ECA Southern Africa Office

AFRICAN UNION
Southern Africa Regional Office

AFRICA BUSINESS GROUP

The Private Sector and Regional Integration in Southern Africa: Accelerating Opportunities for Investment and Growth

Background Paper Prepared for the Southern Africa Regional Integration Stakeholder Forum: Lilongwe (Malawi)
11-13 June 2018

Acknowledgments

This paper has been prepared by Koffi Elitcha, an Associate Economic Affairs Officer with the Southern Africa Office of the United Nations Economic Commission for Africa (ECA-SA), based in Lusaka (Zambia). It was compiled under the overall guidance of Said Adejumobi, Director of ECA-SA and the direct supervision of Mzwanele Mfunwa, Chief of Sub-Regional Initiatives Section.

This version of the document has benefited from further comments and suggestions from colleagues at the Southern Africa Office. In particular, the author thanks Sizo Mhlanga, Oliver Maponga, Innocent Bayai, Sine Tepe, Ian Filakati, Lubuya Bashala, and Henry Lubinda for fruitful discussions in the paper's formative stages and suggested refinements of an earlier draft. All remaining errors are those of the author alone.

Acronyms

AEC	African Economic Community
AfCTA	African Continental Free Trade Area
AFD	Agence Française de Développement
AfDB	African Development Bank
API	Active Pharmaceutical Ingredient
ARII	African Regional Integration Index
ARV	Anti-Retroviral
AU	African Union
AUC	African Union Commission
BOCCIM	Botswana Confederation of Commerce Industry and Manpower
CCA	Corporate Council on Africa
CFTA	Continental Free Trade Area
COMESA	Common Market for Eastern and Southern Africa
CU	Customs Union
DDT	Dichlorodiphenyltrichloroethane
DRC	Democratic Republic Of Congo
EAC	East African Community
ECA	Economic Commission for Africa
ECA-SA	Economic Commission for Africa-Southern Africa Office
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
GVC	Global Value Chain
HVDC	High Voltage Direct Current
ICT	Information and Communication Technology
IGAD	Intergovernmental Authority on Development
IIT	Intra-Industry Trade
IPDF	Industrial Policy Development Framework
IPP	Independent Power Producer
IPT	Independent Power Transmission
IUMP	Industrial Upgrading and Modernization Programme
LPI	Logistics Performance Index
MIC	Middle Income Country
MSME	Micro Small and Medium Sized Enterprise
NEPAD	New partnership for Africa's Development
NTB	Non-Tariff barrier
NTMM	Non-Tariff Barriers Monitoring Mechanism
ODA	Official Development Assistance
OSBP	One-Stop Border Post
PPP	Public-Private Partnership

REC	Regional Economic Community
RISDP	Regional Indicative Strategic Development Plan
RMV	Regional Mining Vision
ROO	Rule Of Origin
RVC	Regional Value Chain
SABF	Southern Africa Business Forum
SACU	Southern Africa Customs Union
SADC	Southern Africa Development Community
SADCC	Southern African Development Cooperation Conference
SAPP	Southern Africa Power Pool
SISR	SADC Industrialization Strategy and Roadmap
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
STE	Sociedade Nacional de Transporte de Energia
STRI	Services Trade Restrictiveness Index
TB	Tuberculosis
TC	Trade Complementarity
TFTA	Tripartite Free Trade Area
TRAINS	Trade Analysis Information System
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States
VCA	Value Chain Analysis
WB	World Bank

CONTENTS

1. Introduction

1. There is a wide consensus among policy-makers and development practitioners on the continent and abroad that a deeply integrated Africa would unleash the region's enormous and untapped economic potential and could significantly contribute to the structural transformation of its economies as well as social development outcomes. The African Economic Community Treaty (AEC, also known as the Abuja Treaty)[1], which was adopted by the African Union in 1991 and came into force in 1994, is the blueprint for the continent-wide integration agenda. The African Economic and Monetary Union Community, in addition to a Pan-African Parliament by 2028 would be established gradually in six main stages, commencing with the creation and strengthening of Regional Economic Communities (RECs). With ten years remaining until the 2028 deadline, it is evident that the pace of integration has been quite slow across the continent. The signing of the African Continental Free Trade Area (AfCFTA) Agreement by 44 African countries at an Extraordinary Summit of the Assembly of the African Union on 21 March 2018 in Kigali, may have come at an opportune time to reinforce the commitment made by African leaders in 1991. It set the tone for accelerating the process of implementing the Treaty establishing the AEC as envisaged by the Constitutive Act of the African Union.

2. While the establishment of the AfCFTA does not feature explicitly in the AEC Treaty and Roadmap, the extent of the AfCFTA agreement is clearly consistent with the grand scheme of integration and should act as a facilitator for the remainder of the process. Importantly, the continent-wide market integration is envisioned to be built around the consolidation of integration processes at sub regional levels within the eight (8) African Union (AU) recognized RECs. Thus, it is of critical importance to ensure that the integration agendas within these communities are carefully and effectively implemented at reasonable speeds.

3. In Southern Africa, regional integration has mainly taken the institutional form of the Southern African Development Community (SADC), which was established in 1992 superseding the 1980 founded Southern African Development Cooperation Conference (SADCC). A number of SADC member States are also part of the Common Market for Eastern and Southern Africa (COMESA), a sister REC which was formed in 1994. Despite arguably being one of the most developed RECs on the continent, a closer examination of the integration dynamics within the SADC, shows that the pace of the process has been relatively slow, at least over the past decade. At a very early stage, the organization elected to pursue a trade integration approach for regional integration, as evidenced by the SADC Treaty and Trade Protocol (signed in 1996)[2]. Notable progress has been made since then with the establishment of the SADC Free Trade Area (FTA) in August 2008. However, the integration agenda of the region has stalled thereafter and a lot remains to be done to ensure the smooth functioning of the free trade area. In particular, more than two

[1] https://au.int/.../treaties/7775-treaty-0016_-_treaty_establishing_the_african_economic...

[2] http://www.sadc.int/documents-publications/show/Protocol_on_Trade1996.pdf

decades after the launch of the SADC Trade Protocol, the level of fragmentation of the regional market is still very high with trade to the rest of the world growing disproportionately faster than intra-regional trade.

4. It is generally recognized that, not only the volume of trade matters, but also and more importantly, its quality or level of sophistication. The latter comes as a result of enhancing levels of production, productivity and a well-thought-out and focused approach to industrialization. Over the last two decades, industrial growth, particularly in the manufacturing sector has been lower in Southern Africa than in other regions of the continent. Consequently, it is not surprising that most of the regional economies are insufficiently diversified, relying predominantly on a few and unsophisticated commodity exports thus making them extremely vulnerable to price shocks. In addition, the region features one of the lowest intra-industry trade scores in the world, which suggests little participation in Regional Value Chains (RVCs). Accelerating integration processes should clearly provide many opportunities within the region to promote specialization among countries and develop RVCs to boost diversification and competitiveness. Recognizing that a traditional trade integration agenda that focuses predominantly on border issues to enhance market access is not equipped to tackle the region's fundamental challenges of lack of diversification and value addition, the SADC Heads of State and Government adopted the SADC Industrialization Strategy and Roadmap, 2015-2063[3], at an Extraordinary Summit, held on 29 April 2015. The Strategy emphasizes the concept of an investment-led trade and the development and strengthening of RVCs. It essentially aims at promoting the development of an integrated industrial base within the region through the exploitation of synergies in value-added production and enhancement of export competitiveness.

5. Considering that trade and investment are largely driven by individual firms and that the overall objective of trade and industrial policies is to shape firms' incentives with the ultimate goal of fostering growth and development, it is important that the role, priorities and perspectives of the private sector in the regional integration agenda should be carefully discussed. Private sector actors are generally considered to be the main beneficiaries of all integration efforts. Yet, their capacity to be the implementers and drivers of the process cannot be overstated. In fact, these two facets of private sector involvement in the integration agenda are closely linked. The economic potential of Southern Africa is enormous with immense opportunities for private sector growth and development at the regional level. Substantial returns can be anticipated in key areas/sectors such as services, agro-processing, manufacturing, mining and infrastructure development. However, for the private sector to effectively participate in the regional integration agenda through its investment and expertise, there is need to create and maintain a consistent and effective enabling environment across the region.

6. Building on existing reports and studies related to the topic as well as data and official documents from regional and international sources, this paper provides a background review and

[3] https://www.sadc.int/files/4514/9580/8179/Action_Plan_for_SADC_Industrialization_Strategy_and_Roadmap.pdf

discussion on the state and dynamics of regional integration in Southern Africa, with a special emphasis on the role, priorities and investment potential of the private sector in the integration agenda. Evidently, there are numerous and very relevant issues and challenges surrounding the implication of the private sector in Southern Africa integration efforts. The paper does not intend to offer an exhaustive review, nor does it attempt to address all aspects of the topic. It should be regarded as a means to provide a basis for deeper reflections and actions on the subject. It may also assist some readers to (re)familiarize themselves with the concepts, issues and challenges around the theme.

7. The remainder of the paper is organized as follows. The next section (Section 2) provides a brief overview of the resurgence of private sector-led projects promotion in Africa in general and introduces some of the ways through which private sector actors could involve themselves in the regional integration agenda. Section 3 reviews the trends of integration processes in the region, highlighting issues, priorities and investment potential of the private sector. Section 4 discusses the Southern Africa RVC approach to industrialization, which features the central role to be played by the private sector. Key enablers of the regional industrialization strategy, including infrastructure, access to finance and skills development are reviewed in this section. Section 5 is devoted to concluding remarks – including some of the key recommendations.

2. Towards Private Sector-Led Growth and Regional Integration Efforts

8. It is generally acknowledged that a robust and vibrant private sector is necessary for effective and sustained growth. A growing private sector can in fact be a major source of wealth, dynamism, competitiveness and knowledge diffusion, all of which, lead in many ways to long term growth. The role of the private sector is particularly relevant in the African context where the capacity of governments' to invest and spur continued growth is very much limited and in some cases, their efficiency may be questioned.

9. Notwithstanding the proven benefits to be derived from a vibrant and dynamic private sector, there has been some disconnect between the African political, development and business agendas and some reluctance on the part of governments' to effectively involve the private sector in their development strategies. However, there has been a fundamental ideological change in recent years as governments recognize the centrality of the private sector's role in generating investment and sustained growth. This is after the realisation that economic growth on the continent is difficult to achieve consistently without partnering with the private sector.

10. During the last five years, African entrepreneurs and political leaders at the highest decision-making levels, have been intensifying, the push for a private-sector-led growth in Africa. A very recent example of this accentuated advocacy is the organisation in January 2018 of the first Africa Business and Investment Forum by the United Nations Economic Commission for Africa (UNECA) in partnership with the Corporate Council on Africa (CCA). The Forum, which took

place , on the margins on the 30^{th} African Union Summit in Addis Ababa (Ethiopia), attracted over 150 participants including senior executives of key U.S and African companies as well as a substantial number of African Heads of State and Government. It served as a unique platform for African political leaders to engage the public and private sectors in the continent and abroad on benchmarks to mainstream private sector-led growth in their business and development agendas.

11. Clearly, the fact that a business and investment forum was organised during the African Union Summit is testimony to the important role and space accorded to the private sector in the continental development agenda. Another similar and relatively recent initiative was the organisation of the first ever African Continental Free Trade Area (AfCTFA) Business Summit on 20 March 2018 ahead of the launch of the AfCFTA in Kigali. It was an opportunty for African leaders and development partners to solicit the input and aspirations of the private sector towards the integration of Africa's economies. It is also worth mentioning that support programmes for private-sector development across the continent are legion and mainly supported by the World Bank (WB), the African Development Bank (AFDB), the European Union (EU) and other development partners.

12. It is understandable that efforts towards private sector-led growth, should commence at the country level, where governments should endeavor to create an enabling environment for the development of fully integrated national business classes. This in turn, could facilitate a smooth transition to larger partnerships and investments at the regional or continental levels. As it were, building economies of scale is a process which clearly commences from within. If as recognized, regional integration is key in furthering technology, innovation, industrial development and sustainable growth in Africa, then it becomes straightforward to understand the important role the private sector is expected to play as a key driver of the integration process.

13. Evidently, this role is contingent upon the characteristics (for instance, the sector of activity/industry, size, or formality) of the individual firms or businesses. Indeed, the private sector is an extremely heterogenous group, comprising different sub groups with different priorities and capacities, some of which (if not the vast majority), are operating within informal sectors. However, private sector operators can generally drive the regional integration agenda, through the provision of services (especially business/professional services), funding, partnerships for infrastructure development, skills development and introduction of new and efficient technologies within the regional integration scheme.

14. Undeniably, there exists an enormous investment potential for the private sector in all the above-mentioned areas, which are essentially an integral part of the regional value chains. Nevertheless, it is imperative that governments and RECs work closely in the provision of an enabling business environment (including legal and institutional frameworks as well as a strong regulatory capacity), that could facilitate the investment decision-making of private entities to whom profitability and sustainability considerations are of particular importance. It is also vital to establish and maintain strong communication between public and private sectors, for the latter to

be well informed and sensitized on the regional integration programmes, both at the country and regional levels and ultimately be able to take advantage of the numerous investment opportunities. The benefits of private sector active participation need to be explained and disseminated to a wide-range of private sector operators, through pro-active marketing strategies for instance, as many of the potential investors may not be cognizant of the available opportunities. Furthermore, the private sector can play a key role in shaping and adjusting the regional integration agenda itself.

3. Assessing the State and Dynamics of Regional Integration in Southern Africa

3.1 Status and Progress of the Integration Agenda

15. The neoclassical integration theory[4] —which has laid the foundation of regional integration—suggests five main stages in the integration process, where each step is considered as a precondition for reaching the next as it provides the required achievements for further integration. Yet, some elements of the process, do not necessarily have to be gradual from one type to another. The establishment of any of the types depends ultimately on the agreements among participating countries. The basic principle is that of market integration, through the increasing liberalization of goods, services, labour and capital as the path to a fully integrated region. The five successive stages are summarized in the box below.

Text Box: The neoclassical Five-Stage Economic Model of Regional Integration

(1) The Free Trade Area (FTA): It is characterized by internal trade liberalization, i.e. the abolition of tariffs and Non-Tariff Barriers (NTBs) between countries which have chosen to form the FTA.

(2) The Customs Union (CU): It consists of a Common External Tariff (CET) on trade with third countries (that is, outside the region) in addition to a liberalized internal market.

(3) The Common Market: It has the features of a CU coupled with the full liberalization of the movement of people and capital within the integration area. In practice, the concepts of "Common Market", "Single Market" and "Internal Market" are oftentimes used interchangeably, although they may have significant nuances of meaning.

(4) The Economic Union: It includes the adoption of common policies, especially on product regulation, within the Common Market. In case, a common currency is

[4] The neoclassical integration theory is based on the work of the American economist Viner (1950) who combined the—in themselves contradictory – concepts of free trade and protectionism.

adopted—which entails the harmonization of fiscal and monetary policies—the Economic Union takes the full designation of an Economic and Monetary Union.

(5) The Political or Supranational Union: This is the last stage of the regional integration process and requires Member States of the region to renounce their national sovereignty in favour of a politically unified entity.

16. In the SADC region, the integration agenda is envisioned to ultimately culminate in an Economic and Monetary Union. The 2003 Regional Indicative Strategic Development Plan[5] (RISDP), which is the initially crafted guiding document for the regional integration and development programme over the period of 2005-2020, outlines a series of milestones to be achieved within the context of the regional Common Agenda and in line with the SADC Treaty. The targets include, the formation of a FTA by 2008; the establishment of a CU by 2010; the achievement of a Common Market by 2015; the creation of a Monetary Union by 2016; and finally, a single currency and an Economic Union by 2018.

17. The first milestone was achieved when the SADC FTA was launched in August 2008, following a tariff reduction programme that commenced in 2001. However, no substantive progress has been made since then with regard to the key integration steps. At present, the CU is yet to be established, resulting in postponements of the remainder of the agenda. Overlapping memberships of some SADC member States with other regional integration arrangements (namely, COMESA, SACU, EAC, ECCAS, and IGAD) and the subsequent challenge of having to simultaneously meet multiple obligations has also impeded the process. Besides, the issue of NTBs within the FTA, has been a real concern and a challenge, as discussed in Section 3.3.

18. As part of its integration efforts, SADC in 2005, also adopted and revised a Protocol on the Facilitation of Movements of Persons. The latter ensures granting visa-free entry, with lawful purpose to citizens from other member States for a maximum of 90 days. The Protocol is still not effectively operational as a majority of the member States have yet to ratify it.

3.2 Trade and Productive Integration

19. The recently developed Africa Regional Integration Index (ARII) by the AUC, ECA and AfDB (2016)[6], offers an excellent overview and may also be used as a starting point to gauge the overall performance of the AU recognized RECs with regard to their integration efforts. Specific performance is measured in five key integration areas: trade integration, productive integration,

---

[5] http://www.sadc.int/files/5713/5292/8372/Regional_Indicative_Strategic_Development_Plan.pdf

[6] Further details on the Index, including computation procedures, are available here: https://www.integrate-africa.org/

regional infrastructure, free movement of people and financial and macroeconomic integration. This section focuses on the trade and production integration assessments, while other areas such as, infrastructure and labour mobility are discussed in further sections. The ARII is calculated using sixteen relevant indicators[7] and ranges from 0 (lowest integration score) to 1 (highest integration score). In terms of overall performance for the period 2010-2014, SADC is among the top three performers, with a higher than average score of 0.531, next to the top performing EAC, which has a score of 0.540.

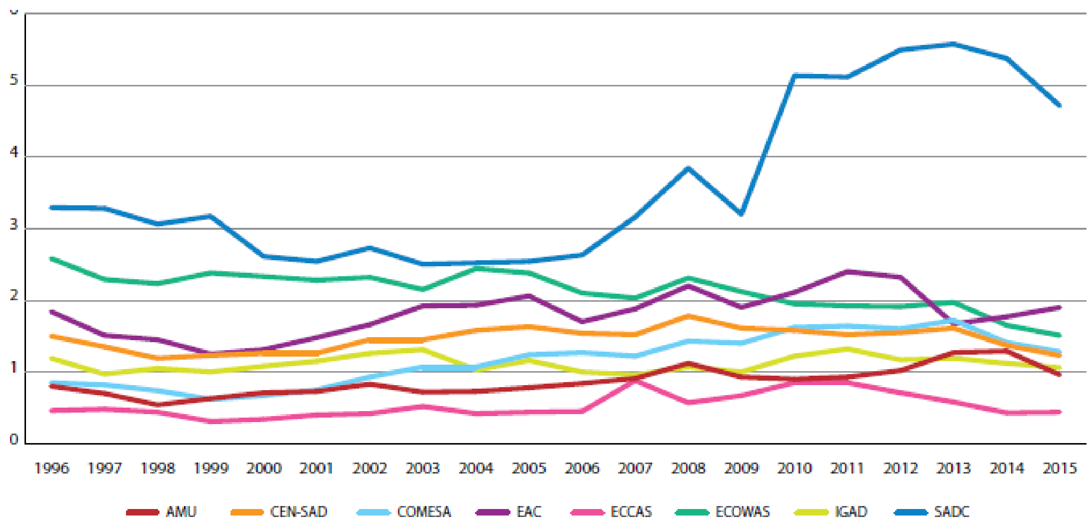
20. The Trade Integration Index is based on four indicators: (i) the level of customs duties on imports; (ii) the share of intra-regional goods exports (as a percentage of GDP); (iii) the share of total intra-regional goods imports (as a percentage of GDP); and (iv) the share of total intra-regional goods trade (as a percentage of total intra-REC trade – including intra-regional trade in services). In this category, SADC is among the bottom four performers, with a score of 0.508, which is below the RECs' average of 0.546.

21. The Productive Integration Index is constructed using three indicators: (i) the share of intra-regional intermediate goods exports (as a percentage of total intra-regional exports goods); (ii) the share of intra-regional intermediate goods imports (as a percentage of total intra-regional imports goods); and (iii) the merchandise trade complementarity index. As with its performance vis-à-vis the Trade Integration Index, SADC's score of 0.350 for the Productive Integration dimension, which is below the RECs' average of 0.384, ranks it among the bottom four performers.

22. The fact that SADC appears to underperform in terms of trade integration may to some extent come as a surprise considering that the region has consistently had the highest intra-regional trade in GDP share among the eight AU recognized RECs in relation (Figure 1 below).

Figure 1: Intra-Regional Trade as a Share of regional GDP (in percentage)

[7] Overall index calculations are based on the average of all dimensions. The index does not prioritize any particular topic on regional integration. Each of the indicators is given equal weight in the calculation of dimension scores.



Source: ECA, AU, and AfDB (2017)

23. However, it is important to recall that the Trade Integration Index is built on four indicators, including, in particular, the level of customs duties on imports. The latter measures the weighted average of tariffs actually applied as a percentage of the total of intra-regional imports for all the products identified using the six-digit harmonized system (H-S-6). Since each of the indicators is given equal weight in the calculation of the score, this suggests that the region still has one of the highest applied tariffs on the continent, which in-turn might point to an untapped potential for intra-regional trade. It also indicates that the relatively high level of SADC intra-regional trade has little to do with the liberalization process and much more related to the structure and configuration of trade within the region.

24. In fact, historical data shows that intra-regional trade (as a percentage of GDP) has remained relatively constant in the SADC region and has grown very little (less than two percentage points) since the establishment of the FTA in 2008. In particular, the Southern African market is still very fragmented implying that trade with the rest of the world is growing disproportionately faster than intra-regional trade. While the level of regional trade in Southern Africa has relatively (to the other RECs) been very high, it is predominantly a lopsided regional trade, where South Africa is dominant (both in terms of exports and imports). Traditional exports of agricultural raw materials and minerals continue to dominate regional trade, which also tends to be concentrated in a very limited number of products.

25. Besides, regional trade liberalization has not brought about much specialization in trade. The potential for larger and deeper intra-regional trade, could be evaluated by examining data on the bilateral Trade Complementarity, (TC) and the Intra-Industry Trade (IIT). The TC index measures the similarity between the export basket of one country and the import basket of another. The value of the index ranges from zero (no complementarity) to one hundred (perfect match). As

shown in Table 1, with the notable exception of South Africa, the type of goods exported by the region compared to those imported are relatively dissimilar.

Table 1: Bilateral Trade Complementarity in Southern Africa

Complementarity indices	With South Africa	With all SADC countries	With all COMESA countries
Botswana	4.9	5.1	4.3
Lesotho	2.7	2.9	2.5
Madagascar	10.9	13.9	16.9
Malawi	4.3	5.1	6.2
Mauritius	12.3	13.8	12.1
Mozambique	6.2	7.3	8.3
Namibia	8.1	9.3	8.9
Seychelles	5.5	7.7	11.9
South Africa	-	25.2	26.7
Swaziland	5.9	8.9	8.8
Tanzania	4.0	5.4	6.7
Zambia	3.5	4.5	5.8
Zimbabwe	7.5	7.5	7.8

Source: World Bank (2011)

26. However, it can be misleading to exclusively rely on the complementarity indices to assess the potential for increased specialization in regional trade. In fact, while lower values for the indices may suggest limited opportunities for regional partners to exploit sources of comparative advantage, they could also reflect weak trade integration that has not been sufficient to encourage firms in the region to exploit opportunities for which they have a comparative advantage.

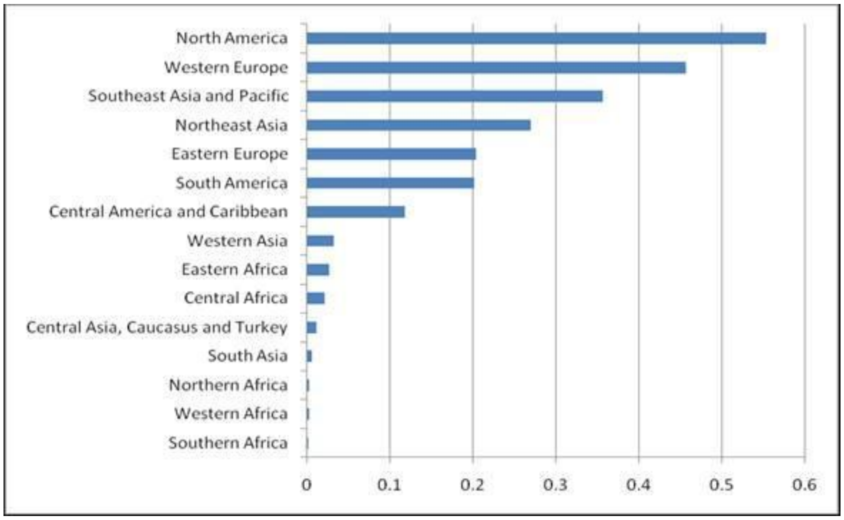
27. Intra-Industry trade, which results from specialization within products as well as from specialization at different levels of the same product is a robust indicator that can complement the similarity indices. Furthermore, as discussed later in Section 4, it is also very relevant to the RVC analysis. Statistics from the World Bank and the United Nations Industrial Development Organization (UNIDO) show that the Southern Africa region has one of the lowest IIT scores[8] in the world (Figure 2 and also Figure A7 in Appendix).

28. The low IIT score in Southern Africa is clearly very consistent with the poor performance of SADC with regard to the Productive Integration Index (previously discussed). The potential of the region to substantially increase levels of regional trade lies in developing that type of trade (that is, intra-industry trade) which is closely linked to participation in RVCs and specialization. However, for this potential to be effectively tapped, it is imperative that the region deepens and

[8] Intra-Industry Trade is commonly measured using the so-called Grubel-Lloyd index. The index varies between 0 (indicating no intra-industry trade) and 1 (indicating full intra-industry trade). A higher IIT score reflects two-way trade of products within the same sector and is associated with high greater specialization and innovation.

accelerates the integration process including the elimination of NTBs that impede the flow of trade and investment within the FTA. The persistent issue of NTBs in the region is discussed in the next section.

Figure 2: Intra-Industry Trade by Region as measured by the Grubel-Lloyd Index, 2008



Source: IMF Direction of Trade Statistics, World Economic Outlook Database and Bruhart, 2008

3.3 Persistence of Non-Tariff barriers: A Burden for Private Sector Investment and Trade

29. As reviewed in Section 3.2, while intra-regional trade has been very important in Southern Africa, the regional market is still very fragmented and the establishment of the SADC FTA has not brought about significant regional trade growth. The regional configuration of trade as well as the low level of productive integration certainly play a major role. Yet, the detrimental effect of NTBs within the region cannot be overstated. Lessons from successful regional integration experiences (ASEAN and MERCOSUR in Asia and Latin America for instance) suggest that benefits from regional trade agreements could only be maximized if countries prioritize regional trade facilitation, not only through tariff reductions, but also through tackling other at-and behind-the border issues. Global and regional evaluations of NTBs clearly show that they are in most cases more restrictive than tariffs. NTBs impede investment dynamics and competitiveness of the private sector regardless of the nature and the size of firms in that sector and might even invalidate the actual existence of a FTA.

30. It has been argued that the existence and persistence of some of the NTBs are in some cases a result of the persistence of tariff peaks. The reasoning is that since high tariff lines oftentimes create incentives for trade deflection or even fraud, mis-classification and smuggling, there might be need to intensify border checks to prevent transhipments and leakages of products originating from third countries. For instance, it has been reported that South Africa, which has the most developed textiles sector in the region as well as a relatively mature clothing industry both of which are heavily protected, has maintained a restrictive stance on rules of origin (ROOs) for preferential imports of clothing from other SADC member States. This stance has been taken in order to prevent the use of lower-cost third country fabrics (e.g. from China) entering through SADC member States for sale in South Africa. Thus, the fact that the region has one of the highest applied tariffs (as inferred from the relatively low trade integration score previously discussed), might also explain in certain ways the persistence of NTBs at the regional level. In fact, data from the UNCTAD Trade Analysis Information System[9] (TRAINS), show that for most countries in the region, over one-third of tariff lines are peaks (which is defined as high tariffs with an ad valorem rate equal to or over 15 percent). Therefore, it is quite reasonable to believe that lower, more uniform tariffs applied across all countries might significantly reduce the need for some of the barriers which persist and hinder regional trade and investment in Southern Africa.

31. The nature and scope of NTBs in Southern Africa is very complex and far reaching. The barriers include among others: weak transport and logistics; customs delays; restrictive rules of origin; import bans, quotas and levies; technical barriers; import permits and licensing and export restrictions.

32. Inefficiencies in transport and customs procedures as well as weak logistics have been a devastating issue in the region, raising trade costs and hindering private sector activities. Transport costs and transit delays in Southern Africa are reported to be particularly higher than in most other regions. An examination of the World's Bank Logistics Performance Index[10] (LPI) for countries in the region may provide some evidence on the gravity of the matter. The international LPI is a summary indicator of logistics sector performance, combining data on six core performance components into a single aggregate measure. The index is based on a worldwide survey of private sector operators on the ground (including global freight forwarders and express carriers), providing feedback on the logistics "friendliness" of the countries in which they operate and those with which they trade. The 6 core components of the index, which are all rated from "very low" (1) to "very high" (5) are as follows.

- The efficiency of customs and border clearance;
- The quality of trade and transport infrastructure;
- The ease of arranging competitively priced shipments;
- The competence and quality of logistics services;

[9] http://unctad.org/en/Pages/DITC/Trade-Analysis/Non-Tariff-Measures/NTMs-trains.aspx
[10] https://lpi.worldbank.org/

- The ability to track and trace consignments; and
- The frequency with which shipments reach consignees within scheduled or expected delivery times.

33. Table 2 shows the overall LPI score as well as the rankings by the core components, of selected Southern African countries, out of a worldwide sample of 160 countries, for 2016. Although there have been significant improvements since the 2010 LPI survey, the Figures show that, Southern African countries (with the exception of South Africa and Botswana to a lesser extent) still perform relatively poorly and are generally not perceived as being logistics friendly. Substantial efforts are required, especially in areas such as customs and border procedures, transport infrastructure and the competence and quality of logistics services. The latter is an area with immense investment opportunities for the private sector. They can bring in their expertise, innovation and inject greater competition in the sector in order to make the processes more efficient and sustainable, which in turn will drive the logistics costs down and improve firms' competitiveness. This is one example of how private sector operators can actively contribute to the regional integration goals while simultaneously benefitting from the work—from a business perspective, but also by making things work better for the whole private sector as an entity.

Table 2: Logistics Performance Index for Selected Southern African Countries

Country	**LPI overall score**	**LPI ranking**	**Customs ranking**	**Infrastructure ranking**	**International shipment ranking**	**Logistics quality. Competence ranking**	**Tracking and tracing ranking**	**Timeliness ranking**
South Africa	3,78	20	18	21	23	22	17	24
Botswana	3,05	57	48	54	70	75	70	43
Namibia	2,74	79	73	64	86	86	100	85
Mozambique	2,68	84	88	116	58	109	79	97
Zambia	2,43	114	119	113	106	114	119	124
Congo, Dem, Rep,	2,38	127	123	146	135	123	118	102
Angola	2,24	139	157	129	128	128	130	141
Madagascar	2,15	147	112	131	149	153	148	151
Zimbabwe	2,08	151	144	123	153	141	150	158
Lesotho	2,03	154	151	149	158	138	151	150

Source: Compiled from the World Bank's Logistics Performance Index Database (2016)

34. Regional leaders and policy makers are becoming increasingly conscious of the dangers of NTBs for the integration agenda, as well as the burden these barriers impose on the private sector investment in the region. The SADC Trade Protocol [11] directly makes provisions for the elimination of NTBs. Specifically, Article 6 calls for the elimination of all existing forms of NTBs and for member States to refrain from imposing any new ones. Yet, the implementation of this Article has been a challenge. Notable progress has been made at the political and institutional levels to implement some of the trade facilitation instruments that had been introduced by SADC. Nevertheless, much more remains to be done.

35. Issues related to restrictive rules of origin, technical regulations and standards of products, while being sensitive, should be relatively easy to address at the REC's level. It is also worth pointing out that there already exist some laudable initiatives and policy reforms at the national and regional levels to tackle some of the obstacles. These initiatives deserve to be encouraged and sustained.

36. The creation and implementation of One-Stop Border Posts (OSBPs) in Southern Africa, is one such initiative at the regional level. An OSBP is a "one stop" form of border crossing jointly managed by neighbouring countries and where activities are streamlined to maximize efficiency. Clearly, converting a two-stop border crossing point into a one-stop border post, while ensuring that the regulations of the countries that share borders are complied with will improve the flow of investment and trade within the region by reducing bottlenecks and avoiding unnecessary duplications of clearance procedures at borders. At present, the Chirundu OSBP—serving Zambia and Zimbabwe – is considered the first fully functional OSBP in Southern Africa. While there are other current OSBPs initiatives in the pipeline, within the region, they are yet to be effectively implemented. Thus, there is need to build on the challenges and issues being encountered by the private sector from the Chirundu experience to accelerate the implementation process of outstanding projects. For instance, one of the main issues reported with the Chirundu OSBP has been the harmonization of customs procedures.

37. Another initiative, which involves closer collaboration with the private sector is the Non-Tariffs Barriers Monitoring Mechanism (NTMM). This regional mechanism, shared amongst the three RECs of the Tripartite Free Trade Area (TFTA), namely, SADC, COMESA and EAC incorporates an online platform where the private sector can report complaints against NTBs to regional trade in the Southern and Eastern African region. One of the key merits of the mechanism is the fact that it has mainstreamed the participation of the private sector in regional NTB reduction processes. In fact, participating countries, are all represented by both a government and a private sector focal points, attached to the mechanism. Evidence shows that Small and Medium Enterprises (SMEs) are particularly affected by NTBs[12]. Thus, this online reporting mechanism is

[11] http://www.sadc.int/files/4613/5292/8370/Protocol_on_Trade1996.pdf

[12] For instance, the lack of scale economies in SMEs' transactions make meeting NTB requirements relatively more costly for them compared to large enterprises.

also very laudable in the sense that it accords an opportunity to these firms to directly voice their perspectives and drive the integration agenda.

38. Trade-related administrative NTBs are one of the most frequently reported complaints by the private sector, alongside export and import permits as well as transit issues. Although there have been some concerns with regards to the very slow pace in resolving the NTBs that have been notified, the NTMM is clearly one of the tools that are in line with the concept of private sector-led integration efforts. Reflections should be made on ways to improve the mechanisms and render these more effective than the current situation. Other initiatives along these lines should also be promoted.

3.4 Deepening Services Markets Integration: A Huge Investment Potential for Private Sector

39. The services sector produces intangible goods and is comprised of a wide variety of services, including among others, warehousing, truck transportation services, information sector services, retail services, commodities and other investment services, tourism and business services. Generally, services have been the most important[13] component (in terms of contribution to regional GDP) of Southern African economies and more importantly, are a strategic sector for economic development as some specialized services (such as professional services) are key inputs to the production of other sectors. Besides, a very large number of private sector operators work in the services industry. Therefore, one cannot discuss the role of private sector in regional integration processes, without reflecting on the state and dynamics of the regional services markets. This section initially reviews the overall state of openness of the services market in Southern Africa and then focuses on the professional services highlighting some of the key issues and the potential gains that could be derived from deepening the regional markets. The issue of labour mobility is central to this analysis.

- **Services Trade Restrictiveness in Southern Africa**

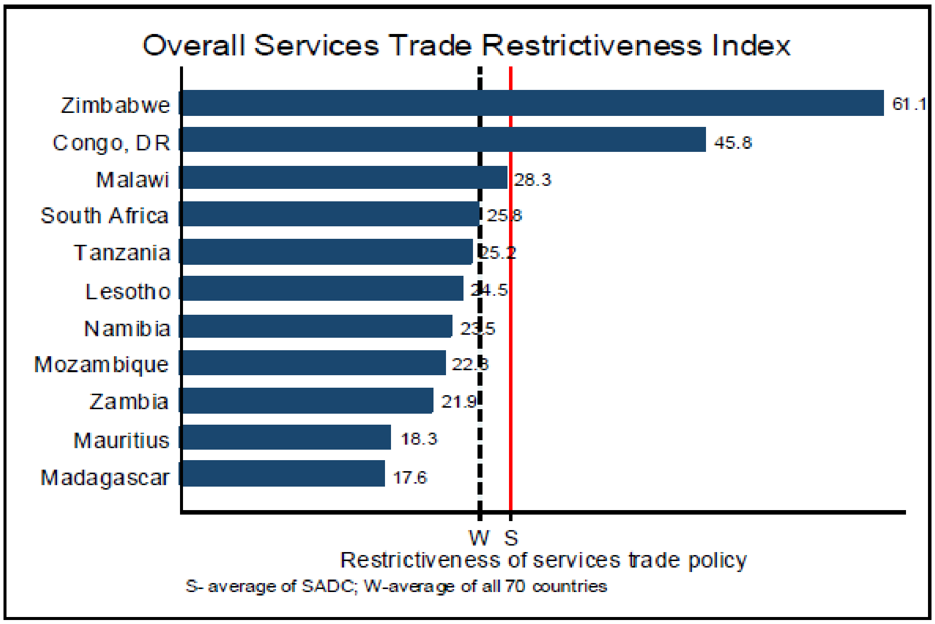
40. A review of services trade policies in Southern Africa suggests that countries in the region fare relatively well in terms of their level of services sector liberalization —that is, the extent to which foreign service providers are able to operate in a particular country given the existing policies. Still, there is room for substantial improvements in many sub-sectors and large gains are awaiting realization. The World Bank (WB) has developed a Services Trade Restrictiveness Index (STRI), which could provide some supporting evidence in this area. The STRI is essentially a measure of the restrictiveness of a country's policy regime based on the policy information alone and is designed to depict the overall patterns in policy across countries and sectors. The Index is based on surveys covering five key service sectors: financial services; telecommunications; retail distribution; transportation; and professional services. There are also sub sectors associated with each of the key sectors. Within each sector or sub sector, the database covers the most relevant

[13] Statistics from SADC and the World Bank Development Indicators (WDI) indicate that the sector has consistently contributed around fifty percent to the regional GDP.

modes of supplying the respective service: cross-border supply (mode 1); commercial presence or FDI (mode 3); and the presence of service supplying individuals (mode 4). For each sector and mode of supply, the openness of policy toward foreign suppliers is mapped on a 5-point scale ranging from 0 (no restrictions) to 100 (closed), with three intermediate levels of restrictiveness (25, 50 and 75).

41. A snapshot of the overall restrictiveness of services trade policies for a number of countries in the region is provided in Figure 3. Clearly, it appears that most of the countries in the sample (Zimbabwe and DRC being the notable exceptions) are remarkably open, even as compared to the world average (which is based on a sample of 70 countries, including developed countries which are generally found to be more open in that area). Yet, these overall scores might conceal sector-specific heterogeneities. A breakdown by key sectors/sub sectors is provided in the Appendices (Figures A1 to A6).

Figure 3: Services Trade Restrictiveness in Southern Africa



Source: World Bank (2011)

42. For instance, in financial services, which include banking and insurance in the survey, most countries have a score which is around the world average, except for DRC and Zimbabwe. Generally, foreign banks can provide their services to these countries either through the establishment of a new subsidiary, the acquisition of a private local entity or creating a joint venture with a domestic firm. Besides, data suggest that cross-border banking services to domestic firms are available in all countries (with the exception of Madagascar).

43. This state of openness of the financial services sector in general and of the banking industry in particular, is beneficial to private sector expansion in the region and is something that should be advocated for. This is because, access to finance is one of the major challenges faced by the private sector in general (and SME in particular) and evidence shows that greater competition in the banking sector (including through entry of foreign banks) increases credit availability to these firms (see recent study by Love and Peria, 2015 using multi-year, firm level surveys for 53 countries, including some of the Southern African countries).

44. The picture is strikingly different in the telecommunications services sector. Whereas in most sectors, the SADC average is not too far from the world average in that specific case of telecommunications SADC is found to be about twice as restrictive as the world benchmark.

45. Furthermore, it is worth mentioning that the generally high degree of de jure openness of SADC's services trade policies may not always imply de facto openness as most countries still retain a significant degree of regulatory and policy discretion. For instance, from retail to banking and insurance, the allocation of new licenses remains opaque and discretionary in a number of countries. In the same vein, there are instances in which sectors appear de jure entirely open, yet the license fees are prohibitively high.

46. In summary, while the overall picture of services trade liberalization in the regional economies seems reasonable when compared to established policies outside the region and the continent, it is clear that there is potential for improvements, especially in countries such as Zimbabwe and DRC. It is generally recognized that liberalizing trade in services is not an easy task and involves addressing complex technical issues related to regulations and standards. However, the benefits to be derived are immense. Considering the complexity of the process, it might be relatively easier and less challenging to deepen and strengthen integration of services markets at the regional level, while smoothly integrating to the global markets. Evidently, to the extent feasible, policies should not systematically discriminate against services providers outside the region. It is also important to emphasize that the regional integration of services markets is closely linked to the aspired integration of goods markets, especially with regard to services providing connectivity such as transportation and telecommunications.

47. Deeper regional integration would inject greater competition in the markets and create many investment opportunities for the private sector. This is true not only for backbone services such as telecommunications, banking and transport, but also possibly to a larger extent, for business services, including professional services, where the issue of labour mobility within the region becomes particularly relevant. As the restrictiveness index in professional services (Figure A5) shows, the sector is highly protected in most of the countries and substantial gains can be expected to be derived from greater integration given the underdevelopment of this sector in the region. Further discussion on regional integration in professional services follows.

- **Professional Services and Regional Integration: What is at stake?**

48. Professional services include services such as accounting, legal and engineering services and constitute an important subset of business services. The latter can be generally described as any type of services that support a business, but do not necessarily produce a tangible commodity. These services represent important inputs into other sectors, including sectors that are key for regional integration in Southern Africa (including agriculture, manufacturing or mining) and facilitate the transmission of knowledge spillovers. Professional services in particular are recognized to play an important role in the functioning of modern economies by driving down business transaction costs and increasing productivity and competitiveness especially for SMEs. For instance, accountancy is critical for cost control, business planning, sound fiscal management. Good corporate governance and legal services improve the predictability of the business environment, facilitate engagement in contracts and mitigates investment risks. Engineering services constitute a knowledge-intensive sector essential to the productivity and sustainability of various other economic activities. Data from the 2010 World Bank Survey of Users of Professional Services in Southern Africa that covered representative firms across all sectors in Botswana, Malawi, Mauritius, Mozambique, South Africa and Zambia suggest that firms which use accounting, legal and engineering services have higher average labour productivity in all six countries than firms without professional services linkages.

49. Professional service providers (including one-person businesses or firms) form a significant part of the private sector. They can substantially and actively contribute to the integration agenda and priorities of the region provided that key and necessary conditions such as labour mobility and human resources availability are met.

50. At present, the professional services sectors in the region can be said to be underdeveloped. There is a large gap between the current and future needs of professional service providers faced by the region and the resources available to respond to these needs. Skills shortages (especially middle-level professionals) and skills mismatches are apparent in all the key sectors across countries. There is significant variation in the availability of professionals across Southern African countries and across professions.

51. In terms of professional services, the shortage in engineering services (including IT services) seems to be the main concern in all Southern African countries (especially problematic in Mozambique, Mauritius, Botswana and South Africa), followed by accounting and legal services. With regard to country-specific differences, the more acute shortages are observed in Malawi and Mozambique where the development of professional services markets seems to be hindered by the relatively low number of middle-level and higher-level professionals. On the other hand, countries such as Mauritius and to a lesser extent, South Africa, appear to be well endowed with accounting professionals. The limited availability of middle-level professionals across countries in the region is particularly problematic given the fact that this important subset of skilled

workers is well recognized to be the main providers of professional services to underserved groups of private sector clients such as SMEs.

52. Developing professional services sectors can clearly help accelerate the regional integration agenda and priorities in Southern Africa. At the same time, deeper integration, has the potential to address issues of skills shortages, skills mismatches that characterize the professional services sector in the region. This will in turn enhance competition between service providers, allowing them to exploit economies of scale in professional training and producing a wide variety of services to support regional integration initiatives. Currently, skills shortages and mismatches at the regional level as well as complex market structures (including vertical segmentation of demand for professional services, (especially for accounting services) and market fragmentation have considerably limited the development of regional trade in professional services (World Bank, 2011). However, there is an enormous potential for trade and growth in this sector if key barriers can be removed to allow regional resources to be used efficiently and stimulate the development of professional skills in the region.

53. In particular, domestic regulations on the entry (usually in the form of qualitative entry requirements) and on the operations of professional service firms are considered as a key impediment to regional trade in professional services. While the relevance or appropriateness of these qualitative entry regulations can be debated, as there exist sound theoretical foundations on the use of such measures (public interest theories versus private interest theories), evidence from the regulatory surveys conducted by the WB in the region suggests the existence of several cases of restrictive qualitative requirements. With regard to the exclusive rights owned by some high skilled professionals to perform high-level specialized services, the issue becomes essentially problematic when the rights are granted for standardized services which can be provided at a lower cost by less-regulated middle-level professionals for instance.

54. As introduced earlier, labour mobility within the region is a central prerequisite for services (especially professional services) sectors integration. The WB STRI across modes 3 (establishment of commercial presence) and 4 (movement of natural persons) in professional services suggests that substantial labour mobility restrictions are in place, particularly in the legal services sector and to a lesser extent, accounting and auditing. Also, immigration policies and regulations do not facilitate the movement of skilled workers, thus impeding the supply of services by foreign professionals and contributing to the segmentation of regional markets for professional services.

55. It is worth mentioning that the SADC Protocol on Trade in Services provides for a mandate to progressively negotiate removal of barriers to the free movement of services. While professional services do not feature among the six priority services sectors (communication, financial, tourism, transport and energy-related services) that have been identified for liberalization, it might be crucial and relevant to reflect on ways to efficiently associate the professional services sector to this agenda, or at least work toward removing some of the key barriers impeding trade in professional services sectors within the region. This is important, considering the fundamental role

played by professional services as a key ingredient for other sectors' outputs, and the immense investment opportunities that it might provide to the private sector.

4. A Regional Value Chain Approach to Industrialization in Southern Africa

4.1 Rationale and Relevance of Developing RVCs in Southern Africa

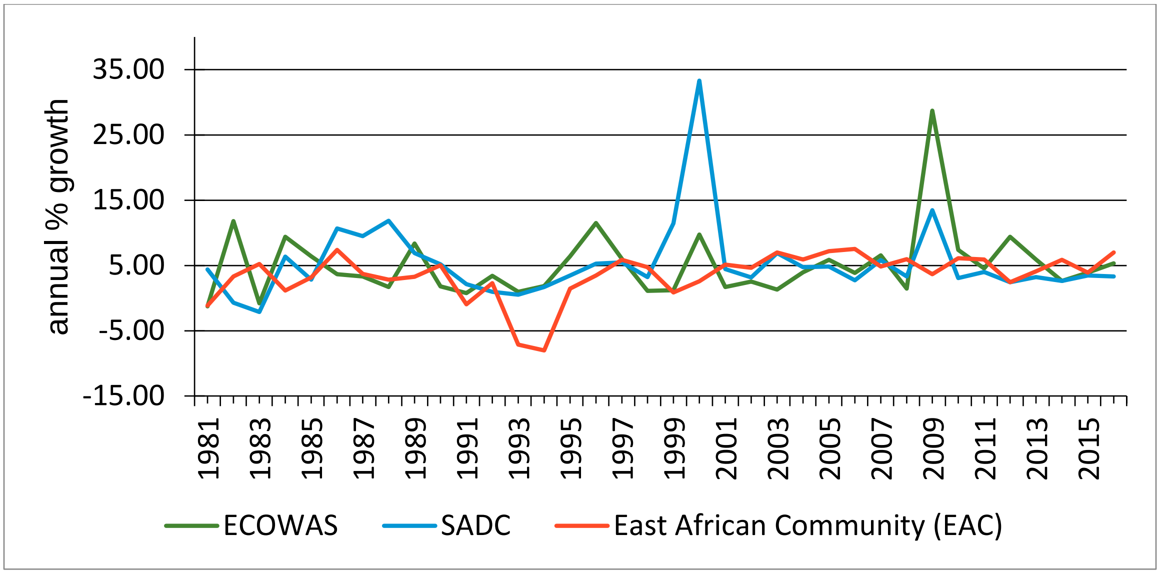
56. Industrial development is generally viewed as a powerful driver of economic and inclusive growth, a major source of employment, income, goods and services. For instance, one of the United Nations Sustainable Development Goals (Goal 9)[14] calls for a commitment to "build resilient infrastructure, promote sustainable industrialization and foster innovation". In order to achieve this goal which clearly prioritizes industrialization in the fight against poverty and exclusion, Africa in general and Southern Africa in particular, needs to scale up its industrialization process in an effort to increase employment and enhance socio-economic development.

57. While the preoccupation of industrialization has been at the forefront of the regional integration agenda for a while, historical data spanning at least the last two decades shows that industrial growth, especially in the manufacturing sector has been lower in Southern Africa than other parts of the continent. Figure 4 describes the growth in manufacture value addition in EAC, ECOWAS and SADC, arguably the most developed RECs on the continent and Table A1 (in Appendix) provides the annual growth in industry value added for the 8 AU recognized RECs. These figures are also consistent with the relatively higher, but rapidly decreasing share of manufacturing (valued added) in GDP in the region, compared to the other RECs (Figure A7 in Appendix).

These statistics clearly indicate that the region has been underperforming and not exploiting its full industrial potential. The level of industrial addition has been subpar, with little diversification of the economies.

[14] http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E

Figure 4: Manufacturing Value Added, Annual Growth (percent)



Source: Data Extracted from AfDB Socio Economic Database

58. While integration of developing countries into Global Value Chains (GVCs) is commonly portrayed as a key route to sustainable industrialization, owing to among others, the prospects of entering new markets, gaining access to new skills, knowledge and information, it is also generally recognized that participation in GVCs per se does not guarantee sustainable and inclusive growth and does not ensure upgrading. For instance, firms and countries can find themselves locked in lower level segments of the GVCs, which prevent them from taking full advantage of the perceived above-mentioned deeper benefits. This appears to be the general case in Southern African countries which are essentially involved at the bottom of the global commodity value chains.

59. Developing and strengthening RVCs is a pragmatic stepping stone towards effective and superior participation into GVCs that could promote the development of an integrated industrial base within the region through the exploitation of synergies and complementarities between countries and private sector actors at the regional level. This could, in effect, accelerate value addition and enhance export competitiveness. Thus far, there has been very little participation of the Southern Africa region in RVCs as suggested by the low-level of productive integration (especially the poor IIT score) documented in the Section 3.2. Intensity of regional Intra-Industry Trade, whether horizontal (exchange of varieties of goods of same quality) or vertical (exchange of similar goods with different qualities and prices) is generally considered as a good proxy for the level of participation in RVCs, as both forms involve some level of specialization and use of comparative advantage. But more importantly, a substantial part of IIT in vertically differentiated products results from the phenomenon of product fragmentation, that is, the splitting of a production process into separate parts which can be done in different locations. This is an aspect of regional IIT that might appear as being closer to the concept of RVCs. In the same vein, trends

in intermediate goods trade at the regional level are also indicative of regional value chain integration as fragmented production processes require parts, components and partially manufactured sub-assemblies to cross-borders before final goods are produced and shipped to final consumer markets.

60. The very low Productive Integration Index and IIT score both point to underdeveloped RVCs in Southern Africa and suggest the existence of an untapped potential for boosting investment and industrial growth through this channel. In fact, the potential for value addition and diversification by means of RVC strategies is enormous. A recent study by ECA-SA (2017) reviewing industrialization policies of countries in the region has been able to identify several production areas, including diamond, platinum, gold, iron ore, cotton, fruits, coal, crude oil, marine products, natural gas and copper sectors, where there are immense investment opportunities available to the private sector for beneficiation and value addition within a RVC system.

61. Besides the fundamental need for deeper regional integration that should facilitate the process toward developing and enhancing RVCs, it is also generally recognized that one of the key conditions that can make a RVC strategy very effective and successful is the existence of sizeable growth poles from which the RVCs can develop themselves through various channels of transmission from core to periphery. In the context of regional economics, growth poles can broadly be described as simultaneous coordinated investments in many sectors to support self-sustaining industrialization in a region. The aspect of dominance is very important for growth poles and can be associated with the existence of a set of dynamic industries connected around a particular resource (country), which by virtue of their dimension or negotiation strength, are anticipated to have the capacity to innovate and adapt to market conditions.

62. From the foregoing, it is clear that in the Southern Africa region (and even at the continental level), South Africa possesses the characteristics of a typical growth pole. It is the most sophisticated economy in the region with a dynamic and well-developed private sector operating in key areas of the regional economy. While South Africa may appear as the obvious growth pole around which RVCs can revolve within the regional scheme, it is worth noting that the Southern Africa region is especially endowed in such a way that a number of countries including Botswana, Mauritius, Namibia or Zambia can emerge as valid and promising growth poles leading the development of key RVCs.

63. Clearly, a RVC approach to industrialization is vital and relevant in the regional context of Southern Africa and has the potential to unlock the full potential of the region (home to the largest number of Middle Income Countries (MIC) in Africa) thereby lifting it to higher and sustained levels of industrialization. The following section provides the key elements of the SADC Industrialization Strategy and Roadmap Implementation Plan, which features a RVC-based

industrial development approach and discusses the central role of the private sector in this agenda[15].

4.2 Implementing the SADC Industrialization Strategy and Roadmap: Opportunities for Private Sector Investment and Growth

64. Cognizant of the importance of revitalizing the industrial sector to spur sustainable economic growth and socio-economic transformation, the SADC Heads of State and Government adopted at their Extra-Ordinary Summit, held on 29 April 2015, in Harare (Zimbabwe), the SADC Industrialization Strategy and Roadmap (SISR), 2015-2063. The Strategy is built on key institutional and policy frameworks at the regional level, which are aimed at fostering trade and industrial growth in Southern Africa. In particular, it incorporates relevant elements of the SADC Trade Protocol, the Industrial Policy Development Framework (IPDF), the Regional Infrastructure Development Master Plan (RIDMP), the Industrial Upgrading and Modernization Programme (IUMP) and is consistent with the Revised Regional Indicative Strategic Development Plan (RISDP) adopted in 2015. The RISDP is the blueprint for SADC's regional integration agenda. The original plan was approved by the SADC Summit in 2003 with an implementation time-frame of 2005-2020. After a review in 2012, the revised version places industrialization at the centre of the regional integration agenda with the goal of accelerating socio-economic objectives of the region.

65. In essence, the SISR was developed as an inclusive long-term modernization and economic transformation mechanism which enables substantial and sustained raising of living standards, intensifying structural change and engendering a rapid catch-up of the SADC member States with industrializing and developed economies. The SISSR and its private sector driven implementation plan, are thus closely aligned with Agenda 2063, the AU strategic framework for the socio economic transformation of the continent over the period 2013-2063. The focus areas of the national and RECs'development priorities have been included in the First ten Year Implementation Plan 2014-2023[16] of the continental agenda, to ensure that the national and sub-regional priorities in the near term converge with the priority areas contained in the 50 year framework document.

66. Three interdependent and strategic pillars form the basis of the SADC strategy: Industrialization as champion of economic and technological transformation; enhanced competitiveness; and deeper regional integration. From these three pillars, it is understandable why

[15] While the discussion in this paper focuses on the SADC Industrialization Strategy and Roadmap 2015-2063, it is worth mentioning that the Common Market for Eastern and Southern Africa (COMESA) also recently adopted an Industrialization Strategy for a ten year-period of 2017-2026. This adoption has been done following the decision of the COMESA Council of Ministers which directed the Secretariat to develop an implementing strategy of the COMESA Industrial Policy adopted by the same council in 2015. The policy has approaches which focus on value addition of commodities as well as skills based industrialization. The industrialization strategy essentially aims at structural economic transformation for the creation of jobs and wealth in the region, and as with the SADC's long-term strategy, gives a prominent role to the private sector as a key engine in driving the strategy.

[16] https://au.int/sites/default/files/documents/33126-doc-ten_year_implementation_book.pdf

the focal point of the Strategy is on developing and prioritizing RVCs and promoting investment-led trade. Following the adoption of the SISR in April 2015, SADC developed and Action Plan covering 2016-2030 approved by the Summit in March 2017, in Lozitha, Swaziland. Some of the key issues addressed by the Action Plan are as follows:

- Identification of high potential areas for value chains and value addition;
- Infrastructural needs and removal of constraints on trade and industry;
- Making regional integration the fulcrum for collective industrialization and competitiveness;
- Involving and leveraging the resources and ingenuity of the private sector for industrial transformation;
- Competitiveness constraints of the business environment;
- Enhancing productive capacities within the context of industrial cluster and SMEs development while ensuring resource efficiency, environmental sustainability and climate resilience; and
- Institutional structure to drive, support, monitor, evaluate and govern the industrialization process in SADC.

67. One of the most important principles guiding the Action Plan Framework (as well as the revised RISDP) is the acknowledgement of the central role to be played by the private sector as the engine of investment, growth and employment creation in the region. Indeed, the theme of the 37th SADC Summit of Heads of State and Government, held in August 2017, in Pretoria, South Africa, was: "Partnering with the Private Sector in Developing Industry and Regional Value Chains". It was an opportunity for regional leaders and policy-makers to deliberate on ways of harnessing Public-Private Partnerships (PPPs) to drive forward the industrialization agenda of Southern Africa.

68. The private sector plays an enormous, multi-faceted role in the whole process of regional integration and industrialization. Firstly, considering that investment, participation and positioning into value chains is in the main from the private sector whose role as primary implementers of the Industrialization Strategy is fundamental. For the private sector to be able to effectively participate in RVCs, there is need for acquaintance with the existing and promising value chains in the region and understanding of the broader economic and institutional context of the regional strategy. Besides, specific investment and industrial opportunities also emerge from integrating value chains and ensuring specialization across the region. Section 4.2.1 discusses the value chain potential in SADC.

69. The role of the private sector as drivers of the industrialization strategy however extends beyond specific production investment or "direct" participation in RVCs. While the development and strengthening of RVCs may only advance and accelerate the integration agenda, it is also clear that deeper integration is an essential pre-requisite for the development of RVCs. In that sense, whatever role the private sector is to play in improving regional integration processes infrastructure

and logistics development, skills development, elimination of NTB, funding, innovation, etc. also become relevant in the context of the industrialization strategy. Section 4.2.2 succinctly reviews key enablers of the SISR emphasizing on the role of the private sector in the process.

70. It is equally important that the private sector is prominently involved in the setting-up of institutional structures or mechanisms designed to drive, monitor, assess and govern the industrialization strategy. In this regard, Section 4.2.3 highlights one such initiative: the Southern African Business Forum (SABF) Operating Model.

4.2.1 Value Chains with Potential in SADC

71. A key stage in developing the RVC Strategy to industrialization is the phase where potential value chains along which various private sector entities may operate are identified. From the SADC perspective, this involves identifying among others, tasks that can be undertaken competitively and how they might be shared across borders. Following the identification of the main value chain links, private sector firms also have to undertake their own and specific value chain analyses (VCA), which could help them evaluate investment opportunities within specific value chains and position themselves competitively along the links. Clearly, the identification stage entails an extremely complex and technical background work at the firm, national and regional levels.

72. At the regional level, there are many different considerations that generally need to be contemplated when identifying and assessing value chain potential in the region. These include in particular: the growth potential; the availability of and access to resources; the levels and segments of participation; the upgrading potential; the current and future competitiveness; complementarities in demand and supply; the potential for embeddedness (the extent to which firms develop business relationships with other firms, including lead firms, along specific value chains); SME integration into value chains; country risk; and the levels of dependence and vulnerability.

73. While the Implementation Plan attached to the SISR is not designed to be prescriptive as to the value chains member States have to prioritize and promote, it builds on several resources (including national reports by country, industrial reports, case and sector studies, as well as existing value chains) and points out key value chains which demonstrable potential to deepen regional integration and foster the industrialization process. The following six main value chain clusters are identified:

(1) Agro-processing;
(2) Minerals beneficiation and related mining operations;
(3) Pharmaceuticals;
(4) Consumer goods;
(5) Capital goods; and
(6) Services.

74. Table A2 (in Appendix) provides the disaggregation by sectors, products, including the countries that can potentially participate in each value chain. Southern Africa is undeniably one of the richest regions in the world in terms of agricultural and mineral resources. In order to take full advantage of the region's vast resource endowment, the SISR accords priority to three resource-based value chain clusters: Agro-processing, minerals beneficiation and pharmaceuticals.

75. Greater production of higher value agricultural products and value addition to agricultural commodities are at the centre of the efforts towards developing and strengthening RVCs in the agro-processing sector. The potential of the region in this area is immense and yet untapped. About 70 percent of the region's population heavily depends on agriculture for food, income and employment. Many smallholder farmers (constituting a significant part of the private sector in agricultural industry) still lack access to modern means of farming, which can hinder their effective participation in RVCs. Clearly, increased mechanization can help unlock underutilized agricultural potential and significantly contribute to the industrialization agenda. The SADC Regional Agriculture Investment Plan (RAIP, 2017-2022)[17], was adopted in 2016 by SADC Ministers responsible for Agriculture and Food Security as the basis for driving agricultural growth in support of industrialization. In the agro-procession cluster, existing or potential value chains include: soya, sugar and related products, cassava, food and drinks, fisheries, forestry, dairy, leather and leather products, meat and meat products, fruits and vegetables.

76. Mining is an industry of strategic importance in Southern Africa. The region is especially endowed with abundant mineral resources. According to SADC's figures, about half of the world's vanadium, platinum and diamonds originate in the region along with 36 percent of gold and 20 percent of cobalt. Two of the countries in the region (DRC and Zambia) are among the top ten copper producers in the world. However, the region as a whole is still characterized by a high dependency on exports of unprocessed or semi-processed mineral products. The importance and necessity of minerals value addition within the region cannot be overemphasized. According to findings by ECA-SA (2017), the current levels of minerals beneficiation at the national and regional levels are extremely low and suboptimal. In Southern Africa, the bulk of participation in existing mineral value chains has been forward (through upstream linkages) rather than backward (via downstream linkages) and global rather than regional. The development of a Regional Mining Vision (RMV) is underway (expected to be completed by August 2018) and this could result in the optimal use of the resources and endowments available in the regional ecosystem. The following are the potential value chains that have been identified by recent profiling studies:

- Energy mineral value chain based on coal, oil and gas resources;
- Ferrous minerals value chain – that processes iron ore, zinc, chromium, nickel, manganese, tungsten and vanadium to produce different types of steel for infrastructure development;
- Base metals mineral value chain which utilizes copper and aluminium;
- Fertilizer mineral value chain based on coal gas, phosphate and potassium;

[17] http://www.fao.org/support-to-investment/news/detail/en/c/434424/

- Cement value chain which utilizes limestone;
- Value chains on minerals where SADC has producer power such as diamonds, platinum and cobalt to produce catalysts and jewellery; and
- Mining inputs value chains for upstream linkages into mining capital goods, consumables and service industries.

77. Recognizing that pharmaceutical manufacturing can provide new dimensions and opportunities for growth either in Active Pharmaceuticals Ingredients (APIs) or finished products in the region, SADC launched in August 2017, a Pharmaceuticals Manufacturing Business Plan which encourages active private sector participation. The Business Plan aims to build capacity within the region in order to facilitate affordable, accessible and quality medicines. The opportunities for RVC formation in the sector include: anti-retrovirals (ARV), anti-TB drugs; artemisinin, condoms, bed-nets and DDT. The development of an ARV Value Chain has been prioritized with completion expected by March 2019.

78. While the identification of the various value chain links across the clusters is clearly important and informative about the potential investment opportunities available to the private sector, it is worth noting that the attention should be less on the product or sector per se, but more on understanding the full value chain and what is required to take advantage of opportunities in terms of value addition provided by the specific links. For instance, in addition to, and beyond the existence and potential of development of specific RVCs in the services sector in the region (such as in tourism, financial services, and ICT), as previously discussed (in Section 3.4), business services (including in particular professional services) are key inputs for other sectors. As such, private sector providers of such services are able to seize and take advantage of immense investment opportunities in a variety of product specific value chains.

4.2.2 Key Enablers of the Industrialization Strategy

79. The overarching requirement for successful implementation of the value chain approach to industrialization is that of effective and deeply integrated regional market. Without this, the private sector, as the key implementer of the Strategy, is not able to benefit from the immense investment opportunities that become available through the development of the various regional value chain links. In fact, there is need to have a predictable and efficient system that facilitates the movement of raw materials, intermediate goods, final consumer goods and services in the region. Effective implementation of the regional integration agenda, including the SADC Trade Protocol and the Protocol of Trade in Services is therefore critical. On the other hand, the private sector can significantly contribute (directly or indirectly) to some of the key priority areas of the regional integration agenda, including in particular, infrastructure development as an essential facilitator of the process and the elimination of NTBs (Section 3.3). The public sector (including RECs) however still needs to create an environment in which the private sector can effectively operate.

80. Generally, the private sector faces a number of obstacles that hinder its expansion and the industrialization efforts of the region. These include in particular: inadequate government regulations, restrictive policies, poor infrastructure (especially in energy infrastructure), severe skills shortages and mismatches, trade restrictions (including the persistent issue of NTBs) and the lack of access to affordable financial resources (including medium and long-term finance), especially for SMEs. The SADC Industrialization Strategy and Roadmap acknowledges the existence of these impediments that need to be removed but identifies the binding characteristics of three in particular: (i) skills; (ii) finance; and (iii) infrastructure. The prioritization of these focus areas arises from their combined positive impact on deepening regional integration and accelerating the pace of industrialization.

1. Skills Development

81. The implementation of the Industrialization Strategy through the development of RVCs and firms' specialization in specific segments along the links necessitates the availability of human resources and expertise in key sectors across the region. One of the key constraints to beneficiation and value addition that comes out from a review of national industrial policy documents of SADC member States conducted by ECA-SA (2017) is the inadequacy of human capital and skills for industrial processes, science and technology, a feature common to all countries in the region. Besides, as discussed in Section 3.4, important skills shortages and skills mismatches exist in the business services (especially professional services) sector which supplies strategic input to all other sectors allowing functioning of the value chain links and increasing the productivity of firms (SMEs in particular) operating along them. Thus, it is critical that skills development strategies are adopted and implemented at the national and regional levels and integrated into the industrial development components.

82. Being at the forefront of business operations models, innovation processes and professional bodies, it is clear that the private sector has a fundamental role to play in this agenda in close collaboration with the public sector. Improved workforce planning and better design of education policy are vital components for meeting the human capital challenge. Clearly, it is no longer enough for the private sector to expect educational systems to produce candidates who possess the precise skills-sets required for today's and tomorrow's jobs. Collaboration with educational institutions (including private and vocational training institutes) as well as governments and regional organizations could help address the skills shortages and mismatches that characterize the regional market.

83. For instance, the private sector can participate in the development of function-specific skills, whether technical, vocational or academic; designing and implementation of upskilling programmes; connecting talents to specific markets or segments of the value chains; and enhancing the economic ecosystem by encouraging entrepreneurship along the value chains through financial support for start-ups and non-financial support such as training, mentoring and networking. Skills shortages in the region are also a result of limited investment in research and development, science,

innovation and technology. Here, again, private sector finance and expertise can be leveraged. It has however proven challenging in a number of countries in the region such as Tanzania and Madagascar, to create awareness of the benefits of research and development among small entrepreneurs (ECA-SA, 2017). In some cases, this might be linked to an issue of funding constraints. Integration of markets, support from lead firms along the different value chains as well as closer collaboration with public and private research institutions could help mitigate these constraints and contribute to human capital enhancement in the region. Furthermore, the private sector could strengthen skills development by contributing to governance (including by pushing forward reforms agendas) through national and regional committees or other institutional arrangements.

84. With regard to professional services in particular, the private sector (especially large professional firms and associations) could play a catalytic role in regional integration reforms (including regulations relaxing disproportionate entry requirements, eliminating restrictions on competition and regulatory cooperation at the regional level) aimed at addressing the skills shortages and mismatches in Southern Africa. This, however, would require them to be well informed about the potential benefits from regional liberalization processes in the sector and how these in turn, impact the overall industrialization strategy of the region.

2. Access to Finance

85. Availability and access to affordable finance is one of the most binding constraints to the emergence of a vibrant and dynamic private sector. A critical requirement for a thriving private sector and a smooth functioning of regional value chains is the accessibility of investment finance. For instance, a shortage of available credit for businesses undermines their ability to obtain production inputs and invest in the required capital goods and equipment needed to undertake value addition and beneficiation which are notoriously capital-intensive activities. While access to credit is a serious concern for all firms regardless of their size, the issue is of particular relevance for micro, small and medium-sized enterprises (MSMEs) which often have little credit history or tangible assets that may be used as collateral.

86. A report by Omidyar Network[18] (2013) on the state of entrepreneurship in Africa, points out personal and family loans (45 percent); private equity (19 percent); and bank debt (18 percent), as the main sources of capital for small and growing enterprises. This is followed by government funding, venture capital and angel investments at 5 percent, 5 percent, and 4 percent of funding respectively. Bearing in mind that private equity firms, banks, venture capitalists and angel investors, are also all part of the private sector as a broader entity, the question remains as to what can be done to enhance access to finance in the region.

---

[18] Omidyar Network is a philanthropic investment firm dedicated to harnessing the power of markets to create opportunity for people to improve their lives. It was established in 2004 by eBay founder Pierre Omidyar and his wife.

87. Debt financing from banks is the most prevalent external funding source on the continent in general and in Southern Africa in particular. However, it is increasingly viewed as an unstable source for entrepreneurs given the structure and high costs of credit. In fact, the relatively high cost of funding is one of the main impediments to firms' formation and growth, highlighted by many businesses and potential entrepreneurs. There is large empirical evidence documenting that greater competition in banking markets has the potential to substantially increase the supply of funds by driving down the costs of credit. As discussed in Section 3.4, most of the countries (with the striking exception of DRC and Zimbabwe) have relatively open policies with regard to financial services (including banking and insurance). The implications of this openness for efficiency and access to affordable finance however still remains undocumented. In fact, the relationship between openness and increased competition is not straightforward. Although a number of foreign banks operate across the region, the level of competition in the banking markets is still relatively low. Deeper regional integration of financial services markets, including harmonization of banking regulations, could allow well-functioning and well-managed firms to compete across borders and avail their services to a broader group of customers. This boost to competition could increase the range of choices available to businesses and push banks to improve quality and pricing.

88. The venture capital and angel investment markets are generally underdeveloped in Africa. While venture capital is recognized as a more appropriate source of funding (as compared to banks financing) for nascent entrepreneurs because of the structure of the risks and gains on equity among other factors, it requires a lot of rigor, discipline, commitment, business planning and good understanding of one business project from entrepreneurs. This is an area where assistance (e.g. through training or other means) is needed from specialized governments' agencies as well as from more mature private sector firms.

89. Seed financing and angel networks can provide an enormous support (financial and non-financial) to small-scale ventures (including early stage entrepreneurs). Well-known examples in the African context such as, the Mo Ibrahim Foundation and the Tony Elumelu Foundation highlight the changing trends toward angel and philanthropic investments by Africans. There is potential to develop and formalize local and regional angel investing ecosystems. This will create another appropriate type of funding for promising entrepreneurs who lack the network of family and friends that traditionally play this role. Governments and RECs can encourage such initiatives through various channels, for instance, by providing tax and other incentives to angel investors and other financiers of early stage entrepreneurs. For instance, special privileges and attention can be accorded investors financing projects that have high potential to advance regional integration agenda and priorities.

3. Infrastructure Development

90. Poor infrastructure is arguably the most serious impediment to regional trade and industrialization efforts in Africa in general and Southern Africa in particular. The lack of

sufficient infrastructure (including energy, water, Information and Communication Technology (ICT) and transport) in Africa is widely recognized. The WB and AFD (2010) estimated that the total annual expenditures required to meet the continent's infrastructure needs stood at around USD 93 billion which is about 15 percent of the region's GDP. Two thirds of this total relate to capital expenditures and the remaining one third to operation and maintenance requirements. Yet, only USD 45 billion of the required amount are currently spent (with 66 percent corresponding to budget expenditures, 20 percent to private investment, and 12 percent to Official Development Assistance (ODA)); leaving an important financing gap of around USD 48 billion per year.

91. In Southern Africa, substantial progress has been made in improving infrastructure in all areas and the overall status in the region is relatively good when compared to other regions on the continent. However, much remains to be done (especially in the areas of energy, water and transport networks) if the region is to achieve its integration objectives and in particular, implementing its industrialization strategy. Cognizant of the huge infrastructure needs of the Southern African region, SADC Heads of State and Government adopted at their 32nd Ordinary Summit held in August 2012 in Maputo (Mozambique), the SADC Regional Infrastructure Development Master Plan (RIDMP) Vision 2027[19], a 15- year blueprint expected to guide the implementation of cross-border infrastructure projects between 2013 and 2027. The main sectors in the Master Plan include: (1) transport; (2) energy; (3) telecommunications; (4) water infrastructure; (5) metrology; and (6) tourism. The priority projects covered in the plan are estimated to require USD 500 billion. These requirements are over and above the resources needed for maintaining and upgrading existing domestic infrastructure networks at the country level.

92. Clearly, enhancing and promoting private sector participation in infrastructure development will be critical for the successful implementation of this ambitious but much needed plan, since public investment and development assistance alone will not be sufficient. The contribution of the private sector goes however far beyond financing. Private sector investors can bring in their expertise, new technologies, improve service delivery and efficiency and reduce other sorts of inefficiencies in the sector as a whole. In fact, although such inefficiencies can characterize both private and public infrastructure provision, they mainly reflect weak State-Owned Enterprises (SOEs) performance in Southern Africa's markets which have traditionally been dominated by parastatals.

93. Although there has undoubtedly been progress in recent years, private investment in infrastructure remains weak and underdeveloped in the region. It is generally recognized that Public Private Partnerships (PPP) in infrastructure development cannot succeed without the right institutions and policies in place, as well as real and sustainable political commitment to the collaboration. Indeed, political commitment is critical for assuring private investors that their investments will be protected and that necessary efforts will be made and upheld to address

---

19 http://www.sadc.int/files/7513/5293/3530/Regional_Infrastructure_Development_Master_Plan_Executive_Summary.pdf

institutional and regulatory issues that may hamper private participation. In this regard, the recent and increasing push by regional policymakers and political leaders at the highest level, towards greater private sector involvement in regional integration projects suggests that necessary conditions and policies will be put in place, or at least, concessions might be made to accommodate the private sector and provide investors with an enabling environment within which they can effectively operate.

94. There is scope for private sector participation in all infrastructure sectors. Evidently, sectors such as ICT and telecommunication are almost completely driven by the private sector and more amenable to private investment than others such as road transportation, energy or water infrastructure. This is partly explained by the strategic nature of these sectors and their complex investment structures. However, as mentioned above, governments in the region are increasingly becoming more receptive to private investment in the areas and paving the way for accentuated private sector investment in all sectors without discrimination. That being said, key considerations are worth taking into account to enhance private investment in infrastructure. These include:

- Priority should be placed on strengthening safeguards for protection of foreign and domestic investors, including tackling restrictions on private participation in infrastructure sub sectors;
- In making and implementing the choice between public provision of infrastructure services and various forms of private sector participation, it is crucial to avoid unsuccessful and costly attempts to private sector entry into utility markets. One way to mitigate these risks is by establishing clear legal rules for the full spectrum of public procurement options (including PPPs and full privatization) and by enhancing capacity and coordination of all agencies engaged in public procurement; and
- It is equally imperative to make room for the private sector to participate on an equal and complementary basis with public providers. This requires among others, improving the corporate governance and efficiency of SOEs and adopting sound competition and pricing policies.

Private Investment in Power Transmission in Southern Africa: An Emerging issue

95. The deficit in the energy infrastructure sub-sector is the most challenging infrastructure deficit in Southern Africa. While the region has made significant strides in the establishment of regional infrastructure in the electricity sub sector as evidenced by the interconnection of nine of SADC member States to the regional power pool, the Southern Africa Power Pool (SAPP), it still faces important challenges with regard to energy delivery, access and price. For instance, when compared to the two other relatively developed RECs on the continent (namely EAC and ECOWAS), SADC does not fare well with regard to overall access to electricity: 24 percent of SADC residents have access to electricity against 36 percent in the Eastern Africa and 44 percent in West Africa (RIMDP, 2012) This is alarming considering that access to reliable and affordable

electricity is critical for the smooth running of businesses operations and fundamental to the implementation of the industrialization strategy of the region.

96. One of the major challenges has been the limited investment in the sector, particularly in the construction of new transmission lines to promote the smooth movement of surplus energy across the region. Generation and distribution are the two ends of the power sector value chain and have attracted more attention from policymakers and financiers as they experiment with new ways of procuring generation capacity and more efficient ways of delivering service to consumers. Transmission networks which link the two ends of the sector value chain however play a key role in the process by ensuring economies of scale in generation; creating access to cost-efficient sources of generation; reducing the reserves needed to ensure security of supply; and supporting the integration of renewables into the energy system.

97. The majority of SADC member States are endowed with legislations which open the power generation to Independent Power Producers (IPPs), whereas power transmission and distribution functions remain under the monopoly of SOEs which purchase the power from the IPPs, under the "single-buyer" model. In fact, almost all transmission investment in Africa is financed by SOEs (including through development partners). A recent report by the WB (2017) argues for the scaling up of private investment in electricity transmission in Africa and explores potential business models of PPPs than can be adopted in the African context. Four main business models are identified as follows:

(1) Indefinite privatizations: provide ownership of the transmission network to a private company, usually through a trade sale or public flotation of a government-owned transmission business. The private owner has the exclusive right (and obligation) to develop new transmissions in its area of operation;
(2) Whole-of-grid concessions: provide similar rights and responsibilities to privatizations but for a shorter period. In most cases, the government implements this business model with a competitive tender of the concession and enters a concession contract with the winning bidder;
(3) Independent Power Transmissions (IPTs): provide the rights and obligations associated with a single transmission line or package of a few lines. In most cases, the government implements this business model by tendering a long-term contract with payment dependent on the availability of the line; and
(4) Merchant investors: build and operate a single transmission line ("merchant line"). In many cases this is a High Voltage Direct Current (HDVC) line. The merchant investor benefits from moving power from low-price regions to high-price regions. In most cases, merchant lines are a private initiative and are not initiated by the government.

98. While the WB study acknowledges the inexistence of privately financed transmission lines through IPTs in Africa, it tends to suggest, based on experiences from other developing countries, that IPTs could be the most promising model on the continent to involve the private sector. One

of the reasons is that the risks inherent to IPT investment are similar to those that IPP investors carry and the IPP business model has achieved great success in Africa. Obviously, a number of conditions need to be respected and an enabling environment has to be created (including legal and regulatory frameworks) for the IPT model to succeed and reach its full potential in the region. It is however a direction that is worth exploring in an effort to increase investment in the building-up of national and regional transmission lines in Southern Africa. In fact, of the six identified potential transmission projects that may serve as pilot IPT exercises in Africa, two belong to SAPP. These are: (i) the Zambia-Tanzania interconnection with an estimated cost of USD 780 million; and (ii) the Mozambique Backbone (STE) estimated at USD 1700 million.

4.2.3 Engagement with the Private Sector: Acknowledging the Southern African Business Forum (SABF) Model

99. One of the keys issues addressed in the SISR Action Plan is the importance of putting in place institutional structures or mechanisms that can drive, support, monitor, evaluate and govern the industrialization process. Clearly, the central role and space accorded to the private sector in the implementation of the industrialization strategy and integration agenda should be reflected in any initiative of that kind. This section provides a brief overview of the Southern African Business Forum (SABF) framework as a case in point.

100. The SABF was established in 2015 as an attempt to formalize public-private dialogue in SADC, particularly in the context of trade and industrialization strategies of the region. It is in essence, a formal grouping of regional business organizations from the private sector which act as a key dialogue partner of SADC through the Secretariat and its structures. The inaugural forum was hosted by the NEPAD Business Foundation (as the coordinating institution of the event), the Business Council of Southern Africa and Business Botswana (formerly BOCCIM), from 10-11 August 2015 in Gaborone, Botswana. It brought together over 100 business leaders from across the region to identify shared priorities for enhancing regional integration in Southern Africa. The key outcome of the meeting is the “Savuti Declaration” which enables the development of an operating model through which the private sector can effectively impact on the integration priorities of the region.

101. The framework is essentially constituted of two main components:

- Six working groups that have been identified under thematic focus areas: (1) Industrialization and RVCs; (2) Movement of Skills and Services; (3) Transport corridors; (4) Trade facilitation and NTB Mechanisms; (5) Energy; and (6) Water.
- A Steering Group composed of a Steering Committee chaired by SADC Secretariat and a Private Sector Desk. The overall role of the Steering Group is to ensure that the outputs of the working groups are consolidated and fed back to SADC structures and processes. The Private Sector Desk is the central coordinating unit of the model. Its ultimate goal is to coordinate and facilitate input from the private sector into regional trade and industrial

policy formulation (including the design of relevant policies) and ensure buy-in from key stakeholders.

102. As part of the Operating Model, a multi-stakeholder platform is to be created and chaired by SADC Secretariat whereby the activities of the working groups will be monitored, strategic direction provided and mandate ascertained in the execution and implementation of the working groups' projects. Thus far, the model appears to function well as evidenced by the subsequent 2016 Esibayeni and 2017 Sunninghill Declarations that resulted from the annual SADC Industrialization weeks co-hosted by SABF and SADC.

5. Conclusion

103. In recent years, there has been increased belief in the proposition that accentuated investment from the private sector is critical for Africa's transformation and integration agendas. The idea is now widely accepted at the highest level of policy making and political decision on the continent with governments and regional leaders pushing for projects, initiatives and mechanisms placing the private sector at the centre of economic and regional integration agendas.

104. This paper has examined the state and dynamics of regional integration processes in Southern Africa in particular, zeroing on the role, priorities, issues and challenges of the private sector in the region. The review has shown that the pace of integration has been relatively slow in the region. While significant progress has been made leading to the establishment of the SADC FTA in 2008, the integration agenda has stalled thereafter. The regional trade market is still fragmented and characterized by low levels of Intra-Industry Trade and productive integration, which suggest little participation in Regional Value Chains (RVCs) and the existence of untapped potential for investment and growth. The continued lack of industrial growth in the region has motivated the adoption of the SADC Industrialization Strategy and Roadmap, 2015-2063 which emphasizes the development and strengthening of RVCs and places the private sector at the centre stage of the implementation plan.

105. Indeed, the private sector has a key and multifaceted role to play in the whole process. It is mainly responsible for running operations and investing along the identified value chains within the region. It can also facilitate the implementation of the industrialization strategy by actively contributing to infrastructure and skills development as well as creating conditions for enhanced access to investment finance. However, for the potential of the private sector to be fully exploited, the public sector (including member States governments and RECs) still have to create an enabling environment in which private investors can effectively operate. Some of the key recommendations for better involvement of the private sector as discussed throughout the paper – are summarized as follows: -

- Consolidate the FTA by sustaining efforts toward the elimination of all sorts of existing Non-Tariff Barriers (including restrictive rules of origin and poorly designed technical regulations and standards) and curtailing the development of new ones;
- Deepen regional integration in services markets, in particular business and professional services markets as professional services are key inputs to other sectors;
- Facilitate labour mobility within the region by expediting the implementation phases of the Protocol on Movements of Persons;
- Maintain regular communication with the private sector and organize sensitization workshops in order to advise the sector on the integration priorities of the region (including investment opportunities) and the benefits that the individual firms could derive from involving themselves in different areas of the agendas, depending on their comparative advantage;
- Deepen regional integration of financial services markets – including harmonization of banking regulations to allow well-functioning and well-managed firms to compete, which in turn, will increase access to affordable investment finance;
- Formalize local and regional angel investing ecosystems and provide tax and other incentives to angel investors and other financiers of early stage entrepreneurs, especially those financing projects having a regional integration perspective;
- Strengthen safeguards for protection of foreign and domestic investors, including tackling restrictions on private participation in infrastructure sub sectors; and
- Allow the private sector to participate on an equal and complementary footing with public providers of infrastructure by improving the corporate governance and efficiency of SOEs and adopting sound competition and pricing policies.

References

Borchert, I., Gootiiz, B. and Mattoo, A. (2012). "Guide to the Services Trade Restrictions Database" *World Bank Policy Research Working Paper 6108. Washington, DC.*

Love, I. and Martinez-Peria, M. (2015). "How Bank Competition Affect Firms' Access to Finance" *The World Bank Economic Review 29(3), 413-448.*

NEPAD Business Foundation (2016). "Concept Note for the Southern Africa Business Forum (SABF) – SADC Engagement with the Private Sector".

Omidyar Network (2013). "Accelerating Entrepreneurship in Africa: Understanding Africa's Challenges to Creating Opportunity-driven Entrepreneurship"

SADC (2012). "Regional Infrastructure Development Master Plan (RIDMP) SADC *Documents and Publications.*

SADC (2017). "Action Plan for SADC Industrialization Strategy and Roadmap" *SADC Documents and Publications.*

SADC (2017). "Summary of the SADC Revised Regional Indicative Strategic Development Plan 2015-2020" *SADC Documents and Publications*.

UNIDO (2016). "Industrialization in Africa and Least Developed Countries: Boosting Growth, Creating Jobs, Promoting Inclusiveness and Sustainability" *A Report to the G20 Development Working Group*

UNECA, AU, and AfDB (2017). "Assessing Regional Integration in Africa VIII: Bringing the Continental Free Trade Area About" *ECA Publications. Addis Ababa*.

UNECA, AU, and AfDB (2016). "Africa Regional Integration Index Report 2016" *ECA Publications. Addis Ababa.*

ECA-SA (2017). "Accelerating Industrialization in Southern Africa through Beneficiation and Value Addition" *ECA Publications. Addis Ababa.*

Viner, J. (1950). The Customs Union Issue. *New York: Carnegie Endowment for International Peace*

Weigert, M. (2016). "Regional before Global: A Value Chain Approach to Industrialization in West Africa" *Bridges Africa 5(9).*

WB (2011). "Harnessing Regional Integration for Trade and Growth in Southern Africa" Poverty Reduction and Economic Management (PREM 1) *Africa Region Documents. Washington, DC.*

WB (2017). "Linking Up: Public-Private Partnerships in Power Transmission in Africa" *WB Publications. Washington, DC.*

WB and AFD (2010). "Africa's Infrastructure: A Time for Transformation" WB Publications. Washington, DC.

Appendix

Figure A1: Trade Restrictiveness in Financial Services

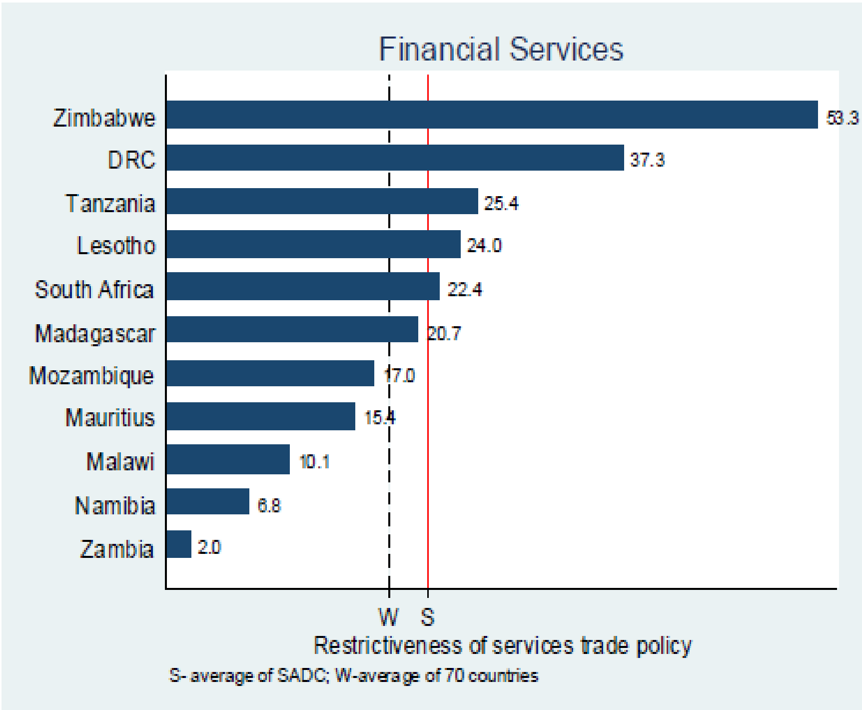


Figure A2: Trade Restrictiveness in Telecommunications

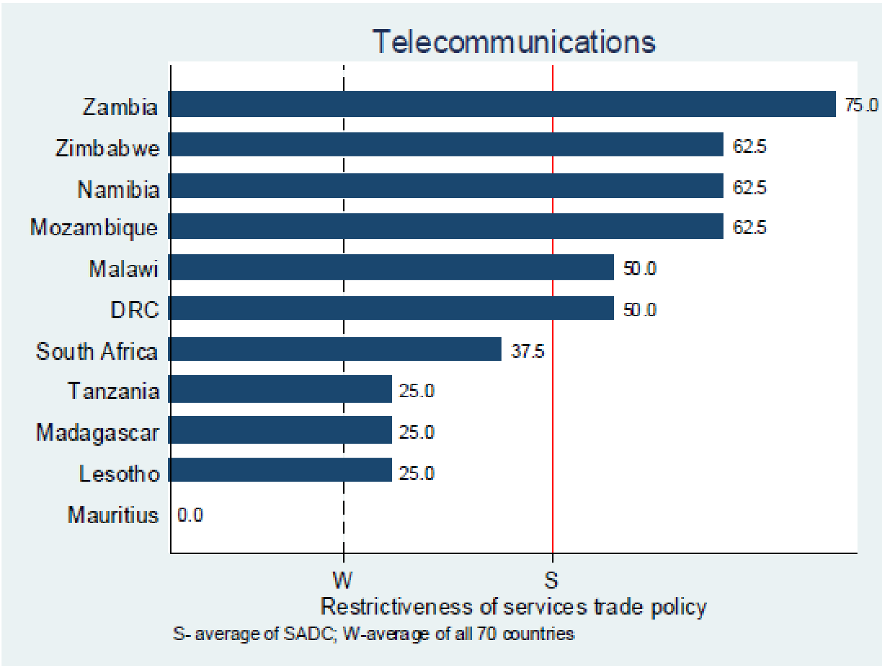


Figure A3: Trade Restrictiveness in Air Passenger Transport

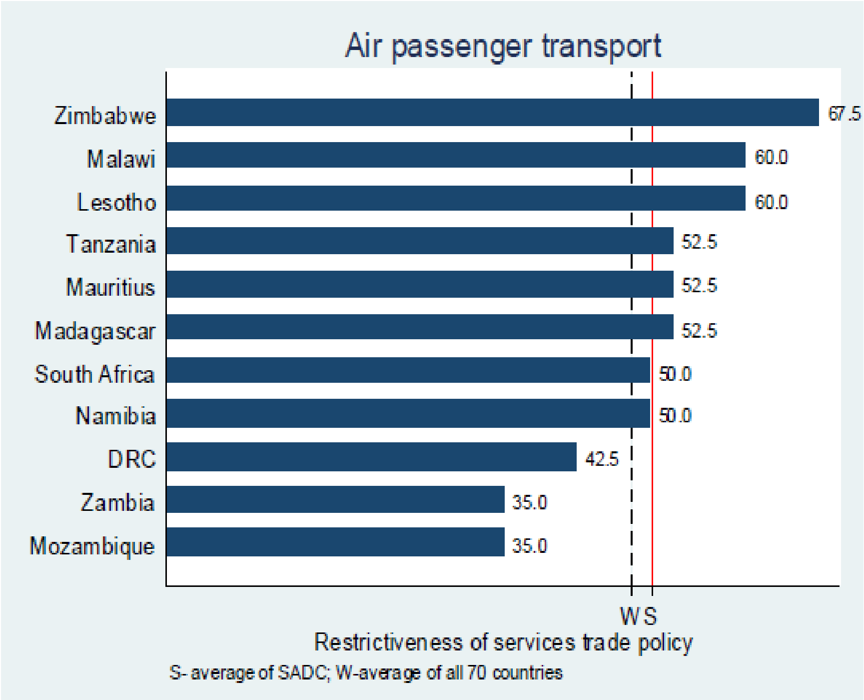


Figure A4: Trade Restrictiveness in Maritime Shipping and Auxiliary Services

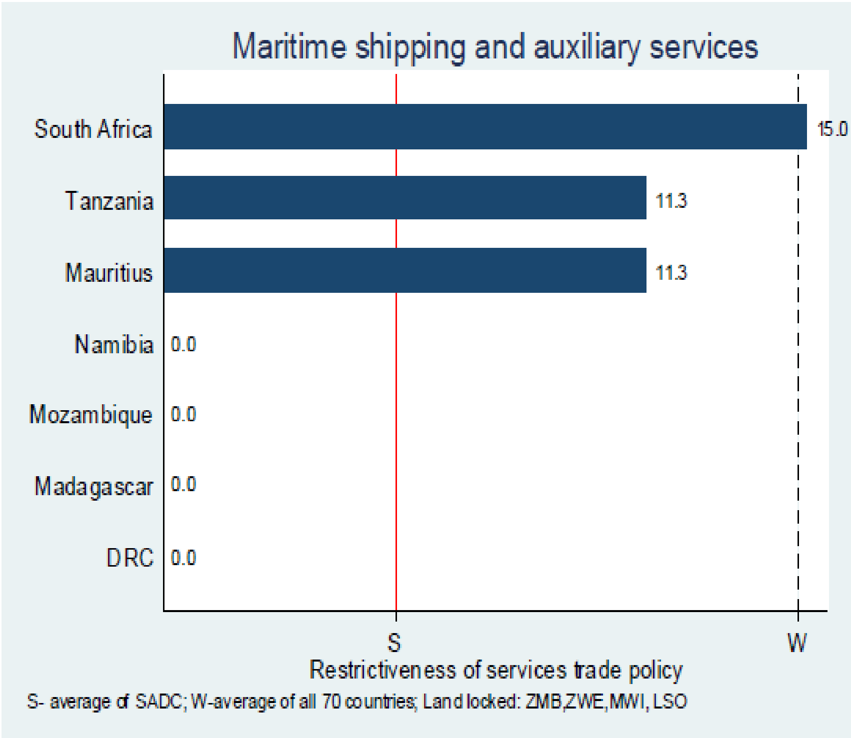
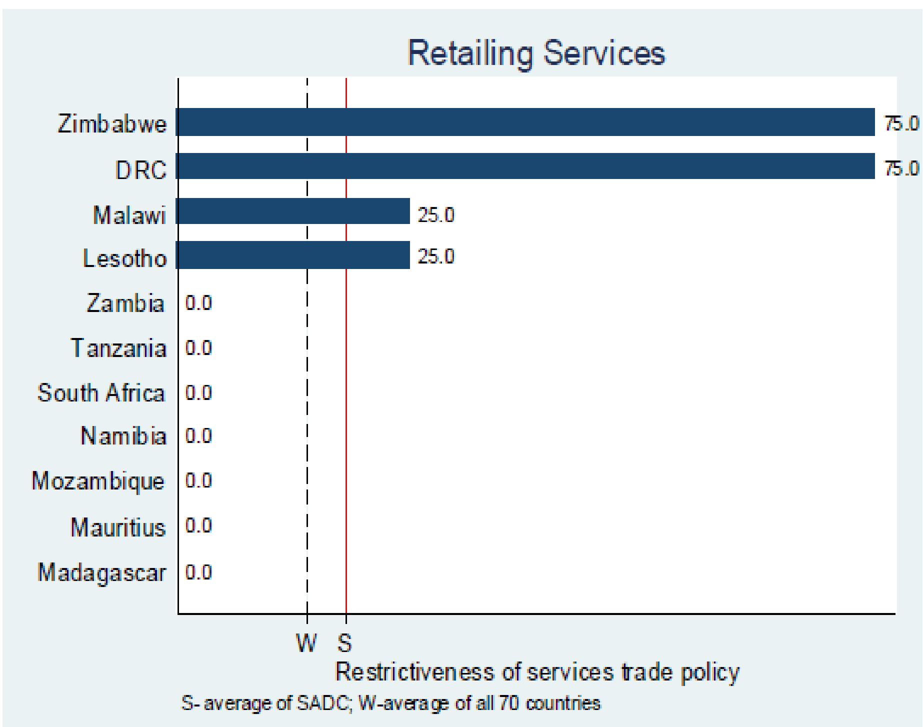


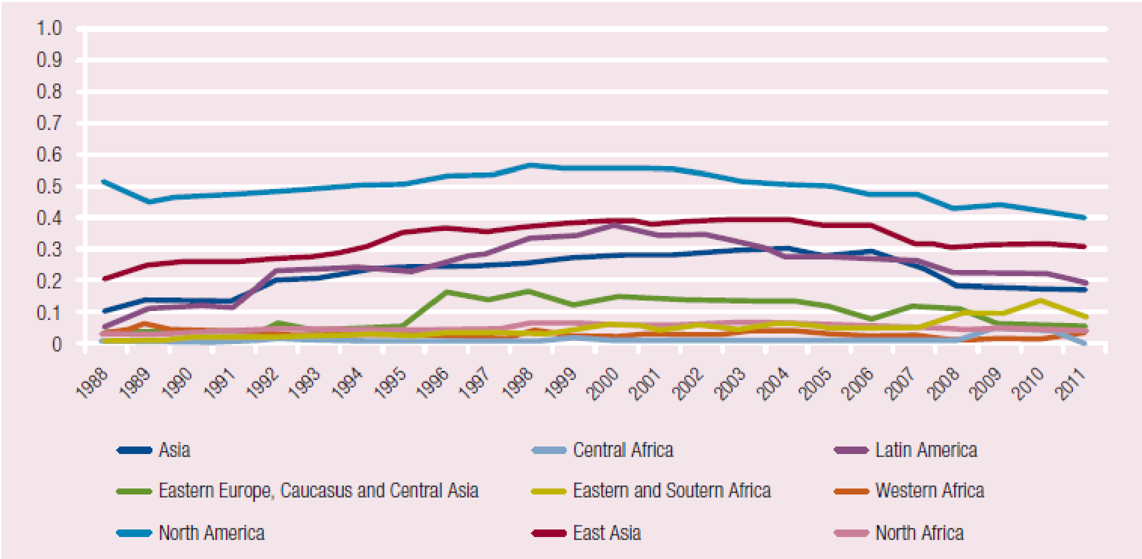
Figure A5: Trade Restrictiveness in Professional Services

Figure A6: Trade Restrictiveness in Retailing Services



Source: World Bank (2011)

Figure A7: Intra-Industry Trade Scores across regions in the world



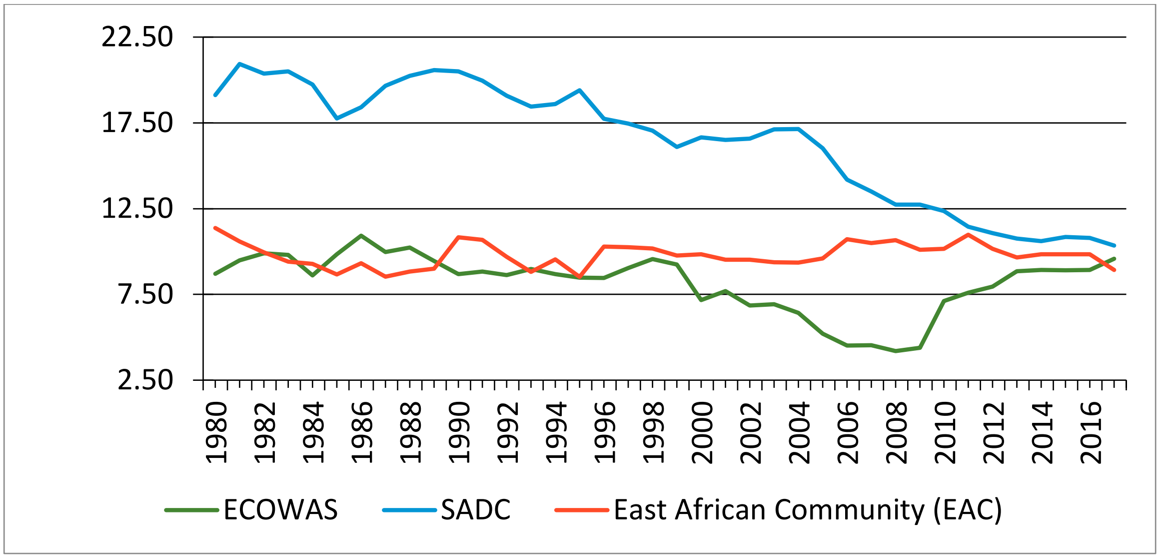
Source: UNIDO (2016)

Table A1: Industry, Value Added, Annual Growth

	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
ECOWAS	15,23	1,00	2,46	10,83	5,70	4,89	6,59	4,70	4,58	4,18	2,00	4,56	2,62	4,21	12,48	12,92	10,31	5,35	18,51	30,54	43,46
SADC	4,36	25,68	8,94	,35	3,26	6,12	4,77	7,61	7,58	8,43	7,50	3,58	-,78	8,01	6,59	5,33	4,37	4,12	9,79	8,58	5,43
EAC	6,85	115,34	12,86	1,70	5,48	6,43	7,70	8,75	10,01	7,36	8,65	9,33	7,26	6,27	9,85	4,66	6,55	6,62	7,08	7,06	5,21
ECCAS	33,32	6,99	9,32	11,52	14,38	8,79	8,85	21,68	8,73	2,53	5,46	4,26	,40	5,90	3,95	2,67	-,87	3,98	4,05	4,67	3,21
COMESA	3,54	2,08	9,81	2,50	2,74	5,07	3,26	8,15	8,83	8,86	9,17	6,01	2,60	7,02	6,03	5,38	3,98	5,35	8,69	8,40	6,33
AMU	3,65	2,21	5,59	1,45	-,41	-,26	6,79	4,84	6,30	13,62	1,10	1,16	-3,63	2,84	-5,02	333,12	-5,61	-7,30	14,55	7,73	1,06
CEN-SAD	9,67	1,56	3,20	15,58	3,29	2,40	9,79	11,53	3,91	4,68	4,88	2,70	2,53	4,79	5,33	117,94	,05	1,26	10,43	9,71	8,17
IGAD	3,10	4,00	4,27	14,92	8,66	7,12	7,00	11,17	10,26	10,43	13,11	6,17	7,97	5,52	4,59	,81	9,69	9,27	8,15	9,01	10,57

Source: Extracted from AfDB Socio Economic Database

Figure A7: Manufacture, Value Added (% of GDP)



Source: Data Extracted from AfDB Socio Economic Database

Table A2: Products and Sectors in SADC with Potential for Value Chain Enhancement

Sectors	Countries
Agro-Processing Cluster	
Soya	South Africa, Zimbabwe, Zambia, DRC, Malawi, Madagascar
Sugar	Malawi, Mozambique, South Africa, Swaziland, DRC, Tanzania, Zambia, Zimbabwe, Mauritius, Botswana
Meat products (poultry and beef)	Botswana, South Africa, Zambia, Zimbabwe, Namibia, Swaziland, Madagascar, Tanzania, DRC
Cassava	Angola, DRC, Mozambique, Tanzania, South Africa, Malawi, Madagascar, Zambia, Zimbabwe
Dairy products	Madagascar, South Africa, Namibia, Tanzania, DRC, Malawi, Botswana, Zambia, Zimbabwe, Swaziland
Other food and drinks	Angola, DRC, Lesotho (maize), Mauritius (sea food), Zambia (oil seeds and livestock products), Malawi (oil seeds), South Africa, Zimbabwe, Swaziland, Madagascar (Rice, maize, black eyed beans, pea), Namibia, Tanzania (maize, rice, oil seeds)
Fish and fish products	Angola, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Zambia, Madagascar, Malawi, Tanzania, DRC, Zimbabwe
Horticulture (Fruits, Vegetables and Flowers)	Swaziland, Lesotho, Zambia, South Africa, Malawi, Madagascar, Zimbabwe, DRC, Namibia, Tanzania
Wildlife (game meat and hide processing)	Botswana, Namibia, South Africa, Zambia, Zimbabwe, DRC
Forestry – Timber and non-timber forest products (medicinal, cosmetics, essential oils and other herbal products)	DRC, South Africa, Angola, Madagascar, Swaziland, Mozambique, Zimbabwe, Zambia, Namibia, Tanzania, Malawi, Mauritius
Minerals and Beneficiation Cluster	
Energy Mineral (including polymers)	Angola (oil), Botswana (coal), DRC (oil, gas, coal, uranium), South Africa (coal), Mozambique (gas and coal), Tanzania (gas, coal), Madagascar, Zimbabwe, Swaziland (coal), Malawi, Namibia (uranium, coal and gas)
Ferrous Minerals (Iron/Steel)	Angola, DRC, South Africa, Tanzania, Mozambique, Zambia, Zimbabwe, Swaziland, Namibia
Base-metals Mineral (Copper, Aluminium, Nickel, Cobalt)	DRC, Zambia, South Africa, Namibia, Mozambique, Tanzania, Madagascar, Zimbabwe
Fertilizer	South Africa, Zimbabwe, Zambia, DRC, Malawi, Mozambique, Angola, Tanzania, Namibia
Diamonds	Botswana, Namibia, South Africa, Zimbabwe, DRC, Lesotho, Angola, Tanzania
Platinum	South Africa, Zimbabwe, DRC
Cement	South Africa, Zimbabwe, Zambia, DRC, Mozambique, Namibia, Malawi, Tanzania
Soda Ash	Botswana, Zambia, South Africa, Tanzania
Mining machinery	South Africa, Zambia
Small Scale Mining	Malawi, DRC, Tanzania

Pharmaceutical products and preparations cluster	
Anti-retrovirals (ARV)	South Africa, Zimbabwe, Tanzania, DRC, Namibia, Malawi
Anti-TB drugs	South Africa, Zimbabwe, Zambia, Namibia, DRC
Anti-malarial (Artemisinin)	Madagascar, DRC, Tanzania (Artemisinin, *Biolarvicides)*, South Africa, Namibia
Condom	South Africa, Botswana, Namibia, Malawi, DRC
Bed Net value chain	Tanzania, Malawi
Health commodities (Syringes; Intra Venous Infusions - IV Fluids; Surgical Equipment; Laboratory Reagents and Materials; Methylated Spirit	Malawi, Namibia
Manufacturing: Consumer Goods Cluster	
Leather, Leather Goods and Footwear	Botswana, Lesotho, Namibia, Zambia, South Africa, Zimbabwe, Mozambique, Madagascar, Malawi, DRC, Swaziland, Tanzania
Clothing and Textiles	Botswana, Lesotho, Madagascar, Mauritius, Namibia, South Africa, Swaziland, Zimbabwe, Malawi, Tanzania, Mozambique, DRC
5. Capital Goods: Machinery and Equipment	
Automobiles	South Africa, Lesotho, Mozambique, Zimbabwe, Namibia, Malawi, Botswana
6. Services Cluster	
Tourism	Botswana, Mauritius, Seychelles, South Africa, DRC, Tanzania, Zambia, Zimbabwe, Madagascar, Lesotho, Swaziland, Mozambique, Namibia, Malawi, Angola
Financial services	Botswana, Mauritius, Seychelles, South Africa, Swaziland, Zimbabwe, Namibia, Malawi
ICT	All Member States

Source : Action Plan for SADC Industrialization Strategy and Roadmap (2017)