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REGIONAL ECONOMIC DEVELOPMENT IN SADC: TAKING STOCK AND LOOKING AHEAD

JAN BRONAUER & JI YOON

African perspectives. Global insights.

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EXECUTIVE SUMMARY

Although SADC is expected to remain a growing economic community into the near future, intra-regional investment and trade levels have declined markedly since the commodity slump in 2013. Moreover, trade and economic growth in the region remain imbalanced, exacerbating political strains among member states. As an instrument to ensure inclusive regional growth, economic integration is a key pillar of SADC's development agenda. While non-tariff barriers and other factors have adversely affected intra-regional trade and investment in recent years, there has been a host of national and regional initiatives aimed at alleviating the challenges of deeper regional integration. Besides addressing constraints in the enabling environment and domestic infrastructure, current initiatives target the political-economic sphere of SADC member states. The region has also seen more commitments to intensify efforts to establish linkages within sectors across different countries in an attempt to create sustainable regional value chains. Such moves attract much-needed foreign direct investment, which is widely regarded as the most effective driver of economic growth. However, to successfully establish itself as a viable investment hub, the region must prioritise the coordination and harmonisation of regulatory frameworks and industrialisation efforts. The latest trend towards increased collaboration on a continental level hints at a new approach to achieve economic integration. However, since the required willingness for cooperation in regional economic communities is questionable, it remains to be seen whether the successful implementation of a continental free trade agreement is feasible.

ABBREVIATIONS & ACRONYMS

AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
AU	African Union
BIT	bilateral investment treaty
CCTTFA	Central Corridor Transit Transportation Facilitation Agency
COMESA	Common Market for Eastern and Southern Africa
DBSA	Development Bank of Southern Africa
DFID	Department for International Development (UK)
DFS	digital financial services
DRC	Democratic Republic of Congo
EAC	East African Community
EAPP	Eastern African Power Pool
EIP	External Investment Plan
EPA	Economic Partnership Agreement
EU	European Union
FDI	foreign direct investment
FIP	Finance and Investment Protocol
FTA	free trade agreement
FYDP	Five-Year Development Plan
GDP	gross domestic product
IMF	International Monetary Fund
IPP	independent power producer
KAS	Konrad-Adenauer-Stiftung
Namport	Namibian Ports Authority
NDP	National Development Plan
NTB	non-tariff barrier
OSBP	one-stop border post
PPP	public–private partnership
ProSAVANA	Programme of Triangular Cooperation for Agricultural Development of the Tropical Savannahs of Mozambique
PSRGSP	Tanzania Power Sector Reform and Governance Support Programme
RDF	Regional Development Fund
REC	regional economic community
RIDMP	Regional Infrastructure Development Master Plan
RISDP	Regional Indicative Strategic Development Plan
RVC	regional value chain
SADC	Southern African Development Community
SAIIA	South African Institute of International Affairs
SAPP	Southern African Power Pool
SATIPP	South Africa–Africa Trade and Investment Promotion Programme
SMME	small, medium and micro-sized enterprise

SOE	state-owned enterprise
TANESCO	Tanzania Electric Supply Company Limited
TDV	Tanzania Development Vision
TEU	20-foot equivalent unit
TICS	Tanzania International Container Services
TFTA	Tripartite Free Trade Area
TTTFP	Tripartite Transport and Transit Facilitation Programme
YES	Youth Employment Service

CHAPTER 1

INTRODUCTION

The Southern African Development Community (SADC)[1] experienced an economic contraction from 2013 to 2016, but aggregate nominal gross domestic product (GDP) increased by 17% in 2017 compared to the previous year, and is expected to grow at 4.7–5.5% annually until 2023.[2] Although this outlook gives reason for optimism, the data shows a strong correlation with global commodity prices and therefore hints at a persisting regional overdependence on commodities. Governments have intensified their efforts to divert investments into sectors that offer sustainable national long-term benefits, but progress remains slow. Moreover, SADC countries continue to trade predominantly with global markets, suggesting that lingering factors deter intra-regional and continental trade (Table 1).[3]

The unfavourable economic environment in the region has also affected overall investment into Southern Africa, which declined substantially in 2017.[4] Although recovering commodity prices are expected to attract capital in the near future, challenges to cross-border trade and regulatory discrepancies among members have largely prevented an influx of much-needed foreign direct investment (FDI) into regional value chains (RVCs) and non-extractive industries. Unlike investments in natural resource extraction, RVC creation and domestic industrialisation efforts will benefit the local economy and workforce and thereby provide the conditions for long-term economic growth and poverty alleviation. This view is echoed in recent regional industrialisation plans, all of which see the creation of sustainable RVCs and the prioritisation of viable domestic industries as building blocks for the region's economic and social development. Furthermore, the skewed distribution of trade and investment flows in the region indicates that economic conditions in member states differ significantly, with some countries able to establish themselves as exporters in the region while others have failed to develop their domestic industries and remain reliant on imports. These structural and political obstacles must be overcome to ensure sustainable economic development and increase regional trade, investment and output.

1 All references to SADC in this paper will exclude the newly admitted 16th member, Comoros (admitted in 2017), since most data pertains to SADC's development over the last few years.

2 IMF (International Monetary Fund), DataMapper, 'GDP, current prices', http://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEOWORLD/AG, accessed 2 July 2018.

3 ITC (International Trade Centre), Trade Map, https://www.trademap.org/, accessed 5 June 2018.

4 UNCTAD (UN Conference on Trade and Development), *World Investment Report*. Geneva: UN, 2018.

The South African Institute of International Affairs (SAIIA), supported by the Konrad-Adenauer-Stiftung (KAS), has, over the past five years, conducted extensive research on the economic environment in SADC. While regional trade and investment barriers constituted the bulk of the research, it has also explored opportunities in the development of RVCs. This paper aims to integrate these in-depth case studies into an analysis of the most recent changes in regional integration efforts, illustrating persisting challenges as well as expected improvements from current initiatives. To complement previous research and shed light on the economic climate SADC countries are currently facing, the paper begins by taking stock of the latest broader trends in intra-regional investment and trade. It then discusses four different types of constraints identified in literature: lack of trade diversification, constraints in intra-SADC harmonisation, domestic infrastructural constraints and political-economic constraints. In order to elaborate on the nature of these lingering challenges, case studies from the above-mentioned research will feed into the different sections where appropriate. This allows current initiatives to be directly linked to the problems they aim to solve.

TABLE 1 DESTINATION OF SADC EXPORTS BY EXPORTING COUNTRY (%), 2017

Exporting country	SADC (% of total)	Rest of Africa (% of total)	Rest of the world (% of total)
Angola	4	0	96
Botswana	9	0	91
DRC*	24	1	76
Lesotho	30	0	70
Madagascar	6	1	92
Malawi	24	10	67
Mauritius	23	4	73
Mozambique	21	0	78
Namibia	29	1	70
Seychelles	4	1	95
South Africa	23	3	74
Swaziland	75	13	12
Tanzania	8	9	83
Zambia	17	2	81
Zimbabwe	14	2	85
Average	**21**	**3**	**76**

* Democratic Republic of Congo

Source: ITC (International Trade Centre), Trade Map, https://www.trademap.org/, accessed 5 June 2018

CHAPTER 2

TAKING STOCK

BACKGROUND

In 2003 SADC formalised its Regional Indicative Strategic Development Plan (RISDP), according to which the economic community should become a free trade area, followed by a customs union, a common market and, ultimately, a monetary union.[5] While trade and investment promotion have remained integral parts of SADC's agenda, 'the Revised [RISDP] (2015–2020) … prioritises industrialisation during the current state of integration in SADC'.[6] The region's shift towards regional industrialisation, combined with the creation of RVCs, follows widespread acknowledgement that the stages of integration beyond a free trade agreement are not feasible in the near future.[7]

Beyond SADC, the Tripartite Free Trade Area (TFTA) and the African Continental Free Trade Area (AfCFTA), finalised in June 2015 and March 2018 respectively, take a broader approach to economic integration. South Africa is currently ratifying the TFTA, which is expected to be completed by October 2018,[8] and has recently signed the AfCFTA agreement.[9] There are indications that smaller countries stand to gain more from the AfCFTA, since trade liberalisation allows them to gain a foothold in new markets and link into RVCs that were previously not accessible owing to high trade costs. In comparison, larger countries such as Nigeria and South Africa can already circumvent many of the trade barriers in different African countries and are therefore unlikely to benefit as much from AfCFTA as smaller countries. This presents Africa with an opportunity to reconcile the stark divide in industrial capacities and trade participation currently seen on the continent.[10] As of 2018, more than 20 African countries have a population of less than 10 million people,[11] which suggests that the potential benefit to the continent at large

5 SADC (Southern African Development Community), 'Southern African Development Community: Regional Indicative Strategic Development Plan', 1 March 2001, p. 67, https://www.sadc.int/files/5713/5292/8372/Regional_Indicative_Strategic_Development_Plan.pdf, accessed 28 June 2018.

6 SADC, 'SADC Frontloading Industrialisation', 26 April 2015, p. 1, https://www.sadc.int/files/6014/3022/4830/SADC_Frontloading_Industrialisation.pdf, accessed 28 June 2018.

7 SADC, 'Action Plan for SADC Industrialisation Strategy and Roadmap', 17 March 2017, p. 14, https://www.sadc.int/files/4514/9580/8179/Action_Plan_for_SADC_Industrialization_Strategy_and_Roadmap.pdf, accessed 28 June 2018.

8 Personal interview, stakeholder, Pretoria, 12 July 2018.

9 AU (African Union), African Continental Free Trade Area, 'List of African countries that signed the Establishment of the African Continental Free Trade Area (ACFTA) at the 10th Extraordinary Session of the Assembly on the Launch of the ACFTA), Press Release, 21 March 2018, https://au.int/en/pressreleases/20180321/list-african-countries-signed-establishment-african-continental-free-trade, accessed 17 July 2018; Email interview, stakeholder, 4 July 2018.

10 Personal interview, stakeholder, Pretoria, 4 July 2018.

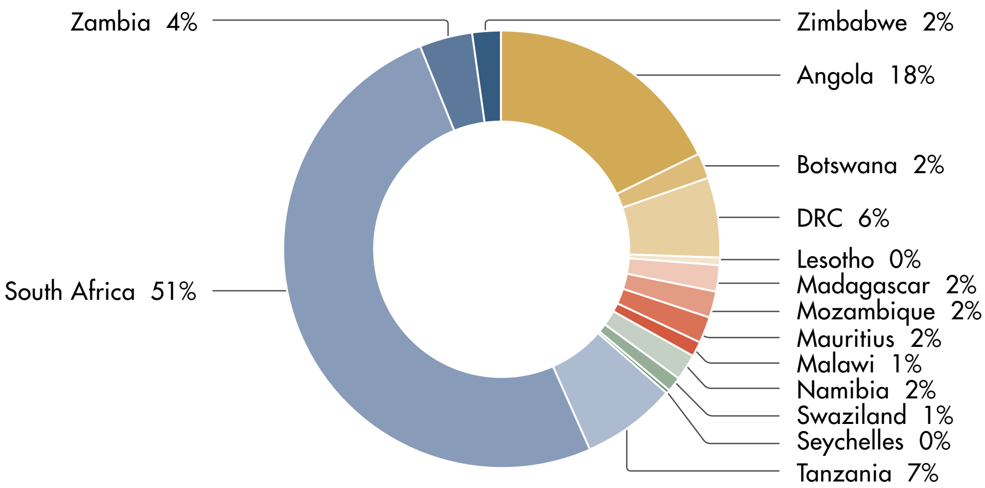
11 World Population Review, 'Population of countries in Africa 2018', 2018, http://worldpopulationreview.com/countries/countries-in-africa/, accessed 18 July 2018.

is substantial. However, the main challenges of the AfCFTA include its implementation process and its target level of 90% trade liberalisation, which theoretically allows countries to maintain duties on the most frequently traded goods in the region.[12] To alleviate these challenges, it will be crucial to create a mechanism upholding transparency in both the formal and informal implementation of the AfCFTA. The AfCFTA already shows some indication of success on this front, with its Protocol on Rules and Procedures for the Settlement of Disputes offering a dispute settlement mechanism and the AU Heads of State and Government holding binding power over states parties to the AfCFTA.

ECONOMIC PERFORMANCE

GDP levels in SADC show vast disparities, hinting at significant structural differences among member states. Of the region's nominal GDP of roughly $691 billion in 2017, South Africa was responsible for 51% (Figure 1).[13] Angola and Tanzania had the second and third highest GDP levels with 18% and 7%, respectively. Overall, although SADC has remained a growing economic community, its real, inflation-adjusted GDP growth has slowed significantly since 2010. In 2017, average real growth reached a mere 2.8%, which is 2% below the emerging market average.[14]

FIGURE 1 SADC NOMINAL GDP SHARE PER COUNTRY (%), 2017



Source: IMF (International Monetary Fund), DataMapper, 'GDP, current prices', http://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEOWORLD/AG, accessed 5 June 2018

12 Parshotam A, 'Can the African Continental Free Trade Area Offer a New Beginning for Trade in Africa?', SAIIA (South African Institute of International Affairs) Occasional Paper, 280, 2018, http://www.saiia.org.za/occasional-papers/can-the-african-continental-free-trade-area-offer-a-new-beginning-for-trade-in-africa, accessed 4 July 2018.

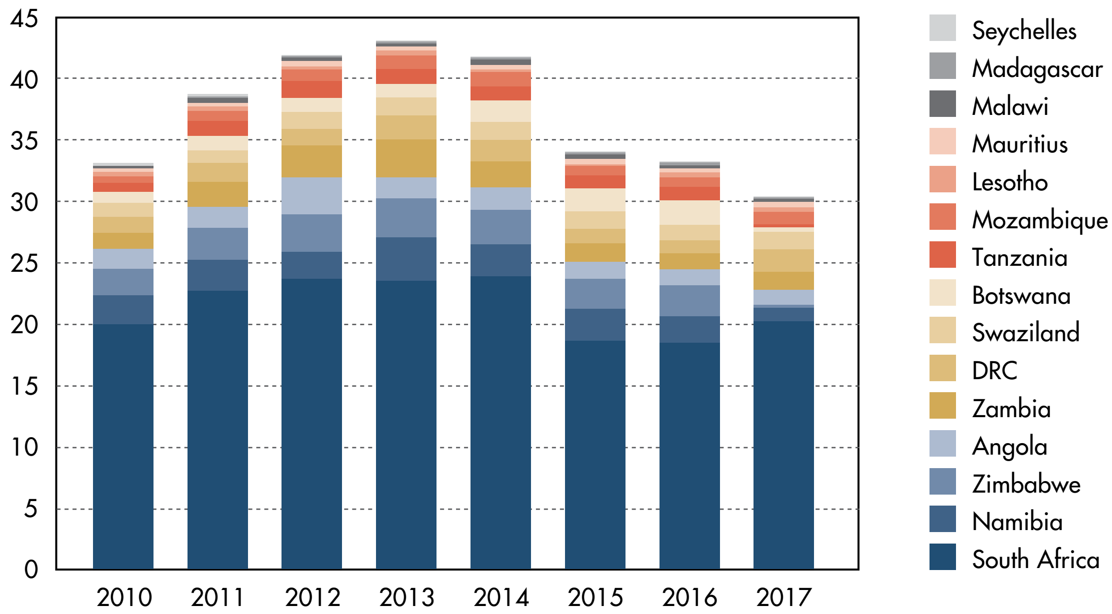
13 IMF, DataMapper, *op. cit.*

14 *Ibid.*

INTRA-REGIONAL TRADE

Intra-regional exports in SADC rose at an average annual rate of 9% from 2011 to 2013, when trade peaked at almost $43 billion (Figure 2).[15] Starting in 2014, however, exports declined at an average rate of 8% per year, reaching $30.4 billion in 2017, roughly equal to the global exports of Angola.[16] This reversal in trend follows the slow recovery in global commodity prices and a host of remaining non-trade barriers (NTBs) hindering regional trade and deterring investment. NTBs are informal barriers to trade, which, unlike tariffs, are not easily traceable and therefore deter cross-border trade even if tariffs have been cut to zero. Prominent examples of NTBs in SADC are differences in rules of origin regulations, local content requirements, vehicle certification standards, corruption and arbitrary import restrictions. Although SADC has produced a range of different protocols to eradicate such trade barriers, the lack of a legal enforcement mechanism has prevented effective implementation of many agreements among member states.

FIGURE 2 INTRA-SADC EXPORTS BY EXPORTING COUNTRY (BILLION $), 2010–2017



Source: ITC, Trade Map, https://www.trademap.org/, accessed 5 June 2018

Besides the downward trend in regional trade, there are stark differences in export volume among SADC members. South Africa records the largest share with almost 67% of total intra-regional exports in 2017, followed by the Democratic Republic of Congo (DRC) with

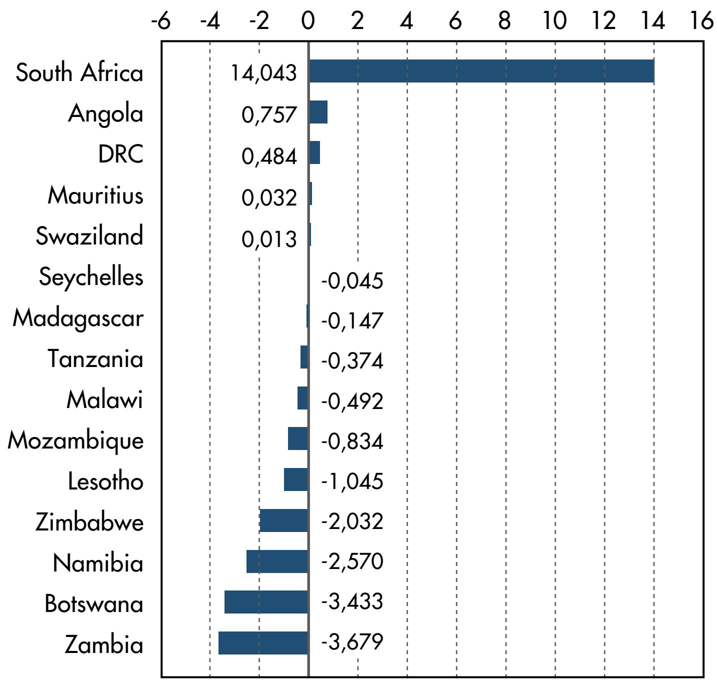
15 ITC, *op. cit.*

16 *Ibid.*

a mere 6%. This disparity highlights how South Africa's economy sets itself apart from the rest of the region by attracting large industries with its sizable market. Owing to its larger economic base, it has been able to benefit from economies of scale to enable exports, in contrast to smaller economies in SADC.

The latest intra-SADC trade balance data (Figure 3)[17] shows a similar disparity, with South Africa reporting a $14 billion trade surplus in 2017,[18] which is far greater than in any other member state. Among SADC's 15 countries, five recorded a trade surplus with their SADC counterparts in 2017, of which 10 were net importers. These figures illustrate that trade within the REC is remarkably skewed, rendering smaller economies dependent on South Africa for imports of higher value goods and services. Arndt and Roberts referred to this as the triangular pattern of South African trade: the country runs a trade surplus with SADC and a trade deficit with the rest of the world, which effectively makes it the gateway for global products to enter the SADC market.[19]

FIGURE 3 INTRA-SADC TRADE BALANCE BY COUNTRY (BILLION $), 2017



Source: ITC, Trade Map, https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=1||35||35|TOTAL|||2|1|1|3|2|1|3|1|1, accessed 5 June 2018

17 ITC, *op. cit*.

18 *Ibid*.

19 Arndt C & S Roberts, 'Key issues in regional growth and integration in Southern Africa', Development Southern Africa, Special Issue, 2018.

INTRA-REGIONAL INVESTMENT

Southern Africa was hit particularly hard by the most recent decrease in global investment flows, as the region saw incoming investment decline by 66%.[20] Since the sudden drop in global commodity prices in 2013, many investors have remained fearful of a repeated crisis and are therefore reluctant to invest in commodity extraction, an investment that tends to bind large stocks of capital for a relatively long period of time. As a result of this hesitancy, many SADC countries are deprived of FDI in their dominant extractive sectors. Since FDI makes up 39% of all incoming finance in developing countries more broadly,[21] this volatility in investment has a substantial impact on their economic performance.

As the region's largest African investor, South Africa held a total of ZAR[22] 45.2 billion ($3.36 billion) worth of foreign liabilities in SADC in 2016, while its foreign assets in the region amounted to ZAR 271.1 billion ($20.14 billion).[23] These amounts consisted primarily of private sector investment, with 98% of foreign assets and 100% of foreign liabilities held by private entities and individuals.[24] The disparity between South Africa's ingoing and outgoing investment streams highlights the country's diminishing role as a regional investment hub and the emergence of investment opportunities elsewhere in the region. This is confirmed by South Africa's global direct investment statistics, which show a net capital outflow of $40 billion compared to a $48 billion net FDI inflow for Mauritius, as well as positive net capital flows for Zambia and Botswana.[25] The high average annual growth rate of 22% of South Africa's outgoing investments in the region from 2010 to 2016 further highlights the emerging trend for South Africans to increasingly shore their investments abroad. In contrast, South Africa's aggregate foreign liabilities in SADC increased by only 12% per year in the same period.[26]

In Africa, Mauritius is by far the most attractive investment destination for South Africans. Of South Africa's foreign assets on the continent, 54% pertain to investments in Mauritius (Figure 4).[27] The country has seen an enormous influx of South African investments, with an average annual growth rate of 83% since 2006, which is when FDI from South Africa into Mauritius started to soar. While South Africa's political turmoil has contributed to investors' fears of keeping large stocks of capital in the country, lucrative investment

20 UNCTAD, *op. cit*.

21 *Ibid*.

22 Currency code for the South African rand.

23 SARB (South African Reserve Bank), Data Query, http://wwwrs.resbank.co.za/ContactUs QueryCapture/Contactus.aspx, accessed 6 June 2018.

24 *Ibid*.

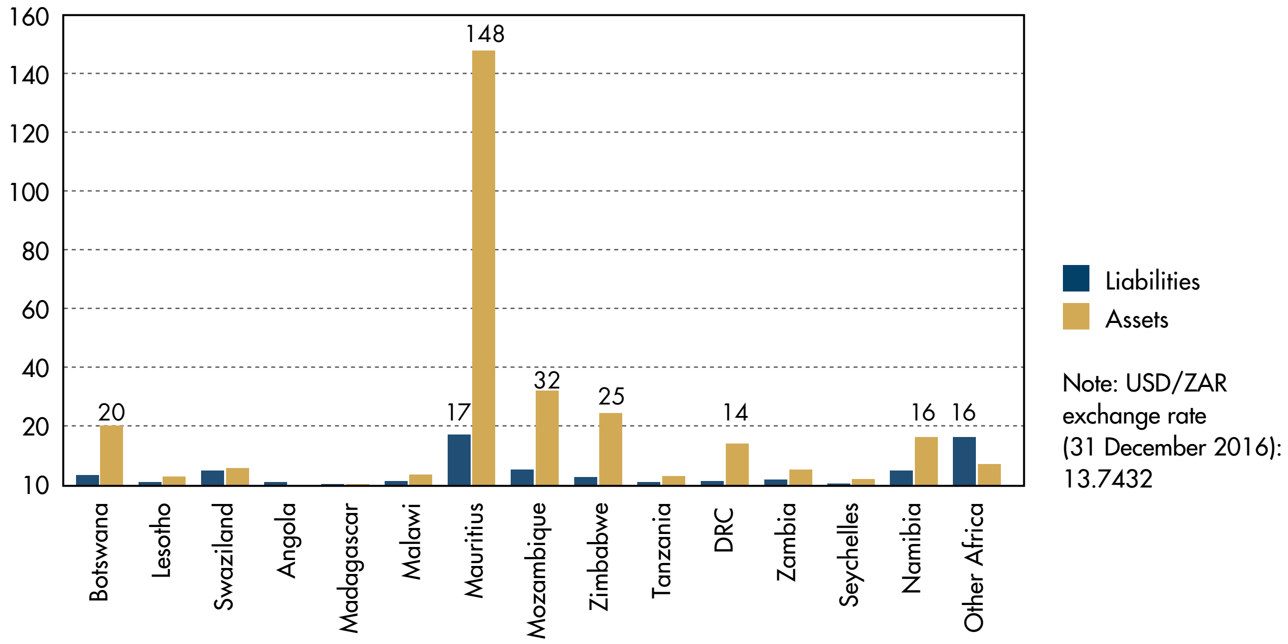
25 IMF, Coordinated Direct Investment Survey (CDIS), http://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5&sId=1482331048410, accessed 14 August 2018.

26 SARB, *op. cit*.

27 *Ibid*.

opportunities, as well as a predictable, business-friendly regulatory environment in Mauritius, can equally be credited for pulling more capital into the country.[28]

FIGURE 4 SOUTH AFRICAN ASSETS AND LIABILITIES STOCKS IN AFRICA (BILLION ZAR), 2016



Source: SARB (South African Reserve Bank), Data Query, http://wwwrs.resbank.co.za/ContactUsQueryCapture/Contactus.aspx, accessed 6 June 2018

Mauritius's status on the 2018 World Bank Doing Business Survey as first in Africa and 25th worldwide in terms of ease of doing business can be attributed to multiple factors.[29] Part of the answer lies in its attractive taxation regime: Mauritius has double taxation treaties with 33 countries, including other SADC member states such as Botswana and South Africa, as well as Germany, the UK and France, among others. It also has no inheritance or capital gains tax and a relatively low rate of corporate income tax at 15%, which makes it an attractive environment for foreign investors. However, the tax regime is not the only factor facilitating foreign business in Mauritius, as the country also does not have many of the challenges that hinder other SADC countries from attracting FDI, such as unstable governance, lack of domestic infrastructure, undiversified sectors

28 World Bank, 'Doing Business Report 2018: Reforming to Create Jobs', 2018, http://www.doingbusiness.org/reports/global-reports/~/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB18-print-report.pdf, accessed 18 June 2018.

29 *Ibid*.

and undeveloped labour markets. Mauritius rates high on political stability, with the 2017 Ibrahim Index of African Governance rating it as first out of 54 African countries based on safety and rule of law, participation and human rights, sustainable economic opportunity and human development.[30] It boasts a 100% energy access rate for both urban and rural areas, with high levels of investment in renewable energy plans, and has a fairly diversified economic base, ranging from tourism and financial services to information and communications technology and business process outsourcing.[31] These factors give insight into the key domestic sectors in need of improvement in order to drive investment in other SADC countries.

30 Ibrahim Index of African Governance, 'Africa: Overall governance', http://iiag.online/, accessed 6 August 2018.

31 Economic Development Board Mauritius, 'The Mauritius IFC: Driving quality investments in Africa', Press Release, 29 May 2018, https://www.investmauritius.com/news-room/latest-news/press-release-the-mauritius-ifc-driving-quality-investments-in-africa.aspx, accessed 6 August 2018.

CHAPTER 3

ANALYSIS AND LOOKING AHEAD

Since the creation of the SADC free trade agreement (FTA) in 2001, policy literature has drawn attention to a host of barriers to regional trade and investment, including NTBs, infrastructure constraints and political-economic challenges in reaping the rewards of the FTA. The apparent lack of improvement in the regional economic environment and the persistence of many NTBs may give cause for pessimism, but less readily available information on initiatives targeting these barriers counteracts much of the negative outlook. Most recently, there has been significant momentum in the region and on the continent more broadly to develop regional industries and create linkages among businesses, thereby increasing intra-regional economic cooperation. This section will provide an update on the most recent initiatives launched in the region to address the remaining obstacles to deeper regional integration as envisioned by SADC's revised RISDP.

LACK OF TRADE DIVERSIFICATION

SADC faces the dual challenge of decreasing its reliance on primary commodities and diversifying its export network if the region wants to achieve stable growth in its domestic industries and RVC networks. Constituting 62% of the region's total exports, mineral fuels and oils, precious metals and ores, and vehicles were the region's top five exported commodities in 2017, the first four being primary commodities.[32] In terms of trading partners, China is one of the most important export destinations for these commodities, with the US and the EU the other main destinations.[33] This data suggests that the region not only relies on primary commodities but also trades predominantly with a few key partners. While commodity dependence leaves SADC economies at the mercy of global commodity prices, the lack of diversification in trading partners increases the risk of global market turbulence's adversely affecting SADC countries, thereby undermining their economic development.

Sector diversification

While countries in the region have long faced the structural challenge of overcoming their excessive reliance on primary commodities, this trend is likely to continue in the foreseeable future.[34] A correlation analysis between intra-regional export volume and global commodity prices[35] from 2011 to 2016 reveals intra-regional trade's fairly high

32 ITC, *op. cit*.

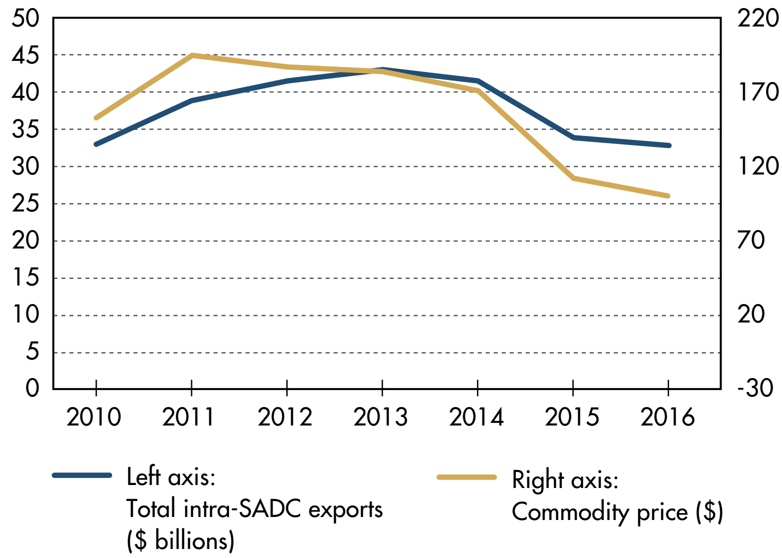
33 *Ibid.*

34 Personal interview, stakeholder, Pretoria, 12 July 2018.

35 Under primary commodities are understood: food, beverages, agricultural raw materials, energy, non-fuel commodities, industrial inputs (according to IMF categorisation). Prices are measured using an index (2005 = 100).

level of dependence on commodity prices (Figure 5).[36] In the period 2013–2016 the corresponding correlation even indicates that exports followed prices on their downturn almost perfectly, suggesting that SADC countries remain vulnerable to shocks and slowdowns in external markets.

FIGURE 5 SADC EXPORT VOLUME AND WORLD COMMODITY PRICES, 2010–2016



Sources: IMF, 'IMF primary commodity prices, annual average', https://www.imf.org/external/np/res/commod/index.aspx, accessed 7 June 2018; ITC, Trade Map, https://www.trademap.org/, accessed 5 June 2018

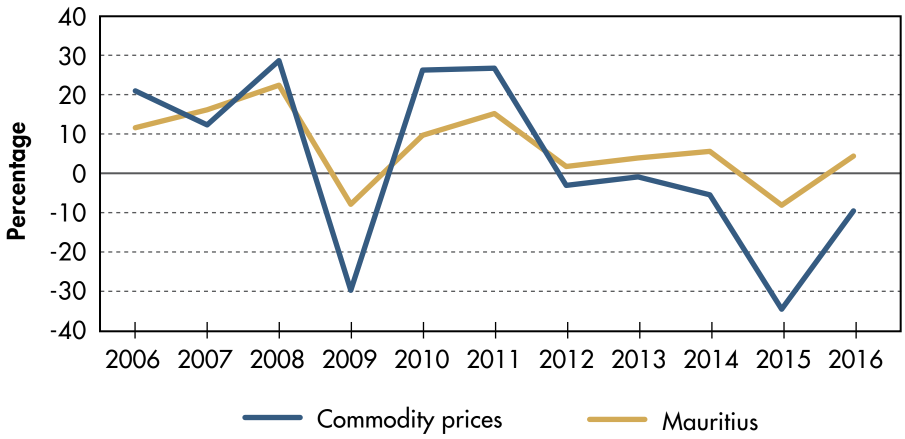
This is confirmed by a similar analysis using SADC countries' individual GDP growth rates and commodity price growth rates as variables (Figure 6).[37] While the region's average GDP growth correlates remarkably with commodity price developments, Mauritius' economic performance shows the highest correlation with commodity prices. Rather than merely depicting the community's reliance on commodities, this analysis illustrates the paradoxical challenge Mauritius faces: the country enjoys high investment inflows from all over the world owing to its favourable business environment, but its economic performance remains tied to global commodity prices. This paradox can be explained by Mauritius' role as a

36 ITC, *op. cit.*; IMF, DataMapper, *op. cit.*, correlation analysis performed in Excel. Coefficient for commodity prices and SADC's trade volume (2011–2016) is 0.81 (range of 1 (perfectly cyclical) to -1 (perfectly counter-cyclical)). From 2013–2016, the correlation stood at 0.99.

37 IMF, DataMapper, *op. cit.*; World Bank, 'World Development Indicators, GDP (current $)', https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2017&locations=MU&start=2005&view=chart, accessed 13 June 2018; correlation analysis performed in Excel.

gateway to African markets and its close connections with many of its regional counterparts. Since most of its incoming FDI consists of portfolio investments,[38] Mauritius is highly dependent on investor sentiments about the risk level in the domestic, regional and continental market. It attracts investors who want to gain a foothold in the African market through Mauritius, although not necessarily in Mauritius itself. Consequently, a shock to other African markets will inevitably cause a retraction of investment and a slowdown of the Mauritian economy. This correlation analysis therefore suggests that the influx of investments into Africa – Mauritius being one of the most popular investment hubs – is dependent on commodity prices regardless of the country's economic fundamentals. The implication is that it will not be enough for SADC member states to diversify their own exports in order to make their domestic economies more resilient. Instead, the region will need to collectively move away from commodity dependence.

FIGURE 6 MAURITIUS GDP GROWTH AND COMMODITY PRICE GROWTH, 2006–2016



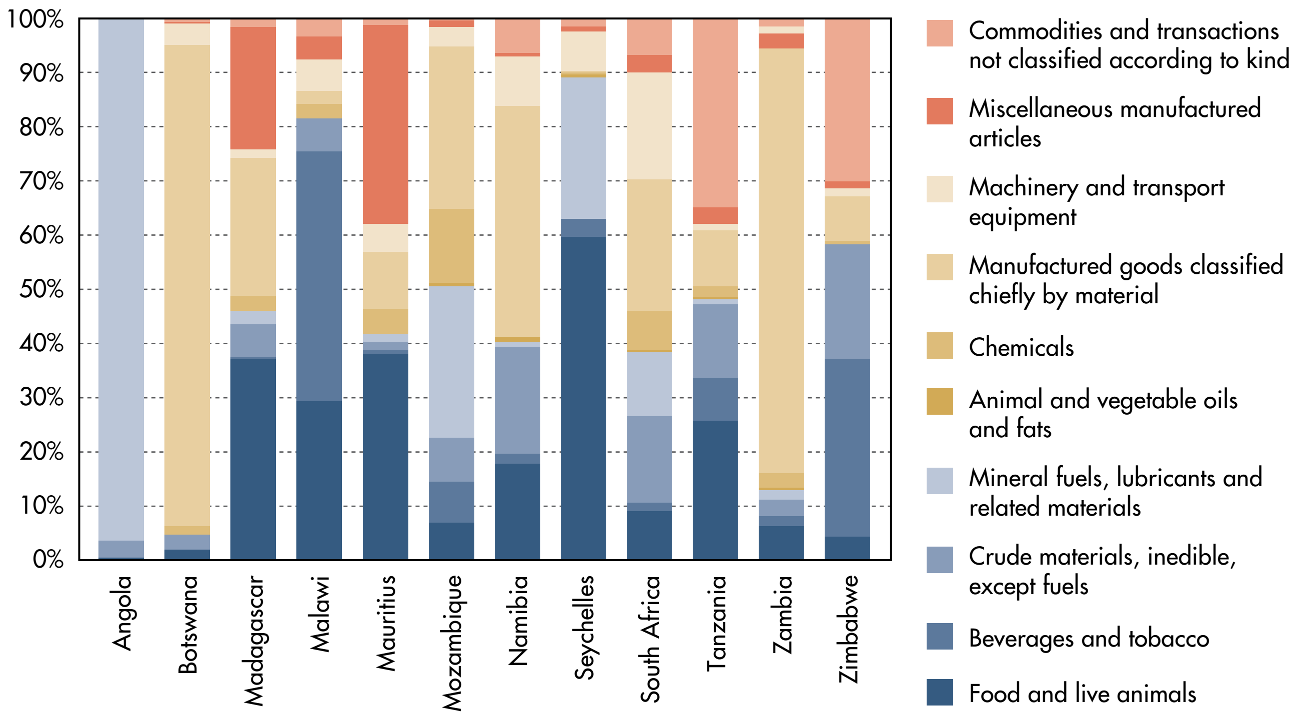
Source: IMF, DataMapper, 'GDP, current prices', http://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEOWORLD/AG, accessed 5 June 2018; World Bank, 'World Development Indicators, GDP (current $)', https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2017&locations=MU&start=2005&view=chart, accessed 13 June 2018

Disaggregating the exports of SADC member states into commodity groups, the corresponding data shows that at least four SADC members depend on one single

38 Bank of Mauritius, 'Coordinated Direct Investment Survey, Coordinated Portfolio Investment Survey', 2015, https://www.bom.mu/publications-and-statistics/statistics/external-sector-statistics/coordinated-direct-investment-survey, accessed 14 August 2018. In 2015, roughly one-third of Mauritius' incoming investments consisted of portfolio investments.

commodity type for more than half of their global exports (Figure 7).[39] The lowest degree of diversification is found in Angola, whose exports consist of 97% mineral fuels and related products.[40] On the flipside, the most diversified economies are South Africa, Mozambique (see case study 1) and Zimbabwe, where any single commodity type does not constitute more than a third of global exports.

FIGURE 7 SADC COMMODITY SHARE OF GLOBAL EXPORTS (%), 2017 OR LATEST



Note: No data available for the DRC, Lesotho and Swaziland

Source: UN Comtrade Database, https://comtrade.un.org/data/, accessed 7 June 2018

Given this high level of commodity dependence, governments are faced with the task of implementing an investment framework that is investor-friendly as well as economically and socially sustainable, a balance that is difficult to find. Many SADC members have launched incentive programmes for the development of the manufacturing industry, which, based on the example of East and South-East Asia, is considered the conventional path to economic development. South Africa, for instance, has finalised an Industrialisation

39 UN Comtrade Database, https://comtrade.un.org/data/, accessed 7 June 2018.

40 *Ibid.*

Draft Action Plan and has identified projects in agro-processing, pharmaceuticals and mineral beneficiation,[41] as well as linkages between sectors and projects that are expected to allow for the creation of sustainable RVCs (see case study 2).[42] It is essential for all SADC member states to distinguish viable from non-viable domestic sectors. Industries that rely on protection and promotion mechanisms must be phased out and replaced with sectors in which a country has a distinct comparative advantage. In other words, instead of developing the same industries throughout the region and competing with one another, SADC member states must emphasise regional complementarity in order to build long and sustainable RVCs.[43] While this would be the ideal way forward, there are several political, economic and social challenges to this scenario. With high unemployment rates and pressure from domestic as well as international stakeholders, governments are obliged to capitalise on every opportunity to create jobs and often find themselves unable to restructure the domestic economy, a step that may cause significant job losses. Particularly, countries such as South Africa that are well positioned to become processors in many different RVCs could draw an unfair benefit from other countries' restructuring efforts. Owing to its lingering unemployment, it will be unable to voluntarily forego this chance in favour of other countries. Two possible ways to achieve regional sector complementarity are to either pursue it gradually through government and donor initiatives or to aim for private sector buy-in, which could see the destruction of jobs immediately followed by the creation of new ones, ideally resulting in overall job growth.

'SADC's strategy documents and protocols have resulted from deep thinking, planning and close interaction by the leaders in SADC. For implementation to occur, a mindset shift is necessary. The secretariat must be further empowered and resourced to enhance its facilitative and executive function. A coordination function in the region's current political economy will not be sufficient to drive necessary development.'

Lesley Wentworth

CASE STUDY 1 MOZAMBIQUE'S SECTOR DIVERSIFICATION[a]

After a decade of civil war, reconstruction efforts in Mozambique took the form of mega-projects focused on rebuilding the country's infrastructure. The construction of the $2.4 billion Mozal aluminium smelter from 1998 to 2003 was Mozambique's primary post-civil war megaproject, a joint venture led by the Australian BHP Billiton, the Japanese Mitsubishi, the Industrial Development Corporation of South Africa, and the government of Mozambique. This joint venture signalled Mozambique's openness to the foreign business sector. Owing to Mozambique's willingness to open up the country to FDI, it was able not only to strengthen its manufacturing infrastructure but also to diversify its export base from agricultural products, dominated by cashew nuts, to a range of minerals and metals, dominated by aluminium from the Mozal smelter.

Currently, the Mozal smelter is the largest industrial employer in the country.[b] With more than 500 000 tonnes of aluminium produced every year, it has also started supplying Mozambique's first downstream aluminium business, which is forecast to boost the local economy. Such developments have attracted significant flows of FDI into Mozambique, contributing to impressive economic growth rates. Mozal, along with megaprojects Sosal and Moma, is estimated to have increased Mozambique's average annual growth by 1% between 1996 and 2006.[c]

41 Personal interview, stakeholder, Pretoria, 12 July 2018.

42 *Ibid.*

43 Personal interview, stakeholder, Pretoria, 10 & 12 July 2018.

However, although Mozambique's megaprojects have boosted its economy in recent years, it has to be wary of overreliance on the development of mineral resources and instead widen its scope of investment. Megaprojects tend to have huge impacts on exports but limited linkages to the local economy. Owing to the intrinsic differences between the large-scale and export-oriented nature of megaprojects such as Mozal and local business, megaprojects may not create an equal share of benefits in the domestic arena.[d]

a Wentworth L, 'Mozambique: Options for Multi-Sector Approaches to FDI', SAIIA Occasional Paper, 237, 2016, p. 10, http://www.saiia.org.za/research/mozambique-options-for-multi-sector-approaches-to-fdi/, accessed 24 July 2018.

b South32, 'What we do: Mozal Aluminium', https://www.south32.net/what-we-do/places-we-work/mozal-aluminium, accessed 12 August 2018.

c Balchin N & P Coughlin, 'Megaprojects and Economic Transformation in Mozambique', ODI (Overseas Development Institute) Briefing Paper, 2018, p. 2, https://set.odi.org/wp-content/uploads/2017/10/Economic-transformation-and-Megaprojects-in-Mozambique-SET-Briefing_Feb-2018.pdf, accessed 13 August 2018.

d UNCTAD, 'Investment Policy Review: Mozambique', 2012, http://unctad.org/en/PublicationsLibrary/diaepcb2012d1_en.pdf, accessed 13 August 2018.

Trade partner diversification

Moving from commodities to export partners, six SADC members rely on a single foreign market for over 30% of their exports.[44] The highest degree of dependence can be found in Zimbabwe, where 79.5% of exports go to South Africa, followed by Swaziland (66% to South Africa), Zambia (44.5% to Switzerland) and the DRC (40.4% to China).[45] Excessive export shares to a single trading partner exacerbate the impact of external market volatility on the domestic economy. This is particularly problematic in the current uncertain trade environment, where Chinese economic growth is slowing and the US is becoming increasingly protectionist.

Non-SADC trade: In order to increase their exports, African countries cannot be picky about their trade partners. The African Growth and Opportunity Act (AGOA) and the EU Economic Partnership Agreements (EPAs) to which some countries have signed up, are examples of global initiatives aimed at supporting the economic development of African countries through preferential trade conditions. AGOA is a US-led programme

44 ITC, *op. cit.* (latest available data).

45 The 2017 data for Zambia and the DRC, 2016 (latest available) data for Zimbabwe and Swaziland.

that gives African countries preferred access to the US market,[46] while the EU EPAs give African, Caribbean and Pacific countries preferred access to the EU market.[47] These agreements allow signatories to expand their exports to the US and the EU, particularly for agricultural products. However, there has been a lack of awareness of the preferential trade conditions available to businesses in the region. Investment promotion agencies and other stakeholders have intensified their efforts to draw attention to export opportunities provided by reduced tariffs, especially to local small and medium-sized enterprises.[48]

Intra-SADC trade: Besides global initiatives, there have also been national programmes aimed exclusively at intra-African trade. For example, with the aim of boosting South Africa's trade and investment with the continent, the Export Credit Insurance Corporation of South Africa and the African Import Export Bank launched the $1 billion South Africa–Africa Trade and Investment Promotion Programme (SATIPP) in June 2018. Besides promoting investment in Africa, the initiative seeks to enhance the export competitiveness of South African companies.[49] The programme shows the country's commitment to intensifying its trade relations with different countries on the continent and illustrates South Africa's ambition to make the continent more self-sufficient by building stable RVCs. However, export-oriented initiatives on the continent have faced controversy given that they primarily promote South African interests, thereby undermining the host country's economic benefits.

CASE STUDY 2 THE MACADAMIA NUT RVC[a]

One example of a promising RVC among South Africa, Mozambique and Malawi is their macadamia nut industry. While the number of plant growers in the three countries has been increasing since 2012, there remain significant limitations when it comes to technological advancement and distribution networks. These shortcomings must be overcome to ensure that regional macadamia nut products are competitive in the global market.

One of the main challenges associated with growing macadamia nut trees is the relatively long waiting period of five to seven years before harvesting is possible. Moreover, irrigation and research facilities, as well as access to advanced technologies, are often limited, especially in Malawi, rendering Malawian nuts uncompetitive vis-à-vis those

46 Prinsloo C & C Ncube, 'Deepening Trade and Investment Relations Post-AGOA: Three Options for South Africa', SAIIA Policy Insights, 36, 23 September 2016, http://www.saiia.org.za/policy-insights/deepening-trade-and-investment-relations-post-agoa-three-options-for-south-africa, accessed 19 May 2018.

47 European Commission, 'The Economic Impact of the SADC EPA Group – EU Economic Partnership Agreement'. Brussels: European Commission, Directorate-General for Trade, 2016.

48 Personal interview, stakeholder, Pretoria, 11 July 2018.

49 South Africa, dti (Department of Trade and Industry), 'Intra-Africa trade received a boost with the launch of $1 billion SATIPP', Media Statement, 26 July 2018, https://www.thedti.gov.za/editmedia.jsp?id=5499, accessed 29 July 2018.

'SADC member states are currently grappling with the balance between policies stimulating domestic industrial development and policies promoting economic growth through openness to regional trade and FDI. A mix of both is essential for sustained regional economic development.'

Chelsea Markowitz

of leading producers such as Australia and South Africa. The limited infrastructure for nut processing in Malawi and Mozambique adds to the production cost of finished macadamia nut products, since transportation from these areas to processing plants in South Africa remains expensive.

To overcome these challenges, the African Development Bank (AfDB) implemented a promotion programme in 1999 to enable Malawian smallholder farmers to overcome the financial and technological challenges associated with growing macadamia nuts. However, when the project was phased out in 2009, it not only had failed to ensure continuity through further government funding but also remained largely unsuccessful in increasing production in the long term. The \$5.58 million initiative failed to get rid of constraints such as high transportation costs and inadequate infrastructure, leading to many farmers' neglecting macadamia nuts after the project ended. Despite this setback, there has been renewed interest in fostering smallholder farmer inclusion in the Malawian macadamia nut industry. While Irish Aid and the Business Innovation Facility have dedicated a combined \$5.75 million to a Strategic Plan 2012–2020 in the industry, AgDevCo, a British social impact investor and fund manager, has invested \$3.5 million and \$2 million respectively in two separate projects in northern Malawi. Structured as a social outreach initiative, the latter project mandates that 30–40% of nuts must be sourced from smallholder farmers, increasing the industry's inclusiveness. There is thus renewed optimism about integrating Malawian farms into the regional macadamia nut industry.

As one of the leading macadamia nut producers worldwide, South Africa has a much more advanced network of farms and processing facilities than Malawi or Mozambique. In 2014 South Africa imported 1 285 633kg of macadamia nuts from the rest of Africa for further processing. With over 700 growers and 10 cracking facilities, South Africa's macadamia nut industry has attracted considerable private sector investment. The region's new industrialisation strategy seeks to further incentivise agro-processing, potentially drawing even more investment into South Africa and the region. Two previous projects illustrate the government and private sector's interest in further expanding South Africa's macadamia nut industry. The first is an initiative supported by the EU through grant funding in Limpopo's Vhembe region. While the project is considered only a partial success as the phase-out led many farmers to switch crops, a sizeable number of farmers still grow macadamia nuts and deliver their produce to the country's processing facilities. The second project, the Ncera community project, is an initiative in the Eastern Cape where communal land is tended by a collective of farmers while other services in the value chain, such as marketing, sales and horticultural services, are also provided in the same area. To date, the project spans 1 000ha and is seen as a promising approach to integrating all activities in the value chain in one area.

Going forward, smallholder inclusion and support mechanisms, as well as further development of processing infrastructure, can help the region become the dominant producer and distributor of macadamia nuts worldwide. The latest industrialisation and infrastructure development efforts in SADC could reduce transportation costs and incentivise the construction of more processing facilities closer to Malawian and Mozambican farms. In order to further facilitate the creation of a macadamia nut RVC, it is crucial that donor and government-led initiatives address financial and technical barriers for smallholder farmers. Given that all three countries in this case study stand to greatly benefit from linking their macadamia nut industries, it is important to uphold the momentum gained in recent years.

a Parshotam A, 'Cultivating Smallholder Inclusion in Southern Africa's Macadamia Nut Value Chains', Occasional Paper, 278. Johannesburg: SAIIA, 2018

LACK OF POLICY HARMONISATION FOR INTRA-SADC TRADE

While national programmes aimed at increasing intra-African trade and reducing tariffs in regional intergovernmental organisations such as SADC have improved regional connectivity in the last decade, NTBs have proliferated as instruments to protect domestic industries. While Article 6 of SADC's Protocol on Trade, which took effect in 2000, commits every member state to abolish NTBs and refrain from establishing new ones, the trade and investment environment in the region remains problematic.[50] In fear of jeopardising their domestic output and having to cope with even higher unemployment and poverty rates, governments frequently invoke Article 21, which allows a member state to temporarily 'suspend certain obligations of this Protocol'.[51] One way in which countries have chosen to protect their domestic industries is by mandating local content requirements, meaning that a certain value has to be added to a product within the producing country in order for it to enjoy preferential market access in another country. While such requirements are often introduced to prevent industries from being pressured by foreign competition, domestic local content requirements for foreign investors increase the inclusion of the domestic workforce and aim to bring long-term benefits to the host country. Industry protection has therefore been a two-sided affair: on the one hand, foreign competition has been prevented from entering the domestic market and, on the other hand, investors have been forced to include the local economy, for the long-term benefit of the host country (see case study 3).

50 SADC, 'Protocol on Trade in the Southern African Development Community (SADC)', 1996, Article 6, https://www.sadc.int/files/4613/5292/8370/Protocol_on_Trade1996.pdf, accessed 17 June 2018.

51 *Ibid.*, Article 21.

CASE STUDY 3 MOZAMBIQUE'S MINING REGULATIONS AND EFFORTS TO CREATE AGRICULTURAL RVCS[a]

While SADC member states have been known to disagree on local content requirements, they still fear outsourcing value-adding and labour-intensive processes leaving the domestic population without much benefit. Mozambique is a good example of how some countries in the region struggle to ensure that industry growth from foreign investment is sustainable in the long term. In order to ensure that the local workforce is included in economic activities, Mozambique has recently tightened its mining regulations and intensified its efforts to develop domestic industries. However, the country's approach to investment regulation and facilitating RVC creation has faced strong headwinds, particularly in the agricultural sector. Before Mozambique can agree to a common policy framework with its SADC counterparts, it will seek to strengthen the domestic economy and develop its domestic workforce, raising the country's resilience to external market pressure.

With the mining sector constituting 62% of all incoming FDI in 2014, the Mozambican government recently implemented a new mining law that increases restrictions on investors. The aim of the legislation is to achieve greater local participation in the extractive sector. Most notably, the law institutes local content requirements for goods and services used in mining, and calls for domestic beneficiation of mineral resources wherever economically feasible.[b] The legislation further restricts exploration licences to a maximum of 25 years and allows only Mozambican legal or natural persons to be issued new mining permits. These requirements are a substantial shift from previous investor-friendly incentivisation frameworks and pose significant challenges to miners, who are often not involved in the beneficiation process. However, the government seems to be committed to creating value-adding industries such as mineral beneficiation.

The new mining legislation mirrors the reform of the oil and gas regulations, which happened at the same time. With an estimated reserve of 200 trillion cubic feet of natural gas in Mozambique's Rovuma Basin, the country is the site of the fifth largest natural gas discovery in three decades. While many new oil and gas projects are anticipated, the 2014 petroleum law's provision that at least 25% of extracted petroleum must serve the domestic market may pose a crucial obstacle. Most of the bidders for these projects intend to export extracted resources and are therefore not interested in selling or processing within Mozambique. However, SADC's Industrialisation Strategy and Roadmap 2015–2063 echoes Mozambique's drive to increase local industry participation, suggesting that investors must anticipate similar restrictions in all SADC member countries.

While the revised mining legislation highlights Mozambique's ambition to derive domestic benefit from mining operations, the Programme of Triangular Cooperation for Agricultural Development of the Tropical Savannahs of Mozambique (ProSAVANA) attracts investment in the domestic agricultural and agro-processing industries. With a mere 3% of total FDI in 2014, Mozambique's agriculture industry remained largely neglected by foreign investors. However, ProSAVANA shows potential not only for fulfilling the region's goal of creating value-adding industries but also for diversifying Mozambique's economy.

Launched in 2009 with a 20-year horizon, the initiative is co-led by the governments of Mozambique, Japan and Brazil and has a budget of $36 million. The intentions behind ProSAVANA are threefold: to improve technology transfer and development in the country, to alleviate poverty in the Nacala Corridor where the project is implemented, and to improve the quality and accessibility of extension services to local farmers.

However, since ProSAVANA is a top–down initiative and mostly fails to take into consideration the conditions of local farmers, it has faced significant resistance from domestic and international stakeholders. Most notably, many farmers in the area practise subsistence farming, as a result of which they resist attempts to convert their small farms into part of a large agro-business. Appealing to the rights of local food producers to refuse participation, international and domestic groups have criticised the government's more aggressive implementation attempts. High-level government officials and businesspeople have increased their efforts to raise awareness of the potential benefits of the initiative, such as crop diversification, increased productivity and more private sector investment. However, in February 2018 challenges to fully implement the project and convince farmers of its benefits remained,[c] undermining the viability of similar projects in the region.

Looking ahead, Mozambique must identify and promote synergies between different sectors, particularly in the development of infrastructure and improvements in the domestic labour force. Since many challenges in the agricultural industry, such as technology and skills development, availability of land, and access to transport and energy infrastructure are shared by other domestic industries, initiatives to alleviate one of these constraints can potentially spill over across various sectors. By identifying commonalities among industries, the local government can form economies of scale to tackle constraints in the business environment and thereby leverage more private sector investment. With a strong economic basic, it will be easier for Mozambique to tap into value-adding industries and establish itself in different RVCs. The result is a decreased reliance on industry protection mechanisms such as local content requirements, ultimately facilitating the establishment of a regional regulatory framework on trade.

a Wentworth L, 'Mozambique: Options for Multi-Sector Approaches to FDI', Occasional Paper, 237. Johannesburg: SAIIA, 2016, pp. 11–19.

b Government of Mozambique, Law No. 20/2014, 18 August 2014, Article 57.

c Parenti E & S Liberti, 'Mozambique's farmers battle to keep land in Nakarari', *Al Jazeera*, 12 February 2018, https://www.aljazeera.com/indepth/features/mozambique-farmers-battle-land-nakarari-prosavana-180205085026683.html, accessed 26 July 2018.

'South Africa with its unique history and peculiar economic structure will inevitably adopt policies that are not in alignment with conventional international norms and standards. The B-BBEE policy, for instance, is intrusive on expectations of many a foreign investor. South Africa needs to strengthen the way it explains policy changes to the international investment community. The termination of bilateral investment treaties, for example, was a huge public relations disaster. With a contested policy trajectory such as B-BBEE and a disastrous neighborhood such as Zimbabwe, South Africa needs to go beyond the bare minimum

Multiple stakeholder interviews have confirmed that the discrepancies among and lack of transparency of the different national policies in the region remain a huge problem.[52] Particularly, rules of origin are a significant obstacle in regional trade, as countries are reluctant to implement a single regional policy. In the case of the EU–SADC EPA, flexible rules of origin have been agreed on, meaning that, for instance, fabric for textile exports can be sourced from outside the region without foregoing preferential market access to the EU.[53] While such a framework is beneficial for SADC, regional negotiations have thus far not produced a common set of rules among SADC member states (see case study 4). National bureaus of standards pose a similar challenge by failing to agree on a regional framework harmonising certification and vehicle requirements.[54]

CASE STUDY 4 INCOMPATIBILITY BETWEEN REGIONAL FRAMEWORKS AND DOMESTIC POLICY

In 2006 a Finance and Investment Protocol (FIP) was added to the SADC treaty to create a common regional investment framework for the coordination of the divergent investment policies of SADC nations. The FIP adopted a non-binding Organisation for Economic Co-operation and Development bilateral investment treaty (BIT) prototype, which provided a common basis for investment agreements, but did not hold each country accountable to the same standards. Because it is non-binding, however, the SADC treaty has proven to be less than effective in creating a common basis for investment in Southern Africa. In addition, the FIP contradicts some SADC nations' own policies for domestic investment and trade, thereby causing difficulties in creating a regional regulatory framework.

Tanzanian Investment Act[a]

The forthcoming revision of the Tanzanian Investment Act aims to create more domestic policy space for the Tanzanian government to regulate its trade and drive industrial investment. However, these revisions contradict some of the provisions set out in the FIP. For example, the FIP does not provide for a screening mechanism, as investors have the right of establishment with the FIP framework. However, revisions to the Tanzanian Investment Act lay out an opaque screening mechanism whereby the minister of trade can designate 'strategic' industries for the country's economy. This runs counter to the FIP's flexible performance requirements, which are only applicable in limited cases for the support of infant industries. In addition, the revisions to the act include distinctions between foreign and local investors, which violate the national treatment principle as highlighted in the FIP. Under international law, the FIP takes precedence over Tanzania's investment policy; however, owing to its non-binding nature, the FIP's provisions have been ineffective in harmonising Tanzania's policy framework with the SADC agreement.

52 Personal interview, stakeholder, Pretoria, 11 & 12 July 2018.
53 European Commission, 2016, *op. cit.*, p. 3.
54 Personal interview, stakeholder, Pretoria, 11 July 2018.

Expiration of Namibia and South Africa's BITs[b]

The problem of a lack of accountability also affects how bilateral treaties are drafted in the Southern African region. Without being legally bound to uphold the model BIT, as noted in the SADC FIP, South Africa has let its BITs expire, which is contradictory to the regional integration objectives of the SADC agreement. Namibia has followed suit. Government agencies, including Namibia's Investment Centre, believe SADC's policies to be recommendations rather than prescriptions. This has fostered the perception that domestic policy can be prioritised over regional economic integration.

a Langalanga A & A Mouzinho, 'Exploring Tanzania's Investment Competitiveness in East Africa', SAIIA Occasional Paper, 267, 2016, p. 7, http://www.saiia.org.za/occasional-papers/1245-exploring-tanzania-s-investment-competitiveness-in-east-africa/file, accessed 26 July 2018.

b Schoeman M, 'Namibia: Towards a Logistics Hub for Southern Africa', Occasional Paper, 236. Johannesburg: SAIIA, 2016, p. 13.

in explaining its policies to an already sceptical audience abroad.'

Azwimpheleli Langalanga

Apart from NTBs in the regulatory environment, barriers to cross-border trade remain. According to the tripartite NTB monitoring mechanism, active complaints in SADC have largely revolved around transport issues at border posts that raise export costs (see case study 5).[55] Challenges are especially severe at the Kasumbalesa and Beitbridge border posts.[56] While NTBs pose significant obstacles to the regional transport network, policymakers are sometimes unaware of NTBs' being enforced at the border.[57] This gap in communication between policymakers and authorities calls into question the effectiveness of regional trade policies.

Signed in October 2017, the Tripartite Transport and Transit Facilitation Programme (TTTFP) aims to address discrepancies between national vehicle and transportation regulations and provides a common framework for the tripartite area: the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and SADC.[58] Its goals are to increase the competitiveness and cost-effectiveness of the region's transport market and to develop harmonised policies for a more coherent enabling environment. The potential benefits for logistically well-positioned countries such as Tanzania and Namibia are enormous. The TTTFP is funded by the EU and is part of a larger EUR[59] 600 million ($694 million) infrastructure fund for the tripartite area.

'The regional integration project in SADC looks very different today to its original intention a decade ago. The plans for a linear integration path, culminating in an economic union based on the EU model, have shifted to a focus on consolidating the free trade area, addressing non-tariff barriers to trade, and harmonising regulation to improve regional investment. Moreover, given the slow pace of member state commitments, the private sector has emerged as the real champion of regional integration in SADC.'

Mark Schoeman

55 Non-Tariff Barriers, 'Active complaints', https://www.tradebarriers.org/active_complaints/page:3, accessed 28 June 2018.

56 *Ibid.*

57 Personal interview, stakeholder, Pretoria, 12 July 2018.

58 SADC, 'Official launch of the Tripartite Transport & Transit Facilitation Programme (TTTFP)', 27 October 2017, https://www.sadc.int/news-events/news/official-launch-tripartite-transport-transit-facilitation-programme-tttfp/, accessed 13 July 2018.

59 Currency code for the EU euro.

While the potential benefits of the programme are significant, its implementation hinges on SADC members' willingness to sign the Vehicle Load Management memorandum of understanding and the Multilateral Cross-Border Road Transport Agreement as primary legal instruments for the initiative.[60] Without these legal instruments to hold member states accountable, full implementation is unlikely.

CASE STUDY 5 HARMONISING REGULATIONS TO IMPROVE THE REGIONAL TRANSPORT NETWORK[a]

Tanzania shows how harmonising national regulations can improve the regional transport network and thereby alleviate one of the most pressing regional NTBs, namely regional discrepancies. The Tanzania Development Vision (TDV), formulated in the late 1990s, aims to raise the country to middle-income status by 2025. Infrastructure has been identified as a crucial area for improvement. In particular, Tanzania's Central and Dar es Salaam corridors, which extend beyond national borders, contribute to the country's regional integration and trade, and are therefore centrepieces of the TDV. These transport networks are also crucial in many regional integration projects for both EAC and SADC countries, with 30% of all offloaded cargo at the Dar es Salaam port destined for landlocked countries westward.

However, these corridors have largely deteriorated because of poor infrastructural upkeep and failed public–private partnership (PPP) projects. In 2001 plans to create a PPP with 51% ownership of the railway line going to the Indian company RITES failed after more than 10 years of negotiations, during which the condition of the railway had worsened. Also, inherent to any large regional project are coordination challenges between the different regulations and policies of each government. In the Central Corridor connecting Tanzania to Uganda, Burundi, Rwanda and the eastern DRC, underinvestment and regulatory difficulties have undermined efforts to upgrade the existing railway line.

While the lack of resource mobilisation for project implementation continues to be a major challenge in developing such infrastructure, much improvement has been achieved through streamlining the transport regulations of the eight countries that the corridor crosses. In order to leverage the benefits of an international transport system, the North–South Corridor Aid for Trade Programme was established by COMESA, the EAC and SADC in order to improve the current state of these corridors, thereby enhancing transportation across the region and increasing the power generation and energy trade potential of the Southern African Power Pool (SAPP). With the North–South Corridor's mainly being funded by donors and development banks, the various financing mechanisms had to be coordinated. Therefore, the Tripartite Trust Account and the Friends of the Tripartite were created, the latter as an engagement forum for donors and other international cooperating partners. Through these forums, priority projects have been developed, resources have been gathered under a single financing mechanism, and a Project Preparation and Implementation Unit has been established.

60 SADC, October 2017, *op. cit*.

Similar improvements have been observed in the Central Corridor's road network. The establishment of the Central Corridor Transit Transportation Facilitation Agency (CCTTFA) in 2006 facilitated transport from the Dar es Salaam port to neighbouring countries. Tasked to resolve soft infrastructure issues, the agency established one-stop border posts (OSBPs) along the corridor, resulting in a decrease in transit time from a few days to a few hours. The CCTTFA also reduced roadblocks from 54 in 2010 to a mere six in 2016, illustrating the positive effect that harmonisation of transport regulations can have.

a Markowitz C, 'Tanzania's Transport Hub: What Prospects for Regional Trade and Local Economic Development?' Occasional Paper, 262. Johannesburg: SAIIA, 2017.

In summary, the most persistent barriers in SADC's enabling environment stem from differences between national regulations. Efforts to remove these discrepancies have yet to bear fruit and remain on the agenda of the TFTA and the AfCFTA negotiations. Other challenges such as access to finance and lack of skilled labour are currently being addressed, although the latter is a domestic issue rather than a regional one.

DOMESTIC INFRASTRUCTURE CONSTRAINTS

The World Bank's Doing Business Report explores the ease of setting up and operating a business in 190 economies by measuring the time, money and number of procedures required to accomplish certain business tasks.[61] In the 2018 survey, SADC countries placed 117th on average, with Mauritius ranking best within SADC at 25th globally and first in Africa (Figure 8).[62] The closest SADC followers were Botswana (81st) and South Africa (82nd). The worst performers in the community were the resource-rich DRC (182n^{d}) and Angola (175th). In the subcategory of cross-border trade, which is particularly relevant when examining regional trade, SADC ranked 118th on average.

The Doing Business Report's quantitative results are complemented by SAIIA's more qualitative 2012 study of the top 10 constraints to investment and development in SADC. According to the study, the most urgent challenges include:[63]

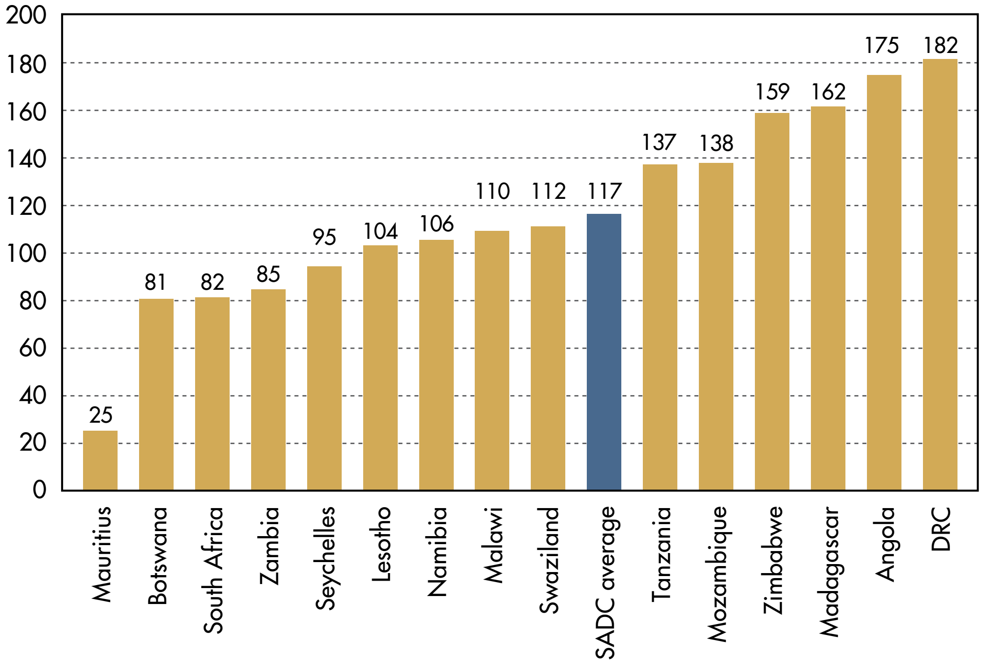
- customs regulation and corruption;
- regulatory transparency and oversight;
- access to finance; and
- access to skilled labour in local labour markets.

61 World Bank, 2018, *op. cit*.

62 *Ibid*.

63 Makokera C *et al*., 'Top 10 Business Constraints in SADC', SAIIA, SADC Business Case Studies, February 2012, http://www.saiia.org.za/sadc-articles/top-10-business-constraints-identified-in-the-sadc-region, accessed 29 June 2018.

FIGURE 8 EASE OF DOING BUSINESS RANKING, 2018



Source: World Bank, 'Doing Business Report 2018: Reforming to Create Jobs', 2018, http://www.doingbusiness.org/reports/globalreports/~/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB18-print-report.pdf, accessed 18 June 2018

According to the 2017–2018 World Economic Forum's Global Competitiveness Index, the average ranking of SADC members' infrastructure is 101 out of 137 countries.[64] Broken into subcategories, this translates into 102 for electricity and telephone infrastructure and 95 for transport infrastructure.[65]

Energy and transport

Estimates by the AfDB suggest that Africa's infrastructure needs \$140–\$170 billion per year, with an annual financing gap of between \$67.6 and \$107.5 billion.[66] In order to address the region's share of this financing gap, SADC launched the Project Preparation

64 WEF (World Economic Forum), 'Global Competitiveness Index 2017–18: Transport infrastructure', http://reports.weforum.org/global-competitiveness-index-2017-2018/competitiveness-rankings/#series=GCI.A.02.01, accessed 17 June 2018.

65 *Ibid.*

66 Wentworth L *et al.*, 'SADC Regional Development Fund: Operationalisation Imminent?' GEGAfrica Discussion Paper, 2018, http://www.gegafrica.org/item/718-sadc-regional-development-fund-operationalisation-imminent, accessed 17 July 2018.

and Development Facility (PPDF) in 2012 with the Development Bank of Southern Africa (DBSA) acting as its implementation agent.[67] The institution aims to facilitate the implementation of the Regional Infrastructure Development Master Plan (RIDMP) by providing support for project preparation, including feasibility analyses and technical assistance.[68] Most prominent among the areas for investment under the RIDMP are the energy and transport sectors, which account for more than 90% of the total initial investment costs (see case study 6).[69]

CASE STUDY 6 TANZANIA'S ENERGY INFRASTRUCTURE[a]

To illustrate the shortcomings of the regional energy infrastructure, Tanzania is a case in point for how infrastructure deficiencies are not isolated but often accompanied by regulatory discrepancies. The country's difficult demographics and untapped renewable energy potential add to the pressure on the state-owned enterprise (SOE) responsible for energy production, Tanzania Electric Supply Company Limited (TANESCO). Uncertainties around the company's financial stability and expansion plans deter private investment, leaving a wider financing gap for donors and the government to fill. To meet the country's goal of greater access to electricity, it is crucial to resolve TANESCO's financial situation and prioritise alternative energy generation methods, such as mini-grids.

Of Tanzania's total power generation capacity, roughly one-quarter consists of hydropower while more than 70% is electricity from fossil fuels. TANESCO is responsible for 60% of domestic power output, down from almost 100% in the early 2000s. Most recently, load-shedding has afflicted many households. TANESCO's efforts to overcome this problem have been costly, owing to the company's decision to draw on petroleum generators for additional energy. Droughts and higher oil prices have an enormous impact on the country's energy supply, increasing domestic vulnerability to power outages. This inability to meet the domestic energy demand highlights the need to better connect Tanzania's central grid with the SAPP and the Eastern African Power Pool (EAPP), two energy transmission networks that allow for the export of excess electricity among connected countries with the aim of increasing energy efficiency and security.

In 2015 Tanzania imported a mere 15MW from neighbouring countries – less than 1% of its total energy consumption. This low rate of energy trade is largely owing to the small interconnectors with the EAPP (132kV) and the fact that the country has yet to be connected to the SAPP. Planned interconnectors with Burundi, Rwanda and Uganda (200kV) as well as Kenya (400kV) are likely to lead to greater energy trade between

'SADC has made significant strides to improve trade and investment relations among its member states over the past decades. Yet many of the systemic barriers that persist require greater political commitment from member states to resolve.'

Cyril Prinsloo

67 SADC, Project Preparation & Development Facility, 'Aim of the PPDF', http://www.sadcppdf.org/#top, accessed 17 July 2018.

68 *Ibid.*

69 SADC, 'Regional Infrastructure Development Master Plan: Executive Summary, August 2012', p. 17, https://www.sadc.int/files/7513/5293/3530/Regional_Infrastructure_Development_Master_Plan_Executive_Summary.pdf, accessed 17 July 2018.

'Regional integration in SADC has been a slow process. The focus now on industrialisation and the creation of regional value chains is focusing member states' attention on the importance of trade facilitation, which in turn is giving intra-regional trade a boost. However, concerted and sustained efforts need to be made to deepen the gains made.'

Talitha Bertelsmann-Scott

Tanzania and its neighbours. These projects must be implemented as soon as possible to ensure Tanzania's energy supply can keep up with the higher demand from increased economic activity. However, TANESCO's financial difficulties and the resultant political scrutiny undermine the government's expansion plans for the SOE. For instance, in an attempt to make TANESCO profitable, the government hired a private firm from 2002 to 2006 – a move that was met with widespread suspicion. Not only were the fees paid to the company queried but the economic results were also disappointing. It is crucial that TANESCO is perceived as credible and transparent if it is to attract funding for projects to connect the country's energy grid with the SAPP and EAPP.

To overcome TANESCO's financial issues and ensure fiscal stability, Tanzania has received the support of the AfDB, the World Bank, the EU and the UK's Department for International Development (DFID). With a combined $370 million in loans and $205 million in grants, the Tanzania Power Sector Reform and Governance Support Programme (PSRGSP), as the initiative is formally known, will seek to secure the company's financial viability and thereby prevent a fiscal disaster should TANESCO collapse. Particularly important to the PSRGSP is the AfDB's expertise in supporting unstable SOEs in Africa. It is hoped that the AfDB will address both soft and hard infrastructure issues. The initiative is an encouraging step to alleviate Tanzania's decade-long struggle for energy security – thus far, only 16% of the total population has access to the grid.

The country's low population density and growing mining industry pose further challenges to domestic electricity supply, as demand is spread out over large areas. Like many of its SADC counterparts, Tanzania sees most investment in its mining sector, and it is difficult and expensive to connect distant mining sites to the central electricity grid. And even if these mines are connected the local population does not benefit, since mining sites are typically far from cities and villages. This has led to the exploration of alternatives, such as hydro- and diesel-powered mini-grids, for meeting the energy demands of mines and small villages not connected to the central grid. Although the number of mini-grids has remained limited, with 13 hydro- and 20 diesel-powered grids as of 2017, many foreign-owned companies are attracted by Tanzania's favourable conditions for renewable energy generation. As in many other regions in Africa, solar energy has received the most attention for both on- and off-grid electricity generation. Theoretically, Tanzania's required energy capacity could be met with solar fields covering 0.02% of the country's total land mass. To incentivise investment in solar energy, the government has abolished both value-added tax and import duties on key components for solar energy generation.

Although independent power producers (IPPs) have been active in the domestic energy sector for a long time, efforts to expand the central energy grid remain slow and uncertain owing to private companies' unwillingness to enter into PPPs with TANESCO. Even IPPs that plan to build independent mini-grids face difficulties, since the costs of off-grid electricity tend to be higher, and an unexpected expansion of the central grid could mean the failure of a project. In order to ensure electricity access for the entire population, Tanzania will first have to resolve the financial and regulatory uncertainties surrounding TANESCO to attract private sector participation in the expansion of the central energy grid and, second, further prioritise small-scale energy projects, especially in renewable energy, to ensure energy supply for areas that are isolated from the central grid. If constraints in the enabling environment remain, the private sector is unlikely to participate in the development of regional energy infrastructure and the enormous financing gap will have to be filled by the public sector and multilateral development banks.

a Prinsloo C & T Bertelsmann-Scott, 'Power and the Private Sector in Tanzania: Prospects for the AFDB's High Fives Strategy', Occasional Paper, 272. Johannesburg: SAIIA, 2017.

In August 2017 SADC approved the operationalisation of its long-anticipated Regional Development Fund (RDF),[70] which is expected to integrate the PPDF. The largest portion of the fund's initial capitalisation is expected to come from SADC member states. While the fund's mandate is much broader than that of the PPDF, there are significant opportunities to transform the way regional infrastructure projects are selected and financed. Unlike the PPDF, current plans aim to see the RDF become financially sustainable in the long term. Success fees, which channel financing from lucrative operational projects into the preparation of new projects, have been identified as one possible method to ensure economic sustainability.[71]

However, fiscal difficulties raise uncertainty about SADC member states' ability to contribute their share of the $120 million of initial seed funding.[72] Managed by the DBSA and reliant on donor funding, the PPDF has been scrutinised for potentially over-representing South African and international interests, which have called for the creation of a more equitable and sustainable development fund. If funding for the RDF similarly consists of contributions from only a handful of SADC members, the fund also runs the risk of being politically one-sided.

Of the prioritised projects under the PPDF's RIDMP, 73 relate to road transport and 18 will see the creation of OSBPs,[73] aiming to address the problem of delays in cross-border transport. However, the lack of significant project progression undermines the effectiveness of the RIDMP in closing the regional infrastructure gap. One example is the conversion of the Beitbridge border post into an OSBP,[74] which was meant to be

70 Wentworth L *et al*., *op. cit*.

71 *Ibid*.

72 *Ibid*.

73 C-BRTA (Cross-Border Road Transport Agency), 'Annual State of Cross-Border Operations Report', March 2018, p. 49, http://www.cbrta.co.za/uploads/2018-03-20-ASCBOR%20-%20FINAL%20(13%20MArch%202017).pdf, accessed 17 July 2018.

74 Personal interview, stakeholder, Pretoria, 12 July 2018.

finalised by 2014[75] but remained pending at the time of writing. Lack of political will owing to sensitive domestic industries has been cited as the reason for the delay, as the necessary infrastructure has long been in place.[76] Politics' adverse impact on infrastructure development reaches beyond border posts and includes the selection process of projects to be supported under the RIDMP. Political interference in the choice of prioritised infrastructure projects undermines the financial viability of these projects and decreases private sector participation.

Public–private partnership solutions: PPPs have become popular vehicles to drive infrastructure development (see case study 7). However, there are persisting barriers on both the public and private side. While public entities are concerned about ensuring that profits are shared equally and that prices for consumers remain low, private corporations tend to mistrust the legal safeguards in host countries and are generally disinclined to engage in long-term projects as it increases their risk. For the sake of transparency and accountability, it is important that governments make their development projects as comprehensive and unbiased as possible, as the private sector will otherwise not be willing to enter into PPPs.

CASE STUDY 7 TANZANIA AND NAMIBIA AS LOGISTICAL HUBS[a]

In order to address persisting domestic infrastructure shortcomings and make use of its strategic location to become a logistics hub for Southern and Eastern Africa, Tanzania created three Five-Year Development Plans (FYDPs) in 2011. These FYDPs facilitate the implementation of the broader TDV mentioned in case study 5. With infrastructure development one of the five key pillars of the first FYDP, particularly in energy and transport, the first plan saw roughly 60% of its objectives achieved. The lack of resource mobilisation for project implementation was one of the main constraints during the first FYDP. The second FYDP will again see transport as a key component, with a particular focus on developing the Central Corridor road and railway network.

At the heart of Tanzania's transport network is the Port of Dar es Salaam, which handled roughly one-fifth of the annual cargo of Africa's largest port (Durban) in 2015. Since 2004 the port has been operated through PPPs between the Tanzania Port Authority, a local SOE, and sub-contractors responsible for operating the port. One example is the concession of berths 8–11 to Tanzania International Container Services (TICS), a joint venture with 70% foreign ownership. The model has been lauded for alleviating some of the inefficiencies of the terminal, partly through TICS's ability to mobilise more money than public entities could. Over the past 10 years the company has invested $100 million in the port, with a further $20 million used for new cranes. Because of the perceived success of the PPP and to spur competition, there are talks about using the same approach for berths 5–7.

75 SADC, 2012, *op. cit.*, p. 30.

76 Personal interview, stakeholder, Pretoria, 12 July 2018.

Although improvements have been achieved, the dwell time at the Dar es Salaam port (nine days) remains much longer than that at other ports, with five days at the Mombasa port in Kenya, for example. Slow customs procedures and congestion caused by inadequate handling equipment and a limited number of berths are cited as the main reasons for the long dwell time. However, current efforts to upgrade the port, supported by financial contributions from the World Bank, the UK's DFID and TradeMark East Africa, have kept to the schedule and will see the construction of three additional berths as well as dredging to allow bigger ships to access the harbour.

Namibia is similarly well positioned to become a logistical hub serving landlocked SADC member states and, like Tanzania, followed a five-year development agenda called the National Development Plan (NDP). The most recent version, the NDP4, concluded in March 2017 and identified logistics as a priority sector because of the expected increase in demand for logistics services, given the economic growth in the region. Moreover, Namibia enjoys good diplomatic ties with neighbouring countries Zambia, Zimbabwe and Botswana, which have been formalised in bilateral agreements guaranteeing port space at Walvis Bay. With its small domestic consumer market of roughly 2 million people, Namibia depends on the development of cross-border industries such as logistics for its own economic growth.

In comparison to the Dar es Salaam port, the Port of Walvis Bay is much more efficient, with container cargo being offloaded and loaded again in 24 hours. From there, goods usually arrive at their SADC destination in two to five days, highlighting the efficient transport networks from the port. However, increasing cargo volume over the last few years could jeopardise the country's efficient network, causing congestion at the port and on the roads. In 2005, 145 000 20-foot equivalent units (TEUs) of cargo were landed in Walvis Bay and transported through the feeding corridors. This number rose to 205 991 TEUs in 2017.[b] Since transit and trans-shipment constitute the majority of the cargo landing at the port, the facility needs to expand in order to maintain its competitive edge. The Namibian Ports Authority (Namport) has started implementing two projects, one of which will see the construction of a new container terminal to increase storage capacity. The second project, far larger than the first and planned over the medium term, consists of the SADC Gateway Port, which is expected to increase the port's size 10-fold. When finished, the facility will provide a host of different functions, from a liquid bulk terminal to passenger jetties, and thereby ensure the future competitiveness of Namibia's logistics sector.

To increase efficiency and outsource tasks that Namport cannot perform, Walvis Bay has also seen the creation of PPPs to take over certain parts of the port operation. For instance, cargo handling at one of the terminals is done by South African-owned Grindrod, and the new cargo terminal is being constructed through a joint venture between a Namibian SOE and a private Chinese firm. This model has also been applied to the development and maintenance of the Walvis Bay corridors – the transport networks connecting the port to neighbouring countries. Known as the Walvis Bay Corridor Group, this PPP has received considerable support from South African and Chinese investors for the development of road and railway infrastructure. Even Namibia's aviation sector has attracted substantial FDI from foreign companies, with Chinese-owned New Era in charge of constructing the new Walvis Bay airport and Germany's Rhineland Air Services GmbH buying the Aviation Centre in Windhoek. All these examples of private sector participation illustrate how PPPs can contribute significantly to the development of sustainable domestic industries.

a Schoeman M, 'Namibia: Towards a Logistics Hub for Southern Africa', Occasional Paper, 236. Johannesburg: SAIIA, 2016.

b Namport (Namibian Ports Authority), *Group Annual Report 2016–2017*, 2017, https://www.namport.com.na/files/documents/ff4_2016_2017%20Namport%20Annual%20Report.pdf, accessed 13 August 2018.

While there are many different PPP models, the most widely used form is concessions.[77] This type of partnership involves, for instance, the subcontracting of port terminal operation or road maintenance to private companies. Concessions are popular as they do not face the risks inherent in project planning and implementation, but only focus on operational tasks. This allows private entities to make a profit from the start of their contract rather than having to bridge an initial period of high costs until revenue streams start flowing in, as would be the case in most construction projects. Apart from the lower financial risk, private companies' hesitancy to form PPPs of a different type, such as joint venture agreements, also stems from the lack of legal frameworks to safeguard their investments in case of disputes. This fear is particularly prevalent in emerging countries, where project implementation is perceived to be relatively poor and overly politicised, preventing foreign-owned entities from accessing legal recourse. Governments' inability to realistically assess project risks exacerbates this challenge, since the increased risk of project failure makes private sector involvement unfeasible.

CASE STUDY 8 PRIVATE SECTOR PARTICIPATION IN TANZANIA'S TRANSPORT INFRASTRUCTURE DEVELOPMENT[a]

Public entities are often also suspicious of PPPs, fearing that private corporations will be unwilling to share benefits equally and that consumers will ultimately face high costs. This latter concern is most relevant to road development projects since these are most frequently used by the local population, while ports and railways tend to focus on the movement of cargo. The Tanzanian government's suspicion of PPPs mentioned in case

77 Markowitz C, *op. cit.*

study 5 is a case in point. While there have been major communication challenges between private and public entities, host countries' failure to clearly allocate responsibility for PPPs within their internal political structures also undermines the negotiation process. In order to address the problem, Tanzania amended its PPP Act in 2015, restructuring the relevant authorities and setting up a fund to finance PPP engagement with high domestic growth potential. Resolving the information discrepancy and mutual suspicion between potential PPP partners is crucial in making this form of FDI a viable source of financing for regional infrastructure development.

While PPPs have recently gained a lot of momentum in the construction and maintenance of infrastructure, other sectors remain more popular for FDI. In 2013 foreign investment in Tanzania's transportation and storage infrastructure was a mere $65.6 million, while FDI in mining and quarrying ($6.8 billion), manufacturing ($2.4 billion) and financial services and insurance ($1.6 billion) was much higher. This data highlights the popularity of more lucrative and predictable projects that are unlikely to face state interference. Infrastructure development, on the other hand, remains an overly politicised process in many SADC countries.

As such, attracting FDI is generally a complex affair for governments since it is difficult to strike a sustainable balance between investor incentives and local inclusion requirements. The revision of national investment frameworks in many SADC member states has seen more stringent conditions for foreign investors, ensuring technology and skills transfers for the long-term benefit of the local population. Of Tanzania's 2011–2012 overall FDI, construction and transportation have been most beneficial to domestic employment, creating 25% and 19% of all investment-created jobs respectively. While PPPs are an opportunity to finance regional infrastructure development, governments must avoid deterring the private sector through excessive political involvement.

a *Ibid.*

Financial inclusion

With regard to financial inclusion, studies have found that while microfinance institutions have opened the credit market to smallholder farmers and entrepreneurs, the rates of such loans are often prohibitively high. For instance, in Malawi and Mozambique, microfinance interest rates for a loan of up to $3,145 are on average around 80% per year.[78] By charging exorbitant rates, microfinance institutions fail to support inclusive finance for low-income households and potential exporters. The issue of small, medium and micro-sized enterprise (SMME) financing is one of the central considerations of the SATIPP, which

78 MFTransparency (Micro Finance Transparency), http://www.mftransparency.org/, accessed 18 June 2018.

guarantees financial support for export-oriented companies.[79] With a similar goal, the EU's External Investment Plan (EIP) is expected to leverage up to EUR 44 billion ($50 billion) in investments for African companies. The EIP was signed in 2017 and consists of a Guarantee Fund with a total contribution by the EU of EUR 1.5 billion ($1.7 billion) by 2020, as well as blending facilities (EUR 2.6 billion [$3 billion] by 2020) that aim to improve access to finance for African SMMEs.[80] The EIP supports the region's ambition for industrialisation and RVC development by supporting companies that play a critical role in linking to domestic sectors and producing a range of different goods and services.

CASE STUDY 9 FINANCIAL INCLUSION IN MALAWI [a]

The high cost of financing – owing to the lack of reliable information on borrowers – and the asymmetry of information regarding alternative sources of financing are primarily responsible for farmers' inability to upscale and insure their business operations.

In 2014, 91% of Malawians were involved in agriculture while 86% depended on it as a major source of income. The lack of irrigation infrastructure and advanced technologies, as well as the country's volatile climate, thus jeopardises the livelihood of the majority of the population. Without access to affordable financing, farmers are unable to increase productivity by buying more advanced equipment or improved crop seeds, or by installing irrigation. However, commercial banks and private lenders struggle to assess the default risk of their customers. Perceived risk must be included in the calculation of interest rates, and since many people living in rural Malawi lack any form of credit history or standardised documentation, banks are particularly cautious in extending credit to them. The disparity between the information lenders is expected to provide and the real information available to them demonstrates the different business cultures of the two stakeholder groups. Commercial banks tend to tailor their products to the needs of urban companies that they know much better than rural farmers, leading to a lack of suitable products for the rural population. This market discrepancy is amplified by the communication gap between rural communities and banks, most importantly caused by a difference in language as well as a lack of advertisement in rural areas. The result is that in 2014 a mere 8% of Malawians received their wages through a formal bank account.

The rise of digital financial services (DFS) provides an opportunity to increase financial inclusion and allow rural residents to make financial transactions at a low cost. Since about 72% of Malawians had access to a mobile phone in 2014, there is a significant potential for DFS without the necessity of any physical infrastructure such as ATMs or branches (except for initial deposits). However, in the same year, only 4% of Malawians actually used mobile money services, indicating that much needs to be done before DFS can be considered a solution to financial exclusion.

79 South Africa, dti, 2018, *op. cit.*; European Commission, 'The EU's External Investment Plan: First projects in Africa and the neighbourhood', Press Release, 11 July 2018, http://europa.eu/rapid/press-release_IP-18-4385_en.htm, accessed 17 July 2018.

80 European Commission, 2018, *op. cit*.

As the main challenge identified in the study, the asymmetry of information between the formal banking sector and the informal agricultural sector must be overcome if access to finance is to be improved. Although unlikely, lenders could be urged to refine pricing methods to align more accurately with the financial conditions of potential customers. Alternatively, the creation of cooperatives and agricultural producers' organisations could help smallholder farmers engage more effectively with commercial banks and thereby secure better rates for loans. Risks can be spread by having a collective of farmers as a customer rather than individual farmers, who tend to pose a higher default risk for banks.

a Carr M & M Schoeman, 'Access to finance in Malawi', in *Regional Business Barriers: Unlocking Economic Potential in Southern Africa*, GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH) & SAIIA, 2014, pp. 23–30, http://www.saiia.org.za/news/regional-business-barriers-unlocking-economic-potential-in-southern-africa, accessed 18 June 2018.

b In Tanzania, for instance, customary law does not allow for land rights in support of using property as collateral. Farmers are therefore often classified as high-risk customers even though they possess land. See Parshotam A, 'Harnessing Investment in Tanzania's Agricultural Sector for Inclusive Growth: Where to From Here?', SAIIA Occasional Paper, 260, 2017, http://www.saiia.org.za/occasional-papers/harnessing-investment-in-tanzania-s-agricultural-sector-for-inclusive-growth-where-to-from-here, accessed 16 June 2018.

Labour shortage

Shortages of skilled labour supplies in local labour markets continue to jeopardise the region's industrialisation agenda. As foreign firms often prefer to hire abroad, particularly for positions that require more technical or managerial expertise, this problem has not been resolved by the entrance of foreign businesses or investment in the region. This is especially concerning, as countries that need human capital performance requirements the most are often those that have the scarcest supply of skilled labour. Therefore, restrictive measures to encourage local labour sources tend to backfire.[81]

CASE STUDY 10 DEALING WITH A SKILLED LABOUR SHORTAGE

Restrictive labour legislation often discourages foreign firms from entering SADC countries. For example, the control of foreign skills in Namibia, whereby foreign nationals working in Namibia are only granted temporary work permits, lowers the chance of companies' needing skilled workers settling and investing locally.[a] Tanzania's Employment Promotion Service Act requires that when firms hire foreigners, they assign a Tanzanian understudy to that foreign national. Although a commendable policy, the need for excessive personnel

81 Schoeman M, 'Namibia: Towards a Logistics Hub for Southern Africa', SAIIA Occasional Paper, 236, 2016, p. 11, http://www.saiia.org.za/research/namibia-towards-a-logistics-hub-for-southern-africa/, accessed 25 July 2018.

training, owing to the low skills base of the Tanzanian workforce, could discourage foreign investors from operating in the country.[b]

In certain cases, depending on the source of foreign investment, human capital requirements may be more effective. For example, countries such as Germany have a highly skilled labour force but deal with a shrinking population. Therefore, German firms operating internationally prioritise local skills development and training. An instance of this was the German cement manufacturer Schwenk's work on the Ohorongo Cement Plant in Namibia; its $1.5 billion investment included a skills development component whereby Namibian workers were sent to Germany to receive technical training. However, such an approach is not effective for labour-rich countries such as China. In Namibia's construction sector, where Chinese investment dominates, there has been criticism of low contributions to local employment or skills training. Mandatory human capital requirements in the absence of a sufficiently skilled labour supply can greatly increase inefficiencies and costs for foreign firms, thereby driving down much-needed foreign investment in SADC countries.

Governments must therefore look at an incentives approach in conjunction with human capital requirements, rather than enforcing such requirements alone, as the two in tandem can tackle the issue of local skills development and employment while retaining investors in the region. The issue may be best approached by incorporating private sector solutions, leveraging corporate social investment. For example, this issue has recently been addressed in South Africa through the introduction of the Youth Employment Service (YES), an initiative led and supported by the private sector. The programme, launched in March 2018, gives tax incentives to companies providing young workers with internships, apprenticeships or learnerships.[c] YES aims to create more than 1 million opportunities for the country's youth within the next three years, thereby helping to reduce the high youth unemployment rate in South Africa.[d] As part of YES, Volvo has committed ZAR 25 million ($1.86 million) to various job opportunities for young workers in the country, illustrating that there is buy-in from the private sector.[e] If successful, YES can serve as a framework for other countries to attract companies by facilitating labour market access at a low cost to investors.

a *Ibid.*

b Langalanga A, *op. cit.*

c YES (Youth Employment Service), https://www.yes4youth.co.za/, accessed 17 July 2018.

d *Ibid.*

e Frankson L, 'Volvo SA pours millions into youth development', Infrastructure News, 21 May 2018, http://www.infrastructurene.ws/2018/05/21/volvo-sa-pours-millions-into-youth-development/, accessed 17 July 2018.

POLITICAL-ECONOMIC CONSTRAINTS

Given that most barriers to trade and investment in SADC can be traced back to differences in national interests and the ensuing regulatory discrepancies among member states, the recent trend towards broader liberalisation seems counterintuitive. Theoretically, the failure to reach a regional consensus on sensitive trade issues suggests that broader economic integration is even more unfeasible. However, the high-level political momentum of the AfCFTA indicates that there is substantial support for broader integration. This implies either that countries advocating increased liberalisation aim to circumvent non-participants in their REC by expanding the FTA to include more willing participants, or that member states seek to pressure non-participants to comply by indirectly threatening them with economic exclusion. In the first case, it would not matter if countries failed to implement the agreement as long as those countries that were willing to participate opened their markets. The consequence would be a 'selective' FTA in which countries chose to which partners they granted preferred market access.

CASE STUDY 11 POLITICAL CHALLENGES OF SOUTH AFRICAN SUPERMARKET CHAINS

The liberalisation of markets in many SADC countries has caused political-economic controversies in the past, thereby undermining the viability of even broader economic integration. As a prime example of difficulties stemming from the unequal economic conditions in the region, the South African supermarket chain Shoprite, one of the largest supermarket chains in Southern Africa, has faced significant political backlash. Tensions between the local agricultural sector and the company ultimately led the Tanzanian government to condemn the supermarket chain's practices. The lack of inclusive economic growth has long put pressure on larger economies in the region, particularly South Africa, and their advantages are seen as unfair and harmful to local industries. Higher levels of local procurement and value chain inclusion can alleviate some of the negative perceptions of large supermarket chains and must therefore be prioritised by both governments and private companies.

While supermarket chains are a relatively recent phenomenon in Tanzania, they provide an opportunity to reform the way in which local food systems operate. Retailers can link farmers to wholesalers and thereby integrate local supply chains, ultimately facilitating the selling of local goods and offering a wider variety of products to consumers. Sourcing goods from various suppliers and selling them in one common marketplace makes food more accessible to urban and rural communities and puts downward pressure on food prices. In theory, therefore, supermarket chains provide a unique opportunity to streamline supply chains and reform the way products get from the producer to the consumer.

Shoprite has come under scrutiny for failing to include local suppliers in its procurement process. Before being bought by Nakumatt in 2014, Shoprite's Tanzanian chain procured 25% of fruits and 60% of vegetables locally, while its overall procurement from South

'Regional commitment to developing value chains might exist at a secretariat level but SADC members continue to grapple with weak infrastructure regimes and inadequate domestic policy processes, despite some implementing attractive incentive mechanisms. Member states remain constrained by their extremely different development levels and poor industrialisation bases. Consequently, regional cooperation on an implementation level remains constrained by political, infrastructure and economic factors.'

Asmita Parshotam

Africa constituted up to 80%. Although such a high share of international procurement increases intra-regional trade, it is detrimental to local food producers, who are not only unable to compete with the low prices offered by supermarkets but also deprived of a marketplace to offer their products. Since large retail chains enjoy significant first-mover advantages in the region by using their scale to secure the best locations for their stores, local food producers struggle to bring their goods to consumers. It is therefore unsurprising that the domestic food industry in many SADC countries is opposed to market liberalisation, since opening markets to international competition would jeopardise their businesses.

While it is easy to dismiss supermarket chains as unwilling to engage with the local industry, Shoprite did attempt to develop local procurement channels, which simultaneously led to Tanzanian products' being offered in stores outside the country. It is also important to note that local procurement is much cheaper, given the high cost of regional transportation. However, smallholder farmers' inability to meet the quality standards and quantity requirements of large retailers often hinder their inclusion in the procurement process. The small size of local farms and uncertainty surrounding their harvest make it difficult for supermarkets to source directly from them, instead buying primarily from larger agro-businesses. With the majority of Tanzania's agricultural sector comprised of smallholder farmers, it is important to overcome local producers' barriers to linking into supermarkets' supply chains. Engaging co-operatives and local agents who understand the domestic industry is crucial in ensuring that supermarkets are adaptive to the local consumer base and therefore sustainable in the long term. However, it is important that such commercial arrangements between wholesalers and farmers do not cause an imbalance in bargaining power but instead promote the further development of smallholder producers.

Imbalances in companies' access to value chains tend to be exacerbated in a more integrated regional economy, which explains smaller countries' resistance to market liberalisation. Hostile perceptions of South African retailers in Tanzania are only one example of how the lack of supply chains between local producers and foreign wholesalers has undermined economic integration. In order to ensure that food procurement is not exclusive to South Africa and that local smallholder farmers have an opportunity to participate in supply chains, it is important to set up local support systems and regulatory frameworks. The example of Shoprite illustrates how exclusive economic growth in one country is unlikely to be sustainable, given the political backlash it triggers.

a Parshotam A, 2017, *op. cit.*

b Wagner J *et al.*, 'Supermarket food procurement practices in Dar es Salaam: Risks and benefits for rural smallholder farmers', *Undercurrent Journal*, XII, 1, 2016, p. 37.

c Arndt C & S Roberts, *op. cit.*

While some countries will face initial economic setbacks when lifting trade barriers, the benefits from increased trade levels and RVC linkages are likely to outweigh these negative effects, especially if NTBs are addressed as part of the FTA agreement.[82] While roughly 60% of the TFTA has been agreed upon, the more controversial sector agreements are still outstanding.[83] Recently, there has been a lack of progress owing to the restrictive funding mechanism for negotiations. SADC is 90% donor-funded and depends on member states to offer to host negotiations. The recent lack of offers (because of the high associated costs) jeopardises the timely completion of the agreement. Stakeholders have also indicated that the shift in attention from the TFTA to the AfCFTA has caused a corresponding diversion of funding. This poses a substantial problem, since the TFTA is meant to serve as a framework for the AfCFTA and progress made in TFTA negotiations will significantly expedite negotiations at a continental level. The loss of momentum and funding for the TFTA is therefore troubling as it indirectly undermines the AfCFTA by requiring continental negotiations to start from the ground up.

82 Email interview, stakeholder, 4 July 2018; Mevel S & S Karingi, 'Deepening Regional Integration in Africa: A Computable General Equilibrium Assessment of the Establishment of a Continental Free Trade Area followed by a Continental Customs Union', UNECA (UN Economic Commission for Africa), 2012, p. 22, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Knowledge/Deepening%20Regional%20Integration%20in%20Africa%20A%20Computable%20General%20Equilibrium%20Assessment%20of%20the%20Establishment%20of%20a%20Continental%20Free%20Trade%20Area%20followed%20by%20a%20Continental%20Customs%20Union.pdf, accessed 17 July 2018.

83 Personal interview, stakeholder, Pretoria, 12 July 2018.

CHAPTER 4

CONCLUSION

SADC's aim of deeper regional economic integration continues to depend on the effective implementation of current initiatives. While there is a host of different programmes and institutions addressing barriers to trade and investment, member states' compliance will determine whether these measures are successful in their objective of industrialising and further integrating the region. Recent data shows the difficulty of achieving stable economic growth, with many countries relying on primary commodities for a large share of their exports. While intra-regional trade and investment will continue to be influenced by global commodity prices in the foreseeable future, it is essential that SADC member states concentrate their efforts on developing viable domestic sectors. This means that governments must realistically assess the domestic economic landscape and identify sustainable industries in which the country has a regional comparative advantage. National industrialisation policies will be effective only if they do not promote one and the same industry across the region, as has been the case with mining in the past.

While financing regional infrastructure remains a necessity for economic development in SADC, intra-regional coordination must complement these efforts. The failure to overcome political differences and the inability or unwillingness to hold each other accountable for implementing agreements suggest that deeper economic integration can be difficult in the long run. However, there is substantial momentum towards broader integration through the TFTA and the AfCFTA. While not all members of these agreements will face the same initial economic setbacks from removing trade barriers, the expected net effect on the continent is clearly positive.

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