September – November 1999

SADC Finance and Investment Sector News

Produced by the Finance and Investment Sector Coordinating Unit of SADC (FISCU)

Special e-mail edition!

FROM THE EDITOR'S DESK

Welcome to this Spring edition of the Finance and Investment Sector News. FISCU also appears to be undergoing something of rebirth, with the appointment of a new director, and with a decision finally having been made on the development of a Finance and Investment Protocol. You can read an interview with FISCU's new director on page 6. The leading article this quarter is the meeting of the SADC Ministers responsible for Finance and Investment, which took place in July, with gold sales and debt relief being the hot topics. The latter subjects were also discussed at the SADC Summit in Mozambique, which you can also read about, on page 9.

Enjoy!

SADC MINISTERS FOR FINANCE AND INVESTMENT MEET

The SADC Ministers of Finance and Investment held their fifth annual meeting in Maseru, Lesotho on 8 July 1999. The meeting discussed a wide range of issues and adopted some important resolutions:

The Process to be followed in the Development of a SADC Finance and Investment Protocol

The process envisaged is as follows:

- sectoral subcommittees and associations to develop and conclude principles guiding memorandums of understanding (MOUs) in each of their respective areas by July 2000;
- a period of at least one year for MOUs to be operationalised and for reviewing progress;
- development of a sectoral protocol and specific Annexures over a 2 year period (July 2001 to June 2003);
- agreement on a SADC Finance and Investment Protocol by July 2003; and
- ratification by parliamentary legislatures of member states by July 2004.

This approach relies on functional co-operation as a prerequisite. It is anticipated that functional co-operation will result in the establishment of sound working arrangements and the completion of preparatory work encompassed in the sectoral work programme by the time the protocol is in place and ready for ratification.

The Sale of Gold

The proposed sale of gold by the IMF, support for the sale by the G8 countries and the sale of gold reserves by the UK government were identified as the major causes for the fall of the gold price.

Contents

Concern was expressed regarding the impact of the sale of gold on gold-producing SADC countries and the associated impact on employment levels in Lesotho and Mozambique given that these countries supply about 46% of the gold mining labour force in South Africa. The impact for these countries will therefore be on remittances, which form a major part of revenue earnings for these countries.

Dr K Syamujaye, Chairman of the SADC Ministerial Committee of Mining, made a presentation on the negative impact of gold sales on SADC countries. Ministers also requested the chairperson of the Committee of SADC Ministers for Finance and Investment, to communicate with the British Chancellor of the Exchequer, Gordon Brown, to examine means of avoiding further auctions of gold by the UK government. The chairperson was also asked to communicate to IMF SADC Ministers' concern regarding the intended sale of gold by the institution and its adverse effect on some of the very countries it wishes to assist.

Debt Relief and the HIPC Initiative

Ministers called for a revised Heavily Indebted Poor Countries (HIPC) framework, which should aim at:

- Having periodic reviews of the eligibility criteria and consistent interpretation of track records. Countries such as Tanzania and Ethiopia will only qualify for HIPC in the year 2001, though they have had a good record of fiscal reforms for over 5 years.
- Shortening the interim period of debt relief from six to three years for countries that implement IMF/ World Bank reform programmes, have social welfare programmes in place and observe the principles of good governance.
- Reviewing debt sustainability ratios in order to provide deeper and wider debt relief.
- Encouraging additional contributions to the HIPC Trust Fund since the lack of financing is the major obstacle to implementing the Initiative.

Relations between SADC and the World Bank

The relationship between SADC and the World Bank should be underscored by the need to bring about economic prosperity through structural transformation of African economies, industrialisation and capital accumulation. Further emphasis was placed on the need for infrastructural development, poverty eradication and human and institutional capacity-building in a manner that preserves Africa's resources.

Investment Promotion in the Region

Ministers discussed the declining trend of investment in the region, especially foreign direct investment, in light of shrinking domestic savings in member countries and the existence of foreign exchange controls that inhibit investment. Emphasis was placed on the importance of combining sound macroeconomic policies with efforts to attract investment to the region.

Other reports

The Committee of Central Bank Governors presented reports on work conducted on recent economic developments and statistics for SADC countries. Another report dealt with work undertaken on national payment systems while a third report explained the training of officials on banking and economic issues in the region.

There was also a discussion on Year 2000 compliance. This discussion focussed on six broad areas of need. These are:

- Finance and Banking
- Revenue Collection
- Fiscal Accounts
- Municipal Accounts
- Health System
- Telecommunication

Ministers were assured that remediation programmes are already in place to deal with the problem at a SADC level.

The 6th annual meeting of SADC Ministers of Finance and Investment will be in Mozambique in July 2000.

WORKSHOP ON INTRA-REGIONAL CAPITAL FLOWS

As reported in the last edition of the newsletter, two FISCU staff members have been involved in a project coordinated by the Centre for Research into Economics and Finance in Southern Africa (CREFSA) at the LSE, and External Finance Africa. The subject of the project was intra-regional private capital flows in Eastern and Southern Africa. A closing workshop was held in Harare, Zimbabwe, on the 21-23 June.

Six countries from the region were involved in the project, namely Zimbabwe, Zambia, Uganda, Tanzania, South Africa and Mozambique. The task of the country team was to collect data on intra-regional capital flows, both qualitative (investor perceptions) and quantitative (for balance of payments statistics). Two economists from FISCU, Rosalind Mowatt and Themba Zulu, made up the South African research team. Each country research team presented a report at the closing workshop.

Overall, the project seems to indicate that regional direct investment is small but growing. This is due to South African companies moving into the region, as well as to outward investment from Zimbabwe, Kenya and Mauritius. South Africa was found to be an important source of direct investment in Eastern and Southern Africa, especially in Zimbabwe and Mozambique. There was also an indication that trade flows were closely related to investment flows – the patterns of intra-regional investment noted for the SACU countries, for example, were quite different to those of the other Southern and Eastern African countries. The project also found that equity finance was more important than non-equity finance for regional enterprises.

On the investor perceptions side, the various country studies showed a broadly positive picture of the investment climate across the region. The South African study showed that investors believe that conditions for investment are improving, and are taking a long-term view of investment. Some of the more negative factors highlighted, however, included infrastructure, financial factors and some features of governance.

The country reports also highlighted the difficulties inherent in collection reliable data on capital flows. There was a low response rate to questionnaires, and sometimes the forms were misunderstood by respondents. Ways and means of improving the response rate and on following up non-respondents were discussed. The removal of exchange controls in many of the countries had also meant that an important source of capital flows data was lost.

The workshop was opened by the Governor of the Reserve Bank of Zimbabwe, Leonard Tsumba. Funding for the workshop was sourced from Sida, DANIDA, DfID and FOFEA.

Conclusions of the South African study

Some interesting conclusions were drawn from the South African report, which was compiled by FISCU. Looking at data from the Reserve Bank, it was discovered that South African investment in Eastern and Southern African had indeed increased markedly, with direct investment accounting for most of this increase. The paper further suggested that the Reserve Bank's figures may underestimate the value of these investment flows, as many "South African" investments (such as those by De Beers and South African Breweries) seem to be financed through foreign subsidiaries. To escape sanctions and exchange controls, many large South African companies established international subsidiaries, and continue to finance their overseas investments in this manner. It was also noticed that investment flows closely paralleled trade flows in the region. South Africans hold a far greater proportion of their assets in countries with which SA has a strong trading relationship (e.g. Botswana, Zimbabwe, Namibia). SA assets in the region constitute but a small proportion (2.6% in 1997) of SA's total foreign assets, however – so South African investment in the region is still small, but growing.

The investor perceptions survey revealed that there are a wide-ranging set of factors which influence the regional investment decisions of South African companies. Investors appeared broadly positive about the region and its prospects. Many South African investors saw the rest of Southern Africa as a natural extension of their market, with similar cultural and social institutions. Also, companies in the service sector were often following their clients into the region. Investment incentives (tax holidays etc) were found not to be a primary reason for investing in a country, but rather the long-term profitability of a company was important. For this reason, investors considered factors such as political stability, sound macroeconomic policies and infrastructure to be important.

One general criticism was that often government institutions in a particular country had conflicting attitudes towards foreign investment. A multiplicity of agencies dealing with investment promotion and facilitation was also found to create problems and cause costly delays. Too much government intervention in the economy was viewed negatively by the companies interviewed.

In spite of the sometimes difficult conditions, however, there appears to be huge potential for making money in the region. Untapped markets and resources provide boundless opportunities for investors. The survey seemed to suggest that South African investors are more willing to accept some of the inherent risks, and also appear to understand the varying situations in the different countries, slightly better than their overseas counterparts do.

FISCU would welcome any comments or questions on the South African study. *See the last page for contact details.*

GENDER MAINSTREAMING IN THE FINANCE AND INVESTMENT SECTOR

FISCU recognises the need for gender mainstreaming in all aspects of its work, including its development of a regional macroeconomic convergence framework. For instance, one of the issues of concern in gender mainstreaming is to have gender receiving attention in budget policy making. Some Member States, for example South Africa, are in the process of implementing a "woman's budget."

FISCU gives full support to the SADC Gender Unit's plan of action that aims to "ensure the development of a policy and institutional framework for gender mainstreaming in the policies, programmes, and activities of all SADC Member States, in SADC structures and in its programme of action…" FISCU aims at building strategic partnerships with other gender formations to help nurture gender mainstreaming in the sector at the earliest stage possible and to deepen understanding of gender-based analyses. FISCU will endeavour to promote gender sensitization in various sub-sectors of Finance and Investment.

FISCU sent a delegate to this year's annual meetings of the SADC Regional Advisory Committee on Gender. Senior Officials as well as Ministers responsible for gender were in attendance at the meeting, held in Malawi from 24 to 28 June 1999.

Highlights of the meeting included gender training for delegates who had not participated before, proposals for capacity building for gender mainstreaming and a proposal containing terms of reference and budget for a gender audit of SADC sectors. The gender audit aims to study policies, projects and activities of, the various SADC sectors, including FISCU, with a view to recommending concrete sector-specific gender mainstreaming interventions.

SADC SECTOR COORDINATORS MEETING

A meeting for the coordinators of all SADC sectors was held on the 15th-17th July 1999 in Gaborone, Botswana. These meetings between the SADC Secretariat and the Sector Coordinating Units (SCUs) are held annually. This particular meeting was called to review the work of the SCUs in preparation for the SADC Council of Ministers and Heads of State Summit which was to take place the following month.

The meeting received reports from all the Sector Coordinators relating to their work in the last twelve months. It also looked at cross-cutting issues between sectors, progress with projects and relations with the organisation's co-operating partners. The meeting provided an opportunity for interaction between the SCUs and the sector desk officers stationed at the SADC Secretariat in Botswana.

The meeting discussed the work to be presented to Council for consideration and the decisions requested of Council to take in driving the work of SADC. In this regard, the meeting considered the annotated agenda of the SADC Council of Ministers and identified other issues that should be brought to Council. These issues incorporated various aspects of the SADC sectors' work programmes and included matters that needed a Council decision.

SADC-USAID PROGRAM REVIEW WORKSHOP

FISCU, together with other SADC Sector Co-ordinators, was invited to attend the first SADC-USAID Program Review Workshop, which was held in Gaborone, Botswana, on the 14th July 1999. The meeting was also attended by USAID' Botswana resident staff, the SADC Secretariat and US government officials from Washington. SADC holds similar annual consultations with all its other co-operating partners to review progress made on projects, to assess strategic plans and to discuss ways of improving co-operation and delivery on existing and envisaged future projects.

The workshop was a follow-up to a high level meeting between the US Government Ministers' meeting with SADC Ministers which was held in Gaborone on the 14-15 April 1999. This meeting was aimed at establishing political contact between the US Government and SADC. The Joint Programme Review (JPR) was therefore, the technical arm or means of ensuring the achievement of these political objectives. The meeting, the first meeting of the technical staff dealing with projects, had a number of objectives. The main objective of the workshop revolved around the development of regional program of action for the purposes of establishing inter-sectoral networks and for information dissemination and sharing of ideas. Integral in this respect was the identification of current projects on the ground looking at how they have been performing up to the time of assessment.

The US Ambassador to Botswana, who is also the US Government's representative in SADC, officially opened the meeting. The Director of the Regional Centre for Southern Africa, Ed. Spriggs, and Dr. Felix Kani, Chief Economist in the SADC Secretariat, also gave a short overview and background on US-SADC co-operation.

FISCU gave a background to the Finance and Investment Sector in SADC, recent sectoral developments and structures, and work programmes. The meeting was also informed of the outcome of the SADC Ministers of Finance meeting in Maseru. After the presentation, there was a brief on the activities currently being funded by USAID in the region. Discussions on potential future programs, and on how co-operation between SADC Sectors and the USAID's Regional Centre for Southern Africa could be improved.

USAID had funded part of the Finance and Investment Sector protocol formation process, up to the stage of the development of an *aide memoire.* This aide memoire was adopted by the Finance Ministers as a strategy for developing the sector's protocol.

The meeting then discussed broad areas of USAID's involvement in SADC, and how further co-operation could be enhanced in these areas.

These areas or "strategic objectives" groupings broadly looked into issues of:

- Market Integration
- Commercial Law
- HIV/AIDS
- Agriculture, Natural Resource Management & Environment

FISCU together with SATCC-TU and the Mining Sector (co-ordinated by Angola) participated in the Market Integration group where its work and medium-term objectives were presented. The consolidation of the work of the three subcommittees forming the core of this presentation and ensuring that progress and momentum made under the SADC Governor's committee was maintained.

USAID and SADC pledged to strengthen the existing relationship by either expanding co-operation in existing projects but forging links in other possible new areas of co-operation. The meeting resolved to hold similar meetings in future.

INTERVIEW: The new Director of FISCU, Logan Wort

Logan Wort joined FISCU at the beginning of July this year. The *Finance and Investment Sector News* interviewed Logan to discover what his aspirations for the Finance and Investment Sector are.

Can you give us some background on your career up to now?

I started off working in the insurance industry. In the 1980s, I worked full-time for a short while for the Cape Youth Congress. I was a youth organiser; we organised nationally for the establishment of the South African Youth Organisation, which eventually became SAYCO (*South African Youth Congress*). Then I worked for an Education Resource and Information Project at the University of the Western Cape, where I was involved in leadership training of youth and students, and occasionally got involved in trade union work. My career in management started with my engagement with the University of the Western Cape, where I was employed in the human resources department, responsible for the social responsibility programme and employee benefits. In 1996 the Western Cape Provincial government recruited me as a private secretary for the then-MEC for Health. I was a media officer, private secretary. The coalition between the NP and the ANC in the Western Cape ended and I had to leave with the MEC for whom I

worked. That's how I ended up in Finance. The Minister (*of Finance*) invited me to apply for a position as parliamentary officer. In the same week that I started he seconded me to his office as a media person for a few days – it ended up being 18 months!
Then I was invited to come and head FISCU. One of the key reasons why they felt I was appropriate to head FISCU was that I have a management background. Also because regional integration issues are highly political issues, and they felt that my political experience would help in accelerating financial integration.

I was never a full-time student. I started studying in 1986, I started my first year BA as a part-time student - in prison, actually - through UNISA. But I couldn't really study in prison, and I was released halfway through my first year. I restarted my BA in 1988 through the University of the Western Cape. I always studied part-time and I completed my Masters degree in Public Administration at the end of 1997.

Has your experience at FISCU so far been different to what you expected – how have you found the past two months?
My first two months at FISCU have been both overwhelming and exciting. Overwhelming because of the scope of the responsibilities of FISCU - the scope of regional integration in the area of finance and investment is very broad. FISCU's focus on four areas – monetary and financial issues, investment promotion, development finance, and macroeconomics – is too broad to really apply itself to the direct areas of integration. Issues of accounting and auditing, and non-banking regulation, and even the whole question of information technology, are largely not addressed by the sector, for example. It's overwhelming in the sense that the challenges facing the Finance and Investment Sector are only just beginning to be met by FISCU. Overwhelming in the sense that FISCU really needs to up its pace of work and output, as well as its interaction with member countries. It must participate more, it must be much more interactive. Its budget must increase, and its staff complement must increase. FISCU's status within the region, but also within the South African Department of Finance, needs to be reviewed if it wants to meet the challenges of regional integration.

It's exciting because South Africa is very well resourced to lead the integration process in the region. It's got the correct attitude, the correct spirit, the correct vision, and it also seems to have the moral position to take with it both better and lesser developed countries. This is a position that can be built on to an unlimited extent. It's also exciting because the FISCU staff lend themselves to that exciting challenge – I think we have a nice young team, who seem to be willing, given the correct leadership, and who, it seems to me, can grow with the programme to become professionals in their own right. It is also important that we, in the longer term, engage other regional individuals within the Finance and Investment Sector.

With the exception of the Central Bank Governors, there hasn't been much progress in the region with regard to Finance and Investment. What in your opinion have been the main obstacles to this?
I would want to identify broadly two areas – one, the lack of a manager within the Unit. I didn't realise the extent to which it had an impact, but now I'm beginning to realise that in FISCU there was clearly a leadership vacuum. The kind of leadership or management style that I want to introduce, is not only to fill the leadership vacuum, but to enable the FISCU team to be able to operate even *with* a leadership vacuum. And so, yes, one of the reasons for the stifled growth, especially on the side of the Senior Treasury Officials, has been the lack of leadership and direction due to the departure of the previous Director. The remedy is not necessarily the fact that I'm now here, the remedy is

more long-term in that FISCU as a team might be enabled, so that FISCU runs whether it has a manager or not. I think the broad context, the broad vision and mission, the details of the individual and collective work programme of FISCU, should be to enable the FISCU team to manage the programme themselves. Maybe because such a vision and programme was absent originally, it had the kind of negative impact on the structure that I hope we can remedy.

I think the very important other factor which contributed to the stifled development on the Senior Treasury Officials side, is what I perceive to be a weakness in the way that side of the FISCU operation is structured. One, there seems to be a very weak form of co-ordination between member countries. There seem to be very poorly-defined programmes of action for the subcommittees, ill-defined roles for the chairpersons or the co-ordinators of these subcommittees, and far too infrequent interaction in the form of meetings and projects between countries and senior officials, and clearly that affected the level of output. And the level of output means integration. So, because of the urgency of integration – not only because of the political correctness thereof – because of the urgent need for investment, because of the urgent need for development finance, and because of the urgent need for macroeconomic convergence, there's a lot of pressure on FISCU, and on national governments to address structurally the problems facing that side of FISCU's work.

Do you have the sense that there is sufficient political will in SADC for the Finance and Investment Sector to really achieve a lot?
In my two months here, I have no reason to doubt there is political will. To say there is "sufficient" political will is difficult to say. "Sufficient" is a very relative term, it's really academic. Political will does exist. What there isn't, is the concomitant action to give meaning and content to that political will. My own view is that national governments, central banks and treasury officials, should adopt and internalise that political will for regional integration. It must be part of their national agenda, so that when there are integration initiatives, there should be an eagerness to want to co-operate and those perceived obstacles and threats that come with integration, should be dealt with very early, very upfront, very soberly. It's integrate or perish, really. And because we realise it's integrate or perish, only we can solve those fears, those threats, those problems, that come with integration. We should rather focus on the strengths and deal with them. That must be internalised by national governments for it to work on a regional level. And therefore the roles of the leaders of the subcommittees with FISCU, and the Senior Treasury Officials and the Central Bank Governors, become paramount in the way that they lead the process.

Do you have a vision for the Sector, and what would you like to see it achieve over the next year?
It's very practical. Between now and the next Finance Ministers meeting (in July 2000), we must have a very detailed and definite work programme, including dates and timeframes for each of the subcommittees. We must have the principles-framework that will guide us with the Protocol, and we must have the basic elements of our first core Protocol. For me, if we achieve that then we have achieved a lot. That's one. Two, we must have the three Senior Treasury Officials subcommittees up and running, with meetings, programmes and targets. And thirdly, the research and academic capacity within FISCU must be re-ignited and marketed. In fact, within the next three years, FISCU must become *the* regional reference point on finance and investment.

Why will the Finance and Investment Sector only be coming up with a Protocol in 2004?
Two reasons. One, because the Finance Ministers decided so! But really, the thinking behind it, on the

side of the Finance Ministers and the Senior Treasury Officials, was that we prefer a developmental, functional, sequential approach to the development of the Protocol. For us, the Protocol must be the result of a series of activities or agreements or actions that are operating. One can try to create the ideal protocol and try to implement it; this is the general approach that SADC is following. And if that works, it's fine. Our understanding with the Finance and Investment Sector, is that confidence is often built through what exists. Investment comes through infrastructure existing, through payments systems that work, and so on. And so for us, a Protocol must be the culmination of a series of integration policies that operate and exist. Two, for us, to facilitate the process of writing up a Protocol and getting it ratified is far easier when you write up something that is already operating, and have it ratified because it operates, than to write-up something, have a debate for two years, take another three years to have it ratified, and then taking the next five years to implement it – you've lost so much time. And, like I said, for us in the region - given the globalisation of the economies of the world, given the vulnerability of international financial markets - for us it is integrate or perish. Investors don't want to invest in a country, they want to invest in a region. And when they invest in a region, they don't see borders. And we in the Finance and Investment Sector need to find a way to destruct those artificial borders without undermining the political and other sovereignty of hard-earned freedoms of these 14 countries.

SADC SUMMIT

This year's SADC Summit was representative of the significance of improved relations across nations and the region. The Presidents of Nigeria, Rwanda and Uganda were invited as guests of honour, and expressed their appreciation for the wider cooperation within Africa. The President of Nigeria further expressed hope of meaningful closer relationship between the region and ECOWAS. The Summit took place on the 18th August 1999 in Maputo, Mozambique, and was prefaced by festivities to commemorate the SADC Day.

Various speakers delivered key speeches, which laid stress on a number of factors for serious attention if regional integration is to become a success. Some considered regional integration as a means to an end, while others focussed on ensuring adherence to a "consensual strategy" to pre-empt dominance by any one member, the linking of regional efforts to the overall continental framework, and the involvement of the youth in SADC matters,

In the main, the range of issues that were debated by the Heads of States proved predictable. Among others, these were the conflict in some parts of the region, the gold crisis, debt and the change-over of the chairmanship, to name but a few. Perhaps, the dramatic moment of the Summit was the resignation of the SADC executive secretary.

Topping the agenda was concern about ongoing war in the Democratic Republic of Congo, Angola and rising tensions in Namibia. (However, at the time of writing, positive developments were already emerging in the Democratic Republic of the Congo, with the residual rebel group giving definite promises of acceding to the cease-fire agreement on the cessation of hostilities). In Angola, there was increasing disillusionment with the continued hostile attitude shown by Savimbi, and SADC pledged non-military support to the country. Namibia's "inviolability of the territorial integrity" was affirmed at the meeting.

The Council of Ministers was instructed to review several SADC structures, including the Organ on Defence, Politics and Security. The report is due in six months and Zimbabwe will meanwhile remain chair.

Regional conflict, however, did not foreshadow some excellent pointers to consolidation of the democratic process in the region. Already, democratic elections were successfully held in both South Africa and Malawi this year, and Namibia, Botswana and Mozambique will be staging theirs before the end of the year.

The Heads of States noted the positive, but insufficient economic growth in the region. While the majority of the countries in the region continue to display healthy economic potential, this has not been accompanied by substantial inflows of foreign direct investment. Economic reforms have been implemented and there macroeconomic stability in many of the SADC countries, but there is still insufficient investment in the region. Consequently, the meeting agreed on the need to promote more vigorously cross-border investment through, for example, joint venture schemes.

As at the SADC Ministers of Finance meeting the month before, any sale of gold was seen as critical in further depressing the bullion price. The meeting called for the IMF to reconsider its position on the sale of gold. (In fact, the current stand by the IMF is review of its sale of gold, but uncertainty still remains on future sales by central banks).

On debt relief, the meeting decided to adopt the principles agreed upon at the SADC Finance Ministers meeting (see page 1).

Other issues included gender mainstreaming in all the SADC structures due to the low participation rate by women in the region, which was viewed with concern. SADC has therefore committed to increasing the level of female participation to 30 percent target in the public sector (e.g. parliament). Furthermore, member states were urged to devote more resources to overcome the spread of HIV/Aids. A conference on the epidemic will be staged in Zambia. The Summit noted the progress made in the Transport and Communications, Finance and Investment, Energy and Water in respect of Y2K compliance and urged member states to step up their efforts to deal with the issue.

Further support was given to cooperation among regional organisations. However, this can take place by first and foremost strengthening the development of such structures to prepare for a wider continental co-operative framework. Cooperation is, for example, envisaged with the ECOWAS, and other regional blocs. Such cooperation is indispensable for the creation of a broader African Economic Community. Also, the meeting suggested that the re-negotiation of the Lomé Convention should be viewed holistically i.e. the scope should entail trade, finance, investment and development issues.

Namibia will be the next host of the Summit in 2000.

SOUTHERN AFRICA ECONOMIC SUMMIT

The Southern Africa Economic Summit is an annual event organised by the World Economic Forum, which is based in Davos, Switzerland. It was attended by representatives from the political and business spheres, from all over the world. This year's gathering was held in Durban, South Africa and among its guests were the new President of South Africa Thabo Mbeki and his Mozambican counterpart President Joaquim Chissano.

The imminence of the new millennium was seen as posing daunting challenges to the region with regard to the tackling of issues such as poverty, social conflict, guaranteeing of democratic values and promotion of economic growth. Hence this year's theme was aptly *"Responsible Leadership for Action, Stability and Growth"*. The theme is significant because of its generic relevance to the concept of African Renaissance.

A number of topics were dealt with under organised break-away sessions, and these ranged from topics such as the attraction of foreign investment, the promotion of democracy, human resources development and infrastructure development. These were then collated together for presentation at the plenary.

Below is an outline of the discourse that took place during the general discussions.

- A revolving theme was the need for visible leadership in SADC; 'somebody' to push the process of regional integration forward and to move at a faster rate than currently is the case. That role naturally was assigned to South Africa. The greatest challenge to South Africa is her own developmental problems. Perhaps the best way to achieve this is for South Africa to lead by example, in the way she resolves these formidable challenges.

- The elusiveness of foreign investment was attributed largely to negative publicity of the region. Widely known by the international investor community are occurrences of war, political uncertainty, corruption and economic stagnation. The idea of 'branding' for the purposes of marketing Southern Africa as an investment location was brought forth. More information dissemination and an active process of continual interaction was considered to be critical for the effective attraction and promotion of investment. Questions were further asked as to the nature of the brand and what it would entail. Tourism, telecommunications and infrastructure development were considered as areas where regional facilitation could be achieved.

- The level of commitment of individual member states to the vision of regional integration was brought into question. Political will was seen to be lacking and this had resulted in incoherent signals from the region, which did little to strengthen confidence. National sentiments were still very much an overriding factor. Delegates were also concerned about widespread practice of SADC countries being members of far too many regional structures. It was felt that this stifled momentum for regional integration, as seen in the delay to operationalise the trade protocol.

- The conflict in Angola has put brakes on FDI inflow into SADC. Also, the wisdom of including the Democratic Republic of Congo and the Seychelles was questioned, given that already SADC is too large a group.

- To accelerate reform, especially privatisation, there is a need for the identification of four sectors across SADC that can be opened up to private ownership with immediate effect. It was felt that SADC was stalling when time was not on its side; it needed to move faster!

- Today there are a countless number of projects doing rounds within the region, and little substantive progress is visible. There is therefore a need for a rationalisation of SADC. Other participants even suggested the establishment of an agency for integration to speed up the process. Overall, there needs to be better coordination within the SADC Secretariat.

- Mention was made of the fact that local investors were not targeted by the investment promoters, and as a result domestic private sector base has been underdeveloped. Emphasis was therefore required to focus investment promotion activities on encouraging domestic investors with a view to supporting their growth and capacity for labour absorption. SADC should establish its own 'multinationals' to compete globally, because economic agents such as big companies, rather than nations, drive globalisation. Not being part of this global process was not an option. Economic policies in the region have not explicitly dealt with the development of local entrepreneurs and consequently the potential of small- and medium-sized enterprises is untapped.

- Capacity-building is another area that has been neglected in the region. Concerns include the empowerment of women, an increased fight against the Aids epidemic, increase in spending for education, and skills promotion. Training programmes designed to encourage human resource development were indispensable, and this among others required agreement on the free movement of people across borders. Women were considered an under-utilised resource in the region, and the need for their participation in the Forum's plenary sessions to be as comprehensive as possible, was stressed.

- The lack of effective financial inter-mediation could be overcome if existing stock exchanges were to co-operate, with South Africa's stock exchange as the axis for the region. The number of stock markets currently existing in the region was considered to be more than adequate. The European Union is faced with a similar situation, playing host to about 35 or so stock markets. Co-operation with the JSE will be a quick, simple and less costly way of establishing a functional arrangement to ease the constraints around financial inter-mediation. The movement of primary listing by some of the big companies such as Old Mutual, SAB, and others was taken as an ominous sign to the outside world. However, in defence of this move, listing on foreign bourses was not considered a matter of permanent migration.

- Other issues that recurred in the forum revolved around the establishment of effective dispute resolution mechanisms, the improvement of the FDI regime, harmonisation of corporate laws, consolidation of the empowerment process to allow for SMMEs to develop, and the removal of exchange control. Social issues included Aids awareness, the role of the state as a catalyst to society, upliftment of the skills pool in the region through co-operative arrangements, education, and the significance of ethics within the business community. SADC was viewed as being comparatively uncompetitive in terms of transactions and transport costs.

- Labour issues included labour market flexibility and the fear of dealing with the unions because of their power. Unions holding back economic development.

- Some companies in the region were implementing the recommendations of the King Report on good governance. Good governance also encompasses ethical conduct.

The verdict from the discussions of the Forum was clear that SADC's progress should be communicated to the outside world, given SADC's reliance on overseas countries for FDI. Domestic investors should not be alienated by policies aimed at foreigners, however. Also, the spectre of political instability, elusive economic growth, global competitiveness, high unemployment and low per capita incomes will have to be dealt with more effectively, in order to realise the ideals espoused by African Renaissance. If SADC has to become a force to be reckoned with, indeed major changes will have to be undertaken.

On the other hand, it is clear that investors appreciate the level of progress that has been attained so far. The Forum therefore remains a critical interlocutor between investors and the policy makers and serves as a platform for the restoration of confidence in the collective struggle for a harmonious SADC.

FORTHCOMING EVENTS

13-15 October: Committee of Central Bank Governors, Sun City.
8 October: Committee of Stock Exchanges, Victoria Falls.
26-28 October: Annual African Investment

Conference and Exhibition, Cape Town.

****

WELCOME!

FISCU would like to extend a warm welcome to the new secretary to the Director, Ivy Makapane. Ivy joined us at the beginning of September. We hope you are going to enjoy working with us, Ivy.

Veronica Sethu, previous secretary to FISCU, is now secretary for the Chief Director of International Development Finance.

****

FISCU Contact Details

If you have any queries about the Finance and Investment Sector, if 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.

FISCU, Private Bag X115, Pretoria, 0001, South Africa.
Tel: +27-12-3155395
Fax: +27-12-3155108
E-mail: fiscu@finance.pwv.gov.za

The FISCU Team

Logan Wort (Director): +27-12-3155395 E-mail: wortl@finance.pwv.gov.za

Bhadala Mamba (Development Finance): 3155927 E-mail: mambab@finance.pwv.gov.za

Huntly Pringle (Projects): 3155967 E-mail: hpe1@mweb.co.za

Phemelo Marishane (Macroeconomic Policy): 3155651 E-mail: marishane@finance.pwv.gov.za

Themba Zulu (Investment): 3155653 E-mail: zulut@finance.pwv.gov.za

Rosalind Mowatt (Monetary and Financial Issues): 3155951 E-mail: mowattr@finance.pwv.gov.za

Ivy Makapane (Secretary): 3155395 E-mail: makapanem@finance.pwv,gov.za