73% and 56% in 1998. Remote provinces, especially, Western, Luapula, North-Western, Southern and Eastern, registered the worst poverty levels. Female-headed households bear the highest incidence of poverty at 69%, compared to 66% for the male. Similarly, households headed by the elderly are severely affected by poverty. The multiple causes of poverty include

lack of economic growth, inequalities, the debt burden, external dependence, lack of government priority allocation and use of resources, inadequate safety nets, HIV/AIDS, the failure of agriculture sector policies, SAPs, unemployment and poor health and education services (Republic of Zambia 2002).

The National Poverty Reduction Strategic Framework (NPRSF) and the 1999 National Poverty Reduction Action Plan (NPRAP) formed the basis of Zambia's Interim PRSP, 2000-2001 (Republic of Zambia 2002). The 2002-2005 PRSP is designed to revitalise economic growth and reduce poverty through private sector investment, in a bid to fulfil the MDGs and the National Vision 2030. The PRSP rests on five pillars namely:

- improving economic performance in agriculture, industry, mining and tourism;
- improving social service delivery, especially education and training, health and nutrition;
- improving infrastructure including transport, communication, roads, energy, water and sanitation;
- addressing cross-cutting issues of hiv/aids, gender, and environment; and
- improving the enabling environment through macroeconomic stabilisation and management as well as governance (Republic of Zambia 2002; IMF and IDA 2005).

Pro-poor policies include boosting the income-generating and employment-creating sectors of agriculture, tourism, manufacturing, mining and energy; improving the delivery of social services in the form of free basic education, health and educational bursaries; infrastructure development, especially roads, transportation, communications, water and energy; intensifying the fight against HIV/AIDS, gender imbalances and environmental degradation; improving the economic environment through good management and governance; and the availability of poverty-focused safety nets. Initiatives include public welfare assistance schemes, a Social Recovery Fund, a Project Urban Self-Help (PUSH), a Food-for-Work Programme and entrepreneurial development and training for retrenched workers (Republic of Zambia 2002). A new form of social protection initiative that involves cash disbursements to the poor will be adopted if the pilot project, the Kalomo District Pilot Cash programme, proves successful. The pilot entails regular cash transfers to critically poor and labour-constrained households to improve their food security. The most important aspect of the programme is that the beneficiaries were identified by the community (Mkandawire 2006b).

NPRSs of Non-HIPCs

Three non-HIPCs – Botswana, Namibia and Swaziland – are analysed in this section.

As one of the richest countries in the region, Botswana owes much of its economic prosperity to the diamond industry, sound economic management, stable economic policies and democratic governance with a political leadership committed to development. It is on this basis that Leftwich (2002) characterises it as a developmental democracy. However, in spite of a long history of pro-poor policies and its commendation as having one of the best welfare services provisions in Africa in terms health and education services, and a high per capita income growth rate of 6% per year until 2001, the government still faces the challenge of poverty eradication and economic diversification. This scenario prompts Mkandawire (2006b) to label it as a non-

developmental democracy, a term he extends to all Africa due to high poverty levels. He quotes the UNDP that states that '... poverty has continued to increase in a more democratic Africa'. and defines developmental democracy using the criteria of performance not procedures – performance that brings about sustained and equitable socio-economic development that impacts positively on the livelihood of the ordinary person. To Botswana's credit however, poverty has declined over time from 59% in 1985/86 to 47% in 1993/94 and to 30% in 2003 (Republic of Botswana 2003). However, 30% remains too high for an upper-middle income country.

Most of the poor in Botswana are women, as in other SADC countries. Poverty is especially prevalent in female-headed households, and amongst the elderly, orphans, youth and in remote areas. Rural areas are the worst affected by poverty with the western regions or districts of Ghantsi and Kgalagadi as the severest, followed by Central and North-east. The multiple causes of poverty include unemployment, HIV/AIDS, low FDI, lack of access to land, credit, drought, low productivity in agriculture, a lack of economic diversification, culture-based gender discrimination and the government's poor distribution policies (Republic of Botswana 2003).

In a renewed and relentless effort to tackle poverty, the government produced a comprehensive national poverty reduction strategy. First was a draft report in 2001 followed by the full NPRS of 2003. The strategy reviewed the poverty situation and mapped out an anti-poverty programme. The NPRS adopts a multidimensional and broad conception of poverty that includes a new element of participation, in addition to the usual factors of income and capability.

The poverty strategy seeks to provide for 'sustainable livelihood' through employment generation; safety nets for the poor; access to social investment; strengthening the organisational and delivery capacity of the poor; and strengthening capacity at national and especially local government levels. Cross-cutting issues of HIV/AIDS, availability of data and public sector performance are also addressed. The poverty policies to be implemented must be understood within the government's broad-based policies as follows:

- macroeconomic stability that encourages growth, pro-poor government expenditure, and agriculture development;
- price stability to shield the poor from inflation;
- monetary policy that guarantees exchange and price stability and efficient financial systems;
- fiscal policy that is sound with efficient expenditure, directed at economic diversification and sustainable economic growth, and the maintenance of healthy foreign reserves;
- FDI for the sake of increasing production, growth and employment;
- land policy with an emphasis on access to land for production and security of tenure; and
- tourism policy to create jobs (Republic of Botwswana 2003).

The 16 programmes in the NPRS were expected to be implemented over a ten year period, at a cost of 165 million pula. The programmes that are targeted at reducing income, human capacity and participatory poverty are as follows:

- sustaining livelihood with six programmes that are designed to increase income-generating opportunities for the poor in small-scale horticulture, rain-fed crop production, livestock production, the tourism industry and small- and medium-scale businesses;

- enhancing human capacity with four programmes aimed at human capital development and building capabilities, especially for artisans and unskilled youths;
- enhancing participation with one programme, the remote area development programme;
- strengthening local institutions with four programmes aimed at increasing the capacity at district councils, village, extension services and land boards;
- strengthening National Development with one programme aimed at boosting planning (Republic of Botswana 2003).

One of the challenges faced by Namibia as a new democracy is poverty in the rural areas of the northern, north-eastern and southern regions. As in the rest of SADC, female-headed households are poorer than their male counterparts. The causes of poverty range from low economic growth, unemployment, population density, and HIV/AIDS. In response to the poverty problem, the government formulated the National Poverty Reduction Action Programme (NPRAP) in 2000, which draws on the priorities of the 1998 PRS. The NPRAP identifies programmes, projects and services that are crucial to poverty reduction over a five-year period from 2001 to 2005. It is a people-centred poverty reduction approach in line with the 2030 Vision, and tries to tailor poverty reduction efforts to regional poverty profiles (Republic of Namibia 2002).

The PRS is based on four priority themes:

- The creation of a prosperous nation through the development of Namibia's transport and manufacturing within the region, investment in education and guaranteeing health for all Namibians.
- the promotion of agriculture, tourism and small and medium enterprises as new income-generating opportunities for the poor;
- the need to improve safety nets for the poor; and
- the need for efficient use of public resources to ensure a positive impact on poverty reduction.

Therefore, the NPRAP includes policies for the provision of free basic education with an emphasis on quality and affordability for the poor, and free primary health care services, with priority given to the fight against pandemics such as HIV/AIDS; food security policy and land reform policy in the agriculture sector; and strengthening the safety net in two ways: through the provision of labour-intensive work programmes and pensions, grants and other financial assistance (Republic of Namibia 2002).

Swaziland, a kingdom with a lower-middle income status, had a national poverty incidence rate of 69% in 2001, with 76% in rural areas and 50% in urban areas. Female-headed households constitute 63% of the poor compared to 52% for males (Government of Swaziland 2005; Government of Swaziland 2006). The main causes of poverty include inequalities at individual, group and regional levels; inequitable distribution policies of the government; drought; unequal access to land; and gender discrimination. To tackle this poverty, the government formulated the Poverty Reduction Strategy and Action Plan (PRSAP) in 2005. The PRSAP forms the nucleus of the National Development Strategy and is a tool for realising the goal of reducing poverty by 50% by 2015, and the National Vision 2022 of eradication of poverty (Government of Swaziland 2005).

The PRSAP has six pillars:

- sound macroeconomic policy, economic growth, broad participation and income distribution;
- empowerment of the poor to generate income and reduce inequalities;
- distribution of benefits of growth through fiscal policy;
- human capital development;
- improvement of the quality of life of the poor; and
- improvement in governance and the strengthening of institutions.

Anti-poverty policies include social service provision, particularly free primary health care with special attention to the fight against HIV/AIDS; free basic education; clean water and sanitation. In addition is the agriculture policy that singles out agriculture as the engine of pro-poor growth by virtue of the fact that 70% of the people live in rural areas. Cross-cutting issues such as the environment, HIV/AIDS, gender, water and sanitation are also addressed.

Poverty Reduction and Developmental Democracy: An Assessment

This assessment of PRSPs and NPRSs will be based on key issues in poverty reduction and developmental democracy: democratic governance/decision making; institutional leadership; political commitment; and monitoring and evaluation. Unfortunately, the short period of implementation of both the PRSPs and NPRSs constrains a comprehensive assessment of the impact of these strategies on the poor: the implementation of strategies has been for an average of three years. However, this exercise should serve as a learning process to identify weaknesses which should be corrected and provide a good basis for monitoring progress and future efforts.

Participatory decision making

Any poverty-reduction strategy requires consultation with stakeholders to allow for participation in the conception of poverty, the formulation of strategies and policies, as well as the monitoring and evaluation of implementation. Consultation is the basis of participatory decision making and participatory development – key components of developmental democracy. All six country cases relied on consultations to cultivate a sense of engagement, ownership, commitment and popular support. Several mechanisms were utilised, including workshops or seminars, committees and working groups, the distribution of drafts and information for comments, feedback and validation. These were also critical to building a national consensus from contending viewpoints of different stakeholders and ensuring a transparent decision-making process.

The impact of consultation in the PRS processes depends on two things. First, whether it is passive or reactive where the government merely disseminates information to society, or proactive with people and civil society actively engaged in determining substantive policies and strategies. Second, whether direct participation is supplemented by indirect participation through elected representatives. These include members of parliament (MPs), councillors, national leaders, and even traditional leaders and traditional institutions.

The government in Malawi relied on consultations at national and district levels (including all 27 districts and four cities and municipalities) in the formulation of the MPRS. A broad range of stakeholders drafted and finalised the strategy in workshops that involved the government, leaders of political parties, MPs, traditional authorities, ward councillors, donors, NGOs, civil society, faith communities, trade unions, and some citizens that are poor. Essentially, 21 Thematic Working Groups and a Technical Committee, composed of all the stakeholders, determined the strategy over a 15 month period (Government of Malawi 2002).

The Mozambique government used seminars and meetings as means for consultations at national, sectoral, and provincial levels with a wide range of stakeholders to receive comments on the PARPA. Through seminars, the central and provincial government, NGOs, religious organisations, the private sector, workers' unions, youth and student organisations, the media and international donors discussed the first draft of the PARPA prepared by the government, made inputs to the final PARPA, and engaged in the dissemination of information. Participatory Rural Diagnoses were also used to process and analyse information critical to refinements of the PARPA.

To overcome shortcomings of participation in PARPA, since 2003 Mozambique has established well-structured, institutionalised and permanent participatory mechanisms involving the preparation, monitoring and evaluation of PARPA, the most important of which are the national and provincial Poverty Observatories. The Poverty Observatory is composed of the government, civil society and the cooperating partners, central ministries, the private sector, donors, parliamentarians and poor people's organisations (Southern African Trust 2007). Altogether, four Participatory Poverty Observatories were held in 2005. Participative Poverty Appraisals and Participative Rural Diagnoses serve as a source of participation by the poor. Working groups are another tool for participatory decision making in the preparation of PARPA. They are composed of the government's technical personnel, civil society and international partners.

Zambia is seen as a model of a top-down poverty planning process with extensive involvement of key stakeholders. These included the government (cabinet and legislature), the private sector, churches, academics, NGOs, professional associations, donors (the World Bank, the IMF, UN agencies) and provinces, over a six-month period (Republic of Zambia 2002). All these actors were involved in the development, review, refinement and prioritisation of poverty issues at national and provincial level seminarsn or workshops and in eight sector working groups. Moreover, each province articulated preferences specific to their province's situation, especially in the sectors of agriculture, industry, tourism, mining, health, education, environment, energy, governance and infrastructure and in the crosss-cutting issues of gender and HIV/AIDS. Provincial consultations also served as arenas for involving rural areas through the inclusion of district officials, traditional leaders, NGOs and churches. In addition, specialised institutions made special presentations to the eight working groups on the cross-cutting issues of HIV/AIDS, roads, water, sanitation, and environment (Republic of Zambia 2002).

In the case of Botswana, workshops conducted over a four-month period provided the forum for consultation with key stakeholders and independent consultants. An umbrella body of NGOs participated in the formulation, review and finalisation of poverty policies. Some communities were consulted through addresses at *kgotla* (tribal meting place) meetings, thus involving traditional leaders and structures.[2]

In Namibia, consultations were held within the ministries and with the 13 regions. Inputs and comments on the NPRAP were received from civil society, private sector, community leaders, NGOs and individuals through regional and national workshops.

In Swaziland, workshops and meetings ensured that the participatory process was nationwide, with inputs from all stakeholders. These included the government, para-statals, NGOs, donors, the private sector and the poor themselves through *Tinkhundla* consultations.

Although nation-wide consultations and participation through workshops gave credibility to the process of the six PRS, a number of problems impinged on national participation and ownership. Although Malawi has been commended for extensive consultations in the PRS process, there are concerns about the limited participation of the poor, MPs and the private sector. The biggest drawback in Mozambique was the fact that consultations with CSOs were carried out after the elaboration of the first draft of PARPA by the government. Participation, therefore, took the form of dissemination of information on PARPA and feedback on the document of PARPA. The exclusion of CSOs and MPs from the formulation of PARPA violated the national ownership and was contrary to the requirement of the PRSP (IMF and IDA 2003). However, subsequent processes rectified this. In Mozambique, as in Zambia, Namibia and Swaziland, the question of ownership was compromised by the participation of international partners in the review and finalisation of the PARPA, primarily the World Bank.

In Zambia, the elite, knowledgeable and well-organised CSOs, played active roles to the extent of producing an alternative poverty reduction strategy paper to that of the government – a sign of a strong civil society. Civil Society for Poverty Reduction (CSPR), the coordinating organisation of poverty-related organisations, dominated in its preparation. However, not all CSOs were involved. Some NGOs felt that the process was not participatory, but a consultative and learning process. Few traditional leaders participated and the poor were not involved directly. Instead, Participatory Poverty Assessments, Beneficiary Assessments, and countrywide consultations during preparation of the PRSP served as the major means of input and influence on poverty strategy and policy by the poor (Republic of Zambia 2002). Not all relevant government departments were engaged in the preparation of the PRSP, which might have affected budgetary allocations and implementation. The PRSP Secretariat was composed of two Ministries – Finance and National Planning and Community Development and Social Services – and the Bank of Zambia. Other ministries served as chairs in the eight sector working groups (Republic of Zambia 2002). MPs were excluded from the PRSP planning process; they were only brought in during the dissemination stage. This meant that elected representatives were denied the chance to articulate the views of their constituents. Finally, the participation of donor agencies, especially, the World Bank and the IMF, and their role in ascertaining the quality of the PRSP, providing financial support for its preparation and implementation, as well as providing debt relief, gave them undue influence on the final outcome, thereby watering down local ownership.

In Botswana too, workshops did not guarantee widespread participation, ownership and commitment, especially, when not all NGOs were involved in the participation process and a limited role was assigned to them due to a reliance on consultants under the auspices of the UNDP. Few *kgotla* meetings were held, which also meant few traditional leaders were involved. Some of the poor were contacted during fieldwork in some parts of the country. MPs were not consulted. To compound the problem, the government failed to rectify this anomaly thereafter, due to lack of communication and dialogue with the whole nation, including elected representatives, local governments, traditional leaders and CSOs.[3]

In Namibia, there was limited consultation with CSOs as most of the work was done by the central government ministries and regional councils. Yet CSOs, CBOs, private sector and donor agencies are expected to play a complementary role to the government during implementation.

The poor participated indirectly through regional councils. Subsequent processes rectified the exclusion of the poor and served as the basis of regional poverty profiles, although technical assistance by international partners in the preparation of the document and formulation of the strategy undermined national ownership and grasp of policy by the government.[4]

Similarly, in Swaziland, not all NGOs involved with helping the poor were engaged in the drafting the PRSAP. Some, for example, a Christian Rural Development Agency (ACAT) argued that most of the unemployed were not consulted as they do not belong in the *Tinkhundla* system. Well-organised bodies, such as Coordinating Assembly of Non-Governmental Organisations (CANGO) and Women and the Law in Southern Africa, were active participants. However, the government has placed the responsibility of implementation on all stakeholders, including itself (Government of Swaziland 2006). The participation of international partners in drafting the strategy also compromised national ownership.

In all the six cases, the voice of the poor was minimal and indirect, and was therefore unlikely to be reflected in the final strategies and policies. Overall, Mozambique has had the highest degree of substantive participation, both direct and indirect, followed by Malawi, Zambia, Swaziland, Botswana, and Namibia with the least level of citizen participation. Over-reliance on CSOs in all six cases means that the voice of marginalised was compromised given the fact that most CSOs do not represent the interests of the poor, are unaccountable, and donor dependent. Except in Malawi, governments failed to engage MPs, thus depriving the poor of an extra voice. In all countries, the World Bank, the IMF or the UN Development Programme (UNDP) influenced the process, resulting in a significant emphasis on economic liberalisation and the role of the private sector in poverty policies and strategies.

Institutional leadership and political commitment

In all the six case studies, the ministry responsible for finance and planning was the core institution that provided leadership. The government in Malawi, through the Ministry of Finance and Economic Planning, directed the participatory process of the MPRS from consultation and drafting to finalisation. The Ministerial Committee, National Steering Committee and Technical Committee provided political and policy directive, management, and technical support, respectively. More important, political commitment and leadership has been demonstrated through mainstreaming of the MPRS into the planning and budgetary formulation processes (IDA and IMF 2006).

The Ministry of Planning and Finance in Mozambique coordinated the process of drafting the strategy, consultations with stakeholders after the first draft, and tabulating monitoring and evaluation strategies. The ministry carried out this responsibility through a Consultation Technical Unit, which facilitated consultations between the central government and key stakeholders at all levels: national, provincial, rural, urban, sectoral and local (Republic of Mozambique 2001: 100). Strong government ownership was demonstrated through production of the strategy without donor support (IMF and IDA 2001). The commitment of the government was shown through the full integration of PARPA into planning, national budgeting and reporting processes (IMF and IDA 2003: 7). These factors have paved the way for a substantial allocation of resources to priority sectors and yearly adjustments of these sectors depending on accomplishments.

In Zambia the Ministry of Finance and National Planning (MFNP) assumed the lead role of coordinating the process of preparation and implementation of the PRSP. The MFNP together with the Ministry of Community and Social Services (MCDSS) and the Bank of Zambia formed the secretariat responsible for day-to-day coordination of the process. The secretariat, which

liaised with other ministries, was eventually absorbed into the newly established Planning and Economic Management Department, with the responsibility of coordinating the completion of the PRSP. This guaranteed the involvement and commitment of a wide range of government ministries, which was critical to budgetary allocation and implementation.

More important, Zambia's PRSP of 2002-2005 has been mainstreamed into the Fifth National Development Plan, 2006-2010, as will be all future PRSPs. The PRSP has been incorporated under each sector and allocated resources, and forms part of the reporting processes (IMF and IDA 2005: 3). As a sign of political commitment to poverty reduction, the priority areas of agriculture and rural development, and economic and social infrastructure, received substantial allocations for the plan period, 2006-2010.

In Botswana, the Ministry of Finance and Development Planning (MFDP) was responsible for coordinating the preparation, finalisation and implementation of the poverty reduction strategy. It launched the Multisectoral Committee on Poverty Reduction (MSCPR) which oversees implementation, with the ministry as the secretariat. The ministry's intention was to incorporate the poverty strategy into the 9th National Development Plan (NDP) and link it to the national budget to ensure congruence between resources and implementation. These steps, it is argued, show that there is high political commitment to poverty reduction.[5]

The central government in Namibia coordinated the ministries and regions involved in the consultation process for drafting and finalizing the NPRAP. The National Planning Commission was the core institution in the formulation, implementation and incorporation of poverty reduction in the NDP. The poverty reduction strategy has been mainstreamed such that all ministries, regional councils and local authorities have reoriented their plans to include poverty reduction policies; and the NPRAP has been aligned with the NDP 2 and the Public Sector Investment Plan (PSIP). This has ensured resource availability to poverty programmes and their implementation. The NDP 3 seeks to reorient its approach to poverty reduction through an integrated approach that requires each area or activity to contribute to improving the 'quality of life'.[6]

Furthermore, the Poverty Reduction Programme Coordinating Committee was created to coordinate the implementation of NPRAP activities and hold each ministry responsible for its performance. The Committee is headed by the Permanent Secretary of the National Planning Commission and Secretary to the Cabinet, and has members drawn from other ministries, NGOs, donors, the private sector and the Namibia Economic Policy Research Unit (NEPRU). The Poverty Reduction Secretariat, within the National Planning Commission, has the responsibility to direct and monitor the implementation of the NPRAP (Republic of Namibia 2002).

The Ministry of Economic Planning and Development (MEPD) in Swaziland will mainstream PRSAP projects and actions into sectoral development plans, the Medium Term Expenditure Framework and the NDP.

Problems of institutional leadership and political commitment

The basic problem in all the case studies is the establishment of new poverty reduction strategy units, which exist parallel to existing government structures, and in some cases are dependent on donor funds to manage, draft, and implement poverty reduction strategies. The danger is the marginalisation of such units from mainstream government machinery. Moreover, success depends on a strong political will that places poverty reduction and good governance at the top of the national agenda matched by an ability to tackle all impediments that might deny the benefits to the poor. This is questionable in some of the case studies. For example, in Swaziland, there seems to be low institutional and political commitment because of the delay in finalising the draft

strategy. The planning process dates back to 2000: the draft strategy came out in 2005 and was approved by cabinet in June 2007. The government is yet to produce implementation plans.[7]

Botswana found it difficult to mainstream the PRS in the NDP 9 partly because the plan was already in the implementation stage, and partly because the poverty planning process was not finalised. Although implementation started in 2004, it was in 2005 that the ministry engaged a poverty advisor to clearly spell out the role of each sector, and to finalise the implementation plan. Thus, 2006 is taken as the start of effective implementation. The process of mainstreaming the strategy into the 10th NDP would be done through the poverty advisor and commence in September 2007.[8] Moreover, a UNDP official contends that there is not much attention given to poverty by the political and bureaucratic machinery, and a lack of a unified focus by the government on poverty.[9] He attributes this largely to the fact that the MFDP has neither adequately engaged sectors nor spelt out clearly each sector's role in poverty reduction to galvanise the government machinery into action. Consequently, poverty reduction is treated as an appendage to projects undertaken by the government, a view disputed by the MFDP.[10]

In summary, in all the six cases, the central government, through the ministry responsible for finance, planning, economics or a combination of these, dominated the poverty reduction strategy processes, and committees, secretariats or units responsible for poverty reduction have been created. Strategies has been mainstreamed into the NDPs of four countries – Malawi, Mozambique, Zambia and Namibia – while Botswana and Swaziland have not yet done this. Political commitment to poverty reduction seems to exist at the highest level in Mozambique and the lowest in Swaziland.

Monitoring and Evaluation Processes

All six poverty reduction strategies tabulate indicators and provide mechanisms for monitoring and evaluation, including participation by stakeholders. CSOs play a watchdog role in monitoring implementation to guarantee that governments fulfil commitments to programmes. Evaluation is critical to ensure that the strategies are implemented as stipulated in the relevant documents, public monies are spent as allocated and that the strategies impact positively on the target population, the poor.

In Malawi, The National Economic Council is mandated with the overall coordination of monitoring and evaluation. However, all interested stakeholders, at national and district levels, and the government, NGOs and the private sector are given the opportunity to be involved. Annual reviews of the MPRS through stakeholder workshops are also utilised. The annual review is complemented by a comprehensive review every three years through district workshops and thematic working groups, and redefining the MPRS by all stakeholders. These include government institutions, civil society, the private sector and donors. It is the inclusive nature of engagement that gives Malawi the label of a highly participatory comprehensive review process (IMF and IDA 2006). Monitoring and evaluation by civil society in Malawi is done by the use of a combination of budgetary analysis and tracking, participatory public expenditure surveys through the Malawi Economic Justice Network (MEJN) which analyses the national budget yearly, and Participatory Poverty Assessments (PPAs) as a source of data (Southern Africa Trust 2007).

Although the government coordinates monitoring and evaluation, the government of Mozambique has been credited with institutionalising the role of civil society sectors through national and provincial Poverty Observatories. Other mechanisms include community par-

ticipation and consultation institutions at district level, administrative posts and localities. Such participatory monitoring and evaluation is based on mutual transparency, reciprocal accountability and democratic dialogue (Republic of Mozambique 2006). Through the Poverty Observatories, CSOs participate in progress reports and an annual review, usually undertaken a year before the PARPA revision. The adoption of the CSO poverty annual report by the government of Mozambique is indicative of the importance attached to its role (Southern Africa Trust 2007).

In Zambia, NGOs participate in monitoring implementation through analysing and tracking budget decisions or allocations, and public expenditure monitoring. Participatory Poverty Assessments (PPAs) serve as another avenue for poverty monitoring and poverty data collection which influences analysis (Southern Africa Trust 2007). CSPR has undertaken some reviews of the implementation of the poverty reduction strategy, especially of policies in the agricultural sector. There is also parliamentary oversight through parliamentary committees which scrutinise the implementation of budgetary allocations. To improve further the monitoring and evaluation of implementation of the poverty reduction strategy in each sector by NGOs, Sectoral Advisory Groups (SAGs) were re-created in 2004 (formerly they were working groups involved in the planning process for the strategy). The SAGs are composed of CSOs, the private sector, academicians and donors (MF and IDA 2005; Republic of Zambia 2006).

In Botswana, the Rural Development Council has the overall responsibility for implementation, monitoring and evaluation. It is supported by the Rural Development Coordination Division in the MFDP and the MSCPR. The Committee is composed of all key stakeholders such as ministries, NGOs, CBOs and the private sector. Through this representation, CSOs are able to monitor and evaluate the government's performance.

The Namibian government, through the Poverty Reduction Secretariat, plays a dominant role in monitoring implementation and assessing the impact on poverty at both the national and regional levels (Republic of Namibia 2002). It is helped by line ministries and regional councils.[11] The evaluation or review of the performance is also done through Regional Poverty Profiles prepared by each of the 13 regions every two years, a National Poverty Conference and a National Poverty Report. Through the annual conference and thematic working groups, all stakeholders, including the government, CSOs, donors and the private sector engage in discussions, reviews and the re-prioritisation of the NPRAP. Through PPAs the poor are availed the opportunity to suggest their understanding and measurement of poverty, ways of reducing it, and changes in implementation of government programmes (Republic of Namibia 2002), based on their experience.

The Swaziland government, through the Cabinet Sub-Committee on Poverty, has the responsibility of monitoring the overall implementation of PRSAP and poverty trends in the country. However, the day-to-day monitoring of implementation will lie with the Poverty Reduction Unit within the Ministry of Economic Planning and Development. Monitoring will also be undertaken through an expenditure review and a Poverty Monitoring Forum, on an annual basis. An expenditure review will be done by civil society organisations, to assess the implementation of programmes, track public resource use and assess the impact on poverty. Apart from monitoring, the Forum will also evaluate the implementation of PSRAP yearly and advise on the reformulation of the PRSAP in line with changing situations. The Forum consists of all stakeholders, the national and regional government, NGOs, CBOs, donors, the private sector, parastatals, the press and representatives of the poor. Furthermore, the PRSAP will also be reviewed every five years (Government of Swaziland 2005).

Problems of monitoring and evaluation

The biggest problem in Malawi is the fact that the national monitoring and evaluation system has not been made fully operational. The government has only gone as far as recruiting district monitoring and evaluation officers and consultants (IDA and IMF 2006). Furthermore, the reluctance by the government to accommodate CSO reviews into its decision-making renders their input ineffective (Southern Africa Trust 2007).

In Mozambique, in spite of a well structured and institutionalised monitoring and evaluation mechanism, the government has failed to consistently involve CSOs and the legislature. For example, the government's 2003 progress report on PARPA from 2001 to 2002 shows that it excluded CSOs and parliament during the production phase of the report, thus negating the consultative process.

In Zambia, basic problems stem from the predominance of elite CSOs such as the CSPR in monitoring and evaluation, and the inability of CSOs to convince the government to reflect their reviews in its decision making (Southern Africa Trust 2007). Discussions between the government and stakeholders on the 2002-2005 PRSP focused on resources for development and spending levels and less on improving governance or the quality of spending. Consequently, there have been allegations of corruption and misuse of funds at all levels. PRSP implementation has been uneven due to problems of governance and public sector accountability. This suggests that CSOs should devote much more effort to monitoring poverty-related outcomes. Unfortunately, Zambia's CSOs, as in the other five case studies, lack or have limited data gathering, processing and basic budget skills. This makes their task of monitoring results even more challenging because more extensive data is required than that needed for preparing a poverty reduction strategy. This, in turn, means CSOs have to depend on donor agencies, especially those of the UN, to assist them in the task of monitoring. Much more fundamental is the exclusion of the target group. The preoccupation by CSOs on monitoring the government's budget has resulted in little attention to the evaluation of sectoral performance, which is very critical to the task of ensuring more effective policy reviews or re-formulations (IMF and IDA 2005: 7).

In the case of Botswana, one view is that over-reliance on government machinery, with no independent monitoring, a lack of a proper framework for monitoring and evaluation and poor availability of data pose serious shortcomings.[12] MFDP officials indicated that monitoring tools are continuously reviewed, most recently in 2007.[13] However, they acknowledged that quarterly reports by each sector to the MSCPR on the programmes being implemented are not strictly adhered to, and there seems to be a problem of commitment by both the committee and sectors. Furthermore, evaluation of the strategy is supposed to take place every five years, but unfortunately the criteria for and form of evaluation have not been formulated yet.

In Namibia, the predominance of the government through the Poverty Reduction Secretariat in monitoring and evaluation leaves little or no room for an independent review. Therefore, a much stronger role for CSOs is advisable. Primarily, lack of capacity, non-availability of data, information from different sources with different timeframes and weakenesses in the management of information systems are common problems associated with monitoring. The monitoring and evaluation process is seen as very weak because it focuses on inputs not outcomes and impacts.[14]

In summary, the most common tools used by CSOs to monitor and evaluate implementation is public expenditure monitoring in Mozambique and Zambia; budget analysis and tracking in Malawi, Mozambique and Zambia; and PPAs in Malawi and Zambia. Mozambique stands out as a model of institutionalised monitoring and evaluation for others to emulate. Only Mozambique

and Zambia have a strong civil society capable of undertaking reviews of the poverty reduction strategies. The biggest drawback in all six cases is the reliance on CSOs, which have limited skills and capacity for monitoring and evaluation, and the emphasis of monitoring and evaluation on processes rather than outcomes, which is critical to improved policies.

Impact on Poverty

The importance of poverty reduction strategies lie in the implementation outcomes for the poor in terms of transforming their situation, and reducing their numbers. The six cases show variations in changes in poverty levels. A comprehensive review of the MPRS reveals that, in spite of three years of implementation, 'poverty levels in Malawi have not changed … targets … in various sectors were missed … due to lack of realism about availability of financing and implementation capacity' (IDA and IMF 2006). However, Malawi was able to realise and surpass the medium goal of the MPRS of reducing poverty from 65% in 1997/8 to 59% by mid 2005 and to 52% in 2004/05. The commitment to poverty reduction has been put to the test by the discontinuation of the well-functioning Targeted Input Programme in favour of the target input price subsidy programme since 2005/06. Unfortunately, the latter programme seems ineffective as the poorest farmers are unable to pay for subsidised fertiliser, which has affected their output. Nevertheless, the government has been commended for some strides made, including in agriculture, education, health, safety nets, public expenditure management, public sector reform and corruption prevention as well as the release of budgetary allocations for pro-poor expenditures 'timely and fully'. Similarly, the government has done well in promoting small-scale mining by availing loans and technology reviewing mining policy (IDA and IMF 2006). What is commendable is that the government recorded a good performance in spite of constraints posed by drought during 2004/05 and financial restrictions.

Mozambique presents a promising case where economic growth has been accompanied by poverty reduction, and increased pro-poor public expenditure in priority sectors is paying dividends. Poverty declined from 69% in 1997 to 54% in 2003, far beyond the PARPA objective of reducing it to 60% by 2005. It has a target of reducing poverty from 54% in 2003 to 45% in 2009, that identifies groups of rural poor, children, and women; is based on poverty mapping and district-based development; and provides for yearly adjustments through the Mid-Term Fiscal Framework (Republic of Mozambique 2006). Prospects for fulfilling the poverty reduction target of 45% in 2009 look even brighter as PARPA targets of a real GDP growth rate of 8% over 2001-2005 have been met. An average growth of 10% was achieved in 2001-2005 and 7% in 2003. This was possible due to improvements in the agriculture and construction sectors (IMF and IDA 2003).

With respect to specific sectors, tremendous progress has been achieved in meeting the goals of PARPA in four areas. A universal primary education programme has increasing access to schools, improving the quality of education and female enrolment. Similar accomplishments have been recorded in the provision of primary health care in terms of better access and greater effectiveness of care for rural areas, while a positive outcome in the fight against the HIV/AIDS pandemic, malaria, tuberculosis and leprosy is shown through reduced mortality and morbidity. The country recorded increased agriculture output, an indication of recovery from the 2000 floods. However, it is unclear whether the recovery is a result of PARPA or not. Lastly, in relation to governance, a decentralization of political and administrative functions has been undertaken, resulting in increased efficiency and transparency in the use of public resources and delivery of

government services, and a substantial reduction in corruption (IMF andIDA 2003).

In Zambia, in spite of three years of implementation of the poverty reduction strategy, the number of people living below the national poverty line is 68%, according to the Living Conditions Monitoring Survey (LCMS) of 2004 (Republic of Zambia 2004; Republic of Zambia 2006: 26). Implementation between 2002 to 2005 revealed that the impact has been generally inconsequential, with more negative than positive outcomes (CSPR 2006). The same problems that hindered success in the past continue. Some point to targeting wrongly, non-implementation, corruption and misallocations.[15] However, there are some promising achievements: for example, in agriculture and food security, there have been some improvements in terms of new crops and livestock. However, difficulties in accessing input and output markets, lack of access to credit and poor rainfall have prevented the poor from benefiting from this. Some income-generating activities, such as fishing, have not been integrated into the poverty-reduction approaches, especially, for the poor residing along the waters. In industry, the promotion of medium, small and micro enterprises has been stalled due to the bottlenecks of lack of credit and bureaucratic delays in issuing licences – problems that have affected tourism and mining as well.

The policy of free basic education has paid dividends in terms of enrolment in primary schools, while the policy of free primary health care has resulted in the decline of malaria cases and infant mortality, raised HIV/AIDS awareness, and led to better access to anti-retrovirals. However the poor quality of education, gender imbalances, difficulties of access to education due to distances, and lack of a universal education policy prevent the maximisation of these benefits for the rural poor. Similarly, long travelling distances to clinics and poor quality service, increases in the mortality rate and limited access to anti-retrovirals at district level challenge the government's commitment to poverty reduction. Also, there has been no change in water and sanitation provision as water shortages, lack of clean water and poor sanitation remain. Moreover, the fact that rural electrification has not taken off means that the environmental aspects of the poverty reduction strategy remain unattended to as the poor continue to rely on wood and charcoal for energy. Prospects for overcoming the high rate of poverty at 68%, with the majority in the rural areas, seem unpromising, mainly because of poor economic performance – the economy grew at an average of 5% in the 2000s, well below the 7% required for poverty reduction (IMF and IDA 2005: 7; Republic of Zambia 2007). This minimises Zambia's chances of fulfilling the first Millenium Development Goal (MDG) although the government remains optimistic (Republic of Zambia 2006).

Botswana does not seem to have attained the mid-term goal of reducing poverty to 23% by 2007 and that might derail the long term goal to eliminate it by 2016 in line with the 2016 National Vision of building a 'compassionate, just and caring nation'. The basic problems relate to lack of focus on the poor, partly due to an absence of poverty mapping, shortfalls in foreign direct investment inflows, economic growth of 5% instead of the projected 8%, and high unemployment. However, optimism abounds that Botswana will halve the numbers of the poor by 2015, in line with the first goal of the MDGs, given its success in the past in reducing poverty.[16]

Like Mozambique, Namibia is another example of growth contributing to poverty reduction. Five years of implementation of the poverty reduction strategy, from 2001 to 2005, reduced poverty from 38% in 1993/94 to 28% in 2003/04, and fulfilled the target set for 2006 60%. Household Income and Expenditure Survey (HIES) data for 2004 shows that inequality has been reduced, the number of households which are extremely poor has been reduced and there has been an increase in the number of middle class citizens. Thus, Namibia has good prospects

of reaching the MDG of halving the numbers living in poverty. Paradoxically, while poverty is on the decline, unemployment remains high at 36.7% in 2004 (Republic of Namibia 2004c), an indicator of the poor performance of productive sectors, especially agriculture.

In the case of Swaziland, delays in implementation of the strategy declining GDP since the mid-1990s have contributed to an increase in poverty that stands at 69% (Government of Swaziland 2006).

In summary, Mozambique and Namibia illustrate that high growth and pro-poor policies and expenditures have contributed to poverty reduction, whereas growth of 5% or less and pro-poor policies have not helped the poverty situation in the remaining four countries. External dependence poses a major dilemma for both HIPC and non-HIPC countries. For example, the sustainability of the poverty reduction thrust in Mozambique in the long run is not guaranteed as it is currently driven by high public expenditure on social services, and inflows of donor assistance. Malawi's inability to reduce levels of poverty is, to a large measure, due to over-optimistic expectations of inflows of donor funds. Zambia too depends highly on donor assistance to push its policies. Swaziland is seeking external support to strategise on how to implement its poverty reduction strategy. Similarly, shortfalls in Botswana's projections of investment flows undermined its ability to create employment and diversify the economy. Furthermore, in all six cases, the drawback remains inaccuracy in targeting of the poor and lack of institutional capacity for implementation to achieve favourable outcomes.

Appropriateness of Poverty Reduction Strategies and Policies

Are the strategies, policies and programmes adequate for realising the goal of poverty reduction? First, the biggest weakness of the six policy reduction strategies is that, while it is appreciated that women make up the majority of the poor, the policies and strategies are not entirely gender-sensitive, although they take into account women's situations through cross-cutting issues, especially in the cases of Malawi, Mozambique, Zambia and Swaziland.

Second, although the strategies are clear on goals – for example agriculture development and employment creation – the same clarity is not easily discerned when it comes to spelling out pro-poor policies such as land reform, targeted credit for small-scale producers or rural producers.

Third, there is a high expectation that growth will automatically translate into distribution. While it is generally acknowledged that economic growth is a very important pre-condition for poverty reduction, it is equally essential that appropriate policies are adopted and implemented to bring about pro-poor growth and efficient public spending. In the case studies, it is assumed that growth would benefit the poor through agriculture production, employment opportunities, improved infrastructure and better access to education and health services. However, economic growth has become the major focus of poverty reduction strategies without in-depth analysis and scrutiny of how the different sectoral policies for growth and investment preferences would benefit the poor.

Fourth, all the strategies both PRSPs and NPRSs assume that sector goals, e.g., agriculture sector goals, mining sector goals, manufacturing sector goals, etc.,are synonymous with poverty reduction priorities and goals, which is not necessarily the case. Because each sector, e.g., agriculture, is concerned with increased production as an end in itself, and not necessarily directed at poverty reduction.

Fifth, and equally important, none of the six cases pays much attention to the hindrances to growth and poverty reduction such as low foreign direct investment inflows, price fluctuations in external markets (especially as all the countries studied are heavily dependent on external markets and multinational corporations), and natural risks, especially climatic ones in relation to agricultural production, the mainstay of the economy of rural areas where the majority of the poor reside.

Sixth, the pro-poor focus of the strategies in all six cases is undermined by an inability to highlight and prioritise the needs in priority sectors and services of the most vulnerable groups such as the elderly, females, female-headed households and orphans.

Seventh, the pro-poor focus of the poverty reduction strategies is diluted by a lack of inclusion of the MDGs, thereby failing to establish a link with international pledges or to pave the way for more coordination with donor-funded programmes. For example, Zambia's PRSP failed to mention MDGs whereas the remaining case studies made insufficient reference to them.

Eighth, although all the poverty reduction strategies have identified priorities, some policies important to poverty reduction have been neglected. For example, in all case studies, overwhelming emphasis has been placed on employment creation in agriculture and medium, small and micro enterprises, at the neglect of formal employment in urban areas and the informal sector, where the majority of the urban poor derive their livelihood. This is particularly true in the case of Zambia.

Conclusion

Undoubtedly poverty is a priority on the national agendas of the six countries studied and the rest of SADC. While poverty reduction strategies vary in origin, content and process, they have one thing in common: they are couched in neo-liberal ideology that recognises the importance of a conducive macroeconomic environment to promote pro-poor growth propelled by the private sector. This reflects the prevailing international consensus on the liberal ideological orientation resulting in voluntary compliance with it by both HIPC and non-HIPC countries. The desires to conform to donor agendas and secure donor assistance also explain why poverty reduction strategies are similar whether countries have HIPC status or not.

The appropriateness of policies can be questioned because of the focus on growth without much analysis of the extent of pro-poorness of the sectoral policies and investment preferences, an indication of lukewarm political will and commitment to poverty reduction. Relatively, Mozambique and Namibia seem to be the only countries where pro-poor growth has distributive results and has led to a reduction in the poor population. This raises questions on the assumed link between growth and poverty reduction, and whether the emphasis on the private sector, trade liberalisation and the prioritisation of social infrastructure and safety nets are adequate to bring about poverty reduction.

All six embrace participatory processes with the three PRSPs having more elaborated and structured participatory and consultative processes, primarily due to the influence of donor agencies. All, except Swaziland, have implemented their strategies. Those with PRSPs have additional incentives to implement them due to pressure and financial assistance from donors while the others seem to move at their own pace. In spite of an average of three years of implementation, in 2006 SADC still had 40% of the total population of 230 million poor (SADC 2006). This suggests that the impact of poverty alleviation strategies and policies are yet to register substantive gains for the poor, casting doubts on the realisation of the first MDG, and calling for

more effective monitoring and evaluation mechanisms. The biggest challenge remains measurement of poverty and availability of poverty data, targeting the poor, misallocation or inadequate allocation of resources, and poor coordination and implementation.

Policy Recommendations

The following policy recommendations address approaches that would be more effective in poverty reduction; would maximise gains; and would sustain poverty reduction programmes, especially at the national levels.

- In-depth analysis of how, and which, policies for growth and investment would benefit the poor is required. Such policy analysis should be undertaken prior to the adoption of policies, during monitoring, and during evaluation.
- Pro-poor growth has to be clearly defined so that pro-poor growth strategies and policies can be formulated, and the means of how pro-poor growth will be realised has to be clearly articulated and assessed. Pro-poor growth would require identifying certain sectors, e.g., agriculture, on which the poor depend; and policies such as land reform, targeted credit schemes, gender biased credit schemes, and labour-intensive investments.
- Once the range of pro-poor policies has been identified, scrutiny of hindrances and risks to pro-poor growth and the consequences for the poor as well as remedial measures are necessary. These include disease (HIV/AIDS), climate (drought, floods), funds (donor assistance, investment flows) and counter-measures such as anti-retrovirals, and sensitisation of the public about the disease, drought resistant seeds, irrigation, and provision of government funds.
- Political commitment and efficient public spending are an imperative. These can be achieved through depoliticising and prioritising poverty reduction; enhancing accountability and transparency in policy making; decentralising decision making; public sector reform; anti-corruption drives; linking anti-poverty policies to budgetary allocations and investments; and institutional capacity building for those responsible for the fight against poverty.
- Rights-based and sustainable livelihoods approaches should be incorporated in poverty reduction strategies to take into account the specific needs of poor groups such as children, orphans, the disabled, women, the elderly and the destitute. This would give some legal basis to needs of the poor and seems feasible given that all six countries are signatories to some forms of international human rights conventions and are obligated to enforce them.
- Poverty mapping and (updated) poverty profiles should be emphasised to pave the way for better targeting of the poor, prioritisation of policies and programmes, and review and evaluation of the impact of the poverty reduction strategies on the poor.
- Poverty-oriented policy targeting should be emphasised in order to have the maximum impact on poverty. The basic problem is that some strategies have no specific targets and indicators as the MDGs, for example, or timelines for increasing employment, increasing income, or reducing the number of poor female-headed households.

- The poorest areas should receive more projects and programmes than those which are better off; while different sets of policies are required for agricultural as opposed to non-agricultural areas.
- Strategies should be explicitly aligned to, and incorporate, the MDGs. The former are short term – three to five years – while the latter are long term. This is critical to allow for inflows and the linking of donor grants to poverty expenditure.
- Outcomes should be emphasised in poverty policies not merely participatory processes and expenditures, because they are critical to determining the impact of policies on poverty reduction. However, an appropriate link between participation and outcomes should be established as high participation would translate into (more) policies and high public expenditures in favour of the poor.
- Voices of the marginalised should be heard through direct participation of the poor in the decision-making process at all levels of society. This should be augmented by indirect participation by the poor through elected representatives such as MPs with a stake in electoral outcomes. CSOs should serve as complementary avenues for articulating and aggregating policy choices of the poor. However, the poor should not depend on CSOs as very few of them represent the interests of the poor, they are not elected, are unaccountable and donor-dependent.
- Regional poverty-focused projects and effective regional monitoring and evaluation are essential to supplement and improve outcomes at the national levels. This is pertinent in relation to cross-border transactions on which poor women traders depend for their livelihood; or cross-border investments in infrastructure or productive projects; and in cases where governments neglect their role in poverty reduction.

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Notes

1. See country PRSPs and NPRSs.
2. Interview with two officials of the the Ministry of Finance and Development Planning, Gaborone, 30 August 2007.
3. Interview with senior economist at the UNDP, Gaborone, 13 August 2007.
4. Interview with the National Planning Commission, Gaborone, 13 August 2007.
5. Interview with two officials of the Ministry of Finance and Development Planning, Gaborone, 30 August 2007.
6. Interview with official of the National Planning Commission, Windhoek, 19 July 2007.
7. Interview with official at the Poverty Reducation and Monitoring Unit, Mbabane, 28 June 2007.
8. Interview with two officials of the Ministry of Finance and Development Planning, Gaborone, 30 August 2007.
9. Interview with senior economist at the UNDP, Gaborone, 13 August 2007.
10. Interview with two officials of the Ministry of Finance and Development Planning, Gaborone, 30 August 2007.
11. Interview with official of the National Planning Commission, Windhoek, 19 July 2007.
12. Interview with senior economist at the UNDP, Gaborone, 13 August 2007.
13. Interview with two officials of the Ministry of Finance and Development Planning, Gaborone, 30 August 2007.
14. Interview with official of the National Planning Commission, Windhoek, 19 July 2007.
15. Interview with officials of CSPR and the Civil Society MDG Campaign, Lusaka, 10 July 2007.
16. Interview with senior economist at the UNDP, Gaborone, 13 August 2007; interview with two officials of the Ministry of Finance and Development Planning, Gaborone, 30 August 2007.

Institutional Capacity and Implementation of Poverty Alleviation Policies and Strategies in SADC

Onkutlwile Othata

The paper appraises the capacity of institutions charged with implementing poverty reduction policies and strategies in Southern African Development Community (SADC) member states. It also analyses the extent to which member states cooperate on poverty alleviation initiatives. This is achieved through case studies of four member states. For each case study, the analysis follows a two-stage process. The first stage involves identifying and analysing the key institutions charged with poverty reduction, their strategies and policies and strategies and their capability to achieve the objectives. The paper then presents a comparative discussion of institutional capacity and implementation of poverty alleviation policies and strategies and concludes with policy recommendations.

The paper is divided into four sections. The first presents a brief background on what institutional capacity analysis entails. This is followed by a presentation of the case studies. The third section discusses regional institutional capacity as inferred from the case studies. The paper concludes with policy recommendations.

Institutional Capacity

An institution in this context is used within the confines of conventional managerial wisdom to refer to a unit of organised activity in which a series of activities are undertaken for the achievement of specified objectives. Included in this description are ministries, government departments, parastatals, government-owned enterprises, private enterprises and other similar organisations. It has been long accepted and recognised that governments often come up with good plans but often fail to implement them (Bogner 1971; Botswana Confederation of Commerce Industry and Manpower 2004). This failure is attributed to many factors including lack of economic and political leadership, inadequate resource mobilisation, wars, HIV/AIDS and lack of human and technological capacity within implementing institutions (United Nations Information Service 2001, Cheema and Rondinelli 1983; Botswana Confederation of Commerce Industry and Manpower 2004). This paper focuses on institutional capacity and explores the extent to which factors such as resource mobilisation, and human capacity and technological constraints are a threat to successful implementation of poverty reduction programmes. Resource mobilisation refers to the availability of funds necessary for implementation while human capacity refers to both staff numbers and skills. Technological constraints are used here to describe the lack of relevant and appropriate technology.

Units of analysis in these case studies were selected on the basis of their influential roles in the respective countries' poverty reduction initiatives.

The Case Studies

Four SADC member states were selected as case studies and at least four institutions in each case were selected as units of analysis. Botswana was selected because it is the oldest democracy in SADC, and has enjoyed relative peace, good economic growth and political stability during

its 41 years of independence. The country also did not have to prepare a Poverty Reduction Strategy Paper (PRSP) in accordance with the International Monetary Fund's (IMF) guidelines, but has instead prepared its own National Strategy for Poverty Reduction (NSPR) to guide its policy reduction efforts.

Malawi was selected because it has one of the highest poverty rates in SADC. As a Highly Indebted Poor Country (HIPC) it had to prepare and implement a PRSP in accordance with IMF guidelines. Namibia's selection was based on the fact that the country is the second-youngest democracy in SADC and has also enjoyed relatively high economic growth and political stability, although it has one of the widest gaps between the rich and poor. South Africa was selected for three main reasons. Firstly, the country is the economic power house of the region and, secondly, its history of apartheid makes it a special case. Thirdly, South Africa does not rely on a single poverty reduction strategy but rather has a number of poverty reduction initiatives.

Botswana

Botswana, along with Namibia and South Africa, because of their perceived development levels, did not have to prepare PRSPs in line with IMF guidelines and conditions. In recognition of the importance of eradicating poverty, the government however developed and adopted the NSPR in 2003. The NSPR identifies six areas under which specific poverty reduction programmes will be implemented. In addition, the government focuses on fighting the HIV/AIDS scourge as a cross-cutting, anti-poverty initiative. Poverty reduction projects as per the strategy have also been incorporated into the National Development Plan (NDP). 'The central thrust of the strategy is to provide opportunities for people to have sustainable livelihood' (Government of Botswana 2003: 8). This will be achieved through a variety of interventions in the key areas alluded to above.

Responsibility for implementing the various projects is spread across ministries and consequently takes guidance from various policies. Overall coordination (including monitoring, evaluation and review) lies with the Ministry of Finance and Development Planning (MFDP) through its rural coordination division in collaboration with the Rural Development Council. In addition, the government has recently launched a division in the Office of the President which monitors and evaluates the implementation of all government development projects. The division is relatively new and it is yet to be seen to what extent it will collaborate with the MFDP.

Ministry of Agriculture

Agriculture is identified in the NSPR as key sector in poverty reduction. About a quarter of the population of Botswana depend entirely on agriculture for their livelihood and sustenance (Government of Botswana 2002). Agricultural projects constitute half of the total projects targeted under the sustaining livelihoods programme of the NSPR. All these projects are to be implemented by the Ministry of Agriculture through the National Master Plan for Arable Agriculture and Dairy Development (NAMPAAD). The ministry has a dedicated NAMPAAD coordinating unit which is headed by a full-time coordinator and staff establishment. The coordinating unit's role is to implement projects in the areas of rain-fed crop production, irrigated crop production and dairy farming (Government of Botswana 2003).

In both irrigated and rain-fed crop production, the strategy is to improve farm output through encouraging and training farmers to use modern farming methods and through the formation of farming groups. The ministry also undertakes to assist farmers obtain low interest credit for

their ventures. Data collected through a questionnaire answered by the NAMPAAD coordinator identified three key capacity constraints facing the ministry in respect of these projects. Firstly, these projects require extension workers to spend a substantial amount of time (up to 80%) in the field assisting farmers (Government of Botswana 2002). The ministry does not, however, have adequate capacities to fulfill this role, more so that extension workers are also expected to cope with other roles. Secondly, the ministry also needs to access poor subsistence farmers in remote areas and it lacks adequate vehicles and communication equipment for this. Thirdly, both programmes depend on experts to develop and manage demonstration farms in the rural areas. The ministry does not, however, have enough experts. Furthermore, the lack of facilities such as housing, reliable water supplies, telecommunications and electricity in the remote areas makes it difficult for the ministry to post experts to these areas. This has resulted in experts being housed at the NAMPAADD office in the capital city.

In dairy development, the strategy is to develop demonstration dairy farms and a dedicated dairy laboratory to help address issues of low quality milk. The strategy also includes assisting new investors to establish modern dairy farms and to promote dairy cow fodder farming. By its nature dairy farming is specialised and requires capital equipment. Though not facing acute funding constraints, slow progress has been reported in this sector because of high costs associated with acquiring the required equipment. Questionnaire data revealed that as the end of 2006, the envisaged dairy testing laboratory had not yet been developed because of the high cost of equipment.

Citizen Entrepreneurial Development Agency

The Citizen Entrepreneurial Development Agency (CEDA) is a key institution in the development of citizen-owned business enterprises. CEDA provides loans for small and medium enterprises at subsidised rates (5% to 7.5%) and also provides back up business training and mentoring services to loan recipients. Large enterprises are assisted through the venture capital fund, which provides for part foreign ownership. CEDA's role in poverty reduction is targeted largely at the sustaining livelihoods programme of the NSPR through financing and supporting enterprise development.

The agency has also launched the Young Farmers Fund, which is a programme dedicated to financing agricultural projects for persons up to the age of 35 (www.ceda.co.bw). The programme includes an initiative to improve the income earning capacity of educated but unskilled youths. According to the Government of Botswana:

> Another important recent empowerment initiative is the CEDA Young Farmers, Fund, which is designed to encourage young people wishing to venture into agricultural projects. The youth, particularly those who have studied agriculture, will have improved access to finance at concessional rates and entrepreneurial training, to ensure that they are well resourced and better equipped for running agricultural businesses (Government of Botswana 2007: 10).

CEDA's objective calls for the agency to be accessible to citizens and in this regard, it has branches in all major centres of the country. The agency has adequate staff to cope with loan applications, as evidenced by its ability to clear its backlogs in 2005 (Government of Botswana 2006). It was however reported in 2006 that many of the beneficiaries were in arrears with their loan repayments (Government of Botswana 2006). This could be taken as indicating capacity constraints in the areas of credit control and debt collection.

Part of CEDA's mandate is to run training workshops for beneficiaries, but the agency itself

does not have the capacity or capability to run these workshops and, therefore, engages local and international private agencies. The quality of training provided by private agencies is always difficult to measure and in this case it is compounded by the fact that CEDA does not have suitably qualified staff to undertake such an assessment. The agency also does not have capacity to mentor and monitor the progress of their entrepreneurs directly. Questionnaire data revealed that private consultants are engaged for this task and the number of accredited mentors for the business year 2005/2006 stood at 35, while the number of operating projects stood at 1 211 (Government of Botswana 2007).

The establishment of the Local Enterprise Authority (LEA) in 2005 is expected to address some of the capacity constraints facing CEDA. LEA is responsible for 'economy-wide business training and business development for local entrepreneurs' (Government of Botswana 2006: 8). A collaboration between CEDA and LEA is already ongoing, even though LEA is not yet fully established.

Botswana Tourism Board

The government of Botswana regards tourism as having great potential to reduce poverty because 'it is a highly labour intensive industry, providing the potential for widespread job creation especially for women' (Government of Botswana 2003: 12).

The strategic objectives are to increase employment opportunities through various interventions such as promoting Botswana as a tourism destination, supporting and promoting small tourism businesses and training locals in tourism. The NSPR specifically identifies three key projects to be undertaken in the tourism sector. These are equipping Batswana with appropriate skills for the tourism industry, active facilitation and encouragement of eco-tourism, and attracting tourists to other parts of Botswana (Government of Botswana 2003).

The government established the Botswana Tourism Board (BTB) in 2005 to spearhead the promotion of Botswana's tourism industry. The BTB's mandate specifically is 'to market the Botswana tourist product, grade and classify tourist accommodation facilities as well as to promote investment in the tourism sector' (www.botswanatourism.co.bw/about_btb.html). The BTB was established to take over these roles from the Department of Tourism because the latter was acknowledged to have capacity constraints. Though relatively new, the BTB is already participating in key international tourism promotion events and fairs the world over and maintains a comprehensively informative website. Judging by the progress already being made by the BTB, it can be concluded that it suffers no major capacity constraints.

Ministry of Health

Like other SADC members, the HIV/AIDS pandemic has obliged Botswana to mainstream the fight against the scourge into the poverty reduction strategy and the national development agenda (Government of Botswana, 2003). The pandemic has exerted tremendous pressure on the health sector in particular and the economy in general such that the government decided to establish the National Aids Coordinating Agency (NACA) to coordinate all anti-HIV/AIDS activities by all stakeholders in the country (www.naca.gov.bw/about_roles.htm). This involves mainstreaming HIV/AIDS into ministry, department, local government, parastatal and other stakeholder core business. It also involves receiving funds from donors on behalf of the government and disbursing them to the implementing agencies. Funding is generously provided by donors, so the agency does not suffer any significant capacity limitations. Media reports (e.g., *Daily News*, 27 November 2006) reveal lack of proper accounting practices on the part of some implementing agencies and, perhaps, NACA.

The Ministry of Health disburses anti-retroviral drugs as well as testing, counselling and treating those infected with the virus. Media reports (e.g., *Mmegi*, 10 July 2006, 10 January 2006) reveal that members of parliament and the Minister of Health acknowledge that the ministry suffers a shortage of qualified health workers. The exodus of nurses from Botswana to the United Kingdom in particular, has been blamed for the situation. Health facilities (clinics and hospitals) are not adequate to cope with the demands placed on them by the pandemic.

Botswana Export Development and Investment Authority

The Botswana Export and Development Authority (BEDIA) is a government-owned but private sector-led institution charged with attracting and facilitating foreign direct investment (FDI) as well as assisting local enterprises to export their products. BEDIA was established in 1997 and is commonly regarded as a one-stop-shop for investors. The ideal is that by facilitating FDI and export opportunities for local entrepreneurs, new employment opportunities will be created, hence fighting unemployment and contributing in poverty reduction. BEDIA also helps beneficiaries of government schemes such as CEDA to access foreign markets. Though BEDIA appears not to be central to Botswana's poverty reduction strategy, it is critical to economic diversification, which in turn is crucial to poverty reduction.

BEDIA boasts a fully-fledged organisation structure led by a chief executive officer (www.bedia.co.bw). As at the end of 2007, all key managerial positions in the organizational structure were filled with appropriately qualified, skilled and experienced personnel. In addition to the head office, BEDIA has satellite offices in Johannesburg and London, where all key positions were also filled at the end of 2007. The board of directors is composed of an appropriate mix of executive and non-executive directors who posses a variety of skills and experience, drawn from both the public and private sectors. This is indicative that the institution does not face any serious staffing constraints, and that there are no serious expertise and skills shortages.

Being a government-supported and private sector oriented institution, BEDIA appears not to be financially constrained as far as carrying out its mandate is concerned. According to the 2007 annual report, the institution realised deficits for both 2006 and 2007. However, these do not threaten the survival of the institution because its activities are not primarily income-generating but rather promotional. Further, being a government-supported institution, it receives subventions through the national budget.

The 2007 annual report further indicated that just over 500 new jobs had been created with BEDIA's assistance. Though this is clearly a small number given the unemployed population, BEDIA can also claim to have saved an indeterminable number of jobs. This is due to the fact that it has assisted other local enterprises to access foreign markets which often resulted in increased turnovers for the concerned firms and hence sustained employment. Apparent shortcomings in BEDIA's results are difficult to attribute to the institution's capacity and capability constraints. Instead it is factors beyond BEDIA's control such as increased competition for FDI, high utility and labour costs in Botswana, low labour productivity, a shortage of skilled manpower and the limited local market (Government of Botswana, 2002) that are blamed.

Malawi

Malawi's poverty-reduction strategy consists of four main pillars, namely: (i) promotion of sustainable pro poor economic growth; (ii) human capital development; (iii) improvement of the quality of life of the most vulnerable; and (iv) promotion of good governance. To facilitate

implementation under these pillars, there is a fifth programme simply known as 'cross-cutting issues'. Poverty reduction efforts in Malawi are coordinated by the Ministry of Finance.

Ministry of Agriculture and Irrigation

Agriculture is considered a key sector in the fight against poverty in Malawi since it accounts for 64% of total income for the rural poor, 36% of gross domestic product, 87% of total employment and 65% of the manufacturing industry's raw materials (Government of Malawi 2002). The objective is to increase the poor's income-earning opportunities in the sector. Key projects to be implemented by the ministry in this regard are those aimed at increasing both crop and animal production. These projects primarily require the ministry to have enough extension workers to work with poor farmers in the rural and remote areas and also to have capital equipment such as vehicles and agricultural machinery. Extension workers are particularly crucial because three quarters of the farmers are smallholders scattered in the rural areas (World Bank 2007). The projects further place a demand on the ministry to have technical, managerial, coordinating and monitoring capacity. Finally, the ministry also needs to have adequate funding to run these projects.

On the issue of extension services, the ministry has so far not been adequately staffed, but steps were being taken to address this capacity limitation. For example, the 2004/05 MPRS progress review reported over 500 new extension workers being hired by the ministry (Government of Malawi 2006). A further weakness is that of lack of requisite technical skills – again this is being addressed because the same progress report revealed that over 1000 extension workers received training during the period 2004/05. The targeted human resource requirement plan for the agricultural sector shows that over the seven-year period from 2005 to 2011, the ministry needs on average to recruit 1 094 new staff per year (Government of Malawi 2007) – clearly staffing is a problem.

In terms of managerial skills, coordinating and monitoring capacity, the ministry along with the rest of the public sector lacks capacity (wa-Mutharika 2005, World Bank 2007). The government is once more addressing these limitations through various interventions:

> In Malawi, the public sector has in the past been characterised by poor management that has generated inefficiencies in the delivery of public goods and services. Government and its development partners are already addressing some of the challenges with interventions such as wage policy reforms, civil service reforms, capacity constraints and eradicating corruption (Government of Malawi 2007: xxiv).

It is unclear whether the ministry has adequate funding to implement poverty reduction projects. This is mainly because funding for such projects is through the normal government budgeting process. Details of cost estimates for various agricultural projects are reported in the Malawi Growth and Development Strategy, but unfortunately no further information is provided.

The 2004/05 annual progress review reported improvements and failures within the agricultural sector, but even where improvements were recorded, they were still below the set targets. But because of lack of sufficient data, it was not possible to determine whether achievements outweighed failures. The ministry however attributes some of the failures to factors beyond their control, such as weather conditions, HIV/AIDS and lack of adequate supporting infrastructure such as roads. But, all in all, it is evident that the ministry does not have adequate capacity and capability to successfully implement its assigned poverty reduction projects.

Ministry of Health

The Ministry of Health has overall responsibility for implementing health care projects. For a

long time, Malawi has had one of the poorest health care systems within SADC, characterised by a high infant mortality rate, low life expectancy and a low doctor-patient ratio (Government of Malawi, 2002). The ministry is tasked with remedying the situation as part of the poverty reduction strategy. The overall approach is that 'an improved health situation will strengthen the ability of individuals to lift themselves out of poverty and will lead to a general increase in productivity' (Government of Malawi 2002: 57). This is to be achieved through implementing what is known as the essential health package (EHP) which is a basket of health services to be provided at various levels:

> The key strategies under the EHP are to recruit, train and adequately remunerate nurses and other health workers, to promote the construction of health facilities, especially through the construction of rural health centres and to increase the availability of drugs (Government of Malawi 2006: xiii).

This strategy acknowledges key capacity and capability limitations, especially the shortage of doctors, nurses and other health care workers. President Bingu wa Mutharika (2005: 4) summarised this as follows:

> The shortage of trained doctors and nurses is also another serious challenge Malawi is facing. This is affecting each and every aspect of the health care and delivery system. The problem is further compounded by the HIV/AIDS pandemic. The human resource crisis in the health sector is among the worst in southern Africa.

The lack of trained personnel is attributed to failure to retain workers due to low incentives, the HIV/AIDS scourge and high attrition rates (Government of Malawi 2007). Another factors is the inadequate capacity of training institutions to produce enough health workers (African Forum and Network on Debt Development 2005).

The ministry also suffers acute shortages of drugs and key medical equipment including vehicles and facilities, especially in the rural areas (African Forum and Network on Debt Development 2005, Government of Malawi 2006, 2007, wa Mutharika 2005). These capacity constraints are attributable to lack of adequate funding and poor management (African Forum and Network on Debt Development 2005).

The government is aware of these constraints and in many instances steps are already in progress to address them. The problem is, however, that some of the steps are being implemented by other institutions who themselves suffer similar capacity constraints. An example is the provision of education to address the shortage of skilled personnel, which is being implemented by the ministry of education which itself lacks adequate staffing and funding to successfully undertake the task.

Local Government and District Assemblies

District assemblies are responsible for implementing a number of anti-poverty reduction projects across the different pillars and sectors in rural areas. This is mainly because some functions are being devolved from ministries to the district assemblies as part of the government's decentralization initiative. For example, district assemblies implement projects coordinated by the Ministry of Agriculture (e.g., distribution of agricultural inputs), Ministry of Public Works (labour intensive projects) and a series of various other projects collectively termed Local Authority Managed Projects (LAMPs).

District assemblies lack adequate staff to implement the various projects. The lack of adequate staff is attributable to low literacy levels and the HIV/AIDS pandemic. They also lack qualified

managerial competencies. A shortage of accounting staff has been singled out as a major constraint given the devolution of some financial responsibility and accountability (Government of Malawi 2007). District assemblies further lack adequate funding more so that the increased workload and responsibilities as a result of decentralisation has not been accompanied by proportionate increases in funding.

Ministry of Education

A common constraint affecting virtually all implementing agencies is that of lack of qualified and skilled staff at both functional and managerial levels. The Ministry of Education has been given the onerous task of implementing projects aimed at dealing with his. The projects start at pre-primary school level and go all the way to vocational and tertiary levels (Government of Malawi 2002). The ministry itself suffers the same lack of qualified and experienced teachers and lecturers at all levels (Government of Malawi 2007). This is attributed to poor incentives and general lack of educated people in the country, the latter being worsened by the brain drain and the HIV/AIDS scourge.

Schools, vocational training institutes and universities also lack adequate facilities in terms of schools and buildings and teaching and other equipment (Government of Malawi 2007). Despite donor funding being available to some projects, lack of adequate funding still remains a major constraint.

Civil society networks

Civil society, according to the London School of Economics (2004) is a collection of various formal and informal groups and organisations including NGOs, professional associations, trade unions, social movements, advocacy groups, business associations and coalitions. These organisations have all played different roles in the drafting and shaping of Malawi's poverty reduction strategy and continue to assist in realising the strategy's objectives. Unlike other institutions referred to above, the contribution of these institutions to poverty reduction may be very minimal if appraised individually. But taken together as a group or network, their contribution is potentially significant.

In Malawi, as in many other SADC countries, civil society organisations pursuing similar interests often come together in a network and register as an NGO. Malawian examples include the Civil Society Coalition for Quality Basic Education (CSCQBE), the Malawi Economic Justice Network (MEJN) and the Civil Society Agriculture Network (CISANET). Though it may be tempting to use an individual CSO as unit of analysis in this paper, research elsewhere (e.g., CODESRIA 2000, James and Malunga 2006) indicates that these institutions generally face similar capacity and capability challenges.

A key challenge facing CSO networks is the lack of financial independence (Chiwela 2004), as they rely almost exclusively on donor funds rather than on other sources such as membership fees (James and Malunga 2006). The problem with a heavy reliance on international donor funds is that the conditions attached to the funding are not always consistent or compatible with the objectives of the CSOs. The lack of financial independence also makes accountability to members secondary to accountability to donors, hence further divorcing the CSO from the original objectives of the members.

A study by James and Malunga (2006) identified a further three key constraints facing CSO networks in Malawi. First is the lack of technical capacity and skills among the networks and members. This is further exacerbated by the fact that funding constraints prevent them from

recruiting and retaining highly skilled staff. The second constraint identified is that of lack of leadership and managerial skills: 'Few of the CSO coordinators are strong on planning and administration. They tend to react to events rather than operate proactively as leaders' (James and Malunga 2006: 53). This lack of managerial and leadership skills leads to capability constraints such as lack of strategy among networks. Lastly, CSO networks lack enough staff numbers to cope with the tasks at hand. This is largely due to the fact that member organisations themselves have staffing constraints and are therefore unable to second enough staff to network tasks.

Namibia

The Government of Namibia adopted the Poverty Reduction Strategy (PRS) for Namibia in 1998 and rolled it out in the National Poverty Reduction Action Programme (NPRAP) of 2001-2005. The NPRAP was adopted within the framework of the National Development Plan 2 (NDP2) and the Public Sector Investment Plan (PSIP). The NPRAP 'endeavours to elaborate on the PRS and describe the measures that should be taken to ensure its implementation' (Government of Namibia 2002: 4). The PRS is formulated around four key themes, namely: (i) long term vision; (ii) income generation; (iii) safety nets; and (iv) public sector expenditure. The NPRAP expands on these themes and identifies ten sectors in which poverty reduction projects will be implemented.

The PRS 'expired/matured' in December 2005 and the NDP 2 also expired or matured at around the same time. As at the end of June 2007, the government was still in the process of completing NDP 3, an exercise which included incorporating the new NPRAP into the national development plan to facilitate implementation of poverty reduction projects as identified in the original PRS document.

Poverty Reduction and Equity Sub Division in the National Planning Commission Secretariat

The National Planning Commission (NPC), which is a division in the Office of the President, has the overall responsibility for the government's planning. Through its poverty reduction and equity subdivision, the NPC coordinates and monitors the implementation of all poverty reduction programmes. Actual implementation is devolved to various government ministry departments and other institutions. The poverty unit's sole mandate is to address all aspects of poverty eradication. An interview with officials at the NPC however revealed that the unit's establishment was small given the tasks that it faced. As at July 2007, it had only three staff members. This was largely attributed to the fact that the unit was fairly new and was still being established.

Ministry of Basic Education, Sports and Culture

Namibia is committed to investing in education through, among other things, improving the output of primary education (Government of Namibia 2004b). The country still has disparities in primary school enrolment and quality of education across the country: 'While a small percentage of privileged children continue to enjoy a high standard of education, the majority children in Namibia do not receive an education of such quality' (Government of Namibia 2004a: 6). The Ministry of Basic education, Sports and Culture is tasked with implementing eight of the nine education projects identified in the NPRAP. This entails increasing primary school enrolment especially in the poor rural communities and improving the quality of education in public primary schools (Government of Namibia 2001, 2002).

The ministry is reported to be facing three main constraints: namely lack of qualified teachers, inadequate facilities in rural areas and lack of skilled managerial staff at ministry level (Government of Namibia 2005). Donor funds, however, are available and have been deployed towards specific teacher training programmes and primary school construction, and some progress has been reported (Government of Namibia 2005), although the lack of skilled managerial staff at ministry level results in delayed disbursement of funds. Despite this limitation, Namibia remains one of the countries in the world that spend the highest share of GDP public expenditure on education (Government of Namibia and the United Nations Systems in Namibia 2004).

Ministry of Health and Social Services

Health sector projects are led by the Ministry of Health and Social Services, and aim to improve overall primary health care (Government of Namibia 2001). Improving primary health care is to be achieved through a series of interventions which include eliminating regional disparities in health facilities, increasing the number of health facilities and workers and the provision of adequate funding for all government health facilities. This places demands on the ministry to have sufficient and adequately trained staff to provide service especially to the poor who can not afford to pay for private practitioners. Secondly, the ministry needs to have well-resourced health care facilities especially in the rural areas. Although some progress has been recorded since implementation of the NPRAP, the ministry still has capacity constraints (Government of Namibia 2005). The major constraint is a lack of trained health professionals. Doctors and nurses are in short supply such that clinics and hospitals, especially in the rural areas, are grossly under-staffed. Clinics and hospitals especially in rural areas also lack adequate capital equipment, nor are there enough clinics and health posts in rural areas.

The ministry also has to implement some of the initiatives aimed at fighting the HIV/AIDS pandemic. Through its directorate on special programmes and in collaboration with the national AIDS coordination programme, the ministry's role in the fight against HIV/AIDS goes beyond tending to the sick and dispensing anti-retroviral drugs. It includes multi-sectoral activities such as public education campaigns. In this regard it enjoys generous funding from donor agencies but still faces human capacity and physical constraints (Government of Namibia 2006).

Ministry of Agriculture, Water and Rural Development

Agriculture is a key component of poverty reduction because it is vital for both food security and income generation (Government of Namibia 2002). A key strategy for the ministry is to increase 'production, crop value and productivity...'(Government of Namibia, 2002: 10) through various interventions informed by research. Through its division of agricultural research, the ministry aims to explore various options and disseminate the findings to farmers. This strategy requires the ministry to have adequate capacity in terms of funding for both research and dissemination, skilled researchers and experts, extension staff, farming equipment and vehicles to enable access to the rural farming communities.

Although some projects were supported with donor funds, others such as a pilot study on peri-urban vegetable growing could not be implemented because of funding and human capacity constraints (Government of Namibia 2005). An interview with a senior government official and two senior officers at one NGO identified the limited numbers of extension staff, vehicles and farming equipment and machinery as further constraints.

Ministry of Environment and Tourism

The tourism industry has been identified in the poverty reduction strategy as the sector with the largest potential for creating employment opportunities for the poor and unskilled in rural areas. It is estimated that the industry can generate up to 40 000 new jobs by 2010 (Government of Namibia 2001). The ministry, through the tourist board, coordinates the implementation of two key strategies, namely the establishment of conservancies and assisting disadvantaged rural communities to establish and operate community-based tourism enterprises. These strategies call for the ministry and its strategic partners to have capacity to process and register conservancies and community-based tourism enterprises as well as to provide training. Registration is the sole responsibility of the ministry whereas training and capacity building is undertaken with collaboration with the private sector and NGOs. Lack of capacity to process applications for registering conservancies and to provide training are identified as constraints (Government of Namibia 2005).

South Africa

South Africa has a unique poverty situation in that, unlike other SADC members, as some of the prevailing poverty was 'deliberately' created during the apartheid era. The challenges that the government faces in terms of poverty alleviation, reduction and elimination are equally unique. As the most developed country within SADC, South Africa did not have to prepare a PRSP in accordance with the IMF guidelines, although poverty is rampant and the post-apartheid government has embarked on a number of poverty eradication initiatives. These include the Reconstruction and Development Program (RDP), Expanded Public Works Program (EPWP) and Accelerated and Shared Growth Initiative – South Africa (ASGISA), land redistribution and social development initiatives. This indicates that, unlike other SADC members, South Africa does not have a single consolidated poverty reduction strategy in the mode of a national poverty reduction strategy. It is not feasible for this paper to consider all poverty reduction initiatives as outlined above – the focus will be restricted to ASGISA and the EPWP if only because they are the most recent and perhaps the most influential in terms of current government spending and efforts.

ASGISA is a broad and ambitious poverty reduction strategy led by the Office of the President. The strategy's key task is to 'halve poverty and unemployment by 2014' (Mlambo-Ngcuka, 2006). This is to be implemented in six different categories: infrastructure, industrial strategies, skills and education initiatives, second economy interventions, macroeconomic issues and public administration issues. The EPWP, now in its third year, aims to draw the unskilled and unemployed into employment, at the same time offering them training that would empower them to get access to employment in the future (www.publicworks.gov.za). The employment target is set at one million (at least 40% of them being women, 30% youth and 2% disabled persons) by 2010. The initiative is overseen by the EPWP Unit within the Department of Public Works (DPW). ASGISA and the EPWP are interrelated and often rely on the same agencies for implementing specific projects.

Provincial and municipal governments

Provincial and municipal authorities are crucial in the implementation of both EPWP and ASGISA, especially for labour-intensive projects. This delegation has put pressure on municipalities and provincial governments to prioritise EPWP and ASGISA projects. and places extra demand for

resources. Municipalities and provincial governments find themselves lacking enough staff to cope with the increased workload. Efforts are already under way to remedy this situation as it is reported that '... many municipalities and provincial departments are also increasing their staff components as the EPWP is prioritised as a key area of activity and participation' (Government of South Africa 2007a: 4). These limitations are particularly felt in the areas of management and technical skills required to implement and provide training on labour intensive projects (Government of South Africa 2004, 2006). Lack of managerial skills has been linked with the fact that in some provinces and municipalities, some funds are often diverted to non-poverty reduction activities. Without this diversion, it is estimated that more jobs could actually have been created (Government of South Africa 2007b). In the social sector for example, the number of lost job opportunities is estimated at 10 000:

> The DPW has therefore embarked on an initiative to work closely with 45 key municipalities in the financial year 2006-07 to provide them with technical support if required, to ensure that they implement their projects in accordance with EPWP guidelines and report as such on the outcomes of these projects (Government of South Africa, 2006: 14).

Though funding for labour-intensive projects is provided by the treasury, the training component of these projects sometimes places an additional burden on the municipalities and provincial governments. Training of 'learner' contractors in particular is in high demand such that available funding is not enough although options for increasing funding are being explored. In addition, municipalities and provincial governments lack data collection and reporting capacities such that their reports on the progress of specific projects are limited (Government of South Africa 2006). However, as already mentioned above, these constraints have been recognised and efforts are already under way to address them.

Umsobomvu Youth Fund

The Umsobomvu Youth Fund was established as a fully fledged organization in 2001 with the overall objective of creating jobs and developing skills among the youth. The fund's role in poverty reduction is through various programmes including skills development transfers and entrepreneurship development and support. The fund's projects form part of both EPWP and ASGISA in collaboration with institutions such as provincial development corporations, community-based organisations and NGOs, the fund is tasked with implementing projects in 10 key youth development categories. A questionnaire sent to senior officers identified three key constraints facing the fund and its implementation partners. First is the inability to reach the poor youth in rural and remote areas. South Africa is a very large country, while a lack of facilities such as banks, electricity and telecommunications in the remote areas makes it difficult for the fund to offer services in these areas. Unfortunately there is not much that the fund can do to address these limitations except to wait for relevant government departments to address them.

Secondly, the fund lacks enough skilled manpower. It is reported that a key challenge is the recruitment and retention of skilled investment and lending staff. This cadre of staff are generally in short supply and in high demand in the economy, so better rewards are often available elsewhere, hence the fund struggles to maintain the numbers. Thirdly, the enterprises funded by the fund require loan officers to go beyond loan approval to providing mentoring and related business development advisory services. The loan officers lack the necessary skills to fulfill the after-service role. The fund has however embarked on initiatives to train loan officers to be able to provide these services.

Department of Environment and Tourism

Tourism is regarded as important for poverty reduction and forms part of both ASGISA and EPWP initiatives. In ASGISA, tourism has been identified as one of the two priority areas under the 'sector strategies' programme. It is believed that tourism has the potential to grow from contributing 8% to GDP to 12% and creating an additional 400 000 employment opportunities in the process (www.info.gov.za/asgisa). As part of the EPWP, tourism is recognised as part of what is broadly referred to as 'income-generating projects', which is an initiative implemented by various government departments to support the development of small and medium enterprises (SMEs). The EPWP also recognises tourism as part of an environment and culture pillar: the strategy under this pillar is to use existing programmes to encourage the growth of the tourism industry (Government of South Africa 2004).

Tourism opportunities by their nature are exploited largely by the private sector, but also though government departments such as forestry and wildlife which exploit some opportunities. Through both ASGISA and EPWP, the Department of Environment and Tourism seeks also to promote community-based tourism by assisting communities to set up organisations to run such businesses. ASGISA further specifically mentions the objective of promoting the exploitation of tourism opportunities linked with the 2010 football World Cup. These strategic objectives provide the department with considerable challenges regarding adequate and skilled manpower to access communities in the targeted rural areas. The department complements its staff resources through devolving some activities to municipal and provincial governments. Implementation partners such as the Development Bank of Southern Africa (DBSA) (DBSA) have also been engaged to facilitate the formation of tourism-based enterprises. The department is funded through the national budget and as such has adequate finances.

Development Bank of Southern Africa

The DBSA has been roped in as business implementation partner for both ASGISA and EPWP projects. As a development finance institute within SADC, the DBSA plays the key roles of financier, adviser and development partner (DBSA 2006a). The bank further describes one of its goals as 'to accelerate the sustainable reduction of poverty and inequality' (DBSA 2006a: 1). As a partner with the South African government in the fight against poverty, the bank plays a role in two key areas.

Firstly, the bank acts as co-financier to many of the poverty reduction projects (Government of South Africa 2006). The DBSA as a self-sustaining bank has adequate financing for these projects and is also able to raise funds from the capital market (DBSA 2006a).

Secondly, the DBSA provides technical assistance and support in implementing projects and capacity building for other government departments. For example, the DBSA assists four government departments and municipalities in 'building capacity to undertake institutional audits, and to establish systems and frameworks for effectively implementing, monitoring and evaluating projects of the EPWP' (Government of South Africa 2006: 11). This is dependent on the DBSA having adequate professional capacity to implement these projects. The bank is operational in this regard in all nine of South African provinces and also offers advisory services in other SADC member states. Both the bank's annual report and activities reports for 2005-2006 indicate that all targeted EPWP advisory roles were being implemented. Professional DBSA staff were working with municipalities in various projects as per agreement with the government (DBSA 2006a, b).

Discussion

The most common capacity limitation facing most implementing institutions is that of lack of adequately trained and skilled personnel. This is attributable primarily to the generally low skills levels and also to the exodus of skilled staff from the public service in search of greener pastures. All four countries were implementing measures to address this problem. The strategies, however, tend to centralise training as a responsibility of the education sector. The extent of the lack of skills, however, is such that training needs to be mainstreamed into the core activities of institutions. On the issue of 'brain drain', poor or unfavourable working conditions and reward systems have been blamed in all countries with the possible exception of South Africa. Unfortunately, this is an area where not much effort appears to have been made.

The health sector emerged as the most affected by the skills shortage, especially in Malawi. The HIV/AIDS pandemic and the exodus of health practitioners requires urgent attention from governments.

Funding is another limiting factor for many, though not all, agencies and institutions. All the four countries have areas that are very remote and difficult to reach. Unfortunately, these also happen to be the areas where the majority of the poor reside. Lack of funding means that capital equipment such as vehicles, electricity, telecommunications and government facilities are not available to assist residents of these areas.

It has emerged from the above analysis that institutions collaborate with others within the same country but not with similar or related institutions in other SADC member states. Poverty reduction strategies identify only local institutions and donors as implementation partners. This indicates that regional collaboration and cooperation as advocated by SADC is not part of poverty reduction in member states. This is an anomaly that needs to be addressed especially as it has potential to lead to synergies between the implementing institutions, and in this the SADC Secretariat can play a role.

Policy Recommendations

Scarce skills

Though SADC member states have strategies to address skills shortage through human capacity building initiatives, more needs to be done to retain skilled personnel. Governments are encouraged to consider effective scarce skills policies aimed at identifying such skills and retaining personnel. Such policies should provide for special rewards and conditions of service beyond the general public service rewards and conditions of service framework.

There is a need to comprehensively explore ways of accelerating the training of health care practitioners beyond what is already included in poverty reduction strategies. Ways should also be explored as a matter of urgency to make the health sector attractive for employment. The SADC Secretariat could be engaged here to find a region-wide solution.

Mainstreaming training

Though governments have training initiatives, the efforts tend to be uncoordinated, scattered and somewhat unequal across institutions. To improve the situation, a policy aimed at mainstreaming training into the core business of government departments is recommended. This will help departments better plan and implement training programmes.

Labour intensive works

Labour intensive works are key to generating income for the unskilled poor in all four countries. However, these tend to be short term and haphazard. These programmes need to be strengthened. Where feasible all public works should have a labour intensive component. The policies should also provide for the maintenance of a database of workers who participate in such projects and the skills they have acquired. This database should then be used by labour departments to help place graduates of these programmes in projects requiring their skills.

Mainstreaming poverty reduction

Poverty reduction initiatives of various ministries and departments tend to be independent both within and across ministries and departments. Clearly this results in lost synergy opportunities.

Regional cooperation

Where feasible collaboration between countries on poverty reduction initiatives should be encouraged in that it may lead to synergies and a shortening of the learning curve in some projects. Governments are encouraged to consider adopting policies aimed at ensuring that collaboration feasibility is always explored whenever similar projects are implemented. The SADC Secretariat can facilitate in this endeavour.

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International Assistance for Poverty Alleviation in SADC

Zitha Mokomane

Since the mid 1990s, the Southern African Development Community (SADC) region has enjoyed relatively good economic growth shown, for example, by increasing levels of per capita incomes and an upward trend in the overall GDP growth rates in most of the member states. This economic performance has, however, not been sufficient to contribute to poverty reduction on a notable scale. In December 2003, the then SADC Executive Secretary Dr. Prega Ramsamy estimated that about 40% of the sub-region's 235 million people were living in absolute poverty where they survived on less that 1US$ per day.[1] In addition, income inequality is large both between and within countries and the sub-region is also characterised by some of the world's highest HIV/AIDS and infant mortality rates as well as the lowest Human Development Index rankings and life expectancies at birth (UNECA 1999). Overall, the regional growth rate of 4% achieved in 2004 is far from the target growth rate of 7% required for poor countries to halve poverty by the year 2015, as reflected in the Millennium Development Goals (MDGs) (SAIIA, 2001).

As an organisation that has the achievement of development, economic growth and poverty alleviation among its main objectives, the persistent poverty levels and the failure of economic growth to trickle down to the populations have, for a long time, been areas of concern for both SADC and the governments of its member states. At a Regional Forum on Poverty Eradication in Southern Africa held in Windhoek, Namibia in May 1997, member states were called to place poverty issues at the centre of their development agendas while the international community was urged to facilitate capacity building in the area of poverty reduction (UNECA, 1999). Consequently, virtually all SADC member states are currently implementing a form of poverty reduction programme with the backing of the donor community. In April 2006, a consultative conference also held in Windhoek adopted the *Windhoek Declaration on a New Partnership between SADC and International Cooperating Partners* (ICPs). Drawing largely from the principles and commitments of the 2005 *Paris Declaration on Aid Effectiveness,*[2] this declaration outlines the key areas of cooperation between SADC and ICPS.

Table 1 shows that six SADC member states (Tanzania, Mozambique, Zambia, Malawi, Lesotho and the Democratic Republic of the Congo) have fully completed World Bank/International Monetary Fund (IMF) supported Poverty Reduction Strategy Papers (PRSPs). The Angolan cabinet approved the country's poverty reduction strategy, Estratégia de Combate à Pobreza (ECP) in early 2004 and this was scheduled for a joint assessment by the World Bank and the IMF during the first quarter of 2006. Discussions are ongoing on the possibility of preparing a PRSP in Zimbabwe, but the current political situation has forestalled this from being developed. Nonetheless, as shown in Table 2, the Zimbabwean government released the National Economic Development Priority Plan in April 2006 (Southern Africa Trust, 2006). Table 2 further shows that although the remaining six member states are not eligible for World Bank/IMF supported Poverty Reduction Strategies, largely because of their middle income status, they have national poverty reduction strategies in place.

Table 1: SADC countries finished or finalising poverty reduction strategy papers (PRSPs) (September 2007)

Country [a]	I-PRSP Completion	PRSP Completion	First progress report	Second progress report	Third progress report	Second PRSP Completion
Tanzania	Mar-00	Oct-00	Aug-01	Mar-03	Apr-04	Jun-05
Mozambique	Feb-00	Apr-01	Feb-03	Mar-04	Jun-05	Mar-05
Zambia	Jul-00	Mar-02	Mar-04	Feb-05	n.a	n.a
Malawi	Aug-00	Apr-02	Aug-03	May-05	n.a	n.a
Lesotho	Dec-00	Jul-05	n.a	n.a	n.a	n.a
D.R.C.	Jun-02	Jun-06	n.a	n.a	n.a	n.a
Angola	Feb-04	n.a	n.a	n.a	n.a	n.a

Note: a. Countries are listed chronologically, based on the date of PRSP completion.
Source: Adapted from Southern Africa Trust (2006)

Table 2: SADC countries not eligible for or not having initiated PRSPs (January 2006)

Country	Classification of economies 2005[a]	Status of National Poverty Reduction Strategy[b]
Botswana	UMC	National Poverty Reduction Strategy
Mauritius	UMC	National Action Plan for Poverty Alleviation (APPA 2001)
Namibia	LMC	National Poverty Reduction Action Programme (NPRAP 2000); National Development Plan (NDP2 2001–06)
South Africa	UMC	Reconstruction and Development Programme (RDP 1994); Growth, Employment and Redistribution (GEAR 1996); Integrated Sustainable Rural Development Strategy (ISRDS, 2000); Urban Renewal Programme (URP, 2000); Accelerated and Shared Growth Initiative of South Africa (ASGISA 2006)
Swaziland	LMC	Poverty Reduction Strategy and Action Plan (PRSAP 2005)
Zimbabwe	LIC	The PRSP process has been stalled due to the current political situation in the country. However, in April 2006, President Mugabe introduced the National Economic Development Priority Plan (NEDPP)

Notes: a. Classification is derived from the 2006 World Development Report (World Bank, 2005: 291). Using the World Bank Atlas method the economies are divided into low-income countries (LIC) ($825 or less); lower-middle-income countries (LMC) ($826-$3 255) and upper-middle-income countries or UMC ($3 256-$10 065) according to 2004 gross national income per capita. b. The dates in Table 2 refer to those on the actual documents rather than dates of publication on the IMF/World Bank websites.
Source: Adapted from Southern Africa Trust (2006)

The aim of this paper is to analyse the role of the donor agencies in poverty alleviation programmes in the SADC region, comparing bilateral and multilateral ones Particular focus will be placed on the period from 2000 onwards, basically because this period immediately follows the 1999 introduction of the PRSPs by the World Bank and IMF and the latest international commitment to alleviate poverty (the MDGs) was made in 2000.

When many of the donors began formulating development goals for their foreign aid in the 1950s, the focus was almost invariably on economic growth in the form of increased production

and consumption in recipient countries (Degnbol-Martinussen and Engberg-Pedersen 1999). This continued for several years until the 1990s when poverty reduction started to emerge at the top of donors' agendas. It was largely the World Bank's publication of the 1990 and 2000 *World Development Reports*—both of which took up the theme of poverty problems and the strategies for solving them—that triggered a sharp focus on poverty reduction as the major goal of development and development assistance. Indeed, as Table 3 shows, using OECD countries as an example, most donors explicitly identify poverty reduction as being the main strategic goal of their approach to development (Degnbol-Martinussen and Engberg-Pedersen, 1999; OECD, 1999). Even those countries in the third group (who do not have poverty reduction explicitly stated in their in the official statements) have signed up to international declarations and commitments such as the MDGs, which have the reduction of poverty by half by 2015 as their first goal. It can be concluded that the majority of donors are committed to poverty reduction.

Table 3: SADC donors' formal commitment to poverty reduction

Poverty Reduction is sole overarching Goal	Poverty Reduction is one of the top priorities	Poverty Reduction is not an overarching goal nor a top priority
Australia, Canada, Denmark, Ireland, Luxembourg, Netherlands, Norway, Spain, Sweden, UK, UNDP, World Bank, African Development	Austria, Belgium, EC, Finland, Germany, Italy, Japan, New Zealand, Switzerland	France, IMF, Portugal, USA

Source: OECD. 1999. DAC Scoping Study of Donor Poverty Reduction Policies and Practices. *London: Overseas Development Institute: p2.*

It is with this background that this paper will describe and discuss international assistance for poverty reduction in terms of official development assistance (ODA). ODA is a category of development aid that entails flows of official financing from members of the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD) administered with the promotion of the economic development and welfare of developing countries as the main objective.[3] ODA includes grants, 'soft' loans, the provision of technical assistance and humanitarian aid that is expected to result in long-term improvement and not just emergency relief in the recipient country. Soft loans are those where the grant element is at least 25% and technical assistance is where skilled personnel from a donor country or agency are deployed to a developing country to assist with a programme of development. ODA is usually measured on a net basis, that is, after subtracting loan repayments from the gross aid flows. Data on the geographical distribution of aid are presented on a gross basis to show the level of new aid provided during the period.[4] For international bilateral and multilateral financial flows to qualify as ODA they should satisfy three basic requirements: they must be undertaken by the donor country's official sector; their main objective must be the promotion of economic development and welfare; and they must be provided on concessional financial terms if the loan has a grant element of at least 25% (Ali et al, 1999; Degnbol-Martinussen and Engberg-Pedersen, 1999: 56).

The various technical limitations of the definition of ODA are beyond the scope of this paper (see instead Degnbol-Martinussen and Engberg-Pedersen, 1999). For the present purposes, however, the following are deemed noteworthy: ODA is defined on the basis of the declared goods and not the actual effects; no consideration is taken on whether the transfers actually contribute to economic development and welfare; the cost of administering aid in donor countries could be included as ODA; and many donor countries include expenses for

refugees and asylum seekers in the donor countries themselves as ODA.

With the above in mind, the paper proceeds as follows: the next section compiles and discusses the available data on the volume and distribution of international assistance to SADC. Section 3 discusses the donors' strategies and interventions for delivering the assistance. Section 4 discusses the progress made and makes conclusions based on all the discussions in the paper. Finally Section 5 outlines policy recommendations for enhanced delivery of international assistance for poverty alleviation in the region. The terms international assistance, ODA and aid will be used interchangeably throughout the paper to refer to international assistance for poverty reduction in the SADC region.

Why Do Donors Give International Assistance?

As the motives behind participation in aid exert a strong influence on how this is carried out, this section describes the various theoretical arguments for giving foreign aid and, briefly, the motives for receiving aid by developing countries.

Although the motives for giving aid vary from country to country and actor to actor, (Degnbol-Martinussen and Engberg-Pedersen 1999: 10), studies of the determinants of foreign aid allocation typically state two main dimensions: altruistic and strategic (Balla and Reinhardt, no date). Altruistic motivations are based on humanitarian interests in a recipient's development levels and are linked to the assumption that a more equal distribution of global resources is in the industrial countries' long-term vital interests. Altruistic donors tend to target countries that can use the aid to effectively increase the general welfare of their populations and to bolster savings levels.

Strategic motivations, on the other hand, are those associated with the donor's short-term and long-term political and economic interests. The former basically entails the administration and distribution of the donor country's development assistance in accordance with national security interest or with the aim of promoting political and military strategic interests in selected regions. The United States is an example of a donor country that bases its foreign aid decisions largely on national security considerations as illustrated by the escalation of its aid to countries such as Israel, Egypt and Jordan due, largely, to the concern over Middle East instability. Other examples include Sweden, which targets its aid toward 'progressive' societies, and France which uses its foreign aid to promote the maintenance, spread and influence of French culture and language.

Although they are often cited as being of secondary importance in donor countries' foreign aid policies, economic and commercial interests also often form the implicit basis for choosing recipient countries with the aim of getting privileged access to resources and markets in developing regions. Japanese aid, for example, has historically flowed disproportionately to neighboring Asian nations in which Japan has the greatest commercial interests, and has often been tied to purchases of Japanese products. All in all:

> If a donor seeks future political or economic cooperation from a given developing country, it may allocate aid to that recipient to enable it to respond to donor requests, to insure the recipient will remain a faithful ally (Mosley 1986: 32) … or to give it a greater disposition to cooperate with the donor in international affairs (Balla and Reinhardt, no date: 4).

According to Degnbol-Martinussen and Engberg-Pedersen (1999), environmental policy considerations have, since the mid-1980s, also come to play an increasing role in foreign aid polices

of both bilateral and multilateral donors. This has been largely due to the increased recognition of the link between environmental and development problems in a global perspective and the importance of foreign aid in supporting the development and implementation of environmental polices in a common strategy for growth and development based on sustainability.

Size and Distribution of international Assistance to SADC

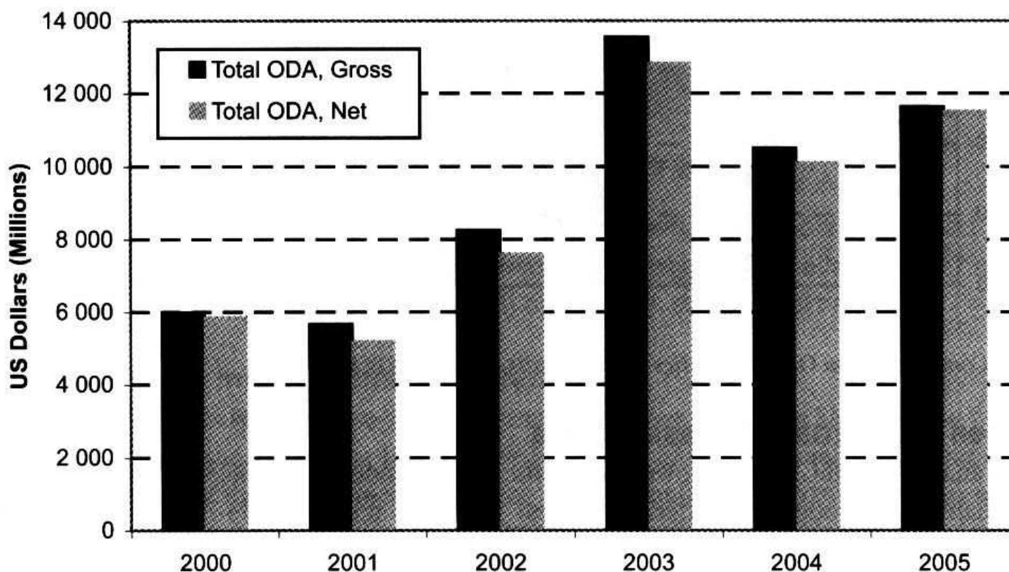
This section compiles and discusses available data on international assistance to the SADC region and highlights patterns in regard to total assistance, its sources as well as its distribution among countries and sectors. It should be emphasised that, at the time of writing, much of the data was only available for 2000-2005 and, unless otherwise stated, in this section the period under study will refer to this period.

Size and composition of international assistance

External donors, working at both national and regional levels, have always been important to SADC. Indeed, 'an important motivation for the establishment of the original Southern African Development Coordination Conference (SADCC) in 1980 was to set up a mechanism to facilitate aid coordination and mobilisation of additional development finance (Tjønneland, 2006: 1). It is perhaps against this background that analysis of OECD data[5] reveals that total ODA flows (both net and gross), given bilaterally and multilaterally to SADC countries increased steadily since the establishment of the regional organisation. The data indicates that net flows increased from an average of US$5 201 million annually between 1980 and 1989, to an annual average of US$6 302 million in the 1990-1999 period and US$8 124 million between 2000 and 2005.

For the latter period, the total aid was US$53 117.4 million, and examining the net flows by year (Figure 1) shows that they increased from US$5 865.5 million in 2000 and reached their peak of US$12 828.7 in 2003. This was followed by a dip in 2004 before a slight increased in 2005. Over the whole period, the lowest disbursement was in 2001 when the total flows were US$5 216.7 million.

Figure 1: Volume of gross and net official development aid to SADC, 2000-2005



Source: Computed from OECD Statistics at http://stats.oecd.org/WBOS/

Table 4: Net official development assistance received as a percentage of GDP, SADC countries

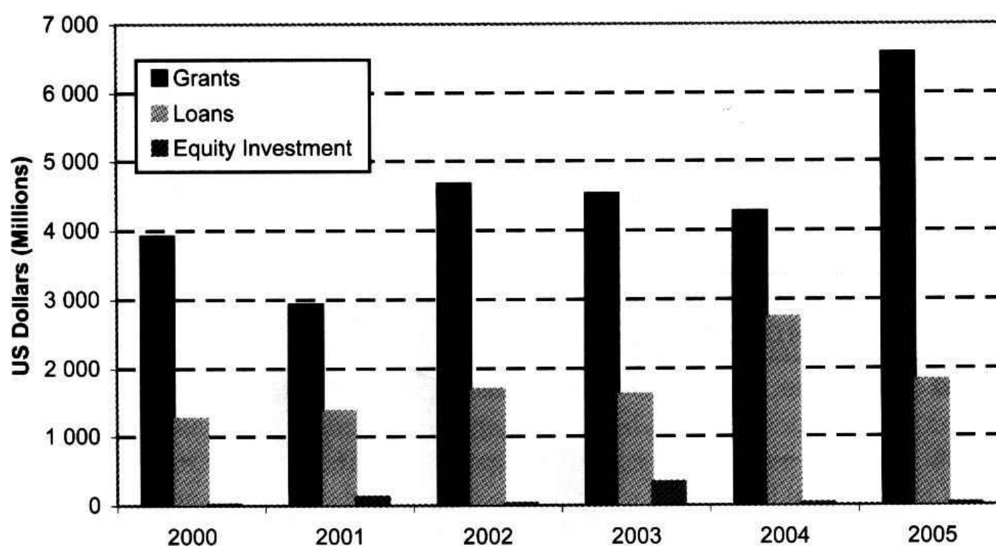
Country	1990	2004
Angola	2.6	5.9
Botswana	3.9	0.4
Democratic Republic of the Congo	9.6	27.4
Lesotho	23.0	7.8
Madagascar	12.9	28.3
Malawi	26.8	25.3
Mauritius	3.7	0.6
Mozambique	40.7	20.2
Namibia	5.2	3.1
Swaziland	6.1	4.9
South Africa	—	0.3
Tanzania	27.5	16.1
Zambia	14.6	20.0
Zimbabwe	3.9	4.0

Source: 2006 Human Development Report, at http://hdr.undp.org/hdr2006/

Despite the general increase in the flows of international assistance to the region, Table 4 shows that there has been a general decrease in the share of ODA as a proportion of GDP: in only five countries: Angola, DRC, Madagascar, Zambia and Zimbabwe did this share increase. The 2005 Human Development Report also showed that aid receipts per capita in the region are very low, ranging from US$15 in South Africa to US$65 in Mozambique.

In terms of the composition, the net ODA comprised largely of grants followed by loans and, to a much lesser extent, equity investments such as foreign direct investments and portfolio investments (Figure 2). Abegaz (2005) asserts that the undersupply of investment is largely due to the high risk, high transaction costs and imperfect information that characterise the whole of sub-Saharan Africa.

Figure 2: Composition of net official development aid to SADC, 2000-2005



Source: Computed from OECD Statistics at http://stats.oecd.org/WBOS/

Sources of international assistance

Further analysis of OECD data shows that for the period under study, 66.3% of the ODA was given bilaterally (through 22 bilateral agencies) while the remaining 33.7% was channelled through nine multilateral organisations (See Appendix A for the full list). Table 3 shows the

10 largest bilateral and five largest multilateral donors to the region respectively. Among the former, the USA, the UK and France each contributed more than 10% of the OECD countries' total aid to SADC member states. Among the multilateral institutions, the largest donors were the World Bank's International Development Agency and the European Commission, which alone contributed close to half of the total and over one-third of the multilateral transfers to the sub-region, respectively.

Table 3: Top ODA Bilateral and Multilateral donors to SADC, 2000–2005

Donor Country/Agency	Net Disbursement (US$ Million)	Percentage of total ODA
Bilateral donors		
1. United States of America	5 728.3	16.3
2. United Kingdom	5420.1	15.4
3. France	3 982.2	11.3
4. Japan	3 199.4	9.1
5. Germany	2 980.5	8.5
6. Netherlands	1 914.3	5.4
7. Belgium	1 790.6	5.1
8. Norway	1 694.7	4.8
9. Sweden	1 426.4	4.1
10. Italy	1 401.6	4.0
Others	*5663.0*	*16*
Total Bilateral	**35 204.1**	**100**
Multilateral donors		
1 IDA	8 160.8	45.6
2 European Commission	6 483.8	36.2
3 African Development Fund	1 686.8	9.4
4 Global Fund Against TB and Malaria	853.5	4.8
5 UNICEF	409.6	2.3
Others	*318.8*	*1.7*
Total Multilateral	*17 913.3*	*100*

Source: Computed from OECD Statistics at http://stats.oecd.org/WBOS/

The specific donors for each SADC member state are shown in Appendix B. The data therein also shows that, for the period under study, there was on average of 19 bilateral and 7 multilateral agencies (an overall average of 24 donors) operating in each member state.

Distribution of international assistance

For the period under study, where did the international assistance to the SADC go and what did it finance? Table 4 shows that the DRC received over one-fifth of the total ODA to the region, making the country the largest recipient of the aid. Tanzania and Mozambique also received notable proportions while four countries – Botswana, Lesotho, Mauritius and Swaziland – all received less than 1% of the total aid disbursed to the region.

Table 4: Net official development aid disbursed to SADC member states, 2000-2005

Position	Country	Net Disbursement (US$ Million)	Percentage of total ODA
1	DRC	11 805.3	22.2%
2	Tanzania	9 511.3	17.9%
3	Mozambique	8 270.3	15.6%
4	Zambia	6 031.2	11.4%
5	Madagascar	4 441.1	8.4%
6	South Africa	3 584.6	6.7%
7	Malawi	3 192.0	6.0%
8	Angola	3 048.3	5.7%
9	Zimbabwe	1 077.7	2.0%
10	Namibia	722.8	1.4%
11	Lesotho	472.5	0.9
12	Mauritius	372.7	0.7
13	Botswana	337.0	0.6
14	Swaziland	250.6	0.5
Total		***53 117.4***	***100***

Source: Computed from OECD Statistics at http://stats.oecd.org/WBOS/

With regards to sectors, financed, social infrastructure (mainly education, health, and rural development) and debt relief have constituted the key target of international assistance to the sub-region, accounting for 30% and 27% of total aid flows respectively (Table 5). This pattern of sectoral distribution is, perhaps, reflective of the donors' commitment to the 20/20 Initiative adopted by the Heads of States during the World Summit for Social Development (WSSD) in March 1995, with the aim of bringing universal access to basic social services within reach of people living in poverty. To achieve this, mutual contracts between donor and recipient countries, in which 20% of the donor country's ODA and 20% of the recipient country's public expenditure, will be used on basic social services are established.

Donor Strategies and Interventions

This section presents a brief overview of the background to, and policies of, the donors to SADC countries using firstly, the five largest bilateral donors and secondly, the three largest multilateral donors as examples. The aim is to show variations in bilateral and multilateral donor aid strategies and intervention for poverty alleviation.

Bilateral donors

The United States of America

After a long period of distributing foreign aid on the basis of the national security interest, the American government began increasingly, in the 1990s, to untie development assistance from narrow national security interest. The 2002 *National Security Strategy* placed development-oriented goals at the top of the agenda and grouped them into six categories: achieve economic

Table 5: Net official development aid (in US$ million and 2003 prices) disbursed to SADC member states by sector, 2000-2005

Country	Social	Econ.	Prod.	Multi-sector	Gen. Prog. Aid	Debt	Emergency	Others	Total
Angola	153	2	4	11	39	698	146	26	1079
Botswana	34	1	2	2	–	0	–	1	40
Congo, D.R.	692	11	14	57	229	825	201	4	2033
Lesotho	49	18	2	3	10	0	2	1	86
Madagascar	160	131	30	104	198	538	9	5	1174
Malawi	160	29	76	14	107	49	1	3	440
Mauritius	19	0	0	0	0	–	–	16	36
Mozambique	426	185	87	48	388	22	5	14	1175
Namibia	96	22	17	76	–	–	2	4	217
South Africa	481	14	17	83	–	–	0	11	606
Swaziland	8	0	2	2	–	–	1	2	15
Tanzania	853	317	36	112	352	305	50	8	2032
Zambia	314	153	83	27	48	387	7	5	1024
Zimbabwe	104	1	3	1	1	–	46	5	161
Total	**3089**	**884**	**371**	**540**	**1372**	**2824**	**470**	**104**	**10667**
Per cent	**30**	**8.3**	**3.5**	**5.1**	**12.9**	**26.5**	**4.4**	**1.0**	**100.0**

Source: Computed from OECD Statistics at http://stats.oecd.org/WBOS/

growth and agricultural development; build sustainable democracies; build human capacity through education and training; stabilise world population and protect human health; manage the environment for long term sustainability; and promote humanitarian assistance (USAID, 2000; cf. Degnbol-Martinussen and Engberg-Pedersen, 1999: 77). The United States Agency for International Development (USAID)—the government authority responsible for the administration of US foreign aid—therefore does not see poverty reduction as an overarching goal, but rather as an important outcome of 'sustainable development' (USAID, 2006). To achieve this development in the SADC region, USAID focuses its assistance on five main interests (see www.usaid.gov/locations.sub-saharan_africa):

- *Increasing trade and strengthening economic ties with the region.* Through the Gaborone-based Southern Africa Global Competitiveness Hub (the 'Trade Hub'), USAID has, since 2002, provided technical assistance and training to: reduce policy and regulatory barriers to free trade; deepen capacity to negotiate and implement trade agreements; and develop intra-regional and international business linkages and industrial clusters. The Trade Hub also provides a base for consolidated U.S. government trade advocacy services and advances Global Development Alliances (GDA) with the private sector.
- *Enhancing agriculture to combat recurrent food insecurity.* This entails programmes that have an overall objective of diversifying the agricultural production of poor farmers to increase their resilience to economic and climatic crises. These include the provision of production and market support services, famine and disaster early warning and help-

ing small-scale fruit and vegetable farmers to supply the formal markets.

- *Mitigating the region's HIV and AIDS crises*. Through the South Africa-based Southern Africa Regional HIV/AIDS Program, the US Government in partnership with the Centers for Disease Control and Prevention (CDCP), supports treatment for people living with HIV/AIDS, helps prevent new infections and supports care for people infected with and affected by HIV, including orphans and vulnerable children in 10 SADC countries which have the highest HIV prevalence in the region.
- *Strengthening democracy to reduce the risk of conflict in the region.* USAID promotes the application of democratic principles and good governance by providing technical assistance and training to: increase demand for transparency and accountability in electoral processes; promote adoption, application and incorporation of regional elections norms and standards into electoral law; and build capacity of selected regional organisations, including civil society, in the prevention and mitigation of election-related conflict and human rights violations.
- *Improving the management of shared river resources.* To address the problem of water scarcity in the region, USAID provides training and technical assistance to strengthen the capacity of relevant institutions to protect and manage river basin resources, and to increase community involvement in the decision-making processes related to the use and protection of basin resources at the local level.

The United Kingdom

The Department for International Development (DFID) is the government department responsible for contributing towards international efforts to eliminate poverty. DFID works in partnership with developing country governments and other international development agencies as well as with working with business, civil society and the research community. The Pretoria-based DFID Southern Africa office, which has representation in Botswana, Namibia, Lesotho and Swaziland, works with other DFID country offices in the SADC member states, regional economic communities (RECs) and other regional organisations to support programmes addressing the regional dimensions of poverty. According to its regional plan (DFID, 2006) its key priority areas are:

- *Developing effective national poverty strategies* largely through the provision of poverty reduction budget support—a form of financial aid in which a donor provides funds directly to a partner government's central exchequer in support of their programmes to assist poverty reduction. The SADC countries that particularly benefited from this support are Malawi, Mozambique, Tanzania and Zambia.
- *Promoting growth, jobs and equity*. This entails working with government departments to promote policies that generate economic growth to benefit the poor; working with the private sector and governments to improve the business climate including ensuring that legal and regulatory frameworks help business development; encouraging the sharing of knowledge and skills; and creating links between businesses. DFID also supports land reform processes across the region.
- *Strengthening democracy, governance and service delivery.* DFID supports the key institutions of democracy and accountability in the region, works with governments to

increase the number of people with access to primary healthcare, education, water and sanitation and supports programmes to strengthen policing and the justice system.

- *Tackling HIV/AIDS.* DFID is working with the governments, civil society and the private sectors in Botswana, Lesotho, Namibia, South Africa and Swaziland (the countries most affected by HIV and AIDS in the region) to improve their capacity to develop and implement national AIDS strategies. Particular focus is placed on three main areas: prevention, care and reducing the overall social and economic impact. DFID's support also includes assisting educational institutions to plan for the effects of HIV/AIDS on both educators and learners.
- *Supporting regional cooperation and integration.* This entails supporting trade between SADC countries, and helping countries to effectively participate in international trade.

France[6]

The institution at the heart of France's development assistance policy is the French Development Agency (AFD) which is present in five continents where, within the framework of the MDGs, it works to reduce poverty, finance economic growth and protect global public goods. AFD's particular focus is on developing human resources and institutional capacities (Degnbol-Martinussen and Engberg-Pedersen, 1999: 85) in sectors where it has acquired recognised know-how, namely, land management, infrastructure development, urban development, supporting the productive sector, modernising financial systems, rural development and environmental protection.

As on the whole of the African continent, AFD's priority in southern Africa is to promote growth, access to basic services and human development through the following priorities:

- *Poverty reduction* through financing the development of primary education and health, promoting rural development, capacity building and strengthening basic infrastructure
- *Infrastructure development* where the priority intervention areas are water, sanitation, transportation, telecommunications and energy.
- *Environmental protection.* This entails the promotion of sustainable natural resource management and its mainstreaming into economic development, for example in forest areas in the Congo Basin or protected land and sea areas, particularly in Mozambique.

Japan

Japanese foreign aid is given in three main forms: as grants, yen loans and technical assistance. The Overseas Economic Cooperation Fund is responsible for providing loans which are the major part of Japanese aid, while the Japan International Cooperation Agency (JICA) is responsible for technical assistance with special focuses on institution building, organisation strengthening and human resources development that will enable developing countries to pursue their own sustainable socioeconomic development (Degnbol-Martinussen and Engberg-Pedersen, 1999). In Africa as a whole, JICA specifies poverty reduction on the basis of human security as its ultimate goal for development and it supports poverty reduction efforts according to the following pillars (Japan Ministry of Foreign Affairs, 1999):

- *Human-centred-development.* This entails efforts to improve the quality of secondary science and mathematics education with consideration given to maintaining a balance with

local primary education resources; administrative capacity development and the promotion of school management; expansion of primary education for the empowerment of people; and vocational training; and development of entrepreneurs. JICA also supports the strengthening of primary health care and increasing capacity for the prevention and early treatment of infectious diseases that afflict people in Africa. This includes HIV and AIDS control measures. In the field of water supply, JICA expands regional water supply projects and implements cooperation projects with priority given to those that especially consider the poor, women and the socially vulnerable.

- *Economic development* through the provision of cooperation in technical development and the dissemination of agricultural techniques designed for small-scale farmers. To assist with improvements in infrastructure, grant aid is provided for electrification, the construction of roads, bridges and broadcasting and communication systems.
- *Consolidation of peace.* To the extent that the consolidation of peace is an important prerequisite for all types of development, JICA has extended support for post-conflict reconstruction and improved governance in many African countries including Angola and the DRC.

Germany

The German development policy is guided by three principles: reducing poverty, promoting equitable forms of globalisation and building peace. The German government deems that an effective economy which generates jobs is an important precondition for poverty reduction. It believes in fighting poverty at the structural level by changing existing economic and social structures. Therefore, in its economic cooperation with partner countries Germany promotes strategies aimed at broad-based and employment-based growth which offers the poor a way out of income poverty. According to the Federal Ministry for Economic Cooperation and Development (2007) the main foci are:

- *Economic policy advisory services.* This involves helping partner countries to implement reforms which create an enabling environment for economic policy with the aim of creating a highly dynamic market as well as to redress social imbalances and to conserve natural resources.
- *Strengthening the private sector.* Germany supports private-sector economic activities and initiatives to set up small businesses in its partner countries. This also includes measures to establish and expand the basic economic infrastructure, including roads and electricity supply systems.
- *Providing access to loans.* This is done with the aim of supporting partner countries in developing robust and networked financial systems with operational institutions to enhance provision of microfinance to poor sections of the populations in partner countries.
- *Improving vocational training* which allows the future specialists to be trained in their own country. This entails the promotion of measures to improve the utilisation of modern information technologies, helping to boost the economy and reduce poverty.
- *Food security.* Germany helps partner countries develop strategies to ensure food security and is involved in international projects that pursue this goal with, for example, the

Food and Agricultural Organisation (FAO) World Food Programme (WFP).

- *Fostering agrarian reform* by supporting land reforms that are based on the principles of the rule of law. Measures to protect the soil and teach appropriate cropping methods are further priority areas. Germany also supports agricultural research.
- *Creating fair trade opportunities* which can help to reduce poverty in partner countries. Producers receive guaranteed minimum prices for their goods that are calculated so that farmers can cover their costs and still have enough money left to support themselves and their families. The 'Fair Feels Good' campaign aims to motivate consumers to buy fair trade products.
- *Basic social services.* Germany supports the provision of basic social services such as primary health care, food, safe water and basic education, which can make a sustainable improvement to the living conditions of poor people.
- *Fostering gender equality.* Gender as a cross-cutting issue is enshrined in Germany's development cooperation policy as a whole. The country also fosters measures to reduce discrimination against girls and women. It supports projects that enable women to receive a basic education and increase the number of girls enrolling in school, introducing incentive systems such as school meals, medical services for school children and scholarships. To improve the political influence of women, female leaders are being supported at community level. Furthermore, German development cooperation supports women's networks and women's NGOs.
- *Good governance.* Germany is stepping up its support for structures and institutions which enable poor and disadvantaged population groups to benefit from development processes.

Multilateral agencies

The International Development Association[7]

The International Development Association (IDA) is part of the World Bank, and aims to reduce poverty in the world's poorest countries by providing interest-free loans and grants for programmes that boost economic growth, reduce inequalities and improve people's living conditions. IDA lending falls into three broad categories: investment (infrastructure, production sectors), policy-based aid (quick, disbursing adjustment loans conditioned on specific institutional and policy reforms), and non-investment aid or social services (Abegaz, 2005). Eligibility for IDA support depends largely on a country's relative poverty defined as GNI per capita below an annually revised threshold (in fiscal year 2007 US$1 025). Based on this criterion, nine SADC countries (Angola, DRC, Lesotho, Madagascar, Malawi, Mozambique, Tanzania, Zambia and Zimbabwe) are currently eligible to borrow from IDA, with DRC and Tanzania being among the top 10 borrowers. Other criteria are lack of creditworthiness to borrow on market terms and good policy performance, defined as the implementation of socio-economic polices that promote growth and poverty reduction.

IDA's role in poverty reduction includes carrying out analytical studies to build the knowledge base that allows for the intelligent design of policies, advises governments on ways to broaden the base of economic growth and aims to protect the poor from economic shocks and coordinate donor assistance to provide relief for poor countries that cannot manage their debt-service burden. In all these, IDA emphasises:[8]

- sound economic policies, rural development, private business and sustainable environmental practices
- investment in people, in education and health, especially in the struggle against HIV/AIDS, malaria and TB
- expansion of borrower capacity to provide basic services and ensure accountability for public resources
- recovery from civil strife, armed conflict and natural disaster
- promotion of trade and regional integration.

The European Commission[9]

Relations between the European Union (EU) and the African, Caribbean and Pacific (ACP) states are a particularly important aspect of EU development cooperation policy. Until 2000 these relations were governed by the regularly adapted and updated Lomé Convention which aimed at supporting the ACP states' efforts to achieve comprehensive, self reliant and self-sustained development. However, major international change, socio-economic and political developments in the ACP countries, the spread of poverty and resultant instability and potential conflict, all highlighted the need for a re-thinking of cooperation. This resulted in the Cotonou Agreement, a new ACP-EC agreement signed in June 2000 in Cotonou, Benin, for a 20-year period. The agreement is based on five interdependent pillars with the underlying objective of enhancing the fight against poverty: an enhanced political dimension; increased participation; a more strategic approach to cooperation focusing on poverty reduction; new economic and trade partnerships; and improved financial cooperation. The Cotonou external aid programmes are managed by the European Development Fund (EDF) out of the budgetary allocation to the European Commission's Directorate General for Development, while Europe Aid, an implementing agency established in 2001, appraises, monitors, and evaluates all external assistance programmes.

For the period under study, EU's aid to the SADC region is outlined in the regional *Strategy Paper for the Southern African Development Communit,y* signed in 2002 to cover the period up to 2007. This document pledged an initial, non-repayable contribution of 101 million to address the major obstacles to economic development and poverty reduction within the priority areas listed below:

- *Economic integration and trade* to allow the countries in the region to continue to move towards a larger and more unified market, the fostering of a free trade area and the future creation of a customs union – all of which will increase the region's competitiveness and help to attract more investment into the productive sectors. Economic Partnership Agreements (EPAs) were given a high priority in the cooperation strategy as a means of assisting the region to more successfully integrate itself into the global trading system and at the same time strengthening its own regional integration process.
- *Transport and communication programmes* aimed at reducing costs of transport and communication, mainly through improved utilisation of existing infrastructure and services, and through the continued development of a regional transport and communications policy and regulatory framework.
- *Social sector:* funds were allocated to support programmes in other areas such as peace

and security, and provide further support to ongoing programmes such as the fight against HIV/AIDS and drugs control in the region.

African Development Fund[10]

The African Development Fund (ADF) is a part of the African Development Bank group which provides development finance on concessional terms to regional member countries (RMCs) which are unable to borrow on the concessional terms of the bank. In accordance with its lending policy, poverty reduction is the main aim of the Fund's development activities in borrowing countries. For the period under study, the ADF's position in regard to poverty reduction has followed two distinct stages: 1999-2001 (ADF VIII) and 2002-2004 (ADF IX). The most important development during the ADF VIII was the adoption, in 1999, of the Vision Statement, which specified poverty reduction as the Bank's overarching goal and stated the Bank's intention to focus its development assistance on 'selected key areas where it can take leadership, and make a significant and measurable development impact'. The Vision was further enhanced by the preparation of the Bank's first Strategic Plan in 2003 (to cover the 2003-2007 period) which articulated the importance of supporting RMCs in the preparation and implementation PRSPs and accelerating the achievement of MDGs.

The ADF uses micro-credit, long-term interest free loans and grants, and policy assistance as an instrument of poverty reduction. Although investments in health, education, sanitation, and infrastructure are financed, priority is given to projects in the areas below.

- *Agriculture and rural development* with a focus placed on projects aimed at improving agricultural output and household food security and at enhancing rural incomes. Lines of credit are provided to the financial sector to make loans available to small and medium scale farmers and other micro-entrepreneurs engaged in agriculture and related income-generating activities.
- *The social sector.* Lending for social sector focuses on improving the access and quality of education and health services, particularly basic education and primary health care as well as on improving access to micro-finance, especially for women, and building institutional and income generating capacities of target populations.
- *The transport sector.* ADF operations focus primarily on improving the efficiency of transport infrastructure and services to spur the economic and social development of African countries. This is achieved by rehabilitating and maintaining road networks that link agricultural areas with industrial and urban zones or ports to facilitate the transport of goods destined for export.

Donor Strategies

The official development policy statements of SADC's largest donors reveal that not only are the donors focusing on poverty reduction, but they also recognise that poverty is multi-dimensional and requires multiple strategies to tackle. Consequently, the donors have a diversity of strategies which can be classified into three broad groups: economic, social and political. These are discussed below.

Economic strategies

All the donor agencies see economic growth, specifically broad-based or pro-poor growth, as

a precondition for poverty reduction. Broad-based growth generally involves a range of policies that promote labour-intensive employment and, hence, income growth. It also focuses on activities that promote the poor's access to land, credit, infrastructure and technology, as well as the facilitation of out-migration from resource-poor zones where poverty and environmental degradation are interrelated and where sustainable income–generating opportunities are limited (World Bank, 1990). Pro-poor growth, on the other hand, is often described in terms of promoting the private sector, liberalised trade, macroeconomic efficiency, fair competition, transparency and accountability.

The foregoing section showed that in the SADC region efforts to promote broad-based growth are largely supported by bilateral donors while pro-poor growth seems to be a prerogative of multilateral agencies, even through some countries such as Germany and the UK explicitly support it.

Social strategies

Perhaps as a reflection of the commitment to the 20/20 Initiative, the meeting of such basic needs as education, health, HIV and AIDS mitigation, water and sanitation and development of infrastructure feature prominently and as priority areas in virtually all donors' action plans for poverty reduction.

Political strategies

Virtually all donors see the broad area of 'good governance' which includes the promotion of democracy, peace and security, support to electoral processes and anti-corruption strategies, as an essential component of an overall strategy to reduce poverty. This is based largely on the assumption that governance and democracy give the poor greater power and on the support for decentralisation strategies which are believed to bring decision-making closer to the poor (OECD, 1999).

Donor Interventions

Based on OECD suggestions (OECD, 1999), there are basically three types of interventions to combat poverty:

- *Direct or focused actions*: often micro in character, these actions directly and predominantly focus on poor people. Examples are targeted safety nets or community-based organisations among the poor.
- *Indirect or inclusive actions:* while these aim to benefit broad population groups, they also focus on sectors of special importance to the poor such as basic education or small-scale enterprises. These actions therefore benefit the poor in an indirect way. For example, operational objectives to improve service delivery in, say, agricultural extension or health, address poverty reduction in an inclusive and indirect way since, very often, the non-poor benefit along with the poor, and because their objectives go wider than addressing poverty reduction *per se*. These actions often take place at the sectoral level (OECD, 1999).
- *Enabling actions*. Enabling actions are structural measures aimed at underpinning pro-poor economic growth or other policies leading to social, environmental or economic benefits for poor people. Debt relief and promotion of good governance are two examples of enabling interventions which may be linked to poverty reduction under certain

conditions. For instance, debt relief is likely to benefit the poor only if it results in increased public expenditures on services which benefit the poor, or if it contributes to pro-poor growth. Similarly, attention to linkages is required if governance measures are, in fact, to benefit the poor. Enabling actions most often take place at the sectoral and macro levels (OECD, 1999).

It can be concluded that the majority of donors to the SADC region use indirect actions to achieve their development assistance goals (see also Appendix B). A closer examination of these actions also reveals that the programmes are largely aimed at developing whole sectors such as health, education and agriculture. Sector programmes have the advantage of reducing costs and concentrating aid since they allows donors to become involved in several sector programmes with technical assistance, but without large investments or to concentrate all their assistance in few sectors in a few countries (Degnbol-Martinussen and Engberg-Pedersen, 1999). This approach is a variation on the past mode of aid delivery where aid was spread to an array of projects – a method which eventually proved to be a serious burden for the weak administrations and public finances of developing countries (Degnbol-Martinussen and Engberg-Pedersen, 1999).

Conclusions

As stated earlier in the paper, the SADC region has, since the mid-1990s and for most of the 2000s, witnessed a general increase in per capita incomes and overall GDP growth rates. Apart from the Zimbabwean economy, which recorded negative growth rates of -14% in 2003 and -4.8% in 2004, all SADC countries have continued to record moderate to high economic growth rates in recent years. South Africa, for example, recorded rates of 2.8% in 2003 and 3.7% in 2004. The corresponding figures for Botswana were 5.4% and 5.2% respectively. The best performers were Angola (3.4% in 2003 and 11.2% in 2004) and Mozambique (7.1% in 2003 and 7.8% in 2004). Improvements in GDP growth rates have also been witnessed in Lesotho, Namibia and Tanzania (Wolfensohn and Bourguignon, 2004).

Statistics also show improvement in some non-income indicators of poverty and well-being, such as education and access to improved water sources and sanitation facilities. For example, the average primary school enrolment in the region, estimated at 76% in 2000, increased to 86% in 2005. In the latter year, the levels ranged from 72% in Namibia to 95% in Malawi and Mauritius (UNDP, 2005). In 2005, close to 70% of the SADC population had access to clean and safe drinking water, an increase from 59% in 1990. By the same token, the proportion with access to sanitation facilities had increased from 36% in 1990 to 47% in 2005. Despite the deteriorating economic and political situation in Zimbabwe, the SADC region also experienced relative peace, security, political stability, the continued spread of multi-party democracy and good governance in the period under study. This is reflected in a number of positive developments, such as the holding of presidential and general elections in many of the member states: Botswana, Malawi, Mozambique, Namibia, South Africa, Mauritius and Zambia.

Although the above achievements demonstrate that poverty *can* be overcome, the battle is still ongoing. There are still many absolutely poor people in the region as reflected in indicators such as the level of inequality. For example, the average Gini index for the region in 2003 was 54.6, and only three countries (Madagascar, Mozambique and Tanzania) out of the 11 for which data was available had indexes of less than 50 (Figure 1). It is also estimated that the SADC region is home to almost one-third of the global population living with HIV, including about 43% of all children under 15 years living with HIV and 52% of all women over 15 years living with

the virus (UNAIDS, 2005). UNAIDS figures further show that one-third of the global AIDS deaths in 2005 occurred in the region. The region also is facing high levels of under-nourishment and infant mortality rates (UNDP, 2005).

Although the evidence across bilateral and multilateral donors discussed in this paper is not sufficient to draw conclusions on the differences in the impact of aid, it allows for the following conclusions:

- To the extent that many of the SADC countries have completed their World Bank/IMF-supported PRSPs, it can be concluded that much of the poverty reduction effort in the region has donor backing, as the participatory process of developing a PRSP involves domestic stakeholders and external development partners, including the IMF and the World Bank.
- Although the level varies, all donors to the SADC region have made some commitment to poverty reduction and, as the OECD (1999) points out, this can help strengthen incentives to prioritise poverty reduction and assist its mainstreaming.
- Although there have been increasing flows of international assistance to the region, the low aid receipts per capita indicate that poverty reduction efforts are under-financed and are likely to hamper the attainment of donors' poverty reduction objectives (Degnbol-Martinussen and Engberg-Pedersen, 1999).
- International assistance to the region largely goes to the social sector. Hence, it can be concluded that donors to the region seem to have heeded calls to concentrate on basic social services, including the fight against HIV/AIDS, which not only directly improve the lives of the poor but also contributes to overall economic growth and development. However, one of the most common poverty reduction strategies—safety nets—does not featured in the donors' strategies for poverty reduction, perhaps, as the OECD (1999) suggests, because many agencies see safety nets as short-term measures associated, in particular, with mitigating the immediate adverse effects of structural adjustment or natural shocks.
- To the extent that the majority of donors use indirect actions as their main type of intervention, the poverty reduction strategies of international assistance to the sub-region are likely to be seen only in the medium to long term. However, as pointed out by Saasa (2002), the poor are known to be generally less supportive of projects whose direct benefits are not readily apparent in the short term. Therefore, the longer it takes to reap benefits from a project, the less likely are the poor beneficiaries inclined to exhibit signs of continued commitment towards and involvement in its implementation.
- Many of the donors to the region have multiple priority areas – which can also be a challenge for their country programme officers to give special emphasis to any one of them (OECD, 1999). This may also reduce the poverty focus and, as Sassa (2002: 130) state,s 'this primarily calls for better pro-poor targeting of interventions in a manner that reduces the over-spreading of benefits to such as degree that their effectiveness becomes diluted'.

Policy Recommendations

To enhance the likelihood of SADC countries meeting the MDGs, the goal of halving the pro-

portion of poor by 2015 in particular, there is need for donors to make concreted efforts to implement the various aid-related commitments that they have ratified in the recent past. Key among these is the 2002 Monterrey Consensus, the 2003 Rome Declaration on Harmonisation of Donor Practices for Effective Aid Delivery and the 2005 Marrakech Memorandum on Managing Aid Effectiveness. Donor countries in particular should implement, in the SADC region, the recommended strategies outlined in the 2001 DAC guidelines for poverty reduction (OECD, 2001):

- support country-owned, country-led strategies for reducing poverty, and base agency programming on needs and priorities identified in these strategies;
- reserve funding for countries dealing with external shocks or conflict situations;
- reduce the burden that development cooperation creates for local partners by coordinating donor efforts, easing administrative requirements, approaches and actions;
- work more intensively to develop human and institutional capacity in partner countries;
- foster and strengthen local capacities to monitor the implementation of poverty reduction programmes;
- encourage the development of local poverty reduction indicators and targets and strengthen local statistical, analytical, monitoring and evaluation capacity.

On the other hand, to alleviate poverty in the region, SADC governments can utilise international assistance to finance social and economic infrastructure, which are the most necessary development investments. In particular, foreign aid could be used to improve investments climates, for example by fighting corruption and improving work ethics, as well as building capacity to deliver social services in an efficient and effective manner. There will also be great value in developing human capital and providing direct support in fostering trade, servicing foreign debt, supplementing the lack of domestic resources such as foreign exchange, and making appropriate infrastructural changes to the economy.[11]

The following are also important recommendations:

- To the extent that inequalities in incomes and access to assets tend to undermine both the pace and quality of growth, and hence the effect of growth on poverty reduction, the prevailing inequalities in the SADC call for the region's governments and their development partners to strengthen efforts that support reforms to reduce inequality.
- The presence of large numbers of donors can inflate transaction costs as each donor imposes its own reporting requirements and aid conditions. There is, therefore, a need for governments in the region to produce guidelines to facilitate harmonisation and coordination of donor procedures as is currently effectively done in countries such as Tanzania and Botswana. In the latter, for example, line ministries are not permitted to negotiate individually with donors, and the country has greatly restricted the scope for donors to create autonomous project units and parallel reporting and procurement structures.
- Although progress has been made on the issue of governance and democracy, there is still a need to fight corruption and work ethics largely to improve the investment climate

in the region as well as to build capacity to deliver social services in an efficient and effective manner.

- Previous studies (see Degnbol-Martinussen and Engberg-Pedersen, 1999) have shown that investment in human capital formation such as through primary education and health have the greatest impact on poverty reduction, whereas programmes such as agriculture and rural development aimed at broad-based, pro-poor growth face greater implementation difficulties. To the extent that most of the donors adopt the latter strategies, it is imperative that they address issues of access, inclusion, distribution and inequality.
- The SADC region has recently experienced, and continues to experience, a series of adverse weather conditions which undermine food security. Many of the region's countries also have to deal with growing number of AIDS victims and orphans, as well as destitute persons. There is, therefore, a growing need for donors to consider social safety nests as additional strategies for poverty reduction in the region.
- The private sector and civil society should be strongly engaged in all poverty reduction strategies.

Appendix A: ODA bilateral and multilateral aid to SADC, 2000-2005

Donor country/agency	Net disbursement (US$ Million)	Percentage (%) of total ODA
Bilateral donors		
1. United States of America	5 728.3	16.3
2. United Kingdom	5420.1	15.4
3. France	3 982.2	11.3
4. Japan	3 199.4	9.1
5. Germany	2 980.5	8.5
6. Netherlands	1 914.3	5.4
7. Belgium	1 790.6	5.1
8. Norway	1 694.7	4.8
9. Sweden	1 426.4	4.1
10. Italy	1 401.6	4.0
11 Denmark	1 322.9	3.8
12 Portugal	1 100.0	3.1
13 Canada	796.4	2.3
14 Ireland	666.1	1.9
15 Spain	516.6	1.5
16 Switzerland	463.9	1.3
17 Finland	445.9	1.3
18 Austria	195.8	0.6
19 Australia	83.7	0.2
20 Luxembourg	54.1	0.2
21 New Zealand	16.0	0.04
22 Greece	4.6	0.01
Total Bilateral	**35 204.1**	**100%**
Multilateral donors		
1 IDA	8 160.8	45.6
2 European Commission	6 483.8	36.2
3 African Development Fund	1 686.8	9.4
4 Global Fund Against TB and Malaria	853.5	4.8
5 UNICEF	409.6	2.3
6 IFAD	199.0	1.1
7 UNFPA	79.0	0.4
8 UNAIDS	30.8	0.2
9 FTI	10.0	0.1
Total Multilateral	**17 913.3**	**100**

Source: Computed from OECD Statistics at http://stats.oecd.org/WBOS/

Appendix B: Bilateral and multilateral donors to individual SADC member states by total ODA given (US$ Million), 2000-2005 ODA bilateral and multilateral aid to SADC, 2000-2005

		Ang	Bots	DRC	Les	Mad	Mal	Mau	Moz	Nam	RSA	Swa	Tan	Zam	Zim
Bilateral	Australia	0.7	0.2	0.4	0.4	0.0	3.4	0.1	23.2	0.7	35.8	0.7	4.4	3.0	10.7
	Austria	2.8	0.0	18.8	0.1	63.9	0.1	0.0	41.7	4.7	6.8	0.0	49.6	2.5	4.8
	Belgium	15.2	1.5	1431.1	0.1	7.6	3.5	1.9	59.1	9.0	78.9	0.0	140.7	22.4	19.6
	Canada	17.6	1.0	136.6	1.5	20.4	80.3	0.6	215.8	1.5	54.8	1.1	130.3	102.9	32.0
	Denmark	0.6	5.3	0.0	3.6	0.3	60.9	0.0	384.4	7.6	126.9	1.1	526.3	191.4	14.5
	Finland	19.2	1.1	12.5	0.0	0.7	3.4	0.0	133.8	32.4	57.3	0.1	123.3	59.4	2.7
	France	105.0	4.2	1741.5	2.1	889.2	20.1	76.6	558.6	18.0	204.1	0.4	201.2	141.5	19.7
	Germany	66.0	15.6	749.0	28.5	115.5	134.4	1.5	444.4	132.5	388.2	3.4	320.9	514.3	66.3
	Greece	0.4	0.0	0.9	0.0	0.0	0.5	0.0	0.0	0.0	1.5	0.0	0.3	0.2	0.8
	Ireland	20.2	0.2	16.5	65.9	0.2	19.3	0.0	204.2	0.6	69.5	0.8	141.7	107.1	19.9
	Italy	87.2	0.0	478.5	0.5	95.0	3.1	0.0	502.7	1.3	15.6	14.4	138.9	54.1	10.3
	Japan	151.9	22.9	429.7	23.8	278.7	166.7	7.5	201.8	4.9	89.9	53.6	801.3	952.1	14.6
	Luxembourg	1.5	0.0	4.8	0.0	0.3	3.1	1.6	2.7	29.9	8.1	0.4	1.1	0.3	0.3
	Netherlands	77.5	3.2	284.0	2.8	0.8	50.7	0.1	420.5	15.8	302.1	2.9	472.1	247.3	34.5
	NZ	0.4	0.0	0.8	0.2	0.1	0.5	0.0	1.3	0.4	4.7	0.1	3.2	1.5	2.8
	Norway	125.3	12.4	74.9	1.3	58.4	262.6	0.1	297.4	20.3	106.6	0.2	444.4	247.2	43.6
	Portugal	795.8	0.0	7.8	0.0	0.1	0.0	0.0	290.9	1.4	3.6	0.0	0.0	0.0	0.4
	Spain	56.2	0.2	26.6	0.0	195.0	2.1	0.0	170.1	39.2	3.3	0.0	20.8	1.3	1.8
	Sweden	80.9	4.1	222.9	0.1	0.2	48.6	0.1	328.5	53.9	90.2	0.0	441.8	118.1	37.0
	Switzerland	0.0	0.0	53.9	2.3	42.3	1.2	0.0	162.3	0.2	48.1	0.0	144.9	4.3	4.4
	UK	72.3	9.9	474.5	52.7	111.3	829.0	188.6	715.5	14.3	471.5	4.7	1176.0	1047.3	252.5
	USA	558.9	90.6	1955.8	19.8	363.5	305.5	2.6	587.9	153.3	546.1	5.3	456.0	477.6	205.4
Total Bilateral Donors	22	21	15	21	17	20	22	12	21	21	22	15	21	21	22
Multilateral	ADF	68.5	0.0	339.9	62.1	163.4	128.3	0.0	370.3	0.0	0.0	0.0	426.7	127.6	0.0
	EC	399.3	132.2	905.4	100.1	656.7	428.4	88.6	966.6	138.0	780.8	88.8	872.0	683.2	243.7
	IDA	209.3	0.0	2236.1	81.7	1239.8	516.1	0.0	1015.0	0.0	0.0	0.0	2144.0	718.8	0.0
	IFAD	0.0	0.0	15.8	0.0	38.8	21.5	0.0	44.5	0.0	0.0	15.0	53.3	10.1	0.0
	UNICEF	43.2	8.3	112.1	8.4	31.4	28.8	2.4	50.6	8.8	11.7	6.9	57.1	25.9	14.0
	UNAIDS	2.3	2.8	1.5	0.8	1.4	2.7	0.0	3.2	1.3	6.5	1.3	3.3	2.5	1.2
	UNFPA	6.6	2.7	6.8	1.1	6.4	6.6	0.4	22.2	2.1	2.5	1.0	12.2	5.2	3.2
	FTI	0.0	0.0	0.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GFATM	63.5	18.6	66.2	12.6	49.7	60.6	0.0	51.1	30.7	69.5	48.4	203.5	162.1	17.0
Total Multilateral Donors	9	7	5	8	7	9	8	3	8	5	5	6	8	8	5
Total Donors	31	30	20	29	24	29	30	15	29	26	27	21	29	29	27

Source: Computed from OECD Statistics at http://stats.oecd.org/WBOS/

APPENDIX C: Interventions adopted by largest bilateral and multilateral donors to SADC, 2000-2005

Country	Direct Actions	Indirect	Enabling
Bilateral			
USA	Provision of production and market support services and famine and disaster early warning Helping of small-scale fruit and vegetable farmers to supply the formal markets. Supports treatment for people living with HIV/AIDS, helps prevent new infections and supports care for people infected and affected by HIV including orphans and vulnerable children	Provision of technical assistance and training to: (a) reduce policy and regulatory barriers to free trade; (b) deepen capacity to negotiate and implement trade agreements; and (c) develop intra-regional and international business linkages and industrial clusters. Provision of training and technical assistance to strengthen the capacity of relevant institutions to protect and manage river basin resources, and to increase community involvement in the decision-making processes related to the use and protection of basin resources at the local level.	Promotion of the application of democratic principles and good governance by providing technical assistance and training to: increase demand for transparency and accountability in electoral processes. Promotion of the adoption, application and incorporation of regional elections norms and standards into electoral law; Capacity building of selected regional organizations, including civil society, in the prevention and mitigation of election-related conflict and human rights violations
UK	Provision of poverty reduction budget support to a number of countries in the region. Working with the governments, civil society and the private sectors in Botswana, Lesotho, Namibia, South Africa, and Swaziland (the countries most affected by HIV and AIDS in the region) to improve their capacity to develop and implement national AIDS strategies with particular focus on prevention, care and reduction of the overall social and economic impact. Assisting educational institutions to plan for the effects of HIV/AIDS on both educators and learners.	Promoting growth, jobs and equity through: (a) working with government departments to promote policies that generate economic growth to benefit the poor; (b) working with the private sector and governments to improve the business climate including ensuring that legal and regulatory frameworks help business development; (c) encouraging the sharing of knowledge and skills; and (d) creating links between businesses. Supporting land reform processes across the region. Supporting trade between SADC countries, and helping countries to effectively participate in international trade.	Supporting the key institutions of democracy and accountability in the region Working with regional governments to increase the number of people with access to primary healthcare, education, water and sanitation Supporting programmes to strengthen policing and the justice system
France		Financing the development of primary education and health; promoting rural development. Infrastructure development in the following priority intervention areas: water, sanitation, transportation, telecommunications and energy. The promotion of sustainable natural resource management and its mainstreaming into economic development.	

continued overleaf...

Country	Direct Actions	Indirect	Enabling
Japan	Provision of cooperation in technical development . Dissemination of agricultural techniques designed for small-scale farmers. Implementation of cooperation projects with priority given to those that especially consider the poor, women and the socially vulnerable.	Improving the quality of secondary science and mathematics education with consideration given to maintaining a balance with local primary education resources; administrative capacity development and the promotion of school management. Expansion of primary education vocational training; and development of entrepreneurs. Supporting the strengthening of primary health care and increase of capacity for the prevention and early treatment of infectious diseases that afflict people in Africa. Expansion of regional water supply projects Provision of grant aid for electrification, the construction of roads, bridges and broadcasting and communication systems.	Consolidation of peace. Support for post-conflict reconstruction and improved governance
Germany	Helping partner countries develop strategies to ensure food security.	Fostering modern information technologies. Fostering agrarian reform through agricultural research, soil protection and teaching appropriate cropping methods. Creating fair trade opportunities. Providing basic and further training of health-care professionals and quality assurance in health services. Promoting access to basic education and water. Protecting the environment and conserving natural resources.	Pushing forward with debt relief Promoting human rights, equality and good governance.
Multilateral			
IDA		Investment in education and health, especially in the struggle against HIV/AIDS, malaria and TB. Expansion of borrower capacity to provide basic services and ensure accountability for public resources. Promotion of trade and regional integration.	Sound economic policies, rural development, private business and sustainable environmental practices Recovery from civil strife, armed conflict and natural disaster
EC		Economic integration and trade to allow the countries in the region to continue to move towards a larger and more unified market . Fostering of a free trade area and the future creation of a customs union. Supports improved utilisation of existing infrastructure and services and the continued development of a regional transport and communications policy and regulatory framework.	Support to programmes in areas such as peace and security Support to ongoing programmes in the fight against HIV/AIDS and drugs control in the region.
AfDF	Supports projects aimed at improving agricultural output and household food security and at enhancing rural incomes. Provision of lines of credit to the financial sector to make loans available to small and medium scale farmers and other micro-entrepreneurs engaged in agriculture and related income-generating activities. Improving access to micro-finance, especially for women, and building institutional and income generating capacities of target populations.	Lending for the social sector to improve the access and quality of education and health services. Improving the efficiency of transport infrastructure and services. Rehabilitating and maintaining road networks that link agricultural areas with industrial and urban zones or ports to facilitate the transport of goods destined for export.	

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Notes

1. http: //www.sadc.int accessed 21 January 2007
2. The Paris Declaration goes beyond previous agreements and their statements of general principles by attempting to lay down a more practical, action-oriented roadmap to improve the quality of aid and its impact on development. It expands on the five key principles of ownership, alignment, harmonisation, managing for results and mutual accountability. The Declaration highlights the importance of predictable, well-aligned, programmed, and co-ordinated aid. Its purpose is to improve aid delivery

in a way that best supports the achievement of the MDGs by 2015 (AFRODAD, 2007: pp.9).

3. OECD Glossary of statistical terms, *Official Development Assistance (ODA)* found at http: //stats.oecd.org/glossary/detail.asp?ID=6043
4. http: //www.swivel.com/data_sets/show/1005179 accessed 8 October 2007
5. Using the Web Browser for OECD.Stat found at http: //stats.oecd.org/WBOS/Default.aspx?DatasetCode=CRSNEW
6. Information in this section was largely obtained from www.adf.fr
7. http: //web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/
8. *What is IDA?* Available at www.worldbank.org
8. http: //ec.europa.eu/europeaid/
9. http: //www.afdb.org/portal/page?_pageid=473,968638&_dad=portal&_schema=PORTAL
10. http: //www.bized.co.uk/virtual/dc/index.htm, accessed 8 January 2008

Poverty Reduction and Developmental Democracy in Southern Africa: A Synthesis

Balefi Tsie

> 'Like slavery and apartheid, poverty is not natural. It is man-made and can be overcome and eradicated by the actions of human beings. And overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life.'
>
> – Former President of South Africa Nelson Mandela pledging his support for Make Poverty History in 2005 in London, UK.

The last decade or more has witnessed a proliferation of policy initiatives aimed at overcoming pervasive poverty in Sub-Saharan Africa (SSA). This is particularly true since the end of the Cold War. Hardly a year has passed since then without the announcement or launching of a new or special initiative for poverty reduction in SSA or the developing world as a whole. One such poverty reduction initiative that merits attention is the Highly Indebted Poor Countries (HIPC) Initiative launched by the International Monetary Fund and the World Bank in 1996 – hereafter referred to as International Financial Institutions (IFIs).The Enhanced Structural Adjustment Initiative was ostensibly 'designed to help the poorest and most heavily indebted countries escape from unsustainable debt'(SANGONET, 2007).

In the event, it did not. In point of fact, it failed dismally mainly because it was too demanding and stringent on indebted poor countries trying to access it. It also lacked transparency, ownership in the recipient countries and broad participation by intended beneficiaries, mainly civil society organisations. Since 1999, it has been replaced by the Enhanced HIPC Initiative under which HIPCs are required to prepare Poverty Reduction Strategy Papers (PRSPs) in order to qualify for debt relief from the IFIs. Thus, 'PRSPs are vehicles for a new anti-poverty framework designed...over a three year or longer horizon to promote broad based growth and reduce poverty' (SANGONET, 2007). PRSPs must be approved by the boards of IFIs before debt relief can be granted.

Not surprisingly, the Enhanced HIPC Initiative is particularly pronounced in SSA because the latter is home to more than half of the HIPCs. Approximately 29 African countries fall under this category In fact, there has been a process of 'Africanization of Poverty' over the past two decades, especially during 'the lost decade' of the 1980s; a decade during which almost all heavily indebted African countries were compelled to implement the now infamous deflationary Structural Adjustment Programs (SAPs) under the auspices of IFIs. Because of the dismal failure of SAPs, civil conflict, bad governance and an unfavorable external trade environment, the consensus at present is that poverty is far more pervasive in SSA than in any other continent in the world and is actually worsening. 'SSA is the only continent to have grown poorer in the past twenty five years, despite the explosion of technology and trade that has boosted incomes in other regions' (The Economist: 17th January 2004).

The worst hit region in SSA is southern Africa because it is the poorest in the continent. 'The SADC region is home to almost one third of the global population living with HIV... UNAIDS figures show that one third of the global AIDS deaths in 2005 occurred in the region' (Mokomane, 2008: in this volume). Most of its members are ranked amongst the lowest in terms of Human

Development Index (HDI). Consequently, slightly more than half of its member states, namely, Angola, DRC, Lesotho, Madagascar, Malawi, Mozambique, Tanzania and Zambia, have been required to prepare PRSPs in order to be considered for debt relief under the Enhanced HIPC Initiative.

Still in southern Africa, Botswana, Mauritius, Namibia and South Africa are in the medium HDI category and are therefore not compelled to prepare PRSPs. Nevertheless, they too have substantial sections of their populations living under chronic poverty. As such, poverty reduction is also a formidable challenge to these countries despite the fact that they are considered to be relatively rich merely by their levels of GDP per capita. Cognizant of this reality, they too – including Swaziland and Zimbabwe – have prepared and are implementing 'homegrown' National Poverty Reduction Strategies (NPRS). Thus, virtually all SADC member states are currently implementing poverty reduction programmes – be they in the form of PRSPs or 'home grown'. However, what must be born in mind right from onset is that these poverty reduction programmes have a common theoretical fountainhead in the form of the new orthodoxy. We shall explore the implications of this theoretical orientation on poverty reduction as the discussion unfolds.

At the same time as the region was implementing neo-liberal inspired poverty reduction programmes, it has also – like other parts of the 'Third World' – been going through a process of democratisation since the onset of the 'Third Wave' in the early 1990s. In one country after another – Zambia (1991), Angola (1992), Lesotho (1993), Malawi (1994), Mozambique (1994), South Africa (1994) and Tanzania (1995) – authoritarian rule was replaced by multi-party democracy. By the end of the 1990s, liberal multi-party democracy was in place in almost all parts of the region, except in Swaziland which to date remains a no-party authoritarian regime legitimated by the *tinkudla* traditional political system.

Understandably, there was so much optimism at the time that a new era would be ushered in to make a real difference in the lives of ordinary citizens of southern Africa. But alas, that was not to be. The substantive promises of 'a better life for all' remain unfulfilled in most SADC member states. Grinding poverty continues to be an intractable problem even in those countries which are in the medium HDI category. In fact, in some countries poverty has worsened and become more pervasive than in the early 1990s. For example, 'severe poverty levels in South Africa have doubled over the past ten years' mainly due to the high rate of unemployment in that country (Pretoria News, 13th November 2007).

Thus, southern Africa is facing two formidable interrelated challenges: poverty reduction and deepening democratisation. These challenges are interrelated, especially if the focus in on reducing chronic poverty which, as we shall see, is pervasive in the SADC region. A substantial reduction of chronic poverty has the potential to enhance or improve the quality of democracy in southern Africa because chronic poverty by its very nature prevents the poor from participating meaningfully in local and national popular decision-making processes on a regular basis. They spend most of their time seeking to make ends meet in the informal sector or in wage bondage, and are thus systematically excluded from participation in the lives of their communities. Because of their deprivation, voicelessness and subjection to dominant interests in society, the poor are unable to make reflective choices even at election time. Therefore, reducing chronic poverty by, for example, making clean pipe-borne water accessible to the poor, can create hitherto unavailable opportunities (at least in terms of time) for the poor to participate in the politics of their communities.

Enhanced democratisation in turn has the potential to create further possibilities for poverty

reduction and its ultimate eradication. It provides an enabling or supportive environment for the poor first to be visible, to organise themselves, articulate their interests in a more coherent fashion and forge alliances with progressive sections of the middle class in pursuit of an inclusive common political agenda. It is in this way that enhanced democratization can provide a useful platform for an assault on chronic poverty from below. The thrust of the argument here is that a strong linkage can be forged between poverty reduction and substantive or developmental democracy.

In this context, developmental democracy refers to a system of democratic governance that simultaneously encourages popular participation in collective decision-making processes, promotes the material welfare of the populace, and protects and defends the human rights of all citizens through strict adherence to the rule of law. But this is an uncommon democracy in the developing world. Indeed, it is very rare in SSA precisely because most African countries have, until recently, been ruled by predatory elites who have persistently and systematically used the state as a vehicle for self-enrichment. Put differently, a fundamental precondition for developmental democracy in southern Africa is the emergence of democratic developmental states. Developmental states are those which 'have concentrated sufficient power, autonomy and capacity in the centre to shape, pursue and encourage achievement of explicit developmental objectives' (Leftwich 1996: 401).

Therefore, the challenge facing southern Africa is two-fold: first, how to forge democratic developmental states and, second, how to embue its existing multi-party democracies with an emancipative content such that what steadily emerges in the region over time is developmental democracy – a kind of democracy that continuously emancipates citizens from unnecessary constraints imposed by poverty – as distinct from the skin-deep procedural democracy in place in most SADC member states. The thrust of the argument here is that sustained poverty reduction can only come about if there are capable states in the SADC region. Building or enhancing state capacity should therefore be one of the top priorities of SADC member states. The international donor community can contribute to the development of capable states by funding capacity-building programmes in the SADC public sector, especially in the field of programme design, implementation and evaluation. In that way, an explicit and deliberate linkage between poverty alleviation and democratisation can be forged or articulated right from the onset. Such a policy nexus can then provide a useful context for PRSPs. It is this linkage between poverty alleviation and deeper democratisation that shall underpin the rest of this paper.

The paper reviews and synthesises the previous four chapters. The primary focus of the chapters is poverty reduction rather than development per se.The first chapter, by Arne Tostensen, provides a conceptual foundation for the rest. It acknowledges that poverty is a relative and multidimensional concept. It commences by drawing our attention to the basic dimensions of poverty, namely, deprivation, powerlessness and vulnerability. It suggests, and rightly so, that there is a consensus across the analytical spectrum that these are the three dimensions around which poverty revolves. These three concepts serve as strategic and critical entry points into discussions around poverty. Recognising that poverty is a complex and multifaceted phenomena, Tostensen argues that it is useful to adopt a multi-pronged strategy to reduce and/or combat poverty and it does this by following the three-pronged strategy recommended by the World Bank *Development Report of 2001/2002 on Attacking Poverty*.

Tostensen highlights the basic principles underpinning the PRSP processes; namely that PRSPs should be country-driven and owned, comprehensive in scope, inclusive and participatory, results-orientated, decidedly pro-poor in orientation and medium- to long -erm in perspective

in recognition of the fact that sustained poverty reduction is a long-term goal. He draws our attention to the expectation that participatory processes in PRSPs should enable 'stakeholders to influence and share control over priority setting, policy making, resource allocation, implementation and monitoring'. The idea is to promote transparency and accountability in the formulation and implementation of PRSPs and to ensure that indeed the poor have voice in these programmes.

Tostensen then discusses the meaning and significance of pro-poor growth at length, emphasising in particular the importance of distributional effects of growth for it to be truly pro-poor. He argues that 'from a pro-poor growth perspective, the key question is whether poor people are able to participate in economic growth, or otherwise benefit from it...through direct participation in productive activities...or indirectly from increased spending on public education, health care, water supplies etc'. He highlights the following as key ingredients of a sound pro-poor growth strategy: discontinuation of 'urban bias', investment in human capital, public safety nets for the most vulnerable, ensuring that markets and public infrastructure are accessible to the poor, enhancing skills especially among the unemployed and facilitating the creation of new job opportunities. Few would disagree with this list. It is therefore expected that the empirical papers would assess whether or not PRSPs in the SADC region have these elements.

The chapter recognises that poverty reduction is a complex and protracted process which is bound to be resisted by dominant interests especially if it genuinely empowers the poor and powerless. It is precisely at this juncture that the paper introduces the notion of political economy as an indispensable theoretical concept in the analysis of poverty. In other words, it underscores the centrality of politics in poverty reduction. It takes us through the 'democratic transitions' of the 1990s noting that while no one would discount or belittle procedural democracy, the consensus is that the substantive promises of democratic rule remain unfulfilled in most parts of the region. Hence 'ordinary citizens were crying out for a ***substantive democracy***'.. It then explores the desirability and feasibility of developmental democracy in southern Africa tracing the genealogy of the concept to Richard Sklar (1987). It identifies the challenge as one of constructing a state that is both democratic and developmental. Finally, it sketches a list of key research questions for the empirical papers all revolving around how a ***substantive democracy*** can be achieved in southern Africa.

This remainder of this chapter is in three parts. The first part briefly outlines the poverty profile of southern Africa. It argues that poverty is embedded in existing social relations of production and consumption and, secondly, that poverty is primarily about power relations. Thus, seriously attacking poverty must entail a deconstruction and re-organisation of prevailing power relations – including the social relations of production underpinning them. In this context, tackling class and gender relations should be the top priority of poverty reduction strategies in the SADC region because these social relations are strategically located at the very heart of modern capitalist society, and are the primary drivers of poverty in all its dimensions.

The second part closely examines poverty reduction strategies that have been pursued in the region thus far, the role of donor agencies therein and the findings and recommendations of the three empirical papers. The third part is a synthesis of the three empirical papers. It examines the impact of PRSPs and non-PRSPs on poverty in the SADC region. It also briefly looks at the effectiveness or otherwise of institutions and agencies charged with implementation of poverty reduction programmes. Finally, a conclusion pulls together the main strands of thought in the body of the paper and summarises the main recommendations in order of priority.

The Political Economy of Poverty in Southern Africa: A Profile

This part of the paper commences by focusing primarily on three specific aspects of southern Africa's poverty profile. The first is its class character. The majority of the poor in southern Africa are the working class; that is, people who have no other means of survival other than their capacity to work (i.e., labour power). These people constitute the dispossessed majority in southern Africa. They are often unskilled, illiterate or poorly educated, if they ever went to school. They do not own land or have access to land. Neither do they have adequate productive assets such as draught power and farming implements with which to make a living even if they have access to land.

The second aspect of the poverty profile of southern Africa is its feminisation. Put differently, the majority of the poor in southern Africa are women. It has now been established that female-headed households suffer the most from poverty compared to their male counterparts (Osei-Hwedie in this volume). The third and final aspect of poverty in southern Africa is its spatial dimension. Poverty in southern Africa is largely a rural phenomenon. This is not to suggest that poverty does not exist in urban areas. It obviously does. It is only to recognise that 'rural areas have the highest concentrations of the poor compared to urban areas'(Osei-Hwedie). These three dimensions of the poverty profile of southern Africa will underpin our discussion of poverty from now onwards.

A useful point of departure in discussing poverty is to recognise that it is a relative concept. It makes sense only when compared with wealth. Wealth and poverty are therefore merely different sides of the same coin: integral parts of the social relations of production and consumption in modern capitalist societies. A conventional definition of poverty says it is 'the inability to attain a minimum standard of living measured in terms of basic consumption needs or income required for satisfying them' (Grispun, 2001: 25) This is the income approach to poverty wherein a certain minimum income of say, US$1 per day, is regarded as the bare minimum for one to survive. This bare minimum is frequently referred to as absolute poverty or chronic deprivation. This is the approach that we will adopt at this point in our discussion of poverty.

Poverty is rampant in the SADC region. Some of the world's poorest countries are found in this region – notably the DRC, Malawi, Mozambique, Tanzania, Zambia and Zimbabwe. As noted earlier, even those that are not so poor such as Botswana, Namibia and South Africa still have a serious poverty problem. It is estimated that roughly 70% of the region's population of 76 million people live below the international poverty line of US$2 per day while 40% live below US$1 per day (SADC, 2004). The percentage of people living under the international poverty datum line varies amongst member states. It is highest in DRC: 80% in 2002, 80% in Zimbabwe in 2007, 69% in Swaziland in 2001, 69% in Madagascar in 2005, 68% in Zambia in 2004, 62% in Angola in 2004, 57% in Lesotho in 2003, 54% in Mozambique in 2003, 52% in Malawi in 2005, 48% in Tanzania in 2000, 46% in South Africa in 2007, 30% in Botswana in 2003, 28% in Namibia in 2004 and 8% in Mauritius in 2002 (Osei-Hwedie in this volume).

The irony of poverty in southern Africa is that it exists in the midst of plenty in the sense that the region is one of the richest (if not the richest) in Africa in terms of natural resources. The key question then is: how come the majority of its inhabitants suffer from chronic poverty? There are no easy answers to this question as there are several variables – including geography – that explain the development performance of different countries in different historical periods. However, part of the answer can be sought in the particular form of capitalist development that occurred in this part of the continent and the attendant political struggles surrounding it.

It is therefore important to recall the quotation above from the former President of South Africa, Nelson Mandela, who was reminding us that poverty is primarily a political problem. It is by no means a technical problem requiring technocratic solutions. On the contrary, sustainable poverty alleviation requires lon- term political struggle by the poor themselves and their allies against prevailing power relations, for it is these that breed poverty in the first place. Ignoring the political nature of povert,y or treating it as an afterthought in devising poverty reduction strategies, is tantamount to tinkering with poverty instead of squarely tackling its root causes. Yet as we shall see, PRSPs currently in vogue in southern Africa have persistently sidestepped the political nature of poverty. They hardly ever analyse poverty from a historical perspective. As such, most PRSPs lack a historical context.

We would like to suggest, without going into too much detail, that a political economy of poverty in southern Africa provides a useful strategic entry point into a better understanding of poverty, and therefore what can be done about it in a more credible and sustainable fashion. The notion of the specificity of the southern African region might prove helpful here. The notion suggests that there are certain defining features or characteristics of southern Africa which should not be ignored or treated lightly in the campaign against poverty in the region. The reason is simply that the fight against poverty must be context-specific and sensitive to the historical roots of poverty if is to make a real difference in the lives of the poor. Foremost amongst these particularities are: (i) the mode of incorporation of the region into the world economy and its place and role therein since then; (ii) the particular historical period during which this insertion into the world economy occurred; (iii) the level of social development that the indigenous societies had attained by the time of colonization; and (iv) the form colonialism assumed in the region.

The manner in which southern Africa was incorporated into the world economy is probably the most important in terms of understanding the specificity of the region. The region was incorporated into the expanding world capitalist economy during the course of the first Industrial Revolution in the 19th century as a producer of mineral primary commodities such as diamonds, gold, platinum, coal, chrome, manganese, copper and so on. Only a few southern African countries are not significant producers of minerals of one kind or the other. These are Lesotho, Malawi, Mozambique and Swaziland. Even then, these four countries have also been profoundly affected by the 'mineral revolution' that occurred in South Africa beginning with the discovery of diamonds in Kimberly in 1867.

This 'mineral revolution' engulfed the entire region in the sense that it deeply transformed and affected the whole region – including the southern parts of Tanzania. Thousands of migrant wage labourers were recruited from the region (including from rural parts of South Africa itself) to work in the South African mining industry for specific time periods – usually nine to twelve months. The mining industry consumed the labour power of the region in vast quantities during its most productive years and discarded it as soon as it no longer needed it without any benefits such as pensions. The cost of reproducing labour was borne by the surrounding countries (and what became Bantustans), including its upbringing and care of retired and/or injured miners.

The means by which male Africans were compelled to take up wage labour were equally crude. These were mainly taxation and extensive appropriation of land belonging to African communities by white settlers. As such, settler colonialism became another distinctive historical feature of this region. Race and class interacted in such a manner as to make Africans second class citizens (if at all) in their land of birth. Land appropriation by white settlers was particularly marked in South Africa and Zimbabwe, but also in Namibia, Swaziland, Zambia and Botswana,

in descending order of importance. Without adequate land on which to raise crops and/or rear livestock, Africans were forced in large numbers to become migrant wage laborers in the mines but also in white-owned farms and as domestic servants in the service sector.

Thus, the entire region has been accurately described as 'Africa of the labour reserves' as distinct from say, 'Africa of the plantation economies', i.e., Central and East Africa. Surrounding countries such as Botswana, Lesotho, Namibia, Swaziland, southern Mozambique and Malawi became, to a significant extent, labour reserves of the South African mining industry. The region's political economy has been succinctly summed up by Dan O'Meara as follows: 'competing European colonialisms fashioned a southern African region marked by a fairly high degree of what can be called skewed integration – an essentially regional economy in which the central pole of accumulation was the mining and later agricultural, industrial and service sectors of the South African economy. All other economies in the region, except that of Angola, were locked into this regional economy as suppliers of cheap migrant labour, certain goods and services (water, energy, transport, etc) to the South African economy and as markets for its manufactured goods and capital'(O'Meara, 1991).

The poverty profile of southern Africa is best understood within this specific historical context of capitalist accumulation. Poverty reduction strategies which ignore this historical context are most unlikely to succeed. For instance, the history of land appropriation from African communities partly explains the root cause of poverty in some SADC countries. Thus, landlessness is the most pervasive cause of poverty in Lesotho, Malawi, Zimbabwe, Namibia and South Africa. It is important to bear in mind that even in those countries which did not have a large settler population such as Botswana, Swaziland and Zambia, the best agricultural land was appropriated by white settlers causing severe landlessness in some parts of those countries such as the North-East and South-East Districts of Botswana. In sum, all southern Africans still bear the scars of the history of colonial land expropriation. As a result, there are nauseating gross inequalities in land ownership, especially in Namibia, South Africa and Zimbabwe.

Therefore, land redistribution is potentially one of the most effective instruments for poverty reduction in countries such as Namibia, South Africa and Zimbabwe. But it is important to adopt a cautious approach to land reform in southern Africa because in and of itself, it may not necessarily lead to poverty reduction. There is, in other words, no direct linkage between land redistribution and poverty reduction. Indiscriminate land redistribution may actually undermine or even destroy highly productive large-scale farm enterprises and the livelihoods of former farm workers, as in Zimbabwe today. Therefore, outcomes of land redistribution would depend on the concrete circumstances of each country, especially geographic conditions of a particular country.

For instance, it is doubtful that the quality of land and the arid environment of parts of Botswana and Namibia will enable people to make a decent living out of agricultural production, especially small-scale farming. Perhaps this is the reason why land redistribution is not viewed as a key instrument for poverty reduction in Namibia (Melber, 2005). This raises the question of how best land reform can effectively contribute to poverty reduction in southern Africa. Needless to say, land reform is a festering wound in southern Africa but it is not the central concern of this paper. It suffices to note that it is a challenge and will remain so for some time to come.

Last but not least in importance, tackling gender discrimination and imbalances in the allocation of resources is another fundamental prerequisite for effective poverty reduction in southern Africa. In sum, class and gender inequalities are the primary drivers of poverty in

southern Africa and both underpin prevailing power relations in the region, though, of course, race and ethnicity also matter. Having provided a brief outline of the poverty profile of southern Africa we can now proceed to look at poverty reduction strategies in the region and how they tackle these two structural causes of poverty, if at all.

Poverty Reduction Strategies in Southern Africa: Key Findings and Recommendations of the Empirical Papers

This part of the chapter closely examines the implementation of poverty reduction programmes in southern Africa in the six country case studies. It seeks to establish and make explicit the connection between research on poverty reduction in southern Africa and state policy and practice in this particular domain. It will therefore assess the policy relevance of each of the chapters in this synthesis. The chapter by Bertha Osei-Hwedie on *Poverty Alleviation Strategies and Policies in SADC* examines poverty alleviation policies and strategies in six SADC countries. Three of the selected countries – Malawi, Mozambique and Zambia – are HIPCs and have been implementing PRSPs since the commencement of the Enhanced HIPC Initiative in 2000. These three are complemented by another three non-HIPCs which have been pursuing 'home grown' NPRSs. These are Botswana, Namibia and Swaziland. Needless to say, the sample is very representative as it combines the best performing economies in terms of economic growth and human development (Botswana and Namibia) with poorly performing countries in the Low Human Development category (Malawi and Zambia).

The chapter commences by stating the methodology underpinning it, basically desk research and field research in the form of structured interviews with government officials, civil society organizations and staff of the SADC Secretariat. It then provides a political and socio-economic context of SADC highlighting the transitions to multi-party democracy that took place in the 1990s (later in DRC). It points out that although democratisation was expected to create a conducive environment for economic growth and development in the region as a whole, poverty continues to be an intractable problem. It buttresses this argument by providing a brief profile of the poverty situation in the SADC region, giving details on the depth and extent of poverty in selected SADC countries. It also briefly touches on the Regional Indicative Strategic Development Plan of SADC (RISDP), noting that RISDP was mooted in 2001 long after national strategies had been formulated. It then systematically delves into poverty reduction strategies and policies in the six member states starting with PRSPs of the three HIPCs. It details how the PRSPs were formulated in each of the three countries and dissects the strategies underpinning the resultant PRSPs. It does the same for the remaining non-HIPCs.

The six case studies are then subjected to an intensive assessment under four separate headings: (i) participatory democratic decision-making, noting problems of participation in each country; (ii) institutional leadership and political commitment; (iii) monitoring and evaluation processes; (iv) impact on poverty and appropriateness of PRSPs. The problems surrounding each of these aspects of PRSPs are highlighted along the way. For example, it is pointed out that in all the six cases 'the voices of the marginalised' were compromised by over-reliance on civil society organizations (CSOs). Similarly, it is indicated that the basic problem in institutional leadership in all six countries was the marginalization of the poverty units established to spearhead poverty reduction strategies.

Interestingly, it is pointed out that in some cases (Botswana, Mozambique and Namibia) 'economic growth has been accompanied by poverty reduction'...giving hope that ' increased

pro-poor public spending is paying dividends' (Osei-Hwedie, 2007: 40). On the other hand, 'poverty levels in Malawi have not changed...in spite of the three years of implementation of MPRS (Osei-Hwedie, 2007: 39). The same goes for Zambia. It is difficult under the circumstances to conclude that substantial inroads have been made into poverty in the six country case studies, much less in the SADC region as a whole. In fact, the paper is emphatic that 'in spite of an average of three years of PRS implementation, in 2006 SADC still had 40% of the population of 230 million poor'. This finding casts serious doubt on the realization of the first Millenium Development Goal (MDG) in the SADC region as a whole.

It is in light of the above that the paper makes, *inter alia*, the key recommendations below.

- Pro-poor growth priorities should be clearly defined so that efforts can initially be concentrated on those sectors with the potential to make the greatest impact on poverty reduction.
- Hindrances and risks to pro-poor growth should be dentified and remedial action taken against them.
- A rights-based approach to poverty reduction should be adopted and incorporated into PRSPs.
- Voices of the marginalised should be heard through direct participation and this should be complemented with indirect participation of the poor elected representatives.
- PRSs should be explicitly aligned to and incorporate MDGs.

Osei-Hwedi has made a deliberate and focused attempt to link research findings to policy recommendations that are credible and feasible. The original objective of undertaking research that has policy relevance has thus been met.

The second chapter is by Othata Othata. It focuses on institutional capacity for implementation of poverty alleviation policies and strategies in the SADC region. It appraises the capacity of institutions charged with implementing poverty reduction policies and strategies in four SADC member states. Three of the selected countries – Botswana, Namibia and South Africa – have enjoyed relatively high rates of economic growth and political stability over the past ten years. Thus, they allow us to test the much acclaimed linkage between economic growth and poverty reduction. The fourth country case study is Malawi. It is one of the poorest countries in Africa and it has had a PRSP since 2000. It appears that the sample is good enough to test the hypothesis that institutional capacity matters in development outcomes, especially that the first three countries are considered to be democratic developmental states (Lodge 1998).

The paper proceeds to systematically examine the capacities (or lack thereof) of various agencies and institutions charged with the implementation of poverty reduction policies and strategies in the four countries. In Botswana, these are the Ministry of Agriculture (MoA), Citizen Entrepreneurial Development Agency (CEDA), Botswana Tourism Board (BTB) and the Ministry of Health (MoH). The same Ministries of Agriculture and Health are also examined in the Malawi case study – including the Ministries of Education (MoE) and Local Government, and district assemblies. In Namibia, the focus is on the National Planning Commission, the Ministry of Basic Education, Sports and Culture, the Ministry of Health and Social Services, the Ministry of Agriculture, Water and Rural Development and the Ministry of Environment and Tourism. Attention is finally focused on South Africa. There the selected institutions are provincial and municipal Governments, the Umsobomvu Youth Fund, the Department of

Environment and Tourism and the Development Bank of Southern Africa.

Towards the end of the paper four key findings are highlighted. They are as follows: first, the identified agencies and institutions collaborate with each other within the same country but they do not do so at a regional level, suggesting that there is a weakness at the level of regional cooperation; second, all these institutions face a common problem of 'lack of adequately trained and skilled personnel'; third, they all face a common problem of 'brain drain'(except their counterparts in South Africa), especially in the health sector and finally, funding is said to be another limiting factor on institutional effectiveness, particularly in remote areas.

The paper follows through with five key recommendations. They are:

- governments should find ways and means of attracting and retaining skilled personnel, in particular, looking at possibilities of using special rewards to retain scarce skills, especially in the health sector;
- mainstreaming training should be undertaken as a top priority;
- mainstreaming of poverty reduction initiatives in various ministries should also be prioritised;
- regional collaboration between institutions and agencies with similar mandates should be encouraged and the SADC Secretariat should be mandated to facilitate this; and
- all public works programmes should have a labour-intensive component to help generate income for the unskilled.

These are concrete and specific recommendations on capacity-building and how to fortify it that follow from the body of the paper.

The third chapter by Zitha Mokomane looks at international assistance and poverty alleviation in SADC. It draws our attention to the MDGs. It reminds us of the commitments made by the international community to, among others, 'reduce by half the proportion of people living in extreme poverty – subsisting on less than US$1 per day – by the year 2015, taking 1990 as the baseline' (Tostensen in this volume). As such, it appropriately sets the international context for the discussion in the other papers.

The paper analyses 'the role of donor agencies in poverty alleviation programmes in the SADC region'. The focus is on the size, composition and role of Official Development Assistance (ODA) in poverty reduction in southern Africa. It asserts that total ODA flows to SADC have increased steadily since the founding of SADC. Available data 'indicates that net flows increased from an average of US$5 201 million between 1980 and 1989 to an average of US$6 302 million and US$8 124 million in 1990-1999 and 2005 periods respectively'. It is pointed out that most of the aid flows (roughly two-thirds) came from bilateral sources. The largest recipient of aid has been the DRC. The paper then discusses donor strategies and interventions. Donor interventions are classified into three broad categories of (i) direct or focused actions such as targeted safety nets, (ii) indirect or inclusive actions meant to benefit broad populations and therefore benefiting the poor only indirectly, and (iii) enabling actions which facilitate economic growth which can also benefit the poor indirectly. The paper concludes by noting some achievements such as primary school enrolment, improved water sources and sanitation. It nevertheless says that 'there are still too many absolutely poor people in the region as reflected in indicators such as the level of inequality'. The conclusion is followed by recommendations which are all based on empirical research findings. The key recommendations are as follows:

- donor countries should make concerted efforts to the meet the Monterrey Commitments in order to enhance the prospects of SADC countries realising their MDGs, especially the first MDG;
- coordination of donor aid should be improved as a matter of urgency to reduce to the bare minimum transaction costs; and
- donors should continue to invest in human capital formation (i.e., in education, training and health) so as to make a greater impact on poverty reduction.

Again these are practical, sensible and feasible recommendations. They too are derived from research findings of the author.

Poverty Reduction in SADC: A Synthesis

The key question to ask at this stage is: what has been the effectiveness of poverty alleviation policies and strategies in the SADC region, including those that are 'home grown'? It should be borne in mind that both PRSPs and NPRSs are relatively recent in origin. In all cases, implementation of these programmes began in earnest only after 2000. It is therefore difficult to provide a comprehensive assessment of their impact on poverty reduction at this stage. It is also very difficult to establish a direct link between the PRSPSs and NPRSs and poverty reduction. Nonetheless, an attempt will be made to at least provide some tentative understanding what progress there is, if any.

As stated earlier, both PRSPs and NPRSs are underpinned by neo-liberal precepts. For instance, in both cases macroeconomic stability, fiscal prudence and maintenance of real interest rates as defined by IFIs are taken as givens and therefore beyond questioning. Similarly, the international context of poverty reduction is taken as a settled conclusion, particularly after the promulgation of the MDGs. With specific reference to HIPCs, eligibility to qualify for debt relief under the Enhanced HIPC Initiative is conditional upon demonstrated good performance in economic reform approved by the IFIs. In particular, a country must demonstrate beyond doubt 'its intention to use the freed resources for poverty reduction purposes' (Tostensen in this volume). Furthermore, the design of the PRSP must follow the guidelines provided by the World Bank in its *Sourcebook on Poverty Reduction Strategies.* Thus, in effect the *Sourcebook* provides the terms of reference for the preparation of PRSPs.

In other words, PRSPs do not represent a paradigm shift from the prevailing dominance of neo-liberal ideas. They are only a continuation of that policy framework. And let it be said: it is entirely possible that this is the fundamental problem facing PRSPs in SSA and elsewhere in the developing world; the failure to fully acknowledge the importance of strategic state intervention in the interests of promoting development and the refusal to let go of figments of the imagination about the presumed efficacy of unregulated market forces. Put another way, PRSPs are grounded in a misguided philosophy that views poverty as a result of lack of growth whilst in fact it is also possible that poverty could be the main blockage to economic growth.

With these caveats in mind, we can now proceed to look at the impact of poverty reduction programmes in southern Africa. First, it should be recognised that PRSPs and NPRSs now exist within a commonly agreed regional framework of poverty reduction in the form of the SADC Regional Indicative Strategic Development Plan (RISDP). The RISDP has a three-pronged poverty reduction strategy anchored on: (i) creating opportunities for the poor to create wealth for themselves by assisting the poor to build up productive assets; (ii) facilitating the empowere-

ment of poor people by providing a conducive environment for inclusive development; and (iii) reducing the vulnerabilities of the poor to risks such as economic crisis and drought and establishing coping mechanisms (SADC 2004: 56).

The SADC target is to 'achieve a GDP growth of at least 7% and halve the proportion of the population that lives on less than US$1 per day between 1990 and 2015' (SADC, 2004: 56). The RISDP is relatively recent in origin, hardly three years. It is therefore difficult to judge how successful it has been as a regional strategy so far. Moreover, its effectiveness (if any) will ultimately be felt at the level of each individual SADC member state and not at a 'regional level'. Furthermore, it should be noted that RISDP is meant to provide an overall strategic direction and is merely 'indicative'. It is not binding and is, therefore, purely voluntary.

But it is gratifying that almost all SADC member states have a poverty reduction programme in place. This shows that there is, at long last, political commitment to poverty reduction. It is also a welcome development that in all the six country case studies – including South Africa – there is an attempt, however feeble it might be, to involve stakeholders in the formulation of PRSPs and NPRSs. The challenge here is to ensure that there is country ownership of these poverty reduction initiatives through participatory processes that involve the poor both in the formulation and implementation of PRSPs or NPRSs. In all six countries, there were widespread consultations with civil society through seminars, workshops, working groups and politicians where appropriate.

The intention was to ensure that a democratic process was in place through which the poor could play an active role in design and implementation. Whether or not this intention was in practice realised is a matter that we take up below. For now it is noteworthy that there has been strong donor backing in all these poverty reduction efforts in the region. Donor funding has not been a problem. In fact, it is reported to have increased quite considerably (Mokomane in this volume).

However, there have been problems surrounding popular participation in the formulation and implementation of poverty reduction programmes in all six countries. The central government dominated the process in all six countries through the responsible ministry, usually the ministry of finance and development or economic planning. So the process was top-heavy. For example, in Botswana, there was no nationwide consultation and participation in the preparation, review and final draft of the NPRS (Osei-Hwedie, 2007: 27). In other cases, participation took the form of consultation or mere information dissemination. In both of these cases, final decisions were taken elsewhere without the involvement of the poor or their representatives. Even if there were such representatives from civil society, it is not always self-evident that they speak and act on behalf of the poor. The major problem that emerges from these participatory processes is that the poor generally lack visibility and voice in the formulation of poverty reduction programmes. Voices of the marginalised groups in society (such as the San in Botswana) are hardly ever heard (Southern Africa Trust 2007). More often than not, it is the elite who make final decisions on the content of poverty reduction programmes.

Notwithstanding this, it is reported that there was some degree of substantive participation by the poor – both direct and indirect – especially in Mozambique, Malawi and Zambia – in descending order (Osei-Hwedie 2007: 28). Be that as it may, the major question will always revolve around ownership of these poverty reduction programmes, especially when one takes into account that PRSPs in particular have to have the seal of approval of IFIs before a country can qualify for debt relief, and also the continued dominance of neo-liberal ideas in the MDGs. It also appears that there is a major problem of ownership because the PRSPs actually exist in parallel with National Development Plans where such plans exist.

Putting aside the problems of participation in and ownership of poverty reduction programmes in the six country case studies, the picture that is emerging from the major findings of these three papers is not very encouraging. All three papers are agreed that there are large variations in the economic growth performance of SADC member states. Notwithstanding this, the key finding in all the three papers is that annual economic growth rates have improved greatly over the past five years. However, average annual growth rate have been around 3%, far below the 7% growth rate required for SADC member states to meet their MDG targets (Mokomane in this volume).

The overall conclusion that emerges is that economic growth in the SADC region has not contributed significantly to poverty reduction. This is spite of the fact that PRSPs and NPRSs have so far been very clear on poverty reduction goals though vague on what constitutes pro-poor growth. In a way, this was the expected outcome because economic growth on its own is not enough to reduce or combat poverty. In other words, economic growth is indeed a precondition for poverty alleviation, but it is not a sufficient condition. Clearly, it does not help to rely on the trickle down effect of economic growth as prescribed by neo-liberal theory. Something much more than growth alone is required to make ensure that poverty reduction programmes do indeed achieve their intended goals. The question is: what is it?

I venture to say that it is a capable state. In fact, some analysts have long argued that there cannot be democracy – let alone poverty alleviation – without a capable state (Tsie, 1998; Mkandawire, 2005). Poverty reduction and developmental democracy in southern Africa require the construction and fortification of democratic developmental states simply because institutions matter in development outcomes. Stated differently, what is sorely missing in some of the country case studies is a developmental state. This takes us back to earlier debates on the relationship between development and democracy in the contemporary world – an issue that we are also keen to explore through the notion of developmental democracy in SADC.

It would appear that development outcomes 'crucially depend on the character and capacity of the state', which in turn is a function of its politics and developmental determination ' (Leftwich 1996: 17). This view sees the state, and politics in general, as the primary vehicle of meaningful poverty reduction. And to be fair, it is a view that is supported by the historical experience of developed countries where substantial inroads into poverty were achieved largely through active state intervention.

It is no wonder that Botswana, which is considered to be a democratic developmental state, is the only one in the six selected countries which has achieved substantial poverty reduction over the past five years, followed by Namibia – another developmental state. 'Continued economic growth [in Botswana] has contributed to a steady reduction in poverty from 59% in 1986 to 47% in 1994 to the latest figure of 30%' (Mmegi/The Reporter, 7th November 2007). Similarly, Namibia 'has reduced poverty from 38% in 1993/94 to 28% in 2003/04' (Osei-Hwedie in this volume). To be fair, Mozambique too has registered a commendable poverty reduction record mainly because of increased pro-poor public expenditure. 'Poverty declined from 69% in 1997 to 54% in 2003, far beyond the [official] objective of reducing it to 60% by 2005' (Osei-Hwedie). It is not clear, however, whether Mozambique can sustain this performance given its over-reliance on donor funding.

In the rest of the country case studies, poverty levels remained unchanged (Malawi and Zambia) or actually worsened (Swaziland). A careful analysis of the findings and recommendations of the six country case studies seems to suggest that poverty reduction is likely to be achieved where there is an effective public power (the state) capable of responding creatively to

the needs and aspirations of citizens. Indeed, a deeper reading of the recommendations of the three papers reveals that institutional capacity is the most binding constraint in efforts to reduce poverty. Thus, the majority of the recommendations focus on this aspect. It is this emphatic emphasis which makes them stand together. They are:

- mainstreaming gender into all national policies and poverty alleviation programmes;
- building the capacity of agencies and institutions responsible for implementing poverty reduction programmes, particularly those in charge of delivery of social services;
- promoting efficient pro-poor public spending in order to enhance the capabilities of the poor; and
- fighting and combating corruption and upholding human rights in order to improve the investment climate in the region.

Concluding Remarks and Policy Recommendations

The preceding pages have been an attempt to lay bare the poverty profile of southern Africa, to unpack the nature and character of poverty reduction programmes currently in place in the region, their effectiveness thus far and what can be done to achieve a better record of poverty alleviation. Throughout the paper, the thrust of the analysis has been that poverty cannot be properly tackled in isolation from the prevailing power relations in society. Even the World Bank (2000), commonly known for its conservative policy stance, has implicitly recognised the importance of power relations in society when it recommended a three-pronged poverty reduction strategy in its *World Development Report on Attacking Poverty (*2001/2002). Following that report, there can be no doubt that 'promoting opportunity' for the poor to climb out of poverty, 'facilitating empowerment' of the poor and powerless so that they have a say in PRSPs and NPRSs and providing and 'enhancing security' are key to a sound poverty reduction programme.

There is, however, a big question mark regarding the appropriateness of PRSPs and NPRSs for achieving sustainable poverty reduction in southern Africa. In both of these programmes, there is an undue over-reliance on the trickle down effect of the market mechanism as a means of tackling poverty. As such, it appears that there is little awareness that market-led solutions hardly ever cater for the poor and that, in fact, market-led solutions frequently marginalise and exclude the poor. Real markets, as distinct from imaginary 'free' markets, rarely work for the poor. Equally worrying is the fact that existing poverty alleviation programmes are vague on what constitutes pro-poor policies. No wonder then that there has not been any significant change in the overall macroeconomic policy framework in any of the country case studies, or for that matter, in the entire SADC region. It would therefore appear that PRSPs are essentially a means of securing the consent of the poor to the prevailing neo-liberal socio-economic order and, as such, PRSPs serve as a means of legitimating current policies and practices.

Ostensibly, the idea behind PRSPs is 'to give African Governments a say in the choice of policies and a move away from the one-size-fits-all approach of SAPs' (Fraser, 2005: 501). But alas, effectively governments have no say because the prescriptions have been issued in advance in spite of all the talk about 'participation', 'country-ownership' and so on. Basically, PRSPs, and to some extent, NPRSs, have appropriated the language of the poor and their allies (popular participation, responsiveness, empowerment etc) without making these potentially emancipating processes effective in any meaningful sense. Above all, PRSPs are not prepared to confront

the primary drivers of poverty and as such, they will remain palliatives. It can therefore be concluded that PRSPs are not the appropriate tools for effective and sustainable poverty reduction in southern Africa.

Taking these concluding remarks into account and bearing in mind the findings and recommendations of the three empirical papers, the following policy recommendations appear to be the most important, in the order shown below.

- Identify poverty drivers: understand why poor people are poor in the first place and what keeps them in poverty.
- Devise effective poverty interrupters such as land reform/redistribution where appropriate.
- Undertake a comprehensive gender empowerment strategy that is also infused into national policies and specifically into poverty reduction programmes.
- Embark on mapping poverty in order to better target the poor.
- Prioritise agriculture for public investment, especially in infrastructure, extension services and properly targeted credit schemes.
- Incorporate a rights-based approach in poverty reduction programmes in recognition of the fact that chronic poverty undermines fundamental freedoms of its victims, and finally.
- Seriously consider building a democratic developmental state in order to effectively pursue substantive democracy.

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THEME II: POLITICS, DEFENCE AND SECURITY COOPERATION

Project II.b: Collective security, mutual defence and enforcement

Focus on regional cooperation on security and defence matters in SADC, with specific attention on identifying and examining issues that would assist decision making and the formulation of action programmes by the Integrated Committee of Ministers, the Summit and other structures and/or organs of SADC.

Collaborative Regional Security and Mutual Defence: SADC in Comparative Perspective

Gavin Cawthra

This paper examines the nature of regional collaborative security and mutual defence, their application at (sub) regional organisational level and the implications for SADC. It starts by examining some key concepts related to security cooperation within regions and sub-regions, and then develops a set of questions related to the nature and character of regional security collaboration. In addressing these questions, it examines concrete manifestations of these principles through actual (sub) regional collaborative security organisations. Turning to SADC, it draws some implications and lessons learned from global practice.

Approaches to Regional Security Cooperation

There has been a substantial post-cold war boom in regional and sub-regional security cooperation. (The term sub-region is preferred where, for example in the case of Africa, there is in United Nations terms a region which is divided into further sub-divisions. In most cases in this article, however, the term region is taken to include the term sub-region.) What precisely drives this boom is unclear, although there were earlier periods where regionalism was politically and economically fashionable, such as the 1960s and the immediate post-Second World War period. The complex phenomena associated with globalisation – including the growing intensity of communication and economic interaction and the need to act as powerful trading blocs – must however be important drivers of regional integration.

All of these regional cooperation efforts are to some extent multifunctional: this is sometimes known as 'new regionalism', in that it goes beyond the post-Second World War focus on either free-trade regimes or security alliances to incorporate a multi-dimensional approach (economics, security, political, social and sometimes cultural) and tends to be 'open' – in other words more about insertion into the global political economy than protectionist (Hettne 2000: xix).

As multifunctional organisations, to varying degrees, all these regional cooperation structures (see list on page XXX) include security cooperation, and most of them entail mutual non-aggression and defence pacts. SADC is one of the organisations that has chosen not merely to include security cooperation, but also to embrace mutual defence against external aggression.

Regions are, of course, partly constructed, not merely geographic. It is politics that drives the fact that Tanzania, for example, forms part of the southern African region through its membership of the Southern African Development Community (SADC), even though it is also a member of the East African Community (EAC) and in African Union (AU) terms lies in East Africa, not southern Africa. It is also politics that dictates that the Democratic Republic of the Congo (DRC) is a member of SADC and not say Burundi – and it wasn't too long ago that the DRC was not generally considered part of southern Africa, because it was not a member of SADC.

Nevertheless, there are often distinct security dynamics that underpin regions, even if these dynamics often overlap with other regions. Barry Buzan referred to this a 'security complex': 'a group of states whose primary security concerns link together sufficiently closely that their national securities cannot realistically be considered apart from one another' (Buzan 1991: 190). Other authors have traced how such security complexes might, through processes of

confidence-building and security interaction, evolve into 'security communities' where peace is predictable and violent conflict (at least between states) virtually unimaginable (Deutsch, quoted in Adler and Barnett, 1998: 50[1]). As such security communities are very rare, it is useful to imagine them as evolving through different stages: 'nascent' security communities, through to 'ascendant' ones and then finally 'mature' ones – following Adler and Barnett (1988). An alternative conception is that of 'pluralistic security communities', leading eventually to 'fused security communities' (Steinhilber 2006: 32).

The terminology, concepts and approaches underscoring different forms of security cooperation are 'ideal types', and in practice different measures of each tend to be incorporated in each regional organisation. These terms are also somewhat contested and used in different ways by different authors. Nevertheless, it is useful to make some distinctions between the different types of regional security cooperation for the purposes of conceptual clarification.[2]

Collaborative security – the broad term used in the title of this article – refers to a wide range of security cooperation, including many of the types listed below. It also covers cases where there are relatively low levels of institutionalisation (see below) but where states are cooperating on a range of security issues.

A common security approach is based on the realization that unilateral measures between mutually hostile states are likely to illicit reaction by the respective other, and that some coordination and retraint is thus required, whereas a *cooperative security* approach emphasises, as its name suggests, that shared security concerns of states in a given regional formation about common challenges, often of a multi-dimensional nature, call for actual collaboration. The focus tends to be (although not necessarily exlusively so) inward-looking, that is focusing on security issues within states that are members of the organisation, and on security relations between states, rather than being directed at a security threat lying outside of the organisation. And it tends to focus on 'widened' security issues, that is issues that extend beyond military ones (although it does not exclude military dimensions).

The elaborate mechanisms for security management put in place by the world's largest regional security organisation, the Organisation for Security and Cooperation in Europe (OSCE), are a classic example of a common security regime, which is used more to mediate relations between member states, and govern their internal security processes, than to protect them from external insecurities.

Such multi-dimensional arrangements, which cover not merely relations between states, but also issues such as democratic practice, human rights and even civil-military relations are sometimes referred to as *comprehensive security* arrangements, in which a 'widened' concept of security is writ large on an inter-state level. This concept was first pioneered by Japan and still holds some currency in parts of Asia.

Quite close conceptually to comprehensive security is the notion of *human security,* which is now touted by many regional organisations (including SADC), as well as being written into the foreign and security policies of countries as diverse as Canada, South Africa, Slovenia and Thailand. The essential difference between this and other widened forms of security is that it ostensibly privileges the security of people over the security of states. Human security can be summed up as 'freedom from fear' and 'freedom from want' although the UN Development Programme – which has been at the forefront of promoting the concept – has identified seven elements in human security: economic dimensions (e.g., freedom from poverty), health dimensions (e.g., access to primary health care); ecological (e.g., protection from pollution); food security; social dimensions; political dimensions (e.g., civil and human rights) and personal issues (protection from crime for example).

This results in such a long list of issues that many analysts question whether it has utility as a security concept – and it must be questioned where the dividing line between human development, human security and human rights lies, and how regional organisations should manage this. To take SADC, for example, surely most of its developmental aims contribute indirectly to human security. In which case, almost all structures of SADC are involved in the human security project, so where does this leave the Organ on Politics, Defence and Security Cooperation (OPDSC)? Surely it would make more sense for it to focus on its core business, which might be summarised, to use the words of the UN Charter, as 'threats to and breaches of the peace'?

A key question that arises in when examining the above approaches to security – which entail an emphasis on internal (intra-state) security issues, and seek in many cases to construct common norms around political and social issues – is what implications this has for state sovereignty. It is difficult to envisage how such issues can be dealt with without paying attention to the internal affairs of states, thus bringing into question the principles of 'sovereign equality' of states. This is one of the key issues that this paper will address.

Sub-regional and regional organisations form part of the global *collective security,* system, personified by the UN. This implies that 'international order should not rest on a balance of power, but on a preponderance of power wielded by a combination of states acting as the agents of international society as whole that will deter challenges to the [collective security] system or deal with them if they occur' (Bull 1977: 239). This concept is most clearly expressed inArticle 2.4 of the UN Charter, assigning the right to use force exclusively to the UN Security Counci,l and in Chapters VI and VII of the Charter, which provide respectively for non-forcible and forcible actions. Chapter VIII of the Charter in turn extends the principle to regional organisations recognised by the UN, such as the AU. Here the principles of sovereignty are enshrined, and a principle of 'non-interference in internal affairs' of states is upheld – although this is to some extent contradicted by insistence in the Charter on universal human rights (how are rights to be enforced without dealing with the internal affairs of states?).

Perhaps the most important distinction to make is between all the above concepts and *collective self-defence* or *mutual defence,* explicitly condoned in the UN Charter's article 51, in which states make arrangements to protect each other from external aggression,. Typically such arrangements (what are usually called alliances) are concerned less with governing relations between the states concerned, and even less with internal practices than with threats from states outside the arrangement. Collective defence is usually actualised through mutual defence treaties which typically specify that any armed attack by an external actor shall be considered as an attack against all the member states of the security organisation – as formulated in the North Atlantic Treaty Organization's (NATO) article five. Such treaties usually incorporate non-aggression pacts between the member parties. A variant of this is treaties of guarantee in which one state (or sometimes more) undertake to protect another (sometimes only in specific circumstances) – such agreements have been, for example, quite common in post-colonial Africa where the former colonial power guarantees the sovereignty and territorial integrity of the former colony (Dinstein 1988: 222-36). All such treaties typically rest on a foundation of 'sovereign equality' of states.

Pure mutual defence organisations are rare these days, mainly because most states perceive threats in a multi-faceted and multi-layered way (including such issues as poverty, environmental degradation, HIV/AIDS, transnational crime and terrorism), most being internal, or at least partially internal, in nature. During the Cold War, however, many of these types of organisations sprung up but they have now withered away. The principal remaining mutual defence organ is

NATO, but even NATO has in recent years added a variety of 'wider' security issues to its core concerns, and it is noteworthy that the European Union, while collaborating on other military tasks such as peacekeeping, explicitly excludes collective defence of member states.

Within these security arrangements, there are further wide variations. First, the level of institutionalisation – the size, level of establishment and sophistication of organisational structures and bureaucracies – varies widely. Some organisations have a bare minimum of a secretariat, others (the European Union (EU) being the most obvious) have developed elaborate systems of committees and permanently-staffed structures.

Second, there is quite a wide variation in the normative basis of the organisations. Some make explicit references to democratic norms, for example, while others are largely silent. As we shall see, some organisations bring together states that are basically similar in political and social systems, while others embrace a wide variation.

Another variable is that of whether there is a dominant or hegemonic state member. In many cases this is the case, but in others the member states are more or less of the same economic, military and political strength.

It can thus be seen that there are many different approaches to regional security, although as we shall see many of them overlap and appear in the same organisations simultaneously, and it is not always clear exactly what concept of security is being pursued.

Key Questions

In looking at multi-functional regional organisations, some key questions immediately spring to mind as a result of their diverse characteristics, as identified above.

- What is the relationship between the political, economic, social and security functions of the organisation and how are these managed? Is it possible to do everything in one organisation?
- What is the relationship between mutual defence provisions (if they exist) and collaborative or common security?
- Is there a role for regional hegemons, and if so is it positive or negative for the development of the organisation?
- To what degree are the organisations institutionalised, and is this necessary for progress?
- Is it necessary for values (particularly democratic values) to be shared?
- What is the trade-off between sovereignty and supranationalism?
- Is there a role for human security: in other words who is secured, the states or the people?

In attempting to answer these questions, examples or vignettes will be drawn from the regional organisations listed below. Note that the focus is on the global south, and particularly Africa. This is by no means a comprehensive list; for example the Shanghai Cooperation Organisation is not included. The list has been drawn up with a view to making comparisons with SADC.

- AMU (Arab Maghreb Union): Algeria, Libya, Mauritania, Morocco and Tunisia.

- ASEAN (Association of South East Asian Nations): Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar and Vietnam.
- AU (African Union): All 53 African states with the exception of Morocco.
- COMESA (Commonwealth of East and Southern Africa): Burundi, Comores, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.
- EAC (East African Community): Kenya, Tanzania, Uganda, Rwanda and Burundi.
- ECCAS (Economic Community of Central African States): Angola, Burundi, Cameroon, Central African Republic, Chad, Congo (Brazzaville), Democratic Republic of the Congo, Equatorial Guinea, Gabon, and Sao Tome and Principe.
- ECOWAS (Economic Community of West African States): Benin, Burkina Faso, Cape Verde, Ivory Coast, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.
- GCC (Gulf Cooperation Council): Saudi Arabia, United Arab Emirates, Kuwait, Bahrain, Qatar and Oman.
- IGAD (Inter-governmental Authority on Development): Sudan, Somalia, Uganda, Eritrea, Ethiopia, Djibouti and Kenya. Eritrea has temporarily suspended its participation.
- MERCOSUR (Commonwealth of the South): Argentina, Brazil, Paraguay and Uruguay, with Venezuela about to join. Bolivia, Chile, Columbia, Ecuador and Peru are associate members (they are not members of the customs union).
- OAS (Organisation of American States): All 35 countries of the Americas (although Cuba's participation was suspended in 1962 it technically remains a member).
- SAARC (South Asian Association for Regional Security): Afghanistan (joined in April 2007), India, Pakistan, Bangladesh, Bhutan, Sri Lanka, Nepal and the Maldives.

Some Attempts at Answers[3]

What is the relationship between the political, economic, social and security functions of the organisation and how are these managed? Is it possible to do everything in one organisation?

It is striking that, as mentioned above, virtually all regional organisations today – even NATO – are multifunctional and combine political, economic, social and security functions. So the answer to this question is apparently yes.

However, the situation is somewhat more complicated than that. Firstly, some of the organisations were set up for security reasons but officially described themselves as development organisations; while others started out as development organisations but later grafted security onto their core business.

With regard to ASEAN for example, because of political sensitivities, the original members

concerned themselves initially more with economic than political and security cooperation, even though security was one of the main motivations for collaboration (Than and Singh 2001: 173). ASEAN is a classic case of states (or at least the ruling regimes controlling such states) drawing together because of shared threat perceptions and common convictions about how to counter the threat. All the founding states were faced with communist insurgencies and believed that their regimes were threatened. But most were also concerned about becoming 'trapped' in the cold war alliance pattern; hence the establishment in 1971 of a Zone of Peace, Freedom and Neutrality (ZOPFAN) which is today an integral part of ASEAN as is the South East Asian Nuclear Weapons Free Zone (SEANWFZ) of 1997. They also all believed that they could 'buy' their way out of domestic crises through growth and economic development. ASEAN was essentially about regime survival, at a time when Western-leaning states in the region were made profoundly insecure by domestic insurgencies, the Cultural Revolution in China, and the Vietnam war.

A similar argument could be made with regard to the Gulf Cooperation Council (GCC), with states coming together on the basis of shared threat perceptions and regime insecurities (fears of both Iran and Iraq). Again, however, the initial emphasis was formally on 'economic security', with military and other forms of security cooperation being dealt with more quietly – in part to avoid the impression of military bloc-formation. Even today, the official website of the GCC makes no mention of security, even though it actually has quite highly evolved defence and security cooperation mechanisms (www.gcc-sg.org).

SAARC was established in 1983 with the aim of enhancing security in the South Asian region (India, Pakistan, Bangladesh, Bhutan, Sri Lanka, and the Maldives are members). However, it adopted the same approach as ASEAN – and many other regional organisations – in that it concentrated on economic, social, and technical issues even if its aim was to enhance security, and tried to avoid dealing with contentious and bilateral issues, partly because of the intense rivalry between India and Pakistan. It remains primarily concerned with economic issues (www.sarc-sec.org).

On the other hand, MERCOSUR was driven mainly by trade concerns, and it has succeeded in substantially increasing inter-regional exports, but it has also increasingly taken on political and security functions. One of its first actions was to implement a nuclear-free zone (a process which started with the Treaty of Tlatelolco in 1967); it has facilitated joint military exercises and joint meetings of chiefs of staff; and in 1999 it declared itself a 'Zone of Peace' and the member states agreed to enhance cooperation. This process has been facilitated by the demilitarisation of the region, with all countries moving – albeit in different ways and at different speeds – towards reduction of military power and influence in domestic and foreign policy, and substantially cutting defence spending.

COMESA, the largest African sub-regional organisation, with 21 member states, was originally formed to promote economic cooperation through trade, and grew out of the Preferential Trade Area (PTA). But like many such organisations, it has also taken on security functions in the belief that peace and security are essential for investment, trade and development. Member states have made a series of commitments to non-aggression, respect for human rights, the rule of law and democracy, the peaceful settlement of disputes, and so on. However, its main achievements have been in reducing trade barriers.

The principal organisation for security cooperation in Central Africa, ECCAS, was also set up primarily as an economic grouping, but has recently taken on security functions, as envisaged as part of the AU's security architecture. It has established a Council for Peace and Security in

Central Africa (COPAX), a Defence and Security Commission (CDC), a Multinational Force of Central Africa (FOMAC) and and Early Warning Mechanism (MARAC) as well as committing itself to establishing a standby brigade-size force to serve the AU's standby arrangements (www.africa-union.org/root/au/recs/eccas). While impressive on paper, however, most of these structures are empty shells.

SADC is quite unique in the sense that it is the melding of two separate organisations with partially overlapping membership: the Front Line States (FLS) which dealt with political and security issues and the Southern African Development Coordination Conference (SADCC) which dealt with economic issues. In the first years of SADC there was a considerable debate about whether the political and security functions should be kept separate (either in a separate organisation or a separate structure at Summit level) or be integrated. As we know these functions have now been integrated and it appears to be working. A similar position – of one political authority – seems to have been adopted by most regional organisations.

What is the relationship between mutual defence provisions (if they exist) and collaborative or common security?

All the regional organisations in Africa (including the AU) have adopted mutual defence treaties, which inevitably also include non-agression clauses. However, in the rest of the world this is not a universal pattern. While mutual defence and common security have different emphases, they do not seem to be contradictory, although it could be argued that mutual defence can absorb scarce resources and is seldom actually successfully invoked.

The Organisation of American States (OAS) has one of the longest-established mutual assistance functions, through the 1947 Inter-American Treaty of Reciprocal Assistance, better known as the Rio Pact, in terms of which members are required to assist another member under attack until the OAS or the UN Security Council can recommend a course of collective action. But this principle was steadily eroded by United States military actions, and when Britain launched its fleet against Argentina in 1982 in order to reclaim the Falklands Islands/ *Islas Malvinas*, and Argentina tried to invoke the treaty, the United States instead supported the United Kingdom. Nevertheless, military cooperation continues in an institutionalised way, especially since the previously separate Inter-American Defence Board was made part of the OAS in 2006 (www.oas.org).

Similarly, the GCC states have entered into a mutual defence pact, established a small multinational regional defence unit, carried out joint military exercises, and worked towards setting up a common air defence mechanism (Tripp 1995: 291–5). As such, the GCC is one of the most advanced examples of military cooperation among regional organisations in the developing world. But – typically of such pacts – when it has come to the crunch, with Iraqi and Iranian threats, the member states have been largely unable or unwilling to act. Instead the GCC states have largely relied on external security guarantees, chiefly from the United States (Tripp 1995: 302–3).

The general lesson seems to be that to invest too much time and effort in developing mutual defence pacts, to the detriment of common security, and particularly with the lack of a common external enemy, would seem to be unwise. It could also be argued that such a focus would also lead to narrow, militaristic responses. On the other hand, as part of a package of measures aimed at confidence building, a mutual defence pact linked to principles of non-aggression would seem to add value to organisation building.

In SADC's case, although a mutual defence pact has been signed there is an 'opt-out' clause in that instead of the usual formulation that immediate collective military action will ensue in the case of an attack on one member, the pact states that 'Each State Party shall participate in such collective action in any manner it deems appropriate', thus leaving it open to members to respond in non-military ways – or do nothing (NATO also leaves it up to members to decide). Anne Hammerstad has argued that 'the signing of the defence pact can therefore not be seen as evidence of a significant move in a more militaristic direction in SADC's security cooperation ... the pact adds little to the provisions already made in the Protocol' (Hammerstad 2004: 230).

Is there a role for regional hegemons and if so is it positive or negative for the development of the organisation?

It is notable that the more successful regional organisations mostly seem to contain a regional hegemon (albeit usually a benign one): Brazil in MERCOSUR, Indonesia in ASEAN or Nigeria in ECOWAS. Alternatively organisations seem to be organised against an external regional hegemon: ASEAN against China (at least in the early years), the GCC against Iraq and Iran for example. There seems to be a *prima facie* case that hegemony is a positive feature, but once again the picture becomes more complicated once the details are examined.

The GCC is an example of a regional organisation dominated by one power, Saudi Arabia, the GDP of which exceeds that of the others combined. Lawson argues that this has provided stability – not so much because of Saudi dominance but because the relative balance of power between the member countries has remained consistent over time (Lawson 1999: 10).

As one of the few regional multi-functional organisations to bring together developed (United States, Canada) and developing countries (Latin America), the OAS has as its main feature the complete dominance of the United States. (But if, as has occasionally been suggested, the South American states were to form an independent organisation, this would be dominated by Brazil, just as a Central American organisation would be dominated by Mexico).

Although the OAS is constituted as a regional security organisation under chapter VIII of the UN Charter, and in its aims states its intention to work as part of the UN system, it can be argued that in practice it has allowed the United States to operate outside of the UN system in the western hemisphere, by using the OAS to legitimise its actions. This is despite the fact that the UN Charter's article 53.1 explicitly denies regional organisations to right to use force without Security Council authorisation. And when the OAS has not suited its purposes, for example in its invasion of Grenada in 1983, the United States has simply acted unilaterally, without consulting the regional organisation at all.

From the outset, ECOWAS, and what came to be its security arm, the ECOWAS Cease-Fire Monitoring Group (ECOMOG) has been driven by the dominant sub-regional power, Nigeria. In some ways, like the OAS, ECOWAS / ECOMOG has been a fig-leaf for what would otherwise be unilateral Nigerian intervention in neighbouring conflicts; but in other ways it has emerged as a genuinely regional initiative. (Mortimer 1996: 149–164; Vogt 1996: 166–169). The problem is that if Nigeria does not want to act, ECOWAS is powerless.

Within SADC South Africa is of course a (mostly benign) hegemonic power, with its GDP exceeding that of all the other member states together. However, arguably it has not sought to translate this overarching economic power into the use of military and political power (although it probably has the actual military power) – in the same way that Nigeria has done in ECOWAS

for example – rather choosing to play a relatively low-key role in SADC structures and privileging collective decision-making and solidarity. How long this position will remain is debateable, and the extent to which South Africa is key to SADC's future is contested. From the experience of other organizations, however, it seems that whether it remains engaged or not, whether it chooses to use 'soft' or 'harder' power, its action will be critical for the future of SADC.

To what degree are the organisations institutionalised, and is this necessary for progress?

The extent of institutionalisation within the regional security organisations studied varies widely, with many of them deliberately choosing to remain as intergovernmental organisations rather than supranational ones, and keeping bureaucracy to a minimum. Again the effects of this seem to be mixed. On the other hand, some regional organisations have failed to achieve virtually any level of institutionalisation, not out of choice, but because of political disagreements between members that have rendered them ineffectual and weak. There does not, however, seem to be a necessary and contingent relationship between institutionalisation and the degree of effective security cooperation: some regions seem to achieve this with minimal institution-building. Perhaps the most extreme example is Scandinavia, which despite being an exemplar of a security community, has a very weak organisational base, instead relying on regular bilateral and multilateral relations between states. By playing on a complex system of interdependent constraints (labelled 'the Nordic balance') the Scandinavian countries managed throughout the Cold War to maintain a lower level of tension than was to be expected (Wiberg 1986).

MERCOSUR is generally recognised as a successful regional organisation, but this success comes despite (or perhaps because of) its relatively low level of institutionalisation. It has not sought to develop large supranational institutions, and it has no standing security cooperation mechanism. This has created some problems. In the words of one commentator:

> The absence of any community entity without any advisory or decision-making power gives rise to conflicting responses that must always be resolved *a posteriori* through political decisions, which are not always transparent (Pereira 1999: 20).

On the other hand, this lack of institutionalisation has necessitated continuous and informal high-level contact, which has helped to build trust and has allowed for flexibility. Heads of state and senior officials remain in regular contact with each other to discuss issues as they arise.

ASEAN too has maintained an informal, non-institutionalised approach, and it has not developed comprehensive, multilateral institutions to deal with security issues. Cooperation tends to take place bilaterally, and typically involves intelligence exchanges, exchanges between military staff colleges, joint military or policing exercises, and cooperation in fighting transnational crime such as narcotics. A complex web of security interactions has thus been established, contributing significantly to building confidence, especially among the longer-standing members and without establishing a large bureaucracy (Than and Singh 2001: 178).

In the case of SAARC, however, lack of institutional development can be ascribed to political failures. SAARC has largely failed to break the mould of a zero-sum or relative-gain approach to security by South Asian states, and it has also been largely unsuccessful in promoting intra-regional trade. This is mainly because its activities have been overshadowed by the India–Pakistan conflict in which it has been unable to play any major role, given the weakness of the other member states. The asymmetric nature of SAARC, coupled to a dyadic conflict, has inhibited if not crippled its development. Whether the accession to membership of SAARC of Afghanistan

in April 2007 (www.sarc-sec.org) will help matters is moot point, but is likely to bring increased political complexities to the organisation.

The same is true of two African organisations, the AMU and IGAD. The AMU is moribund, summits have been repeatedly cancelled, and it is the weakest of all the main regional organizations in Africa. Despite a mutual defence pact, there are no functioning security structures (Cilliers 2000: 243). The AMU has only five members: when two argue (as do Algeria and Morocco over Western Sahara) the other three are apparently unable to intervene. The situation is compounded by the extra-sub-regional objectives of Libya and by the unsettled nature of the West Sahara conflict and Morocco's non-membership of the AU.

IGAD has similarly made little progress in security cooperation, given its inauspicious origins as a functional organisation cooperating around drought. Two of its member states – Ethiopia and Eritrea – fought a disastrous war from 1998 to 2000, which threatens to re-erupt. Somalia is a failed state which has broken up into two constituent parts, with Somaliland's declaration of independence in 1991, and most recently has been invaded by Ethiopia, officially acting on behalf of the completely impotent Transitional Federal Government. The Sudan suffers not only from the simmering North-South conflict, but from the immense humanitarian tragedy of Darfur. IGAD has had little if no effect on these developments and has failed to get out of the starting blocks in terms of security cooperation. To compound matters, in April 2007 the Eritrean government announced the suspension of its membership of IGAD.

It should be noted that some of IGAD's mechanisms, notably the Early Warning and Response Mechanism (CEWARN) and the Capacity-Building Programme Against Terrorism (ICPAT) remain partially functional (www.igad.org). Nevertheless, the overall picture is bleak, as summed up by the International Peace Academy: 'IGAD represents a perfect example of how an organisation can be paralysed by conflicts of interest among its own members' (International Peace Academy 2003: 6).

In contrast, in a zone of conflict historically as troublesome as that of the IGAD region or even the Middle East, ECOWAS has developed the most sophisticated security management system in Africa, and has gained considerable experience in peacekeeping and peace-making. It is also the only sub-regional organisation in Africa to have consciously developed a supranational security mechanism, the Mediation and Security Council (MSC), and its security mechanisms are overseen by a Deputy General Secretary for Political Affairs, Defence and Security, who holds important powers. ECOWAS has thus evolved a sophisticated but functional system for security management, even in the context of a conflict-ridden region. It also has a number of other specialised functional agencies as well a regional parliament and a court of justice (www.ecowas.int).

With regard to the question of institutionalisation, therefore, it seems that strong institution-building initiatives can have positive effects (as in ECOWAS) but are not on their own sufficient to override regional conflicts. Nor is institutionalisation really necessary when political cooperation is in place. With regard to SADC therefore, the oft criticised failure to develop relatively strong institutions, especially to service the SADC Organ, may be a less critical factor than political will in holding back the development of the organisation. In other words, it may be more appropriate to concentrate on the political than the institutional.

A further issue that arises with regard to institutionalisation is that of overlapping membership: in southern Africa for example, multiple membership of two or more regional organizations is common (with some SADC members also being members of the EAC, ECCAS or COMESA – see list above). This need not be a problem when levels of institutionalisation are low, but

it certainly becomes a difficulty when, for example, collective security mechanisms are put in place, trade agreements are made with third parties, and customs unions are developed. It is likely, therefore, that some rationalisation will have to take place as institutional development progresses, and countries will have to choose which organisation they want to belong to.

Is it necessary for values (particularly democratic values) to be shared?

Laurie Nathan and others have argued that SADC's weakenesses can be largely ascribed by the fact that democratic values (human rights, freedom of the media, free political competion, etc.) are not strongly shared or internalised within states (Nathan 2005). However, the evidence from the case studies is somewhat contradictory.

On the one hand, MERCOSUR emerged at a time that all the member states were undergoing processes of transition from authoritarianism to democracy, and there was a conviction – which is common in many new regional organisations – that democracy would provide a firm foundation for inter-state peace. There is strong evidence that the shared values of democracy underpin MERCOSUR's relative success as a regional security organisation.

On the other hand, we have SAARC, in which the major countries are democracies (although in the case of Pakistan barely so), but in which inter-state contestation and historical enmities seem to have sabotaged any prospects for successful security cooperation.

And then there would seem to be little that would draw the countries of ASEAN together. Even the original members (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) were extremely diverse in size, culture, ethnic composition, colonial history, religion, and political system (military rule, authoritarian rule, and democracy), and the organisation's diversity has increased as it has expanded to include countries such as Brunei (a sultanate), Cambodia, Laos, Myanmar (a dictatorship) and Vietnam (a communist political system). The organisation, however, seems to survive without sharing democratic values – although the stresses on unity become quite severe at times of crisis, such as during late 2007 in Myanmar.

A different case is the GCC, where values are shared, but they are most certainly not those of democratic norms. None of the GCC member states are democracies– all are ruled by feudalistic royal families which govern with varying degrees of authoritarianism, even though Kuwait has undergone some democratisation. However, their shared political and economic systems, as well as geo-strategic concerns and shared cultures seem to make for close cooperation.

The main point is, probably, that values are constructed. The comparison is sometimes made between SADC and the EU, that EU countries share values and democratic norms, whereas SADC countries arguably do not. But this was not always the case in Europe – there was a considerable diversity of values and political systems within Europe say a generation ago (Iberian fascism, Scandinavian non-alignment and social democracy, British pro-Americanism, French national corporatism, the Euro-communist challenge, not to mention of course East and Central European communism to mention just some of these value-strands). The point is that common values were constructed over time, through processes of interaction and political change, and it might be expected, or at least hoped, that the same will happen in SADC.

What is the trade-off between sovereignty and supranationalism?

This issue has nowhere been more stark than in Africa. Over nearly forty years, the predecessor to the African Union, the Organisation of African Unity (OAU), clung tenaciously to the principle

of 'non-interference in internal affairs', with the result, many would charge, that it became a 'club of regimes' who – legitimate or not – recognised each other's sovereignty and glossed over, or even gave support to, monstrous abuses of human rights and violations of democratic norms. Ironically, there was massive 'interference in internal affairs' by fellow African states. This was done covertly and often unilaterally, typically through support for rebel movements, and often on the grounds that 'my enemy's enemy is my friend'. Formally, there was a commitment to regime stability; in practice many African countries undermined other regimes and promoted unconstitutional changes of government.

The AU has – at least in theory – made a partial break with regard to the shibboleth of 'non-interference in internal affairs'. While the AU Charter still repeats this formulation, it also gives powers to implement peace-making and peace-building activities, peace missions and even (military) intervention, although the latter is only in 'respect of grave circumstances' which are specified as 'war crimes, genocide and crimes against humanity' (African Union 2002 art 7; African Union 2000 art 4(h)). This was extended in February 2003 to include 'a serious threat to legitimate order' (Baymu and Sturman 2003).

The AU reflects a hybrid of a common security, mutual defence and collective security approach. The AU's Peace and Security Council (PSC) is also mandated to 'follow up, within the framework of its conflict prevention responsibilities, the progress towards the promotion of democratic practices, good governance, the rule of law, protection of human rights and fundamental freedoms, respect for the sanctity of human life and international humanitarian law by Member States…' (African Union 2002 art. 7(m)). The charter also commits member states to 'condemnation and rejection of unconstitutional changes of government' (African Union art 4(p)) and the Protocol of the PSC provides for sanctions to be imposed under such circumstances.

Although essentially conceived along the lines of the United Nations Charter, with the the PSC the regional equivalent in many ways of the Security Council, the AU in fact goes further than the UN in setting out conditions under which what is now known as 'humanitarian intervention' might take place. The concept of 'sovereign equality' of states is thus compromised to a degree: no longer, at least in theory, will the AU tolerate gross violations of human rights by states or unconstitutional changes of government on the basis that these are internal affairs. Whether this will be applied in practice will, as always, depend on political decision-making processes and the realities of power relations between states. The difficulties the AU has found in responding to the crisis in Darfur, Sudan, is evidence of this, although should the AU launch a humanitarian intervention without a UN Security Council mandate it would, legally speaking, be violating the UN Charter's articles 2.4, 2.7 and 53.1.

ASEAN faces similar challenges, seen most recently over Myanmar. Stemming in large part from its diversity and the fact that it has always had non-democratic or semi-democratic member states, the 'ASEAN way' may be summarised as follows:

- strict non-intervention in internal affairs (although informal, private discussions may take place);
- informal decision-making by consensus after (mostly) closed-door discussions;
- reliance on national institutions rather than building a strong centralised bureaucracy; and
- 'compartmentalising', postponing, or simply ignoring difficult or divisive issues (Than and Singh 2001: 176–7; Bessho 1999: 48)

There can be little doubt that in the first 20 years or so of its existence these principles allowed an organisation to emerge on the basis of a rather unlikely partnership of states and to create some stability in an otherwise turbulent region. However, since the end of the Cold War, and with the complex economic and political challenges facing ASEAN states, they have been less successful, and ASEAN is under considerable regional and international pressure to revisit them.

It is evident that while the principles of 'non-interference' and 'sovereign equality' may be a stabilising factor, they also have negative consequences for the evolution of regional organisations. Sooner or later, some ceding of some elements of sovereignty to intergovernmental or supranational processes needs to take place, and this is a challenge that SADC will have to face up to. To some extent, there already has been progress with, for example, the principles governing elections which have been accepted by all SADC countries but which clearly involve some erosion of sovereignty. On the whole, however, SADC does not (at least in public) engage with the 'internal affairs' of member states, even when evident violations of SADC principles regarding human rights and democracy have taken place.

Is there a role for human security: in other words who is secured, the states or the people?

In all of the cases examined, the processes giving rise to security organisations have been state-initiated and largely state-driven: more specifically, the most potent driver of security regionalisation has been shared regime threat perceptions. In some cases, ASEAN and the GCC, for example, the clear motivation has been regime security, where insecure regimes have sought to bind together in order to protect themselves from perceived external as well as internal threats.

This need not be a problem in the long run, unless state elites or regimes become mutually self-reinforcing repressive agents. Where else, except from states and their elites, could one expect regional security arrangements to emerge? The issue is whether these initially regime-driven, elite-driven, state-driven processes can be opened up to participation by business and civil society. In turn this could mean that an initially narrow focus on regime security might be boadened into a common security approach, and eventually come to address human security. In other words, it is the process that counts.

For example, ASEAN has gradually opened itself up to civil society, and NGOs now participate in parallel processes with ASEAN summits. A similar process has happened in ECOWAS, where several NGOs are now involved in policy loops and other procedures. Even COMESA has opened up its work, including that of politics and security, to NGOs and the private sector, establishing a Private Sector/Civil Society Desk to facilitate policy interactions – although accreditation is needed (www.comesa.int).

SADC, no less than the other organisations referred to in this study, had its origins in shared regime threat perceptions (against the settler-colonial and apartheid regimes in southern Africa). It has, of course, now moved beyond that, but even the 1992 founding treaty of SADC is essentially state-based and SADC continues largely to be an inter-state organisation (witness the terms of its main functional security cooperation bodies, the Interstate Defence and Security Committee and the Interstate Politics and Diplomacy Committee). The question is, is it moving beyond this: will the increased communication and security transactions between states lead to an increase of the same amongst the peoples of the counties concerned, and will the agendas of human security be heard more strongly?

Conclusions

This paper has developed a typology of security cooperation in regional contexts, and then moved on to posing a number of questions arising, rather self-evidently, from the characteristics of organisations within this typology.

It then attempted to sketch some tentative answers to some of these questions, based less on rigorous analysis than of vignettes. It would be desirable to carry out a comprehensive survey of regional organisations and analyse in depth their attributes, but this would require a book not an article, and, as it stands, this study draws deeply on previous work carried out by the author.

Nevertheless, it is hoped that this approach has shed some light on some of the challenges facing SADC as a multi-functional regional organisation incorporating a wide range of security cooperation objectives. If nothing else, it lets us know that we are not alone, and that our concerns are shared by many similar organisations in this increasingly globalised world. We can – and sometimes do – learn from other regional structures, and there is no doubt that more could be learnt, for example by mutual exchanges of information, seconding of personnel (especially on a South-South basis), developing comparative research projects and working within the framework of wider South-South cooperation agreements.

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Notes

1. Although it is often forgotten that Deutsch argued that such a community could only evolve in the presence of a common enemy.
2. This discussion is drawn from Cawthra, 2004.
3. Some of this is drawn from Cawthra, 2004.

Operationalising the SADC Mutual Defence Pact

Sadiki Maeresera

This research paper will focus on analysis and recommendations to assist the Southern Africa Development Community (SADC) in the further development of policy frameworks for collaborative security and mutual defence. It will deal with issues arising from operationalising the SADC Mutual Defence Pact, including a description of the policy framework and its salient features; a review of the status of its implementation; a critical assessment of outstanding issues (challenges and opportunities); and recommendations regarding the management of these.

The research is mainly quantitative in nature, focussing at the conceptual and comparative analysis level with the aim of developing policy options. Literature on collective security, mutual defence and global collective security will be examined. The paper will also analyse key policy documents and statements from SADC and other (sub) regional organisations and the United Nations (UN). Interviews were carried out with key actors in SADC and other (sub) regional organisations.

The Southern Africa Development Community (SADC) has experienced a number of conflicts during the post-apartheid period. These included the civil war in Angola which ended in 2002, the conflicts in the Democratic Republic of Congo (DRC) in 1998 and after, in Lesotho in 1998, the failed secessionist bid in 1998/1999 in Namibia, the election disputes in Malawi in 1999 and Zanzibar in 2001. In 1998, 'Angola threatened to invade Zambia over the alleged support of the then Union for the Total Independence of Angola (UNITA) rebels and in 2000, Zambia accused Angola of conducting attacks on its territory' (Ngoma, 2005: 200). In the context of these conflict situations, inter-state institutional initiatives have been launched to create a viable collaborative security arrangement through the establishment of protocols and pacts. The 2003 SADC Mutual Defence Pact (MDP) is one such arrangement which this paper seeks to discuss.

Conceptualising a Defence Pact

A defence pact or treaty is a formal agreement between states to enhance the defence and security capabilities of its signatories (Omoigui, 1999; 1). In a general sense, it can range from a non-aggression pact to a broader joint 'friendship and cooperation' security treaty, to a very specific military commitment for mutual defence against aggression or to protect sovereignty and/or territorial integrity and or strategic defence interests. In general, most defence pacts are time limited and subject to renewal (Omoigui, 1999: 1). A defence pact's wording may be highly specific or vague, and whether or not adversaries of the states in question are identified as internal (with or without external backing) or primarily external, varies from pact to pact.

It is important to clarify some terms that are used by scholars interchangeably when discussing this subject. Firstly, 'collective security' and 'collective defence' are not identical concepts: the former is used in the context of international security relations (for example 'global' or 'regional' collective security) whilst the latter has as its primary focus collaboration to protect specific allies against aggression. The term 'cooperative security' has supplanted the terms 'military defence', 'common security' and 'collective security' (Benjamin, 1990: 65). It would appear most scholars believe that cooperative security combines collective and common security in an increasingly interdependent world.

Collective defence has often been conceptualised in the context of mutual defence pacts or

other kinds of similar alliances. Confusingly however, collective security and collective defence have increasingly been advocated as a regional concept, as opposed to joint security or defence which does not necessarily require geographic contiguity (Omoigui 1999: 2). Thus, what needs to be kept in mind when discussing or analysing defence pacts such as the SADC MDP is the linkage between cooperative, intra-regional and regional security. Defence pacts do not exist in a vacuum and no matter what they start off as, defence pacts ultimately find relevance and they take on the colour of the threat environment in which they exist. If high intensity conflict is not on the cards, then low and medium intensity operations and even military operations other than war tend to become the focus of a defence relationship. The North Atlantic Treaty Organisation (NATO) in the post cold war era exemplifies this paradigm shift.

The range of collaboration that modern defence pacts entail can be fully appreciated if one understands that the total defence capability of a state or nation is a function of many factors, such as the political and strategic leadership, its armed forces, its industrial and scientific capacity, its population and its international relationships. It is this researcher's view that the SADC mutual defence capability remains a function of political and strategic leadership (political respect, integrity and effectiveness of the SADC Chair's office), the capacity of the sub-regional standby brigade, SADC's industrial and scientific capacity and the sub-region's international relationships. It is important to note that overt and covert relationships may be nurtured within and between each of these elements among signatories to a defence pact. The full extent of such relationships cannot always be appreciated unless coexisting economic, scientific and cultural treaties are brought into focus.

The conceptual classification of defence pacts can best be configured through a series of questions such as: with whom is a defence pact signed and why is there a commitment? Is it mutual? Under what situation does the commitment become operational? What is the nature (quantitatively and qualitatively) of commitments so far undertaken? How integral are the military forces of members of the alliances? What is the geographic space of the treaty? Such issues can best be placed in the context of the SADC MDP which is the focus of this investigation.

Critical Overview of the SADC Mutual Defence Pact

The SADC heads of state and government ratified the SADC MDP at the 2003 SADC Summit in Tanzania. The initial draft of the pact was adopted in 2001. One is tempted to ask whether or not the MDP signifies a convergence of sub-regional political will. The South African Defence Minister state, that the pact was aimed at '...stabilising the region ... cultivating an atmosphere conducive to investment and long term stability ... providing a mechanism to prevent conflict between SADC countries, as well as with other countries, and for SADC countries to act together against aggression by outsiders ... allowing for SADC intervention in intra-state conflicts which had the potential to affect the stability of the whole region' (Ngoma, 2005: 200; also see Neethling, 1999: 6). In fact, the MDP, which is closely associated with a non-aggression treaty and regarded as a collective defence strategy, is viewed as having the ability to stop members from promoting hostile activities from each other's territory and coming to each other's support in such an eventuality (Van Aardt, 1998: 20). It is equally important at this point to critically analyse those articles of the MDP, and where possible identify some strengths and challenges therein.

Article 1 of the MDP provides some important definitions that reveal the nature of the pact. Among these is that the pact continues to regard states as sovereign despite the proclamation

of a joint approach to matters of security (MDP, 2003: 1). Article 1(2) defines an 'armed attack' as the application of military force in violation of an independent state's sovereignty. Whilst Ngoma (2005)'s interpretation of the article seems to argue that the pact advocates the protection of the state to the possible exclusion of people who are ultimately the very motivation for a more secure environment, it is our view that the safety of the people is best guaranteed first and foremost by the security of a nation state. This also seems to be the case with the SADC sub-regional environment. The definition of the term 'destabilise' seems to acknowledge the inseparable importance of both the state and the people as stated in article 1(2) (a and b) and the critical importance of the adherence to democratic ideals in political transitions alluded to in article 1(2)(c).

Ngoma (2005: 201) points out that the inadequacy of the state is recognised in article 1 (2) in the definition of 'collective security' which stipulates the means for all states in the sub-region to forge a situation for sustainable peace, stability and security. The desire to act collectively seems to be an admission that the 'sovereign' state is in the medium and long run unattainable and only continues to 'find its way into the text as an indication that for the present, the state continues to be a practical means of articulating governance issues' (Ngoma, 2005: 201).

Article 3(1) of the pact provides for the United Nations (UN) Charter to mitigate international conflicts in order to enhance overall stability. Article 3(2) calls for states in the sub-region to avoid the threat or use of violence as a means of resolving conflicts (SADC MDP, 2003: 3). This is consolidated further by article 5(1 and 2) which calls for consultation through the sub-regional structure of the Organ on Politics Defence and Security Cooperation (OPDSC) when a state is 'under threat from another state party', and a further 'joint verification mission' should initial consultation fail to achieve a peaceful resolution to the problem (SADC MDP, 2003: 3, also see Ngoma, 2005: 202). Thus, a peaceful rather than a confrontational approach is emphasised for resolving conflicts between states in the sub-region. A question that scholars can equally pose in relation to the above statement is what would the sub-region do if an act of aggression is committed by a state outside the sub-region against a member state? In the case that the imaginary aggressor had particularly intimate diplomatic relations with specific member states, would this affect the sub-region's effective unity of purpose?

The SADC member states are interlinked in matters of defence and security by articles 4, 5, and 9 of the MDP which deals with military preparedness, collective self-defence and collective action, and defence cooperation respectively. Despite the fact that Article 4 provides room for collective action, it however emphasises collective effort towards the development of the capacity to meet the demands for a sustainable capability that is focussed on the achievement of sub-regional peace, security and stability. Article 6 provides for the relationships within the sub-region and their synergy with external organisational structures. Of particular significance is Article 6(1) '...the response to an armed attack on a state within the sub-region as an attack against all and responding with collective action'. To some extent, this signifies the closer and concrete relationships among member states in terms of their shared values (Ngoma, 2005: 203). Taking into consideration that a possible attack against a member state could occur indirectly through a proxy – such as was the case in the DRC when neighbouring countries supported rebel movements – the attacks that a member state could encounter may be intra-state as a result of either purely internal causes or foreign-instigated internal attacks.

According to Article 8 of the pact 'members undertake not to nurture, harbour or support any person, group of persons or institutions' with the aims of destabilising a fellow member of the sub-region (SADC MDP, 2003: 3-4). Whilst some scholars argue that such an article tends to

mean 'nothing short of a strategy for states to protect one another and more specifically for state elites to protect one another in power' (Ngoma, 2005: 204), it is our view that the stipulation by this article is in line with collectively dealing with threats at sub-regional level, especially dissidency/rebellion, that is foreign-instigated or neighbour-instigated insurgency. Any initiatives to unconstitutionally remove legitimate governments from power are what this article caters for, and not necessarily the protection of ruling elites.

Article 9 defines cooperation in defence and security areas at the levels of training, and exchange of intelligence as well as other areas that enhance interoperability such as 'joint research, development and production under license' in the process creating a close working environment and trust among the members of the military from different defence forces (SADC MDP, 2003: 4).

It should be noted that sub-regional exercises such as Blue Hungwe in Zimbabwe, Blue Crane in South Africa, Blue Angel in Zambia, Tanzanite in Tanzania and Thokgamo in Botswana, undertaken under the auspices of the Inter-State Defence and Security Committee (ISDSC) were not only meant to enhance the capacity of participating military formations but also for the provision of opportunities to relate to one another (Ngoma, 2005: 203). The exchange of information and intelligence is meant to solidify this relationship as officials from participating countries share knowledge on various issues, especially on the ways and means of dealing with a given threat. This is meant to create trust and builds confidence among member states.

It should also be noted that significant steps have been made in the establishment of an intelligence sub-structure within the ISDSC called the Defence Intelligence Sub-Committee (DISC) which provides for the sharing of information and exchange of data. Each SADC member state has, as per ISDSC agreement, established offices with qualified personnel who deal specifically with ISDSC issues. The DISC's primary task has been to update respective SADC defence forces' chiefs information on conflict areas in the region before the defence chiefs' meetings. Intelligence chiefs meet as and when necessary in order to keep the commanders abreast of events in the sub-region.

The SADC standby force that was officially launched at the summit in Lusaka, Zambia, has an intelligence company (force component) that is meant to advise and give strategic and operational threat assessments to the force commander, with routine and regular updates provided by respective member countries. However, whilst there has been significant progress in this regard, it should be realised that the basic challenge remains that of sharing intelligence: there is a traditional reluctance by intelligence agencies to share information at multilateral level, which would to some extent negatively affect SADC's putative Early Warning Systems (EWS). Intelligence sharing works better on bilateral bases.

Article 13 of the Pact addresses the settlement of disputes and shows a determination by the states in the sub-region to create a suitably habitable environment.

It is important to briefly look at the issue regarding the operationalisation of the MDP, as well as whether member states can intervene in the ongoing conflict in the eastern DRC via the MDP, and the UN-AU-SADC relationship in the intervention.

According to Van Nieuwkerk (2003: 1), the MDP, in essence, allows for collective self-defence and collective action, stating that 'an armed attack against a state party shall be considered a threat to regional peace and security and such an attack shall be met with immediate action'. However, the text of the pact also states that parties have the option of choosing how to respond to a call for immediate action, presumably including the classic 'do nothing' policy option. This then could result in a scenario where a section of member states would prefer military

solutions, whilst others would opt for more peaceful approaches – diplomatic initiatives and other non-military means. Others would not opt for any particular position, but they will remain outside the problem whilst they publicly appear determined to solve them (Ngoma, 2004: 1). Van Nieuwkerk (2003: 1) also points out that, in the face of such global turbulence, the actions of a regional grouping in concluding a collective self-defence pact in order to prepare for an armed attack from outside its borders appears to be an anachronism. Using continuing instability in the Great Lakes region and more specifically in the eastern DRC as a case in point, there is a real danger that SADC countries will experience further armed attacks from outside their borders without dealing with such attacks as a cohesive unified sub-regional force. Whilst UN peacekeeping troops are currently deployed in the eastern Congo under the United Nations Observer Mission in the Democratic Republic of The Congo (MONUC), SADC ought to have taken the initiative or lobbied through the AU to deploy the recently formed standby brigade in that part of the country to stabilise the security situation.

One of the realities to be taken note of is that SADC has to exhaust several instruments and strategies (primarily via its Organ, the UN and AU security system) before activating the provisions of the mutual defence pact. Without minimising the existence of 'traditional security' threats, it needs to be said that there are issues on the human security agenda – human rights, democratic governance, poverty eradication, and economic recovery from violent conflict – that ought to be continuously the region's primary focus (Van Nieuwkerk, 2003: 2).

Challenges of the SADC Mutual Defence Pact

Whilst all the states in the sub-region have shown a desire for multilateral defence cooperation, a critical analysis of the several draft versions of the pact indicates some degree of hesitancy by some member states, especially with regard to Article 6. As noted earlier, Article 6(1) of the pact suggests a swift response to an armed attack on a member state. However, article 6(2) (obviously intended to ensure total agreement by all member states in the spirit of cooperation) can only lead to a delay in the execution of an emergency situation. Taking intervention in the DRC as a case study, it can be argued that such a delay can become a source of indifference among the member countries. There was no common consensus among member states. In fact, the absence of an agreed set of norms, strategies and procedures for addressing high intensity conflict contributed to collective inertia, divergent approaches to peace enforcement and peacemaking among member states (Nathan, 2004: 5). Considering the recent inauguration of the standby force, one can ask whether or not SADC will reach a solution-driven consensus for a sub-regional military response if the 1998 DRC conflict scenario was to repeat itself. The stipulation in article 6 (3) that a '....State Party shall participate in such collective action in any manner it deems appropriate' lowers the effectiveness or credibility of sub-regional collaborative security arrangements (see Cawthra and Van Nieuwkerk, 2004: 8). This is so because, as member states are given to determine the way they would react to a crisis, this would then leave room for minimum state contribution as a response to resolving an urgent sub-regional crisis. However, the fact that Article 6(4) stipulates that the African Union (AU) and the UN Security Council need to be notified soon after such an attack, and a response by member states, instead of an earlier requirement that no such intervention should take place without the UN's approval, seems to be a significant positive step towards sub-regional collaborative defence.

According to scholars such as Nathan (2004: 6) and Van Nieuwkerk (2001: 1), the prime challenges to regional security cooperation include: the absence of common values among

member states which inhibits the development of trust; institutional cohesion; common policies and unified responses to crises; and the reluctance of states to surrender sovereignty to a security regime that encompasses binding rules and decision making. Some challenges are national that cannot be entirely solved at regional level. Considering that history has shown that member states have often encountered serious differences of opinion on policy matters, and in crisis situations led to independent or divergent courses of action, one may ask whether SADC member states will now be able to engage in close political and security cooperation following the signing of the MDP.

It should be noted that when the conflict broke out in the DRC in 1998, SADC member states were at odds over modalities of resolving the armed rebellion. One camp, comprising Angola, Zimbabwe and Namibia had promoted armed intervention by sending troops to the DRC in response to the request by the Kinshasa government. Other countries like South Africa did not send troops and instead opted for a negotiated settlement. Despite being a SADC member state and sharing the longest border with the DRC, Tanzania preferred to remain neutral, whilst Zambia opted to take on a mediatory role despite being another country sharing a fairly long border with the DRC (Ngoma, 2004: 1).

One of the important points to take note of in relation to the MDP is the fact that it will not, relatively, be easy for SADC member states to surrender a measure of their sovereignty to a security regime that encompasses binding rules and the possibility of interference in domestic affairs. It will also take a considerable amount of effort and significant time for member states to be able to come up with common values, mutual trust and a shared vision. This is in part because inter-state relations by SADC member states with those countries outside the region – especially outside the continent – will place a challenge on foreign policy decision makers. It remains to be seen whether or not SADC member states be will able to stand the 'behind-the-scenes' external political influence that comes through economic aid packages, thereby affecting the region's cohesion in matters of defence and security cooperation.

On the issue of sovereignty, it should be realised that member states do not surrender their sovereign decision-making lightly. They obviously guard their sovereignty jealously because many of them attained it at great cost through liberation wars. Any given member state's national authority is also challenged by the economic and financial dimensions of globalisation and other prescriptive economic policies of international financial organisations and foreign donors (Nathan, 2004: 19). Despite having signed the MDP, it cannot be ruled out that member states could understandably be practically resistant to such a regional security mechanism with binding rules and decision-making that limit their discretion and heighten the possibility of interference in their domestic affairs.

It is important to note that the MDP is a legal instrument whose implementation has to be ratified. Of the 14 SADC member countries, nine are still required to ratify. By late 2006 only five had done so. However, the slow pace of ratification does not necessarily reflect on the effectiveness of the sub-regional body's capacity to deal with a given conflict situation. When member sates are under pressure, they act swiftly and effectively as was the case in the DRC elections when contingent measures were put in place to deal with any unforeseen circumstances.

Considering the factors of great-power covert interest or behind-the-scenes involvement in a given sub-regional conflict situation, and the overt great power influence in the UN Security Council, will some of these great powers not resort to deliberate delaying initiatives such as recommending diplomatic options to a given conflict situation that needs a swift and bold military response as the first phase of conflict resolution? It would be interesting to pose another

question as to whether SADC will become 'armour plated' to negative external (great power) interference?

The Suggested Way Forward

Following the above brief analysis of the SADC MDP, this paper makes the following suggestions as a way forward in the effective operationalisation of the MDP.

- There should be a continuous reviewing and analysis of the MDP by the relevant sub-regional practitioners and academics, in consultation with the SADC Secretariat, as regards the key challenges that face the region at a given time.
- Continuously coordinated sub-regional research should be carried out through specifically tasked think-tanks which should come up with ways on how the organisation would in the future withstand the differences among member states and thereby enhance political commonality and mutual trust. The SADC OPDSC would identify these think tanks.
- The SADC Secretariat, through differently designated sub-regional research institutions and think tanks, should come up with and recommend incremental policies and mechanisms among member states so that they are united around common values. These common values need to be in line with national policies of member states that will converge over time.
- Considering that member states do not have the capacity to implement ambitious and wide-ranging proposals and that the capacity of member states is uneven, the institutional capacity of SADC member countries will need to be continuously reviewed by the Summit in the implementation of a regional defence policy through the tasking of different sub-committees.
- Through the relevant sub-regional mechanisms such as the Defence Intelligence Sub-Committee (DISC), SADC should continuously assess and review the sub-region's perception of threat scenarios and the security problems that are regarded as particularly pressing in SADC. There must be a clearer definition of what is to be considered a threat and who is to be the mutual enemy, as this will reduce ambiguity and enable the attainment of common goals among member states.
- In complementarity to the SADC standby brigade, there should be the exchange or provision of lethal or non-lethal combat support equipment and training, and this can come in the form of grants, or subsidised or unsubsidised military sales. There should be the exchange or provision of 'teeth-arm' or 'service-arm' technical assistance personnel on the ground in training institutions, headquarters and tactical field commands. Joint military exercises of various size and complexity should continue.
- A separate set of agreements may be drafted to deal primarily with defence industrial capacity, including armament technology training. These could be cemented through a process of sustainable defence and diplomatic dialogue through sub-regional strategic synchronization, in addition to multilateral international security endeavours.
- The SADC Secretariat should take an initiative to institute a 'sub-regional lessons learnt

unit' comprising selected academics, researchers and practitioners in the field of defence and security. This unit would act as a focal or central point in drawing lessons from the sub-region, the region, and the international environment as to how SADC can best respond to given conflict scenarios at all levels.

- The OPDSC should effectively work towards the ratification of the pact by all SADC member states in an effort to promote commitment to tackling the sub-regional challenges.

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Notes

1. Interview by author with Maj Gen T Mugoba, former Director General and ISDSC Secretariat, Policy and International Affairs, Ministry of Defence, Harare, April 2007.
2. Interview by author with Brig Gen S B Moyo, Deputy Inspector Gen and Former UNOSOM 1 and 11 Chief of Staff, Ministry of Defence, Harare, April 2007.
3. E-mail correspondence by author with Professor Wamba dia Wamba, Former President RCD Goma, Politician and Academic, South Africa, May 2007.
4. Interview by author with Dr J Kurebwa, Senior Lecturer, University of Zimbabwe's Department of Politics and Administration, Harare, June 2007.
5. Interview by author with Dr F Murove, Lecturer, School of Ethics and Philosophy, University of KwaZulu Natal, Pietemaritzburg, June 2007.
6. Interview by author with Professor N Uzodike, Deputy Head, School of Politics, University of KwaZulu Natal, Pietemaritzburg, July 2007.

Operationalising the Strategic Indicative Plan for the Organ on Politics, Defence and Security Cooperation

Paulino Macaringue and Shirley Magano

'Good thoughts are no better than good dreams, unless they are executed'

Ralph Waldo Emerson

This paper starts from the following observation: The Southern African Development Community (SADC) security cooperation project, as it is known today, can be equated to building a boat while sailing. Circumstances have forced the region to start cooperating in politics, defence and security without having in place an elaborated and adequately structured framework. Indeed, from the Frontline States (FLS), the Defence Staff Committee (DSC) and later the Interstate Defence and Security Committee (ISDSC), to the Organ on Politics Defence and Security Cooperation (ODSC), there has been more focus on pursuing ideals and visionary missions than having an elaborated organisational framework. The minimal organisation that has been put in place has always been a reactive mechanism rather than a comprehensively proactive instrument. The above applies to the OPDSC and its Protocol, Mutual Defence Pact and Strategic Indicative Plan for the Organ (SIPO).[1]All these tools were developed more to respond to specific challenges from the changing political and security environment rather than as tools necessary for early detection and prevention of crisis situations and conflicts. That also means that cooperation in the areas of politics, defence and security was already underway when the respective policies and regulating instruments were being developed.

Although much has been said about the functioning of the OPDSC,[2] there are a number of key issues that remain superficially discussed that are fundamental to understand the peculiarity of the SADC security architecture. The most relevant are those underlying factors and conceptual debates that influenced the environment under which regional security cooperation was framed, initiated and developed. For illustration, the nature and character of colonialism (a combination of classic and settler)[3] that was practiced in the region and its impact in the decolonisation processes; the interdependence of the economies of the countries of southern Africa; the impact of the realist paradigm in a way security was perceived in the region and the prevalence of a state-centric understanding of security (du Pisani, 2007: 15-16) in the context of the Cold War and apartheid are, amongst others, of importance.

This chapter aims to understand the complexity of the OPDSC functioning through SIPO. Tho things are claimed:

- the competing debates about the nature and criticism about the format of SIPO, are a reflection of the complexity of addressing the interrelationship between security and development in the SADC regional integration project; and
- the challenges of implementing SIPO are closely associated with the, arguably unavoidability, of mainstreaming security sector reform (SSR)[4] imperatives to support the political transitions, as well as the democratisation processes in the region.

The chapter illustrates that, within the transformed regional environment, the FLS activities now dealt with by the OPDSC have to be made an inseparable part of the SADC integration project. Therefore, the operationalisation of SIPO needs to be supported by a broader exercise of identifying ways and means by which the security sector, and indeed security systems.[5] in the region are to be transformed broadly to meet the needs of the societies and their developmental agenda. It suggests that, under the current SADC security framework it is not realistic to expect the operationalisation of the SIPO to be driven successfully by the SADC Executive Secretariat unless fundamental changes are introduced in its organisation, mandate and institutional capacity.

Furthermore it supports the view that given the fact that 'in some countries of the region, the determination of defence and security policy lies exclusively with senior officers and the cabinet or president, and in others, foreign actors that pay the bills also call the shots, and in few others, the formulation of those policies is inclusive and participatory' (Nathan 2007), only a strategic plan that takes that complexity into consideration can be successfully implemented. Acknowledging the heterogeneity of SADC countries, the paper links the operationalisation of SIPO with a need for a profound SSR process in the region. Only a well co-ordinated broad SSR programme can help the region to rethink security, identify a common vision, set agreed goals and values, and develop harmonised strategies to place the politics, defence and security agenda in the service of development towards integration.

This paper is structured as follows: the first part places SIPO in the evolving SADC security architecture within the context of the goals set up by the SADC Treaty, Protocol on the OPDSC, and the Mutual Defence Pact, by way of background. It then moves on to focus on the security challenges to the integration project by charting the difficulties in the implementation of the SIPO; finally it interprets the facts in a conclusion and proposes a way forward in the form of recommendations.

SIPO in the Evolving SADC Security Architecture

Given the prevailing security environment in the SADC region, matters of security were dealt with separately from those of development – hence FLS which was established first, in the mid 1970s, existed as an entity separate from SADCC, which came into existence in 1980. The FLS and SADCC had different memberships: all FLS members were in SADCC, but not all SADCC members were part of the FLS.[6]

The functioning of the FLS, explained for example in Omari and Macaringue (2007), can assist in understanding the logic of the debates that are taking place in today's SADC over the issue of how to incorporate security cooperation into the development agenda since the formalisation of SADCC in 1980.

It is perhaps helpful to recall that the FLS grouping was formed to coordinate the activities aiming at eradicating colonialism and minority regimes in the subcontinent. The FLS, therefore, had a sort of 'non-written' strategic plan that was accomplished in 1994 with the inauguration of a democratically elected government in South Africa.[7] Since the FLS activities were handed over to the SADC Organ in 1996, it can be argued that the SIPO is or should be regarded as an attempt to have a formal and written strategic plan for that transformed scenario. If that hypothesis is to be accepted, then it will be important to draw a parallel between the manner in which the previous FLS plan was conceived and executed, and that in which the SIPO was developed and its expected outcome of ensuring that the OPDSC contributes towards the SADC integration project implemented.

From the onset there is a fundamental difference between the FLS and the OPDSC. As already alluded to, given the then prevailing environment of hostilities and conflict associated with suspicions and mistrust amongst the various states in the region, the FLS continued to operate outside SADCC even after its creation in 1980. In other words, the objectives in the economic domain expressed by SADCC were being pursued separately from the FLS. It was only from 1992, when the transformation in South Africa was foreseeable and SADCC was transformed into SADC, that the FLS activities began to feature more firmly in the overall debates of the region's transformation.

From 1994, with the demise of apartheid in South Africa, the FLS efforts could no longer be pursued outside the SADC structures. With South Africa becoming a member of the FLS in 1994, the need to rethink and transform the entire SADC was already evident. The very transformation of SADCC into SADC in 1992, with the shift of priorities from reducing South Africa's economic dominance to building a regional community for integration, was already an indication of a profound transformation. While that change was made relatively smoothly, the transition from the FLS into the Organ proved to be more complex, particularly the issue of having the Organ operating within the Executive Secretariat.

The transformed SADC moved relatively quickly to restructure the former 21 SADCC sectors into four integrated socio-economic clusters at the headquarters. However, it is self-evident that SADC is struggling to harmoniously merge the above clusters with the activities on the politics, defence and security arena articulated by the Organ. For instance, while it was not very complicated to have the FLS abolished in 1994 with the assumption that it had accomplished its mission, it took two years to agree on a substitute instrument to it. Indeed from 1994 to 1996 the ISDSC remained the only existing institution that carried out the FLS responsibilities. The complication is associated with the fact that the FLS not only continued existing beyond the creation of SADC in 1992, but even after 1996 when the Organ was established, it was still not clear how the latter would relate to broader SADC structures.

With the benefit of this background one can safely argue that the FLS did have a strategic plan with an ultimate goal of eradicating colonialism and racist regimes in the region. That goal was fully achieved in 1994 with the inauguration of the democratically elected government in South Africa. From that period, it became more difficult to see what direction and vision SADC wanted to follow in the politics, defence and security arenas.

The current SIPO should therefore be regarded as a renewed plan, within a transformed security environment, that attempts to incorporate the challenges that SADC faces in the political, defence, public safety and state security arenas, within the overall SADC agenda. This is now expressed by the Regional Indicative Strategic Development Plan (RISDP). Through the RISDP and SIPO, SADC is attempting to have both development and security processes under one roof. Furthermore, this should be viewed as an attempt to have a more integrated approach that takes into consideration the imperative for SADC to spearhead the promotion of peace, security and stability as a necessary prerequisite for its social and economic development.

Whereas the FLS had a strong vision, mission, values and goals – although there were no timeframes for obvious reasons[8] and they were not written down – the OPDSC, as an important component of SADC integration project, is required to have a more comprehensive, elaborated and transparent strategic plan. In this regard, SIPO appears to have been developed to meet those requirements.

One should not ignore the fact that, conceptually, the states of SADC region have been highly bound by 'state security' imperatives; they were navigating through the debates of creating

collective security, as a way of achieving common security while discussing 'whose security, by whom and at what cost?' (du Pisani (2007: 15-16). From the above perspective, SIPO needs to be allowed more time. It is still an attempt to get the OPDSC moving forward that is yet to be tested in practice.

SIPO should be analysed from a strategic management point of view. As such, it ought to entail a management approach very popular both in the security and business environment. A strategic plan involves the setting of a vision, understood as a statement of destination that serves as a signpost that bridges the present and the future; the identification of the mission, an outcome-oriented statement which systematically elaborates the vision by answering the questions who will be doing what and why; the setting up of values (these being the fundamental principles that guide the behaviour and decision making), the identification of lines of functioning; the definition of goals (statements of the desired results to be achieved by a specific period); the setting of objective (clear and measurable specification of targets or milestones towards the goals); and clarification of implementing, monitoring, evaluating and reporting lines (PLA, 1977).

SIPO is structured in such a way that its objectives are derived mainly from the Treaty and the Protocol on the Organ. A pertinent question to ask would be, why is it that the SIPO does not contain most of the key components referred to above and does not have them aligned for instance in the same format as the RISDP does? How could the OPDSC exist from 1996 up to 2003 without a plan? Part of the explanation can only be found in the recent history of regional security development, but some of them are in the SADC documents themselves. For instance, the background in the draft inception paper for the development of the SIPO (2002) acknowledges that an agreement was only reached that it was imperative to develop an indicative strategic plan for the Organ when the Committee of Ministers of the SADC Organ met in Luanda, Angola, on 17–18 December 2001, although the Protocol had been adopted in 1996.

But then a follow-up question would be, what was the purpose of establishing the Organ in 1996, and then only to develop a strategic plan six years thereafter? This question seems to shed light on understanding the environment under which the SIPO came to be developed, and the challenges for its implementation today. It does appear that SIPO was drafted to satisfy certain dynamics of the OPDSC funding and functioning.

The Security Challenges to the Integration Project

The transformation from FLS to SADCC to SADC with the OPDSC has been a tortuous and slow process because of the many implications for the member states individually and collectively. While all members seem to adhere to the idea of regional integration there are manifest difficulties in relinquishing some of the powers member states perceive to be a prerogative of 'national sovereignty'. Managing that transition has pulled SADC together in its heterogeneity but often threatened to lead to its self-destruction, especially when it came to expand the debates beyond collaborative security to incorporate human security dimensions, addressing the state vs. human security debates (du Pisani 2007: 18).

The OPDSC as a culmination of a long process of cooperation in the security arena in the region (Omari and Macaringue 2007: 48-49) is heavily influenced by some of the features that characterised the organisation and functioning of its preceding organisations. Key amongst those features is informality and secrecy.

From the FLS into OPDSC, the absence of a traceable organisational and institutional memory

is a defining characteristic that came to influence the development of the SIPO itself. In many ways, the lack of traceable information was manifest in the various stages of SIPO's development. On the other hand, even with the demise of apartheid, the challenge of managing change in a multinational framework has also had implications. Some of them are behind the slow evolution of the SADC security architecture. For instance, SADC countries behave differently when it comes to addressing security challenges thus impeding the integration project.

SADC can only be best understood in its complexity. The entire region is in transition and its various countries are at different stages of democratisation. A few countries within SADC have undergone successful SSR, others have attempted to conduct similar processes and stopped half way, while others have never reviewed their security sectors.

Politically, SADC still faces an identity crisis and it cannot be assumed that it is in a position to spell out common values and indicate clearly that its citizens are in practice at the centre of individual state efforts. Different states still view and articulate security in divergent ways. Comprehensive security arrangements that include standardisation of democratic practices, human rights, the rule of law and even civil-military relations are still a long term goal. The human security notion, although embedded in the key SADC policy documents, is still far from being the foundation of a regional practice within the various countries. There is a need to make progress in this direction so that SADC member states speak the same language and practice the same principles.

The various reasons pointed out above are sufficient to justify the assumption that unless regional SSR is conducted to harmonise certain values and goals for the politics, defence and security arena in SADC, SIPO will not be easily implemented. The case for SSR in SADC is discussed separately below. It is sufficient to point out that as it stands today, SIPO is too ambitious in its objectives and does not match the reality it proposes to address. It does not take into consideration the existing level of working relationships established so far between the Executive Secretariat, the Organ Chair and the individual SADC member states.

The prevailing reluctance to fully establish the structure recommended by SIPO[9] in the SADC Secretariat can be identified as the core reason why implementation presents itself as an enormous challenge. That structure if fully established and regulated would reinforce the role of SADC headquarters in the co-ordination of the OPDSC

By way of illustration, SADC is almost the only regional organisation in the continent that does not have in its structure an official charge of politics, defence and security at the level of deputy-executive secretary. This could be a manifestation of insufficient will to prioritise OPDSC activities at the SADC headquarters. Individual countries continue to matter more than the SADC Executive Secretariat, i.e., member states continue to behave as if a regional coordinating entity such as the Executive Secretariat has nothing to do with matters of politics, defence and security.

In another way of reading the situation, it is worthy to note that, unlike ordinary strategic plans, SIPO was a negotiated inter-governmental arrangement more inclined to satisfy the competing needs of (a) the SADC incapacity to self-fund the OPDSC activities, and (b) its strong desire to keep the area closed to external actors (Draft Inception Paper of SIPO, 2002).

From that perspective, SIPO can be viewed as a tool that was developed more as a vehicle for resource mobilisation from external actors than a management tool *per se*. if this assumption is to be accepted, then the operationalisation of SIPO should be viewed as a daunting task, because most of its components are ill defined with no measurable outputs. Put differently, the best assessment of SIPO could be by way of verifying whether it has attracted the donor

resources that lie behind its development. From an analytical point of view, it can be asserted that SIPO was developed as an attempt to bypass the obstacles created by Article 10 of the SADC Protocol on the OPDSC that clearly stipulates that the activities of the Organ should solely be funded by member states (Draft Inception Paper of SIPO, 2002).

Because the spirit of Article 10 was to be observed and preserved, SIPO could not benefit from the same technical support as the RISDP. Therefore, because of the variances in technical support the two documents (RISDP and SIPO) hardly complement and match each other. They followed divergent approaches in their development and yet there is an expectation that they should be regarded as mutually reinforcing.

It is pertinent to note that SIPO was initiated when the RISDP was almost accomplished but the drafting teams of the two documents hardly shared experiences of the modalities and methodologies of accomplishing their work. In its inception paper, SIPO drafting team proposed to utilise the evaluation research checklist known as the ROCCIPI formula, i.e., Rules, Opportunities, Capabilities, Communication, Interests, Process and Ideologies. It also proposed that the ROCCIPI formula be underpinned by a Strength, Weaknesses, Opportunities and Threats (SWOT) method of analysis. That would have allowed a comprehensive situational analysis, identification of objectives, challenges, priorities and strategies to be included in the plan (Draft Inception Paper for SIPO, 2002).

Notwithstanding that, the practical development of SIPO did not observe those methods since most aspects related to threats, objectives and priorities had simply to be copied *verbatim* from the SADC Treaty, the Declaration on the OPDSC and its Protocol. The above imposition, combined with Article 10 that limited SIPO drafting work to in-house expertise, appears to have influenced the contours of the end-product. Should technical outsourcing have been applied, similarly to what happened in the case of the development of the RISDP, certainly a different outcome would have emerged.

SIPO Implementation Difficulties: A Case for a Regional SSR

Elsewhere in this paper it was argued that OPDSC activities can only be pursued in an environment resulting from an SSR 1 process in the region. In the context of this paper, SSR is perceived to be an enabling tool for institutionalising a partnership framework for the following stakeholders, the SADC Secretariat as the norm-setting body in the governance of the OPDSC; national governments as policy formulation and implementation bodies; legislators; civil society; and the media as oversight and development partners (Hutchful, 2007).

SIPO, as a management tool, should be regarded as involving two strategic processes: the normative process and the operational process. The normative process includes ensuring that the Organ's political and policy contexts, its goals, and its objectives are consistent with those of SADC. The operational process involves transformation of the intended strategies and outcomes envisaged by SIPO into concrete and enforceable actions, the development of implementation frameworks based on prioritised and available resources, aligned either with national development plans or RISDP milestones, and the definition of short- and medium-term expenditure frameworks. These require the development and establishment of well-coordinated, functional strategic institutional frameworks. With this in mind this paper highlights the need for the RISDP and SIPO to talk to each other by providing mutually reinforcing entry points that would eventually merge the two into one document.

As indicated earlier in the paper, any strategic plan should include: vision; mission; values; lines of business; strategic issues; goals (based on outcomes); objectives and performance measures; and implementing, monitoring and reporting aspects.

For reasons already pointed out earlier, related to the nature and background to the establishment of the OPDSC itself, SIPO does not contain the above components in a logical framework. For instance, what constitutes the objectives for the different areas in SIPO were transported mechanically from the SADC Treaty and OPDSC Protocol. Strictly speaking, some qualify more as goals than objectives and some strategies can be equated to activities more than anything else. These missing key elements of SIPO are directly related to its probability of it not being successfully implemented. One would expect that SIPO, having been developed to operationalise the Treaty and Protocol, would have gone beyond the replication of the previous documents to provide more specific and achievable targets that look at issues which could impede the implementation process. At the core remains the issue of setting an agenda for harmonising the concept of security, and identifying the roles and functions of the various security stakeholders throughout the region.

At this point it is useful to briefly explore some of the variables affecting implementation. These include institutional arrangements, communication, implementing agents, the policy process, and the implementing environment.

The management of multinational organisations such as SADC can be a daunting task and the process can be more challenging where issues at hand involve coordination and cooperation at heads of state level. Furthermore, decision making not only takes place at heads of state level but includes consulting with, and receiving recommendations from, various ministries such as those responsible for foreign affairs, defence, police and intelligence.

Regarding the integration of the OPDSC activities into the SADC framework the compromise reached was the creation of two high-level structures operating side by side at the summit level: the SADC Chair and the Organ Chair. This resulted in various interpretations about the relationship between the two structures, delaying the operationalisation of the Organ.

Although both the SADC Chair and that of the Organ have been established with clear objectives, the realisation of both structures' mandates can only be met if there is an implementation framework that provides a clear distinction between what each is to achieve.

In the same breath, the structure of the Organ itself is complex and partly duplicates that of SADC.[10] Any successful execution of tasks requires clear reporting lines. Decentralisation of systems is often favoured over centralisation as the former is seen to be more democratic. Hierarchical structures, such as that of the Organ where there are various levels of the most senior officials of the security sector below the troika, are very difficult to harmonise.[11]

At the same time that the articulation of various structures takes place at the troika level there is the difficulty of the role of the Directorate for Politics, Defence and Security Affairs at SADC headquarters. While the Directorate functions under the overall supervision of the Executive Secretary of SADC, and is headed by the Director for Politics, Defence and Security, its responsibilities towards the OPDSC are not sufficiently specified since it is not clear whether it should focus primarily on strategic planning aspects, policy analysis and development; monitoring and evaluation of the implementation of Organ decisions; or the provision of administrative backup to the Organ.

On other hand, the environment within which implementation has to occur also plays a role in determining outcomes. Moving away from the secrecy that has over the years been a characteristic of the FLS, democratic processes dictate that public structures such as the OPDSC

operate in open environments. Thus the legitimacy of SIPO depends on the creation of space for civil society participation.

There is a spreading interest in the measures that the SADC Secretariat has taken in implementing SIPO, and out of this interest, speculations have arisen and these, if not well managed, can lead to diminishing confidence in the Secretariat's performance and that of the OPDSC as a whole.

Communication

Communication can be a barrier to the success of any policy implementation process if not properly managed. Speculations on the success or failure of a policy often erupt as a result of an insufficient flow of information, or conflicting messages being sent to interest groups. Analysts generally concur that matters of security in Africa are treated with a high level of confidentiality and this seems to be also the case in SADC's handling of OPDSC matters. The region continues to be disinclined to air differences and disagreements on these issues, so communiqués on the Organ and on conflicts in the region tend to be sanitised and misleading (Nathan, 2004).

Communication should not only flow to recipients of the policy outcomes, but to the implementers as well. Thus the responsibility of ensuring that there is a communication flow should not be left with the SADC Secretariat alone. There is a body of knowledge that argues that along with clear objectives should be accurate and consistent communication of those objectives, so that implementers know what is expected (Van Meter and Van Horn, 1976; Berry and Foster, 1998 in Weissert, 2001)

The strategy should at least entail but not be limited to the following:

- development of a business plan
- development of communication method(s)
- dissemination of information
- documentation of records

In the current era where public-private partnerships are seen to be an effective way of fast-tracking development, business plans are gaining popularity as tools for the management of public sector projects. As a framework for project execution, a well-thought out business plan with clearly defined monitoring and evaluation strategies can provide a realistic view of the short- and long-term objectives of a project.

Any communication strategy needs to be developed with an audience in mind. It also requires a clear identification of objectives that the communication needs to achieve. Due to the varied nature of the SADC Secretariat's audience, reports need to be written in an unambiguous language if they are to be understood by the masses being targeted. To ensure accuracy and provide a realistic picture of what has been achieved and what has not, these should be informed by the outcomes of the evaluation process. Special attention needs to be paid to ensuring that such reports are accessed with relative ease by all stakeholders. This particular aspect seems to be a key missing link in SIPO.

Implementing agents

The RISDP provides for an implementation framework which distinguishes between responsibilities of SADC member states and those of the SADC Secretariat itself. The April 2006 RISDP Overview stipulates that SADC member states should play the role of decision-maker, strategic

guide and implementer, while the SADC Secretariat plays primarily a facilitating and promoting role at regional level, which includes the key functions of:

- strategic planning, monitoring and evaluation;
- facilitation and coordination; and
- taking initiatives as per need.

The roles of SADC member states and the Secretariat in the execution of policy directives provide a clear case of overlapping responsibilities, and highlights the vague, or even conflicting meanings that implementers are confronted with. Hill (2003: 267) asserts that implementers' thoughts about policy extend beyond simply deciding whether to implement or not, and prominently include judgment about what the policies mean. As experience shows, the interpretation of cross-cutting issues for one implementer may be different from that of another implementer. Thus ensuring that terminologies are explained and implementers are provided with a better understanding of what it is that needs to be achieved, and how it is to be achieved, will ultimately shape the implementation outcomes.

SIPO is defined as an enabling instrument for the implementation of the SADC developmental agenda in the areas of politics, defence and security. It is meant to work in harmony with RISDP. However, SADC has generated a perception that SIPO and the RISDP are distinct. The implementation process should pay special attention to the maximisation of their synergies and the rationalisation of cross-cutting issues. It is assumed that SIPO should be guided by the RISDP, but their objectives, and how these should be met, can be quite confusing. They both seek to fast-track the region's development agenda. It cannot be contemplated how efficient their implementation will be, especially when it is clear that the use of resources will be duplicated. The above does not provide sufficient guidance for implementers to begin to understand what it is that they have to do to produce positive outcomes for both plans. Very little explanation is given to implementers about interactions that need to be taken for the objectives to be met.

In a multinational environment like that of SADC, it is important that the meanings of policies are shared among policy authors, implementers and their managers (Hill, 2003). Does this principle apply to SIPO?

Quite often policy is developed by key people in a sector and implementation is carried out by another set of actors. Of importance to note is that this arrangement means that the implementer, due to absence during the policy development stage, lacks information on the factors behind the development of a policy. This is apparent in the SIPO process: the document was formulated by a different task group from the one responsible for implementation. Time needs to be dedicated to the education of implementers before a policy or strategies can be rolled out. This would ensure a coherent understanding of what needs to be achieved by the implementers.

Some analysts have argued that the lack of capacity at the Organ directorate has hampered progress in terms of the implementation of SIPO. If this observation is true, then the institution needs to look beyond the narrow definition of the implementer as an executor of tasks, and begin seeing the implementer as part of the broader policy community. This would require the inclusion of the implementer in crucial stages of policy development, and the provision of knowledge needed for implementation. These are aspects to be reviewed if the Executive Secretariat's role is to be revised.

As an interpretive process, policy implementation extends beyond the implementing agency to

include external resources that will bring into the implementation process a set of attributes such as specialised knowledge not normally possessed by the policy maker. This knowledge can either be practical or theoretical. Kenkel (2006) observes that practical specialised knowledge consists of the type of information related to the occupational expertise of those charged with implementing policy in a given domain. It is believed that the use of external resources provides the connective tissue between policy as written in legislation or bureaucratic regulation and the implementing agent. However, SADC seems to have struggled to apply this in the development of SIPO.

The current situation whereby member states are responsible for strategic issues at country level, while the Organ functions regionally at an operational level could be seen as an obstacle to achieving desired goals. The success of regional integration depends on SADC member states sharing a common vision, but how practical is this notion? By virtue of having national interests, members are bound to prioritise their national agendas before those of the region can be considered.

Bridging the divide – the SADC Secretariat and the OPDSC

In theory, the SADC Secretariat has been tasked with coordinating the implementation of SIPO but there is little evidence of this taking place at the desired pace. Perhaps in addition to the various attempts which have been made to address this challenge, a better understanding of what the Secretariat means and what its activities should entail needs to be provided.

Although the objectives of the Secretariat are spelt out in official SADC documents, operationally these are yet to be understood by those who are supposed to be served by this institution. The loose definition of the Secretariat's role in facilitating regional integration can be seen as an impediment to the implementation of regional policies.

From another angle, the shift in priority areas for International Cooperation Partners (ICPs) has seen funding being channelled to regional network organisations. The distribution of resources in such settings is usually handled by some form of a secretariat, whose responsibility is to ensure that the ICP mandates are delivered. This requires the development of strategies for implementation of mandates, monitoring and evaluation of delivery. In this sense the Secretariat is regarded as the 'engine' of the entire network.

Perhaps SADC should begin to look at how best to run its Secretariat from the perspective of well-established similar organisations in the continent and elsewhere.The Secretariat should amongst other things be evaluated in relation to whether SIPO has been able to achieve some of its objectives. It was argued elsewhere in the paper that SIPO was developed for resource mobilisation from external donors. How successful has it been in attracting donor resources and if not, what are the underlying factors in this failure?

Administrative feasibility is one of the criteria which a successful public policy must fulfil (Moharir, 2002). It entails the willingness, capacity, and ability of implementing agencies and target groups to realise policy objectives. Administrative components in this context refer to how agents who are tasked with the implementation of SIPO have been conscientised in relation to its objectives, and how these are to be achieved. The human factor is decisive in regard to the outcomes of any policy intervention. An organisation may have systems, state of the art equipment, financial resources, etc., but if the human element is absent or prevented from exercising its duties, desired outcomes may take longer to be achieved. An interesting exercise would be to assess how these elements are accommodated in the current SADC Secretariat set up. Is the SADC Secretariat well enough equipped to realise SIPO objectives? Is there sufficient will and capacity to carry out the entire OPDSC mandate?

The willingness of an implementing agency should be analysed in relation to what its mandate is. The implementation plan should be written in such a way that it provides a uniform interpretation of expected outcomes to eliminate any confusion that may arise from lack of clarity. The SIPO document stipulates that the Office of the Chairperson shall be staffed by two assistants who will be responsible for implementation. On the other hand Article 9 of the Protocol on the Organ assigns the Secretariat the provision of secretarial services to the Organ. The Protocol also provides for the Secretariat to be a monitor of the implementation of SADC decisions in this arena.

The above division of labour is open to various interpretations. It also highlights a fundamental problem which could also be contributing to the slow progress in the SADC OPDSC operationalisation. Contradictions such as the multiple roles noted above reduce accountability, thus further impeding implementation progress. From an administrative point of view, unclear roles create space for non-accountability and a lack of ownership, and in worst cases can result in non-delivery. It is therefore important to re-visit the roles of the Chairperson's assistants and the Secretariat as part of addressing operational challenges facing the implementation of SIPO.

Normally the leadership is expected to articulate how the values of the organisation will be operationalised, as well as the goals and objectives. The leadership is also expected to articulate how performance measures and indicators will be used to report on the goals. It does that by ensuring that systems are in place to collect and report data, and outlines what, to whom and how information is to be reported. These key aspects are manifested in the RISDP but not in SIPO.

Much has been said about the so called 'Organ impasse' of 2000–2001 that led to the suspension of its activities and call to review all SADC operations. That situation was more a result of the unfinished debate over the nature of SADC and the way the integration of what were previously FLS activities was viewed. Almost unanimously, SADC countries were of the view that politics, defence and security matters should be dealt with separately from the other organisational activities. The debate that took place after the abolition of the FLS points to that direction.

Often, SADC had to remind itself that the OPDSC, although operating at Summit level, was a structure of SADC and as such should also report to the SADC Summit. The DRC intervention of 1998 by some SADC members, and the Lesotho one by another group were practical situations that demonstrated the need for SADC to view OPDSC structures and activities as a subset of the overall organisation. The two crises were important in the sense that they expedited the development of the Protocol on the OPDSC, the Mutual Defence Pact and SIPO itself.

Challenges to Implementation and the Way Forward

As it stands, in a similar way to many other documents the region has produced, SIPO is at risk of losing its importance over time, and might even be forgotten for not bringing the intended outcomes.

SADC moves at a slow pace in the understanding that security issues are no longer military in the conventional sense. The fact that they are more politico-military with regard to nature, causes and consequences, needs to be addressed. SADC needs to disseminate regional awareness of the long-term need to continue to work on the integration of politics and security matters. It also needs to integrate SSR strategies.It is important to stress that the exercise is not only about governance but is also about effectiveness (i.e., operational capacity).

Therefore, SADC needs to introduce changes in its members' ways of conceptualising secu-

rity. Only then, will it be able to create an effective instrument to manage security matters within the region. A vision of change needs to be introduced to guide the entire process, and ultimately the management of change should include altering security perceptions and attitudes of states and people.

There is also a need to reduce the gap between the aspirations reflected in the strategic vision contained in the SADC policy documents and the reality on the ground. This is needed to make SADC's usefulness more visible by making an impact on the existing challenges to regional security. Looking at the individual SADC member states' security sector configurations, it is clear that if the region is to progress in its integration project, a process of reconstructing and transforming the security architecture is required.

SADC needs a holistic vision of the security sector, one that ensures that the sector functions healthily in a democratic environment. That would be assured by SADC adhering to the view that recognises the nexus between security and development by ensuring that people's security is prioritised over that of regimes.

In addressing the heterogeneity of the SADC security sectors the harmonisation the following areas, at least, is a matter of priority:

Defence: to achieve an agreed military reform throughout the region at least two components will be needed: a review of defence forces and the reform of the ministries responsible for them. This will achieve consensus that would assist in addressing the disparities in organisation and functioning of these institutions in the SADC.

Police and intelligence: Well resourced and planned police and intelligence reforms that include training, education and capacity-building activities are required.

Judiciary: military, police and intelligence reforms should be complemented by a judiciary process that revives the legal norms and the institutions necessary for the creation, interpretation, and application of the law. A functioning judiciary is an important component for SIPO to succeed because only a security sector guided by the rule of law can provide a conducive environment for development. Unfortunately this seems to be a missing link in the OPDSC and SIPO.

All the above aspects should be complemented by a coordination component. This requires a consensus on the most fundamental aspects of the reform process to make possible and viable the formation of an all-encompassing security sector strategy.

Conclusions

It will be utopian for SADC to pretend to be designing and implementing an all-encompassing development strategy that in practice does not acknowledge the relationship and inter-connectedness between security and development. For that to occur, SIPO has to be incorporated into the RISDP. SADC is learning how complex it is to align and harmonise the development agenda with the security one, especially in a situation when security cooperation preceded the development project as is the case of the FLS in relation to SADCC.

Because the RISDP and SIPO were developed applying different levels of expertise (the former with involvement of consultants and the latter relying exclusively on in-house expertise) their technical shape and format are divergent and they hardly talk to each other.

Clearly the mechanisms already in place in SADC expressed by the OPDSC, to defend national sovereignty and protect member states from external aggression, are inadequate to meet the new challenges. There is an urgent need to provide SIPO with an implementation strategy

that clearly outlines the road map for OPDSC operationalisation. Since the RISDP is the enabling instrument for overall implementation of the SADC integration project, there is an imperative for SIPO to be aligned and integrated as a component of the RISDP. Because the SIPO objectives were directly drawn from the declaration establishing the Organ and its Protocol, integrating them into the RISDP has so far proved to be a complex effort. This seems to have been aggravated by the fact that there was no consultation and communication between the two drafting teams. This needs to be addressed as a matter of urgency. This will also require that the RISDP be recast to accommodate some of SIPO's objectives.

There is a need to distinguish normative from operational processes in SIPO and merge them into the RISDP framework.

There is also a need to develop a communication strategy to ensure that all stakeholders are sufficiently informed about progress of implementation in SIPO. This strategy should also aim to ensure ownership of SIPO so it is not regarded as an imported agenda from outside circles.

The OPDSC structure at the Executive Secretariat needs to be elevated to the top management level, and be empowered to generate monitoring and evaluation systems across the various areas of SIPO, including those of the national projects.

Last but not least, an effective implementation of SIPO can only be achieved through an integrated regional SSR strategy. Only that will provide both SIPO and other OPDSC documents with an enabling environment for their implementation.

Recommendations

SADC should conduct a regional security sector review aiming at identifying the conceptual and organisational needs in the OPDSC areas, and design and implement SSR strategies in order to align and harmonise SIPO with the RISDP and link security and development agendas.

The SADC Executive Secretariat needs to re-examine its organisational structure in order to adjust the place and role of its Directorate for Politics, Defence and Security to be more visible within the Secretariat structures.

An implementation strategy with a communication component should be designed to ensure ownership and buy-in from the various stakeholders, and bring the OPDSC activities closer to the people.

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Notes

1. The Frontline States arrangements were always designed to react to colonial and racist regime strategies, SADCC, and later SADC, was also meant to react to challenges faced by the countries of this region.
2. See, among others, Nathan, 2002; Cawthra and van Nieuwkerk, 2004; Macaringue, 2004; Hammerstad, A, 2003; Omari and Macaringue, 2007.
3. For more on this see Omari & Macaringue, 2007.
4. The term SSR here refers to the one adopted in the handbook on security sector reform by OECD-DAC (OECD-DAC 2007.

.5 Security sector reforms have reached a stage where they can only succeed if they are broadened to target the systems including the judiciary.

6. Nigeria participated in FLS activities but was not a member of the SADCC. Lesotho, Malawi, Swaziland never formed part of the FLS but were members of the SADCC. Mozambique, Angola, Zimbabwe, Namibia and South Africa formally joined the FLS on their independence or transformation in 1975, 1976, 1980, 1990 and 1994 respectively.
7. The FLS activities and the establishment of the Defence Staff Council, later the Interstate Defence and Security Committee, was the framework for the implementation of that unwritten strategic plan.
8. Nobody could predict the duration of the anti-colonial and anti-apartheid struggle
9. SIPO recommends the establishment of a full department to deal with the Organ activities at the SADC Headquaters. So far only small part of it is operational.
10. Often it is difficult to get the ministers of foreign affairs available for the ministerial committee of the Organ because they are involved at the same time in other SADC ministerial meetings.
11. The troika refers to the current, outgoing and incoming chairs.

The Southern African Development Community in the Continental Security Architecture

Louis Matswengeyo Fisher

'Africa needs to empower the African Union. Despite its good intentions, the AU continues to grapple with institutional capacity building. The success for Africa falls on the successes of the AU .... Over the past few years, however, AU leaders have shown resilience towards addressing the sticky issues of the continent. A break from the usual habit of dodging the bullet. The roles of regional economic communities too have added renewed vigour towards coming up with African solutions to Africa's problems. But against this backdrop of encouraging trends, one has to take issue with lack of commitment by many member states.'

Editorial, *Sub-Saharan Informer* (Ethiopia) 26 October 2007.

The purpose of this paper is to interrogate, explain and understand the nature of the relationship between the Southern African Development Community (SADC) and the African Union (AU). Peace and security have become a priority issue for both the sub-region and the continent. Therefore the aim is to identify key issues that have to be addressed in order for SADC to play a meaningful role in the promotion of peace, security and stability on the continent. The topic comes against a backdrop of renewed scholarly, political and international interest in cross-cutting issues of security, development, poverty and governance. Debates over an effective and appropriate peace and security architecture have increased, mainly as a result of important lessons from peacekeeping experiences. For this reason, critical linkages between the United Nations (UN), African Union (AU), and the sub-region will be analysed and explained.

At this juncture, it is necessary to digress and clarify how the terms region and sub-region are used in this paper. In the UN Charter, regions relate mainly to continents, but in Africa, there is also reference to sub-regions (North, South, West, Central and Southern) as well as to regional economic communities (RECS), of which SADC is one such entity. In this paper SADC will mostly be referred to as a sub-region or REC as appropriate.

Primary and Secondary Data

The approach in this paper is largely descriptive, relying significantly on primary sources such as policy documents and interviews with key resource persons, both at the AU Commission and the SADC Secretariat. Secondary source materials have also been quite useful. No attempt was made to situate the topic within a specific theoretical framework – instead the author relied on the guidance received during the interviews. These interviews have certainly provided useful insight into the dynamics at play within the African security architecture.

For example, Bereng Mtimkulu, who heads the Peace Support Operations Division of the AU (Interview, 7 Nov 2007), argued that the point of entry towards understanding SADC's role should be AU founding documents, especially the Constitutive Act which acknowledges and recognise the value of sub-regional conflict resolution mechanisms. Mtimkulu argued that sub-regional organisations would need to develop and establish mechanisms that would be able to quickly implement decisions of the AU. For this to happen, he stressed that it is important to harmonise sub-regional structures with those of the AU because of the fact that such structures

were not formed at the same time: for example, SADC has its own history, outlook, institutions and way of decision making. Currently the expectation at the AU is that its decisions will be implemented expeditiously in the sub-region. According to Mtimkulu the premise is that sub-regional bodies have come to recognise the AU as having primary responsibility for peace and security on the African continent. However, harmonisation of internal institutional mechanisms from both AU and SADC have to be addressed. There is no autonomic accession to AU decisions and SADC has to go through its own processes.

Further inputs on the role of SADC were provided by other officials of the AU notably Kambudzi (Interview, 6 Nov 2007) of the Peace and Security Council Secretariat, Naison Ngoma (Interview, 6 Nov 2007) of the Post Conflict and Reconstruction Division, Nana Owusu-Darkwa (Interview, 6 Nov 2007) of the Continental Early Warning and Preventative Diplomacy, Charles Maura (Interview, 7 Nov 2007) of the Early Warning Centre and Johan Potgieter (Interview, 7 Nov 2007),Senior Military officer, Peace Support Operations Divisions. It is, however, the comments by Dr Kambudzi, that resonated with Mtimkulu's arguments. According to Kambudzi (Interview, 7 Nov 2007), SADC's role in the continental security architecture has to be analysed and explained from the viewpoints contained in the Abuja Treaty of 3 June, 1991 when the African Economic Community was established. The Abuja Treaty acknowledges an earlier OAU decision to create five regional economic blocs namely North Africa, West Africa, Central Africa, East Africa and southern Africa.

In terms of the provisions in the Protocol Establishing the Peace and Security Council (PSC) and also the Solemn Declaration of the Conference on Security, Stability, Development and Cooperation in Africa (CSSDCA) SADC is one of the pillars of African integration and therefore an important constitutive element of the new African peace and security architecture. The key challenge according to Dr Kambudzi is about putting it all together as envisaged in the AU founding documents – for example Article 16 of the Protocol Relating to Establishment of the Peace and Security Council of the AU, which stipulates that:

> The Regional Mechanisms are part of the overall security architecture of the Union, which has the primary responsibility for promoting peace, security and stability in Africa (PSC Protocol, 2002: 5).

Kambudzi concurs with Mtimkulu that the RECs are political entities that are at various stages of development and have their own decision making processes. It cannot therefore be expected for example that the regional brigades of the African Standby Force will be up and running at the same level and pace.

> Current developments and initiatives on the African continent must not lose sight of the fact that these are part of the bigger picture which is the global collective security system represented by the United Nations which was created sixty two years ago, in the city of San Francisco, by 56 countries to 'save succeeding generations from the scourge of war, which twice in our lifetime has brought untold sorrow to mankind' (UN Charter).

Africa was represented by Egypt, Ethiopia and Liberia, and today, UN membership stands at 196 countries of which 53 are African countries, therefore the African continent, its sub-regions and member states could be considered as different layers of responsibility in the global collective security system (Deng, 2005).

Collective Security and Layers of Responsibility

The role of SADC in the continental security arrangements will not be fully appreciated without

examining the critical linkages that bind the AU and its sub-regions to the UN. Today half of the UN's 17 peace keeping missions are in Africa and the UN has established sub-regional offices in West Africa, Central Africa and the Great Lakes region as well as peace-building offices in Liberia, Guinea Bissau and the Central African Republic (Adebajo, 2006: 21). The Protocol relating to the Establishment of the Peace and Security Council of the African Union is mindful of the provision of the Charter of the UN, conferring on the Security Council primary responsibility for the maintenance of international peace and security.

Similarly, the Protocol on Politics, Defence and Security Cooperation, which brought into being the SADC Organ on Politics, Defence and Security Cooperation in Gaborone on 28 June 1996, recognises the UN linkage in its Preamble. The main reason behind these inclusions is to acknowledge the primacy of the UN in the maintenance of peace and security. The role of continental arrangements in the international collective security systems is provided for under Chapter VIII of the UN Charter, articles 52, 53, and 54. These articles authorise the Security Council, where appropriate, to utilise regional arrangements or regional agencies to carry out enforcement action on its behalf (article 52). They also forbid any enforcement action by regional arrangements, or regional agencies without the express sanction of the Security Council (article 53). These articles also require the Security Council to be kept fully informed at all times of activities taken or contemplated for the maintenance of peace and security (article 54). The inclusion of these articles in the Charter underscores the importance of interdependence and cooperation.

The provisions in the UN Charter regarding regional arrangements and regional agencies have stood the test of time, and the UN High Level Panel report of December 2004, titled *A more secure world: our shared responsibility*, made a number of recommendations regarding regional organisations. Two of these recommendations are pertinent to the present discussion. Recommendation 271 states:

> Since the establishment of the United Nations, a considerable number of regional and sub-regional groupings have been established. Some of these groupings have made important contributions to the stability and prosperity of their members, and some of them have begun to address directly threats to peace and security. We believe the United Nations should encourage the establishment of such groupings, particularly in highly vulnerable parts of the world where no effective security organisations currently exist (UN High Level Panel, 2005: 85).

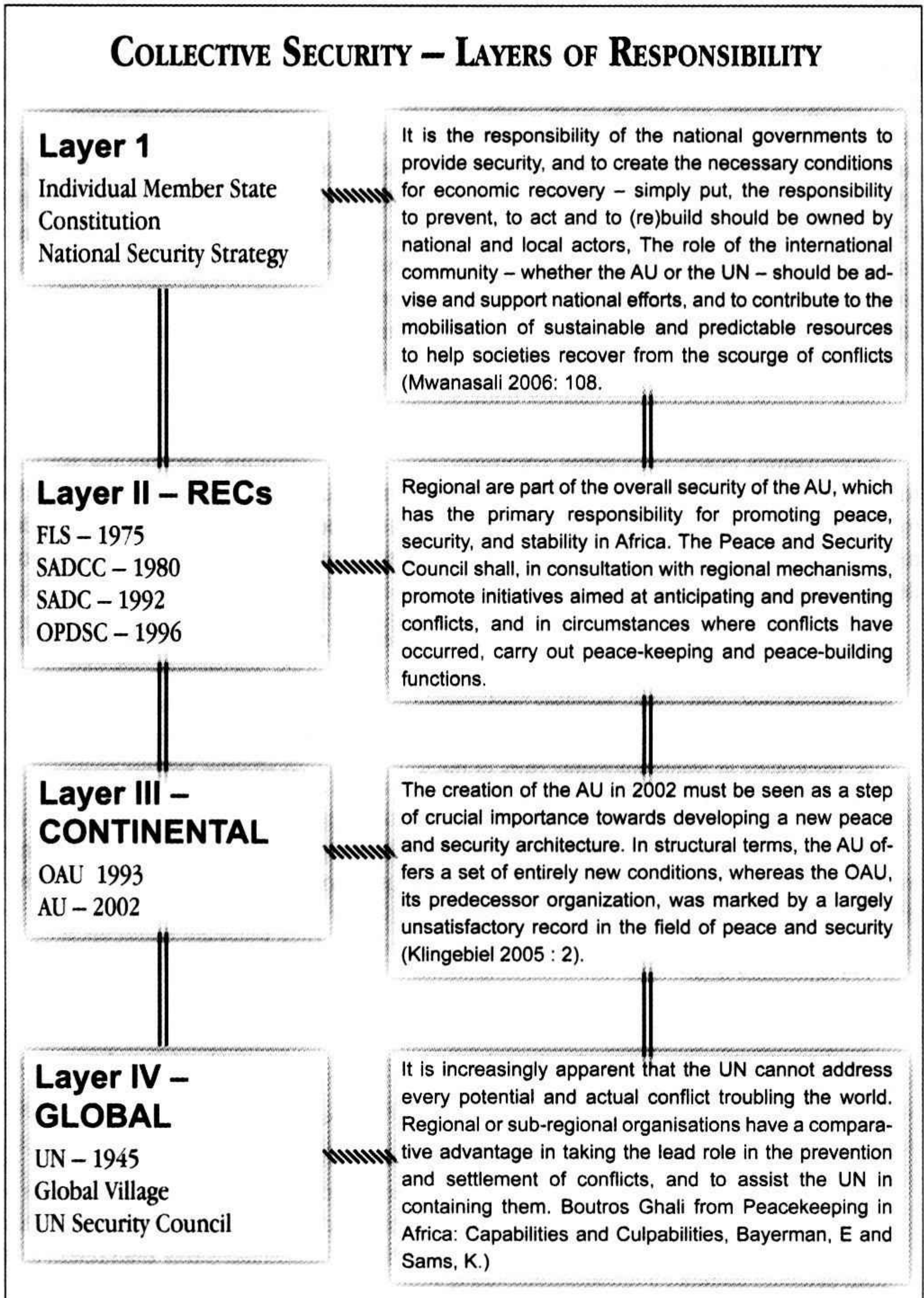
The High Level Panel, having acknowledged the role of regional and subregional groupings went further to remind these entities that their contribution towards collective security does not absolve the United Nations of its primary responsibilities for peace and security. Therefore, in line with the provisions of Chapter VIII of the UN Charter, the High Level Panel in recommendation 272 cautioned that:

> Authorization from the Security Council should in all cases be sought for regional peace operations, recognizing that in some urgent situations that authorization may be sought after such operations have commenced (UN High Level Panel, 2005: 85).

> Consultation and cooperation between the United Nations and regional organizations should be expanded and could be formalized in agreements, covering such issues as meetings of the heads of the organizations, more frequent exchange of informational and early warning, co-training of civilian and military personnel and exchange of personnel within peace operations (UN High Level Panel, 2005: 85).

SADC's role in the AU's continental security architecture must be understood as a vital part of the global multilateral system. This is why Deng (Adebajo; 2006: 122) emphasises the principle of complementary protection, which recognises collective security as layers of apportioned responsibility, joint responsibility and shared responsibility.

Figure 1: Collective security: Layers of responsibility



According to Deng (Adebajo; 2006: 122), sovereignty confers responsibility on a state to protect its citizens, and this becomes the first layer of collective security. However, conflicts have a tendency to spill over into neighbouring states. This means neighbouring states cannot remain indifferent to the incoming flow of refugees and the crisis next door, and this becomes a second layer of responsibility through regional conflict-resolution mechanisms, normally based in RECs. Neighbouring states may require assistance and resources to deal with the neighbourhood problem, and this may involve another layer of responsibility, for example the AU in Addis Ababa. Finally of course, the international community is the custodian and protector of universal human rights and humanitarian standards. This means that the international community is seized with the responsibility of ensuring a comprehensive and effective response to crise,s especially with regards to protection (Deng; 2006: 123).

Challenges Facing Africa

The preamble in the Constitutive Act of the African Union summarises the challenges facing Africa in its introductory paragraph which reads as follows:

> The scourge of conflicts in Africa constitutes a major impediment to the socio-economic development of the continent and of the need to promote peace, security and stability as a prerequisite for the implementation of our development and integration agenda.

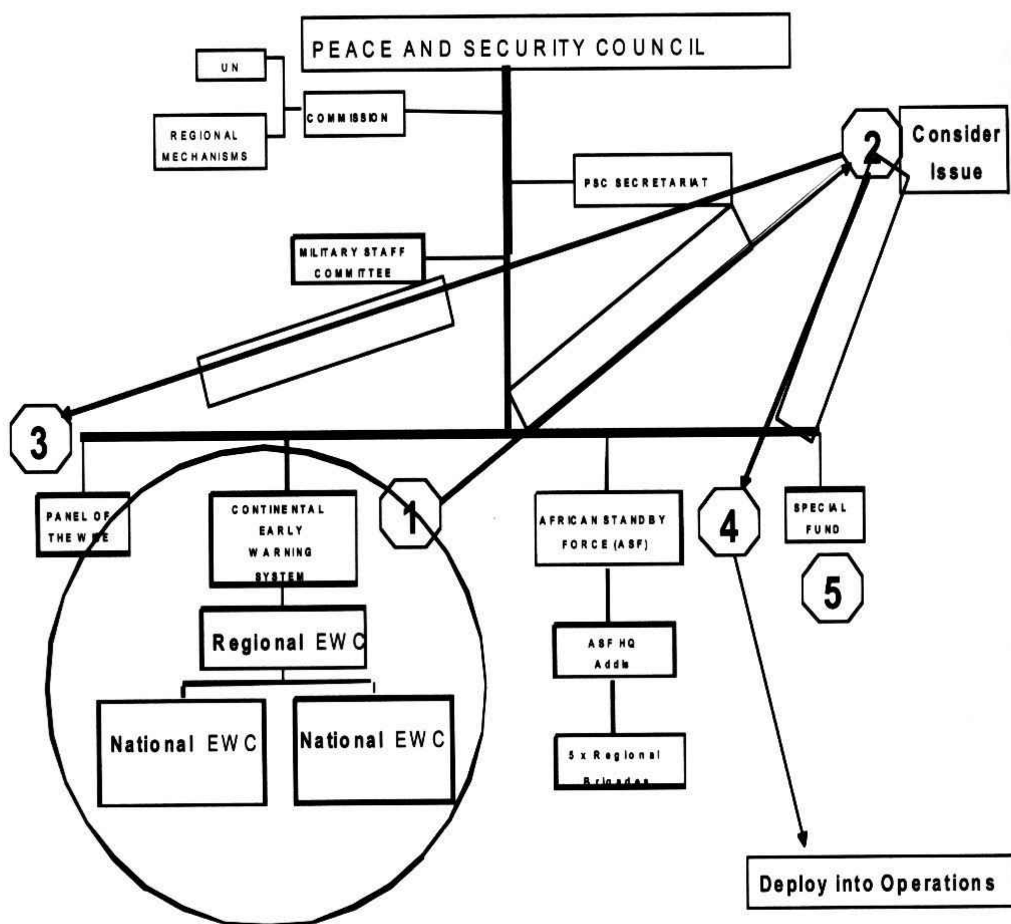
African Peace and Security Architecture

The creation of the AU in 2002 was a major step towards setting up the continental security architecture. The focal point is the Peace and Security Council, which was established on 09 July 2002, during the first session of the assembly of the AU. The African Union has the primary responsibility for peace and security on the continent. Articles 2 (h) and 4 (j) of the Constitutive Act are regarded as a major departure from the OAU position of non-interference in the internal affairs of member states. The two articles give the AU the right to intervene in a member state in times of genocide or crimes against humanity. Provision is also made for member states to request intervention from the AU in order to restore peace and security. This is why observers such as Deng see a difference between the AU and the OAU:

> there is a tendency to see the AU as a mere change of name from the OAU, but the AU, both conceptually and normatively, stipulates and promises a more robust response to crises on the continent, especially in conflict management (Deng 2006; 126).

The Peace and Security Council is supported by the following structures, namely the Panel of the Wise (PW), the Continental Early Warning System (CEWS), the African Standby Force (ASF), the Military Staff Committee (MSC) and the Special Fund (SF). Figure 2 illustrates the relationship between these bodies and the decision-making process.

Figure 2

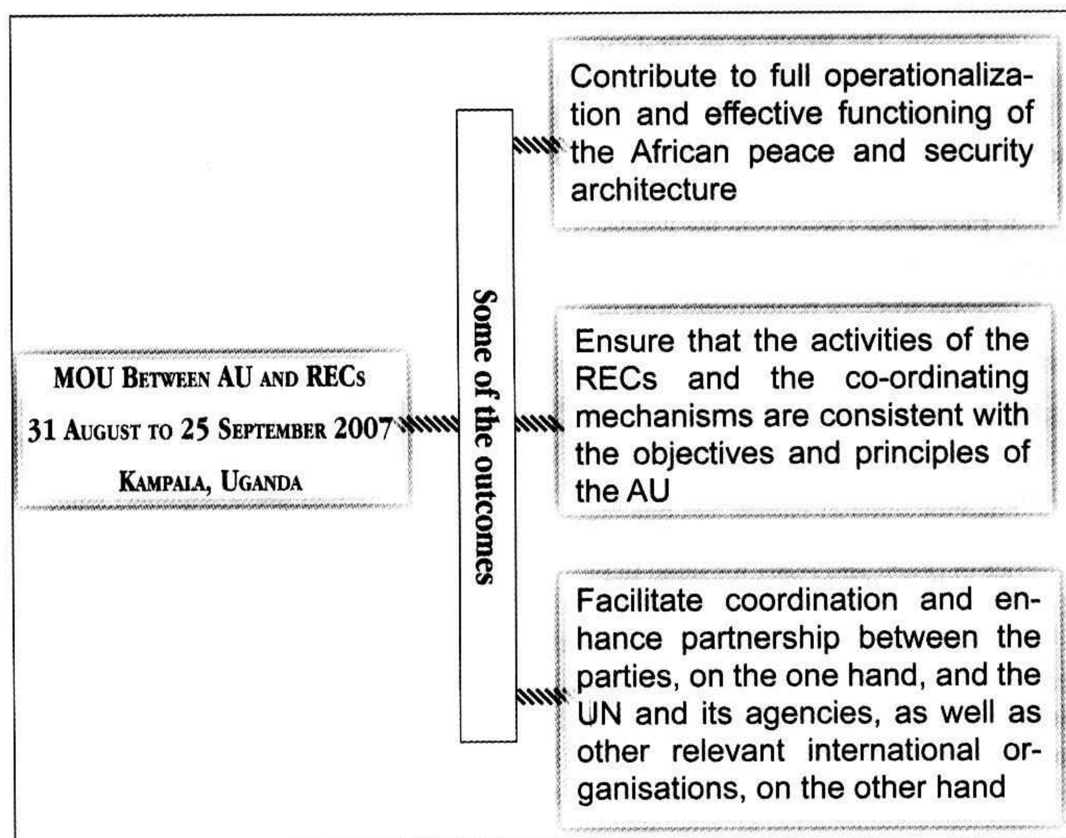


Source: AU – Department of Peace and Security

It is through some of these structures that SADC or its counterparts have a role to play. It is only in September 2007 in Kampala, Uganda, that experts met to draft a Memorandum of Understating on Cooperation in the Area of Peace and Security between the AU, the RECs and the Coordinating Mechanisms of the Regional Standby Brigades of Eastern Africa and Northern Africa (AU-REC/EXP/2(ll) REV.3). Figure 3 illustrates the outcomes of this meeting.

The Kampala document should be seen as a reminder that there is still a lot of work to be done both by the AU and its sub-regions. There are two structures for which the AU has laid down road maps and time frames: CEWS and ASF. In order to determine SADC's role in the AU security structure, one will have to assess progress and consider harmonisation issues beween CEWS and the SADC Early Warning Centre on one hand, and on the other hand progress with regard to the SADC Brigade (SADCBRIG).

Figure 3



Source L.M. Fisher (2007)

Continental Early Warning Systems

The establishment of continental early warning systems is provided for in the PSC protocol under Article 12(1). Basically the intention is to facilitate the anticipation and prevention of conflicts. The chairperson of the Commission should be in a position to advise the PSC of potential threats to peace and security on the continent, and recommend the best course of action. The system is meant to have a Situation Room located in the Conflict Management Division (CMD). The Situation Room is supposed to be linked directly through appropriate means of communication to the observation and monitoring centres of the RECs. Indications are that this process is still lagging far behind due to various administrative and logistical problems.

The SADC Early Warning System

The SADC Early Warning Centre/Situation Room is located in SADC house, the Headquarters of SADC in Gaborone, Botswana. The overall objectives of the SADC Regional Early Warning Centre is to strengthen the SADC mechanisms for conflict prevention, management and resolution, in line with the provisions of the Protocol on Politics, Defence and Security Cooperation and the Strategic Indicative Plan of the Organ. The Ministerial Committee of the Organ at its meeting held in July 2004 in Sun City, South Africa, mandated the Troikas of SADC and the Organ to initiate the establishment of the centre in two phases.

Phase 1, which was executed by a SADC team of experts, entailed working on the concept, proposing the structure and working system as well as administrative and financial issues. This

activity was concluded by September 2004.

Phase 2 of the establishment process encompasses the physical establishment of the Early Warning Centre. The structure of the Centre shall comprise two desks which shall focus on political and security threats and socio-economic threats respectively.

National early warning centres are the building blocks of the regional Early Warning Centre. The centre shall report to the office of the Chairperson of the Organ through the office of the Executive Secretary. As provided for in SIPO, the Centre is part and parcel of the Strategic Analysis Unit of the Directorate for Politics, Defence and Security located in the Office of the Executive Secretary. Under the guidance of the Chairperson of the Organ, the centre shall maintain a two-way working relationship with the AU Early Warning Centre.

Establishment of the African Standby Force

Article 13 of the Peace and Security Council Protocol provides for the establishment of the African Standby Force (ASF). The force is to be composed of standby multi-displinary components, with civilian and military elements. These will be sub-regionally based brigades in the countries of origin and ready for rapid deployment at appropriate notice. The brigades are to be structured and trained to contend with six scenarios as foreseen by the AU.

The ASF was to commence with phase one in June 2005, when the regional standby brigades were to be launched, but SADCBRIG was actually only launched in August 2007. In phase two, if things go according to plan, the ASF shall be fully operational by 30 June 2010 when the regional standby brigades, including SADCBRIG, would have developed the capacity to manage complex peace keeping missions, i.e., both scenario 5 (an AU peacekeeping force for multidimensional missions) and scenario 6 (an AU intervention mission) as described above.

Some analysts doubt if the 2010 time frame will be fulfilled:

> There is little reason to expect that the development of the African Standby Force will be completed by the target date of 2010 and that these forces will be able to mobilise the military capabilities expected of them (Klingbiel 2005: 18).

> If countries such as South Africa, Nigeria and Ghana are willing to provide civilian police in large numbers why can other countries not follow suit? This calls into question whether there is sufficient political will among AU member states to see the end of the crisis in Darfur. Where is the African Standby Force that is building five Sub-Regional Brigades? Could part of this force not have been deployed in Darfur (Anyidoho 2006: 160)?

The ASF faces several challenges including funding, a shortage of equipment, and a lack of capacity. This will make it difficult to carry out missions and operations with troops who lack basic equipment and whose monthly stipends cannot be met. No matter how much political will troop contributing countries have, if a perception has been created that their sons and daughters are being channelled into needless suffering far away from their homes, these countries will be reluctant to send their troops. There are other hurdles, especially questions surrounding deployment. Where and when do you deploy the standby brigades, and who is the mandating authority? There is a further danger of pigeon-holing peacekeeping if the standby brigades are mainly deployed locally in their regions. Sometimes member states are part of the problems – hence from the onset it must be made clear that these brigades will be deployed anywhere on the continent. However, at the end of the day the sub-regions have the right to decide where

and when to deploy the brigades.

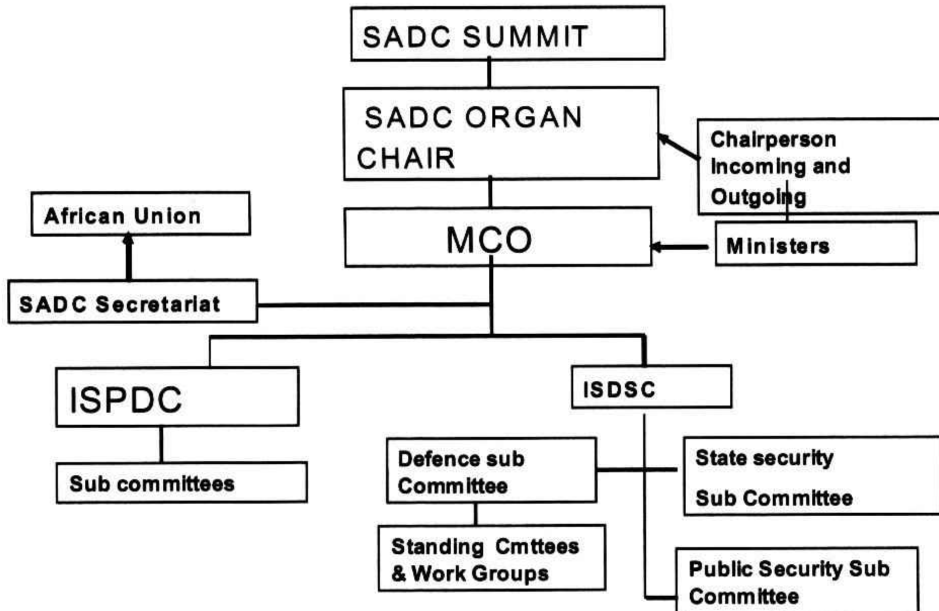
For SADC the standby brigade was launched but there are still a number of issues that needs to be resolved. Some of these are at national level but also invariably linked to the SADC security architecture, and unique history that goes back as far as the days of the Front Line States and liberation wars.

SADC Security Architecture and Harmonisation Challenges

Ngoma (Interview, 7 Nov 2007) recalls that the southern region was one of the most volatile areas in the world during the late 1970s, 1980s and early 1990s, that the creation of inter-state structures in southern Africa was in response to meeting the security and development challenges facing the region. Beginning with the Southern African Development Coordination Conference (SADCC) and the Front Line States alliance as the precursors of SADC, through to the establishment of the Inter-state Defence and Security Committee (ISDSC), the creation of the Organ on Politics, Defence and Security (OPDS) and the Mutual Defence Pact and other instruments, southern Africa has blazed a time-tested trail of building alliances and solidarity in the region. This is a process that predates the African Union, the PSC, CEWS or ASF.

At present the SADC security architecture is as follows:

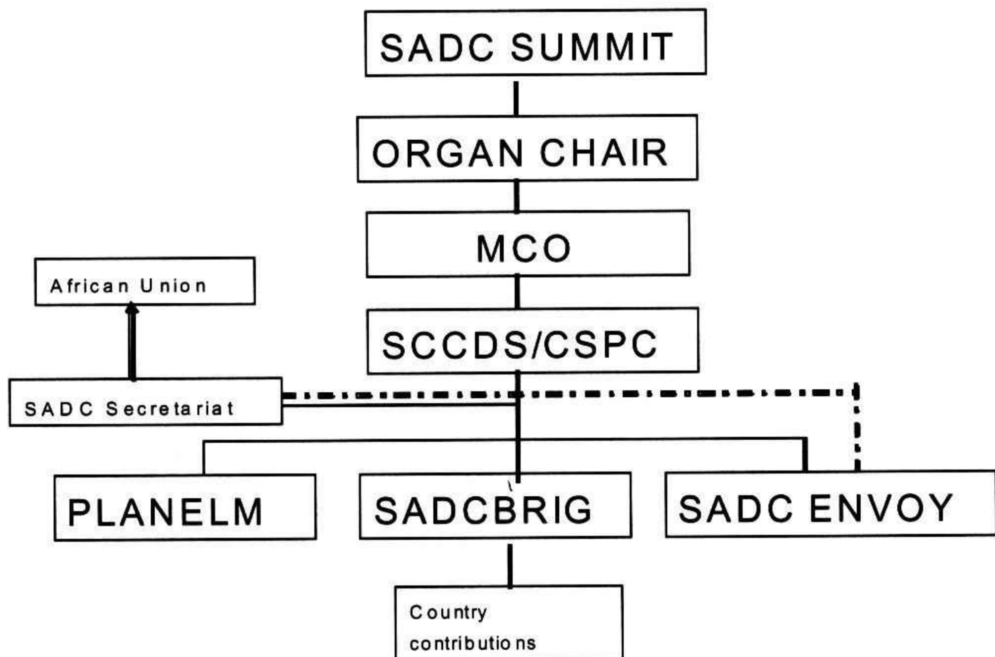
Figure 4: SADC Organ Structure



Source: Lephoto (2007)

The primary SADC institutions dealing with political and security cooperation are the summit and the OPDSC. In line with the general rule, decisions by the summit and the OPDSC on political and security matters are generally made by consensus (Oosthuizen, 2006: 284)

Figure 5: SADC Management Structure



Note: MCO = Ministerial Council; SCCDS = SADC Committee of Chiefs of Defence Staff; CSPC = Committee of SADC Police Chiefs; Planelm = Planning Element
Source: Lephoto (2007)

The OPDSC comprises: (a) the chairperson, and the office of the chairperson; (b) the Troika consisting of the outgoing, current and incoming chairpersons; (c) the ministerial committee; (d) the ISPDC, and its subsidiary bodies; and (e) the ISDSC, and its subsidiary bodies (together, the MC, ISDSC, and ISPDC are the 'ministerial committes'). It remains to be seen how AU decisions are going to be implemental especially regarding SADCBRIG. SADC has its own system for decision making, the Troika system, which is meant to retain and extend institutional memory (Machakaire, 2007).

Conclusion

SADC has a history as a force for change. The formation of SADC was the culmination of a long process of consultation by the leaders of southern Africa. The positive experience gained in working together in the group of Frontline States, to advance the political struggle, had to be translated into broader cooperation in pursuit of economic and social development. Over the years SADC has undertaken institutional reforms to put in place appropriate mechanisms. The role of SADC in the AU security architecture could be summed up as follows:

> SADC's aspirations are consistent with the AU's peace and security architecture, which is being designed with regional organisations as the building blocks of the continental structure. What, nevertheless, remains as a challenge is moving rapidly on implementing its formal commitments, operationalising its structures to the fullest as it strives to ensure that interstate conflicts never occur and intra state conflicts are never allowed to threaten the peace and security of the region (Ngoma, 2007).

Issues of institutional capacity, availability of resources and the sustainability of operations will impact significantly on the input by SADC at the continental level.

Darfur is currently a test case for the AU and many countries including SADC will be watching how the AU goes about resolving the serious hurdles confronting that particular mission.

SADC has the following vision;

> The SADC vision is one of a common future, a future in a regional community that will ensure economic well-being, improvement of the standards of living and quality of life, freedom and social justice and peace and security for peoples and the historical and cultural affinities that exist between the peoples of southern Africa (http:/www.sadc.int/English/about/vision/index.php, accessed 16 June 2007).

The Kampala document has as one of its objectives to ensure that the activities of the RECs are consistent with the objectives and principles of the AU, and that implies alignment and harmonisation between the core and the periphery, but the reality is that these sub-regions have their own unique origins and identities.

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Collective Security and Mutual Defence: A Synthesis

Anthoni van Nieuwkerk

The theme of collective security and mutual defence was explored in the four previous chapters which dealt with conceptual and operational aspects of Southern African Development Community (SADC) security cooperation.

The first chapter, by Gavin Cawthra, offers a conceptual and comparative overview of collaborative regional security and mutual defence. From this overview he identifies a number of common features and discusses these in the context of its relevance to SADC.

Collaborative security is used by Cawthra to refer to a wide range of security cooperation, including common, cooperative, comprehensive, collective and human security. The bulk of his paper explores the characteristics of a range of multi-functional regional security arrangements including the Arab Maghreb Union (AMU), Association of South East Asian Nations (ASEAN), African Union (AU), Commonwealth of East and Southern Africa (COMESA), East African Community (EAC), Economic Community of Central African States (ECCAS)), Economic Community of West African States (ECOWAS), Gulf Cooperation Council (GCC), Inter-governmental Authority on Development (IGAD), Commonwealth of the South (MERCOSUR), Organisation of American States (OAS) and South Asian Association for Regional Security (SAARC).

The paper comes to the following insights. First, virtually all regional organisations today are multifunctional and combine political, economic, social and security functions. Cawthra argues that SADC is 'quite unique' in the sense that it is the melding of two separate organisations with partially overlapping membership: the Frontline States (FLS) which dealt with political and security issues and the Southern African Development Coordination Conference (SADCC) which dealt with economic issues. These functions have now been integrated 'and it appears to be working' (Cawthra in this volume).

Secondly, regarding the relationship between mutual defence provisions and collaborative or common security, Cawthra argues that the general lesson seems to be that to invest too much time and effort in developing mutual defence pacts, to the detriment of common security, and particularly in the context of no obvious common external enemy, would seem to be unwise. Such a focus could also lead to a narrow, militaristic response. On the other hand, he argues, as part of a package of measures aimed at confidence-building, a mutual defence pact linked to principles of non-aggression would seem to add value to organisation building. He argues that in the case of SADC the mutual defence pact was designed to allow for military and non-military responses (referring to the so-called 'opt-out' clause, explored in more detail by Maeseresa (in this volume)) and hence the existence of the pact should not be interpreted to be a militaristic response to the requirement for security cooperation. And in fact, the pact has not yet been ratified, and is therefore not operational.

Thirdly, in response to the question of whether there is a role for regional hegemons, Cawthra notes that the more successful regional organisations mostly seem to contain a regional hegemon: Brazil in MERCOSUR, Indonesia in ASEAN or Nigeria in ECOWAS. He then notes that within SADC South Africa acts as a (mostly benign) hegemonic power, with its GDP exceeding that of all the other member states together. However, arguably it has not sought to translate this overarching economic power into the use of military and political power, rather choosing

to play a relatively low-key role in SADC structures and privileging collective decision-making and solidarity. Whether South Africa remains engaged or not (and note that it took the chair of the organisation in August 2008), and whether it chooses to use 'soft' or 'hard' power, its action will be critical for the future of SADC.

Fourth, the extent of institutionalisation within the regional security organisations studied varies widely, with many of them deliberately choosing to remain as intergovernmental organisations rather than supranational ones, and keeping bureaucracy to a minimum. Informed by the Scandinavian experience, Cawthra argues that there does not seem to be a necessary and contingent relationship between institutionalisation and the degree of effective security cooperation. He does acknowledge, however, that strong institution-building initiatives can have positive effects. With regard to SADC, he concludes that the oft critisised failure to develop relatively strong institutions, especially to service the SADC Organ on Politics, Defence and Security Cooperation (OPDSC), may be a less critical factor than political will in holding back the development of the organisation. In other words, it may be more appropriate to concentrate on the political than the institutional.

Fifth, regarding the apparent need for democratic values to be shared, he notes the argument by Nathan and others, namely that SADC's weaknesses can be largely ascribed by the fact that democratic values are not strongly shared or internalised within states. Cawthra argues however that the evidence from the case studies are somewhat contradictory, and concludes that the key issue is that values are constructed over time, through processes of interaction and change, and it might be expected, or at least hoped, that the same will happen in SADC.

Sixth, regional cooperative arrangements seem to involve a trade-off between sovereignty and supranationalism. Cawthra notes that the issue is whether initially regime-driven, elite-driven and state-driven processes open themselves up to participation by business and civil society, and whether what might be initially rather narrow foci on regime security are able to be translated into common security and eventually human security. For him, it is the process that counts. Regarding SADC, Cawthra notes that it continues largely to be an inter-state organisation, and that the question is whether it is moving beyond this: '...will the increased communication and security transactions between states lead to an increase of the same amongst the peoples of the countries concerned, and will the agendas of human security be heard more strongly?'

Having examined the nature and characteristics of collaborative security from a comparative perspective, the other chapters explore the status of implementation of SADC's security agreements and institutional arrangements.

Sadiki Maeresera investigated the SADC Mutual Defence Pact (MDP). He notes that mutual defence pacts or treaties are formal agreements between states to enhance the defence and security capabilities of its signatories, and can range from a broad joint 'friendship and cooperation' security treaty to a specific military commitment for mutual defence against aggression or to protect sovereignty or territorial integrity. Regarding SADC, Maeseresa argues that its mutual defence capability remains a function of political and strategic leadership (including, he argues, 'political respect, integrity and effectiveness of the OPDSC Chair'), the capacity of the subregional standby brigade, SADC's industrial and scientific capacity as well as the region's international relationships. However Maeresera found a number of problems with implementing the SADC MDP. First, although adopted in 2001, it is not yet ratified. It is unclear whether this is for technical or political reasons. Often, protocols take years to be ratified by member states (members have different legal and constitutional requirements for ratifying treaties). On the other hand it might reflect reluctance on the part of the political leadership to commit to mutual

defence. Second, the decision-making procedures relating to action to be undertaken under the auspices of the MDP appear cumbersome (the MDP's article 6(2) is insistent on Summit approval). However, SADC's ability to undertake crisis decision-making has markedly improved, as shown by its recent responses to the Zimbabwe election crisis and mediation initiative (extraordinary meetings of Summit and the OPDSC were assembled within two days of agreeing to meet). Third, as the DRC case (and more recently Zimbabwe) illustrates, there appears to be little or no sharing of common values among member states, inhibiting the development of trust, institutional cohesion, common policies and unified responses to crises. Fourth, states are reluctant to surrender a measure of sovereignty to a security regime that encompasses binding rules and decision-making. Fifth, the sustainability of SADC's defence and security programmes, given the state of the region's economies, is in doubt. Finally, external political influences and economic aid packages might affect the region's cohesion in matters of defence and security cooperation.

One of the various recommendations regarding the way forward is worth examining. Maeresera recommends that SADC continuously assess and review its perception of threat, including security problems regarded as pressing. In his view there needs to be a clearer definition of what is to be considered a threat, or the mutual enemy, as this will reduce ambiguity and enable the attainment of common goals among member states. This is a problematic recommendation, as it might have the opposite effect. The 'threat analysis' approach suggests the presence of an enemy – often external – poised to harm the interests of the region, or individual countries, and hence requiring an aggressive response. This approach struggles to account for the kind of challenges associated with internal dynamics, including issues of governance. A slightly different recommendation is proposed below, which is attractive since its logic overrides the 'mutual enemy' focus. Let us examine it.

Paulino Macaringue and Shirley Magano analysed the Strategic Indicative Plan for the Organ on Politics, Defence and Security Cooperation (SIPO). A range of recommendations is offered after a contextual overview of SIPO's development. Key amongst these are, firstly, an urgent need to provide SIPO with an implementation strategy that clearly outlines the road map for the operationalisation of the OPDSC. Part of this is the imperative for SIPO to be aligned and integrated as a component of the Regional Indicative Stategic Development Plan (RISDP). In the process, they hint, there might be a realignment of RISDP itself. Secondly, there is need to develop a communication strategy to ensure that all stakeholders are informed about the SIPO implementation process. Effective communication can also assist with deepening ownership of the plan. Third, the OPDSC structure at the SADC Secretariat needs to be elevated to the top management level and be empowered to generate monitoring and evaluation systems across the various activities of SIPO, both on a regional and national level. Finally, Macaringue suggests that SADC conducts a regional security review aimed at identifying the conceptual and organisational needs in the area of the OPDSC. Part of this recommendation relates to the design and implementation of security sector reform strategies in order to align and harmonise SIPO with the RISDP. The option of a regional security review is appealing because it shifts the attention from the 'mutual enemy' towards the challenges relating to human security, which can best be managed by an integrated security and development approach. However, the modalities of undertaking such a review, including the identification and involvement of key players, are not discussed and will require careful reflection.

Louis Fisher examined the relationship between the African Union (AU) and the continent's regional economic communities, with a special focus on SADC. He identified the difficulties

with harmonising security approaches and practices by global, continental and regional organisations. In his analysis the AU expects that SADC will implement its decisions 'expeditiously' whilst in reality, SADC has evolved its own specific way of managing security, which is not necessarily or always in harmony with that of the AU.

His chapter examines the shape and nature of the continental security architecture (in particular the AU Peace and Security Council, the Panel of the Wise, the Early Warning System and the Standby Force arrangements). His research leads him to conclude that the realities on the ground are such as to inhibit the consolidation of AU-SADC security cooperation. Ways and means to improve the situation involve overcoming both implementation and relationship issues. He noted in particular that 'issues of institutional capacity, availability of resources and the sustainability of operations will impact significantly on the input by SADC at the continental level'. He also comments that 'it remains to be seen how AU decisions are going to be implemented, especially regarding the SADCBRIG has its own system [of decision-making] namely the Troika system ... which is meant to retain and extend institutional memory ... the reality is that these sub-regions have their own unique origins and identities'.

Conclusion

This research brings two overriding impressions to the table. First, SADC has developed a broad but shallow security architecture (broad in the sense that it covers a range of collaborative agreements and institutional arrangements, such as the OPDSC, MDP and SIPO; but shallow in the sense that SADC's authority to make, implement and enforce decisions are constricted by members' insistence on the primacy of state sovereignty). Second, and perhaps as a consequence, SADC security structures are struggling to implement a range of activities as identified and demanded by the various policy frameworks (SADC Treaty, OPDSC protocol, MDP, SIPO). SADC's evolution into a 'tight' (cohesive, value-driven) collaborative security institution depends on much more than merely developing more effective and efficient management practices. At the core of this dilemma seems to be the question of identity, a question of SADC's 'regionness'. Indeed, SADC would benefit from a reflection on the nature of the region's security needs (Macaringue's proposed regional security review). This ought to be followed by a further reflection on the manner in which the region should deepen collaboration to secure its people and institutions (the question of the RISDP-SIPO relationship). The four papers in this section, whilst not necessarily speaking to the 'who are we' question, illustrates the difficulties of implementation in the context of a weak common identity and understanding of the way forward.

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THEME III: TRADE

Project III.a: National trade policies

Focus on analysis of constraints that SADC member countries face in implementing the SADC Trade Protocol.

Addressing Sensitivity under the SADC Trade Protocol

Johnson Tsoro Maiketso and Khutsafalo Sekolokwane

According to the July 2004 Framework Agreement, World Trade Organistion (WTO) members may designate 'an appropriate number, to be negotiated, of tariff lines to be treated as sensitive products, taking into account the existing commitments for these products' (WTO 2004). Under their Trade Protocol, SADC member states identified a number of products as sensitive products (classified as category C in their tariff schedules). According to the protocol, trade liberalisation for these products were to be delayed. The main guiding principle was the acknowledgement that the SADC member countries are at different levels of development, thus they needed appropriate and adequate 'policy space' to cushion against the immediate effects of trade liberalisation. In compiling lists of sensitive products, member countries were to take into account their country-specific needs including, but not limited to, government revenue, industrial protection, poverty and rural development. Regardless of the specific needs of any particular country, delay in liberalisation would offer protection on the particular products (and thus industry/sector) that would be in the sensitive list. In turn, the tariff revenue would continue to be collected on imports of such products. By all accounts, delaying liberalisation on the identified products amounts to protection against regional (SADC) imports through tariffs. The necessity to maintain protection on the sensitive products, regardless of the underlying reason, should therefore be motivated mainly by actual or anticipated imports of the products.

This paper attempts to address the issue of the SADC member countries' tariff revenue *vis-à-vis* the sensitive products. In this study, we have used intra-SADC trade flows and tariff offers to obtain revenue raised from the identified sensitive products' list. We look at the trade flows of the sensitive products within the SADC region. Indications are that most of these products are barely traded within the SADC region and very few of them are important as far as revenue generation is concerned. This brings to question the motivation for their inclusion in the sensitive list. The significant differences across member countries' sensitive lists and the substantially bigger sizes of some countries' lists could only delay implementation in a substantial number of products, making it cumbersome to implement the customs union in 2010. It would be in the best interest of the SADC member countries to minimise differences in tariff schedules as we move closer to the establishment of the customs union in 2010. Delaying the removal of tariffs on a sizeable proportion of products that are designated as sensitive could only cast doubt on the political will by the member countries to realise the smooth implementation of the customs union and further deepen regional integration through SADC.

Development Gaps in SADC

SADC has a diverse membership of countries in terms of their levels of development. Of the fourteen member countries of SADC, eight are classified as least developed (LDC)[1] under the World Trade Organisation. Other macroeconomic variables show that some of the SADC member states have economies that are significantly less developed. The World Bank classifies seven of the SADC member states as low-income countries and four others as lower middle-income.

Table 1: Developmental Indicators of SADC countries

Member Country	GDP (2004) US$ billions	GDP per capita (PPPUS$)	LDC	LIC and LMC (World Bank)	HIPC (World Bank)
Angola	19.5	2 180	√		
Botswana	9.0	9 945			
DRC	6.6	705	√	√	√
Lesotho	1.3	2 619	√		
Madagascar	4.4	857	√	√	√
Malawi	1.9	646	√	√	√
Mauritius	6.0	12 027			
Mozambique	6.1	1 237	√	√	√
Namibia	5.7	7 418			
South Africa	212.8	11 192			
Swaziland	2.4	5 638			
Tanzania	10.9	674	√	√	√
Zambia	5.4	943	√	√	√
Zimbabwe	4.7	2 065		√	

Notes: LIC and LMC = low-income country (represented by √) and lower-middle-income country (represented by respectively according to the World Bank Classification
HIPC = Highly Indebted Poor Country. This definition is also according to the World Bank.
Source: United Nations Development Programme (2006);

It is this diversity in levels of development that made it essential to adopt the principle of variable geometry and asymmetry in tariff reduction under the trade protocol. Consequently, the tariff reduction schedules under the trade protocol were to be asymmetrical according to each member country's developmental needs.

Sensitive Products: The SADC Way

Tariff offers were in four categories (A, B, C and E) following the principles explained in Box1.

Box 1: Categories of the tariff reduction schedules

Category	Characteristics of Tariffs
	Most Favoured Nation (MFN) rates were zero or significantly low in 2000
	The non-zero tariffs were to be eliminated immediately and the zero tariffs maintained as such
A	Most of the products were raw materials and other inputs
	Tariffs were to be eliminated in 2008 to pave way for SADC to become a free trade area (FTA)
B	Most products were intermediate and/or final goods
	Tariffs were to be eliminated in 2012
C	Tariffs were on sensitive products
	Tariffs not to be liberalised
E	Products included arms and ammunition

Source: SADC Secretariat; Maiketso and Sekolokwane (2007)

It was necessary that the member states maintained some level of protection against competition from imports from the region emanating from reduced tariffs. In this paper, our interest is to assess the sensitive products lists of member states *vis-à-vis* their potential to raise tariff revenue. We conclude by making policy advice to generate dialogue and map the way forward to ensure the success and overall benefit of the trade protocol. We adopt two approaches to analysing the sensitive lists in this regard. Firstly, we use the trade flows to assess the intra-regional imports (of sensitive products) in respective member states. Secondly, we analyse the sensitive products against their potential to raise government revenue for the respective member countries. While tariff revenue could not be the only (and important) motivation for the drawing of the sensitive lists, it remains important for most of the member states in SADC, considering that more than half of them are least developed. If tariff revenue raising was not a primary reason for the sensitive products' lists, an opportunity to maintain tariffs on products that brought most of the revenue would be a welcome development in such member states.

Criteria for selection of sensitive products

As noted in the introductory section, the identification of sensitive products was to be based on the products' potential to generate revenue, alleviate poverty, and contribute towards rural development – as well as for infant industry protection. Based just on the available trade flow data, it is not easy to tell if these criteria were followed by different members to come up with their sensitive lists. However, a review of the countries' sensitive list shows that products identified as sensitive vary across member states, perhaps due to their perceived diverse developmental needs. Maiketso and Sekolokwane 2007). Given that the trade protocol has been under implementation since 2000, the analysis of trade flows and the potential to raise tariff revenue through the sensitive products is used to gauge their role in regional trade and their importance as a source of government revenue. Without negating the importance of other criteria for the selection of the sensitive products, the potential to raise tariff revenue is particularly crucial given the generally low levels of development and the implied relative dependence on such revenue.

The SADC member countries had substantially different lists of sensitive products (see Table 2). Some countries such as Madagascar, Malawi and Tanzania had significantly longer sensitive lists. Southern African Customs Union (SACU) countries had the least number of sensitive products, with only 31. Some countries had substantially higher tariff rates on their sensitive products as shown by their higher averages and maximum tariffs. Mauritius and Zimbabwe had high maximum tariffs of 80% and 100% respectively. Their averages were also relatively high at 56.5% and 40.6%. Further, Maiketso and Sekolokwane (2007) also observe the diversity in the composition of the sensitive lists across countries. This could prove to be cumbersome when the time comes for the implementation of the SADC customs union in 2010.

Tanzania has delayed commencement of liberalisation until 2008, and Malawi and Zambia until 2009. This means that from the date of commencement of the liberalisation of the sensitive products these countries would have to fast-track their liberalisation agenda. This could impact negatively on the sectors that the sensitive list was initially meant to protect. Even though liberalisation would have been delayed for 8 – 9 years since the onset of the implementation the tariff reduction schedule, the faster pace of liberalisation of the sensitive products could be unbearable. This is likely to be so in cases where during the implementation of the trade protocol since 2000, concrete policy measures were not devised and implemented to prepare the sectors and relevant stakeholders.

Table 2: Profiles of SADC countries' sensitive lists

	Number of Tariff Lines	Max. Rate	Min. Rate	Average	Year of Commencement of Implementation[1]
SACU	31	54.0	20.0	39.7	2000
Madagascar	819	20.0	5.0	18.4	2006
Malawi	719	30.0	5.0	20.2	2009
Mauritius	520	80.0	10.0	56.5	2000[2]
Mozambique	299	35.0	2.5	29.1	2001
Tanzania	810	30.0	30.0	30.0	2008
Zambia	251	25.0	5.0	23.0	2009
Zimbabwe	410	100.0	10.0	40.6	2001[3]

Notes:

[1] Some countries commenced liberalisation on their sensitive products immediately at the beginning of the implementation of the trade protocol. However, in most cases such immediate liberalisation was not on all the tariff lines. Liberalisation was delayed on other tariff lines.

[2] Liberalisation commenced in 2000 on about 12% of the tariff lines. On the remaining tarifflines, liberalisation commences in 2008.

[3] Liberalisation commenced in 2001 on a selected number of tariff lines. On other lines, liberalisation commenced during different subsequent years

Source: SADC Secretariat

Trade flows of sensitive products

Table 3 shows the extent of imports of products that SADC member states have listed as sensitive. From the table, the individual countries' level of dependence on the SADC region for the imports on the sensitive products is depicted.

Table 3: Intra-SADC imports of sensitive products (US$ million)

	2000	% of Total	2004	% of Total	2006	% of Total
Botswana	160.6	94.5	261.9	84.3	176.1	83.4
Lesotho	7.8	93.8	31.1	98.1	–	–
Malawi	111.2	50.7	128.8	58.0	233.3	77.2
Mauritius	44.6	17.7	58.1	15.6	48.6	12.4
Mozambique	98.4	54.5	147.8	52.0	184.4	53.2
Namibia	168.0	95.0	274.2	94.5	294.4	94.0
South Africa	4.3	0.4	2.4	0.1	1.7	0.0
Swaziland	82.1	95.4	127.7	95.2	–	–
Tanzania	27.9	7.0	69.3	1.3	65.9	7.8
Zambia	142.8	70.2	115.2	62.0	170.7	59.6

Sources: Trade and Industry Policy Strategies (TIPS)[2]; SADC Secretariat[3]

Botswana, Lesotho, Namibia and Swaziland (BLNS) depend almost entirely on imports from the SADC region, which make over 90% of their total imports of sensitive products. On the other hand South Africa imports relatively very small absolutely and proportionally of the sensitive

products from the SADC region. South Africa imports less than 1% of her sensitive products from the SADC region. This picture confirms the impact of the SACU on the trading patterns of the BLNS *vis-à-vis* South Africa as the major source of imports. The reason why South Africa imports very little of her sensitive products from the SADC region and specifically from other SACU member countries is in essence because these countries do not produce such products.

Taking into account that intra-SACU trade is duty free, the BLNS and South Africa would not have revenue raising as an important factor in listing these products, as sensitive. It is peculiar that none of the BLNS countries produces the SACU sensitive products but source them from the SADC region, particularly from South Africa, yet such products are accorded longer implementation periods during which they would be subjected to higher tariffs. The plausible intended justification for the delayed liberalisation would be to protect the South African industries which produce these products. This justification however, is also not supported by the data in that South Africa itself imports very little of these products from the SADC region, mainly because no country in the region but South Africa produces these products. In 2000, when the implementation of the trade protocol commenced, South Africa was importing only US$4.3 million worth of the SACU sensitive products from the SADC region, which was less than 1% of its needs. South Africa's regional imports of these products decreased to US$2.4 million in 2004 and further dwindled to US$1.7 million in 2006. It is highly likely that these were re-exports from other SADC countries.

It is acknowledged that SACU as a trading bloc had listed very few products as sensitive and their implementation period was relatively short (see Maiketso and Sekolokwane 2007). This is seen in a positive light, indicating a political commitment on the part of SACU member countries to fast-track regional trade integration. That SACU has stayed on course as per the tariff offers is confirmed by The Services Group (2004) and subsequently by Maiketso and Sekolokwane (2007). This could also be seen as a pointer on the part of SACU member countries to their commitment to deliver on the successful implementation of trade protocol.

Considering, however, that there is virtually no clear-cut reasoning for the SACU list of sensitive products, no harm to the trade protocol would have been done by not listing these products as sensitive. Further, the list of sensitive products by SACU does not seem to be representative of the diverse membership of the organisation. While the sensitive list would be indicative of the interest of South African industries, especially the motor vehicle industry,[4] the products do not resemble any known interests of the BLNS.

It is doubtful whether the SACU list served any meaningful purpose. A list of this nature should have reflected the trade interests of all the SACU member countries and addressed issues such as industry protection, employment creation, poverty alleviation and revenue raising potential for the benefit of the established needs of the entire SACU membership. It is particularly apparent that SACU member countries whose level of development is significantly low relative to South Africa would not have in the sensitive list products that are characteristic of their export development strategies, and would seek to be protected from effects resulting from the implementation of the SADC trade protocol. For instance, at the time of the commencement of the implementation of the trade protocol, the textile and clothing industry was important for the Lesotho economy in terms of employment creation and attraction of foreign direct investment, but was still in its infancy stage.

Non-SACU SADC member countries show varying levels of dependence on the SADC region for imports of their sensitive products. However, only three countries, Malawi, Mozambique and Zambia import significant proportions of their sensitive products from the SADC region.

Malawi's imports of sensitive products increased steadily between 2000 and 2004. The proportion of SADC imports also increased from 50.7% in 2000 to 58.0% in 2004. In 2006, the 2004 import figure increased significantly from US$128.8 million to US$233.3 million and the proportion to the total also increased to 77.2%. This shows a marked shift in favour of the region in Malawi's source of imports of sensitive products.

For Mozambique, the proportion of imports of sensitive products that come from the SADC region has remained at just over 50%, implying that the remaining half of the demand is met by imports from outside the region. A striking phenomenon is the significant growth rates of Mozambique's imports from SADC. In 2004, these imports increased to US$147.8 million from US$98.4 million in 2000, a 50% increase. In 2006, there was a further increase by 25% to US$184.4 million.

Zambia's imports of her sensitive products from the SADC region stood at US$142.8 million in 2000; about 70% of these products, which is a substantial proportion. During subsequent years, the proportion went down to 62% in 2004 and 60% in 2006. However, in 2004, the absolute value of imports of Zambia's sensitive products had also decreased from US$142.8 million in 2000 to US$115.2 million. These imports increased significantly, by 48% in 2006.

Mauritius and Tanzania import relatively small values of their sensitive products from the SADC region. This picture is not very different from the overall trade patterns that Mauritius and Tanzania have with other SADC countries. While Tanzania's total imports from the SADC region have increased steadily over the years, the absolute import values are still relatively small even when compared to those of smaller regional economies such as Lesotho, Malawi, Mozambique, Namibia, Swaziland and Zambia. The same comparison would apply to Mauritius.

The rather small values of intra-SADC imports of sensitive products, specifically by Mauritius and Tanzania [5] can be explained by the geographical location and distance between these two countries and the rest of the SADC member states. Tanzania is fairly far away from the southern African economic powerhouse, South Africa, and other SADC economies. Further, Tanzania is also a member of the East African Community customs union, and is closer to Kenya and Uganda than South Africa. Mauritius is an island and has established strong trade ties with other countries outside the SADC region and even outside the African continent.

From the foregoing discussions, with the exception of Malawi, Zambia and, to a limited extent, Mozambique, it becomes doubtful that the intra-SADC trade patterns, especially imports, would have been used extensively in making decisions on the lists of products that were to be deemed sensitive. This is more prominent for the SACU countries for which the selected sensitive products have no resultant clear cut benefits for the member countries. The BLNS import almost all the products from South Africa duty-free anyway and, on the other hand, South Africa, which produces these products, imports very small values from the SADC region. Therefore, neither the protection nor the revenue-raising argument would suffice for the SACU sensitive list. The cases of Mauritius and Tanzania are similar.

The Role of Sensitive Products in Tariff Revenue

The fear of loss of tariff revenue as a result of trade liberalisation is a genuine concern especially by small and undiversified economies that substantially depend on tariffs as a major source of government revenue. The need to have enough 'policy space' as such potential is lost would supposedly play a role in informing the decisions on drawing up the sensitive list by the respective member countries. In this section we address the issue of revenue-raising

potential of the products that were deemed sensitive by the respective SADC member states.

Table 4: Estimated tariff revenue raised from sensitive products in 1999, 2006 and 2010[1] (US$ million)

	Total ('99)	SADC ('99)	Total ('06)	SADC ('06)	Total ('10)	SADC ('10)
Botswana[2]	147.8	3.8	93.6	0.4	93.6	-
Lesotho[2]	6.5	0.0	11.0	0.0	11.0	-
Malawi	5.4	1.9	58.9	43.7	58.9	22.0
Mauritius	221.1	22.5	204.1	21.8	204.1	4.6
Mozambique	63.6	31.5	47.9	23.9	47.9	4.4
Namibia	148.0	0.0	52.5	0.4	52.5	-
South Africa[2]	296.6	1.1	2605.6	0.2	2605.1	-
Swaziland[2]	57.6	0.0	25.2	0.0	25.2	-
Tanzania	113.9	8.2	246.1	18.0	246.1	1.4
Zambia	18.1	8.7	49.3	28.0	49.3	16.4

Notes:

[1] When estimating the tariff revenue that will be raised in 2010, the 2006 import values are assumed and the tariff rates of 2010 according to the tariff offers are used.

[2] The estimate of tariff revenue for SACU member countries takes into account that intra-SACU imports do not attract duties.

Sources: SADC Secretariat; TIPS

The SACU countries are a peculiar group. Tariff revenue for individual SACU countries is obtained through a revenue sharing formula, which is not only dependent on the tariff revenue raised but also includes excise duties and a development component. The BLNS countries in particular contribute very little to the tariff revenue component of the SACU revenue pool. This is mainly because these countries import very little from outside SACU; most of their imports are from South Africa and thus do not attract customs duties. South Africa on the other hand, the largest importer within SACU, imports very little from SADC in general; in 2000, 2004 and 2006, South Africa imported the smallest value from the SADC region among all the SADC countries that had data (see Table 3).

The estimates of tariff revenue collected from SADC as depicted in Table 4 shows that the SACU share of revenue generated from intra-SADC imports is proportionately very small. In 1999, the share of tariff revenue accruing to SACU member countries from their sensitive products amounted to only US$4.9 million, which accounted for a paltry 0.2% of the total tariff revenue from sensitive products. The proportionately small share of intra-SADC imports (of sensitive products) to total imports is evident across all the SACU countries. Lesotho, Namibia and Swaziland imported less than US$1 million value of sensitive products from non-SACU SADC countries. Despite that in 1999 South Africa would collect US$296.6 million in tariff revenues from the sensitive products, just over US$1 million of that came from imports from SADC member countries other than SACU. In 2006, South Africa's total tariff revenue from sensitive products increased nine-fold from the 1999 value; the corresponding figure for intra-SADC tariff revenue would have been a reduction by about half, assuming that the intra-SADC tariffs had remained at MFN level. As a result of tariff reduction, South Africa could only raise US$0.2 million in tariff revenue from imports from non-SACU SADC countries. Level of dependence on

tariff revenue generated from the SACU sensitive products could never have been the guiding principle for the sensitive list drawn by the member countries.

A significant increase of Malawi's tariff revenue from imports of its sensitive products was recorded in 2006; both total tariff revenue and intra-SADC tariff revenue increased phenomenally. The tariff revenue from the intra-SADC imports increased much more, by over 2000% compared to about 1000% increase in the total tariff revenue. As a result, in 2006, the level of dependence of Malawi on sensitive products for tariff revenue had increased.

Table 5: Proportion of Intra-SADC sensitive imports contributing 90% of tariff revenue

	No. of Products	1999	2000	2002	2004	2006	Average
Botswana	31	14.3	42.9	28.6	28.6	14.3	25.7
Lesotho	31	5.0	5.0	0.0	5.0		3.8
Malawi	719	6.0	7.0	9.4	7.9	6.1	7.3
Mauritius	520		19.3	21.3	18.3	17.7	19.2
Mozambique	299		11.8	12.9	13.2	11.8	12.4
Namibia	31	9.5	9.5	23.8	19.0	14.3	15.2
South Africa	31	42.9	19.0	33.3	23.8	23.8	28.6
Swaziland	31		4.8	4.8	14.3		8.0
Tanzania	810		5.9	7.8	6.8	4.1	6.2
Zambia	251	13.7	5.0	14.2	8.7	8.7	10.1

Sources: SADC Secretariat; TIPS; Maiketso and Sekolokwane (2007)

In Table 5 we show the proportion of the sensitive products that contribute 90% of the total tariff revenue raised from such products by individual countries. The general picture reveal that for all the SADC member countries, very few products are important as far as revenue-raising is concerned. Data show that some of the products that are listed as sensitive are virtually not imported by the concerned countries. This phenomenon is consistent during the period 1999 – 2006.

Conclusions

It was important that under the SADC trade protocol member countries designated products whose liberalisation they would wish to delay in order to prepare their economies and stakeholders to adjust to the effects that liberalisation would bring about. The selection of sensitive products therefore, should not have been informed by the need to have longer lists of products, but rather by careful identification of products that needed some kind of extended protection from regional imports. Longer lists of sensitive products would not only put in doubt the commitment to accelerating liberalisation and thus regional integration but also jeopardise the need on the part of member countries to demonstrate their political will with regards to the regional integration agenda. That most of the products were virtually not imported by the countries that listed them as sensitive brings into question the extent to which proper assessments were conducted by member countries to ascertain the suitability of the products. Further, such products could not raise revenue through intra-SADC imports, thus the need for the most least developed countries to raise government revenue would not qualify as a motive for their identification as sensitive.

It is not unlikely that the selection of the products was done under serious lack of data, especially trade flows. The SADC trade database[6] that is developed and maintained by TIPS, became operational only after the implementation of the trade protocol had commenced. Such a facility could have been useful at the time the member countries made offers and when the negotiations were taking place. While the sensitive lists could be representative of the domestic conditions of the SADC member states, they are divorced from reality as far as the regional trade patterns are concerned.

Further, most of the products that made it to the lists of sensitive products in the respective countries could not certainly adequately address tariff revenue raising as an important issue in the negotiations given the need for such revenues by a sizeable number of the SADC member states. That most of these products are barely imported follows that the protection they enjoyed under the trade protocol could have been extended to products that are relevant for instance, to poverty alleviation, employment, food security or industrialisation. For example, the products that SACU countries listed were of no relevance in addressing these issues in South Africa that seemingly listed them, let alone to the BLNS countries. Perhaps it was and still is necessary that the periodic review[7] of the tariff offers were conducted with the intent to align them with reality. This exercise would have been useful along the implementation of the trade protocol in reducing the unnecessarily long sensitive lists on one hand, and introducing new products in line with the needs of the member countries. As four years remain to the end of the implementation of the liberalisation schedule (of the sensitive products), a review of these lists could be considered. For some of the products, in certain countries liberalisation has not yet commenced, and it will not make sense to keep on delaying it.

The trade protocol is a tool at the regional level to promote deeper integration, the results of which among others could be shown by increase in intra-SADC trade. As a result, it would be in the interest of the member countries not to put in place any measures that could stifle growth of intra-SADC trade. Delayed liberalisation of a sizeable number of products (as is the case for other countries) beyond 2010 could be undesirable for the implementation of a customs union. Where practicable, it will be desirable to review sensitive tariff offers with the view to reduce them by eliminating tariffs on products that clearly do not need any protection.

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Annex 1: SADC Member states' lists of sensitive products

HS Chapter Included in Category C of the Tariff Offers

Country	Number of products and HS Chapters Included
SACU	31 products (0.4% of the tariff schedule) Chapter 87
Madagascar	819 products (13.3% of the tariff schedule) 01-04; 06-13; 15-22; 24-25; 33-36; 39; 46; 48; 52; 63-64; 71; 73; 76; 79; 85; 87; 93-94; 96-98
Malawi	719 products (14.3% of the tariff schedule) 01-24; 27; 36; 41-42; 48; 52; 60-61; 63; 73; 87
Mauritius	520 products (9.5% of the tariff schedule) 02; 04; 08-09; 11; 15-25; 31-36; 38-40; 42-44; 46; 48-49; 56-57; 61-64; 66-68; 70-73; 76; 82-85; 87; 89-90; 94-96
Mozambique	299 products (5.7% of the tariff schedule) 02; 04; 07-08; 10-11; 15-17; 19-20; 22-25; 27-28; 32; 34; 39-40; 48; 52; 63; 68; 70; 72-73; 76; 79; 83-85; 87; 94
Tanzania	810 products (13% of the tariff schedule) 04; 06-11; 15; 17; 19-25; 34; 36; 39; 40; 48; 52; 54; 55; 58; 59; 61-63; 70; 72; 73; 85; 87; 96
Zambia	251 products (4.1% of the tariff schedule) 02; 04; 07; 09; 11; 17; 25; 27; 36; 48; 61-64; 87; 96
Zimbabwe	410 products (5.7% of the tariff schedule) 07; 11; 19; 22; 24; 27; 30; 36; 38; 48-49; 69; 71; 73; 76; 82; 84-85; 87-89

Sources: SADC Secretariat; Maiketso and Sekolokwane (2007)

Annex 2: Intra-SADC IMPORTS

Intra-SADC Imports During 2000 – 2004 (US$ million)

	2000	2002	2004	2006
Botswana	1 617	2 021	2 870	2 699
Lesotho	531	616	910	
Malawi	291	399	529	721
Mauritius	330	298	346	299
Mozambique	475	356	1 015	1 143
Namibia	1 244	1 008	2 098	2 134
South Africa	349	397	1 007	1 543
Swaziland	1 036	856	1 636	
Tanzania	289	208	360	580
Zambia	594	726	1 305	1 744

Source: TIPS

Notes

1. The WTO has adapted the UN classification of countries according to their level of development, thus countries classified by UN as LDC are so classified under the WTO.
2. The data is available online at http: //www.tips.org.za.
3. Some of the data was obtained directly from the SADC Secretariat and some from the SADC Trade Database available on online at http: //data.sadctrade.org.
4. The SACU sensitive list can be said to reflect the interests of South Africa only to the extent that the products are prominently produced by South Africa and that programmes such as the Motor Industry Development Programme (MIDP) vigorously advance the development of industry through government policy. The trade figures as discussed in this paper could not have been used to rightly inform the development of the sensitive list *vis-à-vis* the interests of South Africa.
5. The relatively lower values of intra-SADC imports by Mauritius and Tanzania is also evident in total imports. This is indicative of not very close trade patterns between Mauritius and Tanzania and the rest of the SADC membership.
6. The SADC trade database gives the trade flows (exports and imports) at HS 8. Only South Africa has data from 1992; Malawi and Zambia have data from 1998; Botswana, Lesotho and Namibia from 1999 and Mauritius, Mozambique, Swaziland and Tanzania from 2000.
7. eriodic reviews, however, could be open to abuse but are an important tool for monitoring. The Mid-term review of the trade protocol by The Services Group (2004) did not address this issue. The review was confined to assessing the implementation of the tariff offers as they were made prior to the commencement of the implementation.

Export Performance and Trade Facilitation in SADC

Line Tøndel Seim

Andersen and Wincoop (2004) state that 'the death of distance is exaggerated': trade costs are large and they still matter. Obstfeld and Rogoff (2000) claim that all major puzzles of international macroeconomics hang on trade costs. The share of developing country imports to high-income countries is expected to increase from 40% today to 65% by 2030, and the share of world trade is projected to be 45%.[1] So far the African continent has lagged behind and the growth in trade for Sub-Saharan Africa has been at around three-fourths of the rest of the world since the 1970s. Thus, Africa's share in world trade has fallen, and openness measured as exports and imports as share of GDP has grown more slowly than any other major developing region. This is also the case for SADC. In 1980 the SADC share of world exports was 1.8%, whereas it was merely 0.7% by 2004.

The geographic position of African countries and the lack of sufficient physical infrastructure contribute to the comparatively large trade costs characterising this continent as compared to other regions. Lyakurwa (2007) identifies high transaction costs as the primary binding constraint on African countries' participation in trade and supply chains. There is empirical evidence that reducing trade costs through trade facilitation will have a greater positive impact in terms of stimulating exports than reducing tariff barriers. For most developing countries' exports, international transport costs are two to three times higher than customs tariffs on imports in developed countries (Djankov *et al.*, 2007).

Trade facilitation addresses the availability and cost of services required for trade of goods and services across borders, associated procedures, transport formalities, insurance and payment requirements. In this study we assess the relationship between the volumes exported and trade facilitation performance for the SADC countries. We do not address issues related to whether there is capacity to produce for export in the domestic economy, as this is beyond the scope of this study. Our motivation throughout this chapter is to pinpoint areas where greater trade facilitation effort is needed to increase trade in the region.

We start by reviewing the performance of SADC in world trade over the last decades. Then we provide some in depth information on the time and costs associated with trade in SADC. We first consider the relationship between trade costs and export performance. We then continue to provide some descriptive statistics on the general business environment, on selected physical and communications infrastructure measures, and on some human capital and institutional indicators in the SADC countries that affect trade costs and trade facilitation performance. We also address whether there is a correspondence between the perceptions of the business community with respect to what the obstacles for 'doing business' are and what the objective measures reveal in part 5. Part 6 summarises the chapter.

We find that Sub-Saharan Africa is the most costly region to export from measured in money and time. This is particularly true of the landlocked countries in the region. Border related issues seem to be binding constraints to domestic firms trying to reach the international market. It is not necessarily that the countries performing poorly in objective measures such as transportation facilities or time needed to export are those where a higher percentage of firms report these as obstacles. Inland transportation and handling is the most important cost component for export in the landlocked SADC countries, whereas document preparation and customs clearance and technical control are more important cost components for the non-landlocked SADC countries.

Document preparation seems to be the most time-consuming part of the export process. For SADC it seems that the more time needed for export, the lower is the export value (export as percentage of GDP) and the fewer products are exported. There is a negative relationship between the number of days needed to export and measures of physical infrastructure, human capital and institutions. Thus, worse performance in these measures implies that more days are needed for export. Generally the cost of trade increases as the quality of most of these measures deteriorates. On average, exports as a percentage of GDP increase as the quality of physical infrastructure, human capital and institutions improve. There is a stronger relationship between export as percentage of GDP and telephone mainlines, electricity supply, health and primary education and port quality.

SADC in International Trade

There is a positive relationship between integration into the world economy through trade and economic growth.[2] The most rapid economic growth has historically been generated from promoting manufactured exports.[3]

In Table 1 we provide indicators of economic development and integration into the world economy for the individual SADC countries in 2005. We notice the differences across SADC in terms of wealth and degree of integration into the world economy. In the Democratic Republic of the Congo (DRC), the GDP per capita is US$ 91 whereas it is US$ 4 649 in Botswana. While GDP increased by nearly 100% for Botswana from 1990 to 2005, the DRC, Madagascar, Zambia and Zimbabwe have seen a negative growth rate over the period. By 2005, Zimbabwe was the only SADC country with a negative growth rate, at – 6.5%. Angola had a growth in GDP at nearly 21%. The inflow of foreign direct investments (FDI) also varies greatly within the region from almost US$ 75 million in Swaziland to $US 8 million in Mozambique. Exports as share of GDP are in the range between 88% and 16%, and imports in the range 95% and 25%. FDI is important as the impact is believed to go beyond the mere supply of capital in poor countries. FDI implies that control of the resources transferred remains with the investor and thus represents a package that also includes transfer of technology and management skills, and provides access to markets and entrepreneurship.

After experiencing a decline in the share of world exports in the 1990s, developing countries' share increased and had surpassed the 1980 level by 2002/2003. There are great differences across developing countries in export experience. In 1980 more than 50% of the developing world's trade accrued to the major petroleum exporters. This share has been reduced, partly due to a drop in oil prices which were less than US$ 40 a barrel in 2004.[4] The entry of China into the global arena contributed to the increase in trade share from 1990 to 2003. The Latin and South American and West Asian regions remained relatively stable over the period. Developing countries are generally more dependent upon trade than developed countries in terms of the size of trade relative to GDP.

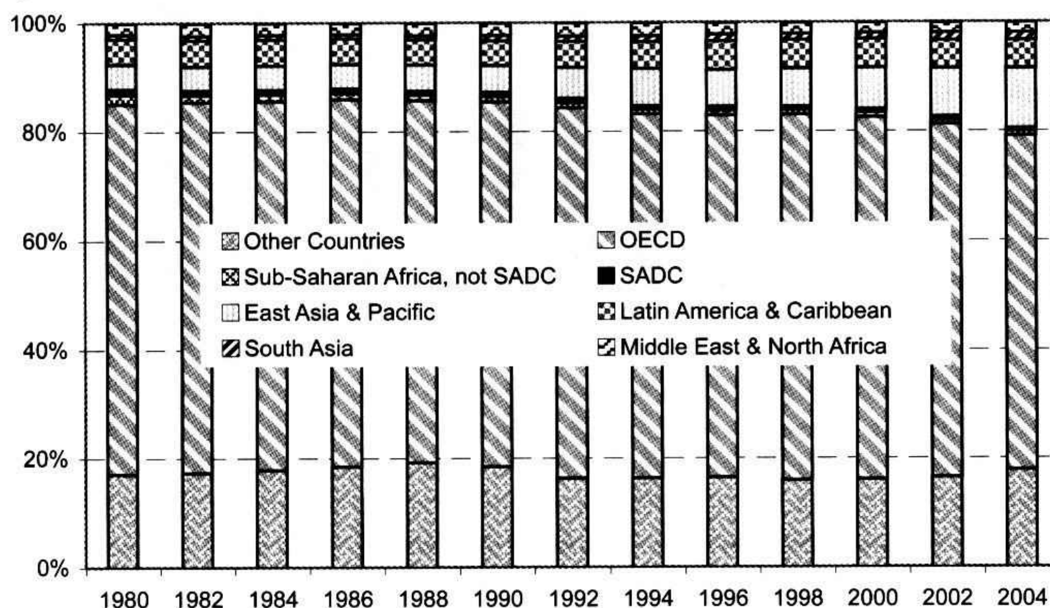
Many developing countries throughout Africa, the Middle East and Latin America rely on a limited number of primary products for export. Of all least developed countries (LDCs), 35 receive at least 40% of export earnings from one or two agricultural or non-fuel mineral products. Malawi (tobacco) and Mozambique (fish, fruit) are among these. Non-mineral primary products have low income elasticity of demand compared to manufactured commodities. A 1% increase in developed country income raises imports of foodstuffs by 0.6%, petroleum products and other fuels by 0.5%, but manufactured goods by 1.9%. The low income elasticity of demand has

Table 1: Basic economic indicators, 2005

	GDP per cap constant 2000 $US	GDP growth	FDI in current US$ millions	Export of goods and services % GDP	Import of goods and services% GDP	% change in GDP 1990-2005
Angola	936.9	20.6	**38.9**	73.5	48.3	16.6
Botswana	4 648.5	6.2	**55.1**	50.7	34.6	95.6
DRC	91.0	6.5	**29.5**	31.6	39.3	–55.2
Lesotho	550.4	1.2	**16.8**	47.9	88.0	42.6
Madagascar	233.2	4.6	**16.6**	25.6	40.3	–14.0
Malawi	154.1	2.6	**23.8**	26.8	53.0	17.3
Mauritius	4 403.5	4.6	**64.2**	56.5	60.9	73.7
Mozambique	291.7	7.7	**8.2**	32.6	42.3	71.9
Namibia	2 083.1	3.5	**51.9**	46.3	45.0	28.7
South Africa	3 405.9	4.9	**24.2**	27.1	28.6	8.1
Swaziland	1368.9	1.8	**74.6**	88.3	95.4	3.0
Tanzania	329.9	7.0	**12.6**	17.1	26.3	27.3
Zambia	350.5	5.2	**35.9**	16.4	25.2	–3.0
Zimbabwe	426.4	–6.5	**22.9**	42.8	52.9	–33.1

Source: World Development Indicators 2007; UNCTAD Handbook of Statistics

Figure 1: SADC share of world exports for 1980–2004



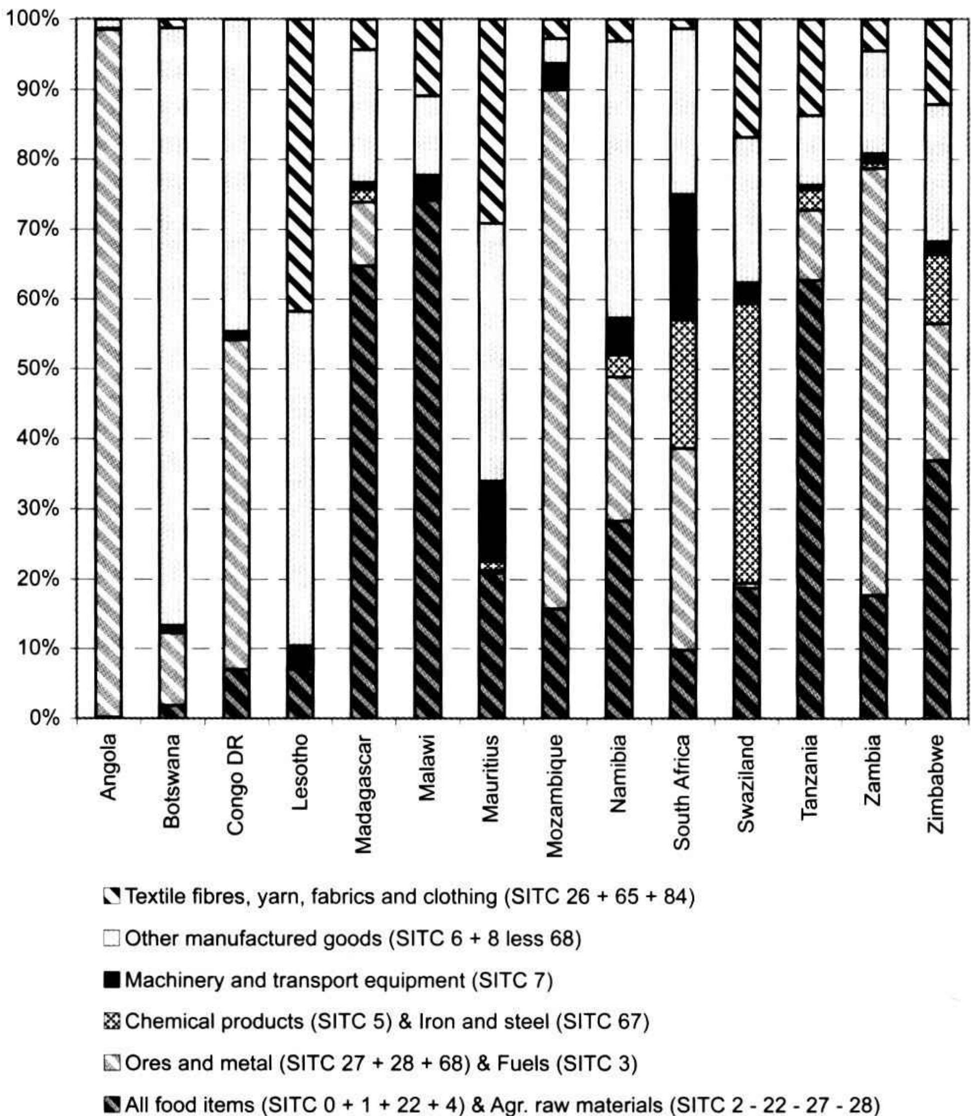
Source: African Development Bank, 2006

caused the relative price of primary products to decline over time (0.6% annually since 1990). Thus the value of exports is reduced. If the volume and number of products exported does not increase sufficiently to make up for the lost revenues, the share in world exports will fall. Recently however, there has been a boom in the demand for primary commodities and prices

of some have tripled between 2003 and 2006 (Radetzki, 2008). This development is caused by the emergence of China and India as importers of raw materials in the world market. Also the new development in the biofuel industry, extracting ethanol for commercial use from plants, has served to drive up and stabilise the prices of agricultural raw materials.

There are some African countries that continue to receive 3% or less of merchandise export earnings from manufactures (Mali, Niger and Rwanda). In poor countries where manufactures constitutes an important part of merchandise export, these are often concentrated in specific sectors, such as textiles and clothing (Bangladesh, Pakistan, Mauritius, Sri Lanka). Even so, exports from developing countries have become more diversified over time, and the share of manufactures in merchandise exports has increased on average between 1996 and 2003. In Figure 2 we see the export of SADC countries by product categories. Several of the SADC

Figure 2: Export by product categories, 2005 [5]



Source:African Development Bank (2006)

countries are dependent upon primary products for export. In the case of Angola, most exports are related to the petroleum industry. This is also true for Mozambique and Zambia. Botswana has a larger share of 'other manufactured goods' which is related to the diamond industry, and includes worked and non-worked diamonds. In the case of DRC, exports sre relatively evenly distributed between ores and metal and fuels in the primary sector and other manufactured goods. For Lesotho, most exports are related to the textiles industry.

The textiles industry is also important in Mauritius along with other manufactured goods. The agricultural and food sector is most important in the cases of Madagascar, Malawi and Tanzania. For Namibia, there is an even distribution between primary sector and manufactured goods in exports, and there is greater differentiation in South African and Swazi exports. For Zimbabwe, the agricultural and food sector is the most important in terms of exports followed by ores and minerals and fuels. There is also export of chemical products linked to the petroleum sector.

Table 2 provides some more detailed information as the top three export products and destinations for SADC countries are listed. The table also provides information on the number of products exported and the degree of diversification of exports. The average number of products being exported from developing countries is 260. From Table 2 we see that Angola, Botswana, DRC, Lesotho, and Malawi exported less than 100 products in 2004. In the case of Botswana, the number of products actually declined between 2000 and 2004 from 119 to 72. Madagascar on the other hand increased its number of products being exported from 78 to 208 during that same period. In addition to Madagascar, South Africa, Namibia and Mozambique also exported more than 200 products each.

The diversification index ranges from 0 to 1 and reveals the difference between the structure of trade of the country in question and the world average. A value closer to 1 indicates a bigger difference from the world average. The index assesses the degree of dependence on separate products. Thus the value will differ even if the number of products is the same if the composition in export shares for each product differs. The diversi fication index will thus have a higher value if a country exports 200 products, where 50% of that export is accrued to a single product than with a more even distribution of export shares for the 200 products. Hausmann, Hwang and Rodrik (2006) conclude that the degree to which increased trade enhances growth is affected by what is exported. The degree of sophistication in the export bundle of a country is found to be a good predictor of future economic growth. And, diversification is positively correlated to economic growth until the economy reaches a certain level and starts to specialise.[6] In 1989, 20 of 42 countries with a GNP per capita below $1600 were more than 70% dependent upon just two commodities for their export earnings (Winters and Sapsford, 1990). In 2004, most SADC countries have a diversification index at 0.8 which means that their structure of trade differs greatly from the world average and exports are less diversified. The table supports the notion that SADC countries need to focus on diversification of exports and be less dependent upon a few products. The average diversification index for Africa is 0.6 and it is 0.5 for China which exported 256 different products in 2004 (UNCTAD, 2007). The general picture is that primary products still constitute a large share of SADC exports. To the degree that there are exports in manufactures, this is also concentrated in terms of products and sectors. In the case of Angola and Botswana it is linked to the presence of natural resource, oil and diamonds.

Trade in services has been growing over the last decade. The share of services in exports has, though, kept relatively stable and only increased from 16% to 17.5% between 1984 and 2004. The largest contributors have been East Asia and the Pacific and Europe and Central Asia. Both

Table 2: Top three export partners and products

Country	Destination	Products	2000	2004	2004 Divesification Index
			No products		
Angola	USA, China and France	Crude oil, refined petroleum products and diamonds	39	75	0.8
Botswana	UK, Europe and the Common Customs Area	Diamonds, copper and nickel matte	119	72	0.9
DRC	Belgium, USA, China	Diamonds, coffee and copper	48	78	0.8
Lesotho	USA, SACU andEU	Clothing and textiles, manufactures	27	43	0.7
Madagascar	USA, France and Germany	Prawns, vanilla and cloves	78	208	0.8
Malawi	South Africa, USA and Germany	Tobacco and tobacco products, coffee and tea	70	70	0.8
Mauritius	UK, France and USA	Sugar, EPZ: clothing, textile yarn and thread	118	165	0.8
Mozambique	Belgium, Zimbabwe and South Africa	Aluminium, prawns and electricity	195	219	0.8
Namibia	EU, Japan and USA,	Diamonds, copper and metal ores	256	259	0.8
South Africa	USA, UK and Japan	Animal (live and products), vegetable products, food and beverages	260	252	0.6
Swaziland	South Africa, Mozambique and other SADC	Food and live animals, beverages and tobacco and crude inedible materials	131	159	0.8
Tanzania	UK, South Africa and India	Coffee, cotton and sisal	85	150	0.8
Zambia	Tanzania, South Africa, China, Thailand	Metals, primary agricultural products and processed food	227	114	0.8
Zimbabwe	China, South Africa, and Germany	Tobacco, gold and ferro-alloys	188	160	0.8

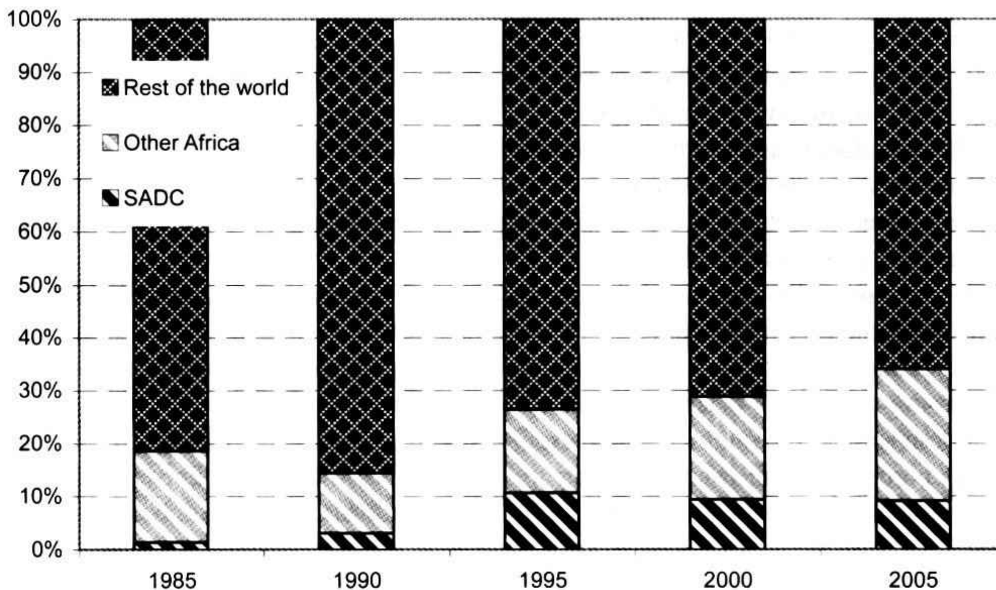
Source: UNCTAD (2001): Table 4.1 SADC Country Profiles

export and import of services are, however, also important to countries such as Mozambique and Tanzania where more than 70% of exports in services are related to tourism and travel.

There has been a rising awareness of the importance of intra-regional trade as a gateway to international markets as well as a source to integration and growth in its own right. South-South trade is growing in terms of trade shares mostly due to the use of imports from developing countries in the Chinese economy. Although China is considered a low cost competitor to African exports on the world market it might also prove a route to participation in international trade. Thus African firms trading with Chinese companies might at a later stage gain access also to other markets. The presence of developed countries actors in the Chinese economy suggests it might be an avenue of internationalization for African firms that are able to gain access to this market.

In most developing countries, average tariffs on manufactured goods are higher on imports from other developing countries than from developed countries. A reduction in tariffs and equalisation to tariffs faced by developed countries might contribute to strengthen South-South trade. Figure 3 depicts the development in intra-regional trade for SADC from 1985 to 2005. As we see from the figure, intra-SADC trade has increased over these decades. This increase is in

Figure 3: Intra-regional trade in SADC, export shares



Source: UNCTAD (2002) online database

part due to the expansion of SADC itself in addition to the real increase in trade between SADC members. A second trend worth noting is the increase in trade with the rest of Africa which does indeed suggest a small increase in South-South trade. However, the potential is still not realised.

Lyakurwa (2007) shows that freight charges on African exports to the US are up to 20% higher than for comparable goods from other low income countries. Lyakurwa (2007) points to the paradox that importing grain into Dar es Salam from the US is easier than moving it from another part of Tanzania, or importing from another country in the region. The price quote for container shipment from Baltimore to Durban is $2 500 whereas the cost to Mbabane (Swaziland) via Durban comes to $12 000, a landlocked penalty of 380%. The median transport cost for intra-African trade is US$ 7 600 for a 40 tonne container which is almost the same as for imports from the rest of the world. This means that any trade facilitation effort to reduce costs of trade will be important not only for participation of SADC firms in North-South trade but will also matter for regional and South-South trade.

Next we provide some in depth descriptive statistics on the costs of international trade in SADC. The information utilised in collected from the Doing Business database and the Enterprise database of the World Bank. We report on the relationship between the time and costs associated with export procedures and actual export performance in SADC.

Time and Costs of Trading Across Borders in SADC

Broadly defined, trade costs include all costs incurred in getting a product to a final user other than the marginal cost of producing the good. Trade costs include transportation costs (freight and time costs), policy barriers (tariff and non tariff costs), information costs, contract enforcement costs, costs associated with the use of different currencies and languages, legal and regulatory costs and local distribution costs.

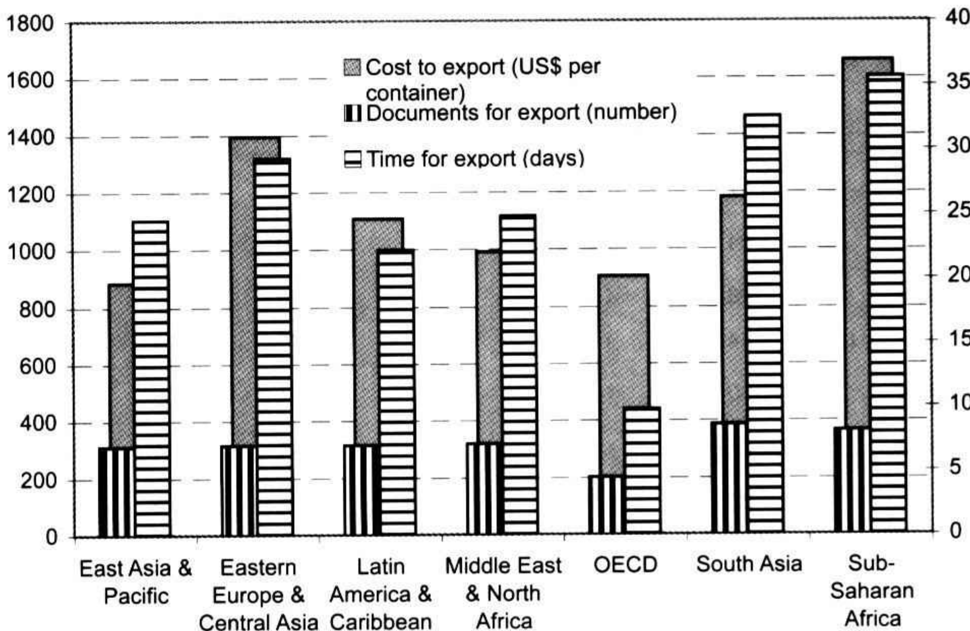
For a representative rich country, trade costs can be represented by a 170% ad-valorem tax equivalent. Andersen and Wincoop (2003) break the total cost into 21% transportation costs, 44% border related trade barriers and 55% retail and wholesale distribution costs.[7] Hummels (2001) provides estimates of the time-cost of shipments. He concludes that for manufactured goods, each day in travel is on average worth 0.8% of the value of the good. This is equivalent to a 16% ad valorem tariff for the average-length ocean shipment.

Djankov *et al.* (2007) assess how the time needed to move goods from the factory to the ship influences the volume of exports. The export procedures are divided into four stages: 1) pre-shipment (inspections and technical clearance; 2) inland carriage and handling; 3) terminal (port) handling and 4) customs and technical control. They make a point of trade facilitation being about more than mere physical infrastructure. In their sample of 98 developed and developing countries, only a quarter of delays were due to poor road or poor port infrastructure. Seventy-five per cent of delays were due to administrative hurdles. The problem is greatest for African landlocked countries, whose exporters need to comply with different requirements at each border. Thus, their findings apply to half of the SADC countries, Botswana, the DRC, Lesotho, Malawi, Swaziland, Zambia and Zimbabwe in particular. In their study, Djankov *et al.* (2007) find that each day of delay reduces trade by at lest one per cent on average. There is an even larger effect on time-sensitive agricultural and manufacturing products, and on transit times abroad for landlocked countries. Their findings thus imply that a reduction in the time needed to export by 10 days might have a bigger impact on exports of developing countries than any feasible liberalisation in Europe or North America. Also Iwanow and Kirkpatrick (2007) found that 10% improvement in trade facilitation increases export by 5%, and a 10% improvement of the the regulatory environment increases export by somewhere between 9% and 11% while a 10% improvement in the quality of infrastructure increases export by 8%. This implies that the focus should not only be on border-related issues. Supply-side constraints such as infrastructure and institutions also matter.

These studies suggest that both monetary and time-associated costs matter for international trade. The Doing Business Database of the World Bank provides objective measures of business regulations and their enforcement across 178 countries. The measures are sorted under 10 headings, of which 'Trading Across Borders' is one.[8] They gather information on the number of documents and time needed for export and import, and the cost of exporting and importing into each country included in the database. In Figure 4 we compare the costs of exporting and the time needed across regions. The number of documents needed for export is also included in the Figure. As we can see from Figure 4, the OECD countries are best performers both in terms of time and costs.

In Latin America and the Caribbean, the Middle East and North Africa and East Asia and the Pacific, the time and costs associated with international trade are twice as high as for the OECD, but still lower than for the other groups. Sub-Saharan Africa is characterised by higher monetary costs and more delays than the other regional or trading groups. In Sub-Saharan Africa it takes on average about 35 days to export and the cost per container is US$ 1 660. In the East Asia and the Pacific region, the average time for export is 25 days and the average cost is US$ 885 per container. From Figure 1 we see that East Asia and the Pacific are top performers in terms of increasing their share in world export from 1980 to 2004. This reflects the findings from research concluding that time matters for export volume (Djankov *et al.*, 2007). For China, which is the main driver behind this trend, it takes 21 days to export, and the cost is US$ 390 per container.

Figure 4: Time and cost of exporting compared across region or trade groups



Source: The Ease of Doing Business Database: http: //www.doingbusiness.org/ ExploreTopics/TradingAcrossBorders/

There are 178 countries ranked in the Doing Business Database. The database includes separate rankings for the 10 categories of measures of the business environment. In Table 3 we provide details on the time and cost of exporting for the SADC countries and we also include rankings for 'Trading Across Borders', the 'Ease of Doing Business' and 'Getting Credit'. The general business environment is important as there is a need for a sound business environment for firms to be competitive, especially at the international arena. The possibility of accessing credit is also of special importance for trade (Africa Competitiveness Report, 2007).

Mauritius is by far the best performer in terms of time and costs associated with international trade among the SADC countries. In the overall assessment 'Trading Across Borders' Mauritius is ranked 17 of 178 countries and its performance is thus as good as the OECD countries and it is ranked just before Japan (18). Mauritius also performs well in the overall 'Ease of Doing Business', at 27 and still ahead of the other SADC countries. However, the country is ranked as number 97 in terms of 'Getting Credit'. The other SADC countries all rank between 100 and 169 for 'Trading Across Borders', and the DRC is the worst performer ranked as 178 in the overall 'Ease of Doing Business'. Most of the SADC countries perform better when ranked along with other countries according to the overall quality of the business environment than when ranked according to the time and cost of trade. All of the landlocked SADC countries perform better in the overall 'Doing Business' rank than they do in the 'Trading Across Borders' rank. This suggests that high trade and transportation costs might be the binding constraint for integration into world trade.

The information from the Doing Business Database also allows us to assess what part of the exporting process is more demanding for the individual countries in terms of monetary and time costs. In Table 4 we report the details from the export process and the total costs of exporting for the SADC countries. The time needed is allocated to document preparation, inland transportation and handling, customs clearance and technical control and ports and terminal handling.

Table 3: Doing business and trading across borders for the SADC countries

		Time for export (days)	Cost to export (US$ per container)	Documents for export (number)	:	Rank Ease of Doing Business	Getting Credit
Mauritius		17	728	5	17	27	97
Tanzania		24	1 212	5	100	130	115
Madagascar		28	1 182	4	126	149	176
Lesotho	*L*	44	1 188	6	129	124	115
South Africa		30	1 087	8	134	35	26
Mozambique		27	1 155	8	140	134	97
Namibia		29	1 539	11	144	43	36
Botswana	*L*	33	2 328	6	145	51	26
Swaziland	*L*	21	1 798	9	146	95	36
DRC	*L*	46	2 307	8	154	178	158
Zambia	*L*	53	2 098	8	160	116	97
Malawi	*L*	45	1 623	12	161	127	84
Angola		64	1 850	12	164	167	84
Zimbabwe	*L*	52	1 879	9	169	152	97
Sub-Saharan Africa		3.6	1 660	8			

L = landlocked

The total time needed and the allocation across procedures varies across SADC. Document preparation is by far the most time-consuming part of the export procedure. As a comparison, the time allocation in the case of China is 14 days for document preparation, three days for inland transportation and handling and two days each for customs clearance and technical control and ports and terminal handling. Singapore is the top performer in terms of 'Trading Across Borders' and ranked as the best nation in this respect. The total number of days needed for export is five, where two days are spent on inland transport and handling while the other parts of the export procedures take only one day each.

In Table 4 we see that the landlocked countries spend more time on inland transportation and handling than do the other SADC countries, apart from Angola (6-11 days compared to 2-5 days). Also the time required for document preparation is higher for landlocked countries. This reflects the need for exports from these countries to pass more than one border, and suggests that there are potential benefits from greater harmonisation and standardisation of procedures for landlocked countries in particular.

Delays in customs clearance has been shown to lay the ground for diversion of goods and corrupt practices. This in turn leads to loss of fiscal revenue and uncompetitive prices for exported goods in the destination markets. In Mozambique, delays were found to be caused by cumbersome customs procedures and unnecessary administrative interventions in addition

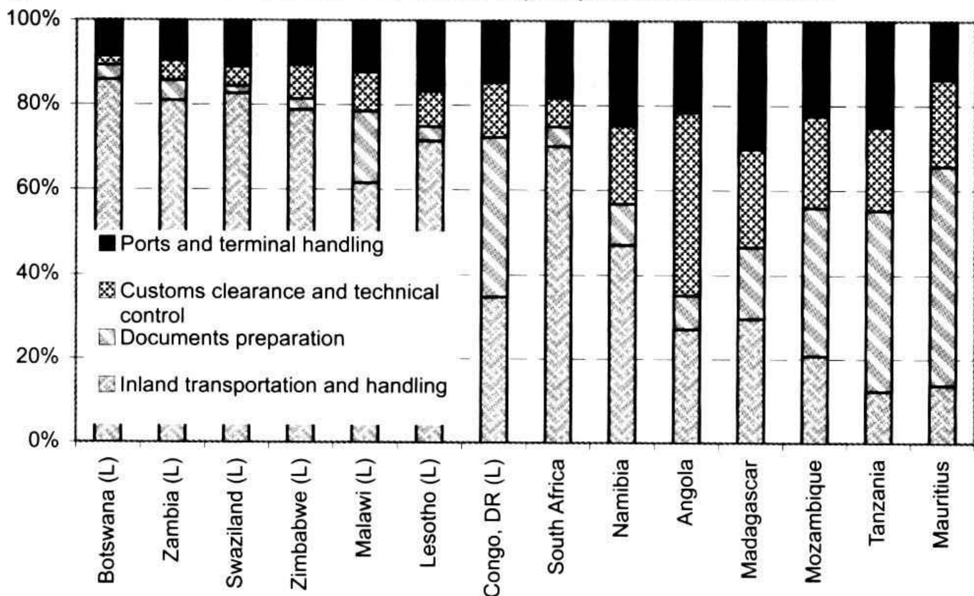
Table 4: Allocation of time (days) across export procedures for SADC, total costs

		Document preparation	Inland transportation and handling	Customs clearance and technical control	Ports and terminal handling	Total Costs US$
Angola		25	11	8	20	1 850
Botswana	*L*	14	11	4	4	2 328
Congo, DR	*L*	32	4	5	5	2 307
Lesotho	*L*	28	8	4	4	1 188
Madagascar		15	5	5	3	1 182
Malawi	*L*	27	10	4	4	1 623
Mauritius		12	2	1	2	728
Mozambique		17	4	2	4	1 155
Namibia		16	4	6	3	1 539
South Africa		15	2	4	9	1 087
Swaziland	*L*	7	6	4	4	1 798
Tanzania		14	2	4	4	1 212
Zambia	*L*	36	9	4	4	2 098
Zimbabwe	*L*	36	9	4	4	2 098

to an obsolete computer system and the lack of common regional procedures and documentation.[9] An analysis of imports to Bamako (capital of Mali) originating in Atlantic Europe suggested that delays in ports and terminals added up to 29% to 45% of total time from origin to destination and were longer than the sea leg of the movement (29% to 36% of the total time). The delays were due to low productivity and slow customs clearance. In the case of the DRC (1991) the cost to the user (direct expenses and capital cost) for imports delivered to Kinshasa were at an (weigthed) average equal to 1.8 times the price at source (3.1 times in the case of motor fuel). The difference between the total value of foreign trade at origin and destination in DRC was somewhere around US$ 1.7 billion. This was evenly divided between physical transit, duties and diverse charges, mainly financial. Maritime shipping and overland transport made up 15% and 19% of total costs respectively. Financing fees and immobilisation costs constituted 23.5% due to slow transport and formalities. Informal payments amounted to 0.65% of the total costs.[10]

The share of total costs into the four categories of export procedures is illustrated in Figure 5. We see that inland transportation and handling constitute a larger share of total costs for the landlocked countries than for the costal countries. The exceptions are the DRC where document preparation constitutes a relatively large share of total costs and South Africa which is a costal country but inland transportation and handling still constitutes a significant share of total export costs.

Figure 5: Allocation of costs in US$ across export procedures for SADC



Source: Doing Business Database; http: //www.doingbusiness.org/ExploreTopics/TradingAcrossBorders/

There is a correlation at 0.8 between costs of inland transportation and handling and a categorical variable equal to one if the country is landlocked and zero when it is not, for SADC. We see then that inland transportation and handling is relatively more expensive compared to the other elements of the export procedure in the landlocked countries at around 80% of total costs. Still, preparing documents is the most time consuming part of the export procedure for all countries.

The Relationship Between Costs and Volume Exported

There are empirical studies that establish the relationship between trade costs/time and volume traded. The establishment of statistically significant results with respect to determinants of trade volumes is beyond the scope of this paper. However, we do establish some correlations for the SADC countries only. In Table 5 we report the correlation between the volume of export as a percentage of GDP and trade costs for the SADC countries. We have also included correlation between trade costs indicators and the number of products exported by the country. We report correlations when Angola is not included. Given the dominance of the petroleum industry in the Angolan economy, timeliness and costs will probably not affect export volumes to the same degree as is the case for the other countries.

The correlation coefficients suggest that time matters more than monetary costs. The correlation between trade as a percentage of GDP and days needed to export is –0.347, whereas the correlation between trade as a percentage of GDP and costs of exporting is only –0.138. This also holds true for export as a percentage of GDP (–0.475 for time and –0.025 for costs) and the number of products exported (–0.524 for time and –0474 for costs). This means that even if the cost of transport is relatively high, reducing the time needed to prepare documents and harmonise procedures might matter more in terms of improving export performance.

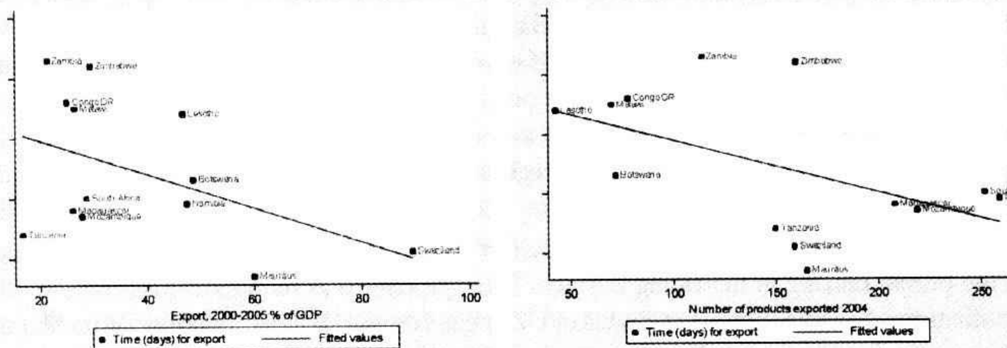
Table 6: Correlations between costs and time needed for export, trade and diversification

	Trade as % of GDP	Exports as % of GDP	Number of products
GDP per capita, constant 2000 US$	0.238	0.469	0.189
Number of documents needed to export	0.048	0.055	0.059
Days needed to export	–0.347	–0.475	–0.524
Costs (US$) to export, per container	–0.138	–0.025	–0.474
Trading acrossborders rank	–0.208	–0.248	–0.153
Documents preparation, days	–0.388	–0.548	–0.509
Inland transportation and handling, days	0.009	–0.022	–0.511
Customs clearance and technical control, days	–0.164	–0.171	0.019
Ports and terminal handling, days	–0.287	–0.258	0.173
Documents preparation, costs US$	–0.377	–0.370	–0.147
Inland transportation and handling, costs US$	0.135	0.232	–0.420
Customs clearance and technical control, costs US$	–0.366	–0.395	0.326
Ports and terminal handling, costs US$	–0.344	–0.356	0.315

Sources: World Development Indicators (2007), UNCTAD Handbook of Statistics (2007), http://www.unctad.org/Templates/Page.asp?intItemID=1890andlang=1, Doing Business Database: http://www.doingbusiness.org/ExploreTopics/TradingAcrossBorders/

In Figure 6 we show the relationship between days needed to export and volume (export as a percentage of GDP) and the number of product exported for the SADC region. We see that for the SADC, countries where export as a a percentage of GDP is higher are those where the time needed to export is lower, and thus exports increase as the time needed for export decreases. The number of products exported is also higher for countries where the number of days required for export is lower.

Figure 6: Days for export, volume exported and the number of products



Sources: World Development Indicators (2007); UNCTAD Handbook of Statistics (2007), http: //www.unctad.org/Templates/Page.asp?intItemID=1890&lang=1; Doing Business Database: http: //www.doingbusiness.org/ExploreTopics/TradingAcrossBorders/

Elbadawi, Merigistae and Zeutach (2006) conclude that the high costs, excessive documentation and procedures and time delays involved in customs services are one of the most critical impediments to export growth and diversification in many countries. Having established the relevance of time and costs to trade volume and diversification for the SADC countries we now turn to the specifics of trade facilitation.

Trade facilitation can be defined as the logistics of moving goods through international borders including the handling of documentation needed to accomplish this task. It can also refer to the whole process aiming at streamlining trade procedures so as to reduce the risk and transaction costs related to international trade as measured in time and money (Njinkeu *et al.*, 2007). In the following chapter we provide selected descriptive statistics on measures that address elements that affect the cost and time associated with international trade. We try to answer the question of why trade costs are high in Africa, and SADC in particular, compared to other regions.

Why Trade Costs Are High: Selected Statistics

Jacks, Meissner and Novy (2006) sort determinants of trade costs into geographic; political; transport and communication; and institutional and cultural sub-categories. They find that transportation costs and other factors that are related to proximity explain the largest fraction of variance in trade costs. However, the ability to trade will be influenced by production capacity. This means that all the factors that affect the business environment and the structure of the economy in each country will also affect trade.

Eifert *et al.* (2005) show that high indirect costs reduce the productivity and competitiveness of manufacturers across Africa. Therefore we first provide some indicators for the general business environment in each of the SADC countries, again applying indicators from the Doing Business Database in Table 6. These include an index measuring investor protection, the costs of starting a business, dealing with licences, registering property and the cost of enforcing contracts. South Africa, Mauritius, Mozambique, Angola and Madagascar have the highest scores of the SADC countries in terms of investor protection. South Africa is among the top SADC performers in all business environment categories included in Table 6. The cost of setting up a business is lowest in Mauritius, South Africa and Botswana. Dealing with licences is more costly than the cost of setting up a business in all countries, and it is most costly by far in Zimbabwe where it is 11 799% of per capita income. If we compare SADC performance to that of China, we see that with respect to investor protection both China and Tanzania receive a score of 5.0. In fact nine of the SADC countries perform at least as good as China or better. However, with respect to the cost of starting a business, registering property and enforcing contracts, China outperforms most SADC countries.

Mauritius is deemed as the best SADC performer in terms of ease of doing business which is the overall ranking in the Doing Business Database ranked as number 27. It is followed by South Africa, Namibia, Botswana, Swaziland, Zambia, Lesotho, Malawi, Tanzania, Mozambique, Madagascar, Zimbabwe, Angola and lastly the DRC which is ranked as 178, and thus the worst country in which to do business. China is ranked number 83 with respect to doing business (there are four SADC countries ranked higher), but as number 42 when it comes to trading across borders (only Mauritius out-performs China).

Table 6: The general business environment

		Cost			
		Starting a business	Dealing with licenses	Registering property	Enforcing contracts
	Investor Protection Index	% of income per capita		% of property value	% of debt
Angola	5.7	343.7	1109.7	11.1	44.4
Botswana	4.3	9.9	322.3	5.0	28.1
DRC	3.3	487.2	2112.6	9.4	151.8
Lesotho	3.7	37.4	805.3	8.2	16.6
Madagascar	5.7	22.7	880.0	11.6	42.4
Malawi	5.3	188.7	189.2	3.3	142.4
Mauritius	7.7	5.3	43.3	10.8	17.4
Mozambique	6.0	21.6	705.0	8.1	142.5
Namibia	5.3	22.3	156.7	9.9	29.9
South Africa	8.0	7.1	30.4	8.8	33.2
Swaziland	2.0	38.7	94.0	7.1	23.1
Tanzania	5.0	47.1	2365.5	5.3	14.3
Zambia	5.3	30.5	1518.0	9.6	38.7
Zimbabwe	4.3	21.3	11799.0	25.0	32.0
China	5.0	8.4	840.2	3.6	8.8

Source: Doing Business Database 2008

Infrastructure, Human Capital and Institutions

Limão and Venables (2000) conclude that infrastructure accounts for 40% of the predicted transportation costs for costal countries. The share is 60% for landlocked countries. We do not have an overview of transportation costs as such for SADC, but in the Doing Business Database the costs of exporting is allocated across costs for document preparation, inland transportation and handling, customs and clearance control and ports and terminal handling. From Figure 5 we see that inland transportation and handling, which will be as close as we can get to determine transportation costs in this paper, constitute a larger share of total costs for the landlocked countries than for the coastal countries. In tables 7 to 9 we provide indicators of infrastructure availability and quality when possible for the individual SADC countries. The growing volume of trade and demand for speed and tight scheduling requires a closer link between the different transport systems. Road transport is of particular importance (85% of freight in Africa).[11]

The SADC regional road network comprises around one million kilometres of road. The arterial road network has a total length of just slightly more than 100 000 kilometres. Less than 3% of the arterial road network is comprised of multi-lane roads (of which nearly all are in South Africa). Due to long periods of civil strife, Angola and Mozambique each have in the range of only 11 000 to 13 000 kilometres of road in fair to good condition.[12] Road transport costs are high in Africa compared to other regions. In Mozambique and Angola road transport costs range from US$0.20 to 1.00 per ton/km as compared to between US$0.07 and 0.09 in France and between US$0.02 and 0.03 in Pakistan. In Mali, the total generalised costs (including ocean shipping costs) for the 337 000 tons of transit traffic in 1987 equaled about 5% of GDP

that year. In a comparative study carried out on rural transport in Ghana, Zimbabwe, Thailand, Pakistan and Sri-Lanka in 1994-5, Ghana and Zimbabwe were shown to have transport charges 2-2.5 times more expensive than in the Asian countries for comparable journeys of up to 30 kilometres.[13] Ellis and Hine (1998) also found that long distance freight rates in Tanzania were on average three times higher than for Indonesia.

Table 7: Transport Infrastructure Indicators, latest year available

	Railway Density*	Million ton goods per km railway	Road Density*	Paved Roads (% of total)	Air freight, million ton per km	Air carrier departures worldwide
Angola	0.002	–	0.041	10.4	68.1	4 948
Botswana	0.002	842	0.045	36.5	0.3	8 181
Congo, DR	0.002	403	0.068	1.8	7.4	5 200
Lesotho		–	0.196	18.3	0.1	200
Madagascar	0.002	12	0.086	11.6	15.4	17 911
Malawi	0.008	88	0.164	45.0	1.44	5 446
Mauritius		–	0.993	100.0	211.7	14 743
Mozambique	0.003	808	0.039	18.7	4.9	9 768
Namibia	0.003	1082	0.051	12.8	60.4	6 342
South Africa	0.017	105725	0.300	17.3	923.4	148 146
Swaziland	0.018	11394	0.208	28.2	0.3	2 586
Tanzania	0.003	1351	0.089	8.6	2.4	6 597
Zambia	0.002	554	0.123	22.0	0.0	4 886
Zimbabwe	0.007	4871	0.251	19.0	22.3	4 410

** Total route km per square km land area*
Source: World Development Indicators (2007)

The high costs have in part to do with the low volume of cargo being transported, the imbalance of trade flows between origin and destinations and the long travel times. The low quality and density of roads of course adds to this cost. There is a high incidence of heavy goods vehicle overloading in most areas and also high levels of road accidents. The infrastructure density in Africa is about 0.2. Thus Mauritius (0.99), South Africa (0.3), Zimbabwe (0.25) and Swaziland (0.2) are the only SADC countries with a road density at or higher than the African average. The average infrastructure density for the rest of the world is slightly over 1.4 (UNECA, 2004). Buys, Deichman and Wheeler (2006) conclude that continental network upgrading to the 'average' level of road density would expand overland trade by $250 billion over 15 years in Sub Saharan Africa. The financing would require 20 billion for initial upgrading and 1$ billion annually for maintenance.

The virtual lack of a road vehicle workshop industry also hurts the development of the road transport industries. The trucking industry also suffers from widespread shortages of good managers, competent accountants, and qualified mechanics. Delays at border posts are a problem in the road transport sector as customs documentation for freight consignments is complex, voluminous and differs considerably from country to country.

The SADC railway network has a total length of approximately 40 000 kilometres. Ten of the rail lines are interconnected and form the SADC Interconnected Regional Rail Network (IRRN),

which has a total length of 33 593 route-kilometres of standard-gauge (1.067 metre) railway. The South African railway, Spoornet, accounts for approximately 61.8% of the total IRRN route-kilometres. Most airports in the SADC region do not have adequate air cargo facilities. Air fright rates are high and there is a reliance on passenger air lines to carry the majority of cargo. This is in part due to the low cargo shipping volume.

The dominant shipping port in SADC is Durban which accommodated more than 31 million tonnes in 1998. Durban is one of the ports serving the landlocked member States – Botswana, Lesotho, Malawi, Swaziland, Zambia and Zimbabwe. Other main transit traffic ports are Mozambique's three ports (Beira, Maputo and Nacala) and Dar es Salaam in Tanzania. Angolan ports mainly handle domestic trade.

In Table 8 we have accounted for the SADC state of affairs with respect to communications and energy infrastructure. The Sub-Saharan average number of telephone subscribers is 65 per 1 000. Mauritius has by far the highest rate of telephone subscribers in SADC at 731 per 1 000. South Africa, Botswana, Namibia, Swaziland and Lesotho all have above Sub-Saharan African average number of subscribers. However, there are 347 subscribers per 1 000 people in the East Asian and Pacific region that includes China. The price basket for fixed line is high in most of the SADC countries compared to the average cost in low income countries at US$ 7. For the East Asian and Pacific region the average cost is US$ 5.8, while it is US$12 in Sub-Saharan Africa. Zimbabwe has by far the lowest monthly cost, but the number of subscribers is also low. The combination of low costs and low subscription rate per 1 000 people is found also for Zambia and Malawi. However, the coverage is restricted. The number of internet users in highest in Mauritius, and lowest in the DRC, Malawi and Madagascar.

Table 8: Communication and energy infrastructure indicators, latest year available

	Telephone* subscribers per 1 000	Price basket for fixed line US$ per month	Tel. faults per 100 mainline	Internet users per 1 000	Electric power cons. kWh per cap	Electrical outages, days
Angola	53.86	11.88	37	11.10	123.82	87.64
Botswana	395.83	10.37	37	33.92	1325.00	21.43
DRC	35.83	–	7	2.01	92.94	184.04
Lesotho	109.14	18.42	75	23.92	–	19.06
Madagascar	21.67	18.52	60	4.97	–	77.99
Malawi	24.99	5.76	–	3.66	–	63.21
Mauritius	731.03	7.87	41	145.94	–	5.97
Mozambique	40.04	17.57	66	7.10	366.92	–
Namibia	206.06	12.30	40	37.33	1388.58	18.03
South Africa	554.12	22.74	48	76.92	4884.79	5.45
Swaziland	169.23	8.33	70	32.15	–	28.42
Tanzania	55.55	14.04	24	8.85	53.50	60.64
Zambia	48.44	6.03	108	20.12	691.97	30.00
Zimbabwe	57.25	4.33	3	63.39	795.13	–

**Fixed line and mobile phone*

Sources: World Development Indicators (2007); Enterprise Surveys Database: http://www.enterprise-surveys.org/Custom/

There is an account of the number of electrical outages for all SADC members except Mozambique and Zimbabwe from the Enterprise Surveys Database at the World Bank. Electrical outages are a highly pronounced problem in the DRC at 184 days a year. The Sub-Saharan average is 40 days a year, while it is a mere 4.4 days in East Asia and the Pacific. The average number of outages (days) for the low income countries is 43. In South Africa and Mauritius the number of days with electrical outages is below 6, while it is 18 for Namibia and 19 for Lesotho. The other SADC countries have somewhere between 20 and 87 days of electrical outages a year. To mitigate the problems caused by repeated power outages, enterprises need private backup generators. These are prohibitively expensive for many smaller firms.

The poor state of the physical, communications and electrical infrastructure in the region raise the costs of doing business and pose a serous disadvantage to domestic enterprises hoping to compete on the international arena. The African Competitiveness Report (2007) focuses on the need for improved institutions, infrastructure and financing to make the African continent more competitive. In Table 9 we have included some measures of institutional quality and human capital. In terms of regulatory quality, which was found to have a real effect on export volume in the Iwanow and Kirkpatrick (2007) study, Botswana, South Africa, Mauritius and Namibia are best performers. These are also among the more successful countries in terms of world market integration (export as percentage of GDP and FDI inflow). It has been suggested that delays in customs and complex customs procedures provide opportunities for corruption. Thus, the combination of high levels of corruption in an economy and more time needed for

Table 9: Measures of human capital and institutional quality

	Governance Indicators (2005)		Corruption Perceptions Index 2007	School Enrolment. Secondary	Life Exectancy at Birth		Prevalence of HIV, % of pop. (15-49)
	Government Effectiveness	Regulatory Quality			1985	2005	
Angola	–0.96	–1.24	147 (2.2)	12.8	40	41	3.7
Botswana	0.79	0.76	38 (5.4)	71.4	64	35	24.1
DRC	–1.64	–1.66	168 (1.9)	18.1	47	44	3.2
Lesotho	–0.29	–0.55	84 (3.3)	30.4	55	35	23.2
Madagascar	–0.12	–0.27	94 (3.2)	14.1	49	56	0.5
Malawi	–0.78	–0.58	118 (2.7)	36.8	46	41	14.1
Mauritius	0.60	0.32	53 (4.7)	75.5	68	73	0.6
Mozambique	–0.34	–0.60	111 (2.8)	5.2	43	42	16.1
Namibia	0.09	0.11	57 (4.5)	57.4	60	47	19.6
South Africa	0.84	0.59	43 (5.1)	87.8	59	48	18.8
Swaziland	–0.84	–0.44	84 (3.3)	45.2	54	41	33.4
Tanzania	–0.37	–0.51	94 (3.2)	5.9	55	46	6.5
Zambia	–0.94	–0.62	123 (2.6)	19.5	50	38	17.0
Zimbabwe	–1.42	–2.20	150 (2.1)	42.8	61	37	20.1

Sources: Governance Indicators: http://web.worldbank.org/WBSITE/EXTERNAL/WBI/EXTWBIGOVANTCOR/0,contentMDK: 20771165~menuPK: 1866365~pagePK: 64168445~piPK: 64168309~theSitePK: 1740530,00.html; *Transparency International: http://www.transparency.org/; World Development Indicators (2007)*

export might be particularly harmful to export performance. The HIV/AIDS epidemic might pose a serious challenge to several of the SADC countries.

So far we have focused on specific aspects of the economy that might affect the cost of trade, and of doing business for the individual SADC countries. We have compared performance to that of other developing regions. China is of special interest as it is perceived as a low-cost competitor in international trade that has performed very well in the international arena.

The African Competitiveness Report rates economies according to the general quality of several infrastructure measures as well as general measures of other aspects of the economy. The scale ranges from 1 to 7 where higher values indicate better performance. We have reported their grading of the SADC countries for categories which are of special interest. We also included the average score for Sub-Saharan Africa, China, India and the Latin America and Caribbean average for comparison. From Table 10 we see that most SADC countries are in the low end of the scale with respect to most infrastructure indicators. This is especially true for the railroad indicator where the score varies from 1.5 to 3.7, but only Namibia, South Africa and Botswana score higher than 2.8. Port quality is of special interest as these are the main routes for export. Namibia and Mauritius have the highest scores at 5 and 4.8 respectively. Lesotho and Zambia are the worst performers with a score of 1.9. Electricity is important for production and thus an

Table 10: SADC performance in measures of infrastructure, institutions and human capital

	Quality of railroads	Quality of ports	Quality of air transport	Quality of electricity supply	Telephone lines[1]	Overall Quality	Health and primary education	Institutions
Angola	1.5	2.5	3.3	2.2	0.6	1.9	2.4	3.0
Botswana	3.3	2.7	3.8	4.9	7.5	4.0	4.4	4.5
Lesotho	1.4	1.9	2.2	3.2	2.7	2.2	4.7	3.6
Madagascar	1.5	2.3	3.2	2.2	0.4	2.2	5.5	3.4
Malawi	1.8	1.7	2.8	2.7	0.8	2.3	4.9	3.9
Mauritius	1.6	4.8	5.3	5.6	28.8	4.5	6.6	4.4
Mozambique	1.8	2.6	3.5	3.4	0.4	2.3	3.8	3.3
Namibia	3.7	5.0	4.9	5.0	6.4	4.8	4.6	4.2
South Africa	3.5	4.4	5.8	4.1	10.0	4.6	5.1	4.8
Tanzania	2.8	3.4	3.7	2.1	0.4	2.9	3.8	4.0
Zambia	1.6	1.9	4.6	5.5	0.8	1.9	4.2	4.1
Zimbabwe	2.7	3.0	2.6	2.2	2.8	2.9	4.3	3.4
Sub-Saharan Africa							4.0	3.7
China							6.4	3.5
India							5.9	4.7
Latin America and Caribbean							6.5	3.7

Notes: 1: Main telephone lines per 100 inhabitants. 2: Port quality includes both seaports and those on inland waterways.

Source: African Competitiveness Report, 2007

important supply side factor to the export performance. From Table 10 it is clear that scores for the SADC countries are better with respect to the quality of electricity supply than for railroad quality, port quality and the overall infrastructure quality. Even so, only Namibia, Mauritius and Zambia has a score of five or higher for this infrastructure category.

The Sub-Saharan average for the overall infrastructure quality is 2.5. Half the SADC countries score higher than the Sub-Saharan Africa average, and Angola and Zambia received a score of only 1.9. Compared to the India, China and Latin America and Caribbean averages, only Namibia, South Africa, Mauritius and Botswana perform better. All SADC countries except Angola, Mozambique and Tanzania perform better than the SSA average for health and primary education. However, when compared to China and India, again only Mauritius receives a higher score. For institutions we see that seven of the 12 SADC countries that are rated perform above the Sub-Saharan African average. India has a score of 4.7, but China and the Latin American and Caribbean average is similar to the Sub-Saharan African average at 3.5 and 3.7 respectively.

Thus, Table 10 reveals that there is great variation in performance across the SADC countries and across infrastructure sectors. Also, in terms of the overall quality of infrastructure and health and primary education, SADC performance leaves something to be desired compared to China and India.

The Relationship Between Economy Characteristics, Trade Costs and Export Performance

In Table 11 we report the correlation coefficients between the competitiveness scores from Table 10 and SADC performance in trade costs and export volume. Results from part 3 of the report suggested that although time and costs both affect export performance, time mattered more than did the monetary costs. The correlation coefficients were –0.475 and –0.025 between export as percentage of GDP and days and costs respectively. For trade as a percentage of GDP the correlation coefficients were –0.347 for days and –0.138 for costs, while coefficients where –0.524 for days and –0.474 for costs when the trade performance measure is number of products exported. There is a noticeable correlation between the factors that Iwanow and Kirkpatrick (2007) identify as important to export performance and export as percentage of GDP for the SADC region. The correlation is 0.59 for overall infrastructure, 0.33 for institutions and -0.47 for the number of days. That is, fewer days needed for export are associated with a larger export share of GDP.

From Table 11 we see that the correlation between days needed to export and port quality in particular, and also telecommunications infrastructure is noticeable. Correlation is relatively high also with the overall infrastructure quality and the competitiveness of the economy. As most exports, pass through ports the high correlation is expected, and underscores the need to improve port handling. The most time-consuming part of exporting by far, for most SADC countries, is document preparation. Reducing the time needed for document preparation could therefore matter more in terms of reducing the time needed to export and increase the export volume. The cost of exporting is also correlated to port quality, telecommunications infrastructure and the human capital index. The correlation is highest for the health and primary education index and trade costs at -0.5053, although correlations are in general not as strong as for the time needed. The volume of export (average over the 2000-2005-period) and telecommunications infrastructure has a higher correlation coefficient than export volume and the other indicators. However, electricity supply and human capital also seem to make a differ-

Table 11: Correlations between trade and competitiveness scores for SADC

	Days needed to export	Costs (US$) to export, per container	Export, 2000-2005% of GDP
Quality of railroad	–0.1768	0.2770	0.0717
Quality of port	–0.6327	–0.4050	0.4416
Quality of air transport	–0.4778	–0.2114	0.2099
Quality of electricity supply	–0.1341	0.1576	0.5783
Telephone lines	–0.5216	–0.4132	0.7396
Overall infrastructure quality	–0.5360	–0.1596	0.5914
Health and primary education	–0.3859	–0.5053	0.5635
Institutions	–0.2828	0.0591	0.3281
Global Competitiveness Index	–0.5614	–0.2911	0.5022

Note: Angola is not included

Sources: Africa Competitiveness Report (2007); Doing Business Database; World Development Indicators (2007)

ence, with correlation coefficients at 0.5783 and 0.5635 respectively. It could be that access to electricity and workforce affects the ability to produce for export (supply side constraints) while the other indicators matter more for the actual movement of goods across borders. Irrespective of at what stage in the production and export process these factors make their impact, they are important to enhance competitiveness in the international arena, and support economic development in the domestic economies.

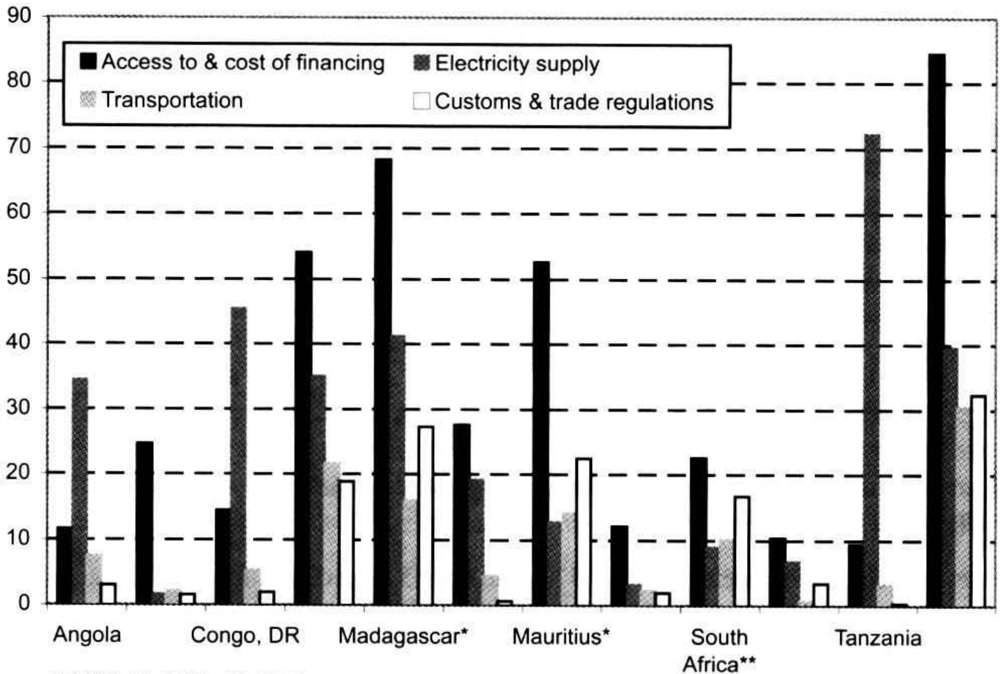
In the next section we will comment on the relationship between measured and perceived obstacles to doing business. Will a higher percentage of firms report different aspects of the economic environment, such as transport, customs and trade regulations when the country score is poorer in terms of infrastructure quality and time/costs needed to get the goods through customs? That is, will measured constraints be reflected in the perceptions of the business community?

Measured and Perceived Obstacles to Doing Business

The Enterprise Analysis Unit of the World Bank conducts business surveys throughout the world and studies how the business environment affects business performance. The surveys cover more than 67 000 firms in 103 countries. The surveys identify obstacles for doing business, and all SADC countries except Mozambique and Zimbabwe are included. In Figure 5 we show the percentage of firms in each country that reports access to cost and finance, electricity supply, transportation and customs and trade regulations as obstacles to doing business. Shortage of electricity is identified as the single most important constraint to doing business in Africa. From Figure 7 we see that the access to and cost of finance is more often reported as an obstacle in SADC.

The only exceptions are Angola, the DRC and Tanzania where the electricity supply is reported as a major obstacle by a higher share of firms. Transportation and customs and trade regulations seem to be more of a problem in Zambia, South Africa, Mauritius, Madagascar and Lesotho than in the other SADC countries. This is somewhat of a paradox, as Mauritius is by far the best performer in the trading across borders category in the Doing Business survey. Also South Africa, Madagascar and Lesotho are among the top five SADC performers. However, the

Figure 7: Obstacles to doing business in SADC



*Notes: * 2005; ** 2003; *** 2002*

Source: The Enterprise Surveys Database, World Bank: http: //www.enterprisesurveys.org/Custom/. The survey reports the share of firms reporting economic and regulatory policy uncertainty, corruption, the legal system, crime, theft and disorder, access to land, anti-competitive practices, skills/education of workers, labour regulations, tax rates and tax administration as major obstacles to doing business

share of firms reporting obstacles might be influenced by the number of firms operating in the economy, the number of firms included in the survey and the share of firms included in the survey exporting.

In Table 12 we report the percentage of firms reporting obstacles among exporters and non-exporters. There is a higher share among non-exporting firms reporting access to and cost of finance as a major obstacle for most SADC countries. The share of firms reporting the skills/ education of workforce and electricity supply as a major constraint is higher among exporting firms. There are many possible explanations to these patterns. Firms that export need to be more competitive – or become more competitive once involved in export activities. So exporting, comparatively more competitive, firms are more successful in attracting financing for their activities. The risk of forfeit of debt might be perceived as lower. Firms producing for export might require a higher energy use – due to sector or production volume. These firms might be more dependent upon a stable source of energy so as to deliver on time. The requirements made to products and timeliness for international production might also increase the need for skills in the workforce. It could also be that the educated workforce prefers the non-export firm, but that is not very plausible. Integration and trade is generally associated with higher productivity and higher wages.

Transport is perceived as a business obstacle by a larger share of non-exporting firms than exporting firms in 7 of the 12 SADC countries. The percentage of exporting firms reporting transportation as an obstacle is zero for four of these countries: Angola, Botswana, the DRC and Swaziland. It might be that exporting firms choose to locate where transportation is better (or in

Table 12: Obstacles reported by exporting and non-exporting firms

	Access to and cost of finance		Electricity supply		Skills/ education of workforce		Transportation		Customs and trade regulations	
	Export	Non-Export	Export	Non-Export	Export	Non-Export	Export	Non-Export	Export	Non-Export
Angola	19.03	11.53	19.03	34.63	0.00	1.07	0.00	7.60	0.00	2.97
Botswana	10.70	25.25	0.00	1.75	24.80	8.87	0.00	2.30	3.34	1.48
Congo DR	15.21	14.55	7.57	45.97	8.88	0.86	0.00	5.52	0.00	2.00
Lesotho	40.26	65.82	36.17	26.11	36.17	23.21	16.44	23.21	16.22	20.64
Madagascar	64.59	69.35	43.21	40.48	41.11	26.10	24.61	12.87	33.93	23.79
Malawi	28.57	26.77	25.00	18.11	7.14	5.51	14.29	2.36	0.00	0.79
Mauritius	47.77	57.88	13.00	12.12	47.00	39.39	11.00	18.19	25.01	20.21
Namibia	6.40	12.29	4.40	3.16	10.80	9.64	8.06	2.18	14.91	1.58
South Africa	19.65	24.26	10.92	7.82	33.19	37.20	9.61	10.51	19.65	14.82
Swaziland	6.23	10.74	10.55	6.40	6.54	1.86	0.00	0.82	5.60	3.15
Tanzania	47.15	65.58	63.81	57.56	23.81	25.34	30.84	21.74	41.16	28.88
Zambia	84.50	84.56	49.06	36.36	28.30	38.31	35.85	28.57	30.19	33.12
China	34.07	27.81	40.06	26.88	30.91	30.68	31.23	15.89	40.38	13.69

Source: The Enterprise Surveys Database: http://www.enterprisesurveys.org/Custom/

export processing zones where conditions are adjusted to satisfy the requirements of exporting firms). Lack of infrastructure to facilitate the transport of goods might serve as a threshold obstacle to firms wanting to export. However, there are also five countries where a larger share of exporters report transportation as an obstacle to doing business. Differences are relatively large and the distribution is 31-22, 36-29, 25-13, 14-2 and 8-2 for the exporting – non-exporting firms in Tanzania, Zambia, Madagascar, Malawi and Namibia respectively. Thus, in these countries, transportation is perceived an obstacle to those firms that are relatively more dependent upon reliable transportation to reach their markets. Customs and trade regulations are reported as an obstacle by a larger share of exporting than non-exporting firms in 8 of the 12 SADC countries. In Angola, DRC and Malawi, customs clearance is reported as an obstacle by zero per cent of exporting firms. From the table we see that there are larger shares of firms reporting obstacles in China than the case for many of the SADC countries. The sample of firms forming the basis of the Chinese results is a lot larger, where there are 317 exporting firms and 1 183 non-exporting firms reporting. For Angola the numbers are five exporters and 420 non-exporters, and for the SADC countries where the largest number of firms was surveyed, South Africa, the numbers were 229 exporters and 371 non-exporters. The number of exporting firms surveyed for other SADC countries was less than 55 for all other than Mauritius (98) and Madagascar (81). The low number of firms surveyed might be one reason why we see more firms reporting obstacles in the Chinese economy that is actually performing very well compared to most SADC countries with respect to most competitiveness indicators and trade performance.

These findings suggest that comparing performance across countries is difficult as the economic agents operate under differing business environments. When assessing obstacles, firms' executives also relate to the conditions their partners operate under. Greater interaction or foreign presence might raise demands on the business environment of domestic firms.

In Table 13 we consider the correlation between the number of days and costs associated with customs clearance and technical control and the share of firms reporting it as a major obstacle to doing business. We also report the correlation between the overall infrastructure score for the SADC countries from the Africa Competitiveness Report (2007) and the share of firms reporting transport as a major obstacle to doing business. One would have expected there to be a noticeable correlation between these, but this is not the case with respect to the time and costs of customs clearance. Thus it is not that a larger share of firms in countries where customs clearance takes longer and is more expensive systematically reports this as a major obstacle to doing business. This does not mean that firms do not consider this a problem. It could be that there are other issues that matter more.

Table 13: Correlation between perceived obstacles and cost and time for export

The share of firms reporting obstacle	Days for customs clearance and technical control	Costs of customs clearance and technical control	Overall infrastructure quality
Transport (exporter)	–0.0299	–0.0404	–0.3366*
Transport (non-exporter)	0.0564	0.0804	–0.5780*
Customs and trade regulations (exporters)	0.1622*	0.0132*	–0.4389
Customs and trade regulations (non-exporters)	0.0512*	–0.009*7	–0.5642

*Note: * indicates that if the transport facilities are not sufficient for trucks, then transport companies will not establish themselves there.*

Source: The Enterprise Surveys Database: http://www.enterprisesurveys.org/Custom/; The Doing Business Database: http://www.doingbusiness.org/ExploreTopics/TradingAcrossBorders/

Customs clearance will not be a problem until many other issues have been resolved. Again, there is the issue of the number of firms being surveyed, and results from China suggest also that as more firms gain experience in export activity more firms will consider customs clearance a problem if it is too time consuming and costly. Part of the reason also lies in the definitions. If we test the correlation between the days needed to prepare documents for export and the share of firms reporting customs and trade regulations as an obstacle to doing business the result changes, and we have a 0.6511 correlation for firms exporting and a 0.6345 correlation for non-exporting firms. Thus, firms probably consider the preparation of documents as part of the customs and technical clearance process.

There is a somewhat higher correlation between the overall infrastructure measure and the share of firms reporting transport as a major obstacle to doing business. Again, the correlation is stronger for non-exporting firms, which lends support to the notion that firms either do not export when the cost of transportation is above a certain level, or firms that wish to export locate where transportation is better. The result underscores the importance of improving the physical infrastructure to improve not only export performance but also stimulate economic activity and thus growth generally. Simplification of procedures associated with export that reduce the time needed to comply also has a beneficial effect on trade and export volume.

Summary

There is a positive relationship between trade and economic development. A higher degree of sophistication in a country's export bundle implies a larger positive impact from trade to growth. Also, diversification of exports is positively correlated to economic growth until the economy reaches the point at which it starts to specialise. This increased trade and expansion into new products and markets could contribute to sustainable development for SADC countries. However, the SADC share in world exports has decreased over the last decade, from 1.8% in 1980 to 0.7% by 2004. The general picture is that primary products still constitute a large share of SADC exports. To the degree that there are exports in manufactures, this is also concentrated in terms of products and sector. The recent development of rising prices for primary commodities holds promise for improved export performance, but there is a need to address the more fundamental issues that have a negative impact on SADC export performance.

Sub-Saharan Africa is the most costly region to export from measured both in money and time. This is particularly true of the landlocked countries in the region. The cost per container is US$728 to export in Mauritius, and US$2 328 from landlocked Botswana. In this paper we focus on the specific elements that constitute the total trade cost for SADC. The aim is to pinpoint those areas that require more attention to enhance trade performance.

We find that most of the SADC countries perform better when ranked along with other countries according to the overall quality of the business environment than when ranked according to the time and cost of trade. This implies that border-related issues might be a binding constraint to domestic firms trying to reach the international market.

Within SADC the more time needed for export and the higher the cost, the lower is the export value (export as percentage of GDP) and the fewer products are exported. There is a stronger correlation between the time needed to export and trade performance than between costs of export and trade performance. When we disaggregate the export process – (i) document preparation; (ii) inland transportation and handling; (iii) customs clearance and technical control; (iv) port and terminal handling – we see that document preparation is relatively more time consuming than the other parts of the process. Delays in customs clearance also provides ample opportunity for corrupt practices increasing the price and reducing competitiveness of the good in the destination market. Inland transportation and handling is relatively more costly than other parts of the export process, particularly for the landlocked countries.

When looking into the relationship between selected characteristics of the economy and the time and cost associated with export, we find that there is negative correlation between the number of days needed to export and measures of physical infrastructure, human capital and institutions. Thus, time needed for export is associated with worse performance in these measures. Generally the cost of trade increases as the quality of most of these measures deteriorates. We also see that exports as a percentage of GDP (average over the 2000-2005 period) increase as the quality of physical infrastructure, human capital and institutions improve. The correlation coefficient is higher for exports as percentage of GDP and telephone mainlines, electricity supply, health and primary education and port quality.

The expansion of traditional exports and diversification of exports into new higher-end non-traditional activities are important for development. There has been a shift over the last decade such that fresh and processed fruits and vegetables, fish, meat, nuts and spices account for more than 50% of total agri-food exports from developing countries. The traditional commodities such as coffee, tea, cocoa, sugar, cotton and tobacco have declined in terms of export shares. This implies that proper facilities for storage and packing are of increasing importance as is the

time aspect of exporting. If countries wish to sever the growing demand for these products and thus reap their share of revenues, these issues have to be addressed. Also, the ability of countries to deliver goods and services in time and at low costs is key determinant to participation in international supply chains, and thus there is a pressing need for SADC and other African countries to address the reduction of trade costs.The supply chain encompasses all activities associated with the flow and transformation of goods from the raw material stage (extraction), through to the end user, as well as the associated information flows. Material and information flow both up and down the supply chain. A poor relationship with any link in the supply chain can have disastrous consequences for all other supply chain members. An unreliable source of parts can result in problems across the chain, all the way to the final consumer. There is a high degree of interdependence among participants in the chain. Transportation is a significant cost component in a supply chain at approximately 25% of total costs. There is also cost associated with keeping inventory and safety stock that add to total logistics costs. The cost-reducing process within any supply chain focuses on logistics.

The findings with respect to export volume and diversification suggest that improving the procedures for export by lowering the time and cost needed to export should be a priority for the SADC countries. Although one should be careful about reaching firm conclusions with limited evidence, is seems that for governments with a need to prioritise, the part of the export process with the greatest need for improvement is the preparation of documents. This can be achieved through harmonisation across countries, simplification of documents and setting up agencies to assist firms preparing products for export. Coordinated efforts to improve infrastructure are important for addressing the cost side of export procedures. The landlocked countries depend not only on their own performance, but also the infrastructure quality and customs operations for the transit country. Harmonisation of procedures and documentation requirement would therefore be of even greater benefit to landlocked SADC countries.

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Notes

1. Global Economic Prospects (2007).
2. International trade is considered one of the drivers of economic development and affects the accumulation of physical and human capital.
3. Hausmann, Hwang and Rodrik (2006).
4. African Development Bank, 2006

5. Source: UNCTAD Handbook of Statistics Table 3.1.
6. Imbs & Wacziarg (2003), Klinger & Lederman (2006).
7. (2.7=1.21*1.44*1.55)
8. The other headings are Doing Business, Starting a Business, Dealing with Licenses, Employing Workers, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Enforcing Contracts and Closing a Business.
9. USAID 'Southern Africa'.
10. De Castro (1993)
11. De Castro 1993.
12. http: //www.sadecreview.com/Sectoral%20Reports%202000/frsector2.htm
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WILL INTRA-REGIONAL TRADE LIBERALISATION WITHIN SADC REDUCE POVERTY? THE CASE OF MALAWI[1]

ARNE WIIG AND TEBOGO B. SELEKA

The causal relationship between trade and poverty is not a clear-cut issue. There are many mechanisms working at the same time, making it difficult to disentangle the impact of trade on economic growth from other explanations such as geography and institutions. Even though one might find evidence that trade leads to growth, economic growth does not necessarily trickle down to poverty reduction. The variation in mechanisms at work makes country-specific analysis important. Furthermore, in developing countries growth in agriculture normally has a larger impact on poverty reduction than growth in other industries as most of the poor are involved in agricultural production.[2] A focus on agriculture therefore seems appropriate.

If expansion in trade reduces poverty, why is trade liberalisation among SADC countries lagging behind the agreed schedule of the SADC Protocol on Trade?[3] Part of the reason for the slow progress in intraregional trade liberalisation is the expectation that further liberalisation would hurt the poor.[4]

Within SADC, the overall empirical evidence fits the picture of more trade being associated with lower levels of poverty. Lesotho, Malawi, Mozambique and Swaziland experienced both increasing trade and a reduction in poverty during 1990-2001. Zimbabwe and Zambia experienced an increase in the poverty rate and a decrease in trade over the same period. So the evidence from these countries also supports the notion that more trade is positively associated with poverty reduction while less trade is associated with higher levels of poverty. Madagascar, South Africa and Botswana show diverging experiences in trade and poverty. Both poverty and trade have decreased for Botswana and Tanzania, while for South Africa and Madagascar the increase in trade has not been associated with poverty reduction (see Tøndel and Wiig 2007 for an overview).

This paper assesses whether intraregional trade liberalisation within SADC is likely to reduce poverty, using Malawi as a case study. Malawi is one of the poorest countries in SADC, with every second person falling below the poverty line. The country is an agriculturally-based economy and is lagging behind other SADC countries in implementing the Trade Protocol. This makes Malawi an interesting point of departure.

The scenario we investigate is to analyse what would be the likely impact on the poor in Malawi if Malawi unilaterally liberalised its agricultural sector. While Mukherjee and Benson (2003) simulate likely poverty impacts of various policy measures on switching behaviour across sectors (e.g., from agriculture to trade or services) we focus on adjustment within agricultural subsectors due to a change in trade policy. Furthermore, while household data are available for Malawi, there is limited analysis of the poverty impact of trade policy reform. The Malawi Government/World Bank (2006) study is an exception, but it pays little attention to how liberalisation might influence various groups of poor such as farmers. For other SADC countries, there are a number of available studies (Balat and Porto 2005, Arndt, 2006). Most of these studies are based on a rigorous general equilibrium framework. With extensive unemployment and high transaction costs within SADC, we find it more appropriate to apply a simple partial equilibrium approach similar to the approach taken in Hansohm *et al.*, (2001).

According to the literature, the earning-side impacts dominate the consumption-side impact

of trade reform (Hertel and Reimer 2004). Unilateral liberalisation will in the small-country case reduce consumer prices and consumers will gain from liberalisation. The key problem is whether poor farmers or workers will gain or lose. This paper therefore focuses on the earnings side. The importance of factor market effects emanates from the fact that households tend to be more specialised with regard to income sources than they are with regard to consumption. Thus, from the perspective of the poor it is the markets for unskilled labour and agricultural products that are important. The poverty impacts of trade policy reform often hinge crucially on how well the increased demand for labour in one part of the economy is transmitted to the rest of the economy via raised wages, increased employment or both, and how changes in international prices are transmitted to domestic consumer and producer prices.

If the prices of the goods the poor consume fall and the prices of the goods they produce increase, trade liberalisation will have a positive effect on poverty. If consumer and producer prices change in the same direction, the total effect depends on the net budget share of the consumed and produced goods. We analyse the type of products the poor are producing and indicate how a removal of tariffs would influence their income via changes in prices.

Trade liberalisation affects the prices that the poor face both as producers and as consumers. As many SADC countries tax their agricultural sector and have high internal tariffs on agricultural products, a removal of these would most likely lead to a reduction in producer prices and lower income. The fear of increasing poverty is real but, at the same time, new opportunities may arise even within agriculture (for instance, through higher relative prices for cash crop production). Although subsistence farmers hardly notice the price impacts of their output (as production is not for a market), the changes in relative prices might lead to a switching of production to other commodities with increasing relative prices (such as cash crops). However, there is also a danger that such cash crop production might reduce food consumption, and hence lead to food insecurity.

The chapter is organised as follows. First we examine agricultural trade flows and products that are net imported (exported) to (from) the region. Specifically, the section examines cross-border taxes within SADC, and trade patterns within agriculture. The next section assesses the likely price impacts of removing tariffs. We then examine livelihood sources in Malawi, and go on to look at production patterns in Malawi's rain-fed arable agriculture, and draw some implications for the poverty impacts of trade liberalisation in Malawi. Specifically, we assess the following: the contribution of agriculture to the country's economy, livelihood sources and poverty, production patterns and poverty, and the implications of trade liberalisation for poverty reduction. A final section concludes.

Agricultural Trade Flows and Trade Barriers in SADC

The recent World Development Report (World Bank, 2008) focuses on how agriculture contributes to development as an economic activity and as a source of livelihood. Although there are some variations, SADC countries are generally characterised as agriculture-based economies. Agriculture plays a vital role in SADC, particularly in countries such as the Democratic Republic of the Congo (DRC), Madagascar, Malawi and Tanzania (see Appendix 1). Thus, productivity growth in agriculture is a key for economic growth and poverty reduction. In Malawi, around one third of GDP is produced in agriculture. Agriculture plays a central role in the lives of the poor as the main source of livelihood and consumption expenditure. Thus, to the extent that agriculture is affected by trade, trade has implications for poverty and food security. Agriculture

plays an even more important role as a source of livelihood. It is the main source of livelihood for the great majority of the poor, and it is therefore critical to any strategy of broadly shared economic growth and poverty reduction.

By identifying agricultural products that have net imports, and the corresponding protection of these commodities, we get a rough idea of the potential welfare effect of removing tariffs. SADC is, for instance, a net importer of cereals and a removal of internal tariffs would therefore improve welfare in the short run. Overall, removing a trade barrier on goods of which a country is a net importer should improve the welfare of a country, although domestic producers of the import-competing goods would stand to lose from lower domestic prices.

As a background for the subsequent analysis, this section provides a macro perspective on trade flows and trade barriers within SADC. We also make the point that trade patterns within SADC differ and that there are large internal trade barriers. There would accordingly be room for more intra-regional trade in agriculture if internal trade barriers were removed, particularly if internal processing capacity were developed within SADC countries. Increasing trade in agriculture may in turn lead to higher agricultural production and less poverty.

Regional Trade Patterns

According to data from UNCTAD, trade patterns within SADC countries differ in terms of the types and volumes of commodities traded. Therefore, there might be economic gains from increasing intraregional trade through the removal of existing trade barriers. In some countries, agriculture accounts for a large share of exports. Malawi, Madagascar, Mozambique and Tanzania all have high shares of agricultural exports and accordingly low shares of manufactured goods exports. South Africa has a different export structure than other SADC countries with manufactured goods exports playing a significant role. In 2005, food exports from Malawi accounted for 78% of merchandise exports compared to only 8.5% for South Africa (see Tøndel and Wiig (2007) for a discussion of differences in trade patterns within SADC).

The differences in trade patterns are more striking for more disaggregated product lines. We focus on agricultural products, which are key from a poverty reduction perspective (World Bank 2008), to shed some light. When examining cash crops, it is apparent that SADC as a unit is a net exporter of groundnuts, cocoa beans, coffee, sugar, tea and cotton, although some of the countries are net importers of these commodities (see Appendix 2). These products are generally exported to industrialised countries, where they are further processed into finished products with the potential for re-export to the SADC region.

Within SADC, however, countries do not export the same types of products, and some of the products exported from one SADC country are imported into other SADC countries. South Africa is a net importer of cotton, cocoa and coffee, while Tanzania is a net importer of sugar. Thus, there is some potential to promote intraregional trade in some of these commodities through trade policy reform. However, as long as further processing of these products into finished goods is not undertaken within the SADC region, the potential for increasing intraregional trade through policy reform may remain elusive.

SADC is a net exporter of tea and tobacco and a net importer of beef (see Appendix 3). Zimbabwe and Malawi are the largest exporters of tobacco in the region. Some SADC countries are, however, net importers of tobacco (Angola, Botswana, Congo and South Africa).[5] Again, tea and tobacco are generally exported raw to industrialised countries outside of SADC. Thus, the extent of enhancing regional trade in these products through trade policy reform may be

reduced by low rates of industrialisation within SADC, which implies that the capacity for value addition within SADC is potentially limited.

South Africa is the most industrialised economy in the SADC region. Therefore, trade diversion of SADC's raw products exports might involve the expansion of exports of these products to South Africa from the rest of SADC, and re-exports of finished products from South Africa to the rest of SADC.

Almost all SADC countries are net importers of cereals (see Appendix 4). It is only for maize where there are countries that have an export surplus. South Africa and Zambia have, for instance, a significant export surplus of maize. Malawi both exports and imports maize in significant volumes, but has generally been a net importer (Harrigon, 2008; Dana *et al.*, 2006).[6] More than 90% of its imports of maize and 65% of its wheat imports come from SADC.

Being a net importer of cereals and meat, we can conclude that SADC as a group would gain from the removal of trade barriers in these sectors.[7] For instance, in the case of Malawi a reduction in the border price of cereals might improve the welfare of (net) consumers, but it might reduce the welfare of producers, particularly the milling producers (as there is a cascading tariff structure – see section 3.1).

Nominal rate of assistance (NRA) and cross-border taxes within SADC

In spite of the high tariff protection of agriculture in Sub-Saharan Africa, producers are generally taxed. One measure of this taxation is the NRA, which is defined as the percentage by which government policies have raised gross returns to producers above what they would have been without government intervention. A positive NRA implies that the producer is subsidised while a negative NRA reflects that the producer is taxed.

Agricultural policy reforms, particularly in Sub-Saharan Africa (SSA), halved net taxation of agriculture from 26% to 13% between 1980–84 and 2000–04 (World Bank, 2008). According to Anderson *et al.*, (2007: 435), NRA for Africa (excluding South Africa) is estimated at –10%, and that for South Africa at zero. Such high taxation impedes economic growth in agriculture, overall economic growth and poverty reduction. While there are no NRA estimates for individual countries, commodity-specific NRAs for agriculture-based countries belonging to the World Bank Group might shed some light. During 2000–2004, NRAs for tobacco, groundnuts, cocoa and cotton were respectively estimated at –50, –38, –36 and –15%, implying that producers were heavily taxed (World Bank, 2008). Similarly, maize and coffee were taxed, each with a NRA estimate of –7%. The estimate for wheat stood at –3%. Sugar was an exception in that it was heavily subsidised, with an NRA estimate of 76%. These commodities are important for SSA and for some of the SADC countries. Thus, policy reforms targeted at removing policy instruments that tax producers within SADC would affect trade flows, and hence improve the livelihood of producers.

With regard to border measures, the protection of agricultural production has been higher than the protection of manufacturing within SADC and there is accordingly a potential for increasing agricultural trade through trade policy reform.[8] As seen from Appendix 5, import restrictions, including non-tariff barriers, on agricultural products are huge within SADC, particular for Tanzania, Zimbabwe and Mauritius, which surpass the average for SSA. Import restrictiveness stimates for Mozambique (29%) and Malawi (26%) are also high, although they are smaller than the SSA average. South African imports of agricultural products are the least

restricted with an index of 12%. The high intraregional restrictions within SADC indicate that trade flows are impeded and it might be possible to stimulate (intraregional) trade in agriculture through trade policy reform, such as reducing tariffs and non-tariff barriers.

Top Imports and Exports: Malawi

Fertilizer and cereals are important imported items into Malawi in addition to fuel and capital-intensive goods such as vehicles (see Table 1). Total imports amounted to US$1.2 billion while exports were valued at US$668 million (see Table 2). Tobacco is by far the most important cash crop exported. But coffee, tea, sugar and cotton are also important exports.

Tobacco accounted for over 61% of Malawi's exports in 2006. Peak tobacco exports (in value) were realised in 1997 due to the expansion in smallholder production. However, since then Malawi has experienced a steady decline in burley tobacco exports, thanks to the volatility in world tobacco prices and stagnant output. However, exports have increased since 2005.

Table 1: Top imports into Malawi 2006 [9]

HS	Description	Trade Value ($'000)
Total	**Total**	**1 209 164**
87	Vehicles o/t railw/tra mw roll-stock, pts & access	191 878
27	Mineral fuels, oils & product of their distillati	138 475
84	Nuclear reactors, boilers, mchy & mech appliance	81 475
31	Fertilizers	73 522
85	Electrical mchy equip parts thereof; sound record	69 112
30	Pharmaceutical products.	57 511
24	Tobacco and manufactured tobacco substitutes	57 245
10	Cereals	47 876
49	Printed books, newspapers, pictures & other products	41 889
39	Plastics and articles thereof.	40 462
72	Iron and steel.	32 115
48	Paper & paperboard; art of paper pulp, paper	29 016
18	Animal/ vegetable fats and oils and their cleavage products	28 693

Source: WITS, World Bank

Table 2: Top exports from Malawi. 2006

HS	Description	Trade Value $
Total	**Total**	**668 416 864**
24	Tobacco and manufactured	410 645 333
09	Coffee, tea, mati and spices	56 924 967
17	Sugars and sugar confectionery	46 999 375
61	Art of apparel and clothing acc	22 568 961
62	Art of apparel and clothing acc	18 063 005
52	Cotton	15 101 669
12	Oil seed, oleagi fruits; miscellaneous	13 547 522

Source: WITS, World Bank

First Order Impacts of Removing Tariffs on Agriculture

Agriculture in SADC has generally been protected by high tariff barriers. We know that an *ad valorem* tariff (or an export subsidy) is equivalent to a producer subsidy. From the Lerner symmetry theorem it follows that tariff barriers on import-competing products raise domestic prices but, at the same time, act as a tax on exports of other tradable products (exports of crops or manufactures).[10] Removing such tariffs might therefore hurt those involved in the production of imports (raw materials or processed) while representing a gain for those involved in exports. Despite a country potentially gaining from trade liberalisation, the poor might be hurt if they are mainly involved in import-competing sectors and not in exports.

It is not within the scope of this article to provide an exact estimate of the price impact of removing tariffs on agricultural products. This requires a macroeconomic modeling framework. But if we assume that Malawi unilaterally removes its tariffs and also assumes full tax incidence and neglects the cascading nature of the tariffs (as inputs into agriculture play a minor role in value added), border prices would reduce at the same rate as the tariffs on imports.

We therefore need to analyse the tariff structure in Malawi in more detail. For Malawi, external tariffs vary in the range 5-30%. On average, the protection is estimated at 14%, of which 10% stems from tariff barriers and the rest from non-tariff barriers (NTBs). Agriculture has the highest protection, with an overall rate estimated at around 26% (tariffs on agriculture are 11% on average). The customs tariff on tobacco imports is 30% while imports of cereals are subject to custom tariffs ranging from zero to 30%. Tariffs have a cascading structure where milled products are taxed higher than raw cereals. Wheat, rice and sorghum are taxed at 10% (maize is duty free, maize flour is taxed at 10% and maize groats and meal are taxed at 30%). Fertilizer is duty free.

Malawi is lagging behind with respect to the implementation of the SADC Trade Protocol. A number of agricultural products are within the category of sensitive products. Tariffs on sensitive products (towards SADC counties) are equal to Most Favoured Naion (MFN) rates and will be reduced to zero by 2012. Overall reductions in tariffs would lower domestic prices and increase intra-SADC market access. Such a move would spur intraregional imports and exports and impact on economic growth and poverty.

Three types of tariff lines are of particular interest from a poverty perspective. The first is products that have peak tariffs (20% to 30%), as eliminating them would most likely influence trade patterns, at least if distribution channels and supply capacity are available. There are a number of agricultural products with peak tariffs. In addition to milled products, import tariffs for fruit and vegetables such as apples, peas and beans stand at 30%, and imports of these commodities are generally low.

The second is on products that generate large government revenue, as reductions in tariff revenue might negatively impact on public expenditure and the provision of social services for the poor. Some articles are extremely important from a tariff revenue standpoint. These include tobacco, automobiles, trucks and buses, work clothes, oil from soyabeans, palm oil, fats, paper, beans, maize and cereals. Capital goods such as automobiles, trucks and buses are not of primary concern from a poverty perspective although they are important from the standpoint of government revenue (see Maiketso and Sekolokwane (2007b) for an overview of sensitive products). Finally, one should examine products that have low tariffs, but not too low (say around 10%), that are important for the poor. Some cereal products fall within this category.[11]

With the above assumptions of complete tax incidence, the prices of rice and wheat would, for instance, reduce by 10%, the price of maize would remain stable while the prices of cash

crops for export would increase by approximately the average rate of protection of agriculture (around 10%). These are all modest changes in prices and would also be modified by the fact that the poor are not completely specialised in the products in which prices are changed and that there might be transaction costs involved. The degree of specialisation can be measured by applying budget shares of different commodities. Budget shares of various agricultural products in SADC are provided in Table 3 (but we will provide more disaggregated figures in section 5, see Tables 9 and 10).

The first order impact of an agricultural tariff change on income might be measured by these budget shares (multiplying changes in prices by budget shares while at the same time controlling for agricultural value added as a share of GDP from Appendix 1). Notice the importance grain and other crops play in Malawi.[12] A change in tariffs on grains and other crops would accordingly have a much larger impact on income in Malawi than an equal tariff change on, say, sugar. It is also noticeable that the budget share of other crops is higher than the budget share of grains.

Hence, as trade liberalisation increases the relative price of crops, the potential reduction in income from grains is more than compensated for by the increase in income from crops.

Table 3: Share of various agricultural products in total value added in agriculture and lightly processed food, 2001 (%)†

	Rice	Wheat	Coarse grains	Oil Seed	Sugar	Other crops	Milk prod.	Beef/ sheep meats	Pork, poul-try	Fruit and vege-tables
SSA	3.1	1.5	16	3.8	3.8	24.8	2.8	8.9	8.6	26.7
Botswana	0.6	0	5.2	0.7	0.1	1	42.3	21.8	17.8	10.6
Madagascar	24.1	0	0.7	0.8	15.9	25.5	0.9	21.5	2.5	8
Malawi	0.8	0	26.9	3.3	4.3	45.7	1.9	1.6	5	10.6
Mauritius	0	0	0.2	0	50.9	3.5	0.2	1.2	16.3	27.8
S. Africa	0.4	3.1	8.9	4.4	6.1	11.6	8.5	22.3	11.7	22.9
Tanzania	6	0.6	26.3	4.1	4.5	29.8	0.1	3	11.7	13.9
Zambia	1	2.7	18.6	4.3	4.8	45.7	0.3	7	5.9	9.8
Zimbabwe	1.5	2.5	9.1	5.2	4.7	51.5	0.6	16	3.8	5.1
Rest of SACU	0.7	3.5	10.8	4.2	16.9	21.9	2.6	22	7.2	10.1
Rest of SADC	1.8	2.8	26.7	6	2.7	22.3	1.7	15.4	10.2	10.4

†: each row adds to 100%

Source: Global Trade Analysis Project) (GTAP) database 6.1..

With transaction costs, a change in border prices does not always transmit to a price change for a rural producer. There are at least two mechanisms that may prevent price signals being transmitted all the way to the producer.

First, high fixed transaction costs (high transport costs, other distribution costs, land infrastructure facilities such as telecommunications) may isolate producers from trade. In these cases the marketing margin is so large that market participation does not take place. Lack of infrastructure in remote areas leads in many cases to the isolation of farmers from a modern cash economy (they rather consume their produce). More generally, in the absence of appropri-

ate roads and port facilities, a change in the border price of tradables will have no impact on the individual producer. Unless complementary policies addressing transport issues are in place, producers in landlocked countries will not experience much impact from trade liberalisation. If potential producers are isolated from trade in the first place due to high transaction costs, one would expect that border prices would need to increase significantly or transaction costs to reduce if trade liberalisation were to have any impact. For a lower level of transaction cost, it is more likely that trade liberalisation would influence producer prices.

Second, transaction costs provide natural protection to local producers of products competing with imports, but such costs also tax prospective purchasers of imports (producers and consumers) and prospective suppliers of exports. Changes in export prices will be increased while changes in import prices will be neutralised. Arndt (2006) provides the following illustrative example. Consider a good with an export price at the border of 100 and a marketing wedge between the border and the farm/factory gate of 50. If the FOB price increases by 10 to 110% and the marketing wedge remains, the farm price increases by 10 to 60 (or 20%). Consider an imported good that is available at the border for a price of 50. Marketing costs of 50 are incurred to get the product to the point of final consumption. If the border price increases by 10% and marketing costs remain constant, then the price of the imported good at the point of consumption increases by only 5% (to 105). Similarly, if the border prices of imports of, say, cereal reduce, its price effect on the individual producer will be dampened due to marketing costs.

When price signals transmit to the poor, there is first a direct impact on their welfare (positive or negative). Secondly, the impact of positive price signals may be reinforced if the poor increase their production volumes (either through increasing trade as discussed in the previous section or through increased production for a domestic market). Their ability to do so depends on the availability of the inputs needed to expand production. In general, poor people will have more limited access to credit and thus to capital investment than those with higher levels of income. Hence, larger farmers are often better placed to take advantage of the trade opportunities. In some cases, households for various reasons do not seem to respond to market opportunities.

The overall conclusion from this section is that the price impacts on the individual farmer of removing tariffs will most likely be modest. The next section provides more details about individual farmers in terms of what they produce, what they sell and whether they are net producers or net consumers.

Livelihood Sources in Malawi

Agriculture in Malawi contributes significantly to the overall economy as a source of income, employment and foreign exchange earnings. The sector accounts for 35% of Malawi's GDP, 85% of the labour force, and 83% of foreign exchange earnings (Chirwa *et al.*, 2006: 2).[13] Agriculture also contributes significantly to other economic activities within Malawi. For example, agro-processing accounts for 26% of manufacturing GDP.[14] Moreover, textiles, which are not included in the estimate for manufacturing GDP, use primary products from the agricultural sector.

The agricultural sector in Malawi is dualistic, comprising smallholder agriculture and estates (Republic of Malawi and World Bank, 2006). The estates sub-sector consists of about 35 000 leasehold and freehold farms, each with a size of no less than 10 hectares. Smallholder agriculture involves about 2.4 million households, with an average size of one hectare of land. The estates produce cash crops such as tobacco, tea, sugar and coffee for the export market, whereas

the smallholder sub-sector mainly produces maize and other food crops for subsistence purposes. However, smallholders also grow cash crops such as burley tobacco, cotton, tea, paprika, groundnuts and chillies. They collectively contribute over 80% of total production and exports of burley tobacco. Smallholder agriculture contributes significantly to Malawi's GDP. For example, in 2005 it accounted for 25% of GDP while estates contributed less than 10%.

It is estimated that about 90% of the households in Malawi have access to agricultural land. Interestingly, the share of poor households with access to land (95%) is higher than that of the non-poor (83%).[15]

Agriculture, employment and poverty

In order to understand the nature of poverty in Malawi, it is important to examine household livelihood sources. We utilise the second round of the Malawi 'Second' Integrated Household Survey (IHS2), for which data were collected during the year 2004 (see IHS2, 2005). We focus on the rural population, excluding also smaller urban centres, and we thus apply the rural sample of 9 100 households.[16] Of this sample, 9 070 households responded to the question 'what has been your main activity during the past seven days?' Table 4 summarises the responses. The majority of the households (66.4%) indicated that farming was their main occupation during the period. The second most important occupation was employment, which was identified as the main activity by 22% of the households. Of the 1 994 households whose main occupation was employment, the majority (53%) were employees of someone else, 22% were employed in a family business, and 25% were self-employed. Thus, both family and self-employment are important, although they are surpassed by employment elsewhere.

When we classify farming as self-employment, it becomes readily apparent that a large majority of households depends on their own production activities as a source of employment, particularly agriculture. Interestingly, only a small proportion of the households (170, or about 2%) indicated that they had been unemployed in the past seven days. In sum, what emerges from this analysis is that farming is a key occupation, followed by employment. It is also possible that some of those deriving their livelihood from employment could be employed in agriculture, further reinforcing agriculture as a key livelihood source.

The results change slightly when households are classified as non-poor and poor (Table 4). The poverty line in Malawi has been calculated at 16 165 Malawi Kwacha (MK) per person per year (a '$1 per day' poverty line translates to MK 11051 per person per year) and is based on an estimation of the cost of a comparable basket of basic goods in a poverty line area (Republic of Malawi and World Bank, 2006).[17] About 70% of the poor reported that farming was their main activity in the past seven days, compared with 63% of the non-poor. The reverse picture emerges when it comes to employment. Of the non-poor 25% reported that employment was their key occupation in the last seven days, compared with only 19% of the poor.

Thus, in summary, the poor depend more on agriculture as a source of livelihood than the non-poor and are therefore more vulnerable to shocks in agriculture. However, the poor depend relatively less on employment than the non-poor, implying that they (the poor) may have fewer employment opportunities than the non-poor due to lower human capital. Interestingly, however, unemployment rates are almost the same for the poor and the non-poor. One would have expected the poor to record higher unemployment than the non-poor, since they are more likely to possess lower skills (human capital) for the job market. This finding may reflect higher demand for unskilled labour (for example, casual labour), which is readily supplied by the poor. The non-poor, on the other hand, may be relatively less willing to venture into such a market.

Moreover, the incidence of underemployment, particularly among the poor, may be widespread (Republic of Malawi and World Bank, 2006).

Table 4: Main activity of households in the past seven days*

Occupation	Non-Poor	Poor	Total
Farmer	2 950 (63.2)	3 076 (69.9)	6 026 (66.4)
Employee	1 167 (25.0)	827 (18.8)	1 994 (22.0)
Unemployed	94 (2.0)	76 (1.7)	170 (1.9)
Other	459 (9.8)	421 (9.6)	880 (9.7)
Total	4 670 (100.0)	4 400 (100.0)	9 070 (100.0)

** Figures reported in parentheses are percenage shares of each activity (occupation)*
Source: Calculationss based on IHS2 (2005)

Households were further asked whether they had been employed for a wage or as casual labourers at any time in the past 12 months. The responses are summarised in Table 5. Of the 9 035 households, only 20% had been employed for wages, implying that wage employment was less significant than agriculture as a source of livelihood. However, as before, the picture changes slightly when households are disaggregated into non-poor and poor. About 22% of the non-poor reported that they had worked for wages at some point in the last 12 months, compared with 18% of the poor. Thus, the non-poor are more likely to participate in wage employment than the poor, although the rates of participation are not substantially different.

Households tend to participate more in the labour market as casual labourers, as 38% reported that they had participated in this form of employment at some time in the past twelve months. This may be reflective of higher demand for unskilled labour, due to the predominance of agriculture, than for skilled labour (for non-agricultural activities). A larger share of the poor was employed as casual labour (43.6%) than of the non-poor (33.2%).

The extent of multiple job-holding

Multiple job-holding at a household level may be used to reduce the risk of loss of household income. For example, household members may reduce such risk through part-time participation in the labour market or by having some household members engaged on a full-time basis in the labour market outside their own farms. Similarly, those engaged in wage employment as a key activity may wish to engage in part-time farming in order to diversify their income sources and to guard against loss of employment. This section, therefore, briefly examines the extent to which multiple job-holding is practiced.

Table 6 examines the extent to which households engage in wage employment and/or casual labour. Of the 9 028 households responding to this issue, only 534 (6%) participated in both wage employment and casual labour, implying that the extent of simultaneous engagement in these activities is limited. Casual labour was more common for households lacking employment for a wage in the last 12 months (84.5% of those that had been in casual labour had not had wage employment in the last year). Casual labour seems therefore to be a substitute for wage employment.

Table 5: Employed for a wage and/or as a casual labourer in the last 12 months*

Employment Status	Non-Poor	Poor	Total
Employed for a wage:			
Yes	1 015	795	1 810
	(21.8)	(18.2)	(20.0)
No	3 647	3 578	7 225
	(78.2)	(81.8)	(80.0)
Total	4 662	4 373	9 035
	(100.0)	(100.0)	(100.0)
Employed as a casual labourer:			
Yes	1 546	1 907	3 453
	(33.2)	(43.6)	(38.2)
No	3 114	2 468	5 582
	(66.8)	(56.4)	(61.8)
Total	(100)	(100)	(100)

** Figures reported in parentheses are percentage shares of each activity (occupation)*
Source: Calculationss based on IHS2 (2005)

Table 6: Cross-tabulation of wage work and casual labour*

Employment for a wage in the past 12 months	Employed as Casual Labourer Last 12 Months		
	Yes	No	Total
Yes	534 (29.6)	1 273 (70.4)	1 807 (100.0)
	(15.5)	(22.8)	(20.0)
No	2 913 (40.3)	4 308 (59.7)	7 221 (100.0)
	(84.5)	(77.2)	(80.0)
Total	3 447 (38.2)	5 581 (61.8)	9 028 (100.0)
	(100.0)	(100.0)	(100.0)

** Figures reported in parentheses are percentage shares across columns or rows*
Source: Calculationss based on IHS2 (2005)

Table 7 cross-tabulates households' main activity in the last seven days with employment status. Of the 6 012 households who engaged in farming as a principal activity, only 9.7% had also been engaged in wage employment in the last 12 months. However, the picture changes when it comes to participation in the casual labour market. About 42 of the households which identified farming as a principal activity also participated in the labour market as casual labourers. One could argue that the casual labour market may not demand much sophistication in skills and, hence, is readily accessible to farming households interested in diversifying their income sources, whereas the reverse would prevail for the formal labour market. It is also possible that most of the casual labour is employed in the agricultural sector, where most farm household members can be readily absorbed as they possess relevant skills and experience. The casual labour market is an important source of part-time (seasonal) employment. Hence, it is likely to occur in agriculture, which is characterised by seasonality in production.

Implications for poverty reduction

Clearly, the labour market in Malawi is highly dependent on agriculture, which accounts for about 80% of total employment. In rural areas, most households are self-employed in agriculture and the casual labour market plays a crucial role. As agriculture is a key activity, trade (import)

*Table 7. Cross-tabulation of main occupation and employment status**

Main Occupation in Last 7 Days	Employed as Wage Earner Any Time in Past 12 Months			Employed as Casual Labourer Any Time in Past 12 Months		
	Yes	No	Total	Yes	No	Total
Farmer	586 (9.7)	5 426 (90.3)	6 012 (100.0)	2 550 (42.4)	3 467 (57.6)	6 017 (100)
	(32.4)	(75.3)	(66.7)	(73.9)	(62.3)	(66.7)
Employee	1 084 (55.1)	884 (44.9)	1 968 (100.0)	424 (21.6)	1 540 (78.4)	1 964 (100)
	(59.9)	(12.3)	(21.8)	(12.3)	(27.7)	(21.8)
Unemployed	20 (12.3)	143 (87.7)	163 (100.0)	59 (36.2)	104 (63.8)	163 (100)
	(1.1)	(2.0)	(1.8)	(1.7)	(1.9)	(1.8)
Other	119 (13.7)	752 (86.3)	871 (100.0)	416 (47.8)	455 (52.2)	871 (100)
	(6.6)	(10.4)	(9.7)	(12.1)	(8.2)	(9.7)
Total	1 809 (20.1)	7 205 (79.9)	9 014 (100.0)	3 449 (38.3)	5 566 (61.7)	9 015 (100)
	(100)	(100)	(100)	(100)	100	(100)

** Figures reported in parentheses are percentage shares across columns or rows*

Source: Own calculationss based on IHS2 (2005)

liberalisation within the sector may lower agricultural output and in turn lead to a reduction in labour demand (including self-employment). If commodity prices are depressed due to trade liberalisation and producers are connected to formal commodity markets, agricultural output may decline and, in turn, lead to job losses in the rural economy. This would result in an increase in poverty in the short term, due to the high dependence on agriculture. The long-term effects would depend on whether or not there were new job opportunities to absorb excess labour from the agricultural sector. But if there were limited job opportunities outside of agriculture, as is currently the case in Malawi, this might imply adverse poverty impacts even in the long term. However, a positive poverty outcome may occur where trade liberalisation leads to growth in export cropping, which is more labour-intensive than subsistence cropping. We discuss this issue in detail in the forthcoming section.

Agricultural Production Patterns and Poverty

This section will provide a more detailed picture of the farming sector. As in the previous section, we focus on the rural population and apply the rural sample.

In the rural sample of 9100 households, 8,624 households cultivate rain-fed crops while 4,856 also practice dry-season planting on dimba land.[18] Tobacco is grown by 21 % of the rural households. The average land size per household stands at about one hectare, of which 0.95 hectare is cultivated. Dimba production is moist for most of the year due to proximity to water sources. Products that are cultivated during the dry season (dimba) consist mainly of hybrid maize, local maize, tanaposi and tomatoes. As a large proportion (around 90 %) of the land is used for rain-fed agriculture while only a minor part of dimba production is marketed and the median value of what is marketed is low (around 1000 MK for tomatoes and 1300 MK for hybrid maize), we focus on rain-fed crops and tobacco.

Table 8: Percentage of households cultivating and selling rain-fed crops (rural sample, weighted figures)

Crop	Percentage of household cultivating the crop (%)	Median sales value (MK)	Market Participation rate (%)
Local maize	57.5	1500	10.6
Composite maize	5.9	2000	14.9
Hybrid maize	52.3	2300	16.7
Cassava	20.0	1200	23.0
Sweet potato	16.3	800	30.6
Groudnuts	39.5	1200	36.8
Ground beans	5.9	300	8.3
Rice	7.2	3000	49.9
Finger millet	4.2	700	28.2
Sorghum	12.2	400	5.0
Beans	19.8	1000	20.8
Soya beans	9.2	1200	64.0
Pigeon peas	27.2	600	17.3
Cotton	3.4	5000	96.9
Suger	1.6	900	65.2
N (household rain-fed production) IHS2	8624		

Source: Own calculationss based on IHS2 (2005)

More than 50% of the households cultivate rain-fed maize. After maize, ground nuts, pigeon pea, beans and potatoes are the products that most households grow. Table 8 does not provide information on production levels (see Table 9), as it only reports the proportion of households producing and selling an item, including median sales value. It is noticeable that the median value of sales from cash crops such as cotton (and tobacco – see below) are higher than for maize and that the market participation rate (as measured by the number of households that are both producing and selling a commodity in the market) is higher for cash crops.

Production values and poverty

One weakness with existing data from IHS2 is that they do not inform us about the value (only quantity) of production of different commodities. We have therefore estimated the production and sales value for the key rain-fed agricultural crops (which are the most important income sources for farmers). For those who have sold products in the market, we have estimated the price per unit of their sales. For those who have not sold anything, we have used the median price in each enumeration area. Table 9 shows production and sales values for the most important rain-fed products. The mean production value for all rain-fed crops is estimated at MK12 833 (per farming household), which is below the poverty line.

The poor generally produce less than the non-poor. Of the 8 583 sample households (the number of households in the rural sample that produce rain-fed products), 4 248 are poor and 4 335 non-poor (approximately 50% are poor as in the national sample). There is great disparity between production values for the non-poor and the poor, who recorded mean production values of MK16 636 and MK8 873, respectively. A similar pattern emerges for individual crops, implying that the poor produce less than the non-poor. These differences are significant (applying a cluster adjusted t-test where we take into account that the variance of observations within a survey cluster might be correlated). The only exception is for soya beans, where the mean production value for the poor exceeds that for the non-poor. The discrepancy between the poor and the non-poor may be primarily due to the fact that the non-poor own more land, on average, than the poor. It is also noteworthy that the wedges in production values would be much greater if expressed in per capita terms since poor households tend to have larger family sizes than the non-poor (Republic of Malawi and World Bank, 2006).

Maize is the key production commodity in terms of household participation.[19] About 96% (8 206) of the households were engaged in maize production. Out of these maize farmers, there were 4 074 poor households. The maize production participation rate for the poor (96%) is almost identical to that for the non-poor (95%). The second, third and fourth leading commodities were groundnuts, cassava and beans, with 3 334 (39%), 1 752 (20%) and 1 669 (19%) households producing these crops, respectively. The participation rates for the poor (non-poor) in groundnuts, cassava and bean production are estimated at 33 (44%), 21 (20%), and 16 (22%), respectively. Thus, the non-poor participate more in groundnut and bean production than the poor, while there are no discernible differences in the case of cassava. Cotton, a non-food crop, was produced by only a negligible proportion of the households (283 households or 3%) and we do not find any differences between the rates of participation of the poor and the non-poor. For soya beans and rice, production participation rates for the poor (non-poor) are estimated at 7 (11%) and 8 (8%), respectively. Thus, the non-poor participate more than the poor in soya bean production, whereas no differences exist for rice.

Sales values and poverty

Sales values also show a similar pattern – the non-poor sell more than the poor. The non-poor are more involved in selling agricultural products in the market and those who sell, generally sell more. When we consider all crops, the mean value of sales for the non-poor (MK6 404) is about three times that for the poor (MK2 128). As the proportion of the poor that sell is less (43%) than of the non-poor (55%),[20] controlling for market participation, the mean value of sales for the non-poor (MK 11 662) is still high – about twice that of the poor (MK5 011).[21] We have also applied a cluster adjusted t-test and the test shows – not unexpected that these differences are significant (at a 0.05 significance level) between the poor and the non-poor.

An analysis of individual crops also shows a similar pattern, with greater disparities recorded for the key staple crop of maize. The last column of Table 9 shows the ratio of households who sold any given proportion of their crops. When we consider all crops, 49% of households were engaged in crop sales. However, when considering individual crops it is clear that, with the exception of cotton (a non-food crop) and soya beans, few households sold their crops. Farmers are mainly subsistent or net buyers. Maize recorded the lowest ratio (16%), implying that only 16% of the producing households marketed this crop. Thus, maize is the key subsistence crop, grown mainly for home consumption.

Subsistence farming is more pronounced for the poor with only 12% of them selling maize, compared to 20% of the non-poor (a cluster adjusted t-test shows that the difference is significant). Other subsistence crops are beans, cassava and groundnuts with market participation rates of 21%, 23% and 36%, respectively. However, cotton and soya beans were commercialised, with 100% and 67% of the producing households participating in marketing, respectively. Apart from maize, groundnuts and cassava, there are noticeable small differences between the market participation by the poor and the non-poor.

The significance of individual rain-fed crops

Table 10 reports individual crop shares in total crop production, individual crop shares in total crop sales and share of individual crop sales in value of individual crop production. There are larger differences between the poor and the non-poor regarding what product is sold or not and the level of sales than the composition of production. The individual crop production value shares do not vary much with poverty, while the level of production and sales do. As is evident, maize is the key commodity as it accounted for an average of 63% of the value of crop production. The share of maize production value is slightly (and a cluster adjusted t-test shows that this share is not significant) higher for the poor (64%) compared to the non-poor (62%). Groundnuts are the second most important production commodity with an average share of 8%, followed by cassava with a share of 5%. The remaining crops recorded shares of no more than 5%. It is also interesting to observe that maize and cassava play a more important role for the poor compared to the non-poor, although the differences in production shares are small and insignificant.

Maize is also the most important commodity in terms of the share in total crop sales. This crop accounted for 10% of total crop sales. The share is, however, relatively small since this crop accounted for about 63% of the total crop production valueindicating that the bulk of the maize is grown for subsistence purposes. On balance, the share of maize in total crop sales was higher for non-poor households (13%) compared to the poor (7%). This difference is significant, but in spite of this, maize is an important subsistence commodity for both the poor and the non-poor. The second most important commodity, in terms of share of sales, is groundnuts, which accounted for 9% of crop revenue. As with maize, the share for the non-poor (10%) is higher than that for the poor (8%). All other crops, with the exception of cotton, also reveal higher sales shares for the non-poor, compared to the poor. However, the poor's share of sales revenue from cotton is identical to that for the non-poor (both are estimated at 3%).

Table 10 provides some estimate about how much of each crop is sold. About 99% of the cotton produced is sold, implying that cotton is fully commercialised. This is expected since cotton is a non-food crop. Of the remaining crops, rice and groundnuts, with sales shares of 28 and 20% (respectively), could be classified as semi-commercialised. However, these crops play a more subsistence than commercial role. Maize is clearly a key subsistence crop since, on

average, households marketed only 8.3% of this crop. Market participation measured in terms of volume sold is remarkably lower than market participation based on whether a farmer has sold or not (see Table 8). Cassava is also less important commercially as only 14% of the value of the harvest of this crop was marketed. Thus, cotton is fully commercial, rice and groundnuts are semi-commercial, while maize and cassava are subsistence crops.[22] With the exception of soya beans, the ratios of sales to crop production value are higher for the non-poor compared to the poor, implying that the non-poor are slightly more commercialised. However, with the exception of cotton, average shares are lower than 50% for both the poor and non-poor, suggesting that rain-fed arable agriculture is principally undertaken for subsistence purposes.

Table 9. Crop production and sales

	Predictive Value>0			Sales Value>0			Percentage of Households Selling
	Number of Households	Median Value	Mean Value	Number of Households	Median Value	Mean Value	
Maize:							
All Households	8206	3780	6872	1301	2000	5063	16
Non-Poor	4132	4500	8676	827	2400	6388	20
Poor	4074	3300	5004	474	1500	2633	12
Cotton:							
All Households	284	5069	7904	284	5000	7806	100
Non-Poor	137	6550	9444	137	6550	9416	100
Poor	147	5000	6499	147	4950	6339	100
Groundnuts:							
All Households	3334	1400	2724	1200	1200	2455	36
Non-Poor	1916	1575	3160	752	1350	2842	39
Poor	1418	1200	2123	498	1200	1855	35
Cassava:							
All Households	1752	1225	3085	397	1200	2167	23
Non-Poor	849	1290	3448	228	1300	2254	27
Poor	903	1200	2733	169	1000	191	19
Rice:							
All Households	658	3000	6367	310	3000	6016	47
Non-Poor	329	3600	7219	160	4000	6944	49
Poor	329	2800	5463	150	2400	497	46
Soyabeans:							
All Households	756	1000	2289	507	1200	2473	67
Non-Poor	459	1000	2190	302	1200	2423	66
Poor	297	1000	2441	205	1200	2547	69
Bean:							
All Households	1669	800	1669	356	1000	1729	21
Non-Poor	975	875	1873	223	1000	1968	23
Poor	694	750	1237	133	800	1319	19
All Crops:							
All Households	8583	6550	12833	4215	2300	8828	49
Non-Poor	4335	7900	16636	2395	2800	11662	55
Poor	4248	5550	8873	1820	1800	5011	43

Source: Own calculationss based on IHS2 (2005)

Table 10. The importance of individual crops in production and sales in Malawi

	Share of Individual Crop Production Value in Total Crop Value		Share of Individual Crop Sales in Total Crop Sales		Share of Sales in Crop Production Value (Individual crop)		
	Median Share	Mean Share	Median Share	Mean Share	Number of House-holds	Median Share	Mean Share
Maize							
All Households	67.3	62.9	0.0	10.0	8 206	0.0	8.3
Non-Poor	65.5	61.6	0.0	12.5	4 132	0.0	11.0
Poor	69.1	64.3	0.0	7.3	4 074	0.0	5.4
Cotton							
All Households	0.0	1.7	0.0	3.0	284	100	99.0
Non-Poor	0.0	1.7	0.0	2.8	137	100	99.1
Poor	0.0	1.7	0.0	3.2	147	100	99.0
Groundnuts							
All Households	0.0	7.8		9.4	3 334	0.0	20.3
Non-Poor	0.0	8.7	0.0	10.4	1 916	0.0	21.1
Poor	0.0	6.9	0.0	8.4	1 418	0.0	19.0
Cassava							
All Households	0.0	5.4	0.0	2.7	1 752	0.0	14.4
Non-Poor	0.0	5.1	0.0	2.9	849	0.0	15.9
Poor	0.0	5.7	0.0	2.5	903	0.0	10.2
Rice							
All Households	0.0	2.9	0.0	3.1	658	9.1	27.9
Non-Poor	0.0	3.0	0.0	3.1	329	16.6	29.7
Poor	0.0	2.9	0.0	3.1	329	0.0	26.1
Soya beans							
All Households	0.0	1.5	0.0	3.7	756	66.6	53.9
Non-Poor	0.0	1.6	0.0	4.0	459	66.6	52.5
Poor	0.0	1.3	0.0	3.3	287	66.6	56.1
Beans							
All Households	0.0	2.6	0.0	1.9	1 669	0.0	11.8
Non-Poor	0.0	2.8	0.0	2.1	975	0.0	12.4
Poor	0.0	2.4	0.0	1.8	694	0.0	10.8

Source: Own calculationss based on IHS2 (2005)

Implications for poverty reduction through trade

A key emerging issue from the analysis of Malawi's livelihood sources and agricultural production patterns is that the poor depend heavily on agriculture as a source of food and employment. The critical question is what are the likely poverty and food security impacts of intraregional trade liberalisation? While this question has not been fully empirically examined, we may draw the following tentative conclusions. The poor are largely dependent on maize production, and Malawi is a net importer of this commodity. If existing import restrictions are removed, the border price of other cereals would go down, increasing the relative prices of maize and cash crops, but the price impacts are small (section 3). Given the predominance of subsistence production of maize, with low market participation by the poor, the immediate impact may be marginal. This comes from the earlier analysis showing that only 12% (see Table 8) of the poor participate in the market and that only 5.4% of the maize produced by the poor is actually marketed (see Table 9). Thus, as the poor do not participate much in the market, changes in the border prices of cereals might not impact significantly on their production decisions, implying that the immediate poverty impact of removing border restrictions might be negligible. In addition, the direct price impacts are small. In general, however, as Malawi is a net importer of cereals the consequence for consumers would be positive, including the poor, who are net buyers of cereals.

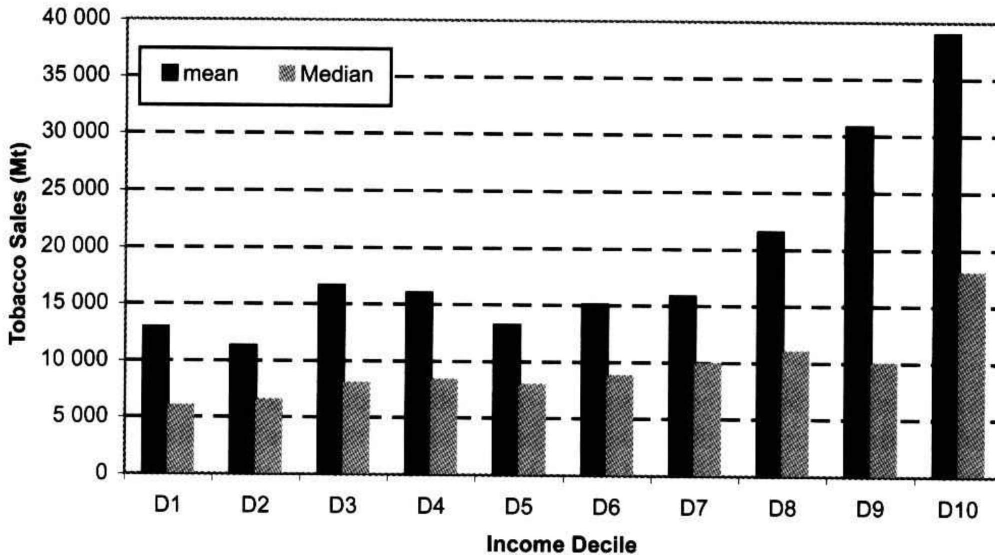
However, the poverty impacts of changes in relative prices may be different in the intermediate to long term. If production and consumption decisions are joint, the higher relative prices of cash crops may lead farmers to switch to the production of commercial (export) crops and, in turn, purchase maize from the market for home consumption. It has been observed that households engaged in the production of tradable commodities are less likely to be poor, and that promoting increased household participation in such activities would yield pro-poor outcomes. For Malawi, the debate has centred on whether households would improve their net income by switching to export crops such as tobacco and cotton, and using the earnings associated with the sale of these commodities to purchase food, rather than engaging in subsistence production.

A recent study on Malawi has shown that there is a negative relationship between poverty and the proportion of land allocated to export (cash) crops such as tobacco, cotton and groundnuts (Republic of Malawi and World Bank, 2006). Thus, households who allocate larger shares of their land to an export commodity are less likely to be poor than those allocating smaller proportions. The study concludes that commercialisation of agriculture through participation in export cropping would lead to poverty reduction.[23] It has been also observed that cash crops (such as tobacco) are labour intensive (Masanjala, 2006). Thus, switching to a cash crop may increase labour demand and, hence, improve the welfare of labour suppliers. Thus, the excess labour released from subsistence production would be absorbed into cash cropping.

We have explored the correlation between household income deciles and poverty in the rural sample. Of the 9100 sample households about 21% indicated that they grew tobacco. Participation rates for the non-poor and poor were estimated at 24% and 17%, respectively. Absolute participation is also much higher for the non-poor (1 144 households) compared to the poor (751 households). The rural sample shows that mean and median tobacco income increases with total household income and income from tobacco sales is an important income source. Mean (median) sales of tobacco were estimated at MK 20465 (MK 8 859). For the non-poor, mean (median) sales were estimated at MK 25, 544 (MK11 000), compared with MK 14 181 (MK 7000) for the poor. These differences between the poor and the non-poor are significant (applying

the cluster adjusted t-test). The analysis therefore supports other findings that tobacco is a key income source and that production of cash crops might pave the way out of poverty.

Figure 1. Mean and median tobacco sales by income decile (rural sample)



Source: Own calculationss based on IHS2 (2005)

While higher relative prices of cash crops may stimulate farmers to switch to cash crops in the intermediate- to long-term, various factors have been identified as constraints to such a transition. Among these factors are the specialised knowledge (skills) associated with the production of the export commodity, the relative risk associated with producing the export commodity versus the home-consumed commodity, the need for start-up funds or lump-sum investment in export cropping and a lack of well-developed credit markets, food security concerns associated with missing food markets, human capital (education, gender and age), and the health status of the family.[24] Thus, interventions designed to promote participation in export cropping should include, among others, facilitation of risk mitigation and access to credit, promotion of access to start-up capital, and improving access to markets.

Similarly, an empirical study on cash crop liberalisation and poverty alleviation in Malawi (Masanjala, 2006) revealed that participation in tobacco production enhances household income. However, the study also found that participation in tobacco production had a negative impact on food consumption, but had no effect on food purchases. The conclusion derived from this finding was that growing tobacco reduces the ability of households 'to smooth consumption' (Masanjala, 2006: 236). This argument emanates from the fact that rural households in Malawi do not depend on food markets to meet their subsistence needs. Tobacco growers face unique circumstances in that they deplete their food stocks faster as they use their maize output not only for home consumption but also to pay for hired labour and tenants. This makes tobacco-producing households more susceptible to chronic and seasonal food insecurity. The study also showed that tobacco income had no impact on the household's per capita calorific intake. However, non-farm income was found to be positively related to per capita calorific intake, implying that it is more effective in improving food security than export cropping. Thus, the study partly explains why farmers in Malawi, whose primary objective might be food secu-

rity, appear to be reluctant to switch to cash crops (such as tobacco), even though cash crop production enhances household income.

Conclusions

The purpose of this paper was to examine whether intraregional trade within SADC is likely to reduce poverty, placing emphasis on Malawi. The paper shows that agriculture is a key economic activity for most SADC countries, and that it is important when it comes to poverty reduction. However, intraregional trade in agriculture is still highly protected, as is evident from the trade restrictiveness indices for individual SADC countries. Malawi in particular has lagged behind in meeting intraregional trade liberalisation commitments. The paper also indicates that trade patterns across SADC countries differ, implying that the removal of existing trade restrictions would promote an expansion in intraregional trade.

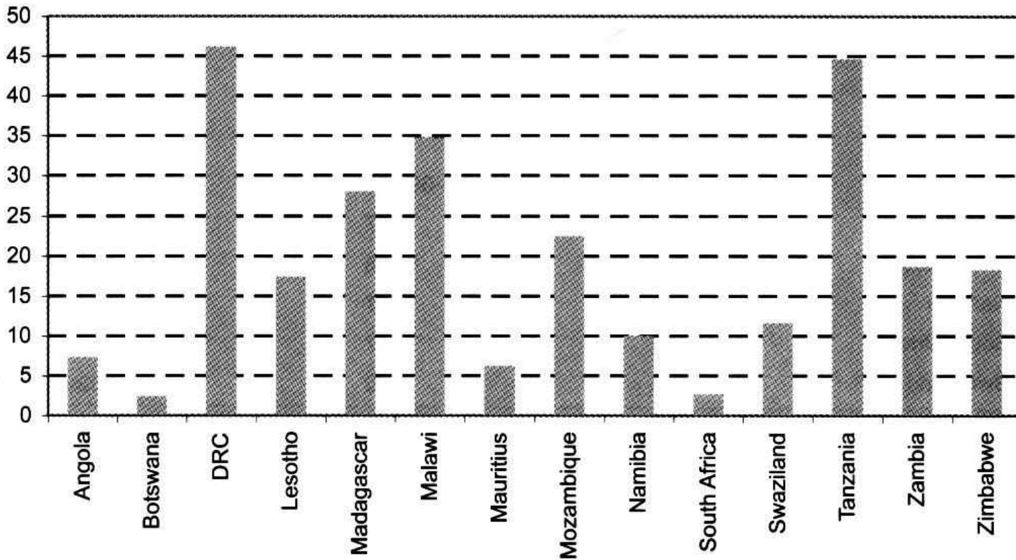
Whether or not such a move would eventually lead to poverty reduction would depend on the role of the poor in the sub-sectors that undergo liberalisation – whether they are net food buyers or sellers, or whether they are supplies of unskilled labour – and the existing price transmission mechanisms to the activities they perform (resources they own). For Malawi, where the poor practice subsistence farming and cultivate maize as the key crop, the paper argues that the removal of existing trade barriers on agriculture does not have an immediate effect on the poor farmers, as their market participation rates are low and the direct price impacts on imported products of a trade policy reform are small. They sell only a small proportion of their food grains and they depend mainly on their own production to meet their consumption requirements. As a net importer of cereals, Malawi will gain from liberalisation and consumers will gain from lower prices. It is therefore difficult to claim that the slow progress in trade policy reform in Malawi stems from the government´s concerns towards the poor (farmers), although there might be other reasons (revenue concerns or political reasons).

However, it is further argued that low food prices may stimulate rural trade in imported food products in the intermediate to long term, further enticing subsistence producers to switch to commercial crops (which will face a higher relative price as a result of trade policy reform) and in turn to purchase staple foods from the market. But this will depend on whether or not rural food markets are well developed and efficient enough to transmit lower (higher) border prices of imports (exports) to the rural economy. As cash crops, which are produced for the export market, are more labour intensive, it is further argued that they may absorb the excess labour released from subsistence farming.

The paper, however, points to some constraints to switching to cash/export cropping, based on existing empirical evidence. Among these are the specialised knowledge (skills) associated with export cropping, the relative risk associated with producing the export commodity versus the home-consumed commodity, the need for start-up funds or lump-sum investment in export cropping and a lack of well developed credit markets, food security concerns associated with missing food markets, human capital (education, gender and age), and the health status of the family. Moreover, while it enhances net farm incomes, cash (export) cropping is associated with chronic food shortages and food insecurity, since farmers have to use their grain supplies to finance some of their cash-cropping activities. Thus, the paper concludes that, consistent with the literature, interventions to promote participation in export cropping should include, among others, facilitation of risk mitigation and access to credit, promotion of access to start-up capital, and improving access to markets.

Appendices

Appendix 1: Agricultural value added as share of GDP in SADC, 2005



Source: World Bank, 2006

Appendix 2: Net trade of cash crop in SADC (1000 US$), 2004*

Country	Groundnuts	Cocoa Beans	Coffee Ground	Cotton lint	Sugar
Angola	154	49	–472	16	51 594
Botswana	–64	57	3 254	296	5 808
DRC	–1	–1 387	–6 995	103	568
Lesotho	0	0	0	0	21
Madagascar	–283	–3 262	–2 304	–536	7 359
Malawi	–4 157	0	–3 356	–12 941	–44 880
Mauritius	1 147	2	483	27 354	–345 260
Mozambique	844	1	675	–22 737	–16 959
Namibia	2	–68	599	–10 867	2 387
South Africa	–4 852	4 812	2 3613	106 881	–207 085
Swaziland	1 836	51	93	–1 589	–118 663
Tanzania	–1 968	–6 832	–49 455	–49 745	18 421
Zambia	–317	0	–9 678	–74 647	–16 076
Zimbabwe	3 096	0	–5 032	–226 250	–35 712
SADC	–4 563	–6 577	–48 575	–264 662	–698 477

**Positive figures are net imports while negative figure reflect net exports.*

Source: www.FAOstat.fao.org

Appendix 3: Net trade of meat, tea and tobacco (1000 US$), 2004*

Country	Meat	Tea	Tobacco
Angola	77 021	1 298	10 631
Botswana	–42 641	394	7 756
DRC	35 328	422	8 452
Lesotho	5 500	1	8 600
Madagascar	–4	–106	301
Malawi	211	–39 307	–254 941
Mauritius	28 175	–337	5 769
Mozambique	10 777	1 728	–20 974
Namibia	–43 542	207	–1 091
South Africa	134 412	7 207	14 812
Swaziland	4 491	70	362
Tanzania	627	–30 092	–61 391
Zambia	–44	1 371	–28 800
Zimbabwe	–3 002	–13 194	–378 758
SADC	207 309	–70 338	–689 272

** Positive figures are net imports while negative figure reflect net exports.*
Source: FAOSTAT,FAO.OR6/default.aspx

Appendix 4: Net trade of cereals in SADC (1000 US$) 2004*

Country	Maize	Rice	Wheat	Cereals
Angola	12 959	58 772	13 530	176 039
Botswana	12 974	554	736	20 864
DRC	–618	5 955	46 057	70 810
Lesotho	578	1 202	380	3 396
Madagascar	2 328	18 162	5 209	30 930
Malawi	–123	–30	2 868	6 207
Mauritius	15 122	32 317	20 580	7 1464
Mozambique	7 524	49 275	91 060	149 973
Namibia	502	1 448	10 829	15 304
South Africa	–39 363	201 186	18 4620	356 698
Swaziland	–292	307	71	262
Tanzania	18 659	46 502	90 707	140 236
Zambia	–26 580	3 795	4 437	–14 847
Zimbabwe	105 361	3 725	71 299	200 233

** Positive figures are net imports while negative figure reflect net exports.*
Source: FAOstat.fao.org

***Appendix 5: Import restrictions in SADC: Overall trade restrictiveness index, 2001-2004*[25]**

	Own-region trade restrictiveness		
Country/Region	**Agriculture and Food**	**Other Manufacturing**	**All Tradables**
Sub-Saharan Africa	34	16	19
Madagascar	18	13	13
Malawi	26	12	14
Mauritius	38	17	21
Mozambique	29	9	13
South Africa	12	7	7
Tanzania	83	31	38
Zambia	29	9	11
Zimbabwe	47	12	18

Source: Valenzuela and Anderson, 2006 (Table 3) adopted from Kee, Nicita and Olarreaga (2005)

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Notes

1. The sections on livelihood sources and agricultural production patterns and poverty were based on an analysis of the Malawi Integrated Household Survey (IHS2) of 2004. We are grateful to the National Statistical Office (NSO) of Malawi for providing the data. However, further processing and application of the data was the responsibility of the authors and the views expressed are those of the authors and not of the NSO. Comments and technical advice from Magnus Hatlebakk are highly appreciated. We would also like to thank Ottar Mæstad, Arne Bigsten and an anonymous referee for comments on an earlier draft of this paper.
2. See McCulloch *et al.* (2001) for a detailed exposition of the potential linkages between trade, trade liberalisation and poverty. According to McCulloch *et al.*, such linkages include changes in the prices and availability of goods, in factor prices, in income and employment, in government taxes, in the terms of trade, and in the incentives for investment and innovation.
3. See Maiketso and Sekolokwane (2007a).
4. There are also other explanations for the low speed, such as a fear of revenue loss and interest groups that fear losing gains from protection.
5. Note, however, that tobacco exports from Zimbabwe and Malawi may mainly involve unfinished products for further processing in industrialized economies into final products, while tobacco imports into Angola, Botswana and Congo may involve final products. Therefore, this may hamper direct trade betweeen net exporters and net importers within SADC.
6. In 2006 Malawi exported a significant amount of cereal. For a review of the domestic maize market in previous years see for instance Dana *et al.* (2006) and Harrigan (2008).
7. However, existing trade relations with industrialized economies may hamper trade diversion into SADC. For example, Botswana currently sells its beef to the EU under a preferential trade arrangement. The prices received by Botswana in the EU market are high because of the EU's high tariffs, from which Botswana is exempt. Even if intra-regional trade barriers on beef within SADC were

removed, it is unlikely that Botswana would switch to SADC markets as long as EU prices remained more attractive.

8. Appendix 5 reports overall trade restrictiveness indices for SADC countries. For a detailed discussion of the trade restrictiveness indices, see Kee *et al.* (2006).
9. Trade data at 2 digits Harmonized System Codes (HS Code) is downloaded from UNCTAD/World Bank by applying the World Integrated Trade Solution (WITS). See http: //wits.worldbank.org/wits-web/.
10. Strictly speaking, this theorem only holds fully when trade is balanced and when the non-tradeable sector is small.
11. A large part of the tariff revenue stems from imports from within SADC, although these include re-exports from South Africa. Worn clothing and capital goods are exceptions as they are imported from outside the SADC region.
12. Other crops, for Malawi, may include tobacco, cotton, soyabeans and groundnuts, which are important for the commercialization of the country's agriculture.
13. Similarly, the World Bank estimates show that agriculture accounted for 35% of GDP in 2005 and 78% of employment in 2003.
14. According to Chirwa *et al.* (2008), manufacturing accounts for 11% of Malawi's GDP.
15. This may be due to the fact that land is mainly used for subsistence production, and that some of the non-poor rely on non-farm work as a source of income.
16. For a more comprehensive study of livelihood strategies in Malawi, see Hatlebakk (2007).
17. We apply the household poverty line used by the National Statistical Office, where each individual member in the household has been weighted.
18. 'Dimba' gardens are pieces of land which due to proximity to some source of water (river or stream) retain moisture for most of the year, and can therefore be cultivated during the dry season' (Malawi Government/World Bank, 2006; p.153).
19. Maize is an aggregate of hybrid maize, local maize and composite maize. Market participation rates are now estimated based on reported sales value and might therefore be slightly different from the participation rates in Table 8, which are based on responses on whether farmers have sold an item or not.
20. See last row and column in Table 9.
21. See last row in Table 9.
22. For the subsistence crops maize and cassava, we tested the difference between the commercialization for the poor and the non-poor as regarding share of sales in crop production. Both were significant.
23. The study ascertained that there are significant income differentials between the production of exports commodities, compared to the production of home-consumed commodities. A switch from subsistence agriculture to tobacco production, for example, increased the annual rural per capita expenditure by a factor of 1.15. Switching to other export commodities was also associated with improvements in welfare outcomes. Thus, improving participation of poor households in the production of export commodities would result in an improvement in welfare.
24. Evidence on Malawi (Republic of Malawi and World Bank, 2006) identifies factors influencing the share of land allocated to tobacco production (as a proxy for the rate of participation in the export market). The study shows that household characteristics are important determinants of participation in export cropping. Having a male-headed household has a positive influence on export cropping, and so does having a married head of household. A positive, but weak, relationship exists between the share of land allocated to tobacco production and household size, implying that participation in export cropping is dependent on household labour supply. Substituting adults aged 18 to 45 years with those in younger or older age cohorts reduced participation in export cropping. The implication of this finding was that having children, for example, is associated with higher food security concerns and restricts labour availability, impacting negatively on commercialization. Ownership of agricul-

tural tools was also found to have a positive influence on export cropping. The existence of a food market in the village also had a positive effect on export cropping, reinforcing the hypothesis that thin or missing food markets increase food security concerns, further impacting negatively on the production of export crops. The presence of a credit club, tobacco club, or a cooperative impacted positively on commercialization through export cropping, and supported the hypothesis that access to start-up capital has an influence on commercialization. Access to transport was also an important determinant of participation in export cropping.

25. The OTRI focuses on the distortions imposed by each country's trade policies on its import bundle. It uses the aggregate import value as the relevant metric. It answers the following question: what is the uniform tariff that if imposed to home imports would leave aggregate imports unchanged? See Kee, Nicita and Olarreaga (2005: 12)

THEME IV: ECONOMIC HARMONISATION, FINANCE AND INVESTMENT

Project IV.b: SADC integration efforts and cross-border investments

Focus on evaluation of linkages between SADC regional integration efforts and cross-border investments; effects of CBI on economic growth and poverty reduction; and analysis of the character of barriers for CBI.

Project IV.c: The roles of development finance institutions and central banks in SADC integration

Focus on discussion of the respective roles of development finance institutions and central banks in advancing regional cooperation and integration in southern Africa.

SADC Integration Efforts and Cross-Border Investments

Peter Gervase Rwelamira

The Southern African Development Community (SADC) has put in place a Regional Indicative Strategic Development Plan (RISDP) whose aim is to deepen regional integration by providing SADC member states with a consistent and comprehensive programme of long-term economic and social policies. Also it provides a clear view of SADC's approved economic and social policies and priorities. The integration efforts stipulated in the RISDP cover many areas including poverty eradication, HIV and AIDS, gender equality and development, science and technology, environment and sustainable development, private sector development, statistics, trade, economic liberalisation and development, infrastructure development, sustainable food security, and human and social development. The bottom line of the integration efforts is to create space and provide a level playing field for domestic, cross-border and foreign investments required for sustainable growth and development. The recent moves toward deeper market integration under the SADC Trade Protocol are a significant attraction for much-needed foreign direct investment (FDI). The protocol is expected to create a bigger regional market with free movement of capital and finished products. In addition more efforts have been directed to ensuring sustained performance of macroeconomic fundamentals, continued political stability and the implementation of, and commitment to, financial sector reforms that are aimed at integrating the region's financial services market. Also priority is being given to the development of infrastructure such as transport and communications, electricity and water as well as human resources.

This study aims to make a contribution towards understanding linkages between integration efforts and investment in general and cross-border investment (CBI) in particular in the SADC region

This chapter is structured as follows: after the introduction, a section describes the integration efforts and investment framework within the SADC region, including a description of elements of the investment climate in five sample SADC countries. FDI and cross border investment in SADC including linkages between FDI, CBI and integration efforts are then reviewed, as well as constraints to investment in SADC. The report ends with conclusions and recommendations.

Integration Efforts and Investment Framework

Integration Efforts

While integration efforts cover a wide range of areas of which all are important, in this study we shall pay more attention to two main areas, namely trade and finance and investment. These two areas have been chosen mainly because they have a direct bearing to the issue being investigated, that is cross-border investment. Regarding trade, the amended SADC Protocol on Trade envisages the establishment of a Free Trade Area in the region by 2008 and its objectives are: to further liberalise intra-regional trade in goods and services; ensure efficient production; contribute towards the improvement of the climate for domestic, cross-border and foreign investment; and enhance economic development, diversification and industrialisation of the region (RISDP). The above objectives are expected to be achieved through the gradual elimination

of tariffs, adoption of common rules of origin, harmonisation of customs rules and procedures, attainment of internationally accepted standards, harmonisation of sanitary and phyto-sanitary measures, elimination of non-tariff barriers, and liberalisation in trade and services. With respect to finance and investment, efforts are being directed to encouraging movement towards regional macroeconomic stability and convergence by pursuing prudent fiscal and monetary policies, providing a framework for cooperation in the area of finance, promoting the development of sound investment policies, and encouraging savings; facilitating and stimulating investment flows and technology transfer and innovation in the region.

The above objectives are being pursued by the partner states individually and collectively as will be seen in 2.2 below.

Investment framework

SADC as a group is making efforts to create an environment which is favourable to domestic, cross-border and foreign investments. To this end, SADC, in its RISDP, has set out policy objectives, which have already been stated above, and strategies. which include the pursuit of macroeconomic convergence, coordination of policy with respect to direct and indirect taxation, liberalisation of current and capital account transactions, reform of payments systems, resource mobilisation through development finance institutions, and other financial entities and harmonisation of investment codes and incentives. To translate these into concrete action, a protocol on finance and investment has been developed. In this regard, Memoranda of Understanding (MOUs) on almost all the themes have been prepared and signed. These are part and parcel of the protocol, which has still to go through the approval process before it is ratified by the national parliaments.

Under the MOU on cooperation on investment, member states have, through their investment promotion agencies (IPAs), agreed to facilitate and stimulate investment flows and technology transfer and innovation into the region. The MOU covers, among other things, elements of a would-be SADC investment framework, including most favoured nation treatment, general exemptions, transparency, repatriation of investment and returns, investment protection, corporate responsibility, sourcing of requisite skills, promotion of local and regional entrepreneurs, and optimal use of natural resources. It also covers environmental measures, right to regulate, capital movements, competition, taxation, trade, investment and industrial policy, harmonisation of policies and laws, conditions favouring least developed countries, adherence to international conventions and practices and regional cooperation and investment. While the MOUs are not legally binding, some of them are being implemented, such as the one on cooperation in respect of development finance institutions (DFIs). Under this MOU, Member States have agreed to establish a Network of Development Finance Institutions of SADC, the objectives of which include collaboration in project financing, investing jointly in new institutions, collaborating in the establishment of appropriate institutional arrangements and mechanisms to facilitate the cooperation of DFIs, and to meet the development finance needs in SADC region, and to cooperate in capacity-building initiatives including the exchange of personnel. In order to strengthen the Network, it was also agreed to establish a sub-regional Development Finance Resource Centre (SADC-DFRC) as a centre of excellence and a hub of the Network, as well as to create a SADC Project Preparation Development Fund (PPDF). The objectives of the PPDF include: creating an improved investment climate in the region by financing regional projects; providing pre-financing capacity by filling funding gaps in the form of technical assistance for project identification, preparation and feasibility studies; and participating in project financing.

Both of these mechanisms are intended to support the DFIs in their efforts to address development and poverty eradication in the region. The Network and DFRC are up and running.

In addition to the above strategy of providing an enabling environment for investment, another complementary strategy being pursued by SADC is the Spatial Development Initiative (SDI). An SDI is a flexible approach to planning and implementing an economic development effort in a defined spatial area. Its principal goal is to stimulate investment and job creation in areas with underutilised economic potential. Underlying the SDI approach are principles which include the existence of real economic potential, the necessity of mobilising private sector resources, the necessity of applying scarce public sector resources where they can make most impact, and the necessity of sharing benefits of economic growth with those who were previously excluded. A critical characteristic of the SDI strategy is to develop first class competitive infrastructure as a precondition for attracting investment into export oriented businesess. Also, the strategy requires that countries in the region should pursue sound economic policies which lead to consistent and relatively stable growth rates, prices, exchange and interest rates, and low inflation.

The successful implementation of the Maputo Development Corridor and other development corridor initiatives is an indicator of their potential to bring in much needed private investments into areas of under-utilised economic potentials.

The move toward deeper market integration under the SADC Trade Protocol is a significant development that complements efforts being made to attract much-needed investment. As indicated above, the protocol is expected to create an enlarged regional market with free movement of capital and finished products. In addition, greater effort is being directed at ensuring sustained performance of macroeconomic fundamentals, continued political stability and the implementation of, and commitment to, financial sector reforms that are aimed at integrating the region's financial services market. Also, priority is being given to the development of infrastructure such as transport and communication, electricity and water, as well as human resources.

Although the objective of having a fully fledged free trade area in 2008 might not be met, once it is fully implemented, the free trade area will include over 200 million people. The current 14 participating states have begun taking necessary action to achieve the objective such as elimination of tariffs on all categories of goods originating in their countries and the elimination of all existing non-tariff barriers to trade which exist in the region. The coming into being of the SADC free trade area will greatly improve the investment climate by offering foreign and domestic investors access to a larger single market.

In what follows, we make a relatively greater in-depth review of the domestic investment framework in five sample SADC countries.

Domestic Investment Framework in Five SADC Countries

Angola

Angola has a fast-growing economy largely due to a major oil boom, but it also ranks in the bottom 10% of most socioeconomic indicators. According to government projections, in 2007 real GDP growth for Angola was put at 19.8%. Apart from the oil sector and diamonds, Angola is recovering from 27 years of nearly continuous warfare, corruption, and economic mismanagement. Despite abundant natural resources, and rising per capita GDP, it was ranked 161 out of

177 countries on the 2006 UN Development Program's (UNDP) Human Development Index. Subsistence agriculture sustains one-third of the population.

The rapidly expanding petroleum industry – now producing approximately 1.7 million barrels per day (bpd), behind only Nigeria in Africa – accounts for 51.7% of GNP, 95% of exports, and 80% of government revenues. Production was expected to reach 1.8 million barrels per day by the end of 2007. Angola also produces 40 000 bpd of locally refined oil. Oil production remains largely offshore and has few linkages with other sectors of the economy, though a local content initiative promulgated by the government is pressuring oil companies to source from local businesses.

Diamonds make up most of Angola's remaining exports, with yearly production at 6 million carats. Diamond sales reached approximately $1.1 billion in 2006. Despite increased corporate ownership of diamond fields, much production is currently in the hands of small-scale prospectors, often operating illegally. Only eight formal sector mines are operating out of a total of 145 concessions.

Angola welcomes investment and created the National Private Investment Agency (ANIP) to assist investors and facilitate new investment. In 2003, the government replaced the 1994 Foreign Investment Law with the Basic Law for Private Investment. The law lays out the general parameters, benefits, and obligations for foreign investment, and recognises that investment plays a vital role in the country's economic development. It encourages domestic and foreign investment by providing equal treatment, offering fiscal and custom incentives, simplifying the investment application process and lowering the required investment capital. The law is part of an overall effort by the government to create a more investor-friendly environment. Other legislative measures include the new Company Law and a Voluntary Arbitration Law. The Company Law consolidates the rules applying to the incorporation of commercial companies in Angola, which were formerly spread amongst several laws, and the Voluntary Arbitration Law provides the legal framework for non-judicial resolution of disputes. Investments in the energy, diamond, telecommunication and financial sectors continue to be governed by legislation specific to each sector.

Foreign investments of $100 000 to $5 million require ANIP approval. The Council of Ministers must approve investments over $5 million, as well as any investment that requires a concession (such as oil or mining) or includes the participation of a parastatal. After obtaining contract approval from ANIP or the Council of Ministers, the investor must register the company, publish company statutes in the official gazette (Diário da República), obtain a business license, and register with the fiscal authorities. Foreign investments under $100 000 do not require ANIP approval, but still must be registered, published, and licensed as described above.

Obtaining the proper permits and business licenses to operate in Angola can be time-consuming. The World Bank Doing Business in 2006 report identified Angola as 170th of 175 countries surveyed to establish a business, requiring 124 days to register a business compared with a regional average of 62 days. In August 2003, the government established the 'Guichet Único,' or one-stop-shop, to simplify the process and reduce the registration time by placing representatives of various government ministries in one place. However, the Ministry of Justice's Guichet Único lacks authority over the other government ministries which must approve licenses, permits, and other requirements, and thus has encountered great difficulty in expediting company registration. Nonetheless, the Guichet Único issued 320 new business licenses in 2005, more than double the 151 issued in 2004. The Ministry of Justice is in the process of reorganizing the Guichet Único to increase its efficiency.

There is no formal discrimination against foreign investment. The Promotion of Angolan Private Entrepreneurs Law adopted in July 2003 gives Angolan-owned companies preferential treatment in tendering for goods, services and public works contracts.

Economic and financial reform measures in recent years have improved local access to foreign exchange, and facilitated remittance and transfer of funds, but Central Bank Order imposes firm controls over the transfer of funds abroad. While the Investment Law guarantees the repatriation of profits for officially approved foreign investment, and investors can remit funds through local commercial banks, the Central Bank must authorise the repatriation of profits and dividends exceeding $100 000. In addition, the Central Bank can temporarily suspend repatriation of dividends or impose repatriation in instalments if immediate repatriation would have an adverse effect on the country's balance of payments.

Angola's legal and judicial system suffers from a lack of capacity and is not efficient in handling commercial disputes. Legal fees are high, and most businesses avoid taking disputes to court. The World Bank's Doing Business in 2006 survey estimates that commercial contract enforcement, measured by the amount of time elapsed between filing of a complaint and receipt of restitution, takes 1011 days in Angola, almost double the regional average. In July 2003, the National Assembly approved the Voluntary Arbitration Law (VAL) to provide a general legal framework for faster, non-judicial arbitration of disputes, except for cases expressly excluded by the law. The VAL has been published in the official gazette and is now in effect.

Angola is not a signatory to the United Nations' New York Convention, the World Bank's International Centre for Settlement of Investment Disputes (ICSID), or the United Nations' Convention on the International Sale of Goods (CISG); but it is a member of the Multilateral Investment Guarantee Agency (MIGA), which provides dispute settlement assistance.

Angola's investment law provides for equal access to incentives for both foreign and domestic investors. Investors benefit from a more standardised set of incentives stipulated in the relevant law. The incentives may include exemption from industrial and capital gains taxes for up to 15 years and from customs duties for up to six years. Many foreign companies already operating in Angola enjoy some form of tax or duty waiver. Companies are required to apply for such incentives when submitting their investment application to ANIP. ANIP and government ministries provide advice on the range of incentives that could be available for investments in particular sectors or regions of the country.

The government imposes or enforces few specific performance requirements on foreign investments. It encourages 'Angolanization' of companies operating in the country and greater use of Angolan suppliers of goods and services. Also it limits expatriate staffing of local companies established in Angola by national or foreign investors to 30% of the workforce, and requires Angolan and expatriate staff doing the same jobs and entailing the same responsibilities to receive the same salaries. Foreign investors can set up fully-owned subsidiaries in many sectors, and frequently are encouraged, but not required, to take on local partners.

In the oil and diamond sectors, companies are expected to invest in infrastructure and social services to benefit local communities, constructing schools, equipping hospitals, or funding micro-credit programmes. When signing contracts for new concessions, oil companies commit themselves to pay 'social bonuses' destined for such projects. In the diamond industry, foreign investors and the government share an informal understanding that the foreign investor should invest in social projects for the local population in the province or region of the investment. The government also encourages downstream investments in facilities such as refineries and diamond processing plants.

Foreign and domestic private entities have the right to establish, acquire, and dispose of interests in business enterprises. Public enterprises hold some practical advantages in access to markets and credit. All non-urban and some urban land is ultimately under state ownership, but can be leased to private entities. Rights to explore and produce oil and diamonds are granted for limited periods of time and only as partnerships between private companies and the government agency. Diamond exploration concessions are normally granted for three to five years, with the possibility of extension. Diamond production contracts are negotiated following a viable discovery. Oil exploration concessions normally last for ten years. The government allows and encourages public-private partnerships and participation of private investors in public utilities such as electricity and water.

Angola has basic intellectual property rights protection and is working to strengthen existing legislation and enforcement. In 2005 the National Assembly adopted the Paris Convention for the Protection of Industrial Intellectual Property, incorporating the 1979 text and the World Intellectual Property Organization (WIPO) patent cooperation treaty. Angola follows international classifications of patents, products and services to identify and codify requests for patents and trademark registration.

The Ministry of Industry administers intellectual property rights for trademarks, patents, and designs under the Industrial Property Law. The Ministry of Culture regulates authorship, literary, and artistic rights under the Copyright Law

A new Law on Land and Urban Planning which came into effect in September, 2004, affirms that all land ultimately belongs to the state, but in practice, most urban and some non-urban land will effectively become privately owned through long-term renewable leases. Owners must, however, wait five years after purchase before selling land.

Angola's financial sector, though still underdeveloped, has grown rapidly. Most banks focus their operations on short-term commission-related activities such as currency trading and trade finance. Foreign investors do not normally access credit locally, and local investors either self-finance or seek financing from non-Angolan banks and investment funds. Subsidised government loan programmes to promote economic development are available only to majority-owned Angolan companies and on a very selective basis.

Angola needs more progress towards good governance, the rule of law, and against corruption to lower investment risks, and therby provide greater assurance to investors. Angola is a signatory to the UN Convention Against Corruption but not to the OECD Convention on Combating Bribery. While currently an observer in the UK's Extractive Industries Transparency Initiative (EITI) the Government has announced it is considering full membership. It is a participant in the New Partnership for Africa's Development (NEPAD), which includes a Peer Review Mechanism on good governance and transparency. Transparency International's 2006 Corruption Perception Index (CPI) placed Angola at 142 out of 163 countries. The Heritage Foundation ranked Angola 139 out of 161 countries surveyed on its 2006 Index of Economic Freedom, and described Angola as 'mostly unfree.'

Angola has signed bilateral investment agreements with Italy, Germany, Portugal, South Africa, and the United Kingdom, but has not ratified or implemented any of these. Angola ratified a bilateral investment agreement with Cape Verde in 2004. A list of current bilateral investment treaties and their status is found at the UNCTAD website.

Angola's General Labour Law went into effect in 2000 and provides significant protection and benefits to workers. The law expands maternity and other leave and provides the right to strike and bargain collectively. The law spells out proper procedures for hiring workers and

provides a Labour Court. The World Bank Group's 2006 Doing Business report placed the average cost of firing a worker in Angola at 58.5 weeks worth of wages versus a regional average of 71.2 weeks of wages.

The local labour force has limited technical skills and managerial ability. Many employers invest heavily in educating and training their Angolan staff.

Since 2003, the government has conducted annual surveys of the oil industry to implement a requirement that oil companies hire Angolan nationals when qualified applicants are available. If there are no qualified nationals to apply for the position, then the companies may request the government's permission to hire expatriates. This rule also requires equal pay and benefits for equal work.

The constitution grants the right to engage in union activities and labour strikes, but the government may intervene in labour disputes that affect national security, particularly strikes in the oil sector. Labour unions independent of the government-run unions exist.

Democratic Republic of Congo

The DRC has made significant political and economic advances during its transition to democratic Government. This period of relative political and economic stability has led to steady improvement in the country's investment climate.

The Government of the DRC (GDRC) has capitalised on the country's increased political stability to maintain and improve the country's macroeconomic environment. Despite the return to double-digit inflation at the end of 2004 and the first half of 2005, overall inflation for 2005 was 21%. The GDRC is taking steps to reform its public enterprises and administrative agencies in line with IMF conditionalities.

The DRC seeks to attract foreign investors in order to boost production and increase economic growth. To overcome previous hurdles and to simplify and facilitate investment, the GDRC has created a one-stop agency called the National Agency for Investment Promotion (ANAPI). This agency is using provisions of the new Investment Code to simplify investments procedure and make them more transparent.

Congolese investment regulations, both in the official Investment Code and in practice at ANAPI, do not discriminate against foreign investors, except in some specific cases dealing with labour and related taxes.

There are no formal limits or screening mechanisms imposed upon foreign ownership of businesses in the DRC. In some sectors, however, foreign investors must compete for exclusive rights to what are considered finite resources, such as mineral ores and telecommunications bandwidth. The granting of permits and licenses in these lucrative sectors often suffers from arbitrariness, lack of transparency, and corruption.

The DRC has taken measures to improve the movement of goods. In this regard, with the assistance of the WB, the GDRC is improving border clearance procedures for imports and exports by the creation of the 'guichet unique' – a one-stop customs and duties approach. Security upgrades in compliance with the International Port Security (ISPS) Code have improved the security at the main maritime ports in the country.

DRC administration of the minerals sector, with the new Mining Code in place and through the work of the Mining Registry or 'Cadastre Minier' (CAMI), appears to have improved. The new mining code is being implemented according to plan, and both longtime and new mining investors appear to be complying with it. Of course full and fair application of the code will take sometime to achieve.

All investors in the DRC suffer from multiple audits by various government enforcement agencies seeking evidence of violations of tax laws or price controls. Foreigners and Congolese alike suffer the consequences of nonfunctional judicial institutions. Current efforts to reform public administration and the judiciary should bring improvement.

The DRC has adopted a freely floating exchange policy for its currency to support the liberal economic policy it began implementing in 2001. The restrictions on business transactions throughout the DRC have been lifted. International transfers of funds take place freely when transacted through a local commercial bank. The bank declaration requirement and payments for international transfers now take less than one week to complete, on average.

The Congolese franc has benefited from the political and economic advances in the country. It has remained relatively stable for over time and the currency exchange rate has been virtually harmonised throughout the country on both the formal and parallel markets, ending previous *de facto* separate monetary zones within the country.

The Bilateral Investment Treaty (BIT) provides for International Centre for Settlement of Investment Disputes (ICSID) conciliation or binding arbitration in the case of investment disputes.

On paper, the DRC's official policies are satisfactory and even attractive to business, but in recent years they have often been inoperative in practice due to problems with the judicial system. The government's structural reform programme includes the creation of a commercial court with jurisdiction over all commercial disputes. This court, however, has not yet become operational.

The new DRC Investment Code is a simplified and improved version of its predecessor. Performance requirements are not included as obstacles to foreign investors. There are, however, investment conditions that must be agreed upon with the government. These conditions are discussed and agreed upon initially with the ANAPI, which assures the same procedure for all qualified foreign investments. The government has shortened this agreement procedure to approximately 30 days, and has created a number of incentives to attract foreign investment to the country. These range from tax breaks to duty exemptions granted for three to five years, and are dependent upon the location and type of enterprise, the number of jobs created, the extent of training and promotion of local staff, and the export-producing potential of the operation. The Ministry of Labour controls expatriate residence and work permits. The investor must also agree that all imported equipment and capital will remain in place for at least five years. There are no discriminatory or excessively onerous visa, residence or work permit requirements designed to prevent or discourage foreigners from investing in the DRC.

By the terms of the Investment Code, the government may require compliance with an investment agreement within 30 days of notification. Continued violations of an agreement may result in sanctions, including repayment of benefits received (such as tax exemptions) and eventual nullification of the agreement.

Public administration reforms implemented since 2002 have allowed foreign investors to bid on government contracts just as domestic investors, with no discriminatory terms. Foreign firms may even be favored in the bidding process because they are more able to access easily and present international insurance funding guarantees.

The recently approved DRC Constitution (Chapter 2, articles 34–40) protects private ownership without discrimination between foreign and domestic investors. It also protects investments against takeover, unless the investment conflicts with some overriding public interest. In this case, there are legal provisions for equitable and appropriate compensation for the parties involved.

One category of business is restricted to Congolese nationals. This covers artisanal produc-

tion sector activities, small public transport firms, small restaurants, and hotels with fewer than ten beds.

The Government tender board now works under the supervision of the Ministry of Budget. Foreign investors and private domestic companies may bid on public/government contracts on an equal basis with interested public companies. Normally, however, public companies and/or parastatals do not participate in the bidding process, due to the financing guarantees required beforehand.

The new DRC Constitution provides protection of property rights. Ownership interest in movable properties (e.g., equipment, vehicles, etc.) is secured and registered through the Ministry of the Interior's Office of the Notary. Real estate property (e.g., buildings and land) is secured and registered at the Ministry of Land's Office of the Mortgage Registrar.

In principle, intellectual property rights are legally protected. Because of poor-performing administration and judicial systems, this protection leaves a lot to be desired. The country has signed on to a number of international agreements with organizations such as the World Intellectual Property Organization (WIPO), and the Paris Convention for Protection of Intellectual Properties, which protects trademarks and patents. The maximum protection that these conventions provide is 20 years for patents and 20 years, renewable, for trademarks, beginning from the date of registration. If it is not used within three years, a trademark can be cancelled. The DRC has not yet signed the WIPO Internet Treaties. The DRC is also a member of the Berne Convention that protects copyright, artistic works, and literary rights.

The local capital market is in recovery mode, but it still has a long way to go. Efforts are being made to reinvigorate financial market and credit instruments. All economic operators, foreign and domestic, have access to credit markets without discrimination, as long as they can provide credible guarantees. Foreign investors, though, are more likely to benefit from this type of credit, since they are able to provide guarantees and collateral secured by foreign banks.

The commercial banking system has undergone a full reorganization, although it is still lacking in depth and breadth. The BCC and the IMF are working together on a programme of banking reforms. The reforms aim to restore confidence in the commercial banks and to promote the intermediary role of the banking system

Corruption in the DRC is considered among the main business constraints. The DRC was rated as the thirteenth most corrupt country out of 156 nations on Transparency International's 2005 Corruption Perception Index.

In principle, there are legal provisions to fight and sanction corruption. The DRC is a member of the UN Anti-Corruption Convention and passed its own anti-corruption law in 2004. Additional legislation includes the 2004 Money Laundering Act, under which the DRC cooperates with African and European crime-fighting organizations. Despite these reform efforts, bribery is still routine in public and private business transactions, especially in the areas of government procurement, dispute settlement, and taxation.

Bribery is illegal in the DRC and in principle it is investigated and prosecuted. The law calls for imprisonment and fines for both parties to the bribery no matter the circumstances. Despite numerous obstacles, enforcement is becoming more successful. At the end of 2005, a handful of high-level staff from public and private sector entities were in detention awaiting trial for criminal acts related to the alleged fraudulent use of tax credits.

Congo's large urban population provides a ready pool of available labour, including a significant number of high school and university graduates. Skilled industrial labour is in short supply and must often be trained by individual companies.

The government sets regional minimum wages for all workers in private enterprise, with the highest pay scales applied in the cities of Kinshasa and Lubumbashi. Wages have not kept pace with the rate of inflation.

The country's labour legislation was modified by the October 2002 Labour Code, which is in compliance with the conventions and recommendations of the International Labour Organization. The code provides for tight control of labour practices and regulates recruitment, contracts, the employment of women and children, and general working conditions. The code also provides for equal pay for equal work without regard to origin, sex, or age. The new code formally permits a woman to gain employment outside her home without her husband's permission.

Employers must cover medical and accident expenses. Larger firms are required to have medical staff and facilities on site, with the requirements increasing with the number of employees. Many labour regulations have been only sporadically enforced in recent years, due to the economic crisis and administrative corruption. Large layoffs, however, generally lead to labour disputes that can cause serious bureaucratic difficulties for the employer. The Ministry of Labour must grant permission for staff reductions. Generous pension and severance packages are required by the labour code.

Madagascar

Madagascar is a poor country, with over 70% of the population falling below the poverty level of $50 a year. Its agriculture-based economy supports a majority of the labour force. There are substantial mineral deposits, and an industry centered on food processing. Madagascar sponsored an Export Processing Zone (EPZ) in 1991 and important investments have been made in tourism. The country's infrastructure remains poor, with inadequate roads preventing the transportation of agricultural products from farm to market. Railroads and the port system are also undeveloped, although the telecommunications system is being revamped.

Though Madagascar has a considerable diversity of minerals, their remote locations have discouraged extraction. Private mining interests have been invited to develop Madagascar's gold deposits, as well as other minerals. There has also been renewed interest in Madagascar's oil potential.

Madagascar is rich in biodiversity, and many plants and animals found nowhere else in the world. Hence, ecotourism is a sector of the economy with great potential for development.

The government welcomes foreign investment and the country's regulatory framework is evolving to become more investor friendly. Madagascar has generally not been an easy place to establish a business both for nationals and foreign investors. However, the significant stock of foreign investment is evidence of the current government's strong commitment to improving the investment climate.

The EPZ is the major focus of foreign direct investment in Madagascar. The extension till 2012 of the third country fabrics provisions will probably boost Madagascar's competitiveness in the export of apparel to the U.S. within the Africa Growth and Opportunities Act (AGOA).

In May 2006, an office of investment promotion and development, the Economic Development Board of Madagascar (EDBM), was created to facilitate new enterprises. The EDBM has a mission to promote Madagascar abroad as a favorable investment destination, to assist investment projects, and to make propositions to improve the business climate. In addition, in collaboration with UNIDO, the government is drafting a new industrial policy that will be more attractive to potential foreign investors.

In the mining sector, the World Bank, USAID, and BAMEX are working closely with the Ministry of Energy and Mining to improve the regulatory framework of the sector in order to attract more foreign investors.

During the privatization process, public bids have been transparent, and foreign investors were free to participate. There is no law or regulation authorizing private firms to adopt articles of incorporation or association, which limit or prohibit foreign investment, participation or control. Further, there is no official practice restricting foreign investment from participating in, or controlling domestic enterprises. There is no mandatory screening of foreign investment and there are no discrimination practices, such as special tax treatment, access to licenses, approvals, or procurement, against foreign investors at the time of the initial investment or after the investment has been made.

In 1998, the government lifted all restrictions on currency payment and transfers and accepted the obligations of Article VIII of the IMF Articles of Agreement, which provides for the complete elimination of exchange controls. There are no restrictions on converting or transferring funds associated with foreign investment, including remittances of investment capital, earnings, loan repayments, and lease payments into a freely usable currency at the official exchange rate. When delays occur in conversion or funds transfer, they are due to temporary shortages of foreign exchange. By law, foreign investors must make remittances through banks. There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital, returns on intellectual property. Exporters and foreign investors may maintain bank accounts in foreign currencies.

Madagascar's legal system is based on French civil law, and its provisions contain adequate protections for private property rights. Malagasy commercial law consists largely of the Code of Commerce and Annexed laws, which are reportedly to be applied in a non-discriminatory manner. Madagascar has a written bankruptcy law, created in 1996 and currently included in the Code of Commerce. The Malagasy judicial system is slow and complex and there is concern about its transparency. Under the privatization law, the government accepts binding international arbitration of investment disputes between foreign investors and the state. The courts recognise and enforce foreign arbitral awards and international arbitration is accepted as a means of settling investment disputes between private parties. The Malagasy Arbitration and Mediation Center was created in 2000 as a private organization to promote and facilitate the use of arbitration to resolve commercial disputes and to lessen reliance on a court system that is, at a minimum, overburdened. As a result, many private contracts now include arbitration clauses.

Madagascar is a signatory to the International Center for Settlement of International Disputes (ICSD) Convention, the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards, and has been a member of the Multilateral Investment Guarantee Agency (MIGA) since 1989.

As a signatory of the WTO Agreement, Madagascar is bound by the WTO TRIMS (Trade Related Investment Measures). Performance requirements are not imposed as conditions for establishing or maintaining investments, except in the Export Processing Zones (EPZ) regime under which firms must export 95% of output to qualify for EPZ incentives. Investment incentives are available for industries operating in the EPZ sector. Foreign or local investors can benefit from tax exemptions provided their EPZ projects meet stipulated conditions.

There are no requirements restricting the mobility of foreign investors. The regime for visas, residence and work permits is neither discriminatory nor excessively onerous. Since the

improvement of the one-stop investment office (GUIDE), processing of residence and work permits is streamlined.

There is no requirement that investors purchase from local sources, or export a certain percentage of output (except for EPZ companies), or only have access to foreign exchange in relation to their exports. There is no requirement that nationals own shares of foreign companies or that the share of foreign equity is reduced over time, or that technology is transferred on certain terms. There are no Government-imposed conditions on permission to invest (although investors must apply for such permission), including location in a specific geographical area, specific percentage of local content or local equity, substitution for imports, export requirements or targets, employment of host country nationals, or technology transfer. Investors are not required to disclose proprietary information to the Government as part of the regulatory approval process. Foreign firms are able to participate in government-financed and/or subsidised research and development programmes on a national treatment basis.

Foreign and domestic private entities may establish and own business enterprises and engage in all forms of remunerative activity. They may freely establish, acquire, and dispose of interests in business enterprises and, since there are no more public enterprises, competitive equality is the standard applied to all private enterprises with respect to access to markets, credit, and other business operations such as licenses and supplies.

Madagascar is a member of the WIPO (World Intellectual Property Organization) and is signatory to the WTO TRIPS agreement on trade related aspects of intellectual property. Two government offices share responsibility for the protection of intellectual property rights: the Malagasy Office for Industrial Property (OMAPI) and the Malagasy Copyright Office (OMDA). In July 2006, an inter-ministerial decree was issued to reinforce measures to fight against counterfeiting literary and artistic works. Upon evidence of law infringement, all counterfeits are seized and destroyed publicly in the presence of the contravener(s).

In spite of the general under-development of the banking system, banks are free to support the flow of resources in the product and factors markets. Credit is usually allocated on market terms and the private sector/foreign investors are able to get credit on the local market. There are no cross-shareholding arrangements used by private firms to restrict foreign investment through mergers and acquisitions. There are no visible private sector and/or government efforts to restrict foreign participation in industry or control of domestic enterprises. Within Malagasy law, there is an effective regulatory system established to encourage and facilitate portfolio investment.

Complicated administrative procedures introduce delays, uncertainties and multiply the possibilities for corruption. Combating corruption is a stated priority of the Malagasy government and senior officials appear to be taking that effort seriously. In 2003, the President created the Anti-corruption Council and in the following year the BIANCO (Anti-corruption Independent Office) was created to implement the anti-corruption policy. Giving or accepting a bribe is a criminal act.

According to ICSID (International Centre for the Settlement of Investment Disputes) and UNCTAD, Madagascar has concluded bilateral investment agreements with Switzerland, Sweden, Norway, Mauritius, Germany, France, Thailand, Belgium, and China. Besides, Madagascar has signed double taxation treaties with France and Mauritius.

Madagascar has a significant pool of labour due to the combined impact of unemployment and under-employment. Private sector wages have been relatively stable and are below those in most competitor countries. The Constitution and Labour Code grant workers in the private

and public sectors the right to establish and join labour unions, and to bargain collectively. The National Labour Code and implementing legislation prescribe working conditions, wages, and standard for worksite safety. As a member of the ILO, Madagascar adheres to ILO conventions protecting the rights of workers.

Mozambique

Mozambique has moved away from its initial post-independence centrally-planned economy to a market one. The macroeconomic reforms implemented by the government have resulted in excellent economic performance over the last decade. Average annual GDP growth, at 8.1% between 1993 and 2003, has been among the highest in the world. During the same period, exports grew by an average of 17.6% per year and this trend is expected to continue. Inflation was reduced to a single digit during the late 1990s, but it returned to double digits in 2003 when it was estimated at 14%. Mozambique's stability and the transformation of its business environment, as well as its long-standing advantages such as a hard-working, fast-learning and disciplined workforce and its coastal location, have made it an attractive destination for foreign investments, including large projects such as the US$2.2 billion Mozal Aluminium plant and the US$1.2 billion Sasol natural gas project.

There are no specific restrictions on sectors in which foreigners or locals alone are allowed to invest. All areas are open to private foreign direct investment, as long as the necessary approval is granted by the Government. There are no areas reserved for public investment. The acquisition of local enterprises is open to any foreign investor.

There are no restrictions on equity participation or on the acquisition of privatised companies, and no impediments to management control by the foreign investor. Although there are several cases of foreign shareholding participation reaching 100%, many investors, especially new investors, prefer to engage with local partners given the associated benefits. Shares may be traded freely to local or foreign nationals, in accordance with the statutes of the company and the current commercial legislation. However, there are a few sectors of activity in which the legislation imposes some conditions for a company to be considered Mozambican (which carries tax advantages with it). Thus, construction companies need to be majority-owned by domestic firms or individuals if they are to be considered Mozambican.

A national investment promotion agency was inaugurated in 1984 to advise the Minister of Planning and Finance on promoting foreign and domestic investment. In its present form, the Investment Promotion Centre has only been in existence since the new law on investment was passed in 1993. The Centre acts as a one-stop-shop for investors.

The flow of foreign exchange is regulated by Exchange Law 3/96 of 4 January 1996, which applies to residents and non-residents alike. The entry of foreign currency is free. Remittance of funds overseas is restricted and depends on approval from the central bank and the availability of foreign currency. The investment law guarantees foreign investors the right to remit loan repayments, dividends, profits and invested capital abroad. The remittance of amounts above $5 000 requires previous registration with the CPI and the registration of the invested funds with the Central Bank, along with other procedures including the presentation of audited accounts.

The Government offers foreign direct investors the following guarantees:

- freedom to import equity capital or arrange loans to make investment, legal protection of property, and other rights associated with the investment made;
- remittance of funds abroad in connection with repatriation of profit, payment of royal-

ties and other charges abroad, loan repayments and interest charges due abroad, and any amounts paid as just and equitable compensation, and

- Repatriation of capital invested upon exiting from, or the liquidation or sale of, the investment undertaking, either total or partial.

Guarantees granted to foreign investors can only be secured if investors are authorised by the Government and register the investment with the Mozambican Central Bank, within the terms established on the authorization of the investment.

The industrial property code aims at creating conditions favourable to technological development and the acquisition of new industrial, commercial and service-related techniques, as well as stimulating domestic and foreign investment by protecting industrial property. It follows the standards promoted by the World Intellectual Property Organisation (WIPO). The code is applicable to individual and corporate persons from countries signatory to the International Union for the Protection of Industrial Property, under the terms of the Paris Convention of March 20th, 1883, and in full compliance with the Agreement on Trade-related Aspects of Intellectual Property (TRIPs) of the World Trade Organization. Nationals of countries that are not signatories to the TRIPS agreement or members of the WTO but who operate their businesses in Mozambique are treated as nationals of member countries. A copyright law does not yet exist but one has been drafted and has entered the legislative process.

The existing commercial code is outdated and is currently under revision. The aim of the revised code is to improve the orderly resolution of disputes in accordance with internationally accepted procedures. For disputes between international and domestic companies the law follows the model of the United Nations Commission on International Trade Law (UNCITRAL).

Disputes between foreign investors and the Government that cannot be resolved by national courts may be referred to: the rules of arbitration of the Paris-based International Chamber of Commerce; the rules of the Washington Convention of 15 March 1965 on dispute resolutions involving disputes between states and nationals of others states; and the World Bank's International Centre for Settlement of Investment Disputes.

A foreign investor may choose to operate as a Mozambican registered company, incorporated locally, or as a branch of a foreign company. The incorporated company may take the form of a private limited liability company, which may be formed by at least two members, or a public limited liability company, which requires at least 10 members, unless the state is a partner – in which case only two would be required.

The labour law and its practice impose limitations (quotas) on the number of foreign members of statutory boards (e.g., supervisory and/or management boards).The Government encourages the promotion of Mozambican nationals and the employment of foreign nationals is subject to clearance by the Minister of Labour. There is no Government intervention in board appointments and management decisions.

According to the country's constitution, 'ownership of land is vested in the state and may not be sold, mortgaged or otherwise encumbered or alienated. As a universal means for the creation of wealth and social well-being, the use and enjoyment of land shall be the right of all Mozambican people'. Domestic as well as foreign investors may lease land, initially for a period of up to 50 years. The lease may be renewed once, for up to another 50 years, and may not be sold or sublet. The limited proprietary rights granted by the land law create a problem for the financial sector in that it lacks important collateral to secure credit. A more flexible land law and land administration would be beneficial for domestic as well as foreign investment.

The investment law and the industrial strategy policy do not specify any local content requirements for foreign direct investments. Although investments are generally expected to reduce the levels of imports and substitute local raw materials for them, this is not mandatory and would be hard to enforce if it were.

There is no explicit demand on the foreign direct investor to transfer technology. However, one of the investment objectives is the transfer of technology and technological development through foreign direct investment. Mozambique is a member of the World Intellectual Property Organization's permanent committee on development cooperation related to industrial property.

Mozambique offers attractive fiscal incentives and other benefits to companies wishing to establish a presence in the country, including Industrial Free Zones with special exemptions for exporters. Foreign investors are allowed to repatriate the balance after closure of the company, when all debts have been settled.

Fiscal incentives are available to qualifying investments under the normal regime. The Government can grant exceptional incentives to investments in manufacturing and construction projects for public utilities exceeding $500 million (e.g., MOZAL). This requires a cabinet decision. Foreign investors are therefore relatively well protected against political risks such as expropriation.

Mozambique is a member of the SADC Protocol on Trade and also enjoys preferential access to many important markets, including duty-free access to the United States of America and European Union markets (through AGOA and Everything But Arms (EBA)).

The country has also entered into a number of bilateral agreements to promote investment and avoid double taxation. As of December 2000, Mozambique had bilateral investment treaties with Algeria, Egypt, Indonesia, Mauritius, Portugal and the United States. Also it has double taxation treaties with Mauritius and Portugal.

Tanzania

Tanzania, including Zanzibar, covers an area of 945 200 sq. km. The economy grew at an average rate of 5.8% per annum during 2000-2004 with highest growth recorded at 6.8% in 2005 (URT-BOT, 2005/6). Agriculture is the major economic activity and contributed about 45.6% of GDP in 2005. Other contributors include mining and quarrying (3.5%), trade and hotels (17.2%), manufacturing (9.0%), transport and communication (5.4%), construction (5.7%) (URT-BOT, 2005/6). Inflation after having been maintained at around 4% in the past three years up to June 2005, it started rising and by end of 2006 it had reached about 6.8% (URT-BOT, 2005/6).

Since 1986 Tanzania has embarked on various economic reforms aimed at creating a favourable climate for investment. The reforms have involved, among other things, the finance and banking sectors, including privatization. The reforms have resulted in notable achievements including reduction of inflation from a high of 30% 10 years ago to a low of 4.2% in 2005. So far more than 300 state enterprises, equivalent to three quarters of the total public enterprises have been privatised. Among the privatised enterprises, a good number have increased production and employment. Others, because of their profitable operations, have qualified to be listed on the Dar es Salaam Stock Exchange thus creating opportunities for the Tanzanian public to own shares in these companies.

Tanzania encourages foreign investment by creating an attractive package of incentives for investors and easing bureaucratic requirements. As a result, Foreign Direct Investment (FDI) has increased steadily in the last five years. Tanzania is formally open to foreign investment in all sectors.

The Tanzania Investment Center (TIC) is a focal point for all investors and performs all liaison work such as answering enquiries and facilitating project start-up. Tanzania was named Africa's best investment promoter at the Africa Investment Promotion Agencies 2004 competition, where the TIC received the first prize among 48 African countries that took part. The TIC provides certificates of incentives on approved projects that have a minimum investment of US $300 000 if foreign owned and US $100 000 if locally owned. In 2004, TIC registered 454 investment projects (worth over US $1 billion), up from 372 in projects in 2003.

The priority sectors for investment, as identified by TIC, are mining, petroleum and gas, tourism, infrastructure development, aviation, agriculture, construction, financial services, and manufacturing. Investment in other sectors is not restricted. Foreign firms can participate in privatization programmes without restriction. There is no limit on foreign ownership or control, though land ownership remains restricted. TIC services are provided to local and foreign investors without discrimination, though a variety of regulatory fees are higher for foreign firms than for local firms.

Zanzibar, with a semi-autonomous government, controls its own investment policies and maintains the Zanzibar Investment Promotion Agency (ZIPA). Like the mainland, Zanzibar aims to create a favourable environment for foreign investors and provides similar incentives.

Regulations continue to permit the unconditional transfer through any authorised bank in freely convertible currency of net profits, repayment of foreign loans, royalties, fees, charges in respect of foreign technology, and remittance of proceeds. The only official ceiling on transfers of foreign currency applies to cash carried by individuals traveling abroad, which should not exceed US$ 10 000 over a period of 40 days.

Tanzania is a member of both the International Centre for the Settlement of Investment Disputes (ICSID) and the Multilateral Investment Guarantee Agency (MIGA). About five years ago the Tanzania Institute of Arbitrators (TIA) was established in accordance with Tanzanian arbitration law. This domestic arbitration body has proven to be inefficient, and most disputes end up at the ICSID. The Government of Tanzania established a Commercial Court in September 1999. The Commercial Court is a division of the High Court of Tanzania and, in principle, provides a place for speedy, efficient and commercially aware litigation of commercial disputes. While the Commercial Court has helped to speed up some commercial cases, the court system continues to be plagued by inefficiency and corruption.

According to the National Trade Policy (February 2003), the Tanzanian government intends, in the course of future WTO Trade-related Investment Measures (TRIMs) negotiations, to adopt measures related to equity requirements, local content requirements, technology transfer and export performance as necessary conditions for a Least Developed Country to expedite socioeconomic development. Currently, however, such measures have not yet been introduced. There is no requirement that specifies that local investors must hold a certain percentage of a firm's equity or that the share of foreign equity be reduced over time.

The government does not require investors to purchase from local sources nor require local content in exports. The government does not impose any 'offset' requirements with respect to approval of major procurements. Only companies operating in Export Processing Zones are required to export a certain percentage of goods produced.

The Tanzania Investment Center (TIC) offers assistance in the establishment of enterprises and provides facilitation services for required permits and licenses for both local and foreign investors. TIC issues the formal Investment Certificate of Incentives, which serves as the official recognition of one's status in the country. TIC serves as a one-stop government liaison for inves-

tors from inquiry stage right up to project start, and all Government departments and agencies are required by law to cooperate fully with TIC in facilitating investors.

Tanzania offers a well-balanced package of investment benefits and incentives that are applied uniformly to all investors (domestic and foreign) and systematically as specified by law (the Tanzania Investment Act, 1997 No. 26 of 1997). These are largely fiscal incentives.

EPZ incentive packages are managed by the National Development Corporation (NDC), independently from TIC. The government has established one EPZ business park for the purpose of attracting export industry investment, but EPZ benefits do not depend on location in a specific geographical area. Rather EPZ status reflects unique benefits offered to export industries. EPZ companies must export at least 70% of goods produced, and export at least US$100 000 to qualify to apply for EPZ status. EPZ status is available to both domestic and foreign investors, but is currently limited to 'new export companies,' thus excluding established exporters from benefiting.

Companies investing within the EPZ Park have access to ready-made buildings and reliable infrastructure, which limits the need for large capital investments in infrastructure. The EPZ policy places emphasis on products that use local materials such as textiles and garments, leather goods, agro-processing, and the lapidary industry. Historically, large job-creating investments (in the textile industry, for example) have received significant incentive packages.

Incentives, whether under the TIC or EPZ provisions, are granted on a case-by-case basis, following general guidelines. The Tanzanian Investment Act allows for the Minister of Trade to specify additional incentives and benefits in consultation with TIC's inter-ministerial board 'for the purpose of promoting identified strategic or major investments'.

Incentives and investment guarantees are offered to both domestic and foreign investors. Investments are guaranteed against nationalization and expropriation. Tanzania is a member and signatory of several international agreements for protecting investments. Any dispute arising between the Government and investors are settled through negotiations or may be submitted for arbitration before the international organizations. The Zanzibar Investment Promotion Agency (ZIPA) and the Zanzibar Free Economic Zones Authority (ZAFREZA) offer roughly equivalent incentives to those offered by the mainland's TIC and EPZ policies.

Tanzania observes the right of foreign and domestic private entities to establish and own business enterprises and engage in legal forms of remunerative activity. The Business Registration and Licensing Act provides: the right of any local or foreign investor to freely establish private entities; to own property both movable and immovable; and to acquire and dispose of property including interests in business enterprises and intellectual property. The Act stipulates that no business entity can enter into business activities in Tanzania before getting a business license through the Business Registration and Licensing Agency (BRELA). Registration fees for foreign companies are significantly higher than for local companies.

Competitive equality is applied and embedded in the Tanzanian National Trade Policy of February 2003 as a standard. The Tanzanian competition policy aims at perpetuating freedom of trade, freedom of choice and access to markets. It prohibits firms (both private and public enterprises) from engaging in anti-competitive behavior and abuse of dominant market position. Tanzania has established the Fair Competition Commission (FCC) to oversee compliance with competitive equality standards.

Under Tanzanian law, non-citizens or foreign companies cannot own land, which continues to be a significant barrier to foreign investment. Land in Tanzania is government property, and can only be leased from the government for 33, 66, or 99 years, depending on its use.

Occupation of land by non-citizens is restricted to lands for investment purposes, as approved by the TIC. Under this arrangement, known as Derivative Title, Tanzanian tenants sub-lease their land to a TIC-approved foreign investor. The TIC has designated specific plots of land (a land bank) to be made available to foreign investors. Foreign investors may also enter into joint ventures with Tanzanians, in which case the Tanzanian provides the use of the land (but retains ownership, i.e., the leasehold).

Movable property and land rights: Secured interests in property, both movable and real, are recognised and enforced. Land in Tanzania is technically owned only by the government and is leased for periods of up to 99 years. Recent reforms have tried to establish a reliable system of transferable property rights, with titles representing leaseholds. The Ministry of Lands and Human Settlements Development deals with the registration of mortgages and rights of occupancies. The Office of the Registrar of Titles within the Ministry is responsible for issuing the pertinent title and registered mortgage deeds. Under the recent Land Act (1999), such title deeds can now be used for securing loans from banks. However, the concept of a mortgage is very new, and the system to register such security interests remains unreliable. In practice, banks only issue mortgage loans on capital improvements on the land, and not on the value of the land itself.

The establishment of both the Commercial Court of Tanzania and a special Land Court as special divisions of the High Court has been a tremendous step towards protection and effective enforcement of property rights. The new Land Act, the Ministry of Lands registration offices and the Land Court comprise a legal system that will potentially protect and facilitate the acquisition and disposition of land, buildings, and mortgages, but the system is still in its infancy.

Intellectual Property Rights: In 1999, Tanzania passed the Copyright and Neighboring Rights Act Number 7 of 1999, which deals with the protection of intellectual property rights (IPR) and also protects expressions of folklore. This legislation conforms to international copyright and property rights conventions, including the WTO TRIPS agreement, and provides adequate protection for intellectual property, patents, copyrights, trademarks and trade secrets. The Act also establishes the Copy rights Society of Tanzania (COSOTA), which has the duty and authority to promote and enforce intellectual property rights; collect and distribute royalties on behalf of its members; maintain registers of works, productions and association of its members; and to identify, publicise and defend the rights of copyright owners.

Despite the recent legislation, enforcement of intellectual property rights remains ineffective. Violations are not seriously investigated, and the courts lack experience and training in IPR issues.

Tanzania has not yet signed or ratified the WIPO Internet treaties.

The Capital Markets and Securities Authority (CMSA) Act of 1994 provides for a policy that facilitates the free flow of capital and financial resources to support the product and factor markets. The CMSA has opened the Dar es Salaam Stock Exchange (DSE) to foreigners. The maximum allowed limit for foreign participation is 60%. Foreigners are not allowed to participate in Government Securities. The DSE provides announcements, stock reports, listings and financial trading statistics, and updates, online.

Foreign investors are able to get credit on the local market for capital injection within the country and importation of capital goods for use within the country. Each credit application is vetted on its own merit using the normal banking procedures and best practices. Bank lending rates range from 14-24% for ordinary borrowers. Large corporate borrowers can negotiate lower rates. The private sector has access to a variety of commercial credit instruments including

documentary credits (letters of credit), overdrafts, term loans, and guarantees.

The banking industry is growing with a half dozen international banks expanding operations in the country. The process of privatising the remaining government owned banks is continuing, with the diagnostic studies for the privatization of Tanzania Postal Bank (TPB) completed. In 2005, privatization of the National Micro-Finance Bank (NMB) advanced, with the Government approving the sale of 49% of the Bank's shares.

The Bank of Tanzania's (BOT) international reserves have grown steadily over the past five years. In 2004, international reserves stood at 1.78 billion US dollars, which constituted the highest level of reserves in over 30 years and equivalent to nine months of imports. This has helped the BOT to intervene whenever minor fluctuations have led to a slight depreciation of the Tanzanian shilling.

Corruption is one of the major difficulties encountered by foreign investors. The government views corruption seriously and hence has put in place mechanisms to fight corruption. In 2004, the Government initiated reforms in the Prevention of Corruption Bureau (PCB) giving it increased investigative and prosecution powers, expanding its operations to the regional and district level, and allotting additional budget resources to the bureau (a budget increase of US$3 million from 2004 to 2005). The National Anti-Corruption Strategy to root out systemic corruption was developed, released and distributed countrywide for implementation by the PCB. Also in 2004, the Government of Tanzania passed the Public Procurement Act, aiming to increase the transparency of Tanzania's Public Procurement Regulatory Authority (PPRA); implementation of this Act took effect in May 2005.

While giving or accepting a bribe (including bribes to a foreign official) is a criminal offense in Tanzania, the enforcement of laws, regulations and penalties to combat corruption, is largely ineffective. Areas in which corruption persists include government procurement, privatization, and taxation, ports, and customs clearance. Transparency International has consistently rated Tanzania as one of the worst countries in the world for corrupt business practices, although its rating has improved considerably over the past seven years.

The government has signed various bilateral and regional agreements with various countries. These agreements offer a number of trade preferences which could form a basis for attracting investments. These agreements include the well-known Generalised System of Preferences (GSP) and more recent ones such as the African Growth and Opportunity Act (AGOA, United States), the 99% Initiative (Japan) and the Everything But Arms (EBA) Initiative (EU). Specifically, the EU decided in 2001 to offer ACPs exemption from duties for goods, which are of greatest export interest and reduction of tariff barriers on textiles and clothing except for armaments (EBA) initiative under the GSP systems for all ACP and other developing countries. Other bilateral agreements have been signed with the governments of the United Kingdom, Italy, Finland, Denmark, Sweden, and the Netherlands. The agreements recognise fair and equitable treatment of investments on a reciprocal basis.

These agreements recognise the relative weakness of Tanzania in terms of the experience and low capacity of national entrepreneurs and in that respect they provide for the right to grant special incentives to its national and companies in order to stimulate their entrepreneurship, provided such incentives do not negate the key objective of these agreements.

The treaty for the establishment of EAC provides for cooperation in investment promotion, facilitation, and development. The Treaty provides for harmonization and rationalization of investment incentives in the region including those relating to taxation (e.g., avoiding double taxation) with a view to promoting the EAC as a single investment area.

Tanzania passed a revised Labour Law in 2004 that conforms to international standards, including the ILO convention protecting workers' rights. Firms are able to make private hiring decisions without requirements to use specific employment agencies. Employees have the right to organise in unions, to bargain collectively, and to legally strike under certain conditions. Labour laws apply equally to private and public sector workers, including workers in EPZs or free trade zones.

Currently, the labour and immigration regulations allow foreign investors to recruit up to five expatriates. Though additional work permits for expatriates can be granted under certain conditions.

Overall Assessment of Investment Climate in SADC

The above review has revealed that member states of SADC have taken steps to open up their economy to foreign investment. Almost all the states reviewed have introduced new measures that encouraged inward FDI. Of these measures some are related to sectoral liberalization. For instance, some have allowed partial or full foreign ownership of their telecommunications industries; Mauritius opened its legal professional services industry to FDI; and Swaziland opened up to FDI in insurance. Other measures aimed at improving the admission and/or establishment processes applied to foreign investors were put in place. Countries without a one-stop-shop have created it for new businesses; many of them have eased or improved registration and fiscal procedures for various business start-ups. Various other measures introduced to promote foreign investment involved tax reductions (Mozambique, Mauritius and Tanzania), the establishment of specialised investment zones or parks (Botswana, Tanzania and Zambia)..

In some of the SADC countries, however, governments adopted policies that were less favorable to foreign investment. For example, Zambia raised various taxes and royalties that may affect foreign investment. Lesotho extended state monopoly over its fixed-line telephone services for a further period; Swaziland closed its retail sector to foreign investors, and Zimbabwe prohibited money transfer operations by foreign or domestic agencies and the main banking institutions.

While on the whole the various measures taken are commendable as they are meant to create an enabling environment for investment, what is obviously lacking is a coordinated approach to promoting investment in SADC. It seems each country is guided by its own socio-economic imperatives. For example, the investment laws of more than half of the SADC member states. The main aim of the laws is to attract foreign investment by offering a variety of tax incentives such as low corporate and personal income tax rates, tax holidays, etc. In many respects these investment laws are similar and hence very competitive. Therefore, there is need to coordinate policies and activities in order to promote investment in the region without paying too high a price. Coordination could lead to the realization that, after all, some of the incentives offered were not necessary and hence there was a need to offer targeted harmonised incentives. The various investment and trade agreements which have been signed, or are being negotiated, is another issue of concern. Some of these agreements, while beneficial to the signatory countries may not necessarily promote the objectives of SADC. In this regard there is a need to scrutinise all relevant agreements entered into with third party countries, with a view of harmonizing them with SADC's objectives. Above all, it is highly desirable to have a system in place that ensures that third party agreements are in line with SADC's objectives and aspirations.

Changing regulatory frameworks and improving the business climate may, however, not be enough to attract greater FDI into manufacturing, and to benefit from such investments. In countries with small domestic markets, FDI in manufacturing depends particularly on export

markets and on the international competitiveness of African products in terms of unit factor costs relative to other countries (Golub and Edwards, 2003). Natural resources are attractive assets for export-oriented production, but they may not provide a sufficient basis for sustainable economic growth. Moreover, natural resources provide rents only so long as they last and are in demand; without technological and skills upgrading and development of downstream industries resource-exporting countries may eventually face stagnant prices and the risk of specializing in products that may become outdated (Nwokeabia, 2007). Accordingly, it is important for host countries to adopt policies that help improve their local capacities, and in particular their labour skills and technological capabilities.

FDI and Cross-Border Investments in SADC

Foreign Direct Investment (FDI)

According to UNCTAD (*World Investment Report 2006*), global FDI inflows increased by 38% in 2006 to reach $1 306 billion. This was near the record level of $1 411 billion reached in 2000, a reflection of strong economic performance in many parts of the world. The growth of FDI in 2006 occurred in all three groups of economies namely developed countries, developing countries and the transition economies of south-east Europe and the Commonwealth of Independent States (CIS).

Increasing corporate profits worldwide and the resulting higher stock prices that raised the value of FDI in the form of mergers and acquisitions (M and As) were mainly responsible for the rise in global FDI flows. Although greenfield investment also increased, especially in developing and transition economies. M and As continued to account for a high share of FDI flows. As a result of higher corporate profits, reinvested earnings have become an important component of inward FDI, accounting for an estimated 30% of total inflows worldwide in 2006, and about 50% in developing countries alone.

While FDI inflows in developed countries rose by 45%, well over the rate of the previous two years, to reach $857 billion, flows to developing countries and the transition economies increased respectively by 21% and 68% thus attaining their highest levels ever of $379 billion and $69 billion. The United States regained its position as the leading host country, followed by the United Kingdom and France. The largest inflows among developing economies went to China (including Hong Kong) and Singapore, and among the transition economies of the Russian Federation.

In 2006 inward FDI flows rose in all regions, though their rates of growth differed. Flows to all developing and transition economies remained at more than one third of the world total. At the same time, their share in global FDI outflows has risen continuously since 2003, and reached about 16% in 2006. In comparison to other types of capital flows to developing economies, FDI inflows have been the largest component of total resource flows since 1994, and their share was 51% in 2006.

With respect to sectoral distribution, judging from data on FDI in the form of M and As, FDI in the services sector and in extractive industries (mining, quarrying and petroleum) grew in all economies in 2006.

Regarding Africa, FDI rose by 20% to $36 billion in 2006, twice their 2004 level. In line with the global trend, this significant rise was in large part related to investments in extractive industries, but also in various service industries. As a result, inflows as a percentage of

the region's gross fixed capital formation increased to 20% in 2006, from 18% in 2005. As in previous years, there were wide variations among the different African countries. FDI inflows rose in 33 countries and fell in 21. Following substantial increases in commodity prices, many Transnational Corporations (TNCs), especially those from developed countries already operating in Africa, significantly expanded their activities in oil, gas and mining industries. TNCs from Asia expanded even more rapidly, through both greenfield investments and M and As. At the same time, the services sector continued to attract considerable FDI, particularly in transport, storage and communications. An estimated 442 greenfield investments were undertaken in Africa in 2006. The value of acquisitions of African enterprises reached a record level of $18 billion in 2006, and nearly half of this by Asian TNCs particularly in oil, gas and mining activities. Despite the increased FDI inflows, Africa's share in global inflows fell, from 3.1% in 2005 to 2.7% in 2006.

In terms of distribution, the FDI inflows were not evenly distributed among African countries. The FDI inflows tended to be concentrated in few counties and sectors. As a matter of fact, the top 10 recipient countries accounted for $32 billion (or about 90%) of Africa's inflows in 2006, up from $20 billion in 2005. Eight of them attracted FDI in excess of $1 billion in 2006, which was the same as the previous year; and in four of them, Egypt, Nigeria, Sudan and Tunisia, such flows were higher than $3 billion: . Both M and As and greenfield investments contributed to increased inflows to several of the top host countries, particularly Egypt, Nigeria, Sudan, Tunisia and Morocco. While most of the FDI to Africa as a whole went to extractive industries, Egypt was the exception as 80% of the more than $10 billion of its inflows were in non-oil activities such as agriculture, manufacturing, banking and tourism. With respect to sub-regions, FDI inflows were uneven, reflecting the influence of various factors, especially the availability of natural resources.

In what follows we shall review the FDI inflows to SADC with a view to understanding the factors that were responsible for the investment and whether these factors have linkages with integration efforts.

Within SADC there was a significant decline in FDI inflows, particularly to the two principal host countries (Angola and South Africa) to negative inflows amounting to $195 million in 2006. This contrasted with the high growth experienced in 2005 when inflows reached $6 billion. Although South Africa experienced negative FDI inflows, caused by the sale of a foreign equity stake in a domestic gold-mining company to a local firm, there were a number of M and A deals in the country by foreign investors. For example, Vodafone of the United Kingdom paid $2.9 billion to raise its stake in Vodacom of South Africa. Tata of India bought a 26% stake in InfraCo, a telecommunications company, valued at $60 million, and Istithmar, the investment arm of the Government of Dubai, bought V and A Waterfront (South Africa) for more than $1 billion. In Angola, the takeover by Sonangol of major oil-related projects from foreign companies, such as the Lobito oil refinery, also resulted in an overall negative FDI inflow. However, some foreign investments took place in banking, telecommunications and mining. Other countries which recorded substantial FDI inflows in 2006 include Tanzania ($377 million, most of it due to investment for expansion in the mining industry).

Although Africa enjoyed a surge of FDI inflows in 2006, it also experienced higher outflows than in previous years reaching $8 billion, or 2/9 of the inflows. Investors from South Africa accounted for four fifths of these. A large proportion of South African FDI was in natural resource exploration and exploitation. For example, Anglo Gold Ashanti invested in a gold-mining expansion project in Brazil and in underground gold extraction development in Australia; and Ophir

Table 1: UNCTAD (2005) SADC: FDI flows (millions of dollars)

	Year of investment					
	2002–2004		2005		2006*	
Economy	Inward	Outward	Inward	Outward	Inward	Outward
Angola	$0.00	$87.50	–$23.90	$29.20	$0.80	–
Botswana	$1 212.50	$210.20	$346.10	$57.40	$57.50	**$0.00**
DRC	$290.10	–$1.90	$1 344.00	$0.00	$25.80	–
Lesotho	$121.90	$0.21	$47.20	$0.00	–	–
Madagascar	$156.6	$0.00	$48.0	$0.00	$0.6	**$0.00**
Malawi	$10.50	$0.00	$3.00	$0.00	$0.00	–
Mauritius	$108.60	$34.50	$24.00	$47.50	$1 744.80	**$552.70**
Mozambique	$928.70	$0.42	$107.90	$0.00	$33.80	–
Namibia	$556.50	–$38.10	$349.10	–$12.30	$180.80	**$0.00**
South Africa	$2 289.60	$1 518.30	$6 379.40	$67.90	$5 582.50	**$5 138.40**
Swaziland	$89.40	–$9.40	–$13.80	$21.40	$0.00	–
Tanzania	$1 426.50	$0.00	$473.40	$0.00	$0.00	**$0.00**
Zambia	$493.00	$0.00	$259.00	$0.00	$3.70	**$0.00**
Zimbabwe	$38.40	$3.40	$102.80	$1.10	3.60%	**$1.00**
SADC	**$14 348.2**	**$1 805.13**	**$9 446.20**	**$212.20**	**$7 630.34**	$5 692.10
% Share in Africa		**32.20%**	**31.8%**		**21.4%**	
% Share in Sub-Saharan Africa		**45.80%**				
% Share in developing countries		**2.70%**	3.0%		**2.0%**	

** Data obtained from UNCTAD, mergers and acquisitions by country and region (WIR 2007). Empty cells indicate that information or data were not available at the time of writing.*

Energy invested in offshore oil exploration in the United Republic of Tanzania. Anglo Gold also established an alliance worth $58 million with Trans-Siberian Gold of the Russian Federation. Also, many of the South African TNCs in services expanded abroad, including into Europe.

It is clear from the above that FDI inflows in SADC countries followed the same trend as elsewhere in Africa. They were concentrated in terms of country and sector. Countries, such as Angola, Botswana, Tanzania and South Africa, endowed with strategic natural resources, (oil, gas, and minerals) tended to attract substantial investment. Also the services sector, including banking and telecommunications, transport, and storage continued to attract FDI. Although it is not obvious if the integration efforts as well as improvement of the investment climate had strong influence in attracting FDI, simple observations suggest that investments in the non-primary sector were partly due to the various measures taken by countries to open up their economies to foreign investment. Sectoral liberalisation measures enabled investors to participate in the privatization of state enterprises, such as telecommunications, railways, etc.,and invest in the services industries like banking and the legal profession. However, this notwithstanding, a greater share of FDIs went into the primary sector, mainly natural resources. In spite of improving regulatory frameworks and the business climate, little FDI was attracted into manufacturing. This could have been partly due to consideration of export markets and

international competitiveness of products. Although SADC promises a large market of about 380 million people, presently the market in each SADC state is considered to be too small for large scale manufacturing operations. On the other hand natural resources are attractive assets for export-oriented production, but they may not provide a sufficient basis for sustainable economic growth. Moreover, natural resources provide supernormal profits only so far as the resources last and are in demand.

Cross-Border Investments (CBI)

A review of CBI or intra-SADC investment is made difficult due to lack of information. Available international statistics do not give a complete picture on this subject. This is understandable since the focus of such sources is on FDI flows covering all regions of the world. Unfortunately, it appears that the SADC Secretariat, so far, has yet to start compiling statistics on intra-SADC investment. To have a true picture of intra-SADC investment, deliberate efforts have to be put in collecting and compiling statistics on CBIs.

South Africa is the main source of outward FDI (OFDI) in Africa, and spans a wide range of industries, from cellular communications to mining activities. According to UNCTAD (2005), South Africa's OFDI flows have been increasing since 1990, though inconsistently, contributing to an OFDI stock of US$29 billion in 2004. The report indicates that outflows have exceeded inflows of FDI in most years since 1990, and South Africa is ranked among the top 10 largest emerging market investors. Most of its investments are concentrated in Europe and Africa, and lately, North America (particularly the United States). Also its OFDI are concentrated country wise, with over 90% of OFDI stock in 10 host economies in 2003 (see Table 2).

Table 2: Top 10 destinations of South Africa's OFDI, 2003 (Rm)

Rank	Country	Amount
1	United Kingdom	44 084
2	Luxembourg	43 704
3	Belgium	23 080
4	United States	14 936
5	Austria	11 183
6	Australia	6 804
7	Germany	6 559
8	Netherlands	5 925
9	Mozambique	5 071
10	Mauritius	4 106
	Total (top-10)	**165 452**
	Total OFDI stock	**180 507**

Adapted from UNCTAD, 2005 (TD/B/COM.3/EM.26/2/Add.5)

OFDI into SADC has continued to increase in the past decade with South Africa as the largest investor in Mozambique, and one of the leading investors in many other African countries. More than 22% of FDI flows received by the South African Development Community (SADC) between 1994 and 2004 were from South Africa, with the share in some years exceeding 40% (see Table 2a)

Disaggregated published data[1] shows very little, if any, cross border investment from countries other than South Africa and Mauritius. Accordingly, South Africa invested US$190million in Tanzania and US$32 million in Mauritius during the 2001-2004 period, Mauritius during the same period invested US$58 in Mozambique and US$1 million in South Africa. In the 1990s South African financial institutions invested a total of US$ 65.2 million in the financial services sector in seven SADC countries, namely Botswana, Lesotho, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe.

However, as already indicated in the foregoing paragraphs, the above information does not give a true picture of the actual situation on the ground. For instance, according to the list

Table 2a: South Africa: OFDI to SADC, 1994-2004 (Rm;%)

Year	Total FDI to SADC	South African	South African
1994	60	26	43%
1995	1420	214	15%
1996	1149	97	8%
1997	2517	1062	42%
1998	5085	1988	39%
1999	1282	114	9%
2000	904	281	31%
2001	9808	1585	16%
2002	4600	1884	41%
2003	7443	932	13%
2004 (1st half)	4976	397	12%
Total	**39244**	**8781**	**22%**

Adapted from UNCTAD, 2005 (TD/B/COM.3/EM.26/2/ Add.5)

compiled by South Africa Business Forum (SABF) recently, there are over 65 South African firms operating in Tanzania in various sectors, including financial services, agribusiness, mining, commerce and trade, transport and communications, management consultancy, brewing, satellite television and tourism. The situation in Tanzania could be regarded as a mirror image of the operations of South African companies in the rest of the SADC countries and confirms the picture given in Table 2a above. For example, apart from in Tanzania, South African Breweries has made significant investments in Botswana, Lesotho, Swaziland, and Zambia. South African retailers have invested in a number of SADC countries including Zambia, Mozambique and Botswana. In the financial sector, South African banks are well established in almost all SADC countries. South African mobile operators between them operate in nearly 50% of the SADC countries, including DRC, Lesotho, Mozambique, Swaziland and Zambia. Although the information provided on South African companies in Tanzania does not give investment values of each of the South African companies listed, considering the range of activities in which they are involved in one is right to conclude that the total value of the investments made by them is quite large. In terms of investment stock, South Africa's stock of investment in the rest of SADC for the period of 2001-2004 totalled US$4.7 billion and these were spread over eight countries. Other countries with significant investment stock in other SADC countries include Mauritius and Zimbabwe (UNCTAD, 2006). From the above, it is evident that the main supplier of intra-SADC investment is South Africa.

Linkages between FDI, CBI and integration efforts

Two forms of linkages can be identified: linkages related to investments induced by an improved environment for investment, and linkages related to impact of investment on integration efforts. The former linkages come about if investments made can be attributed to improvement in the business climate, and the latter can help to foster integration in terms of reducing constraints to integration by providing facilities and services. While it is true that improved business environments have helped to attract some FDIs, the majority of the investments, particularly in natural resources seem to be weakly linked to this factor. Indeed this observation is supported by the study by John Dahl[2] which, among other things concludes by saying 'relatively more FDIs have during the 1990s poured into Angola, Malawi, Mozambique and Seychelles despite poor record in economic indicators and national frameworks.'

Unlike FDI, CBIs are found in diverse sectors, a sign of an improved business environment resulting from various pro-investment measures taken. For instance, the removal of exchange

control on both current and capital accounts has paved the way for free movement of capital, and the opening of sectors to foreign investment has provided a window for acquisitions and/or Greenfield investments. As for fostering integration efforts, investments in transport, telecommunication and banking services have helped interconnect SADC countries, and facilitate capital movements within SADC, thus facilitating trade and investment. Investments in agribusiness and commerce have contributed to removing trade barriers thus enhancing the preparation for a common market. Also investments made have contributed to employment creation, income, transfer of management skills, and technology, hence contributing to economic growth and further investments. However, notwithstanding this, the majority of the investments, both FDI and CBI went into sectors which have minimal linkages with the local economies. This is the case of the investments in mining which tend to be enclave projects. Their impact on the economy depends on how the government utilises the financial resources obtained from these investments to develop social services. Here suffice it to say that integration efforts, including improvement in investment climate seem to matter most for market driven investors and/or those seeking acquisitions or deciding where to locate investment among different options.

Constraints to Investment in SADC

In reviewing constraints to investment, we have to bear in mind that constraints affect investors differentl, depending on the objectives of an investor. As there is a diversity of investors so is there of objectives. Market-seeking investors, for instance, will be concerned more about factors impeding market enlargement than investors looking for natural resources such as minerals, whose concern is more related to their interests, such as concession laws, environmental regulations and the like. Moreover, as already stated, investment conditions in each SADC member state are not the same. Since harmonization of investment conditions is still a far cry, generally each member state pursues measures it deems necessary to entice investments in its own territory, taking into consideration the conditions prevailing therein. What follows then is a discussion of constraints considered to be of concern to investors both domestic and foreign.

Size of the market

It is a fact that the size of the market in terms of population size and its purchasing power matters mostly for investors seeking markets. As single entities, most SADC countries are considered to have small market size and hence do not present viable propositions for market-seeking investors. Countries like South Africa, DRC and Tanzania, with sizable populations present good propositions in this regard, though the latter two are undermined by low levels of per capita income which determines their effective demand. On the other hand, South Africa, which meets the two conditions, has been a magnet for FDI. SADC, being conscious of this constraint, has set as one of its objectives establishing a free trade area and common market by 2008 and 2015 respectively. The main challenge for SADC in this regard is to establish a common market within a reasonable time frame in order to provide space for investment. The success of this depends on the effective implementation of the trade protocol by all SADC states, particularly with respect to elimination of tariff and non-tariff barriers that take into consideration the specificities of each member state. These have to be accompanied by appropriate rules of origin, which will encourage the use of regional resources, thus fostering forward and backward linkages in the various production chains. Also measures are being taken to harmonise customs rules and procedures. These, coupled with internationally acceptable standards, quality, accreditation

and metrology, as well as harmonisation of sanitary and phytosanitary rules are expected to enhance intra-SADC trade and investment.

Macroeconomic instability

Macroeconomic instability makes long-term planning uncertain and hence making investment decisions more risky. Instability manifests itself in high rates of inflation and high debt ratios. As observed by K. Mlambo (AfDB 2005), unsound fiscal and monetary policies, weaknesses in the financial system, and inappropriate exchange rate policies contribute greatly towards high and variable rates of inflation and instability in the real exchange rates, thus causing macroeconomic instability. Another source of instability is external indebtedness. External debt overhang reduces the ability of a country to honor its external obligations, thus increasing external vulnerability. As a result of this, a country may resort to stopgap measures such as tightening foreign exchange and profit-remittance regulations. Being aware of this constraint, SADC member states are addressing it individually and collectively through the Memorandum on Macroeconomic Stability and Convergence. To achieve macroeconomic convergence, SADC states are required to: converge on stability-oriented economic policies aimed at restricting inflation to low and stable levels; maintain a prudent fiscal stance based on the avoidance of large fiscal deficits, monetization of deficits, and high or rising ratios of public debt to GDP; avoid large financial balances in the economy; and minimise market distortions. In this regard, macroeconomic target indicators as shown in the Table 4 have been set towards which each member state is working.

Table 4: SADC Macroeconomic Target Indicators

Numerical Values of target indicators	2008 (%)	2012 (%)	2018 (%)
Core Inflation as a % of GDP	9	5	3
Budget Deficit as a % of GDP	5	3	1
External Debt as a % of GDP	60	60	60
Current Account Deficit as a % of GDP	9	9	3
Growth rate	7	7	7
External Reserves (Import Cover in months)	3	6	6
Central Bank Credit to Government	10	5	5
Domestic Savings Rates	25	30	35

Source: Regional Integration in Southern Africa, Vol.6, p.38.

While the majority of the SADC states are still below many of the target indicators, there is noticeable improvement towardsachieving them. As a matter of fact more than half of SADC countries have achieved the inflation rate target indicator for 2008. At the same time Mauritius' domestic saving rate, at an average of 26.6% for the period of 1991-2004 is above the 25% target indicator. On the whole a lot remains to be done to address macroeconomic issues. In this regard it is necessary to pursue pro-growth fiscal and monetary policies as well as putting in place mechanisms for mobilizing savings.

Business environment

The quality of the business environment is one of the most important ingredients in attracting investments. The business environment embraces a number of elements including legal, regula-

tory, administrative and financial system. The weakness in the system creates bottlenecks and results in raising the cost of doing business. SADC states are aware of this, and that is why one of SADC's strategies for fostering private sector activity is to carry out a regional competitive and business survey biennially, followed by a SADC biennial business forum to accelerate the creation of an enabling regional environment for investment.

In the section reviewing investment climate in SADC countries, we note that all countries in SADC have taken, and are taking, various measures to improve the business climate. In this regard procedures for starting business have been streamlined, laws protecting property rights have been enacted, sectors that were closed to private investment, especially foreign investment,have been opened up, one-stop-shops have been established or strengthened, nuisance taxes have been abolished or consolidated, in some few member states corporate taxes have been lowered, investment protection agreements have been signed, and other multilateral and bilateral agreements have been entered into, such as those dealing with copyright, intellectual property and double taxation. In spite of this, the problem still persists mainly because of bureaucratic red tape and/or lack of capacity which undermines the implementation and /or enforcement of the various measures. For instance, copyright and intellectual property laws are openly violated. In many SADC states the court system is so slow and cumbersome that one has to weigh one's options before embarking on litigation. While the measures taken are in the right direction, more still needs to be done to make them operational by building institutional and manpower capacity, both at national and community levels.

Finance

With the liberalization of the SADC economies in general, and the financial sector in particular, SADC is witnessing an increase in the number and variety of financial institutions and services. Increasingly the role of government has diminished in the ownership and operation of banking and non-bank institutions. Its role is mainly supervisory through central banks.

The financial constraint manifests itself mainly through two ways: availability of credit and access to it. There is a general belief that loanable funds are scarce and therefore investors wanting to mount a business have to rely mostly on their personal and family resources or on foreign sources. This view is hard to support as the financial system is highly liquid. The real problem is access. A business operator may not be able to access credit for a number of reasons, including the profile of the project promoter, the nature of the project, counterpart funds, collateral, and the quality of the business plan. As to the profile of the promoter of the project, the supplier of loanable funds, in this case a financial institution would like to know the track record of the promoter in terms of relevant business experience, credit worthiness and whether he/she has adequate counterpart funds. In case the promoter is lacking in business experience, the institution would want to know whether he/she has a technical partner who has stake in the project. Regarding the business plan, more often than not, its quality is low because, for want of saving money on the preparation of a business plan, promoters prepare their plans which do not meet the required standard in terms of the information content. Such a lacuna can be avoided if a specialist is used to prepare the plan. To secure the project, financial institutions insist on securing the loan with collateral. In many cases collateral offered is not acceptable either because it is not easily liquidatable or it is encumbered. Moreover SMEs find it hard to meet the traditional requirements of the classic financial institutions.

Another vehicle for mobilising savings for investment and facilitating privatisation is the stock market. SADC states have stock markets most of which were established in the 1990s. The oldest

stock markets are those of South Africa and Zimbabwe. In terms of market capitalisation and number of listings, which are used to measure market size, SADC stock exchanges, except those of South Africa and Zimbabwe, are relatively small. The majority of them are concentrated in a few sectors, indicating that the countries concerned do not have a diversified industrial base and/or those who own the enterprises do not want to go public. This is generally true of family enterprises.

SADC states recognise the financial constraint as an obstacle to investment; and as a response to this, there has been substantial liberalisation of the banking, finance and capital markets as well as investment services in SADC, unilaterally and through a number of agreements and memoranda of understanding. Financial reforms in southern Africa have largely focused on the banking sector with a view to making them more competitive. The main features of these reforms have been liberalisation of entry into the banking industry, removal of official controls on deposit and lending interest rates, and strengthening of central bank regulatory and supervisory functions to improve prudence. The adoption of these financial reforms has permitted new financial institutions to enter the banking industry and facilitated the introduction of new financial products. These reforms have not, however, been sufficient to increase competition or stimulate increased savings mobilisation and intermediation services in all countries. Access to credit and capital remains an area of concern for small to medium enterprises and the vulnerable groups such as the disabled and women. This notwithstanding, more still needs to be done by, among other things, undertaking financial reforms for the non-bank finance institutions Such reforms should address the case for small scale entrepreneurs, particularly women who are constrained by laws and procedures which deny them full capacity to access credit. Also, there is need for strengthening the SADC Project Preparation Development Fund (PPDF) so that its services could be extended widely and effectively. Additionally, efforts should be directed to promoting affordable business development facilities to cater especially for small scale operators.

Inadequacy of infrastructure

With the exception of a few countries such as South Africa, Botswana, Mauritius and Zimbabwe, the stock of infrastructure in SADC is inadequate to propel rapid development. Experience of rapidly growing developing countries such as China shows that infrastructure can contribute significantly to growth. Infrastructure affects growth through its impact on enterprise productivity, cost of doing business, market access, and profitability. In the case of Tanzania for instance, analysis of firm-level data identifies access to infrastructure services as a key determinant of enterprise growth and investments. Given that the majority of Tanzanians are smallholder farmers, reliable and affordable infrastructure, especially rural roads, is a critical factor in improving market access and enhancing the capacity of farmers to commercialise and diversify into higher value economic activities to improve incomes. Despite recent efforts to improve the country's infrastructure, Tanzania's indicators (road, electric power, water and telecommunication), are still among the lowest in the world. Even in South Africa, areas of concern include the freight transport and logistics sectors, as well as the operations of rail and port sectors where major bottlenecks to trade and growth seem to be situated. Also the high costs of telecommunications services, in spite of their recent remarkable expansion, are a worrisome obstacle to investment. This notwithstanding, some progress has been made at SADC level. The region now has integrated networks of roads and railways, ports and harbors have been rehabilitated, and telecommunications systems are advanced. The transformation of the transport corridors into development corridors such as Beira, Maputo and Walvis Bay are all intended to open invest-

ment and trade opportunities. In the area of energy some progress has been achieved under the auspices of the Southern African Power Pool (SAPP) in interconnecting national grids, which has allowed sharing of power on a needs basis. In spite of these achievements a lot remains to be done both nationally and at community levels in terms of expanding the quantity and improving the quality of services, and at the same time ensuring that they are affordable.

Conclusions and Recommendations

Integration efforts, coupled with an improved business climate, have been an important factor in attracting FDI in the SADC sub-region. However, FDI inflows to SADC followed the same pattern as that to other African sub-regions. FDI inflows tended to be concentrated by sector and country. In SADC most of the FDI went to countries endowed with natural resources such as minerals, gas and oil. Also countries which opened up sectors which used to be a preserve of the state received significant FDI, both greenfield and acquisitions. In this regard the principal beneficiarry was the financial services sector. Since there is no clear cut evidence to show that integration efforts and various incentives are responsible for attracting investment, it is necessary to evaluate critically the role of incentives in attracting investment. Also, blanket approaches to offering incentives should be done away with, and a targeted approach adopted in the light of the trend in FDI.

In view of the fact that various approaches adopted by SADC member states to attract investment have generally been formulated without consultations, the result has been uncalled for competition and overgenerous incentives. It is necessary, therefore, that member states should harmonise their actions with a view to avoiding wasteful competition. Also multiple memberships of organizations with objectives similar to those of SADC should be studied with a view to establishing whether they undermine or promote SADC's aspirations.

With respect to cross-border investments, it is difficult to get a true picture of the actual situation because of lack of reliable data. It appears there are no discernible efforts on the part of the SADC Secretariat to gather and compile such data; and data from other sources seem to be incomplete. It is therefore necessary to strengthen the statistical gathering and compiling capability of the SADC Secretariat. Also, each member state of SADC should build an internal system and capacity for capturing information on FDI generally and cross border investments in particular. The one-stop-shop or investment center of each member state is better placed to add this important task to its responsibilities, provided it could be empowered.

Available information shows that South Africa is the main supplier of cross-border investments both as inflows and stock, and they are diversified across sectors and countries. This is a reflection of the sophistication of the South African economy. Not only is South Africa the principal supplier of intra-SADC investments, it is also among the ten top suppliers of outward FDI in the world. As a matter of fact its cross-border investments are a small fraction of its total outward investments, particularly those destined to developed countries. One possible lesson from this is that SADC's investment absorptive capacity is low. Also it could be that South Africa wants to diversify the host countries for its investments, with a view to minimizing risks. In light of this, it is necessary to undertake a study that will further shed light on factors that attract investments to a particular destination.

As this study is based mainly on secondary data, it has been difficult to establish concretely linkages between FDI, CBI and integration efforts. It is therefore necessary to undertake further research to establish such linkages.

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Notes

1. UNCTAD country profile data
2. Incentive for Foreign Direct investment – the case of SADC in the 1990s, Feb. 2002, NEPRU Working Paper no.81

The Role of Central Banks in Promoting Regional Cooperation and Integration in SADC

Wilson T. Banda[1]

The Committee of Central Bank Governors (CCBG), established in 1995 as part of the Finance and Investment Sector of the Southern African Development Community (SADC), has, since its inauguration, implemented several projects designed to contribute to the process of regional economic cooperation and integration.

This chapter discusses the role of SADC central banks in the integration process. First we outline key factors to achieving regional integration. This is followed in by a synopsis of the convergence framework in SADC and convergence indicators. The role of the central banks in the integration process are then described, followed by a discussion on progress towards macroeconomic convergence in SADC, particularly in the context of convergence criteria of the first stage (2005-2008). The next sections outline the sources of economic growth and the importance of macroeconomic management. This is followed by an outline of the challenges in the process of integration and the hindrances to monetary convergence before conclusions and policy recommendations are presented.

A Key Factor for Regional Integration

A key factor for a sustainable regional integration in SADC is macroeconomic convergence within the framework specified under the Monetary and Fiscal Policies Harmonisation Programme (MFPHP). Although macroeconomic indicators can be wide-ranging, they typically include inflation rates, budget deficit ratios, public debt ratios, external balances (especially the current account), output growth, domestic revenue collection, exchange rates and interest rates. In practice, economic convergence does not directly fall under central bank operations and policies. However, there is a need to have a public institution to coordinate and oversee policies that will be instrumental in the process of monetary integration so as to ensure a reasonable degree of equity in regional distribution of growth. The CCBG was therefore established to coordinate efforts towards regional integration in SADC.

SADC Convergence Criteria[2]

Financial sector reforms have been a major component of Structural Adjustment Programmes (SAPs) in SADC countries. Following the McKinnon-Shaw (1973) hypothesis, the conventional wisdom is that a flexible and efficient financial system is crucial to the growth and development of a market economy. This hypothesis postulates that government control and interventions in the financial system that limit the operation of the market mechanism, lead to financial repression and slow economic growth and development. Financial liberalisation typically involves liberalising interest rates and eliminating credit limits and also entails considerable institutional reforms, including new laws and regulations governing the financial sector, the restructuring and privatisation of banks, adoption of indirect instruments of monetary policy and so on (Mehran *et al.*, 1998). These conditions are necessary for a successful integration effort.

The SADC framework aims at facilitating creation of market conditions in the region and

cross-border activity by eliminating barriers to cross-border flows of goods, services, labour and capital. The framework also focuses on integrating regional markets through coordination of reforms in trade, exchange control systems, domestic banking and payment systems and investment regulation supported by sound macroeconomic policies. At the commencement of the SADC initiative, virtually all SADC countries relied on bank-by-bank credit ceilings and administered interest rates as key instruments of monetary policy. Government interference was prevalent, through directed credit allocations, heavy borrowing from central banks to finance fiscal deficits and negative real interest rates. In regard to institutional structure, a proper legal framework for the independence of central banks was largely absent, and entry by domestic and foreign commercial banks was restricted, leading to concentrated ownership structures. Regulation and supervision to ensure the safety and soundness of financial institutions were generally inadequate.

SADC member countries have agreed on a number of initiatives to enhance cooperation and integration in the region. The question, however, still remains: is regional integration possible in the near future? Have SADC member countries prepared the ground to achieve this? Perhaps not enough has been done yet.

In order to achieve and sustain macroeconomic stability, members states need to converge on stability-orientated economic policies implemented through a sound institutional structure and framework. Macroeconomic stability is a desirable outcome of macroeconomic convergence. These targets are clearly spelt out in the SADC Memorandum of Understanding (MOU) and are grouped as follows:

- **Target 1:** Macroeconomic convergence targets for inflation rates, budget deficits/GDP and nominal value of public and publicly guaranteed debts.
- **Target 2:** Achievement of other financial indicators for import cover, central bank credit to government, domestic saving and investment levels, interconnected and payment clearing systems, currency convertibility, dual and cross listings on regional securities exchanges, liberalisation of exchange control, and increased credit extension.

In order to monitor and assess regional macroeconomic convergence, member countries agreed on the convergence criteria for all member countries.[3] In 2004, the initial convergence criteria were revised to ensure consistence with African Monetary Cooperation Programme (AMCP). The revision allowed for greater flexibility in order to take into account performance of member countries and other challenges that they were facing. The new convergence criteria were to be implemented in three stages, 2005-2010, 2011-2015 and 2016-2018. Each stage outlines the primary and secondary criteria to be attained by each member country. The primary convergence criteria directly falling within the responsibility of the central banks are summarised in Table 1.

Table 1: Primary macroeconomic convergence criteria

Indicator	SADC convergence criteria by 2008
Annual inflation rate	≤5% or at least single digit
Budget deficit/GDP (including grants)	-3% ≤ 3%
Budget deficit/GDP (excluding grants)	< 5%
Central bank financing of budget	Towards 0%
External reserves	>3 months import

Source: Article 11 (SADC Macoeconomic Convergence)

Apart from the primary convergence criteria, all countries are expected by 2010 to achieve

and maintain the following secondary convergence criteria: a stable exchange rate, market based positive interest ratse; output growth of 7% and above, domestic revenue of at least 20% of GDP, debt reduction of 60% of GDP; reduction of current account deficit to 9% or less; domestic investment of at least 20% of GD;, implementation of at least 25 core principles of Basel I, i.e., bank supervision and regulation; and adherence to core principles of payment systems.

Role of Central Banks

Whereas the main functional responsibilities of central banks lie in monetary policy implementation and financial sector stability, should they also worry about initiatives towards financial integration in the region? Generally, the higher the degree of financial integration in SADC, the more homogeneously monetary policy decisions will be transmitted across the member countries. Central banks' role in promoting regional cooperation and integration should therefore focus on the issues below.

Anchoring inflation

The issue of the impact of accelerated integration on inflation is both important and much debated. Economic theory identifies numerous channels through which integration can influence the level of prices, but these influences are not one-directional. For example, the increase in the pool of labour available to the regional economy is expected to exert pressure on prices with the slightest rise in the cost of labour, especially unskilled labour. In general, it tends to modify significantly the previous balance between capital and labour at the regional level. Second, integration exerts pressure conducive to price stability by strengthening regional competition, by reducing the ability of firms to fix prices and by exerting pressure on unit production costs in the regional industrialised countries. Third, integration can also exert a positive effect on productivity in the region by facilitating and accelerating the restructuring and optimisation of the division of labour in a wider cross-border context.

It would be naive to think that the effects of integration on inflation go in one direction only. The attainment of considerably higher living standards by a new middle class translates into major changes in consumption patterns and habits of the regional economy. Since the theoretical influences integration can have on prices are numerous and work in different directions, it might perhaps be the case, as a continuous phenomenon with medium-term effects that integration will translate into substantial changes in relative prices – the prices of manufactured goods falling and those of, for example, oil, gas and certain commodities rising – without the general level of prices being significantly affected.

Regional integration has since the late 1990s coincided with a decline in global inflation and in its volatility. As a consequence of the stabilisation of inflation at lower levels, lower volatility in macroeconomic variables has also been seen (CCBG Report, August 2005). But perhaps it would be wrong to conclude that this correlation between the integration process and low inflation demonstrates a causal relationship. Indeed several other factors – independent of integration – can also explain these good results. At least four can be mentioned.

- There has been rapid progress in science and technology – in particular information and communication technologies – leading to significant productivity gains which coincide with integration and, moreover, are one of its underlying causes.
- Second, structural reforms which were introduced in the region at beginning of the

1980s have gradually spread throughout these economies. These structural reforms, like the spread of technological progress, have helped to increase the growth potential of the economies and thus facilitated price stability.

- Third, greater budgetary discipline has recently characterised most economies following the previous period of poor fiscal management.
- The monetary policy pursued by the central banks and their enhanced credibility may be a factor.

It is necessary to stress the last point. Whatever the influences being exerted in the context of integration, the basic principle which allows the anchoring of monetary policy remains: in the long-run, inflation is a monetary phenomenon. As a consequence, integration does not affect the central role and overriding responsibility of central banks to preserve price stability.

As indicated in Table 1, the SADC framework requires that each member country should attain an inflation target of under 5%, or at least single digit inflation by 2008. It should be noted, however, that there is no standard practice for member countries to follow when setting up these targets. Each country sets its inflation target based on other macroeconomic targets, particularly GDP growth and the level of money supply that will be consistent with that target on inflation. This therefore poses a challenge to the attainment of such convergence criteria.

Inflation targeting is very useful to countries that have adopted it, such as South Africa and, in some aspects of monetary policy, Botswana, as it helps to anchor public expectation through the conduct of monetary policy. Inflation targeting avoids the problem of an unstable relationship between the goal and the intermediate target (e,g. reserve money) by focusing directly on the ultimate target, which is inflation. It is also easily understood by the public and in practice has been associated with a significant increase in transparency and accountability of monetary policy. Another aspect of inflation targeting is the publication of forecasts for inflation which ought to enhance credibility as it allows the public to monitor the central bank's feedback rule.

However, the disadvantage of inflation targeting is the difficulty of directly controlling inflation. Moreover, the long and variable lags in monetary policy and the absence of a simple rule may make it difficult for the public to monitor the performance of the central bank in a timely manner. In such a scenario, inflation targeting can be costly as monetary policy may not be as credible and, therefore, may fail to anchor public expectations. Inflation targeting requires that a country adopts flexibility in interest and exchange rates. These are crucial conditions for inflation targeting. Most countries in the SADC region do not meet the condition for a successful inflation targeting mechanism. This too will cause problems in the region as countries move towards integration.

In summary, in the short-term, the central bank must continue anchoring inflation expectations at a level that is consistent with the central bank's definition of price stability. Even for countries that do not directly target inflation, central banks should credibly commit to maintaining stable prices. Central banks should be fully and unequivocally trusted by the public and by other policymakers. The credibility of the central bank clearly reduces second-round inflationary effects and minimises macroeconomic fluctuations in output and inflation.

Interest rates

Following World Bank-supported financial deregulation of the 1980s, most countries in SADC have largely liberalised interest rates. Most central banks within SADC tend to intervene in

the market so as to deal with undesirable fluctuations. The interest rate is a powerful tool in the hands of monetary authorities for managing inflation, fiscal outcomes and monetary aggregates. If SADC is to achieve macroeconomic convergence, and in the long-run achieve a monetary union, it is expected that interest rates should converge. Moreover, in the long run, with the introduction of a regional money market, the issue of interest rates will be vital. It is the responsibility of central banks to ensure interest rates in respective countries are moving towards the desired direction.

Exchange rate regimes

Apart from South Africa and Zambia, which have adopted floating exchange rate regimes, most central banks in the region operate managed floats, or some variant of fixed exchange rate regimes.

There are a few countries in SADC that still have high rates of inflation. The worst case is that of Zimbabwe. The question that arises is, how can such countries move towards convergence criteria? Literature has shown that when a country has high inflation, an option available is to peg its currency to that of a country with low and stable inflation. Countries like Zimbabwe with high inflation may bring down inflation by pegging their currency to that of a low inflation country or they may adopt a currency board. The main disadvantage of such an arrangement is that monetary authorities may not have an independent monetary policy to achieve domestic objectives. In addition, a country adopting either a currency board or a peg needs substantial foreign reserves to support the local currency.

SADC Exchange Control Committee

The SADC Exchange Control Committee (ECC) was established under Article 4 of the SADC Finance and Investment Protocol (FIP) with a broad view to harmonising exchange control liberalisation in the region. The harmonisation of exchange control policies will contribute towards deeper integration of economies in the SADC region.

Generally the pace of current account liberalisation has been much faster relative to the capital and financial accounts. Transactions requiring central bank approval are increasingly becoming fewer and where limits apply they have been increased.

Out of the 14 SADC member states, Botswana, Mauritius and Zambia are the only three countries that have fully liberalised their exchange controls. The remaining 11 countries are at different levels of liberalisation as there is no clear-cut solution to the most appropriate speed and sequence of exchange control liberalisation – it depends on the state of the economy and characteristics of each country. Thus each state will be responsible for its own sequence of the liberalisation process.

The responsibility of the SADC Exchange Control Committee will therefore be to monitor the process and ensure that the member states are mindful of the deadlines stipulated in the RIDSP:

- liberalisation of the current account by 2006;
- liberalisation of the capital and financial account by 2010.

The Committee had its first meeting in Swaziland in April 2007, where it developed a draft policy framework for the liberalisation process and adopted an action plan. A Working Group also met in Botswana in September 2007 to finalise the draft policy framework. The framework will guide the liberalisation process.

The major challenge faced by the Committee is that each country is working at its own pace and that the Committee may not be able to influence the process. The deadline for the liberalisation of the current account for December 2007 will not be met and has already been shifted to the first quarter of 2008. Although economies have been stabilised and are experiencing relatively high rates of economic growth, they are still experiencing foreign exchange fluctuations and problems of money laundering which has tended to slow down the process.

Money markets

The integration of money markets is important in achieving regional monetary unification. It is at this level that the central bank's liquidity is distributed and that monetary policy decisions are transmitted to short-term interest rates. Apart from the effective transmission of monetary policy, there is a broader reason why central banks wish to see greater integration. Central banks also need to promote the capital market (stock exchanges) in the member countries and work towards establishing a regional stock exchange in the near future. Ultimately, central banks desire to promote vibrant money markets, at the short end of the market and capital markets at the long end. These markets are important for monetary policy transmission (money market) and support to the real sector (capital market).

Financial stability

Widespread interlinking of the financial systems has created a regional financial system that is becoming a real, significant entity at the regional level. This development affects central banks in two ways:

- first, it calls for a growing regional focus on their financial stability analysis. For instance, for SADC, a complete and comprehensive view on the key sources of risk and vulnerabilities facing the financial system cannot be formed without taking due cognisance of wide regional imbalances or concerns about excess global liquidity;
- second, it calls for enhanced cross-border cooperation and exchange of information among central banks (and between them and other authorities contributing to financial stability).

This should produce a comprehensive picture of risks and vulnerabilities and identify appropriate and effective mitigating policy actions. In SADC, this goal is pursued mainly through the activities of the Economic and Financial Committee on Financial Stability, comprising representatives from ministries of finance, central banks and the supervisory committees in banking, securities and insurance industries.

Central banks play a crucial role in the maintenance of the financial systems through the design of financial regulation and supervision. This role is played by central banks because they either have a direct supervisory responsibility or act in an advisory capacity to governments. In general, financial globalisation calls for an intensification of efforts among regulators on cross-border issues so as to produce consistent regulatory and supervisory standards. The aim is to promote a level playing-field and reduce regulatory arbitrage. This is clearly illustrated by the experience of the European Union, where the establishment of a single financial market is the main strategic objective and presupposes the removal of potential regulatory and supervisory barriers. The EU experience also shows the usefulness of proceeding in steps in the process of convergence by focusing first on regulatory requirements and subsequently on supervisory standards and practices.

There are three main considerations here:

- First, it is important that the regulators of major financial systems deepen and strengthen their dialogue at the regional and global level.
- Second, with the increase in the number of new areas, there is the important need for a consistent approach at the regional and global level. Financial institutions with high leverage are a good example here. On the basis of the mandate given by SADC, the Financial Stability Forum will play a crucial role in developing recommendations at regional level targeted at regulators, counterparties of the leverage funds and investors in these funds.
- Third, there is a great need for harmonising supervisory practices at the international level. This is particularly important to banks. In this regard the Basel Committee is the oldest and most advanced in terms of ensuring that uniform principles and concepts of prudential supervision are defined at the global level. However, given the diversity of practices, a significant harmonisation effort is still necessary and reference to the Basel Committee's Accord Implementation Group (AIG) would be relevant on practical implementation issues for achieving convergence of banking supervision practices at the international level.

Payment systems

Payment systems are pivotal to the functioning of financial systems and, in particular, the circulation of money, and in general economic activity. In order to move towards monetary and financial integration, member states, through the central banks, have to cooperate through policy co-ordination, capacity building and systems development on issues regarding payments, clearing and settlement mechanisms. In this regard, central banks in this region are expected to ensure a safe and efficient domestic payment system based on internationally accepted principles. Secondly, central banks will have to implement a regional cross-border payment strategy, and identify, measure, minimise and manage payment system risk. These banks will also have to work towards convergence of payment, clearing, settlement features, policies, practices, rules and procedures across the SADC region. They will need to put in place a payments system oversight that is aimed at reducing and eliminating cross-border settlement risk and systemic financial shocks. In addition, central banks have to facilitate cross-border payments and support monetary policy objectives. The role of the SADC Payment Systems Steering Committee (PSSC) is vital in this regard.

The main objectives of the SADC payment systems project are to assist individual countries to define a payment system strategy and development plan, and to define a coordinated regional approach to cross-border payments. In this regard, it is acknowledged that a sound and robust domestic payment system within each SADC country is a prerequisite for defining a cross-border payment strategy.

The modernization project has followed a phased developmental programme, covering three phases:

- Project launch, which included sensitization of the financial system stakeholders in each member country, information gathering and stock-taking (after which the SADC Green Book was published).

- Formulation of the vision and strategy for a payment system for each country. This resulted into the publication of the Payment Systems Vision and Strategy Framework, which is a blueprint upon which payment systems projects are implemented
- Meeting the long-term objectives of the project, including implementation of the vision and strategy for each country and consideration and agreement on an acceptable cross-border model for payment systems in the region.

Ten countries have so far implemented Real Time Gross Settlement (RTGS) systems and at least one country has implemented automated cheque clearing processes, i.e., Malawi (Appendix 2 outlines initiatives by the Reserve Bank of Malawi in developing payment systems there). Two more countries are in the implementation stage of their RTGS systems. Member countries also undertook a peer review that assessed the compliance of their systemically important payment systems to the BIS Core Principles.

To support the free flow of cross-border transactions and facilitate trade in the region, a cross-border settlement mechanism must be put in place. The SADC Project, through workshops, investigated various cross-border payment models. It was observed that a centralised cross-border payment model for the region does not appear to be viable for the time being and more time should therefore be spent on building stronger correspondent relationships between banks in the region.

The major challenges for the Project include:

- A weak legal framework. Some countries have weak legal infrastructure and legal frameworks need to be harmonised in the region.
- The pace of implementation of domestic projects is different. Some countries implemented their RTGS systems in 2000, while two other counties that are committed to the system are yet to implement.
- Skills availability is not uniform across the region. This may pose difficulties in overseeing domestic payment systems effectively.
- Issues of exchange control need to be addressed in order to allow a free flow of cross-border transactions in the payment system (when the centralised payment facility would be viable).

One of the objectives of the project has been met in the sense that most countries in the region have modernised their domestic payment systems by implementing the RTGS systems. A suitable cross-border payment model may be considered when issues of economic integration become clearer in the near future.

Harmonisation of legal and operational frameworks

Since legal and operational frameworks are diverse in the SADC region, there is a need for cooperation amongst central banks in order to move towards a more coherent and convergent status to facilitate the harmonisation of monetary policy. The move towards a single central bank requires, in particular, harmonisation of legal and operational frameworks (through the Regional Legal Sub-committee) that will allow the adoption of principles which will facilitate the operational independence of central banks in member states. The Regional Legal Sub-committee is therefore working on the adoption of clear standards of accountability and transparency, and development of a Model Central Bank Statute (See Appendix 3)

Other measures

Central banks will also play a major role in promoting cooperation and integration by looking at the following areas:

- Ensuring there is adequate flow of credit to the private sector through policies that provide a platform for incentives to extend such credit.
- Elimination of direct controls on bank lending.
- Using indirect instruments of monetary control.
- Deregulation of interest rates.
- Enhancing banking business and banking relations.

Public finance management

Apart from the well-defined functions of central banks that we have discussed above, central banks are also expected to contribute significantly to regional integration by assisting their national governments to formulate, implement and maintain prudent fiscal policies that avoid monetisation of large and unsustainable fiscal deficits. Again, we note from Table 2 that some countries are struggling with large fiscal deficits which have led to a build up in debt.

Available data indicates that one country in the region, namely Zimbabwe, is in a situation where fiscal deficits have become unmanageable. It is unlikely that the government will balance the budget in a non-inflationary way in the near future. It is also doubtful if government is able to raise enough revenue through taxes to finance its operations. As such, it is highly probable that the government is funding its operations through borrowing from the central bank.

Status of Macroeconomic Convergence

The SADC Central Bank Governors' annual report of 2005/2006 notes that significant progress has been achieved on the road towards regional monetary and financial integration in SADC. However, the current structures within SADC do not allow monetary integration to be a viable goal in the foreseeable future. A glance at the progress so far shows divergence in performance among member states in relation to targets and guidelines agreed in the SADC Macroeconomic Convergence Programme (SMCP). This development indicates that at both regional and individual member country level, there is a need for more work to be done to achieve the intended goals.

Table 2 below shows the overall picture of SADC countries' performance. It is evident that SADC member states have made some progress towards reducing public debt to less than 60% of GDP, reducing the budget deficit to less than 5% of GDP, reducing the current account deficit to less than 9% of GDP and increasing the level of foreign reserves to at least three months import cover. Conversely, the number of SADC countries that did not meet the inflation criteria increased in 2006, while the number of countries that did not meet the growth criteria remained unchanged over the same period.

Economic growth

As can be observed from Table 2 , most SADC countries are still lagging behind in terms of economic growth. One way to generate high levels of economic growth is to allow more re-

Table 2: Status of macroeconomic convergence in 2005 and 2006

Country	Inflation Rate		Budget Deficit (-) / Surplus (+) as percentage of GDP		Public Debt as percentage of GDP		Current Account as percentage of GDP		Real Growth Rate		Import cover for gross reserves (months)	
	2005	2006	2005	2006	2005	2005	2006	2006	2005	2006	2005	2006
Angola	**18.5**	**12.2**	7.3	–3.4	31.9	19.2	15.7	16.4	20.6	18.6	4.6	11.8
Botswana	8.6	**11.6**	1.2	8.1	4.4	Na	15.7	20.9	9.2	**–0.9**	26.5	30.0
DRC	**21.3**	**18.2**	–1.2	–0.7	3.3	2.6	–4.4	–7.5	**6.5**	**5.1**	**0.6**	**0.6**
Lesotho	3.4	6.0	2.8	13.3	50.3	49.9	–2.2	1.8	**3.0**	7.2	5.8	6.7
Madagascar	**18.4**	**10.8**	–4.3	37.5	**87.3**	29.3	**–10.9**	–8.8	**4.6**	**4.9**	**2.9**	3.0
Malawi	**15.4**	**13.9**	–0.8	–0.7	**119.0**	26.3	**–26.8**	**–14.0**	**2.3**	7.90	3.1	3.0
Mauritius	4.9	8.9	**–5.3**	–4.3	**65.9**	**61.0**	–5.2	**–9.5**	**2.3**	**5.0**	6.7	8.2
Mozambique*	6.4(	**13.3**	–2.4	–1.1	**73.9**	52.8	**–11.5**	**–9.3**	8.4	**6.3**	4.6	4.4
Namibia	2.3	5.1	–1.1	2.1	32.1	31.4	6.9	**18.3**	**4.2**	**4.6**	**1.3**	**1.9**
South Africa	3.4	4.7	–0.4	0.6	33.4	29.3	–4.1	–6.5	**5.1**	**5.0**	**2.8**	3.0
Swaziland	4.8	5.3	–1.8	–2.1	16.9	17.9	7.2	8.1	**2.3**	**2.8**	**1.8**	**2.9**
Tanzania	5.0	7.3	**–5.5**	–4.8	**68.3**	**63.5**	–7.7	**–12.2**	**6.7**	**6.2**	5.8	5.3
Zambia	**18.3**	9.1	–2.6	–2.8	**64.5**	25.8	**–11.8**	–1.4	**5.2**	**5.8**	**1.5**	**2.2**
Zimbabwe	**585.8**	**1281.1**	–3.5	**–5.5**	**162.5**	78.3	**–12.0**	–5.5	**–4.0**	**–1.8**	n.a.	n.a.
Average excluding Zimbabwe	10.1	9.7	–1.1	3.2	49.6	34.1	–3.0	–0.3	6.2	6.0	n.a.	n.a.
Average all SADC	51.2	100.5	–1.3	2.6	57.6	37.5	–3.7	–0.7	5.5	5.5	5.2	6.4

Note: The SADC members that did not achieve the relevant convergence target in 2005 and 2006 are highlighted in bold.

Sources: SADC central banks

sources to be invested in productive economic activities. In this regard a regional capital market would go a long way towards mobilising resources for investment. Countries can also carry out policy reforms that will allow more resource mobilisation, by opening up to trade, and also through technological innovation. In addition, countries with low and stable inflation and flexible exchange rates can achieve high levels of growth. Regional integration surely aims at achieving this. Countries can also grow by allowing foreign capital into the country especially foreign direct investment into productive sectors.

Macroeconomic management

In general, prudent macroeconomic management has been the main driving force behind the success of most SADC countries. While not all countries have performed to the required standards, it evident from Table 2 that in countries where macroeconomic management has been poor, economic performance has been highly compromised. Proper macroeconomic management brings about credibility which creates confidence in the public, and this is crucial in anchoring inflation expectations.

Challenges to achieving regional cooperation and integration

A major challenge is that SADC is a group of heterogeneous countries which have different political and cultural backgrounds and are at different stages of development. The bloc includes some rapidly growing economies, a number of emerging market economies and some poor developing economies. As a result of this diversity, economic integration in SADC – in trade, finance, and monetary terms – has to take on the characteristics of vertical integration, as opposed to the EU type of integration for example, where the similarity of the members has led to horizontal unification. Ideally, the region should attract direct foreign investment as opposed to portfolio investment which tends to be speculative in nature. It is still uncertain whether this can be achieved.

Secondly, regional integration presents some challenges and poses some risks. The ever closer regional integration and the surge in capital mobility have rendered the regional financial system more exposed to changes in investor sentiment.

Furthermore, regional trade and financial links might intensify the transmission of shocks from one country to another and amplify cross-border spill-over. We should not forget that, a few years ago, a number of financial crises posed a major threat to the international financial system, including the Asian crisis in 1997 and the Russian crisis in 1998. Although each of these crises was different and the international community managed to resolve them successfully, each crisis illustrated the need for adequate investment in institutions and human capital to strengthen economic governance. These crises illustrate the vulnerability of the regional economic and financial systems and remind us of the importance of being alert and avoiding complacency.

The other issue worth reflecting upon is about the economic and financial links between the SADC and the rest of the world. It can be argued that integration within SADC is taking place at the same time that SADC is also integrating with the global economy. In trade terms, for example, SADC is very open *vis-à-vis* the rest of the world. Particularly noteworthy for SADC is that the increase in trade with the rest of the world has been greater than the increase in intra-regional trade in SADC. What is even more remarkable is that SADC is increasingly becoming more financially open.

Is monetary convergence viable by 2016?

While monetary convergence is desirable, achieving it by 2016 seems unrealistic due to a number of factors. Firstly, most central banks have not attained operational independence. As such, monetary policy is very often undermined by fiscal excesses. Moving to a single monetary union therefore remains a political decision. Second, as alluded to above, it is generally recognised that SADC economies are characterised by significant exchange control divergences in terms of currency convertibility and exchange control liberalisation. This poses a great challenge to monetary authorities and will certainly act as a hindrance to achieving monetary convergence. Third, as discussed earlier, most performance targets are still a challenge to a number of countries in the region. Recent external shocks (rising oil prices for example) make it even harder to move toward achieving those targets. We conclude therefore that monetary convergence by 2016 is not achievable.

Policy recommendations

We conclude by making the following observations and recommendations. Integration is a process through which a country's financial markets become close to those of other countries. Regional integration is a political process and its success hinges on the political will of member countries. As such, it is vital that each member country should ensure there is considerable political will and support in these matters. It remains with member states to convince their governments that regional integration is a political process but with economic benefits

Regional cooperation and integration entails creating a single financial area in which all monetary and financial instruments circulate freely and services such as banking, securities and insurance are offered freely. In this respect, member countries should harmonise their trade policies and exchange control policies and double their efforts to meet the agreed performance targets, e.g., macroeconomic convergence criteria.

Although regional integration is a political process and does not fall directly under the realm of the central banks, a programme of macroeconomic convergence requires a clear perception of the appropriate target variables. There is no doubt therefore that central banks can contribute to the integration process in SADC as their main domain in monetary and financial policies affects these targets.

Throughout this paper, it has been argued that macroeconomic stability is key to macroeconomic convergence. Central bank credibility is essential for anchoring inflation expectations and for forming a solid base for monetary and financial stability in a global economy in which uncertainty and risks cannot be ignored. It is therefore crucial to deepen and strengthen regional financial governance. The unification of principles and concepts of prudential supervision and regulation will go a long way in achieving this objective.

Areas for further research

The region is still facing several challenges in terms of the timeliness and accuracy of published macroeconomic data. This poses a major challenge to research on key policy issues affecting the region. This notwithstanding, urgent research would be necessary to explore appropriate exchange rate mechanisms for the region. This is important because of differences in resource endowments among countries, differences in levels of development and possibly conflicting political aspirations. Like any other good system, monetary unions are never established without difficulty, and face continued challenges as evidenced by the experience of countries in Europe.

Appendices

Appendix 1: SADC convergence criteria *vis-à-vis* Malawi performance

Most SADC countries have made some progress towards the agreed targets. Member countries' central banks are responsible for coordinating the country's economic policies in conjunction with other stakeholders to ensure that inflation rates, budget deficit ratios, public debt ratios, external balances especially the current account, output growth, domestic revenue collection, exchange rates and interest rates converge towards the acceptable standards.

We briefly outline the status for Malawi in terms of how it has performed since 2004. Like many other SADC countries, despite having to deal with a variety of problems, Malawi has made good progress in improving efficiency of the financial system. The following so far are notable achievements.

- In the banking system, direct monetary instruments in the form of individual bank credit ceilings and selective credit controls have been phased out.
- Indirect monetary instruments such as open market operations (OMO), changes in liquidity requirements and standing discount facilities are now used.
- Administered interest rates have been phased out and replaced with market based mechanisms.
- Financial markets are also be gauged by the presence of active primary and secondary markets for public debt instruments, an inter-bank money market and stock exchange.
- Malawi has a fairly active primary markets for government and central bank securities with weekly auctions and/or tap sales between auctions. The secondary market is still in its development stage.
- In addition, the creation of capital markets in Malawi has enhanced competition in the banking industry and stimulated disintermediation and securitisation.

However, as noted by Chirwa and Mlachira (2004) comparative advantages of domestic firms on national markets for bonds[4] and equity in the fields of underwriting and trading activities still remains a challenge since there is no single currency in the SADC region. It is notable however, that national deregulation and entry of new competitors has boosted competition between banks in Malawi.

Table 3: Malawi performance relative to SADC Convergence criteria

Indicator	SADC convergence criteria by 2010	December 2005	December 2006	September 2007
Annual inflation rate	≤5% or at least single digit	15.4	13.9	7.7
Budget deficit/GDP (including grants)	-3% ≤ 3%	2.8	–0.8	–0.9
Budget deficit/GDP (excluding grants)	< 5	8.0	–0.10	–0.18
Central bank financing of budget	Towards 0%	39.9	26.3	7.7
External reserves	>3 months import	2.1	3.0	3.1

Source: Article 11 (SADC macroeconomic convergence)

As can be observed from Table 3, Malawi has so far done well in bringing down inflation, the budget deficit and external reserves. However, there is need to improve in central bank financing of the budget. The central bank has to continue pursuing its efforts to reduce the rate of inflation to attain a desirable level of less than 5%. Although the external reserve of 3.1 months of import cover is within the comfort zone, Malawi would do much better with an improved position of import cover. While Malawi seems to be on the right track on the primary criteria, the secondary criteria needs more effort if the targets are to be met and in time.

Appendix 2: The transformation of payment systems in Malawi

Introduction

A well-developed and sound payment system is a pre-requisite for an effective monetary policy operation and the attainment of financial stability. Malawi began transforming her national payment system (NPS) in 1993 through the National Payments Council (NPC). The NPC, which is chaired by the Reserve Bank of Malawi (RBM), is a grouping of financial institutions, the Malawi Government (Accountant General's Department), and some service providers like Malawi Telecommunication Ltd. At the regional level, the modernization initiative is coordinated by the SADC Committee of Central Bank Governors through the Payment System Project Team.

In 2001, RBM, NPC, and Bankers Association of Malawi (BAM) endorsed the 'Malawi National Payment Systems Vision and Strategy Framework'. This is the blueprint upon which all payment systems reform projects were implemented.

Successes

Through the coordinated efforts of the NPC, Malawi made tremendous progress in modernizing her NPS. The systems currently in place include the following:

- A country-wide proprietary network and a transaction switch (Malawi Switch Centre or MALSWITCH in short). Through MALSWITCH, Malawi has managed to link all commercial banks and discount houses onto a common network platform providing a number of electronic based payment, clearing and settlement facilities.
- The RTGS system which was commissioned in 2002. Malawi was the third country in SADC to introduce an RTGS system after South Africa and Mauritius.

- The Electronic Cheque Clearing House (ECCH) which uses code line and is based on imaging and truncation
- The electronic bidding system
- The smart card scheme
- The Credit Ceiling Authority system and the Central Payment System for managing Government funding requirements.

These facilities have eliminated settlement lags, improved commercial banks' liquidity monitoring capabilities, and increased circulation of funds thereby enabling the RBM to mitigate systemic risk.

Challenges

The above success was realised amidst the following:

- *Weak legal framework:* There is no specific legislation that governs the operations of the NPS in Malawi. In the absence of the NPS Act, participants use legal agreements. The agreements have however never been tested in a court of law to ascertain their legal validity.
- *Unreliable power supply:* Malawi experiences frequent power outages which disrupt the operations of the systems.
- *Poor telecommunication infrastructure:* In order to achieve wide usage of the systems, network has to be available to the rural sector so that banking services are provided to the un-banked rural population.
- *Interoperability:* Most systems are stand alone.
- *Skills availability:* After implementing the systems, specialised skills are required to oversee the operations of the new systems and adequately manage NPS related risks.
- *Pricing of products:* Electronic instruments have a cost associated with their acquisition and/or usage. This does not compare favorably with cash which, from the general public point of view, is costless.

Regional Activities

Malawi is an active member of the SADC Payment Systems Project. Last year, Malawi also participated in the technical evaluation of the Regional Payment and Settlement System (REPSS) for COMESA. The systems available will make Malawi to be easily integrated in any regional payment system.

Conclusion

Malawi has made good progress in modernizing her NPS. There is however need to have a sound legal framework to support the operations of the modern NPS.

Appendix 3: Model central bank legislation for Southern African Development Community (SADC) countries

The SADC Model Bill embodies key principles which will facilitate the creation of a coherent

and convergent status in the legal and operational frameworks of SADC central banks; promote the adoption of principles which will facilitate the operational independence of SADC central banks; and create clear standards of accountability and transparency. These key principles are also essential for the achievement of harmonised legislation for the SADC central banks.

However, the Model Bill does not contain all the details that may be found in the central bank acts of the individual countries. SADC countries apply either the English common law or the Dutch-Roman civil law. A major challenge experienced in the preparation of the Bill was to blend the diverse provisions of these two jurisdictions, i.e., common law and civil jurisdictions. Therefore, it was recommended that as and where appropriate, a central bank may modify this Bill, depending on the jurisdiction and needs of the particular country, without deviating much from the provisions of the Model Law.

The Model Law was prepared by the Steering Committee for Legal and Regulatory Frameworks of SADC central banks. As at 31st' August 2007, the Model Law was with a professional legislative draftsperson for input prior to its submission to SADC central bank Governors for consideration and approval. Thereafter the Model Law would be forwarded to SADC Ministers responsible for finance for adoption before each SADC member state would enact it into respective national laws. Meanwhile, the Steering Committee has been instructed to embark on drafting the law for a regional SADC central bank.

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Notes

1. The views expressed in this paper are those of the author and do not reflect the official position of the Reserve Bank of Malawi.
2. The specific convergence criteria are shown in Table 1
3. Refer to Table 1 for the indicators
4. Although bonds are not clearly defined in Malawi.

The Role of Development Finance Institutions in Promoting Regional Cooperation and Integration

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The Regional Indicative Strategic Development Plan (RISDP) is the SADC road map for the achievement of sustainable economic development, employment creation and poverty reduction. The attainment of these critical goals is largely dependant on effective regional integration initiatives with trade at the core. The RISDP also recognises the need for sufficient financial resources if the region is to attain the envisaged socio-economic goals. In this regard, the RISDP has identified development finance institutions (DFIs), through the SADC DFI Network, as crucial for mobilisation of:

> ...long-term capital for development projects to stimulate industrial development, promote entrepreneurship and private sector development, capital market development and trade finance.[1]

This recognition, as the trend elsewhere in developing countries, reaffirms the role of DFIs as critical instruments for the implementation of development and poverty eradication strategies. The relevance of DFIs had previously come under severe scrutiny, particularly by multilateral development banks (MDBs) like the World Bank that previously had been instrumental in their establishment as retailers of development resources.

In the 1970s, developing economies, southern Africa included, heralded national DFIs as vehicles for development. Specifically, they were viewed as sources of much-needed long term finance and conduits for channeling resources from donors, MDBs, and in the most recent past, private investors, into developing countries. The early 1990s, however, coming on the heels of the debt crisis in the 1980s, saw the popularity of DFIs wane as they became illiquid and financially distressed.

Regional development and integration initiatives, including SADC, have seen DFIs repositioned and assuming an increasingly more prominent role. This has been underscored at various fora such as the UNDESA[2] sponsored Monterrey Consensus[3] and more recently the UNDESA – Association of African Development Finance Institutions (AADFI) Africa Roundtable on 'Rethinking the Role of National Development Banks' held in Johannesburg, South Africa in November 2006.[4]

At the SADC regional level, the emerging development finance system of the SADC DFI Network, the SADC-DFRC and the SADC Development Fund, the latter still to be established, provides a platform for cooperation and a viable framework for SADC DFIs to support the development and integration goals of the region. The system has its origins in the recommendations of the Mistry and van Niekerk (1998) Development Finance Study report of 1998. Further, the adoption of the SADC Finance and Investment Protocol (FIP) by SADC Heads of State in August 2007 in Lusaka, Zambia, and its subsequent ratification by member states, provides SADC DFIs with the enabling legal framework within which to cooperate and pursue their development mandate.

The object of this paper is to look at the role of DFIs within the ambit of the RISDP. In this regard, this chapter will address a number of areas which include a background to the establishment of DFIs; characteristics of SADC DFIs; their key role in the development and integration agenda under RISDP; challenges, including policy issues, faced by DFIs in executing

their mandate; the emerging SADC development finance system as an effective framework for enhancing the effectiveness of DFIs in development and integration; and recommendations on policy and research to further improve the regulatory, supervisory and operational environment for DFIs.

A critical analysis, however, particularly on the socio-economic impact of SADC DFIs in such areas as employment creation and poverty eradication is rendered difficult due to the paucity of consolidated data, research or case studies at regional level. This is an area that the SADC DFI Network, through the DFRC, and with the cooperation of strategic partners and stakeholders, is actively pursuing through case studies and policy research projects. However, where available, data on network members will be used.

Background to SADC DFIs

The emergence of DFIs

The establishment of the multilateral development bank, the International Bank for Resettlement and Development (IBRD), commonly known as the World Bank, saw the emergence of national DFIs in developing economies, particularly in the 1970s. The primary function of the DFIs was to intermediate development finance from the World Bank, other multilateral development banks (MDBs) and donor sources for investment in projects under various government-led sustainable growth and poverty alleviation initiatives.

Through its private investment arm, the International Finance Corporation (IFC), the World Bank was instrumental in the establishment of national DFIs in Africa and other regions. While the IFC took shareholding in the DFIs, together with donor organisations from developed countries, the World Bank mostly provided lines of credit for projects.

Most projects funded by African DFIs in the 1980s were mainly promoted by governments in line with announced development plans. As a result, over 90% of DFIs in Africa, were owned entirely by governments. As demonstrated later in the report, this became a source of problems for the financial viability of DFIs over time.

It is only in the 1990s that foreign private sector sources of finance, through such instruments as public-private partnerships (PPPs) and private provision of infrastructure (PPI), became prominent on the books of African DFIs. Similar patterns were also observed in other developing regions in Asia and Latin America.

As retailers and crucial conduits, especially for foreign development finance funds, liabilities of national DFIs were thus dominated by foreign funds. This underscored the paucity of capital from local sources and limited reliance on government equity and budgetary subventions. The unavailability of development funds in the domestic economies also highlights low savings levels and undeveloped financial systems.

In accordance with the classification by the International Monetary Fund's (IMF) International Finance Statistics, only the financial systems of South Africa and Mauritius are at the advanced stage of development while the majority (9) of the 14 SADC countries is at intermediate level. At primary level are post-conflict countries, namely the Democratic Republic of the Congo (DRC), Mozambique and Madagascar. Table 1 below shows the classification of SADC member state financial systems.

Not only are financial systems nascent in most African countries, but very few have active stock exchanges. In SADC, the largest and most active stock exchange is that of the South African

Table 1: Classification of financial systems

Advanced	Intermediate	Primary
South Africa	Angola, Botswana, Lesotho	DRC
Mauritius	Malawi, Namibia, Swaziland	Madagascar
	Tanzania, Zambia and Zimbabwe	Mozambique

Source: IMF International Finance Statistics

Johannesburg Stock Exchange. Other active exchanges are in Zimbabwe and Mauritius. According to the Economic Commission for Africa (ECA)[5] report, total capitalisation of the three major stock exchanges in Africa – South Africa, Morocco and Egypt – stood at US$244 billion in 2000 or 88% of the total for the continent.

The gaps in the financial systems have persisted notwithstanding financial reforms (albeit to varying degrees) that governments have embarked on since the early 1990s mostly as an integral part of IMF- and World Bank-led economic structural adjustment programmes (ESAPs). Unavailability of long-term finance has restricted resources to such key sectors as infrastructure services provision – energy, transport, dams and water and telecommunication – small and medium enterprises (SMEs) and agriculture.

Given the wide-ranging socio-economic benefits that African economies would derive from investments in these key areas, government intervention through the establishment of DFIs became an imperative. The market gaps that governments sought to rectify were seen as transitional, and as such DFIs were not viewed as a permanent feature of the financial landscape. Thus, over time, as financial systems evolved and as the gaps were closed, DFIs would be expected to transform and assume commercial, investment or universal banking activities.

Disenchantment with DFIs

By the mid-1980s, DFIs had lost currency and their relevance began to be questioned by the MDBs and donor institutions. These sentiments came on the back of the debt crisis but more fundamentally, they were fanned by the poor and deteriorating financial performance of DFIs, reflected by huge non-performing portfolios and in the case of some, virtual insolvency.

A number of reasons account for the poor performance by African DFIs and the following are often cited:

- *Poor Governance:* As shareholders, governments, through the supervising ministries, were generally responsible for the appointment of boards and management. These were not necessarily the best available to do the job and had not much say against political interference.

- *Impact of ESAPs :* The ESAPs that governments were implementing to gear economies for globalisation impacted negatively on DFIs on various fronts. The general shrinkage of the economies as a direct result of higher import costs (due to devaluations), higher borrowing interest rates (domestic) on loans and increased competition from cheaper imports, impacted adversely on the portfolios of the DFIs. Faced with high debt costs and competition, the DFIs' clients and borrowers failed to service debt, which was largely foreign.

- *Political interference:* Interference by governments was manifested in the direction of credit towards projects that, though yielding significant social benefits, were not financially viable and were not commercially sustainable.

- *Exchange risk exposure:* The realignment of local currencies under ESAPs which often

led to devaluations resulted in severe foreign exchange losses by DFI clients who had borrowed from their predominantly foreign-funded lines of credit. This proved to be their undoing as borrowers failed to repay.

- *Declining resources from MDBs and donors:* As a result of the poor financial performance by DFIs, MDBs cut their lines of credit while official donors also withdrew their support. These trends, coupled with reduced government subventions mention later on as part of ESAPs , saw resources to DFIs dry up.
- *Lack of effective supervision:* Government ministries presiding over different DFIs did not exercise due supervision over them. In addition, the acts under which most of them were established contained little or no financial prudential guidelines to guide the DFIs. This contrasts with banks which are supervised by central banks which, in line with banking services acts, are bound by prudential requirements in their operations which include the observance of capital adequacy and liquidity ratios.
- *Poor fiscal performance:* Fiscal restraint accompanying most ESAPs , which included reduced subsidies and subventions to public enterprises among its measures, was not at all compatible with increased financial support for DFIs. Governments could not be seen to support insolvent institutions. Thus, the fiscus ceased to be a source of low-cost funds for DFIs.

The combined effect of these factors was financially distressed DFIs with few options for funding. To restore viability, the DFIs had to undergo financial reparations and protracted restructuring processes. In some cases, this meant a change in the development mandate towards commercial banking. Some DFIs just closed down.

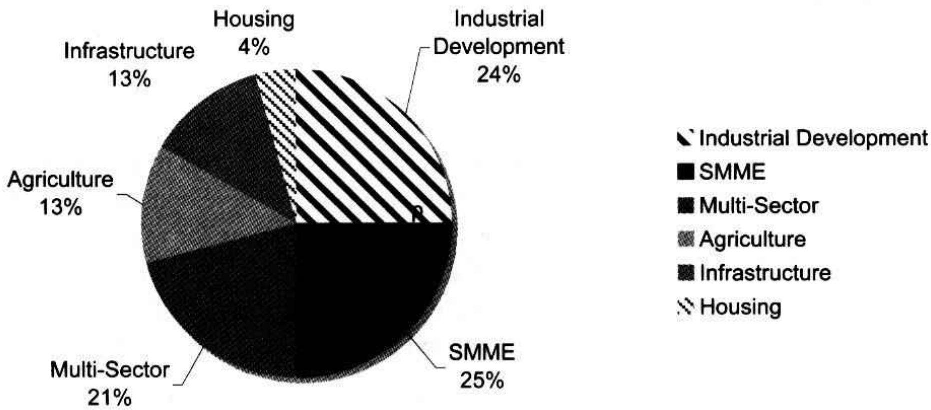
SADC DFIs

About 40 national DFIs exist in the SADC region according to the Development Finance Study by Mistry and van Niekerk (1998). Seventy per cent of the 36 DFIs for which data was available are wholly state-owned while 14 are corporate entities. By sector, the DFIs are classified as follows: industrial development (8), agriculture (7), SME development (6), housing (2), infrastructure (1) and multisectoral (9).

The SADC DFI Network which has a membership of 24 national DFIs displays similar traits. Nineteen of the member DFIs are state-owned while the remainder are partnerships between government and private investors. In terms of predominant activities, 6 DFIs are in the SME sector, 6 in industrial development, 5 in multi-sectors, 3 in infrastructure, 2 in agriculture and one in housing (See Figure 1 below). Of the 24, three are deposit taking. Annex 1 shows the ownership structures and activities of the DFI Network members.

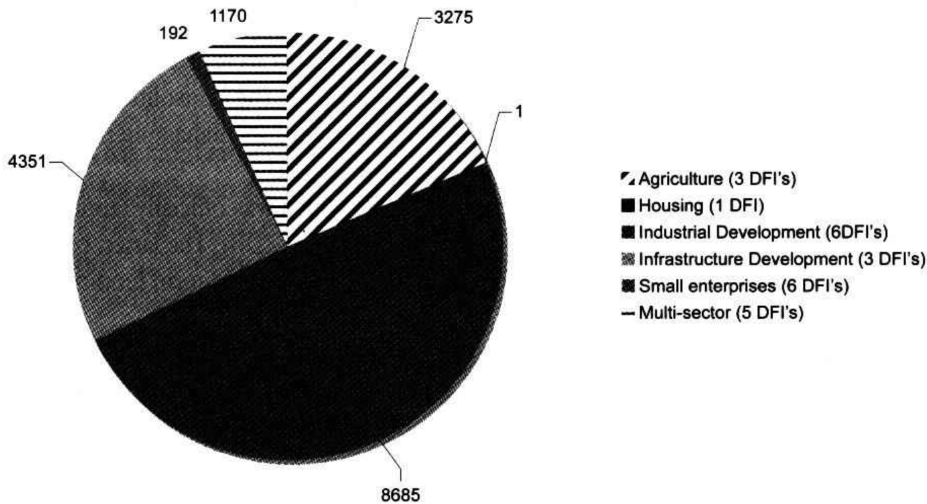
Total Network DFI assets in 2006 amounted to $17.7 billion[6] with the largest, the Industrial Development Corporation (IDC) (South Africa), at just over $8 billion and the Basotho Enterprise Development Corporation (BEDCO) (Lesotho) with about $5 million, at the lower end. Of the total, largely reflecting the share of IDC (SA), industrial development DFIs dominate with a share of 49% ($8.7 billion), followed by infrastructure with 25% ($4.4 billion) and agriculture at 19% ($3.3 billion). Again, reflecting the dominance of the South African DFIs, the Development Bank of South Africa (DBSA) and the Land Bank account for the bulk of the shares of infrastructure and agriculture, respectively. (See Figure 2 below).[7]

Figure 1: Network DFIS by sector



Source: SADC-DFRC

Figure 2: DFI total assets by sector for 2006 (US$B)



Source: DFRC

As mentioned earlier, most DFIs faced financial distress in the 1990s, resulting in a significant reduction in available financing resources, particularly from MDBs that had switched their attention to quick-disbursing short-term structural adjustment loans in support of economic reforms. SADC DFIs were no exception.

Consequently, DFIs had to undergo financial restructuring to see them return to viability. Different approaches were taken by SADC governments and DFIs. These generally involved a combination of the following actions:

- *Portfolio restructuring:* This involved the scaling down of lending activities and suspension of all new projects. Some governments opted to convert their loans to equity or preferential shares so as to facilitate the ring-fencing of the bad book which was subsequently hived off the balance sheets of the DFIs.
- *Continued government subventions:* Some DFIs, while undertaking some of the

above measures for sustainability, continued to receive direct budgetary support from governments. But due to fiscal constraints, in some cases these fell short of funding requirements. This has been observed in the case of DFIs that are predominantly in the SMEs and rural agriculture sector.

- *Diversification of activities:* Some DFIs switched to commercial banking, placing them under the banking act and the direct supervision of central banks. This trend, however, has tended to exacerbate the availability of long-term finance for developmental projects as the DFIs concerned focused increasingly on short-term lending for working capital purposes and consumer loans. A number of the SADC DFIs have gone the commercial bank route. Among these are the Agricultural Bank of Zimbabwe (Agribank), Tanzania Investment Bank (TIB) and Swaziland Savings and Development Bank (Swazibank).
- *Closure and new DFIs:* Some SADC governments opted to close non-performing DFIs altogether or alternatively to restructure and strengthen them and reassign them new mandates. This trend has been observed in such countries as Namibia, Zimbabwe and, more recently in Malawi. In the case of Tanzania, this did not entail closure but a resuscitation of the development finance system with TIB at the core.

The Development Bank of Namibia (DBN) was established in 2004 to replace the Namibian Development Corporation (NDC). The setting up of DBN also saw the consolidation of the Development Fund of Namibia, set up to cater for SME needs under its management. DBN is also responsible for managing the book of NDC outside its own book.

The Infrastructure Development Bank of Zimbabwe (IDBZ) which was officially launched in August 2005 was set up to replace the Zimbabwe Development Bank (ZDB). The latter, contrary to its mandate, had transformed its book and increasingly undertook short-term lending, thus competing directly with commercial banks.

In 2007, the Government of Malawi announced its decision to liquidate the Malawi Development Corporation (MDC) and replace it with a new institution, the Development Bank of Malawi (DBM). The former had been struggling under the burden of a non-performing portfolio.

Angola and Madagascar embarked on projects to establish new development banks. In March 2006 the Angolan Development Bank (BDA) was established building on previous development finance structures which operated under various government ministries. Madagascar is still to establish its DFI.

The restructuring of SADC DFIs, while in some cases still ongoing, has met with varying degrees of success. The DFI Network provides the framework for the successful DFIs, among them the IDC and DBSA of South Africa, to share experiences and best practices with those that are still to transform into effective development institutions. Despite this, DFIs still confront a number of challenges.

SADC DFIs and regional integration

As observed earlier, the SADC RISDP provides the framework for regional integration primarily through enhanced trade facilitation, both intra- and extra-regional. Further, it also recognises the need for investment to boost the productive capacities of SADC economies so as to address the supply side of the equation in order to effectively underpin sustainable economic growth. In this respect, DFIs are crucial to regional integration and development in SADC.

DFI activities are directed at addressing constraints to supply – production of goods and services – in support of trade. Thus, their activities focus on mobilisation of long-term resources for investment in key sectors, among them infrastructure services provision, SME development, industrial development, housing and agriculture.

Development finance mobilisation

Since the 1980s, SADC governments have been undertaking financial sector reforms but, this notwithstanding, gaps for long-term finance, especially for crucial investment in infrastructure and SMEs, still persist in most SADC countries. SADC DFIs fill in this economic space.

As mentioned earlier, the financing gaps are attributed mainly to the undeveloped nature of financial systems and generally shallow capital markets which constrain the capacity of SADC economies to generate savings. Consequently, domestic savings levels remain low and well below investment requirements. Thus, at 19% on average, the savings to GDP ratio for SADC countries is quite low when compared to Asian countries with rates in excess of 25%. (See Table 3 below)

The situation is compounded by reduced capital flows from official donors and from MDBs to developing countries, especially Africa which has always had the least flows. In the case of the MDBs, resources were redirected towards structural adjustment programmes. At the same time, however, flows from the private sector increased significantly and more than compensated the fall in MDBs flows and official development assistance (ODA).

Africa has fared most poorly in attracting foreign capital when compared to other developing regions. According to the UNCTAD *Economic Development in Africa Report (2005)*, developing countries as a group received 30.7% of total world FDI flows, with Africa accounting for the least flows, only 2.7% when compared to the Asia and the Pacific region (19.2%) and Latin America and the Caribbean region (8.9%).

Table 2: FDI flows to developing countries

	PERIOD AVERAGE				
Country Group Shares (% of World)	**1970–1979**	**1980–1989**	**1990–1999**	**2000–2003**	**2003**
Developing Countries	25.3	22.7	30.4	24.8	30.7
Africa	4.4	2.3	1.5	1.8	2.7
North Africa	0.7	0.9	0.5	0.5	0.8
Sub-Saharan Africa	3.8	1.4	1.1	1.4	1.9
SSA excluding South Africa	3.4	1.3	0.9	1.1	1.8
Latin America and Carribean	13.6	7.9	11.1	8.6	8.9
Asia and the Pacific	7.4	12.5	17.7	14.3	19.2

Source: UNCTAD[8]

Sub-Saharan Africa received 1.9% of the world flows. Excluding South Africa, the region received 1.8% of the global flows. The report also observes that, not only has Africa experienced the lowest flows of FDI, but also that its share, both at regional and global level, has been on the decline for the past three decades.

These trends underscore the need for SADC to increase recourse to domestic resources by putting in place the necessary policy and regulatory frameworks to promote the development of capital markets and enhance domestic savings levels in the region.

Development finance needs

In view of low domestic savings and declining foreign direct investment, the primary role of SADC DFIs is one of mobilising and investing resources to underpin sustainable development and thus accelerate regional integration.

The United Nations Economic Commission for Africa (UNECA) estimates development finance requirements for SADC at 6.4% of GDP. To achieve a GDP growth rate of 6.2% annually in line with the Millennium Development Goals[9], an investment to GDP rate of 37.8% is needed. Given a savings ratio of 19.6% and foreign flows of 30.0% of GDP, SADC will need to mobilise an additional 6.4% of GDP – the financing gap (see Table 4 below). Taken as a whole, the gap for Sub Saharan Africa is even higher at 9.2%.

Table 3: Development Finance Needs

Variable (Per Annum)	SADC	SSA
Required GDP Growth Rate (%)	6.2	6.8
Incremental Capital/Output Ratio (ICOR)	6.1	5.0
Domestic Savings Ratio (%)	19.6	14.9
Required Investment/GDP Rate (%)	37.8	33.0
Required External Finance (% of GDP)	18.2	18.1
Current ODA Flows (% of GDP)	11.8	8.9
Deficit/ Residual Finance (% of GDP)	6.4	9.2

Source: UNECA[10]; SSA = Sub-Saharan Africa.

Recognising the significant importance of savings and investment, SADC under its macroeconomic convergence programme targets gross domestic savings to GDP ratios of 25% (2008), 30% (2012) and 35% (2018). A gross domestic investment to GDP ratio of at least 30% for the period 2008 – 2018 is targeted.

To close the finance gap identified above, investment will be required in such critical areas as infrastructure services delivery, coupled with private sector development, especially through small and medium enterprises, and these constitute a greater part of the mandate of DFIs.

DFIs and private sector development

The RISDP recognises the need to integrate the private sector in policy and strategy formulation and programme implementation. DFIs play a critical role in promoting private investment growth not only through the provision of long-term finance but also the provision of the requisite business support services. A vibrant private sector, supported by an efficient economic infrastructure system, underpins regional trade by addressing supply side constraints by ensuring cost effective availability of quality goods and services.

The RISDP particularly places emphasis on the importance of the SME sector in fostering private sector development and activities. SMEs account for more than 50% of SADC economies but in spite of this they have continued to face problems of access to finance, especially long-term project finance. As a result, the full potential of the sector as a major employer and means of livelihood for a significant proportion of SADC's population has not been fully exploited. This is largely attributable to the perception by commercial banks of the SME sector as risky. Consequently, commercial banks have tended to lend at the short end of the credit market (usually not exceeding 3 years) especially for working capital purposes. DFIs fill in the long-term funding gap (5 to 7 years) directly through loans and through credit guarantees, among other

instruments at their disposal. However, as explained later in the report, funds available to DFIs for this purpose are inadequate.

The RISDP recognises infrastructure provision as critical for the SADC development and integration agenda. Studies sponsored by the World Bank amply demonstrate the strong correlation between infrastructure services provision and the attainment of the MDGs. However, investment in infrastructure in Africa and in SADC in particular, has lagged behind other developing regions and is well below essential levels for the achievement of sustainable economic growth.

According to UNCTAD,[11] low income countries need gross investment in infrastructure of 7.5% to 9% of GDP. When compared to actual investment levels of 4% of GDP, this leads to a deficit of about 5% of GDP. These statistics are by and large representative of most SADC economies.

The low levels of infrastructure investment are a reflection of inadequate maintenance and underinvestment largely as a result of a switch by ODA to social sectors coupled with reduced direct budgetary funding or reduced 'fiscal space'. According to the UNCTAD report, between 1980 and 1998, infrastructure funding as a percentage of total budget expenditure declined from 6% to 4% for Africa; from 12% to 5% for Asia and from 11% to 6% for Latin America.

Investment in economic infrastructure, especially regional infrastructure such as transport corridors, telecommunications systems and energy pools, is critical to enhanced competitiveness of the private sector through reduced costs of doing business and increased trade opportunities. In this respect, it facilitates regional integration. Poor roads and port facilities and unreliable internal transport systems have resulted in high business costs in SADC, especially for landlocked countries.

Therefore, by providing infrastructure through DFIs, SADC governments address supply-side constraints and pave the way for regional integration, and, through the resultant trade, the achievement of the regional goals of a Free Trade Area in 2008 and a Customs Area in 2010.

In Africa, however, governments remain the major source of infrastructure finance with private participation in infrastructure (PPI) taking up well below the global average of 20-25%. SADC governments directly and through DFIs need to promote private sector participation in infrastructure by ensuring that a conducive investment and policy and regulatory environment exists. This is an imperative in view of the declining ODA to the sector.

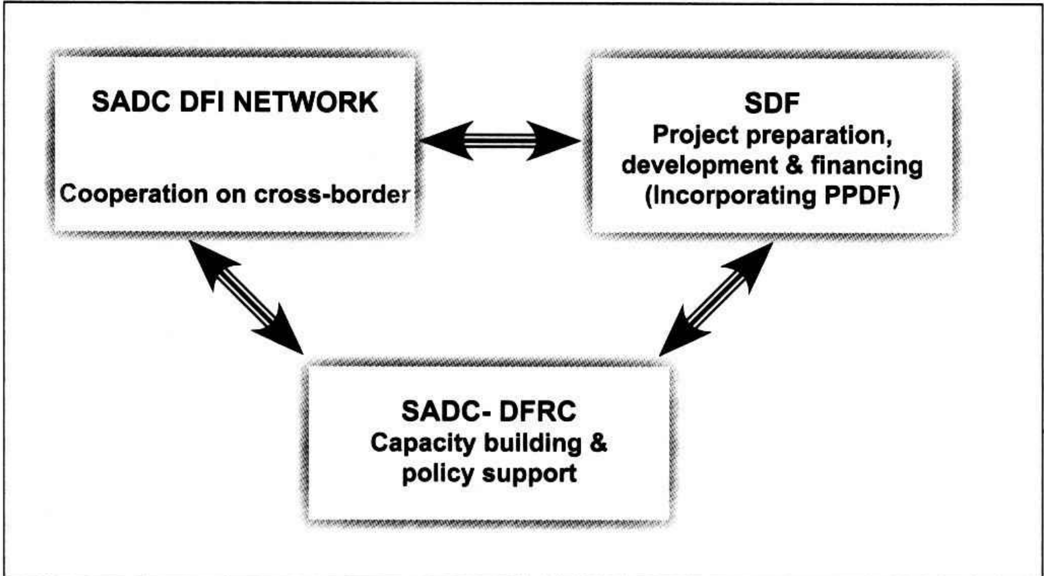
The Emerging SADC Development Finance System

As is the case with other developing regions, Africa boasts a number of sub-regional development banks (SRDBs). In the southern Africa region these include the Common Market for Eastern and Southern Africa (COMESA) Trade and Development Bank, established in 1985 and the East African Development Bank which was set up in 1967. The major role of the SRDBs is to intermediate funds between multilateral development banks and official donors on one side and DFIs on the other. They also intermediate private and institutional savings through lines of credit and interventions in capital markets by means of bonds.

On the basis of the Mistry and van Niekerk (1998) study, SADC took a different approach to SRDBs. Instead, the study recommended the establishment of a development finance system encompassing three pillars: a SADC DFI Network; a SADC Development Finance Resource Centre (DFRC); and a SADC Development Fund (SDF). The Network and the DFRC have been established and work on the establishment of the SDF began with the Project Preparation and Development Fund (PPDF) to be hosted in the interim by the DBSA.

Figure 3 illustrates the working arrangement between the three arms of the emerging SADC development finance system.

Fig 3: The development finance system



The functions of the three components of the finance system are well defined and are mutually reinforcing. Broadly, the Network constitutes the DFI forum for dialogue, policy advocacy, sharing of best practices, resource mobilisation and cooperation on financing projects; the SDF comes in for project development and financing; while the DFRC is responsible primarily for capacity building of both DFIs and national governments as well as policy research and advisory services.

When fully operational, the development finance system provides a framework within which SADC DFIs could effectively cooperate and contribute to regional development and integration under the RISDP.

The SADC DFI Network

The Network was established in May 2002 and its membership presently stands at 24 national DFIs in 11 member countries. The Network is a flexible arrangement that enables DFIs to work individually and in collaboration with other members. Overall, its major objective is to mobilise resources both on domestic and international capital markets for purposes of investing in national and regional projects under the auspices of the SADC RISDP.

Specifically, the Network among other objectives provides a platform for:

- collaborating on projects in SADC;
- pooling resources to mobilise intra- and extra-regional funds for development projects;
- taking equity in each other's institutions;
- investing jointly in new structures where necessary;
- collaborating on appropriate institutional mechanisms to facilitate cooperation and de-

velopment finance in SADC;

- capacity building, including exchange of personnel;
- information technology, policy research and analysis and technical cooperation;
- strengthening creditworthiness of Members, including credit ratings;
- developing common best practice approaches for the efficient and optimal use of development finance for projects; and
- encouraging cross-border strategic alliances and operational partnerships at both the national and the regional level.

The Network fosters a cooperative environment that allows for a consensus building approach to delivery on the SADC development and regional integration goals. Under this arrangement, DFIs are able to identify, raise funding and undertake regional projects in such areas as infrastructure, especially under spatial development initiative (SDIs). These may include transport, port facilities, power pools and telecommunications. Further, within the Network arrangement, stronger DFIs, the likes of the DBSA and the IDC (SA), could provide financial and technical support to weaker ones. This way they build them into stronger investment partners for cross-border investments.

The Network also provides an advocacy forum to improve on the policy and regulatory environment for the DFIs to enhance their effectiveness as agents of development. This advocacy role could also be extended to improving the investment environment through enabling macroeconomic and investment policies. An area requiring attention is the regulatory and policy framework for PPPs. In this regard, the Network augurs well for the integration of SADC economies.

The DFRC

The DFRC was established in July 2003 under the SADC principle of subsidiarity of October 2002. As the institutional hub of the Network, the DFRC is mandated to provide critical support to the DFI Network as facilitator and catalyst to improve the operational efficiency of its members. In this respect, the activities of the DFRC fall under the following core areas:

- *Institutional strengthening:* Emphasis is on capacity-building initiatives and training in areas like corporate governance, investment appraisal, risk analysis and project management; staff exchanges and technical assistance.
- *Financial sector strengthening and reform:* The focus in this area is on supportive policy and advisory work aimed at ensuring a conducive policy environment to enable DFIs and other financial intermediaries to efficiently mobilise resources for development; and to allow for the strengthening and deepening of a vibrant financial sector and supportive capital markets in the region.

In addition to these core areas, the DFRC has also identified two other areas to focus on particularly because of their perverse impact on regional economies and on the SADC goals of sustained development, employment generation and regional integration. These areas are infrastructure and SMEs.

- *Infrastructure:* This does not only involve capacity building in respect of the facilitation of PPPs but is also targeted at ensuring that increased project activity on PPPs takes place

for instance through setting up PPP facilitation units. The DFRC facilitated the setting up of a PPP Facilitation Unit at the National Development Corporation in Tanzania which is appraising three projects on the Mtwara Development Corridor (MDC). Three more units are ear marked for Malawi and Mozambique. In addition, as part of capacity building, the DFRC has also facilitated the development of Quantitative Techniques and Methods for PPP Projects Appraisal for SADC DFIs and relevant government departments.

- *SME development:* The emphasis in this area is on financing of SMEs and the requisite business support services to sustain SME activities.

Since establishment, the DFRC's activities have covered all the above four areas. The Centre employs the services of strategic development partners, which includes large member DFIs like DBSA and IDC (SA), to deliver on its work programmes. The guiding principle has been to develop courses and models in line with best practices, pilot them and if successful roll them out to the rest of the SADC region. By so doing, the DFRC strengthens DFIs through improved skills bases, efficient systems and procedures, good governance practices and enhanced creditworthiness. This positions DFIs at a competitive edge to mobilise resources and to forge strategic partnerships with international private investors.

The SADC Development Fund

The SADC Development Fund will complement DFI resource mobilisation efforts for project finance and, at the same time, undertake project preparation and development. The latter function will be undertaken by the SADC PPDF which is now at an advanced stage of implementation.

A key focus area for the PPDF will be infrastructure projects. As highlighted in a SADC study,[12] many of the projects identified at national and regional levels have not been developed to a level for take-up by the private sector. They are therefore not bankable. This is in spite of available private sector facilities such as the Emerging Infrastructure Fund as well as multilateral and regional development banks and some national DFIs such as DBSA with a regional investment mandate, that have the capacity to invest in financially and economically viable infrastructure projects. The PPDF whose mandate will be to develop a project 'deal pipeline' would address this gap.

More specifically, the PPDF would be expected to perform the following functions among others:

- as its prime objective, it will play a catalytic and intermediary role to facilitate the development of projects up to the stage for take-up by investors;
- provide technical and advisory services to project developers, both public and private; and
- enhance the business environment for regional projects by assisting in the identification and removal of barriers to successful conclusion of project deals.

While the PPDF will be instrumental in packaging projects for investors, it will not duplicate but rather complement the functions of other existing financial institutions, including the DFIs.

As mentioned earlier, the PPDF will initially be established at DBSA as the host institution until such time that work on the establishment of the SDF is completed and its relationship with

the PPDF is clearly defined within its operational structures. At establishment seed capital of 5 million euro will be made available by the German government for the PPDF.

Work on the SDF is expected to commence in the near future, beginning with the terms of reference. These will take into account the PPDF and how it will relate to the SDF. It is most likely that the PPDF will be incorporated into the SDF and will be one of its various windows, one of which is likely to be for project funding.

SADC Finance and Investment Protocol

The establishment of the DFI Network and the DFRC was done through memoranda of understanding (MOU). Other sector groupings established in a similar way include:

- investment;
- macroeconomic convergence;
- cooperation in taxation and related matters;
- regulation and supervision of non-banking financial services industries;
- cooperation and coordination of exchange policies;
- cooperation in the area of information and communication for central banks;
- harmonisation of legal and operational frameworks for central banks;
- harmonisation on payment, clearing and settlement systems;
- harmonisation of banking supervision; and
- cooperation among SADC stock exchanges.

There was therefore no legal instrument establishing these groupings as protocol-based institutions of SADC. The Finance and Investment Protocol (FIP), which was approved at the Lusaka Summit in August 2007, accords the DFIs and the other sector groups SADC protocol-based legal status. While the RISDP provides a broad regional implementation framework, the FIP, reaffirming the key role of investment for sustainable growth and poverty eradication, provides a comprehensive framework for the development of a conducive investment environment.

By bringing together all sectors related to investment and finance, the FIP ensures effective coordination and cooperation among them to avoid overlaps and duplication. This arrangement also augurs well for regular monitoring and evaluation of progress on implementation of various investment–promoting policies and measures. More fundamentally, through harmonisation of investment and financing-related issues across regional member countries, the FIP is a major step towards buttressing regional integration efforts.

Although, through the Network and the DFRC, the DFIs have a forum to coordinate their activities in line with RISDP objectives, the FIP broadens the cooperation and coordination to encompass other key sectors. Thus, the DFIs are able to follow developments in other sectors and ensure that their activities complement and are additional to other sectors. This ensures their continued relevance to SADC development and integration goals.

Challenges for SADC DFIs

Although significant progress has been made to turn around DFIs and reposition them as instruments of development, the sector continues to face a number of challenges, some of a policy nature, that need to be addressed if the DFIs are to effectively execute their mandates. These require attention at different levels – at individual DFI, Network and SADC and national government levels.

A comprehensive approach to DFI establishment and reform

It is crucial that the establishment of DFIs or the restructuring of existing ones be preceded by a feasibility study. The study will assist in the identification of the market gap or sector focus and therefore the mandate of the DFI. By so doing the DFI is seen as complementing and not duplicating areas that other financial institutions are already covering – it should bring about additionality to the services provided by the financial sector. In this regard, the DFI establishment addresses market gaps and is not driven by political factors. Financial sector assessment programmes (FSAPs) of the IMF and World Bank provide a basis for such feasibility studies.

Supervisory and regulatory environment

As DFIs are restructured, it is important that they are effectively supervised and regulated. Although circumstances differ from one DFI to the next, it is, however, generally accepted that central banks have the capacity and credibility to undertake this function within their non-banking institutions supervision departments. Some SADC governments and their central banks have or are in the process of moving in this direction as part of their implementation of comprehensive financial sector reforms. It is, of course, important that financial performance or prudential guidelines that central banks may impose on DFIs, such as capital adequacy, recognise their unique characteristics that differentiate them from commercial banks.

Inadequate financing resources

With the exception of a few DFIs, including some in South Africa as well as Botswana and Zimbabwe, a significant number of DFIs continue to face capitalisation problems. Some, because of their poor financial performance and perceived government interference, are unable to mobilise resources on domestic capital markets through bonds, let alone on international financial markets. Good governance structures, including a hands-off approach by government and emphasis on commercial viability, coupled with a sound regulatory and supervisory environment, would go a long way in attracting private participation in DFIs through equity and loan finance. It is therefore important that regional governments put in place policies that enable national DFIs to operate viably as they restructure them.

The establishment of the SADC Development Fund and the PPDF will assist in closing the funding gap for viable projects. In addition, the attainment of credit ratings by DFIs would give them a competitive edge on international and domestic capital markets.

An enabling macroeconomic environment

An enabling environment for investment growth and resource mobilisation underpinned by macroeconomic stability – low inflation and sustainable growth accompanied by fiscal prudence – is critical for DFIs as major players in the sector. This would address, among other areas, capital restrictions, the regulatory and legal framework for investment, taxation and customs tariffs and the overall cost of doing business, including the cost of borrowing (interest rates).

Harmonisation of these areas, mostly under the FIP framework, would improve the operational environment of DFIs, particularly cross-border investments, especially in regional infrastructure projects such as development corridors under SDIs.

SADC[13], through the Macroeconomic Convergence Sub-committee, reports significant progress in the key areas of inflation, fiscal deficit, public debt and current accounts. As its key components, the effective implementation of the FIP therefore becomes paramount to the creation of an enabling environment for investment and for the efficiency of DFIs.

Coordinated approach in SADC to investment issues

The DFIs through the Network also engage in policy advocacy to improve the investment environment. It is however important that entities involved in investment – DFIs, banks, central banks, investment promotion agencies and relevant government departments or ministries – share information on their activities to avoid overlaps. The FIP will to a large extent provide the framework for the effective coordination of investment and other related issues in the region. However, it is crucial that the implementation of the FIP is properly coordinated through the Trade, Industry, Finance and Investment (TIFI) Directorate of the SADC Secretariat. This will require regular workshops of stakeholders to monitor progress and address areas that lag behind.

Skills development

DFIs and government departments lack relevant skills in such areas as project management, investment appraisal and risk analysis. In the area of PPPs, besides the South African government and its DFIs, not much has happened. As an important vehicle for infrastructure delivery, it is crucial that the necessary skills for PPPs are developed both at DFI and government levels. These will include:

- *Project management of PPP development*: deal conceptualisation, procurement and management, project packaging; evaluation of proposals; and the negotiation of a contract.
- *Building the capacity of public partners to take ownership of deals:* ensuring that the public partner understands the logic and purpose of the deal; assisting public partners in negotiating with government regulators on behalf of PPP deals; ensuring that the public partner understands the risks and responsibilities associated with the project; and ensuring that the public partner understands the need for post-closure contract compliance monitoring of PPP deals.
- *Building the capacity of national DFIs and government departments to participate in PPP deals: h*elping their staff learn to identify and carry out preliminary appraisals of potentially viable PPPs; giving DFI staff guided access to model contracts, standardised documents, policies and procedures; building the capacity of staff to understand and eventually to carry out technical deal-making activities; helping these institutions to play a supportive role in PPP projects; and helping their staff to present complex PPPs to their credit committees.

These areas have been included in the DFRC's work programmes for DFI Network members and national governments. PPP Facilitation Units will be used as a base for such training. The National Development Corporation of Tanzania was the first beneficiary of a facilitation unit

sponsored by the World Bank, Private-Public Infrastructure Advisory Facility (PPIAF, a World Bank subsidiary) and the DFRC. More training still needs to be done in other countries. A major handicap in this area is availability of resources to implement training programmes. SADC would assist with mobilising the necessary funding.

The DFI Network, under the umbrella of the FIP, provides an arrangement for addressing some of the above issues. Looking at the areas of corporate governance and supervision and regulation among others, the Network would be the most appropriate entity to spearhead the formulation of common guidelines for SADC DFIs. This will not only result in the adoption and adherence to international best practices but will also go a long way towards financial sector integration and restoration of the credibility of the DFIs.

Research Areas

The Mistry and van Niekerk study was done in 1998, and to date no other comprehensive study has been conducted to assess the status of DFIs and how best they could continue to support the SADC regional development agenda. Given the centrality of DFIs to development in the region, such a study would not only update the Mistry study but would also highlight policy and regulatory issues that need redress if DFIs are to contribute effectively under the RISDP. The terms of reference would, therefore, among other areas, cover: an assessment of size and sector/activity areas; governance and ownership structures; licensing, regulatory and supervisory arrangements; capitalisation and financial performance; economic impact on domestic economies – employment, exports, infrastructure, industry etc. – and the region through cross-border investments; an assessment of best practices and comparable experiences in other regions.

Such a study, which could be taken in various phases due to its enormity, would assist in defining a harmonised approach to development finance in the region. It would also contribute towards the integration of the financial sector by recommending best practice common guidelines for DFIs, including a policy and regulatory framework.

Supporting studies could be in the areas of:

- capital markets development and integration; and
- regulatory framework and capital adequacy requirements for DFIs and other non-banking institutions.

The former seeks to address savings stimulation and resource mobilsation for purposes of investment while the latter seeks to strengthen the regulatory environment of non-banking institutions, including DFIs. The DFI Network has identified these areas as crucial to private investment growth and to the enhancement of DFI activity in the region. Through the DFRC, the Network would like to pursue these studies. The studies would be undertaken in collaboration with key stakeholders such as central banks and national treasuries as well as strategic partner organisations.

Conclusion

As recognised by the RISDP, DFIs are critical to regional development and integration in SADC. Their ability to effectively undertake this mandate is underpinned by the development finance system emerging in SADC. The system that consists of the DFI Network, the DFRC and the Development Fund provides a viable platform for harnessing the full potential of DFIs as effective agents of development.

Annex 1: SADC DFI network – ownership and major activities

Country/Institution	Ownership Structure	Statutory/ Corporate	Sector Focus
1. Botswana			
Botswana Development Corp.	Government	Corporate	Industrial Development
Citizen Entrepreneurial Development Agency	Government	Corporate	SME
National Development Bank	Government	Statutory	Multi-sector
2. Lesotho			
Basotho Enterprise Development Corp	Government	Corporate	SMME
Lesotho National Development Corp.	Government	Statutory	Industrial Development
3. Malawi			
Malawi Development Corp*.	Government	Statutory	Multi-sector
4. Mauritius			
Development Bank of Mauritius	Government	Corporate	Multi-sector
5. Namibia			
Agricultural Bank of Namibia	Government	Statutory	Agriculture
Development Bank of Namibia	Government	Statutory	Infrastructure and SMME
National Housing Enterp.	Government	Statutory	Housing
6. Mozambique			
GAPI	Government	Statutory	SME
7. South Africa			
Development Bank of Southern Africa	Government	Statutory	Infrastructure and Multi-Sector
Industrial Development Corp.	Government	Corporate	Industrial Development
Land and Agricultural Bank	Government	Statutory	Agriculture
8. Swaziland			
Swaziland Savings and Development Bank*	Government	Statutory	M/S
Swaziland Development Finance Corporation	National Trust andGovernment	Corporate	SMME
Swaziland Industrial Development Company	Govt. and Private (IFIs)	Corporate	Industrial devel-opment
9. Tanzania			
National Development Corp.	Government	Corporate	Industrial Development
Small Industries Development Org.	Government	Statutory	SMME
Tanzania Investment Bank*	Government/ Pvt.	Corporate	M/S and Invest. Banking
10. Zambia			
Development Bank of Zambia	Government/ Pvt.	Statutory	Multi-sector
11. Zimbabwe			
Agricultural Development Bank of Zimbabwe*	Government	Corporate	Agriculture
Industrial Development Corporation.	Government	Corporate	Industrial Dev.
Infrastructure Development Bank of Zimbabwe	Government	Corporate	Infrastructure and Multi-sector
Small Enterprises Development Corp.	Government	Statutory	SMME

**Deposit-taking DFIs.*

The Network offers a vehicle for sharing best practices and collaboration within the developmental framework of SADC as articulated under RISDP. It also provides a regional forum for debate and consensus-building on policies and implementation of the regional development and integration agenda towards the achievement of the goals of sustainable growth, employment generation and poverty eradication.

A significant number of SADC DFIs are still to fully transform into financially viable entities and it is crucial that they adopt best practice governance structures, and that they are regulated appropriately in order to become credible institutions positioned to competitively mobilise resources both in local and international capital markets. The Network arrangement allows for the development of common guidelines, including benchmarking to international standards with regard to financial performance monitoring and good corporate governance to improve the creditworthiness of DFIs. These institutional strengthening efforts should over time culminate in the DFIs obtaining international credit ratings – presently only a few of them are rated. This will enhance their capacity to mobilise resources. To achieve these aims governments must adopt policies to reduce their shareholding while attracting private participation in the DFIs.

The ratification and the implementation of the FIP should be expedited, as it provides a wider multi-stakeholder platform for coordination and implementation of the RISDP. It therefore ensures synergy and consistency of investment activities and policies in SADC, a key requirement for regional integration. It is also imperative that governments continue to pursue policies in various sectors towards macroeconomic convergence which is a prerequisite for regional economic integration and the attainment of its other targets, especially the Customs Union (due by 2010), the Common Market (2015) and the Monetary Union (2016). The Free Trade Area is targeted for 2008.

In summary, the DFI Network and the FIP respectively provide the necessary institutional structure and the legal framework for SADC DFIs to effectively contribute to regional integration. But to do so effectively, a supportive macroeconomic policy environment is of paramount importance.

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Notes

1. Page 78, Chapter 5, Section5.2.6, RISDP, SADC.
2. United Nations Department for Economic & Social Affairs
3. 'Monterrey Consensus on Financing for Development', United Nations, 2003.
4. The round table was cosponsored by UNDESA, the Industrial Development Corporation and the Development Bank of Southern Africa, both of South Africa and the SADC-DFRC.
5. 'Addressing Regional Integration in Africa', 2004.
6. Data was collated from 17 members of the Network: Agribank (Namibia), Lank Bank (SA), BDC, LNDC, SIDC,NDC, DBN, DBSA,CEDA, BEDCO, FINCORP, NDB, DBZ, Swazibank and TIB.
7. Figures are only indicative of size of DFI Network and the sectoral distribution is on the basis of mainline activities of DFIs.
8. 'Economic Development in Africa', Rethinking the role of FDI, United Nations, 2005.
9. There are 8 MDGs with 15 targets which are to be monitored through Africa's achievements by the year 2015 on 48 indicators. These eight include: eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empowerment; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria and other diseases; ensure environmental sustainability; and develop a global partnership for development. World Bank (2003), 'Achieving the Millennium Development Goals'.
10. United Nations Economic Commission for Africa, 'Economic Report on Africa' (1999).
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13. 'Macroeconomic Convergence in SADC: Overview and Country Programmes, 2006/07, SADC Secretariat.

The papers assembled in this volume were presented at the 2007 FOPRISA Annual Conference that was held at the Royal Hotel, Durban, South Africa on 27 and 28 November 2007. The annual conference brought together individuals and institutions that participate in the research programme, as well as specially invited representatives of non-government organisations and international cooperating partners. The main purpose of the conference was to report on and discuss the research findings from activities undertaken in 2006 and 2007.

This volume is a collection of 16 of the 18 papers that were presented, covering four research themes: Democratic Development (Poverty alleviation and developmental democracy); Politics, Defence and Security Cooperation (Collective security, mutual defence and enforcement); Regional Trade and its Relations to the International Trade System (National trade policies); and Economic Harmonisation, Finance and Investment (SADC integration efforts and cross-border investments and the roles of development finance institutions and central banks in SADC integration). The other two other outputs that were presented at the 2007 FOPRISA Annual Conference were the monitoring aid and monitoring SADC reports that were published earlier in 2008.

Other FOPRISA publications are: *Monitoring Economic Integration in SADC, 2006/2007: Overlapping Memberships of Regional Economic Arrangements and EPA Configurations in Southern Africa,* (Report 5) (ISBN 978-99912-71-41-5), By Rehabeam Shilimela (May 2008). *From Aid Effectiveness to Poverty Reduction: Is Foreign Aid Donor Support to SADC Improving? (Report 4)* (ISBN 978-99912-71-40-8), By Elling Tjønneland (May 2008), *Proceedings of the 2006 FOPRISA Annual Conference* (ISBN 978-99912-71-38-5) (Report 3), Edited by Jonathan Mayuyuka Kaunda (July 2007) (15 papers), *Monitoring Economic Integration in SADC, 2005* (ISBN 99912-71-34-1/978-99912-71-34-1) (Report 2), By Dirk Hansohm and Rehabeam Shilimela (July 2006), *SADC and Donors – Ideals and Practices: From Gaborone to Paris and Back* (ISBN 99912-0-574-8) (Report 1), By Elling Tjønneland (April 2006)

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