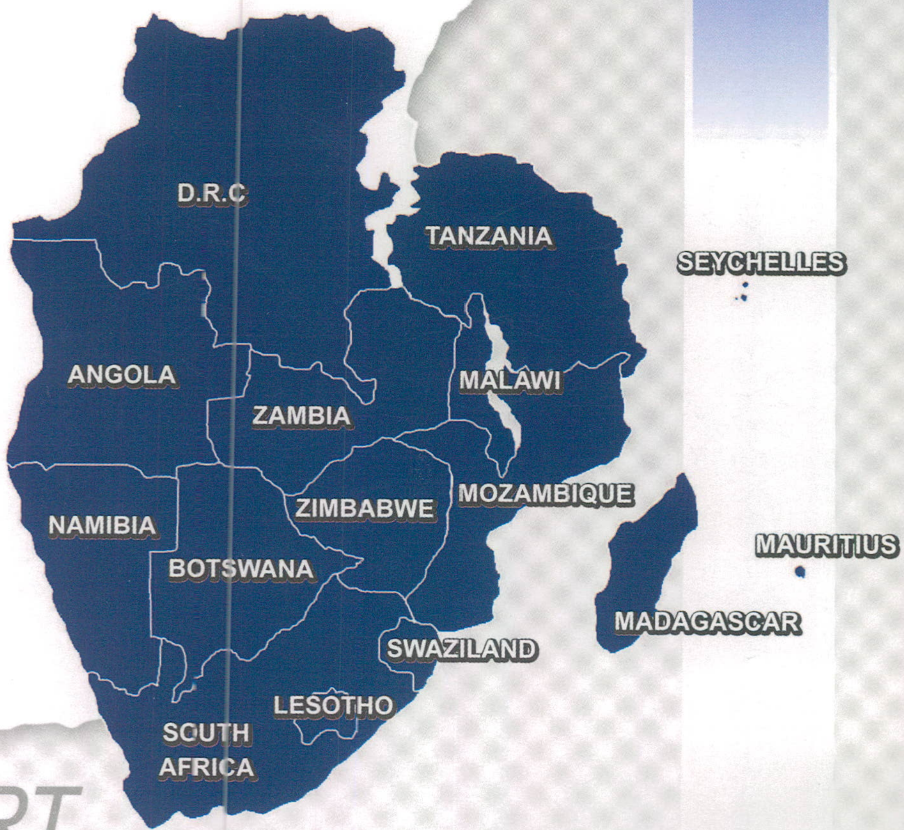
SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

SADC

TOWARDS A COMMON FUTURE




# ANNUAL REPORT 2006/07

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# SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
# (SADC)

## 2006/7 SADC ANNUAL REPORT

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# ACRONYMS

| | |
|---|---|
| ADB | African Development Bank |
| ADR | African Development Report |
| AEO | African Economic Outlook |
| AMS | Aggregate Measure of Support |
| CIS | Commonwealth of Independent States |
| DRC | Democratic Republic of Congo |
| ECA | Economic Commission for Africa |
| EU | European Union |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GWP | Gross World Product |
| IMF | International Monetary Fund |
| SADC | Southern African Development Community |
| SACU | Southern African Customs Union |
| SSA | Sub-Saharan Africa |
| MDG | Millennium Development Goals |
| HICP | Harmonized Index of Consumer Prices |
| HIPC | Highly Indebted Poor Country |
| HIV/AIDS | Human Immune Virus/Acquired Immunodeficiency Syndrome |
| LDC | Least Developed Country |
| NAMA | Non-Agricultural Market Access |
| NEPAD | New Partnership for Africa's Development |
| OECD | Organization of Economic Co-operation and Development |
| WTO | World Trade Organization |
| WAEMU | West African Economic and Monetary Union |

# EXECUTIVE SUMMARY

This annual report covers global economic review and outlook, Africa's economic performance and SADC's economic and social development largely based on variables and projections, especially for 2007 and 2008. The report as much as possible uses data from the SADC secretariat, especially for 2000 to 2005.

The world economy is currently having promising performance in terms of many macroeconomic variables. In the current period (2006) output grew by 5.4% and is projected to grow by 4.9% for 2007 and 2008. Least developed countries had an impressive growth of 6.9% in 2006, which is projected to increase to 7.1 in 2007. Inflation rates increased slightly during the course of 2006 due to upswing in oil prices. World inflation rates however remain stable including for developing countries. Inflation in Africa increased slightly in 2006 above the 2005 figures but remained low on average at 6.1%. World merchandise trade expanded significantly during 2006 mainly due to large increases in the value of trade flows of oil and non-oil commodities and higher prices of commodities. USA continues to be the major driver for world trade with its import demand accounting for about 13 percent of the world total. Total value of African exports continued to expand in 2006 even though it was at a lower pace than in 2005.

SADC region as a whole continues to face increasing levels of exports due to exports of natural resources including oil and diamond. Best performing Member States include Angola, Botswana and South Africa. Only marginal increases are noticeable in the other SADC Member States.

Foreign Direct Investment also peaked globally with developed countries registering an increase of 48% in 2006 and that of Africa increasing to a new record of $39 billion in 2006 mainly due to investment in mineral rich countries. Although Member States that have abundant natural resources including oil performed very well, the general performance for most of SADC Member States is not good compared to SSA. FDI has almost been stagnant at between 19 and 27%.

On average, the SADC region has had improved performance in terms of growth in output and per capita income with Angola recording impressive performances of 15.3 percent in 2006. The other high performers are Malawi, DRC, Mozambique and Zambia. Overall the growth outlook for the region is promising, even though it is still lower than the 7 percent target for 2008. Most of the growth is expected to be driven by the primary sectors and less from the modern sector.

In terms of fiscal performance the SADC region has not done too well. Throughout the period 2002 to 2006, the SADC performance still fall below the SSA average performance. However the best performers in 2006 were Botswana, Swaziland and South Africa, while the worst performers were Malawi, Madagascar and DRC. In the same period SADC member countries have been pursuing tight monetary policies which have seen their inflation fall to single digits in the last 6 years or so. SADC money supply as a percentage of GDP increased from 47.5 percent to about 62.6 percent. Zimbabwe, Namibia, South Africa and Mauritius had significant increases in broad money supply in the period under review. Members of the Rand Monetary Area, except for South Africa, were able to sustain declining money supply during the period.

In terms of gross national savings, as a percentage of GDP, savings rose for most SADC Member States between the period 2002 and 2007; from about 17.6 percent on average to about 18.7 percent. These are, however, still below the SSA average; and also significantly lower than the 25 percent target for SADC countries, set to be achieved by 2008. The best performing countries with regard to savings in 2006 were Botswana, Namibia, Zambia and Angola, while Lesotho and Malawi need to improve performance in this area.

Despite persistent negative current account balance to GDP ratio experienced in the previous years an improvement for most countries in the current period has been recorded at less than 9 percent of GDP.

SADC target for external debt is that it should not be more than 60 percent of GDP by 2008 and beyond. The SACU countries of Botswana, South Africa and Namibia and Mauritius have achieved the target so far. Malawi, DRC, Mozambique and Tanzania are behind the target. On the whole, however, SADC countries have made a tremendous progress to reduce the external debt even though more can be done in this area and that of reducing debt servicing.

SADC still faces major socio economic development challenges. Amongst the major ones are high levels of poverty; where on average 50 percent of its people still lived below the poverty datum line as of 2003; high levels of HIV/AIDS prevalence and the resultant low life expectancy; high levels of unemployment; and high income inequality. The highest poverty rates are found in countries that have also experienced low economic growth in the past two decades. Mauritius had the lowest poverty rates of all the SADC Member States for which data were available. Botswana is a rather surprising exception; it still has relatively high poverty rates despite the impressive growth performance over the last four decades. The challenge for Botswana has been the slow progress towards diversifying the economy away from dependence on diamond exports, the high unemployment rate, which was close to 25 percent for most of the 1990s, and still hovers around 18 percent.

On average, the HIV prevalence rate in SADC is about 18 percent which is more than twice the Africa average at 2003 levels with highest prevalence rates found in Botswana and Swaziland and the lowest in Madagascar.

Life expectancy without HIV/AIDS would otherwise have been 53.6 years for SADC on average, but with the HIV/AIDS scourge, the figure is around 45.7. The worst hit countries are Botswana and Swaziland, where life expectancy has been reduced by almost 50 percent in the last two decades as a result of the pandemic.

Unemployment has generally been high for most countries in SADC over the current period. The highest unemployment rate is found in Lesotho with 43 percent in 2005; South Africa had 26 percent unemployment rate in 2006; Namibia 36.7%, Swaziland 40%, Mauritius 9.3%, while Malawi had an estimate of 16 percent.

Most SADC countries have invested heavily in education and as a result achieved high literacy rates over time. The country with the lowest adult illiteracy rate is Zimbabwe at 8 %, followed by Namibia and Mauritius at 13% each. The country with the highest illiteracy rate is Mozambique at almost 50% of the adult population. In terms of income distribution SADC generally has a skewed distribution of income with an average gini-coefficent of about 52%. Countries with the highest inequality are Namibia, Botswana, Lesotho and Swaziland at more than 60%.

The challenge for SADC countries is in terms of having growth that is employment intensive and pro-poor. The region needs to effectively tackle the poverty and HIV/AIDS issues with a lot of vigour. To be able to succeed, the region will need to increase domestic investment and also tackle the issue of being internationally competitive. There is also the need to speed up regional integration measures, while at the same time instituting policies and programmes that will spur the attainment of convergence requirements in the region. For those countries that have achieved those targets, there is need to consolidate their efforts, while those not achieving the targets need to speed up policy reforms to be able to achieve the targets at least by 2008. There is need to reinforce prudent fiscal and monetary policies towards achieving some of the long term goals of the region. There is also the need to accelerate trade liberalization efforts; especially enhancing and expanding intra-regional trade within SADC (particularly flows from other SADC member countries to South Africa). It is also important that countries strive to improve the business environment—trade facilitation issues enhanced—to allow the region to be more competitive globally, and also be able to link up with the global value chain.

# INTRODUCTION

This annual report covers three broad areas; the global economic review and outlook, Africa's economic performance and an overview of economic and social developments within the Southern African Development Community (SADC) region as well as general progress achieved so far towards implementation of RISDP programmes by SADC Secretariat. The review is undertaken with the major objective of serving as a reference point – first point of call – in so far as first hand information on SADC is concerned. In terms of approach, the report follows standard presentation of international reports such as the World Economic Outlook, African Economic Outlook and African Development Report. This is a major departure from past reports in terms of both presentation and depth of analysis. While this report uses the most up-to-date information in the different sections, there were obvious problems emanating from unavailability of data for some countries. Hence, in some cases we had to source information from the websites of Central Banks of member countries and other papers available on line – the budget speeches of the different countries, etc. It was also not possible to get up-to-date data for some of the economic variables like unemployment, HIV/AIDS prevalence rates; since such data are not generated as frequently as one would have wished – they derive in most cases from surveys that are not conducted on regular basis in many countries. For some, we then resorted to using projected figures that were provided in some of the published statistics sources.

# 1.0 THE INTERNATIONAL ENVIRONMENT

A Global Overview of Recent Developments and Prospects for 2007

## 1.1 Output Growth

The world economy witnessed another round of strong growth performance in 2006; as was the case in most parts of the developing world. As it were, this implies a third consecutive year of modest economic growth in many developing countries for many decades. Growth forecast for 2007 indicate that gross world product (GWP) may expand by about 4.9 per cent in 2007, (that is, decelerating by about a half of one percentage point from 2006 (table 1.1) and 4.9 percent in 2008. Moreover, a more pessimistic scenario could emerge if the current slowdown in the United States housing market were to persist further in 2007, as this will cause a sharp decline in housing demand and house prices. This may lead to a momentous stagnation in the United States economy and affect growth in the rest of the world. Furthermore, growth in Europe and Japan, while close to potential, may turn out not to be strong enough for these economies to act as new engines for the world economy; in place of the US. Similarly, a slow down in growth is also projected for many developing countries and countries in transition in 2007 and 2008—though in varying degrees across different countries.

**Table 1.1: Growth of World Output, 2001 – 2007 (annual percentage change)**

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|
| World Output | 1.6 | 1.9 | 2.7 | 4.0 | 4.9 | 5.4 | 4.9 | 4.9 |
| *Of Which*: | | | | | | | | |
| Developed economies | 1.2 | 1.2 | 1.9 | 3.0 | 2.5 | 3.1 | 2.5 | 2.7 |
| Economies in transition | 5.7 | 5.0 | 7.0 | 7.6 | 6.4 | 7.2 | 7.0 | 6.4 |
| Developing economies | 2.7 | 3.9 | 5.2 | 6.9 | 7.5 | 7.9 | 7.5 | 7.1 |
| *Of which*: | | | | | | | | |
| Least developed countries | 6.6 | 6.4 | 6.5 | 7.9 | 7.3 | 6.9 | 7.1 | 6.1 |

*Source: World Bank, Global Economic Prospects, 2007*

Furthermore, in order to measure the progress in achieving the MDGs, it is of particular interest to look at the performance of LDCs. Average economic growth of this group has remained strong, at 6.9 per cent, during 2006, although it decelerated compared to the exceptional performance recorded in 2005. Further moderation is expected for 2007 and 2008, albeit with important variations across the poorest countries.

**Table 1.2: Rates of Growth of Real GDP, Africa and Rest of the World, 1997 – 2007 (annual percentage change)**

| | 1997-2005 | 2006 | 2007 |
|---|---|---|---|
| **Developed Economies** | 2.5 | 2.9 | 2.2 |
| European Union | 2.3 | 2.7 | 2.4 |
| Other Europe | 2.1 | 2.6 | 2.2 |
| Major developed economies | 2.4 | 2.8 | 2.1 |
| Economies in Transition | 4.6 | 7.2 | 6.5 |
| Commonwealth of independent stales | 5.0 | 7.5 | 6.7 |
| Developing Countries | 4.6 | 6.5 | 5.9 |
| **Africa** | **3.8** | **5.6** | **6.2** |
| North Africa | 4.0 | 4.5 | 4.4 |
| **Sub-Saharan Africa (excluding Nigeria $ South Africa** | **4.2** | **5.9** | **6.6** |
| East and South Asia | 5.9 | 7.4 | 6.9 |
| Western Asia | 3.8 | 5.7 | 4.9 |
| Latin America and the Caribbean | 2.7 | 5.0 | 4.2 |
| Major developing economies | | | |
| Brazil | 2.2 | 3.3 | 3.5 |
| China | 9.0 | 10.2 | 8.9 |
| India | 6.2 | 7.7 | 7.9 |

*Source: World Bank, Global Economic Prospects, 2007*

Far beyond expectations, among the developing countries, growth in *Africa* also maintained a strong pace, reaching almost 5.6 per cent in 2006 (Table 1.3). Many countries in Africa have sustained a relatively strong recovery since 2003, driven by increasing oil and gas export earnings, vibrant global demand for, and favourable international prices of, some non-oil commodities, vigorous domestic demand, and markedly growing FDI flows and donor support. This contrasts with a much poorer performance in those African countries that suffer from protracted civil unrest and political disturbances, adverse weather conditions and/or decreased tourism revenues. Africa's GDP is expected to grow by 6.2 per cent in 2007.

## 1.2 Inflation

Estimates from ECA (2007) reveal that headline inflation rates increased slightly in major parts of the world in 2006; occasioned in particular by the upswing in oil prices during the course of the year. Among the major developed economies, inflation in the United States was noted to have accelerated more in the first half of 2006, but stabilized thereafter due to declining energy prices in the latter part of 2006 and a rise in labour costs.

In the developing countries and economies in transition, inflation remained stable for most parts of 2005 and 2006 (Table 1.4). As table 1.4 shows, in Africa, inflation increased only slightly in 2006 above the 2005 figure, but remained low on average.

**Table 1.3: Consumer Price Inflation, Africa and Rest of the World, 1997 – 2007**
**(*Average annual percentage change*)**

| | 1997 | 2000 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| **Developed Economies** | 2.2 | 2.3 | 1.9 | 2.2 | 2.3 | 1.9 |
| European Union | 2.4 | 2.6 | 2.2 | 2.2 | 2.3 | 2.3 |
| Other Europe | 1.4 | 2.2 | 0.7 | 1.4 | 1.6 | 0.6 |
| Major developed economies | 2.1 | 2.1 | 1.9 | 2.2 | 2.3 | 1.9 |
| Economies in Transition | 59.8 | 26.0 | 10.0 | 11.2 | 8.9 | 8.2 |
| Commonwealth of independent stales | 19.5 | 24.9 | 10.7 | 12.3 | 9.4 | 9.0 |
| Developing Countries | 10.3 | 5.9 | 5.3 | 5.0 | 5.1 | 5.1 |
| Africa | 9.4 | 9.9 | 6.3 | 5.3 | 6.1 | 5.3 |
| North Africa | 4.2 | 2.0 | 6.9 | 3.1 | 5.3 | 4.4 |
| Sub-Saharan Africa (excluding Nigeria $ South Africa | 19.2 | 27.8 | 5.7 | 7.7 | 7.0 | 5.1 |
| East and South Asia | 5.6 | 2.6 | 4.6 | 4.2 | 4.6 | 4.5 |
| Western Asia | 27.7 | 16.1 | 4.3 | 4.8 | 5.1 | 6.9 |
| Latin America and the Caribbean | 13.6 | 7.7 | 6.8 | 6.6 | 5.7 | 5.8 |
| Major developing economies | | | | | | |
| Brazil | 6.9 | 7.1 | 6.6 | 6.8 | 4.3 | 4.0 |
| China | 2.8 | 0.4 | 3.9 | 1.8 | 1.3 | 2.0 |
| India | 7.2 | 3.7 | 3.7 | 4.2 | 5.6 | 4.9 |

*Source: World Bank, Global Economic Prospects, 2007*

For most East Asian Economies, inflation has been below 5 per cent since 2000.

## 1.3 Trade Flows

World merchandise trade expanded rather significantly during 2006 (Table 1.5). The expansion may have been due to large increases in the value of trade flows of oil and non-oil commodities; mainly due to higher prices. Another factor is a significant increase in the volume of trade in capital goods, driven largely by the recovery in global investment across major parts of the developed world, China and India. Growth of the value of world exports is estimated to be about 15.5 percent in 2006, up from 14.5 per cent in 2005. Growth in world exports, which appears to be significantly larger than growth of world output, may be an indication of further deepening of global economic integration across the world in 2006. It is however projected that the growth of worlc trade may smoothen out at a pace of about 7 per cent in 2007 (IMF, Global Economic Prospects, 2007).

**Table 1.4: World Trade: Value of Exports and Imports, 1997 – 2007 (*Annual percentage change*)**

| | 1997 | 2000 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| **Dollar Value of Exports** | | | | | | |
| **World** | | | | | | |
| **Developed Economies** | 3.6 | 13.4 | 21.2 | 14.6 | 15.5 | 11.7 |
| North America | 2.5 | 7.3 | 18.0 | 9.1 | 13.3 | 12.9 |
| EU plus other Europe | 10.0 | 13.4 | 12.6 | 11.5 | 12.3 | 8.6 |
| Developed Asia | -0.2 | 3.5 | 19.3 | 8.3 | 14.0 | 14.3 |
| **Economies in Transition** | 2.6 | 14.0 | 20.1 | 9.5 | 10.9 | 12.2 |
| South Eastern Europe | -0.4 | 34.2 | 39.8 | 32.2 | 24.1 | 10.7 |
| Commonwealth of Independent | -3.0 | 16.6 | 32.6 | 27.0 | 19.2 | 11.7 |
| States | 0.0 | 37.7 | 41.2 | 33.1 | 24.9 | 10.5 |
| **Developing Economies** | 6.9 | 27.3 | 26.0 | 23.5 | 18.4 | 9.7 |
| Latin America & the Caribbean | 10.9 | 19.7 | 22.9 | 27.2 | 19.1 | 3.0 |
| **Africa** | -0.7 | 26.1 | 30.6 | 34.1 | 25.7 | 8.1 |
| Western Asia | 6.1 | 81.4 | 28.3 | 32.7 | 14.7 | 6.4 |
| East and South Asia | 3.9 | 19.2 | 21.3 | 14.0 | 14.6 | 11.2 |
| China | 21.0 | 27.8 | 35.4 | 28.4 | 24.5 | 15.0 |
| **Dollar Value of Imports** | | | | | | |
| **World** | 3.9 | 12.9 | 21.9 | 13.6 | 15.3 | 11.2 |
| **Developed Economies** | 2.4 | 10.3 | 19.1 | 11.4 | 14.0 | 10.7 |
| North America | 10.6 | 17.6 | 16.1 | 13.8 | 11.0 | 4.5 |
| EU plus other Europe | -0.3 | 5.3 | 20.5 | 9.9 | 14.6 | 14.2 |
| Developed Asia | -2.4 | 17.8 | 19.7 | 13.9 | 19.6 | 7.4 |
| **Economies in Transition** | 5.4 | 14.8 | 31.2 | 25.0 | 21.4 | 14.4 |
| South Eastern Europe | 9.0 | 12.9 | 29.0 | 22.9 | 15.9 | 10.3 |
| Commonwealth of Independent | 4.4 | 15.6 | 32.2 | 26.0 | 23.9 | 16.3 |
| States | 7.4 | 19.7 | 27.9 | 17.3 | 17.5 | 11.9 |
| **Developing Economies** | 18.5 | 15.8 | 22.4 | 24.5 | 18.2 | 8.6 |
| Latin America & the Caribbean | 8.0 | 1.0 | 27.0 | 19.2 | 15.0 | 10.4 |
| **Africa** | 8.6 | 21.7 | 31.7 | 14.7 | 18.1 | 10.3 |
| Western Asia | 4.2 | 20.6 | 25.3 | 15.0 | 15.5 | 11.9 |
| East and South Asia | 2.5 | 35.8 | 36.0 | 17.6 | 21.5 | 16.0 |
| China | | | | | | |

*Source: World Bank, Global Economic Prospects, 2007*

## 1.4 Foreign Direct Investment

Global flows of foreign direct investment (FDI) peaked at $1.2 trillion in 2006, reaching the second highest level ever recorded with US and UK attracting the largest inflows. Significant FDI inflows were also recorded for economies in transition in 2006. In general FDI flows to developed countries in 2006 rose by 48 percent which is double the inflows for 2004 but slowed down significantly in Latin America and the Caribbean.

FDI flows to Africa increased to a new record level of almost $39 billion in 2006; mainly due to huge investments in mineral-rich countries, rising oil prices and a surge in the global demand for oil and other non-oil minerals. The FDI boom was further fuelled by cross-border Merger and Acquisitions which had almost tripled in the first half of 2006 over levels recorded during the same period in 2005 (UNCTAD, 2007). These inflows moreover remain highly concentrated, and most low-income countries that are less well endowed with natural resources continue to receive rather insignificant inflow of FDI.

While strong economic growth in the world economy may facilitate continued high FDI flows, several risks are looming. Current account imbalances have widened further in some developed countries; energy prices have stayed at a high level; and a possible tightening of financial market conditions cannot be excluded. These factors make future FDI prospects uncertain (UNCTAD, 2007).

**Table 1.5: FDI Flows by Host Region and Major Host Economy, 2004-2006 (Billion Dollars)**

| | 2004 | 2005 | 2006 | Growth Rate (%) |
|---|---|---|---|---|
| **World** | 710.8 | 916.3 | 1230.4 | 34.3 |
| **Developed Economies** | 396.1 | 542.3 | 800.7 | 47.7 |
| Europe | 217.7 | 433.6 | 589.8 | 36.0 |
| European Union | 213.7 | 421.9 | 549.0 | 30.1 |
| EU-15 | 185.2 | 387.9 | 510.7 | 31.7 |
| France | 31.4 | 63.6 | 88.4 | 39.0 |
| Germany | -15.1 | 32.7 | 8.1 | -75.1 |
| Italy | 16.8 | 20.0 | 30.0 | 50.2 |
| United Kingdom | 56.2 | 164.5 | 169.8 | 3.2 |
| New 10 EU member states | 28.5 | 34.0 | 38.4 | 12.8 |
| Czech Republic | 5.0 | 11.0 | 5.4 | -50.8 |
| Hungary | 4.7 | 6.7 | 6.2 | -7.3 |
| Poland | 12.9 | 7.7 | 16.2 | 109.9 |
| United States | 122.4 | 99.4 | 177.3 | 78.2 |
| Japan | 7.8 | 2.8 | -8.2 | -395.5 |
| **Developing economies** | | | | |
| *Of Which*: | 275.0 | 334.3 | 367.7 | 10.0 |
| Africa | 17.2 | 30.7 | 38.8 | 26.5 |
| Egypt | 2.2 | 5.4 | 5.3 | -1.9 |
| Morocco | 1.1 | 2.9 | 1.4 | -51.2 |
| Nigeria | 2.1 | 3.4 | 5.4 | 60.0 |
| South Africa | 0.8 | 6.4 | 3.7 | -42.7 |
| Latin America and the Caribbean | 100.5 | 103.7 | 99.0 | -4.5 |
| Argentina | 4.3 | 4.7 | 3.3 | -29.5 |
| Brazil | 18.1 | 15.1 | 14.8 | -2.0 |
| Chile | 7.2 | 6.7 | 9.9 | 48.4 |
| Colombo | 3.1 | 10.2 | 4.9 | -52.0 |
| Mexico | 18.7 | 18.1 | 16.5 | -8.6 |
| Asia and Oceania | 157.3 | 200.0 | 229.9 | 15.0 |
| West Asia | 18.6 | 34.5 | 43.3 | 25.5 |
| Turkey | 2.8 | 9.7 | 17.1 | 76.3 |
| South, East and South East Asia | 138.0 | 165.1 | 186.7 | 13.1 |
| China | 60.6 | 72.4 | 70.0 | -3.3 |
| Hong Kong, China | 34.0 | 35.9 | 41.4 | 15.4 |
| India | 5.5 | 6.6 | 9.5 | 44.4 |
| Indonesia | 1.9 | 5.3 | 2.0 | -62.9 |
| Korea, Republic of | 7.7 | 7.2 | 0.5 | -92.6 |
| Malaysia | 4.6 | 4.0 | 3.9 | -1.6 |
| Singapore | 14.8 | 20.1 | 31.9 | 58.8 |
| Thailand | 1.4 | 3.7 | 7.9 | 114.7 |
| **South-East Europe and the CIS** | 39.6 | 39.7 | 62.0 | 56.2 |
| Russian Federation | 15.4 | 14.6 | 28.4 | 94.6 |
| Romania | 6.5 | 6.4 | 8.6 | 34.1 |
| Kazakhstan | 4.1 | 1.7 | 6.5 | 275.5 |

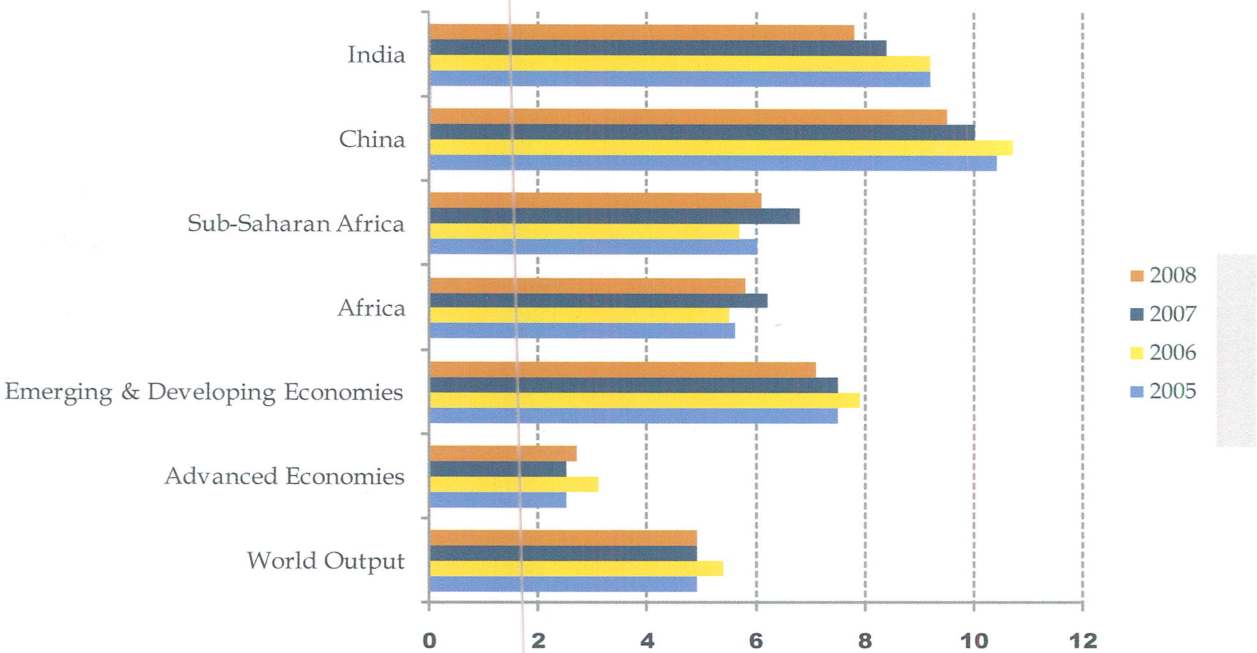
**Source**: *UNCTAD (2007),*

# 2. AFRICA'S ECONOMIC PERFORMANCE

## 2.1. Output Growth

The short-term economic outlook for Africa remains very positive; real GDP growth is expected to increase to 6.2 percent in 2007, before slowing to 5.8 percent in 2008 (Figure 2.1). Inflation (excluding Zimbabwe) is on a declining trend, while fiscal and current account balances are in surplus at the regional level.

**Figure 2.1: Africa Vs Rest of the World; Economic Growth and Outlook 2005-2008**




In the previous two years, GDP growth was particularly strong in oil-exporting countries, at 5.9 per cent in 2006 (7.6 per cent in 2005).

The GDP growth performance is expected to become even more pronounced in 2007 with an average growth of 6.2 per cent, with oil-exporting and oil-importing countries exhibiting real GDP growth of 9.5 and 4.8 per cent, respectively.

## 2.2 External Debt

Despite repeated debt rescheduling facilities, the total external debt of sub-Saharan Africa was $231.4 billion in 2003 (ADR, 2006) which rose to above $235 billion in 2004. In more recent times, debt relief under HIPC Initiative and bilateral debt cancellation measures have helped improve the external debt situation in Africa as a whole with the strong prospects of reducing debt stock if debt relief initiatives are sustained.

# 3. THE SADC REGION

SADC consists of fourteen Member States, namely Angola, Botswana, D.R.C, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. (The region consists of more than 14 countries, e.g Sychelles which was not a member at the time of compiling the report.

## 3.1. Economic performance of the SADC region in 2006

This section of the Report is intended to show the economic situation currently prevailing in the SADC region and attempts to project the future economic outlook based on assumptions such as robust global growth, improved macroeconomic stability, sustained strong demand for commodities, increased oil production in Southern and Central Africa and increased capital flows.

### 3.1.1 Economic growth

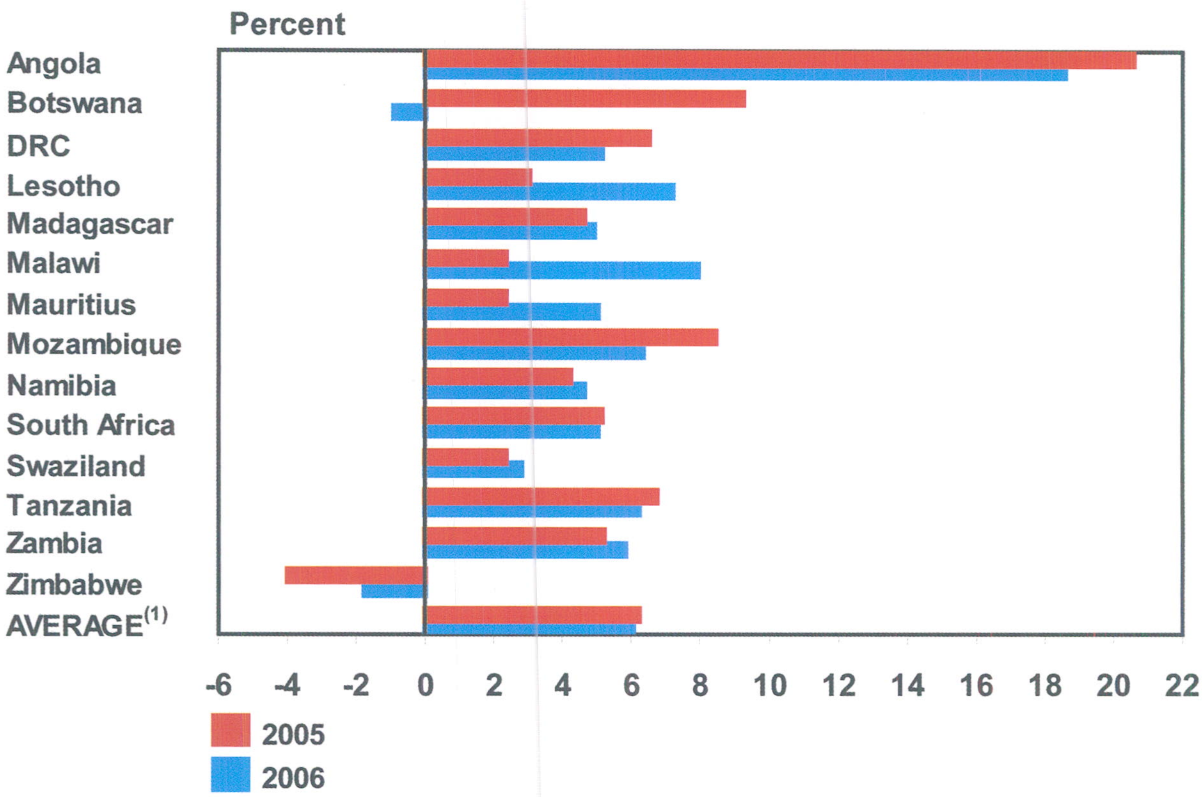
As evident in Figure 1, the strong pace of economic expansion of recent years has been maintained in the SADC region. Growth in the region was bolstered by continued global economic expansion, prudent macroeconomic policies, debt relief and sustained demand for fuel and non-fuel commodities amid favourable commodity prices. Estimates suggest that the average rate of growth in real GDP for the region remained unchanged at 5.5 percent in both 2005 and 2006. However, when Zimbabwe is excluded, the average growth for the region moderated from 6.2 percent in 2005 to 6.0 percent in 2006.

Angola, Botswana, Mozambique, Tanzania and the DRC were among the top performers in 2005, all registering growth rates in excess of 6 percent. Angola and Botswana in particular grew at rates of 20.6 percent and 9.2 percent, respectively. In addition, Zambia and South Africa recorded growth rates above 5 percent in 2005.

Real GDP growth accelerated in 2006 in Malawi, Lesotho, Mauritius, Zambia, Swaziland, Namibia and Madagascar. Economic growth in Malawi accelerated to 79 percent in 2006 from 2.3 percent the previous year. Rapid growth in 2006 was underpinned by the strong performance of the agricultural sector amid favourable weather conditions, a fertilizer subsidy programme and improved macroeconomic management. Growth in Lesotho expanded from 3,0 percent in 2005 to 72 percent in 2006, mainly as a result of a strong contribution from the mining sector and the resurgence of the manufacturing sector. The economy in Mauritius grew by 5.0 percent in 2006, as compared to the 2.3 percent registered in the previous year, amid broad-based economic expansion. In particular, the manufacturing sector grew by 3.9 percent following a contraction of 5.5 percent in 2005.

Although growth moderated in Angola and Tanzania, these economies continued to register high GDP growth rates during 2006 of 18.6 and 6.2 percent, respectively. Growth in Angola has been driven in recent years by output growth in the oil and diamond sectors. In 2006, growth in Tanzania moderated as a result of rising oil prices and a drought which affected crop production. In addition, economic growth decelerated in Mozambique, the DRC and South Africa and contracted sharply in Botswana. Growth in Botswana contracted from 9.2 percent in 2004/2005 to -0.9 percent in 2005/2006 due to the poor performance of the mining sector; the growth of the mining sector declined from 18.1 percent in 2004/2005 to -4.4 percent in 2005/2006. Growth in diamond mining fell from 18.1 percent in 2004/2005 to -4.3 percent in 2005/2006. In addition, manufacturing growth declined from 8.6 percent in 2004/2005 to -3.3 percent in 2005/2006 (Bank of Botswana Annual Report, 2006).

**Figure 3.1: Real GDP growth in 2005 and 2006**




*Note: 1SADC average GDP growth excluding Zimbabwe*

*Sources: SADC central banks*

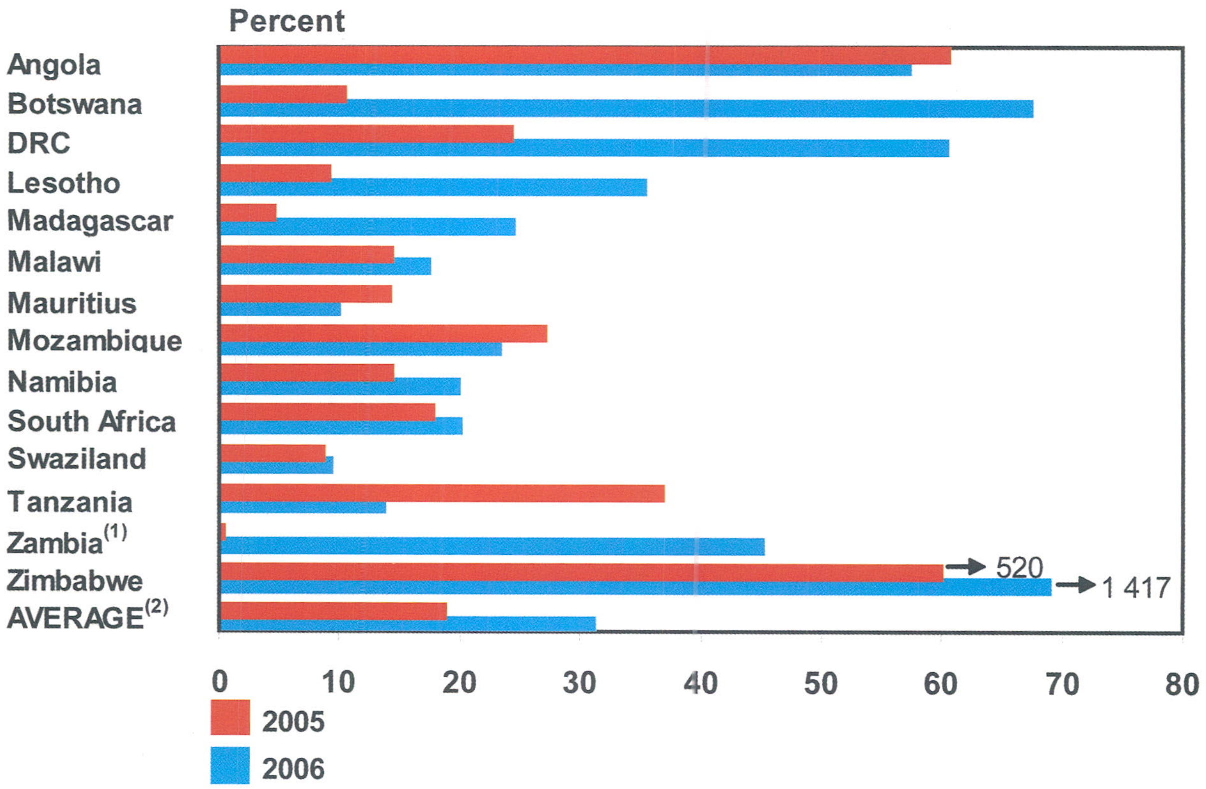
Per capita gains in real gross domestic product were recorded in 2006 in the majority of the SADC economies with the exception of Botswana and Tanzania. Despite that development Botswana remained together with South Africa and Mauritius among the countries with the highest per capita incomes in the region in 2006, registering per capita incomes in excess of US$5 000, while the DRC ranked the lowest with a per capita income of US$90.

While household and government consumption expenditure continued to account for the bulk of expenditure on GDP in all SADC countries, there were indications of a welcome acceleration in fixed capital formation as commodity prices and improving economic prospects encouraged capital expenditure in many countries in the region.

### 3.1.2 Monetary developments and interest rates

Excluding Zimbabwe, the average rate of money supply growth in the SADC region accelerated from 18.7 percent in 2005 to 31,1 percent in 2006. When Zimbabwe is included, average money supply growth increased from 54.5 percent in 2005 to 130 percent in 2006. In Zimbabwe, money supply growth picked up from 520 percent in 2005 to 1417 percent in 2006.

Figure 3.2: Growth in M2 money supply in 2005 and 2006




*Note: 1M3 growth; 2SADC average money supply growth excludes Zimbabwe*

*Sources: SADC central banks*

A number of SADC countries also recorded sharp increases in money supply growth in 2006 – particularly in the cases of Botswana, Zambia, the DRC, Lesotho and Madagascar. In Zambia, money supply growth accelerated from 0,4 percent in 2005 to 45,1 percent in 2006 due to a 1 498 percent increase in net foreign assets amid favourable external sector performance. Money supply growth in Lesotho rose from 9,2 percent in 2005 to 35,4 percent in 2006, underpinned by an increase in both domestic credit and net foreign assets. In Madagascar, money supply grew by 24,4 percent in 2006 from 4,6 percent in the previous year as grants received through the Multilateral Debt Relief Initiative (MDRI), foreign aid and foreign direct investment (particularly in the mining sector) culminated in significant growth of net foreign assets. Money supply growth also accelerated in Namibia, Malawi, South Africa and Swaziland in 2006, while it decelerated in Tanzania, Mauritius and Mozambique. In South Africa, money supply growth increased from 17 7 percent in 2005 to 20,1 percent in 2006, supported by strong domestic expenditure. In Tanzania, money supply growth slowed from 36,9 percent in 2005 to 13,7 percent in 2006 as tight monetary policy measures took effect.

When considering policy rates at the beginning and end of 2005, Table 1 indicates that monetary policy was loosened in Angola, the Common Monetary Area (CMA) and Zambia. Furthermore, policy rates remained stable in Botswana Madagascar and Malawi, while they increased in Mauritius, Mozambique, Tanzania and Zimbabwe. Furthermore, in the majority of SADC countries, central bank rates were raised in 2006 when compared to levels prevailing at the end of 2005. However, significant reductions were registered in Angola, Madagascar, Malawi, Zambia and Zimbabwe. The DRC raised its policy rate by the largest margin of 11,2 percentage points in 2006. In the CMA, policy rates were increased by 2 percentage points in 2006.

**Table 3.1: Central Bank interest rates in 2005 and 2006**

| Country | Level at the start of 2005 Percent | Level at the end of 2005 Percent | Level at the end of 2006 Percent | Change in 2006 in percentage points |
|---|---|---|---|---|
| Angola | 95,0 | 18,0 | 14,0 | (-4,0) |
| Botswana | 14,25 | 14,5 | 15,0 | (+0,5) |
| DRC | n.a. | 28,8 | 40,0 | (+11,2) |
| Lesotho* | 13,0 | 11,5 | 13,5 | (+2,0) |
| Madagascar | 16,0 | 16,0 | 12,0 | (-4,0) |
| Malawi | 25,0 | 25,0 | 20,0 | (-5,0) |
| Mauritius | 9,8 | 11,5 | 13,0* | (+1,5) |
| Mozambique | 11,5 | 13,6 | 17,5 | (+3,9) |
| Namibia | 7,5 | 7,0 | 9,0 | (+2,0) |
| South Africa | 7,5 | 7,0 | 9,0 | (+2,0) |
| Swaziland | 7,5 | 7,0 | 9,0 | (+2,0) |
| Tanzania | 14,9 | 19,3 | 20,1 | (+0,8) |
| Zambia | 18,5 | 17,1 | 11,4 | (-5,7) |
| Zimbabwe | 110,0 | 540,0 | 500,0 | (-40,0) |

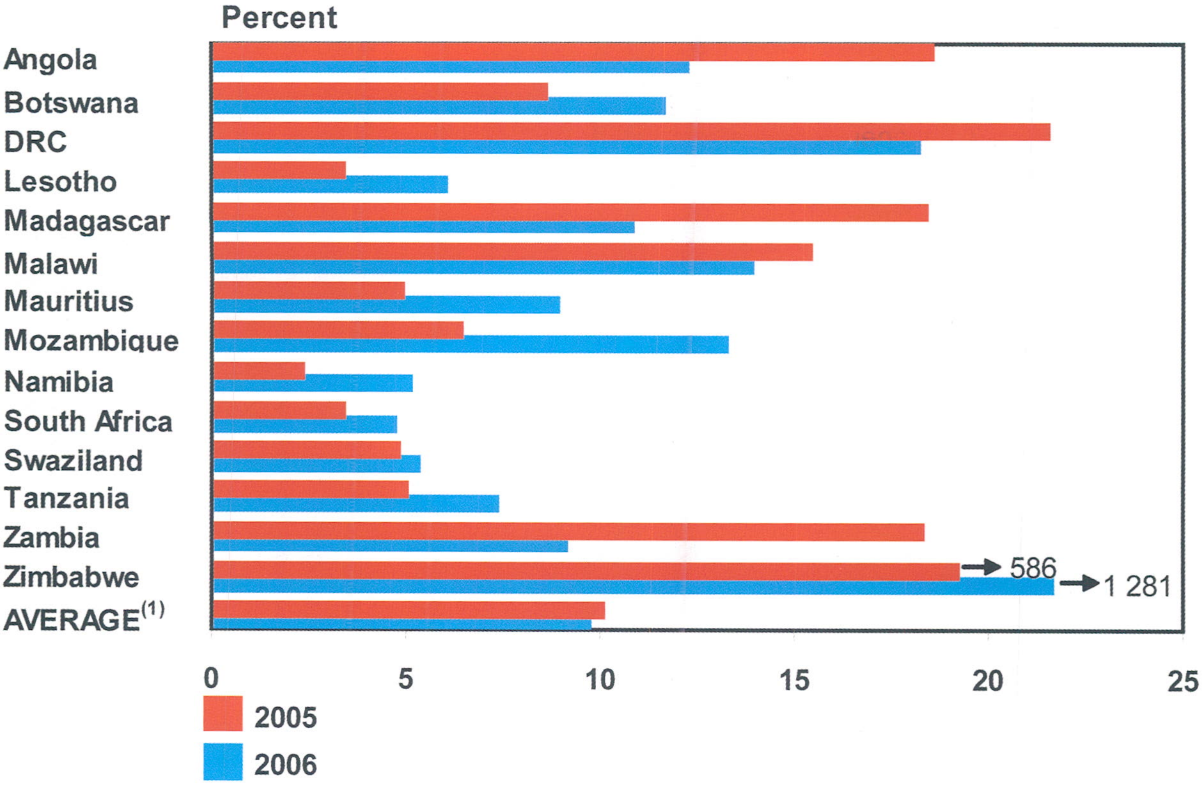
*Sources: SADC central banks*

**Lesotho: Figures refer to the Lombard Rate. In Lesotho the Lombard Facility and the Lombard Rate were abolished on 18 December 2006, when a new framework for the conduct of monetary policy was introduced. Under the new monetary policy framework, the Bank uses the Repo Rate as its key policy rate to signal changes in its monetary policy stance. The Repo Rate was set at 8,50 percent per annum.*

### 3.1.3 Inflation

Excluding Zimbabwe, the average rate of inflation in SADC countries moderated from 10,1 percent in 2005 to 9,7 percent in 2006. In 2005, six of the SADC countries, namely Zimbabwe, the DRC, Angola, Madagascar, Zambia and Malawi, reported an annual average rate of inflation in excess of 10 percent. In 2006, inflation in Zambia decelerated to 9,1 percent as a result of government macroeconomic stabilisation measures and low food prices. Conversely, inflation in Botswana and Mozambique accelerated to double-digit levels over the same period. Thus, the number of SADC members registering double-digit inflation levels rose to seven in 2006 from six in 2005.

Figure 3.3: Annual average inflation rates in 2005 and 2006




*Note: [1]SADC average annual inflation rate is excluding Zimbabwe*

*Sources: SADC central banks*

Besides Zambia, improvements in inflation trends were observed in Madagascar, Angola, the DRC and Malawi. In Madagascar the significant improvement in the inflation rate is largely attributed to tighter monetary policy – implemented since 2004. The central bank rate was increased from 7,0 percent in January 2004 to 16,0 percent in September 2004. The rate of 16,0 percent was then maintained until August 2006 when it was reduced to 12,0 percent.

Conversely, inflation increased in 2006 in the remaining SADC economies, namely Zimbabwe, Mozambique, Mauritius, Botswana, Namibia, Lesotho, Tanzania, South Africa and Swaziland. Inflation accelerated in Zimbabwe from 585,8 percent in 2005 to 1281,1 percent in 2006 amid adverse inflationary expectations and rising production, food and energy costs. In Mozambique, consumer price inflation rose to 13,3 percent in 2006 from 6,4 percent in the previous year, reflecting rising food prices as a result of adverse weather conditions. In Mauritius, inflation increased to 8,9 percent in 2006 from 4,9 percent in 2005 following the removal of food subsidies, an increase in excise duties on certain CPI components, exchange rate weakness and rising prices of petroleum products. Inflation in Namibia accelerated to 5,1 percent in 2006 from 2,3 percent in 2005 due to rising oil prices, fuel price increases and increases in the prices of food and beverages housing, water and electricity. Annual inflation in Lesotho increased from 3,4 percent in 2005 to 6,0 percent in 2006 amid rising oil and food prices. In Tanzania, inflation increased in 2006 to 7,3 percent from 5,0 percent in 2005, largely due to rising oil prices and drought conditions – which negatively affected food production and hydropower generation. It is evident from this brief assessment of SADC inflation rates that rising oil and domestic food prices have been significant factors in the deterioration of the inflation outlook in 2006. The issue of food price inflation is explored further in Box 3.1.

**Box 3.1: Food price developments in SADC**

Food prices have been on the rise globally - particularly since late-2006. Annual headline and food price inflation rates for SADC countries are presented in Table 2A. There are a few interesting characteristics evident from Table 2A.

- Food accounts for a significant portion of the consumer basket in most SADC economies. The weights ascribed to the food component in the consumption basket are reflected in parenthesis. In particular, the food component accounts for over 50 percent of the consumption basket in Madagascar, Malawi, Mozambique, Tanzania and Zambia.
- Food price inflation has been on the rise in most of the SADC countries throughout the first half of 2007. Given the large weight of food in the consumption basket, food prices have been driving headline inflation rates in many countries.

Food inflation accelerated to over 14 percent in Lesotho in June on account of a severe drought – which reduced the maize harvest by over 40 percent. More specifically, the price of bread and cereals accelerated at an annual rate of 20 percent in June. Headline inflation in Namibia has been increasing since the first quarter of 2006. In the June Monetary Policy Statement, the Bank of Namibia noted that rising food prices have contributed to high inflation rates. Maize and wheat prices have been on an upward trend as a result of a regional drought and rising international food prices. In Malawi, food price inflation slowed to 6,8 percent in June, reflecting continued good maize harvests. Malawi has benefited from a second consecutive year of bumper harvests, partly due to the reintroduction of input subsidies. Food inflation in Tanzania has been on the decline in the first half of the year, reaching 2,8 percent in May. Food inflation slowed significantly in May on improved supply of certain products, most notably, maize, flour, rice sweet potatoes, beans and fruits.

**Table 3.2: Inflation developments in SADC (annual percentage change**

**A: FOOD INFLATION EXCEEDS HEADLINE INFLATION:**

| Country | 2006 | 07-Jan | 07-Feb | 07-Mar | 07-Apr | 07-May | 07-Jun | Avg. Jan-Jun 2007 |
|---|---|---|---|---|---|---|---|---|
| ***Angola:*** | | | | | | | | |
| Headline | 12,2 | 12,2 | 12,4 | 12,4 | 12,3 | 12,4 | 12,4 | 12,4 |
| Food (46,09) | 14,4 | 14,6 | 14,9 | 14,3 | 13,5 | 13,8 | 13,4 | 14,0 |
| ***Botswana:*** | | | | | | | | |
| Headline | 8,5 | 7,4 | 7,3 | 6,5 | 6,3 | 6,4 | 6,4 | 6,7 |
| Food (21,84) | n.a. | 8,3 | 8,4 | 8,3 | 7,9 | 8,8 | 11,5 | 8,3 |
| ***Lesotho:*** | | | | | | | | |
| Headline | 6,0 | 6,0 | 5,6 | 5,9 | 8,1 | 7,6 | 8,0 | 6,9 |
| Food (38,4) | 8,9 | 10,6 | 9,9 | 10,8 | 15,2 | 13,3 | 14,1 | 12,3 |
| ***Madagascar[2]:*** | | | | | | | | |
| Headline | 10,8 | 10,8 | 13,5 | 14,5 | 13,9 | 11,7 | 10,0 | 12,4 |
| Food (50,1) | n.a. | 9,3 | 14,8 | 17,2 | 17,0 | 15,5 | 13,8 | 14,6 |
| ***Mauritius[3]:*** | 8,9 | 8,8 | 9,2 | 9,6 | 10,9 | 11,1 | 10,0 | 9,9 |
| Food (29,9) | 10,0 | 12,5 | 13,7 | 15,4 | 17,9 | 19,2 | 19,9 | 16,4 |
| ***Mozambique[4]:*** | | | | | | | | |
| Headline | 13,3 | 12,9 | 12,1 | 11,0 | 10,1 | 9,5 | 9,0 | 10,8 |
| Food (63,0) | n.a. | 16,9 | 16,5 | 12,6 | 11,9 | 10,9 | 10,1 | 13,2 |
| ***Namibia[3]:*** | | | | | | | | |
| Headline | 5,1 | 6,0 | 6,0 | 6,3 | 6,9 | 7,1 | 7,0 | 6,5 |
| Food (29,0) | n.a. | 9,2 | 9,7 | 10,2 | 11,7 | 12,1 | 12,0 | 10,8 |
| ***Swaziland:*** | | | | | | | | |
| Headline | 5,3 | 4,9 | 5,9 | 6,0 | 8,4 | 8,0 | 8,3 | 6,9 |
| Food (24,5) | 14,7 | 12,8 | 13,5 | 13,7 | 20,4 | 17,1 | 18,7 | 16,0 |
| ***South Africa:*** | | | | | | | | |
| Headline | 4,7 | 6,0 | 5,7 | 6,1 | 7,0 | 6,9 | 7,0 | 6,5 |
| Food (26,0) | 7,2 | 8,6 | 8,0 | 7,7 | 8,4 | 8,7 | 9,5 | 8,5 |
| ***Zimbabwe:*** | | | | | | | | |
| Headline | 1281,1 | 1593,6 | 1729,9 | 2200,2 | 3713,9 | 4530,0 | n.a. | 2309,4 |
| Food (33,0) | 1042,4 | 1455,9 | 1825,3 | 2333,7 | 3909,2 | 5511,8 | n.a. | 2381,0 |
| **B: FOOD INFLATION BELOW HEADLINE INFLATION:** | | | | | | | | |
| ***Congo, D.R.:*** | | | | | | | | |
| Headline | 18,2 | 23,7 | 25,6 | 22,8 | 21,0 | 19,4 | 15,1 | 24,2 |
| Food (n.a.) | 11,2 | 14,5 | 15,3 | 14,0 | 12,9 | 11,9 | 9,3 | 13,0 |
| ***Malawi:*** | | | | | | | | |
| Headline | 13,9 | 9,6 | 9,2 | 8,6 | 8,4 | 7,9 | 7,7 | 8,6 |
| Food (58,1) | n.a. | 9,7 | 9,1 | 8,3 | 7,9 | 7,2 | 6,8 | 8,2 |
| ***Tanzania:*** | | | | | | | | |
| Headline | 6,7 | 7,0 | 7,3 | 7,2 | 6,2 | 5,0 | 5,9 | 6,4 |
| Food (55,9) | 6,5 | 6,7 | 6,2 | 6,1 | 4,8 | 2,8 | 4,6 | 5,2 |
| ***Zambia:*** | | | | | | | | |
| Headline | 8,2 | 9,8 | 12,6 | 12,7 | 12,4 | 11,8 | 11,1 | 11,7 |
| Food (57,1) | -0,2 | 1,0q | 4,2 | 4,9 | 5,5 | 5,7 | 4,8 | 4,4 |

Notes: [1]Component weight in parenthesis; [2]Food products, beverages (alcoholic and non-alcoholic) and tobacco; [3]Food and non-alcoholic beverages; [4]12-month inflation rate

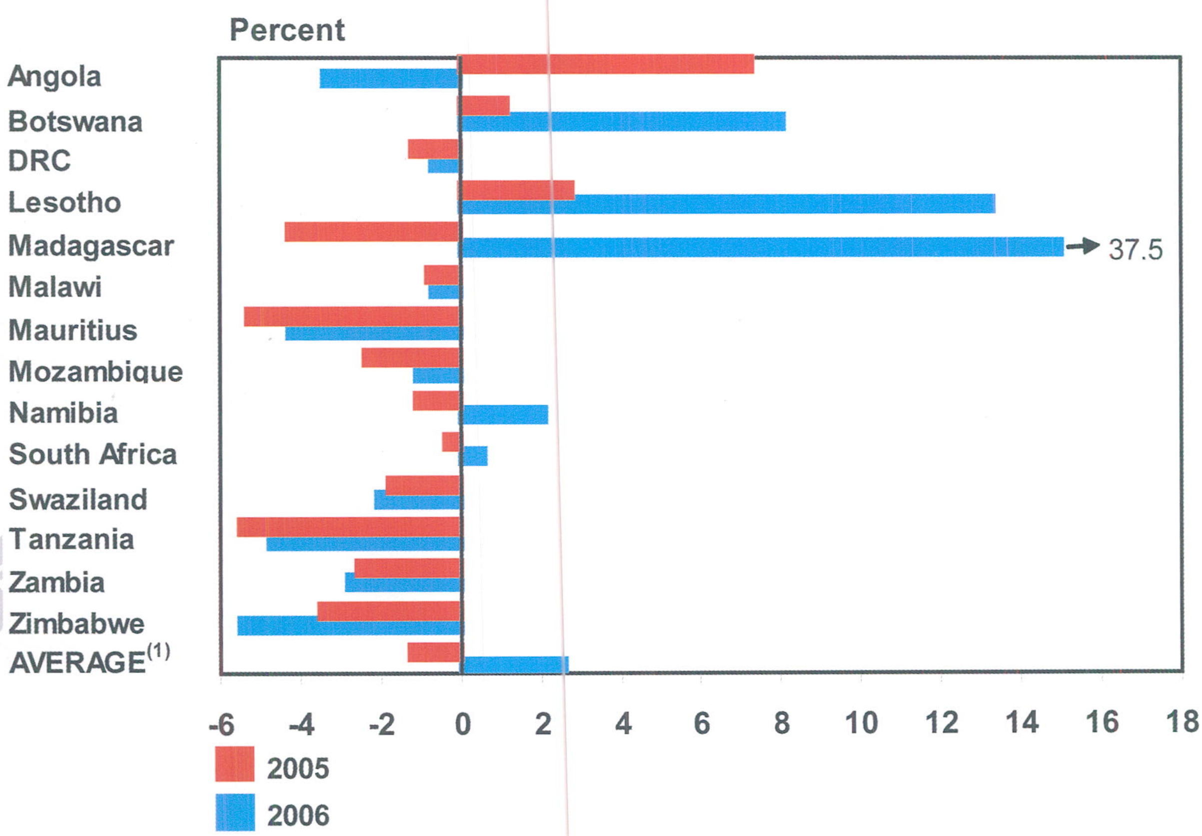
Sources: SADC central banks

## 3.1.4 Public Finance

The average fiscal balance in SADC improved significantly from a deficit of 1,3 percent of GDP in 2005 to a surplus of 2,6 percent in 2006. If Zimbabwe is excluded, the average surplus in 2006 rises to 3,2 percent of GDP. In 2005, Mauritius and Tanzania reported fiscal deficits in excess of 5 percent of GDP. However, the fiscal balance improved significantly in both these economies in 2006. Specifically, the budget deficit narrowed to 4,3 percent in the case of Mauritius and 4,8 percent in the case of Tanzania. The fiscal balance deteriorated in Zimbabwe in 2006, however, widening from a deficit of 3,5 percent in 2005 to 5,5 percent in 2006.

With buoyant export prices and in some instances strong revenue arising from import duties, most SADC countries' public finances showed a significant improvement in 2006. Mozambique, Mauritius, Tanzania, the DRC and Malawi posted smaller deficits in 2006 when compared to 2005, while Madagascar, Namibia and South Africa registered fiscal surpluses in 2006 from deficits in the previous year. In particular, the fiscal balance in Madagascar improved significantly from a deficit of 4,3 percent in 2005 to a surplus of 37,5 percent in 2006 amid debt reduction. In addition, Lesotho's fiscal surplus widened in 2006 to 13,3 percent. Public finances deteriorated in Angola as the 2005 fiscal surplus of 7,3 percent was reduced to a deficit of 3,4 percent in 2006, reflecting increased expenditure on infrastructure reconstruction and social upliftment projects.

**Figure 3.4: Budget balance as a percentage of GDP in 2005 and 2006 (deficit -)**




*Note: [1]SADC average budget deficit as percentage of GDP is including Zimbabwe*

*Sources: SADC central banks*

In 2006 government debt as a percentage of GDP declined in all SADC countries with the exception of Swaziland - reflecting the impact of debt relief and improved fiscal balances.[2] In particular, government debt as a percentage of GDP declined in Malawi from 119 percent in 2005 to 26,3 percent in 2006 as a result of declining government expenditures and the cancellation of debt by the IMF, World Bank, ADB and other donors.

## 3.1.5 Foreign Trade and Payments

### 3.1.5.1 Balance of Payments Developments

The SADC region's external position strengthened in 2006, as the average ratio of the balance on current account to GDP narrowed from a deficit of 3,7 percent of GDP in 2005 to a deficit of 0,7 percent in 2006. Strong export prices resulted in high surpluses on the current account in some countries in 2006 - of the order of 15 percent of GDP or higher in Angola, Botswana and Namibia. In fact, all the SACU countries with the exception of South Africa recorded surpluses on their current account balances in 2006, with brisk receipts from customs duties contributing significantly to this outcome. On the other hand, South Africa registered a current account deficit equal to 6,5 percent of gross domestic product in 2006, a magnitude previously observed in 1981. Malawi with a current account deficit of 14 percent of GDP recorded the largest deficit of the SADC countries in 2006.

### 3.1.5.2 Foreign direct investment

A significant inflow of foreign direct investment into SADC amounting to approximately US$8,3 billion was registered in 2005 (see Table 3). This amount declined to approximately US$3,3 billion in 2006, largely due to a net outflow of direct investment capital from South Africa - as in a few instances non-residents sold their interest in South African enterprises to South African institutions. FDI flows improved in 2006 in Angola, Botswana, the DRC, Madagascar, Malawi, Mauritius, Mozambique and Tanzania, while they declined in Lesotho, Namibia, South Africa, Swaziland, Zambia and Zimbabwe. Foreign inflows increased to US$6,3 billion in South Africa in 2005, due to a large direct investment in the banking sector. In Lesotho, FDI declined from US$57,3 million in 2005 to US$56,9 million in 2006 due to a weaker dollar. However, in local currency terms FDI increased by 5,9 percent reflecting developments in the manufacturing and mining sub-sectors. FDI in Madagascar increased significantly in 2006, largely due to substantial investments in the mining sector and, to a lesser extent, the tertiary sector. FDI in Zimbabwe declined from US$102,8 million in 2005 to US$40 million in 2006, reflecting the perceived risk associated with the country.

[2] *2006 data for Botswana not available*

**Table 3.3: Foreign Direct Investment (inwards) (US$)**

| US$ millions | | |
|---|---|---|
| **Country** | **2005** | **2006** |
| Angola | -1523,2 | -228,3 |
| Botswana | 878,3 | 995,3 |
| DRC | 270,5 | 281,7 |
| Lesotho | 57,3 | 56,9 |
| Madagascar | 85,7 | 221,0 |
| Malawi | 64,6 | 67,8 |
| Mauritius | 42,0 | 105,0 |
| Mozambique | 107,9 | 153,7 |
| Namibia | 347,8 | 327,5 |
| South Africa | 6251,0 | -323,0 |
| Swaziland | 780,7 | 769,6 |
| Tanzania | 447,6 | 483,4 |
| Zambia | 380,0 | 350,2 |
| Zimbabwe | 102,8 | 40,0 |
| **Net FDI SADC** | 8293,0 | 3301,0 |

*Note: Values for Angola and South Africa indicate net FDI inflows*

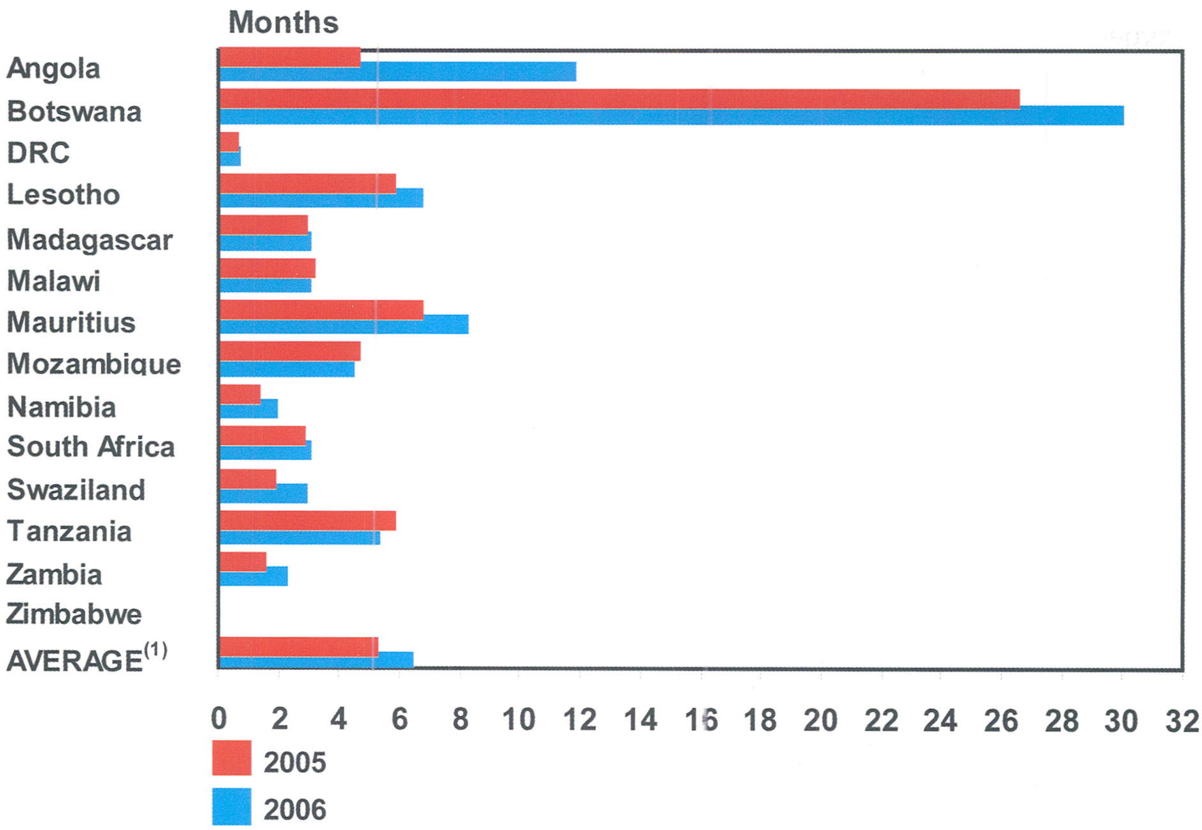
*Sources: SADC central banks*

### 3.1.5.3 Foreign reserve position

Gross international reserves strengthened further in 2006 (see Table S1 in the appendix). On average, the months of imports covered by international reserves increased from 5,2 months in 2005 to 6,4 months in 2006.[3] Botswana retained its position as the SADC country with the highest import cover ratio in 2006 at 30 months. Angola's import cover ratio increased significantly to 11,8 months in 2006 from 4,6 months in the previous year. In 2005, seven countries had enough gross reserves to cover at least three months of imports. This increased to nine countries in 2006 as import cover (in months) increased from 2,9 to 3,0 in Madagascar and from 2,8 to 3,0 in South Africa.

[3] *Data for Zimbabwe not available*

**Figure 3.5: Import cover (months) of reserves in 2005 and 2006**




*Note: [1]SADC average import cover (months) is excluding Zimbabwe*

*Sources: SADC central banks*

#### 3.1.5.4 Exchange Rate Developments

The majority of SADC economies registered currency depreciations in 2006 (see Table S1 in the appendix). In particular, the currencies of Malawi, Botswana and Tanzania depreciated by between 10 and 15 percent against the US dollar. At the other extreme, the currencies in Angola and Zambia appreciated by 7,8 percent and 19,6 percent against the dollar, respectively.

### 3.1.6 Status of macroeconomic convergence in 2006

Macroeconomic convergence has been recognised as a necessary condition to promote regional integration in SADC. Table 4 shows the level of convergence or divergence between member states in 2005 and 2006, compared with the targets and guidelines agreed in the SADC Macroeconomic Convergence Programme. The SADC members that did not achieve the relevant convergence target in 2006 are highlighted in orange.

Table 4 shows, firstly, that the number of SADC Member States that had not attained the convergence target of **single-digit inflation** increased from six in 2005 to seven in 2006.

Secondly, the **fiscal balances** of one country (Zimbabwe) did not comply with the target of keeping the deficit below 5 percent of GDP during 2006. This is an improvement from two countries (Mauritius and Tanzania) in the previous year.

Furthermore, additional progress has been made in the area of **public debt.** Madagascar, Malawi, Mozambique, Tanzania and Zambia benefited from debt relief under the HIPC initiative. In 2006 most SADC countries (with the exception of Mauritius, Tanzania and Zimbabwe) complied with the convergence target of keeping the public debt below 60 percent of GDP.

Fourthly, the **target that the current account deficit as a percentage of GDP** should not exceed 9 percent was not attained by four countries (Malawi, Mauritius, Mozambique and Tanzania) in 2006 as compared with five (Madagascar, Malawi, Mozambique, Zambia and Zimbabwe) in 2005.

**Economic growth** in three countries, namely Angola, Lesotho and Malawi exceeded the 7 percent target in 2006. Three countries had achieved growth of more than 7 percent in 2005 (Angola, Botswana and Mozambique).

Finally, the target that the level of **gross reserves should cover at least three months of imports** was achieved by nine countries in 2006, an improvement from seven countries in the previous year.

**Table 3.4: Status of macroeconomic convergence in 2005 and 2006**

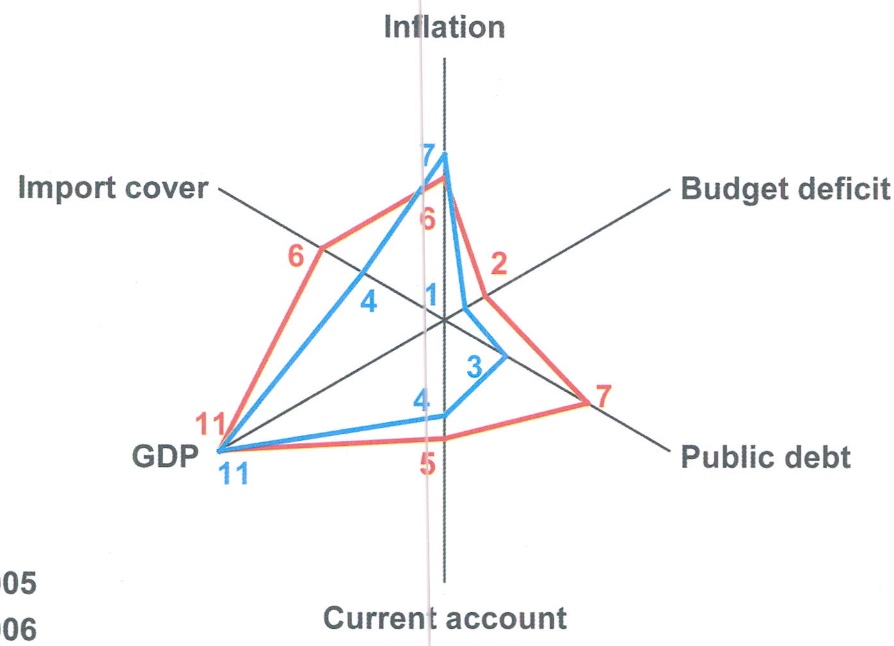
| Country | Inflation rate | | Budget deficit (-) / surplus (+) as percentage of GDP | | Public debt as percentage of GDP | | Current account balance as percentage of GDP | | Real growth rate | | Import cover of gross reserves (months) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 |
| Angola | 18,5 | 12,2 | 7,3[1] | -3,4[2] | 31,9[1] | 19,2[2] | 15,7 | 16,4 | 20,6 | 18,6 | 4,6 | 11,8 |
| Botswana | 8,6 | 11,6 | 1,2 | 8,1 | 4,4 | n.a. | 15,7 | 20,9 | 9,2[5] | -0,9[6] | 26,5 | 30,0 |
| DRC | 21,5 | 18,2 | -1,2 | -0,7 | 3,26 | 2,6 | -4,4 | -7,5 | 6,5 | 5,1 | 0,6 | 0,6 |
| Lesotho | 3,4 | 6,0 | 2,8[1] | 13,3[2] | 50,3[1] | 49,9[2] | -2,2 | 1,8 | 3,0 | 7,2[3] | 5,8 | 6,7 |
| Madagascar | 18,4 | 10,8 | -4,3 | 37,5 | 80,3 | 29,3 | -10,9 | -8,8 | 4,6 | 4,9 | 2,9 | 3,0 |
| Malawi | 15,4 | 13,9 | -0,8[1] | -0,7[2] | 119,0 | 26,3 | -26,8 | -14,0 | 2,3 | 7,9 | 3,1 | 3,0 |
| Mauritius | 4,9 | 8,9 | -5,3[1] | -4,3[2] | 65,9[1] | 61,0[2] | -5,2 | -9,5 | 2,3 | 5,0 | 6,7 | 8,2 |
| Mozambique* | 6,4[4] | 13,3[4] | -2,4 | -1,1 | 73,9 | 52,8 | -11,5 | -9,3 | 8,4 | 6,3 | 4,6 | 4,4 |
| Namibia | 2,3 | 5,1 | -1,1[1] | 2,1[2] | 32,1[1] | 31,4[2] | 6,9 | 18,3 | 4,2 | 4,6 | 1,3 | 1,9 |
| South Africa | 3,4 | 4,7 | -0,4[1] | 0,6[2] | 33,4[1] | 29,3[2] | -4,1 | -6,5 | 5,1 | 5,0 | 2,8 | 3,0 |
| Swaziland | 4,8 | 5,3 | -1,8[1] | -2,1[2] | 16,9 | 17,9 | 7,2 | 8,1 | 2,3 | 2,8 | 1,8[7] | 2,9[8] |
| Tanzania | 5,0 | 7,3 | -5,5[1] | -4,8[2] | 68,3[1] | 63,5[2] | -7,7 | -12,2 | 6,7 | 6,2 | 5,8 | 5,3 |
| Zambia | 18,3 | 9,1 | -2,6 | -2,8 | 64,5 | 25,8 | -11,8 | -1,4 | 5,2 | 5,8 | 1,5 | 2,2 |
| Zimbabwe | 585,8 | 1281,1 | -3,5[1] | -5,5[2] | 162,5[1] | 78,3[2] | -12,0 | -5,5 | -4 | -1,8 | n.a. | n.a. |
| Average, excl Zim | 10,1 | 9,7 | -1,1 | 3,2 | 49,6 | 34,1 | -3,0 | -0,3 | 6,2 | 6,0 | n.a. | n.a. |
| Average, all SADC | 51,2 | 100,5 | -1,3 | 2,6 | 57,6 | 37,5 | -3,7 | -0,7 | 5,5 | 5,5 | 5,2 | 6,4 |
| Convergence Criteria (2004-08) | Single digit inflation rate by 2008 | | Deficit smaller than 5% by 2008 | | Less than 60% of GDP | | Deficit not wider than 9% of GDP | | Not less than 7% | | Not less than 3 months by 2008 | |

*Notes: [1]Fiscal 2005/2006; [2]Fiscal 2006/2007; [3]Preliminary estimates; [4]December to December of the relevant year; [5]2004/2005; [6]2005/2006; [7]December 2005; [8]December 2006*

*Sources: SADC central banks*

In summary, Figure 6 illustrates the level of convergence of the SADC community. The graph indicates the number of SADC members ***that did not*** meet the macroeconomic convergence goals in 2005 and 2006, respectively. It is evident that SADC members have made some progress towards reducing public debt to less than 60 percent of GDP, reducing the budget deficit to less than 5 percent of GDP, reducing the current account deficit to less than 9 percent of GDP and increasing the level of foreign reserves to at least three months import cover. Conversely, the number of SADC countries that did not meet the inflation criteria increased in 2006, while the number of countries that did not meet the growth criteria remained unchanged over the same period.

**Figure 3.6: Status of macroeconomic convergence in 2005 and 2006**




*Note: Numbers shown indicate the number of countries* **not** *meeting the convergence target in the relevant area; closer to the origin is optimal*

*Sources: SADC central banks*

### 3.1.7 Regional Economic Outlook

Africa's near-term growth outlook remains promising, underpinned by robust global growth, improved macroeconomic stability, sustained strong demand for commodities, increased oil production in Southern and Central Africa and increased capital flows. Estimates by the IMF indicate that economic growth in Africa is expected to accelerate to 6,4 percent in 2007. Real GDP growth in Sub-Saharan Africa is projected to accelerate to 6,9 percent in 2007, largely driven by an increase in oil production in oil-exporting countries. Overall, growth in oil-producing countries is expected to accelerate significantly from 5,5 percent in 2006 to over 10 percent in 2007. Growth in oil-importing economies within the region is expected to remain largely unchanged amid robust foreign demand for non-fuel commodity exports.

Based on estimates provided by SADC national central banks, annual average growth for the SADC region is expected to accelerate in 2007 to 7,0 percent from 5,5 percent in 2006 (Table 5). Angola is projected to be the fastest growing economy in both Sub-Saharan African and the SADC region in 2007 due to strong growth in agriculture, manufacturing, construction as well as the expansion of oil production. Other countries in the region strongly contributing to the improved growth rate projected for

2007 include Tanzania, Mozambique, Zambia, the DRC and Madagascar. Growth in Tanzania is projected to reach 7,1 percent in 2007 – reflecting growth in the manufacturing, trade, construction and mining sectors. Growth in the DRC is expected to accelerate to 6,5 percent in 2007 due to growth in the private and agricultural sector as well as increased construction. Economic activity in Madagascar is projected to increase by 6,5 percent in 2007, driven by the tourism, mining and services sectors. The projected average annual 2007 growth rate of the SADC region exceeds the macroeconomic convergence real GDP growth rate target of 7 percent. On a country-specific basis, Angola, Mozambique, Tanzania and Zambia are at this early stage projected to meet the seven-percent target.

For the first six months of 2007, average annual inflation in the SADC region (excluding Zimbabwe) averaged 9,8 percent, increasing from the 2006 average rate for the region of 9 percent. Although the inflation outlook for the first six months of the year has deteriorated relative to the annual average for 2006, the average for the region is still inside the single-digit inflation target. Seven countries, namely Zimbabwe, the DRC, Madagascar, Angola, Zambia, Mozambique and Mauritius, registered double-digit inflation rates. The picture improves somewhat, however, when looking at the latest inflation figures. Annual average inflation for the region (based on each country's latest inflation rate and excluding Zimbabwe) was 9,0 percent. In addition, five countries (Zimbabwe, the DRC, Angola, Zambia and Madagascar) registered double-digit levels of inflation – as inflation in Mauritius and Mozambique declined to the single-digit levels of 8,2 percent and 9,1 percent, respectively. Progress is also being made towards attaining the target of single-digit inflation in the DRC, Madagascar and Zambia. In the DRC, inflation has declined from 23,7 percent in January 2007 to 15,1 percent in June 2007. Furthermore, in Madagascar, inflation has been on the decline for three consecutive months – declining from 14,5 percent in March 2007 to 10 percent in June 2007. Inflation in Zambia has declined in recent months - falling from 12,7 percent in March 2007 to 11,2 percent in July 2007. Inflation in Malawi has declined significantly from 13,9 per cent in 2006 to 8,6 per cent in the first half of 2007 – meeting the single-digit inflation objective. This decline in inflation is largely due to a deceleration in food inflation amid good maize harvests. In Angola, inflation has remained around 12,4 percent since February 2007, while in Zimbabwe, inflation has accelerated from 1 594 percent in January 2007 to 4 530 percent in May 2007.

**Table 3.5: Prospects for 2007**

| Country | GDP growth | | Inflation rate | | | | Budget deficit/ surplus (% of GDP) | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2006 | 2007 | 2007 | 2007 | 2006 | 2007 |
| | | | | Avg. Jan-Jun 2007 | Latest month | Avg. Jan-Dec Projection(6) | | |
| Angola | 18,6 | 19,8 | 12,2 | 12,3 | 12,4(5) | 10,0 | -3,4(1) | -4,4(2) |
| Botswana | -0,9 | n.a. | 11,6 | 6,7 | 7,5(5) | n.a. | 8,1 | n.a. |
| DRC | 5,1 | 6,5 | 13,1 | 21,3 | 15,1(4) | 17,5 | -0,7 | n.a. |
| Lesotho | 7,2 | 4,9 | 6,0 | 6,9 | 8,0(4) | n.a. | 13,3(1) | -3,5(2) |
| Madagascar | 4,9 | 6,5 | 10,8 | 12,4 | 10,0(4) | 9,6 | 37,5 | -5,6 |
| Malawi | 7,9 | 5,5 | 13,9 | 8,6 | 7,7(4) | n.a. | -0,7(1) | n.a. |
| Mauritius | 5,0 | 5,3 | 8,9 | 10,0 | 8,2(5) | 9,0 | -4,3(1) | -3,8(2) |
| Mozambique | 6,3 | 7,0 | 13,3 | 10,8 | 9,1(5) | 6,4 | -1,1 | -4,3 |

| Country | GDP growth | | Inflation rate | | | | Budget deficit/ surplus (% of GDP) | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2006 | 2007 | 2007 | 2007 | 2006 | 2007 |
| | | | | Avg. Jan-Jun 2007 | Latest month | Avg. Jan-Dec Projection(6) | | |
| Namibia | 4,6 | 4,8 | 5,1 | 7,0 | 7,0(4) | n.a. | 2,1(1) | 1,1(2) |
| South Africa | 5,0 | 4,7 | 4,7 | 6,5 | 7,0(4) | n.a. | 0,6(1) | 0,6(2) |
| Swaziland | 2,8 | n.a. | 5,3 | 6,9 | 8,3(4) | n.a. | -2,1(1) | 2,9(2) |
| Tanzania | 6,2 | 7,1 | 7,3 | 6,4 | 5,9(4) | 5,0 | -4,8(1) | -4,2(2) |
| Zambia | 5,8 | 7,0 | 9,1 | 11,7 | 11,2(5) | 5,0 | -2,8 | -2,7 |
| Zimbabwe | -1,8 | 0,2 | 1281,1 | 2753,5 | 4530,0(3) | n.a. | -5,5(1) | -17,6(2) |
| Average, excl Zim | 6,0 | 7,5 | 9,7 | 9,8 | 9,0 | 8,9 | 3,2 | -2,4 |
| Average, all SADC | 5,5 | 7,0 | 100,5 | 205,8 | 332,0 | n.a. | 2,6 | -3,8 |

*Notes: [1]Fiscal 2006/2007; [2]Fiscal 2007/2008; [3]May 2007; [4]June 2007; [5]July 2007; [6]Standard central bank projection*
*Sources: SADC central banks*

## 3.1.8 Conclusions

SADC countries have made further progress towards meeting the convergence criteria. Although the number of countries with single digit inflation declined from eight in 2005 to seven in 2006, nine countries are currently reporting single digit inflation rates. In addition, several countries are making significant strides towards attaining single digit inflation levels. Public debt as a percentage of GDP (including Zimbabwe) improved significantly from 57,6 percent in 2005 to 37,5 percent in 2006 (see Table 4). In addition, 10 countries reported a ratio of public debt to GDP of less than 60 percent in 2006, a significant improvement from seven in the previous year. Although the fiscal balance for the SADC region is expected to deteriorate from an average surplus of 2,6 percent in 2006 to an average deficit of 3,8 percent in 2007 (see Table 5), the region is still expected to be within the convergence target. Furthermore, all SADC countries (for whom data is available) are projected to meet the convergence target of a budget deficit below 5 percent of GDP in 2007, with the exception of Madagascar and Zimbabwe. On a less positive note, countries have made limited progress towards attaining real GDP growth rates above seven percent. Only three countries reported growth rates above seven percent in 2006 - unchanged from three countries in the previous year. However, average growth for the region is projected to accelerate to 7,6 percent in 2007 from 5,5 percent in the previous year. Four countries are projected to register growth rates of seven percent or higher in 2007. However, according to the IMF, downside risks to the region's projected growth rate emanate from a sharper-than-expected global slowdown which would negatively affect the region through dampened commodity prices, and a shift in investor sentiment - which could negatively impact on investment flows into the region. On the other hand, high oil and commodity prices could adversely impact net commodity importers within the Sub-Saharan African region.

# 4. DEVELOPMENTS IN MAIN AREAS OF REGIONAL COOPERATION AND INTEGRATION

## 4.1 Trade and Economic Liberalization

### 4.1.1 Status of Regional Integration

The October 2007 Extra-Ordinary Summit, noted the region's integration agenda leading to the realization of the Free Trade Area (FTA) by 2008, a Customs Union (CU) by 2010, a Common Market (CM) by 2015 and a Monetary Union (MU) by 2018.The region is poised to launch the FTA in August 2008 and accelerate the regional integration agenda of SADC. Progress in this respect is summarized as follows:

### 4.1.2 Implementation of SADC Free Trade Area

***Gazetting of Tariff Phase Downs Status***

Most SADC countries are implementing the Protocol on Trade and have gazetted the 2007 tariff reductions. An audit study on the status of implementation of the Protocol on Trade that will also feed into a parallel study on setting up a monitoring mechanism for the implementation of the Protocol on Trade is in progress

Angola has embarked on an exercise to revamp its customs tariff system that will protect and promote the growth of Angola's industry and will submit its tariff offer for negotiation. DRC had not yet acceded to the Protocol on Trade and DRC should be requested to indicate its position regarding participating in the Protocol on Trade. Madagascar's tariff offer approved by CMT in October 2006, has now been cleared for implementation following the finalisation of outstanding bilateral consultations with Namibia. The Secretariat circulated the gazetted revised offer as well as Madagascar's Instrument of Implementation and Member States are expected to take the necessary steps to extent SADC tariff preferences to products from Madagascar.

**Rules of Origin**

Pursuant to the recommendation from the Mid-Term Review of the Protocol on Trade that SADC should strive for clear, straightforward, transparent, and flexible Rules of Origin; CMT adopted revised rules and outstanding ones to be finalized before the end of 2007. Member States are requested to conclude national consultations on the outstanding rules to facilitate the conclusion of the review process.

**Institutional Mechanism for Monitoring, Reporting and Eliminating Non-Tariff Barriers**

A mechanism to facilitate NTB notification, monitoring and negotiation was adopted. A template and forms were for the Notification of identified NTBs; structure of the proposed SADC institutional, administrative & monitoring plan for the elimination of non-tariff barriers and an Action Plan (template to be completed by each Member State) for the monitoring and elimination of NTBs in particular those already identified by the SADC Inventory Reports was adopted.

**Customs Cooperation and Trade Facilitation**

The October 2006 Extra-Ordinary Summit noted that in order to promote and facilitate trade, there is need to harmonise and streamline SADC customs procedures and instruments. In this regard Summit noted that the following instruments were developed to deepen customs cooperation and enhance trade facilitation: SADC Customs Single Administrative document (SADC-CD), SADC common tariff nomenclature (CTN), Draft SADC Model Customs Act, twelve (12) regional training modules for customs officials and a regional transit management system framework whose purpose was to facilitate extra territorial recognition of single surety and single customs declaration. Implementation of the above instruments by Member States is at various stages.

### Draft SADC Protocol on Trade in Services

A draft SADC Protocol on Trade in Services has been approved which will facilitate liberalization and harmonization of trade in services in the region. The draft will be submitted to Ministers of Justice and Attorneys General for clearance in preparation for presentation to Council and Summit for adoption and signature, negotiations on the liberalization schedules under the envisaged Protocol on Trade in Services will commence soon after signing and entry into force.

### 4.1.3 Examination of the SADC Protocol on Trade by the WTO Committee on Regional Trade Agreements (CRTA)

The SADC Trade Protocol was examined by the WTO Committee on Regional Trade Agreements (CRTA) during its 14 – 16 May 2007 session in Geneva where a Factual Presentation on the Protocol prepared by the WTO Secretariat was considered and the Chairperson declared consideration of the Protocol duly finalized therefore completing the notification process. A formal confirmation from the WTO Secretariat of the official WTO position on the conclusion of the notification process is awaited from the WTO Secretariat.

### 4.1.4 Regional Industrial Policy and Competition Law and Policy

#### *Regional Industrial Policy*

A draft Protocol on Industry which outlines the industrial policies and strategies that are to address issues of polarization of industrial activities and unlocking industrial development potential in the region is undergoing its finalization stages.

#### Competition Law and Policy

A special TNF meeting will be convened to consider a report of an Expert Group meeting on Competition Law and Policy. The Competition Law and Policy recommendations which are aimed at regulating business conduct in the region will be presented to the next meetings of the Committee of Minister of Trade and the Ministerial Task Force.

### 4.1.5 SADC Customs Union Preparations

#### *Consideration of the Customs Union Studies*

SADC Customs Union Task Force approved two studies one on an Appropriate Model for the SADC Customs Union, and Study No.2 on Compatibility of Member States' Trade Policies. Drafts reports on the Studies will be considered Ministerial Task Force and recommendation will be submitted to 2007 Summit

#### *Consideration of the Draft SADC Customs Union Road Map*

Summit endorsed an activity matrix to be used as a framework for the preparation of SADC Customs Union road map and directed the Ministerial Task Force to finalise the road map and submit it at its next meeting for adoption. The road map which incorporates the recommendations from the two studies will be submitted to Summit for adoption

### 4.1.6 Finance and Investment Protocol (FIP)

SADC Protocol on Finance and Investment (FIP) was approved by the Summit on the 17th August 2006, in Maseru, the Kingdom of Lesotho, and subsequently signed by: the Democratic Republic of the Congo; Lesotho; Madagascar; Mauritius; Mozambique; South Africa; and the United Republic of Tanzania. At the Extraordinary Summit on 23rd October 2006 in Midrand, Republic of South Africa, the following Member States also signed the FIP: Botswana; Swaziland; and Zimbabwe. It is expected that the remaining four Member States, namely Angola, Namibia, Malawi and Zambia will sign the Protocol at the next Summit that_will be held in August 2007 in Lusaka, Zambia. The ten Member States that have signed the FIP have yet to deposit the instrument of ratification with the Secretariat.

### 4.1.7. Macroeconomic Convergence

Majority of SADC Member States will achieve most of the indicators by 2008. In general terms macroeconomic performance in the region is improving as follows: inflation and fiscal deficits are declining; debt has been stabilised taking into account debt sustainability measures implemented under the Highly Indebted Poor_Countries (HIPC) and Multilateral Debt Relief (MDR) initiatives; current account deficits are diminishing; and growth is rising, albeit slowly.

#### Macroeconomic Monitoring, Surveillance and Performance Unit and the SADC Peer Review Mechanism

There is substantial progress in the operationalisation of the Macroeconomic Surveillance and Performance Unit (MSPU) at the Secretariat to monitor the status and prospects of economic conditions in the Member States and the SADC region as a whole. The Peer Review Panel under Article Twenty, to consist of: the Ministers Responsible for Finance and Investment; and the Governors from the Central Banks Ministers was established.

### 4.1.8 SADC Development Fund

The October 2006 Extraordinary Summit reaffirmed its decision on the establishment of the SADC Development Fund (SDF) and directed the Ministerial Task Force and the Secretariat to accelerate the feasibility studies and modalities for establishing the SADC Development Fund. Work on the SADC Development Fund will commence once the PPDF is implemented.

## 4.2. Infrastructure Support for Regional Integration and Development

The year 2006 was characterised by high level consultations and the development of a regional strategy to refocus and accelerate the regional economic integration agenda. This is a matter that Summit accorded priority and there is no doubt that the path of our goods and services market integration is clearer than even before.

Member States have underscored the importance of infrastructure in unlocking opportunities to trade and development. There is no doubt that our attention this year must be focused on the development of a strategy and road map to accelerate the implementation of trans-boundary infrastructure. A review of the status of regional infrastructure suggests among others the following:

- that our regional energy security is threatened, with demand exceeding supply by 1000 Mega Watts, and that our current portfolio of projects can only deliver adequate proven by the year 2010,

- that our transport corridors are experiencing major bottlenecks due to poor road and rail infrastructure. In fact, unless and until adequate transport infrastructure is provided for the region, our open trade regime will not take off

- that adequate communications and ICT is a key pre-requisite to drive our business at local, regional and international levels, so as to give the region the edge in this globalised world and that whilst good progress has been made in this area, the level of investment falls short of the ultimate

- that there is need to implement an ambitious programme for the provision of infrastructure for water supply and sanitation, dams for hydroelectric energy and irrigation as necessary, in order to support the region's food security, energy security and access to water by all in order for us to meet our targets relating to Millennium Development Goals (MDGs)

- that, given that tourism is one of the fastest growing industries worldwide, there is need to maximise opportunities in this area, thereby enhancing tourism arrivals and receipts for the region. It is gratifying to note that the region has made great strides in developing a strategy for Community Based Tourism (CBT) and our disadvantaged communities are now beneficiaries of this industry.

There is no doubt that it is key for the region to put infrastructure development at the epicentre of our development, and the fact that our Heads of State shall deliberate on the ***"Scaling Up the Implementation of Regional Infrastructure Development"*** signifies the importance our principals attach to this initiative. Our hopes lie in a collective regional approach joint trans-boundary infrastructure development, and the regional action plan will take on board such considerations.

There is no doubt that our regional programme to develop trans-boundary infrastructure will be reinforced by the end of this year, especially following the creation of the Project Implementation Unit (PIU) at the Secretariat, which PIU seeks to create a full time mechanism to develop, package, implement and monitor the programme on regional infrastructure development, in consultation with the member States and other key stakeholders. Radical measures to finance regional infrastructure are to be considered and adopted by Summit.

## 4.3. Food Agriculture and Natural Resources

Agriculture remains the backbone to economies of the majority of our Member States with over 70 per cent of the 240 million people dependent on it for their livelihood. It is a critical player in fostering regional integration through the provision of products and services. Currently, agriculture accounts for about 66% of the total value of intra-regional trade and contributes over 13 % of the total export earnings. Overall, its performance has a strong influence on the rate of economic growth, the level and rate of employment creation, demand for other goods, food security and overall poverty eradication.

Increasing agricultural productivity remains a challenge as this not only requires access to productive resources such as land, improved seed and fertilizer but also well functioning markets as well as good infrastructure. It is in this light that the SADC Secretariat and Member States continue to create a conducive policy environment and develop innovative ways to foster increased agricultural production and productivity. Some of the initiatives currently underway include:

- Development of a Regional Harmonized Seed Legislations System which would increase the number of varieties available to farmers, promote investment and trade in the seed sector.

- Development and securing funding (€12.6 million) on Foot and Mouth Diseases covering Malawi, Mozambique and Zimbabwe and also on the control of other Trans-boundary Animal Diseases (US$21.6 million ) covering Angola, Malawi, Mozambique, United Republic of Tanzania and Zambia.

- The establishment of a Regional Food Reserve Facility, which will ensure availability of physical stocks and financial reserves for use in times of food crisis. This initiative will strengthen the region's capacity to deal with food deficits arising from disasters such as drought, floods and cyclones.

- Implementation of SADC Protocols on Natural Resources (Fisheries, Forestry and Wildlife) is starting to generate spin offs.

Regarding the region's food security situation, current assessments show that all Member States except Angola, Malawi, Mozambique and Tanzania indicate decreases in production compared to last year. South Africa, which normally produces about half of the region's maize, is expected to produce about 7.17 million tones which is below its 10 year average of 9.27 million tonnes. Overall regional cereal deficit is estimated at 4.35 million tones compared to 2.18 million tones last year. Consequently, the number of people requiring humanitarian assistance has also increased from 3.1 in 2006/2007 to 3.6 in 2007/2008 marketing year in four Member States, namely Lesotho (553 000), Mozambique (660 000), Swaziland (345 000) and Zimbabwe (2, 100 000).

## 4.4. Regional Cooperation in Social and Human Development

In the area of social and human development, the region continued to record a decline in its human development index (HDI) largely due to the high burden of both communicable and non-communicable diseases as well as high poverty levels as reflected in limited access to basic social services, especially health, education and decent work opportunities. It is, for instance, estimated that about 50 percent of the population in the SADC region lack access to essential medicines. The impact of this burden is further reflected in the life expectancy in the SADC region of 39.7 years, which is the lowest in the world.

An important challenge is lack of institutional capacity for the region to adequately prepare and present SADC common positions at relevant international fora, including effective regional coordination of key upcoming events such as the 2010 Soccer World Cup. The region needs also to maximize the opportunities offered by culture and sports in promoting regional integration, enhancing the visibility of SADC.

In order to address the above mentioned challenges, the region continued to develop and implement policy measures and strategic frameworks within the context of the RISDP, Continental and Global Commitments such as the Maseru Declaration, NEPAD, Dakar goals, Second Decade of Education and Millennium Development Goals at the programmatic level. To this end, a number of policy and strategic frameworks were developed and adopted. These include a SADC Malaria Strategic Framework; a Framework for the Operationalisation of the SADC HIV and AIDS Fund; a Business Plan for the Implementation of the Regional Pharmaceutical Programme including African Traditional Medicines; the SADC Open and Distance Learning Programme the SADC Declaration on Productivity, the SADC Code on Social Security.

In addition, steps were taken to facilitate the implementation of SADC Protocols on Health and Education and Training that are currently in force. In this regard an Implementation Plan for the SADC Health Protocol was developed and adopted. This Implementation Plan provides an overall framework for effecting the provisions of the Protocol. The Plan identifies, rationalizes and clusters priorities for health in the region with specific goals, strategies, monitoring and evaluation framework and performance indicators. With regard to the Protocol on Education and Training, an Audit on the status of the implementation of the Protocol was undertaken and the results will be used to finalise the Protocol Implementation Plan, whose execution will begin during the 3rd quarter of 2007. With respect to the afore-mentioned capacity constraints, these will be addressed within the context of the Report on the operations of the ICM and the Job Evaluation Exercise.

## 4.5. Cross-Cutting Areas of Regional Cooperation

**On Gender and Development**, since the adoption of the SADC Declaration on Gender and Development in 1997, and its Addendum in 1998, most SADC countries have adopted measures to promote gender equality through the establishment of various programmes and activities at national level. Member States have developed policies for the advancement and empowerment of women, thereby addressing the persistent gaps, inequalities and discrimination. Most SADC countries have ensured the setting up of the institutional framework for full achievement of the empowerment of women and gender equality. This includes the setting up on national machineries, funding frameworks, monitoring and evaluation mechanisms and capacity building.

The SADC region has recorded milestones in the increase of women in the public sector including the executive, the legislature and the judiciary, over the years. Other countries are still working on adopting policies and legislation on affirmative action to increase the participation and representation of women in the public sector, including in decision making positions. Most of the Member States welcomed the increased participation of women in the economy and encouraged employers to act, and support gender equality in the labour market, thus noting substantive poverty reductions. SADC countries are reporting significant gains due to the elimination of discrimination and enhancing women's equity in the social and employment fields.

Improvements in women's health, including women's reproductive health have also been reported within the SADC Member States, especially the reduction of maternal mortality rates. In education, it has been noted that Member States have incorporated gender perspectives in their policies, programs and curriculum. On the other hand violence against women in all its forms, and in particular domestic violence has become a priority area in the legislation policy and programme development of most countries. This is just to mention but a few achievements recorded in the SADC region.

It is also a reality that the SADC region still faces a number of challenges that need to be addressed urgently. Persistent gaps across the region including Stereotypical attitudes and discriminatory practices and occupational segregation are rampant, while violence against women is still on the rise, it also manifests in new forms and patterns. High poverty levels among women have been reported across the region, perpetuating insufficient access and control of economic resources by females. In most parts of the region women and girls continue to face health problems in different dimensions exacerbated by the HIV/AIDS scourge. In education, while women and girls have significantly increased in enrolment, they however still face numerous challenges in lasting through the education system and that impact negatively in their efforts to attain education.

Discriminatory laws continue to deprive women of their rights in all spheres of our societies. In some cases, the absence and limited policies/institutional frameworks for gender equality and the empowerment of women pose as major constraints in attaining gender equality and equity. Most notably has been the inadequacy of monitoring and evaluation mechanisms, which often leads to lack of gender disaggregated statistics and indicators.

Whilst notable progress has been made in the area of gender mainstreaming, a lot still needs to be done to accelerate progress in achieving gender equality that is so necessary for sustainable development and regional integration and cooperation. In addition, mainstreaming at the sector and Directorate level needs to be strengthened as this is a key vehicle to facilitate a holistic approach to gender equality, sensitivity and awareness in general, as a moral issue. To this effect, immense effort shall be made to assist Directorates and units domesticate this noble programme.

## 5. INSTITUTIONAL AND CAPACITY DEVELOPMENT

Institutional and capacity development for regional integration and development is a key priority both at the SADC Secretariat and at Member States. In order to address this issue the SADC Secretariat embarked on a capacity needs assessment of the Secretariat and the SADC National Committees (SNCs). The exercise was complemented by two related studies, the first funded by the EU on financial and administrative procedures, and the other by KPMG oriented to the Secretariat structure and job Evaluation. The assessment identified a number of institutional and human resource capacity constraints faced by the Secretariat and SNCs that require urgent attention in order to develop and strengthen institutional capacities and individual competences.

In terms of capacity and institutional development the restructuring exercise has only partially achieved its objectives. It has provided the Community with a long-term development strategy – the RISDP and a centralised and expanded Secretariat. The overarching objectives of SADC are, however, spurring deeper regional integration, higher rates of economic growth and poverty reduction amongst SADC Member States. To achieve this, adequate capacity and appropriate management and monitoring systems both at the level of the Secretariat and Member States need still to be put in place, strengthened and institutionalised.

In view of the above the assessment on institutional and capacity development needs of the Secretariat and SNCs recommended the development of an Integrated Framework for Capacity Development and a Capacity Building Bridging Capacity. The Integrated Framework for Capacity Development is proposed to set out the key actions that will be required to implement the recommendations of the Assessment.

### Level 1 Actions – Strengthening Capacities of the SADC Secretariat

Applying the principles of the new SADC/ICP Partnership Framework, the Secretariat will also urge ICPs for coordinated support towards the systematic implementation of institutional capacity development programmes, using the vehicle of a "Bridging Facility". In principle, ICPs have expressed support towards the establishment of a Bridging Facility that can provide a mechanism for SADC to rapidly respond to emerging capacity development needs of both, the Secretariat and SNCs.

The Bridging Facility can provide an entry point for ICPs to channel their funding support for the implementation of an agreed institutional capacity development Programme, assuring commonly accepted quality standards in managing and disbursing funds.  It would also provide a temporary vehicle for "on the job training" in operating ICP funds and setting up of a common fund handling process. With the establishment of the Bridging Facility, all capacity development activities can then be funded under a coordinated financing and processing framework.

# 6. CONTINENTAL AND INTER-REGIONAL INTEGRATION

## NEPAD Support to Regional Infrastructure Development

### Background

The New Partnership for Africa's Development (NEPAD) has considered a number of regional projects with the view to providing financing support. The African Development Bank (ADB) was appointed agency to administer funding for NEPAD Projects. To this end, the African Union, the Regional Economic Communities (RECs), NEPAD and the Infrastructure Consortium for Africa, constituted the NEPAD Infrastructure Project Preparation Facility (IPPF) Special Fund, to facilitate the development and packaging of regional infrastructure projects up to the stage of feasibility studies, in order to provide a pipeline of bankable projects for investors. The role of NEPAD has in the main, been confined to this process.

### Progress with Project Development and Packaging

Some measure of progress has been made with the allocation of funds for project development and packaging through NEPAD and in respect of the SADC region, the following projects have received funding:

### Key Challenges with Funding of Infrastructure Projects

The NEPAD Infrastructure Projects Preparation Facility (IPPF) is funded from disbursements from the Infrastructure Consortium for Africa (ICA), whose governance comprises G8 Partners, ADB, NEPAD and the AU. The ICA continues to make pledges for funding for the NEPAD IPPF, but to date US$8.2m has been disbursed for the entire continent and US$1.75 m for projects in the SADC region.

It is critical for the NEPAD Implementation Committee to impress on parties that have made pledges to honour them as soon as possible and formulate modalities for investment in infrastructure in Africa.

**NEPAD – IPPF: Actual and Projected Disbursements for Approved Infrastructure Projects (USD)**

| Project | Amount Approved (USD) | Amount Disbursed as of Dec. 2006 | Percentage Disbursed | Total Disbursed | Percentage Disbursed |
|---|---|---|---|---|---|
| Zambia – Tanzania – Kenya Interconnector | 500 000.00 | 250 000.00 | 50% | 500 000.00 | 100% |
| East African Submarine Cable (EASSY) (Includes COMESA) | 500 000.00<br>250 000.00 | | 0% | 350 000.00<br>175 000.00 | 70%<br>70% |
| Southern African Telecommunications Association (SATA) Backhaul Links | 250 000.00 | | 0% | | 0% |
| Kazungula Bridge | 500 000.00 | | 0% | | 0% |
| Total for Africa | 8 174 000.00 | 850 000.00 | 12% | 2 304 334.00 | 28% |
| Total for SADC | 1 750 000.00 | 250 000.00 | | 1 025 000.00 | 33% |

In summary, NEPAD has approved an amount of USD1, 999,372.00 for the development, packaging and feasibility studies for SADC projects, although the EASSY Project involves both COMESA and SADC.

### *SADC Infrastructure Projects under Consideration for Funding*

The NEPAD IPPF Oversight Committee is currently considering allocation of public funding for the SADC region. These projects have been included in the 2007 Indicative Work Programme and include the following, but exclusively power projects.

| Project | Scope of Activities | Status | NEPAD IPPF Finance (USD) | Total Cost (USD) | Prospective Financiers |
|---|---|---|---|---|---|
| Kafue Gorge Lower Hydroelectric Project | Project Structuring / Transaction Advisory Services | Request Received, Consultation in Progress | 900 000.00 | 1 million | NEPAD IPPF Got |
| Ithezi Thezi Power Generation Project | Project Structuring / Transaction Advisory Services | Request received, Advanced Discussion with DBSA, AFD | 900 000.00 | 1.5 million | NEPAD IPPF DBSA AFD ZESCO |
| Western Corridor (Generation and Transmission) Project | Feasibility Studies / Detailed Design Biding Documents Transaction Advisor | Request Expected in 3rd Quarter | 1 million | 1.5 million | NEPAD IPPF DBSA AFD |
| Zambia – Namibia – Zimbabwe – RSA Power Transmission System | Feasibility Studies / Detailed Design Biding Documents Transaction Advisor | Request Expected in 3rd Quarter | 700 000.00 | 1.5 million | NEPAD IPPF DBSA AFD MIC Trust Fund |
| North Kariba Bank Power Generation Project | Project Structuring / Transaction Advisory Services | Request Received, Advanced Consultations with Govt. of Zambia | 1 million | 1.5 million | NEPAD IPPF DBSA AFD ZESCO |
| **TOTAL** | | | 4.5 Million | 7.0 Million | |

***Challenges with Financing Regional Infrastructure***

The major challenge with the NEPAD Infrastructure Programme is the slow pace of funding by the Infrastructure Consortium for Africa, which allocates funding from the International Cooperating Partners (ICPs). Once the projects have been successfully developed and packaged, it will be necessary for NEPAD to promote the project, in conjunction with RECs, to draw up financing for the said project.

# 7. DEVELOPMENT COOPERATION AND RESOURCE MOBILIZATION

During the period under review, the Secretariat continued dialogue with International Cooperating Partners (ICPs) and other stakeholders, within the context of the new partnership between SADC and ICPs, the Windhoek Declaration, in efforts to mobilise resources for the implementation of the SADC priorities outlined in the RISDP and SIPO. The following highlight the activities undertaken:

## 7.1 Implementation of Windhoek Declaration

Since the adoption of the new partnership between SADC and ICP, Windhoek Declaration, in April 2006 the Secretariat has continued dialogue with ICPs, through the Joint SADC/ICP Task Force to implement activities under the commitments made in the declaration. A Draft Implementation Action Plan has been developed outlining activities that can be implemented under each of the commitment areas. At the same time some activities are already underway.

In this regard, thematic groups have been established in accordance with the priority programmes outlined in the RISDP, to facilitate effective coordination, dialogue, partnership and as a mechanism to give attention to specific priority areas by SADC and ICPs interested in a particular area as well as giving an opportunity for pooling resources together while implementing specific programmes. Operational thematic groups include Water; HIV and AIDS; Transport; Energy; Agriculture and Food Security; Natural Resources and Environment; TIFI; and Institutional Capacity Building. A Lead ICP has been identified for each thematic group to assist the Secretariat in coordinating the activities of a specific group.

## 7.2. SADC-EU Cooperation

Cooperation with the European Union continues with the implementation of the 9th EDF Regional Indicative Programme (RIP), programming for the 10th EDF and negotiations of the SADC/EU Economic Partnership Agreement.

### Implementation of 9th EDF RIP

The End-of-Term Review (ETR) of the 9th EDF Regional Indicative Programme (RIP) conducted at the end of 2006 confirmed the present strategies for SADC-EU cooperation and adjusted the limit for programming to € 146.7 million. This amount represented a reduction of € 15 as a result of the removal of the allocation that had previously been foreseen for the Milange – Mocuba road project in Mozambique.

In March 2007, 13 financing project proposals totalling € 146.67 million had been submitted to the Commission. Only a total of € 88.77 million had been approved by end June 2006, with the remainder to be considered by the EDF Committee in July 2007. Of the proposals submitted, 12 projects totalling € 121.67 have been submitted by the Secretariat, with the remainder for the Humbe-Cahama Road in Angola (€ 25 million) being submitted by the Government of Angola.

With the completion of the 9th EDF programming phase the new challenge has been to accelerate implementation. The level of cumulative individual commitments (contracts) and disbursements for 9th EDF projects at end June 2007 has reached € 28.95 million and € 9.58 million respectively, representing 19.7% and 6.5 % respectively of the adjusted RIP allocation of € 146.7 million. Although modest, this represents a 135 % and 130% improvement respectively on the situation at the same time in 2006. Performance continues to improve despite the complexity of the projects and of their implementation. It is forecast that, at the end of 2007, contractual commitments and disbursements will reach approximately € 47 million (32% of 9th EDF RIP) and € 20.86 million (14% of 9th EDF RIP) respectively.

### 10th EDF Programming

The final draft of the Regional Strategy Paper (RSP) and the Regional Indicative Programme (RIP) was submitted to the European Commission (EC) in September 2006. Although no formal response has been received from the European Commission (EC), indications from the EC are that the SADC 10th EDF regional indicative envelope had been calculated on the basis of the seven Member States negotiating the SADC-EU EPA. Accordingly, a response and final decision on the RSP/RIP would take into account the way in which the SADC-EU EPA process evolves. It should however, be noted that in response to the EC's initial reaction, the SADC EPA Regional Preparatory Task force has drawn up and is implementing a Work Plan for the more detailed identification of activities that might be supported through the allocation made for the implementation of the SADC EPA (presently € 50 million).

It should be noted that the 10th EDF RIP allocation for SADC is €135 million and project preparation activities for this will commence in 2008. The financing mechanism for the 10th EDF RIP would be based on a Contribution Agreement (CA).

An Institutional Audit of the Secretariat has been undertaken to establish the Secretariat's readiness for budgetary support as a major vehicle for EU-SADC cooperation under the 10th EDF and to draw up recommendations for strengthening the capacity of the Secretariat. The Assessment covered two general areas: 1) an assessment of the institution for capacity development, and 2) an evaluation of the institution's procedures by assessing the "four pillars" of: financial management (including planning and budgeting); accounting; procurement; and internal controls.

Recommendations arising from the Institutional Assessment will be addressed through the 9th EDF project "Capacity Building for Regional Integration" and other sources

## 7.3. Status of SADC-EU EPA Negotiations

The SADC-EC EPA negotiations were re-launched in April 2007 following a whole year of suspension between March 2006 and March 2007. During this time, the SADC EPA Group was awaiting a response to the proposed Framework for EPA negotiations.

Following a response from the EC, the negotiations been re-launched, with a revised negotiating structure and a new work programme, both aimed at ensuring that they are completed and a new agreement is in place by 31 December 2007. Technical Working Groups (TWGs) have been established and the focus of the discussions is on market access for goods and related disciplines, including Rules of Origin; Customs Cooperation and Trade Facilitation; Trade Defense Instruments and Technical Regulations on the one hand, and EPA related development issues on the other. Drafts texts in all the SADC priority areas of negotiations are still being developed.

Some positive developments so far in the negotiations include the following:

i) The EC, in accordance with the Framework proposal, has agreed to include South Africa as a full participant in the EPA negotiations and to merge the trade aspects of the RSA/EU Trade Development Cooperation Agreement with those of the EPA. Although this would in the long run lead to the harmonization of the SADC EPA and EU trade regime, the inclusion of South Africa in the EPA is conditional upon the group accepting different treatment of South African products by the EU in its market and improvement of its access into the South African market.

ii) The granting of Duty and Quota Free market access to all-ACP products exported to the EU except for sugar and rice which are subject to transitional arrangements. As indicated in Paragraph 4(i) above, this offer has been given to all ACP countries except South Africa.

Major areas of divergence still exist relating to the scope and content of the EPA negotiations. Major differences pertain to the approach to some trade related areas, namely: services, investment, competition policy, trade facilitation and government procurement where the EC is taking the position that negotiations should result in binding commitments, subject to dispute settlement as this is the only way the EPA would improve competitiveness of markets and facilitate development. The SADC EPA Group proposes cooperative arrangements that would support the development of policy, institutional and regulatory frameworks at both national and regional levels. The EC has so far maintained that if the EPA does not include binding commitments in these areas, EPA related development support can not be extended to support cooperative arrangements.

There is now a new line of thinking regarding the liberalization of trade in services where some members of the SADC EPA Group would like to treat this area differently from the rest of the other trade related issues. Further internal consultations are due to take place with a view to developing a practical approach to dealing with services, taking into account the time remaining for the negotiations.

A major challenge that faces the SADC EPA negotiations and other ACP regions negotiating EPAs is the limited time remaining before the December 31 2007 deadline. A number of issues are still outstanding and agreement has not been reached in some issues of critical importance to ACP regions. In the case of the SADC EPA negotiations, the proposed differentiation for South Africa by the EU not only exacerbates delays through a two track negotiation process, but further complicates the negotiations.

Another challenge relates to programming of the Regional Indicative Programme in view of the overlapping membership. The overall effect is that the $10^{th}$ EDF programme will be delayed pending the outcome of the EPA negotiations.

## 7.4 SADC-India Cooperation

The Secretariat in collaboration with Experts from the Government of India undertook a project scoping exercise was in March 2007 to develop specific projects in the priority areas endorsed for cooperation under the SADC/India Forum. In this regard, the Secretariat has submitted project proposals under Agriculture, Small and Medium Enterprises, Water Resources Management, and Information and Communication Technologies (ICT) to the Government of India for consideration. A response is awaited from the Government of India.

## SADC-Germany Cooperation

The Secretariat held bilateral consultations with the Federal Republic of Germany in September 2007, to discuss implementation of programmes in the focal areas of cooperation, which include SADC Governance and Reform (strengthening of institutional capacities and competences of the SADC Secretariat); Peace and Security; and Trans boundary Water Resources Management.

During the consultations, the Government of the Federal Republic of Germany agreed to allocate to SADC an amount of EUR 25.7 million for the implementation of joint programmes and projects, subdivided into EUR 5.7 million for Technical Cooperation (TC) and EUR 20 million for Financial Cooperation (FC) within the discussed focal areas of support. Implementation of these programmes is on-going.

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# APPENDIX 2 – SADC STATISTICS

Table 001: Population in SADC - Mid year ('000), 2000 - 2005

| Country | % share in 2000 [a] | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|
| Angola | 6.3 | 13,399 | 13,816 | 14,262 | 14,662 | 15,116 | 15,941 |
| Botswana | 0.8 | 1,651 | 1,681 | 1,667 | 1,691 | 1,711 | 1,727 |
| D.R.C. | 24.5 | 52,009 | 53,870 | 55,702 | 57,596 | 59,554 | 59,739 |
| Lesotho | 1.0 | 2,144 | 2,189 | 2,233 | 2,282 | 2,334 | 2,339 |
| Madagascar | 7.1 | 15,085 | 15,529 | 15,981 | 16,441 | 16,908 | 17,382 |
| Malawi | 4.9 | 10,475 | 10,816 | 11,175 | 11,549 | 11,938 | 12,341 |
| Mauritius | 0.6 | 1,187 | 1,200 | 1,210 | 1,223 | 1,233 | 1,243 |
| Mozambique | 8.1 | 17,241 | 17,653 | 18,078 | 18,514 | 18,962 | 19,420 |
| Namibia | 0.9 | 1,816 | 1,830 | 1,860 | 1,891 | 1,923 | 1,957 |
| South Africa | 20.0 | 42,400 | 44,600 | 45,400 | 46,430 | 46,587 | 46,888 |
| Swaziland | 0.5 | 1,003 | 1,030 | 1,056 | 1,081 | 1,105 | 1,108 |
| Tanzania | 15.1 | 31,900 | 32,900 | 33,600 | 34,200 | 35,300 | 37,268 |
| Zambia | 4.7 | 9,886 | 10,060 | 10,356 | 10,666 | 10,987 | 11,700 |
| Zimbabwe | 5.5 | 11,696 | 11,666 | 11,635 | 11,763 | 11,892 | 11,923 |
| **SADC** | **100.0** | **211,891** | **218,840** | **224,214** | **229,989** | **235,551** | **240,976** |

*Source: National Statistics Offices of the SADC Member States*

Table 002: Population Annual Growth Rates (%) in SADC, 2000 - 2005

| Country | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| Angola | 3.0 | 2.9 | 2.8 | 2.8 | 2.8 | 2.8 |
| Botswana | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| D.R.C | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 |
| Lesotho | 2.1 | 2.2 | 2.2 | 2.2 | 2.3 | 2.3 |
| Madagascar | 3.0 | 3.0 | 2.8 | 2.8 | 2.8 | 2.8 |
| Malawi | 3.2 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 |
| Mauritius | 1.1 | 1.0 | 0.9 | 0.9 | 0.8 | 0.9 |
| Mozambique | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |
| Namibia | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 |
| South Africa | 2.2 | 1.1 | 1.1 | 1.0 | 0.9 | 0.9 |
| Swaziland | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 |
| Tanzania | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 |
| Zambia | 2.4 | 2.8 | 2.9 | 3.0 | 3.0 | 2.5 |
| Zimbabwe | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 |
| SADC- Average | **2.5** | **2.4** | **2.4** | **2.4** | **2.4** | **2.4** |

*Source: National Statistics Offices of the SADC Member States*

**Table 003: GDP at Current Prices, 2000 – 2005, (In Million US$)**

| *Country* | % Share in 2005 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|
| Angola [b] | 8.5 | 9,123 | 8,936 | 10,963 | 13,826 | 19,499 | 28,475 |
| Botswana | 2.9 | 4,900 | 4,538 | 5,059 | 7,417 | 8,485 | 9,559 |
| D.R.C [a] | 2.2 | 15,400 | 7,500 | 5,500 | 5,700 | 6,600 | 7,200 |
| Lesotho [b] | 0.5 | 859 | 762 | 708 | 1,065 | 1,396 | 1,500 |
| Madagascar | 1.5 | 3,879 | 4,529 | 4,395 | 5,471 | 4,364 | 5,040 |
| Malawi | 0.6 | 1,291 | 1,838 | 1,696 | 1,583 | 1,879 | 2,156 |
| Mauritius | 1.9 | 4,581 | 4,546 | 4,756 | 5,546 | 6,335 | 6,399 |
| Mozambique | 2.0 | 3,848 | 3,742 | 4,179 | 4,881 | 5,933 | 6,746 |
| Namibia | 1.8 | 3,121 | 3,219 | 3,128 | 4,500 | 5,609 | 6,016 |
| South Africa | 70.3 | 132,682 | 118,193 | 110,736 | 164,667 | 213,097 | 234,347 |
| Swaziland | 0.9 | 1,396 | 1,261 | 1,196 | 1,895 | 2,537 | 2,900 |
| Tanzania | 3.4 | 8,376 | 8,700 | 9,000 | 9,453 | 10,402 | 11,208 |
| Zambia | 2.2 | 3,237 | 3,637 | 3,775 | 4,327 | 5,425 | 7,272 |
| Zimbabwe [b] | 1.3 | 7,053 | 10,053 | 18,803 | 6,409 | 3,050 | 4,400 |
| **Total – SADC** | **100** | **199,745** | **181,453** | **183,894** | **236,740** | **294,611** | **333,217** |

*Source: National Statistics Offices of the SADC Member States*

*a Source: The Economist Intelligence Unit Estimates*

*b Source: African Development Bank, Selected Statistics on African Countries, 2006-for Lesotho only for 2004 and 2005*

**Table 004: GDP per capita at Current Prices, 2000–2005, (In US$ per head)**

| *Country* | Indices in 2005 (SADC=100) | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|
| Angola | 129.2 | 681 | 647 | 769 | 943 | 1,290 | 1,786 |
| Botswana | 400.3 | 2,968 | 2,700 | 3,035 | 4,386 | 4,958 | 5,535 |
| D.R.C | 8.7 | 296 | 139 | 99 | 99 | 111 | 121 |
| Lesotho | 46.4 | 401 | 348 | 317 | 467 | 598 | 641 |
| Madagascar | 21.0 | 257 | 292 | 275 | 333 | 258 | 290 |
| Malawi | 12.6 | 123 | 170 | 152 | 137 | 157 | 175 |
| Mauritius | 372.3 | 3,859 | 3,789 | 3,930 | 4,535 | 5,136 | 5,148 |
| Mozambique | 25.1 | 223 | 212 | 231 | 264 | 313 | 347 |
| Namibia | 222.3 | 1,719 | 1,759 | 1,682 | 2,380 | 2,916 | 3,074 |
| South Africa | 361.4 | 3,129 | 2,650 | 2,439 | 3,547 | 4,574 | 4,998 |
| Swaziland | 189.3 | 1,391 | 1,224 | 1,133 | 1,753 | 2,296 | 2,617 |
| Tanzania | 21.7 | 263 | 264 | 268 | 276 | 295 | 301 |
| Zambia | 44.9 | 327 | 362 | 365 | 406 | 494 | 622 |

| *Country* | Indices in 2005 (SADC=100) | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|
| **Zimbabwe** | **26.7** | 603 | 862 | 1616 | 545 | 256 | 369 |
| **SADC** | **100.0** | **943** | **829** | **820** | **1,029** | **1,251** | **1,383** |

*Source: SADC Secretariat, figures derived from data submitted by the National Statistics Offices of the SADC Member States and other Sources, the African Development Bank-African Economic Outlook 2005/2006 and Selected Statistics on African Countries, 2006 respectively.*

**Table 005: Average Official Exchange Rates of SADC currencies, 2000 - 2005**
***(National Currencies per US dollar)***

| Country | Currency | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|
| **Angola** | **New Kwanza** | 10.0 | 22.1 | 43.7 | 74.6 | 85.6 | 87.4 |
| **Botswana** | **Pula** | 5.1 | 5.8 | 6.3 | 4.9 | 4.7 | 5.1 |
| **D.R.C [b]** | **New Zaire** | 21.8 | 206.6 | 346.5 | 405.3 | 425.0 | 473.0 |
| **Lesotho [b]** | **Maloti** | 6.9 | 8.6 | 10.5 | 7.6 | 6.4 | 6.6 |
| **Madagascar** | **Ariary** | 1,353.0 | 1,318.0 | 1,367.0 | 1,239.0 | 1,869.0 | 2,003.0 |
| **Malawi** | **M Kwacha** | 80.1 | 67.3 | 87.3 | 108.6 | 109.4 | 118.4 |
| **Mauritius** | **Rupee** | 26.3 | 29.1 | 30.0 | 28.4 | 27.8 | 29.2 |
| **Mozambique** | **Meticais** | 15,164.0 | 20,454.4 | 23,180.4 | 23,340.9 | 22,501.7 | 23,323.0 |
| **Namibia** | **Dollar** | 6.9 | 8.6 | 10.5 | 7.6 | 6.4 | 6.6 |
| **South Africa** | **SA Rand** | 6.9 | 8.6 | 10.5 | 7.6 | 6.4 | 6.6 |
| **Swaziland** | **Emalangeni** | 6.9 | 8.6 | 10.5 | 7.6 | 6.4 | 6.6 |
| **Tanzania** | **Shillings** | 800.7 | 876.4 | 966.7 | 1,038.4 | 1,089.4 | 1,165.5 |
| **Zambia** | **Kwacha** | 3,111.6 | 3,610.9 | 4,306.9 | 4,733.4 | 4,778.9 | 4,463.2 |
| **Zimbabwe** | **Dollar** | 44.6 | 55.1 | 55.0 | 697.9 | 5,068.7 [b] | 11,081.9 [b] |

*Source: National Statistics Offices of the SADC Member States*

*b Source: African Development Bank-Selected Statistics on African Countries, 2006-for Lesotho only for 2005*

**Table 006: International Reserves (excl. Gold), 2000–2005, end of year (Million US$)**

| *Country/Year* | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| **Angola [b]** | 1,198 | 732 | 376 | 634 | 1,365 | 3,250 |
| **Botswana** | 6,643 | 7,100 | 4,750 | 4,840 | 5,149 | 6,300 |
| **D.R.C [a]** | 51 | 22 | 75 | 97 | 244 | 153 |
| **Lesotho** | 418 | 386 | 406 | 460 | 503 | 582 |
| **Madagascar** | 219 | 318 | 265 | 281 | 330 | 337 |
| **Malawi** | 244 | 189 | 184 | 137 | 129 | 128 |
| **Mauritius** | 960 | 1,093 | 1,354 | 1,706 | 1,824 | 1,845 |
| **Mozambique** | 526 | 531 | 625 | 790 | 961 | 943 |

| Country/Year | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| **Namibia** | 3,154 | 2,344 | 3,215 | 3,426 | 3,616 | 3,633 |
| **South Africa** [b] | 7,534 | 7,472 | 7,639 | 7,971 | 14,720 | 19,515 |
| **Swaziland** | 371 | 377 | 236 | 231 | 227 | 321 |
| **Tanzania** | 943 | 1,157 | 1,529 | 2,038 | 2,296 | 2,049 |
| **Zambia** | 268 | 142 | 490 | 286 | 337 | 560 |
| **Zimbabwe** [b] | 239 | 92 | 106 | 92 | 254 | 155 |
| **SADC** | **22,768** | **22,453** | **21,248** | **22,989** | **31,954** | **39,772** |

*Source: National Statistics Offices of the SADC Member States*

*a Source: The Economist Intelligence Unit estimates*

*b Source: African Development Bank-Selected Statistics on African Countries, 2006*

# APPENDIX 3 – AFRICAN REGIONAL ECONOMIC PERFORMANCE

**Sub-Saharan Africa**

According to the World Bank (2006), GDP in sub-Saharan Africa is estimated to have increased by an impressive rate of 5.7 per cent in 2006, down marginally from 6.0 percent in 2005; and as mentioned before, indicating a third consecutive year of more than 5 per cent growth (Table 2.3). The decline in output in 2006 is attributable to the moderate slow down in South Africa, which for a long time has remained Africa's largest economy and driving force for the continent's growth performance. As table 2.3 shows, excluding South Africa, growth in SSA was steady at 5.8 per cent, with oil exporters growing at 6.9 percent and small oil importers 4.7 percent. The outlook for 2007 and 2008 is improved growth performance over the 2006 level; that is, 6.8 percent and 6.1 percent respectively.

**Table 2.3: Sub-Saharan Africa's Growth Forecast (*Annual percent change unless indicated)***

| | | | | | Estimate | Forecast | |
|---|---|---|---|---|---|---|---|
| | 1991-2000[a] | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| GDP at market prices (2000 US$)[b] | 2.3 | 4.2 | 5.2 | 5.5 | 5.3 | 6.2 | 5.8 |
| GDP per capita (units in US$) | 0.0 | 1.9 | 3.0 | 3.2 | 3.3 | 3.3 | 3.5 |
| PPP GDP[c] | 3.2 | 3.8 | 5.4 | 5.7 | 5.6 | 5.7 | 5.7 |
| Private consumption | 1.9 | 0.6 | 5.6 | 5.8 | 5.3 | 4.5 | 4.6 |
| Public consumption | 2.9 | 7.2 | 5.7 | 5.7 | 5.0 | 5.9 | 5.9 |
| Fixed investment | 3.8 | 7.7 | 13.6 | 9.0 | 13.6 | 8.7 | 8.7 |
| Exports, GNFS[d] | 4.3 | 7.5 | 6.0 | 6.8 | 5.7 | 7.2 | 7.1 |
| Imports, GNFS[d] | 4.3 | 7.3 | 9.5 | 9.2 | 10.3 | 7.7 | 7.7 |
| Net exports, contribution to growth | 0.7 | -1.7 | -3.0 | -3.9 | -5.6 | -5.9 | -6.3 |
| Current account balance/GDP (%) | -2.1 | -1.0 | -0.2 | 0.8 | 0.3 | -0.2 | -0.9 |
| GDP deflator (median, LCU) | 10.0 | 5.7 | 6.4 | 6.7 | 5.8 | 4.6 | 5.0 |
| Fiscal balance/GDP (%) | -4.4 | -2.6 | -2.4 | -1.3 | -1.0 | -1.2 | -0.9 |
| *Memo items:* GDP | | | | | | | |
| Sub-Saharan Africa, excluding South Africa | 2.6 | 5.0 | 5.7 | 5.9 | 5.8 | 6.2 | 6.1 |
| Oil exporters | 2.4 | 6.7 | 6.6 | 7.0 | 6.9 | 7.5 | 7.2 |
| CFA countries | 2.5 | 3.5 | 5.0 | 4.3 | 4.1 | 3.6 | 4.4 |
| Kenya | 1.7 | 3.0 | 4.9 | 5.8 | 4.9 | 5.1 | 4.9 |
| Nigeria | 2.2 | 10.7 | 6.5 | 6.2 | 4.8 | 5.1 | 5.4 |
| South Africa | 1.9 | 3.0 | 4.5 | 4.9 | 4.6 | 3.9 | 4.3 |

*Source: World Bank (2006). World Economic Outlook, WB, Washington DC – Online version*

*a. Growth rates over intervals are compound averages; growth contributions, ratios and the GDP deflator are averages*

*b. GDP is measured in constant 2000 US Dollar*

*c. GDP is measured at PPP exchange rates*

*d. Exports and imports of goods and non-factor services*

The strong performance in SSA in the last three years seems to reflect rather favourable international conditions and a substantially improved domestic policy environment in many of the countries which has improved supply potentials. Furthermore, low world interest rate, which has led to strong global growth, fuelled an acceleration of regional exports (particularly exports to China). The higher prices for many of SSA's commodities—oil, metals and minerals—are also important factors in this strong performance.
Similarly, growth among small oil importers remained stable at about 4.7 per cent in 2006 (World Bank, 2006). In West Africa, a recovery in Agriculture, good performance in the industrial sector, and strong exports might have been responsible for the high growth rates. For the SSA aggregate moreover, this strong growth performance in West Africa may have been offset by weaker performance in East Africa where drought-related crop failures and a decline in hydro-based electrical production posted a serious negative effect on growth. Furthermore, the economies of oil exporters were estimated to have grown by about 6.9 per cent in 2006, down marginally from 7 per cent in 2005. This marginal slow down may have been caused by technical difficulties in Chad and the persistent civil strife in the oil-producing Niger Delta area of Nigeria which led to falls in oil output in both countries.

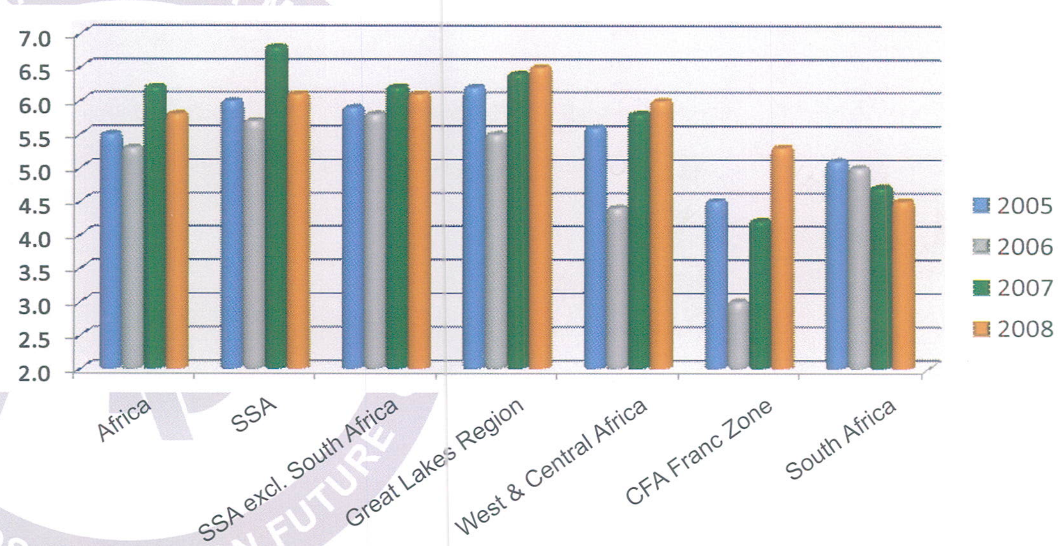
### North Africa

Real GDP growth in North African countries (the Maghreb region—Algeria, Morocco, Libya, Tunisia and Egypt) averaged 4.5 per cent in 2006, slightly above the 4.0 percent recorded for 2005. This is expected to decline further to 4.4 percent in 2007, before levelling off at 5.0 per cent in 2008. Furthermore, growth in Morocco is expected to slow considerably in 2007, (following a bumper harvest in 2006), but activity in Algeria should rebound as hydrocarbon outout recovers following maintenance work in 2006 and public sector investment increases.

### West and Central Africa

Real GDP growth rate in West and Central Africa was 4.4 in 2006, substantially less than the 5.6 percent growth in 2005. This is however projected to improve to 5.8 percent in 2007 and further to 6.0 percent in 2008. In the West African Economic and Monetary Union (WAEMU), consisting of Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo, economic performance continued to be negatively affected by the continued political turmoil in Côte d'Ivoire – the largest economy within WAEMU. Hence a real GDP growth rate for this sub-regional grouping was 3.6 percent in 2006, but expected to improve to 4.7 percent in 2007.

**Real GDP Growth (%) Africa and the Regions, 2005 to 2008**



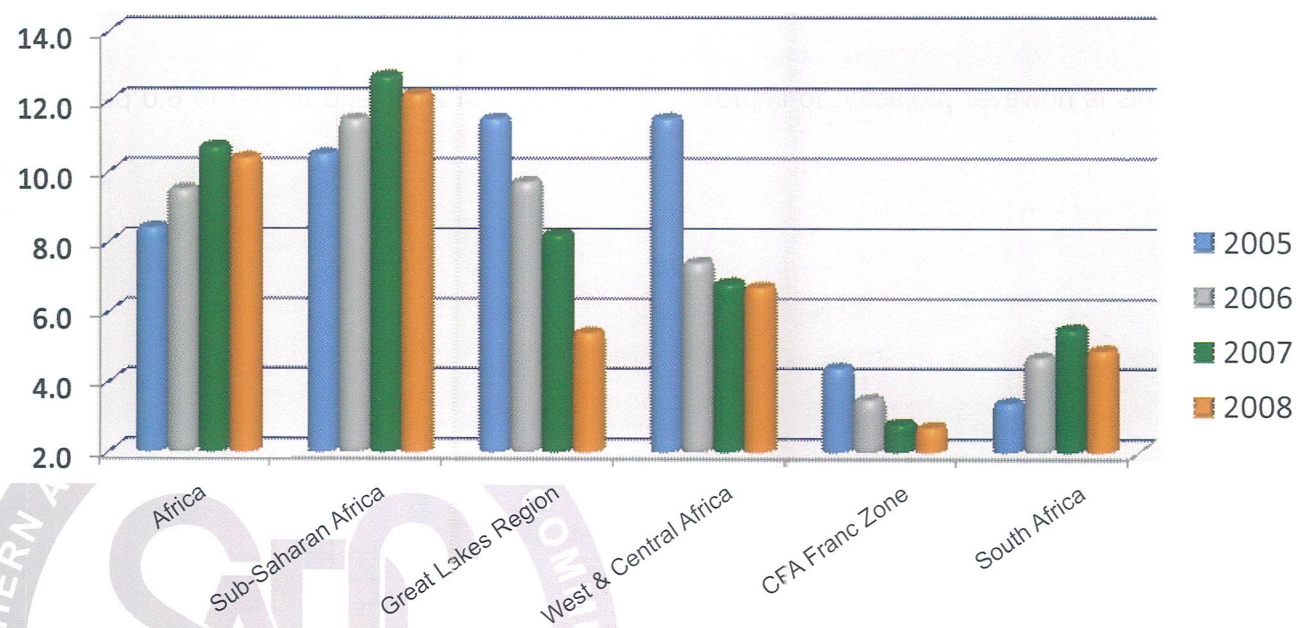
## The Great Lakes Region

Economic growth in the great lakes region (consisting essentially of East African countries) averaged 5.5 per cent in 2006, and is projected to improve to 6.4 percent in 2007 and 6.5 percent in 2008. Tanzania and Uganda continue to be the highest growing countries within the great lakes region, growing at 6.0 per cent, and 5.9 per cent, respectively in 2006. The two countries are also projected to maintain these high growth rates in 2007 and 2008, led in part by the mining and manufacturing sector in Tanzania, and the agricultural sector in Uganda.

## Inflation

As against the rate of inflation of 7.5 per cent in 2004, and 8.4 per cent in 2005, inflation in Africa increased to 9.5 per cent in 2006, occasioned largely by the increasing energy prices in oil-importing countries and unfavourable weather conditions, especially in Southern and West Africa (Table 2.1 and Figure 2.3). Though low world-wide inflation still benefited countries with pegged exchange rates—the CFA franc countries in particular—that still continue to witness rather low rates of inflation. While only 13 African countries experienced double-digit inflation in 2006, Guinea and Sao Tome and Principe had inflation rates of over 20 per cent (33.9 and 21.4 per cent respectively). Moreover, it is projected that Zimbabwe may experience inflation rates of close to 3000 per cent in 2007 and 6,500 per cent in 2008. The Zimbabwean inflation rate may have caused the rather up-swinging in this figure for the Southern Africa region in general (47 % in 2006, 55.5% in 2007 and 60.2% in 2008). However, due to the tighter monetary policy in South Africa, inflation rate is expected to decline from 5.5 per cent in 2007 to 4.9 per cent in 2008.

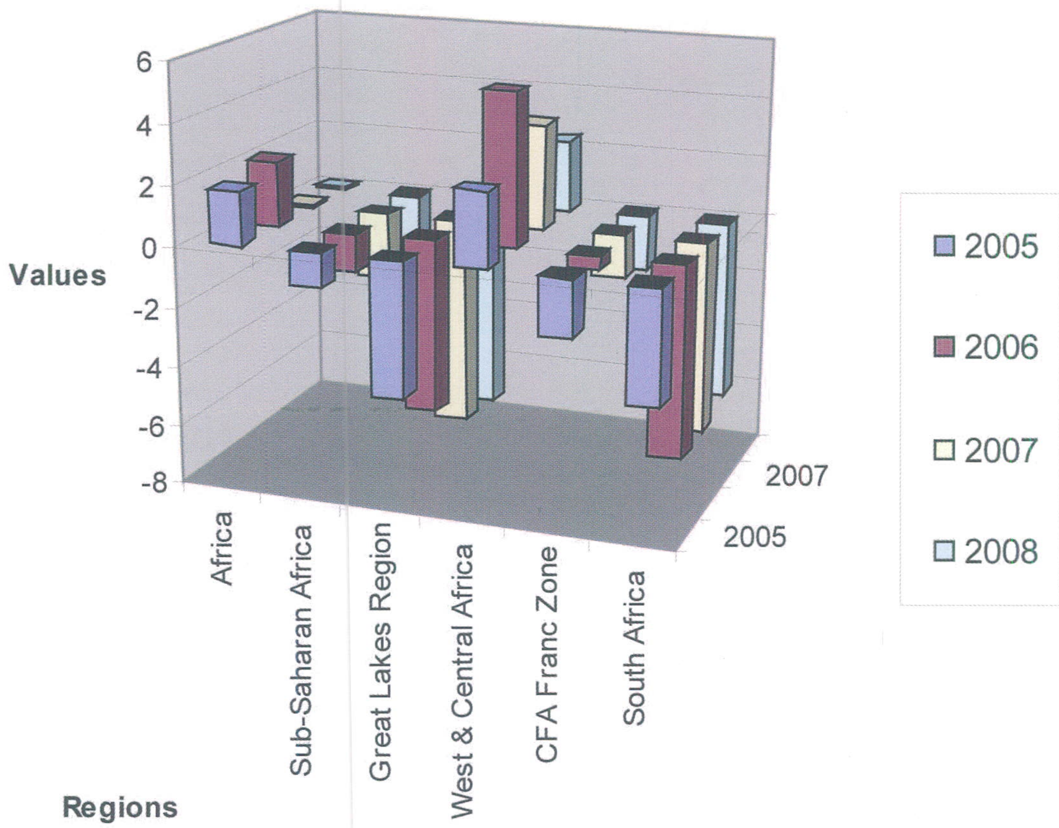
**Inflation Trends: Africa and the Regions 2005 – 2008**



### Trade and Balance of Payments

Africa's average external trade balance recorded a rather large surplus; equivalent to 2.2 percent of GDP in 2006. This continent-wide figure moreover seems to obliterate to a very large extent the observable wide divergences among the different African countries and regions. That is, while the oil-exporting countries recorded a trade surplus of 12.6 per cent in 2006 (up from 11.1 per cent in 2005); the oil-importing countries on the other hand, experienced an increase in their average trade deficit to 4.2 per cent of GDP in 2006, (up from 3.4 per cent in 2005). These developments in trade balances were also far more homogenous within the group of oil-exporting countries than in the group of oil-importing countries. The outlook for Africa indicate a rather reversal of gains for 2007. The conjecture appears to be that Africa's overall balance of payments might have benefited from increased foreign direct investment flows and significantly reduced debt service payments in many heavily indebted poor countries (HIPCs) (AEO, 2005/2006). As of end-2005, 14 African countries had reached their completion points and 10 additional African countries had reached the decision point under the enhanced HIPC Initiative.

**Figure 2.4: African and the Regions, 2005 - 2008**




### North Africa

Northern African countries seemed to have exhibited wide differences in their trade balances in 2006. While Algeria recorded significant increases in its their trade surpluses to about 24.4 per cent of GDP in 2006, Morocco and Egypt only managed to record marginal trade surplus. Tunisia on the other hand had deficits of 2.8 per cent of GDP in 2006. Overall moreover, the Mahgreb countries' trade surplus improved from 11.9 per cent in 2005 to 14.4 per cent in 2006. This overall performance is expected to decline rather sharply in 2007 and 2008, most probably due to projected unfavourable situations in Morocco, Egypt, Tunisia and Mauritania.

### West and Central Africa

Rather significant improvements were recorded in the ratio of trade balance to GDP in this region as a whole in 2006 (5.1 % as against 2.5% in 2005). However, the outlook for 2007 and 2008 shows projected declines to 3.5 per cent in 2007 and further down to 2.4 per cent in 2008. For the individual countries that make up this regional grouping, while an appreciable surplus was registered by Nigeria in 2006, most of the CFA franc zone countries, Ghana and Cameroon, registered declining balances in 2006 that are also expected to continue till 2008.

### The Great Lakes

The average trade deficit in the great lakes region widened in 2006 (5.8 percent as against 4.5 percent in 2005). This was largely attributed to the sharp deterioration in trade deficits in Tanzania (from 5.2 per cent of GDP to 9.3 per cent); Uganda (from 2.1 per cent of GDP to 4.1 per cent); and Kenya (from 3.0 per cent of GDP to 3.3 per cent) between 2005 and 2006.Trade deficits were also noted to have widened in Ethiopia and Djibouti.

### Fiscal Balances

Figure 2.5 shows the fiscal balances in the different regions of Africa for the period 1997 to 2007. The figure reveals, as mentioned previously that in 2006, the overall fiscal balance (average budget balance to GDP ratio) of the group of oil-exporting countries in Africa is projected to be at 7 percent, a situation being attributed to higher oil prices and increased in oil output. The group of non-oil-exporting countries on the other hand may continue to experience negative fiscal balances, though the projected figure for 2007 is at the same level experienced in 2006. For Africa as a whole, the positive fiscal balances of the oil-exporting countries may have provided the respite since 2005—positive figures are being posted in 2005, 2006, and the projected figure for 2007 is a surplus of 1.8 percent.

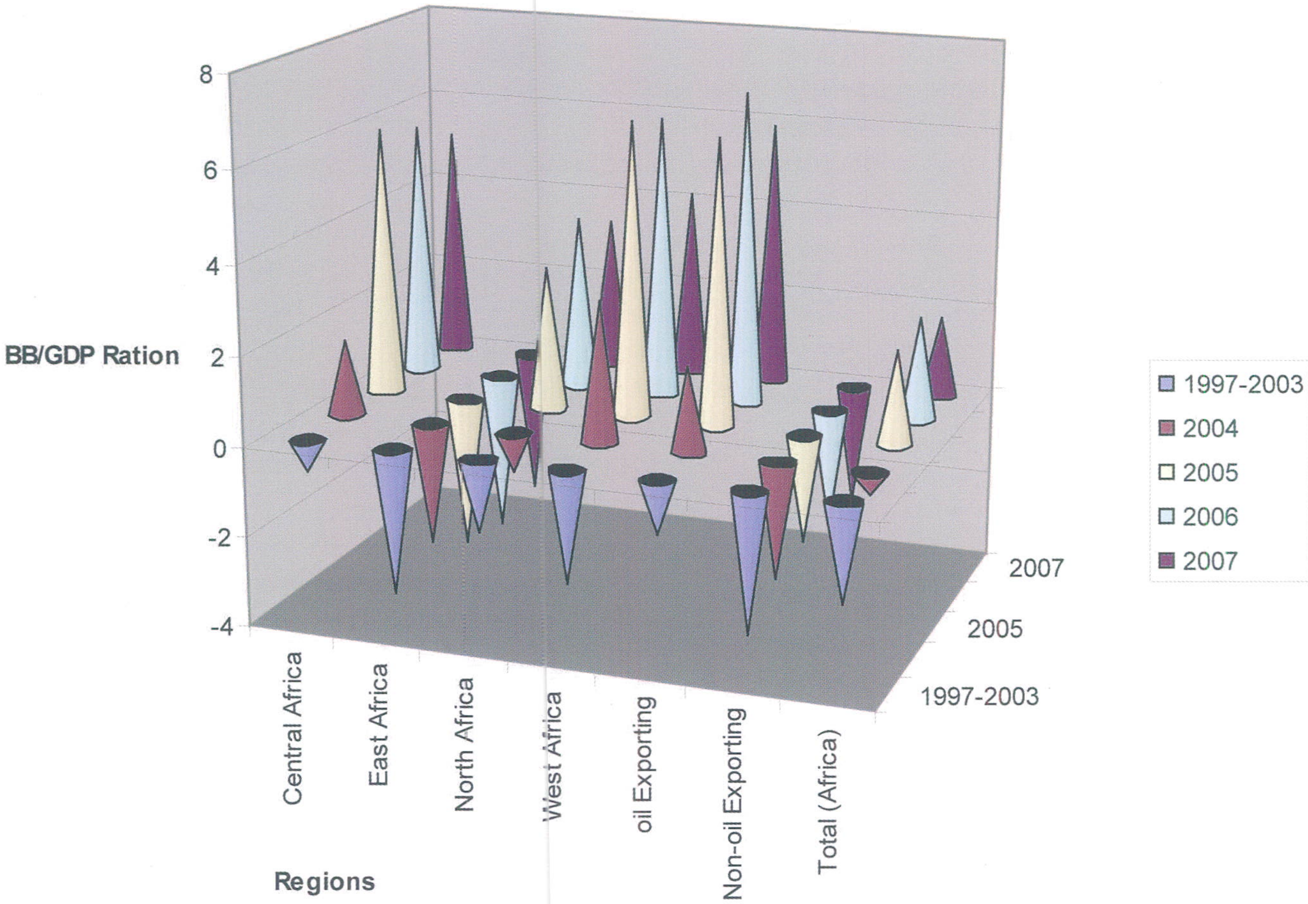
### North Africa

Figure 2.5 also shows that for North Africa, and due to the riding-in influence of the two oil exporters in the region—Algeria and Libya— positive fiscal balance of 3.9 percent of GDP was recorded in 2006 and a projected surplus of 3.4 percent also expected in 2007. Again rising oil prices and oil output in these two countries have been the driving force for the North African situation since 2005.

### West Africa

In West Africa, even though, deteriorating fiscal balances were noted in many of the countries in the region, Nigeria and Guinea that experienced large fiscal surplus since 2005—due to rising oil prices—were able to pull up the fiscal situation. Figure 4 thus shows that in 2006, the fiscal balance was a surplus of 6.3 percent as a ratio of GDP. This is moreover projected to decline slightly to 4.2 percent in 2007.

**Figure 2.5: Regional Fiscal Balances (Average Budget Balance/GDP), 1997 - 2007**




## Central Africa

The fiscal balance situation in Central Africa has since 2004 been provided an impetus by the surpluses being experienced in the Cameroon—the largest economy in the region—Republic of Congo, Gabon and Equatorial Guinea, all oil exporting countries. Thus a fiscal surplus of 6.0 percent of GDP was recorded in 2005, up from 1.7 percent in 2004. This declined slightly to 5.7 percent in 2006, and projected to decline further to a surplus of 5.2 percent of GDP in 2007.

## East Africa

Continued deterioration in fiscal operations has been experienced in Central Africa in the last four years or so. This situation is being attributed to the worsening conditions in the three largest economies of the region—Kenya, Ethiopia and Tanzania. For instance, while Kenya posted a fiscal deficit of 4.4 percent of GDP in 2006, Tanzania and Ethiopia posted negative 10.9 and negative 8.5 respectively. Unfortunately, worsening fiscal balance situations are being projected for these three countries in 2007, (Kenya, -4.5; Ethiopia, -10.7, and Tanzania, -12.7) indicating that the central Africa region will continue to experience fiscal deficits for some time (IMF, 2007).

## NOTES

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