THE GLOBAL ECONOMIC AND FINANCIAL CRISIS AND THE NEED FOR COUNTER-ACTING MEASURES AT SADC REGIONAL LEVEL

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SADC Policy Analysis and Dialogue Programme

The SADC Secretariat is the executive arm of the Southern African Development Community (SADC) with the responsibility of, among other things, undertaking strategy development, planning and monitoring of regional cooperation and integration agenda.

The function of strategic development must be based on quality research and policy analysis on key areas of regional cooperation and integration, most notably on (1) Politics, Defence and Security; (2) Trade and Economic Integration; (3) Infrastructure Development; (4) Food Security, Natural Resources and Environment; (4) Social and Human Developments and (5) Cross-Cutting areas like Gender, HIV/AIDS and Environment.

In the current framework of the “Regional Indicative Strategic Development Plan” (RISDP) the SADC Secretariat has prioritized the above mentioned functions and commenced on a Policy Analysis and Dialogue Programme. The programme is intended to promote regional policy dialogue and debate on key regional integration issues aiming at guiding development of regional policy processes.

During this first year of the programme the SADC Secretariat, with support of the German Development Cooperation (GIZ), will therefore organize diverse Think-Tank workshops, symposia and other regional events to foster the dialogue between researchers and the Secretariat and commission policy papers on key priority issues.
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Executive Summary

i. Background

This issues paper analyses the economic situation in SADC in the aftermath of the global economic and financial crisis (GEFC) and identifies measures of regional integration to reduce the vulnerability of the region to future economic crises. It will serve as a background paper for the SADC Summit of Heads of State and Government in August, 2011. It will also provide additional recommendations for possible incorporation in the envisaged external RISDP review.

SADC Member States have been affected in different ways by the global economic and financial crisis, depending on their economic, financial and trade structures. Reduced export receipts, especially from developed countries, resulted in worsening balance of payments positions, lower fiscal revenues and larger budget deficits. The ultimate outcome of this development has been reduced economic growth, and increasing unemployment and social stress in Member States of SADC.

ii. Overall Economic Performance and Developments in the SADC Region Prior to the GEFC

The SADC region had made progress in promoting economic growth and achieving economic stability before the GEFC. The rate of economic growth averaged more than 6 percent over the five years prior to the crisis; inflation had fallen to single-digit levels before the food and fuel price increases of 2008; and reserves had been built up. Most of the member countries had improved their fiscal performance as indicated by declining fiscal deficits; and they had also improved their debt positions. The regional economy owed this success to sound economic policies; a favourable external environment, characterized by rising commodity prices; and debt relief and aid from donors. After 2007, the SADC region faced macroeconomic risks arising from increasing food and fuel prices, which threatened the economic gains that had been made.

iii. The Global Economic and Financial Crisis

The global recession of 2008 and 2009 started with the crash of the sub-prime mortgage market in the United States (US) in 2007 when holders of mortgage loans defaulted. Among other things, the financial crisis was caused by a housing mortgage boom; guarantees of a bailout, which increased incentives to take excessive risk taking by banks and Wall Street; easy money and speculation in the financial sector; weak bank supervision and controls, and liberal rating of financial institutions by agencies. The financial crisis resulted in a global economic crisis affecting other developed economies mainly through financial links and emerging and low income countries mainly through trade, investment and remittances channels.

iv. Short- and Long-Term Impact of the GEFC in the SADC Region

The global economic and financial crisis adversely affected the attainment of the targets of the macroeconomic indicators and rates of economic growth in most of the SADC Member States. It caused job losses across the region, especially in the mining
sector; decreases in average savings and investment rates; decreases in government revenue and consequent increases in budget deficits; a decline in the average rate of inflation and an appreciation in the average real effective exchange rate; and a widening in the deficit on the current account of the balance of payments. The medium term prospect is for an improvement in most of these economic indicators.

Member States that are overly dependent on oil, mineral, manufactured and tourist export products fared worse than those than depend on agricultural export products. A high degree of concentration in export products and lack of diversification in export markets also adversely affected the export performance of SADC Member States.

v. Identification of Areas/Programmes that Reduce Vulnerability of SADC Member States to Exogenous Economic and Financial Shocks

The value addition of regional integration is that it helped to reduce vulnerability to exogenous economic and financial shocks through implementation by Member States of agreed monetary and fiscal policies that stimulated their economies; implementation of the macroeconomic convergence programme and the consequent attainment of relatively low inflation, budget deficits, debts, and current account deficits, and accumulation of reserves, which facilitated the adoption of stimulus policy packages; implementation of the SADC FTA and the consequent increase in intra-SADC trade which diversified export markets; and implementation of the food security programme and the consequent improvement in food availability and security which lessened the need to import food and reduced pressure on food prices. Other areas/programmes that have potential to reduce vulnerability by providing productive sectors with inputs or reducing their transactions costs are infrastructure, human and social development, gender development, and science and technology.

vi. Additional Strategic Regional Integration Measures

- SADC should rationalize the regional integration agenda and concentrate on those objectives that are more easily achievable and which Member States are ready to implement.

- In order to diversify export markets, SADC should enter into trade and economic Agreements with other regional blocs in the South.

- Member States should expedite the simplification of the rules of origin which are constraining trade within SADC.

- Member States should also implement the recommendation made in 2004 that special provisions be given to small consignment traders so that they too benefit from the trade preferences.

- Immediate action is required to remove tariffs on all goods that are of interest to the poor, such as maize and other agricultural products, as that move will immediately reduce their cost and make it easy for the poor to access such goods.

- Generally, Member States with outstanding implementation obligations need to show a
commitment to implement the SADC trade protocol through concrete actions in liberalizing intra-SADC trade and increase their capacity to supply goods and services in the region.

- SADC should increase the poverty focus of the regional integration agenda in all its priority intervention areas.

1. Background

As stated in the Terms of Reference (TOR), the objective of this assignment is to prepare an issues paper for presentation at the SADC Summit of Heads of State and Government in August, 2011. The paper analyses the economic situation in SADC in the aftermath of the global economic and financial crisis (GEFC) and identifies measures of regional integration to reduce the vulnerability of the region to future economic crises.

The global economic and financial crisis impacted heavily on economies worldwide. While developed countries were hit directly by the financial crisis, overall developing countries suffered more from the consequences following the global economic and trade crisis. SADC Member States were affected in different ways, depending on the economic, financial and trade structures prevailing in those countries. Reduced export receipts, especially from developed countries, resulted in worsening balance of payments positions, lower fiscal revenues and larger budget deficits.

The ultimate outcome of this development has been reduced economic growth, and increasing unemployment and social stress in Member States of SADC. The situation has caused a lot of concern throughout the region and the policy makers would like to identify sustainable measures to reduce vulnerability to future exogenous economic shocks.

As part of the overall response, at their Summit in August, 2011, SADC Heads of State and Government will discuss the economic situation obtaining in the SADC region in the light of the global economic and financial crisis and its impact on the region. The objective of the discussion is to forge a common understanding of the situation and strategies on measures aimed at mitigating the negative effects of the crisis on the SADC region from the regional economic integration perspective.

In particular, the discussion will try to identify potential measures to reduce the vulnerability to future exogenous economic shocks of SADC Member States. The issue will be to identify measures that can be jointly undertaken at the regional level, taking into account the variable geometry prevailing among SADC Member States. The measures identified will contribute to key findings and recommendations to be considered in the revised Regional Indicative Strategic Development Plan (RISDP).

In order to sharpen the focus and fast track the implementation of the integration agenda, at its meeting held in July, 2007, in Lusaka, Zambia, the Council of Ministers approved key priorities and programmes of SADC. These include Trade, economic liberalization and development; Infrastructure in support of regional integration; Politics, defence and security cooperation; Food security,
environment and management of trans-boundary natural resources; Social and human development; Gender and development; Statistics and Science and technology.

At its meeting held in September, 2009, in the Democratic Republic of Congo (DRC), the SADC Council of Ministers directed the SADC Secretariat to conduct a mid-term review of the RISDP in accordance with the directive made in 2003 that the RISDP shall be regularly monitored and evaluated within the stipulated timeframes of its implementation framework.

At the request of the SADC Council of Ministers made in February, 2011, in Windhoek, Namibia, the SADC Secretariat began the Mid-Term Review of the RISDP through an internal desk assessment in consultation with Member States to report back to Council in August, 2011. This assessment will also inform the “Terms of Reference” for the Mid-Term Review of the RISDP. This issues paper is a complement to the current desk assessment of the RISDP. It is expected to provide additional recommendations for possible incorporation in the envisaged external RISDP review.

The rest of the paper is presented in five sections. The second section briefly describes and analyses the overall economic performance and developments in the SADC region prior to the GEFC, the third section briefly describes and analyses the GEFC; and the fourth section briefly describes the short- and long-term impact of the GEFC faced in the SADC region. Within the framework of the RISDP and its current desk assessment, section five identifies areas/programmes that reduce vulnerability of SADC Member States to exogenous economic and financial shocks. Based on the findings, section six develops recommendations on additional necessary strategic regional integration measures that can assist Member States in mitigating the negative effects of economic crises.

2. Overall Economic Performance and Developments in the SADC Region Prior to the GEFC

Until the global economic and financial crisis, the SADC region had made progress in promoting economic growth and achieving economic stability. The rate of economic growth averaged more than six percent over the five years prior to the crisis; inflation had fallen to single-digit levels before the food and fuel price increases of 2008; and reserves had been built up. Most of the member countries had improved their fiscal performance as indicated by declining fiscal deficits; and they had also improved their debt positions. The regional economy owed this success to sound economic policies; a favourable external environment, characterized by rising commodity prices; and debt relief and aid from donors. Below, we briefly explain economic developments immediately before the global economic crisis.

**Economic Growth**

In 2007, high rates of economic growth were recorded in Angola, 19.8 per cent; followed by Malawi, Mozambique and Tanzania, which recorded real GDP growth rates in the region of 7 per cent (see Tables 1 and 2), which is considered to be minimum rate required to reduce poverty. These rates of economic growth were within the regional target of real GDP growth of 7.0 per cent for 2008. The SADC average rate of economic growth in 2007 was 5.9 per cent, almost the same as the average growth rate that was attained in 2006. The rather low average regional rate of economic growth was due to generally low rates of investment and its long gestation period.

**Inflation**

As indicated above, excluding Zimbabwe, the regional average rate of inflation decreased from 9.7 percent in 2006 to 8.3 per cent in 2007 (see Tables
1 and 2). In 2007, single-digit rates of inflation were recorded in all countries, except Angola, Madagascar and Zimbabwe. Most of these countries had also attained the regional target rate for inflation for 2008 of less than 9 percent. However, these gains came under considerable threat in the first half of 2008, when inflation rates were higher than during a comparable period in 2007.

Inflation was contained through prudent monetary policies and improvement in weather in some member countries, which resulted in increased supplies of foodstuffs, and, hence, in reduced pressure on food prices. The risk to continued reduction in inflation was posed by high oil prices and recurring droughts and floods, which might necessitate substantial imports of foodstuffs from abroad.

**Fiscal Balance**

Debt relief under the Highly Indebted Poor Countries (HIPC) Initiative and prudent fiscal policies contributed to the average fiscal balance surplus of 0.6 per cent of GDP in 2007. Although this was lower than the 2.6 percent recorded in 2006, most member countries had already achieved the macroeconomic convergence target for fiscal deficit of less than five per cent of GDP by 2008.

**Table 1:**

<table>
<thead>
<tr>
<th>2006</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Inflation Rate</td>
<td>Fiscal Surplus</td>
<td>Debt to GDP ratio</td>
<td>CAB to GDP ratio</td>
<td>GDP</td>
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<td>SADC</td>
<td>8.6</td>
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<tr>
<td>SADC (Excl ZIM)</td>
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<td>3.2</td>
<td>31.6</td>
<td>-0.3</td>
<td>6.4</td>
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<table>
<thead>
<tr>
<th>2007</th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Inflation Rate</td>
<td>Fiscal Surplus</td>
<td>Debt to GDP ratio</td>
<td>CAB to GDP ratio</td>
<td>GDP Growth</td>
</tr>
<tr>
<td>SADC</td>
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<td>6.6</td>
<td>46.4</td>
<td>-1.6</td>
<td>5.9</td>
</tr>
<tr>
<td>SADC (Excl ZIM)</td>
<td>8.3</td>
<td>1.4</td>
<td>39.0</td>
<td>-1.8</td>
<td>6.8</td>
</tr>
</tbody>
</table>

**Source:** SADC (2008), "Recent Macroeconomic Developments in SADC and Prospects for the Medium-Term" a background paper for the 2008 Mauritius International Conference on Poverty and Development.

**Public Debt/GDP Ratio**

In 2007, the debt/GDP ratios of several member countries declined, except those of DRC, Madagascar, Mauritius and Zimbabwe. Debt relief under the HIPC Initiative and prudent fiscal policies accounted for this development. Most of the member states had already attained the 2008 macroeconomic convergence target for the debt/GDP ratio of less than 60 per cent.

The worrying trend was the increase in the average debt/GDP ratio from 38.3 percent in 2006 to 50.9 percent in 2007. This was largely due to a worsening in the public debt ratio of the Democratic Republic of Congo (DRC).
The current account balance of SADC as a whole deteriorated from a deficit of 0.7 per cent of GDP in 2006 to 1.8 per cent of GDP in 2007, mainly on account of a marked increase in imports. However, this increase in imports was not related to food or fuel. It was due to an increase in demand for intermediate goods for production, construction and infrastructure development.

The worsening in current account balance of the balance of payments performance was quite pronounced in Angola, Botswana, Madagascar, Malawi, South Africa, Swaziland and Tanzania. The current account deficits of these countries were largely financed by capital inflows, grants and loans.

### Table 2:

Macroeconomic Performance of Individual SADC Member Countries 2007

<table>
<thead>
<tr>
<th>Country</th>
<th>Average Annual Inflation</th>
<th>Fiscal Balance/GDP ratio</th>
<th>Debit/GDP ratio</th>
<th>CAB/GDP ratio</th>
<th>GDP Growth Rate</th>
<th>Average Annual Inflation</th>
<th>Fiscal Balance/GDP ratio</th>
<th>Debit/GDP ratio</th>
<th>CAB/GDP ratio</th>
<th>GDP Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>12.3</td>
<td>-3.4</td>
<td>19.3</td>
<td>14.4</td>
<td>18.6</td>
<td>-0.7</td>
<td>11.8</td>
<td>-0.1</td>
<td>na</td>
<td>4.0</td>
</tr>
<tr>
<td>Botswana</td>
<td>17.5</td>
<td>-8.7</td>
<td>2.0</td>
<td>-2.9</td>
<td>2.1</td>
<td>5.0</td>
<td>5.1</td>
<td>4.9</td>
<td>5.3</td>
<td>6.6</td>
</tr>
<tr>
<td>DRC</td>
<td>18.2</td>
<td>-0.7</td>
<td>2.6</td>
<td>-2.4</td>
<td>2.1</td>
<td>9.9</td>
<td>3.1</td>
<td>2.8</td>
<td>10.5</td>
<td>3.7</td>
</tr>
<tr>
<td>Lesotho</td>
<td>6.0</td>
<td>13.3</td>
<td>40.9</td>
<td>1.8</td>
<td>7.2</td>
<td>7.0</td>
<td>5.3</td>
<td>46.6</td>
<td>11.9</td>
<td>5.1</td>
</tr>
<tr>
<td>Madagascar</td>
<td>10.8</td>
<td>31.5</td>
<td>29.3</td>
<td>-9.8</td>
<td>4.9</td>
<td>10.3</td>
<td>4.7</td>
<td>55.3</td>
<td>-19.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Malawi</td>
<td>13.9</td>
<td>-6.2</td>
<td>26.3</td>
<td>-14.6</td>
<td>1.9</td>
<td>7.5</td>
<td>-11.9</td>
<td>22.6</td>
<td>7.7</td>
<td>4.4</td>
</tr>
<tr>
<td>Mauritius</td>
<td>8.9</td>
<td>-4.3</td>
<td>62.8</td>
<td>-9.5</td>
<td>5.0</td>
<td>6.8</td>
<td>3.8</td>
<td>63.1</td>
<td>5.4</td>
<td>5.6</td>
</tr>
<tr>
<td>Mozambique</td>
<td>13.3</td>
<td>-1.1</td>
<td>52.8</td>
<td>-9.3</td>
<td>5.3</td>
<td>8.2</td>
<td>1.9</td>
<td>45.0</td>
<td>5.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Namibia</td>
<td>16.1</td>
<td>-3.1</td>
<td>17.1</td>
<td>13.3</td>
<td>3.6</td>
<td>8.7</td>
<td>2.8</td>
<td>28.3</td>
<td>17.5</td>
<td>3.8</td>
</tr>
<tr>
<td>South Africa</td>
<td>4.7</td>
<td>0.5</td>
<td>20.3</td>
<td>-9.5</td>
<td>5.0</td>
<td>6.2</td>
<td>2.5</td>
<td>27.4</td>
<td>6.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Swaziland</td>
<td>5.3</td>
<td>-2.1</td>
<td>17.9</td>
<td>8.1</td>
<td>2.8</td>
<td>8.2</td>
<td>2.6</td>
<td>5.4</td>
<td>1.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Tanzania</td>
<td>7.3</td>
<td>-4.8</td>
<td>65.3</td>
<td>-12.2</td>
<td>4.2</td>
<td>7.0</td>
<td>3.8</td>
<td>40.4</td>
<td>-17.1</td>
<td>7.3</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>10.1</td>
<td>-5.5</td>
<td>78.3</td>
<td>-5.5</td>
<td>-1.8</td>
<td>1250.7</td>
<td>-10.0</td>
<td>125.0</td>
<td>-0.8</td>
<td>-6.2</td>
</tr>
</tbody>
</table>


### Macroeconomic Convergence and Medium-Term Prospects

Member countries made remarkable progress towards attaining macroeconomic convergence. For example, the only countries that failed to achieve the 2008 inflation target of less than 9 percent are Angola, DRC and Zimbabwe. On fiscal balance, the only country that did not attain the target is Zimbabwe. And on debt ratios, those that did not achieve it are DRC and Zimbabwe. Madagascar, Malawi and Tanzania failed to achieve the target for current account balance. However, all countries, except Angola, Malawi, Mozambique and Tanzania, failed to attain the economic growth target of seven percent.

Although up to 2007 macroeconomic developments had generally been favourable, subsequently the SADC region faced macroeconomic risks arising from continually increasing food and fuel prices, which threatened macroeconomic stability and the attainment of macroeconomic convergence targets.

### 3. The Global Economic and Financial Crisis

The global recession that engulfed the world economy from the third quarter of 2008 to the second quarter of 2009 started with a sharp rise in demand for housing in the US which was satisfied through mortgage loans. The consequent boom in the housing and real sectors attracted investors and financiers who bought shares and securities of mortgage operators. Given this development, prices of these securities soared and the stock market boomed. Ultimately, borrowers and those who contracted mortgage loans defaulted in 2007. As a result, banks began to experience liquidity problems. Perceiving risks, depositors carried out massive withdrawals of their money. This action further aggravated the liquidity problem of the banking system, which curtailed lending to real sectors of the economy (Abu and Ben, 2009).

In brief, the crisis, which started as a financial crisis, was caused by a housing and mortgage boom; guarantees of a bailout and explicit deposit insurance, which increased incentives to take excessive risk taking by banks and Wall Street; easy money and hubris affecting participants in the financial sector; and complex and opaque securitisation. But, as Senbet (2009) pointed out, the crisis also owes its origin to wrong incentives (excessive Chief Executive pay linked to performance), weak bank supervision and controls, poor corporate governance (board capture, lack of transparency and poor disclosure), and liberal rating of financial institutions by agencies.

The crisis first spread to Europe, causing a financial meltdown in several of the world’s most advanced economies whose financial systems are linked to that of the USA and eventually affecting their real
sectors whose output started contracting. The crisis then spread to economies of emerging and low-income countries that have financial links with advanced economies, but their financial markets were not affected to the same extent as European ones. The crisis affected these economies mainly through reduced export trade, reduced foreign direct and portfolio investment, and reduced remittances.

As indicated by rates of economic growth shown in Table 3, the worst affected countries were the economies of the USA and other advanced countries. Emerging economies and low-income developing economies in Africa, the Caribbean, Asia and Latin America were also affected, but to a smaller extent. Apart from the fallout from the American financial crisis, the real sectors had earlier in 2007 and 2008 been hit by the substantial rise in the prices of oil and foodstuffs, which had resulted in inflation and hence a reduction in real disposable incomes and demand. Across the globe, output growth decelerated in 2008, reached the trough in 2009, but started recovering in 2010.

Developed countries responded by pumping funds into their respective economies to maintain economic activity. The stimulus packages were aimed at assisting the poor and increasing investment demand. These resulted in a shorter recession. Developing countries also introduced their own stimulus packages to boost growth of income and employment. There the stimulus packages were aimed at easing supply bottlenecks and supporting exporters and firms that employed many people (Kasekende et al., 2010).

Table 3: World Output: Annual Percentage Changes

<table>
<thead>
<tr>
<th>Regime</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>4.9</td>
<td>4.5</td>
<td>5.1</td>
<td>5.2</td>
<td>3.2</td>
<td>-1.3</td>
<td>1.9</td>
</tr>
<tr>
<td>Advanced economies</td>
<td>3.2</td>
<td>2.6</td>
<td>3.0</td>
<td>2.7</td>
<td>0.9</td>
<td>-3.8</td>
<td>0.0</td>
</tr>
<tr>
<td>United States</td>
<td>3.6</td>
<td>2.9</td>
<td>2.8</td>
<td>2.0</td>
<td>1.1</td>
<td>2.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Euro area</td>
<td>2.2</td>
<td>1.7</td>
<td>2.9</td>
<td>2.7</td>
<td>0.9</td>
<td>-4.2</td>
<td>-0.4</td>
</tr>
<tr>
<td>Japan</td>
<td>2.7</td>
<td>1.9</td>
<td>2.0</td>
<td>2.4</td>
<td>-0.6</td>
<td>-6.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Africa</td>
<td>6.7</td>
<td>5.8</td>
<td>6.1</td>
<td>8.2</td>
<td>5.7</td>
<td>2.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Developing</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Asia</td>
<td>8.6</td>
<td>9.0</td>
<td>9.8</td>
<td>10.6</td>
<td>7.7</td>
<td>4.8</td>
<td>6.1</td>
</tr>
<tr>
<td>Middle East</td>
<td>6.0</td>
<td>5.8</td>
<td>5.7</td>
<td>6.3</td>
<td>5.9</td>
<td>2.5</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: IMF Database.

4. Short- and Long-Term Impact of the GEFC in the SADC Region

4.1 Introduction

As indicated by the data in Table 1, developed countries slipped into recession which reached its trough in 2009. In those countries, consumer spending declined, retail sales went down, industrial production fell, unemployment rose, and government revenue shrank. The recession in those countries also led to a fall in demand for raw materials, and, consequently, a fall in the prices of many Southern African export products. Remittances, foreign direct investment and foreign aid were all adversely affected. In this section, we examine the short- and long-term effects of the global economic crisis in the SADC region mainly through trade, FDI, remittances and aid channels on overall economic performance, and on economic growth, employment, savings and investment, fiscal performance, inflation and exchange rates, and the external account.

The banking sector in the SADC region was not seriously affected by the global financial crisis because it is not closely linked to the US and EU banking sectors. Unlike the banking sector, the capital market was not immune to the global financial crisis, especially those parts that are relatively more integrated into the global financial system. In eight selected stock exchanges (Botswana, Malawi, Mauritius, Namibia, South Africa, Swaziland, Tanzania and Zambia), stock prices declined by 16 percent in December 2008 compared to December 2007. But the fall in stock prices was short-lived, and they started rising from the beginning of 2009 (SADC, 2009).

4.2 Overall Macroeconomic Performance

The impact of the global economic crisis on the overall economic performance of SADC Member States can be gauged by considering how it affected their progress towards achieving macroeconomic convergence. For this purpose, we examine whether they were within the numerical targets for the identified economic indicators, which we have stated above. In the absence
of comprehensive data, the analysis will make use of 2012 targets for the following SADC macroeconomic convergence indicators only:

- Inflation, less than or equal to 5 percent, compared to 9 percent in 2008
- Fiscal balance, less than or equal to 3 percent, compared to 5 percent in 2008
- Public debt, less than or equal to 60 percent, the same as in 2008
- Economic growth, greater than or equal to 7 percent, the same as in 2008

The economic downturn adversely affected the achievement of these targets, with fewer countries achieving them compared to 2007. Of the 13 Member States shown in Table 4 below:

- only three (Mauritius, Mozambique and Zimbabwe) managed to meet the 2012 inflation target, against eleven which met the 2008 target in 2007;
- for fiscal balance, against only three countries (DRC, Zambia and Zimbabwe) managed to meet the 2012 target, against thirteen which met the 2008 target in 2007;
- for public debt, only two countries (the DRC and Zimbabwe) could not meet the 2012 target, against the same number which could not meet the 2008 target in 2007;
- and for economic growth, only one country (Malawi) managed to meet the 2012 target, against four countries that met the 2008 target in 2007.

That said, it is worth pointing out that the inflation and fiscal balance targets for 2012 are more ambitious than those for 2008 and that this may partly explain why a smaller number of countries met the relevant targets for 2012.

### 4.3 Real GDP Growth

From an average increase of 4.9 percent in 2008, real GDP growth decelerated to an average rate of 2.4 percent in 2009, before recovering to 4.9 percent in 2010. The most affected countries were mineral exporting nations like Botswana, Namibia and South Africa where real GDP decreased in 2009 as a result of a marked decline in receipts from mineral exports to developed countries. In countries that are less dependent on mineral exports - Malawi, Mozambique and Tanzania - the rate of economic growth in 2009 was fairly robust. Apart from the fall in export demand and prices, deferred foreign direct investment was another factor that contributed to the unsatisfactory performance of economic growth in the region (SADC, 2010).

#### Table 4:

<table>
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<tr>
<th>SADC – Macroeconomic Convergence Performance 2008-2009</th>
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<tr>
<td>Note: Statistics exclude Madagascar and Seychelles.</td>
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In the first three quarters of 2010, the SADC region enjoyed strong growth due to the FIFA World Cup dividends mainly accruing to South Africa, robust exports and increased activities in mining and manufacturing. However, the momentum of economic recovery lost its strength during the fourth quarter of the year as private consumption weakened in the region (ECA and AU, 2011). The medium term outlook is for a gradual increase in the average rate of economic growth in the region to levels that were experienced before the recession, but below the 7 percent target (SADC, 2010).

#### 4.4 Employment

The decline in the growth of output during the recession was associated with job losses in many SADC Member States. Most of the job losses were experienced in the mining sector. For example, between July 2008 and July 2009, 10,000 jobs were
lost in Zambia’s copper mines alone. By July 2009, 1,000 jobs had been lost in Botswana, while the number of job losses in the mines of the DRC stood at 300,000. Significant job losses were also reported in the mining sectors of Lesotho, Swaziland and Tanzania, as well as in South Africa, where 32,681 workers in the mining industry were laid off as of July 2009 (SADC, 2009a). In Namibia, approximately 2,000 workers were retrenched in the country’s biggest diamond mine, Namdeb, in addition to the retrenchment of 600 workers at Weatherly mines in the copper sector (SADC, 2010).

Considering that jobs were lost in other sectors also, the picture is much worse. In South Africa, for example, available data indicate that the total number of jobs that were lost in 2009 was 900,000. In Botswana, between September 2008 and March 2009, formal sector employment increased by only 0.6 percent (SADC, 2010). In other countries, the availability of data on employment and unemployment is scanty and, in some cases, unreliable. Therefore, the true impact of the economic crisis on employment is difficult to detect.

Job creation in 2010 was disappointing. It remained limited in countries where much of the upturn was driven by capital-intensive extractive sectors which have few forward and backward linkages with the rest of their economies. In other countries, it remained weak owing to modest recoveries, with rates of economic growth far lower than what is required to make a significant reduction in unemployment levels. For example, in South Africa thousands of jobs that were lost in 2009 were not recovered in 2010 because of the modest rate of economic growth. In contrast, in Mauritius the rate of unemployment declined (ECA and AU, 2011).

4.5 Savings and Investment

The slowdown in economic activity adversely affected the rate of domestic savings in the region which fell from 10.5 percent of GDP in 2008 to 9.5 percent of GDP in 2009. Substantial falls in domestic savings were registered in Botswana and Angola. The decline in the rate of savings contributed to a decrease in the investment rate, which declined from 24.8 percent in 2008 to 23.5 percent in 2009. However, there were other factors at work, including a decline in foreign direct investment, in portfolio investment and in remittances (SADC, 2010).

Subsequently, as the recovery got under way, the average rate of national saving in the SADC increased from 13 percent of GDP in 2009 to 15.6 percent of GDP in 2010. On average, investment as a percentage of GDP increased from 23.5 percent in 2009 to 24.9 percent in 2010, which is less than the regional target of 30 percent. The average gross national savings rate is forecast to reach the 2006 and 2007 level of 18.2 percent by 2012. But, the average investment rate is projected to decline slightly in both 2011 and 2012 (IMF, 2011).

4.6 Fiscal Performance

The highlights of the fiscal sector as a result of the global economic recession are as follows:

- A decline in government revenue in most Member States following a slowdown in economic growth. The most affected were those that are dependent on the mineral sector and those in the Southern African Customs Union (SACU). The smaller members of SACU, namely Botswana, Namibia, Lesotho and Swaziland, were adversely affected by a sharp decline in revenue derived from the common customs pool which strained their government expenditures. The global crisis caused inflows into the SACU revenue pool to decline markedly, mainly due to reduced imports by South Africa. In the region as a whole, how ever, government revenue excluding grants declined only marginally from 30 percent of GDP in 2008 to 29.3 percent of GDP in 2009. In 2010, it rose to 30.2 percent of GDP due to improvement in economic performance.
• A marginal increase in grants by 0.2 percentage points from 7.6 percent of GDP in 2008 to 7.8 percent in 2009.

• An increase or maintenance of expenditure at previous levels to finance critical programmes aimed at mitigating the impact of the global economic crisis. On average, government expenditure as a percentage of GDP increased from 30.3 percent in 2008 to 33.8 percent in 2009. Most Member States maintained their 2010 expenditure at the 2009 level.

• A worsening in the fiscal deficit of the region from 2.0 percent in 2008 to 4.9 percent in 2009. The deterioration was more pronounced in SACU Member States than in others. In 2010 the fiscal deficit declined to 3.9 percent of GDP.

• Resort to domestic borrowing for financing most of the deficit.

• In the medium term, government revenues and expenditures are projected to be stable at their 2010 levels. The fiscal deficit will, as a result, deteriorate slightly to 5.2 percent of GDP in 2011, and general government debt will increase to 39.5 percent of GDP in 2011 and 40.4 percent of GDP in 2012 (SADC, 2011; IMF, 2011).

4.7 Inflation and Foreign Exchange Rates

The global recession eased inflationary pressures in the world mainly as a result of stable food prices and modest increases in fuel prices. In conjunction with improvements in food supply in the SADC region, this helped to contain inflationary pressures here in 2009. By the end of that year, Botswana, Lesotho, Malawi, Namibia, Seychelles, South Africa, Zambia and Zimbabwe had registered single digit inflation. Overall, however, the region recorded double digit inflation equal to 12.4 percent in 2009, albeit lower than the 13.8 percent registered in 2008. In 2010, inflation averaged 7.5 percent. This is said to be the lowest recorded average inflation rate in SADC in the past eight years. The general downward trend in inflation in the region is due to adequate supplies of food, which helped to dampen pressures on prices, and moderate increases in fuel prices, which also helped to contain inflation-
ary pressures, especially in the first half of 2010. In the medium term, the downward trend in inflation is expected to continue (ECA and AU, 2011).

In the foreign exchange markets, the global economic crisis brought about downward pressure on exchange rates due to balance of payments problems and dwindling foreign exchange reserves. While some SADC Member States did not intervene in the foreign exchange markets to support exchange rates, others did so. As a result, the nominal effective exchange rate (NEER) index fell marginally by 1 percent in 2009. In contrast, with a reduction in inflation, the real effective exchange rate (REER) index appreciated by 7.5 percent in the same year (SADC, 2011).

4.8 External Account

As the world witnessed the biggest fall in trade in 80 years, a number of SADC Member States experienced major declines in their exports from the fourth quarter of 2008 to the first quarter of 2009. Despite huge inventories from weak demand, in the second quarter of 2009 the fall in exports was reversed, with commodity prices rising. The events of 2009 were associated with a worsening in the terms of trade for the region. As a result, the deficit on the current account of the balance of payments widened from 9.4 percent of GDP recorded in 2008 to 9.9 percent in 2009. Among individual Member States, external account deficits were particularly large in the ones which are highly dependent on mineral exports. The fall in exports and the terms of trade led to a rundown on foreign exchange reserves by Member States. Consequently, foreign reserve positions of several countries came under intense pressure, although the region’s average import cover remained above the minimum of three months.

In the medium term, the volume of regional exports is projected to rise by 9.8 percent in 2011 and 6.3 percent in 2012. Import volumes are projected to increase by 2.8 percent in 2011 and 5.1 percent in 2012. The current account deficit is projected to improve slightly from 8.7 percent in 2011 to 7.0 percent in 2012 (IMF, 2011).

4.9. Lessons for SADC from the Global Economic Crisis

4.9.1 The Structure of Exports

The real sector of the regional economy has been adversely affected by the global recession through the trade channel - a decline in demand for its products in developed countries leading to a decline in prices, export receipts and the incomes of producers. Compared to oil and mineral products, the decline in the prices of agricultural exports has been modest. Therefore, it has not created the same havoc as the more drastic decline in the prices of oil and minerals. Consequently, the rate of growth of real GDP and per capita real GDP declined only slightly or increased in 2009 in the countries that are dependent on agricultural product exports, whereas it decreased in the countries that are dependent on the exports of oil or mineral products. Similarly, the increases in fiscal and balance of payments deficits were lower in countries that are dependent on the exports of oil or mineral products than those that are dependent on the export of oil and minerals.

To illustrate this point, the Southern African economies whose GDP shrunk or grew slowly in 2009; e.g., Angola (2.7 %), Botswana (-3.1 %), South Africa (-1.8 %), and Namibia (- 1.1 %), are generally the ones in which agricultural product exports are an insignificant proportion of total exports. For example, in 2006 the share of agricultural products in the total exports in South Africa was 9 %. Those countries whose GDP grew rapidly in 2009; e.g., Malawi (7.7 %), Mozambique (6.3 %), Zimbabwe (5.1 %), Zambia (6.3 %) and Tanzania (5.5 %), are ones in which generally agricultural exports are a significant share in their total exports. In 2006, the shares of agricultural products in total exports were 86 % in Malawi, 19 % in Mozambique, 38 % in Zimbabwe, and 64 % in...
Tanzania. The exception is Zambia where the share of agricultural products in total exports in the same year was only 9% (World Bank, 2008). Thus, on balance, agriculture appears to have played a stabilising role. But this may not be due to agriculture per se, but due to the nature of the products exported, which are foodstuffs, tropical beverages and tobacco, demand for which is not as pro-cyclical as demand for fibres and other agricultural raw materials in the markets of developed countries.

A related point is that agriculture has a larger share in the national incomes of those countries that grew rapidly than in the national incomes of the ones that experienced low or negative growth rates in 2009. In the former group, the shares of agriculture in GDP in 2006 were 34% in Malawi, 28% in Mozambique, 45% in Tanzania, 22% in Zambia and 19% in Zimbabwe. In the latter group, the shares of agriculture in GDP in the same year were 9% in Angola, 2% in Botswana, 11% in Namibia and 3% in South Africa (World Bank, 2008).

There are two things worth noting here. One is that the act of producing foodstuffs raises overall output and incomes. Two is that countries that produce cereal or maize surpluses do not need to import staple foodstuffs. Apart from avoiding pressure on limited foreign exchange reserves and the balance of payments, this too enhances their GDP, as long as agriculture is a significant proportion of domestic output. Where it is not, as in South Africa, good performance in agriculture and food security is offset by bad performance in other sectors that have a much larger weight in GDP.

The current crisis has taught us that it is hazardous to depend too much on oil, minerals and other industrial raw materials, including those that are agricultural in nature (what some have called the commodity extraction model). So these countries ought to diversify their exports and create employment in labour-intensive activities. One way of doing so is through the development of efficient clusters of modern economic activity supported by special trade preferences, such as the GSP, AGOA and Everything But Arms (EBA). To be successful, these industrial clusters must specialize in a narrow range of activities as part of a global production network (Ntah, 2009). They must also diversify their export destinations and work to expand trade with other African countries and with other Third World regions.

4.9.2 Export Product Concentration and Market Diversification

Diversification in export products also helped countries to withstand the effects of the global recession. Of the countries that experienced economic growth in the SADC region in 2009, most had several products accounting for 75% of their exports dominated by agricultural products. According to the 2009 OECD and African Development Bank African Economic Outlook, the number of export products which accounted for 75% of the total was 6 in Malawi, 24 in Mauritius, 5 in Mozambique, 25 in Swaziland, 36 in Tanzania and 13 in Zimbabwe. In all these cases, agricultural products took a significant share. In Lesotho and DRC, export products were fairly diversified, 6 each; but they were dominated by either minerals or manufactures. In Zambia, the number of export products accounting for 75% of total exports was 4. This too was dominated by mineral products.

Among the countries that experienced low or negative economic growth in 2009, South Africa had 102 products accounting for 75% of its exports. But the dominant groups were minerals and manufactures. According to this criterion, exports were least diversified in Angola (1) and Botswana (3) where the dominant groups were oil and minerals, respectively.

Some authors emphasize the importance of export market diversification in shielding African countries from the effects of the global recession (See, for example, Ntah, 2009). They contend that demands in
various countries will be different because there are bound to be differences in the underlying factors, such as population, income and its distribution, tastes, environmental factors, prices, stocking levels, etc. Therefore, if the destinations of a country’s exports are diversified demand for its products will tend to be more stable than otherwise. In any case, global recession does not affect the export destination countries uniformly.

An analysis of export destinations for SADC member countries has revealed that overwhelming dependence on the markets of developed countries was associated with low or negative economic growth in 2009. For example, Madagascar, which derives over 90 percent of its export receipts from developed countries, experienced a growth rate of -5.0 percent in 2009. Mauritius, which obtains about 80 percent of its export receipts from developed countries, grew by a mere 1.5 percent in 2009. For Madagascar and Mauritius export receipts from emerging and developing countries account for only about 9 and 20 percent, respectively, of total export receipts. In contrast, in Malawi and Tanzania whose export receipts from developed countries are only about 44 and 37 percent, respectively, the rate of economic growth in 2009 was higher at 7.7 and 5.5 percent, respectively. For both countries, emerging and developing countries account for a larger proportion of their export receipts.

4.9.3 Other Lessons

Just as a high degree of dependence on one or a few export products is bad in a global recession, so is a high degree of dependence on one or a few sources of tax revenue, as the experience of non-South African members of SACU has shown. Reserves of government revenue and foreign exchange help countries to weather the impact of a global recession. Diversification into manufacturing industries does not help if the export destinations are badly hit by a global recession.

5. Identification of Areas/Programmes that Reduce Vulnerability of SADC Member States to Exogenous Economic and Financial Shocks

5.1 The Value Addition of Regional Integration

Among other things, the value addition of regional integration is that it has helped to reduce vulnerability to the global economic crisis through the implementation by Member States of appropriate macroeconomic policies which they resolved to adopt in the wake of the crisis; the SADC Trade Protocol; the macroeconomic convergence programme; and the food security programme.

5.1.1 Appropriate Macroeconomic Policies

Member States agreed to:
- cushion and shorten the impact of the crisis on the economies and people of the region by using monetary policies to support economic growth; adopting flexible exchange rates to permit economies to adjust, encourage import substitution and support exports; and increasing or maintaining government expenditure at previous levels.
At their Extraordinary Meeting held in February, 2009, in Cape Town, South Africa, the Ministers responsible for Finance and Investment emphasized the need for urgent and innovative strategies to address the challenges of the global recession, especially the need (i) to take advantage of opportunities in the region, and, in particular, fast-tracking the regional integration process and addressing issues that impede regional trade, such as rules of origin and non-tariff barriers; and improving trade facilitation under the FTA through such measures as the Customs Modernisation and Trade Facilitation Project being implemented with the support of the EU; and environment in the region. According to the 2010 World Bank Doing Business Report, although many member countries carried out reforms to make it easier to start and operate a business, to strengthen property rights and to improve the efficiency of commercial dispute resolution and bankruptcy procedures, the majority slipped in ranking compared to the previous year. For SADC as a region, improving the investment and business environment requires implementing the provisions of the Finance and Investment Protocol which came into force in 2010.

5.1.2 The SADC FTA

The SADC Trade Protocol was signed in 1996. Implementation of the Free Trade Agreement (FTA) started in 2000 and the launch took place in 2008. The FTA is the first step towards liberalising intraregional trade. Between 2000 and 2009, intra-SADC trade grew more than two-fold. This helped to reduce dependence on external markets as intra-SADC trade as a proportion of total SADC trade increased from 15.7% to 18.5% over the same time period (SADC, 2011b).

However, out of 15 Member States, 3 (Angola, DRC and Seychelles) are not participating in the FTA probably because they do not perceive that the benefits of participation outweigh the costs or because they do not want to give up sovereignty to a regional body. Out of the remaining 12 countries which are participating, Zimbabwe has asked for derogation, Madagascar joined late and has until 2012 to implement the required trade liberalization programme, Malawi has been falling behind in its tariff phase down schedules since 2004, and, although on schedule with respect to tariff commitments, Tanzania applied for derogation to levy a 25% import duty on sugar and paper products until 2015 (SADC, 2011b). Besides, the SADC Trade Protocol does not explicitly take into account the interests and needs of the poor or those of micro, small and medium enterprises, including cross-border traders.

While tariffs have come down substantially, non-tariff barriers, such as Rules of Origin, continue to stifle trade in the region. SADC has adopted product specific rules of origin under the FTA which are too trade-restrictive. These rules of origin, initially adopted to promote regional value addition through local processing and to protect against possibilities of trans-shipment and encourage regional accumulation, have served to protect industry in more developed Member States which have the capacity and technology to venture into new areas of processing and manufacturing. SADC should expedite the revision of these rules of origin with a view to making them simpler and easier to use.

Other non-tariff barriers that need reducing include cumbersome customs documentation, long transit time, the high cost of transport, export taxes, import licences, import quotas, subsidies, state trading and monopolies. Of particular importance to trade in agricultural products are Sanitary and Phytosanitary (SPS) standards. Some countries are very strict with SPS standards, others are not. Liberalisation of trade in agricultural products should be accompanied by harmonization of SPS measures with a view to reinvigorate agricultural production. Those countries that still impose tariffs on imports of agricultural products should eliminate them.

The whole Trade and Economic Liberalisation and Development priority intervention area is crucial as its overall goal is to facilitate trade and financial liberalization, competitive and diversified industrial development and increased investment for deeper regional integration. According to the draft report of the Desk Assessment of the Regional Indicative Strategic Development Plan, achievements have been made under goods and services; customs; and finance and investment area. But, in order to attain financial liberalization, competitive and diversified economic development and increased investment, a number of outstanding issues must be addressed. The report notes that the region is yet to diversify away from reliance on primary commodities to value-added manufactures and services (SADC, 2011b).
Apart from liberalizing intra-regional trade, this intervention area also aims at integrating SADC into the global economy. At the global level, this is normally done through World Trade Organisation (WTO) negotiations, where there has been no progress since the failure of the Doha Round. SADC Member States must lobby for a satisfactory conclusion of a more appropriate, development-oriented Doha Round. Bilaterally, the most notable negotiations were those which were carried out with the EU for an Economic Partnership Agreement (EPA) and which were successfully completed in 2007. But this will not help to diversify markets for SADC export products since the EU is already an important export market for the region. Entering into trade and development agreements with other regional economic bloc would help to diversity export markets for SADC. But, so far, the only negotiations carried out and concluded, for a free trade area, are those that have been done with COMESA and EAC.

5.1.3 Macroeconomic Convergence

The attainment, prior to the crisis, of macroeconomic stability in terms of low inflation, low budget deficit, low external debt, low current account deficit, high external reserves, high domestic savings and low central bank credit to the government, helped to reduce vulnerability by facilitating implementation of economic stimulus programmes to cushion regional economies from the effects of the global recession and shorten its impact. These packages aimed at expanding production, creating employment and incomes, and hence stimulating consumer expenditure, and alleviating the plight of vulnerable people. Some took the form of fiscal stimulus through government expenditure on public works, increases in public sector pay, and/or tax measures designed to reduce tax liability and so increase disposable incomes. Others took the form of easy monetary policies, such as increasing liquidity to enable banks to expand credit or reducing the Bank Rate and consequently other interest rates to stimulate demand for credit and so encourage investment expenditure.

The Investment and Finance Protocol provides for the regulation and supervision of commercial banks and non-bank financial institutions. In response to the recent financial shock, a number of member states reviewed the adequacy of capitalisation of their commercial banks and their exposure to risk. Where necessary, they requested commercial banks to increase their capital base and to reduce exposure to risk. Central banks comprehensively reviewed their regulatory and supervisory regimes with a view to identifying areas requiring further improvement. It is necessary that these measures should be extended to all financial institutions to avoid undue risk-taking and not be confined to commercial banks. There is nothing in the Finance and Investment Protocol that would require all Member States to pursue a flexible exchange rate in relation to all other currencies in the world. Some SADC Member States countries maintain the same exchange rate for years. In this way, the exchange rate is allowed to appreciate. The countries concerned benefit from cheap imports which the appreciating exchange rate encourages, but the same exchange rate discourages exports by making them uncompetitive. A flexible exchange rate would enable these Member States to adjust during a recession, encouraging import substitution and supporting exports.

5.1.4 Sustainable Food Security and Agriculture

Improvement in food availability and food security in the region has also helped to reduce vulnerability to the global economic crisis. Food security contributes to economic growth as it reduces pressure on prices, food imports and the balance of payments. But, although overall food availability and food security in the region have improved recently, many people are still reported as food insecure. The Food Security cluster recognises the need to improve food security through measures aimed at increasing food production, improving access to it, food reserves or cash reserves.
5.2 Other Area/Programmes that Can Help to Reduce Vulnerability

5.2.1 Infrastructure Support for Regional Integration and Poverty Eradication

This priority intervention area provides vital inputs in production in other areas and helps to reduce transaction costs in them, and, hence, vulnerability to exogenous economic shocks.

Apart from construction of roads and interconnections of electricity grids, progress in infrastructure projects, especially in the rail sector, has been limited (SADC, 2011b). However, preparatory work has been carried out in terms of the development of enabling policies, systems and processes in areas that have achieved limited progress. In this connection, the newly established Projected Preparation and Development Fund (PPDF) is expected to greatly facilitate project preparation and packaging in the region. But there is a need to improve the capacity of the project coordination unit of the transport sector, especially in the rail sub-sector (SADC, 2011b).

5.2.2 Human and Social Development and Special Programmes

This priority intervention area also provides vital inputs in production in other areas which are necessary for the promotion of equitable economic growth, sustainable socio-economic development of the SADC region and enhancement of its competitiveness in the global economy, and, hence, for increasing its resilience to exogenous economic shocks.

5.2.3 Gender Equality and Development

Women are an important resource for development. Their number exceeds that of men in the SADC region. They account for a significant share of the food and income of households. Therefore, they contribute to the reduction of poverty and development of the regional economies (SADC, 2003). Despite this fact, women constitute the majority of the poor and thus of the people who are vulnerable to exogenous shocks. The poor status of women is a result of their limited access to and control over productive resources such as land, livestock, credit, improved technology. Furthermore, women have limited access to adequate health facilities, formal education and employment, and are overrepresented in the informal sector where returns are extremely low and unreliable. These gender gaps undermine their contribution to the overall development of the regional economy (SADC, 2003). Member States of SADC should, therefore, expedite addressing these gender gaps in order to improve the resilience of women to exogenous shocks.

5.2.4 Science and Technology

The RISDP considers science and technology to be a key driver of socio-economic development and that the achievement of most of the objectives of the SADC Common Agenda may be facilitated by scientific and technological solutions (SADC, 2003). Technological innovation is a key factor in the development and competitiveness of the regional economies, which makes them resilient to exogenous shocks. Attaining food security and developing energy, water, transport, communications infrastructure and human resources in order to make the region less vulnerable to exogenous shocks requires scientific and technological solutions.

5.2.5 Resource Mobilisation and Implementation

The implementation of many of the above measures will require resources. Where are the resources going to come from? The RISDP elaborated on the following sources of finance: public finance, official development assistance (ODA), debt relief, domestic savings, foreign direct investment (FDI) and portfolio investment (FPI), and development finance. The global economic crisis has depressed external inflows and so increased the need to raise domestic resource mobilization. Wherever feasible, SADC member countries should work towards increasing tax and non-tax revenue by, among other things, diversifying and broadening the tax base. They should also work towards increasing domestic savings mobilization by improving incentives for households and individuals to hold more financial assets, introducing appropriate savings instruments, and establishing appropriate money, capital and insurance markets.

The international community will remain an important source of finance. Apart from pledging to bring the world economy out of recession when they met in London in April 2009, and pledging a total of $5 trillion in stimulus measures to boost their own economies, the G-20 pledged other resources
to help developing and emergent economies to fight the economic crisis. Much of the funding will be directed toward the IMF and Multilateral Development Banks (MDBs). The G-20 has also pledged resources for helping to boost trade. Other pledges have been made by the G8 and the USA.

But there is a mismatch between pledges, disbursements and allocations. The IMF, the World Bank and other multilateral development banks have received less than what the G-20 pledged. The actual allocations by these institutions also fall short of expectations. On increasing lending to poor countries, there are no concrete figures and it is not clear whether this will come from new or existing resources. The challenge for SADC is to continue lobbying the G-20, G8, USA and multilateral financial institutions to implement the pledges and to stick to their commitments.

On 28th August 2009, the IMF allocated 283 billion SDRs to supplement the reserves of member states. This was followed by a smaller allocation of 33 billion SDRs on 9th September 2009. The share of SADC member countries in the bigger allocation was about 3.8 billion SDRs, which is not enough. On their part, the IMF, the World Bank and the African Development Bank have stepped up their lending to Africa since the crisis began; reformed several existing loan and assistance programmes; and created new facilities. But the implementation of these facilities is constrained by the unwillingness of rich nations to disburse the resources that they have pledged to these institutions.

The global economic crisis has thus highlighted weaknesses in the global financial architecture and in current aid delivery frameworks used by donors and international financial institutions. SADC member countries and other African countries are concerned about the fact that they are not represented in key forums where important decisions that affect their economies are made. No serious attempt has been to increase the voice of African countries in decision-making by the IMF and the World Bank. SADC and the rest of Africa would like to participate in the Financial Stability Forum and to have increased representation on the IMF and World Bank Boards. They would also like to have permanent representation in the G-20 in addition to South Africa. Alternatively, they could make better use of South Africa’s presence in the G20 (ECA and AU, 2010).

Recent developments have not adequately addressed these African concerns. For example, due to an ad hoc quota increase for China, Korea, Mexico and Turkey in 2006, the relative share of African countries and hence their voice and influence in decision-making at the IMF has declined. Proportional distribution of quotas and SDRs is also not helping, as it reduces the weight of poorer members of the institution. A recent proposal by the G-20 to shift IMF quota share to dynamic emerging markets and developing countries of at least 5 percent from over-represented countries is not sufficient. Also wanting is the G-20 proposal to generate, through a new dynamic formula, an increase of at least 3 percent of voting power for developing and transition countries for the benefit of under-represented counties.

6. Additional Strategic Regional Integration Measures

Rationalization of the Regional Integration Agenda

SADC should rationalize the regional integration agenda and concentrate on those objectives that are more easily achievable and which Member States are ready to implement.

Integrating the SADC Economy into the Global Economy

In view of the impasse in WTO negotiations, and taking into account the need to diversify export markets, it is recommended that SADC should negotiate with other regional blocs in Asia and Latin America for preferential trade and development arrangements.

Commitments to Fully Implementing the SADC Trade Protocol

To address variations in the implementation of the SADC Trade Protocol which affect the effective utilisation of the new trade regime, the following measures are proposed:

- Member States should expedite the simplification of the rules of origin which are constraining trade within SADC.
- Member States should also implement the recommendation made in 2004 that special
provisions be given to small consignment traders so that they too benefit from the trade preferences.

- Immediate action is required to remove tariffs on all goods that are of interest to the poor, such as maize and other agricultural products, as that move will immediately reduce their cost and make it easy for the poor to access such goods.

- Generally, Member States with outstanding implementation obligations need to show a commitment to implement the SADC trade protocol through concrete actions in liberalizing intra-SADC trade and increase their capacity to supply goods and services in the region.

Elimination of All Tariff and Non-Tariff Barriers

In trying to protect the domestic infant industry through trade restrictions and domestic policy interventions countries usually create a bias against exports that prevents the achievement of otherwise attainable rates of growth in export earnings. It is strongly recommended that all forms of tariff restrictions and NTBs should be eliminated except in very exceptional circumstances where such restrictions will be time bound without room for extension to enforce achievement of intended objective within agreed time frames.

Increasing the Poverty Focus of the Regional Integration Agenda

The people who are most vulnerable to exogenous economic and financial shocks are the poor. The SADC Trade Protocol does not recognise poverty or the micro, small and medium enterprise (MSME) sector explicitly. As a result, it proposes trade development, facilitation and promotion measures that are general and do not address poverty or the special problems of MSMEs, including cross-border traders. Similarly, the complementary protocols on finance and investment; transport, communications and meteorology; health; education and training; and energy, do not recognise poverty and do not contain specific measures for addressing the needs of the MSME sector.

For MSMEs that are engaged in agriculture, there is a need to address the problem of inadequate transport and market infrastructure (Transport, Communications and Meteorology Protocol); constraints on access to land, credit, fertilizers and improved seeds; weaknesses in agricultural investment policies, which have led to a decline in investment in agriculture (Declaration on Agriculture and Food Security); weaknesses in the design of macroeconomic policies that lead to unintended bias against smallholder farmers (Finance and Investment Protocol); and trade barriers that stifle intra-regional trade in food (Trade Protocol). As for MSMEs that are engaged in handcraft and other non-agricultural activities, the SADC Trade Protocol should address the problem of the small size of the market and limited sources of raw materials. Limited access to credit for start-up and working capital and limited business, technical and managerial skills should be addressed by the Finance and Investment Protocol. Transport constraints should be addressed in the Transport, Communications and Meteorology Protocol. This and all the other interventions explained should be featured in the RISDP Implementation Framework.

Liberalising Cross-Border Trade

In order to address the problems faced by cross-border traders, the study endorses recommendations that would lead to the adoption of a regional policy framework specific to their needs, simplification of customs documents, elimination of border delays, provision of market spaces in towns, and capacity building and awareness raising among stakeholders, among other things. These recommendations should be reflected in the SADC Trade Protocol and in the RISDP Implementation Framework.

Liberalising Trade Generally

- Ensure that pro poor agricultural products are removed from the sensitive list basket;
- Introduce special forms for clearing goods by small traders who are the poor (along the COMESA simplified trade regime); and
- Introduce new trade facilitation measures at border posts to reduce congestion and waiting period for exporters and importers.
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