

## **Promoting Regional Integration in SADC**

Henning Andresen (ext.)  
Hartmut Brandt  
Hans Gsänger  
Uwe Otzen  
Regine Qualmann  
Heinz-Michael Stahl (ext.)



GERMAN DEVELOPMENT INSTITUTE

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German Development Institute  
Tulpenfeld 4 · D-53113 Bonn  
Telephone (0228) 94927-0 · Fax (0228) 94927-130  
DIE@die-gdi.de  
www.die-gdi.de  
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## Abbreviations

ACP	African Caribbean Pacific (Countries)
AfDB	African Development Bank
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung
CBI	Cross-Border Initiative
CDG	Carl Duisberg Gesellschaft
CGIAR	Consultative Group of International Agricultural Research
CMA	Common Monetary Area
COMESA	Common Market of Eastern and Southern Africa
DBSA	Development Bank of Southern Africa
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DSE	Deutsche Stiftung für Internationale Entwicklung
EAC	East African Community
EFTA	European Free Trade Area
EU	European Union
FANR DU	Food Agriculture and Natural Resources Development Unit
FISCU	Finance and Investment Sector Co-ordination Unit
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GEF	Global Environment Facility
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HDI	Human Development Index
HPI	Human Poverty Index
HRD	Human Resources Development
IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
ILO	International Labour Organization
IMF	International Monetary Fund
IOC	Indian Ocean Cooperation
KfW	Kreditanstalt für Wiederaufbau
LDC	Least Developed Country
OPDS	Organ on Politics, Defence and Security
RSA	Republic of South Africa
REPA	Regional Economic Partnership Agreement
SACCAR	Southern African Centre for Co-operation in Agricultural Research
SACU	Southern African Customs Union

SADC	Southern African Development Community
SADCC	Southern African Development Coordination Conference
SADC-FSP	SADC Food Security Programme
SAEN	Southern African Enterprise Network
SAFRI	Southern Africa Initiative of the German Industry
SAPP	Southern African Power Pool
SATCC	Southern African Transport and Communications Commission
SCU	Sector Co-ordinating Unit
SCU (ANRRT)	Sector Co-ordinating Unit: Agricultural and Natural Resources Research and Training
SCU (ELMS)	Sector Co-ordinating Unit: Environment and Land Management Sector
SCU (FANR)	Sector Co-ordinating Unit: Food, Agriculture and Natural Resources
SCU (IFWF)	Sector Co-ordinating Unit: Inland Fisheries, Wildlife and Forestry
SCU (LPADC)	Sector Co-ordinating Unit: Livestock Production and Animal Disease Control
SDI	Spatial Development Initiative
SIP	Sector Investment Programme
SITCD	SADC Industry and Trade Co-ordination Division
SMME	Small, Micro and Medium-sized Enterprises
STD	Sexually Transmitted Disease
TFAP	Tropical Forest Action Plan
TRIMS	Trade-Related Investment Measures
TRIPS	Trade-Related Intellectual Property Rights
UNCED	United Nations Conference on Environment and Development
UNCOD	United Nations Conference on Desertification
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
USAID	U.S. Agency for International Development
WSCU	Water Sector Co-ordinating Unit
WTO	World Trade Organization
WWF	World-Wide Fund for Nature
ZACPLAN	Zambesi River System Action Plan



## Abstract

For the countries of southern Africa, regional cooperation and integration are preconditions for accelerated economic and social development. On their own, the southern African economies, most of them small, agriculture based primary commodity exporters with only incipient industrial development, will not be able to attract the necessary financial and technology transfers to support a sustained industrialisation process.

In the Southern African Development Community (SADC), some of the necessary conditions for enhanced economic and social development have been met. The SADC Trade Protocol has been in effect since September 2000, providing for the establishment of a free-trade area in the course of the coming decade. In other core areas, including development of cross-border infrastructures, food security, or protection of natural resources, major advances have been achieved through sectoral cooperation. However, the path towards achieving a unified economic space in the region will prove to be still a long one.

SADC will have to develop into a regional organization with true supranational institutions endowed with far reaching decision-making competences. Strengthening the organization hinges on the political will of its member countries – and this will is not always uniform and clear-cut. SADC member countries' divergent economic and social development, widespread poverty, low productivity and persistent belligerent conflicts in the region represent serious impediments for deeper integration. The role of the region's "locomotive", South Africa, is ambiguous: fearing job losses and pursuing its own priorities, the country has thus far shown only limited inclination to come to terms with the rest of the region.

Development cooperation can contribute to deepen integration in the region only if member countries have the political resolve to transfer substantial sovereign powers to the regional institutions. Existing reform proposals must be implemented speedily; in that context, the role of the SADC Secretariat as the organization's principal policy formulation and coordination institution must be strengthened. German development cooperation should focus on support to SADC Trade Protocol implementation, private sector promotion, infrastructure development in selected areas, and protection of natural resources.

Regional integration in southern Africa will only be successful if other goals are achieved in tandem, including political and economic stabilization of the region, mobilization of savings and investment, and a gradual integration of the region into the world markets. The establishment of regional funds could contribute to economic harmonization and social cohesion and help to overcome supply-side bottlenecks in the SADC region. Here, harnessing its own experience, the EU could assume the role of "leading donor". Negotiations between EU and SADC in the context of the recent Cotonou Agreement could provide a chance for the EU to assume such a new role.

The present study examines the state and the development perspectives of SADC and discusses approaches for future development cooperation.

## 1 From functional cooperation to regional integration: SADC's evolution since the 1980s

Regional cooperation and integration are necessary conditions for any accelerated economic and social development of the countries of southern Africa. On their own, and under the conditions of globalized financial markets and technological developments, the economies of the region, marked as they are by agricultural structures, raw-material exports, and only incipient industrial development, would have little chance to attract the technology and the financial transfers they need to catch up. This process can be facilitated if the countries open up to form an enlarged economic space through trade integration and harmonization of regulatory environments, and if they create the economic and social conditions required for structural modernization, in particular via institutional and market-related reforms, infrastructure development, human resources development, and a strengthening of social capital.

Compared with other regional organizations, the Southern African Development Community, first established as the Southern African Development Co-ordination Conference (SADCC) in 1980 and reconceptualized in 1992 on the basis of the Treaty of Windhoek, has proven relatively successful. When SADCC was founded, the approach adopted centered on a functionally specialized and project-oriented development cooperation among the so-called *Frontline States*, which constituted a political and economic counterweight to South Africa under apartheid. In the course of the 1980s and 1990s, the SADCC countries went through a process of democratic change and implemented a number of market-oriented reforms. Development problems faced by the member countries then were of a similar nature and called for cooperation and joint approaches to development in broad areas (e.g. infrastructure, food security, migration, drought).

Since the enlargement of SADC to include its today fourteen member states<sup>1</sup>, and with the organization entering the phase marked by creation of a free-trade area and the deepening of regional integration, the integration process has become more demanding. The economic potential but also the structural and political heterogeneity among the member countries grew enormously when South Africa and the DR Congo joined the Community. The political situation is unstable, marked by both open and latent conflicts and by controversy between member states. Moreover, the pressures engendered by an incipient world-market integration have tended to operate more in the direction of divergence than integration.

SADC is now in the initial stage of deeper regional integration, viz. development aimed at forming a single economic space. Trade liberalization among SADC member states has started with the launching of the SADC Trade Protocol on September 1 2000, and a free-trade area shall be created within the next decade. In November 2000, the Council of Ministers has approved substantial reform proposals for the organization's institutional structures. At an extraordinary summit in Windhoek in March 2001 the Heads of State and Governments finally agreed on the most important reforms to strengthen SADC as a supranational organization in charge of the economic, political and social dimensions of the region's integration process. According to the reforms, which are to be realized over the next two years, the SADC Secretariat shall be strengthened, and SADC's sectoral structures and programmes will be rationalised. Viewed in these terms, it would be important for SADC to initiate courageous steps aimed at bringing about political stabilization, a balanced distribution of the costs and benefits of integration, and to swiftly implement the organizational reforms this calls for.

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1 The present 14 member states are Angola, Botswana, DR Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe.

## 2 Experiences with regional-integration projects and lessons learnt

In the 1960s and 1970s, under the impression of the rapid decline of raw-material real prices in the world markets and consequent terms of trade losses, many Latin American and African countries embarked a development strategy of import-substituting industrialization flanked by regional-cooperation projects. Adequate protective import barriers and a sufficient volume of domestic purchasing power were seen as the most important preconditions of industrial development. In this view, regional integration was the means to develop an internal market of the minimum size thought necessary to ensure cost digression and industrial division of labour.

Except for the EU and EFTA, all regional-integration projects failed in the 1970s. The following main reasons may be cited:<sup>2</sup>

- The member countries were unable to agree on the distribution of the costs and benefits of pro-integration measures.
- Mutual adjustment and assimilation of national trade regimes proved to be extremely difficult in administrative-technical terms.
- Political and economic elites were unwilling to forego the fiscal and private economic benefits which they enjoyed under the regime of national trade protectionism.
- The industrial projects of individual member countries, protected from import competition and highly subsidized, were uncompetitive and would have had to be restructured to be able to survive in a common market. National development policies were reluctant to reach agreement on this point.

In view of the successful case of (ongoing) integration in the EU and in the wake of global integration, in particular of the GATT/WTO process, the 1990s experienced a surge of newly established or revived organizations dedicated to re-

gional integration. Many of these are supported by multilateral as well as bilateral development co-operation. Today, quite in contrast to the import-substituting industrialization policies of the 1960s and '70s, regional integration is seen as a path towards gradually liberalizing the trade of developing countries and integrating them into the world economy. The European Commission's mandate for the post Lomé negotiations,<sup>3</sup> aimed at concluding reciprocal trade-preference agreements with individual countries or regional free-trade areas of ACP countries, provides support for this assessment. Moreover, Article 130u of the Maastricht Treaty calls, inter alia, for a harmonious, gradual integration of the developing countries into the world economy.

As the more recent discussion has clearly pointed out, regional integration projects can alter locational factors in such a way as to make such sites more attractive for foreign direct investment and to encourage national private sector investment. For their part, foreign firms bring along the key means needed to achieve international competitiveness: Modern technologies and management methods, export networks and knowledge of markets, and access to long-term credit. It must, however, be noted that recent empirical literature has also pointed to a number of necessary preconditions that must be met within a region if these potentials are to be realized. The following factors may be considered prerequisites for successful regional integration in a sub-Saharan African context:

1. In sub-Saharan Africa, regional integration projects cannot succeed without infant-industry tariff protection. These tariffs - which need to be selective and limited in time - are essential to easing the severe deficits in systemic competitiveness currently constraining world market integration of SADC countries. Moreover, a moderate regime of protective

2 Langhammer / Hiemenz (1990), p.74.

3 The Lomé Convention expired on February 29, 2000 and was replaced by the Cotonou Agreement which now allows for reciprocity in trade preferences accorded between the EU and the ACP countries.

tariffs can provide an additional incentive for foreign direct investment.<sup>4</sup>

2. Regional concentration processes in trade and investment need to be countered with structural support policies, and the countries made worse off by an initial integration round should be provided compensation for a transitional phase. This in turn calls for sufficient and sustainable funding for such measures.
3. The above-mentioned financial compensation mechanisms provided for through structural funds shared by the member states would be required to ease the pressure of national economic imbalances (budgetary and current account) and to overcome political resistance to trade liberalization. Despite many wellknown shortcomings, structural funds have been an important means throughout the EU's integration process.
4. In cases where the establishment of a regional customs regime implies substantial import liberalization, effective export promotion is needed to avoid imbalances.
5. Trade integration has to be achieved swiftly, otherwise its effects are likely to fizzle out in the face of advancing worldwide integration within the WTO system and/or bilateral free-trade agreements with third parties, such as the implementation of South Africa's free-trade agreements with the EU and Brazil.
6. Rapid achievement of intraregional trade preferences, including a comprehensive dismantling of non-tariff barriers to trade, would call for a speedy transition from a free-trade area to a customs union.

### 3 Heterogeneity of the SADC countries

As far as their surface area and population figures, the size of their domestic markets, the functional specialization of their economies, their per capita incomes, and their social and political situation are concerned, the SADC countries present a highly heterogeneous picture (see Table 1). The disparities in budgetary and current-account deficits, savings and investment rates, foreign debt and dependence on external transfers are also sizable. Taken for itself, South Africa's share of the region's GDP amounts to over 70%. While over the last ten years the average per capita income in South Africa has stagnated, declining by some 9% p.a. in wartorn Angola and DR Congo, incomes have risen by 3 to 4% p.a. in Botswana and Mauritius. The highest external debt, over 200% of GDP, is noted for the DR Congo, Mozambique, and Zambia. While a number of countries were able to limit inflation to one-digit levels prices have been rising by 30% p.a. and more in Malawi, Zambia and Zimbabwe.

In all, 40% of the people in SADC are living below the poverty line. Per capita incomes are highly unequally distributed within the SADC region. An average per capita income of US\$ 100 in the DR Congo is matched by a maximum figure of nearly US\$ 6,500 in the Seychelles. While Angola, Malawi, Mozambique, Tanzania, and Zambia range at the lower end of the Human Development Index (HDI), Mauritius and the Seychelles are some 100 rankings ahead of them. A number of countries are marked by extreme national inequality of income. South Africa in particular, the region's leading political-economic power, is marked by a sharp dualism between the modern and traditional segments of its economy. Of a total of 39 million people, in this country roughly five million only are fully integrated in the modern sector. The huge task of capital formation and economic growth, together with economic-social integration of the unemployed and underemployed, will long engage the economic capacity of South Africa. Its locomotive function will therefore be of limited scope. Against this background, South Africa will be able to provide SADC with support only to an extent supplemen-

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4 Oyejide (1996), p. 5f.

tary to its own development agenda. The smaller member states, for their part, are concerned, and pressed, to look after their economic and political interests in the process of integration.

Abundant stocks of raw materials are found in Angola, Botswana, Mozambique, Namibia, South Africa, and Zimbabwe, while Lesotho, Swaziland, Malawi, and SADC's island member states are

Country	Population (million)	Land area (km <sup>2</sup> )	GDP p.c. (US \$ / 1999)	GDP real growth p.a. (1991-98)	HDI ranking (as of 174) (1997)	Share of manuf. industry in % of GDP (1998)
Angola	12,0	1,247 000	433	0,3	160	5,0
Botswana	1,6	585 000	3117	5,1	122	4,9
DR Congo	48,2	2,345 409	203	-6,0	141	n.a.
Lesotho	2,1	30 355	437	6,3	127	17,2
Malawi	10,5	118 484	182	4,4	159	13,6
Mauritius	1,2	1 865	3582	5,1	59	24,4
Mozambique	15,4	790 380	242	5,7	169	10,9
Namibia	1,7	824 269	1647	3,9	115	13,8
Seychelles	0,1	455	7346	3,3	66	13,2
South Africa	39,3	1,223 201	3044	1,2	101	23,9
Swaziland	1,0	17 000	1255	2,8	113	32,8
Tanzania	32,1	945 000	243	2,8	156	6,9
Zambia	9,7	752 614	302	0,9	151	13,2
Zimbabwe	11,6	390 757	278	1,9	130	15,4

Source: AfDB, SADC, Worldbank

SADC members also differ widely in their endowment with natural resources. The countries with abundant water reserves include in particular Angola, the DR Congo, Lesotho, and Mozambique, while South Africa is the Community's main water importer. The conditions needed to generate energy at low cost are given above all in Angola, the DR Congo, Mozambique, Zambia, and Zimbabwe. When South Africa has exhausted its own, at present extensive, capacity reserves for generating electrical power, the country could, in the longer term, become an important importer in this sector.

considerably less well endowed in this regard. The natural conditions for agriculture are favourable mainly in Angola, the DR Congo, Tanzania, Zambia, and Zimbabwe, while in Botswana, Lesotho, and Namibia the agricultural sector is submarginal because of the arid-soil-climate conditions encountered there. Six of the SADC member states have no direct access to the sea and are thus forced to rely on transportation through other SADC countries. For the transit countries, this constitutes an additional economic activity and source of foreign-exchange earnings. South Africa is traditionally also reliant on labour from neighbouring countries.

Concerning their medium term development potential, in addition to their different natural resource and current factor endowments it is at least as important to consider the SADC countries' substantial differentials in functional economic specialization and structural diversification. The potentials of the individual SADC countries offer some opportunities for exchange, more extensive cooperation, and integration, though the magnitude of the chances involved differs clearly from country to country. For the most part, however, SADC countries are marked by heavy dependence on a limited number of export commodities as well as on external transfers. Only South Africa, Mauritius, and Zimbabwe have a manufacturing sector of any significance and, correspondingly, a more markedly diversified external-trade sector. In most of the other countries, however, two or three primary commodities account for over 50% of exports. This makes the region subject to the sharp, for the region as a whole often asymmetrical price shocks typical for world-market cycles; the scope for intra-industry trade is extremely limited. In view of this heterogeneity there is very limited prospect of substantial economic convergence within the foreseeable future.

#### **4 Medium-term perspectives of SADC as an integration project**

In view of the structural heterogeneity outlined above and the lengthy lead times required for transformation and economic convergence processes, a common market with freedom of establishment for people and firms and a common currency must be seen as very long-term projects. The launching of the SADC Trade Protocol on 1 September 2000, however, is certainly an important achievement in the process towards deeper economic integration in the region. But *de facto* implementation of the measures has only begun in five member states so far (i.e. Botswana, Lesotho, Mauritius, South Africa, and Swasiland). If the member countries are intent on it, even the implementation of the free-trade agreement will give rise to difficulties enough in view of the potential

stumbling blocks represented by, for instance, exchange-rate policy, the formulation and handling of the rules of origin for goods in cross-border trade, or the subsidization of individual industries in the various countries.

Implementation of the Trade Protocol, the realization of the reforms of SADC's institutional structures recently decided on, and the improvement of cross-sectoral framework conditions will thus shape SADC's agenda for the coming decade. The following course of events appears realistic: (a) implementation of the SADC free-trade area within the next 10 years, (b) continuous deepening of functional-sectoral cooperation, and (c) gradual consolidation of SADC as a supranational organization with appropriate institutional structures, mirroring the step-by-step transfer of member-state political competences and financial and administrative capacities to SADC's organs.

SADC's development perspectives are largely dependent on the potentials and interests of South Africa, the region's strongest economy. In view of the domestic development tasks facing it, South Africa cannot overextend its capacities either in financial or in integration-related terms - and this goes for the medium to long term as well. But the integration process calls for a firm willingness on the part of South Africa to accept compromises in view of the interests of the whole region. The picture is similar with regards to the development of regional security cooperation in SADC. On the one hand, common security policy is not conceivable without adequate consideration being given to the interests of South Africa, the region's central stability factor. On the other hand, the mechanisms geared to safeguarding the rights of code-termination of all countries in the region need to be strengthened. South Africa's capability to mediate is being called for, as this country like the whole region would benefit greatly from a more stable economic and political situation.

Patience and continuity are called for in shaping and delivering the support provided to SADC by the industrialized countries. Development of international regional-integration projects is a historical process that eludes prediction and planning. The administrations responsible for devel-

opment cooperation are important players, though they are not in charge of the process. Regional integration at the end of the day must be based on the firm political will of the member states and their respective civil societies. Political dialogue and continued support offered by development cooperation can, however, bolster and strengthen both conceptual approaches and the confidence base on which regional cooperation depends.

One fundamental justification for development cooperation in favour of regional integration is that such efforts can serve to open the way to investments and projects which because of their specific supranational character could not be realized via bilateral development cooperation in individual countries of the region. It should be borne in mind that certain projects, in particular infrastructure measures conducive to integration, can be carried out even independently of the progress made in the political integration process. There is a large field of activity with high development potential concerning the provision of public goods on a regional level – far in advance of the need for member countries to relinquish substantial sovereignty.

## 5 Level of efficiency of SADC institutions

The SADC Treaty of 1992 and the progress towards integration achieved thus far have given rise to the following regional organs (see Graph 1):

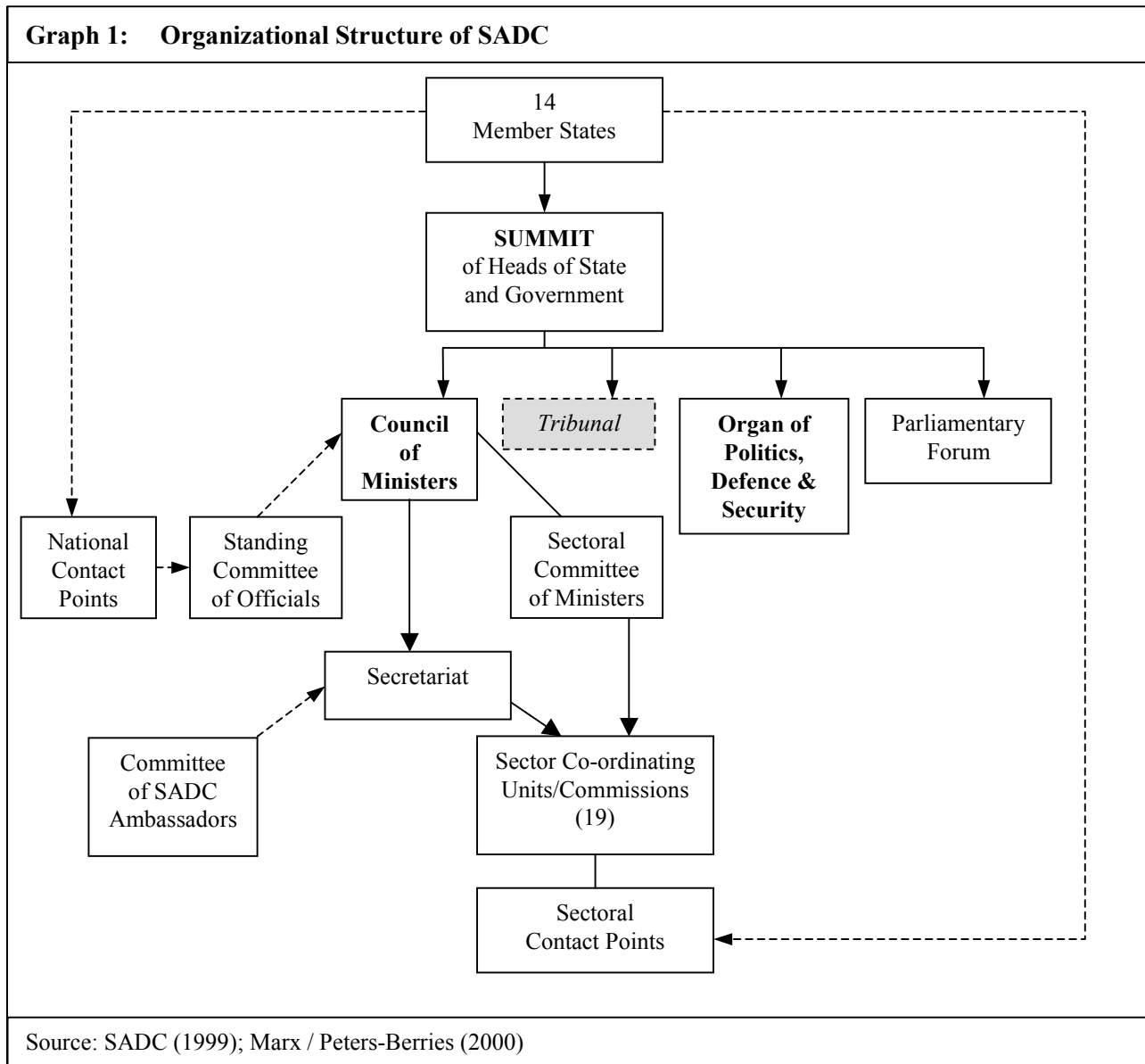
- regular meetings of the Heads of Government and State (summits)
- the Council of Ministers,
- the Standing Committee of Senior Officials,
- the SADC Secretariat,
- Sectoral Committees of Ministers,
- Sector Commissions / Sector Coordinating Units (SCUs)
- a judicial tribunal (not yet in operation),
- the Organ on Politics, Defence and Security (OPDS).

The SADC Secretariat's executive steering competence is anchored in the SADC Treaty, though in practice its competence is often not respected either by the member countries or by the lower-level Sector-Coordinating Units (SCUs). The SCUs are currently SADC's executive organs. Their competences and agendas are for the most part defined on the basis of sector protocols. The latter are adopted at summit meetings and require ratification of two thirds of member states to acquire legal force. Presently there are ten sectoral or cross-sectoral protocols in various phases of the ratification process.

Thus far there are two Sector Commissions which are jointly funded by the member countries and which therefor are genuine regional organs. These are the commissions on transportation and communications, and on genetic resources. The 19 SCUs<sup>5</sup> are financed nationally and report to the national sector ministries of their respective country of residence as well as to SADC meetings of sector ministers and the Council of Ministers. Their policies and programmes are governed essentially by the Sectoral Committees of Ministers, chaired by the minister of the member state responsible. All projects of the SADC Programme of Action (i.e. all projects carried out by the SCUs and commissions) must be coordinated and contracted with both the SCU and the sector ministries of the countries involved. The SCUs still lack the political competence to formulate regional project policy, nor are they adequately staffed and equipped for a task of this kind. Their performance tends to be very uneven, and in some cases activities lack proper coordination.

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5 SADC member states and sectoral responsibilities for SCUs: Angola (energy), Botswana (agricultural research; livestock production, animal disease control), Lesotho (environmental & land management; water), Malawi (inland fisheries, forestry; wildlife), Mauritius (tourism), Mozambique (culture, information & sport; transport, communications & meteorology), Namibia (marine fisheries & resources; legal affairs), South Africa (finance & investment; health), Swaziland (human resources development), Tanzania (industry & trade), Zambia (employment & labour; mining), Zimbabwe (crop production; food, agriculture & natural resources).



The weak points and bottlenecks with which further integration will have to cope include in particular the following:<sup>6</sup>

- unclear delineation of competences between the SCUs and the SADC Secretariat;
- highly uneven and in many cases inadequate staffing and funding of the SCUs;
- unclear competence and responsibility of the SCUs vis-à-vis both the national sector ministries and SADC;
- a large number of SCUs that lack and elude coordination;
- too many SADC meetings, with their tendency to tie down substantial personnel and financial resources;
- a lack of overall control and transparency in the deployment of the funds of both the SADC Programme of Action and the national contributions at the secretariat level.

In the SADC treaty as well as in the sector protocols signed thus far by the Heads of State, the member states have always acknowledged their

6 Chipeta / CSIR / IMANI Development (1997).



commitment to SADC and the Community's development as long as this did not imply transferring substantial political competence to SADC's organs. Each of the member states contributes equally to the SADC budget, irrespective of its population and gross national product. In other words, Lesotho pays the same contribution as South Africa, even though its GDP amounts to only 0.7% of South Africa's. One consequence of SADC's general underfunding from member-state resources is a dependence on donors: Over 90% of SADC's Programme of Action is funded through donor resources, the EU and Germany being among the largest donors.

A discussion over whether the Secretariat should not be reduced to the status of a purely administrative organ showed that the member states were very hesitant to relinquish sovereignty in favour of SADC. This controversy was recently ended with the decision to clearly strengthen the Secretariat's political role. In its current state, however, the Secretariat is understaffed and thus not fully capable of playing the active, i.e. policy-shaping, role in the further development of SADC that it needs to play. A step in the right direction has been taken by creating a special technical unit at the Secretariat which is now in charge of the implementation of the Trade Protocol. Moreover, the creation of a new department at the Secretariat in charge of strategic planning, gender and development, and policy harmonization recently decided upon underlines the willingness to build the necessary capacity at the Secretariat to further the process of regional integration.

Despite the currently low level of efficiency of SADC's institutions, there is no reason to doubt the organization's viability. The successes it has achieved thus far are noteworthy, both taken on their own merits and by way of international comparison. As far as the provision of infrastructure and other public goods and the establishment of sectoral norms and standards are concerned, a broad and fertile field of development perspectives is opening up – even far in advance of the need of the member states to relinquish any substantial sovereignty. As has been shown, SADC's "internal" development perspectives are marked

by a number of economic, political and institutional bottlenecks, but on the whole chances are good that the free-trade agreement will be implemented in the course of the coming decade. It should not be forgotten that the EU took three decades to reach the state of an economic union, and SADC is, in its reconstituted form, only eight years old. Finally, it must be noted that the representatives of member-states are rightly proud of what they have achieved thus far and identify increasingly with SADC.

## 6 SADC's approaches to reform

In accordance with the Treaty of Windhoek, SADC sees itself as a development integration community, i.e. its aims go beyond the legal and organizational necessities of trade integration. The member states' differences in political and economic interests have, however, proven so grave that it must be assumed that the path to a free-trade area and, beyond that, the further steps on the road to a common market or even a customs union will not be without setbacks. Due to existing controversy over the direction and time frame for the overdue reforms of SADC's institutional structures, decisions on this matter were postponed at last year's Windhoek Summit of Heads of State. Yet the pressure has been rising, and eventually the Council of Ministers made an important step forward at its extraordinary meeting held in Gaborone in November 2000 by approving the whole package of reforms. This prepared the final breakthrough achieved at the extraordinary summit of the Heads of State and Government which took place in Windhoek in March 2001.

The expert-technical discussion process within SADC had rendered the organizational weak points manifest, leading to the following recommendations for reform:<sup>7</sup>

- reduction of the number of projects covered by the SADC Programme of Action;

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<sup>7</sup> Ibid.

- increase of member-state financial contributions to the SADC programme of action;
- consolidation of the sectoral policies to form larger policy clusters covering (a) agriculture, protection of natural resources and the environment, (b) development of human resources, science, and technology, (c) infrastructure, communications, and information technology, (d) trade, industry, finance, and investment, (e) community development, culture, and information;
- harmonization of the role played by the SADC Secretariat as an instrument of policy coordination and strengthening of its preparatory work.

The main pillars of the proposed and meanwhile approved institutional reform comprise:

- Creation of four so-called directorates at the Secretariat which will be in charge of implementing the SADC Programme of Action; they will cover the following fields: trade, industry, finance and investment; food security, agriculture and natural resource management; infrastructure and services; and social and human development and special programmes.
- The existing SCUs and sector commissions shall be phased out within the next two years.
- Creation of a new department at the Secretariat for "strategic planning, gender and development and policy harmonization" which shall both strengthen the Secretariat's executive functions and serve as a think tank for regional integration.
- Revival of the Organ on Politics, Defence and Security (OPDS) which shall now be integrated into the SADC structures; the chairpersonship shall be on a rotational basis for a period of one year.

Moreover, the Council of Ministers has been presented a proposal on the funding of SADC institutions by means of a tax on private transactions or consumption (e.g. a value-added tax). This would on the one hand relieve member-state budgets and

on the other hand ensure that contributions of member states are in line with their individual economic data.

## 7 Obstacles to integration and new driving forces

The most important obstacle to any deepened integration of SADC must be seen in the open and latent conflicts in the region, in which several member states are involved. Thus far SADC's security organ has failed in this regard, with Zimbabwe and Namibia intervening militarily, without the organ's authorization, both in Angola and in the DR Congo. The deep internal crisis in Zimbabwe has become a new test case for the region as well as for South Africa's leadership role in regional stability. South African president Thabo Mbeki has thus far acted prudently, keeping South Africa and other SADC countries out of these conflicts. In view of the great conflict potential in the region due to incomplete nation-building processes, conflicts over land, water, and natural resources, it would seem imperative to strengthen regional conflict-resolution mechanisms. The integration of the Organ on Politics, Defence and Security into the SADC structures and the proposed yearly rotation of its chairperson are important steps in the right direction. A precondition, however, for the safeguarding of peace and prosperity in the region is that the populations of all member countries gain access to resources and participate in political decision-making.

Many observers conclude from the currently low share of intraregional trade in SADC and the similarity of export structures that the potential for trade creation is rather low. Data available on intraregional trade are incomplete and at times contradictory. On the whole they point, however, to a rather dynamic evolution of regional trade flows, albeit with a pronounced bias towards trade among the five members of SACU<sup>8</sup> (Botswana, Lesotho, Namibia, South Africa and Swaziland)

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8 Southern African Customs Union.

and rising exports from South Africa to the rest of the region.<sup>9</sup> The latter were even more pronounced due to the boom in raw materials exports between 1995-97 which had an extraordinarily favourable impact on South Africa's exports to the SADC countries. There is a risk, however, that bilateral trade surpluses incurred by South Africa become structural and cannot be sustainably financed from the foreign-exchange reserves of its SADC partners. Looking to its own development, South Africa has every reason to stabilize the transfers to and foreign investments in its partner countries, in this way boosting export potentials there. This would go some way towards creating the medium-term conditions needed to implement successfully the free-trade agreement, seen above all in terms of the interests of the private sector. In fact, however, South African businesses and labour unions have a different view of the matter and are calling for protection of certain industries such as textiles and clothing against SADC competition.

Another obstacle to deeper integration must be seen in the fact that all of the countries of the region are at the same time members of trade agreements other than SADC (see Graph 2).<sup>10</sup> The Southern African Customs Union (SACU) with its common external tariff and common monetary policy consists of five SADC members, nine SADC members are at the same time members of the Common Market of Eastern and Southern Africa (COMESA), Tanzania is also a member of the East African Community (EAC, which also comprises Kenya and Uganda), South Africa has signed bilateral free-trade agreements with the EU and Brazil, and so on. These overlapping memberships not only entail multiple costs for membership contributions and negotiation rounds, but involve far reaching technical problems such as the application of various rules-of-origin regimes which are necessary because of different external tariffs of the member countries. Moreover, and maybe even more importantly, multiple member-

ships imply a lack of identification with SADC as the one integration project.

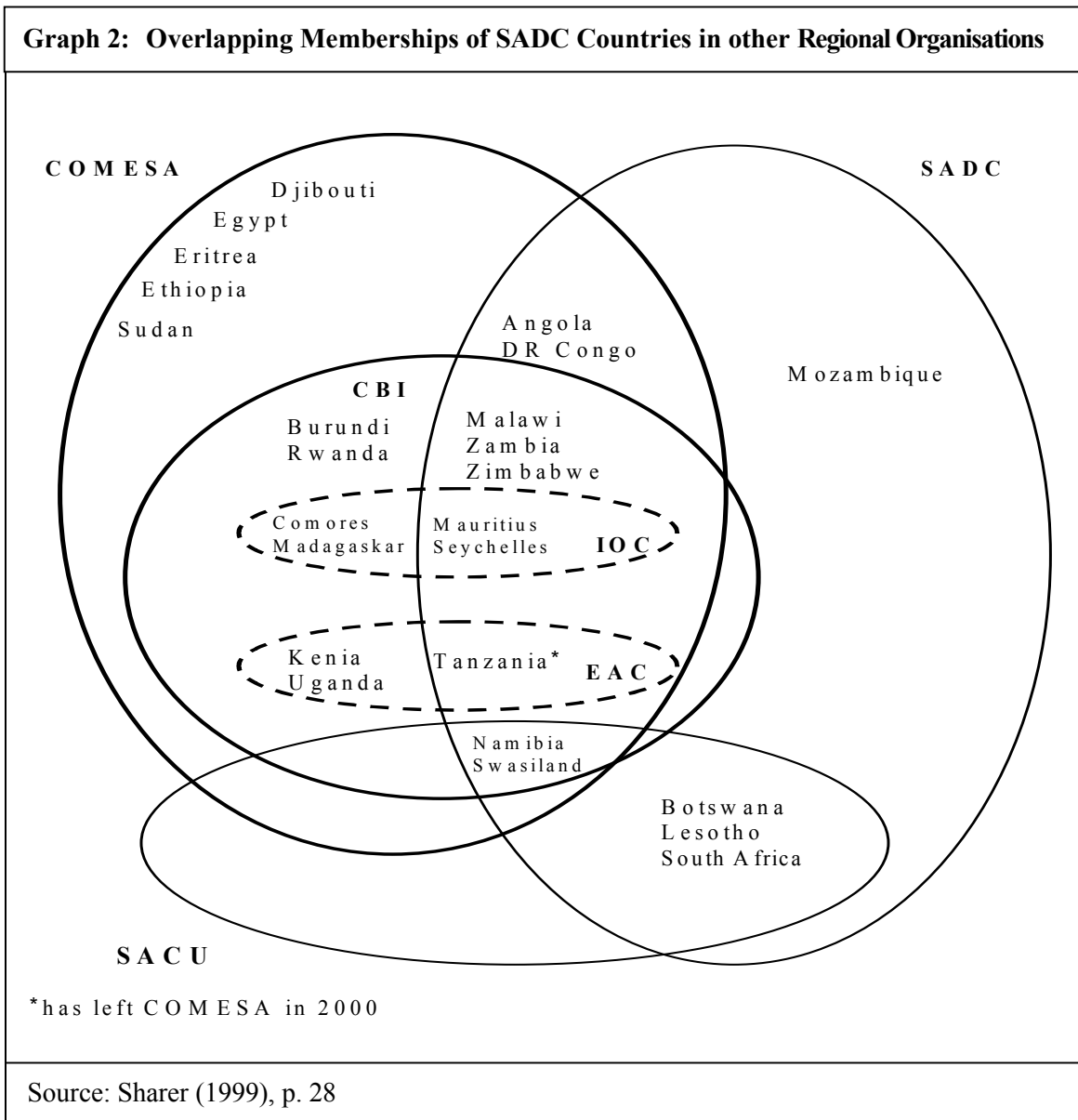
While multilateral trade negotiations and unilateral liberalization processes have already largely reduced the margins for regional preferences among developing countries, bilateral agreements such as the EU/South African free trade agreement will probably trigger some far-reaching budgetary problems for South Africa's partners in the region. The budgetary problems due to revenue forgone from tariffs are expected to be particularly sizeable in the smaller SACU member states. SACU's revenue-sharing mechanism is currently being renegotiated, and the EU has already signalled that it is willing to contribute to compensating the weaker countries. The implementation of the free-trade agreement may entail budgetary, fiscal, and competition-related consequences that could also lead SADC into a crisis, and will call for countermeasures in the form of compensation payments. The negotiation process concerning a potential regional partnership agreement (REPA) between the EU and SADC in accordance with the Cotonou Agreement will soon be started, but it will in all probability not materialize before the year 2008. The heterogeneity of SADC members is in any case a difficult starting point for such a regional FTA, and it will depend much on the precise conditions whether one such agreement can match the interests of the whole region.

A potential new driving force to overcome the obstacles to deeper integration which reside in the heterogeneity and latent polarisation of industrialization in the SADC region are regional funds. The experience of the EU indicates that the negative effects of economic integration on disadvantaged, structurally weaker regions or groups of countries can at least be partly offset by means of a targeted support policy based on such funds. Well-managed funds can facilitate processes of dynamic social and economic development, help to better harness positive effects and integration potentials as well as improve the distribution of welfare-boosting impacts of integration. Although SADC cannot be compared with the EU in terms of the initial conditions given in economic and

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9 von Kirchbach / Roelofsen (1998), Yeats (1999).

10 African Development Bank (1998), p. 6.



social structures nor in terms of physical and institutional infrastructure, this may well be an option for the region to embark on: a policy designed to level playing fields among diverse partners, based on regional structural funds which are jointly financed by SADC member states and donor funds.

## 8 Development cooperation in selected sectors

### 8.1 Infrastructural integration in SADC

The SADC countries are relatively closely inter-linked by a broad rail and road network, the joint use of seaports, an integrated power grid, and the joint use of watercourses. The community has a number of important transportation corridors that link landlocked countries like Zambia and Zimbabwe, with their great economic potentials, and the ports of other countries. The biggest contribu-

tion to the transit traffic within the community is provided by the two Mozambican ports Maputo and Beira, which each account for roughly one third of the overall volume of transit goods. Investments have now been made that could redirect a larger share of regional transportation through Namibia. South Africa's very extensive high-tension transmission system is utilized directly or indirectly by nearly all other SADC countries. The SADC region is drained by fifteen border-crossing river basins, most of which are shared by a number of countries. The most important and regionally significant water-related infrastructure, the so-called "Lesotho Highlands Water Project," is shared by Lesotho and South Africa. Improvement of regional infrastructure and the framework involved holds very great development potential. It would, however, be necessary to set priorities for individual sectors with a view to the relative significance of investments. An improvement of the framework conditions would also be called for.

Major regional infrastructure projects like the transportation corridors have not been restricted to the initial efforts aimed at integration. In the future, too, promising infrastructure projects will be of considerable significance for the deeper integration of the SADC economies and will mean welfare gains for all countries involved. A number of both multi- and bilateral donors is active in this sector. Aside from the multilateral institutions World Bank and EU, the African Development Bank (AfDB) play an important role in development cooperation with individual SADC countries in infrastructure projects. On top of these, various bilateral donors are also active in the region, Germany being one of the most important of them. SADC further receives support from numerous multilateral institutions (EU, UNEP, UNDP, World Bank / GEF, AfDB).

## **Transportation**

The potential for an improved integration of SADC in the transportation sector is substantial, with transportation costs here being far higher than those in other developing regions. This leads

to higher production and marketing costs and obstructs the transboundary exchange of goods. Thus, the existing deficits in the transportation sector, which SADC can help to overcome, constitute a weighty obstacle to any improved utilization of the great potentials of a number of SADC countries. This goes not only for exports of raw materials to third countries, it also applies for the agricultural sector and the trade in agricultural products within SADC, a factor of considerable significance for food security in the region.

A number of problems are currently blocking the development of an efficient and reasonably priced transit system in the SADC region. These problems include generally inadequate links between road, rail and water, insufficient standardization, maintenance backlogs, and weaknesses in management. Road transportation is plagued by overloading practices that are harmful to road security and the condition of roads; market access for transportation companies is restricted, and border formalities for the most part lead to long delays. Costly bottlenecks can for instance also be found in port transshipment capacities for containers.

Aside from a number of other regional organizations and associations of the transportation industry, it is above all SADC's Southern African Transport and Communications Commission (SATCC), with its headquarters in Maputo, that is concerned with the development and integration of regional transportation. SATCC's activity is based on the 1996 "Protocol on Transport, Communications and Meteorology". In the meantime some progress has been made in implementing structural reforms, in particular in the road sector, e.g. the creation of specially earmarked road funds and legally autonomous road authorities as well as the assignment of a greater role to the private sector (e.g. management commission, dedicated road fund, responsibility for maintenance work). As far as railways and ports are concerned, improvements have already been achieved in terms of legal and organizational forms as well as in the form of a growing share of responsibility for private actors in operational activities. There are plans to use the so-called Spatial Development Initiatives (SDIs) to promote the exploitation of

the development potentials offered by major transportation corridors. These operate on the initiative of the South African government, though they also include a major role for private investors.

Improvement of framework conditions plays an essential role in the concepts of all major donors for the transportation sector. The main donors of individual recipient countries in this sector include numerous bilateral donors, but above all also the EU and the World Bank. SATCC receives support from the EU, the World Bank, as well as various bilateral donors (including Germany). Since the IDA is able to finance investments only in the form of credit, and loans cannot be granted to SADC as an organization, the World Bank's contributions both here and in its other cooperative activities with SADC are restricted in essence to technical cooperation and sectoral studies.

### **Electrical power**

The percentage of the total power generated in SADC and traded internationally is modest at present, even though this trade is of great importance for some countries, notably Namibia, Lesotho, and Mozambique. In recent years, progress has been made in creating additional interconnections between national power grids, though the integration effects possible here have been obstructed by the insistence of most of these countries on retaining a large measure of self-sufficiency in energy. In spite of improvements in this area, stepped-up private activity in investment has been hampered by sectoral regulations that are still frequently insufficient. In view of the different endowments with energy resources enjoyed by the different SADC countries, a greater measure of integration could mean cost advantages and/or improvement of supply security.

The now operational energy protocol has placed the SCU for energy in Luanda, Angola, in charge of these integration efforts. Its activities are supplemented by those of the "Southern African Power Pool" (SAPP), whose members include all SADC countries situated on the mainland. SAPP and SCU hold regular consultations. The main

concern here is mutual information, but also impulses for the shaping of policy. In technical questions, the SAPP reaches its decisions without any political influence. In the electricity sector, too, the World Bank and the EU, along with a number of bilateral donors, are the main supporters in development cooperation with individual SADC countries. Aside from the World Bank, Norway, Sweden, and Portugal number among SADC's main donors.

### **Water**

An adequate water supply is of crucial significance for agriculture and rural development, industrialization, municipal development, and the well-being of the peoples in the SADC region. The great regional and temporal disparities in rainfall mean for some countries a great risk of drought and flood disasters. In individual countries with water deficits, agriculture, promoted through highly subsidized water tariffs, is the largest consumer of water. This raises the question of a different kind of agricultural production more in line with comparative cost advantages. A large share of the population of the SADC region has no access to clean drinking water. The use of the watercourses in the SADC region by a number of neighbouring countries entails a high level of international conflict potential. Growing populations and economic development will exacerbate the water scarcity in a number of countries. These include chiefly Namibia, Botswana, South Africa, and Malawi. Stepped-up cooperation and integration could serve to offset supply deficits, lower costs, and reduce the risk of conflicts over water.

Cooperation in the water sector is hampered by a number of problems. Apart from insufficient regional infrastructure, these include too little harmonization of national water laws, institutional weaknesses, an inadequate database and too little exchange of data on water use and water resources. The SCU for water, headquartered in Maseru, Lesotho, is in charge of overall water policy. The Protocol on Shared Water Course Systems obliges the member states to respect the legitimate interests of other member countries in

utilizing water resources and to provide for protection of the environment. While the protocol is already in effect, it has not yet been ratified by all SADC members. The intention is to create a commission or authority for every transboundary watercourse. The year 1998 saw the adoption of the Regional Strategic Action Plan for the sector. One of the larger current programmes is the Zambezi River System Action Plan, which in the present phase is developing a management plan for the utilization of the waters of the overall river system.

Formulation of national water tariffs for irrigated agriculture is of central significance for the sector's economic efficiency and ecological sustainability. In connection with the harmonization of agricultural irrigation policies, it would be important to do away with government subsidies for irrigation water wherever the latter tends to distort competition and destabilize resources.

## 8.2 Trade integration, industrial development, and the role of the private sector

### Implementation of the Trade Protocol

Following month-long intensive negotiations on the technical modalities of the Trade Protocol, the implementation process was set to get underway in September 2000. It is not only for the business sector that swift trade liberalization is of central significance: Success or failure in this area is an important test for the workability and the perspectives of deepened regional integration in SADC in general. In the end, the discussions did lead to an agreement among the member states, though the process once again highlighted the conflicting political and economic interests in the region.

On the one hand, South Africa insisted on complicated rules of origin to protect certain industries, which in all probability will cause considerable problems for customs administrations and will tangibly restrict the export chances of firms from the other SADC countries in the lucrative South

African market. On the other hand, the less developed members attained concessions for transitional periods for liberalization, for instance for textiles and clothing. While this is in line with the principle of asymmetry agreed upon which allows the less developed countries to liberalize their trade at a slower pace than the more advanced countries in the region, it has strongly watered down the originally planned liberalization schedule, threatening to curtail the dynamics of the overall project. Linking further liberalization from 2006 on to the experiences made during the first phase will de facto neutralize the locking-in effect of trade integration so important to the private sector.

### Potentials and problems involved in trade and industrial development

At the end of the 1990s the share of intra-regional trade in the overall exports of the SADC countries was roughly 20%, or 4.5 billion US\$ in absolute terms. This share, relatively high for intraregional trade among developing countries, is mainly explained by South Africa's accession as well as by inclusion of the very large shares of intra-SACU trade.<sup>11</sup> The shares of trade of the other SADC countries with SACU, on the other hand, continue to amount to no more than 10% on average. There are, however, important exceptions like Zimbabwe which is an important trading partner, including in manufactured goods, for several countries in the region. In general, however, within the region SACU exports are growing distinctly more rapidly than the exports of the other countries.<sup>12</sup> Whether a broad and dynamic process of trade expansion and industrialization will be triggered by trade liberalization is difficult to assess, and even more so to quantify. All in all, a cautious assessment is called for.<sup>13</sup>

What would be required here, above and beyond a better exploitation of unutilized trade potentials,

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11 Yeats (1999), p. 38.

12 IMF-DOTS (2000).

13 Yeats (1999), p. 22.

are measures designed to foster industrialization in the structurally weak countries and to tangibly broaden intra-industry trade. At the outset of the implementation of the Trade Protocol, SADC is marked by great disparities as regards industrial development. The one pole here is South Africa, a country with a diversified industrial sector that is fighting to hold its competitive position internationally in technologically demanding industries such as automobile-manufacturing and mining. The other pole includes a number of mainly agricultural based countries in which manufacturing accounts for less than 15% of GDP and where exports include a very small number of simple manufactured and processed consumer products such as food and textiles.

Trade integration alone will certainly not solve the manifold problems posed by the low level of industrial development typical of most SADC countries. While an enlarged economic space would lower transaction costs and allow for certain economies of scale, the problems must also be sought at the company level, in the business environment and in sociopolitical factors. A complementary industrial policy would need to reduce the supply-side bottlenecks present in all countries, in this way avoiding a situation in which the newly emerging potentials are shared only by a limited number of businesses. Regional industrial policy should concentrate on those aims and problems for which it potentially has better solutions to offer than national policy approaches:

- the creation of economies of scale and scope by means of an increased regional division of labour;
- cost digression and reduction of business risks through improved communications and transportation infrastructure;
- dynamic learning effects by means of an intra-regional transfer of knowledge and technology between firms and institutions;
- the attraction of foreign direct investment and exploitation of the spillover effects associated to it.

Trade integration would lead to welfare gains for the region as a whole, although, due to the exist-

ing disparities, the distribution of such gains is likely to be uneven. The countries with a mature industrial sector will benefit most from trade creation. But chances will also emerge for countries and industries which have already reached a certain technological level and are successful in harnessing integration to build scale economies and specialization edges, in this way connecting up with growth industries with international competitive advantages. This should be possible mainly for the smaller SACU members as well as Mauritius. Most of the other countries, however, give reason to fear that trade integration will entail a regional concentration of industrial investment and development within SADC that is unfavourable to them and that they will be unable to exploit existing domestic potentials for instance in the processing and exporting of agricultural produce. While foreign direct investment has thus far not reinforced this trend, the better part of such investment is flowing into the mining sector and thus contributing little to positive spillover effects and upstream linkages with small business.

Compared with South Africa, the competitive advantages of the smaller SADC members consist in particular in lower wage costs, a factor, though, that they can turn fully to account only by importing favourably priced extraregional inputs. The greatest potential for trade creation and regional specialization in line with comparative cost advantages is offered by the textile, clothing, and food-processing industries. For Zimbabwe, which has the region's most strongly diversified industrial sector after South Africa, other processed products for regional exports would also be of interest; these include metalwork and automotive components. It is, however, precisely these products that South Africa, motivated by its own domestic interests as well as by growing unemployment at home, has classified as sensitive in connection with the talks on the trade protocol; they are set to be protected over the longer term by tariff and nontariff trade barriers, including product-specific rules of origin that favour South African intermediary products.

The existing potentials for trade creation and industrialization in connection with regional inte-



gration will not be able to be fully exploited due to an unstable framework, high risk costs, and the low productivity of many firms in the region.<sup>14</sup> The main reasons for low productivity include a lack of technical and entrepreneurial skills on the part of management and poor training of labour, factors that often pose obstacles to a rapid assimilation of imported technologies and an adaptation of them to local needs. In some of these countries private-enterprise thinking still has to be strengthened (e.g. in Zambia and Tanzania), and the lack of small and medium-sized enterprises that could occupy important niches and exploit specialization potentials, e.g. as local suppliers of larger companies or retailers, is striking. Seeing themselves restricted in their scopes of action, many firms respond defensively to change – above all by laying off workers.

The structural adjustment policies of the 1980s and 1990s – with their different levels of economic success and social burdens for certain population groups – contributed to liberalizing the region both internally and externally. This process of opening up, which has already increased the productivity pressure in the industrial sector, should be accompanied by a training offensive. But very few of the region's countries and firms are pursuing a consistent approach here. On the contrary: The region is marked by persistent low investments in essential social inputs such as training and research as well as in business oriented intermediary institutions. In addition, at the company level the high risk of employees acquiring AIDS may lead to cuts in investments aimed at worker qualification, a development that in the future will no doubt further reinforce the preference for labour-saving technologies.

### **Current practice of industrial and private-sector promotion and future challenges**

The SADC institution in charge of industrial and trade policy matters, SITCD, headquartered in Dar es Salaam, has in the past attracted quite a lot of

criticism concerning its capacity to prepare and implement the strategies called for in this policy area. SITCD is regarded as one of the weaker SCUs, especially when measured in terms of its task of coordinating industry and trade, two core areas of regional integration. Moreover, it must now, after the fact, be seen as problematical that two policy areas so central to the integration process were located in Tanzania, a country that is on the one hand particularly weakly endowed in institutional and personnel terms and on the other hand itself has little interest in rapid advances in these two policy fields. Formally, SITCD is assigned to the national Tanzanian Ministry for Industry and Trade. As regards the field of industrial coordination, it has proven problematical that Tanzania itself has only a very narrow industrial sector, and one that is at the same time weighted toward the state side. This means that national experiences with modern industrial policy here are, accordingly, scant to nonexistent. In view of the personnel-recruitment and salary policies pursued by the SCUs, it has on the other hand not been possible to attract external know-how to Dar es Salaam. According to SADC's Trade Protocol, liberalization of regional trade is to be supplemented via a policy of regional industrial development. The only regional programme already in operation in the industrial sector is a standardization programme. All other programmes are in the planning phase and have more the character of a list of wishes than of coordinated elements of an overall strategy.

In view of the lack of economic convergence and the obstacles that may arise for the integration process due to macroeconomic imbalances and uneven economic development in the region, the SCU responsible for coordinating the finance and investment sector, FISCO, headquartered in Pretoria, also has a key function. Thus far, FISCO has been operating without a protocol, an expression, among other things, of the reluctance on the part of member states to relinquish sovereign rights in the fields of economic and monetary policy. In institutional terms, the sector has two committees: the Committee of Central Bank Governors and the Committee of Senior Treasury Officials which comprises several sub-committees such as the one

14 Bennell (1998), p. 18; Rodrik (1998), p. 60.

of the regional development finance institutions. South Africa has a leading role in all these organs. FISCU is based in South Africa's Department of Finance and coordinates the work in the sector. Its policy is market-driven in principle. While its performance, again, depends largely on the will of the member states, it will have to be measured in terms of the extent to which its regional-integration efforts in fact reduce or intensify the disparities found in the region. FISCU receives comprehensive technical and financial support from donors, including in particular the EU.

The four areas coordinated by SITCD and FISCU, i.e. trade, industry, investment, and finances, are core areas of the development of the private sector, and close coordination is called for in giving them shape with respect to the SADC region. As yet there is no horizontal coordination mechanism, though the reform package recently decided on calls for the creation of a joint directorate which would be based at the Secretariat. Macroeconomic harmonization, financial system development, and investment promotion – the spheres of competence at present assigned to FISCU – should be advanced in parallel with industrialization to avoid any further growth of existing disparities. Without a complementary strategy geared to overcoming the most important supply bottlenecks, trade integration threatens to further intensify polarization in the region. It is therefore highly advisable to merge these coordination areas, perhaps including a cross-cutting area for "promotion of the private sector," and to provide the new unit with mandate and competence in line with current reform proposals.

While SADC is committed to a market-based industrialization that is in essence driven by the private sector and in which the public sector will assume the role of facilitator, thus far the practice of SADC as well as many of its member countries has clearly deviated from this delineation of roles. If the private sector is to become a dynamic force of regional integration, it will be necessary:

- to strengthen the role and organizational capacity of the private sector in the member states;

- that cross-cutting tasks like representation of common interests and the exchange of information be conducted via regional networks between national organizations;
- to establish suitable cooperation mechanisms between representatives of business associations and SADC institutions; and
- to strengthen the regulative, market-organizing framework and the role of the financial sector throughout the region.

### 8.3 Food, agriculture, and natural resource management

#### Role of agriculture in the integration process

The agricultural and food sector, with the economic areas downstream of it, is an integrating and multiplying factor of great significance for the future development of the SADC region<sup>15</sup>. This applies especially for the so-called farming belt in southern Africa (the high-potential countries Angola, Zambia, Mozambique, and Tanzania), but also, in a less pronounced form, for the low-potential countries of the arid zones; and viewed with an eye to the protection and conservation of natural resources, this applies for all SADC members alike. Seen in terms of its integrative function for regional food security, but also in terms of incomes, employment, and the environment, broad agriculture-based rural development will therefore rank high on the agenda of the member states of SADC. This is also expected to provide a crucial contribution to reducing poverty.

This view takes on a new dynamic against the background of the efforts geared to deepening regional integration. It aims at a gradual transition from a *national-sectoral* to a *regional-sector-integrating* development<sup>16</sup>. This will of course

15 Oosthuizen (1998), p. 342.

16 van Rooyen / Sigwele (1998), p. 49.

take some time; no more than hesitant first steps in this direction have materialized thus far. A proposal was made to create a regional development focus (cluster) for agriculture, food security, and protection of natural resources on the basis of a reform package aimed at rationalizing the SADC Programme of Action. This function is presently assumed by six SCUs working more or less independently of one another: agriculture and food security; agricultural research and training; livestock production, and animal disease control, environment and land management: forest and wildlife resources; water sector.

One issue of great significance to agricultural development in the SADC region is the question of the delineation of roles in public-sector promotion and market-based regulation. Against the background of highly differentiated agricultural development spaces, the following strategy would be recommendable: Where a highly productive and functionally specialized agricultural sector has emerged (e.g. commercial farming in South Africa, Namibia, Zimbabwe, Mauritius), the latter should be in a position to purchase agricultural services (extension, veterinary, training, research) in the market; where we find a dominance of small farms under suboptimal economic and infrastructural conditions, but favoured by good natural locational conditions, public-sector promotion is justified up to the stage at which a self-sustaining development is possible. The agriculture ministers of the SADC countries will have to look into this regulative-policy issue in connection with a regionally coordinated agricultural development policy.

The coordinating units, at present organized sub-sectorally, are seeking to promote cross-sectoral approaches, but they lack the competences to develop a regionally coordinated agricultural, food, and resource-protection policy. Yet the signing of the Trade Protocol, the Protocol on the Shared Use of River Basins, the Protocol on the Protection of Wildlife, and the preparation of the agricultural protocol have amounted to important steps on the road to regional integration.

To what extent it will prove possible to mobilize the potentials in particular of the SADC's farming belt will depend on the following core conditions:

- achievement of peace in Angola and the DR Congo,
- further liberalization of the world agricultural markets, with the elimination of international price distortions which this implies,
- consistent implementation of the SADC Trade Protocol and an integration-oriented agricultural price, market, and trade policy,
- successive extension of transportation infrastructure aimed at lowering transportation and transaction costs for agricultural products,
- harmonization of veterinary and phytosanitary measures and adoption of international norms and standards in agricultural trade.

Should these conditions not be met in the course of the coming decade, the low-potential regions with food deficits will probably find it less expensive to import agricultural produce from outside SADC.

### **Food and agriculture**

In 1986, on order of the Council of Ministers, the Harare-based Sector Coordinating Unit: Food, Agriculture and Natural Resources was given the task of coordinating, in close cooperation with the SADC agriculture ministers, all regional concerns and programmes associated with food security. But the responsibility for coordinating the subsectors of livestock production and disease control, agricultural research and training, and environmentally sound land management remained with the SCUs in Gaborone and Maseru, respectively.

For reasons of development strategy, and bearing environmental aspects in mind, all sectors should now be viewed under one functional development focus, as was proposed by the reform commission and shall now be realized in the form of a directorate covering food security, agriculture, and

natural resources. Two regional strategies, food security and the environment, are mandatory for any further development of this focus. An agricultural protocol on the joint further development of the agricultural sector is under preparation. The SCU's most recent efforts are concerned with an initiative aimed at more strongly linking regional food-security measures with broad-based rural development. This initiative, referred to as the Food Security and Rural Development Hub, has now been adopted by the SADC agriculture ministers; it is also receiving support from the international donor community.

Over 90% of the individual projects of SADC's action programme on food and agriculture is financed from international donor funds, especially from the EU, Germany, Denmark, and the Netherlands. At the insistence of the Council of Ministers, the number of individual projects was reduced from an original 30 to 11. This streamlining is in accord with the proposal on development in focal areas (clusters).

### **Protection and management of natural resources**

In 1985, on decision of the Council of Ministers, the SCU Environment and Land Management was established; it is headquartered in Maseru. It has created a broad information and data base on the state of and the threats to the region's soil and water resources. The SCU has furthermore devised the regional environmental strategy, laid the groundwork for the Regional Action Programme to Combat Desertification, and conducted a great number of conferences and workshops on the issue of resources protection and sustainable resource management.

The SCU sees its regional field of action as intimately bound up with the Agenda 21 and the International Desertification Convention. While this has given more urgency to the task of coordination, it has not made it any easier. The attempt to implement the regional environmental strategy had been plagued by coordination problems, questions of competence, and funding bottlenecks. Over 80% of the funds for the action programmes

come from international donors. An action plan for the Kalahari-Namib region is being prepared in connection with the Desertification Convention. The solution of transboundary tasks and the distribution of the costs and benefits of the action plan will constitute an important aspect here.

### **Livestock production and animal disease control**

While the coordination activities of the SCU Livestock Production and Animal Disease Control have a SADC-wide orientation, they are not yet based on a regional development strategy. The latter was to link the promotion of animal health with coordination of veterinary control. Thus far the main efforts have included special measures aimed at animal disease control, immunization programmes, and veterinary controls as well as training projects for veterinary personnel. The ongoing activities are financed mainly via support funds of the international donor community (Denmark, the Netherlands, Belgium, Sweden, Japan, USAID, UNDP, EU).

The subsector's great significance for regional food security, the development of incomes and employment, and the ecological stability of grazing resources in the arid areas of southern Africa will lead to an increase of the organizational and conceptual demands placed on the SCU. Regional veterinary control will also be faced with growing demands. In connection with the implementation of the Trade Protocol, i.e. in view of growing free trade in goods, it will be essential to ensure compliance with internationally defined standards for livestock and beef both within the region and vis-à-vis third countries. All in all, this means that the SCU will have to be strengthened in both financial and personnel terms.

### **Forest and wildlife resources**

The activities aimed at coordinating and jointly further developing these resources are in charge of the Lilongwe-based Sector Coordinating Unit: Inland Fisheries, Forestry and Wildlife. The sectoral focus forestry is supported in the framework

of the SADC Forestry Programme of Action, while the sectoral focus wildlife resources is financed in connection with the SADC Wildlife Sector Programme of Action, both of them mainly from financial resources provided by the international donor community. The Protocol on Wildlife Conservation and Law Enforcement, which has been signed, though not ratified, by all member countries, calls for harmonization and enforcement of wildlife conservation laws, support of national and regional institutions, improved management of wildlife resource conservation, and development of efficient regional information and communications systems between national authorities.

The development focuses forestry and wildlife resources are particularly well suited for purposes of regional integration. The reasons are bound up with their transboundary character and the need this implies to develop a cross-border conservation area management. This approach to regional integration aimed at managing wildlife resources should be given continued development-cooperation support, in particular for training, for creation of the necessary base infrastructure, as well as at the institutional-organizational level.

### **Agricultural research and training**

The SADC programme on agricultural research and training is regarded by all member countries as an important component of the sectoral development focus food, agriculture, and natural resources. The responsibility for coordination lies with the Southern African Centre for Co-operation in Agricultural and Natural Resources Research and Training (SACCAR) in Gaborone; the Council of Ministers decided in 1998 to change the body's status from that of a commission to that of a SCU. SACCAR's main tasks can be summed up in three categories: (a) coordination of regional agricultural research projects, (b) organization and carrying out of education and training courses, and (c) documentation and exchange of research and training information. SACCAR presently coordinates 14 regional agricultural research and training projects. These are closely coordinated

with national and international agricultural research institutions; the latter are grouped together throughout the world in the Consultative Group of International Agricultural Research (CGIAR).

About one quarter of the programme of action coordinated by SACCAR is funded by SADC member states, while three quarters of the funds are contributed by the international donor community. The most important donor countries are Germany, the US, the Nordic countries, Canada, and the EU. On the whole, both SADC and various donor organizations see the sector coordination as satisfactory, though it would be important to more vigorously involve the target groups in the research and training projects in order to optimally harness results for use on farms.

## **8.4 Social development**

### **Precarious social situation in southern Africa**

Some 40% of the 190 million people in the 14 SADC countries live in absolute poverty, 30 - 40% are unemployed or eke out their existence in a subsistence agriculture constantly threatened by recurrent droughts and flooding. The majority of member states have an agrarian structure, with two thirds of the SADC population living in the countryside and having little or no access to basic social services. Income disparities are enormous, the Gini coefficient averages somewhat above 0.5. Mass poverty, high unemployment, and large social disparities both between and among the member countries thus pose a great challenge to the social development of the SADC countries. The AIDS pandemic furthermore threatens social and human development in southern Africa in a manner typical of warlike conflicts.

Although SADC aims for far more than integration via the market, seeing regional prosperity, peace, and unity as its tasks, one point high on the agenda is an accelerated economic development through the creation of free trade. Here SADC is following the conviction that, in view of the great regional disparities and the generally great burden

of poverty, no sustainable social progress is possible without high economic growth. On the other hand, there are relatively narrow limits to an integration via the market that result from the very large existing interregional disparities. The following social trends are impeding the integration process:

- the high losses of trained labour through illness and early death due to HIV/AIDS, accompanied by a sharp increase in the costs for social services;
- increasing migration pressure (especially on the comparatively strong RSA, with the attendant potential of growing social conflicts in South Africa); and
- unadjusted education and training systems that, largely out of step with needs, impart paradigms unusable in practice.

The economic integration process will falter if fears, harboured especially by the LDCs among the member states, are confirmed that the benefits of integration will be distributed very unevenly, favouring the stronger economies. An accelerated social development in favour of the weaker economies, financed by regional structural funds – provided via transfers by the stronger members as well as from donors – could constitute the politically necessary and structurally sought-for compensation needed for swift trade integration.

Promotion of human resources development (HRD) by improving education and training and formation of social capital by strengthening labour markets and creating more jobs, development of an effective health-care system, and promotion of women are seen by SADC as social tasks relevant to integration, though the process centers on harmonization, standardization, and improvement of the regional division of labour.

### **The practice of regional integration as a means of promoting social development**

The SCU Human Resources Development, headquartered in Swaziland, has in the past years not succeeded in assuming issue leadership within

SADC in questions of education and training. While in some areas concrete progress has been made in the cooperation between SADC countries, the SCU, overburdened in organizational and personnel terms, is unable to set the regional agenda. The education and training systems of most member countries are presently being reformed with the aid of various donors, including Germany. The larger part of the donors have decided to give priority to supporting national reform efforts; at present they attach less importance to supporting SADC-wide projects via the SCU.

Two community tasks are set to be given priority for the future: the standardization in education and training required for integration and the activation of savings potentials in tertiary education and training institutions, including research and development, above all in the cost-intensive technical, scientific, and medical disciplines. The reason is that not all member countries can afford efficient, fully developed tertiary education and training institutions. On the other hand, these countries must be sure not to lose touch with technological developments. If it is to deal appropriately with these complex tasks, the SCU must be strengthened in political, financial, and personnel terms. This has not been possible until present on account of the manner in which SADC's organs were constituted.

The employment and labour-market policies are administered and coordinated by Zambia's ministry of labour and social affairs. The sector first came about as a subsector with the SCU Human Resources Development and was upgraded in 1997/98. The sector is governed on the model of social partnership by a council of ministers widened to include labour unions and the business community. The financial resources and manpower at its disposal are inadequate. Three years after its establishment it is still in its development phase. It is still forced to fight for sufficient resources. The SCU is characterized by its most important partner, the ILO, as well as by other important donors as weak and not especially viable. The structural problems facing decentrally governed sector units are in this case considerably

exacerbated by the involvement in them of the social partners.

There is still no protocol for the sector. One is in preparation, and current activities are thus concentrated on, *inter alia*, an understanding among the member states on internationally agreed-on principles, guidelines, and conventions, including the core international standards on freedom of association, forced labour, child labour, nondiscrimination, minimum wages, etc. The Council of Ministers has identified a number of regional projects to be presented to the donors, requesting their support. These are concerned, *inter alia*, with an institutional and organizational strengthening of the SCUs, studies on employment and labour-market policies in southern Africa, support in implementing international labour standards and complying with the ILO's reporting obligations, the development of a database, and support in the field of occupational health and safety.

The SCU on Health was established in 1997 as an independent SADC sector under the responsibility of the South African health ministry and became operational in 1998 in Pretoria. Its manpower endowment, at present two senior experts and two administrators, is completely insufficient to govern an exacting regional programme. The approach to which the member countries subscribe is primary health care, which implies the conviction that patients should be treated as close to home as possible. The health protocol was signed at the SADC summit in August 1999 and the ratification process has been initiated.

Five focuses for regional cooperation were agreed on for the SCU's current programme for the years 2000-2001: development of a regional programme against HIV/AIDS and sexually transmitted diseases; monitoring and combating communicable diseases, especially tuberculosis and malaria; promotion of reproductive health; standardization of health-related information; and mobilization of financial and manpower resources. In strategic terms, the priorities specified by the SCU on health are correctly chosen. They take up the most pressing regional problems of the health-care system and focus on transboundary tasks relevant to integration.

The most pressing regional health problem is the rapid spread of HIV/AIDS with its dramatic consequences for the social and economic development of the SADC countries. HIV/AIDS calls for resolute and coordinated action beyond narrow sectoral boundaries. The SCU on Health, in cooperation with the sectors employment and labour, human resources, mining, tourism, transportation and traffic, and culture, information, and sports, has presented a regional strategy to combat HIV/AIDS that is to be the basis for the regional AIDS programme set to be presented to the Council of Sector Ministers for decision.

With an eye to mobilizing the required international support for the regional AIDS programme, the SCU on Health is conducting a dialogue with international donor organizations. The majority of them, which have offered substantial support for a regional AIDS programme, are, however, increasingly disappointed over the hesitant and ponderous attitude shown by the SADC health institutions.

## **9 Strategic considerations on future development cooperation with regional organizations**

The support of regional integration provided by German development cooperation is a means to achieving the principle aims of German development-policy. This is based on the idea of a close link between political stabilization and/or crisis prevention, socio-economic development, resource stabilization, democratization, and protection of human rights.

The strategic role of development cooperation in working together with regional organizations and their member countries should therefore involve

- strengthening such regional organizations in dealing with their tasks as supranational organizations;
- promoting the harmonization of the economies of such a regional organization; and

- supporting the member countries in difficult processes involved in moving from coordination of their sectoral policies towards a deepening of integration and the implementation of joint policies.

Current bilateral development cooperation with member countries of regional organizations will need to be reviewed with an eye to the increasingly urgent issue of the coherence of promotion policies and measures and the need to rationalize the cooperation portfolio to fewer but more effective projects and programmes. Policy mix, deployment of financial resources, and choice of instruments of development cooperation should therefore be optimized with a view to a decision between the bilateral and the regional level.

Regional integration and support for the organs of regional organizations via development cooperation are never an end in themselves. They constitute a means of enabling member countries to better achieve, or to achieve in the first place, the aims these countries have jointly formulated on the basis of regional organizations. As a minimum, they should provide a contribution to supporting sectorally coordinated developments at the supranational level and shielding them from the dysfunctional impacts of other policies, e.g. external interventions resulting in market distortions. Common organs of regional organizations should act where regional and common programmes make possible general welfare gains. This is the case when they provide public goods that can be handled only regionally (e.g. free trade) or provide access to goods which have to be opened up cost effectively to the region (e.g. scientific-technical institutions). Application of the subsidiarity principle would suggest at the same time, that in promoting regional integration, development cooperation should in no case acquiesce in an unnecessary proliferation of regional institutions. Moreover, the shift of development cooperation measures to the regional level should only be accomplished once the organs of a regional organization have the political mandate and the organizational capacity to translate such measures effectively into practice.

A proactive approach of development cooperation would, for instance, be to provide technical support for procedural processes involved in trade liberalization decided on at the political level, as is the case with SADC at present. In the medium term a decision would have to be made on which development cooperation projects should be shifted from the bilateral-national to the regional level with a view to a future free-trade regime. These would include mainly development cooperation measures that have a sectoral or macro-policy orientation, e.g. price, market, and trade policies. A proactive approach could also be used to support the provision of public goods, e.g. by means of funding for regionally oriented infrastructure measures, border-crossing resource-protection projects, or supranational training and research institutions. The regional frame of reference is also clearly given in the field of measurement, standards, testing, and quality as well as in defining critical hygiene norms and environmental standards as basic conditions required to improve general living standards and ensure the quality of industrial and agricultural exports.

A more passive approach to promoting regional integration through development cooperation would be to continue with bilateral projects while merely gearing them more strongly to a possible later integration in the direction of a supraregional project. Such measures would include capacity-building and institutional development with a clear view to a step-by-step transformation of currently bilateral-national development cooperation projects into projects of a regional character. This development should go hand in hand with an adjustment of the specific country strategies and sectoral strategy papers, which should clearly underline the regional frame of reference.

## **10 Future approaches to development cooperation with SADC**

In development cooperation with SADC the strategic role of German development cooperation should be to support SADC in identifying, con-



ceptualizing, and, finally, financing and implementing projects which are strongly conducive to integration and serve to harmonize the economies of the SADC region. Contributions aimed at further strengthening the SADC Secretariat in exercising its governance tasks as a supranational institution are of particular relevance. Cooperation efforts should also be geared to strengthening implementation capacities in selected sectoral policy areas as well as to invigorating the private sector and other parts of the civil society. An important step towards optimizing donor contributions would be to review the current activities of the SADC Programme of Action in terms of its conduciveness to integration. In view of SADC's great level of dependence on donors, an important consideration for donor institutions would be to proceed cautiously, allowing SADC the time it needs for the learning and negotiation processes it faces. All activities should include a tangible contribution from SADC itself.

German development cooperation has so far - in an effort that has at times lacked sufficient coordination - promoted development in the SADC countries at different levels: member states, SCUs, and in particular the SADC Secretariat. German development cooperation should be optimized with the aim of increasing its integration-relevant impacts through firm coordination on the side of the Federal Ministry for Economic Cooperation and Development, BMZ, as well as in concert with other donors, in particular the EU. Each of the different country strategies should include statements on the contributions of individual projects and programmes to regional development. They should furthermore be strategically linked via a SADC-specific approach. It should be noted, however, that only a reformed and more efficient SADC could be expected to play the role of a strategic partner for German development cooperation in southern Africa.

In keeping with the consultations with the SADC Secretariat, the priority areas provided for are trade development and business promotion, agriculture and management of natural resources, and water infrastructure. Additional cross-cutting tasks have been specified; they include the build-

ing of implementation capacities among the SADC organs (Secretariat, SCUs or preferably in the future directorates, and member states administrations), and promotion of staff technical and management skills.

The results of this study confirm the significance of these focal areas and their fundamental suitability for German development cooperation, although this would have to be reviewed in the light of the German government's new strategy of further focussing development cooperation. SADC was classified as a priority partner, thus the three priority areas selected would be appropriate. The region's political weight and the fact that six of the projected 15 sub-Saharan priority partner countries are members of SADC lend additional support to such a classification.

Given the appropriate preconditions, support of social development in cooperation with SADC and its member states should play a more important role in the future. The region, and thus SADC, is practically not sustainable if great social challenges such as the HIV/AIDS pandemic, poverty, unemployment, labour migration, and education/training are not accorded the necessary political priority. The SADC's structures can provide an important contribution to the harmonization, standardization, and development of functionally specialized strategies and programmes. An improved and intensified regional cooperation is urgently required precisely in fighting AIDS and in creating effective educational and health institutions.

In view of the continuing low efficiency of SADC institutions, support in the area of institutional-organizational matters is advisable. But this could only prove successful if the organizational reforms that have been called for are approved and successively implemented, with additional improvement to be achieved in the cross-sectoral framework conditions. Techno-organizational support and SADC reforms will thus have to go hand in hand.

The results of this study further indicate that a swift and successful implementation of the Trade Protocol would call for development by SADC of the corresponding organizational capacities and

political decision-making procedures as well as by supplementary financial compensation mechanisms. Compensation mechanisms could be set up in the form of regional structural funds for the social, agricultural, and industrial sectors. However, such political negotiation and decision processes require at least a medium-term time horizon. They could and should be promoted by the EU as leading donor in a political-technical dialogue, including the conditioned provision of funds.

Since financial-cooperation funds are used to finance investments in priority areas, there is limited scope of directly supporting SADC as a structure in this case – i.e. as opposed to technical cooperation. Exceptions are those measures accompanying investment projects which can also be used to strengthen the capacities of individual SCUs. Indeed, financial-cooperation funds should mainly be used for investments in transboundary infrastructure which, as noted above, are better supported via SADC than on a bilateral basis. Another limiting factor for regional promotion via financial cooperation, and thus also a criterion for the selection of projects, is the difficulty SADC has in obtaining loans. Over the short to medium term only the possibility of grants will prove realistic. This would be an option in those sectors in which special terms can be granted for financial cooperation as well as in cases in which the costs and/or impacts of a project can be clearly assigned to SADC member states that, as LDCs, are generally eligible for financial-cooperation grants (i.e. DR Congo, Lesotho, Malawi, Mozambique, Tanzania, and Zambia).

## **10.1 Future measures in current priority areas**

### **Infrastructure development**

There is a very high potential for further integration in the transportation sector. The framework conditions are improving perceptibly. Promising options for technical cooperation should be sought generally in further improvement of the sector framework. In view of the other existing, and also

important, focal points of German technical cooperation with SADC, the present engagement should be gradually terminated over the medium term, unless a positive decision is made to provide German technical-cooperation funds for this sector.

SADC's investment programme in the transportation sector (including a small share for the telecommunications sector) specifies 94 projects for which funding is uncertain. The overall costs amount to around US\$ 1 billion. Some three quarters of this is earmarked for reduction of maintenance backlogs as well as for the rehabilitation and partial improvement of the design standard of regional roads. Roughly one quarter is intended for rehabilitation of the railway system, port development, and telecommunications projects.

The responsibility of private actors for the operation of port and rail facilities is likely to mean substantial gains in efficiency. In individual cases private investments could also be considered, but there will, in general, continue to be an important role for financial cooperation to play in this area. In the rail sector financial cooperation could, under certain conditions, provide support for a licensing or franchising scheme for railway operations. A particularly appropriate approach would be to finance the infrastructure and then to lease it to an operator.

There are more and more private transportation companies active in the road sector, and the private sector is playing a growing role in the planning and execution of maintenance work. In general, private financing of investments offers little promise because of the limited volume of traffic. In other words, this field offers some generally good points of departure for financial cooperation. Before any possible approaches of financial cooperation are concretized, it would be important to acquire more exact information on planned projects and the activities of other donors. This should also entail a closer review of the priority of road versus rail.

One reason that speaks for financial support for the transportation sector via SADC is that it is often not possible to fund regionally significant

road and rail systems via bilateral cooperation. Moreover, German financial cooperation has considerable experience in the transportation sector in southern Africa. Since it is difficult or impossible for SADC to obtain loans any funding would presuppose that a project's main benefits would accrue to countries that are generally eligible for grants. This in mind, promotion of the transportation sector by German financial cooperation is appropriate if the funds available to SADC in the future are increased sufficiently.

The electricity sector is also a promising field for improved cooperation and integration and offers particularly good prospects for cost saving. However, here – unlike e.g. the transportation sector – integration is being impeded by the self-sufficiency-mindedness of many member states. Moreover, electricity is less important to the integration of the economies of the region than the transportation sector. Inclusion of this sector in financial cooperation could be considered if suitable projects are proposed.

The sustainable use of water resources is of crucial importance to the economic and social development of the SADC countries. This field offers great potential for intensified cooperation and integration. This would entail avoidance or reduction of conflicts over water. Above all, improvement of the regulatory framework of the water sector and promotion of an efficient use of water, including the introduction of cost-covering tariffs for all users, also offers points of departure for further German technical cooperation. The focal point here is the commercialization, privatization, and liberalization of the sector and the promotion of competent regulatory authorities, including participation of the various parties concerned. This would also concern the watercourse commissions responsible for regulating the transboundary protection and utilization of watercourses and for harmonizing the framework. Further points of departure for technical cooperation might be sought in the harmonization of policies and strategies for waste and waste-water disposal.

Investment projects of regional significance that might generally come into consideration for SADC funding via financial cooperation would

include above all long-distance pipelines and water abstraction facilities used to deliver water from watercourses to the main consumption areas. For such projects, funding via SADC as a regional organization is often easier than funding through development cooperation with individual countries. However, such projects take time until concretization. Among other things they have to meet the criteria of the international donor community. An exact comparison of need dimensions and existing resources, including less known groundwater reserves, would be necessary and, in many countries, a fundamental change of the national consumption framework (i.e. demand-side management). A further requirement that still needs to be met are international agreements on the allocation of water resources and minimum residual water quantities.

The above assessment of the temporal sequencing of different measures is essentially in keeping with the programmes of the SCU. For the time being, technical cooperation to support the SCU and its work should be given priority. No financial-cooperation funds should be earmarked for this sector – which is not to say that financial cooperation should not observe and accompany SADC's further efforts aimed at prioritization of the regional support provided for the water sector.

### **Trade development and business promotion**

German development cooperation has taken up early on the regional approach in southern Africa and has for some time now been involved in focal areas with two projects the promotion of trade and the private sector. The advisory project on trade integration with the Secretariat and the advisory service for private business based in Zimbabwe have succeeded in providing a significant contribution to promoting regional integration and the private sector in SADC. Project activities are anchored at different levels (from the chamber and association level to the national and SADC level), and cooperate with other regionally oriented programmes, e.g. those supported by the German political foundations. With the implementation of

the Trade Protocol support to these approaches should be continued and enlarged upon.

One factor of great importance to private businesses is swift implementation of the Trade Protocol and, once positive effects have become visible, further development of the free-trade area into a common market, possibly in the framework of a customs union. Overlapping free trade agreements involving different tariff regulations by contrast create uncertainty, increase the costs of trade, and impede at present the deepening of regional integration. If far-reaching trade-diverting effects are to be avoided, there is a need for further support as regards the impacts of trade liberalization, especially in the weaker countries of the region and in the private sector itself, to help these fully exploit the newly arising potential.

The whole range of instruments of development cooperation should be reviewed for their suitability and the possibilities they provide to better promote regional cooperation. In the field of business promotion, for instance, this would include training provided by the German Foundation for International Development, DSE, (e.g. in the area of customs administration or tertiary education) and by the Carl-Duisberg-Society, CDG, (e.g. capacity building for chambers and associations), cross-border investment promotion by DEG, support for regional institutional networks by the German political foundations, and so on.

The focal areas of the future promotion of trade and the private sector should include:

- strengthening the weaker member states in developing and implementing strategies for a proactive utilization of the effects of trade integration; this could, for instance, be achieved via advisory services in the trade and industry ministries or by supporting local task forces active in implementation;
- continuing with capacity-building with the SADC Secretariat and throughout the implementation phase;
- promoting cooperation between private- and public-sector actors and institutions at the national and the SADC level;

- strengthening private-sector actors themselves as regards their organizational capacities and improving their skills in service and lobbying functions.

Existing bilateral programmes and projects in the field of private-sector promotion should be reviewed as to whether it appears feasible to further network them and to add on project components of regional relevance and orientation, e.g. as regards promotion for micro, small, and medium-sized enterprises with export capabilities, support for further meso-institutions with an eye to a greater regional orientation or institutional capacity-building (e.g. chambers / local business promotion) in the framework of exchange programmes. In the field of financial-system development, including microfinancing – thus far handled at the bilateral level – the Finance and Investment Coordination Unit (FISCU) might be used more in the future to harness regional networking potentials. Coordination will become easier in this regard once the joint directorate comes functional in Gaborone.

The SADC organs specifically charged with the task of creating a suitable framework for the private sector (the SADC Industry and Trade Co-ordination Division, SITCD, and the Finance and Investment Sector Co-ordination Unit, FISCU) were in the past suboptimally organized and have thus far contributed only to a limited extent to formulating and implementing suitable strategies in the region. Structural reform is now under way but it is not clear yet how long implementation will take. It is planned, however, that the new directorate be implemented in the course of 2001.

In view of this situation, German development cooperation would have the following options:

- To support all approaches supported by SADC members themselves which are aimed at focusing competences in trade, industry, finances, investment, and promotion of the private sector;
- to continue advising the secretariat level as implementation and institutional reforms get underway, continuing to stress in particular the concerns of the private sector

and impacts on weaker member countries; it would be important to support the setup, and appropriate endowment, of a coordination office for questions involved in promoting the private sector, located with the Secretariat;

- to aim more to strengthen public- and private-sector institutions involved in business promotion in weak member states and help establish reform-oriented SADC structures such as the proposed new directorates;
- the role of the Secretariat in further conceptualizing and guiding SADC's reform process will be a prominent one which also deserves attention.

SADC structures have recently been opening up for cooperation with the private sector. The chances afforded by this development should be supported by development cooperation:

- by using the political dialogue to explicitly welcome and continue to call for further involvement of private-sector and other civil-society actors in the integration process;
- by supporting the institutionalization of cooperation by means of appropriate mechanisms and interfaces between SADC structures and representatives of the private sector and by promoting the willingness on both sides to engage in dialogue and negotiations;
- by promoting the horizontal cooperation of representatives of the private sector from different countries at the regional level once the mandate, the need, and recognizable gains have been clarified, e.g. through feedback to national authorities and members of the private sector.

The German business community is itself already very active in this field, encouraging greater commitment in southern Africa via the *Afrikaver-ein* and SAFRI. Development cooperation can best support these initiatives in cooperation with the German Ministry for Economic Affairs and other donors by working toward improved in-

vestment conditions and an environment conducive to private sector development in SADC.

And in view of SADC's institutional-organizational weaknesses, it would be all the more important to work for improved donor coordination in the field of promotion of the private sector. This applies in particular for the EU, the World Bank, and USAID, but also for others who are playing an increasingly large role in promoting the private sector and/or improving the economic framework. Donor competition for some partner institutions in the private sector is already foreseeable and should urgently be avoided.

### **Agriculture and the management of natural resources**

Food security, agricultural development and natural resource management should make up the core of an integrated approach of a regional development strategy. It is based on the development approach of an agriculture-based and poverty-reducing economic development. In a graduated form in keeping with the differentiation of the region into high-potential countries and low-potential countries including countries with food deficits in marginal zones, this objective will have to be given different concrete shapes. This graduated approach would have implications for international development cooperation. The most far-reaching one would be that the promotion of agricultural development would be concentrated only on the countries of the potential zone. Over the medium term such efforts should withdraw from the marginal zones, or be given a resource-stabilizing configuration; this should be formulated with an eye to the Desertification Convention and Agenda 21 and be implemented in the framework of subregional resource-protection programmes. On this basis, German development cooperation should offer conceptual advice to support this development focus once the Agriculture Protocol has been adopted.

Technical support for this development should be given in the form of an integrated programme. In the countries with agricultural potential this should continue in the framework of Sectoral In-

vestment Programmes (SIPs) underway since 1996. This is to ensure that development efforts of different donors do not unfold in an uncoordinated fashion in this sector in a given member state. The technical services provided should concentrate on the complex issue of how the high conceptual demands and the difficult institutional setting involved here can be realized under administrative structures that are for the most part weak. Technical cooperation could be used here to provide a contribution to strengthening planning, control, and institutional capacities.

The Food Security and Rural Development Hub as initiated by the SCU on Food, Agriculture and Natural Resources Development should be regarded in the light of the above-outlined integrated programme approach and might possibly serve as the starting point for SADC-wide initiative on a regionally coordinated policy of agriculture-based rural development. The initiative should in no case lead to a separate development project with extensive parallel administrative structures.

Since agricultural development is not possible without a functioning road network, transportation infrastructure should be further developed in the framework of a SIP and tied into the transnational road networks. This could boost the anticipated growth in intra-regional agricultural trade. Based on an overall regional strategy, financial cooperation could be used to provide a targeted contribution coordinated with other donors.

In the case of the SADC programme on developing livestock production and animal disease control, German development cooperation should insist that a regional development strategy involving a regionally differentiated view be devised, followed by swift preparation of the corresponding protocol. Only under these conditions can financial and technical support measures be reasonably harmonized. Independently of this, the current veterinary control services could be provided further support.

The SADC programme on the development of forest and wildlife resources is highly conducive to regional development. It should in the future be

supported by the responsible SCU, even though the administrative structures are still weakly developed. This could send a clear signal on the promotion of regional integration, which would find its concrete expression in the so-called Trans-frontier Conservation Areas currently under development. Together with the private sector, technical and financial cooperation could provide a significant contribution here.

SADC-coordinated agricultural research and training is decentrally organized, receives multilateral support via CGIAR, and is relatively well developed. The transition from coordinated individual research projects to an integrated research network with clearly defined focal points should be supported by German and international development cooperation. In the future, however, this network should include more private agricultural research. Another important factor should always be closeness to small farmers actually affected.

It would be possible to reorient development cooperation with SADC and its member countries on the basis of such a focus-gearred regional strategy. On the whole, increasingly scarce financial resources should be concentrated on priority areas that now can be viewed in a regional perspective (e.g. regionally differentiated agricultural promotion). By focusing measures, concentrating funding, and pursuing regionally differentiated development priorities, it is possible to achieve positive integration effects on three levels: (a) the level of the SADC member countries, with the long-term perspective of exploiting comparative locational advantages in agriculture; (b) the level of SADC's organs, with a view to bolstering them politically by strengthening their conceptual competence and increasing their development capacity; (c) the level of international development cooperation, with the perspective of simplifying procedures, concentrating funds, and a reasonable international division of labour.

## 10.2 Stepped-up efforts in the social sectors

There is a substantial gap in SADC countries between the need for social development conducive to integration and the actual practice on the ground. In view of the great existing disparities, regional social development cannot simply be used as a lubricant for economic development but must contribute to promoting, in the medium term, the economic and political integration capacity of poor member countries and/or regions. SADC lacks a comprehensive social agenda that accords to solving social problems an importance similar to that assigned to economic and trade issues. SADC will hardly be sustainable if it, as a community, fails to accord the highest political priority to the great social challenges facing it: the HIV/AIDS epidemic, poverty, unemployment and labour migration. German development cooperation should emphatically represent this assessment in the dialogues concerning these matters.

Although, in keeping with the principle of subsidiarity, the individual member countries must be in the foreground of efforts geared to solving social problems, SADC itself may have to assume facilitative and catalytic roles in view of the highly divergent institutional effectiveness of its individual members. The organization could contribute to focusing the forces of government and civil society and see to it that successful and promising approaches are implemented as swiftly as possible, taking advantage of possible regional economies of scale. For the donors this means that they, for their part, will have to aim for more coordination of their individual efforts both among one another and with SADC.

German development cooperation has decided not to include social development as an explicit priority in its cooperation programme with SADC so far, instead addressing social issues in the framework of the bilateral country programmes. Since the present SADC recipient structure is very weak in the social sectors, this decision should not be revised until structures emerge that are more efficient and conducive to integration. But as soon as that is the case, SADC should be provided with

development-cooperation support in the field of social development as well.

In the social sectors German technical cooperation might best concentrate on organizational development as a means of contributing to building effective and efficient regional structures and strengthening implementation capacities. Should SADC decide to set up a (compensatory) social fund that appears capable of funding projects in the weak member states, involvement of German financial cooperation should be taken into consideration.

## 10.3 Further contributions to improving the cross-sectoral framework

The possibility of creating a regional compensation fund that could provide stopgap loans and budgetary aids to weak member countries that fear losses of customs revenues in connection with SADC trade integration (especially Malawi, Mozambique, and Zambia, but also Zimbabwe) should be looked into. An initiative of this sort would be suited to eliminating the most difficult political obstacles to swift and effective trade integration.

SADC trade integration on its own is unlikely to reduce poverty by increasing employment in the weak member countries. Measures geared to reducing supply-side bottlenecks must be used as supplementary measures to promote trade integration. These should enable weak member countries to expand the production of tradable goods. It is only in this way that these countries will be able to benefit from the potential of increased intra-regional trade created through trade integration. Measures funded from a *regional structural fund* and geared to strengthening agriculture in the potential countries as well as a broad-based industrialization process throughout SADC could be pursued towards this end. This would, however, entail problems involving provision of funds as well as decision and allocation modalities. A regional development bank similar to the DBSA, but with a special mandate for SADC, would have to be in charge of fund administration. Following

some preliminary conceptual work (with SADC, SADC member states, EU), German development cooperation should work toward the establishment of a regional fund and forward this idea of a compensation-type fund in the policy dialogue on and with SADC. As a leading donor, the EU could make use of its own relevant experience in the field. As a means of boosting regional solidarity and ownership, it would be important to urge from the very outset that SADC members assume substantial shares of the refinancing burden in keeping with their economic strength. The regional social fund should be administered by the proposed directorate on social and human development and special programmes, which would in turn be accountable to the SADC Secretariat.

German cooperation with SADC cannot be viewed in isolation; it must be optimally coordinated with that of other donors. This applies in particular for the EU's cooperation with SADC, especially since the EU provides the most important financial contribution of all donors to the SADC Programme of Action. The strategy of German cooperation should mesh as far as possible with the EU's strategy and proceed on the basis of a division of labour. To better meet this aim, it should be ensured that BMZ, KfW, and GTZ are represented in the EU-SADC consultations. A substantial contribution and ownership of the integration process by SADC members, without which there is unlikely to be any SADC integration, can be ensured only if the donors do not compete against one another in financing projects. The present donor competition in financing SADC projects and activities runs counter to the goals of SADC integration.

For historical reasons, SADC bears the marks of a government initiative. In fact, however, integration will become a social and economic reality only to the extent that it enjoys the support of the population. The idea of SADC integration, though, is still very weakly anchored in civil society and the private sector throughout the region. SADC integration should therefore be widened to include a catalogue of measures to be implemented via NGOs, church organizations, political foundations, professional organizations etc.



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