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REGIONAL INTEGRATION AND DEBT

IN

SOUTHERN AFRICA

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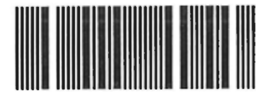
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List of Acronyms

ACP	African, Caribbean and Pacific
AFRODAD	African Forum and Network on Debt and Development
AGOA	Africa Growth and Opportunities Act
CMA	Common Monetary Area (Lesotho/South Africa/Swaziland)
COMESA	Common Market for Eastern and Southern Africa
DRC	Democratic Republic of Congo
EEC	European Economic Community
EU	European Union
FDI	Foreign Direct Investment
FTA	Trade Arrangement
GDP	Gross Domestic Product
GNP	Gross National Product
HDR	Human Development Report
HIPC	Indebted Poor Country
IMF	International Monetary Fund
PTA	Preferential Trade Area
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
UAPTA	Unit of Account for PTA countries
US	United States
WTO	World Trade Organization
ZAR	South African Rand
ZIMCODD	Zimbabwe Coalition on Debt and Development

Executive Summary

Subregional integration in Southern Africa takes place primarily under the Southern African Development Community (SADC) but several SADC members are also members of COMESA, SACU, the Indian Ocean Council (IOC) and the Cross Border Initiative (CBI). SADC was formed in 1992 after the transformation from its predecessor SADCC (born in 1980). Deeper economic cooperation and integration as well as common economic, political and social values are the vision of the organisation. The purpose of SADC is to promote regional integration and self-sustaining development, and to achieve economic growth and complementarity between national and regional strategies and programmes. However, the subregion's external debt overhang, balance of payment problems and lack of foreign reserves have derailed the attainment of these goals.

Integration in the region has not, so far, gone much beyond the signing of a SADC Trade Protocol and there is certainly no specific regional policy on debt. SADC has a diverse and non-convertible currency system that has inhibited intraregional trade, cross border investment and debt reduction. Although, within the region, there is one smaller Common Monetary Area (between South Africa, Lesotho and Swaziland) and one common currency unit (the UAPTA, used in the Free Trade Area), a common currency for either SADC or COMESA is not on the cards for the near future.

Large foreign debt service ratios for SADC member states are reflected in a reduction of foreign exchange for importing capital equipment and intermediate goods (largely from industrialised countries), thereby constraining growth of the national economy including exports. This, in turn, leads to a reduction in the national capacity to earn foreign exchange, thus completing a vicious cycle. Consequently, there is also a reduction in the capacity to service foreign debt from export earnings, which in turn may force a country to resort to further foreign assistance to repay maturing foreign debts. This becomes another vicious cycle if the bulk of the additional foreign assistance comprises loans and not grants. Furthermore, constraining the growth of national economies also depresses taxable capacity and growth in government revenues, lessening its local currency capacity to service either foreign or local debt.

The failure by SADC to provide funding from internal sources for the bulk of its regional projects has resulted in its heavy reliance on external funding, reaching 80 percent by the late 90s. The absence of a regional monetary system and clear trade payment mechanisms has meant that some member states prefer trading with northern partners at the expense of intraregional trade. This has brought in escalating levels of external debt for individual member states. Overlapping and internally inconsistent regional integration initiatives within the Southern African region have been a major drawback to the attainment of deeper and more meaningful integration and debt reduction in SADC. There is still has a long way to go towards coordination and harmonisation of all monetary and fiscal policies, economic convergence and debt reduction.

A number of aspects of SADC's regional integration efforts have been identified as having potential to act as means of debt reduction in SADC. These are:

- Payment systems which, if integrated regionally, obviate the use of 'hard' currencies;
- Trade expansion and investment creation, both of which would strengthen national economies, enabling them to repay existing and avoid future debts; and
- The opportunity to 'speak with one voice' in demands for debt reduction or more favourable terms.

Introduction

Despite a succession of adjustment programmes in the countries of the SADC region, the economic situation remains weak and far too high a proportion of national budgetary resources and foreign exchange reserves are diverted towards debt servicing. Too small a proportion of the already limited resources are available for social development.

The widening savings investment gap caused by restrained growth, coupled with the fall of commodity prices on the world markets and severe droughts in the region, has reduced the region's capacity to export its products. These factors have severely limited the capacity of the region to generate savings and investable surpluses and, therefore, adequate foreign exchange for servicing external debt. Hence payment defaults have increased. The use of foreign currency to pay debts has led countries to reduce their capacity to import goods vital for industry, agriculture, transport and essential services such as education, health and water supplies.

Although attempts (through IMF/World Bank's SAPs and the HIPC initiative as well as rescheduling) have been made to pull Southern African economies out of their appalling debt situation, they have not been sustainable. Regional integration is widely believed to be the long-term panacea for debt in the SADC region.

The Current State Of Subregional Integration

1.1 Sources of Funding for SADC Programmes

The three main sources of funding for regional programmes and projects are donor aid, subscriptions by member states and private sector investments. Both SADC and COMESA have strong policy positions that their programmes should be funded primarily from member states' own resources, with particular emphasis on involvement of the private sector. Shockingly though, both regional bodies have continued to rely heavily on donor funding, which is unhealthy in light of the prevailing debt situation in these regions. In 1996/97 only 25 to 30 percent of funding for the SADC Programme of Action was sourced locally, implying about 70 to 75 percent was sourced from external sources (IGD 2001). This had risen to about 80 percent by 1998/99.

Table 1 shows the project financing status of the SADC region for the period 1998/99. Of the US 7 696.4 million needed, 86.5 percent of funding for these projects would come from foreign sources and only 13.5 percent was expected to be mobilised from local sources, clearly revealing an unhealthy dependence on foreign financing. Foreign funding creates debts that, if not managed well, turn into a debt trap. In addition, of the total amount required to kick start these projects only 48.1 percent had actually been secured from either local or foreign sources with 8.1 percent being still under negotiation, leaving an investment gap of 43.8 percent.

Table 1 SADC Project Financing Status by Sector, 1998/99 (US$ million)

	ESTIMATED COST						FUNDING STATUS				
SECTOR	**Total**	**Foreign**	%	**Local**	%	**Secured**	%	**Under negotiation**	%	**Gap**	%
FANR [76]	488.3	445.3	91.3	42.5	8.7	279.0	55.5			188.1	38.5
ART [15]	122.4	96.4	78.8	26.0	21.2	78.8	64.4			43.6	35.7
Inland Fisheries [9]	54.4	52.6	96.8	1.8	3.3	27.3	50.2	0.75	1.4	26.4	48.5
Forestry [13]	103.1	97.3	94.4	5.8	5.6	43.0	41.7	22.3	1.3	37.9	36.7
Wildlife [10]	91.7	90.7	98.9	1.0	1.1	77.9	84.9			13.8	15.1
Food Security [11]	70.0	6.3	90.5	6.6	9.5	24.2	34.8			45.4	65.2
LPAD [12]	8.3	7.0	84.1	1.3	15.9	2.1	25.2	3.7	44.4	2.5	30.4
Marine and Fisheries [6]	38.7	38.7	100			17.7	45.8	2.5	6.5	18.5	47.8
Mining [36]	18.2	12.5	69.1	5.6	31	11.8	65.1			6.3	34.9
Water [2]	27.8	23.9	85.8	3.9	14.1	11.9	42.7	0.11	0.4	15.8	56.9
Industry and Trade [7]	10.0	10.0	99.9	0.0	0.1	1.0	9.8	4.13	41.4	4.9	48.8
Energy [41]	603.9	566.4	93.8	37.5	6.2	382.3	63.3	28.7	4.8	193.0	32
Tourism [11]	5.0	4.2	84.9	0.7	15.1	2.9	59.5			2.0	40.5
Transport and Comms[174]	6 474.4	5 528.1	85.4	946.3	14.6	2 991.7	46.2	550.9	8.5	2 931.8	45.3
Finance and Investment[1]	0.4	0.4	100			0.3	95.5				
HRD [16]	44.8	44.8	100			17.3	36.4	1.5	3.4	27.0	60.3
Environment and Land [7]	7.8	6.5	84	1.2	16.1	2.03	26.1	3.7	47.4	2.1	26.5
Culture and Information[7]	15.9	15.9	100			4.9	31.1			10.9	68.9
TOTAL [378]	**7 696.4**	**6 658.5**	**86.5**	**1 037.8**	**13.5**	**3 696.2**	**48.1**	**618.2**	**8.1**	**3 381.9**	**43.8**

Source : SADC HDR 2000

According to the SADC HDR (2000), the fact that only 48.1 percent of the SADC Programme of Action has been funded reveals the technical capacity constraints in the conceptual design of projects in the organisation. The fact that the subregion is currently languishing from the vitiating debt and yet the very body that seeks to abate the crisis continues to rely heavily on external funding is treacherous.

1.2 Donor Funding to SADC and the Escalating Debt Problem

Reliance by SADC on donor funds for financing its ever-escalating programme is one of the main reasons for the debt ballooning in the region. Once a project is identified as a 'regional project', SADC states collectively seek funds, first from donors and then among themselves. Instead of member states allocating some funds from their budgets towards these regional projects, their first port of call for funds is donor organisations. Once donors are identified, SADC acts as a broker to source the funds but the agreement for funding is usually bilateral. In some cases, a consortium of donors pledges funds and signs financing agreements, not with SADC states but with one country, as in the case of the Beira Transport Corridor in Mozambique. At that point, the recipient country is left alone to negotiate with the consortium of donors the terms of financing which are likely to be unfavourable, given the weak position of the recipient country. Thus regional projects generate individual country debts yet SADC has no system to manage such debts.

This private sector has played a limited role. This is mainly attributable to the fact that regional integration has been fairly politicised and, as such, there has been no well defined role for the private sector apart from playing the traditional role of availing funds to specific projects.

To reduce the indebtedness of the region, there is a need for it to be transformed into an investment haven as this would go a long way towards bringing badly needed foreign currency reserves into the region. It would also require that the subregional groupings gradually cease to rely on foreign funding and try to enhance revenue collecting measures from the member states as well as promoting private sector involvement in project implementation. In this way, debt, which is the main enemy of the region, would be reduced.

Subregional Integration and Debt Reduction

2.1 The Structure of the Southern African Region's Debt

Because of the serious problems that Southern African countries, have experienced over the years with their balance of payments position, they have borrowed heavily from private banks and multilateral agencies (IMF and World Bank) and less and less from official sources.

Thus, for example:

- Two thirds of Angola's debt is owed to private creditors and the remaining portion is shared between multilateral and bilateral creditors;
- The largest portion of South Africa's debt is owed to private banks that continued to give loans to the apartheid regime after the IMF and World Bank, and other multilateral organisations had refused to fund it;
- For Botswana, about three quarters of its US$ 548 million debt in 1998 was owed to multilateral creditors, 22 percent to bilateral creditors and 5 percent to private creditors, and the situation was similar in other countries, such as Malawi, Zambia and Zimbabwe;
- Tanzania owed a third of its debt to bilateral organisations; and
- In 1998, the DRC owed more than two thirds of its debt to France and the US.

(Jubilee 2000).

Table 2 shows the structure of external debt for SADC countries.

Table 2: Structure of External Debt (US$ millions)

	Bilateral				**Multilateral**				**Private**		**Short**		**IMF Term**	
	Consessional		Non Concessional		Consessional		Non Concessional							
	1980	**1998**	**1980**	**1998**	**1980**	**1998**	**1980**	**1998**	**1980**	**1998**	**1980**	**1998**	**1980**	**1998**
Angola	-	2 527	-	1 011	-	212	-	67	-	5 696	-	1 710	0	0
Botswana	28	102	23	11	32	194	53	178	8	24	4	7	0	0
DRC	667	1 806	1 620	4 213	194	1 601	127	681	1 462	899	3 298	3 565	373	423
Malawi	111	284	112	16	147	1 900	72	90	192	20	116	32	80	102
Mauritius	39	294	37	27	25	60	53	201	165	1 327	47	573	102	0
Mozambique	-	2 268	-	1 810	-	1 798	-	96	-	1 770	-	365	0	207
Namibia	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Seychelles	16	49	4	7	3	22	2	37	0	31	59	42	0	0
South Africa	-	0	-	0	-	0	-	0	-	13 268	-	11 444	0	0
Swaziland	69	74	34	0	17	69	45	79	24	0	15	28	6	0
Tanzania	2 388	2 480	88	581	305	3 049	261	93	339	263	1 770	900	171	268
Zambia	778	1 617	314	1 348	19	2 031	374	211	726	141	586	329	447	1 188
Zimbabwe	15	961	83	238	0	532	3	1 183	594	619	90	768	0	407

Source: Africa Development Indicators

In addition, servicing of Southern Africa's external debt chews up billions in foreign currency annually. Mozambique, Tanzania, Angola, DRC, Malawi and Zambia, lead the pack of highly indebted countries in terms of external debt as a proportion of GDP. In total, these seven countries owed about US$ 40 billion or an average of 150 percent of their combined GDP as at 1998. During the period 1992 to 1994, Zambia used about 98 percent of its donor assistance to pay off foreign debt. Even Lesotho, at the bottom of the list, has a debt of about US$ 1 billion, which is equivalent to 61 percent of GDP (Madakufamba 1998).

Table 3: Key Indebtedness Ratios, 1997 (Percent)

	EDT/ XGS	PV/ XGS	EDT/ GNP	PV/ XGS	TDS XGS	INT/ XGS
Angola	209	181	282	244	17	7
Botswana	19	16	12	10	1	1
DRC	737	682	232	215	4	1
Lesotho	100	67	52	35	7	3
Malawi	419	217	108	56	15	5
Mauritius	95	92	59	57	11	6
Mozambique	1 185	708	257	153	22	10
Seychelles	46	40	30	26	5	2
South Africa	70	67	20	19	13	4
Swaziland	31	26	27	22	3	1
Tanzania	543	403	112	83	12	4
Zambia	521	389	203	151	21	6
Zimbabwe	165	139	63	53	23	8
Fiji	17	16	11	10	3	1
Malaysia	51	48	52	49	8	3

EDT: Total debt stock
TDS: Total debt service
XGS: Export of goods and services
EDT/GNP: Total ex debt to gross national product
EDT/XGS: Total ex debt to exports of goods & services
PV/GNP: Present value of debt to gross national product
INT/XGS: Total interest payments to exports of goods and services (including workers' remittances)

Table 3 shows the key indebtedness ratios for SADC countries in comparison to two developing countries from other regions (Fiji and Malaysia). For a number of countries, it will be noted that the total debt stock (EDT) to GNP ratio is well over 100 implying that debt stock is higher than total flow of goods and services per year. All the ratios in the table clearly show that SADC countries are heavily burdened with external debt compared to other the developing countries shown.

2.2 Debt Profiles of SADC Countries

Countries with a debt/export ratio greater than 200 percent (Angola, DRC, Malawi, Mozambique, Tanzania and Zambia) would need to expand their exports by more than 200 percent to cover all their debt obligations. For example, Angola had a debt per capita figure of more than US$ 1 000 and its debt service consumed more than five times the total spend on public health and education. The DRC had total arrears of US$ 8.2 billion by 1998 and its debt service ratio has been 0.3 percent of GNP. Malawi's expenditures on debt service consumed 4.7 percent of GNP, a figure 1.9 percent higher than expenditure on health. Worst stricken by the debt problem over the years has been the Mozambican economy. The total expenditure on debt service has been 0.8 percent higher than the expenditure on health.

Tanzania had a debt to export ratio of 484 percent in 1998, three times higher than the IMF/World Bank 'acceptable sustainable' levels in the medium term. Its debt service in the same year was 48 percent and expenditure on debt service has been 2.0 percent of GNP, which is 0.7 percent higher than expenditure on health and education. The Zambian economy suffered due to external debt crisis as debt servicing siphoned off about 6.49 percent of GNP in 1998, compared to low expenditures on health and education of 2.3 percent and 2.2 percent respectively (Jubilee 2000). Zambia's debt to export ratio has been 438 percent, some miles away from the 150 percent 'acceptable' to the Bretton Woods institutions.

Zimbabwe's debt value has risen considerably over the period under review with a total value of US$ 4.7 billion as at 1998. Zimbabwe's domestic debt, mainly fuelled by the involvement in the DRC, is estimated to be growing at a rate of just over US$ 72 million a week (RBZ, January 2002). This scenario is likely to be exacerbated by the deteriorating economic and political climate in country. As at January 2002, the country's foreign debt was estimated to be at least US$ 700 million, owed to various creditors, such as the World Bank, the African Development Bank and the Paris Club (*The Daily News*, February 2002).

SACU countries are the least indebted countries within SADC. South Africa's debt value increased to US$ 25 billion as at 1998. About US$ 11.7 billion of the debt is interest on the 'odious' debt of the apartheid era. The South African government has, however, managed to keep its expenditure on debt service far lower than expenditures on either health or education, a difference of 3.1 percent and 3.9 percent respectively. On the other hand, Botswana's debt, although increasing, has remained low and stable. Its total debt was US$ 548 million, as at 1998, and its debt/export ratio remains the lowest in the region.

Table 4: Total Debt, Debt to Exports Ratio and Debt Service Paid for Selected Southern African Countries (US$ million)

	1980	1985	1990	1994	1996	1997	1998
Angola							
Total debt		2 497	8 594	11 297	11 225	11 841	12 173
Debt to exports (%)	-	-	-	278	219	181	236
Debt service paid		156	326	258	894	1 129	1 353
Botswana							
Total debt	157	334	563	689	614	562	548
Debt to exports (%)	20	38	23	30	21	15	19
Debt service paid	15	48	106	93	152	104	79
DRC							
Total debt	4 770	6 171	10 270	12 322	12 826	12 330	12 929
Debt to exports (%)	-	-	-	594	693	682	774
Debt service paid	542	497	348	16	48	13	19
Malawi							
Total debt	830	1018	1 558	2 025	2 315	2 229	2 444
Debt to exports (%)	-	-	-	217	294	217	226
Debt service paid	87	110	133	80	89	85	84
Mozambique							
Total debt		2 714	4 653	7 272	7 566	7 639	8 208
Debt to exports (%)	-	-	-	1 039	1 345	708	539
Debt service paid		55	79	123	141	104	105
South Africa							
Total debt	-	-	-	21 671	26 050	25 221	24 712
Debt to exports (%)	-	-	-	70	72	67	69
Debt service paid				2 092	4 236	6 542	4 378
Tanzania							
Total debt	5 322	3 750	6 438	7 235	7 362	7 129	7 603
Debt to exports (%)	-	-	-	719	499	403	484
Debt service paid				2 902	4 236	6 542	4 378
Zambia							
Total debt	3 244	4 576	6 916	6 804	7 054	6 654	6 856
Debt to exports (%)				465	389	389	438
Debt service paid	410	138	202	376	251	245	202
Zimbabwe							
Total debt	786	2 415	3 247	4 537	4 994	4 924	4 716
Debt to exports (%)	-	-	-	170	154	139	140
Debt service paid	65	422	471	603	664	686	981

Source: The Africa Debt Report, Jubilee 2000

2.3 The Link between SADC Trade Policies and Debt

The level of indebtedness depends on a number of socioeconomic, political, internal and external variables and, within these, trade policies play an important role. In this section we review the level of SADC indebtedness under both liberalised and protectionist trade regimes and, as far as possible, relate indebtedness to shifts in trade policy. However, no close correlations are assumed, given that indebtedness is a function of several variables.

A comparison of the ratios of debt to exports before and after trade liberalisation for selected SADC countries shows an interesting pattern (see Table 5). The 'before liberalisation' scenario shows low exports to debt ratio, compared to the 'after liberalisation' period, implying that trade liberalisation was associated with increased indebtedness.

Table 5: Structure of External Debt Service Payments (US$ millions)

	Bilateral				Multilateral				Private		Short Term		IMF	
	Concessional		Non Concessional		Concessional		Non Concessional							
	1980	**1998**	**1980**	**1998**	**1980**	**1998**	**1980**	**1980**	**1998**	**1980**	**1998**	**1980**	**1998**	**1980**
Angola	-	16	0	61	-	1	0	1	-	1 013	0	0	0	0
Botswana	1	7	2	6	0	13	10	53	1	6	2	0	0	0
DRC	48	0	136	0	2	0	22	0	189	0	45	-	101	1
Malawi	4	6	7	1	2	29	3	18	53	1	16	0	3	26
Mauritius	2	33	4	6	0	4	6	39	29	205	8	0	3	0
Mozambique	-	24	0	13	-	24	0	12	-	12	0	0	0	25
Namibia	-	-	0	0	-	-	0	-	0	1	-	-	-	0
Seychelles	0	4	0	2	0	1	0	6	0	6	37	0	0	0
South Africa	-	0	0	0	-	0	0	0	-	3 324	0	-	0	432
Swaziland	2	8	6	0	0	3	4	13	5	0	2	0	0	0
Tanzania	32	63	2	1	2	63	23	44	36	18	26	6	39	39
Zambia	16	17	22	20	0	33	51	88	238	59	0	-	84	6
Zimbabwe	3	59	0	33	0	8	3	200	43	585	15	0	0	58

Source: Africa Development Indicators, AfDB 2001

There are various mechanisms through which trade liberalisation is associated with increased debt-levels in SADC:

- Trade liberalisation was followed by devaluation of local currencies which meant that debtor firms or governments had to search for more local currency to pay off foreign debts;

- Much of the commercial aid (export-import credit guarantee schemes) provided to developing countries is tied to procurement of imports from the donor nation, causing increased indebtedness because some of these goods are priced well above world market prices;

- Trade liberalisation and structural adjustments in Southern Africa have implied removal of price controls and export subsidies among other measures although the stimulation of exports can contribute significantly to debt reduction;

- Trade liberalisation exposed local industries to intense foreign co[illegible]ition which caused company failure and inability by firms to meet their debts either [illegible] or foreign;

- Liberalisation of prices, especially decontrol of interest rates, caused sudden swelling of debts and firms failed to service some of these; and

- Liberalisation allowed firms to borrow directly offshore, sometimes without approval by government, leading to huge debt built up.

Even the most closed economies did not have restrictions on exports anyway so what they opened up was the import regime. As a result, the exports response from liberalisation was weak whereas imports flooded the local market. More imports and less exports means more obligations to pay foreigners.

Regional Currency, Monetary Integration and SADC Debt

Monetary unions, and particularly payment mechanisms, play an important role in reducing debt. By adopting, a single currency or a common unit of account to settle commercial debts, regional integration could directly and positively affect the debt situation of member countries. The transmission mechanism between debt reduction and monetary/payments settlement is straightforward. First countries in a regional grouping may agree on 'limited currency convertibility' and, therefore, accept settlement of commercial debts in one another's currency. Second, they may establish a common clearing house and a common unit of account to settle outstanding debts. The need to settle debts in hard currency is removed and exchange rate risks are minimised.

Regional integration also serves as a vehicle for reducing debt through investment creation. Large markets attract new investment and enable existing firms to operate at near full capacity, hence attaining economies of scale. The investment creation effects of regional integration would impact directly and positively on production, output, exports, debt servicing and incomes. As a result, the need for borrowing would be reduced and capacity to service existing debt enhanced.

Furthermore, regional integration creates the platform for collective bargaining by debtor countries that is generally lacking but is very important for reducing debts and relaxing their terms and conditionalities. Most often, negotiations for debt reduction are a contest between an organised group of creditors, for example the Paris Club, and an individual poor debtor country. In such circumstances, the debtor nation is under tremendous pressure to make more concessions. Thus, regional integration should be called upon to strengthen the collective bargaining position of debtor nations and facilitate creditor-debtor negotiations to the benefit of debtor nation.

3.1. The Current State of Monetary Integration in SADC and its Impact on Debt

Currently, SADC has a diverse and non-convertible currency system that has inhibited intraregional trade, cross border investment and debt reduction. However, there is growing interest in currency convertibility in the region and this forms a fertile ground for monetary harmonisation. A number of regional currencies have attained some measure of convertibility, for example the Botswana Pula in Zambia and Zimbabwe, Malawi Kwacha in Mozambique, Mozambican Metical in Malawi, the Zimbabwe Dollar in South Africa and Zambia and the Tanzania Shilling in Kenya and Uganda. The result of such convertibility is reduction of debt. In cases where local currencies are recognised and accepted for payment, the debt burden is lessened. It also encourages countries to shift their trade from partners who require foreign currency to those that accept local currency, promoting intraregional trade.

The COMESA region, to which nine SADC member countries belong, has started to work towards the creation of a zone of monetary stability with flexible exchange and payment systems, in order to facilitate the market integration of the region (COMESA, 2002). This builds on the achievement of the UAPTA, which was established in the early 1980s as a unit of account in the Preferential Trade Area (PTA) region and used to settle account balances arising in intra-PTA trade. The new initiative calls for an effort by all member states to completely harmonise economic, fiscal and monetary policies. The phased implementation of this programme will start with currency convertibility, followed by exchange rate unification and, finally, a common currency.

The most notable form of monetary harmonisation in Southern Africa is the Trilateral Monetary Agreement between South Africa, Lesotho and Swaziland known as the Common Monetary Area (CMA), in which each country's currency trades at par with the South African Rand. The Reserve Bank of South Africa implements monetary policy after consultation with the central banks of the other countries. Although the foreign exchange regulations and monetary policy reflect the insurance and dominance of the South African Reserve Bank, the monetary union has produced significant benefits, namely a high level of intra-CMA trade, investment creation and low intragroup indebtedness.

3.2 Debt Management

Debt management involves developing, adopting and implementing debt management policies, strategies and practices. These should ensure safe borrowing, maintenance of macroeconomic and financial balances, and introduction and strengthening of appropriate institutional and organisational structures, supported by adequate and skilled human resources as well as sufficient fiscal and financial services and other resources.

Debt management is topical to Southern African countries mainly because of the dire need to conserve foreign exchange, which is dissipated by debt repayments. However, little has yet been achieved for the following reasons:

- The SADC/COMESA countries, jointly and severally, lack an explicit regional debt management system and debt management is generally viewed more as a national issue than a regional one, and even then in the very narrow sense of debt recording.
- In the Southern African region, debt management systems, especially their institutional frameworks, differ from country to country and are shaped by history, constitutional division of responsibility between various tiers of government, the importance of external debt in overall economic management, the relative importance of particular types of credits within the overall debt structure and the regulatory function of external debt management.
- Debt management systems in SADC differ in the degree of control exercised by the authorities, the strictness of the regulatory environment and the nature of the reporting system instituted for external debt operations.
- Debt management systems also differ in their treatment of private sector versus public sector loans, as well as their treatment of financial versus non financial domestic institutions.
- Different functions of debt management are performed by different government agencies that sometimes overlap each other or perform the same functions for different ministries.
- In most of the Southern African countries, the database for policy making on debt issues is inadequate because the chief financial agencies of governments do not communicate effectively with each other.

In most cases, the recording unit (debt office) does not have appropriate legal powers and effective data collection mechanisms to affect its job.

3.3 Regional Monetary Instruments affecting Debt

Regional integration can impact on the intraregional debt situation through payment mechanisms and monetary integration. A closer look at the debt structure shows that a substantial part of the debt is intraregional, with South Africa emerging as the main creditor. Some of this debt dates back to the apartheid era. Regional monetary harmonisation would play a very important role in reducing intraregional debt and, thereby, release hard currency for development or to settle third party debts. Completing the circle, creation of a single currency or unit of account would simultaneously increase intraregional trade and reduce intraregional debt, thus promoting meaningful regional integration.

3.3.1 Terms of payment and debt

Terms of payment, especially credit terms, are the primary source of commercial debts and bad debts. Within SADC, availability of trade credit is not a common feature in regional trade. Rather, due to a long history of commercial relations, trade credit is used more often in trade between local firms and those in the west. A combination of factors, such as frequency of commercial bad debts, lack of or bad track record, inability to pay caused by foreign currency shortages, high interest rates and cash flow problems, mean that payment for much of the SADC trade is either in advance or in cash.

Availability of import/export credit is also an important factor in commercial debt. Importers are provided with financing to source imports and allowed to pay after a specific period, and exporters receive payment in advance to cushion their cash flow. The system works well if both sides meet obligations and if foreign currency is available. Recently, an import and export credit facility for Zimbabwean companies in a number of SADC countries, especially South Africa, was removed after the country failed to meet its payment obligations due to foreign currency shortages. One positive effect of this is that importers have to pay cash, or in advance, for imports, thus reducing commercial debt. However, it also shows that the use of foreign currency to effect regional transactions is not helping the integration cause.

3.3.2 The Payment Mechanism and Debt

Southern African regional integration efforts could benefit significantly from the official convertibility of the region's currencies at fixed exchange rates or the establishment of a common currency. Convertible currencies would lessen foreign exchange constraints and debt payments and fixed regional exchange rates such as the rand in SACU would facilitate joint monetary policy aimed at controlling transactions between the subregion and the outside world, as well as reducing debt among member countries. It would, however, require harmonisation of monetary policies to avoid inconsistent and contradictory actions and signals.

SADC needs a functional monetary union in order to tackle its trade and external debt problems. The Monetary Union should have the following elements:

- Use of a common currency or, if there are several currencies, existence of a fixed exchange relationship between the currencies of the area;
- A mechanism for management of the common pool of foreign exchange reserves, external debt and exchange rate policy;

- Existence of a regional monetary authority, or central bank in the case of common currency, which is the sole issuer of the common currency;

- A common monetary and fiscal policy to ensure collective control over the rate of creation of high powered money and the expansion of government debt; and

- A common development bank to finance regional and national projects, to assist in the integration process and to reduce economic disparities between member countries.

In spite of all the debt reducing attributes of monetary union, neither SADC nor COMESA has the framework to establish a monetary union. Since a monetary union is the highest form of policy harmonisation, the latter should precede the former.

3.4 Problems of Harmonisation in SADC

The formation of a monetary union in SADC has been strongly resisted by some countries on the grounds that it may lead to a loss of national sovereignty over the formation of monetary policies. There are fears that countries will lose control over exchange rates and interest rates and that this may worsen their economic position. While macroeconomic coordination by a group of countries might be desirable, it is difficult both to achieve and to sustain. The Southern African region has several features that suggest that it would not necessarily form an optimal currency area. Some of these as noted by Jenkins and Thomas (1997) are:

- High levels of unemployment, which mean that labour mobility is not an option for achieving equilibrium;
- Economies and labour markets that are marked by rigidities;
- Strong domestic opposition to fiscal transfers between countries that is likely to ensue;
- Economies that are primary commodity exporters and hence respond asymmetrically to external price shocks; and
- A great diversity in the level of economic and institutional development

4 Debt, Trade and Monetary and Fiscal Harmonisation

Policy fragmentation at both national and regional level has formed fertile ground for debt escalation. The absence of a clearly laid out national development framework or plan in most SADC states is the key problem and testifies to a lack of policy coordination and harmonistaion. Furthermore, national policies, priorities and strategies in general are not linked to regional ones. The absence of harmonised macroeconomic policies in the Southern African region has led to sub-optimal national investments and constrained regional trade and economic growth and development. Regional policy harmonisation could be the most effective way of addressing the debt problem at the regional level. Macroeconomic policy coordination and harmonisation entails the adoption of similar macroeconomic policy instruments to achieve common policy objectives.

The case for coordinating macroeconomic policies is based on three grounds:

1. Macroeconomic policy adjustment in one country has spillover effects on others, forcing them to adjust as well;

2. The desire to avoid competitive currency devaluations to improve the competitiveness of national economies; and

3. The prediction that poorer countries should be able to catch up with richer ones because they can take advantage of existing technological developments without having to develop their own (Jenkins and Thomas, 1996).

Fiscal policy harmonisation in SADC is necessary to ensure that changes in one country do not adversely affect the exports and imports of other countries, as well as the level of external debt and the relative profitability of investment in those countries. This serves to cushion the impact of domestic fiscal policy changes in integrated economies that are usually transferred through changes in the terms of trade, changes in demand for imports and changes in after-tax returns on international capital in different locations.

Monetary policy coordination entails the harmonisation of interest rates and the maintenance of a fixed exchange rate relationship among regional currencies conducive to debt reduction. This is crucial for SADC to ensure that changes in one country do not precipitate undesirable interest rate adjustment and unwarranted devaluation in other countries. To ensure macroeconomic policy harmonisation, countries should also strive to harmonise investment policies to ensure that there is not detrimental competition among countries trying to outbid each other in the battle to attract investment. All countries should offer appropriate incentives to potential investors and there should be uniformity in incentives so that locational decisions are only based on comparative advantage (Chipeta).

4.1 The State of Policy Harmonisation in SADC

According to the SADC Human Development Report 2000, apart from the coordination of trade policy that started with the adoption of the SADC Trade Protocol, SADC has, so far, not coordinated the fiscal, monetary, investment, social, labour and other policies of its member states. The extent of convergence in economic growth rates and macroeconomic stability indicators in the SADC subregion is illustrated in Table 7.

Table 6: Sadc Indicators of Convergence

	SADC (14)	NON-SACU (9)	SACU (5)
Growth Rates			
1. Average real GDP growth rates (1991-92), % 2.	1.53	0.51	3.36
2. Range of average real GDP growth rates (1991-94) 3.	-9.00 to 7.00	-9.00 to 7.00	0.20 to 5.10
3. Average real GDP growth rates (1995-98), %	4.03	4.19	3.74
4. Range of average real GDP growth rates (1995-98) 5.	-3.00 to 8.50	-3.00 to 7.90	2.10 to 6.40
5. Average inflation rates (1991-94)	641.53	991.68	11.25
6. Range of average inflation rates (1991-94)	1.60 to 7	1.60 to 7	6.80 to 13.70
7. Average inflation rates (1991-94) 8	983.10	983.15	8.22
8. Range of average inflation rates (1995-98)	0.18 to 1749	0.18 to 1749.80	7.40 to 8.73
Fiscal Policy			
1. Average budget deficit, % of GDP (1991-94)	-3.33	-4.43	-1.79
2. Range of budget deficit, % of GDP (1991-94)	10.03 to 6.39	-10 03 to 2.65	-6.63 to6.39
3. Average budget deficit,% of GDP (1995-98)	0.54	0.66	0.37
4. Range of average budget deficit as % of GDP (1995-98)	-7.38 to 13.65	-7.38 to 1365	-3.91 to 2.39
Trade Policy			
1. Average current account, % of GDP (1991-94)	-3.71	-11.79	7.58
2. Range of average current account as % of GDP (1991-94)	-24.55 to 25.56	0-24.55 to 3.37	-1.07 to 25.56
3. Average current account, % of GDP (1995-98)	-8.71	-7.79	-8.68
4. Range of average debt ratio,% of GDP (1991-94)	-18.60 to 9.00	14.63 to 0.30	-18.60 to 9.00
5. Average debt ratio as % of GDP (1991-94)	92.15	149.14	23.76
6. Range of average debt ratio as % of GDP (1991-94)	7.45 to 324.73	54.12 to 324.73	7.45 to 46.47
7. Average debt ratio as % of GDP (1995-98)	89.95	136.40	24.91
8. Range of average debt ratio as % of GDP (1995-98)	4.65 to 298.92	30.00 to 298.92	4.65 to 57.49

Source: SADC Databank

The indicators in Table 6 show a faster movement towards convergence in SACU than in non-SACU member countries. The degree of divergence in the indicators is still very high in the SADC region and this calls for the enhancement of the integration process and strengthening of macroeconomic policy coordination in the subregion. Similarly, the debt ratios seem to suggest that non-SACU members have a heavier debt burden than SACU members.

Table 7 shows the overall budget deficit as a percentage of GDP and the inflation rate for the SADC countries over the period 1990-98. An analysis of the level of budget deficits and inflation in view of debt shows that there is a strong positive relationship among the three variables. Countries with high budget deficits and inflation (Angola, DRC, Mozambique, Zambia and Zimbabwe) also tend to have high debt levels. But SACU countries in general, and Botswana in particular, do have budget surpluses, low inflation and, subsequently, very low levels of debt.

Table 7: Overall Budget Deficit as a Percentage of GDP and Inflation Rates 1990/1998 for Selected SADC Countries

	Average Debt, 1990/1998 (US$ millions)	Deficit Average 1990/1998	Inflation Average 1990/1998
Angola	10383.5	-16.9	1079
Botswana	555.6	6.6	11
DRC	11 599.5	-14.0	3711
Malawi	2001.0	-7.3	29
Mozambique	6430.5	-3.8	37
Tanzania	7020.5	-1.2	22
Zambia	6890.5	-3.8	82
Zimbabwe	3981.5	-6.6	25

Source: SADC HDR 2000, SAPES Trust

Macroeconomic convergence in the region is highly unlikely in light of the high budget deficits and inflation rates that the economies are currently suffocating from. Inflation was very high in the region throughout the 1990s, ranging from 1.2 percent in the Seychelles to 3 711 percent in the DRC with an average rate of 10 percent during the period 1990 to 1998. The main causes were widespread fiscal indiscipline, deficit financing and currency devaluation. These escalating rates made it increasingly difficult to have macroeconomic harmonisation and even less likely that there would be monetary harmonisation in the region. The region also experienced a wide divergence in budget deficits. These divergences reflect discrepancies in the fiscal policies that are pursued by the countries.

4.2 The Impact of the SADC Trade Protocol on Debt

Trade and debt are directly linked in as much as trade performance, particularly exports, determines the ability of a country to service its debt. The debt to exports ratio is a common measure of whether a country is likely to be able or unable to meet its international debt payments. To solve the problem of indebtedness, a country either relies on debt cancellation, rescheduling or, more importantly, on its ability to generate through trade the foreign currency required to pay its debts.

Studies by Imani Development[1] and David Evans[2] concluded that there were potentially dynamic gains from a SADC Free Trade Area (FTA). Both studies however indicate serious implications for the state revenue of a number of countries that depend on border taxes and do not have alternative revenue sources in place. Thus regional trade reduces state revenue and, therefore, the state's ability to service debts. On the other hand, trade liberalisation creates savings for consumers and producers that can be shifted towards debt payment.

Because it has always been difficult to commit SADC governments to sustained expenditure reduction, the SADC Trade Protocol is expected to widen the expenditure-revenue gap in SADC countries. This will inevitably lead to an increased propensity to borrow from the IMF, World Bank and the international community, with the result that SADC countries consolidate their despicable positions as highly indebted countries with a marginal willingness to sustain themselves.

Largely the SADC Trade Protocol is a trade facilitation instrument. For Zimbabwe and the rest of the SADC region to take advantage of the protocol in a debt reducing manner, economic development and harmonisation should be encouraged. Liberalisation of trade, as envisaged by the Protocol, when there is little to trade due to the general nature of the economies and their inbuilt supply constraints, is putting the cart before the horse. Pro-growth policies need to be pursued more vigilantly to complement the SADC protocol. Debt reduction is not an explicit objective of the trade protocol. Rather, it is expected to be achieved through trickle down effects arising from regional trade expansion.

The impact of the trade protocol varies across the region. Countries such as Malawi, Mauritius, Zambia and Zimbabwe are bound to incur bigger losses than other member states as a consequence of the FTA. But it is in this group of countries that the level of debt is unsustainable. So, unless rapid compensatory mechanisms are put in place, these countries' borrowing propensities can be expected to rise sharply, ultimately leading to a situation where regional integration leads countries further into indebtedness.

If tariff reductions on intra-SADC trade encourage importers to switch from low cost global suppliers to higher cost SADC sellers, the net effect would be trade distorting, implying that more and more of SADC's scarce resources would go into sustaining a costly integration process. In debt terms, such a development implies that resources that could have been used in retiring debts are dissipated and wasted by the integration process. It can therefore be asserted that regional integration, or several of its instruments, of which the SADC Trade Protocol is one, can only reduce debt if trade liberalisation engenders pro-growth policies that are themselves independent of debt.

The slow pace at which the process of trade integration is taking place, mainly because of the fears and threats that are embodied in the Protocol, means that alleviation of the debt problem in the region remains elusive. Weaker countries within SADC are wary of South Africa and Zimbabwe's trade positions (since they are the two dominant economies). By embracing the European Union

through the SA-EU trade agreement, South Africa has shown itself committed to aggressive global competitiveness at a time when the rest of the SADC countries are still suspicious of opening up their markets to global competition. A case in point is Zimbabwe, which has actually resorted to imposing uncompetitive price controls. Such contradictory stances, and the differences in the levels of development within the region help neither the integration nor the debt reduction cause. Thus, the feasibility of an effective SADC FTA that might turn the Southern African region into a major investment destination and ward off the debt crisis remains chancy.

The Impact of External Arrangements

Whether the SADC integration process achieves any results for its members or not depends very much on how it is interfaced with the external processes of globalisation and structural reforms. By external environment we mean the impact and need to factor in the IMF and World Bank and their policies, the South Africa-EU trade arrangement, ACP-EU (Cotonou) and USA-Africa (AGOA) arrangements to the whole integration process. The external environment arguably plays a more crucial role in the region than the intra-SADC environment. It is, therefore, imperative that the external environment be interwoven with the integration process in a holistic manner so as to come up with a concrete assessment of debt within the region.

The role of other regional arrangements in reducing debt, either through regional integration or otherwise, has been marginal and, at best, ambiguous.

5.1 World Bank/IMF Structural Adjustment Programmes and SADC Debt

Most SADC countries undertaking IMF/World Bank Structural Adjustment Programmes (SAPs) suffer from a heavy external debt burden and have continued to grow very slowly. The IMF/World Bank programmes have failed to resolve the overhang of extreme external indebtedness. Higher debts have undermined macroeconomic stability by increasing budget deficits. The current IMF/World Bank arrangements need fundamental reform if the external debt burden is to be reduced to levels consistent with high and sustained integration of the poorest countries.

The IMF's views that countries in serious debt crisis can only escape through adjustment has ensured that these countries' balance of payments position, particularly export earnings, has been made worse. Virtually all countries in Africa have had SAPs although the speed and extent has varied but the IMF and World Bank have never shown a serious interest in solving the debt crisis for Southern African countries. For example the popular, IMF/World Bank sponsored Baker Plan proposed offering new loans to those indebted at variable interest rates, yet the cry had been debt reduction and not new loans. Thus World Bank and IMF SAPs have worsened the indebtedness of developing countries.

The whole structural adjustment process in SADC and elsewhere in Africa has been abnormally one sided yet according to John Stuart Mill's concept of 'reciprocal demand', one country's exports are the imports of another and the deficits and debts of one are also the surplus and credits of another country. This has the implication that the burden of adjustment should be equally shared between deficit and surplus countries. The failure of SAPs to pull SADC out of its external debt created the deflationary bias of the standard adjustment models.

SADC is one of the examples of SAPs' anti-development and debt generating tendencies. Outright liberalisation in most of the Southern African countries has not helped in reducing the debt burden but, instead, has tended to encourage production of traditional export commodities. It is, therefore, logical for the Bretton Woods Institutions and other international financial institutions to take responsibility for debts incurred as a result of giving 'misleading' or faulty advice to developing countries.

5.2 The ACP-EU Dimension and Debt

Through the Cotonou Agreement and the African Growth and Opportunities Act (AGOA), the EU and US respectively have sought to engage developing countries in general, and SADC countries in particular, in a trade game. Although they may offer some respite to African exports, these agreements have largely been conceived as efforts to source markets for European and American products.

The EU has actually gone further by proposing Economic Partnership Agreements with interested SADC countries by 2008. These are essentially free trade arrangements with the EU. This threatens to tear apart the region and bring to naught integration efforts thus far, as the participating SADC countries are expected to trade reciprocally with the EU at the expense of intraregional trade.

The EU and South Africa have also concluded a free trade agreement. Its impact on debt is likely to be indirect but negative. Such an arrangement creates an avenue for an influx of EU goods into SADC markets and replaces SADC imports in South Africa. This, in turn, will reduce the competitiveness of SADC countries' exports to South Africa, resulting in heavy losses in export earnings and widening of the revenue-expenditure gap at the government level, hence prompting further borrowing.

In the final analysis, the above agreements place only marginal, if any, emphasis on regional integration and trade as complimentary vehicles to reduce debt. They fail to realise that offering slippery preferences to SADC countries already disadvantaged by heavy debt does not help them grow but ensures that they accelerate into perpetual economic despair and unrest.

Under such circumstances, trade liberalisation and globalisation taken as divine rules, and in the absence of corrective policies to ensure equitable distribution, result in hardships and increasing poverty and, consequently, more debt.

Opportunities and Threats to SADC Integration

Although SADC has managed to strengthen solidarity and create a Southern African identity among its member states, high foreign debt continues to be an intractable problem for countries in the subregional integration scheme. Increase in intra-trade has curtailed by weak balance of payments and foreign reserve positions of member states. The failure to encourage the peoples of the region to develop ties and participate fully in implementing SADC programmes and projects has led to the whole REC being dubbed an 'old boys association' of politicians. SADC has failed to:

- Eliminate barriers to the free movement of goods and people within the region
- Promote human resource development;
- Promote the development, transfer and mastery of technology; and
- Secure international standing, cooperation and support especially to lure investment and resource flows from outside without incurring external debts.

6.1 Issues to be addressed for SADC to be Debt Reducing

A major factor in SADC integration is poor debt management by member governments that, in turn, explains the next two factors. The first is that some of the foreign loans seem not to have been used for domestic investment but consumption. Also, some (maybe large proportions) of the domestic investment financed by foreign loans and grants has not contributed, directly or indirectly, to raising national capacities to earn foreign exchange through exports. The other factor is the uncompetitiveness of most SADC member countries' exports in markets of the industrialised countries due to various constraints, the major ones being lack of diversification and, inadequate or poor policies and strategies for promoting exports.

Another problem for SADC has been the desire by most member states to trade with the north than within the region. Such trade with the north has, in many respects, increased external debt for many member states, as their exports do not match their imports. The recent growth in the partnership between South Africa and the European Union is likely to disadvantage regional economic integration in SADC. It has been linked to the uneven pace of development between South Africa and the rest of the region that is expected to present problems in terms of distributing the costs and benefits of integration. Zimbabwe for instance, due to its foreign exchange problems, is heavily indebted to South Africa's Eskom for electricity supplied.

The absence of a clearinghouse or payment mechanism has made trade difficult for SADC members. A significant portion of the little available foreign currency has been devoted to debt servicing. Countries such as Lesotho and Mauritius have continued to rely on taxes on international trade for foreign exchange earnings and find it very difficult to cut customs duties in the name of regional integration.

Regional Integration in Southern Africa backed by a common currency would have the following specific debt reducing benefits:

- Elimination of transaction costs.

- Elimination of information costs and price discrimination because in a monetary union, costs related to information asymmetry are reduced and so is the debt.

- Increases in overall efficiency that would translate into an increase in the productivity of capital and consequently raise investment and, over time, create a higher capital stock. Returns on investment accruing from previous debt would be enhanced, while increased productivity; incomes and saving would reduce the need for offshore borrowing since the savings-investment gap would narrow.

- Lessening of the risk premium attached to investment by reducing uncertainty about exchange rates and national monetary policies. According to Gros and Thygesen (1992), this stimulates investment and output over time as the capital stock increases. It would also positively impact on intraregional debt levels.

- The SADC Central Bank overseeing a common currency would no longer need to hold reserves to defend intra-community exchange rates and such reserves could be diverted towards investment or debt repayment.

- A common currency would create a stronger SADC presence in the international monetary system and in global financial markets.

- It would foster intraregional flows of investment capital and trigger trade finance, positively affecting the debt situation, as the need to borrow would be reduced.

- Intraregional exchange rate stability and interest rate convergence would reduce barriers to trade and investment caused by past high exposure of traders and investors to foreign exchange and interest rate risk in excessively volatile regional currencies and monetary regimes.

- Significant capital and administrative cost savings would result from a common institutional and regulatory financial framework whose operations would be more viable when applied over a larger market base.

Recommendations

The linkage between regional integration and debt has not been subjected to serious theoretical or empirical scrutiny. In the SADC region, integration is viewed as the panacea to low economic growth and development for the region but this is seldom linked to the fact that indebtedness is the key problem affecting SADC. Regional integration could play an important role in terms of debt reduction in a number of ways, specifically through:

- Trade expansion;
- Currency convertibility
- Payment systems;
- Formation of a debt cartel
- Harmonisation of overlapping REC membership

7.1 Trade Expansion

The primary instrument of regional integration that has a direct impact on debt is trade expansion, spurred by trade liberalisation within a regional grouping. Trade impacts on debt in various ways. First, expansion of regional trade generates incomes, employment through increased trade and growth and, more importantly, foreign currency which can be used to settle debts. Second, trade integration reduces the need to borrow from outside as larger markets provide the scope for full capacity utilisation, attainment of economies of scale and efficiency. Furthermore, among the various sources of foreign currency (aid and FDI) required to service debts, trade revenue is the largest source, is sustainable and does not perpetuate dependence or indebtedness.

SADC needs to address problems associated with the promotion of a free trade system, especially the weak foreign reserves and balance of payments problems among its member states. Aside from these, external borrowing and donor dependency continues to add to the already escalating external debt.

7.2 Currency Convertibility

It is quite feasible to have a common currency in the SADC region. Promotion of initiatives aimed at currency convertibility at fixed exchange rate is a matter of urgency but an optimal currency area could only work well in terms of reducing debt if there were:

- A high degree of intraregional trade coupled with free intraregional factor mobility i.e. wage-price flexibility accompanied by mutual acceptability of local currencies for settling accounts;

- Strong political will and technocratic cooperation to make donor funded regional projects work so that they generate income to pay back loans;

- Gains from monetary integration that are not asymmetrically captured by more developed countries;

- Checks and balances operating on the larger anchor economies to avoid passing on the costs of their macroeconomic misallocation to their partners;

- Adequate reserves to backstop these arrangements under temporary balance of payments stress;
- Relative openness between the economies of participating countries;
- Relative diversification among the production structures of participating countries so that exogenous shock effects are not overly concentrated; and
- Participating countries committed to coordinating balanced fiscal policies with strict budget discipline.

7.3 Payment Systems

There is a need to have a viable regional monetary system or a clearing house in SADC so as to address the issues of foreign exchange, foreign reserves and balance of payments. A lot still needs to be done to harmonise monetary and fiscal policies if SADC is going to have a solution to its debt overhang.

7.4 A Sadc Debt Cartel

SADC needs to formulate a debt cartel that will negotiate with the creditors for better external loan procurement, management and repayments. More rational, effective operations of monetary policy and prudential supervision of banks and securities exchanges could be achieved at the regional than the national level, especially when the resources of several small economies were combined in a strong, independent central monetary authority.

7.5 Harmonisation of Overlapping REC Membership

The fact that many SADC member states are affiliated to different regional economic communities which demand the same commitment and contributions of them make it very difficult for most countries to be fully committed to any of them. Thus they end up not participating fully and being indebted to some of the RECs. The RECs those SADC members are affiliated to (SACU, COMESA, EAC, IOC and the CBI) have conflicting rules, obligations and strategies. This results in conflicts within and between member states of each of the RECs. A case in point is the DRC conflict in which COMESA member states have been fighting on different sides of the war.

Conclusion

Debt is one of the key problems of the Southern African region and the statistics suggest that indebtedness has increased in proportion to trade liberalisation. However, the type of trade liberalisation that the countries of the region have undertaken so far has mainly been in a globalising environment. The potential impact of liberalisation at the regional level has yet to be truly tested. Regional cooperation and integration in Southern Africa could well be the appropriate platform from which to participate more meaningfully in the global economy.

What is needed, therefore, is strong will for regional economic integration in a region where relations between the countries have formerly been highly politicised. The stated position of SADC is that its projects and programmes should be primarily funded from within the region but this is very far from being achieved. External funds currently make up about 80 percent of inputs to such projects and thus force the region more firmly into the debt trap. There is some level of harmonisation of trade under the SADC Trade Protocol but this does not deal with fiscal, monetary or investment policy. Although the Common Monetary Area between South Africa, Lesotho and Swaziland, and the use of the UAPTA in the Preferential Trade Area are promising signs, the levels of convergence in the region are very low. Far greater convergence would be needed for the successful implementation of a broader regional monetary union. Harmonisation at other levels would help to smooth out some of the divergences but questions remain over whether the stronger regional players are really committed to this. South Africa's recent trade agreement with the EU suggests more desire for global competitiveness than for regional integration and strengthening.

Generally the countries of the region are warned to be wary in their dealings with external agencies. As noted, the intention of the Bretton Woods institutions has never been to overcome the problem of developing world debt. When developing countries asked these institutions for debt reduction, they were offered further loans instead. Other bodies, such as the WTO, the EU (through the Cotonou Agreement) and the US (through AGOA) have quite other concerns, chiefly that of opening up ever larger markets for the goods and services of the industrialised countries.

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