Convergence the Southern African Development Community (SADC): Dream or reality?

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Abstract

The countries in Southern African Development Community (SADC) agreed to challenging economic targets in their quest to forster economic convergence. These targets include a timeline for regional economic integration culminating in a currency union and macroeconomic convergence criteria. These targets were set some time ago and it is necessary to reconsider the possibility of these targets being achieved.

This manuscript highlights the economic objectives, goals and targets set for SADC countries and elucidates slippage with their achievement. It is shown that target-setting in SADC should be redesigned, as the current approach does not deliver the expected outcomes. Of particular importance is the fact that some degree of agreement has been reached on a revision of these economic objectives, goals and targets, although the status of such agreements are unclear. This contributes to confusion in reporting on these targets. It is also shown that overlapping regional structures in Africa hamper progress with regional integration.

1 Introduction

The Southern African Development Region (SADC) comprises 15 countries, namely Angola, Botswana, Democratic Republic of the Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe (see for instance Masson and Pattillo, 2005; or SADC 2011).

SADC member countries adopted the *Regional Indicative Strategic Development Plan* (RISDP) in 2003 (SADC [S.a.]). The RISDP is a development and implementation framework detailing the regional integration strategy of SADC for the period 2005 to 2018 and sets out convergence criteria for the region (Masson and Pattillo, 2005; SADC, [S.a.]). However, the convergence criteria were amended since the adoption of the RISDP in 2005, as is shown in this manuscript. This manuscript reassess macroeconomic convergence in SADC and proposes an alternative way forward, also in view of (seemingly) conflicting convergence criteria.

The rest of this manuscript is structured as follows: Section 2 describes SADC. Section 3 provides a brief economic overview of SADC. In Section 4 the RISDP and macroeconomic convergence criteria are reviewed. The conclusions follow in Section 5.

2 Description of SADC

SADC was established on 17 August 1992 when the SADC Treaty (1992) was signed. SADC is the successor to the former Southern African Development Co-ordination Conference (SADCC). The SADCC was established in Lusaka in Zambia in 1980 (African Union, [S.a.]). The establishment of SADC " … redefined the basis of cooperation among Member States from a loose association into a legally binding arrangement and formalised the intention to spearhead the economic integration of the Southern Africa region" (African Union, [S.a.]).

SADC has its head office and Secretariat in Gaborone in Botswana. The Secretariat is administratively managed by the Executive Secretary, who is the most senior official in the SADC structure. The appointment is made by the SADC Assembly for a one-off term of 5 years. The current Executive Secretary is Dr Stergomena Lawrence Tax. She is a national of the United Republic of Tanzania and has assumed the position on 18 August 2013 (SADC, 2011).

SADC countries elect annually one of the heads of state of a SADC country as its chairperson (African Union, [S.a.]). The current Chairperson (2016/17) is King Mswati III of the Kingdom of Swaziland, who assumed this role on 17 August 2016.

SADC's vision is to be "(a) reputable, efficient and responsive enabler of Regional Integration and Sustainable Development", while its mission is to "(p)rovide strategic expertise and co-ordinate the harmonisation of policies and strategies to accelerate regional integration and sustainable development" (SADC, 2011). Article 5 of the SADC Treaty states the objectives of SADC as:

- Achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged through regional integration;
- Evolve common political values, systems and institutions;
- Promote and defend peace and security;
- Promote self-sustaining development on the basis of collective self-reliance, and the inter-dependence of member states;
- Achieve complementarity between national and regional strategies and programmes;
- Promote and maximise productive employment and utilisation of resources of the region;

- Achieve sustainable utilisation of natural resources and effective protection of the environment; and

- Strengthen and consolidate the long-standing historical, social and cultural affinities and links among the people of the region.

The SADC RISDP is of particular importance in assessing SADC's economic achievements, despite subsequent amendments, as is shown in this manuscript (SADC, [S.a.]). The RISDP highlighted the initial economic integration strategy and economic convergence milestones for SADC.

3 Economic overview of SADC in an African context

SADC is one of eight regional structures in Southern and Eastern Africa (see Annexure 1) and one of 17 regional structures on the African continent (see Annexure 2). These structures show considerable overlap of membership that hamper the achievement of the objectives of some of these regional structures. A case in point is Swaziland with membership of 5 regional structures. It is one of the smallest economies in Africa and a country highly dependent on development assistance from South Africa in the form of Southern African Customs Union (SACU) transfers.

Of particular concern is that fact that both SADC and the Common Market for Eastern and Southern Africa (Comesa) aim at establishing customs unions. DRC, Madagascar, Malawi, Mauritius, Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe are SADC countries with concurrent Comesa membership. Countries cannot be members of two customs unions as such duplicated membership will facilitate arbitrage between these structures. This matter has received insufficient attention and has to date not been resolved.

In terms of economic activity, SADC includes one of the three largest economies in Africa, namely South Africa. The other two are Nigeria and Egypt, although the relative sizes of these three countries depend on exchange rate movements. (see Rossouw, 2016 on this matter). With one of the largest economies in Africa forming part of the SADC region, it follows that the region is one of the largest regional structures in Africa in economic terms.

The SADC region comprises 554 919 square kilometres, with a population of some 280 million people (SADC, [S.a.]). It is heavily depended on agriculture, which contributes more than 15 per cent of the GDP. Owing to this reliance on agriculture, many countries in the region suffer when adverse climatic conditions are experienced.

4 SADC's *Regional Indicative Strategic Development Plan* (RISDP)

The timeline for the transition of SADC from a free trade area (FTA) (achieved in 2008) to an Economic and Monetary Union (EMU) is detailed in the RISDP. One of the underpinnings for the achievement of the objective of an EMU is the adoption of macroeconomic convergence criteria. At the time of the adoption of the RISDP, all SADC countries did not meet the convergence criteria. This is still the case in respect of the original and amended criteria (the amendment and amended criteria are explained below).

The timeline for economic transition is:

- Free Trade Area by 2008;
- Customs Union by 2010;
- Common Market by 2015;
- Monetary Union by 2016; and
- Single currency by 2018.

The objective of a SADC Free Trade Area was achieved in August 2008. However, no progress can really been shown with the achievement of the other transition objectives. Naturally the next step is the establishment of a SADC Customs Union, but the SADC website (SADC, [S.a.]) states that "(d)ue to capacity constraints within the SADC Secretariat the implementation of the Regional Indicative Strategic Development Plan started late, meaning this milestone has not yet been attained." It follows that the achievement of the other objectives are also in abeyance.

The RISDP is in the process of revision, *inter alia*, in an attempt to address these problems. The revised document has not yet been approved by a meeting of the Heads of States and Goverment of SADC countries. Concequently, at the time of finalisation of this manuscript (August 2016), the revised RISDP has no standing. The revised RISDP is also not available for pubic scrutiny and comment and will only be publicly available once approved by the Heads of States and Goverment of SADC countries.

A complicating factor is that some smaller countries in SADC cannot afford to forfeit the government income derived on imports from other SADC countries, which will be the case once a customs union is introduced. It is therefore necessary to reconsider the structure of taxation in SADC countries in the assessment of the feasibility of a customs union.

Progression towards the achievement of a SADC Customs Union is therefore a major challenge facing the countries of the SADC region. In this regard the SADC website states that " … it is anticipated that the establishment of the SADC Customs Union will be reached by 2013", rather than 2010, as was initially envisaged. This revised date has also come and gone, with no future clarification of timelines. The implication is clear: Unrealistic timelines for the achievement of the objectives should be replaced by a realistic time frame.

Another strategy could be to capitalise on the Southern African Customs Union (SACU), an existing customs union in SADC. SADC comprises Botswana, Lesotho, Namibia, South Africa and Swaziland. It is the oldest customs union in the world still in existence, tracing its roots back to 1889. An approach could be for SADC to open itself for membership by more countries in the region, thus "growing" it gradually into a SADC Customs Union. Such an approach will imply that countries in SADC join SACU when they are ready and willing, without a finite time frame.

There are two limitations to this proposal. First, it will be necessary to resolve the problematic matter of countries with dual membership of two regional blocks with similar (but mutually excluding) objectives. It will not be tenable for countries to retain membership of SADC and Comesa once both groupings have established regional currencies. A study on this challenge has been commissioned as far back as 2008 by the SADC Secretariat, but this matter has never been resolved.

Secondly, the South African gross domestic product (GDP) comprises more than 90 per cent of the GDP of the current SACU countries. The SACU transfer agreement makes provision for a large subsidy by means of transfers from South Africa to the other partner countries in the SACU. These transfers annually amount to some 1 per cent of the South African GDP and to some 3 per cent of South African government revenue. If SACU membership is opened for other countries in the region, this subsidy formula will have to be revised. South Africa can hardly afford the current financial assistance transfer any longer. This transfer of more than 1 per cent per annum of its GDP makes South Africa one of the most generous donor nations in the world, with its assistance to neighbours well exceeding the international norm of 0,7 per cent of GDP per annum. However, SACU transfers are <u>not</u> classified as development assistance, as these transfers are not approved as assistance by the Suth African Parliament. South Africa currently faces its own financial constraints and a possible fiscal cliff (see Rossouw, Joubert and Breytenbach, 2014 on this matter), hence limiting its own ability to assist other countries financially.

Delays in the implementation of the SADC Customs Union mean that following steps in the chain of integration milestones will be delayed, including the finalisation of the SADC Common Market and Monetary Union.

Again there is a structure in SADC that can help to ensure progress to a monetary union and a single currency, namely the Common Monetary Area (CMA). The CMA comprises Lesotho, Namibia, South Africa and Swaziland. As is proposed in the case of SACU, the membership of the CMA can also be opened up for other countries in the region wishing to join the CMA. In this way the CMA can also gradually “grow” into a SADC monetary union, albeit without a specific time frame.

However, for the CMA to fulfil the function of a growing entity with increasing membership with the aim of ultimately becoming a SADC regional currency union, it will be necessary for South Africa to abolish exchange control altogether. In terms of the current CMA agreement, CMA member countries apply the same or stricter exchange control measures than South Africa. Such an arrangement will no longer be practical with any further growth of membership of the CMA.

The South African rand already circulates outside the CMA. A case in point is Zimbabwe, where the rand circulates extensively since the abolition of the Zimbabwean dollar owing to runaway inflation in that country. The rand is also used extensively in international payment and clearance operations in certain SADC countries (see for instance Van Zyl, 2003). Without exchange control, the use of the rand would arguably been even more extensive, hence increasing demand for the currency, with the potential of increasing the exchange rate of the currency.

SADC countries have agreed on the following macroeconomic convergence criteria at the time of the agreement of the RISDP in 2005, with targets for each of these for SADC Member States (SADC, [S.a]):

- The rate of inflation;
- The ratio of the budget deficit to GDP;
- The ratio of public and publicly-guaranteed debt in relation to GDP; and
- The balance and structure of the current account.

In the operationalisation of the macroeconomic convergence criteria, it is important to ensure measurement of progress and with the achievement of these criteria. Table 1 highlights the initial criteria agreed upon by SADC countries.

Table 1 Initial macroeconomic convergence criteria for SADC

Criterion	2008	2012	2015
Inflation rate	Single digits	5%	3%
Budget deficit	5% of GDP or less	3% of GDP as an anchor, with a range of 1% on both sides	3% of GDP as an anchor, with a range of 1% on both sides
Government debt	Less than 60% of GDP	Less than 60% of GDP	Less than 60% of GDP
Foreign reserve/import cover ratio	3 months' import cover	More than 6 months' import cover	More than 6 months' import cover

Sources: Mboweni, 2003; Mboweni, 2005; Rossouw, 2006

By 2006 it was shown that SADC countries progressed towards the achievement of the macroeconomic convergence criteria between 1999 and 2004, and even achieved some of the targets for 2008 already by 2004 (Rossouw, 2006). However, since 2004 unsatisfactory progress has been shown with the achievement of the targets, or even progress towards the achievement of the targets. In addition, these criteria were subsequently amended, as is shown below.

In the assessment of further progress towards the achievement of the macroeconomic convergence criteria since 2006, there are specific matters to be considered. First, the Committee of Ministers of Finance and Investment (COMFI) of SADC countries agreed to a revision of the RISDP and the convergence targets. However, as is explained below, some amendments to the economic convergence criteria were approved by other structures at different dates. Already this gives the impression of moving targets and moving dates for the achievement of such targets, rather than targets "cast in stone".

Secondly, the revision provides for the targets to be split into primary and secondary targets, but the basis for such a split is not clear. However, it seems that the split was done on the basis that matters directly inside the policy ambit of governments (for instance the deficit before borrowing of the government) were classified as primary targets, while matters not directly inside the policy ambit were classified as secondary targets.

Thirdly, a further complicating factor is the fact that data and statistics are available only after a considerable time lag. At the time of writing this manuscript (August 2017), the SADC website reported data and statistics only up to 2013. Naturally this is an obstacle to regional integration and compliance with macroeconomic convergence criteria. It is untenable for countries in a region to know only after a time lag of four or five years to whether they achieved their own conversion criteria.

Another data source in the SADC region is the Secretariat of the Committee of Central Bank Governors in SADC (the CCBG Secretariat) (CCBG, [S.a.]). The CCBG Secretariat reports annually on progress with the achievement of macroeconomic convergence goals and uses the structure of targets as amended by COMFI.

An annual integrated paper on recent economic developments in the SADC region is compiled on a rotational basis by one of the central banks of the SADC countries. The most-recently published report (2016) was compiled by the Reserve Bank of Malawi, updating findings on recent economic developments in the SADC region with 2015-data.

The CCBG reports on primary and secondary convergence criteria, following on the decision of COMFI to amend these criteria, mentioned earlier. It is stated that “ … the former group being more stringent than the latter group of indicators, which are used more as guidelines” (Banque Centrale du Congo, 2015: 13). The difficulty with the revised criteria, however, is that progress cannot be compared with the progress with macroeconomic convergence reported previously (Rossouw, 2006). The primary and secondary criteria currently used are (Reserve Bank of Malawi, 2015):

Primary criteria:

- Inflation between 3 per cent and 7 per cent by 2018, rather than 3 per cent as was initially the case. This amendment was approved by the SADC Ministerial Task Force on Regional Integration in July 2014;
- Budget balance at a deficit not exceeding 3,0 per cent of GDP, within a 1,0 per cent band (no date given for achievement; presumably a permanent goal), as was previously the case; and
- Government debt at less than 60 per cent of GDP (no date given for achievement; presumably a permanent goal), as was previously the case.

Secondary criteria:

- Economic growth at 7,0 per cent per annum minimum (no date given for achievement; presumably a permanent goal); and
- Foreign reserves greater than or equal to 6 months of imports (no date given for achievement; presumably a permanent goal), was moved from a primary to a secondary goal.

In 2015 a third secondary convergence target was also reported (current account deficit of less than 9,0 per cent of GDP), but this target was omitted from reporting in 2016 (Banque Centrale du Congo, 2015; Reserve Bank of Malawi, 2016). No reason for this omission was provided, in the same way as no compelling reasons were provided in July 2009 when this aspect was moved from a primary to a secondary target by COMFI.

Enquiries revealed that this was indeed an omission and that this target should have been included in the report of the Reserve Bank of Malawi (Reserve Bank of Malawi, 2016), submitted in October

2016. However, this omission was not noticed until I made enquiries in August 2017. This matter will be rectified. However, it does not bode well for the convergence targets if such an important omission goes unnoticed for 10 months.

Table 2 Overview of the achievement of the macroeconomic convergence criteria, 2015

	Primary criteria				Secondary criteria		
Country	Inflation (3 per cent to 7 per cent)	Public deficit (≤ 3 per cent of GDP, ± 1 per cent variation)	Public debt (≤60 per cent of GDP)	Result	Economic growth (≥7 per cent)	International reserves (≥6 months of imports)	Result
Angola	x	√	√	2/3	x	√	1/2
Botswana	√	√	√	3/3	x	√	1/2
DRC	√	√	√	3/3	√	x	1/2
Lesotho	√	√	√	3/3	x	√	1/2
Madagascar	x	√	√	2/3	x	x	0/2
Malawi	x	√	√	2/3	x	x	0/2
Mauritius	√	√	x	2/3	x	√	1/2
Mozambique	√	x	x	1/3	x	x	1/3
Namibia	√	x	√	2/3	x	x	0/2
Seychelles	√	√	x	2/3	x	x	0/2
South Africa	√	x	x	1/3	x	x	0/2
Swaziland	√	x	√	2/3	x	x	0/2
Tanzania	√	x	√	2/3	x	x	0/2
Zambia	x	x	√	1/3	x	x	0/2
Zimbabwe	√	x	√	2/3	x	x	0/2
Total	11/15	8/15	11/15	30/45	1/15	4/15	6/30

Source: Reserve Bank of Malawi, 2016

The analysis in Table 2 confirms that the majority of SADC countries are close compliance in respect of inflation and public debt, but still far from achieving the other objectives. The timelines for the achievement of convergence criteria are therefore simply unrealistic and should be revised.

It is also disconcerting to note that at the time of finalisation of this manuscript (October 2016), data from 2015 is the most-recent to assess convergence. The time lag is simply too large and SADC countries should reassess their capacity to produce timely economic data.

6 Conclusions

In a redesign of regional structures in Africa and in setting realistic timeframes for the achievement of goals and objectives, a number of matters have to be addressed to overcome the poor record of the past.

Overlapping membership of regional structures must be addressed, as these structures often have the same, competing, overlapping or mutually excluding objectives. These overlapping structures not only hamper progress with regional integration, but it also raises costs for participating countries. In the context of SADC, overlapping membership with Comesa is a case in point.

A proper balance must be found between the economic interests of large and small countries. This matter requires considerable planning and attention going forward, also to ensure tax income for countries currently depended on import taxes raised on imports from other countries in the region. Customs unions cannot function optimally in regional structures such as SADC until this matter has been resolved.

Realistic goals and objectives for intraregional integration and for interregional integration should be set. Once agreed upon, these should be applied and countries should be sanctioned in the event of non-compliance. Goals, objectives and targets slipped into obscurity in SADC and the objective of a single currency for the region by 2018 can no longer be achieved.

It is necessary to consider whether SACU can evolve into a SADC Customs Union. However, in this case South Africa cannot any longer afford the same level of development assitance disguised as SACU transfer payments to other member countries.

The CMA can be developed into a SADC regional currency union, on condition that South Africa agrees to the abolition of all its remaining exchange control measures.

It is imperative to revisit and reassess convergence and co-operation in the Southern African Development Community (SADC) and the implications for African regional integration in the quest to alleviate poverty on the continent and ensure a better future in the long run for all people in Africa. The current situation with unrealistic timeframes receiving scant attention is no longer tenable.

Lastly, SADC countries have to invest in capacity to measure and report economic activity and macroeconomic indicators. Progress measured by the second half of 2017 towards the achievement of macroeconomic convergence criteria cannot be accessed on the basis of 2015-data and -statistics. It is untenable for countries in a region to know only after a long time lag whether the region achieved its own conversion criteria.

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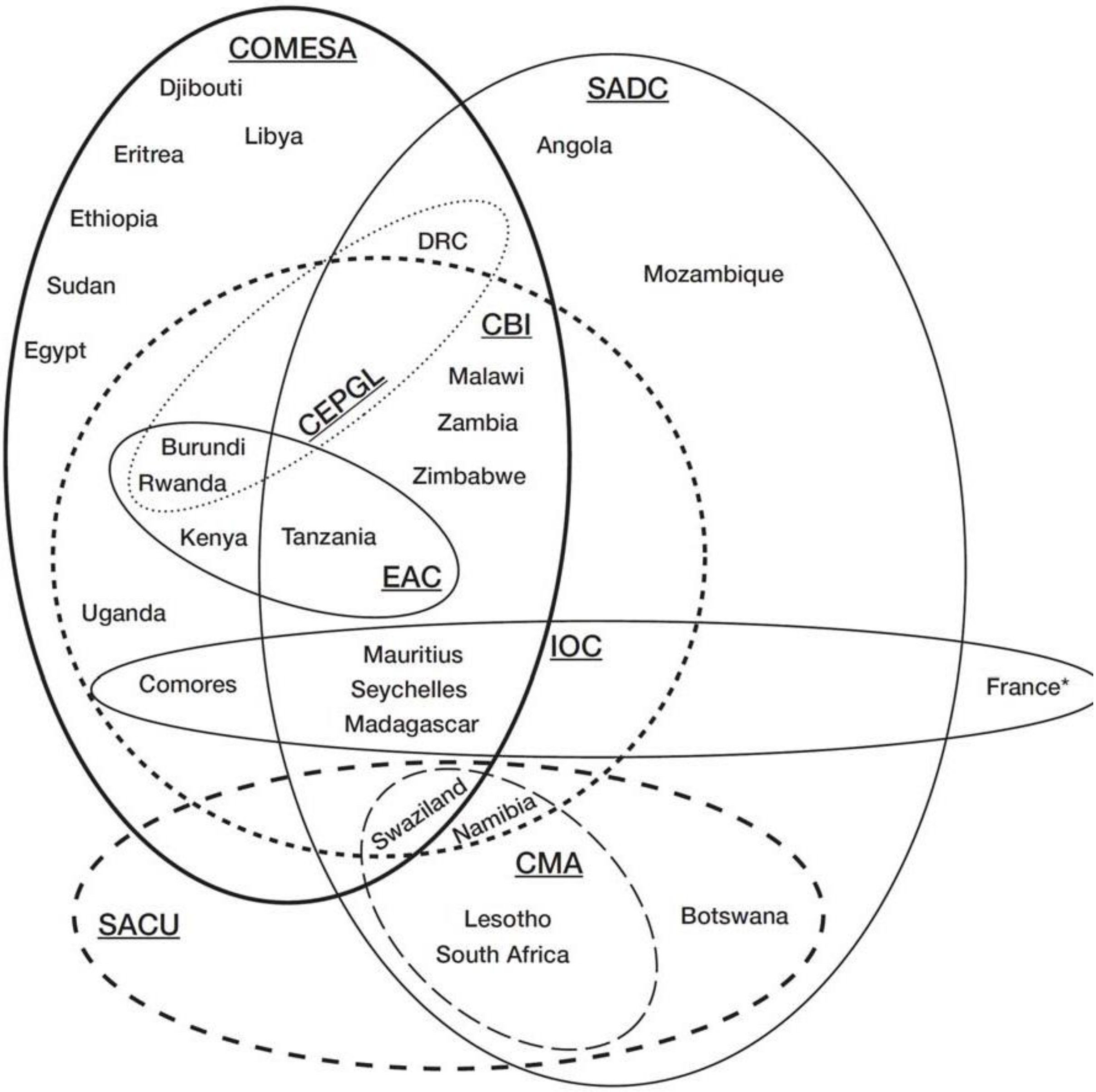
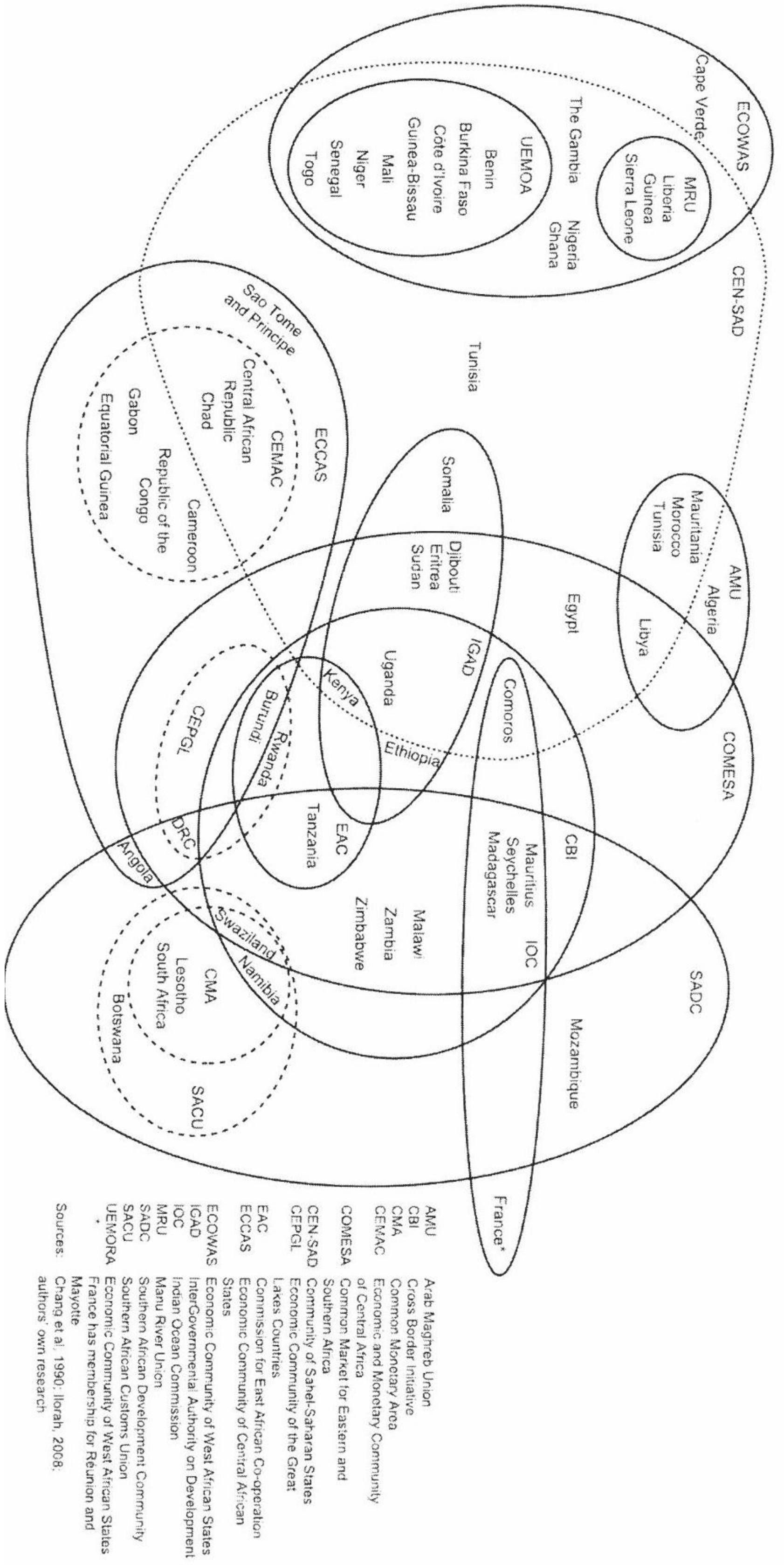
Annexure 1: Regional structures in Southern and Eastern Africa



CBI	Cross Border Initiative
CEPGL	Economic Community of the Great Lakes Countries
COMESA	Common Market for Eastern and Southern Africa
CMA	Common Monetary Area
EAC	Commission for East African Co-operation
IOC	Indian Ocean Commission
SADC	Southern African Development Community
SACU	Southern African Customs Union
*	France has membership for Réunion and Mayotte

Source: Rossouw and Breytenbach, 2011

Annexure 2: An African fruit salad



Source: Fourie and Rossouw, 2009 and used in Hart and Padayachee, 2010