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South African Reserve Bank

South Africa in the finance and investment sector of the Southern African Development Community (SADC)

by W. Brümmerhoff

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Introduction

The Southern African Development Community (SADC) was founded in August 1992 as a successor to the former Southern African Development Co-ordination Conference (SADCC) which had been established on 1 April 1980.[1] In SADCC the important task was to enhance co-ordination of development programmes and projects of member states whereas SADC is mainly pursuing the integration of development and the liberalisation of economies in the region.

In this survey the focus will be on general issues applicable to regional and economic integration, specifically those relevant to the SADC region. The major part of the study will give attention to the position of South Africa in the economic SADC bloc, as well as to initiatives for closer financial co-operation and possible future economic integration.

The concepts of regionalism and globalisation

Regionalism generally refers to the development and expansion of regional co-operation and integration across a number of countries and could be pursued in diverse economic or financial segments or activities. Regional economic integration has become a feature of the policy frameworks of many countries and could be driven by market and/or political imperatives. It is primarily an instrument to pursue the expansion of markets and to remove possible barriers impeding the flow of goods and services between countries in the block or region.

Globalisation is the integration of markets all around the world in a more integrated system. It entails the acceleration of economic activity across national borders in respect of goods, services, capital and labour. Technological advances are the key driving force behind globalisation as they continue to accelerate the potential for communication and information. Access to technology is a prerequisite for attaining full membership in the global economy. *Globalisation* is also used to describe transformations in world economic activity which include deregulation, financial liberalisation and technological advancement.

Globalisation is perceived to be market-led and regionalisation policy-led, but in many ways regionalisation is driven by the same market forces and technological developments as globalisation. Globalisation could be a challenge to regional integration but regionalism is not opposed to globalisation as it is a means of securing benefits for the region in the globalisation process.

In recent years the South African financial sector has moved rapidly on the road towards globalisation by expanding the involvement of foreign banks in the country and that of non-residents in the South African financial markets. In addition, the domestic banking and private non-bank sectors utilised large amounts in foreign funding. Further relaxation of exchange controls and the restructuring of the financial system are important preconditions for South Africa's greater participation in the financial globalisation process.

The rationale for economic integration in Southern Africa

The motivations underlying regional integration initiatives were both political and economic resulting, *inter alia*, from disillusionment with national as well as international political and economic systems that were viewed as unfavourable to developing countries.

Based on the premise that economic integration can yield greater developmental benefits by the collective rather than unilateral use of economic policies, expected advantages could include the following:

- *Efficiency gains* by overcoming obstacles in the way of economic development such as small market size, market distortions, inefficient production techniques and barriers to the movement of productive factors;
- *Gains* arising from economies of scale could result from large cost savings on projects realised through regionally co-ordinated and initiated investments in physical, social and institutional infrastructure.

Many other issues in the Southern African context could also be attended to far more effectively through the adoption of a regional approach. These include the following:

1. The founder members were Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. Namibia joined the SADC after independance in 1990. South Africa and Mauritius became members of SADC in 1994, as did the Democratic Republic of the Congo and Seychelles in 1998.

- Countries in Southern Africa are aiming at achieving self-sufficiency, but at the same time they are confronted with attempts to industrialise and modernise their economies;
- the large number of small countries competing with one another in international markets reduce their bargaining power in such markets. Many countries in the region are also dependent on a narrow set of similar primary products which negatively impact on their participation in world trade; and
- the facilitation and mobilisation of investments, both from local and foreign sources, will increase if a much broader and integrated market can attract the interest of foreign investors.

According to the Forum on Debt and Development,[2)] the envisaged advantages of regional integration will not materialise if non-tariff barriers to integration remain, non-transparent forms of discrimination against third parties are maintained and the distribution of gains and costs of the process is not adequately addressed.

Regional economic integration in Southern Africa (excluding SADC)

Before considering in more detail the structure and operations of SADC, a brief overview is given of some relevant integration initiatives in the Southern African region, each with its own programme of action.

Common Market for Eastern and Southern Africa (COMESA)

The former Preferential Trade Area (PTA) for Eastern and Southern Africa was transformed into COMESA in November 1993. Twenty states were members at the time of its creation but Lesotho and Mozambique decided to relinquish their membership of COMESA.

The main aims are to achieve a full free-trade area by the year 2000 with free movement of capital and finance in the region and common investment procedures to promote cross-border, domestic and foreign investment.

South Africa was invited to join COMESA in 1995 and the issue was discussed and investigated, but it was decided not to pursue membership at that stage. Like South Africa, Botswana is not a member of COMESA either.

2. Teunissen J.J. (Editor), Regionalism and the Global Economy. The Case of Africa, Forum on Debt and Development (FONDAD), The Hague, 1996.

Common Monetary Area (CMA)

The Rand Monetary Area that came into force in 1974 between the Republic of South Africa, Lesotho and Swaziland, was replaced by the CMA in 1986. Namibia formally joined the CMA in February 1992. Currently the CMA is accepted as the anchor for financial integration and co-operation in the Southern African region. The main features of the CMA include the following:

- The South African rand is accepted as legal tender in member states (from April 1986 the rand no longer constituted legal tender in Swaziland but is still accepted as a means of payment);
- member states may issue their own currency;
- no restrictions apply to the transfer of funds to or from the area of any other member;
- institutions in the government, financial and business sectors of Lesotho, Namibia and Swaziland have the right of access to the South African capital and money market;
- each member of the CMA has responsibility for handling foreign exchange transactions in accordance with policies adopted by the CMA;
- the remaining exchange controls in force in the Republic of South Africa are basically in agreement with the provisions that still apply to other CMA countries; and
- members shall permit the repatriation of notes and coin issued by them which may be in circulation in another CMA country.

The Cross-border Initiative (CBI)

The CBI was launched in July 1990 by some countries from Eastern and Southern Africa in consultation with and sponsored by the European Union, the World Bank, the International Monetary Fund and the African Development Bank. The objectives of the CBI are, for example, to develop the regional market economy, promote regional economic growth and ultimately achieve regional economic integration. The CBI is of a non-institutional nature, and is aimed at facilitating the work of other regional organisations. It concentrates on cross-border trade, investment and payments. There are at present 13 members, excluding Botswana, Lesotho and South Africa.

The Southern African Customs Union (SACU)

The first formal agreement which laid the foundations of SACU was entered into in 1910 between the Union of South Africa and the three former British

Protectorates. The present SACU was established in 1969 and its members comprise the Republic of South Africa, Botswana, Lesotho and Swaziland. Namibia became an official member in 1992.

The features of SACU include a common external tariff structure and free movement of goods within SACU, without any duties or quantitive restrictions. The main objective of SACU is to create a common pool of customs duties, based on the volume of external trade, and excise duties based on the production and consumption of excisable goods. An important aim is also to use the pool arrangements to support the economic development of the SACU area in general, and the less economically advanced member countries in particular.

The SACU agreement is currently being renegotiated and, when concluded, will include a new basis of revenue sharing and a new institutional structure.

Other initiatives

Several other initiatives involving countries from Southern Africa have been launched in recent years or are planned, including the following: African Economic Community, Association of African Central Banks; Economic Commission for Africa and the Indian Ocean Rim Association for Regional Co-operation.

The structure and operations of SADC

As indicated earlier, SADC has been operational since August 1992 and its Treaty contains a framework for co-operation among member states, which provides for:

- greater economic co-operation and integration on the basis of balance, equity and mutual benefit;
- common economic, political and social values and systems; and
- stronger regional solidarity, peace and security.

A lengthy list of objectives for SADC appears in the Treaty, together with the steps required to achieve these goals.[3] Important aims include fostering economic growth and development, alleviating poverty, maximising productive employment and utilising the resources of the region.

SADC has a decentralised structure with a small Secretariat in Gaborone. Each member state accepts responsibility for the management and development of a specific sector. A co-ordinator is appointed for each sector. The sector co-ordinator in each country liaises with the Secretariat in Gaborone and is involved in formulating sector policies and the processing of projects.

The Heads of State of the SADC countries are the main policy decision-making body. In addition, a Council of Ministers meets regularly to review progress made with ongoing sectorial programmes and projects.

A declaration by Heads of State during the signing of the Treaty includes the following vision for the future:

"The economies of Southern African states are small and underdeveloped. The countries of the region must, therefore, join together to strengthen themselves economically and politically, if the region is to become a serious player in international relations. No single country of Southern Africa can achieve this status on its own."

At a council meeting in August 1995 it was decided that the SADC programme of action be reviewed and rationalised as a result of new political and economic developments and the evolution of SADC from functional co-operation to the pursuit of development integration. A comprehensive report was compiled by consultants from Malawi, South Africa and Zimbabwe, including wide-ranging proposals on how to transform and revamp SADC, for instance by creating Planning and Co-ordination Directorates for clusters of economic sectors. Discussions on this issue are continuing.

South Africa and SADC

The present Treaty of SADC signed in August 1992 provided for the inclusion of a new, democratic Republic of South Africa. This decision became effective on 29 August 1994 when the Republic joined SADC. The new government elected in April 1994 placed regional co-operation at the forefront of its foreign policy and was convinced that membership of SADC would benefit South Africa. Expected benefits centered mainly on the sustainability of the SADC market for South African industry and enterprises, better co-ordination of the joint use of scarce resources, and the country's improved international standing and bargaining power. These were to be strengthened in a world where the formation of economic blocs has become the norm.

Since the creation of SADC, progress and development in the area of finance and investment have been relatively slow. To give the required impetus, Tanzania, which had been responsible for a wider economic sector, presented a draft financial protocol in June 1994. This draft protocol was a very ambitious programme for financial integration in SADC.

3. See Article 5 of "Declaration Treaty and Protocol of SADC", signed by Heads of State on 17 August 1992 in Windhoek.

It was evaluated by bodies in different countries, but has not been finalised and rectified.

At the meeting of Council in January 1995 a new separate Finance and Investment Sector was created and by common consent allocated to South Africa. It was accepted that South Africa had the capacity, expertise and infrastructure to effectively promote financial and investment issues in the region.

The South African Government formally assumed responsibility for the newly established sector on 3 May 1995, and as a first step, convened a combined meeting on 12 July 1995 of Ministers of Finance and Central Bank Governors in SADC to develop a sectoral programme of action. The Terms of Reference for the sector were formulated at the meeting and subsequently approved by Council. Three broad objectives for the sector were adopted:

- To provide a framework for regional co-operation in the area of finance in collaboration with central banks and other financial role players in order to mobilise more resources for investment;
- to encourage movement towards regional macroeconomic stability by promoting prudent fiscal and monetary policies; and
- to promote the development of sound investment policies and movement towards the regional macroeconomic stability of member states.

The same meeting developed a structural framework for the sector which is quite different from other sectors in SADC but was required for the effective functioning of the sector. The main bodies are:

- the Sectoral Committee of Ministers of Finance, chaired by the South African Minister of Finance and responsible for giving guidance on the co-ordination of co-operation, the development of projects and the integration of policies.
- the Sectoral Committee of Senior Officials, the supporting and advising body of ministers;
- the Committee of SADC Senior Treasury Officials operating in their specialised area. The committee was involved in three major sectoral research topics on investment promotion, development finance and macroeconomic policies. Each of these topics is now being addressed by subcommittees;
- the Committee of Governors of Central Banks in SADC, operating independently at the same level as the Committee of Treasury Officials in areas of central banking and monetary co-operation; the committee reports directly to the ministerial committee; and
- the Finance and Investment Sector Co-ordinating Unit (FISCU), housed in the South African Department of Finance. FISCU is responsible for the co-ordination and support of financial and investment activities in member states.

The South African Reserve Bank has been intensively involved in the sector since January 1995 and strongly advocated the creation of a separate Committee of Central Bank Governors in SADC. The committee is needed to pursue closer monetary co-operation between central banks in different areas and plays a crucial role in the promotion of financial and economic development. As the committee is chaired by the Governor of the South African Reserve Bank, all secretarial and support services are handled in the Economics Department of the Bank. The committee meets twice a year and provides a basis for the exchange of ideas on economic development and financial policies. This arrangement has contributed significantly to better intra-regional understanding on issues of central banking.

The Committee has its own Terms of Reference. Although the ultimate objectives of the committee are the same as those for the sector as a whole, its work programme is structured from the perspective of central banks.

South Africa's relevant economic position in SADC[4)]

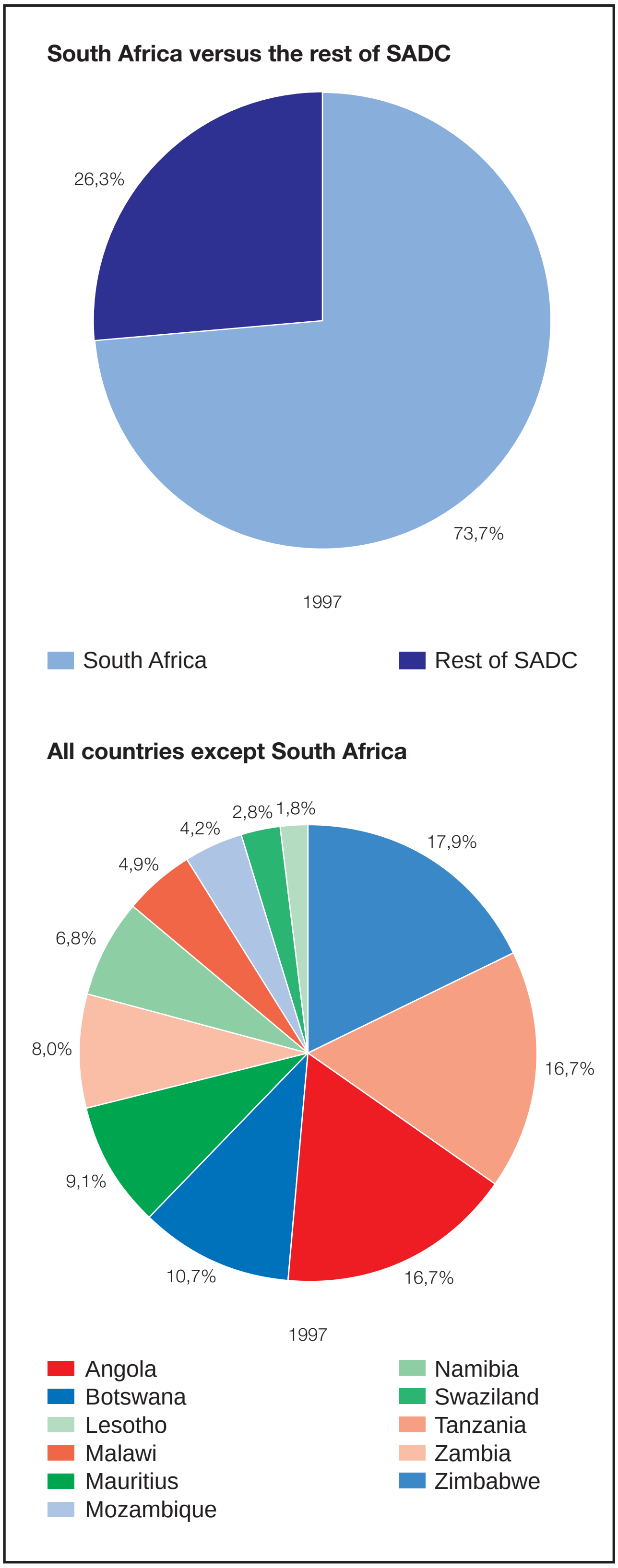
In this section the economic position of South Africa will be compared with that of SADC as a whole, by analysing a number of relevant variables, some of them ranging over several years. Unfortunately, it was not possible to include the two new members of SADC, namely the Democratic Republic of the Congo and the Seychelles, as the compilation of comparable economic statistics for these two countries has not been completed. The data, therefore, refer only to the other twelve SADC member countries.

Gross domestic product (GDP)

Table 1 reflects the growth of GDP at constant prices in SADC for the past six years. The period from 1992 to 1995 revealed a pattern of uneven growth among member countries with some notable periods of economic contraction. After 1995 the economic performance in SADC countries in general improved quite strongly. In 1996 the average growth rate amounted to 5,2 per cent with South Africa and Namibia recording the lowest growth rates. During

4. Some countries in the SADC region are facing difficulties in the generation of statistical data and a degree of caution when using macroeconomic information is appropriate. Statistics for 1997 are in many instances projections or estimates and should be regarded as preliminary.

Graph 1: Share of nominal gross domestic product



1997 the economies in SADC expanded at a lower average rate of 3,5 per cent with the smallest growth rate recorded in South Africa and a further marginal contraction in Lesotho.

Turning to the share of individual SADC countries in the total GDP of the region, it is well known that the major contribution originates in South Africa. In 1992 South Africa's share still amounted to 77,0 per cent but declined to 73,7 in 1997. The reason for the recent slightly smaller contribution by South Africa is the relatively faster economic growth in a number of other SADC countries, such as Mauritius, Botswana and the smaller CMA countries. Whereas GDP growth in South Africa during the six-year period from 1992 to 1997 amounted on average to 2,0 per cent per annum, Mauritius recorded a comparable figure of 5,6 per cent.

Graph 1 shows the relevant share of member states in the total GDP of SADC in 1997.

The countries with the largest share of nominal GDP next to South Africa are Angola, Tanzania and Zimbabwe. This position has remained basically the same since 1992.

Another interesting feature relating to GDP and indicating the standard of living, is the distribution of income per capita shown in Graph 2. Mauritius with a

Graph 2: Per capita gross domestic product at current prices

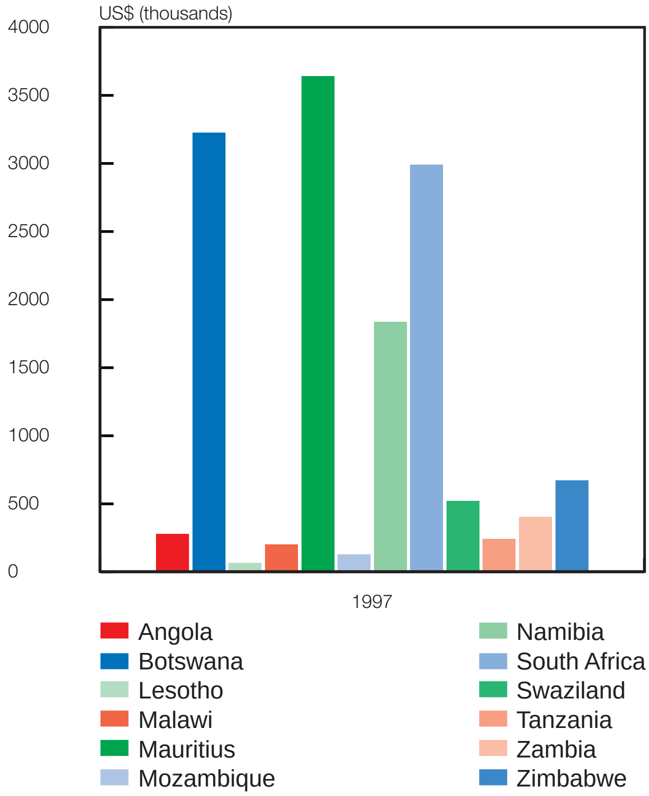


Table 1. Growth in gross domestic product at constant 1990 prices
Per cent

Year	Angola	Botswana	Lesotho	Malawi	Mauritius	Mozambique	Namibia	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe
1992	6,9	6,3	-6,5	-7,9	6,6	-0,8	7,4	-2,2	1,0	1,8	-2,5	-5,5
1993	-24,7	-0,1	-6,6	10,8	5,0	19,3	-2,0	1,3	3,1	0,4	6,5	2,0
1994	2,5	4,1	8,2	-11,6	5,2	4,4	6,6	2,7	3,5	1,4	-3,1	5,3
1995	11,2	3,1	6,0	8,0	5,6	1,3	5,1	3,4	3,2	3,6	-3,9	-1,1
1996	12,1	7,0	-12,2	9,5	6,0	6,6	3,0	3,2	3,6	4,2	6,4	7,0
1997	7,0	6,9	-0,4	8,2	5,2	14,1	1,8	1,7	3,7	3,3	3,5	2,0

Source: Recent Economic Developments and Statistics for SADC countries, Committee of Central Bank Governors in SADC, October 1998

per capita GDP of more than 3 600 US dollars per year tops the list of SADC countries, followed by Botswana and South Africa with an income of around 3000 US dollars and Namibia with an income per capita of approximately 1 800 US dollars per year. The remaining SADC countries have incomes per capita of less than 700 US dollars per annum. This is mainly due to the combination of a high population growth rate and low levels of economic activity. During the period from 1992 to 1997 the per capita GDP in these low-income countries increased only marginally.

Inflation rates

Recent developments in the annual changes of consumer prices in SADC member states, present a promising picture. As indicated in Table 2 the inflation rates of all member countries, except Mauritius, reflected a downward trend during the six-year period under review. The biggest improvements were recorded in Angola and Zambia with other sizable reductions in Malawi, Mozambique and Zimbabwe. In South Africa, inflation declined strongly in 1993 and then fluctuated between 7,4 per cent and 9,7 per cent until 1997. For the CMA countries as a group, the average inflation rate declined from 14,8 per cent in 1992 to 8,3 per cent in 1997. Angola was the only country where hyper-inflationary conditions were experienced. Apart from Angola, double-digit inflation throughout the period under review was also experienced by Tanzania, Zambia and Zimbabwe.

These downward movements in inflation rates were the positive results of the implementation of tighter monetary policies and a commitment to prudent fiscal policies. It reflected a change in the structure of economic management in many African countries.

The Balance of payments

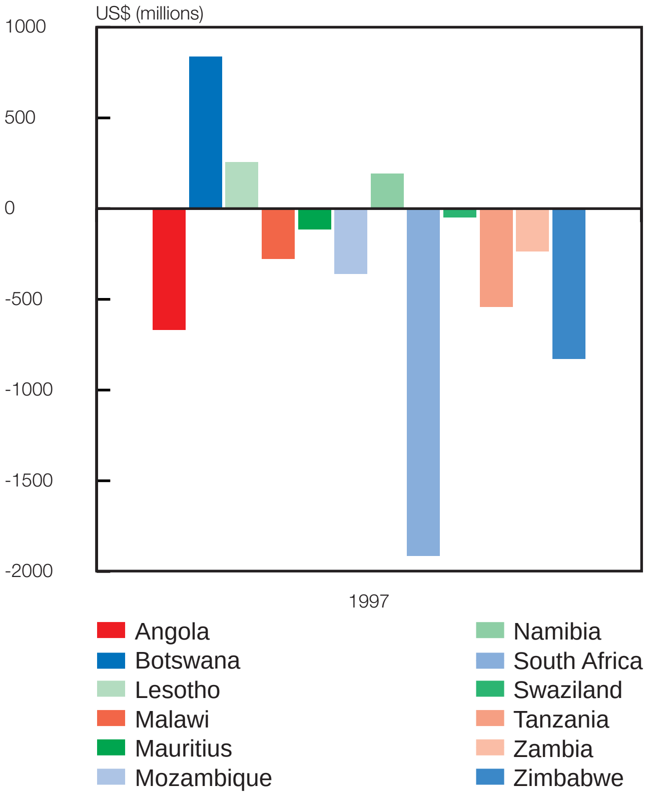
As SADC member states are mainly developing countries with a large volume of imports, deficits on the

Table 2. Annual changes in consumer prices
Per cent

Year	Angola	Botswana	Lesotho	Malawi	Mauritius	Mozambique	Namibia	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe
1992...............	495,8	17,5	16,5	23,3	4,6	54,5	4,0	13,9	11,0	21,9	165,1	42,1
1993...............	1 837,7	12.,9	12,0	22,8	10,5	43,6	-0,5	9,7	12,4	25,2	183,8	27,6
1994...............	971,9	9,8	7,9	34,6	7,3	70,2	17,5	9,0	13,7	33,1	54,6	22,3
1995...............	3 783,9	10,8	9,6	83,3	6,0	54,2	10,0	8,7	7,9	28,3	34,9	22,6
1996...............	1 650,4	9,6	9,0	37,6	6,6	16,6	8,0	7,4	6,5	21,0	35,2	21,4
1997...............	64,0	7,8	8,5	9,1	6,6	5,8	8,8	8,6	7,2	16,1	18,6	18,9

Source: Recent Economic Developments and Statistics for SADC countries, Committee of Central Bank Governors in SADC, October 1998

Graph 3: Current account balance



Graph 4: Total external debt as percentage of gross domestic product

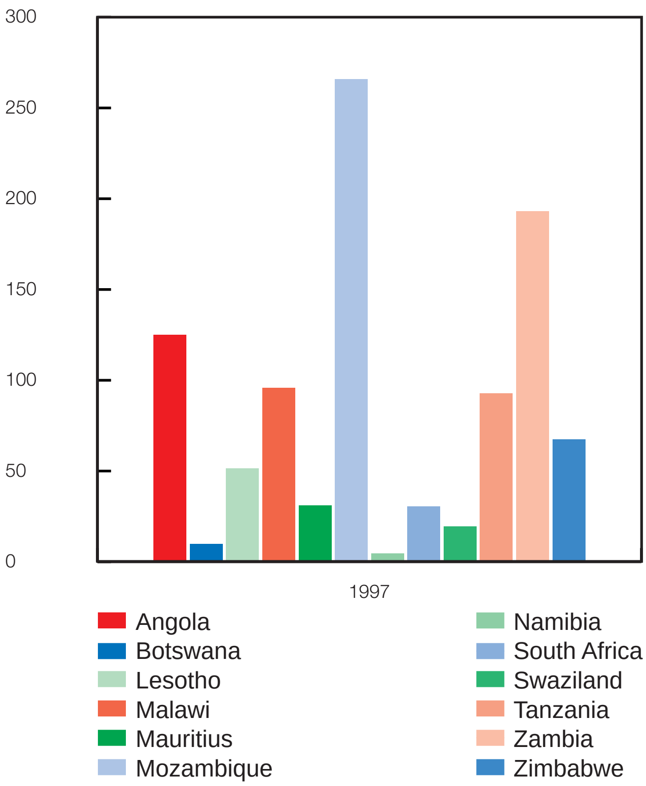


Table 3. Overall balance of payments position - amounts in US dollar and as percentage of gross domestic product

Year	Angola		Botswana		Lesotho		Malawi		Mauritius		Mozambique	
	US$ million	Per cent	US$ million	Per cent	US$ million	Per cent	US$ million	Per cent	US$ million	Per cent	US$ million	Per cent
1992	-1 138	-14,2	404	10,2	87	13,1	-47	-2,5	43	1,4	-407	-31,6
1993	-1 501	-25,8	406	9,9	100	7,0	18	0,6	7	0,2	-436	-29,7
1994	-1 027	-25,3	141	3,3	141	18,6	-35	-2,7	-44	-1,2	-348	-23,8
1995	-845	-16,7	213	4,7	70	9,2	-32	-2,2	109	2,7	-256	-20,6
1996	-536	-8,1	522	11,8	110	13,9	-116	-5,3	48	1,1	-63	-3,6
1997	-622	-8,1	634	12,8	126	14,9	-11	-0,5	-31	-0,8	-80	-3,8

Year	Namibia		South Africa		Swaziland		Tanzania		Zambia		Zimbabwe	
	US$ million	Per cent	US$ million	Per cent	US$ million	Per cent	US$ million	Per cent	US$ million	Per cent	US$ million	Per cent
1992	-6	-0,2	94	0,1	88	9,0	-253	-5,5	-237	-7,3	-127	-1,9
1993	88	3,2	-2 814	-2,4	-64	-6,4	-634	-14,9	160	4,9	176	2,7
1994	75	2,4	879	0,7	-13	-1,2	-447	-9,9	-75	-2,1	268	3,9
1995	24	0,7	2 503	1,9	30	2,3	-374	-7,1	-268	-6,6	210	2,9
1996	21	0,6	-1 076	-0,9	15	1,3	-222	-3,4	-124	-3,9	-21	-0,2
1997	44	0,1	2 481	1,9	25	1,9	-227	-3,1	139	3,8	-740	-9,0

Source: Recent Economic Developments and Statistics for SADC countries, Committee of Central Bank Governors in SADC, October 1998

current account of the balance of payments are likely to prevail in most countries of the region.

As indicated in Graph 3, only three countries in the region had a surplus on the current account in 1997, namely Botswana, Lesotho and Namibia. In the case of Botswana the export of diamonds contributed strongly to its favourable trade balance. South Africa, Angola and Zimbabwe had substantial current account deficits. The trade shortfall of South Africa is the result of a combination of a high propensity to import, declining gold and commodity prices and a slowdown in exports. With the exception of South Africa, a lack of diversified productive structures and more competitive than complementary trade patterns are visible in SADC.

There are disparities in the overall balance of payments position of member countries. These are visible in divergent changes in net foreign reserves among countries. Large deficits were recorded by Angola and Zimbabwe and to a lesser extent Tanzania in 1997, whereas South Africa and Botswana had surpluses. For the period from 1992 to 1997 Angola, Mozambique and Tanzania have persistently shown a shortfall, with Malawi showing only one positive balance during this period. Relative to GDP, Angola, Mozambique and Tanzania also experienced the most prominent negative balances on their overall balance of payments.

The total external debt as percentages of GDP for SADC countries are illustrated in Graph 4. The external debt to GDP ratio amounted to around 200 per cent or more for Mozambique and Zambia in 1997, and was relatively high for a number of other member countries. Data compiled by the Secretariat of the Committee of Central Bank Governors indicate that the debt ratio, although still high, has been generally decreasing since 1992. This is particularly true for countries such as Botswana, Lesotho and Tanzania.

Interest rates

Changes in the central bank accommodation rates as at year ends from 1992 to 1997 appear in Table 4.

It is clear that these interest rates are much less volatile in the CMA countries, Botswana and Mauritius

Graph 5: Prime lending rate - average for 1997

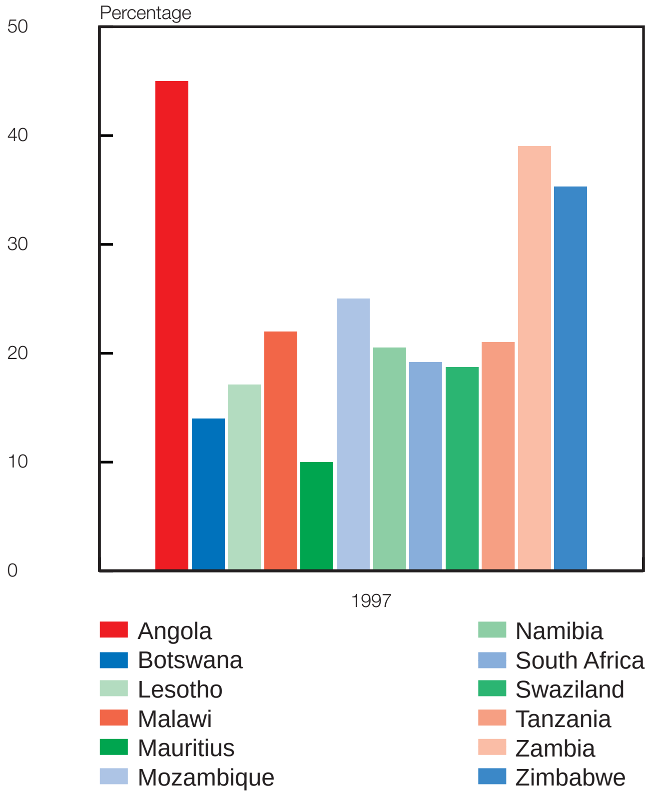


Table 4. Central Bank accommodation rates
Per cent

End of year	Angola	Botswana	Lesotho	Malawi	Mauritius	Mozambique	Namibia	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe	Average
1992.........	20,0	14,3	15,0	20,0	8,0	43,0	16,5	14,0	12,0	22,0	47,0	30,0	**21,8**
1993.........	20,0	14,3	13,5	25,0	8,0	43,0	14,5	12,0	11,0	27,0	119,6	28,5	**28,0**
1994.........	95,0	13,5	13,5	40,0	12,3	69,7	15,5	13,0	12,0	67,5	40,5	29,5	**29,3**
1995.........	152,0	13,0	15,8	50,0	9,9	57,7	17,5	15,0	15,0	50,0	66,7	29,5	**41,0**
1996.........	152,0	13,0	17,0	27,0	10,3	32,0	17,8	17,0	16,7	40,8	70,0	27,0	**36,7**
1997.........	48,0	12,5	15,6	23,0	9,0	12,9	16,0	16,0	15,7	17,5	23,3	31,5	**20,0**

Source: Recent Economic Developments and Statistics for SADC countries, Committee of Central Bank Governors in SADC, October 1998

Table 5. Government deficit/surplus as percentage of gross domestic product
Per cent

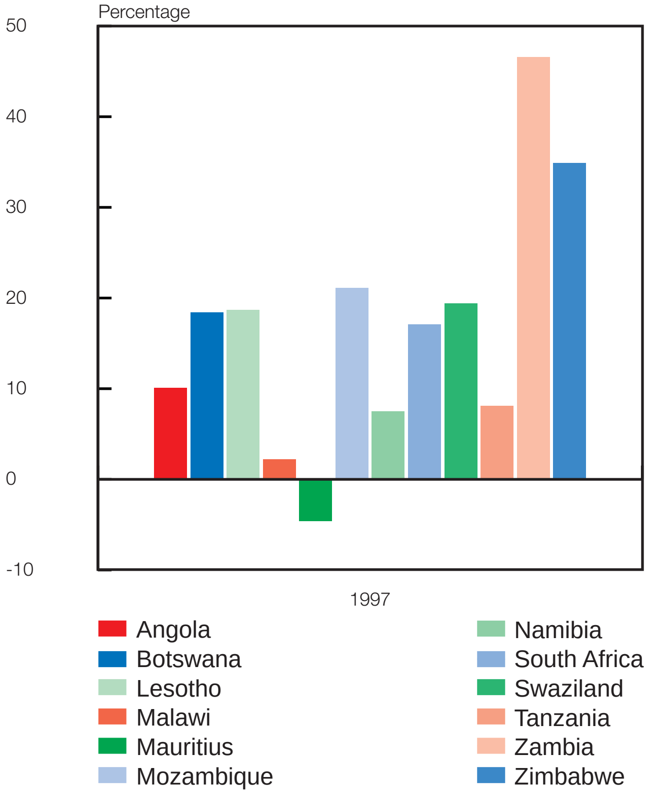
Year	Angola	Botswana	Lesotho	Malawi	Mauritius	Mozambique	Namibia	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe
1992	-3 046,8	8,3	-3,2	-4,7	-1,9	-5,0	6,6	-9,0	-1,7	-3,0	-13,8	-5,0
1993	-697,8	9,2	-1,1	-5,8	-2,4	-3,6	2,9	-9,7	-5,3	-5,0	6,2	-6,2
1994	-730,0	7,9	6,2	-6,5	-3,7	-7,5	0,3	-5,6	-5,2	-5,0	-1,2	-3,8
1995	-1 334,1	1,6	5,3	-5,4	-5,7	-5,0	2,4	-5,7	1,5	-2,0	0,1	-10,2
1996	218,5	1,8	3,3	-4,0	-4,5	-5,1	4,8	-5,3	-1,1	2,0	1,3	-6,1
1997	188,7	7,9	2,0	-5,7	-3,7	-5,2	4,6	-3,5	0,2	0,2	1,6	-5,1

Source: Recent Economic Developments and Statistics for SADC countries, Committee of Central Bank Governors in SADC, October 1998

than in other SADC countries. Wide fluctuations in the rates from year to year were not unusual in countries such as Angola, Mozambique and Zambia. The average level of accommodation rates in SADC has shown a downward movement since 1995.

Prime lending rates of banks differ much less among the various member countries than central bank accommodation rates (see Graph 5). The degree of convergence of these rates at around 19 per cent in the CMA countries is clearly visible, with lower rates applicable in Botswana and Mauritius. Nominal prime lending rates in Angola, Zambia and Zimbabwe were considerably higher than in the other member countries of SADC.

Graph 6: Growth rates in broad money supply



Money supply

In the SADC region the broad money supply may be defined as M2 or M3. Changes in the broadest monetary aggregate available are reflected in Graph 6.

The rapid increase in money supply in a number of countries could, *inter alia*, be related to major credit extension to the private sector and credit granted to government structures. This is particularly applicable to Zambia and Zimbabwe where, according to statistics compiled for the Committee of Central Bank Governors, total domestic credit extension showed sharp increases during 1997. Conceivably, the inflow of grants and development finance has also contributed to the increased liquidity in some countries.

Government finances

The fiscal position of governments in some SADC member states has been improving in recent years. As shown in Table 5, budget deficits as a percentage of GDP declined strongly in countries such as Angola, Lesotho, South Africa, Tanzania and Zambia, while in some of the other countries a slight deterioration was recorded. Attempts by SADC countries to keep government spending under control, together with firm commitments to the transformation of their economies – in some instances with assistance from the IMF and World Bank – have contributed to the general improvement in public finances in the region. In 1997, seven of the twelve SADC countries had surpluses on their central government budgets.

The achievements of SADC in the financial area

Reference was made earlier to the stated objectives of the Finance and Investment sector. To support and promote these general aims of the sector, and in support of the principles of SADC, the Committee of Central Bank Governors (CCBG) and the Committee of Treasury Officials have developed an extensive work programme. The committees have also identified specific tasks which are being attended to by newly created substructures or associations.

This section will concentrate mainly on the programmes, projects and achievements of the Committee of Central Bank Governors, with brief reference to the work of the Committee of Treasury Officials.

The Committee of Central Bank Governors (CCBG)

The CCBG developed a number of initiatives and work programmes to be pursued in accordance with its Terms of Reference. It was accepted from the outset that sound financial structures and markets were to be developed in each of the member states before the more challenging issues of macroeconomic development or financial integration could be addressed. The CCBG attends systematically to the expansion of financial co-operation through a "bottom up" approach. The projects identified by the CCBG in order to meet its objectives are:

- A better understanding of the economies of member states was regarded as essential and for this purpose a comprehensive macroeconomic statistical database was developed for all member countries. Statistical data according to approved structures and definitions are submitted to the Secretariat of the CCBG. The information is publicly available, is updated every six months and is published on the Internet on a special Web site for SADC. It is therefore accessible to all interested parties.
- A data bank has been compiled and contains detailed information on the structures, functions, policies and other relevant data of all central banks in SADC, as well as particulars of financial markets in these countries. The information has also been published on the Internet and is updated once a year.
- A project was launched to determine possible problems with the repatriation of banknotes and coin among SADC countries and to investigate any illegal flow of notes and coin. Member states were requested to solve any problems in this area on a bilateral basis.
- The CCBG is involved in a major project on the development of national payment, clearing and settlement systems in SADC countries. The initiative is being undertaken in phases and the aim is to develop internal systems that will enable countries to cater for the demands of modern and integrated financial markets. These payments, clearing and settlement systems are being developed at a national level and are compatible with each other in order to facilitate eventual integration.
- The removal of the remaining exchange controls in SADC countries is high on the agenda of the committee. A special study by a subcommittee of the CCBG was conducted on all the remaining exchange controls still applied by member states. This study serves as a guideline for the further removal of restrictions. Feedback on such removal has to be given on an annual basis at a meeting of the CCBG.
- The CCBG identified the critical need for training of central bank officials in the SADC region and the limited resources available for this purpose. The committee has embarked on a project to co-ordinate and rationalise training efforts, in which the South African Reserve Bank Training Institute is taking the lead.

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These six projects have so far been approved by the SADC Council of Ministers, but the following initiatives have also been taken by the CCBG in accordance with its Terms of Reference:

- The use of compatible information and technology systems are being encouraged by way of special workshops, a co-ordinating team and also a database on the technological infrastructure used in SADC central banks. Some progress has been made in this area including a website on the Internet for SADC central banks and an e-mail communication system among the participating banks.
- In the area of bank supervision, harmonisation of practices is encouraged through the East and Southern Africa Banking Supervisors Group (ESAF) which reports to the CCBG on progress achieved. ESAF also pays attention to issues such as illegal banking practices and money laundering, both domestically and across regional borders.
- A SADC Committee of Stock Exchanges was formed to address issues of co-operation in their area, including the harmonisation of listing requirements, procedures for clearing and settlement, and the initiation of electronic communications between members of various stock exchanges. These initiatives should promote external capital investments in the region.
- The CCBG has recently also extended its activities to the level of private banking in the region. The

objectives of the newly formed SADC Banking Association will, *inter alia*, be to encourage members to conduct their business in terms of internationally accepted banking standards and to strive for uniformity of banking legislation and practices.
- A recent initiative comprises the creation of a special Steering Committee to attend to the legal and operational frameworks of SADC central banks with the aim of pursuing greater comparability and compatibility.
- Discussions have also been held on the development of money markets in the SADC region and a relevant research project was approved by the CCBG. The accepted SADC Trade Protocol is encouraging the development of regional banking to facilitate easier cross-border trade which could make a positive contribution to the expansion of money markets.
- Interaction in the field of central bank protective services was accepted as a further initiative.

All these projects and initiatives of the CCBG are indicative of the commitment of central banks in SADC to expanding and supporting closer monetary and financial co-operation and consultation. The committee also held preliminary discussions on the possible harmonisation of some aspects of monetary policy, for instance, exchange rate and exchange control policies. Much more work will have to be done in future on issues relevant to financial policies, including the operational framework for monetary policy, available policy instruments and the harmonisation of policies among countries.

The Committee of Senior Treasury Officials

The main achievement of this committee was the initiation and completion of a project comprising three major studies dealing with the following aspects of the SADC region:
- Macroeconomic adjustment and convergence;
- the investment climate; and
- development finance.

The project was undertaken in various phases, was discussed and analysed at a number of workshops and finalised in May 1998. Emanating from these studies, three subcommittees have been established and are operational in addressing investment, development finance and macroeconomic policies. The South African Reserve Bank was, and is, expected to be involved further in the activities of these committees.

The Committee of Treasury Officials is involved in further subcommittees, operating in specialised areas for closer co-operation in SADC. This includes initiatives relevant to taxation, the accounting and auditing profession and non-bank supervision.

The SADC Finance and Investment Sector Coordinating Unit (FISCU)

Each sector of SADC allocated to a specific country needs the services of a sector co-ordinator whose responsibility includes the management, co-ordination, promotion and development of all activities in the relevant sector. In the case of the Finance and Investment Sector, FISCU, which forms part of the Department of Finance, is fulfilling this task. FISCU has been the driving force behind the Committee of Treasury Officials and its various initiatives. FISCU is also involved in the activities of the CCBG, mainly in a co-ordinating capacity, and has also been given a mandate to develop the financial protocol. A comprehensive programme has been initiated for this purpose, including a workshop, input from member states and consultants and legal advice on the structure.

Obstacles to closer financial integration in the SADC region

As part of its objectives for the region, the Treaty of SADC includes the pursuance of development integration. The initiatives taken by the Finance and Investment Sector are steps aimed at that objective, but more actions and relevant developments are required. A number of obstacles in the way of this process to closer financial integration can be identified:
- The present large disparity in economies and infrastructure, major differences in communication channels, together with limited technological capacity and financial resources;
- diverse banking institutions and structures, a small capital and reserve base in some countries, as well as a narrow range of banking services or facilities;
- non-conformity in structures, activities and developments in the money and capital markets of the region;
- monetary arrangements and applications of policies differ substantially regarding interest rates and exchange rates. Various structures of exchange rate determination are applied. Control of capital flows and inconvertible currencies complicate any exchange rate harmonisation. The inordinate variability of interest rates in some countries as well as the wide disparity of interest rate levels among member countries are issues that have to be addressed on the way to closer regional monetary co-operation in SADC;
- government finances and their relation to GDP also still differ widely, although public finances are handled in a more stable way nowadays; and

- financial intermediation, savings, investments and other financial activities are on a level that is far too limited. More domestic involvement is needed to contribute towards an active financial structure and possible future integration.

Conclusion

This survey gives a brief overview of financial development and interaction in the SADC region. In addition, South Africa's role in the economies of the region is described, indicating a disproportional distribution of economic power. Nevertheless, the programme of closer economic and financial co-operation and interaction in SADC is progressing relatively well and current initiatives and the projects in progress should support future development.