SOUTHERN AFRICAN DEVELOPMENT COMMUNITY SADC

ANNUAL REPORT 1998/1999

Contents

Foreword

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Executive Secretary

The 1998/99 SADC Annual Report has been prepared by the Secretariat with inputs from Member States and other relevant national institutions. The country profiles were prepared by the respective Member States. The Report covers the period from July 1998 to June 1999. It reviews the economic performance of the region, as well as social and political developments. The world economy and the state of African economies, prospects for economic growth and the SADC Programme of Action are also analysed. Furthermore, the Report gives policy options on the food situation, clearly stating that the use of modern technology aimed at boosting production in the agricultural sector needs to be taken on board.

The macroeconomic performance of the region was not satisfactory during the year under review. This can largely be pinned to the minimal growth recorded by SADC's largest economy South Africa, thereby accounting for much of the lower growth rate for SADC as a whole. The continuation of armed conflicts in Angola and the Democratic Republic of Congo also impacted negatively on the economic stability. However, it is heartening to note that efforts to resolve the conflicts are already paying dividends. SADC realises that peace and stability and economic development are intrinsically linked.

The Report highlights the magnitude of the external debt burden and raises some concerns with regard to the proposed sale of gold as a form of debt relief. It notes particularly, the possible adverse impact on gold prices as a result of the sales.

Although many SADC Member States have implemented economic reform programmes, there has been limited growth mainly because of a combination of low domestic savings coupled with a sharp drop in both official development assistance as well as foreign direct investment. The Report points out that if SADC is to make a dent in poverty and create gainful employment, there is need for the region to grow on average by more than 6 percent per annum.

Apart from giving a clear picture on the region's economic, political and social developments during the year under review, this Report hopes to provide in-depth analysis on issues of common concern to the region, as well as providing valuable information to stakeholders and other interested parties.

Kaire M. Mbuende (Dr)
Executive Secretary

The Southern African Development Co-ordination Conference (SADCC), the forerunner of the Southern African Development Community (SADC), was formed in Lusaka, Zambia on 1 April, 1980, following the adoption of the Lusaka Declaration – Southern Africa: Towards Economic Liberation by the nine founding Member States.

The Declaration and Treaty establishing the Community which replaced the Co-ordination Conference, was signed at the Summit of Heads of State or Government on 17 August, 1992, in Windhoek, Namibia.

SADC has 14 Member States namely: Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Each Member State has the responsibility to coordinate a sector or sectors on behalf of the others.

New Member States may be allowed to join by a unanimous decision of the SADC Summit and upon acceding to the SADC Treaty.

SADC headquarters are in Gaborone, Botswana.

The working languages are English, French and Portuguese.

Executive Summary

The main objective of SADC is to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the peoples of Southern Africa and support the socially disadvantaged through regional integration. These objectives are to be achieved through increased regional integration, built on democratic principles and equitable and sustainable development. SADC adopted the development integration approach, which provides for the formulation of co-ordinated sectoral policies and plans and an active trade and market integration component aimed at creating a unified regional market. It is appropriate to its specific needs and allows groups of countries within SADC to move faster than others in different fields of activities.

Singing the Zambian national anthem during the official opening of the 1999 Consultative Conference in Lusaka, is President Frederick Chiluba (second right), former SADC Council of Ministers Chairperson and South African Foreign Minister, Mr Alfred Nzo (left), SADC Executive Secretary, Dr. Kaire Mbuende (third left) and the Zambian Foreign Minister, Mr. S.K. Walubita

The countries of Southern Africa have adopted a framework of co-operation based on:

- deeper economic co-operation and integration, on basis of balance, equity and mutual benefit, providing for enhanced investment and trade, and freer movement of factors of production, and goods and services across national borders;
- common economic, political, social values and systems, enhancing enterprise and competitiveness, democracy and good governance, respect for the rule of law and the guarantee of human rights, popular participation and the alleviation of poverty; and
- regional solidarity, peace and security, in order for the people of the region to live and work together in peace and harmony.

Policies have been put in place and all the Member States have adopted market oriented economic policies and we are now working on harmonising the macro-economic indicators.

It is worth mentioning that despite agriculture's small share of the GDP at region level, there is overwhelming evidence that all economies in SADC, regardless of their economic base, tend to be driven by agricultural conditions for growth, stability, control of inflation, in particular, on food prices, among others. If the harvest is poor in a particular year due to poor weather and other adverse conditions, this affects not only farming output but also manufacturing. This Annual Report reviews the performance of the region in 1998.

The World Economy

The world economy suffered a notable setback in 1998, as the full impact of the 1997 crisis of world financial markets on economic activity materialised. The previously fast growing newly developed countries of Asia and Japan were hardest hit by a marked recession, which had fallout effects on demand for consumer goods and raw materials. This, in turn, caused negative impacts on countries, which themselves were not directly affected by the crisis of financial markets, including those in Africa.

World real GDP growth contracted to 2.5 percent in 1998, compared to growth of 4.3 and 4.2 percent in 1996 and 1997, respectively as shown in Table 1 below.

The World Economy 1996 – 1998

Real GDP	1996	1997	1998	1999 (projection)
World	4.3	4.2	2.5	2.3
Developed countries	3.2	3.2	2.2	2.0
US	3.4	3.9	3.9	3.3
European Union	1.8	2.7	2.8	1.8
Japan	5.0	1.4	-2.8	-1.4
Developing countries	6.5	5.5	3.3	3.1
Africa	5.8	3.1	3.4	3.2
Sub-Sahara Africa	5.4	3.9	2.9	2.9
Asia	8.2	6.6	3.8	4.7
Latin America	3.6	5.2	2.3	-0.5
Countries in transition	0.3	2.2-	0.2-	0.9

Source: IMF World Economic Outlook 1999

This slow-down was a result of a reduction in real GDP of 1 percentage point in the developed countries, but of 2.2 percentage points in the developing countries, and of 2.4 percentage points in the countries in transition.

Among the developed countries, Japan suffered the most pronounced contraction of the economy, as real GDP growth tumbled from 1.4 percent in 1997 to -2.8 percent in 1998. The European Union economies, on the other hand, experienced stable growth of 2.8 percent, on average, compared to 2.7 percent in 1997.

Inflation was curbed further in 1998, with developed countries experiencing a record low in consumer price increases of 1.6 percent. In the developing world, however, 1998 inflation increased, as consumer price rises accelerated from 9.4 percent in 1997 to 10.4 percent in 1998.

Table 2: Consumer prices

Developed countries	2.4	2.1	1.6	1.4
US	2.9	2.3	1.6	2.1
European Union	2.5	1.9	1.5	1.3
Japan	0.1	1.7	0.6	- 0.2
Developing countries	14.3	9.4	10.4	8.8
Africa	25.9	11.1	8.6	8.6
Asia	8.3	4.8	8.0	4.7
Latin America	20.8	13.9	10.5	14.6
Countries in transition	40.6	28.2	20.8	40.9

Source: IMF, World Economic Outlook, May 1999, tables 1 and 8

It is important to note, however, that this trend was exclusively due to higher inflation in Asia, where consumer price rises almost doubled in 1998, fuelled by the fallout of financial turmoil, banking crises and exchange rate devaluations. In Africa and Latin America, on the other hand, inflation declined further: in Africa, 1998 consumer prices increased by 8.6 percent, comparing quite favourably with 1997 inflation of 11.1 percent and 1996 inflation of 25.9 percent.

Heads of delegations take a break to pose for a group photo during the Council of Ministers meeting in Lusaka, Zambia in February 1999.

The performance of the African economy in 1998 was quite impressive. The 3.3 percent growth in GDP, compared with 2.9 percent growth in 1997 was the highest among regions of the world. Although this was the fourth consecutive year that GDP growth grew faster than population, African economies will need to grow at rates of about 7 percent to have a significant dent into poverty.

Apart from poverty considerations, Africa's positive aggregate economic performance was skewed in favour of only two regions. Only the North and Central African sub-regions grew in 1998. Elsewhere, there were declines in Eastern, Western and Southern sub-regions.

On the other hand, the removal of subsidies and the reduction in the provision of extension services following the reforms led to reduced production in the small-scale sector.

On the external front, there were serious pressures on the balance of payments following the fall in export revenue by 17 percent. For the first time Africa recorded a negative trade balance as the current account deficit rose to an all time high of US$16 billion. Accounting for this development was the imbalance in the service sector where debt service payments and the cost of transportation outstripped export revenues. Coupled with this is the fact that resource flows declined to $3 billion from US$4.5 billion due to reduced private foreign investment and bilateral credit by 40 percent. At the same time debt service increased by $35 billion or 31 percent of exports of goods and services.

Inflation was contained. There was a deceleration to 12 percent in 1998 from 15 percent in 1997 – mainly on account of good weather.

Political Situation

During the period 1998-1999 political conflicts emerged in Lesotho and D.R.C. and armed hostilities resumed in Angola. These conflicts, though isolated and confined mainly to Angola, D.R.C. and Lesotho, have serious repercussions on the entire region whose credibility is being seriously undermined.

It will be a real tragedy if the region does not get to grips with the ongoing political turmoil at the dawn of the new millennium.

It is heartening to note, however, that there is strong determination from the leadership of SADC to bring peace and harmony in the region.

In Angola, there is need for concerted actions at regional and international levels to resolve the stalemate in the implementation of the Lusaka Peace Process. It has been recognised that the main cause for the resumption of hostilities and the difficulty to implement the peace accord lie in the fact that the leader of UNITA and his military wing have failed to honour their obligations under the Lusaka Protocol, the UN Security Council and the OAU Resolutions which commit them to full demilitarisation of their forces, participation in a government of national unity and formation of a national defence force.

On the Democratic Republic of Congo and in line with the spirit of continued search for peace and stability in the region, several initiatives have been undertaken to end the conflict in the Democratic Republic of Congo which started at the beginning of August last year. This conflict which involves four SADC countries and two non SADC countries could have easily pulled the whole Democratic Republic of Congo and, indeed, the entire SADC and Great Lakes region into a complex and long term conflagration at enormous cost in terms of both human lives and long term social and economic development.

A number of peace efforts were made leading to the Lusaka Peace Process. Two Summits were held at Victoria Falls town. These were followed by Summits at Pretoria, Nairobi, Windhoek, and Dodoma. In addition, Ministers of Foreign Affairs and Defence met in Addis Ababa before a Summit of Heads of State and Government at Grand Baie, Mauritius in September 1998, during which President Frederick J T Chiluba of Zambia was appointed as mediator. Fortunately, these efforts seem to have brought the situation under control with the signing of the cease-fire agreement, on 10 July 1999 in Lusaka.

In Lesotho the Government of Lesotho requested the military intervention of SADC in September 1998 following the breakdown of law and order. The SADC force quickly normalised the situation and paved the way for negotiations among the various political parties.

The post-conflict needs assessment estimated losses at around US$27 million. This figure includes the cost of demolition, reinstatement, and professional fees of firms and individuals involved in the construction. The impact of the conflict was wide ranging, from social (family life, children and women) to institutional (education, health and agriculture) to the macro-economy (growth expectations, fiscal position, inflation, unemployment).

According to the most recent Budget Speech (April 1999), the Government has established a fund for M5 million (US$835,000) targeted at assisting small scale businesses to get back into operations. The Government has also put on hold the implementation of some approved programmes in the capital budget in favour of the reconstruction and rehabilitation programme. An extra capital budget allocation of M35 million (US$5.8 million) has been made to specifically finance reconstruction and rehabilitation activities. Conditions have been put in place for the holding of free and fair elections next year.

ECONOMIC SITUATION IN SADC

MACROECONOMIC PERFORMANCE

The slow-down in 1998 economic activity was more pronounced for the SADC region, where real GDP rose by only 1.7 percent in 1998. This represents a quite disappointing performance when compared with the sound growth rate of 2.2 percent of 1997 and the even more encouraging growth of over 4 percent in 1996.

Table 3: Real GDP Growth Rates (%) in SADC

	1981 -1990	1995	1996	1997	1998
Angola	2.1	11.2	12.1	5.9	1.7
Botswana	16.9	3.1	7.0	6.9	8.3
DRC	0.7	1.6	0.9	(6.4)	(3.5)
Lesotho	3.9	8.9	12.7	3.5	(5.8)
Malawi	2.2	10.0	12.0	5.3	6.2
Mauritius	4.9	5.6	6.0	5.2	5.6
Mozambique	0.1	1.4	6.4	6.0	11.6
Namibia	(0.6)	3.6	2.1	2.4	2.6
Seychelles	3.6	(0.6)	1.5	7.9	3.0
South Africa	1.5	2.9	3.1	1.7	0.1
Swaziland	6.6	2.7	3.9	3.8	2.5
Tanzania	3.3	3.6	4.2	3.3	4.0
Zambia	1.0	(2.3)	6.5	3.5	(1.8)
Zimbabwe	4.2	(1.1)	7.0	2.0	1.6
SADC	–	3.1	4.1	2.2	1.7
Sub Sahara Africa	2.3	4.1	5.4	3.9	2.9
Africa	2.5	3.1	5.8	3.1	3.4
Advanced Countries	2.4	2.5	2.5	2.9	2.9

Sources: Data Sub Sahara Africa, Africa and Advanced Countries was derived from IMF World Economic Outlook, 1999 otherwise Member States

Per capita income (measured as GNP per capita) fell by 1.3 percent in 1998, after having already declined by 0.4 percent in the previous year. Based on data of the African Development Bank, average GNP per capita for the SADC region amounted to US$988 in 1997. If South Africa is excluded, SADC 1997 income per capita averaged US $ 334.

The South African economy was the only one in SADC, which was directly affected by the world financial crisis. Interest rates had to be increased sharply in order to fight speculation. While this policy, combined with prudent fiscal and monetary management, represented an effective measure against contagion by the financial turmoil in world financial markets, it exacerbated the sluggishness of South Africa's economic activity.

The continuation of the armed conflicts in Angola and the Democratic Republic of Congo also impacted negatively on economic stability, macro-economic management and investor confidence in the directly involved countries as well as in the SADC region at large.

Table 4: Trends in Foreign Resource Flows

Item	1975-84	1985-89	1990-98
Gross Domestic Investment:			
Africa	25.4	21.6	22.8
Sub-Saharan Africa	22.9	17.7	18.1
Foreign Direct Investment plus bilateral Credit:			
Africa	4.2	6.3	6.5
Sub-Saharan Africa	5.0	4.4	3.5

Source: ECA Economic Report, 1999

The above Table shows that foreign direct investment and bilateral credit to Sub-Saharan Africa which includes SADC has fallen in recent years.The resource gap widened and reflected the region's continued dependence on foreign resources. Domestic investment went up only marginally and was therefore, not able to offset the decline in foreign resource flows. This is indicative of the need to increase the mobilisation of domestic savings. The policy implication of this is clear. If SADC is to increase its rate of economic growth Member States need to raise investment levels.

Three SADC countries, namely DRC, Lesotho and Zambia recorded negative growth of economic activity during 1998, of 1.7, 3.5 and 1.8 percent, respectively. On the other hand, by far the strongest economic growth was witnessed in Mozambique (11.6 percent GDP growth), Botswana (8.3 percent), Malawi (6.2 percent), and Mauritius (5.6 percent). Tanzania (4.0 percent), Seychelles (3.0 percent) and Angola (1.7 percent) were next allowing them to achieve small increases in real GNP per capita. All the other SADC Member States (Lesotho, Namibia, South Africa, Swaziland and Zimbabwe), however, suffered declines in GNP per capita in 1998, though not as pronounced as Angola, DR Congo and Zambia.

INFLATION

Inflation was brought down further during 1998 in most SADC countries. Nine Member States recorded single-digit inflation in 1998, with Seychelles and Mozambique achieving the smallest rise in consumer prices of slightly more than 2 percent. In three SADC Member States, namely Seychelles, Malawi and Zimbabwe, inflation accelerated during the past year. Two countries (Angola and DRC) recorded three digit inflation, while four countries (Malawi, Tanzania, Zambia and Zimbabwe) recorded double-digit inflation in 1998.This is shown in Table 5 below:

Table 5: Average Annual Inflation (1)

	1990	1995	1996	1997	1998
Angola	1.8	3 784.0	1 650.2	222.0	134.8
Botswana	10.6	10.1	10.4	7.8	6.1
DRC	–	*541.8*	*659.0*	*176.0*	*147.0*
Lesotho	11.5	9.6	9.0	8.5	7.3
Malawi	11.4	83.3	37.6	9.1	29.8
Mauritius	13.5	6.0	6.6	6.6	6.8
Mozambique	58.8	30.4	16.3	5.8	6.0
Namibia	12.0	10.0	8.0	8.8	6.2
Seychelles	3.9	0.3	0.9	0.6	2.6
South Africa	14.4	8.7	7.4	8.6	6.9
Swaziland	11.0	12.4	10.8	7.2	8.0
Tanzania	35.7	27.4	21.0	16.1	12.9
Zambia	109.6	45.5	35.2	18.6	30.6
Zimbabwe	15.5	22.5	21.7	20.1	31.5
SADC					
Sub Sahara Africa	*16.8*	*39.5*	*32.3*	*13.7*	*10.2*
Africa	*15.6*	*33.1*	*25.9*	*11.1*	*8.6*
Advanced Countries	*4.3*	*2.5*	*2.4*	*2.2*	*1.4*

Sources: Central Statistics Offices of Member States, SADC Secretariat

(1) Figures in italics are estimates

COMMODITY PRICES AND THE BALANCE OF PAYMENTS

Although SADC has largely been unaffected by the financial crisis in Asia, the consequences of the recession in emerging markets were transmitted to the region's balance of payments.

Table 6: Balance of payments (Current Account as % of GDP)

Country	1996	1997	1991-97
Angola	-9.2	-11.3	-11.5
Botswana	5.6	1.8	6.6
DRC	-7.9	-8.4	-9.5
Lesotho	-30.2	-28.0	-33.0
Malawi	-5.1	-4.9	-8.5
Mauritius	-0.9	0.6	-1.7
Mozambique	-30.8	-28.0	-32.7
Namibia	2.6	0.7	3.1
Seychelles	-4.7	-2.5	-2.1
South Africa	-1.6	-1.1	0.0
Swaziland	-1.9	-0.6	-1.2
Tanzania	-5.8	-2.2	-4.5
Zambia	-6.6	-6.5	-3.6
Zimbabwe	-1.0	-2.6	-4.1

Source: Africa Development Bank, 1998

Some of the SADC commodity exporting countries, including Botswana and Zambia, were hard hit by the pronounced decline in commodity prices, particularly for minerals during 1998.

Table 7. Commodity Prices (Percentage change over previous year) - SADC

Indicator	1997	1998
Food Prices	8.9	-12.8
Beverage Prices	32.5	-20.7
Agricultural Raw Material Prices	-6.7	-20.0
Metal prices	3.1	-17.4
Export Volumes	2.1	-1.0
Import Volumes	6.5	3.1
Terms of Trade (1990=100)	1.0	-13.4

Source: IFS, SADC*

It is clear from the above table that commodity prices went down during the period of the global financial crises. Agricultural raw materials and metals experienced sharper falls. In addition, export prices and volumes fell. The terms of trade fell by 13.4 percent reflecting a hostile external-trading environment for SADC. This exerted enormous pressures on the balance of payments.

However, some SADC economies were able to benefit from the sharp decline in world petroleum prices, which for the petroleum importing countries compensated, to some extent, the negative impact of declining commodity prices on their terms of trade. Nevertheless, the perennial difficulties of SADC's current account balance continued to derive from the huge and increasing imbalance between export revenues and outflows in terms of imports and huge interest payments on external debt as well as the cost of transport.

FOOD SITUATION

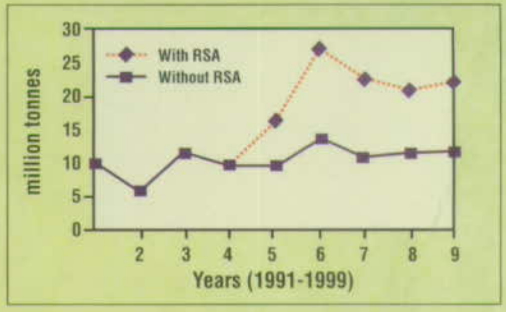
The 1998/99 cropping season was characterised by incessant rains, which were followed by dry spells in the latter part of the season in some of the Southern countries of the region. This has to a large extent dampened production prospects in most of the countries.

The cereal shortfalls are likely to result in significant food security problems for Angola (resumption of hostilities) and Tanzania (poor rainfall). Cereal deficits are also anticipated in Botswana, Lesotho, Mauritius, Namibia, and Swaziland. Deficits in Zambia and Zimbabwe are likely to be met through formal trade with South Africa and informal trade from neighbouring Mozambique and Malawi. While South Africa normally provides a source of inexpensive maize imports for grain-deficit SADC countries, the country's maize surplus this year is insufficient to meet the import needs of the region. Maize imports will, therefore, have to be sourced from outside SADC at a much greater cost and hence, more pressures on the balance of payments.

POLICY OPTIONS ON THE FOOD SITUATION

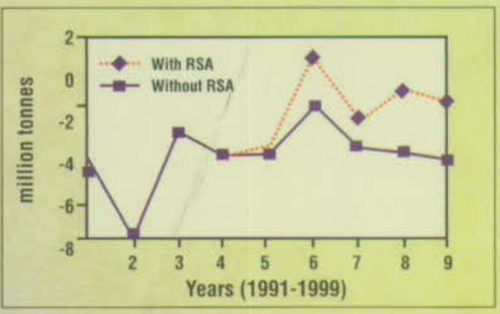
In the 1990s, the region has been facing perpetual staple cereal deficits as can be seen in the figures below.

Figure 1



The figure above shows a levelling in cereal production trends from the peak in 1996. To understand the implications for this drop in production Figure 2 below shows the gap or deficit that has resulted.

Figure 2



Source: Food Security Bulletins, January/February editions (1991/92-1998/1999).
RSA = Republic of South Africa

From Figure 2 it is clear that after the surplus of 1996 most Member States have become net food importers, in particular, the staple cereals.

The importation of staple cereals adversely affects most Member States' Trade Balance as well as the overall Balance of Payments (BOP) as only a few countries (e.g. Botswana and Mauritius) have adequate foreign reserves to import food on a substantial basis. Importation deprives most Member States' from using the scarce foreign exchange on essential services such as health and education as they have to purchase food. Even more worrying are the inflationary effects that are frequently associated with food shortages and the subsequent importation of basic food. This creates hardships, particularly, for the resource poor households.

Alternatives that would increase food production and agriculture productivity need to be taken on board. These include the promotion of efficient use of water resources such as drip irrigation to combat the vagaries of weather and the use of modern technology, in particular, biotechnology. The latter is known for not only raising yields, and productivity but also for improving product quality, extending the range of products, lowering costs of services among others. This would make this region more competitive in food production and promote trade. With biotechnology, the region will be taking advantage of technological developments in more advanced countries rather than re-inventing the wheel. Our policies, therefore, must encourage the continuous and sustainable use of modern technology.

In addition, Member States' current policies of self-sufficiency in food production also need to be carefully reviewed to assess if indeed, there is still a case for it. Member States have to assess whether they have comparative advantage or not. For instance, Mauritius and Botswana have adopted policies, which include the importation of food knowing that they do not have a comparative advantage in food production.

Under WTO Agreements, due consideration has been given to least developed and net food-importing developing countries, which may experience basic food shortages during the reform process leading to greater liberalisation of trade in agriculture. These countries can get basic food stuff on full grants and/or concessional terms in line with Article IV of the Food Aid Convention 1986. In addition, Financial and Technical Assistance can be provided to these countries to improve agricultural productivity and infrastructure. Given the fact that the majority of SADC countries are constant Net Food importers, they should explore how they can benefit from WTO.

The negative impact debt has on SADC countries' efforts to erase poverty and enhance competitiveness is of major concern. While Member States continue to undertake major economic reforms to put their economies on a growth trajectory, these efforts are often thwarted to a significant degree, by growing debt service obligations resulting in tensions on many fronts, political, social and economic.

SADC EXTERNAL DEBT SITUATION

Looking at external debt data for the region as a whole, one would get the impression that debt is not a serious problem. However, analysis of country specific situations including the magnitude of the debt burden and its binding constraint on development reveal the real adverse effect of debt on growth.

A first indicator of the severity of debt is a comparison between GNP per capita and external debt per head of its population. On the basis of that indicator, the SADC countries range as follows:

Table 8: Magnitude of External Debt in SADC

	A Total External Debt	B External Debt Per Head	C GNP Per Capita	D B : C (%)
Angola	11.999	1.111	410	271
Botswana	619	413	3.020	14
Lesotho	667	333	770	43
Malawi	2.148	219	170	129
Mauritius	1.158	1.052	3.380	31
Mozambique	9.017	557	80	696
Namibia	369	246	2.000	12
South Africa	22.314	538	3.160	17
Swaziland	205	228	1.170	19
Tanzania	7.202	243	120	203
Zambia	7.045	783	400	196
Zimbabwe	4.643	422	540	78

Note: figures: A: in millions of US Dollars
B and C: in US Dollars

Source: ADB Annual Report 1998, and own calculations

Angola, Tanzania and Zambia form a group of seriously indebted countries with external debt per head around almost four times (Angola) and twice the level of GNP per capita. Malawi and Zimbabwe depict a ratio of around 1:1, while in the other SADC countries, external debt per head is less than half of GNP per capita, in the case of Botswana, Namibia, South

Africa and Swaziland even as low as 10 to 20 per cent.

After looking at the absolute amount of external debt outstanding, the structure of external debt (short-term, long-term) must be analysed. Also, debt service payments as a share of a country's export earnings from goods and services has to be assessed, the latter indicator revealing the amount of foreign exchange the economy has to forgo in order to service its external debt. See Table 9 below.

On the basis of the three indicators analysed, Mozambique, Angola, Zambia, Tanzania and Malawi appear to be those SADC countries for which the external debt problem is most alarming: for all of them, at least two, if not all three indicators signal a serious debt problem. Again, it is interesting to note that those countries are, in fact, the poorest SADC countries, measured in terms of their GNP per capita levels.

There is a group of three countries in SADC, Lesotho, South Africa and Zimbabwe, in which the debt service ratio is high and, therefore, a cause of concern, although in all three of them the ratio of external debt per head to GNP per capita was relatively modest. For these three countries, the debt situation can be diagnosed as potentially problematic. A high debt service ratio implies that there exists a strong tendency to accumulate further external debt at a relatively rapid pace, in order to free foreign exchange earnings to meet the requirements of the productive and/or social sectors.

Botswana, Namibia, Swaziland and Mauritius represent the group of SADC countries, which do not encounter a debt problem. All three debt indicators analysed signal the absence of a debt problem. Again, it is interesting to note that they are the richest SADC countries, in terms of their GNP per capita levels.

Allocation of the public budget for basic services and/or the availability of foreign exchange for the private sector have had to be increasingly reduced to conserve foreign exchange for debt service. Consequently, SADC being highly import dependent, its overall economic performance, and thus, the level of incomes and living standards have remained disappointingly low. Moreover, over the years, the debt has become increasingly unsustainable

Table 9: SADC Debt service ratio, ex post (percent)

										Estimates		
	1975-84	1985-89	1990-MR	1992	1993	1994	1995	1996	1997	1998	1999	2000
1. Angola	2.1	8.3	10.0	6.0	5.0	7.9	11.7	15.1	15.5	26.2	19.5	19.8
2. Botswana	2.5	4.3	4.0	4.0	3.7	4.1	3.2	5.2	–	–	–	–
3. Democratic Rep. of Congo	14.4	21.4	4.6	5.6	2.1	1.2	1.4	2.7	0.9	37.2	30.4	24.4
4. Lesotho	0.9	2.8	4.1	3.1	3.2	3.4	6.4	5.8	5.9	9.5	9.1	9.6
5. Malawi	23.9	38.6	22.6	25.5	23.0	22.4	27.7	16.9	11.6	19.2	19.1	17.0
6. Mauritius	11.1	14.2	8.1	8.8	6.2	7.3	8.9	6.7	10.0	7.6	7.7	16.7
7. Mozambique	2.2	33.4	36.6	22.8	32.9	30.1	34.8	26.0	17.2	30.2	33.6	36.5
8. Namibia	–	–	–	–	–	–	–	–	–	1.2	3.4	3.8
9. Seychelles	5.7	9.4	6.9	7.4	7.0	6.8	8.5	4.7	3.2	4.6	4.4	4.2
10. South Africa	0.0	0.0	5.6	0.0	0.0	9.7	9.9	12.4	12.8	9.7	12.3	10.9
11. Swaziland	3.4	7.8	2.9	2.7	2.6	2.5	1.8	2.8	2.2	2.2	2.8	2.5
12. Tanzania	24.1	36.1	30.2	42.5	34.3	21.5	21.0	19.5	–	–	–	–
13. Zambia	26.1	22.6	48.5	29.3	34.5	31.3	186.0	22.3	18.3	22.6	17.0	13.7
14. Zimbabwe	13.5	29.1	24.8	31.9	30.7	25.2	23.5	21.1	20.4	20.8	16.8	13.6

										Estimates		
	1975-84	1985-89	1990-MR	1992	1993	1994	1995	1996	1997	1998	1999	2000
SADC	3.6	5.7	8.7	4.5	4.2	10.5	15.0	12.4	12.8	12.3	13.3	12.5

Source: World Bank.

such that some member states have accumulated arrears, which have adversely affected their international credit worthiness and the flow of new investment.

In spite of their heavy debt burden and commitment to economic reforms under ESAF, a pre-condition for HIPC, Zambia and Tanzania are still struggling to access HIPC and the way ahead is not clearly sign-posted. More and more resources end up being spent towards reducing debt. Little is left over for enhancing the capacity to produce for exports. Moreover, the fiscal burden of debt is not addressed in HIPC even though it represents a central variable in any debt sustainability analysis.

In September 1996, the International Monetary Fund (IMF) Executive Board agreed that to finance the Extended Structural Adjustment Facility (ESAF) and the Highly Indebted Poor Countries (HIPC) Trust Fund, the IMF should optimise the use of its reserves, which entails the sale of gold by the fund of up to 5 million ounces. Since then the modalities for the sale of gold were discussed by the IMF Board on 9 July, 1999. According to preliminary discussion the Board expressed a preference for the disposal by way of public auctions over a 6 to 24 month period.

Concerns about the possible adverse impact of Fund gold sales on the market have been voiced by a wide range of constituencies, including gold producers. These concerns are intensifying as the gold price weakens and increasingly reflecting broader questions about the future gold holdings by the official sector and the role of gold as a monetary asset.

Recent announcements by the UK and Swiss authorities to proceed with sales of significant amounts of gold have led to further weakening of the price of gold which has declined from US$291 in January 1999 to US$256 in July 1999. There was sharp decline from US$288 at the beginning of May to the level of US$256 in July. The fluctuations are directly linked to the auctioning of gold and announcement of the intention to sell.

The other problem associated with this is possible reduction of production and closure of gold mines. The closure of mines results in loss of employment not only to miners but also for those industries and services providers linked to the mining industry.

Gold mining plays a significant role as a foundation for economic growth and development and many African economies including SADC countries. For these countries gold mining contributes about 30 percent to total exports, 5 to 10 percent to gross domestic products and about 5 to 10 percent of total non agricultural employment and has positive linkages to other sectors of the economy and cross border spin-offs to neighbouring countries.

In Southern Africa the sale of gold problem will not only affect the gold producing countries like South Africa, Namibia, Tanzania and Zimbabwe but also those countries that have been providing labour in the mines such as Lesotho, Mozambique and Botswana; to name a few. Hundreds of thousands of jobs will be lost and many households will suffer in the process.

Country Profile – Angola

Head of State
President José Eduardo dos Santos

Capital City
Luanda

National Day
11 November (1975)

Languages
Portuguese and various local languages

Currency
Kwanza (Kzr) = 100 lewi

Area
1 247 000 kmn

Population
12,6 million

Literacy
40%

Urbanisation
26%

Life Expectancy
42 years

Natural Resources
Diamonds, oil products, gas, fish, wildlife, agricultural products, sea and marine resources

Overview

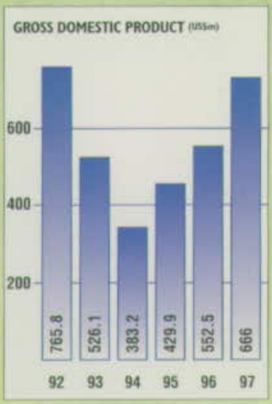
Angola's macroeconomic situation is unsustainable. Recently, high rates of growth of both GDP and investment have been attained, but these are largely explained by offshore oil production by foreign companies and a rapid increase in the production of diamonds. GDP per capita has been falling steadily, and the revitalisation of agriculture is hampered by continuing insecurity. As a percentage of GDP, the fiscal deficit is huge. Defence remains the largest component of government spending, contributing to underspending on education and health. Monetary policy is largely inactive, completely swamped by the need to finance the budget deficit. Monetisation of the deficit is generating hyperinflation in a situation of acute shortages. As some stability has returned and a measure of liberalisation has been introduced, the extension of credit to the private sector has grown rapidly.

External debt is around double annual GDP, which makes it critical that the domestic savings rate rise from its current very low level, and that the country run a current-account surplus. Angola has no aid-financed structural adjustment programme; although the country receives some aid, most external finance is acquired using oil as collateral, which means that above-market interest rates are paid on debt. Large annual nominal depreciations are insufficient to support an export drive, given the very high rate of price inflation which causes the real exchange rate to appreciate. The absorption of domestic resources to finance the deficit and service the external debt is equally inconsistent with the needed investment in export capacity. Until a greater degree of economic stability is achieved, trade policy will remain subordinate to macroeconomic imperatives. Under these conditions, trade liberalisation – even if limited to the region – will simply not produce the desired growth and diversification response, although it may help to alleviate the shortages of many consumer commodities.

The Regulatory Framework for Investment

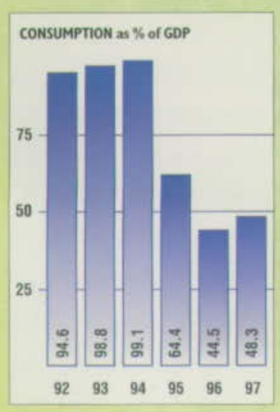
1. Angola has an abundance of natural resources which are not currently fully exploited. Opportunities exist for the expansion of diamond mining, oil and gas exploitation, and large scale commercial fishing.
2. A new Foreign Investment Law was passed in 1994. Nearly all sectors of the economy are now open to foreign investment, including infrastructural development such as roads and railways. Investments less than US$5 million no longer need prior Government approval. Foreign companies wishing to invest in Angola are given equal treatment to that given to local firms.

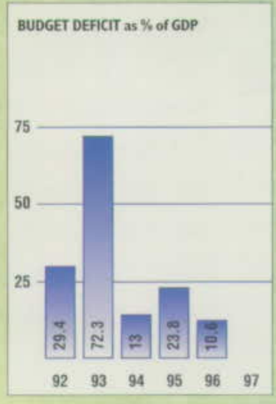
Country Profile – Angola

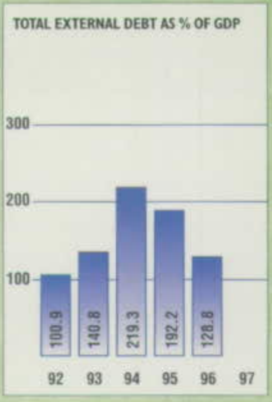


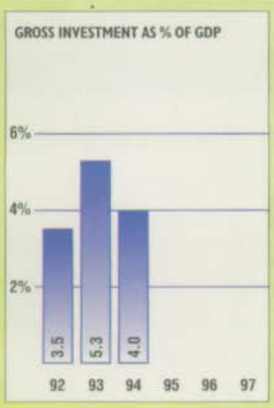
Profits, dividends and the proceeds from the sale of investments, may be transferred abroad by foreign investors.

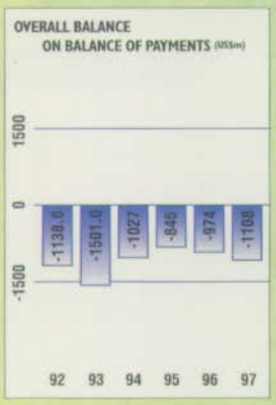
3. Special fiscal incentives are offered to foreign investors who employ a high proportion of Angolans and provide them with professional training.
4. For mining companies, a surface tax is levied on the size of the surface area mined. There is a royalty of 3 to 10 percent on the gross value of the minerals produced.
5. There is a 15 percent withholding tax on dividends.
6. For the oil industry, there is an oil production tax and an oil income tax; there is an additional oil transaction tax at the Cabinda enclave.
7. Tax rates are 20 percent for income from agriculture (including forestry and cattle raising), and 40 percent for other industries. The Angolan authorities reserve the right to estimate company income, in certain circumstances. There are no double taxation agreements.
8. All imports are subject to licensing requirements, based on a positive list and the foreign exchange budget. Except for exports of foreign oil companies, all exports of goods and services are subject to licensing. Some exports are taxed.
9. Property law is unclear. However, the difficulties faced by foreign investors with respect to the acquisition of property, have been recognised and are being addressed.
10. Further information may be obtained from the Institute for Foreign Investment, both for further details about investment regulations and for lists of current investment opportunities. The Government plans to privatise its state-owned shipping companies.
11. At the beginning of 1998, the World Economic Forum produced a comparative analysis of the competitiveness of a sample of 23 African countries. Angola was the least competitive of the countries studied.
12. From time to time, Angola may have both private and official payments arrears.
13. Both residents and non-residents may obtain permission to maintain foreign currency bank accounts.
14. Angola has Article XIV status at the IMF.

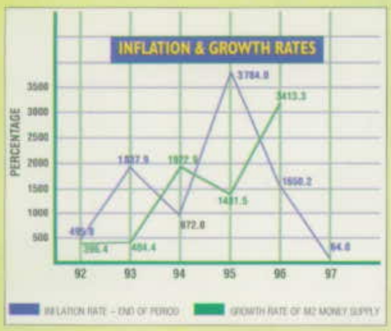


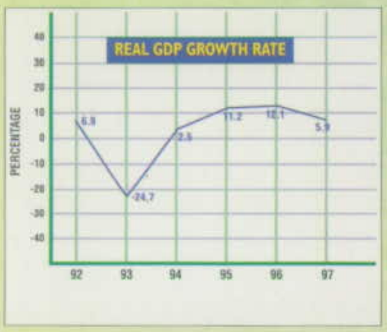












HEAD OF STATE
President Festus Mogae

CAPITAL CITY
Gaborone

NATIONAL DAY
30 September (1966)

LANGUAGES
English and Setswana

CURRENCY
Pula (P) = 100 thebe

AREA
582 000 km²

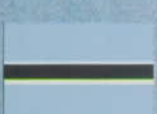
POPULATION
1,6 million

LITERACY
66%

URBANISATION
46%

LIFE EXPECTANCY
67 years

NATURAL RESOURCES
Diamonds, copper, nickel, cattle, wildlife



INTRODUCTION

1997/98 was yet another good year for Botswana's economy as the country continued to register an impressive growth rate, due mainly to the good performance by the mining sector. Provisional estimates from the Central Statistics Office (CSO) indicate the real Gross Domestic Product (GDP) grew by 8.3% in 1997/98, compared to a revised estimate of 7.2% for 1996/97. The mining sector, which accounts for nearly one-third of GDP, rose by 9.5% during the year, reflecting the full year's impact of the continuous operations introduced in all diamond mines in 1997. At the same time, non-mining sectors also continued to perform well, registering a growth rate of 7.7% in 1997/98, almost the same as 7.8% recorded in 1996/97.

As a result of the strong performance of the non-mining sectors, formal sector employment rose by 5.4%, from 227 300 in March 1997 to 239 500 in March 1998, representing an increase of 12 200 jobs in the economy over the period. Price developments continued to be favourable, with the rate of inflation falling from 7.7% in January 1998 to 5.9% in October, before rising to end the year at 6.4%.

The 1997/98-budget outturn indicated a significant budget surplus of P875 million, while the revised budget for 1998/99 points to a substantial deficit of P1.4 billion. The two major reasons for the deterioration of the budgetary situations for 1998/99 are: (i) a significant decline in mineral revenues due mainly to the Asian crisis and (ii) considerable additional expenditures arising from the increase in the salaries of public servants, Members of Parliament, Councillors, Members of the House of Chiefs and Land Board members. The proposed budget for 1999/2000 also forecasts a budget deficit of P400 million, due mainly to the continuing depressed international markets for diamonds as a result of the Asian crisis, as well as fast growth in government development expenditure.

DOMESTIC ECONOMIC REVIEW

Macroeconomic Performance

OUTPUT

The Domestic output, as measured by Gross Domestic Product (GDP), is estimated to have grown, in nominal terms, from P17 502.9 million in 1996/97 to P20 428.3 million in 1997/98, representing an increase of 16.7%. This compares to 23.3% achieved in the previous year. Sectors making major contribution to the growth were; General Government (19.2%), Mining (18.8%), Trade, Hotels and Restaurants (16.8%), Water and Electricity (15.9%), Transport and Communications (15.3%) and Manufacturing (14.1%). Most sectors recorded strong rising growth rates ranging between 13% and 14%. The Agriculture sector, on the other hand, grew by 5.4% in 1997/98 compared to 9.6% in 1996/97, due mainly to low and erratic rainfall.

Per capita income and nominal terms increased by 13.9%, from P11 460 in 1996/97 to P13 049 in 1997/98.

In constant 1985/86 prices, real GDP is estimated to have increased from P5 474.0 million in 1996/97 to P5 928.9 million in 1997/98, representing a growth rate of 8.3% in 1997/98 compared to 7.2% in 1996/97. This growth rate is mainly attributable to the good performance of the mining sector, which grew by 9.5% in 1997/98 compared to 5.8% in the previous year due to continuous operations, which started in 1997. At the same time, growth in non-mining GDP remained relatively unchanged over the period, registering a 7.7% growth in 1997/98 compared to 7.8% in 1996/97. Amongst the non-mining sectors, significant growth was registered in: Water and Electricity (9.8%), Transport and Communications (9.3%) and Trade, Hotels and Restaurants (8.4%). The Manufacturing sector grew by 4.7% in 1997/98 compared to 5.2% in 1996/97, while the Agricultural sector continued to be depressed because of the El-nino phenomenon. The sector recorded a decline of 1.2% in 1997/98, compared to a decline of 0.2% in 1996/97. Real per capita GDP (in constant 1985/86 prices) grew by 5.7%, from P3 578 in 1996/97 to P3 780 in 1997/98.

An analysis of the GDP by type of expenditure indicates that in constant 1985/86 prices, the share of exports of goods and services fell, from 57.8% in 1996/97 to 56.2% in 1997/98, while that of imports rose from 37.7% in 1996/97 to 41.4% in 1997/98. The share of government consumption remained unchanged at 28.1%, while that of the households increased from 25.9% to 28.3% over the period. Finally, the share of the gross fixed capital formation rose from 23.6% to 24.4% during the one-year period.

PRICES

During the year, the rate of inflation continued its gradual decline, falling from 7.7% in January to 5.9% in October, before rising to end the year at 6.4%. There were two months in which the rate of inflation accelerated: in April, due to a one-off tariff increase by the Botswana Housing Corporation (BHC0 and in August, due to rate increases by the Botswana Telecommunications (BTC). This low inflation environment is conducive for growth and prosperity as it results in greater purchasing power of people's income.

In order to maintain low inflation, there is need for financial discipline. With inflationary pressures building in some of our major trading partners, the authorities may need to tighten further, both fiscal and monetary policies during the year in order to maintain a single-digit inflation rate.

EMPLOYMENT

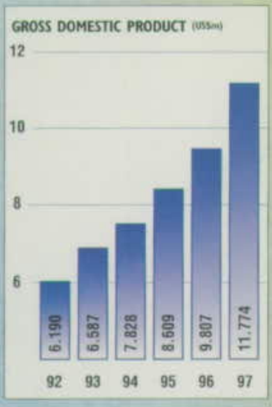
Formal Sector Employment

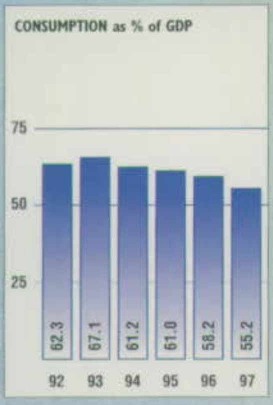
Significant growth was recorded in formal sector employment between March 1997 and March 1998, an increase of 5.4 % from 227 300 to 239 500. This growth rate was quite high when compared to previous year's growth rates of less than 2.3% since 1992. General Government continues to be the single largest employer and contributor to growth despite the policy to right-size the public service. Over the period, employment in this sector grew by 7.4% from 93 100 to 100 000 employees. At the same time, the private sector formal employment also increased by 4.6% from 120 400 to 125 900. In contrast, employment in the parastatals continued to be depressed, declining by 1.4% from 13 800 to 13 600, mainly due to the continued restructuring and retrenchments by some parastatal organisations.

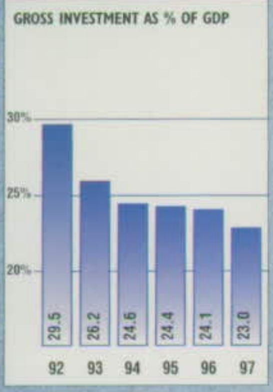
UNEMPLOYMENT

Unemployment remains one of the major challenges facing the country. On the basis of the most recent data in the Labour Force Survey of 1995/96, the rate of unemployment was estimated at 21.5%, which translated into about 95 000 people without jobs during that year. With the expected increase in employment, especially in the construction sector, the unemployment rate is expected to have declined somewhat from this level by December 1998.

Preliminary findings from the recently







conducted Tracer Study by the Employment Policy Unit of the Ministry of Finance and Development Planning show that employment in the country was both structural and frictional. It also shows that high unemployment was found among those aged between 15 and 19 years, and those with only Junior Certificate (JC) training. This means that employment policy interventions should be focussed on these groups. Programmes have been put in place to partly address the problem of youth unemployment in the country. These include the National Youth Policy and the Revised National Policy on Education.

GOVERNMENT FINANCE

The 1997/98 Budget outturn

The 1997/98 actual budget outturn turned out to be less favourable than the revised budget. An overall budget surplus of P875 million was recorded compared to the P1 270 million anticipated in the revised budget, representing a decline of P395 million. Contributing to the decline was a fall in total revenues and grants of P378 million and an increase of P17 million in total expenditures and net lending.

Total revenues and grants amounted to P8 181 million, a decline of P378 million or 4% from the revised budget estimate of P8 659 million. This, however, represented an increase of P886 million or 12% over the year's level. Over ninety percent of the decline in revenues over the revised budget was accounted for by mineral revenue at P208 million and Bank of Botswana revenue at P153 million. Mineral revenue amounted to P4 681 million, a decrease of P208 million or 4% from the revised budget estimate of P4 889 million, mainly due to the level of sales. As a result of the diamond stock piling, which commenced in February 1998, sales were 17.9% below budget during the first quarter of the year.

The functional classification of Government recurrent expenditure indicates Social Services with 42%, taking the largest share of the total recurrent expenditure for 1997/98, followed by General Public Services with 32%. Within Social Sciences Services, the Education sector accounted for 59% of the total recurrent expenditure. Under the development budget, Economic Services accounted for 47% of the total development expenditure, followed by Social Services with 35%. Electricity & Water Supply took the largest share of the development expenditure under Economic Services, while Education accounted for the largest share in Social Services.

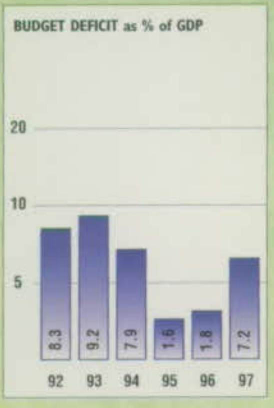
THE EXTERNAL SECTOR

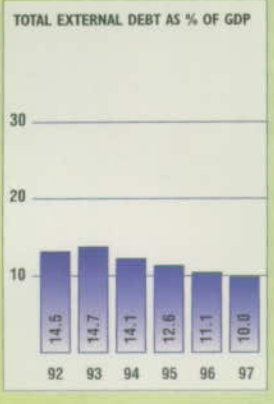
Foreign Trade

During the first half of 1998, total exports amounted to about P4 741.2 million, which is 0.2% higher than the P4 729.9 million achieved during the same period in 1997. Exports continued to be dominated by diamonds, copper/nickel and beef, which accounted for 77.8% of total exports. However, diamond sales declined by 5.8% compared to last year, mainly as a result of quota restrictions. Similarly, copper/nickel exports declined by 5.4% due to depressed prices. On the other hand, meat and meat products registered a 44.7% growth, from P115.1 million during the first half of 1997 to P16.6 million in the first half of 1998. Other commodities which registered high growth rates are; live animals (192.4%), other goods (14.4%), vehicles and parts (17.5%) and textiles (5.3%).

Imports increased by 19.2% from the revised figure of P3 723.6 million for the first half of 1997 to P4 437.0 million during the first half of 1998.

A major proportion of Botswana's imports continues to originate from the Common Customs Area, which accounted for 71.4% of total imports during the first half of 1998. This was slightly higher than the 70.9% recorded for the first half of 1997. In value terms, imports from the Common Customs Area increased by 20%, from P2 640.5 million in 1997 to P3 169.3 million in 1998. Other trading partners whose share in Botswana's imports increased over the period include; Europe, whose share increased from 4.8% in 1997 to 9.3% in 1998, and USA,





whose share increased from 1.4% in 1997 to 1.6% in 1998. On the other hand, imports from South Korea declined from 12.7% in 1997 to 7.2% in 1998, because of the decision by Hyundai Motor Corporation to move from Semi-Knocked Down (SKD) to Completely-Knocked Down (CKD) operations. The share imports from Zimbabwe also declined marginally, from 4.5% in 1997 to 4.3% in 1998. The share of imports from UK also declined from 2.3% in 1997 to 1.6% in 1998.

Balance of Payments

The overall balance of payments in 1998 is forecast to have fallen from a surplus of P2 317.5 million in 1997 to only P146.8 million. The weak performance of the external sector is mainly attributed to the poor performance of the current account which fell from a surplus of P2 633.5 million in 1997 to a deficit of P375.2 million in 1998. For the first time since the early 1980s, the merchandise trade balance is expected to be in deficit, arising from a 23% drop in diamond exports and a 28.6% increase in total imports. The financial account is also expected to record a deficit of P230 million, due mainly to the growth in equity investment offshore, following the liberalisation of exchange controls last year.

Despite the low overall balance of payments surplus, foreign exchange reserves increased to P26 471 million at the end of November 1998, compared to P21 690 million at the end of November 1997, due mainly to the depreciation of the Pula against major international currencies. In US dollars, the foreign exchange reserves increased modestly to US$5 960 million in November 1998, from US$5 722 million at the end of 1997. These reserves were sufficient to finance about 29 months of imports of goods and services, almost unchanged from the 30 months level in the previous year.

Exchange Rate Movements

The movements in the Pula exchange rates during 1998 were overshadowed by the financial turmoil in global money and capital markets occasioned by the Asian crisis, which began in July 1997, with the resultant contagion effects in emerging markets.

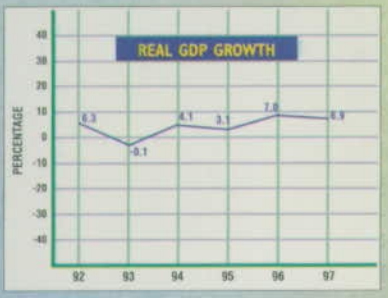
During the year, the Pula depreciated by 14.5 % against the US Dollar, 15.7 against the British Pound, 24. 1 % against the Japanese Yen, 20. 0 % against the Deutsche Mark and 19.9 % against the French Franc. Most of the Pula depreciation against the major international currencies occurred in July and August, when the Rand came under severe speculative pressure, and fell sharply against the US Dollar.

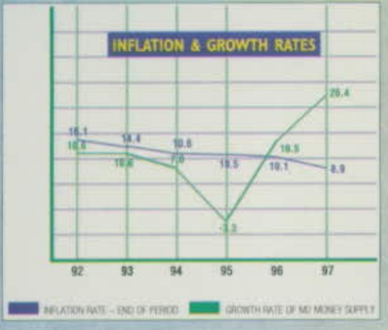
ECONOMIC OUTLOOK

The real growth rate of the economy is expected to be around 6 percent during the current year 1999/2000. High as this growth rate is, it is lower than the 8.3% recorded in 1997/98, which was due mainly to exceptionally high rates of growth achieved in the mining and Government sectors. The high growth rate of 9.5% in mining followed the introduction of continuous operations in the diamond mines from the beginning of 1997. Similarly, the 11% growth in the Government sector was due to a very high employment growth rate of 8.5% achieved during 1997/98. While these sectors will revert to more moderate growth rates of around 3%, the performance of most other sectors like construction, transport, finance, manufacturing and electricity and water is expected to be stronger this year, which will push up the growth rate of the non-mining non-Government sectors as a group to around 8%.

Current projections indicate a continuation of 4% to 5% annual growth in formal sector employment during this year and the following year, thanks to the good prospect for growth in the non-mining private sectors of the economy. However, this prospect may be jeopardised if wage increases exceed productivity growth, which will reduce the competitiveness of Botswana products in the export markets, in the end affecting adversely the growth of output and employment.

The upward creep of the inflation rate





observed at the end of 1998 is expected to continue on account of the rising trend of inflation in the Republic of South Africa and the effect on prices of the recent salary revision in the public sector which is likely to be followed by increases in wages and salaries in the rest of the economy. The average level of inflation may rise to around 8% during the current national accounts year 1998/99, compared to 7.7% achieved during 1997/98. A high inflation rate is a sure way of losing competitiveness and repelling both domestic and foreign investment. The Government will have to watch the price situation very carefully and take whatever measures are practicable to ensure that the inflation rate does not rise too far above the target range and significantly weaken the country's competitiveness.

Country Profile – DRC

HEAD OF STATE
President Laurent Kabila

CAPITAL CITY
Kinshasa

NATIONAL DAY
30 June (1960)

LANGUAGES
French and various local languages

CURRENCY
Congo Franc

AREA
2 435 409 km²

POPULATION
49 million (1998 estimate)

LITERACY
66%

URBANISATION
60%

LIFE EXPECTANCY
53 years

NATURAL RESOURCES
Gold, diamonds, base metals, coal, oil and gas, wildlife, water, uranium, coffee, sugar, rubber, cotton, fish

OVERVIEW

Apart from a brief period of monetary and fiscal discipline from 1983-85 when the rate of inflation was halved and the economy grew in real terms at 4.7 percent a year, the DRCongo's economic recent history has been characterised by hyperinflation, large government deficits, a growing external debt, demonetisation and dollarisation. Financial aid programmes were abandoned by donors in the early 1990s, and Zaire stopped servicing its foreign debt. Between 1990-96 the economy contracted by an annual average of over 7 percent, and (recorded) GNP per head has fallen dramatically. The informalisation of the economy over this period means that most economic activity is unrecorded, so that trade and production figures need to be viewed with even more than usual caution.

It is not yet clear what policy package will be followed by the new government, although the country's application to join SADC may signal some opening up of the economy – and a recognition that unrecorded trade with neighbouring countries needs to be legalised and recorded. A programme of privatisation has been approved, and transport links are being upgraded.

The DRCongo's macroeconomic position is even more extreme than that of Angola and Mozambique: a large external debt; minimal foreign exchange reserves; severe hyper-inflation; runaway money supply growth; and sharp and sustained economic contraction. The economy is tightly closed, but, until the macroeconomy is stabilised, adjustment initiatives are likely to have little impact on growth and development.

THE REGULATORY FRAMEWORK FOR INVESTMENT

1. The Economic Stabilisation and Reconstruction Programme (ESRP) put forth the government's view that economic policies should be of "social market" inspiration, and act as a "means of ensuring the judicious distribution of roles among the state and other players in society: business, associations, NGOs and local authorities."
2. The ESRP identifies infrastructure, agriculture and mining as the main pillars of future economic growth.
3. The new government has inherited a macroeconomic situation of high external indebtedness and a high inflation rate. It remains to be seen how these two financial burdens will be handled.
4. There remains concern among some foreign investors over the approach that the government has adopted when dealing with contractual commitments and new negotiations.
5. Provisions for 100 percent tax exemptions (granted by the previous government)

have been suspended until a thorough review of the taxation system has been conducted. It is expected that a value-added tax will be introduced, along with a new tariff structure.

6. Investors must make initial cash deposits at the new Banque de Commerce et de Developpement as a precondition for investment agreements. Both residents and non-residents may obtain permission to hold foreign currency accounts at the local banks.
7. It is projected that much of the funds for the transportation network will be drawn from the private sector: the construction of roads will be subcontracted to private companies, who will recover their investment by levying user tolls.
8. There is enormous potential for the expansion of the mining industry in the DRC. Copper production is projected to increase significantly.
9. The Societe Nationale d'Electricite (SNEL) has drafted a rehabilitation programme, to be financed by private investment. Similarly, it is hoped that projects in health, education, and civil service training will attract private funding.
10. All importers are required to first obtain an Import Licence and Authorisation to purchase foreign currency. All goods shipped by sea must be transported on bonded ships. With only a few exceptions, both imports and exports are subject to pre-shipment inspection.
11. From time to time, there may be payments arrears for both private and official payments.
12. The DRC has Article XIV status at the IMF.

Country Profile – Lesotho

HEAD OF STATE
King Letsie III

HEAD OF GOVT
Prime Minister Prof Pakalitha Mosisili

CAPITAL CITY
Maseru

NATIONAL DAY
4 October (1966)

LANGUAGES
English and Sesotho

CURRENCY
Maloti (M) = 100 lisente

AREA
30 355 km^2

POPULATION
2.1 million

LITERACY
71%

URBANISATION
17%

LIFE EXPECTANCY
59.4 years

NATURAL RESOURCES
Diamonds, wildlife, mohair, wool, water

OVERVIEW

Preliminary estimates indicate that the economic activity, which was fuelled primarily by the Lesotho Highlands Water Project (LHWP) activity, has finally returned to its long-run rate of growth following three years of economic boom. Real GDP slowed down to 3.5 percent in 1997 as opposed to a 12.7 percent growth in 1996.

EMPLOYMENT

By the end of 1997 the number of mineworkers employed in South Africa was 93 243, a decline of 7.9 percent compared to the figure of the previous year. The decline was due to:

* increased mechanisation of mines (coal mines in particular);
* closing down of some mines due to escalating costs; and
* relatively high wages that now attract black South Africans in larger numbers than before.

INFLATION

The average annual rate of inflation, measured by changes in the consumer price index (CPI) declined by 1.5 percentage points from the previous level of 8.8 to the present level of 7.3. The main contributors to this change was the fall in price indices of food. On the other hand, the prices of alcohol, beverages and tobacco went up by a relatively small amount.

BUDGETARY OPERATIONS

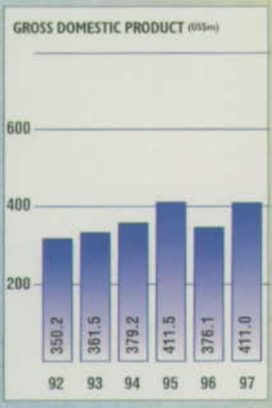
In order to achieve its medium and long term development goals, as outlined in the Sixth National Development Plan, Government's fiscal policies during 1997/78 fiscal year continued to maintain a close balance of revenue and expenditure, which resulted in budget surpluses since 1992/93 fiscal year.

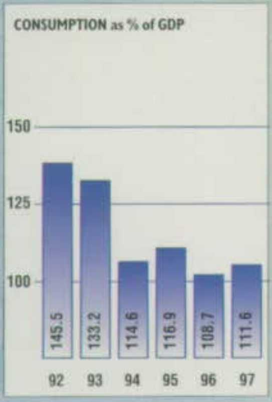
The 1997/98 government budgetary operations show an overall budget surplus of M88.8 million in contrast to overall budget deficit of M65.2 million (US$14.15 million) envisaged in the 1997/98 budget. This surplus represented 1.5 percent of GNP.

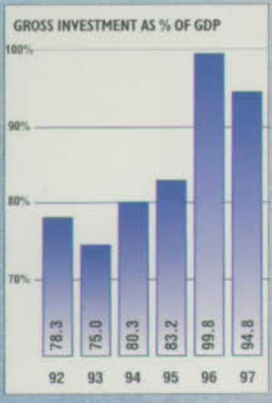
MONETARY SECTOR

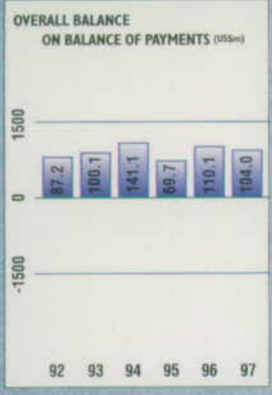
During the year which ended in December 1997, there were notable changes in the major monetary aggregates. Foreign exchange reserves of the entire banking system continued to show an upward trend albeit at a slower rate than in the previous year while domestic credit continued to drop steadily. Although the money supply increased in line with other monetary aggregates, it showed a slower increase than the previous year.

The Central Bank interest rates dropped during the review period. Even though all the deposit rates were positive during the review period, the call deposit rate dropped by 1.83 percentage points to the level of 13.17









in December 1997. The prime lending rate declined by a percentage point from 18.10 to 7.10.

Balance of Payments

The overall balance of payments position, with a build-up in official reserves to about 7 months of regular imports, increased by 19.6 percent in 1997, thereby registering a surplus of M616.4 million (US$133,80 million). Imports increased by 32.2 percent, widening the current account deficit by 53,8 percent to M1303.5 million. Exports rose by 9.1 percent to the level of M904 million (US$196, 22 million). The growth was driven by a high increase in exports of television sets. Long-term net capital inflows, boosted by the increase in official loan disbursements, appreciated by 18.1 percent. Labour income, which financed about 34.0 percent of total imports during the review period, grew by 5.6 percent. Unrequited transfers, which continued to be the second largest source of financing after labour income, rose by 21.0 percent in 1997.

Developments in the Real Sector

Preliminary estimates indicate that the economic activity, which was fuelled primarily by the LHWP activity, has finally returned to its long-run rate of growth following three years of economic boom. Real GDP, which grew by 12.7 percent in 1996, has slowed down to 3.5 percent reflecting a deceleration in LHWP - related activities. Tables 1.1, 1.2 and 1.3 illustrate the performance of the real sector during 1997 compared with the previous years.

The primary sector slowed down by 0.3 percentage points to the level of 12.7 percent reflecting last year's crop production which can be described as fair to poor. The share of agriculture in this sector was almost the same as that of last year at around 12 percent.

In terms of major sectors, GDP at factor cost was dominated by the secondary sector in 1996 which accounted for 44.1 percent. The current share of the secondary sector declined by 0.9 percentage points to the level of 43.2 percent. The decline resulted from a modest growth in government construction following last year's boom in construction of office buildings.

The tertiary sector reflected a modest performance by a rise from 42.8 percent to 44.1 percent. Indications are that the wholesale and retail trade is experiencing economic hardships which resulted in decline in sales turnover. Also, the real decline in labour income from abroad coupled with LHWP activity are probably responsible for this slowdown.

Employment and Wages

Comprehensive data on employment which was last collected in 1985/86 through a Labour Force Survey and 1986 Population Census continue to be the basis for estimates of the current labour market statistics. A recent population census was conducted in 1996 but the results are yet to be published. Available data on the employment situation in Lesotho is mainly for the formal sector and this makes it impossible to estimate the rate of unemployment or under employment.

The employment of mineworkers has been declining in recent years following a peak of 126 733 in 1989 as evidenced by Table 2. At the end of 1996, migrant mine labour was recorded at 101 237. At this level it was 2.4 percent lower than its level in 1995. By the end of 1997 the number of mineworkers employed in South Africa was 93 243, a decline 7.9 percent compared to the figure of the previous year. The decline is due to increased mechanisation of mines (coal mines in particular); (ii) closing down of some mines due to escalating costs; and (iii) relatively high wages that now attract black South Africans in larger numbers than before. The Government remains the largest employer in the formal sector in Lesotho.

At the end of 1997, the number of people employed by the government was 34 880. This was an increase of 3.9 percent compared to the 1996 figure of 33 485. This comprises the civil servants, teachers, daily paid workers and armed forces. Government individual salaries and wages increased by 10 percent in the 1997/98 fiscal year following a 12 percent increase offered in 1996/97.

The Lesotho National Development Corporation (LNDC) assisted forms was estimated at 17 023. At this level, the number employed had increased by 2.5 percent over the previous year's figure. The total number of firms was recorded at 50 in 1996 compared to 53 the previous year.

Insurance industry also created some employment during the review period. Total number of people employed by insurance companies, brokers and agents increased by 26.7 percent over the previous year's figure of 300.

Developments in the Fiscal Sector

Projections of the 1997/98 government budgetary operations show an overall budget surplus of M88.8 million (US$14.8 million) which is 1.5 percent of GNP. This is in contrast with the overall budget deficit of M65.2 million (US$10,87 million) which was envisaged. Without grants, the projected outturn represents a deficit of M89.9 million.

As a percentage of GNP, total receipts are projected to increase from 39.7 percent in the previous fiscal year to 42.2 percent during the review period. This trend emanates from the Government's on-going policy of improving revenue collection. Customs revenue is projected to grow by 16.6 percent to stand at (M1172.8 million (US$195,47 million). This represents 49.8 percent of total revenue, 0.4 percentage points above its position a year earlier. Sales tax collections are expected to grow by 15.2 percent, thereby falling short of the target of M244.6 million (US$40,77 million) by 8.6 percent. This may be ascribed to a general slackening of economic activity in the wholesale and retail sub-sector. Income tax revenues are projected to rise by 16.4 percent, which is higher than the 8.6 percent increase recorded last year.

Prices

Price movements in Lesotho are greatly influenced by price developments in South Africa. Annual inflation rate in South Africa ended the year at 6.1 percent and given the almost parallel movement of prices in the two countries, Lesotho's inflation rate is expected to remain in the single digit in 1998. Also, if the good rains experienced during early January and mid-February continue in subsequent months, then the inflation rate is expected to decline even further as food prices are expected to drop.

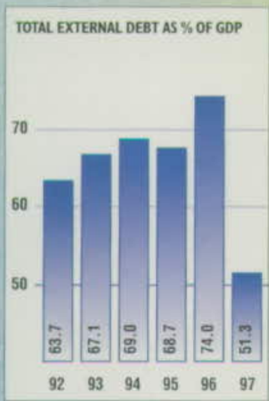
The average annual rate of inflation, measured by changes in the consumer price index (CPI) declined by 1.5 percentage points from the previous level of 8.8 to the present level of 7.3. The main contributor to this change was the fall on price indices of food, alcohol, beverage and tobacco as well as clothing and footwear.

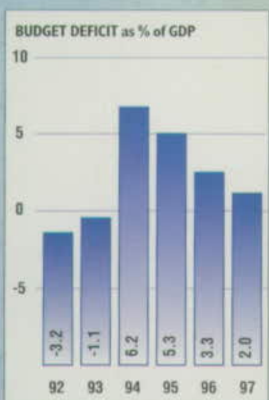
Food indices were affected by the rise in prices of staple food such as maize meal, sorghum meal, ready made meals and oats. The fall in indices of vegetables were mainly due to the fall in prices of cabbage, spinach and potatoes. Regarding alcohol, beverage and tobacco, the change in prices was largely on account of the rise in prices of beer, distilled drinks and cigarettes.

Developments in the Monetary Sector

During the year which ended in December 1997, there were notable changes in the major monetary aggregates. Foreign exchange reserves of the entire banking system continued to show an upward trend albeit at a slower rate than in the previous year while domestic credit continued to drop steadily. Although the money supply increased in line with other monetary aggregates, it showed a slower increase than the previous year.

The broad measure of money supply (M2), rose by 4.1 percent to M1475.2 (US$255,09) during the year which ended in December





1997. This increase followed a 17.5 percent rise in the previous year and was mainly a reflection of a growth in net foreign assets coupled with a net decline in other items net.

Domestic credit continued to fall as a result of the improvement in the net creditor position of Government with the banking system. At negative M1119.2 million, (US$242,93) it was M520.5 million (US$103,57) lower than its position in the previous year.

Government continued to improve its status as a net creditor to the banking system to the tune of M1965.2 (US$426,57) over the year to December 1997. This represented an improvement of 28.9 percent from its position in the preceding year. While Government was the net borrower of M26.1 million from the (US$5,77m) commercial banks, its net creditor position of the Government with the banking system improved by 28.3 percent to M1991.3 million (US$432,23).

The banking system's net foreign exchange reserves rose by 20.5 percent to M2994.6 million (US$650,01) over the review year. Official reserves rose by 22.5 percent while those of the commercial banks decreased by 4.3 percent to M220,2 million (US$47,80).

Money Market Rates

Money market interest rates continue to develop in line with those of the Common Monetary Area (CMA) member states. Interest rates are not controlled in Lesotho. The Central Bank sets the prime lending rate and maintains various deposit interest rates which reflects the situation in financial markets of the sub-region. On the basis of this, the commercial banks adjust both their deposit and lending rates.

the Central Bank interest rates dropped during the review period. The call deposit rate fell by 0.4 percent during the second half of 1997. From December 1996 to end of last year it fell by 1.83 percentage points to the level of 13.2 percent. All the deposit rates of the Central Bank were positive in real terms during the review period.

At 17.50 percent, the prime lending rate declined from the level of 18.10 percent prevailing in 1996. As already indicated, the prime lending rate provides a target or a benchmark for commercial banks lending rates, which are normally set at four or more percentage points above the prime rate.

Developments in the External Sector

The overall balance of payments position, with a build-up in official reserves to about 7 months of regular imports, continued to be favourable in 1997. This overall balance increased by 19.6 percent in 1997, compared to a substantial increase of 102.7 percent recorded the previous year, thereby resulting in a surplus of M616.4 million (US$133.8).

The current account deficit widened by 53.8 percent to M1303.5 million (US $282.93). This was mainly a result of 32.2 percent increase in the level of imports. Exports were recorded at the value of M904 million (US$196,22) during the review period. This was 9.1 percent higher than the level recorded a year earlier. Attributable to this growth is machinery and transport equipment, which more than doubled, as well as manufactured goods which grew by 65.8 percent. The growth in machinery and transport equipment category was driven by a high increase in exports of television sets.

Long-term net capital inflows rose steadily during the year under consideration. They appreciated by 18.1 percent. The large increase in net capital inflows was largely boosted by the increase in official loan disbursements.

HEAD OF STATE
President Bakili Muluzi

CAPITAL CITY
Lilongwe

NATIONAL DAY
6 July (1964)

LANGUAGES
English and Chichewa

CURRENCY
Malawi Kwacha (MK) = 100 tambala

AREA
118 484 km²

POPULATION
11 million

LITERACY
40%

URBANISATION
13%

LIFE EXPECTANCY
52 years

NATURAL RESOURCES
Tobacco, tea, sugar, fish, wildlife

POLICY ENVIRONMENT

The Government medium-term strategy seeks to alleviate poverty through accelerated growth, restoration of financial stability and increasing access to the basic social services. Consistent with this strategy, the government will ensure that the following policies are implemented:

Monetary policy

Monetary policy is aimed at achieving the government's objective of reducing inflation substantially over the medium term. Consistent with this objective, the 12-month growth of broad money is targeted to decline from over 30 per cent by end-1998 to 18 percent by end-1999.

With the strong external budgetary support anticipated in the period ahead, the government plans to reduce its domestic indebtedness mainly with the banking system.

Fiscal policy

The government will, under this policy, continue to strengthen the underlying budgetary position through sustained efforts to raise revenue and restrain the growth of less essential expenditure. In addition, key reforms will be implemented with the aim of strengthening the efficiency in tax systems and management of public resources. The government, supported by the international community, will seek to improve Malawi's poor social indicators by increasing budgetary support for education, health, and other priority areas. Finally, on-going work in regard to the medium term expenditure framework, the functional review of ministries, and the job grading and rationalisation of the civil service will be accelerated, thereby paving the way for important reforms to be implemented starting from 1999/2000 budget.

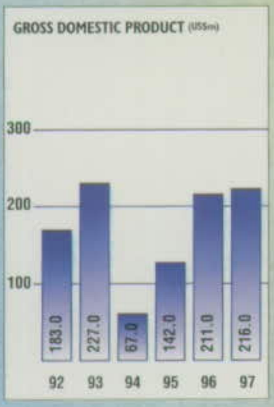
Balance of payments and exchange rate policy

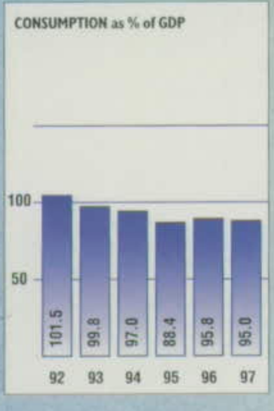
The exchange rate for the Kwacha will continue to be market determined, and interventions by the Reserve Bank of Malawi will be guided mainly by the reserve targets. Complemented with the exchange rate policy, the government is to strengthen the external position, with the official international reserves increasing to 4.5 months of import cover by end-1999.

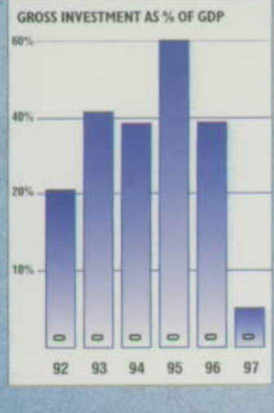
In regard to trade policy, the government is continuing to pursue a diversified expansion of exports through various initiatives aimed at promoting investment and eliminating price distortions. The government will also continue to gradually reduce import duty rates with the maximum of 25 per cent in 1999/2000 from the maximum rate of 30 per cent in 1998/999.

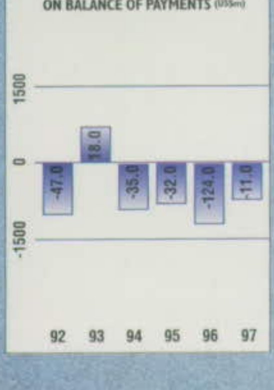
Privatisation

In order to ensure that private sector plays a vital role in development government will continue with its privatisation programme through the Privatisation Commission, which was established through a Public Enterprises (Privatisation)









Act to implement the privatisation of any direct or indirect government enterprises.

The privatisation/restructuring of public enterprises will focus on the privatisation of additional 25-30 enterprises, with assets equivalent to 1 per cent of GDP. To strengthen Malawi's competitiveness in the regional and international markets, reforms in the utility sector (transport, power and telecommunications) and the financial sector (the privatisation of the two largest commercial banks – the National Bank of Malawi and the Commercial Bank of Malawi) will also be accelerated. In addition, the government intends to divest all the assets in the Malawi Development Corporation (MDC) and the Agricultural Development and Marketing Corporation (ADMARC) by the year 2003.

The government is also to privatise or otherwise restructure the ownership and management of Malawi Rural Finance Company by end-1999. It will also privatise or close several smallholder crop authorities, that is, government parastatal firms.

Macroeconomic Performance in 1998

Despite the stable period Malawi had during the first seven months of 1998, there were pressures of instability which culminated in economic slowdown for 1998. Real GDP increased by 3.3 percent, which was slightly below the planned target of 3.8 percent and 5.0 percent of 1997. This rather modest growth was caused by poor performance of non-agricultural sectors.

The devaluation of the exchange rate affected the rest of the economy fuelling inflation pressure. The 12-month inflation rate increased from 19.6 percent by end-July 1998 to 53.0 per cent by end-December, 1998 reflecting price adjustment to the depreciation of the Kwacha in August 1998.

Despite the depreciation of the Kwacha, the overall budget deficit, that is, including grants, for 1998/99 declined below the 1997/98 level by over 3 percent points of GDP to 1.6 percent of GDP. The drop in budget deficit to MK1.0 million reflected the relatively high increase in revenue due to strengthened tax administration, the positive impact of the depreciation of the Kwacha on grants and the slow growth of the expenditure following improved financial management.

Since 1995 the visible trade deficit continued to widen. In 1998 a deficit of NK5.3 billion was registered compared with the deficit of MK4.0 billion recorded in 1997. The worsening deficit reflected the substantial increase in shipment costs due to the depression of the exchange rate.

However, on f.o.b. basis, the trade balance recorded a surplus of MK2.7 billion compared with MK1.1 billion for 1997. This reflects faster growth in export earnings than in import growth. Between 1997 and 1998, the export earnings increased by 68.2 percent, from MK 8.8 billion in 1997 to MK14.8 billion in 1998 while imports grew by 55.8 percent from MK7.7 billion in 1997 to MK 12.0 billion in 1998. The depreciation of the Kwacha impacted on these increases of export and import values.

In conclusion, current account balance deteriorated further to MK8.3 billion in 1998 from MK5.4 billion in 1997. Balance on long-term increased by 144 percent from MK3.6 billion in 1997 to MK8.8 billion in 1998 on account of large inflows which came towards the end of 1998.

Sectoral Performance

Agriculture

Agriculture performance in 1998 improved from 3.3 percent in 1997 to 3.7 per cent in 1998. The smallholder agriculture sub-sector grew by 8.9 per cent while that of the large-scale sub-sector declined by 11.9 per cent. Improvement in small-scale agriculture sub-sector was attributable to the increases in the production of maize, rice, cassava, groundnuts and pulses, which grew by 25.1 per cent, 4.7 per cent, 16.3 per cent, 41.5 per cent and 16.5 per cent respectively. However, the decline in large-scale agriculture was mainly due to lower levels of tobacco and tea production.

Manufacturing

The manufacturing sector performance continues to decline. The worst hit areas, among others, are edible oil and fats; grain mill products; bakery products; dairies; cigarettes; beverages; spinning and weaving; and rubber and plastic products. The depression in the sub-sector is partly a result of stiff competition from cheap imports in the wake of trade liberalisation.

However, non-metallic mineral products; steel doors, doorframes and windows; and structural metal products are booming.

Mining

Performance in the mining and quarrying sector continued to be impressive in 1998. Value added increased by 4.9 per cent, a slowdown from 6.5 per cent recorded in 1997. The performance followed improvements in operations and management at Mchenga Coal Mine.

Gold and platinum metals exploration was undertaken in all the three regions of Malawi and laboratory tests were carried out to that effect. Department of Geological Surveys also undertook a number of geographical mapping and searches for other minerals as well. Among other things, exploration of kimberlite rocks and gypsum was undertaken in various sites of the country.

Tourism

Between 1990 and 1998, the number of international visitors to Malawi rose at an annual growth rate of 6.0 per cent. In 1998, the number of international visitors was at around 217,937 compared to 129,912 international visitors recorded in 1997 reflecting a growth rate of 6.7 per cent. It is estimated that in 1999 the number of international visitors will be 230 000. Domestic tourism, which comprises people carrying out official duties, also accounts for a significant part in tourism sector in Malawi.

Energy

Among other things, the areas of interest are power, petroleum and wood fuel sub-sectors. Out of the total electricity generation capacity of 220.7 MW, 977.4 GWh was produced in 1998 representing an increase of 9.6 per cent over 891.7 GWh in 1997.

On the other hand, electricity consumption grew by 8.2 per cent from 740.9 GWh to 801.6 GWh over the same period. The increase in consumption was due to a 9.0 per cent growth in the number of registered consumers from 65,786 consumers in 1997 to 71,697 consumers in 1998. These accounted for 76.5 per cent of domestic consumers. The maximum demand categories comprising small and large industries, wholesale and retail trade, hotels, restaurants, institutions and hospitals consumed 15.8 per cent. The export consumption accounted for 0.4 per cent of total sales.

Total import volumes of petroleum in 1998 increased by 23.7 per cent from 253.9 million litres in 1997 to 314.2 million litres in 1998. Despite the decline in import volumes of petrol, the increase in overall import volumes was attributed to the sharp increase in import volumes of dual-purpose kerosene (paraffin), which grew by 169 per cent from 31.0 million litres in 1997 to 85.5 million litres in 1998. However, diesel imports marginally increased by 4.0 per cent from 126.9 million litres in 1997 to 132.4 million litres in 1998.

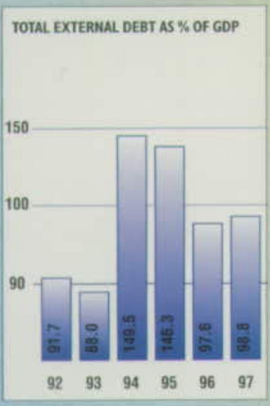
Woodfuel remains the dominant source of energy for both rural and urban households in Malawi. Demand for woodfuel for 1998 was estimated at 16.7 million cubic metres. The growth rate per annum is presently at 6 per cent.

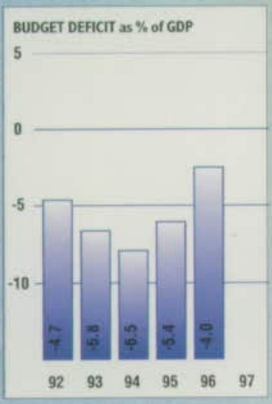
Transport and Communications

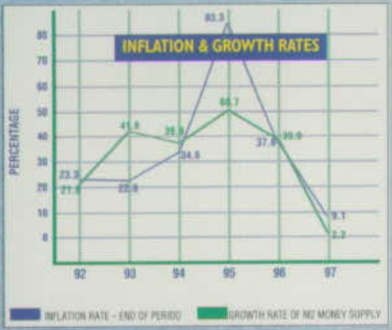
Performance in the transport and communications sector declined marginally by 1.1 per cent in 1998 compared to an increase of 7.5 per cent in 1997. This is due to unsatisfactory performance in the air transport and large-scale transport sub-sectors. However, the rail sub-sector registered improvements especially in freight.

Employment and Labour

The employment trend as well as unemployment trend is not clear at the moment due to lack of







follow-ups of the issues in the Labour Force Study conducted in 1983. However, efforts to conduct a sample survey on employment/ unemployment are being consolidated with a view to determine the levels of employment and unemployment. However, in the civil service sector there were 119,765 civil servants in 1998 compared with 129,168 civil servants recorded in 1997. The decline was mainly due to the retrenchment and personnel audit as well as retirements, deaths and resignations of the civil servants.

Outlook for the Year 2000

The overall GDP is expected to improve during 1999/2000. As a result of better performance by smallholder agriculture sub-sector, the expectation is that it will grow by 4.3 per cent. Agriculture itself should grow by 11.4 per cent, with smallholder production going up 12.4 per cent.

The manufacturing sector will also show some improvement and it will grow by 1.2 per cent. This growth will come from the agricultural processing activities of tea and sugar, and from the clothing and non-metallic mineral products. Similarly, there will be a marked improvement in the transport and communication sector, which is expected to grow by 2.7 per cent. The value added will continue to grow and it is expected to register a 3.4 per cent increase. Financial and professional services will this time show a positive growth of 1 per cent. However, utilities will decline by 0.5 per cent.

Exports will grow by 38 per cent from MK14.2 billion to MK19.6 billion, while the imports will have a growth rate of 31 per cent from MK 12.0 billion to NK15.0 billion. This is because of the continuing strength of the US dollar and currencies of our major trading partners against the Kwacha.

Country Profile – Mauritius

HEAD OF STATE
President Cassam Uteem

HEAD OF GOVT
Prime Minister Dr Navinchandra Ramgoolam

CAPITAL CITY
Port Louis

NATIONAL DAY
12 March (1968)

LANGUAGES
English and French

CURRENCY
Mauritian Rupee (Rs) = 100 cents

AREA
1 968 km²

POPULATION
1.15 million

LITERACY
81%

URBANISATION
43%

LIFE EXPECTANCY
79 years

NATURAL RESOURCES
Sugar cane, beaches, sea, flora, fauna, fish and other marine resources

In 1998, the economy recorded a stable growth rate of 5.2%. The inflation rate was contained to a single-digit figure of 6.8%. The consumption to GDP ratio stabilised around 75% resulting in a savings rate of 25.1% while the investment rate stood at 23.2%. On the international side, the Balance of Payment deficit was around Rs 1,474 million, equivalent to some 1.5 % of GDP. The stock of foreign reserves was sufficient to cover around twenty-two weeks of imports. External debt stocks were relatively low at around 30% of GDP in June 1998.

POLICY ENVIRONMENT

Monetary Policy

Period: 1998-99

Monetary measures have been essentially steered towards containing the inflationary pressures in the economy. Borrowing from institutions and the public through the sales of treasury bills have replaced borrowings from the central bank. These policies have enabled Government to effect net repayments to the banking system, for the first time 'in the 1990's, to achieve the required monetary restraint. The interest rate on long term financial instruments was raised thus dampening the excessive liquidity in the market.

Fiscal policy

The stance is to implement a macroeconomic policy mix that will curtail inflation and ensure that interest rates and the real effective exchange rate stay at levels, which are conducive to export competitiveness. The right balance between competitiveness and the protection of the purchasing power of Mauritians has to be secured.

Steps were taken to re-establish fiscal discipline and financial health which were achieved through:

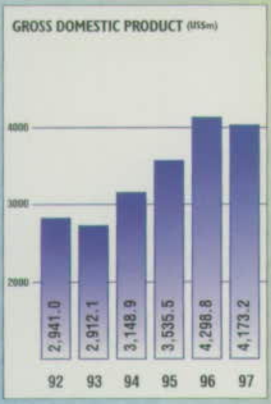
(i) a sales tax of 10% to restore tax buoyancy
(ii) the Introduction of VAT
(iii) a reorganisation of tax administration and revenue institutions
(iv) a zero-budgeting of expenditures that include a review/targeting of the social transfer payments – pensions, subsidies, grants
(v) Legislation on fiscal responsibility to lay down the strict principles of fiscal management to ensure responsible and judicious use of public finances.

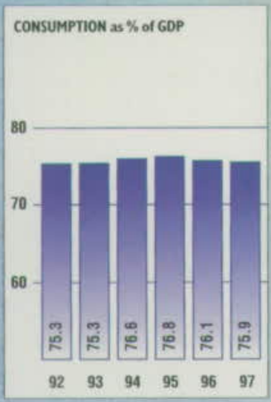
BALANCE OF PAYMENTS AND EXCHANGE RATE POLICY

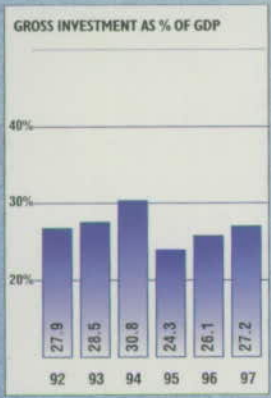
The real effective exchange rate stayed at levels, which are conducive to export competitiveness.

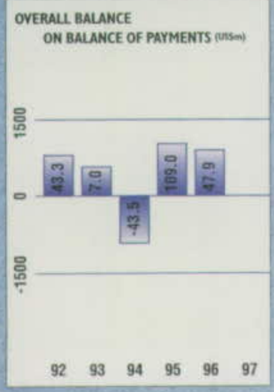
Privatisation

Proceeds of sales of shares are utilised to finance a number of capital projects.









Macroeconomic performance

GDP growth rate

	1996	1997	1998	1999
GDP at Factor Cost than 3%	6.2	5.3	5.2	Less
Overall growth excluding sugar Sector	5.9	5.3	5.5	5.6

Source: Central Statistical Office

The economy has been growing steadily at a reasonable speed of 5.6% for the past three years before the severe 1999 drought. The economy is projected to grow at less than 3% in 1999 due to the severe impact of the drought on the economy, increasing.

Budget deficit/surplus

The budget deficit has been estimated at 3.9% of GDP for 1998/99 and is expected to decline to 3.2% in 1999/2000 as a result of higher tax revenues.

Inflation

After an increase of about 2.1 percentage points to reach 7.9% in FY 1996/9, the inflation rate was successfully brought down to 5.4% in FY 1997/98, the lowest rate registered during the past six years. For the year ending December 1998, the Consumer Price Index (CPI) stood at 113.4, giving an inflation rate of 6.8%.

Balance of payments

CURRENT ACCOUNT

A remarkable progress in reducing current account deficit has been made over the past three years. A surplus for the second year running is expected in 1999. This progress is more evident if the purchase of irregular items like aircraft and marine vessels are excluded. A current account deficit of 3.4% of GDP in 1994 has been transformed to a surplus of around 2% in 1998.

	Current Account Rs m		As a% of GDP
	Total	Excluding aircraft and vessel	Excluding aircraft and vessel
1994	-4168	-2168	-3.4
1995	380	-380	-0.6
1996	575	575	0.7
1997	-2359	1303	1.5
1998	1987	1987	2.0
1999*	750	3550	3.4

Source: Central Statistical Office

Sectoral Performance

The Balance of Payments is expected to record a surplus of Rs 446 million for financial year 1998/99 as against a deficit of Rs 2,293 million for the period 1997/98. This surplus is largely explained by the substantial amount of net transfer from the rest of the world recorded. As at June 1999, the international reserves stood at a comfortable level of Rs 22,575 million, representing 23.6 weeks of import coverage.

Employment trends

New job creations have checked the rise in the number of unemployed. The unemployment rate has been declining steadily. The rate came down from 5.9% to 5.8% in 1998.

Unemployment Rate (%)

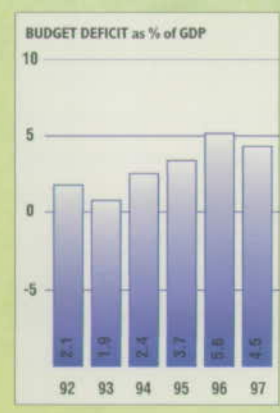
1992	1993	1994	1995	1996	1997	1998
3.3	3.9	4.5	5.1	5.5	5.9	5.8

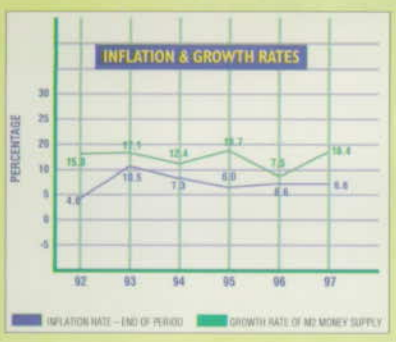
Source: Central Statistical Office

SECTORAL PERFORMANCE

Agriculture

The agriculture sector declined by 1.4% in 1998 compared to an increase of 3.6% in the previous year. This decline was mainly a result of the prolonged drought. Sugarcane output grew by a lower rate of 1% compared to 5.5% in 1997. On the other hand, foodcrops production contracted by 5%, the highest decline rate since 1980.





Manufacturing

The manufacturing sector registered a higher growth rate of 6.3% In 1998 compared to 5.8% 'in 1997. This good performance is attributed to a combination of higher value added growth in the EPZ (7%) and other manufacturing (5.9%) sectors and lower growth in sugar milling. Total EPZ earnings increased by 13.1% to reach Rs 26,074 million.

Tourism

Tourism growth slowed to 6% in 1998 compared to 10.2% in 1997. The number of tourist arrivals amounted to 558,195, representing a lower increase of 4.1% compared to two-digit growths in the past two years. Tourist earnings grew by 18.1% to reach Rs 11,890m. Our main source markets for the tourist sector continue to be Europe (63/%) followed by Reunion (1 5/%) and South Africa (9/%).

Energy

The public utilities sector (electricity, gas and water) sustained a 7.5% growth.

Transport and Telecommunications

The Transport, Storage and Communication sector remained buoyant and achieved a 7.5% growth. Air transport and telecommunication services were the main contributors.

Employment and Labour

Total employment in 1998 is estimated at 487,600, compared to 475,500 in the previous year, of which large establishments, employing 10 or more workers, amounted to 294,200. The number of foreign workers went up to 10,000, with female workers accounting for around 63%. Total employment grew at the highest rate of 2.5% for the past eight years, mainly, as a result of the resurgence of employment creation in large establishments. Employment in large establishments increased by 2.2% compared to less than one percent and even declines in the past few years. Employment growth in other than large establishments slowed slightly in 1998.

The unemployment rate fell slightly to 5.8% in 1998, following constant upsurges in the past few years. Female unemployment rate remained high and soared to 10% while male unemployment rate registered a slight decline to 3.7% from 3.9%.

Gross Domestic Product – Selected Sectoral, 1997-1998(%)

	1997	1998
Agriculture and Fishing	+3.6	-1.4
Sugar cane	+5.5	+1.0
Other	+1.0	-5.0
Manufacturing	+5.8	+6.3
Sugar Milling	+6.5	+3.0
EPZ	+6.0	+7.0
Other Manufacturing	+5.4	+5.9
Wholesale & retail trade, restaurants and hotels	+6.3	+5.4
Restaurants and hotels	+10.2	+6.0
Financing, insurance, real estate & business services	+6.4	+6.6
Banking and Financial institutions	+8.0	+8.0
Insurance and other business services	+8.3	+8.6
GDP at factor cost	+5.3	+5.3

Source: Central Statistical Office

Country Profile – Mozambique

Head of State
President Joaquim Chissano

Capital City
Maputo

National Day
25 June (1975)

Languages
Portuguese and various local languages

Currency
Metical (MT)

Area
799 380 km²

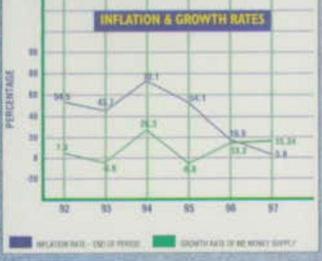
Population
16,5 million

Literacy
28%

Urbanisation
23%

Life Expectancy
46 years

Natural Resources
Prawns, fish, sea and marine resources, coconut, coal, gems, wildlife



Overview

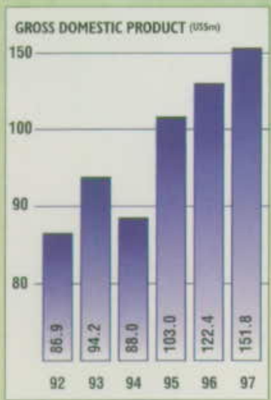
Mozambique is one of the world's poorest countries. Health care is minimal and illiteracy is ubiquitous; yet, even so, there are huge discrepancies between urban and rural areas. In spite of this, there is currently considerable optimism about Mozambique's economic prospects. Since the end of the civil war in the early 1990s, and with the adoption of a rolling structural adjustment programme from 1987, the country has grown each year by an average rate of nearly 5 percent (albeit with significant variation in growth rates, year-on-year). The growth in manufacturing value added has been most significant in cement and beverages. Export growth is small (in cotton, cashew nuts, sugar, timber and citrus), but growing.

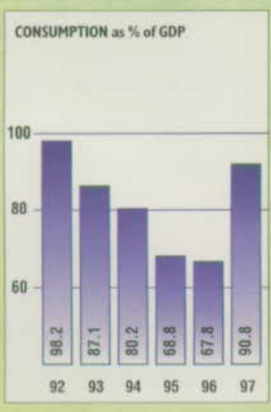
In 1994 a programme to privatise 700 state companies was launched. Improvement in transport links with South Africa and Zimbabwe and harbour upgrading are also priorities. Transport is likely to become a large foreign-exchange earner, as Mozambique is the shortest route to the sea for many of the landlocked countries in Southern Africa. Foreign capital is contributing to these projects, and, in the form of joint ventures, to the development of the huge potential in farming and tourism. This includes the clearing of landmines which still litter the country.

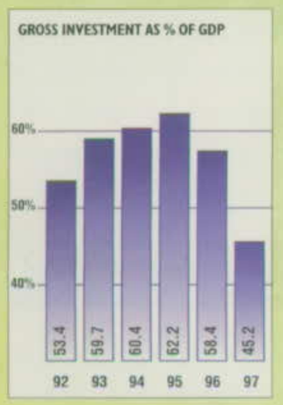
In spite of considerable improvements, the macroeconomic package remains unsustainable without huge injections of foreign aid. About 60 percent of the budget shortfall, which averages one quarter of GDP, is financed by foreign aid; as a percentage of total imports, foreign aid has, on average, exceeded 140 percent (although this ratio fell sharply in 1996). Consequently, the external debt-to-GDP ratio is rising very rapidly. There is some monetisation of the deficit; monetary policy is described as 'lax'; the official exchange rate has been depreciating at a rate in excess of 30 percent per annum (but appears to have stabilised in 1997). The cumulative rate of inflation up to end of December 1997 declined sharply to 5.8 percent from a level of 16.6 percent in 1996. The trade regime is being liberalised. Participation in a SADC free trade area will reinforce this process, but continuing injections of foreign aid and foreign direct investment (especially from South Africa) will be needed to support the balance of payments. Slippages in meeting macroeconomic policy targets will jeopardise both of these sources of foreign capital, and undermine the entire structural adjustment process, including trade liberalisation.

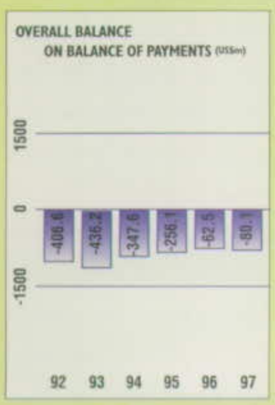
The Regulatory Framework for Investment

1. There is vast potential for investment in the development and rehabilitation of infrastructure in Mozambique. Opportunities have been identified in agriculture, forestry, fishing, tourism, mining and manufacturing.

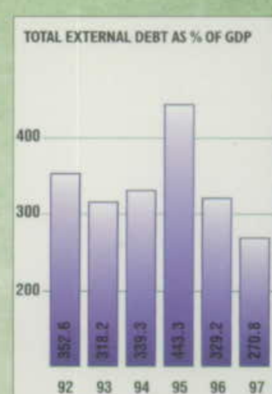








2. The 1993 Investment Law regulates foreign and domestic investment and includes legislation on guarantees and incentives. It secures the legal protection of property connected with investment, and permits the repatriation of capital invested upon divestment. Investors will be accorded a just and equitable compensation in the event of expropriation necessitated by the cases of public or national interest, health, or public order. The bureaucracy surrounding investment is still high.
3. Foreign investors may operate both local and foreign currency accounts. The availability of foreign exchange is guaranteed for foreign currency accounts that are denominated as retention accounts. Foreign investors are permitted to repatriate capital, dividends and other distributions of profit. All commercial imports of goods or money must be registered with the Central Bank; future repatriation of nonregistered investment is not guaranteed.
4. Firms face differential tax rates, depending upon the sector in which they are located. Industrial enterprises are taxed at 40 percent, agricultural companies are taxed at 35 percent, and commerce and service enterprises face a 45 percent tax rate. There is an additional 10 percent circulation tax on all invoices.
5. Most imports and all exports need to be registered with the Ministry of Commerce. Foreign currency must be secured through negotiation with the commercial banks.
6. Tax incentives are offered for new or paralysed undertakings. During the period of recovery of investment (up to 10 years) corporate and supplementary tax rates are reduced by 65 to 80 percent. Additional incentives are available for investments in the less developed provinces, through the reduction of the Industrial Contribution (corporate) tax. Operating ventures are allowed 100 percent deductions for up to 5 years from taxable income of investments in new equipment, plant and infrastructure, and construction.
7. Investors making a minimum investment of USD5m are invited to develop or administer an Industrial Free Zone (IFZ). Companies must export at least 85 percent of total production, and must show a minimum investment of USD 50 000 to qualify for IFZ status. IFZ enterprises are granted exemption from all taxes and customs duties. Proposed sites include the Maputo and Berea areas, the Nampula Province, and the port of Nacala.
8. Goods produced in Mozambique are eligible for duty-free export quotas to the EU and other industrialised countries, under the Lome Convention and GSP respectively. Mozambique has a special trade agreement with South Africa.
9. The Investment Promotion Centre assists in the business application procedure. Suitable local partners are identified for foreign investors who are interested in joint ventures.
10. The Mozambique Stock Exchange is expected to be in operation before the end of 1998.
11. Mozambique's competitiveness was ranked 18th out of the 23 African countries studied recently by the World Economic Forum.
12. Mozambique has Article XIV status at the IMF.



Country Profile – Namibia

HEAD OF STATE
President Sam Nujoma

CAPITAL CITY
Windhoek

NATIONAL DAY
21 March (1990)

LANGUAGES
English and various local languages

CURRENCY
Namibia Dollar (N$) = 100 cents

AREA
824 268 km^2

POPULATION
1,62 million (1996 estimate)

LITERACY
76%

URBANISATION
27%

LIFE EXPECTANCY
61 years

NATURAL RESOURCES
Diamonds, uranium, cattle, fish, wildlife, sea and marine resources

GEOGRAPHICAL LOCATION

Namibia is located in south-western Africa, bordered by the Atlantic Ocean in the west, Botswana and Zimbabwe in the east, South Africa in the south and Angola and Zambia in the north. The country's surface area is 826,000 square kilometres.

CLIMATE

The climate is arid, semi-arid and subtropical. The hottest months are between January and February with average temperatures ranging from 20 to 29 degrees Celsius. Average winter temperatures in May to July fall to about six degrees Celsius.

POPULATION

Namibia is one of Africa's three most sparsely populated countries. Dubbed the land of wide-open spaces, Namibia has an average population density of only 1.7 people per sq.km. The total population is 1.8 million. About 33 percent of the population live in urban areas. English is the official language. Oshiwambo, Herero, Nama/Damara, Lozi, Kwangali, Tswana, Afrikaans and German are also spoken.

HISTORY

Namibia was under German rule from 1884 until 1915 when South African expeditionary forces defeated the German forces. In 1920, South Africa was granted a C-class mandate by the League of Nations to administer Namibia. Obligations to promote the welfare of the indigenous people were generally ignored and a legislative assembly for whites was established in 1925. In 1945, the newly formed United Nations (UN) declared South West Africa, as the territory was then called, a trust territory with the right to self-determination. South Africa's refusal to negotiate a trusteeship with the UN resulted in a progressively intensified Namibian and international campaign to secure the country's independence in line with the UN resolutions. Eventually, Namibia became independent on 21 March 1990.

GOVERNMENT

The Namibian Constitution, the supreme law of the land, entrenches multiparty democracy as well as fundamental rights and freedoms. The Constitution lays down the division of powers between the Executive, the Legislature and the Judiciary. The Executive is headed by the President, who is elected by direct popular vote for a term of five years and can be re-elected for a second term of office.

Since independence, Namibia has built a strong democratic foundation. All institutions necessary to ensure democratic governance have been established. Presidential and local authority elections have been held regularly and conducted freely and fairly. The Judiciary operates with total independence while the Auditor-General's office has gained in stature as watchdog over the conduct of governance. Also operational is the office of the Ombudsman. Over the last nine years, Namibia has maintained an environment conducive to the existence of a vibrant and free press. The Government has also remained steadfast in its commitment to the free market economic system which acknowledges the centrality of the private sector in the development process.

CURRENCY

In September 1993 Namibia introduced its own currency, the Namibia Dollar (N$), divided into 100 cents. The Namibia Dollar is linked to and on par with the South African Rand (R), which is also legal tender in Namibia.

CAPITAL

The capital city of Namibia, Windhoek, has a population of about 226,000 (1998 estimate). It is situated in Namibia's central highlands, at 1650m above sea level. Windhoek gained municipal status in 1909 and was proclaimed a city in 1965. The climate is typical of a semi-desert country, with hot days and cool nights.

Windhoek serves as the administrative, legislative and judicial seat of government as well as the country's economic and commercial nerve centre. The city offers every modern amenity, including internationally rated hotels, restaurants, conference facilities, specialised shops, beer gardens and street cafes. Its infrastructure compares with the best in the world: well-maintained roads, world class medical services, educational institutions and reliable municipal services. To top it all, it is a very clean metropolis and one in which everything works.

MACRO-ECONOMIC OVERVIEW

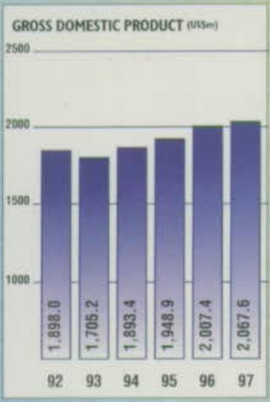
Namibia is blessed with rich natural resources, a well developed physical infrastructure and political stability. The country enjoys a relatively high GDP per capita of N$9,615 four times as high as the average for sub-Saharan Africa, which classifies Namibia as a middle income country.

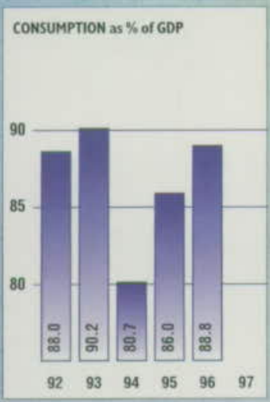
The Namibian economy relies heavily on the primary and the tertiary sectors. Agriculture, especially large-scale commercial livestock farming, fishing and mining are the backbones of the economy, while services account for a major share of GDP. The manufacturing base remains small and meat and fish processing companies form the largest sub-sectors.

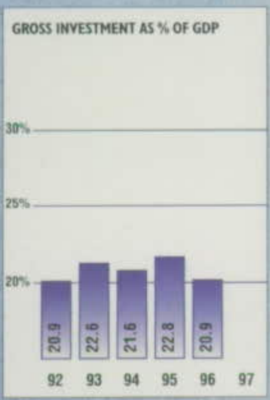
Economic performance in Namibia is dictated largely by external factors, like the weather, oceanic conditions and international commodity prices. In particular, world market prices for diamonds and uranium, of which Namibia is the fifth and sixth largest global producer by value, respectively, have a determining impact on the whole economy.

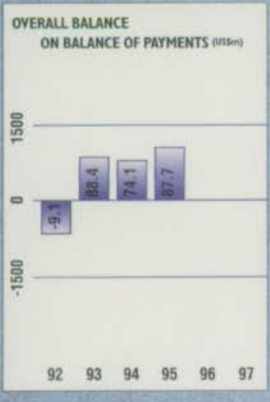
During the first half of this decade, excluding 1993, the average GDP growth rate stood at 5.8%. Including 1993, the economy grew on average by 4.2%, still yielding a respectable average growth in per capita GDP of more than one percent. In 1994 and 1995, GDP expanded strongly by 6.6% and 3.3%, respectively, largely on account of a recovery in international markets which boosted mining output, particularly of diamonds and uranium. The agricultural sector also performed remarkably well in 1994, though its output declined significantly in the following year. Fish output also recorded positive growth rates in the two years after the first signs of recovery of biomass emerged.

In 1997, real output benefited from strong external demand for mining and manufacturing exports such as beverages, processed meat and fish, as well as from the depreciation of the Namibia dollar. Current evidence points at prospects for strong and positive economic performance. In particular, growth is expected in fishing and mining output, tourism and manufacturing. The attractive EPZ zero-tax regime has already attracted significant investments in manufacturing and re-export operations.









BUSINESS AND INVESTMENT ENVIRONMENT

The Namibian Government is keenly aware of the fact that foreign investment into the economy is needed to increase the level of gross fixed investment and capital formation without which growth in the country's manufacturing and export sectors can not be realised. As such, investment promotion has become one of the government's high priority activities. Several steps have been taken in this regard, including the establishment of the Namibia Investment Centre in terms of the Foreign Investment Act of 1990 and the Offshore Development Company (ODC) which was set up in accordance with the EPZ Act, in 1996. The ODC was established to propel the development of Namibia's off-shore industry, entailing not only Export Processing Zones, but also offshore corporate banking and other financial services.

The Namibia Investment Centre, working in partnership with the Offshore Development Company, remains pivotal in attracting increasing volumes of investment to Namibia, by means of pro-active targeted promotion. Namibia has, as a result, developed an excellent reputation as an all-round investment location. The country's excellent transportation infrastructure, government support for a mixed economy, sound financial system, export-oriented economy and natural resources like fish and diamonds continue to attract significant levels of foreign investment.

FOREIGN INVESTMENT ACT

The cornerstone of Namibia's policy on foreign investment is the Foreign Investment Act (No. 27 of 1990, amended in 1993). The Act brought into being the Namibia Investment Centre (NIC) in the Ministry of Trade and Industry, to facilitate the promotion and administration of foreign investments. Potential investors get in touch with the NIC as their first point of contact in order to obtain current information on and assistance with, investment incentives, introductions and administration requirements.

The Act provides for:

- Liberal foreign investment conditions
- Equal treatment of foreign and local investors
- Openness of all sectors of the economy to foreign investment
- No local participation requirement
- Full protection of investments

INVESTMENT INCENTIVES AND GUARANTEES

Manufacturing Incentives

These incentives are applicable to existing and new manufacturers.

- 50% tax abatement for five years – phased out over 10 years
- new investment/relocation package – further negotiated tax rates
- accelerated depreciation on buildings – 10 years
- tax incentives for export promotion activities
- concessional loans for industrial studies – 50% of real cost
- exporters' grants/loans – 50% for approved promotional expenses

Exporter's Incentives

Exporters' incentives were introduced in 1994/95. They provide for an exemption of 80% on profits accruing to exports of manufactured goods (except fish and meat products), whether produced in Namibia or not (i.e. effectively an 8% tax rate).

Export Processing Zones

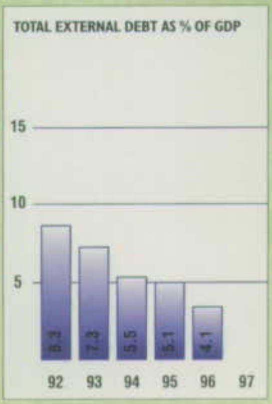
Act 9 of 1995 provides for EPZ Zones "single enterprises EPZs" appointed by the Minister anywhere in the country. Eligible activities include manufacturing or any other export oriented business.

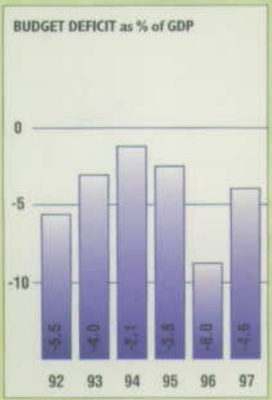
Incentives include:

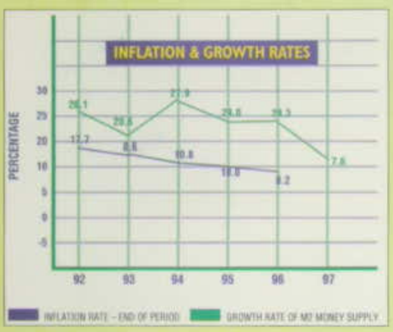
Exemption from corporate tax, general sales tax, additional sales duty, stamp duties, transfer duties and import duties (for exports out of SACU).

Liberal labour and customs regulations.

The right to hold foreign currency accounts in local banks.







Taxation

- Corporate income tax: 35%
- Mining Companies tax: 25 – 60 %
- Diamond Mining Companies: 50% plus surcharge of 10%
- Petroleum-producing companies tax: 42% plus additional profits tax
- Manufacturing companies tax: 20% with additional deductions (i.e. 50% abatement for five years)
- Exporter's tax (manufactured exports except meat and fish): 8% on export profits (i.e. 80% exemption)
- Export processing zones: zero tax regime
- Personal income tax: 36% maximum marginal rate
- Non-resident shareholders tax: 10%

Investment Guarantees

Namibia is a signatory to the World Bank's Multilateral Investment Guarantee Agency (MIGA). It signed a bilateral investment treaty in 1990 with the Overseas Private Investment Corporation (OPIC) of the United States of America, which provides guarantees for US private investors and similar accords were signed with Germany and Switzerland in 1993 and 1994 respectively.

INSTITUTIONS FOR INVESTMENT, INDUSTRY AND TRADE SUPPORT

Namibia Investment Centre

The Namibia Investment Centre (NIC), created under the Foreign Investment Act of 1990, is Namibia's official investment promotion agency. It directs and co-ordinates the work of trade and investment promotion counsellors who are strategically based at the Namibian embassies and high commissions in Bonn, Kuala Lumpur, London, Pretoria and Washington. Its task is to promote both foreign and domestic investment as well as to offer a variety of services to the investor community. This includes provision of information on incentives, investment opportunities and the operations of the country's regulatory regime. It also assists investors in minimising bureaucratic obstacles. In this connection, the NIC has a permanent seat on the Immigration Selection Board at the Ministry of Home Affairs

Offshore Development Company

The Offshore Development Company (ODC) is the flagship of Namibia's Export Processing Zone (EPZ) regime.

The ODC runs the EPZ secretariat, a dedicated clearing house, which handles investors' applications for EPZ status. Its team ensures that a properly filled-in application form is processed within a minimum of one week and a maximum of one month. The ODC also erects individual factory shells anywhere in the country at the request of entrepreneurs.

Namibia Development Corporation

The Namibia Development Corporation is one of the leading development financing institutions in Namibia, responsible for stimulating, facilitating and promoting programmes and projects aimed at realising socio-economic advancement in the country.

The Namibian Development Corporation (NDC) was established in 1993 and is wholly owned by the Namibian Government, but run by an autonomous board of directors. Its development focus is mainly on agriculture and industry, by offering loans, project appraisals, market surveys, project implementation and business advice.

Namibia Chamber of Commerce and Industry

Founded in 1990, the Namibia Chamber of Commerce and Industry (NCCI), is a nation-wide business organisation, promoting prosperity through social partnership by focusing on enhancing the entrepreneurial skills and stimulating private sector development.

INDUSTRY

The government's Policy Beyond 2000 lays emphasis on the development of the Small and Medium Sized Enterprise (SMEs).

EPZ

To date 79 applications for businesses to operate in the Export Processing Zone have been approved, of which 17 are already in operation.

HEAD OF STATE
President France Albert René

CAPITAL CITY
Victoria

NATIONAL DAY
18 June (1976)

LANGUAGES
Creole, English and French

CURRENCY
Seychelles Rupee (SR) = 100 cents

AREA
455.3km^2

POPULATION
79 000 (1998)

LITERACY
87.9((1994)

URBANISATION
figure not available

LIFE EXPECTANCY
70 years

NATURAL RESOURCES
sea and marine resources, fauna, flora

TELECOMMUNICATIONS

The granting of a second national telecommunication operator's licence in October 1997 and the convergence of the broadcasting and telecommunication sector towards a single multi-media market has brought a new dimension to these two fields of communications. Considering the present legislation dated back to 1988 and the rapid development that has taken place in broadcasting and telecommunication sectors in the last decade, it was imperative to revise the legislation.

The new legislation being proposed will establish a regulatory framework to manage national scarce resources more economically and efficiently, while ensuring effective development of competition in these two sectors. The major issues to be addressed are:

i) Universal Service Obligation/Fund
ii) Numbering Plan
iii) Spectrum Management
iv) Regulatory Authority
v) Interconnection
vi) Co-location/Sharing of Natural Resources

i) Universal Service Obligation/Fund

An obligation has been imposed on all telecommunication providers so as to ensure that a minimum set of telecommunication services of specified quality, is made available to all business and residential customers in uneconomical residential areas, independent of their geographical location and at an affordable price. A universal service obligation fund would be established and the telecommunication providers would be the contributors.

ii) Numbering Plan and Spectrum Management

Telephone numbering arrangements and management of the national frequency spectrum would be the responsibility of the Ministry of Information Technology and Communications (MITC). The responsibility would be discharged in such a manner so as to promote efficient utilisation of numbering space and frequency spectrum. And in the process, facilitate new market and stimulate technological developments.

iii) Regulatory Authority

The Minister shall be responsible for the general superintendence and supervision of all matters relating to broadcasting and telecommunications and shall carry the provision of the legislation.

iv) Interconnection

The development of competing networks is of strategic importance to the development of competition in the telecommunications sector in Seychelles. In particular, interconnection agreements and rates are critical to the success of a liberalised market. This will be achieved by establishing an interconnect regime that is transparent, non-discriminatory, encourage competition and stimulate growth and that will eventually lead to benefits to both the consumers and the telecommunication service providers.

v) **Co-location/Sharing of Natural Resources**

Seychelles is a small island country with very limited natural resources and the economy is dependent on the tourism industry. Hence, the need to limit duplication of infrastructure has to be emphasised. Clearly, the objective is to make the broadcasting and telecommunication operators to provide access to poles, towers, ducts and conduits as far as practicable and where it is economical.

MANUFACTURING

As a nation with an international reputation for its environment, emphasis on the manufacturing sector is placed on light and non-polluting industries producing high value and high quality goods and services. The manufacturing sector accounts for about 13% of the GDP. Production of canned tuna, fibreglass boats and fibreglass products, plastics, soap, electronic goods, cigarettes, jewellery, clothing, craft items, paints, dentures and related products, fruits juices, household detergents and production of beer and beverages are some of the manufacturing enterprises.

A considerable number of businesses are engaged in the provision of services. These include personal services, accounting services, repairs and maintenance (including ship repairs) and so on.

Most industries in Seychelles are engaged in import substitution activities. These industries play a major part in serving the needs of the population and simultaneously save foreign exchange. However, presently, their main constraint is supply of imported raw materials owing to a temporary shortage in foreign currency in the country.

The Seychelles International Trade Zone (ITZ) was established in 1994 to attract a wide range of assistance including trades tax and business tax concessions, access to credit and to working premises, business training schemes, access to information related to appropriate science and technology, and standards. The main aim is to increase productivity and quality of products to satisfy the local and foreign markets.

ENERGY

Seychelles with a population of 78,000 inhabitants imports almost 100% of its primary energy. Its energy infrastructure comprised of the petroleum products storage and distribution facilities and the electricity generation, transmission and distribution facilities.

In 1998, the Primary Energy Consumption (PEC) was 76,427 Tonnes of Oil Equivalent (TOE) and the per capita PEC was 0.98TOE. The average growth rate of the PEC between 1979 and 1998 was 5.4% per year. The Energy Intensity for the GDP, measuring the energy consumed per unit of GDP, was 27.7 TOE per million of current rupees in 1997.

Petroleum imports for the domestic sector remain a burden to the economy, the annual average growth rate of imports within 1977-1998 was 5.2%. Seychelles Petroleum Company (SEPEC) which is the company responsible for the importation, storage and distribution of petroleum products, imported a total of 241,028 TOE in 1998, 64% of which was to supply for marine bunkers and international aviation.

The Public Utilities Corporation (PUC) is responsible for the generation and distribution of electricity in Seychelles. There are presently 3 Power Stations with a total capacity of 42MW. The peak demand was 24.2MW in 1998. It occurs around 11 a.m. in the morning and around 7 p.m. in the evening, and increases at an average growth rate of 0.8MW per year.

A third power station in Mahe, which has a capacity of 50MW, is expected to be in operation early in 2001. Construction works of this new power station are presently being carried out. In 1998, the per capita electricity consumption was 1969kWh and the number of consumers was 21,110. The households having access to electricity have increased from 43% in 1977 to 89% in 1994. This corresponds to an average of 550 to 600 household connected to the grid every year.

Tourism

The Seychelles, classified as a Small Island Developing State (SIDS), is a micro, multi-island developing country, which combines land scarcity and a small population with great distance from markets. Our limited export and import volume leads to high freight cost, limited scale economies and competitiveness. For Seychelles, like most Small Island developing states, the narrow resource base and limited option present special planning challenges for implementing sustainable development.

The Seychelles environment is not only a unique asset of rare beauty; it is also highly vulnerable to disruption and degradation. The ecological fragility, as well as the scientific interest of the Seychelles, centres around the endemic biodiversity, which for a million years has been evolving in isolation.

Protected natural areas constitute a total of land areas of 19700 ha; i.e. 43% of Seychelles total land as well as an additional 2300 ha of surrounding reefs and marine areas. This makes the Seychelles the country with the highest percentage of protected areas in the world.

As Seychelles has a dynamic but tiny and vulnerable economy, supported by tourism and fisheries, the sustainability of these two sectors is clearly essential to the survival of the economy as a whole. Their sustainability depends on the maintained integrity and the well being of the terrestrial and marine environment. Seychelles needs to be especially careful to avoid the consequences of environmental degradation and unsustainable development.

Tourism

Tourism is the mainstay of Seychelles economy and it is likely to remain so in the foreseeable future. The sector accounts for approximately 20 percent of GDP, employs one fifth of the labour force, generates the major part (75 percent) of foreign exchange and contributes a significant portion to government revenue. The main tourist attraction of the Seychelles is its natural beauty and unspoiled environment. Tourist arrival has increased from 15,197 in 1972 to over 130,000 in 1996.

As an industry, tourism is both resource intensive (high consumption of water, land and capital) and waste intensive, affecting coastal ecosystems.

The fact that Seychelles is a set of unique and environmentally vulnerable group of islands, eco-tourism is considered as the long-term policy choice of the country. It is the most sustainable strategy for the industry, where the environment is always taken into consideration.

One of the major problems faced by the tourism industry is the lack of adequate manpower to meet the demand of the industry.

Seychelles is in the process of preparing a new Environment Management Plan (EMPS) – 2000 – 2001). The Environment Management Plan of Seychelles provides, among other things, critical investments in water, solid waste management, and sewerage system, designed to protect the environment and tourism at the same time. As a means to protect the environment, it is required that an Environment Impact Assessment (EIA) is undertaken for all projects. The government will continue to formulate policy and enact legislation and regulations pertaining to tourism, thereby ensuring proper standards.

Seychelles will retain its membership in regional and international organisations such as the World Tourism Organisation (WTO), Indian Ocean Commission, IOTO, WTTC, SADC, and (TCU).

The government will continue to create the enabling environment for the optimum developing of tourism by:

i) Streamlining the project approval process;
ii) Simplifying licensing and work permit procedures;
iii) Liberalising entry into the sector within sustainable limits;
iv) Reducing the cost of establishing and operating a business.

Training young Seychelles in the industry is becoming more and more an important part of the country's priorities. The Seychelles Hotel and Tourism Training Centre (SHTTC), which now falls under the Ministry of Tourism and Civil Aviation, has replaced the Tourism Training School of the Seychelles Polytechnic. Training is to be tailored to an up-market industry.

In line with the policy to improve the image of Seychelles as a unique destination, the government is undertaking a major development project to upgrade and improve the facilities and infrastructure at the Seychelles International Airport (S.I.A) and the Praslin Airport. The project involves the construction of a new passenger terminal at the S.I.A on the main island of Mahe and the construction of a terminal building and a new runway on Praslin. The total cost of the project is estimated at US$7,400,000. The cost does not include the construction of the new passenger terminal on Mahe.

The Seychelles Tourism Master Plan (1999 - 2007) is currently being finalised by the Ministry of Tourism and Civil Aviation. Among its many objectives is the reviewing and assessment of the environmental and socio-cultural impact of future developments in tourism. A new policy has also been launched entitled "A Vision for Excellence".

HEAD OF STATE
President Nelson Mandela

CAPITAL CITY
Cape Town (legislative) and Pretoria (executive)

NATIONAL DAY
27 April (1994)

LANGUAGES
Afrikaans, English, Ndebele, Sotho (South), Pedi (North Sotho), Swati, Tsonga, Tswana, Venda, Xhosa and Zulu

CURRENCY
Rand (R) = 100 cents

AREA
1 221 000 km^2

POPULATION
43 million (1997 estimate)

LITERACY
82.20%

URBANISATION
30%

LIFE EXPECTANCY
66 years

NATURAL RESOURCES
Gold, coal, platinum, iron ore, copper, timber, sugar, fish, sea and marine resources, wildlife

IN JUNE 1999, PRESIDENT THABO MBEKI BECAME THE NEW HEAD OF STATE.

MONETARY POLICY

Monetary conditions are expected to ease in 1999, following a year of severe pressure on monetary policy. A new approach to liquidity management was introduced by the Reserve Bank in March 1998. With the replacement of a fixed bank rate of accommodation of commercial banks' liquidity needs by a repurchase ("repo") rate, greater flexibility in the operation of monetary policy and transparency in the setting of interest rates have been achieved.

Monetary Policy has largely been dictated by the need to restore stability to the value of the Rand and attract sufficient inflows of foreign investment to finance the current account of the balance of payments. The restrictive monetary stance has also contributed to dampening the impact of the depreciation of the Rand and in 1998 on domestic inflation. Consumer price inflation averaged 6.9 per cent in 1998 while production prices increased by just 3.5 per cent over their average 1997 level.

The prices of consumer goods and services are expected to increase by an average of 6.6 per cent in 1999, falling to 4.3 percent in 2001. For the 1999/2000 fiscal year, the consumer price index is expected to rise by 5.5 percent.

FISCAL POLICY

Fiscal policy is the central element in Government's integrated approach to economic development.

Government's fiscal policy needs to:

- Ensure a sound and sustainable balance between Government's spending, tax and borrowing requirements;
- Improve domestic savings;
- Allocate public spending effectively and efficiently to meet Government's growth, redistribution and social development goals;
- Encourage and improved trade performance and a healthy flow of capital on the balance of payments; and
- Manage government employment, pay and procurement to ensure efficient delivery of services within an affordable expenditure plan.

Government's commitment to a disciplined fiscal programme has enhanced South Africa's credibility in the international financial arena and contributed to continued investment despite the unstable global environment. Prudent fiscal policies and ongoing reform have enabled the Government to stabilise its indebtedness and reduce dissaving, while improving the standard of living of South Africans. Over the medium term Government seeks to lower the overall tax burden and improve domestic savings relative to national income.

EXCHANGE RATE

The global currency volatility experienced in 1997 continued into 1998. The nominal effective exchange rate remained relatively stable for the first months of 1998, but then fell by 15 percent from December 1997 to October 1998. The real depreciation reflects the global flight of capital from emerging markets, coupled with lower commodity prices. Nonetheless, the depreciation of the rand should help to stabilise the balance of payments through a smaller current account deficit.

PRIVATISATION

The restructuring of state assets is co-ordinated by the Ministry of Public Enterprises and is undertaken within the context of the National Framework Agreement. This agreement affords high priority to the reduction of state debt, the recapitalisation of public enterprises and the broadening of economic participation. Government has received 50 percent of proceeds of the outright sale of Sun Air, the balance will be paid in 2000.

A 30 percent stake in Telkom was sold to a SBC/Telkom Malaysia consortium in 1997. Government received US$961 million, and invested US$700 million as the Government's share of a US$1 billion recapitalisation of the enterprise. The net proceeds of R1 165 million were paid to the exchequer.

R510 million was received from the sale of radio stations and paid into the exchequer. A 20 percent equity stake in the Airports Company has been sold for R819 million to Aeroportie di Roma. A 10 percent share has been reserved for black economic empowerment, of which 4.2 percent has been taken up for R173 million. An amount of R4.0 billion has been provided in the Budget for the reduction of state debt from the proceeds of the restructuring of state assets during 1999/2000. A preferred bidder has been selected for the sale of Aventura Leisure Resorts for R23.0 million.

Government is awarding a management contract for Alexcor's diamond mining operations to a private sector firm for a period of two years. The Eskom Amendment Act of 1998 vests ownership of the equity in the state and revokes Eskom's exemption from the payment of income and other taxes. Government will corporatise South African Airways and intends to sell a 30 percent equity share. Government will take over R1.3 billion of the debt attributable to SAA, subject to an agreed strategy to ensure an offsetting revenue stream to government through the restructuring of the Transnet group. The corporatisation and restructuring of Transnet's non-core business units have been accepted. The sale of Autonet, Transwork, Protekom, Connex Travel, Government is reviewing options to restructure the arms industry, including the merger and sale of Denel Informatics and Transnet's Datavia.

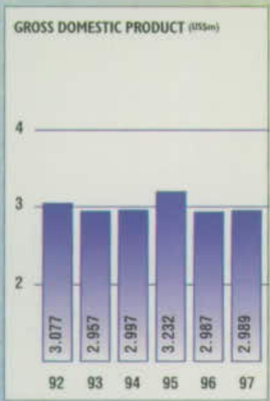
GDP GROWTH RATE

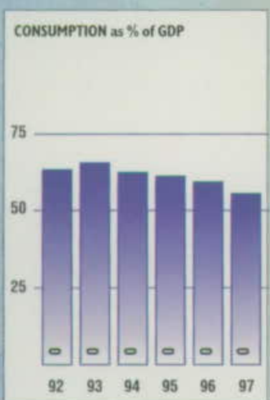
The restructuring of South African industry provides a secure platform for stronger long-term growth, supported by steady falling interest rates during 1999 and beyond. A recovery of employment creation will require both stronger investment growth and attention to industrial and labour market policies. Real GDP growth of 1.8 percent is expected in 1999/2000, increasing to 3.2 percent and 3.8 percent in 1999/2000 and 2001/02.

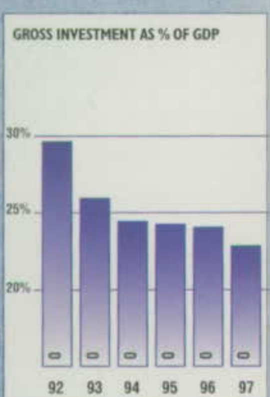
BUDGET DEFICIT/SURPLUS

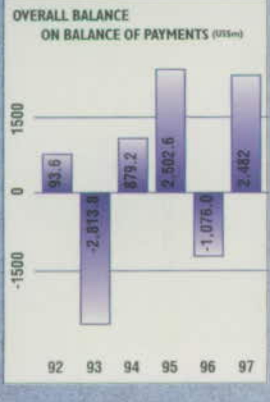
Despite slower economic growth, ordinary revenues increased by 9.6 percent in 1998/99 to R178.9 billion, exceeding the 1998 Budget estimates by R2.3 billion. Expenditure increased by 7.2 percent to R204.3 billion. The deficit relative to GDP remains at 3.5 percent for 1999/2000 and 3.0 percent thereafter. Ordinary revenue is projected to decline to 26.8 percent and 26.5 percent.

Government's commitment to a 3 percent deficit had to be postponed by a year in view of the economic slowdown. A downward adjustment in the revenue projection for 1999/2000 from R193 400 billion to R190 900 billion became essential. Ordinary revenue in 1998/99 is currently projected to be 9.6 percent higher than in 1997/98 and 1.3 percent higher than the 1998 Budget estimate, due to strong growth in personal income tax. The revised budget deficit estimate for 1998/99 is R224.3 billion, or 3.7 percent of GDP, compared to the









outcome of R27.1 billion, or 4.5 percent of GDP in 1997/98.

INFLATION

The rates of increase of both consumer prices and the production price index increased moderately after April 1998, but both price trends responded only mildly to increases in import prices.

Consumer price inflation averaged 6.9 percent in 1998 while production prices increased by just 3.5 percent over their average 1997 level.

The prices of consumer goods and services are expected to increase by an average of 6.6 percent in 1999, falling to 4.3 percent in 2001. For the 1999/2000 fiscal year, the consumer price index is expected to rise by 5.5 percent.

Significant success has been achieved in recent years in lowering the rate of increase in the production price index and the overall consumer price index. From 1991 to 1998, core inflation and consumer price inflation fell by 11.4 and 8.4 percent points, respectively. Producer price inflation fell from 15.1 percent in 1998 to 3.5 percent in 1998.

BALANCE OF PAYMENTS

Financial Account

The primary impact of global instability on the domestic economy is registered through the balance of payments and the present crisis was initially felt through the financial account.

From 1994 to mid 1998 South Africa recorded a net surplus on the financial account, excluding reserves and unrecorded transactions, peaking at R34 billion in 1997. The gross official reserves at the end of January 1999 represented over 2.4 months worth of imports. Net official gold and foreign reserves increased to 2.4 billion in January 1999.

Current Account

The current account is expected to record its fifth consecutive deficit in 1998, rising from 1.5 percent of GDP in 1997 to about 2.0 percent in 1998. In real terms, South African exports fell by 0.1 percent in the first three quarters of 1998, down significantly from 13.9 and 4.5 percent real annual growth recorded in 1996 and 1997, respectively. This disappointing export performance is mainly attributable to weaker global demand and lower commodity prices. In real terms, imports grew by 2.3 percent in the first three quarters of 1998.

Balance of Payments outlook

The imbalance between demand and supply giving rise to the current account deficit is an area of concern for Government. The current deficit is expected to be about 1.0 percent of GDP in 1999.

EMPLOYMENT TRENDS

Employment levels in the economy as a whole continued to weaken from 1997 through the first three quarters of 1998. Some sectors, such as financial services and the public sector have managed to maintain or even increase employment since 1994. Mining remains one of the largest sectors of considerable job losses, with large decline in employment from 1997 to 1998.

Since 1994, manufacturing employment has declined as a result of industrial restructuring as well as weak global demand. The 1997 October Household Survey (OHS) results reveal improvements made by Stats SA in the collection and specification of informal sector data. OHS results for the informal and agricultural sectors showed smaller declines than in the formal sector. Employment in the informal sector was estimated at over 1.8 million for 1997.

In partnership with other stakeholders, Government has embarked on an agenda of action agreed at the 1998 Jobs Summit. Funds have been set aside for poverty relief and infrastructure employment, the skills development strategy has been adopted and industrial and development opportunities in various locations and sectors are being pursued.

AGRICULTURE

Agriculture in South Africa has a central role to play in building a strong economy and in the process, reducing inequalities by increasing incomes and employment opportunities for the poor, whilst nurturing our inheritance of natural resources. To achieve this vision is a formidable challenge to the Government and the following three major goals have been set for policy reform:

- To build an efficient and internationally competitive agricultural sector which facilitates the emergence of a black agricultural sector;
- To support the emergence of a more diverse structure of production with an increase in the number of successful small-holder farming systems; and
- To conserve resources and put in place policies and institutions for sustainable agricultural production.

Formal agriculture provides employment (including seasonal and contract employment) for about 1 million farm workers. In addition, the small holder sector provides full or part-time employment for at least a further 1 million households. Thus some 2 million households derive some or all of their income from agriculture. This represents about 10 million people or about 25% of South Africa's population.

South Africa is able to meet its food consumption requirements with domestic production for most items in most years. Approximately 60% of the Gross Agricultural Product is traded, and South Africa is a net exporter of agricultural commodities. In terms of export earnings, agriculture contributes about R10 billion annually. The share of agricultural exports in the country's total exports has increased from about 8% or less in 1994 to 10% by 1998. The share of processed agricultural products within the country's total agricultural exports has also increased from 34 to 50%.

Although sugar and maize have remained the two most important export commodities in the last five years, the fastest growing exports are fruits (especially oranges and grapes) and wines. Other important export commodities are apples, ethyl alcohol and spirits, wool, raw skins or sheep and preserved peaches. South Africa's main export markets are the European Union, African countries, the Middle East and Asia.

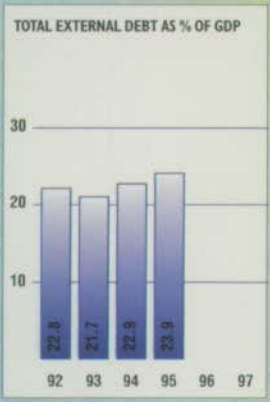
Major products imported into South Africa are wheat, rice, sunflower oil, maize, cotton, whiskies, palm oil, oil-cake, meat and edible offal of poultry and tobacco. The main suppliers of South Africa's agricultural imports are the United Kingdom, Belgium, Germany, the United States, Japan, Kenya, Italy, Mozambique, the Netherlands and Angola.

In South Africa, the generally strong performance of the commercial agricultural sector in recent decades owed much to the high levels of public and private investment in research, with estimates of rates of return of between 30 and 50% in some field crops and horticulture. The Government funds some 65% of all agricultural research in the country. The ARC, organised into 16 research institutes, receives about 60% of the public funds allocated for agricultural research and development. The balance of public funding goes into universities, the Department of Agriculture, the Foundation for Research Development, the CSIR, the Protein Research Trust and the Water Research Commission,

TOURISM

During 1998 tourism in South Africa recorded a healthy growth despite the depressed global economy which led to a mere increase of 2.4% in global tourism. Our overseas market grew by 12.1% and our foreign tourist arrivals increased significantly from a meagre growth of 0.6% during 1997 to an impressive growth rate of 15% during 1998. Arrivals from Africa reversed the negative growth trend of -2.2% recorded during 1997 and attained a growth of 18.6% in 1998.

Visitor arrivals increased by an impressive 18% during January 1999 compared to arrivals over the same month in the previous year. Overseas arrivals also recorded a healthy growth of 13.9% over the same period. Our African market also maintained its high-level growth rate with a percentage increase of 20%. By 2010 more than 174 000 new jobs can be



created directly by the Travel and Tourism industry, and 516 000 jobs can be created, directly and indirectly, across the broader South African economy.

LABOUR

With regard to the implementation of International Labour Standards (ILS) and compliance with reporting obligations the South African Parliament has assented to the ratification of Conventions 138 (Minimum Age) and 100 (Equal Pay) to be deposited with the ILO and registered for formal ratification. This will bring South Africa in line with those Member States that have ratified all the ILO core conventions in the SADC region.

In terms of article 20 of the International Labour Organisation Consultation, South Africa reported on the following ratified fundamental human rights Conventions during 1999.

i. Convention No. 98 Right to Organise and Collective Bargaining Convention, 1949 ratified 19/2/1996.
ii. Convention No. 105 Abolition of Forced Labour, 1957 ratified 5/3/1997; and
iii. Convention No. 111 Discrimination (Employment and Occupation), 1958, ratified 5/3/1997.

South Africa has held the necessary tripartite consultations in NEDLAC with the social partners on the Draft Social Charter of Fundamental Rights in SADC. However, at the Council of Ministers meeting held in August 1999, Council deferred consideration on the Charter in order to allow these member states that have not held the necessary consultations to do so. The Charter will be discussed at the next SADC Employment and Labour annual meeting in order for it to be considered at the next Council of Ministers meeting.

TELECOMMUNICATIONS

The average teledensity for South Africa of 10.7 telephones per 100 people compares to an average for Sub-Saharan Africa of 0.51. However, the density of telephone services within South Africa varies considerably within the metropolitan areas showing teledensity ties that are comparable to the first world while former black homelands and residential areas are severely under-serviced. The need to correct this situation gave rise to the conditions laid out in the Telkom Operations License including the roll out of 2.8 million lines by the end of the exclusivity period. Telkom's exclusivity period ends in 2002/2003 and it will then be determined as to whether two new operators are licensed or only one.

Presently there are two mobile cellular licence holders in South Africa, Vodacom and MTN. The South African Department of Communication estimated that revenue in the cellular industry amounted to R4 billion in 1998. A third mobile cellular licence will be issued by the end of 1999. The decision to have one new licence rather than two was based on economic considerations.

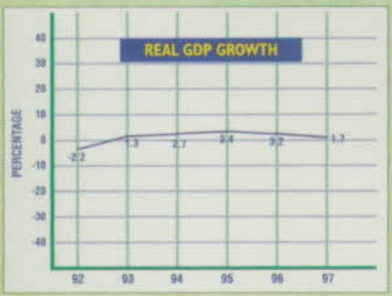
South Africa Internet Service Providers (ISP's) seem to prefer to enter the market through a big brother rather than on their own. There is a general caution in the preference for the provision of capital for ISP's by the traditional IT companies rather than through pure entry into the market that is preferred by investors. There is a danger that Internet growth may be stifled by IT companies particularly that size wise, South African ISP's do not enjoy the American company's critical mass.

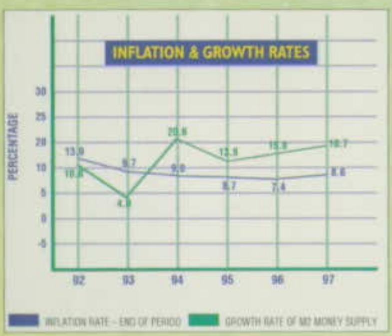
South Africa's first satellite, SUNSAT-1 was designed and built almost exclusively by postgraduate students from the University of Stellenbosch. SUNSAT-1 heralds South Africa's entry into the space age and will take low cost high-resolution photographs of the environment sectors of the country thus benefiting agriculture, tourism and forestry industries.

TRANSPORT

Railways

During the 1998/99 financial year, Spoornet moved 182,7 million tons of freight and 4.6 million passengers over a network consisting of 20 070km of track. The total freight ton-kilometres amounted to 102 800 million, with an aver-





age haul of 563km. This was performed using 3 549 locomotives, 123 750 freight wagons and 1848 passenger coaches. The staff complement at 31 March 1999 was 43 736. During the same period Metrorail moved 485 million passengers over a length of track measuring 755km.

Road Transport

The South African National Roads Agency Limited started operating on 1 April 1998 with the responsibility to manage construction and maintenance of South Africa's 7 000km core national road network. It is expected that this will be extended in the future to include the primary 20 000km of the 63 153km surfaced rural road network. The total vehicle kilometres driven during the 1998/99 financial year by the registered 6.6 million vehicles in South Africa on the 7 000km core national road network was 16.6 billion vehicle kilometres, or 45.5 million of the estimated 160 million vehicle kilometres travelled per day in South Africa.

A total of 296 maintenance and construction projects were started or continued during the 1998/99 financial year, including the Maputo Development Corridor road and the Lubombo Spatial Development Initiative that will link Maputoland in northern-eastern Kwazulu-Natal with Maputo. It is also anticipated that the preferred bidder for the Platinum Toll-road project which will eventually link Maputo with Walvis Bay will be announced in the fourth quarter of 1999. Construction is scheduled to start in the third quarter of 2000.

Harbours

During 1998 the seven major ports of South Africa had 14 500 port calls and handled a total of 153 047 000 tons of cargo. This includes 23 798 542 of cargo landed and 126 122 273 tons shipped. Of this, 15% was containerised cargo, 73.2% was bulk and 11.8% was breadbulk. South Africa provides 45 lighthouses and other navigational aids on the coastline in terms of the Safety of Line at Sea Convention.

Airport services

During the 1998/99 financial year, ACSA Airports handled 187 423 aircraft movements. Positive growth was recorded in aircraft movements and passenger flows of South Africa's three international airports. These airports handled 8.6 million departing passengers compared with 7.9 million in the previous year.

ECONOMIC OUTLOOK FOR THE YEAR 2000

The economy is projected to grow by 1.8 percent in 1999/2000, 3.2 percent in 2000/2001 and 3.8 percent in 2001/2002. The consumer price inflation is expected to average 5.5 percent, 4.5 percent and 4.0 percent over the next three fiscal years. A drop in consumption of durable goods in 1998 should translate into a lower current account deficit in 1999.

The most serious risks to medium term economic prospects involve developments in the international economy. Should these turn unfavourable in 1999, recessionary conditions could persist through 1999 and into 2000. South Africa's balance of payments remains vulnerable to both depressed world trade trends and the possibility of continued foreign investor caution.

There are encouraging signs, however, of an improvement in the prospects of Asian economies. A recovery of inventory investments, increased private consumption spending and improved export performance are expected to be the leading propellants of economic growth in 1999 and beyond.

HEAD OF STATE
King Mswati III

CAPITAL CITY
Mbabane

NATIONAL DAY
6 September (1968)

LANGUAGES
English and SiSwati

CURRENCY
Lilangeni (E) = 100 cents

AREA
17 364 km²

POPULATION
970 thousand

LITERACY
79%

URBANISATION
24%

LIFE EXPECTANCY
56 years

NATURAL RESOURCES
Sugar, food products, wood pulp, wildlife

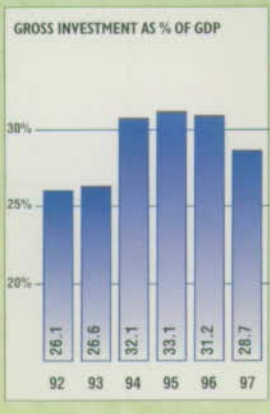
THE ECONOMY

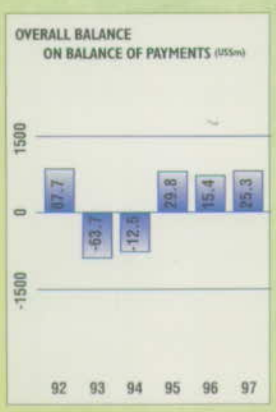
The performance of the Swaziland economy, which started slackening early in the 1990s, declined further in 1998 when a growth rate of 2.3 percent was recorded compared to 3.7 percent the previous year. Viewed against an estimated population growth rate of 2.7 percent per annum, this implies further worsening of the standard of living of the average Swazi people during this period. Overall, the economy was characterised by decreasing GDP growth rates, stability in domestic prices, and a significant improvement in its balance of payments on the positive side of things. On the negative side, there was a slowdown in private investment growth. The positive economic growth during the review period can be ascribed to a relatively strong recovery of the agricultural sector coupled with moderate growth in manufacturing.

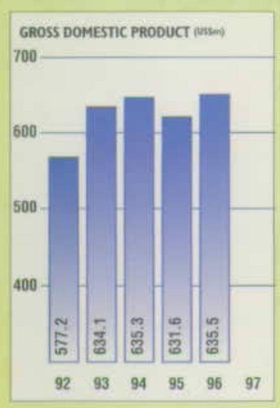
Growth in private investment, a basic ingredient for economic growth, subsided significantly during the last nine years despite an impressive growth rate of over 34 percent in private national savings during the same period. The year under review, for instance, witnessed a significantly lower growth rate in private investment of 0.2 percent, much lower than recorded in previous years, whilst private national savings increased by 5.7 percent. The lacklustre performance in some major sectors of the economy coupled with high interest rates led to a deceleration in the growth of credit to the private sector, hence undermining private investment growth. This state of affairs poses a challenge to the authorities not only to seek to attract foreign direct investment but also to exploit avenues for converting these domestic savings into real sector investment.

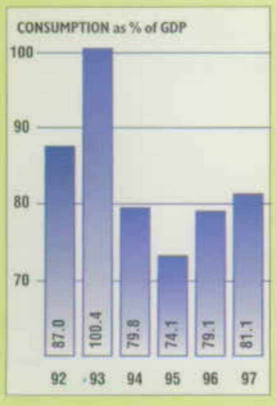
Despite the decline in the external value of the domestic currency in excess of 20 percent, the rate of inflation remained in single digits throughout the review period, averaging 8.0 percent in 1998 compared to a low of 7.2 percent of the previous year. The moderation in prices rise is mainly attributable to reduced import tariffs as well as higher domestic interest rates and comparatively lower increases in food inflation. Meanwhile, rising consumption expenditure in some functions of the public sector are held responsible for the hike in inflation during the period under review. Although prices have been on the decline since the beginning of December 1998, this trend is threatened by indications of reversals in interest rate reductions and higher than inflation wage settlements in both the public and private sectors.

Employment growth failed to live up to the pace of economic growth and growth in labour force. However, the poor rate of growth in employment over the past years is consistent with lower growth in private sector investment. Other contributory factors are changing technologies which lead to the submission of capital for labour, the ever increasing need for









domestic producers to contain costs in order to remain regionally and internationally competitive. In the absence of new investments, it is desirable for the country to support and improve the informal sector, the only means by which the unemployment growth rate could be abated.

Balance of Payments

Swaziland's external sector account posted a record high overall surplus of E279.2 million in 1998. The favourable balance of payments position in 1998, is mainly, a result of an improvement in the service balance, an increase in interest earned by both the private and official sectors, a rise in inflows of compensation of employees and a net inflow in net current transfers.

The current account posted a mild net outflow of E29.9 million in 1998, a much lower outflow compared to E210.9 million seen in 1997. The trade account stood at a deficit of E822.8 million. Exports f.o.b. increased by 9.8 percent to E4,378 million in 1998 whilst imports increased by a lower 8.4 percent to E5200.7 million in net transfers in 1998. Further inflows in the current account were seen in labour income, tourism receipts and interest earned.

The financial account excluding reserves turned around to record a mild net outflow of E30.5 million in 1998. Direct investment into Swaziland stood at a net inflow of E249.2 million, mainly comprising re-investment of earnings and mild inflows of equity capital. Portfolio investment posted a mild outflow of E16.3 million in 1998. Other investments posted a wide outflow of E216.7 million in 1998, mainly due to an increase in banks' foreign assets.

Fiscal Sector Developments

Pressure on central government budget somehow eased in 1998/99 with the final estimated outturn of E19.4 million deficit from an earlier projection of E192.2 million. The current 1999/2000 budget shows an appropriated deficit of E276.2 million, a representation in terms of GDP of 3.8 percent against 4.2 percent the previous year.

Budgeted revenue is estimated to rise by 13.1 percent to E2415.7 million against an increase of 13.5 percent in recurrent expenditure. Customs revenue remains the major revenue source (50.4 percent), whilst on expenditure, personnel costs represented 49.3 percent of total recurrent expenditure and 40 percent of total expenditure.

Against this background, the most urgent challenge facing the country remains as in previous budgets that of broadening its revenue base and expenditure control. Previous budgets have mentioned various options for revenue generation including tax reform. What remains is implementation once everything is in place.

On expenditure control, government has been vigilant in the recent years but recurrent expenditure, which is the main culprit, has shown little signs of responding to the controls. A budget management information system is currently being put in place and it is hoped that once it is fully operational, the trend will normalise.

Monetary Sector Development

Although the banking system remained liquid, the level of domestic surplus liquidity declined substantially and was increasingly substituted by an increase in bank holdings with foreign banks, mainly in South Africa. In order to reduce the tax effects of cash and liquidity requirements on banks the reserve and liquidity requirements were scaled down to 4 percent (from 6 percent) and 15 percent (from 17.5 percent) respectively in early 1999. In 1996 the local assets requirement of 95 percent was abolished for the same purpose. The Bank hopes that these policies will positively influence returns to depositors by allowing domestic banks to invest their surplus cash in higher interest earnings in the South African markets. However, continued efforts are being made by the Bank to activate the local money market and to build an arena for market determined interest rates. This is largely by issuing its own bills and encouraging banks to engage in inter-bank market activity.

PRICES

Inflation as measured by changes in the annual average consumer price index continued a three-year rise, to record a year-on-year growth rate of 8 percent in 1998 compared to 7.2 percent realised in the previous year. A major contributor to the increase in the price level was a surge in the price index for "education" which grew from 7.0 percent in 1997 to 27.2 percent in 1998. Further pressure on the price of goods and services emanated from a rise of 6.2 percent and 4.7 percent in the price indices for the sub-groups "transport and communications" and "health care", respectively. The rise in inflation was not as strong as anticipated in the light of depreciation of the external value of the lilangeni against the world's major trading currencies. Against the US dollar for example, it lost 20.7 percent. A major factor keeping inflation low was a reduction in import tariffs and relatively low increases in food inflation.

It is reasonable to expect South Africa's inflationary pressures to filter through into local price increases as Swaziland imports about 85 percent of its goods and services from South Africa. However, the impact of the imported inflation is cushioned by the regulation of the prices of some items such as milk, bread, transport, petrol and beer. Consequently, the rise or fall in Swaziland's inflation is not of the same magnitude as that of South Africa and usually occurs with a lag. Furthermore, the difference in the baskets and weights of the two countries is another factor thought to be behind the somewhat inverse relationship between the inflation trends of Swaziland and South Africa.

INTEREST RATE POLICY

Central Bank of Swaziland continued to follow interest rates trends prevailing in South Africa. While Swaziland's interest rates moved in the same direction, the Bank held the view that the margin of increase would be too strenuous for an economy that was going through a recession and deliberately curtailed the rate of increase compared to South Africa. The interest rate differential between the two countries at this time rose to as high as 5 percentage points, compared to the 2 percentage points maintained previously. Such a differential was not sustainable as proven by historical data and research.

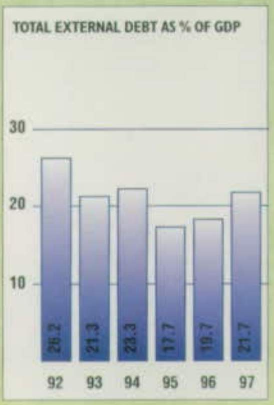
The easing of interest rates in South Africa since October 1998 greatly benefited Swaziland as the differential narrowed once again. Since March 1998, Swaziland revised her interest rate downwards following the same trend in South Africa to try to maintain the minimum margin of two percentage points between the two countries interest rates where Swazi rates have always been kept lower to stimulate development in Swaziland.

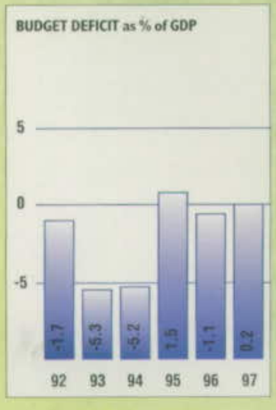
EXCHANGE RATE DEVELOPMENTS

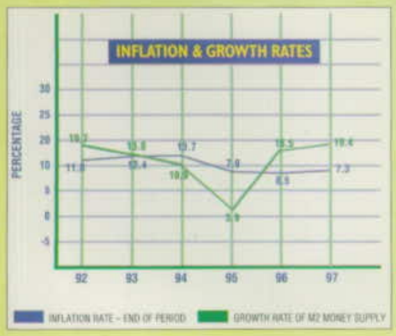
As a matter of the Common Monetary Area (CMA) Agreement, Swaziland continued to maintain the parity status between the lilangeni and the South African rand. The substantial depreciation of the rand in the middle of 1998 had the positive effects of boosting some of the country's exports. Fortunately increases in prices due to imported inflation as the rand depreciated were negligible mainly due to increased interest rates in the second half of 1998. It is worth mentioning that although Swaziland continues to maintain the option to delink from the rand, economic analysis have, so far, revealed that the cost of delinking would far outweigh any benefits of such a move.

Debt Stock

Swaziland's external debt increased in the financial year 1998/99, reflecting the continued deterioration of the local exchange rate (lilangeni) against major currencies and the increased pace of drawing down of existing loans, mainly those associated with huge pro-







jects. At the end of March 1999, the country's long-term external indebtedness, including both public and private, stood at E1.63 billion, versus a revised figure of E1.16 billion the previous year. This represents an increase of 40.5 percent, over the year.

The public sector remains the largest debtor, accounting for over 80 percent of the total external debt in the year under review and maintains a 10-year period trend. On March 31, 1999 the public sector, including guarantees to parastatals, was indebted to the tune of E1.32 billion, some E409.31 million more than the previous year. Typically, most of this debt was outstanding to multilateral organisations, with the African Development Bank (ADB) Group being the major creditor followed by Government of Germany. The World Bank Group was relegated to the third largest creditor reflecting the approach to maturity for most credits from this group, combined with a few new ones contracted recently. The remaining balance was owed to various multilateral institutions and donor governments.

Debt Service

Public debt service amounted to E120.7 million in 1998/99 compared to E101.5 million in 1997/98. The persistent strength of international currencies vis-à-vis the local currency contributed largely to the massive debt service, whilst a couple of loans entered the repayment phase, nudging up the debt service. Capital repayments accounted for E76.77 million of the total public debt service, whilst E41.5 million was paid as interest charges; this compared to E73.1 million and E30.8 million, respectively, recorded the previous year. Commitment fees, paid on undisbursed but yet committed funds, continued their decline, dipping to E2.45 million from the E2.7 million recorded the previous year.

Other Development Debt

Swaziland has this financial year, 1998/99, continued to maintain a low and manageable level of long-term external debt. Whilst the historical combination of good economic performance and cautious approach in utilizing external loans in funding developmental projects played a major role in keeping the debt at prudent levels, a continuation of this strategy was evident during the period under review.

Using the latest on debt, it is evident that the country's position of being a low debt country was maintained. Most of the debt ratios remained below the critical levels defined by international standards.

The debt-to-export ratio, whilst being on a downward trend since 1990, moved up to 26.1 percent from 21.5 percent in the previous year. On the other hand, the debt as proportion of output, as measured by the Gross Domestic Product (GDP), also streaked up to 37.1 percent from 29.1 percent previously. The debt service ratio undermined by non-availability of private non-guaranteed debt, remained at less than the critical value of 5 percent, at 1.7 percent, compared to the previous figure of 1.6 percent.

Outlook

Prospects point towards a rise in prices for goods and services in Swaziland due to the impact of the 15 percent cost of living adjustment awarded to civil servants in April 1999. This development, together with April's increase in petrol prices in South Africa, caused by rising world crude oil prices, is expected to exert further pressure on Swaziland's inflation during the second half of 1999. The increase in South African petrol prices is expected to result in a rise in the cost of imports from South Africa, as traders tend to adjust prices for distribution and transport costs.

The inflation pressure is however, expected to be offset by a stable lilangeni/rand exchange rate, which has accorded Swaziland the opportunity to reduce interest rates during the first quarter of 1999. The continued reduction of import tariffs as per the WTO agreement will also help cushion any increase that may arise from the wage bill.

Country Profile – Tanzania

HEAD OF STATE
President Benjamin Mkapa

CAPITAL CITY
Dodoma (political) and Dar es Salaam (administrative, commercial)

NATIONAL DAY
9 December (1961)

LANGUAGES
KiSwahili, English and various local languages

CURRENCY
Tanzanian Shilling (TZS) = 100 cents

AREA
945 200 km²

POPULATION
32 million

LITERACY
84%

URBANISATION
30%

LIFE EXPECTANCY
50 years

NATURAL RESOURCES
Cotton, coffee, cloves, sisal, cashew nuts, tea, tobacco, minerals, wildlife

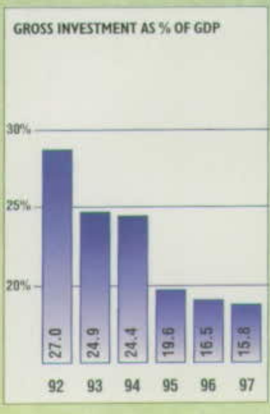
OVERVIEW

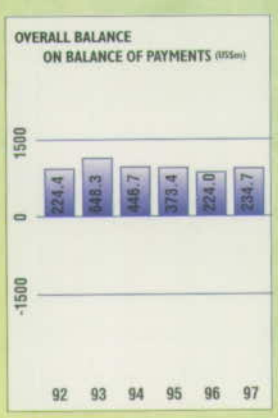
Tanzania introduced multi-party democracy in 1990, but the revival of the economy started in 1986, in favour of structural adjustment policies and liberalisation, including privatisation, the liberalisation of domestic markets and public sector reforms. These reforms have shifted resources away from the public sector towards the private sector. The volume of trade in both domestic and external sectors has increased with more participation by private agents. Shortages of most imports have been eliminated; and exports have grown strongly; while traditional exports increased by 17 percent in 1996, non-traditional exports increased by 13 percent).

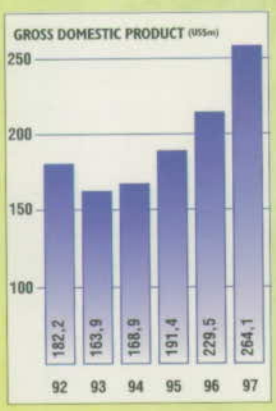
Tanzania's economy still displays evidence of macroeconomic imbalance, in spite of improvements in the overall policy regime. Budget deficits remain high (and have increased in recent years), as it still depends on aid. The external debt ratio is growing, and, on average, over two thirds of imports have been financed by aid (although notably this ratio fell to around 33 percent in 1996). Money supply growth has generally accelerated, and price inflation has averaged 24 percent for almost two decades. This rate reached 154 in 1997 as the effects of raising real interest rates from being highly negative to significantly positive were felt. High inflation in the past has been due to monetisation of at least part of the deficit. While both the deficit and interest rates are high, signalling high views to private investors but efforts are being worked out to avoid effects to economic growth through a free trade area.

THE REGULATORY FRAMEWORK FOR INVESTMENT

1. Private investment is considered to be the driving force of economic growth in Tanzania. Priority areas for investment have been identified as exploration of petroleum and mining resources, agriculture and livestock development, construction, manufacturing, high technology businesses, tourism and transport.
2. An Act establishing Tanzania Investment Centre in 1997, outlines areas of national priority for investment, and states investment incentives and extensive guarantees and private sector associations are given an avenue to discuss with the government about policy matters affecting the business environment.
3. The corporate tax rate is 30 percent, and the maximum individual income tax rate is 35 percent. There is a withholding tax on dividends and profit-sharing tax for non-residents of 10 percent. Value Added Tax is 20 percent.
4. There are numerous tax incentive schemes, from a full write-off for clearing and plant-

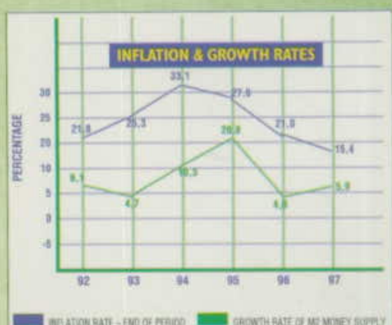


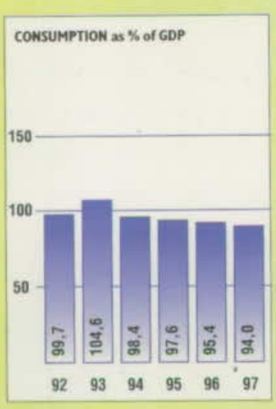


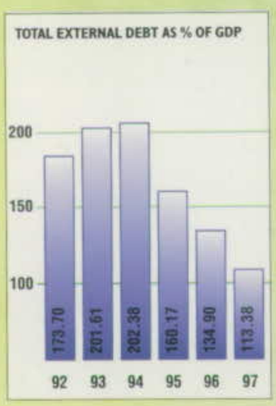


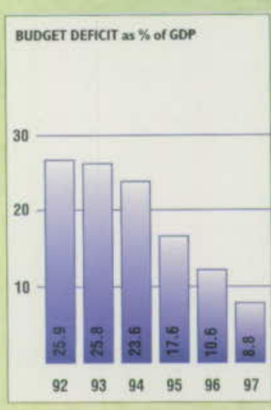
ing agricultural land in the year of investment, to generous depreciation allowances. Some mining ventures are granted a 20-year tax holiday. Tax losses may be carried over and offset against future profits. All Tanzanian exports will be exempted from the projected 20 percent value added tax.

5. First time investors benefit from a five-year tax holiday and reductions in the standard rate thereafter. Imported capital equipment and raw materials are exempt from duty and sales taxes. There is a five-year tax exemption of withholding tax on dividends, royalties and in investment payment.
6. There are special incentives for investing in oil exploration, including long exploration periods and large areas of exploration. In addition, corporate taxes and royalties are settled by the Tanzania Petroleum Development Corporation. TPDC participation is limited to a maximum of 20 percent.
7. Internal and external trade has been liberalised. Most import restrictions have been removed, and export and import procedures have been simplified. Imports of goods exceeding $5 000 require a preshipment inspection document. Price controls have been abolished. There is an EPZ in Zanzibar, governed by the Economic Zones Act (1992). More EPZs are to be established in Tanzania.
8. The Foreign Exchange Act (1992) eliminated foreign exchange controls. Investors are permitted to retain 100 percent of their net foreign exchange earnings for the remittance of dividends, profits, and the settlement of external obligations. Residents and non-residents are permitted to hold foreign currency accounts.
9. Capital transfers are subject to the approval of the Bank of Tanzania. All inward investments should be registered with Tanzania Investment Centre to facilitate future repatriation of capital. Non-residents may borrow locally.
10. The Dar-es-Salaam Stock Exchange is regulated by the Capital Markets and Securities Authority. It operates on a three-tier system; each tier has different qualifying requirements.
11. The Tanzania Investment Centre is responsible for the promotion, coordination, regulation, and monitoring of local and foreign investments. There is a separate Investment Protection Authority in Zanzibar (ZIPA) which provides information and advice to potential investors in Zanzibar. Tanzania is a member of MIGA and a signatory to the ICSID.
12. Tanzania's competitiveness was ranked 16th in a recent study of 23 African countries by the World Economic Forum.
13. Tanzania has accepted Article VIII obligations of the IMF.









HEAD OF STATE
President Frederick J.T. Chiluba

CAPITAL CITY
Lusaka

NATIONAL DAY
24 October (1964)

LANGUAGES
English and various local languages

CURRENCY
Zambian Kwacha (ZK) = 100 ngwee

AREA
752 612 km²

POPULATION
10 million (1998 estimate)

LITERACY
79%

URBANISATION
38%

LIFE EXPECTANCY
46 years

NATURAL RESOURCES
Copper, zinc, cobalt, electricity, lead, wildlife, agricultural products

DEVELOPMENTS IN THE DOMESTIC ECONOMY

Review of Developments

MACROECONOMIC OVERVIEW

The Government's overall macroeconomic objectives for 1998 were to achieve a real economic growth rate of 4 percent and a further reduction of inflation to 15 percent. The Government also sought to increase official foreign exchange reserves by US$40 million.

The achievement of these objectives was premised fundamentally on the completion of the privatisation of the Zambia Consolidated Copper Mines (ZCCM) and sufficient balance of payments support. In addition, private capital flows, weather and prudential management of the fiscal and monetary affairs were to play a pivotal role in attaining the macroeconomic objectives.

During the year under review, a number of problems related to non-completion of the privatisation of the mines, bad weather and the continuation of the Asian recession, jeopardised the achievement of the stated objectives. Consequently, real economic growth in 1998 declined. The targets on other macroeconomic objectives of inflation and foreign exchange reserves were missed, thereby contributing to difficulties in the execution of the budget.

PERFORMANCE OF THE ECONOMY IN 1998

There was a downswing in the performance of the economy in 1998. Gross Domestic Product in real terms declined by 2.0 percent. The decline in economic activities was recorded across most of the major sectors of the economy, and there was an upswing in inflation, closing at 30.6 percent from the 18.6 percent level attained at the end of the previous year. Interest rates rose while the value of the Kwacha depreciated. In addition, the budget experienced severe strains during the year. The resultant effect of the decline in the economy and the deteriorating financial conditions was a slump in welfare as real GDP per capita, private consumption and formal sector employment declined in the order of 5,5.3 and 2.1 percent.

The decline in economic performance was caused by several problems which threatened to reverse most positive developments achieved prior to 1998. The biggest domestic problem that emerged during the year was the fall-through of negotiations to privatise the major remaining assets of the Zambia Consolidated Copper Mines Limited (ZCCM). This was caused by disagreement by the parties over commercial terms.

The problems resulting from failure to complete the privatisation of ZCCM were compounded by the continuation of financial and economic crisis in East Asia which adversely affected the price of copper, Zambia's most important export commodity. Other factors that contributed to the sluggish performance of the economy were the unfavourable atmospheric conditions induced by the El Nino weather phenomenon and the lack of balance of payments of support.

AGGREGATE OUTPUT

Measured at the 1994 prices, aggregate output in 1998 stood at K2,365 billion. This represented a decline of 2 percent from the level of K2,412 billion recorded in 1997. In general, the decline in overall output was attributed to the poor performance in the primary sectors of agriculture and mining, and in the construction and trade sectors.

The sluggish performance of the agriculture sector, particularly crop production, was caused mainly by the adverse effects of the El Nino. The prolonged dry spells and heavy rains caused extensive damage to crops. In the areas of Northern, Luapula, Eastern and North-Western Provinces, there were prolonged heavy rains, which resulted in flooding and water logging. This caused destruction to crops and generally impaired agricultural activities. The Western and Southern Provinces were characterised by dry spells and poor rainfall distribution, making it generally impossible for crop germination and maturity. The other remaining areas of the Central and Lusaka Provinces also experienced heavy rains, which resulted in water logging and destruction of crops. Overall, real output in the sector was estimated to have fallen by 6.1 percent in 1998, leading to an estimated cereal deficit of 643,000 tonnes of maize, rice and wheat.

In the mining sector, real value added declined by 11 percent, from K284.4 billion during the previous year to K253.2 billion in 1998. Its share in total GDP also declined by close to 10 percent, from 11.8 percent in 1997 to 10.7 percent. The reduction in value added in the sector was caused by the decrease in copper production. Uncertainties surrounding the delay in privatising ZCCM fully in 1998 combined with weak operational efficiency to reduce overall copper production in the sector to below 300,000 tonnes in 1998, from a tonnage of 322.114 in the previous year.

The decrease in metal prices on the international market also contributed to the unfavourable performance of the mining sector. Copper, which traded at above a dollar in 1997, dropped by 30 percent in 1998, to about US$0.70 per pound. A similar pattern was experienced with the price of cobalt, which dropped from over US$25 per pound in 1997 to close the year at US$15. The combined slump in the volume and prices of metals negatively affected the financial base of the mining sector causing ripple effects on the corporate performance in other sectors.

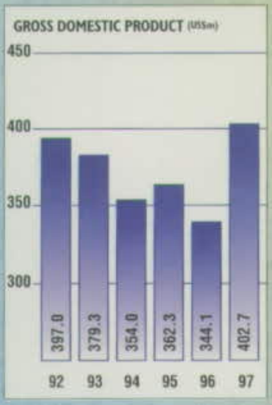
Partly arising from negative performance in the mining and agricultural sectors, performance in trade, construction and electricity sectors was unsatisfactory. Output in these sectors declined by 2.6, 4.0 and 2.9 percent respectively.

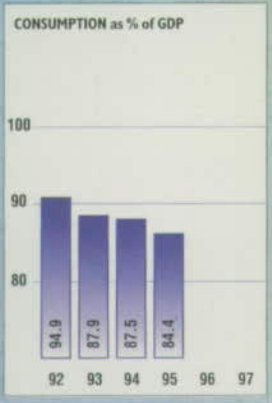
On the other hand, some modest expansion in output was recorded in the manufacturing, tourism, and transport and communications sectors. The manufacturing sector, driven mostly by the sub-sectors of food, beverage and tobacco, and textiles, clothing and leather, registered a 3.1 percent increase in real value added. This was attributed mainly to the consolidation of efficiency gains arising from the introduction of greater market rationality into the arena of economic activity some five or six years ago. The increment in output in the tourism and transport and communications sectors was 3.4 and 8.9 percent respectively.

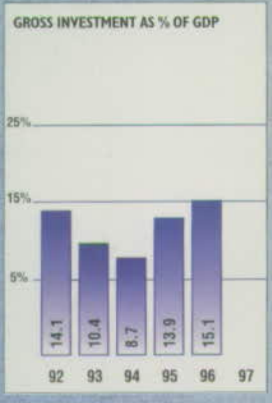
MONETARY AND BANKING DEVELOPMENTS

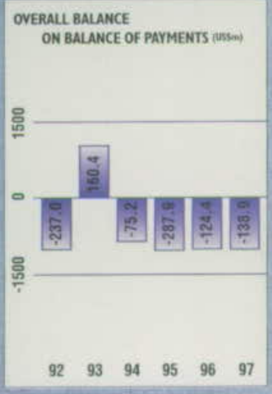
Monetary policy in 1998 was aimed at controlling inflation and providing liquidity in the economy necessary to support production. Consequently, a generally tight monetary stance was pursued during the year. Key instruments used for monetary management were the traditional cash and liquidity requirements. Throughout the year, and for two years since December 1996, the statutory reserve ratio was maintained at 8 percent, while the liquid assets ratio at 25 percent following a reduction from 30 percent in December 1997.

During the year under review, the monetary authorities strove to consolidate the gains aris-









ing from the deregulation of the banking system. In this regard, efforts were made to strengthen the banking system through the enforcement of regulatory banking norms such as the classification of assets, recognition of income and loan provisioning. The new national payments system for cheque clearing, which was introduced on 1st November 1997, was allowed to work through during 1998. The system entailed the transfer of the clearing-house from the central bank to commercial banks. It is aimed at improving efficiency of banks.

In addition, greater thrust was paid to ensuring prudence and transparency in the banking sector. As a result, most banks in operation in 1998 satisfied the prudential K2 billion capital requirements and the appropriate shareholding structure. In addition, all banks complied with the provision for disclosure of financial information. A few banks that did not meet the required prudential standards were permitted to operate under an approval for deferred provisioning as they sought to regularise their respective positions.

Partly arising from the adverse developments in the foreign exchange and money markets, the general price level also increased. Measured by the Composite Price Index for a basket of consumer goods encompassing food, clothing and footwear, rent and household energy, medical care, etc. the rate of inflation shot up from an end year position of 18.6 percent in 1997 to 30.6 percent. Against the macroeconomic target of 15 percent, the actual outcome represented an over shooting by more than 100 percent.

In addition, the domestic supply constraint was not substantially relieved by imports as the volume of total imports declined by 10.2 percent over 1997. Thus, the overall supply constraint and currency depreciation compounded the inflationary situation and accommodated the ensuing rise in inflation.

CAPITAL MARKET DEVELOPMENTS

The capital market, both primary and secondary, remained subdued in 1998. There was only one share flotation, few shares traded, market capitalisation declined and the LuSe Index plunged to a low of 161 by the close of the year from 211 at the beginning of 1998. Poor performance of the capital market was attributed mainly to lack of buoyancy in the domestic economy caused by non-completion of the privatisation of the mining industry and instability in the foreign exchange market.

On a positive note, though, efforts were made during the year to promote and strengthen the development of the capital market. These included the introduction, on the stock exchange, of Government bonds in March 1998 and the designing of a curriculum on capital markets for secondary schools. The syllabus on stock exchanges is expected to be implemented during the 1999 school year. In addition, efforts were made to strengthen the legislative framework governing the rules and regulations of the securities market, by among other things making proposals to harmonise the Securities Act with other complementary laws such as the Companies Act and the Banking and Financial Services Act.

PUBLIC FINANCE

Fiscal Policy

The objective of fiscal policy in 1998 was to maintain the overall fiscal deficit below 3 percent of Gross Domestic Product (GDP). This entailed achieving surplus on the domestic budget amounting to almost 2 percent of GDP. The domestic surplus was intended for retiring domestic debt with a view to freeing financial resources for private sector use both by reducing the cost of credit and by increasing credit availability. In addition, the fiscal stance was aimed at safeguarding and maintaining vital expenditures in the social sectors.

During the year, the budget was executed under tight conditions. Budgetary support from donors was short by 23 percent while the performance of the domestic revenue system was flat. The poor income position was further compounded by cost overruns in some current expenditure. Consequently, the objective of maintaining the overall fiscal deficit at 3 percent of GDP was not attained. The share of the domestic budget surplus in GDP reduced from 1.2 percent of GDP.

Despite the above, however, Government made efforts to crowd-in the private sector. In order to avail affordable credit to the productive sectors of the economy. Government implemented a policy of redeeming its domestic debt, including arrears. As a result, the stock of domestic debt comprising treasury bills and bonds was reduced by almost K100 billion from K303 billion as at end of 1997. At the same time, Government increased its payment of outstanding bills and arrears resulting in cost overruns of K55 billion on the arrears vote. While debt retirement was financed principally from revenue reserves accumulated over the past, arrears were paid from current revenues.

EXTERNAL SECTOR DEVELOPMENTS

The balance of Payments

The balance of payments continued to be in a precarious state in 1998. Exports and imports declined. Consequently, the current account deficit widened further. Due to dwindling financial and capital inflows, the ensuing external gap had to be financed largely by a significant draw down of foreign exchange reserves.

The value of exports of goods and services in 1998 declined significantly by about 25 percent. A combination of reduced metal export volume and prices of both copper and cobalt caused the decline in exports. The volume of copper and cobalt fell by roughly 10 and 14 percent to a tonnage of 270,000 and 4,000, respectively. Combined with the drop in the prices of these commodities on the international market, net earnings from copper and cobalt decreased by more than 30 percent each, from US$650 million and US$245 million in 1997 to an estimated US$430 million and US$157 million in 1998, respectively. Furthermore, due to depressed prices for commodities such as cotton, tobacco, and sugar as well as problems of accessibility to some of the export markets, the robust expansion in the exports of non-traditional goods was slowed down in 1998.

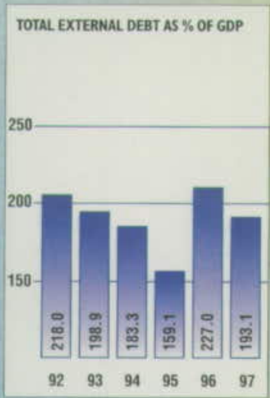
Developments in the merchandise and services trade produced a deficit, on a current account basis excluding grants, of US$501 million in 1998 from a deficit of US$421 million the previous year. At this level, the current account deficit was equivalent to 8.7 and 31.5 percent, of GDP and merchandise exports respectively. In 1997 and 1996, the deficit ratios were 6.1 and 20.1 percent, and 3.7 and 12.4 percent, respectively. These levels are extremely high and point to an increasing resource gap over the past three years.

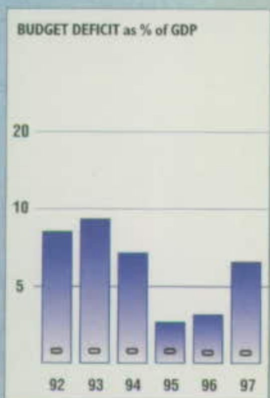
During the year under review, the Government strove to maintain cordial relations with its external cooperating partners. This development cooperation strategy resulted into the holding of a donor's Consultative Group (CG) meeting. The Government also honoured most of its external payments obligations and finalised bilateral debt rescheduling agreements with most Paris Club creditors. Furthermore, a preliminary agreement was reached with the International Monetary Fund (IMF) on a new three-year enhanced Structural Adjustment Facility (ESAF).

On the other hand, most donors continued to provide assistance for capital and social projects during the year. Total project assistance in 1998 increased from US$301 million in 1997 to US$331 million. These resources were expended on infrastuctural and social outlays in the various sectors.

In addition, Government concluded rescheduling agreements under the Naples Terms which with all but one Paris Club members as per the Agreed Minutes of 1996.

Another important development in 1998 was the successful negotiations between the Government and a mission from the IMF towards the close of the year. Based principally on structural issues of privatisation and public service reform as well as on tax policy, the parties reached a preliminary agreement on a new ESAF Programme for the years 1999 through 2001. An ESAF programme is essential mainly for three reasons. It is also a condition for accessing debt relief under the Naples Terms.





Above all, it is a major precondition for accession to the HIPC Debt Initiative.

PRIVATE SECTOR DEVELOPMENT

Privatisation and Parastatal Sector Reform

Government's emphasis in 1998 was to maintain the momentum of the privatisation programme, which started in 1992. During the review year, ten State Owned Enterprises (SOE's) were privatised. These included Intercontinental Hotels in Livingstone and Lusaka and ZCCM's Chambishi Copper Mine, Chambishi Cobalt Plant and the Ndola precious metals plant. In addition several other major companies were in the negotiation stage including the Zambia Forest and Forestry Industries Limited Ndola Lime Limited and ZCCM.

With the privatisation of the ten SOE's in 1998, the cumulative total of SOE's privatised since the inception of the privatisation programme reached 223 by the end of the review year. Out of the 223 SOE's that had been privatised as at the end of 1998, 67 percent had been sold through competitive bids, 16 percent on the basis of pre-emptive rights and 7 percent had been handed back to previous owners. The remainder had been privatised either by public flotation or liquidation.

Investment and Export Promotion

Several investment pledges continued to be made by potential investors. Consequently a total of 138 Investment Certificates valued at US$1.026 billion were issued to potential investors.

In terms of sector direction of the pledges, the majority (47 percent) were for the services sector. The mining and manufacturing sectors accounted for 24 and 11 percent, respectively. The levels of investment pledges in 1998 were significantly higher as a number of large companies bought off under the privatisation programme was undertaking major maintenance and rehabilitation works.

In terms of employment creation, the investment pledges recorded in 1998 were expected to generate a total of 6,052 jobs when the investment commitments are implemented. Although the pledged projects had a higher value of investment (US$1.026 billion), the creation of new jobs was lower than that in 1997. This was because some of the major investments being undertaken by some of the companies such as the Copperbelt Energy Corporation, Hotel Intercontinental Lusaka and Amanita Premium Oils Limited were for rehabilitation. As a result, most companies preserved jobs that were threatened due to lack of capital injection.

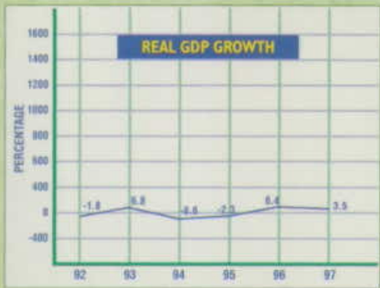
Non-Traditional Exports

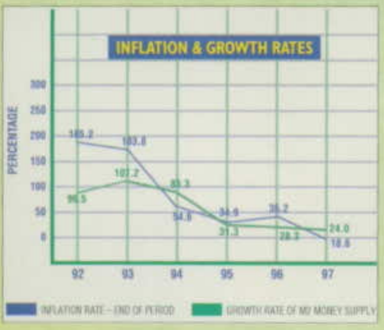
The performance of NTEs in 1998 was adversely affected by the low international prices for most commodities on the international market. This situation was mainly as a result of the Asian economic crisis. The Asian economic crisis caused the reduction in demand for commodities leading to over supply on the world market. Consequently, there was a fall in prices of most commodities including copper, semi-manufactures, tobacco and cotton. To some extent, the civil strife in the Great Lakes Region also affected the performance of NTE's.

As for export markets, South Africa, the Democratic Republic of Congo, India and Germany continued to be the leading markets for NTEs. The South African market was the major one accounting for 18 percent of the total NTEs while those to the Democratic Republic of Congo, Germany and India accounted for 12.8 and 7 percents respectively. Consequently, NTE's increased by only 4.4 percent in 1998 from US$264 million in 1997.

Development Finance

To improve the availability of long term finance in the economy, the Government with support of the World Bank launched the Enterprise Development Fund (EDF) valued at US$45 million. The Fund, which was officially launched in June, has three components namely;





a. The Multipurpose Credit Facility (MFC) of US$40 million consisting of two credit lines of investment and export pre-shipment amounting to US$30 million and US$10 million respectively. Citibank, the apex contractor will manage this facility,
b. The Matching Grant Scheme of US$3.5 million which will be managed by Price Waterhouse Coopers; and
c. A Technical Assistance Package of US$1.1 million which will be administered by the World Bank.

Outlook

The outlook of the Zambian economy is for stronger performance in 1999. The interaction of typical external events and domestic factors pushed the economy into recession with real Gross Domestic Product (GDP) declining by 2 percent in 1998. As conditions in the world economy are expected not to worsen and given that domestic factors affecting the growth potential of the economy area already being actively addressed, a turn-around in economic performance is expected in 1999. Some of the factors that are being addressed include privatisation, infrastructure development, investment and export promotion. It is also expected that the weather factor will be favourable. Growth in GDP is projected at 4 percent while the inflation rate is being targeted to be halved to 15 percent by end-year compared to 30.6 percent at the end of 1998.

The Presidential Housing Initiative has been launched to revive housing construction and enhance home ownership as well as upgrade unplanned settlements. This initiative is expected to greatly contribute to the stimulation of activity in the construction sector. Given that the sector is labour intensive, it is expected that the expansion of the construction sector will lead to employment generation.

The rehabilitation of the core road network under the Road Sector Investment Programme will be stepped-up. The rehabilitation of roads in urban areas is progressing well. In 1999, the programme will include works to rehabilitate and construct feeder roads to support agriculture sector growth and enhance rural development.

These efforts will be complemented by other structural reform measures, such as public service reform, improved framework for energy pricing, continued trade liberalisation including maintaining a free exchange regime. By deregulating the economy, the Government aims at allowing for increased investment and promoting competition in the economy. This is essential for stimulating growth and creating employment. The implementation of programmes under the National Poverty Reduction Action Plan will be speeded up. The overall objective is to enhance the standard of living of the people and reduce poverty which is widespread in the country.

Country Profile – Zimbabwe

HEAD OF STATE
President Robert Mugabe

CAPITAL CITY
Harare

NATIONAL DAY
18 April (1980)

LANGUAGES
English, ChiShona, SiNdebele and Kalanga

CURRENCY
Zimbabwe Dollar (Z$) = 100 cents

AREA
390 757 km²

POPULATION
11.9 million

LITERACY
80%

URBANISATION
31%

LIFE EXPECTANCY
61 years

NATURAL RESOURCES
Asbestos, gold, copper, nickel, tobacco, agricultural products, wildlife

POLICY ENVIRONMENT

Monetary Policy

Monetary policy has remained tight on the backdrop of high money supply growth, inflation and balance of payments difficulties. In response to these problems, the Reserve Bank of Zimbabwe further tightened monetary policy by hiking the statutory reserve requirement ratio for commercial and merchant banks from 25% to 30% with effect from July 22, 1999. It also adjusted interest rates by maintaining the bank rate at 5 percentage points above the effective Treasury bill rate and the repurchase agreement rate (repo rate) at 3 percentage points above the effective treasury bill rate.

There is little scope for relaxing the monetary stance as long as inflation remains high. This implies interest rates will remain high. Inflation was 68.8% in August 1999 while most interest rates are in the region of 55% to 65%.

Fiscal Policy

When the 1999 budget was presented in October last year, the deficit target was set at 6.0% of GDP.

Income tax thresholds were increased and tax bands were widened in the 1999 budget. In addition, the development levy which was calculated as 5% of pay as you earn (P.A.Y.E) was removed and sales tax was reduced from 17.5% to 15%.

The 1999 budget also introduced a number of tax incentives designed to rejuvenate the manufacturing sector whose contribution to GDP has been falling over the past few years.

Privatisation

The privatisation of parastatals has been accelerated under the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST). To date, the Zimbabwe Government has privatised several parastatals which include:

- The Dairy Marketing Board;
- The Cotton Marketing Board;
- Commercial Bank of Zimbabwe; and
- The Zimbabwe Reinsurance Company

Various other parastatals are earmarked for privatisation between now and the year 2001. These will include Post and Telecommunication (PTC), Air Zimbabwe Corporation, Cold Storage Company, Zimbabwe Iron and Steel Company (ZISCO) and the Rainbow Tourism Group.

Macroeconomic performance

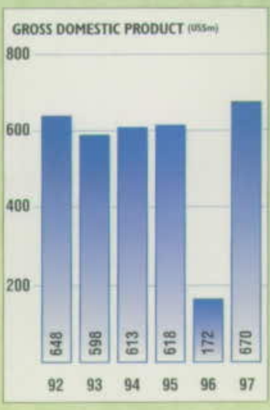
GDP GROWTH RATE

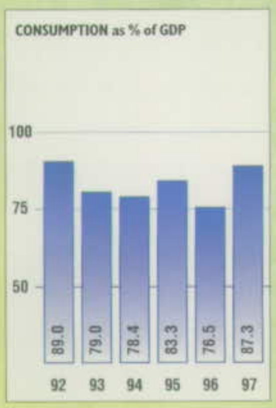
The Zimbabwean economy is forecast to grow by 1.2% in 1999, compared to a growth rate of 1.5% in 1998.

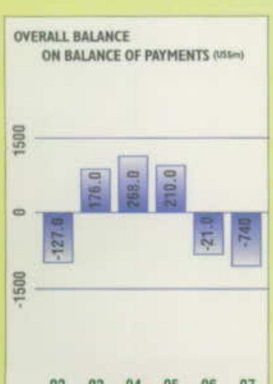
INFLATION

The average inflation for the first eight months of 1999 was 55% compared to 27.5% recorded during the same period in 1998.

The major factors behind the high inflationary trend are:







- High import costs emanating from the depreciation of the dollar
- Inflationary expectations which have become self propelling; and
- Increases in administered prices of fuel and electricity to enable the relevant utility to operate viably after the sharp depreciation of the Zimbabwean dollar.

The high inflation levels that have obtained this far are clear symptoms of an economy which is experiencing serious macroeconomic imbalances. However, the high inflationary trend is forecast to decline during the last quarter of 1999, as measures put in place by Government to stabilise the economy to take effect.

BALANCE OF PAYMENTS

Zimbabwe has been experiencing balance of payments difficulties since November 1997. The major factors behind the balance of payments difficulties were the low development finance inflows, and low prices of gold and tobacco which are the major foreign currency earners for the economy. In addition, the recovery of nickel prices have been sluggish.

Imports, on the other hand, have been somewhat suppressed in 1999 due mainly to the depreciated local currency and the tariff increases effected during the last quarter of 1998.

The current account deficit recorded in 1998 was US$359 million and is forecast to be US$276 million in 1999. The projected improvement in the current account deficit is predicted on decreased import demand mainly due to weak macroeconomic performance and the impact of import demand management measures which were put in place during the last quarter of 1998.

The capital account of the Balance of Payments recorded a small surplus of US$134 million in 1998 due largely to the absence of international financial support and the huge outflows as private firms paid off their short-term debt before maturity. The recent conclusion of a Stand-By Arrangement with the IMF which resulted in the disbursing of US$24 million and US$9.6 million in August and September this year respectively, is expected to significantly improve the capital account. A surplus of US$296 million in the capital account is therefore anticipated for 1999.

The overall balance of payments, after recording a deficit of US$204 million in 1998, is expected to record a small surplus of US$20 million in 1999. As already alluded to, this improvement emanates mainly from import demand management measures and increased capital inflows following approval of a Stand-By Arrangement with the IMF.

EMPLOYMENT AND LABOUR

Total formal sector employment increased marginally by 44 300 jobs in 1998 when employment rose from about 1.32 million in 1997 to 1.37 million in 1998. Most of the growth in employment was registered in the services sectors of the economy namely, Electricity, and Water where employment increased by 12.2% and Finance, Insurance and Real Estate which experienced an increase of 10.6%.

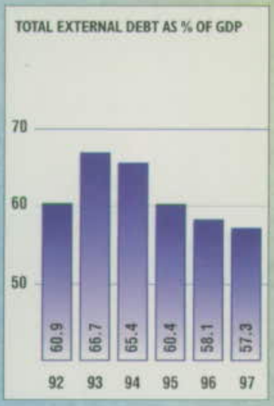
This level of employment creation is far from adequate given the size of Zimbabwe's labour force and net additions to the labour force of about 300 000 annually.

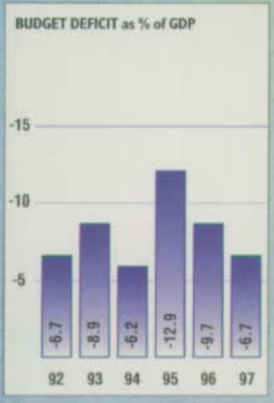
SECTORAL PERFORMANCE

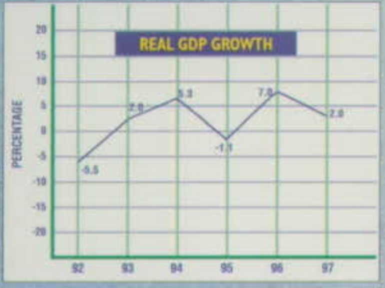
Agriculture

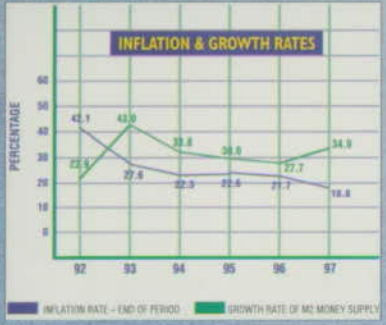
The Agricultural sector is forecast to grow by 3.5% in 1999. This growth is based on the following:

- Above normal rains received during the 1998/99 agricultural season which resulted in increased production of most crops. Maize grew by about 4%, groundnuts by about 92%, horticulture by 24%, sorghum, mhunga and rapolo grew by 31%, 77% and 70% respectively. This growth, however, was offset by reduced ouput in tobacco which declined by 8% while production of soya-beans fell by 4%, sunflower by 41% and cotton by 0.8%.
- Increased livestock production due to a marked improvement in pastures; and









- Opening up of new livestock exports markets.

Manufacturing

The sector is expected to register a growth of 1% in 1999. This growth will hinge on the following:

- achievement of a relatively stable macro-economic environment;
- increased output by those industries with a significant export market as they benefit from the tax incentives introduced in the 1999 budget;
- completion of the refurbishment at Zimbabwe Iron and Steel Company (ZISCO) which is expected to boost production and exports; and
- completion of the new cement factories in Harare and the Midlands province which will boost local production and exports.

Mining

Preliminary forecasts indicate that the mining sector will decline by 1.5%. This decline is due mainly to the following:-

- low prices of most minerals during the first half of 1999;
- closure of the BHP platinum mine and other small mines; and
- weak gold price which characterised the first half of 1999.

Electricity and Water

The sector is forecast to grow by 3%. This growth is predicated on the continued high demand for electricity. At the present moment, ZESA is unable to satisfy domestic demand, hence the need to support.

Construction

The sector is forecast to decline by 1.5% as a result of the following factors:-

- continued suspension of mortgage finance
- increased input costs in the industry; and
- closure of the Lonrho Construction Company in the Midlands, which has led to the loss of about 3 000 jobs.

Finance and Insurance

The sector is forecast to grow by 3%. This is predicated on the following:-

- strengthening of bank supervision through the recently introduced new RBZ and Banking Acts; and
- the positive impact of the demutualisation exercise by Old Mutual.

Transport and Communications

The sector is expected to grow by 2% as a result of the strong upward trend in the cell phone business and clearance of the backlog of telephone applications at the PTC expands its activities in this area. In addition, the recently commission 350km Beitbridge-Bulawayo railway is going to contribute positively to the growth of the sector.

Outlook for the Year 1999/2000

Economic performance during the year 2000 will depend on the following major factors:-

- rainfall pattern and the performance of the agricultural sector during the 1999/2000 season;
- outcome of the macroeconomic stabilisation programme which is currently being implemented.
- Impending conclusion of the SADC Trade Protocol which will give the rules for trading in the region; and
- Regional and global economic performance.

Preliminary indications however, show that the Zimbabwean economy is poised to recover during the year 2000 and grow by 3.3%. This recovery will be underpinned by the stabilisation programme which is being implemented by Government. The major objectives of the programme are to restore confidence, bring inflation under control, stabilise the exchange rate, rebuild international reserves and achieve high economic growth and development.

Achievements and Sectoral Developments

SADC has made remarkable progress in spearheading the integration agenda since 1993 when the Treaty came into force. However, more could have been done, notwithstanding the fact that it requires a lifetime process to ultimately realise a fully integrated region, resulting from hard work, careful planning and irreversible political commitment by all participating countries.

A relatively homogeneous macro-policy framework in the Region represents another important decisive factor in facilitating the region's integration. Almost all Member States have embraced democracy as the best political system of ensuring good governance. The management of Member States' economies according to market forces has been accepted as a general principle. This has brought about an important supportive global environment for the integration process.

Outside the formal structures of SADC, and in keeping with the objective of ensuring that the Community involves all stakeholders, some progress has been made. For instance, a regional NGO body, the SADC Council of non-Governmental Organisations (SADC-CNGO), with the main task of mobilising and harmonising NGO input to SADC efforts, has been established. The Southern African Regional Police Chiefs Cooperation Organisation (SARPCO) was established to promote cooperation in combating cross-border crime and is fully operational. There are also several regional organisations of a similar nature including private sector organisations such as the Association of SADC National Chambers of Commerce and Industry (ASNCCI) and the South African Enterprise Network (SAEN). The SADC Parliamentary Forum was also established to ensure that the National Legislative Assemblies are kept abreast of the activities being implemented in SADC.

Visiting British Members of Parliament being briefed by SADC Deputy Executive Secretary Dr Prega Ramsamy (left) and SADC head of Gender Unit, Dr Athalia Molokomme (second left) at the SADC Secretriat in October.

ENERGY

The Energy Protocol entered into force on 17 April 1998 after attaining the required number of ratifications. Central to this Protocol is the need for a coordinated approach to energy strategy formulation and planning in the region, with a view to promote the harmonious development of national energy policies and matters of common interest for the balanced and equitable development of energy resources throughout the region. This Protocol, together with the SADC Energy Cooperation Policy and Strategy, and the Energy Sector Action Plan, provide the policy framework for co-operation in energy matters in the region. An Energy Sector Activity Plan will be developed shortly to translate the broad policy framework into concrete, practical and implementable actions.

The need to supply cheap and reliable energy, to meet the region's growing energy demands, was the key factor that nudged regional co-operation in the area of electric power. The plan to set up the Southern African Power Pool (SAPP) at regional level is dated back to 1984 although it only began its operations in 1996. Building on the spirit of SADC, Member States agreed to strengthen regional co-operation in order to co-ordinate and co-operate in the planning and operations of

SADC Project Financing Status by Sector (US$ million) – 1998/99

		Estimated Cost						Funding Status				
Areas of Co-operation	**No**	**Total**	**Foreign**	**%**	**Local**	**%**	**Secured**	**%**	**Under Neg.**	**%**	**Gap**	**%**
Food, Agriculture and Natural Resources	76	488.26	445.88	91.30	42.46	8.70	278.95	55.49	–	–	188.10	38.52
1. Agricultural Research & Training	15	122.41	96.42	78.77	25.99	21.23	78.77	64.35	–	–	43.64	35.65
2. Inland Fisheries	9	54.41	52.64	96.75	1.77	3.25	27.29	50.16	0.75	1.38	26.37	48.47
3. Forestry	13	103.14	97.32	94.36	5.82	5.64	43.00	41.69	22.26	1.31	37.88	36.73
4. Wildlife	10	91.70	90.73	98.94	0.97	1.06	77.89	84.94	–	–	13.81	15.06
5. Food Security	11	69.56	62.97	90.53	6.59	9.47	24.18	34.76	–	–	45.38	65.24
6. Livestock Production & Animal Disease	12	8.33	7.01	84.15	1.32	15.85	2.10	25.21	3.70	44.42	2.53	30.37
7. Marine Fisheries and Resources	6	38.71	38.71	100.00	–	–	17.72	45.78	2.50	6.46	18.49	47.77
Mining	36	18.16	12.54	69.05	5.62	30.95	11.83	65.14	–	–	6.33	34.86
Water	2	27.83	23.89	85.84	3.94	14.16	11.88	42.69	0.11	0.40	15.84	56.92
Industry and Trade	7	9.97	9.96	99.90	0.01	0.10	0.98	9.83	4.13	41.42	4.86	48.75
Energy	41	603.92	566.42	93.79	37.50	6.21	382.28	63.30	28.68	4.75	192.96	31.95
Tourism	11	4.96	4.21	84.88	0.75	15.12	2.95	59.48	–	–	2.01	40.52
Transport and Communications	174	6 474.40	5 528.10	85.38	946.30	14.62	2 991.70	46.21	550.90	8.51	2 931.80	45.28
Finance and Investment	1	0.40	0.40	100.00	–	–	0.38	95.50	–	–	–	–
Human Resources Development	16	44.76	44.76	100.00	–	–	16.27	36.35	1.50	3.35	26.99	60.30
Environment and Land Management	7	7.80	6.55	83.97	1.25	16.03	2.03	26.03	3.70	47.44	2.07	26.54
Culture and Information	7	15.90	15.90	100.00	–	–	4.95	31.13	–	–	10.95	68.87
Grand Total	378	7 696.36	6 658.53	86.52	1 037.83	13.48	3 696.20	48.03	618.23	8.03	3 381.93	43.94

Notes: 1) The column "secured" includes both local and foreign resources

2) The column "negotiation" refers to resources for which there is a clearly identified funding source and a high probability of concluding a f unding agreement within a specified period

3) Environment and land management is no longer included in FANR sector

SADC Project Financing Status by Sector (Percentages) – 1998/99

		Estimated Cost						Funding Status				
Areas of Co-operation	**No**	**Total**	**Foreign**	**%**	**Local**	**%**	**Secured**	**%**	**Under Neg.**	**%**	**Gap**	**%**
Food, Agriculture and Natural Resources	20.11	6.34	6.70		4.09		7.33		–		5.56	
1. Agricultural Research & Training	3.97	1.59	1.45		2.50		2.13		–		1.29	
2. Inland Fisheries	2.38	0.71	0.79		0.17		0.74		–		0.78	
3. Forestry	3.44	1.34	1.46		0.56		1.16		–		1.12	
4. Wildlife	2.65	1.19	1.36		0.09		2.11		–		0.41	
5. Food Security	2.91	0.90	0.95		0.63		0.65		–		1.34	
6. Livestock Production & Animal Disease	3.17	0.11	0.11		0.13		0.06		–		0.07	
7. Marine Fisheries and Resources	1.59	0.50	0.58		–		–		–		0.55	
Mining	9.52	0.24	0.19		0.54		0.32		–		0.19	
Water	0.53	0.36	0.36		0.38		0.32		–		0.47	
Industry and Trade	1.85	0.13	0.15		0.00		0.03		0.67		0.14	
Energy	10.85	7.85	8.51		3.61		10.34		4.64		5.71	
Tourism	2.91	0.06	0.06		0.07		0.08		–		0.06	
Transport and Communications	46.03	84.12	83.02		91.18		80.94		89.11		86.69	
Finance and Investment	0.26	–	–		–		0.01		–		–	
Human Resources Development	4.23	0.58	0.67		–		0.44		–		0.80	
Environment and Land Management	1.85	0.10	0.10		–		0.05		–		0.06	
Culture and Information	1.85	0.21	0.24		–		0.13		–		0.32	
Grand Total	100.00	100.00	100.00		100.00		100.00		100.00		100.00	

Notes: 1) The column "secured" includes both local and foreign resources

2) The column "negotiation" refers to resources for which there is a clearly identified funding source and a high probability of concluding a f unding agreement within a specified period

3) Environment and land management is no longer included in FANR sector

electric power systems. The idea behind this was to rationalise the use of existing systems, to optimise water resources utilisation, to minimise investments as well as production and operating costs, to minimise losses in generation and transmission systems, thus improving the reliability and safety of the respective systems.

Benefits arising from the creation of SAPP are already evident. Utilities in the region are already co-operating in the joint planning of projects and studies, including the joint sharing of knowledge in areas such as technology and statistics. There has been an acceleration in inter-utility training of personnel in disciplines such as management, finance, technology and system operation. In addition, specialist expertise is now being shared between signatories of the SAPP.

Moreover, substantial resources are being saved through the postponement or shelving of investments that would have otherwise been made by individual utilities. The interconnection of electricity grids is a significant step towards a unified regional market, allowing producers to reap substantial benefits by drawing on other Member State surpluses. At the same time, low production costs will also increase the competitiveness of regional producers and can therefore play an important role in increasing intra and extra-regional trade, and attracting foreign investment.

SAPP will benefit consumers directly through lower prices for their domestic electricity requirements, and indirectly through lower prices of regional products for which electricity represents an input. Thus, SAPP stands as a classical example of the benefits of integration which Member States have successfully taken advantage of.

1999 SADC Day Commemorative stamp issued by Angola and Botswana.

ENVIRONMENT AND LAND MANAGEMENT

Environmental issues and concerns in the SADC region cannot be delimited by political borders. This is attested by, for example, the problems of desertification, pollution, and wildlife migration. Actions to address such issues are most effective when carried out in a co-ordinated manner by all affected countries. Several sectors in SADC also have a mandate for the conservation and management of natural resources. Given SADC's development goal, however, most, if not all of the remaining sectors also have a stake in the environment, in one way or another they affect the environment, or are affected by environmental processes or actions.

It is against this background that the SADC Environment and Land Management Sector (SADC-ELMS) is promoting the adoption of an integrated cross-sectoral approach to environment and sustainable development. In this regard, the Sector formulated in consultation with Member States, other SADC Sectors and relevant stakeholders, a "SADC Policy and Strategy for Environment and Sustainable Development". This document which was approved by Council in August 1996, draws on existing environment and natural resources policies and strategies in member States, and takes cognisance of the experiences and mandates of other sectors. The formulation of SADC-wide environmental policy goals was guided by international Conventions such as Agenda 21, the Convention to Combat Desertification, the

Biodiversity Convention as well the SADC Treaty, in particular Article 5 (g) which calls for the sustainable utilisation of natural resources and efficient protection of the environment.

To put practical effect to the policy framework, SADC-ELMS has initiated a number of projects intended to bring enlightenment, knowledge and alertness about environmental conditions in Member States. Some of these projects are specifically designed to address the environmental problems that are already being experienced. A case in point is the Sub-Regional Action Programme to Combat Desertification, together with the National Action Plans that SADC-ELMS has assisted Member States to develop.

The Charter will also provide a solid regional basis for the implementation of international environment related Conventions, most of which SADC Member States are parties to. In short, the Charter will represent a regional expression of global environmental agendas, and will also become a vehicle through which these agendas could be implemented. Specific Protocols covering other regional environmental issues are either in the process of being developed or in the pipeline.

Due to the all-encompassing nature of environment, the stakeholders are many and varied, ranging from governments of Member States to the public at large. The Sector has registered great success in involving the key stakeholders in its activities and building strong partnerships with NGO's. The key stakeholders include environmental policy makers, national environment co-ordination institutions, research and training institutions, international co-operating partners, and the resource users themselves. The challenge is to now seek greater dialogue and involvement by the business/industry sector on issues of pollution control and waste disposal.

Meeting of the SADC Mine Action Committee held at the Secretariat in Gaborone, Botswana, last June.

FINANCE AND INVESTMENT

In the Finance and Investment Sector, a number of policy changes and economic reforms have moved the region to deeper integration. The region is implementing economic policies that are meant to maintain macroeconomic stability, low rates of inflation and low budget deficits.

Most of the member States are implementing indirect monetary policies and have liberalised exchange controls quite substantially. All Member states have liberalised their current accounts. Controls remain on the capital account in the majority of Member States except for Botswana, Malawi, Mauritius and Zambia who have no exchange controls any more. For those countries still having exchange controls on the capital account, higher limits for regional cross border capital remittance than those to the rest of the world have been introduced. For example South African investors can remit up to R250 million for regional investment while for the rest of the world the limit is R50 million. Due to this higher limit for SADC, the region has experienced an increase in intra-SADC investments.

Following up on this, the Central Banks in the region have developed a network in information technology, which enables them to exchange information instantly and they have an interactive website. The Central Banks are also in the process of introducing electronic payments and settlement systems in the region. SADC Central Banks are already sharing training facilities in their effort to enhance capacity in central banking and bank supervision. The

South African Reserve Bank Training institute and the Tanzania Central Bank Training Centre are providing the much needed facilities for training.

The Stock Exchanges in the region are also being networked and are harmonising policies, legislation and regulatory frameworks to allow cross listing in the region. Listing requirements have already been harmonised and more activity is expected on the region's Stock Exchanges.

With regard to investment, the SADC investment promotion agencies are working on the establishment of a network for exchange of information with the objective of promoting the whole region as viable investment destination. The development finance institutions are at the same time trying to find ways of mobilising regional resources for co-financing investments in the region.

Food Agriculture and Natural Resources Sector

This Sector remains the backbone of most economies in the region with 70 – 80 percent of the region's population and labour force still dependent on agriculture for subsistence, employment and income. As the region proceeds with industrialisation, agriculture is crucial in providing raw material and purchasing power, which facilitates this transformation. The issues of increasing production and productivity as well as intra-regional trade are important. More recently, the issues receiving increasing attention include, emphasis on household food security and regional food security based on trade instead of national food self-sufficiency; promotion of long term sustainability rather than emphasising output; encouraging private sector and individual participation rather than government; and promotion of diversification particularly in semi-arid areas.

In the area of natural resources, the main issues of concern are those of managing and conserving the exploitable natural resources in a sustainable manner. For instance, Zimbabwe introduced a Campfire programme where the proceeds from the sale of wildlife products from a particular community are ploughed back to conserve and manage wildlife. SADC co-operation in environment protection is also evident in its approach to trade in elephant products, fisheries and forestry products. The sale of elephant ivory stocks by Botswana, Namibia and Zimbabwe this year demonstrate the solidarity and strength of regional co-operation. The Protocol on Wildlife Conservation and Law Enforcement, which is ready for consideration by Council at this session, will go a long way towards addressing concerns on common approaches to the conservation and sustainable use of wildlife resources.

Although Protocols in the other FANR Sectors are still being developed, regional co-operation and integration is already taking place. To date, several programmes have been developed and are demonstrating the benefits of regional co-operation. One of these is the "Regional Early Warning System". This programme has made significant progress in the collection and analysis of information, and the compilation of regular national and regional food security bulletins. The "Remote Sensing" component of it has strengthened the regional capabilities in the area of remote sensing for early warning and food security.

The Food Security Training Programme is another programme involved in capacity building for the region. The programme is using existing training centres to support and strengthen training and human resource development at the national and regional levels. Three main kinds of programme have been carried out: high level seminars to identify training needs and ensure the relevance of the programme as a whole; technical training courses designed to provide key skills and competencies; training of trainers programmes. The programme has demonstrated that the region can build capacity in a cost-effective manner.

Other programmes with regional benefits emanating from regional co-operation include the Vaccine Production and Immunisation in the Livestock Sector, the Assessment of the Marine Fisheries Resources of the SADC Region (BENEFIT) in the Marine Fisheries Sector, and the Tree Seed Centres Network in the Forestry Sector, Regional Fisheries Training in the Inland Fisheries Sector and the various networks (e.g. Southern African Root Crops Network) in the Agricultural Research and Training Sector.

MINING

The Mining Protocol which was signed in September 1997, provides for the harmonisation of national and regional policies, strategies and programmes related to the development and exploitation of mineral resources in the SADC region. The ultimate objective is to promote the interdependence and integration of the region's mining policies for the accelerated development and growth of the sector with a view to achieving competitiveness and increasing SADC's share in international mineral markets. The Protocol has now been ratified by six Member States.

The major minerals SADC supplies to the world's mineral markets include asbestos, chromite, coal, cobalt, copper, diamond, gold, nickel, the platinum group of metals and zinc. The sector is in the process of organising an investment forum which is scheduled to take place in December 1999. An earlier forum organised in 1994, was a great success and attracted close to 150 potential investors from Europe and North America

The major challenge facing the region is to investigate ways and means of adding value to the region's minerals in order to enhance competitiveness, increase SADC's share in international mineral markets and hence maximise foreign exchange returns. In this regard, the sector is due to undertake, with financial assistance from the SADC Secretariat, and Analysis of Opportunities for Value Addition to Minerals.

The Protocol on mining calls for broad stakeholder participation in the process of community building. In this regard, commendable progress has been made. The region's mining companies have come together and established the Mining Industry Association of Southern Africa (MIASA). MIASA is now fully operational and actively participating in the implementation of some of the activities contained in the Mining Programme of Action. An organisation of Women in Mining has also been established and attended the last meeting of the SADC Committee of Mining Ministers.

Since 1994, the Mining sector has restructured the management of its Programme of Action through the establishment of sub-committees. This has not only enabled the sector to broaden participation by involving the main stakeholders, but also to ensure that the implementation of the programme is undertaken largely through the use of the region's own resources in the form of expertise and finances. This represents a sustainable approach to regional integration and should be replicated by other sectors.

TRADE

The progress made on the negotiations for tariff reduction schedules, in the context of the Trade Negotiating Forum, should now make it easier for us to forge ahead with the implementation of the Trade Protocol. The outstanding technical issues such as the rules of origin are very important but we should not allow them to slow down or unnecessarily delay the implementation of the Protocol by becoming themselves non-tariff barriers. It is also estimated that 70 percent of goods (in value) traded within SADC attract less than 10 percent tariffs, leaving only 30 percent of the goods at tariffs above 10 percent. Member states need to expedite ratification of the protocol for us to move with speed on freeing all goods traded in SADC and thereby creating a SADC Free Trade Area.

The creation of a Free Trade Area will bring to the region increased benefits not only in terms of intra-regional trade, but also in terms of attracting foreign direct investment as foreign investors view the region as a viable market for investment. The more delay in implementing the Free Trade Area, the more we are likely to lose on attracting new investments and new technologies. With the progress achieved so far there is no reason whatsoever why we cannot achieve the implementation of the Free Trade Area as scheduled by January 2000.

TRANSPORT

The Transport, Communications and Meteorology Protocol entered into force on 6th July 1998. The SADC Member States have taken up the challenge to develop and provide an efficient, cost effective and well-integrated transport and communications network that will facilitate the smooth flow of goods, persons and information across borders. For example all relevant stakeholders are being encouraged to establish Corridor Planning Committees (CPCs), in order to improve operational efficiency.

In addition, the Ministers of Transport and Communication have approved three annexes for incorporation in the Protocol. These are "Common Definition of SADC Regional Trunk Routes and Common Route Numbers " (Annex 1); "Harmonised Codes and format for Driving Licences" (Annex 2); and "Establishment and Management of the SADC Permanent Mission to ICAO" (Annex 3). Member States need to implement these annexes, in the interest of accelerated regional integration and economic development, through processes of national ratification and legislation reform where required.

The SATCC-TU, in assisting Member States to conform to the principles enshrined in the Protocol, have developed "Model Legislative Provisions" (MLPs) and "Model Agreements" (MAs). The MLPs are investment in Transport; Roads Network Financing and Management; Commercial Port Restructuring and Regulation; Maritime and Inland Waterway Authority; Provisions of Air Services, Airports and Air Traffic and Navigation Services; and Civil Aviation Authority. The MAs are Regulation of Cross-Boarder Road Freight and Passenger Transport in preparing bilateral and multilateral agreements. These tools have been developed to assist Member States to develop and improve their national legislation.

The projects that have recently been completed include the Trans-Kalahari and Trans-Caprivi highways. The routes have started to make an impact on cross border travel on people, goods and services. However, still more interconnections need to be established, including links to Angola with Zambia by road and the rehabilitation of the road link between Angola and Namibia.

The transformation of the traditional transport corridors into Spatial Development Corridors represents a landmark achievement for SADC's long term development. These Development Corridors like Maputo, Walvis Bay, Tazara, Nacala and Lobomba, can generate sustainable economic growth to the presently underdeveloped areas of the region.

Railways in the SADC region are mostly operated on a corridor basis and networks are in fairly good condition and interconnected. Very important projects are being implemented, including track condition assessment and stabilisation, rolling stock management information systems, joint marketing and operational improvement, standardisation and training of personnel. Member States are looking to the private sector to provide the needed investment for the railway system rehabilitation and concession arrangements are being pursued or investigated.

The Telecommunications sub-sector has undertaken the upgrading and linking of the SADC Member States through a network of terrestrial and satellite systems. This has facilitated direct routing of telecommunications traffic between Member States. In addition, regional coordination and cooperation is being strengthened through the transformation of the Southern African Telecommunications Association (SATA) into an industry association and the formation of the Telecommunications Regulators Association of Southern Africa (TRASA).

Air transport infrastructure is nearly adequate at present, and is in the process of being improved. Institutional reform is well under way in the sub-sector, and a regional integrated air traffic safety is under development. Entry into the air transport services market is in the early stages of liberalisation.

WATER

The Protocol on Shared Watercourse Systems, the first ever sectoral legal instrument to be developed in SADC, came into force on 28 September 1998. The signing of the Protocol in 1995 and the establishment of a new SADC Sector on Water in 1996, represent a clear recognition by SADC of the importance of water and the need for an integrated approach to the development and management of water resources in the region.

In the context of Southern Africa, sustainable socio-economic development – and indeed life – begins with water. Water does not only occupy a strategic position in the upliftment of the quality of life in individual Member States, but also in the collective efforts for development through regional integration.

It has been recognised that given the increasing competition for the use of these trans-boundary waters, the absence of balanced cross-boundary and cross-sectoral integration of water use, riparian countries may easily get into conflicts. A daunting challenge for the region is to ensure equitable utilisation of the scarce water resources, not only between Member States, but also between communities in individual countries and the various contestants such as agriculture, energy, industry, the environment and people, especially the poor segments of our societies.

The Protocol on Shared Watercourse Systems sets out rights and obligations of Member States in respect of the shared waters. Water Resources technical experts, assisted by legal advisors have been working hard on reaching consensus on amendments to the Protocol to ensure that each contestant to this common resource gets a fair share, in terms of quantity and quality. It is heartening to note that consensus has now been reached, a Draft Amendment Protocol has been developed and will be presented for signature by the Summit in August next year.

With regards to constituency mobilisation and popular participation in the formulation of policies and programmes, the Water Sector is perhaps the best example that should be followed by others. Through the Round Table process, the "Regional Strategic Action Plan (RSAP) for Integrated Water Resources Development and Management" was developed with inputs from a wide range of stakeholders. The initial inputs were obtained from Country Situation Reports prepared by national consultants after due consultations with relevant stakeholders in the respective Member States. The Draft RSAP was then subjected to various meetings and workshops involving all the major stakeholders. Following the Round Table Conference which was held in Geneva, Switzerland, in December 1998, a Water Strategy Reference Group was established comprising the SADC Secretariat, the Water Sector Coordinating Unit, UNDP, the World Bank, the Global Water Partnership, the African Development Bank, the Development Bank of Southern Africa, IUCN, USAID and SIDA.

President Festus Mogae of Botswana being welcomed by the U.S. Under Secretary for Economics, Business and Agricultural Affairs, Mr Stuart E Eizenstat to the SADC/US Forum held in Gaborone in April 1999. The welcoming party included Botswana's Foreign Minister Lt Gen Mompati Merafhe and U.S. ambassador to Botswana Robert Krueger who is also U.S. Special Representative to SADC.

This group is representative of bilateral and multilateral agencies, the private sector and NGOs. Its task is to follow-up on the implementation of the Round Table Conference and to act as a think tank on the way forward. This Reference Group represents a unique long term partnership between the Water Sector and Co-operating Partners, an innovation that should be emulated by other sectors.

SADC Secretariat-Private Sector Co-operation

The SADC Secretariat recognises the importance of private sector participation in community building. Following economic reforms that have taken place in the region, the private sector is now regarded as the engine to drive the development process in this region. Currently, SADC Secretariat is working with two private sector organisations recently launched namely, the Association of the SADC National Chambers of Commerce and Industry and the Southern African Enterprise Network as well as national Apex Chambers of Commerce and Industry. All these private sector organisations seek to increase their participation in the regional economic process in Southern Africa to encourage a faster and more practical move towards a unified Southern African regional market.

Changing the Focus – the Way Forward

Achievements of the past few years notwithstanding, we should still endeavour to shift the SADC integration agenda into top gear. Attitudes, procedures and approaches that have proven to be obstacles to regional integration should be quickly identified and rectified. The aim is to faithfully pursue the objectives of SADC's integration mission, as agreed upon in the SADC Treaty. For this to happen, SADC must be creative enough to overcome those elements inherited from the "Conference" which do not serve the integration agenda.

As the Secretariat focuses more on strategic planning and management of the overall process towards building the Community, it is important that in all SADC structures and at national level, there is collective leadership in implementing regional programmes utilising as much as possible the region's own resources in terms of finance, expertise and institutions. There is, therefore, need for more concerted actions than words.

Protocols: Tools for Deepening Regional Integration

In previous sections, SADC's progress in terms of the negotiation and finalisation of protocols in various areas has been highlighted. However, the protocols do not represent an end in themselves, but rather the beginning of our efforts towards integration. In other words, Protocols are a necessary but by no means sufficient condition for regional integration. It must be stressed that the full ratification of protocols is an absolute necessity to enable their implementation in order that individual member states and the region as a whole can begin to reap the benefits of integration.

For the protocols to be seen as meaningful and beneficial, it is crucial that in the process of negotiation, we must ensure that the interests of each and every Member State are taken on board and that the end product represents the collective aspirations of the region. It is only in this way that we ensure a balanced development of the whole region. In other words, at all times, we should seek to establish a symbiotic relationship which will result in win-win situations.

Participation of Stakeholders

Participation of stakeholders in the integration process is critical for ensuring that the regional populace is in tune with the aims and objectives of regional integration so that they can contribute positively to the process. Each Member State has to steadily promote the participation of stakeholders including labour and the private sector in SADC initiatives and activities. This is the best way to effectively disseminate information about the integration agenda to those who make integration happen in everyday life and everyday economic activity. In recent years stakeholders have begun to take part in the activities of SADC but more participation and policy and programme formulation is required in order to ensure that the programmes we are implementing directly address the needs at grass root level.

INFORMATION TECHNOLOGY

Information technology remains critical to our regional integration process. SADC should facilitate information sharing through technology. SADC should also provide electronic communication tools to facilitate collaboration among Member States and the international community at large. As long as regional infrastructure are poor the region will not benefit from information technology.

The other issue that has pre-occupied the region as it enters the next millennium is the Y2K problem. Efforts have been made by SADC to assist with the co-ordination of Member States to ensure that the region is not caught up with the problem. Several meetings of SADC National Y2K Co-ordinators have been held to exchange views and share ideas on addressing the problem. These are welcome initiatives but Member States need to allocate more resources to this issue particularly on contingency planning since there is very little time to look at all systems.

It is important to note that the Secretariat has also undertaken an independent assessment on the region's state of preparedness particularly on critical sectors (transport, utilities, and finance). The results were encouraging except for pockets of problems here and there. The strategy is to embark on contingency planning workshops to build Member States' capacity to develop their contingency plans.

STATISTICS

There has been considerable progress made in the harmonisation of regional statistics through the SADC Statistics Committee. In particular, progress has been registered on the harmonisation of the national account statistics, census and the cost of living (inflation) statistics. An agreement has been signed with EU on the SADC Statistical Training project, which is intended to not only train producers of statistics but also users. Of course there are other statistical areas where the region still has to venture into. These efforts are as a result of the commitment shown by the SADC Member States.

Member States have to double their efforts in producing timely data especially when there is a wide array of statistical information within and outside the region which at times portray a bad image of the region. This does not augur well, the more so that the true picture is known. Information dissemination preferably through the Internet and Intranet should be given priority notwithstanding statistical development. Demographic and social indicators should also be given priority since they explain the characteristics of a population and achievements in human development. Economic indicators, though important, can be misleading at times especially if not properly understood and interpreted.

DRUG CONTROL

Illicit drugs are increasingly being produced, trafficked and abused in the SADC region. National and international seizure and abuse statistics give very clear indications that the current efforts to combat the scourge are not enough to stop it from hampering the social and economic development of the region.

The SADC endeavour to combat illicit drugs has, however, made significant progress during the last six months. First of all because the SADC drug control protocol has entered into force and from now on provides the basis for all future projects and programmes of which the SADC Regional Drug Control Programme (SRDCP) is the most important. The institutional framework for the SRDCP has also been established in the form of the SADC Drug

Control Committee (SDCC) which started to work in March 1999.

Furthermore, close co-operation has been established with international and regional organisations such as United Nations Office for Drug Control and Crime Prevention (ODCCP) as well as SARPCCO to ensure that respective organisations' activities complement each other and that the scarce resources available are fully utilised.

CONCLUSIONS

There is no doubt that whatever SADC has achieved since its transformation from a Co-ordinating Conference to a Development Community, came as a result of tremendous sacrifice from Member States. As indicated in this report, SADC is in the right path. What is needed is for Member States to continue putting in additional resources into the integration efforts. If Member States do not put in additional resources, it will not be possible to turn the current vicious circle of poverty into a virtuous circle of prosperity.

There is an urgent need to invest in human resources as well as the social services. This implies stepping up of expenditure on education and health.

It is crucial that in charting the way forward with our integration agenda we should reach agreement on a concrete timeframe, so as to make our programme for change manageable and easy to monitor. This will give us a yardstick to judge in which areas we have been successful and where we are lagging behind. This is particularly important as we conclude protocols in the various areas of co-operation.

In spite of the ongoing conflicts in Angola and the DRC, and the decline in the performance of the economies, the SADC Region is headed for greater regional integration. Measures adopted in the past are beginning to yield positive results especially in the Energy, Mining, Transport and Communications Sectors. We should keep our minds focused on our shared goal of achieving a deeply integrated community in Southern Africa. Therefore, we should not be complacent.

Mozambican children entertaining guests during the 1999 SADC Day Celebrations in Maputo.

SADC Information Officer, Mrs. Petronilla Ndebele (from left) with SADC regional secondary schools essay competition finalists, third prize winner Titus Preston (Botswana); first prize winner Oratile Mmualefe (Botswana) and second prize winner Rebecca Davis (South Africa) at the 1999 SADC Day celebrations in Maputo, Mozambique

If SADC is to make a dent in poverty and create gainful employment, there is need for the region to grow on average by more than 6 percent per annum. This has been clearly demonstrated in a recent study by the ECA.

Although many SADC Member States have undergone economic reform programmes there has been limited growth mainly because the promised financial assistance from Co-operating Partners was not forthcoming. In other words there was not a concomitant flow of foreign resources following the economic reforms at the reforming country level. Investment capital was lacking. As a result there was not a corresponding improvement in infrastructure especially in Agriculture where pre and post-harvest losses are as high as 20 percent in some Member States.

Agriculture continues to show signs of further recovery in 1999 – on account of good weather and improved availability of inputs and credit. The medium term prospects are dimmed by the sharp downturn to 1.7 per cent GDP growth. There will be need to control inflation especially in Zimbabwe and Zambia and, to some extent, South Africa where domestic financial cost push pressures have been rising. In addition, there is need to resolve the on-going armed conflicts in Angola and the DRC to boost chances of economic recovery. Inflation is likely to surge and balance of payment problems to intensify unless sufficient debt relief is provided to Tanzania, Zambia, Mozambique, Zimbabwe and Malawi.

President Festus Mogae of Botswana officially opening the SADC/EU Conference on "Strengthening and Consolidating Democracy in SADC through the Electoral Process". Seated are SADC Executive Secretary, Dr. Kaire Mbuende (left) and Ambassador Harald Ganns, Special Envoy for EU Presidency (Germany).

SADC Council of Ministers in session in Maputo, Mozambique. From left: SADC Executive Secretary, Dr. Kaire Mbuende; South African Minister of Foreign Affairs and Chairperson of Council, Dr. Nkosazana Dlamini-Zuma; Mozambican Prime Minister, Pascoal Mocumbi; and Mozambican Minister of Foreign Affairs and Cooperation Mr. Leornado Simao.

Tanzanian Foreign Minister, Jakaya Kikwete presenting a prize to one of the SADC essay winners during the 1999 SADC Day commemoration in Dar Es Salaam, Tanzania.

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