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Recent Economic and Social Conditions in Southern Africa, and Prospects for 2015; and the State Of Equality in Southern Africa

Southern Africa encountered mixed economic fortunes in 2014 to early 2015. Declining oil prices have translated into lower fuel prices and a marked drop in inflation. However, commodities from the region suffered from low demand and prices as economies of China and India slowed and the Euro Zone continues to struggle. On net, the damage from lower commodity prices and production has more than eclipsed the salutary effects of oil prices, resulting in a weakened external current account position for most countries in the region. These external developments have brought back into sharp focus the need for Southern Africa to diversify economies and deepen intra-regional trade in order to reduce the over-reliance on raw commodity exports and the few markets for such exports.

Deepening economic inequality has heightened concerns of the authorities. As strained government resources cannot sustain welfare demands and the job markets cannot cope with expanding number of job-seekers, inequality on the basis of gender, age, race, geography and ethnicity is becoming glaring. Consequently, concerns about the potential of political and social tensions to rise are spurring countries to make attempts to directly address inequality. Actions taken thus far have however proven more palliative than sustainable (e.g. welfare programmes), while the other socio-economic have produced mixed results. Going forward, stronger social and economic policies are needed.

Member States' representatives and other stakeholders attending the 21st ICE are requested to consider the analysis of this report and its recommendations. In light of the fast evolving conditions in Southern Africa, the delegates are further requested to augment the report with updated statistics on economic and social developments in order to improve further analysis.

Section 1: Introduction

1. The present report on the Economic and Social Conditions in Southern Africa for 2014 is a regular document presented to the Intergovernmental Committee of Experts (ICE) for Southern Africa. The main aims of the report are to: (i) to provide member States with an overview of the economic and social conditions in Southern Africa in 2014 and prospects for 2015; and (ii) to provide advice on selected policy issues in Southern Africa.

Section 2: World Economic Developments and Implications for Southern Africa

2.1 Global Economic Performance

2. The world economy continued to recover from the global financial crisis in 2014 with global growth of 2.6 percent. This was a slight improvement from 2013 during which worldwide growth amounted to 2.5 percent. In 2015 and 2016, the global economy is expected to grow 3.1 percent and 3.3 percent, respectively (WESP, 2015). Robust economic recovery in the United States (US) is expected to help propel global growth through increased business investment and improved household consumption, despite a decreased contribution from net exports due to a strengthening US dollar. Improving domestic demand and the easing of austerity measures in the European Union (EU) is expected to help raise growth in the region to 1.7 percent in 2015 through higher private consumption and public sector projects. Japan, which fell into recession in the second and third quarters of 2014, is expected to grow by 1.2 percent in 2015. Improved exports stemming from the depreciation of the Yen due to the Bank of Japan's ongoing programme of quantitative easing and higher fixed investment following planned corporate tax cuts are expected to be the primary sources of gross domestic product (GDP) growth. China's carefully managed deceleration is expected to yield a growth rate of 7 percent in 2015, with lower oil prices expected to stimulate economic activity, thus reducing the need for accommodative policy actions. India is expected to grow 5.9 percent in 2015 on the back of low oil and commodity prices, and increased investment and productivity that are expected to result from economic policy reforms. After a stagnant 2014, growth in Brazil is expected to increase to 1.5 percent in 2015. Geopolitical tensions in Eastern Europe will hurt growth prospects in Russia, which under economic sanctions and low oil prices is expected to grow by only 0.2 percent in 2015.

3. Global inflation is expected to remain around 3 percent in 2015, which is the level at which it has been for the past two years. A number of developing countries and countries in transition are continuing to experience elevated levels of above-target price growth, with particularly severe cases in Eastern Europe and sub-Saharan Africa (SSA). Deflation remains a risk for some euro area countries, where inflation decreased to 0.7 percent in 2014 (World Bank, 2015b).

4. Trends in employment growth have still not returned to the levels seen prior to the global financial crisis. Global unemployment was 201.3 million, or 5.9 percent of the global labour force, in 2014. While the absolute number of unemployed is expected to rise in 2015, the global unemployment rate is expected to remain steady (ILO, 2015). Africa and the Middle East continue to suffer the highest rates of unemployment, with a number of EU countries following suit. While unemployment rates in some developed economies such as the US and UK have fallen, participation rates are still below their pre-crisis levels due to discouraged workers and demographic factors (World Bank, 2015b).

5. World trade growth continues to expand at rates below pre-crisis levels. In 2014, global trade volumes increased by 3.4 percent, and are expected to grow to 4.5 percent in 2015, in line with the continued expansion of the world economy. US export growth will likely be lower due to the strength of the US dollar, but a strengthening US economy will support exports from Central America and Asia in 2015 (World Bank, 2015b). Slow growth in the EU and Japan will also enhance global trade volumes.

6. Commodity prices declined sharply in 2014 due to the appreciation of the US dollar, weaker demand in China, and rising supply. It is forecasted that they will remain low in 2015. This will cause difficulties for countries that are heavily dependent on the export of commodities and will lead to a redistribution of wealth from oil exporters to oil importers.

2.2 Developments in African Economies

7. Africa has continued to experience robust growth, with the region experiencing a second straight year of 3.5 percent GDP growth. The consensus among international organizations is that Africa's growth will accelerate in 2015. According to the UN (2015), GDP growth in Africa is expected to pick up to 4.6 percent in 2015. The African Economic Outlook published jointly by the African Development Bank (AfDB), Organisation for Economic Cooperation and Development (OECD) and the United Nations Development Programme (UNDP) (2014) projects growth as high as 5-6 percent. As an independent entity, SSA grew 4.5 percent in 2014 according the World Bank (2015b). For 2015, the World Bank estimates that SSA GDP will grow by 4.6 percent.

8. The key drivers of African growth are expected to remain private consumption and investment. Government consumption is expected to remain high, largely due to higher spending on infrastructure, which enhances medium- and long-term growth prospects. Non-oil and non-mineral producing countries are the fastest growing, and can expect to see their growth increase in 2015 due to expansion in services, agriculture, and infrastructure outlays. Growth is expected to vary by sub-region, with East Africa expected to grow the fastest in 2015 due to agriculture, tourism, services and private consumption growth in Kenya and increasing activity in construction, financial services, transport, and telecommunications in Uganda (World Bank 2015b; WESP, 2015). North Africa is expected to experience an acceleration of growth caused by increased political stability in Egypt and Tunisia, although ongoing conflict in Libya could be detrimental to progress. Although the Central and Western African sub-regions are expected to enjoy increased economic growth, political instability and terrorism in some countries in addition to the ongoing Ebola epidemic are significant downside risks that could harm these prospects. Moreover, some government budgets are stretched due to demands for additional spending, which have implications for longer-term fiscal sustainability.

9. Foreign direct investment (FDI) flows declined in 2014 due to slowing growth in BRIC countries and lower commodity prices. FDI is expected to remain steady in 2015 due to the same reasons it declined last year (World Bank, 2015b). Fiscal deficits declined to 2.5 percent of GDP in SSA, however, fiscal positions worsened in a number of countries due to country-specific factors such as public-sector wages, public investment, and declining revenues – specifically among oil exporting countries. Debt burdens have remained manageable, but a number of countries that have accessed international bond markets have experienced increased debt servicing costs. These costs could be exacerbated if national currencies depreciate against the currencies that debt was issued in.

10. The impact of low commodity prices helped stabilize current account deficits in some countries, but also negatively affected exports for many of the region's economies that are heavily reliant on commodity exports. Weakening terms of trade are expected to imply that these trends can be expected to continue. Although the frontloading of public investment projects has increased demand for imported capital goods, the realization of these investments is not projected to overcome the negative outlook for net investments. For this reason, current account deficits in SSA are expected to rise to nearly 4percent of GDP by 2017.

2.3 Implications of the Global Outlook for Southern Africa

11. Lower commodity prices in 2014 impacted negatively on Southern African economies that are heavily oriented towards oil, metals, and agricultural exports. Angola's growth slowed due to the falling price of oil and lower metals prices impacted on export revenue in Mozambique and Zambia. Higher than expected agricultural production in Malawi, Zambia and Zimbabwe helped offset some of the hardship experienced from declining commodity export earnings.

12. Slightly tighter financing conditions and increased financial market volatility spurred by expected monetary policy rate hikes in the US in 2015 are expected to weigh on countries with high external financing requirements such as South Africa and to an increasing extent, Zambia. Divergent monetary policies between the US and United Kingdom (UK), which are expected to raise interest rates, and continuing accommodative policies in the euro area and Japan have already increased exchange rate volatility and strengthened the US dollar, which could enhance currency risks and balance sheet pressures (World Bank, 2015b). The strengthening US dollar could benefit the current account balances of the open economies of Botswana and South Africa through increased exports due to depreciated currencies. However, this potential will only be realized insofar as their weakened currencies do not spur pass-through inflation.

13. Low commodity prices, which are expected to persist over the next couple of years, will have a particularly negative effect on countries in the sub-region that are reliant on commodity exports. Oil prices are expected to remain low due to OPEC production decisions and the exploitation of shale oil in the US. In addition, China's slower growth has lowered demand both for oil as well as metals. Angola, which experienced a significant slowdown in growth in 2014 due to falling oil prices, is expected to rebound in 2015 with an increase in oil production. Countries in the sub-region, whose export baskets are largely composed of metals such as Mozambique and Zambia, are at risk of losing significant export revenues if China's growth slows more than forecasted. Oil-importing countries will benefit from the lower oil prices, which should lower inflation, thus creating additional room for accommodative monetary policies and fiscal space for productive investments if fuel subsidies are scaled back in countries such as Mozambique and Zambia.

14. Agricultural output in 2014 was stronger than expected in many countries in the sub-region, and is expected to remain strong in 2015 unless unexpected weather shocks disrupt production. Parts of Zambia, Mozambique, Malawi, and South Africa have experienced infrequent and below-average rainfall this season, which could lead to lower crop yields (FEWS, 2014). Low agricultural commodity prices will put pressure on countries that are highly dependent on agricultural exports, but strong production can be expected to boost economies through lower food import bills.

Section 3: Recent Macroeconomic Performance in Southern Africa and Prospects For 2015

3.1 Economic performance overview

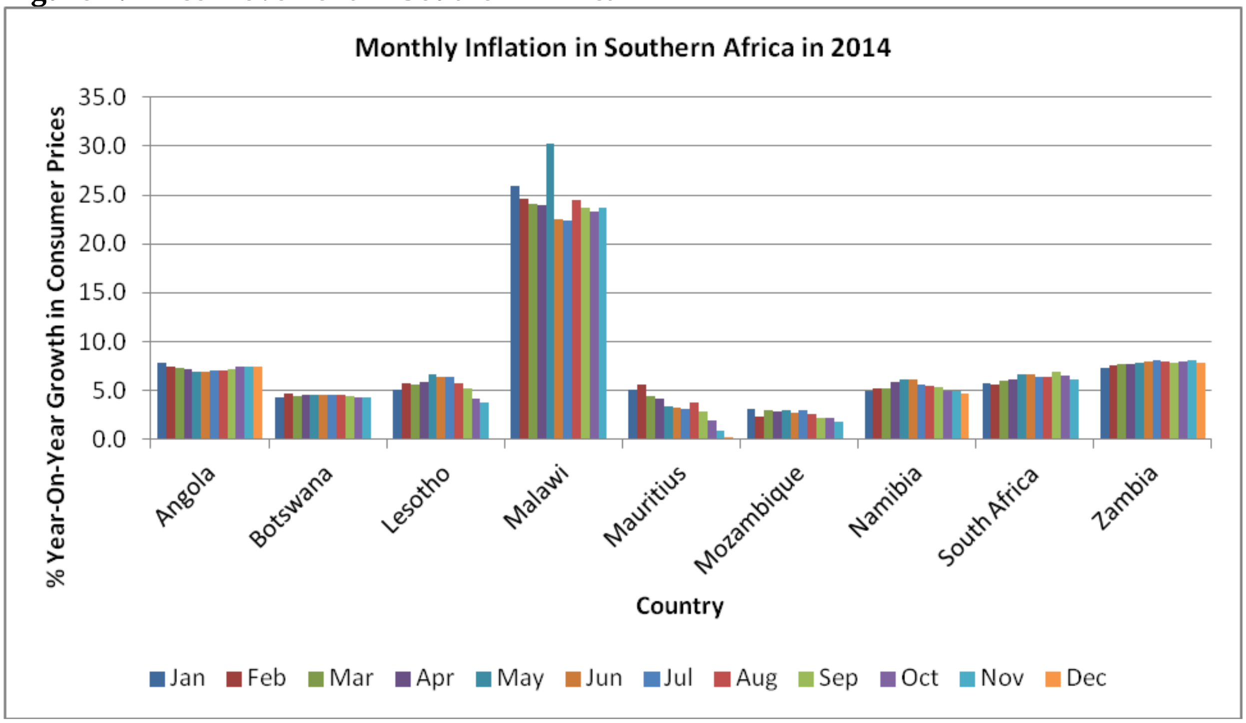
15. The Southern African sub-region's GDP grew 2.9 percent in 2014 following the 3.0 percent growth experienced in 2013. Mozambique was the fastest growing country in the region, with a GDP growth rate of 7.2 percent in 2014 due to fast growth in trade, transport, communications, manufacturing and electricity. In Zambia, a record maize harvest compensated for lower copper prices, allowing the country to continue along its high-growth trajectory with GDP growth of 6.4 percent. Lesotho and Botswana grew 4.6 percent and 4.5 percent, respectively. Political instability in Lesotho and lower diamond prices contributed to a lower rate of growth in both countries relative to the prior year. Angola's growth decelerated to 4.4 percent in 2014 from 6.8 percent in 2013 due to falling oil prices.

16. Malawi and Namibia both grew 4.2 percent in 2014, after having grown 5 percent and 5.1 percent, respectively in 2013. Mauritius' growth improved to 3.4 percent in 2014 from 3.2 percent in 2013 with financial intermediation, information and communication technologies, and tourism receipts as the main contributors (AfDB, 2014). Zimbabwe's growth fell to 3.1 percent from 4.5 percent due to lower than expected foreign direct investment and the falling prices of major commodity exports (AfDB, 2014). South Africa's economy experienced the lowest rate of growth in the sub-region, expanding only 1.4 percent in 2014. Major challenges included the confluence of labour unrest in the mining sector and falling global demand for commodity exports. In addition, electricity supply issues have contributed to sluggish output in the mining and manufacturing sectors. Swaziland's growth fell to 2 percent due to the adverse developments in its largest trading partner, South Africa.

3.2 Price movement developments

17. Inflation in Southern Africa was 6.2 percent in 2014. Inflation was highest in Malawi, with year-on-year growth in the consumer price index growing to over 30 percent in May due in part to food shortages (EIU Malawi Country Report, 2014) (figure 1). Zambia also experienced moderate levels of inflation averaging 7.8 percent due to higher public sector spending and a depreciating currency. Angola experienced inflation averaging 7.3 percent, which was lower than the double-digit levels of price growth experienced in recent years. Price growth in South Africa increased above its target band for three months early in 2014, which led the South African Reserve Bank to raise its benchmark rate in July. For 2014, inflation in South Africa averaged 6.3 percent due to weakening rand. As large importers of South African goods, Lesotho, Namibia, and Swaziland experienced some pass-through effects of higher import prices due to a depreciating rand and higher inflation in South Africa. Inflation was particularly low in Mozambique, where the annual rate of growth in the consumer price index was only 2.6 percent.

Figure 1: Price movement in Southern Africa

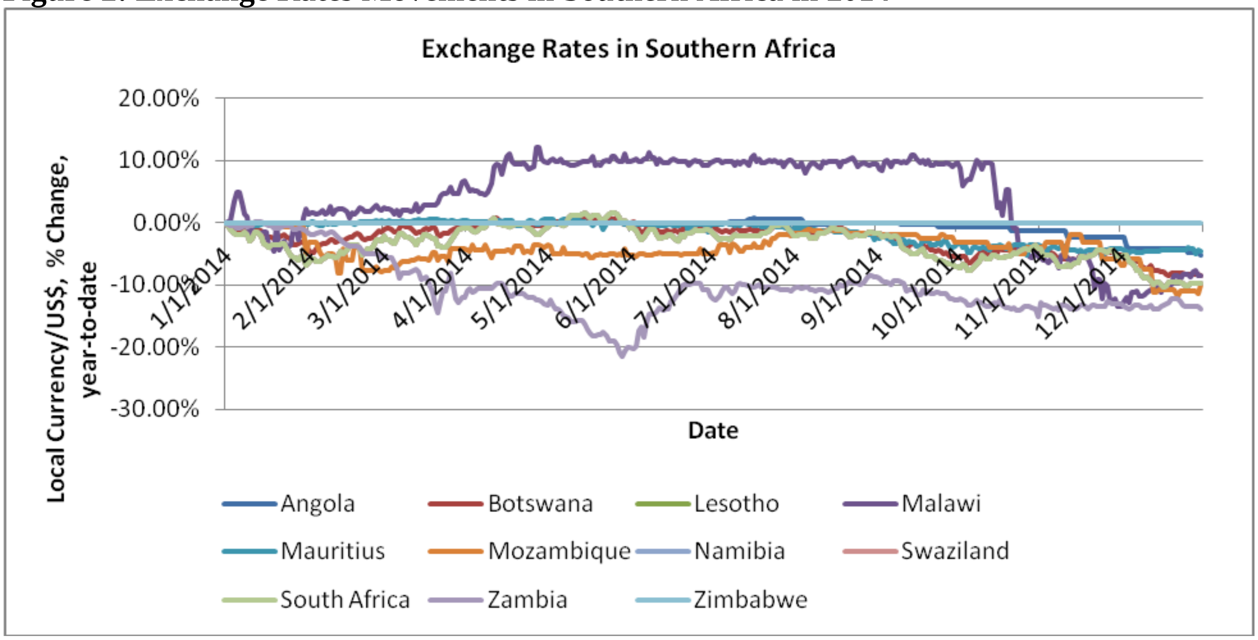


3.3 Exchange Rates

18. The majority of currencies in Southern Africa depreciated against the US dollar in 2014 (figure 2). Zambia experienced the largest decline in its value against the dollar in percentage terms due to the falling price of copper and fiscal uncertainties. By the end of 2014, the Zambian kwacha was worth 14 percent less against the US dollar than on January 1st. The South African rand, which is pegged on par with currencies of Lesotho, Namibia, and Swaziland, ended 2014 nearly 10 percent below its initial value in the year against the US dollar. To a large extent this was a reflection of a stronger US dollar and lower commodity prices, which account for more than 50 percent of export earnings in South Africa (EIU South Africa Country Report, 2015).

19. Although the Malawian kwacha appreciated considerably from its initial position at the start of the year, by the end of 2014 the currency had depreciated by over 8 percent against the US dollar reflecting the latter's strength. Zimbabwe, which is still using a multiple currency regime, is using the US dollar as its main currency. The Zimbabwean Government has reiterated that the multiple currency regime will remain in place for the foreseeable future, which has dampened inflationary expectations.

Figure 2: Exchange Rates Movements in Southern Africa in 2014



3.4 Fiscal Performance and Public Debt

20. At the end of 2014, almost all of the countries in the Southern Africa sub-region were running fiscal deficits with the exception of Botswana. The SADC region as a whole ended the year with a deficit of 4.4 percent of GDP after having posted a deficit of 3.3 percent of GDP in 2013. In Botswana, higher tax receipts from minerals, income, value added, and customs revenue led to a fiscal balance of 0.9 percent of GDP in 2014, up from 0.3 percent in 2013 (IMF, 2014c). The fiscal deficit in Malawi fell to 5 percent of GDP in 2014 after having ballooned to 5.5 percent in 2013 due to a pre-election spending surge. The external funding environment was also tighter due to the donors' ongoing concerns about corruption, which further strained the government's balance sheet.

21. While still in deficit, the fiscal balances improved in Mauritius, Zambia, and Zimbabwe from 2013. Zambia's national budget for 2015 emphasized the need to reduce public spending, which is facing greater external financing constraints and uncertainty regarding future revenue streams from mining. Fiscal balances worsened in the remainder of Southern African countries in 2014. Common among Mozambique and Namibia were increased outlays related to elections. In Mozambique, the fiscal deficit grew from 2.7 percent of GDP in 2013 to 9.2 percent of GDP and in Namibia the deficit grew from 4.7 percent of GDP to 6 percent of GDP (EIU Namibia Country Report, 2015).

22. The debt burden in the SADC region in 2014 was 42.7 percent of GDP, an increase of 2.3 percentage points from 2013. Debt burdens as a percent of GDP fell in Malawi and Botswana by 15 percentage points and 2.1 percentage points, respectively, but increased in Angola and Zambia. Faced

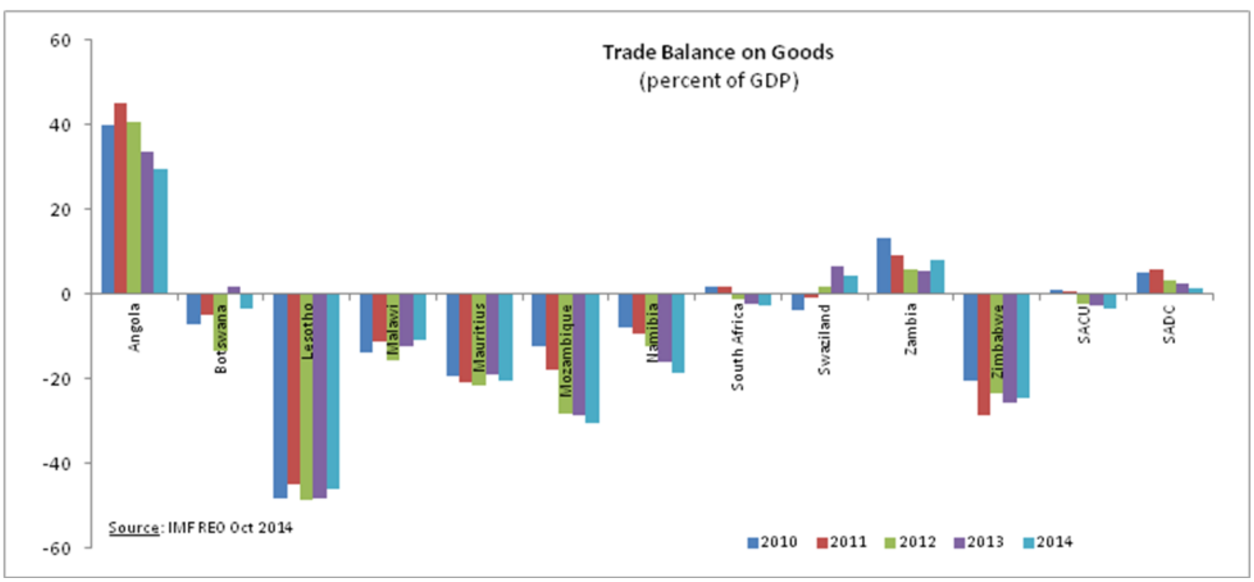
with lower oil prices, Angola's debt increased by 3.8 percentage points to 38.4 percent of GDP. In Zambia, the debt to GDP ratio increased by 3.7 percentage points to 32.4 percent of GDP. Zimbabwe continues to have the highest debt burden in the sub-region at 58.2 percent of GDP, followed by Malawi, Mauritius, and Mozambique – all of whom have debt burdens greater than 50 percent of their respective GDPs. Botswana and Swaziland have the lowest debt to GDP ratios in the sub-region at 14.8 percent and 17.2 percent, respectively.

3.5 Trade Balances

23. The trade surplus on goods in the SADC region dropped slightly in 2014 by 0.9 percentage points, from 2.4 percent of GDP in 2013 to 1.5 percent of GDP (figure 3). Angola continued to enjoy a large trade surplus on goods of 29.6 percent of GDP in 2014. However, this was a 4 percentage point drop from 2013 due to the falling price of oil. Swaziland and Zambia also experienced trade surpluses in 2014. The largest change was in Botswana, which went from having a trade surplus of 1.6 percent of GDP in 2013 to a deficit of 3.4 percent in 2014.

24. Lesotho continued to have the largest trade deficit in the sub-region in 2014 at 46 percent of GDP due to the country's import-dependence on energy, food, and capital goods. Mozambique's trade deficit grew wider due to the import of capital equipment. South Africa's trade deficit increased slightly due to energy imports and supply disruptions in the minerals sector due to labour unrest. However, after 10 months in deficit, South Africa posted a strong trade surplus in December (Bloomberg Business, 2015). Mauritius' trade deficit remained steady due to its ongoing need for imported fuel.

Figure 3: Trade Balance on Goods



3.6 Policy challenges and recommendations for macroeconomic policy

25. Despite significant downside risks, GDP growth is expected to increase in all countries in the Southern Africa sub-region in 2015 (World Bank, 2015b). The sub-region is expected to experience GDP growth of 3.6 percent in 2015. According to the UN's WESP, in 2015, GDP growth in Angola is

expected rebound due to increased oil production despite lower expected prices. Other factors that are expected to drive the projected increase in growth in 2015 are improved private consumption in South Africa, higher investment in non-diamond sectors in Botswana, in investment infrastructure development and investments in mining and natural gas exploration in Mozambique (WESP, 2015).

26. In 2015, inflation in Southern Africa is expected to decrease to 6 percent due in large part to lower oil and food prices. Improving domestic food supplies in Malawi and Zambia, tight monetary policies in South Africa, and the appreciation of the Botswana Pula and Zambian Kwacha will also likely contribute to the deceleration in the growth of price levels (WESP, 2015). For smaller Southern African Customs Union countries, particularly Lesotho, Namibia, and Swaziland, lower inflation in South Africa will likely reduce pressure on prices in these smaller economies.

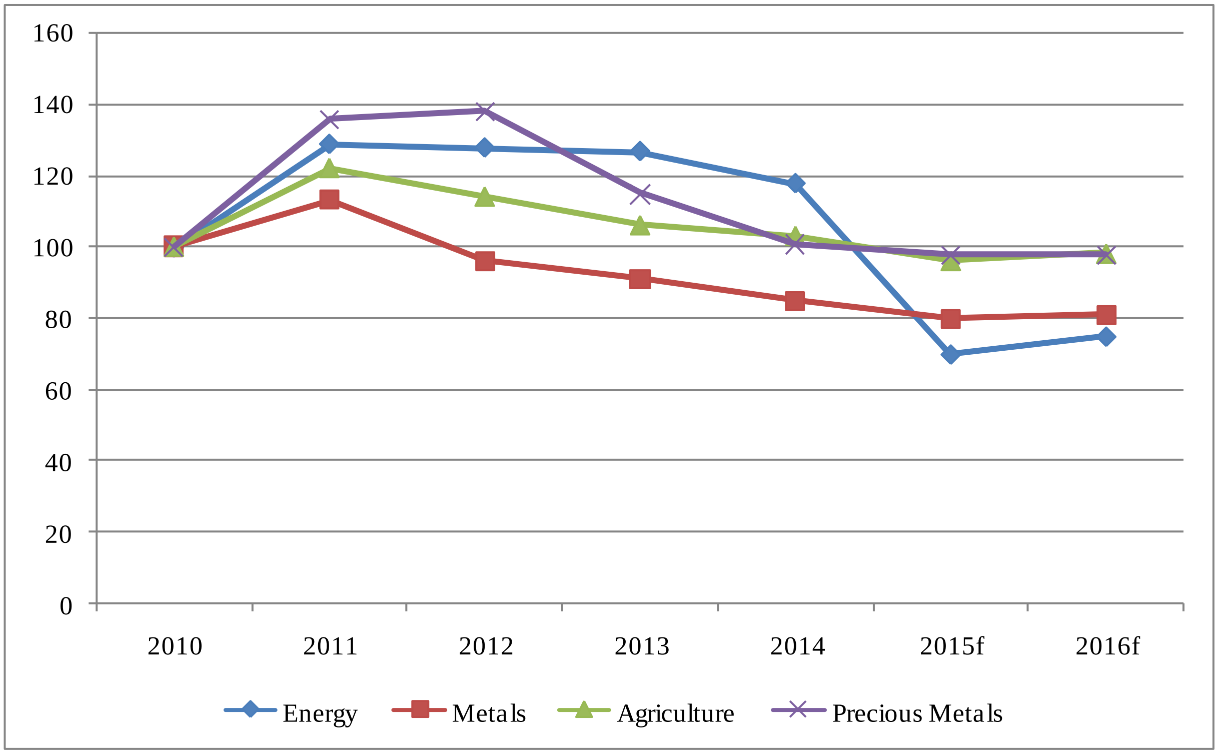
27. The highest probability downside risks for Southern Africa in 2015 include a faster than expected slowdown in China and dampened recovery in the developed world, continued commodity price decreases, the outflow of private capital associated with higher interest rates in the developed world, and weather-related agricultural shocks. The potential for these scenarios further emphasizes the need for countries in the sub-region to diversify their economies in order to mitigate demand-side risks as well as invest in beneficiation and value addition. With the terms of trade declining for many of the countries in the sub-region, depreciating currencies may help bolster exports. However, monetary policy will need to be cognizant of the potential for pass-through inflation.

Section 4: Developments in the Commodity Sector: Implications for Southern Africa

4.1 Overview

28. Broadly, commodity prices continued to decline in 2014 and into 2015 albeit at different rates and due to different causal factors. The indices of nominal prices in Figure 4 illustrate the declines among the commodities. According to these data, oil prices declined by 55 percent between November 2014 and January 2015 from $114/bbl to $47/bbl being weighed down by increased supply due to reduced geopolitical risks as well as reduced demand along with the relaxation of OPECs production management system since November 2014. The prices of agricultural commodities declined by 6 percent, those of metals by 8 percent and precious metals by 9 percent, during the same period. For these commodities, declining growth prospects and the appreciation of the US dollar were the major driving factors.

Figure 4: Nominal Commodity Price Indices (2010=100)



Source: World Bank (2015a) Commodity Summaries

29. For the minerals sector, the cooling off of minerals and energy prices which has persisted since the record high prices of 2011 continued in 2014[1] and is expected to continue in 2015 before recovering marginally in 2016 (World Bank, 2015a). According to the IMF (2014a), the index of mineral prices declined by 17 percent in 2014 due to slowing demand growth in China particularly in the construction sector as well as ample supplies of mineral commodities and unstable economic recoveries in Europe and the United States since 2008/09. The IMF (2014a) reports that in December 2014 alone, commodity prices in general fell by 29.2 percent, mainly reflecting a sharp decline in oil prices as energy declined by 39 percent. The latest World Bank (2015a) commodity review corroborates the assertion by the IMF and observes the declines shown in Figure 4. As illustrated in Chapter 1, the growth of the Chinese economy cooled down considerably in 2014 leading to lower demand for minerals and hence lower prices. The price declines were pronounced in iron ore, copper, lead and tin, while aluminum, nickel, zinc and uranium prices rose moderately due to various supply-side issues. For example, aluminum prices decreased on weaker demand and continued gains in Chinese supply, iron ore prices declined due to significant increases in new low-cost capacity from Australia and Brazil and lead prices declined due to continued slowing of demand in China. Similarly, copper prices fell due to rising inventories, weak demand in China and continued gains in global supply, zinc prices decreased on weak demand and expected supply gains from a number of small mines and uranium prices fell due to increased supply from new mines. The decline in the prices of metals was weighed down heavily by iron ore whose price declined by 49 percent in December 2014 alone. The global economic uncertainty combined with oversupply of many minerals and metals has continued to weigh down on prices during the last four years. However, negative supply factors continue to moderate price declines. For example, aluminum prices rose 6 percent owing to a deficit in the market outside China following a number of smelter closures this year.

[1] The price of gold declined by 33 percent between 2011 and 2014, silver declined by 60 percent during the same period, copper by 53 percent

4.2 Commodity Price Prospects

30. All commodity prices are expected to remain weak in 2015 before improving marginally in 2016 (World Bank, 2015a; IMF, 2014a). Oil prices are expected to average $53/bbl in 2015 before recovering marginally to average $57/bbl by 2016. The key determining factors will remain the OPEC supply management decision (non-interference) leading to increased supply and the lower demand. Similarly, agriculture commodity prices which fell by about 3.4 percent in 2014 are expected to decline further by 5 percent in 2015 and then maintain those levels in 2016. For metals, the declines in 2014 will continue in 2015 and are expected to be about 5.3 percent, mainly in the base metals (iron ore, tin, copper and nickel will lead the decline) sector with moderate declines of about 3 percent expected in the precious metals. Iron ore prices are expected to continue on their steep decline due to the expansion of low cost producers in Australia and Brazil. Economic developments in China remain critical in the medium- to long-term. China consumed 47 percent of the world's refined metal at the end of 2013 up from 45 percent in 2012 and from 5 percent two decades ago. China and India are key sources of demand for precious metals and demand from these markets declined in 2014 and is expected to decline further.

4.3 Issues for Southern Africa

31. **Growth in China**: The economic growth patterns in the BRICS, especially China, India and Brazil continue to be the major influencing factors in the evolution of mineral prices in the medium- to long-term. Levels of incomes and general economic activity are key determinants of minerals demand and thus both base and precious metals price developments are influenced by economic developments in the major consuming nations (IMF, 2014a). For example, although iron ore prices declined in 2014, analysts expect them to remain firm on the back of continued infrastructure developments in the BRICS. As noted by the World Bank (2014a), infrastructure developments in both developing and developed countries will provide economic growth stimulus and with it the demand for mineral commodities.

32. **Declining oil prices**: The declining international crude oil prices from $100 per barrel to $49 per barrel between January 2014 and January 2015 has seen the downward adjustment of petrol and diesel prices across the sub region[2]. The regional governments have sought to pass on the benefits of low international crude oil prices to consumers by urging oil industry stakeholders to adjust prices. With predictions that crude oil prices will remain subdued in the medium-term, most Southern African oil-importing countries will enjoy lower petroleum prices, *ceteris paribus*[3], which could translate into lower transport costs for goods and services and lower inflation. Falling oil prices will push the prices of natural gas, fertilizers and food commodities down. However, oil producers such as Angola will be impacted negatively through reduced oil revenues in the medium to long-term. This may also impact on inflows into the Sovereign Wealth Fund created in 2008, ratified in 2011 and officially established in 2012 with an initial endowment of US$5 billion to promote growth, prosperity and social and economic development across Angola. In addition, progress in the planned oil and gas investments in the region (in Malawi, Namibia, Zambia, Zimbabwe) will be curtailed as investors will adopt a cautious approach and realign priorities, especially on greenfield projects which are more elastic to

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[2] For example, South Africa, Zambia and Zimbabwe have reduced the pump prices of petrol and diesel at least once since mid-last year.

[3] Assuming that, for example, duties and other imposts remain at current levels

international developments. Furthermore, lower oil prices may impact on biofuel investments, especially those investments motivated by substitution for crude oil.

33. **Low metal prices, exploration and mine development:** Similarly, the low base metal prices which have contributed to reduced greenfields and brownfield uranium projects in Malawi[4] and Namibia, for example, will continue to force adjustments in the development of mines in the region. According to SNL Metals and Mining Research (2014), lower nonferrous[5] metal prices resulted in a 25 percent reduction in world exploration spending from US$15.2 billion in 2013 to US$11.4 billion in 2014. The report noted that between 2012 and 2014 nonferrous exploration spending declined by 29 percent due to many factors including lower metal prices, uncertain demand and poor market conditions. During 2014, the historically low iron ore prices described earlier have impacted negatively on exploration spending and the development of mines in the region. For example, the iron ore project in Tete province in Mozambique has developed much more cautiously during the last twelve months. However, despite relatively marginal price losses during the last twelve months compared to base metals, the precious metals sector continues to enjoy elevated prices which are expected to continue in the medium to long-term, especially as economic growth patterns improve across the world. For example, gold is considered a currency and a hedge against inflation thus the movement in its price mirror US dollar movements.

34. **Policy reform and revenue management:** Nevertheless, the challenge remains with respect to capturing optimal revenues from the sector as well as ensuring that the sector develops deeper domestic forward and backward linkages in addition to fiscal linkages. The continuing reform of the operating environment in most countries across the region with greater emphasis being placed on mining for development through the promotion of local linkages, value addition, beneficiation and the creation of local business opportunities is critical for countries to optimize benefits from the sector. Equally important is the participation of citizens in the sector through various initiatives to domesticate the sector. The development of Africa Mining Vision-compliant policy directions for benefits optimization as well as revenue management such as local content will deepen sectoral benefits.

35. However, these reforms to the fiscal environments have been labelled ‘resource nationalism’ with a negative connotation and are considered a risk (EY, 2014). Furthermore, the weakening of the ‘commodity super cycle’[6] has brought to the fore the importance of the improved management of mineral revenues during periods of high prices. The creation of sovereign wealth funds[7] is one such approach and some countries in the region have commenced the process of creating such funds. The African Development Bank (2013) alludes to the increase in sovereign wealth funds in resource-rich African countries and sees these funds as a potential source of funds to plug the continent’s infrastructure gap. These sovereign wealth funds could also be invested in enhancing economic productivity and industrialization in the fragile economies.

[4] Kayelekera uranium mine suspended in May 2014 reportedly due to low uranium prices
[5] Precious and base metals, diamonds, uranium and some industrial minerals, excluding iron ore, aluminum, coal and oil and gas
[6] Coined to describe the period of high commodity prices
[7] The objective is to reserve income from the country’s mineral resources for the benefit of future generations. SWFs can serve dual purposes - for stability of Government revenue during periods of fluctuations in commodity prices and for a national savings fund in order to have something left over once the commodity runs out or is no longer in demand.

Section 5: Socio-Economic Inequality and its Implications in Southern Africa

5.1 Introduction

36. Inequality has been a topic of hot debate in both developed and developing countries for some time now. While income inequality tends to take a centre stage, inequality assumes several dimensions that include access to employment, wealth inequality, health inequality, access to education and access to basic public services. Southern Africa has experienced a broadly deteriorating poverty and inequality landscape and has accordingly joined this global debate.

37. This chapter documents in a summarized form the origins, nature and consequences of poverty and inequality in Southern Africa. Poverty and inequality are impacting on other MDGs: they place harsh demands on health-care; they deny educational opportunities and undermine better outcomes; and they expose the safety nets to demands well beyond their capacity to meet them. This chapter accordingly examines the impact of poverty and inequality on the MDGs. Finally, some few recommendations are suggested.

5.2 Nature and Causes of Inequality in Southern Africa

38. Southern Africa remains one of the sub-regions with the highest levels of inequality in the world. The inequalities span across several spheres, namely, economic, social and political. These inequalities manifest themselves at several levels as follows: at sub-regional level among countries; spatially, for rural and urban areas and among regions within each country; racially, between Whites and Blacks; gender-wise, between females and males; age-wise, between youths, adults and the elderly; among others. Economic inequalities include: growth; access and ownership of key natural resources such as land and minerals; income; and employment inequalities. Social inequalities include: poverty levels; food insecurity; HIV and AIDS related; child, maternal health, and general health; education, particularly at secondary and tertiary levels; water and sanitation; human exclusion; among others. HIV and AIDS underlie the high maternal and child mortalities in the sub-region. Political inequalities include gender representation in parliament.

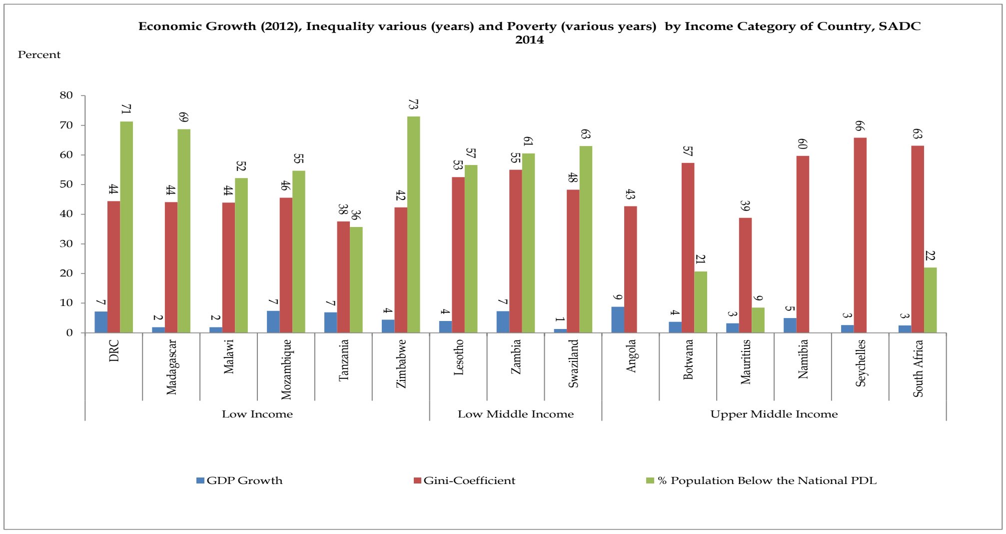
39. Figure 5[8] presents the relationship between economic growth, inequality and poverty by income categories for the Southern African Development Community (SADC) countries. Generally, economic growth rates have remained subdued in the sub-region, irrespective of the income category of the country. In 2012, only 4 countries, largely at the lower end of the income spectrum, namely, Democratic Republic of Congo (DRC), Mozambique, Tanzania and Zambia, recorded the recommended SADC target of 7 percent real gross domestic product (GDP) growth rate per annum.

40. Inequalities also remain very high in the sub-region, as illustrated by the following income Gini-coefficients for the period covering 2003 – 2011/12: Seychelles (66 percent); South Africa (63 percent); Namibia (60 percent); Botswana (57 percent); Zambia (55 percent); Lesotho (53 percent); Swaziland (48 percent); Mozambique (46 percent); DRC (44 percent); Madagascar (44 percent); Malawi (44 percent); Angola (43 percent); Zimbabwe (42 percent); Mauritius (39 percent); and Tanzania (38 percent). These figures seem to

[8] The income Gini coefficient refers to the following years - DRC (2006) - SADC , 2011; Madagascar (2010); Malawi (2010); Mozambique (2008); Tanzania (2007); Zimbabwe (2011/12); Lesotho (2003) - SADC , 2011; Zambia (2010) -SADC, 2011; Swaziland (2010) - SADC, 2011; Angola (2009); Botswana (2003) - SADC , 2011; Mauritius (2007) - SADC, 2011; Mozambique (2008); Namibia (2010) - SADC , 2011; Seychelles (2007); South Africa (2009).
The percentage of population below the national PDL, refers to the following years - DRC (2005); Madagascar (2005); Malawi (2005); Mozambique (2008); Tanzania (2001); Zimbabwe (2011/12); Lesotho (2003); Zambia (2010); Swaziland (2010); Botswana (2010); Mauritius (2010); South Africa (2008) . Angola, Namibia and Seychelles had no data.

suggest that the higher the country's income level, the higher the level of income inequality. This is the case in Seychelles, South Africa, Namibia, and Botswana.

Figure 5: Southern Africa: Economic Growth, Inequality and Poverty

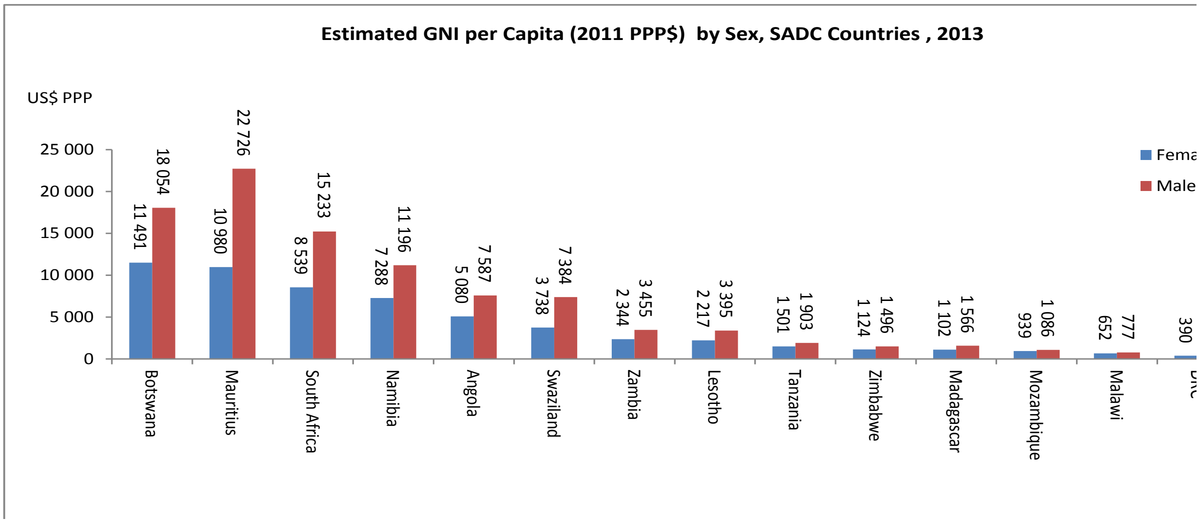


Source: GDP Growth -SADC Selected Indicators, 2012. Gini Coefficient-SADC Statistics Yearbook, 2011; Human Development Report 2013, Database and http://www.quandl.com/demography/gini-index-all-countries, 2014. Population below the National Poverty Datum Line (percent) - SADC Statistics Yearbook, 2011.

41. With regards to poverty in the SADC sub-region, generally, all the nine countries in the low income and low middle income categories, had high poverty levels as measured by the percentage of population below the national poverty datum line (PDL), ranging from 36 percent for Tanzania to 73 percent in Zimbabwe. For the upper middle income group, poverty levels were relatively low, ranging from 6 percent for Mauritius to 22 percent for South Africa and 21 percent for Botswana.

42. Generally, in Southern Africa, upper-middle income and low-middle income countries have high gender inequalities in income as measured by gross national income (GNI) per capita (2011 PPP$) for 2013, see Figure 6. In Mauritius, for example, the GNI per capita for females of US$10 980 is 48 percent of that for males of US$ 22 726. In the meantime, gender inequality in income is lower in the low-income country category, implying equality in poverty. In the DRC, for example, the GNI per capita for females of US$390 is 78 percent of that for males of US$ 499.

Figure 6: Southern Africa: GNI Per Capita



Source: United Nations Development Programme (UNDP), HDR 2014.
Note: Estimated earned income gross national income (GNI) per capita: Derived on the basis of the ratio of female to male wage, female and male shares of economically active population, GNI (constant 2011 PPP$).

43. South Africa presents striking examples of racial and spatial inequalities in the sub-region. In 2012, for example, about 78 percent of the Africans/Blacks were in the low income category, whilst only about 6 percent were in the high income category (UNDP, 2014a). On the contrary, for the Whites, about 15 percent were in the low income category, whilst about 56 percent were in the high income category. The pattern for Coloureds is similar to that of Blacks, whilst that of Indians/Asians is similar to that for Whites, but with lower proportions. Income inequality in South Africa remained high and increasing from an income Gini coefficient of around 64 percent in 1999 rising to 0.72 in 2012 (UNDP, 2014a).

44. Youth unemployment remains a major cause of concern in Southern Africa, with a formal unemployment rate for youths aged 15–24 years being much higher than for adults aged 25–64 years. The youth vulnerable unemployment rate is also higher than that of adults. Three quarters of the working young are in vulnerable employment in low-income African countries, 57 percent in lower middle-income countries, and 26 percent in upper middle-income countries (AEO, 2012). Many of the well educated youth school leavers are also either unemployed or cannot find jobs, thus threatening social and political stability. There are gender dimensions to employment even among the youth, with female youth unemployment being much higher than that of male youths in the same age group.

45. The sub-region remains susceptible to food insecurity with at least 52 million people in 2012 recorded to be undernourished (UNDP, 2014b). In absolute terms, Tanzania had the highest number of undernourished people at 15.7 million. The following countries also had relatively large numbers of undernourished population; Malawi (3.2 million); Zimbabwe (4 million); Angola (4.9 million); Madagascar and Zambia (6 million each); and Mozambique (9 million). Similarly, the sub-region is experiencing child malnutrition, with Madagascar and DRC experiencing severe[9] under-five malnutrition in 2010, whilst Swaziland and South Africa had mild under-five malnutrition during the same period (UNDP, 2014b). Ten countries had moderate under-five malnutrition.

46. Southern Africa remains the epicenter of the HIV and AIDS epidemic, with nine out of the 14 countries with data, namely, Swaziland, Lesotho, Botswana, South Africa, Zimbabwe, Namibia, Zambia, Mozambique and Malawi, recording double digit HIV prevalence for the population aged 15-49 years, in 2013,

[9] Mild malnutrition = below 10 percent; moderate malnutrition = (10-20) percent; and severe malnutrition = above 20 percent.

ranging from 10.3 percent for Malawi to 27.4 percent for Swaziland (World Bank, 2014b). HIV prevalence ranged from 0.4 percent in Madagascar to 5 percent for Tanzania, in the five single-digit prevalence countries. The HIV and AIDS epidemic in the sub-region has disproportionately impacted on women in terms of higher HIV prevalence, and the care burden of both the sick and orphans. Antiretroviral therapy (ART) coverage among people with advanced HIV infection ranged from three percent for Madagascar to 95 percent each for Namibia and Botswana, with half of the countries with coverage of less than 70 percent (UNDP, 2014b). Given the high HIV prevalence in the SADC region and previous limited access to ART, the orphan-hood burden was on the increase in most countries. The total number of orphans, with one or both parents dead, increased from 204 000 in 1990 to 6.7 million in 2009, giving a percentage increase of 3 199 percent, during this period (SADC, 2013).

47. Under-five mortality rates in the SADC region, generally declined between 1990 and 2013, but remained relatively high. Seychelles (14.2 deaths per 1 000 live births) and Mauritius (14.3 deaths per 1 000 live births) have relatively low under-five mortality rates, compared to Angola with 167.4 deaths per 1 000 live births, and the DRC with 118.5 deaths per 1 000 live births (UNDP, 2014b). The remaining 11 countries have registered relatively high double digit under-five mortality rates, in comparison to developed countries such as Singapore and Sweden with single digit under-five mortality rates.

48. Maternal mortality in the SADC region although generally declining, remains high, ranging from 73 maternal deaths per 100 000 births for Mauritius to 730 maternal deaths per 100 000 births for DRC, in 2013 (UNDP, 2014b). All the countries, except Mauritius, had MMRs of three digits in 2013, which is very high. This is in comparison to developed countries such as Singapore and Sweden with the single digit MMRs. HIV and AIDS underlies the high maternal and child mortalities in the sub-region.

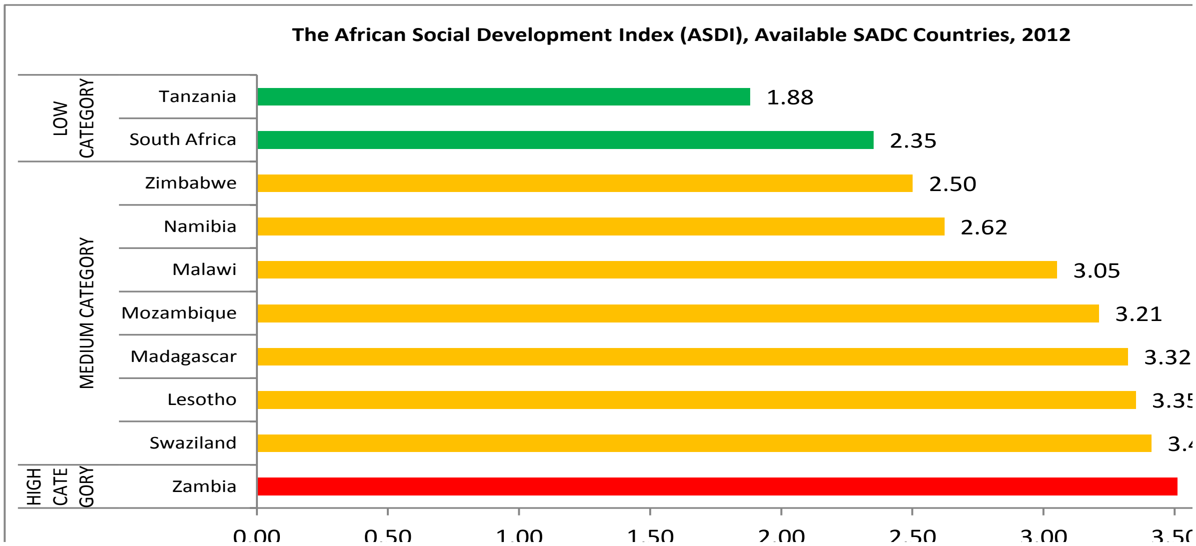
49. Significant progress has been made in the enrolment of girls at tertiary level of education in the SADC sub-region between 1991 and 2012. The net enrolment ratio (NER) gender parity index for the tertiary level of education in the SADC sub-region ranged from 0.37 for Angola to 1.51 for Lesotho. However, in nine countries, NER gender parity indices were in favour of males, namely, in Angola, Zambia, DRC, Tanzania, Mozambique, Malawi, Zimbabwe, South Africa and Madagascar. Five countries which had NER gender parity indices (GPIs) in favour of females in 2012 were Swaziland, Botswana, Namibia, Mauritius, and Lesotho. The bias in favour of boys is generally transmitted from the secondary school level, to tertiary level, and through to the labour market.

50. The water situation remains a challenge in rural areas. In 2012, the proportion of the population using improved drinking water sources in rural areas ranged from 29 percent for DRC to 96 percent in Seychelles, with Mauritius having universal use (UNDP, 2014b). The sanitation situation remains a challenge in both rural and urban areas. In 2012, the proportion of the population using improved sanitation facilities in rural areas were generally very low ranging from as low as 7 percent in Tanzania to 97 percent in Seychelles. In urban areas, the proportions of the population using safe sanitation facilities, although higher than the rural ones, were also low, ranging from 19 percent for Madagascar to 97 percent for Seychelles. Six out of the 15 countries in the SADC sub-region, namely Madagascar, Malawi, Tanzania, DRC, Lesotho and Mozambique, had less than half of their urban population using improved sanitation facilities.

51. The situation with regards to the participation of women in political decision making has generally been improving in the sub-region over the recent years. The proportion of seats held by women in parliament ranged from as low as 6 percent for Swaziland to 45 percent for South Africa. However, no SADC country had the required 50:50 gender parity in 2014, according to the MDGs and the SADC targets.

52. UNECA recently developed a tool for assessing human exclusion in Africa, known as the African Social Development Index (ASDI) (UNECA, 2014), which measures the depth of exclusion. The five (5) dimensions of exclusion measured to date by ASDI[10] include; health; education; labour; livelihood and decent life[11]. For the 10 Southern African countries for which the ASDI has been calculated so far, the majority (seven countries, namely, Swaziland, Lesotho, Madagascar, Mozambique, Malawi, Namibia, and Zimbabwe) were in the medium ASDI category, between 2.50 and 3.50, except Tanzania and South Africa with 1.88 and 2.35, respectively, both falling in the low ASDI category, see Figure 7. Zambia, slightly above the medium borderline, had the highest ASDI of 3.51, falling within the high ASDI category.

Figure 7: Southern Africa: Social Development Indices



Source: UNECA, 2014; the African Social Development Index – A Tool for Assessing Human Exclusion in Africa; Addis Ababa.

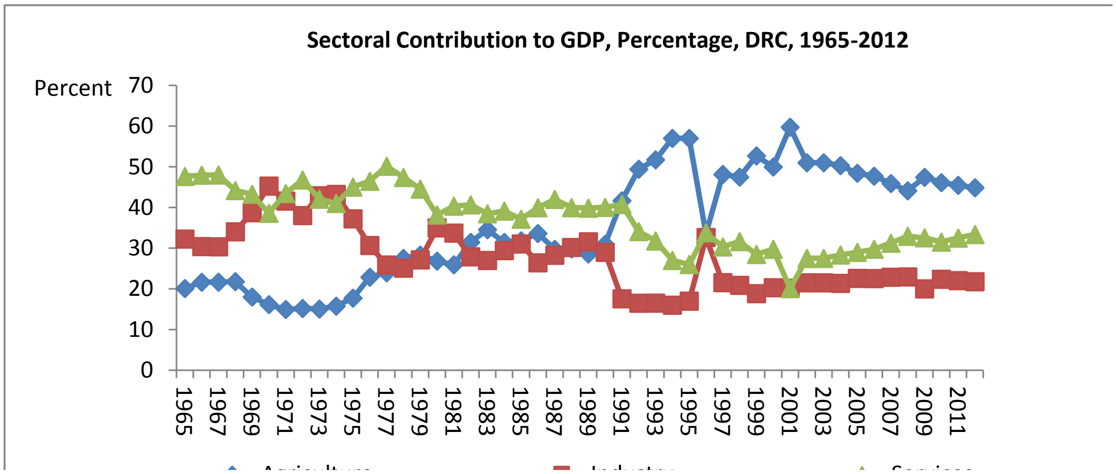
53. In Southern Africa, the historical context and external influence are unavoidable in explaining the socio-economic inequality. The high levels of inequalities in Southern Africa are largely explained by the underlying historical colonial template characterized by enclavity, grafted capitalism, and dualism, all of which dispossessed the majority indigenous populations of their basic means of survival. An example of great significance for Southern African societies experience with dualism was the massive alienation of the key factor of production, particularly land and minerals. This colonial template also underlies the recurring civil unrest and wars undermining peace and security, as well as sustainable development efforts in the sub-region.

54. Furthermore, the litany of externally-driven development strategies, including the neo-liberal structural adjustment programs and Poverty Reduction Strategy Papers, and their '*trickle down'* assumptions and the '*willing-buyer, willing-seller'* in land redistribution, did not deliver as expected. In the event, the sub-region's structural transformation development agenda meant to correct the historical injustices has been derailed.

55. From the time that Southern African countries attained independence in the 1960s, the sub-region has been generally locked into a mode of '*economic growth without transformation'*. The situation of the DRC, for example, shows that from 1965 to 2012, the contribution of agriculture to GDP has been rising, whilst that of industry and services has been falling, reflecting an unsustainable path of development (figure 8).

[10] The ASDI ranges from 0 to 6, with the following categorization; low - ASDI<2.5; medium – 2.5 <ASDI <3.5 and high – ASDI >3.5.
[11] The five dimensions have been measured by the following indicators in brackets: health [neonatal mortality (newborn <28 days) and malnutrition prevalence (children under five years)]; education [literacy rate (percent of people aged 15-24 years)]; labour, (youth unemployment); livelihood (poverty headcount at national poverty line) and decent life (life expectancy, after 60 years).

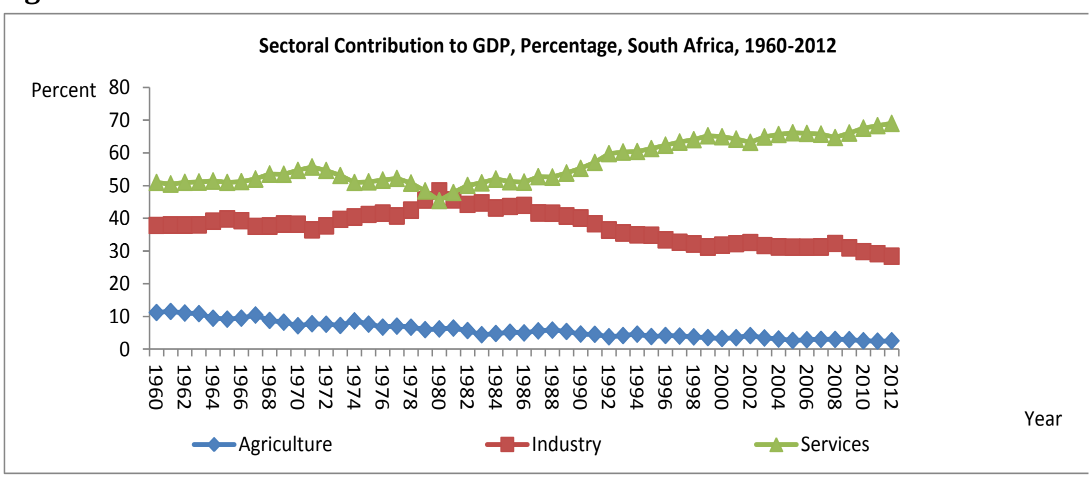
Figure 8: DRC: sectoral contribution to GDP



Source: World Bank, World Development Indicators, 2014.

56. On the contrary, South Africa is an example (alongside of Mauritius) where some transformation has taken place. Figure 9 shows that from 1960 to 2012, the contribution of agriculture to GDP is low and declining, whilst that of industry is relatively high and constant, and that of services is high and generally rising.

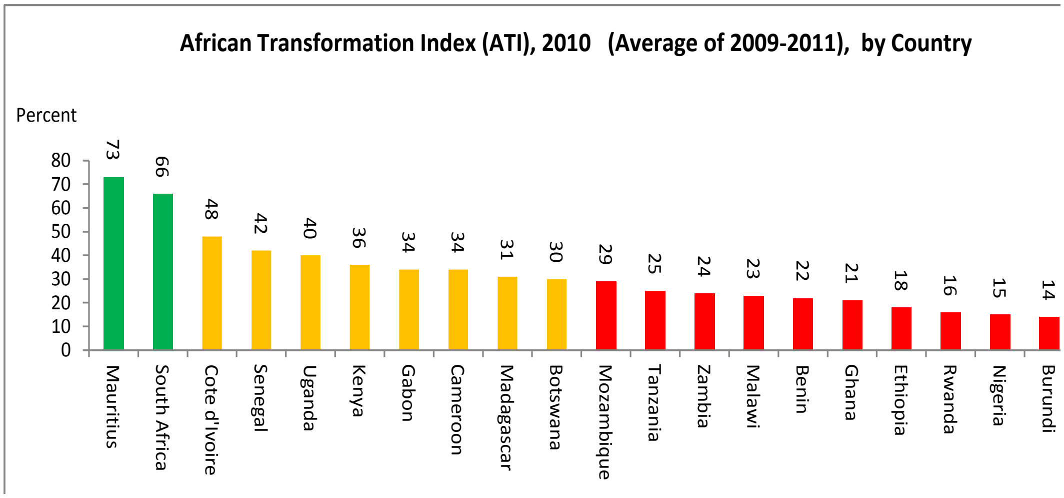
Figure 9: South Africa: sectoral contribution to GDP



Source: World Bank, World Development Indicators, 2014.

57. According to the recent African Transformation Index (ATI) for the 21 African countries in 2012, of which 8 are SADC countries, overall economic transformation remains a huge challenge on the continent. The ATI ranged from 11 percent for Burkina Faso to 73 percent for Mauritius, which was the highest, followed by South Africa with 66 percent, see Figure 10.

Figure 10: African Transformation Index



Source: Website-Africantransformation.org/2014/04/29/interactive-African-transformation-index/

Section 6: Conclusions and Recommendations

58. The central message from the above analysis is that Southern Africa needs a no-holds barred commitment to implement the practical policies and strategies that deliver jobs. Various fora and publications have underscored these job-delivering strategies, which include the promotion of value-adding activities to the battery of mineral wealth, introducing local content requirements and supporting the SMEs and indigenous investments. The acceleration of industrialization efforts through beneficiation of natural resources will create the necessary economic momentum. Doubtless, more decent employment thus created will help alleviate the pressures on the government safety nets; and it will enable access to better health-care, housing and quality education, including both formal and on-the-job skills upgrading.

59. Another key message from this paper is the need for deliberate government action to implement inclusive and participatory social, political and economic policies. These will serve to address historical colonial and racial policies. Such policies will also tackle ethnic, gender, age and geographical-based inequality and discrimination in so far as equal access to policy-making and political power, development projects and enjoyment of national resources, are concerned. There is an abundance of national, regional and international laws and protocols regulating these areas.

60. Finally, the increasing calls for strong developmental States are welcomed. The above recommendations can effectively be implemented by strong committed governments, pursuing economic transformation and social justice. While external support will continue to be needed, the socio-economic transformation agenda will have to be constructed by and for Southern Africa.

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