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SADC Finance and Investment Sector News

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Special e-mail edition!

FROM THE EDITOR'S DESK

It has been an eventful year for SADC, with some member states having to face up to internal conflicts and regional wars. Also, although most of the SADC countries were not as badly hit by the global economic crisis as other emerging markets, it has not been a particularly good year for SADC economies.

In spite of these developments, the Finance and Investment Sector continued with its programmes, which we hope will contribute to growth, investment and poverty alleviation in the region.

In this newsletter you can read about progress made in the areas of development finance, stock exchanges, central banking, investment, macroeconomics and the Finance and Investment Protocol.

We hope you enjoy your summer (or winter) holidays!

SUBCOMMITTEE ON MACROECONOMIC POLICY

The first meeting of the Macroeconomic Policy Subcommittee was held in South Africa on 20 May 1998. Botswana, Malawi, Mauritius and South Africa were nominated to serve on the Working Group of the Subcommittee, with Mauritius chairing the meetings.

The Macroeconomic Policy Working Group met in Mauritius from 15 – 16 September 1998. In line with the recommendations made by the Macroeconomic Subcommittee, the Working Group was tasked with the responsibility of drafting the sub-committee's work programme, which could also provide the basis for formulating a macro-economic convergence strategy in the SADC region. The Working Group had to decide on the tasks, timetable and parameters to be adopted by the Subcommittee. This exercise was expected to provide inputs into the finalisation of the SADC Finance and Investment Protocol.

The Working Group identified a set of macroeconomic indicators, which Member States would be requested to supply targets for, over the short, medium and long term. The Working Group formulated a ***SADC Macro-Economic Indicators and Targets Document***. This document lists the macro-economic indicators which will be used to evaluate the direction the region is taking. Included here are economic and monetary policies, output, inflation and exchange rate movements, public finance, debt, labour force and employment, and external equilibrium.

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The average of the seven best performances within the SADC region, using the already identified macroeconomic indicators, was declared the regional target. This will progress in phases – i.e. the target will move to 5 best performances in 4-5 years.

In order to develop a system for monitoring and analysing SADC country performance in line with the proposed macroeconomic targets, and to report progress towards growth and policy convergence, the *Macro-Economic Performance and Prospects Report - MPP* – was proposed. This will be an annual report that will review the performance of SADC member countries in line with the goal of regional convergence and will also recommend policies necessary for the attainment of the stated objectives. The Working Group resolved that a questionnaire on targets and policies over the short, medium and long run be prepared, and then completed by Member States. The timeframe was defined as follows:

Short run: 1999 – 2000
Medium run: 2001 – 2003
Long run: 2004 - 2008

Compliance with SADC wide targets will be based on moral suasion.

The meeting concluded that the definitions of economic variables should be compatible with global standards (UN System, IMF etc). Guidelines would therefore be prepared to assist member countries to fill the questionnaire and to ensure consistency.

The Working Group noted that responsibilities within the jurisdiction of the Macroeconomic Subcommittee were too extensive. This means that in order to realise the objectives, there needs to be proper co-ordination between the Macroeconomic Subcommittee on the one hand and forums such as Committee of Central Bank Governors, the Subcommittees on Taxation and Investment and the SADC Statistics Committee on the other. The Working Group proposed that the establishment of a Macro-Economic Cell be taken up with the Committee of Senior Treasury Officials. Since Mauritius chairs the subcommittee, the Macro-Economic Cell will be based in Mauritius.

The Working Group concluded that, sequential to ensuring effective macro-economic co-operation, there is a need for the creation of a regional growth strategy. This strategy, while seeking to improve economic activity in the SADC region, will also seek to minimise spill-over effects of national economic policies. This should be premised on the management of our economies in a manner that will achieve the objectives of stability, growth and development in all member countries. The longer-term view would be to pursue common macroeconomic policies, the impact of which could be measured by the agreed targets for specific indicators.

COMMITTEE OF STOCK EXCHANGES

The SADC Committee of Stock Exchanges, consisting of all the Southern African exchanges, is working together to promote investment in the SADC region. The Committee aims to make the entire region more accessible to international investors through harmonisation and adherence to international standards (in terms of listing rules, clearing and settlement procedures, etc.) The Committee also aims to foster greater cross-border activities between the exchanges, making use of instruments such as depository receipts and dual listings.

At their most recent meeting, in October in Gaborone, the SADC stock exchanges finalised their discussions on harmonising their listing requirements with those of the Johannesburg Stock Exchange (JSE). It is anticipated that by early next year all the stock exchanges will have completed the process, whereupon the Committee plans to issue a public notice to this effect in the hope that this will encourage dual listings. There are also plans to harmonise bond listing requirements in the future.

The Committee also initiated a project on Electronic Clearing and Settlement. After a recommendation by the Fidiration Internationale des Bourses des Valeures (FIBV), the exchanges decided that the central depository and clearing system operating in Mauritius should be used in all exchanges currently without such a system. However, this excludes the JSE, which is putting its own system in place, and the Namibian Stock Exchange, which plans to utilise the JSE's systems. Funding still needs to be procured for this project as most of the participating exchanges are small and have very limited resources. The estimated cost of the project is US$1.9 million.

A contentious issue brought up at the meeting was the South African Financial Services Board's (FSB's) regulations regarding investing on SADC exchanges. The FSB only recognises exchanges that are members of the FIBV, and as such, South African institutional investors are not allowed to invest on any of the other SADC exchanges (South Africa is the only exchange in SADC to belong to the FIBV). The Committee expressed concern about this, however, as membership of the FIBV is costly. The FSB did, however, agree to bilateral recognition of SADC exchanges, provided that they met certain criteria. The Zimbabwe Stock Exchange has already approached the FSB in this regard.

The Committee also aims to harmonise educational standards of market practitioners. It was agreed that the Registered Persons' Exam, as written in South Africa, is an appropriate entry-level examination for all exchanges. Ways and means of making this examination available in all countries are being investigated.

SADC COMMITTEE OF GOVERNORS:

BI-ANNUAL MEETING

The Committee of Governors of Central Banks in SADC held its seventh meeting in South Africa on 23 October 1998. With the accession of the Democratic Republic of the Congo and the Republic of Seychelles, the Committee currently consists of fourteen central banks. The two new members will attend the next meeting of the Committee. Representatives of all the other member central banks attended the meeting, as did representatives from the Finance and Investment Sector Co-ordinating Unit (FISCU), the SADC Secretariat, the SADC Banking Association and the Committee of Stock Exchanges in SADC.

The Committee discussed the current international financial situation and the effects of the international currency turmoil for the countries of Southern Africa.

Members exchanged views on the practices and policies followed by each central bank in respect of the provision of accommodation to banking institutions. There is a general inclination to move more towards indirect market-based policies and away from direct controls.

Attention was also given to the very important subject of Year

2000 compliance with computer and information technology services. A workshop of officials of central banks will be held in South Africa in the beginning of December 1998 to assist central banks with their internal adjustment programmes.

A database consisting of **statistics** from SADC central banks has been available since last year. There are now further plans to improve the database, including dealing with various types of interfaces, creating the data links and conversions required for electronic data dissemination and also creating the *SADC Economics and Statistics* interactive web. The IT Forum will provide training and technical assistance in the use of the interactive web, which will enable central banks to update their statistics on-line. It is anticipated that this phase of the project will be completed by January next year. The SADC Payments Systems project, which aims to develop efficient payments systems in all Southern African countries, is also working on a framework for a project interactive website. The intention is that this website would be the working area of the larger project team where they could share information and discuss issues.

Governors also discussed the issue of **exchange controls**. Last year, a report was submitted to the Governors on the status of exchange control regulations in SADC, and recommending that central banks should work towards a certain degree of liberalisation. Countries were rated according to their degree of liberalisation. This year the report was updated, reflecting no change in the overall average rating for all SADC countries. In four member states – Mozambique, Namibia, South Africa and Tanzania – there have been further relaxations of exchange controls. The situation has remained unchanged in four other member states, namely Botswana, Malawi, Mauritius and Zambia. There has, however, been a tightening in Angola, Lesotho, Swaziland and Zimbabwe (although the increases in the ratings for Angola and Lesotho are very small). The Subcommittee on Exchange Control, who compiled the report, has also been asked to assess the impact of the global financial crisis on recommended exchange control policy. New SADC members, the Democratic Republic of Congo and the Seychelles, will be included in next year's report.

Regarding cooperation in the area of **training** for central bank officials, a Training and Development Forum has been established. The forum will serve as a platform for the exchange of information and will coordinate all training initiatives. The South African Reserve Bank Training Institute and the Bank of Tanzania Training Institute currently provide the training. It is envisaged that training programmes will be revised, and geared towards meeting the specific needs of officials in central banks in the region. A needs analysis was carried out last year, and will serve as a guideline for structuring the training course.

The Committee of Governors approved two new initiatives at the meeting. The first is a project on the role of SADC central banks in the operations and development of money markets in the region. A study will be undertaken by the South African Reserve Bank, covering such topics as the present structure of money markets in the region, legal and supervisory requirements, the involvement of central banks in the support and operations of money markets, and the effect of monetary and exchange rate policies (including exchange controls) on money market development. The study will also make policy recommendations. The second new initiative is interaction in the field of protective services in SADC central banks. This involves the creation of a platform to facilitate and promote interaction among the protective services in SADC central banks, with a view to exchanging information about problems, advances in technology and new developments in the region. Protective services include such aspects of central banking as the protection of staff and assets, information security, prevention of money laundering and forgery, training of security personnel and pre-employment screening. A workshop will be convened in the near future to determine a framework for interaction in this area.

The **IT Forum** provided Governors with an update on their activities. Work has commenced on a common application architecture for bank supervision in the region and it is anticipated that the first common application subsystems will be available to central banks in the region by May 1999. A workshop will be held early next year on Year 2000 compliance and technology and business systems awareness.

Co-operation in **banking supervision** is already organised by a separate forum called the East and Southern African Banking Supervisors Group (ESAF), which has been meeting since 1993. At present ESAF consists of 16 member countries, with all SADC countries except the Democratic Republic of Congo being members. The main objective of this group is to harmonise banking legislation and banking supervision practices and share information on matters regarding banking supervision. ESAF is currently working on issues such as the adoption of the 25 Core Principles on Banking Supervision, harmonising banking supervision and accounting standards, sharing information on relevant topics, and capacity building for bank supervisors.

The Committee of Stock Exchanges in SADC and the SADC Banking Association submitted progress reports on their activities and the Committee of Governors noted the substantial progress that these autonomous committees had made in fostering regional co-operation in their respective fields. These organisations will continue to liase with and report to the Committee of Governors.

The Committee of Governors also noted and discussed progress with the drafting of a SADC Finance and Investment Protocol, and will continue to assist the SADC Committee of Ministers for Finance and Investment in SADC in this regard.

The Committee's next meeting will be held in Swaziland towards the end of March 1999.

DEVELOPMENT FINANCE INSTITUTIONS SUB-COMMITTEE

The SADC Development Finance Institutions Sub-committee held its third meeting in Harare, on the 27th August, 1998.

A report of the July Ministerial Meeting in Namibia was discussed in light of the sub-committee's specific requests to the Ministers. The Ministers had considered the committee's request to report as a fully-fledged committee and had decided that reporting lines should be retained through the Committee of Senior Treasury Officials. The sub-committee also recognised the intended formation of structures, including the DFI Network, the DFI Resource Centre, a possible SADC development fund and a committee of DFI Chief Executive Officers.

The Committee then considered the proposed action plan leading to the development of the SADC Finance and Investment Protocol, which should reflect the needs and aspirations of all the stakeholders of the sector.

The committee considered the recommendations of the studies on the formation of a regional development fund and the DFI Resource Centre. Consensus was reached that position papers need to be written. These papers should clearly articulate the Fund's objectives and make recommendations on the capitalisation and management. The process is expected to actively involve all the SADC DFIs. On the basis of these studies, an agenda for co-operation could be identified. Appropriate institutional arrangements need to be defined and negotiated, the competitive edge of the existing funds needs to be determined, and the net benefits to the national DFIs need to be quantified.

The DFIs' secretariat is expected to present a discussion paper on this topic at the committee's next meeting.

The terms of reference submitted to the July ministerial meeting was accepted and will henceforth form the basis for promoting deeper economic co-operation and integration in the area of development finance.

The committee also considered the constitution of the SADC DFI Network. A memorandum of understanding (MoU) was prepared and discussed. The MoU encompassed three broad topics: structure of the DFI network, powers of the proposed structures within the DFI network and financing of DFI network and support structures.

A paper was also prepared for the meeting of the DFI CEOs providing background information to the proposals, various scenarios regarding the functioning of the DFI network and a MoU for their consideration and signing.

DEVELOPMENT OF THE SADC FINANCE AND INVESTMENT SECTOR PROTOCOL

The Committee of Ministers responsible for Finance and Investment in SADC, met in Namibia in July 1998, and approved a strategic issues document articulating a roadmap for the development of the Sector's protocol.

The Ministers approved the proposed course of action, which advocated a "bottom-up" consultative process involving all the sector's stakeholders. The process involved the formation of a core set of principles, which would be gradually built upon over time through the development of memoranda of understanding and annexures.

The core set of principles was to be developed by the next ministerial meeting scheduled for mid-1999 for their consideration and endorsement.

The Ministers resolved that a comprehensive financing strategy for all the sectoral activities, be devised, articulating the financing needs of the sector committees over a three-year period. The protocol development process is intricately intertwined with the outcome of the sector's financing strategy. Finalisation of the financing strategy will ensure speedy progress in the protocol development process.

SADC MINISTERS MEET DURING IMF/WORLD BANK ANNUAL MEETINGS

SADC Finance Ministers had a number of opportunities to meet during the annual IMF/World Bank meetings in Washington in October. A progress report on the activities of the various subcommittees was prepared by FISCU, and Ministers discussed some of the issues raised in the report. The Sector's relationship with donors was also discussed, as well as certain problems that FISCU had experienced in obtaining funding for the protocol, which had become a matter of urgency. In light of these problems, Ministers directed that FISCU should not approach donors on a project-by-project basis, but instead should prepare a 3-year funding strategy document detailing the financing needs of the sector. Also on the agenda was the Y2K problem, and Ministers were urged to raise the issue with their colleagues.

On IMF/World Bank issues, particular mention was made of the assistance for post-conflict countries and the Highly Indebted Poor Countries (HIPC) Initiative. The Ministers agreed that SADC should be united on the debt issue, and that it was imperative that SADC find a way of addressing the concerns of at least three SADC economies – Malawi, Tanzania and Zambia. The debt situation in these countries was considered to be critical, and could lead to riots and political chaos.

Ministers Manuel (South Africa), Yona (Tanzania), Nawakwi (Zambia) and Chilumpha (Malawi), and the Governor of the Central Bank of Malawi, also met with Chancellor Gordon Brown while in Washington. The agenda was focused primarily on the debt problem, with the SADC representatives lobbying for the UK's support on the issue. Chancellor Brown agreed on the need for a different and more flexible approach to debt relief, but pointed out that in the G7 there would be certain member countries which would be difficult to persuade. He was careful to emphasise that the HIPC initiative cannot be altered, and that the question for SADC member states in distress was that of options which could be used to extend the funding package.

WORKING TOGETHER TO PROMOTE INVESTMENT IN SADC

The working group of the subcommittee on investment got off to a shaky start in its meeting held in Namibia, during October this year. The working group, comprising of about seven member countries, was represented by only three countries. The meeting's main aim was to draft a work programme as part of the subcommittee's input into the proposed SADC Finance and Investment Protocol.

The major issue discussed at the meeting was the key principles that are to form the investment provisions of the envisaged Protocol. (A 1994 draft, though without precise guidelines on investment related matters, was nonetheless used to kick-start the process.) Having made very little headway in this area, in terms of contributions by various stakeholders, further efforts will be taken to spur the initiative forward, and an action letter has therefore been dispatched to participating investment promotion agencies for their comments and contributions.

The inputs are crucial as guideposts to ensure that when the actual investment-related text of the protocol is written it closely follows the parameters set by the subcommittee.

Other issues were the creation of an integrated website (with an embedded database) as a device for promoting a positive image of the SADC region and to serve as an information centre on existing investment opportunities and projects. Additionally, it was felt that in order to carry out effective marketing strategies, professional and well-trained personnel is indispensable. For this reason, organisations or institutions that may be of assistance in providing training programmes, will be identified. The various agencies have therefore been requested to provide a list of names of such organisations or institutions.

The role of regional government in strengthening the activities of investment promotion agencies was also considered. While the regional agencies differ in their relationships with other government agencies or structures, it was agreed that the role of investment agencies would not bear results without government support for their activities. Apart from financial and capacity constraints, which indeed are significant on their own, the lack of priority given to investment issues in the overall macroeconomic policies of regional countries was viewed with concern. The subcommittee has resolved to devise an awareness strategy, which will involve some collaboration with the Macroeconomic Policy Subcommittee.

However, in spite of the unfortunate situation, there is optimism that in the forthcoming meeting the working group will do everything in its power to make up for lost time. The next meeting of the working group is scheduled for early next year. The Subcommittee is to meet around June of the same year.

PREPARING FOR THE NEW MILLENIUM

The Southern African Transport and Communications Commission (SATCC) Committee of Ministers met in June and noted the seriousness of the Year 2000 (Y2K) Computer problem. The Ministers directed SATCC Technical Unit (SATCC-TU) to convene a cross-sectoral meeting to address the problem and also decided to brief the SADC Council of Ministers about the problem.

A conference was organised by the Y2K Support Centre of South Africa and SATCC-TU under the auspices of the Information for Development (InfoDev) department of the World Bank, and took place on August 20-21 in Cape Town. The conference provided guidelines for the formulation of regional strategic plan and further proposed the appointment of Y2K National Co-ordinators in each member country. A regional co-ordinating mechanism was to be provided by the SATCC-TU as well as key actions to be taken within the plan.

In its September meeting in Mauritius, Council deliberated at length on the Year 2000 computer problem. SATCC-TU, assisted by the SADC Secretariat and FISCU, was directed to spearhead and co-ordinate a regional strategy for addressing the problem. This is to be done through exchange of information or devising strategies with a collective approach to the problem. Further, Council requested the SADC Committee of Central Bank Governors to provide leadership in this initiative.

In their deliberations during the annual meetings of the IMF and World Bank in Washington, the SADC Ministers for Finance and Investment reiterated the position of Council and further requested participation by the Central Bank Governors in this initiative.

SADC Central Bank Governors held their biannual meeting on 23 October 1998. Though appreciating the Ministerial request in this regard, the Governors agreed to assist wherever necessary but felt unable to assume the leading role as requested. The Governors cited the time frame, skills and manpower availability as the major constraints. However, the Governors agreed to provide logistical support and sharing of ideas on matters around the problem. Governments were urged to allocate resources to address the issue and take into consideration private sector participation. The Governors are also currently conducting a project on Year 2000 compliance which they monitor and evaluate periodically.

A meeting of National Co-ordinators within SADC is scheduled for December 1998 to develop a regional strategic plan for theY2K problem and review progress since the last meeting held in Cape Town. The meeting will also assess the state of readiness by the member states in achieving Y2K compliance at the national level.

The meeting is also expected to assess:

- National Y2K structures and authorities
- Audit of existing problems
- Planning and monitoring process
- National strategies and projects
- Campaign for country awareness and understanding
- Resource availability i.e. logistics, skills and finance
- Implementation time frame
- Information dissemination at the national level
- Regional co-ordination and sharing of information

Added international support will also be considered, and regional co-ordination processes and schedules determined.

The meeting is being organised and hosted by the Botswana National Y2K Forum through the Ministry of Finance in Botswana. The World Bank through InfoDev, will participate and play an active role in this meeting. The DBSA, which has a keen interest on the matter and is a potential sponsor of regional initiatives, will also be in attendance.

Editorial: FORGING A NEW ACP-EU PARTNERSHIP: FINANCE AND INVESTMENT IMPLICATIONS

Negotiations for a successor agreement to the Lomé Convention were opened on 30 September 1998. While Lomé is generally regarded as a trade issue, Rosalind Mowatt of FISCU looks at other aspects of the Convention, and the implications of a new arrangement for SADC countries.

The Lomé Convention is an agreement between the European Union (EU) and the African, Caribbean and Pacific (ACP) countries, covering trade, aid and development co-operation. Included in the Lomé package for the ACP countries is preferential access to EU markets, along with various forms of financial and technical assistance. Lomé IV is due to expire in 2000 however, and due to changes in the global political and economic climate, it is envisaged that the new agreement will differ substantially from its predecessor. This is a move that comes largely from the EU side; the ACP countries would ideally like the status quo to remain in place.

The outcome of the post-Lomé negotiations will have major implications for the SADC countries, which are all, with the exception of South Africa, party to the Lomé agreement. This article examines specifically the *financial* aspects of ACP-EU co-operation, and considers some of the implications of a new agreement in this context. I argue that the SADC and the ACP as a whole need to take a stronger stand on some of these issues. Trade preferences are not sufficient to promote economic development and poverty alleviation, and it is imperative that aspects such as official development assistance (ODA), debt relief and private sector development receive sufficient attention in a new agreement.

Trade not Aid?

The ACP countries have access to financial assistance from the EU through a range of instruments. There is a general perception that these schemes have had, at the very best, only moderate success in promoting development in the ACP countries[1]. Reasons for this include a lack of coherence between the trade and aid components of Lomé, a lack of incentives for export diversification, administrative weaknesses in ACP countries, and the EU's complicated and bureaucratic disbursement procedures.

[1] In the SADC context, Mauritius is a definite exception here.

Both the EU and the ACP agree on the need for some rationalisation and simplification of the aid instruments currently available. However, this is more or less where the consensus between the two parties ends.

The ACP (and SADC) states are faced with the harsh facts of global declining aid flows, growing disillusionment with the value of ODA in promoting development and perhaps also a certain afro-pessimism. Many SADC countries are heavily dependent on aid; furthermore, the EU has increasingly become an important donor. In SADC countries, financial assistance from the EU has particularly benefited rural development, fisheries, social sectors and transport and communications. The EU is also an important donor from a regional integration perspective, helping to finance the rehabilitation of Beira port, the trans-Caprivi highway and the Cahora-Bassa/South Africa transmission lines, among other things. However, increased spending pressures within Europe will mean that budgetary allocations for foreign aid are likely to decline after 1999. Furthermore, the EU is advocating a shift from "contractuality" in foreign aid to "autonomous action", meaning that aid will be given as and when it is needed, rather than on a contractual basis. This translates into a lack of predictability for ACP countries, placing them in an even more precarious position.

In contrast to gloomy perceptions of financial mismanagement and poor results, a recent World Bank report on aid highlights the valuable role that aid can play in promoting development - provided it is allocated in the correct manner. Factors influencing the effective use of aid in developing countries include open trade regimes, secure private property rights, an absence of corruption, respect for the rule of law, social safety nets and sound macroeconomic and financial policies. The list of developing countries capable of meeting these criteria is increasing while, ironically, development assistance has dropped by one-third in real terms since 1990.

The "trade not aid" argument often put forward by developed countries is therefore a flawed one. It is all very well to provide trade preferences but many ACP states are not at a sufficient level of advancement to be able to make the best use of those preferences. However, ODA has an essential role to play in promoting development, and thus the capacity to trade. The ACP can therefore use the negotiations with the EU to lobby against declining aid flows, and to encourage all EU member states to meet the aid target of 0.7% of GNP, as suggested by the OECD.

Developing the Private Sector

What aid flows and other means of assistance need to prioritise is the development of the private sector. Currently this is addressed by Lomé through the national or regional indicative programmes, loan financing through the European Investment Bank (EIB), and through the Centre for the Development of Industry (CDI), which provides for transfer of technology, know-how and investment, as well as financial assistance. There is a general feeling that these programmes have missed the mark, however.

One of the main criticisms of the EU's programmes is that they haven't been adequately linked to Lomé's trade provisions. For example, many SADC countries haven't taken full advantage of their preferential access to EU markets because of supply-side constraints (poor infrastructure, bottlenecks, lack of human capacity, etc.) However, there has been no coherent attempt to address these constraints through other means of ACP-EU co-operation, such as financial/technical assistance or investment promotion. This is something that needs to be considered in a new agreement.

The EU has proposed dividing the ACP countries into regions, each region having its own free trade area and its own partnership agreement with the EU. The effects of this proposal on industry and trade in the SADC region are controversial and will not be discussed here. However, an EU-SADC free trade area (devised over an appropriate time frame) may well impact positively on the region's investment climate[2], due to the linking of SADC countries to a stable, powerful economic bloc. This factor needs to be borne in mind by the SADC countries when considering a position on this proposed "regionalisation".

One regional co-operation initiative currently in the planning stages is the EU-SADC Investment Promotion Programme (ESIPP). This involves a three pronged approach to attracting investment from the EU into SADC, with the focus being on (i) holding EU-SADC business forums, (ii) strengthening institutions involved in investment promotion and facilitation, and (iii) developing a network to facilitate permanent communication links between EU and SADC businesses. In this instance, a regional approach to investment promotion certainly makes more sense. It is therefore important for SADC to ensure that the concept of ACP unity, one of the cornerstones of the ACP's negotiating positions, is flexible.

There is also a possibility that the EU will want to negotiate an investment promotion and protection agreement with ACP member states. As members of the OECD, EU member states are likely to favour an agreement along the lines of the Multilateral Agreement on Investment (MAI). The MAI has generated much controversy and SADC countries should be wary of being pushed into a similar agreement too easily. A proactive approach to the MAI by both the ACP and SADC is therefore essential in the context of the post-Lomé negotiations.

More debt relief?

ACP countries need to take a hard line on debt relief. The ability of a country to actively participate in global markets is to a large extent determined by its productive capacity. The latter is highly influenced by the nature and strength of that country's economy. For many ACP countries, which spend about 50% or more of their budget servicing their debt, preferential market access is not addressing the core of their economic problems.

The ACP states see the negotiations for a successor agreement to the Lomé Convention as an opportunity to lobby for debt relief from the EU. While the EU is a relatively small multilateral creditor in global terms (with 5% of all outstanding multilateral debt), EU member states form the largest block of creditors within the OECD and collectively are owed a large share of developing country debt. Furthermore, the cancellation of ACP debt by the EU would put political pressure on other creditor nations to follow suit.

However, the European Commission doesn't feel that the post-Lomé negotiations are an appropriate forum for discussing the issue of debt relief, arguing that this is adequately covered by the Highly Indebted Poor Countries (HIPC) and the Paris Club initiatives. This point was made quite clear by Commissioner João de Deus Pinheiro in his speech at the recent SADC-EU Ministerial Conference, although he did also mention the EU's

[2] It is not clear whether the EU would want to enter into FTA negotiations with SADC on its own or with the entire sub-Saharan Africa. Furthermore, whether a SADC-EU FTA would include South Africa is an important point which I was unable to find an answer to.

willingness to assist in capacity-building with regard to debt management.

ACP states should also remember Commissioner Manuel Marin's ill-fated debt relief initiative in 1990. Marin's proposal to write off all ACP debt was supported by the Commission and the European Parliament, but EU member states (most notably the UK and Germany) opposed it. Another proposal for debt relief put forward by DG VIII (the Directorate-General for Development) for more far-reaching debt relief to ACP HIPCs was blocked by DG II (the Directorate-General for Economic and Monetary Affairs) and the European Investment Bank. It is therefore likely to be difficult to convince all the players on the EU side that the ACP-EU negotiations are an appropriate forum for discussing debt relief.

The urgency and seriousness of the matter, however, demands that ACP countries do everything they can to ensure that debt relief appears on the agenda of the negotiations. If the major objective of Lomé truly is poverty alleviation in the ACP countries, then the issue of debt can hardly be ignored.

Conclusion

It is therefore important that SADC countries are aware of all these issues and how we will be affected by them. It is also up to us to make an active contribution to the debate. In researching this article, it was striking how much material was available from European sources, but very little from ACP countries. Notwithstanding the "partnership" between the ACP and the EU, the EU holds most of the cards in the negotiations and ACP countries stand to lose the most. The will has to come from us to turn this situation around.

The views expressed are the author's own and do not necessarily represent those of FISCU or the Department of Finance.

OBITUARY

Former Zambian Finance Minister Ronald Penza passed away on the 6 November. FISCU would like to express its sincere condolences to the family and friends of Mr Penza.

FAREWELL

The Director of FISCU, Bongi Kunene left us in mid-November to join the World Bank on a secondment. Bongi has been with FISCU since its inception and can take the credit for building the Unit up from scratch in 1995 into what it is today.

Bongi will be filling the position of advisor to the Executive Director, and will be responsible for the group of English-speaking sub-Saharan African countries. It is hoped that she will return to FISCU once her secondment is over.

FISCU would like to take this opportunity to wish Bongi the best of luck in her new job. We hope that you enjoy your new life in Washington!

FORTHCOMING EVENTS

3-4 December: Working Group of the Committee of Central Bank Governors, Pretoria
10-11 December: Legal and Operational Frameworks of Central Banks, Tanzania
December: Meeting of national Y2K co-ordinators in the SADC region, Gaborone
18-19 January: Committee of Stock Exchanges, Johannesburg
20-21 January: BIS Y2K Council Conference for Africa, Pretoria.
Late January: Macroeconomic Subcommittee (not finalised)
Early February: Committee of Governors Statistics Workshop.
11-12 February: SADC Consultative Conference, Zambia
February: Subcommittee of Development Finance Institutions
February: Working Group meeting of the Committee of Central Bank Governors, Namibia

FISCU CONTACT DETAILS

If you have any queries about the Finance and Investment Sector, is you have an event you would like to include in our forthcoming events column, or if you have any views you would like to air, please feel free to contact us.

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