UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL
ECONOMIC COMMISSION FOR AFRICA: SOUTHERN AFRICA

Distr.: GENERAL
E/ECA/SA/ICE.XIV/2008/3
25 April 2008

Original: ENGLISH

Fourteenth Meeting of the Intergovernmental Committee Of Experts for Southern Africa (ICE)

2-4 June 2008
Lusaka, Zambia

Economic and Social Conditions in Southern Africa in 2007

INTRODUCTION

1. The present report on the Economic and Social Conditions in Southern Africa for 2007 is a regular document presented to the Intergovernmental Committee of Experts (ICE) for Southern Africa. The main aims of the report for 2007 are to: (i) to provide Member States with an overview of the economic and social conditions in Southern Africa and prospects for 2008; and (ii) to provide police advice on selected policy issues in Southern Africa.

Chapter 1: Developments in the World Economy and Implications for Southern Africa

1.1 Global and regional economic performance and implications to Southern Africa

2. In 2007, world economic growth rose to 4.9 percent from 3.8 percent in 2006 (Fig. 1). Regrettably, this growth is projected to decline 3.7 percent in 2008, and to remain at this level in 2009 on account of still-unfolding events in the financial markets stemming from deep losses on structured credits related to the U.S. sub-prime market. The spillover effects of this event are weakening financial system balance sheets, and the current credit squeeze threatens to mutate into a full-blown credit crunch.

3. On the regional economic outlook, the Sub-Saharan Africa (SSA) is expected to grow to 6.6 percent in 2008, down from 6.8 percent in 2007 and 6.4 percent in 2006. This stellar performance in 2007 is attributed to improved macroeconomic policies, implementation of structural reforms, favourable commodities and largely still supportive external environment.

1.2 Overstretched electricity systems and implications for growth in Southern Africa

4. Southern Africa is buffeted by major infrastructure challenges, the most severe of which is arguably those in the power sector. While there are many causes for this underperformance of the power sector such as droughts for hydro-dependent countries of East Africa in Southern African the challenge came from fast economic growth; inadequate expansion of generation and transmission facilities that further stripped away cushion from excess capacity; internal conflicts in some countries that damage infrastructure; and high petroleum prices that have created huge cost pressure in some countries.

5. Besides causing major traffic lights failure and frustrated households without power, reduced electricity supply to large industrial users is damaging to economies. In South Africa, for example, the temporary shutdown of production in the mining sectors reduced gold production, causing global prices for gold and platinum to spike. As South Africa exports 5 percent of its electricity to Botswana, Namibia and Swaziland, these countries have also been affected by rolling blackouts. Moreover, if South Africa stops exporting electricity to meet internal demand, the implications for the entire Southern African region will be economically devastating.

1.3 Policy advice to address energy crisis in Southern Africa

6. Of concern to Southern Africa as a whole is the paradox that this crisis comes at a time when more focus is being paid to the development of infrastructure in the sub-region. Moreover, the sub-region possesses enormous resource of coal as well as hydro-electronic potential, 40 percent of which is accounted for by the Democratic Republic of Congo. The sub-regional authorities need to renew their focus to the development of the power sector, strengthen power utilities, increase generation capacity, and ensure access to electricity. Moreover, they must implement the regional protocols on energy, and pursue private sector partnership for sustainable energy sector development. . Long term policies should include the need to embark on: (i) power generation capacity expansion; (ii) renewable energy sources: solar, wind and geothermal energy; (iii) Electricity prices will need to increase substantially to fund the supply cost; and (iv) enforcement of conservation measures.

Chapter 2: Recent macroeconomic performance in Southern Africa and prospects for 2008

2.1 Growth performance

7. Real GDP growth is presented in Table 2.1. Figures in green show achievement of SADC target of 7% or more and growth of less than 7% is shown in red. Southern African countries' key challenge remains one of raising the rate of GDP growth in a sustainable way to meet the Millennium Development Goals (MDGs).

Table 2.1: Real GDP growth

	Economic Growth						
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Angola	14.4	3.4	11.1	20.6	18.6	24.4	16.2
Botswana	9.5	3.4	8.4	4.7	0.6	6.2	5
D.R. Congo	3.5	5.8	6.9	7.9	5.6	6.3	8.8
Lesotho	3.5	3.3	3.4	2.9	7.2	5.1	7
Madagascar	-12.7	9.8	5.3	4.6	5	6.2	7.3
Malawi	2.1	3.9	5.1	2.3	7.9	7.4	7.1
Mauritius	1.8	4.4	4.8	2.3	5	5.7	5.9
Mozambique	8.2	7.8	6.8	8.3	8.5	7.3	7
Namibia	6.7	3.3	5.9	4.8	4.1	4	4.7
Seychelles	1.2	-5.9	-2.9	7.5	8.3	7.3	4.6
South Africa	3.7	3.0	4.5	5	5.4	5.1	*3.8
Swaziland	3.6	2.9	2.1	2.2	2.8	2.8	2.8
Tanzania	6.2	5.7	6.7	6.8	7.1	7.8	7.5
Zambia	3.3	5.1	5.4	5.2	5.8	6.2	7
Zimbabwe	-4.4	-10.4	-4.2	-3.8	-2.0	-17.6	..

*IMF projection

8. Economic growth in Southern Africa rose marginally from 5½ percent in 2006 to 5¾ percent in 2007, but masking wide disparities that range from one of the world's fastest growing economy of Angola at 21.1 percent to the world's fastest shrinking economy of Zimbabwe at –6.1 percent. (IMF, 2008). The downside risks are foreseen from the slow down in domestic consumption as monetary policies tighten to arrest emerging inflation pressures, and drastic decline in global demand amid fears that the world's biggest economy of the US will tumble into recession.

9. The implementation of structural reforms, sound macroeconomic policies, relatively sound external environment has enabled non-oil exporters such as Malawi, Mozambique and Tanzania to achieve growth rates in excess of 7 percent in 2007, in line with MDG target (Table 2.1). Whether these levels will obtain in the years ahead hinges critically on largely external factors including global demand and capital and aid inflows.

10. The driver for economic growth in other Southern African countries was more balanced. The manufacturing (Lesotho, Mauritius), agriculture (Malawi, Lesotho), construction (Madagascar, Mauritius) and services (DRC, Mauritius) and tourism (Mauritius, Seychelles) played a key role to the Southern Africa's growth. High aid inflows further propelled Malawi's economic growth forward. Foreign direct investment was a motor for economic growth of Seychelles and South Africa.

2.2 Inflation

11. Table 2.2 depicts inflation for all southern African countries and progress being made in to achieve a single digit inflation rate as required convergence criteria of SADC set by 2008. Most countries except Angola, DRC, Mozambique and Zimbabwe were within the inflation target band by 2007. Figures for countries that achieved the target between 2002 and 2007 are highlighted in green as opposed to red for those that did not achieve. Again all countries except Angola, DRC, the Seychelles and Zimbabwe will be within the 2008 inflation target band.

12. The inflation outlook in the Southern African region, mirroring global trends, has deteriorated significantly. Inflation around the world has risen, boosted by the continuing steep rise in food and energy prices. For emerging and developing countries, strong demand growth, energy and food prices – that comprise a large bulk of consumption basket – has risen sharply, threatening to unravel recent achievement of price stability in a large number of countries.

13. The spillover effects of rising global inflation are being felt is Southern Africa. After a prolonged period of remaining within the 3-6 percent target band, South Africa's CPIX inflation has breached the inflation target band with an average of 7.1 percent in 2007, and reaching 10.1 percent in February 2008. Neighboring countries whose inflation tends to track that of South Africa due to trade links and/or as part of the CMU arrangement have followed suit (Table 2.2).

Table 2.2: Inflation

Country	Inflation						
	2002	2003	2004	2005	2006	2007	2008
Angola	105.6	76.6	31	18.53	12.2	11.78	10
Botswana	10.6	6.4	7.8	8.6	11.6	7.1	8.4
D.R. Congo	25	13	9	21.4	13.2	16.7	10.1
Lesotho	11	7.5	5	3.5	6	7.9	7.5
Madagascar	13.4	0.8	27.3	11.4	10.9	8.2	7
Malawi	14.9	9.6	11.4	15.5	13.9	8.1	6.9
Mauritius	6.4	3.9	4.7	4.9	8.9	8.8	9
Mozambique	9.1	13.8	12.7	11.2	9.4	10.3	5.5
Namibia	11.3	7.8	3.9	2.3	5.1	7	7
Seychelles	0.2	3.3	3.9	0.9	0.4	5.3	20
South Africa	9.3	6.8	4.3	3.9	4.7	7.1	9.4
Swaziland	11.7	7.4	3.4	4.8	5.3	8.14	10
Tanzania	4.5	4.4	4.2	5.9	7.3	5.6	5
Zambia	22.2	21.4	17.5	15.9	8.2	8.9	7
Zimbabwe	134.5	384.7	350	585.8	>3000	**>3000**	

14. Factors contributing to Zimbabwe's hyper-inflation has intensified: excessive growth in money supply remained despite a tight liquidity management program put in place. Other factors include: supply bottlenecks, attributable to poor agricultural harvests and the upsurge in the international prices of oil.; as well as the foreign exchange shortages, which contributed to creating shortages of goods and build-up of inflationary pressures. As a result, inflation has sharply risen from an average of 10,452.6 percent in 2007 to a whopping 100,000 percent in January 2008 (at end-December 2007 it stood at 66,212.3 percent).

2.3 Exchange Rates: International position of Southern African countries

15. Exchange rates for Southern African countries are presented in Table 2.3. These countries continue to follow two categories of exchange rate regimes: (i) conventional fixed peg arrangements; and (ii) managed floating. The currencies of Lesotho, Namibia and Swaziland (members of the Common Market Area – CMA) are pegged to the South African Rand and consequently the exchange rate of these currencies *vis-à-vis* other currencies directly follows the developments in the South African foreign exchange market (Table 4). The weighted average exchange rate of the Rand for 2007 declined by 3½ percent, far less than the 2006 depreciation of 15½ percent in 2006.

Table 2.3: EXCHANGE RATES: NATIONAL CURRENCY /US$1

Country	2005	2006	2007
Angola (KZ)	87.2	80.3	79.3
Botswana (BP)	0.1953	0.1711	0.1550
Democratic Republic of Congo (CDF)	431.3	500	430.97
Lesotho (MAL)	6.33	6.8	7.2
Malawi (MKw)	1184	136	145
Mauritius (RS)	29.65	33.85	38.65
Mozambique (MT)	23,675	27,000	26,140
Namibia (N$)	6.33	6.8	7.2
South Africa (SAR)	6.33	6.8	7.2
Swaziland (E)	6.33	6.8	7.2
Tanzania (Tsh.)	1122.3	1180	1248
Zambia (ZMK)	4578	3600	4170
Zimbabwe (ZIM$)	15866.5	93177	1775*

2.4. Fiscal performance

17. Fiscal performance between 2005 and 2007 for SADC member states are presented in Table 2.4. Fiscal outlays over the last two years have focused on capital spending, infrastructure rollout and social sectors.

Table 2.4: Fiscal deficit as % of GDP

	2005	2006	2007	Projection for 2008
Angola	-7.2	-7.6	-19.7	-8.6
Botswana	3	8.1	11.3	4.2
D.R. Congo	-3.6	-1.2	-0.6	-1.2
Lesotho	4.7	14.1	5.9	-3
Madagascar	-10.3	-10.1	-9.6	-9.1
Malawi	-1.2	-1.3	-2.8	0
Mauritius	-5	-5.3	-4.3	-3.8
Mozambique	-2.3	-1.7	-1.9	-6.2
Namibia	-0.5	-3.4	-2.6	0.6
Seychelles				
South Africa	-0.5	-0.3	0.6	1
Swaziland	4.6	-10.1	-0.5	-1.5
Tanzania	-3.2	-5.7	-3.8	3.2
Zambia	-2.7	-2.8	-1.7	-1.9
Zimbabwe	-3.5	-17.6	-23.7	>-25.0.

18. The fiscal deficit as used in this analysis (Table 3.3) is the difference between the government's total expenditure and its total receipts (excluding borrowing) - government's expenditure and net lending, which exceeds receipts from revenue and grants. Most countries except Angola, Madagascar and Zimbabwe achieved the

SADC target for 2008 of <5% of GDP. Of these countries, Botswana, DRC, Lesotho, Namibia, South Africa and Swaziland maintained a budget deficit of below or equal to 5 per cent between 2002 and 2006. Botswana and Lesotho registered a surplus in 2006 and 2007. Figures for countries that achieved the target between 2002 and 2007 are highlighted in green as opposed to red for those that did not achieve. Botswana and Lesotho recorded fiscal surplus in 2006 and 2007.

2.5 Public debt, Current Account Balance, Saving and Investment

19. Six SADC countries benefited from debt forgiveness under the HIPC initiative (DRC, Madagascar, Mozambique, Tanzania and Zambia except for Malawi). Consequently, there has been a decrease in **Public debt** in these countries recording a stock of public debt below the SADC target of 60 per cent of GDP. There was an improvement in the public debt ratio in SADC from 64.6 per cent in 2002 to 44.9 per cent in 2006 with a further projected reduction to 34.8 in 2007.

20. Except for Lesotho and Mauritius, in 2006 the rest of the SADC countries achieved the target of –9 for balance on **current account as a per centage of GDP**. Except for Lesotho, Malawi, Madagascar, Mauritius, Zambia and Zimbabwe, the rest of the countries consistently attained the conventional prudential levels of the SADC RISDP.

21. Apart from Botswana and Namibia, which consistently attained the 30 per cent target, most countries showed low rates of **savings.** And, the RISDP target for investment of 30 per cent of GDP was only achieved by Botswana from 2002 to 2005 and by Lesotho for the years 2002 to 2004. Since 2002, the rest of the SADC countries have not reached the target. Thus, **the investment** rate is generally below the required level to achieve the RISDP developmental objectives.

2.6 Trade Balances

22. Table 2.5 reflects SADC’s exports to selected regions from the year 2000 to 2006, as well as growth rate over the same period. At the time of implementation of the SADC trade protocol in 2000, SADC’s total exports were just over US$ 50 billion. By the end of 2006, the value of exports was over US$ 113 billion. That represented more than 100% growth per annum during period

23. A breakdown of exports by regional blocs as destination in Table 2.5 shows that by the time of the implementation, the European Union (EU) accounted for most of SADC exports by value (about US$ 16.74 billion), followed by Eastern Asia with US$ 8.6 billion, North American Free Trade Area (NAFTA) with US$ 7.23 billion, lastly SADC itself and Common Markets of the South (MERCOSUR) with US$ 5.58 and US$ 2.15 billion, respectively.

24. Intra-SADC’s export share at that point accounted 10.9% of the total, and by the end of the period it had declined to less than one tenth of total exports. It is also interesting to note that in 2000, the value of export to the EU were double those to Eastern Asia, however that difference was reduced to US$ 2.6 billion in 2006.

Table 2.5: **SADC Exports to Selected Regional Destinations in US$ Billion from 2000 to 2006**

Year	2000	2001	2002	2003	2004	2005	2006	Annual Growth
Destination	**Value of SADC Exports in US$ billion**							**(%)**
World	**51.29**	**48.97**	**50.74**	**61.01**	**77.59**	**94.33**	**113.63**	***116%***
EU	16.74	15.67	15.71	18.03	23.32	25.78	27.29	111%
MERCOSUR[1]	2.15	1.10	1.33	2.47	5.14	7.18	11.82	144%
NAFTA[2]	7.23	7.36	7.73	7.18	8.58	10.74	11.11	108%
SADC	5.58	5.56	5.73	7.61	8.99	10.13	10.84	114%
Share of SADC (%)	*10.9%*	*11.4%*	*11.3%*	*12.5%*	*11.6%*	*10.7%*	*9.5%*	
East Asia[3]	8.60	7.86	8.19	11.01	13.37	19.02	24.73	121%
Rest of the World	11.00	11.41	12.07	14.71	18.21	21.47	27.84	117%

Source: SADC Trade Database and WITS (2008)

25. The low level of intra sub regional trade exchange, is due to many factors including China's activities in the region and on the whole African continent, the range of invisible non-tariff barriers (NTBs) that impede trade in the region such as communication and transport problems, the customs procedures and charges, exchange rates; trade agreements or barriers; other tax, tariff and trade measures; as well as a lack of market information. Total exports increased by an average of 116% per annum.

26. The surge in total exports has helped SADC to increase its share in world marginally.

27. Figure 2..6 shows a trend in global share of regional exports in world exports from 2000 to 2006. By 2006, SADC had just improved its share by 0.2% to 1.0% of world exports. The EU remains a dominant region as its contribution to global trade the highest of all selected groups. It contributed around two fifths of world exports.

28. Table 2.6 shows shares of SADC member states exports to others. In the table, countries across the rows are the exporters of which the share of what is exported to other members is calculated. Along the columns are SADC markets where exports are destined. Each cell in the matrix at the intersection of two countries contains two numbers. The first number represents the share of exports to the recipient SADC member in the total exports of the exporter for the year 2000. The second number in parenthesis is the share in the latter period, 2006. In most cells there are arrows pointing upwards or down. Those indicate direction of change is shares between two

[1] Mercosur consists of Argentina, Brazil, Paraguay and Uruguay

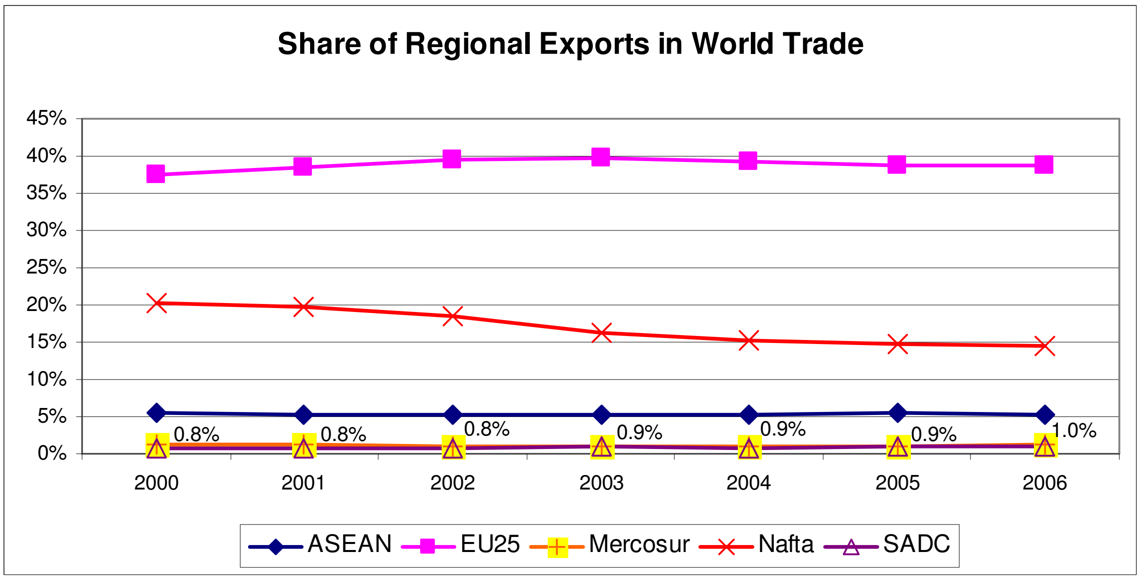
[2] NAFTA is made up by Canada, Mexico and United States

[3] East Asia consist of China, Japan, South Korea, Macao, Mongolia and Taiwan

periods. In cells where there is no arrow, it is because the share in the two periods was the same.

29. An assessment of intra-country shares reveals that most of the contribution is done through trade with South Africa. This contribution is equivalent to 70% of total intra-SADC export shares in both periods. This is more prevalent with South Africa's SACU partners which have intra-country export shares of less than 1% in both periods except in few cases with Zimbabwe (exports from Botswana and Swaziland), Angola (Namibia) and Mozambique (Swaziland).

Figure 2.6: Share of Regional Exports in Global Trade for the Period 2000 to 2006



Source: SADC Trade Database and WITS (2008)

29. Progress made by countries in terms of integrating into the region is further assessed by looking at how they have improved or declined their share of exports since the implementation of the trade protocol. **Error! Reference source not found.** shows changes of SADC export shares over the period.

30. Tanzania is integrating into the region faster than any other SADC member. Its exports to SADC as a share of total increased by 20%, while its closest country in this regard Zambia, improved by only 3%. Other countries showing improvements in shares are Mauritius and Swaziland. The increase in share of Tanzania is due to the surge in precious metals (unwrought and semi-manufactured gold) which are exported to South Africa, probably for further destinations or beneficiation (TIPS, 2006). Therefore efforts by Tanzania to integrate into the region are a clearly showing a positive sign.

31. The overall view from intra-SADC exports is that most countries have reduced their share of exports to the region. Only a small portion of trade taking place amongst member states outside South Africa. SACU members seem to be content with trading with fellow members, or South Africa. Zimbabwe's political and economic challenges have resulted in most SADC members reducing their share of exports to that

destination. Tanzania has shown most of its total export shares towards SADC, while Mozambique has reduced the most.

2.6 The 2005 debt forgiveness

32. Since 2005 from the Southern African sub-region, Mozambique and Zambia were the only countries included among the eighteen countries that benefited from debt forgiveness that occurred in June 2005 by the G8. .

33. The debt service ratio (share of export revenues used to service external debt) of the region has fallen 11.54% in 2000 to 6.79% in 2005 although it still remains high for individual countries such as Madagascar, Mauritius, Angola, and Seychelles

2.7 Economic and corporate governance in Southern Africa - 2006

34. There is increasing recognition of good economic and corporate governance as fundamental for poverty reduction and economic growth in Southern Africa. The World Bank Doing Business 2006 survey ranks Botswana at no.41 in the world, out of 155 countries; Mauritius (23), South Africa (28) and Namibia (33).

35. As reported in 2007, new institutions have been set up to combat corruption and money laundering. The existence of an independent judiciary, which is firmly established in the Mauritian legal system, has remained the best guarantee for the enforcement of constitutional and human rights of the citizens. Mauritius has ratified most United Nations Conventions relating to human rights. The objectives of transparency and accountability are being achieved through parliamentary democracy and judicial control. The Public Accounts Committee scrutinizes public finance and there is an effective system of both internal and external audits. Mauritius has also adopted core labour standards.

Table 2.6: Changes in Intra-SADC Export Share between Member States

Percent of Intra-SADC Export Share Matrix 2000 and 2006																
		Destination (%)														
		ANG	**BOT**	**DRC**	**LES**	**MAD**	**MAL**	**MAU**	**MOZ**	**NAM**	**SA**	**SWA**	**TAN**	**ZAM**	**ZIM**	**SADC**
Exporter's share	**BOT**	0 (0.1)		0.1 (0.1)	0 (0)	0 (0)	0.1 (0)	0 (0)	0.2 (0)	0.2 (0.3)	10 (6)	0 (0)	0 (0)	0.3 (0.4)	2.4 (5.4)	**13.6 (12.2)**
	MAD	0 (0)	0 (0)	0 (0)	0 (0)		0 (0)	2.3 (1.4)	0 (0)	0 (0)	0.5 (1)	0 (0)	0 (0)	0 (0)	0 (0)	**2.99 (2.5)**
	MAL	0 (0)	0.6 (0.2)	0 (0)	0 (0.1)	0 (0.2)		0.1 (0)	7.4 (2.3)	0 (0)	12.8 (22.2)	0 (0)	2.3 (1)	4.4 (2.1)	5.7 (3.1)	**34 (31.3)**
	MAU	0 (0.1)	0.1 (0)	0 (0)	0.1 (0.1)	5.1 (4.8)	0.1 (0)		0.1 (0.1)	0 (0)	0.6 (2.2)	0 (0)	0.2 (0.1)	0 (0)	0.4 (0.1)	**6.5 (7.4)**
	MOZ	0. (0.1)	0 (0)	0 (0)	0 (0)	0.1 (0)	3 (2.8)	0 (0)		0 (0)	14.6 (16.2)	0.2 (0.2)	0 (0)	0 (0.1)	17.7 (2.9)	**35.8 (22.4)**
	NAM	6.9 (5.7)	0.6 (0.5)	0 (1.3)	0 (0)	0 (0)	0 (0)	0 (0)	0.1 (0.6)		25.4 (24.7)	0 (0.)	0 (0)	0.1 (0.2)	0.3 (0.1)	**33.5 (33.2)**
	SA	0. (1.1)	4.5 (4.1)	0.4 (0.6)	1.6 (0.9)	0.1 (0.1)	0.7 (0.4)	0.9 (0.5)	2.1 (1.5)	3.6 (3.7)		0.3 (0.5)	0.6 (0.6)	1.9 (1.9)	2.1 (1.7)	**19.4 (16.4)**
	SWAZ	0.6 (0.3)	0 (0)	0 (0)	0 (0)	0.2 (0.5)	1.1 (0.2)	1.4 (0.3)	6.3 (3.9)	0 (0.2)	59.7 (75.3)		3 (1.3)	0.9 (0.2)	3.8 (0.4)	**76.8 (82.2)**
	TANZ	0 (0.2)	0 (0)	0.7 (1.4)	0 (0)	0 (0.1)	1.1 (1.1)	0 (.01)	0.2 (0.7)	0 (0)	1.6 (14)	0 (0.1)		0.9 (1.2)	0.4 (0.1)	**5.3 (18.9)**
	ZAMB	0 (0)	0.4 (0.2)	4.4 (3.8)	0.0 (0.1)	0 (0)	1.8 (1.5)	0 (0)	0 (0)	0.2 (0.3)	19.6 (21.6)	0 (0.1)	0.6 (6.3)		2 (1.4)	**29.1 (35.4)**

Source: SADC Trade Database (2008)

2.9 Policy challenges and recommendations on macroeconomic performance

36. The authorities must focus on policies that boost savings, investment, expand exports, while continuing with sound macroeconomic policies of the past decade.

37. Member states need to support research on regional integration, which should be fully coordinated to avoid duplication including cost-benefit analysis of monetary union.

38. To encourage MEC compliance especially in the run-up to Monetary Union (MU), SADC should initiate work on developing detailed and effective eligibility criteria for entry into the MU.

39. Member states should strengthen their statistical working groups (SWG) under SADC through training on national accounts, trade statistics, economic classification, prices and harmonization of statistics; as well as the customisation of the UN Manual to the SADC context. The working groups should include representatives from statistics offices, ministries of finance and planning, and central banks.

40. Member states should ensure that macroeconomic convergence is integrated into their macroeconomic policy making processes.

41. Regarding trade, the region should in concert with other countries of the continent continue to argue for a more understanding treatment of its middle-income members by the creditors. This is very critical for mobilizing additional resources for the MDGs in the region.

42. Member states should consider ECA-SA initiative to establish a think-and-do-tank group (an advisory expert group) to address some of the economic and social issues in the sub-region. The Group will consist of senior economists from Ministries of Finance, Central Banks and other institutions in the sub-region.

Chapter 3: Sectoral Developments

3.1 Agriculture and Food Security

43. Drought and floods are the factors that caused a significant decline in the per capita food production; soil erosion is the most widespread form of land degradation, and one of the biggest threats to agricultural productivity in the sub-region.

44. The current food security situation remains relatively stable in most parts of Malawi, Tanzania, Zambia, and northern Mozambique, where food crop production benefited from favorable rainfall during the 2006/07 season. Food insecurity continues in Lesotho, Swaziland, and southern Mozambique, where drought affected crop production last season. In Zimbabwe, food insecurity is critical as a result of adverse conditions last season and a difficult economic environment in addition to localized

flooding that has persisted since late 2007. In Lesotho and Swaziland poor consecutive cereal harvests for the past three years compounded by problems of poverty and the impact of HIV/AIDS have led to serious food insecurity.

45. Food prices are increasing significantly in Southern African countries. Nominal retail cereal prices in Lesotho, southern Mozambique, Swaziland and Zimbabwe have increased quite significantly, shooting above last year's levels and in most cases remaining above the 5-year average. In Lesotho, food prices have remained relatively high.

46. In many countries in Southern Africa, significant markets failures and high transaction costs arising from limited transport and cumbersome border controls can mean that imported food may only be available at high cost or not be. There is significant evidence that the FTA and CU while strengthening the intra-regional trade will play an important role in ensuring the region's food security.

47. There is a need to build comprehensive, holistic and coherent agricultural policies, and reduce the institutional failures to deliver technology services and critical farm inputs, and increase investment in irrigated agriculture, marketing and rural infrastructure. This requires increasing the public expenditure in the sector. Specific objectives would be to reduce vulnerability to, and increase the capacity to respond to, climatic hazards. Overall it is recommended that the sub-region should go for agricultural (green) revolution to ensure that the countries can attain food security. For a way forward, a framework for sub-regional action plan be undertaken.

3.2 Environment

48. Drought, deforestation, desertification and land degradation are the major environmental problems in Southern Africa.There is an increasing concern over the rapid depletion of the natural resources base through deforestation, loss of biological diversity, unsustainable utilisation of fresh water and the rapid urbanization, resulting in escalating amounts of poorly processed human wastes, with associated contamination of land surfaces and water tables. The over-cultivation, overgrazing and deforestation are identified as the three main causes of desertification in the sub-region. The contradiction, between growing nature tourism and shrinking assets to support this vast industry, is seldom raised.

49. The climate change is likely to add only further incremental stress to ecosystems already under severe pressure because of population growth, increasing subsistence needs, endemic droughts, unequal land distribution in some countries and a very limited coping ability particularly in communal rangelands.

3.3 Water and sanitation

50. As economic growth progresses in the Southern Africa and population numbers increase, several states in the region are predicted to become "water stressed". At present the countries with the most developed economies in the region also face the

greatest levels of water stress. These include South Africa, Namibia, Botswana and Zimbabwe.

51. Agriculture has been so far the largest consumer of water in the region, using between 70 and 80% of available resources. Water for mining and industrial processing has been increasingly growing in demand in countries like Botswana, Angola, South Africa and Zambia in rennet years**.** In the coming years it is likely that hydropower developments in DRC, Zambia, Mozambique and Angola will increase. These developments will have various long-term economic, environmental and social repercussions on the water resources in the sub-region.

52. There is a need to domesticate the SADC Regional Water Policy, adopted in 2006. More and strengthened local institutions are needed to manage the allocation of water-use rights as well as to perform monitoring and compliance aspects. There is a need to use market based costs and incentives along the principle of "polluter pays" on water as a solution in achieving efficiency, equity and to protect the water resources base and associated eco-systems in southern Africa.

3.5 Transportation infrastructure

53. The challenges to transport integration in the sub region to include: inadequate capacity for industry regulators and service providers to enforce required standards, inadequate legislation and enforcement to enhance road safety, low private sector participation in road/rail infrastructure development, ownership and operation, inadequate support and enhancement of implementation of transport policy, and the general lack of capacity to enforce regulations. This has resulted in the inability to maintaining, upgrading and expanding infrastructure to ensure provision of effective, efficient, affordable and safe demand/user responsive services. These systems currently place a great financial burden to the countries budgets. The operation of the N4 highway in South Africa (Johannesburg-Durban) presents a best practice in the operation of infrastructure by the private sector.

54. Member States in Southern Africa, realizing the capital outlay required to maintain and expand the transport infrastructure and services, the continuously dwindling resource flows from the donors and competition with other socio-economic priorities, are now looking into other non-traditional ways of financing transport infrastructure and services such as the use of government bonds, pension funds and the introduction of the user pays principle through fuel levies and road tolls. Furthermore, governments should withdraw from operational functions such as road construction and maintenance and investigate privatization and or public-private-partnerships with private players in infrastructure development.

55. Despite these challenges, the study shows that considerable progress has been made in the harmonization of policies in the transport sector. The joint implementation by Botswana, Zambia and Zimbabwe of the feasibility study on the Kazungula Bridge on the Zambezi River, a project which will open up the movement of goods and persons in Western Zambia and the DRC. Programme. The implementation is under the

COMESA/SADC transit transport facilitation programme. Guidelines have been prepared for the overload control programme under the Sub-Sahara Africa Transport Policy Programme.

56. Other major projects underway in the region include (i) the various one-stop-border projects being implemented at several crossing points in Southern Africa based on the SADC Model Legislation for one-stop-border- posts; (ii) the feasibility study of the proposed Kimberely-Maseru-Durban Railway Line; and, (iii) the rehabilitation of the Port of Luanda and the Lobito Corridor.

57. The role of transport services for growth and integration, inter and intra-regional trade and poverty alleviation cannot be underplayed. However, according to a recent SADC report, its contribution to the overall cost of doing business in the SADC region ranges between 10% in South Africa, 30.4% in Zambia and 55% in Malawi. The 2006 Africa Development Indicators of the World Bank identifies transport as a major obstacle to business growth The need to reduce transport costs constitue the main focus of the countries. As mentioned earlier, the transit transport facilitation programme has sub components which are aimed at harmonization of these costs through the implementation or rationalised road user charges, axle overload control initiatives and other interventions.

58. In the field of air transport, SADC and COMESA have been jointly working together in the implementation of the Yamoussukro Decision on the liberalization of air transport. The progress also achieved in this sub-programme has been the adoption of the joint air transport competition rules. Furthermore, a Regional Competition Authority has been set up to oversee the airline air transport operations in Eastern and Southern Africa.

3.6 Energy in Southern Africa

59. Electricity, petroleum and coal remain the principal sources of energy in Southern Africa. Renewable energy such as solar, thermal, wind, biogas, ethanol and gel fuel have also emerged as important sources of energy in the sub region in recent times being promoted through non-grid power supply.

60. During 2007, both the electricity and the petroleum sub sectors faced major challenges, the former related to power deficits and the latter to escalating prices internationally. In the petroleum sub sector, crude oil prices continued on the upward trend, which started in 2006 and rose from 55.95 US$/barrel in December 2006 to 99 US$/barrel in December 2007. The prices rose further in the first quarter of 2008 to as high as 110 US$/barrel further worsening the plight of all countries in the sub region, except Angola, which is a major oil producer.

61. The SADC sub region has an installed capacity of 54,742 MW of which only 46,391 MW and peak demand in 2007 was 44,016 MW without provision of a reserve margin. Despite the commissioning of new generation amounting to 1,810 MW in 2007, the reserve margin is still in deficit against a required reserve margin of 10.2% and the situation is expected to continue until 2013 when all planned generation

projects will be commissioned. Thus, shortages of power occurred despite the well-developed interconnections system as surplus capacity was exhausted.

62. In the longrun, the sub region needs investment in capacity expansion through collaborative investment strategies and the pooling of resources. According to estimates by SAPP, the implementation of generation, transmission and interconnector projects requires a total of US$46.4 billion, resources which cannot be raised by member States alone without the participation of the private sector and bilateral and multilateral organizations.

63. To provide a framework to address the power shortages, a SADC Energy Ministerial Task Force (EMTF) adopted a road map which included supply and demand management initiatives, as well as emphasized the need for the effective use of interconnectors to help overcome the deficit. Other aspects of the road map include the development of minimum energy efficiency standards for all new electrical connections, implementation of renewable energy technologies, and the phasing out of incandescent light bulbs in preference to the compact fluorescent lights. The need to accelerate private sector

3.7 Mining

64. The continuing commodity boom sustained by China and India's economic expansion, as well as global economic growth, boosted export earnings from the mining sector in Southern Africa particularly for those minerals produced by southern African countries such as base metals, gold and platinum.

65. In Botswana, the mining sector is estimated to have grown by 5.2% in 2007 after a decline of 3.8% in 2005/2006. Similarly, in Namibia, growth in the mining sector was estimated at 13.6%, driven by a strong demand for diamonds and base metals. In South Africa, mineral sales in the first quarter of 2007 grew by about 39 % over the same period in 2006.

67. In Zambia, growth in copper production slowed down to 1.5% on account of flooding at some of the mines during 2007. But, copper production increased to unprecedented levels on account of increased investment in exploration and new production. Increasing sentiment that the country was not fully benefiting from the current commodity boom led to the introduction of a new fiscal and regulatory framework to bring about an equitable distribution of mineral wealth between mining companies and Government. The changes saw revisions in the tax regime to introduce variable and windfall taxes, as well as increase royalties.

68. In Lesotho, diamond production has seen a significant expansion in recent years with growth in the sector in 2005 recorded at 139%.

69. The developments outlined above emphasise the need to implement a harmonised approach to the development of the mineral sector in the SADC region. The need for skills harmonisation and development should, for example lead to the free movement

of skills in the region, while a common approach to taxation is desirable to avoid harmful competition in the regional industry. Likewise, beneficiation and issues of equity in the industry need a common strategy. SADC, with the assistance from UNECA-SA has now completed an Implementation Plan for the Mining Harmonisation Framework, which in due course should be presented to the SADC Ministers for approval and subsequent implementation.

Chapter 4: Social Development Conditions

4.1 Introduction

70. The year 2007 presents was the mid term point for MDG targets. Different national reports show progress made in addressing the eight MDGs despite the continued, complex challenges being brought about by high prevalence rates of HIV/AIDS and endemic poverty. Notwithstanding, efforts were made to address the social conditions through reviews of policy papers including National Development Plans, Poverty Reductions Strategies and Medium Term Expenditure Frameworks (MTEFs).

4.2 Population and Demographic Dynamics

71. Table 4.1 presents indicators of social development conditions for 2007. The Annual population growth rates for Southern Africa have been steadily declining with South Africa at 0.97%, overall, the implied rate of growth is below 3% with Angola (2.7%) registering the highest rate of growth. Three countries have recorded negative growth rates i.e. Botswana (-0.4%), Lesotho (-0.3%) and Swaziland (-0.3%). The negative growth rates observed among these countries could suggest higher mortality levels existing in the countries and impact of migration into South Africa.

72. Overall, infant and child mortalities remained high with exceptions of South Africa and Namibia with current rates of 45 deaths per 1000 live births. At this rate, these two countries will reach the MDG target of a minimum of 41 deaths per every 1000 live births by 2015. The advent of HIV/AIDS has posed serious population challenges with the reduction in the general health of the population, decreased life expectancy and increased mortality. Overall, health indicators like child and maternal mortality are not improving at a required pace in the region to meet the MDG targets.

4.3 Urbanization and Migration

73. Population distribution in Southern Africa is skewed towards majority of people residing in the rural areas; Botswana (52.5%), South Africa (57.9%), Namibia (40%) and Zambia (40%) are countries that have more people living in cities, towns and other urban centers. The rest of Southern African countries have average populations of 35% in the urban areas. The process of rural-urban migration in the sub-region appears to

have influenced urban population growth. For instance, in the following countries, majority of urban dwellers are in slums, Tanzania (92%), Malawi (91%) and Angola (83%). Apart from Mauritius with zero net migration all other countries registered negative net migration. The returning refugees could explain heavy positive net migration for Angola while it would be due to labour force migration into South Africa.

4.4 HIV and AIDS

74. Available data on HIV prevalence put Swaziland (33.4%), Botswana (24.1%) and Lesotho (23.2%) as well as Zimbabwe (20.1%) and Namibia (19.6%) including South Africa (18.8%) among countries with greatest concern for HIV prevalence among adult population. Orphans due to AIDS related deaths of one or both parents are a greater problem for South Africa, representing more than a million orphans. Other countries with large population of AIDS orphans include Zimbabwe, Zambia, Malawi and Mozambique.

4.5 Education and Training

75. There is positive progress in the sub region towards achieving MDG target of universal primary education by 2015. Zimbabwe is in the lead with 97% literacy rate while South Africa had 98% of children aged between 7-13 in schools in 2007. Mozambique and Angola both have 40% literacy rates while the rest of the region is in the range of 52% to 85%.

4.6 Water and Sanitation

76. Access to improved water supply was found to be comparatively better than access to improved sanitation in the sub-region. In Botswana, 95% of the population has safe water in contrast to 88% in South Africa, 87% Namibia and 81% Zimbabwe. Access to improved sanitation was 84% in Malawi and above 50% in South Africa (65%), Zambia (55%) and Zimbabwe (53%). Universal access to safe water and sanitation for achievement of MDG in 2015 seems to be likely in Botswana, South Africa, Namibia, Zimbabwe and Malawi.

4.7 Gender and Development

77. The region faces numerous challenges related to mainstreaming gender in critical areas like national budgets and also in generating and effectively using gender desegregated data for monitoring and evaluating policies and strategies such as for poverty reduction and Millennium Development Goals. To address this issue, ECA African Centre for Gender and Social Development has developed the African Gender and Development Index (AGDI) a tool that maps the extent of gender inequality in Africa and assesses government performance on addressing the twelve critical areas of concern outlined in the 1995 Beijing Platform for Action.

78. The need to empower women is a development concern in Southern Africa. The framework for Gender Equality and Women's Empowerment in Southern Africa continues to be the SADC Declaration on Gender and Development (1997). In 2007

advocacy campaigns intensified to elevate this instrument into a protocol that will bind member states to translate commitments made into concrete enforceable actions. SADC region continues to make steady progress in the area of women in power and decision-making. The average representation of women in parliament is 20% with three countries South Africa, Mozambique and Tanzania having surpassed the initial minimum target of 30% representation. Overall, there are improvements in the region regarding representation of women in positions of decision-making, notably South Africa and Zimbabwe having women deputy presidents and a woman prime minister in Mozambique.

79. More efforts are needed to build the capacity of national experts to collect gender disaggregated data to enhance integration of gender perspectives in the development process.

4.8 NEPAD Implementation

80. In 2007 the following activities took place under NEPAD initiative in the sub-region; Botswana : East Africa Submarine Cable System aimed at facilitating greater and more affordable access to International communication for the region, construction of Kazungula Bridge a major transit traffic corridor for the sub-region and the Common Africa Development Programme medium term development plan which includes management and control of migrant pests, Tsetse surveillance and establishment of plant protection station and agro chemical management and control.

Table 4.1: Indicators of Social Development Conditions for 2007

Source, Economic Reports (Member States) UNICEF and UNAIDS 2007 Human Development report 2007/08

Country	Demographic Indices Fertility Mortality					*Urban and Migration*			*HIV/AIDS Health*			**Training**		*Education/*	Water and Sanitation	
	Total (000)	r %	SR	TFR	e_o	%Urban	migrants (000)	rate per 1000Pop.	prevalence %	Orphans (000)	xxxxx	%GDP		Doctors per 100,000 Pop.	% Access Imp'ved Water	% Access Imp'ved Satn
Angola	16400	2.7	97	6.5	42	37.2	29	1.9	3.7	160	320	2.6	26	11	40	31
Botswana	1760	-0.4	97	3.0	54	52.5	-1	-0.7	24.1	120	270	10.7	71	40	95	42
DR Congo	62661	3.2		6.5	52	32.7	-.23		3.6	680	1500				46	30
Lesotho	1791	-1.3	87	3.5	42	18.2	-7	-4.0	23.2	97	940	13.4	66	4	79	37
Malawi	13166	2.2	99	5.7	47	17.2	-4	-0.3	14.1	550	-	5.8	84	2	75	84
Mauritius	1256	0.8	98	1.9	73	43.8	0	0	-	-		4.5	74	106	100	94
Mozambique	20158	1.7	94	5.2	42	38.0	-4	-0.2	16.1	510	1800	3.7	49	3	43	32
Namibia	2052	1.0	98	3.3	52	33.5	-1	-0.6	19.6	85	230	6.9	67	30	87	25
Seychelles	86			1.1	-	50			4.9					130	88	-
South Africa	479594	0.1	97	2.69	50	51.9	10	0.2	18.8	1200	5500	5.4	77	77	88	65
Swaziland	1029	-0.4	93	3.6	40	23.9		-1	33.4	63	220	6.2	58	16	62	48
						1.2										
Zambia	12526	2.9	100	5.6	51	33.7		-13	17.0	710	1100	2.0	54	12	58	53
						1.0										
Zimbabwe	13085	0.6	99	3.3	42	35.9	-10	-0.8	20.1	1100	1700	4.6	52	16	81	53
Madagascar	18606			4.9	59				0.5	13	49	3.2			50	42
Tanzania	38329			5.3	52				6.5	1100	1400	2.2			62	47
Total						54.7										

XXXX: People living with HIV