Southern Africa Economic Outlook 2019

Macroeconomic performance and prospects

Regional integration and private sector development

AFRICAN DEVELOPMENT BANK GROUP

Southern Africa Economic Outlook 2019

AFRICAN DEVELOPMENT BANK GROUP

The opinions expressed and arguments employed herein do not necessarily reflect the official views of the African Development Bank, its Boards of Directors, or the countries they represent. This document, as well as any data and maps included, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries, and to the name of any territory, city, or area.

Cover design by the African Development Bank based on images from Shutterstock.com

© African Development Bank 2019

ISBN 978-9938-882-98-8 (print)
ISBN 978-9938-882-98-8 (electronic)

You may copy, download, or print this material for your own use, and you may include excerpts from this publication in your own documents, presentations, blogs, websites, and teaching materials, as long as the African Development Bank is suitably acknowledged as the source and copyright owner.

CONTENTS

Figures

Tables

Statistical tables

ACKNOWLEDGMENTS

The Southern Africa Economic Outlook 2019 was prepared in the Vice Presidency for Economic Governance and Knowledge Management, under the supervision and general direction of Célestin Monga, Vice President and Chief Economist, with support from Eric Kehinde Ogunleye, Amah Marie-Aude Ezanin Koffi, Tricia Baidoo, and Vivianus Ngong.

The preparation of the outlook was led and coordinated by Ferdinand Bakoup, Acting Director, Country Economics Department, with a core team consisting of George Honde and George Kararach, Lead Economists for Southern Africa, Elsa Nabenge, Ndoli Kalumiya, Bothwell Nyajena, Tankien Dayo, Suwareh Darbo, Vera Oling, Walter Odero, Wolassa Kumo, Hilda Yumiseva Harnack, Edirisa Nseera, and Alexis Rwabizambuga. Mohamed Fadel, Moses Gumede, Lethlogonolo Motshegwa, and Ishmael Malapela provided administrative assistance.

The data appearing in the report were compiled by the Statistics Department, led by Charles Lufumpa, Director, and Louis Kouakou, Manager, Economic and Social Statistics Division. Their team included Anouar Chaouch, Mbiya H. Kadisha, Soumaila Karambiri, Stephane Regis Hauhouot, Slaheddine Saidi, Kokil Beejaye, Adidi Ivie, and Guy Desire Lakpa.

Contributions were received from Kapil Kapoor, Director General, Southern Africa Region. Busani Moyo (University of South Africa) contributed a background note for the report and for the infographic on people and goods moving across Southern Africa.

Augustin Fosu (University of Ghana) and Peter Montiel (Williams College) served as peer reviewers.

The cover of the report is based on a general design by Laetitia Yattien-Amiguet and Justin Kabasele of the Bank's External Relations and Communications. Editing, translation, and layout support was provided by a team from Communications Development Incorporated, led by Bruce Ross-Larson and including Joe Brinley, Joe Caponio, Meta de Coquereaumont, Mike Crumplar, Peter Redvers-Lee, Christopher Trott, and Elaine Wilson, with design support from Debra Naylor and translation support from Jean-Paul Dailly and a team at JPD Systems.

EXECUTIVE SUMMARY

The Southern Africa Economic Outlook reviews macroeconomic conditions in the 13 countries comprising the African Development Bank's Southern Africa region. The first part highlights growth trends and provides projections for 2019 and 2020 by examining the main drivers of growth based on prevailing global, regional, and domestic conditions. It also examines financial and structural policies and how they shape current and future growth. It then discusses the region's performance on inequality, employment, structural change, and poverty reduction. The second part discusses the region's performance on regional integration.

The Southern Africa economy is projected to grow slower than others in the continent —at 2.2 percent in 2019 and 2.8 percent in 2020. At the heart of this slow growth are the major headwinds of high inflation, increasing government debt, and slow growth in South Africa, which contributes about two-thirds of the region's GDP. The second largest regional economy, Angola, is expected to grow by 1.2 percent in 2019 and 3.2 percent in 2020, while Mozambique will grow at 4.5 percent in 2019 and 5.0 percent in 2020.

The general macroeconomic environment is mixed but stable, with inflation expected to change only marginally from 2018 and remain in single digits except in Angola, where it is projected at 16.8 percent in 2019 and 12.6 percent in 2020. Only three countries will be outside the region's convergence target. Although fiscal deficits are expected to decline in 2019 in most countries, they are above the 3 percent convergence target except in Botswana and Angola and, very concerning, in Zimbabwe and Mozambique. Mozambique's current account deficit of 23 percent of GDP in 2018 and external debt of 145 percent of GDP are of concern, but the hope is that the upward trend in the current account deficit will be reversed in 2020. Although all currencies are expected to depreciate for various reasons, changes are moderate. Only Malawi's will change more than 5 percent, while Angola's has been deliberately depreciated to reduce misalignments.

The second part of the Outlook explores regional integration and the challenges that countries face in promoting it—through trade, production, finance, and infrastructure, as well as the free movement of people. It discusses the role of the private sector in promoting or deepening integration using the Growth Identification and Facilitation Framework, with a focus on private–public partnership arrangements, innovation hubs, and special economic zones. It also looks at environmental issues to encourage sustainable trade development and at the standardization of business codes and products to ensure smooth movement of goods and services.

The Southern African Development Community (SADC) has taken substantial steps toward sustainable and deeper regional integration more than other regional economic communities (RECs) except the East African Community. But it is still 47 percent from the desired target. That it is not the best performer on any of the five regional integration indices means that it has scope to learn from the best performing RECs. Several advances can deepen integration in the region: implementing the SADC industrialization strategy, removing nontariff barriers to trade, improving the environment for doing business, finalizing the model laws to harmonize different financial subsectors, and quickly resolving the challenges to ratifying the free movement of people protocol.

With the share of the private sector in GDP above 70 percent in most countries, no regional integration is sustainable without active private participation. The private sector is a beneficiary and driver of regional integration, and governments must create an accommodative landscape. Public–private partnerships have been successful in other countries for infrastructure development, and reducing trade costs can spur trade.

Steps in the right direction are the Southern African Business Forum, formed in 2015, and stakeholder meetings convened by the SADC secretariat and New Partnership for Africa's Development (NEPAD) that produced the Savuti, Esibayeni, and Sunninghill declarations. They recognize the central role of the private sector in implementing the recent industrialization strategy and integration agenda.

With Southern Africa now a free trade zone, eliminating unnecessary nontariff barriers should be the next step to foster integration. This should be complemented by developing regional growth poles to share the benefits from integration across the region. The use of special economic zones and innovation hubs should be encouraged to nurture nascent industries, promote diversification, and convert latent comparative advantage into competitive advantage.

PART 1

MACROECONOMIC PERFORMANCE AND PROSPECTS

Southern Africa is home to about 209 million people, and its population has grown by about 2.4 percent a year since 2010, slightly below the continent's 2.6 percent.[1] It contributes about 25.6 percent to the continent's gross domestic product (GDP), second after West Africa's 26.3 percent. Despite its economic size, GDP growth has been sluggish, falling from 4 percent in 2010 to about 1.2 percent in 2018, with projected growth of around 2.2 percent in 2019 and 2.8 percent in 2020, lower than in other regions (table 1). Causing the low growth are the major headwinds of high inflation, rising government debt, and low commodity prices. South Africa contributes about 68 percent to the region's GDP but grew at less than 1 percent in 2018. South Africa's GDP per capita, the second highest in Africa, has been declining since 2014 but is expected to pick up in 2019.

Southern Africa countries have different characteristics in terms of economic size, resource potential, economic infrastructure, human capital, political environment, and official languages. For example, there are huge differences in real and financial openness—where countries such as Angola and Zimbabwe may be considered more closed than South Africa and Botswana. And Namibia, South Africa, Mauritius, Botswana, and eSwatini are considered middle-income countries while Madagascar, Mozambique, and Zimbabwe are in fragile situations.[2]

GDP GROWTH AND COUNTRY DRIVERS

The three biggest economies—Angola, South Africa, and Zambia —contribute about 81.9 percent of the region's GDP, while Lesotho, São Tomé and Príncipe, and eSwatini together account for 1.2 percent (figure 1). The dominance of large economies such as South Africa puts pressure on some neighboring countries to suffer from backwash effects of any regional growth dynamics. This reality requires rethinking the efforts toward regional integration.

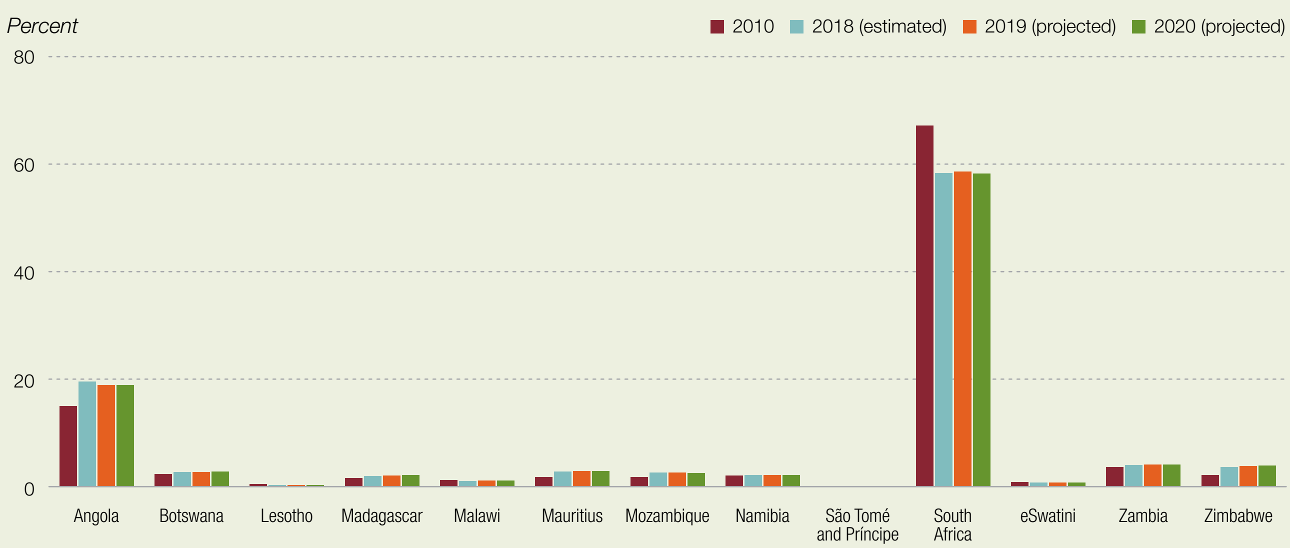
In 2018, the five fastest growing economies were Madagascar (5.0 percent), followed by Botswana (4.2), Mauritius (4.1), São Tomé and Príncipe (4.1), and Zambia (4.0). The five slowest growing economies were Angola (–0.7), eSwatini (–0.5), Namibia (–0.1), South Africa (0.7), and Lesotho (0.9)—a mix of large (Angola and South Africa) and smaller economies (Lesotho, Namibia, and eSwatini). In 2019, Madagascar is projected to grow faster than all the other countries in the region, followed by Malawi, São Tomé and Príncipe, and Mozambique (table 2). Growth in Madagascar is expected to be driven by strong performance of agriculture, services, and the extractive sectors. Growth in Malawi and Mozambique will depend on improvements in

TABLE 1 GDP in Africa, by region, 2010–20

Region	Share in Africa's income in 2017 (%)	GDP growth (%)						GDP per capita ($)			
		2010–13	2014–16	2017	2018 (estimated)	2019 (projected)	2020 (projected)	2017	2018 (estimated)	2019 (projected)	2020 (projected)
Central Africa	5.6	4.8	3.1	1.1	2.2	3.6	3.5	878	939	957.4	987
East Africa	17.1	5.9	5.8	5.9	5.7	5.9	6.1	1,128	1,097	1,120	1,167
North Africa	25.4	4.2	2.8	4.9	4.3	4.4	4.3	3,058	2,966	3,086	3,221
Southern Africa	25.6	4.0	1.8	1.6	1.2	2.2	2.8	2,968	2,853	2,878	2,941
West Africa	26.3	6.3	3.3	2.7	3.3	3.6	3.6	1,506	1,622	1,756	1,900
Africa	100	4.9	3.1	3.6	3.5	4.0	4.1	1,814	1,810	1,877	1,964

Source: African Development Bank statistics.

FIGURE 1 Individual country GDP in regional GDP, 2010–20



Source: African Development Bank statistics.

rainfed agriculture, macroeconomic management and fundamentals, recovery in global demand and commodity prices, and reforms enhancing foreign direct investment.

South Africa

Growth in the South African economy—mainly driven by services, manufacturing, and mining —has been slow since 2011, when it recorded 3.3 percent. Since then, growth has generally been trending downward, falling below 2 percent from 2014 on.[3] Over 2011–18, the macroeconomic environment was stable, with inflation below the 7 percent convergence threshold, the fiscal deficit below 5 percent of GDP, and external debt below 60 percent of GDP, also below the convergence target. Weak revenue collection and expenditure pressures in South Africa continue to move the

TABLE 2 GDP growth, by country, 2008–20 *(%)*

Country	2008–10	2011–13	2014–16	2017	2018 (estimated)	2019 (projected)	2020 (projected)
Angola	6.5	5.7	1.1	–0.2	–0.7	1.2	3.2
Botswana	2.4	7.3	2.2	2.4	4.2	3.8	4.1
Lesotho	5.5	4.9	3.0	–2.3	0.9	1.2	1.0
Madagascar	1.3	2.1	3.6	4.2	5.0	5.4	5.2
Malawi	8.6	3.9	4.1	5.1	3.7	4.6	5.6
Mauritius	4.3	3.4	3.7	3.8	4.1	4.0	3.9
Mozambique	6.6	7.2	5.9	3.7	3.5	4.5	5.0
Namibia	3.0	5.3	4.4	–0.9	–0.1	2.6	3.3
São Tomé and Príncipe	6.6	4.1	4.8	3.9	4.1	4.6	5.0
South Africa	1.6	2.7	1.2	1.3	0.7	1.7	2.0
eSwatini	1.8	3.2	2.0	1.9	–0.5	1.7	2.3
Zambia	9.1	6.1	3.8	4.1	4.0	4.2	4.3
Zimbabwe	1.7	11.7	1.8	4.7	3.5	4.2	4.4
Southern Africa	3.0	3.9	1.8	1.6	1.2	2.2	2.8

Source: African Development Bank statistics.

fiscal deficits higher than expected. In the 2018/19 national budget, the government estimated a gross tax revenue shortfall of 48.2 billion rand (about $3.4 billion). Meanwhile, spending continued to increase because of free higher education, poorly performing state-owned enterprises (SOEs), and government intervention to minimize the impact of slow economic growth.

The annual growth of services has been declining from a high of 3.9 percent in 2011 to 1.3 percent in 2016.[4] Annual manufacturing growth also fell, from 3 percent in 2011 to 0.7 percent in 2016, while mining growth has been erratic, registering negative growth rates in 2012 and 2014 before rising to 3 percent in 2015 and then falling to 1.1 percent in 2017. Generally, the country's industrial sector growth declined gradually from 5 percent in 2010 to –0.6 percent in 2016, a pattern replicated in agriculture. The El Niño–triggered drought that began in 2016 contributed to agriculture's poor performance. The country recently entered a technical recession in the second quarter of 2018 as GDP contracted by 0.7 percent after a 2.6 percent decline in the first quarter, with negative contributions from trade, transport, agriculture, and household consumption. This suggests that structural weaknesses in the economy result in significant unemployment—especially among youth—and low business confidence.

Confidence in the economy has also been low because of poor governance, with high levels of corruption, skill mismatches, and issues surrounding land expropriation. Current government measures to boost confidence include a commission to inquire into state capture, restructured state-owned enterprise boards, new tax measures, and a 50 billion rand stimulus package. Those should strengthen fiscal consolidation, further improve macroeconomic stability, and enhance growth in the medium term.[5] So, the country's projected growth is 1.7 percent for 2019 and 2 percent for 2020, based on greater investor confidence in the political space, higher 2020 commodity prices, and better weather.[6] The projected growth of the country's major trading partners, such as Brazil, India, and Russia and other countries in Africa (a major market for manufactured goods) will act as a tailwind to the country's growth. But the expected decline in global demand—especially due to growth slowdowns in China, Japan, the European Union, and the United States—could act as headwinds.[7]

Angola

Contributing about 19.5 percent to the region's GDP, Angola's growth is expected to rise from –0.7 percent in 2018 to about 1.2 percent in 2019 and 3.2 percent in 2020, on the back of recovery in global commodity prices, with the diamond sector expected to grow at 8.2 percent, agriculture at 5 percent, and construction at 2.1 percent. Indeed, the economy is heavily dominated by mining and quarrying, followed by services and construction, accounting for more than 90 percent of GDP.[8] Slowing growth over 2014–18 was the poor performance of services, with annual growth down from 11.9 percent in 2010 to –3.9 percent in 2016. The growth of mining, with close to 50 percent of GDP, rose from –0.4 percent in 2010 to 1.3 percent in 2017. Construction declined markedly, from 26 percent of GDP in 2010 to 10.3 percent in 2017. The deteriorating macroeconomic environment is poised to improve. Inflation rose from 16.7 percent in 2014–16 to 31.7 percent in 2017, but is expected to fall to 21.1 percent in 2018 and 16.8 percent in 2019. The fiscal deficit increased as a percentage of GDP between 2015 and 2017 but is expected to fall below the 3 percent regional convergence target in 2018 and 2019. External debt, though fluctuating, rose from 31 percent of GDP in 2015 to 42.1 percent in 2018 but remains below the unsustainability threshold. All this points to the need for faster structural transformation, greater value addition, and more economic diversification.

Contributing about 19.5 percent to the region's GDP, Angola's growth is expected to rise from –0.7 percent in 2018 to about 1.2 percent in 2019 and 3.2 percent in 2020, on the back of recovery in global commodity prices

A 2018 International Monetary Fund (IMF) economic health check found that Angola has made strides in setting a reform agenda geared toward macroeconomic stability, diversification, private participation, and inclusive growth. The new government has a specialized unit to clamp down on corruption and improve the institutional environment to enhance domestic and foreign investment. The Macroeconomic Stabilization Program launched in January 2018 promotes fiscal consolidation, greater exchange rate flexibility, reduced public debt as a percentage of GDP, and settlement of domestic payment arrears. The program also promotes structural reforms in the private sector by encouraging competition in the domestic market and addressing monopolistic practices in such key sectors as telecommunications and cement production.

The recent two-year recession and lower-than-expected 2017 growth propelled President João Lourenço to seek an extended credit facility from the IMF in return for structural reforms. On 7 December 2018, the IMF approved a three-year extended credit facility of about $3.7 billion to support the economic reform program.[9] The facility will help Angola restore external and fiscal sustainability and lay the foundation for sustainable private sector–led investment and economic diversification.

The National Development Plan (2018–22) supports a transition from subsistence to market-oriented competitive commercial agriculture and a reduction in food imports. It also encourages the private sector to develop value chains that promote growth and diversification. Higher oil prices are expected to improve the current account position, reduce budget deficits, increase foreign currency inflows, and help Angola meet or surpass its expected growth in 2019 and 2020. An improved economic outlook for the country will also boost nonoil tax revenues, given the new tax policy and administration measures.

Mozambique

This economy is driven mostly by services, agriculture, and manufacturing, and manufacturing growth has been encouraging, rising from 3.1 percent in 2010 to 7.3 percent in 2016, as the other main sectors declined.[10] The inflation outlook is good because consumer prices are dropping, and fiscal deficits are expected to increase in 2019 before falling in 2020 due to eliminating subsidies on fuel and wheat. But the country needs to improve its poor business climate to boost private investment and job creation.[11] Growth is expected to fall to 3.5 percent in 2018 before rising to 4.5 percent in 2019. A major challenge is to move away from capital-intensive projects and low-productivity agriculture to a diversified and competitive economy. The unsustainably high external debt, rising from 69.7 percent of GDP in 2012 to 158.0 percent in 2018, is a major headwind. The effects of the 2016 hidden debt crisis continue to haunt the country, and transparently handling the investigations and possible debt restructuring negotiations will help restore macroeconomic stability.[12]

Botswana

The outlook for other countries in the region is generally mixed. The region's fifth largest economy, Botswana—a country that contributes about 3 percent to the region's GDP—is driven mostly by services and mining and quarrying, as well as construction, and is expected to improve its performance in the short term. Botswana's growth is estimated to have risen 1.8 percentage points to 4.2 percent in 2018. It is projected to fall to 3.8 percent in 2019 before recovering to 4.1 percent in 2020. The country's macroeconomic environment is stable with low inflation, expected at 3.4 percent in 2018. The external debt, estimated at 26.1 percent of GDP in 2018 was the second lowest after eSwatini over 2012–17.

Commodity dependence constrains Botswana's development aspirations. Mining and quarrying account for 23 percent of GDP, and the share of mineral revenue in government revenue stood at 33.8 percent in fiscal 2017/18. Increased diamond demand through improved consumer sentiments in the United States and China has led to a recovery in global production. Thus, if mineral prices continue upward, then good prospects lie ahead for Botswana. The relatively stable macroeconomic environment, coupled with recent government announcements to continue improving public sector efficiency and the business environment, in addition to the intention to remove burdensome regulations and relax restrictions on permits and visas for foreign workers, will help spur the country's future growth. But heavy reliance on commodities continues to leave it vulnerable to international market fluctuations, pointing to the need to add more value to minerals and diversify its economic base. Botswana thus has to target high-productivity sectors, reduce vulnerability to external shocks, and deliver a more inclusive, resilient, and job-creating economy.

Mauritius

The Mauritian economy has been growing at 3–4 percent a year over 2010–18,[13] driven largely by services and manufacturing (about 90 percent of GDP). Although the annual growth of manufacturing has been declining, from 4.7 percent in 2013 to 0.3 percent in 2016, services have consistently grown, at an average annual rate of 5 percent since 2010.[14] This sector is buoyed in addition to finance and trade by growth in tourism in response to growth in global incomes.

Mauritius's general macroeconomic environment is good, with inflation stable at around 4 percent for 2018–20. The fiscal deficit has been below 4 percent of GDP since 2015, slightly above the region's convergence target of 3 percent.[15] The challenge is to reduce the country's unsustainable external debt, estimated at 81.8 percent of GDP in 2018, declining since 2014 but at a slow pace. The expected increase in growth in some of the country's major trading partners such as India, South Africa, and the United Kingdom and the implementation of the government's ambitious public infrastructure program will act as tailwinds.[16] Possibly slowing its growth in 2019 will be the expected slow growth in China, the European Union, and the United States.[17]

Other countries

Higher commodity prices will benefit several mineral-rich countries, such as Namibia (uranium and diamonds), Zambia (cobalt and copper), and Zimbabwe (an array of minerals). But stronger mining will have only moderate impacts on GDP, with contributions between 7 percent and 13 percent of GDP. In Zambia, high international copper prices and improved domestic production from newer and recently refurbished mines is expected to support exports, while implementing the 7th National Development Plan (2017–21) will improve economic diversification and sustain growth.[18] In Namibia, the high fiscal deficits and rising public debt limit the country's ability to finance capital projects that would underpin the country's long-term growth path. But higher diamond production due to recovery in global demand and implementation of the planned infrastructure investment projects for which funding is expected from the African Development Bank will support growth in the region's sixth largest economy.

Higher commodity prices will benefit several mineral-rich countries, such as Namibia (uranium and diamonds), Zambia (cobalt and copper), and Zimbabwe (an array of minerals)

Zimbabwe's GDP growth has been on a downward trend since 2013 despite its double-digit growth between 2010 and 2012. Liquidity shortages, coupled with expansionary fiscal policy resulting in unsustainable fiscal deficits, continue to create macroeconomic instability compromising future growth. But the two-year Transitional

Stabilization Program (2018–20) could aid economic recovery prospects and place the country on a sustainable growth path.[19] It seeks to reduce public expenditure by restructuring the civil service, clear outstanding debt arrears to international financial institutions of about $1.8 billion, stem liquidity challenges that have seen parallel market exchange rates rise steeply and contribute to inflationary pressures, and attract foreign direct investment. Political commitment to implement the program is imperative. Rising inflation, estimated at 31 percent in December 2018, and forecasts of a likely El Niño event in 2018/19, dampen the country's growth outlook.

Malawi's drive to implement fiscal reforms include reducing the relatively high borrowing and budget deficit, repealing the industrial rebate scheme, removing tax holidays, strengthening tax administration, and limiting nonessential recurrent spending. These reforms, augmented by the Malawi Growth and Development Strategy III (2017–22), favor a positive outlook. The economy continues to grow, while inflation remains on a declining trend.[20] Over the medium to long term, growth will be backed by improved electricity generation, better irrigation infrastructure and cropping techniques, greater access to finance, and a stronger business climate. The IMF also approved an extended credit facility to Malawi in early 2018 to entrench macro stability and foster inclusive and resilient growth—and thus to support the country's economic and financial reforms.

Services dominate the region's economy, largely due to the influence of South Africa, on average contributing about 60 percent to GDP from 2010 to 2017

The Malagasy economy has been performing well, buoyed by services and agriculture, which contributed about 80 percent to GDP in 2017. Good rainfall, higher vanilla prices, and an improved external market for nickel and garments are good for the country's growth prospects.

In Lesotho, the construction of the second phase of the Lesotho Highland Water Project and the good performance of diamonds—as well as macroeconomic stability and fiscal sustainability measures proposed in the 2018/19 budget—will boost the economy.[21] Proposed budget measures include streamlining the civil service by removing ghost workers, limiting hiring to critical staff, and using performance-based salaries. The government deficit, low at 4 percent of GDP in 2017, is expected to decline to 3.7 percent in 2018, 3.4 percent in 2019, and 3.0 percent in 2020. Lesotho aligns its interest rate policy with South Africa's and experiences low inflation due to declining food prices.[22]

eSwatini faces low growth, fiscal challenges, and a depressed external environment. Real GDP growth declined in 2018 but is expected to recover to 1.7 percent in 2019 and 2.3 percent in 2020. In the 2018/19 fiscal budget, the government adopted a fiscal consolidation reform and recovery strategy. The measures include rationalizing public employment with a freeze on new hiring, reducing current spending, and slowing capital investment.

São Tomé and Príncipe has had a buoyant economy in recent years. The economy grew by an average 4.9 percent in 2010–15, driven mainly by foreign direct investment (FDI) in agriculture and construction. The economy expanded by an estimated 3.9 percent in 2017, largely due to the service and construction sectors. The short-term economic outlook is positive, with GDP growth projected at 4.6 percent in 2019 and 5.0 percent in 2020, fueled by investment in infrastructure.

SECTORAL COMPOSITION OF GDP

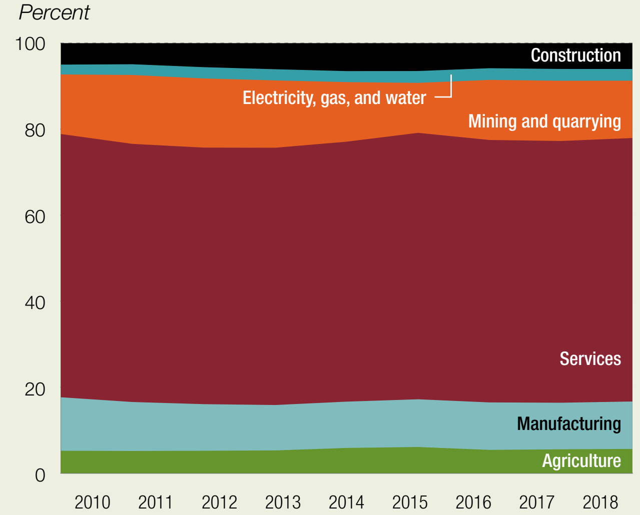
The region's sectoral characteristics suggest the need for greater structural transformation, more manufacturing, more value addition, and job-creating growth. Dynamic economies of scale can be developed through manufacturing when productive development policies are deployed.[23] Services dominate the region's economy, largely due to the influence of South Africa, on average contributing about 60 percent to GDP from 2010 to 2017, followed by mining and quarrying at 14.4 percent and manufacturing at 11 percent (figure 2). The largest contributor to services in 2018 was South Africa at 67 percent, followed by Angola at 14 percent and Zambia at 4 percent. South Africa's contribution had fallen, however, from 73 percent in 2010 to 62 percent in 2017, as Angola's share improved from 11 percent to 16 percent. The pattern is similar for Zambia, whose share increased from 3.4 percent in 2010 to about 5 percent in 2017. South

Africa's declining contribution is mainly due to slow growth in key sectors, coupled with insufficient competitiveness in goods and services markets, inefficient SOEs, skill shortages, and policy uncertainties surrounding the new mining laws.[24]

Industry's contribution to regional GDP remained static at around 34 percent. South Africa contributes the most to manufacturing output in the region, though its growth in manufacturing fell from 0.9 percent in 2016 to −0.2 percent in 2017, and its share of manufacturing output in the region from 77 percent in 2010 to 67 percent in 2018.[25] Angola's share of the regional manufacturing output rose from 6 percent in 2010 to 10 percent in 2018. Zambia's contribution to the region's manufacturing output has gradually been increasing since 2010, from 2.4 percent to 3.7 percent in 2017 (table 3).

The agricultural sector in the region is slightly different, even though South Africa has historically contributed more than the other countries. South Africa's share declined from 34 percent in 2010 to 23.6 percent in 2017. Meanwhile, Angola has, since 2013, generally been producing and contributing more than South Africa and in 2018 was the region's top producer at 26.4 percent, compared with South Africa's 23.2 percent. In 2017, other countries that contributed relatively large shares of the region's agricultural output were Mozambique at 14.6 percent and Madagascar at 9.9 percent. The sector also continues to be vulnerable to

FIGURE 2 **Sectoral distribution of GDP, 2010–18**



Source: African Development Bank statistics.

TABLE 3 **Average sectoral contributions to GDP, by country, 2010–18** *(percent and contribution to the regional total)*

Country	Manufacturing	Agriculture	Services	Electricity, gas, and water	Mining and quarrying	Construction
Angola	4.8 (9.3)	7.3 (28.6)	41.6 (14.7)	0.5 (3.7)	34.6 (51.2)	11.2 (41.7)
Botswana	6.2 (1.4)	2.5 (1.2)	62.5 (2.6)	0.0 (0.0)	21.8 (3.9)	6.9 (3.0)
Lesotho	14.5 (0.5)	5.9 (0.4)	59.5 (0.4)	5.8 (0.9)	8.1 (0.2)	6.2 (0.4)
Madagascar	14.1 (2.2)	26.7 (8.4)	54.2 (1.6)	1.2 (0.8)	0.3 (0.0)	3.4 (1.0)
Malawi	10.3 (1.0)	31.1 (6.1)	53.2 (0.9)	1.4 (0.6)	1.0 (0.1)	3.1 (0.6)
Mauritius	15.0 (2.7)	3.8 (1.4)	73.6 (2.5)	2.2 (1.7)	0.3 (0.0)	5.2 (1.8)
Mozambique	10.1 (2.1)	26.2 (11.0)	52.7 (2.0)	3.5 (3.1)	5.1 (0.9)	2.3 (0.9)
Namibia	12.7 (2.3)	7.6 (2.9)	61.2 (2.1)	2.2 (1.7)	12.7 (1.9)	4.3 (1.5)
São Tomé and Príncipe	7.5 (0.0)	12.0 (0.1)	71.3 (0.1)	2.4 (0.0)	0.3 (0.0)	6.5 (0.1)
South Africa	13.4 (70.4)	2.5 (26.3)	68.1 (65.6)	3.5 (78.7)	8.6 (35.5)	4.0 (40.3)
eSwatini	33.0 (2.2)	10.2 (1.4)	51.7 (0.6)	1.3 (0.4)	0.6 (0.0)	3.2 (0.4)
Zambia	7.6 (2.9)	8.0 (6.1)	56.4 (3.9)	2.8 (4.4)	15.2 (4.4)	9.9 (7.0)
Zimbabwe	11.0 (2.9)	11.6 (6.1)	62.3 (3.0)	3.6 (3.9)	8.6 (1.8)	2.9 (1.5)

Source: African Development Bank statistics.

On the demand side, the major driver of expenditure growth is consumption by both governments and households

variable weather, increasing the need to invest in climate-smart agriculture to enhance agro-based industries and food security.

Mining and quarrying are dominated by Angola, followed by South Africa, Zambia, and Botswana, in that order. The four countries accounted for about 96 percent of the 2017 output. Angola's presence in the sector since 2010 is gradually increasing, Botswana's has been steady, Zambia's growing, and South Africa's falling. These sectoral changes point to the evolving roles of natural resources such as minerals and rare earths in Southern Africa, along with the problems of Dutch disease and wider resource governance.

On the demand side, the major driver of expenditure growth is consumption by both governments and households, with the latter accounting for a larger share (table 4). Government and household consumption also dominate aggregate demand of the regional economy. In 2017, consumption expenditure was about 78.4 percent of GDP, 60.2 percent by the household sector. Slightly more than three-quarters of that expenditure is by South Africa and Angola, but South Africa's share has been falling, a trend projected to continue until 2019, while those of Angola, Botswana, Mozambique, and Namibia have been increasing.

Since 2013, the region has been a net importer, attributable to the low exports because of poor infrastructure and inadequate access to financial services and skills. But the gap between exports and imports has been narrowing since 2016 and almost closed in 2017. Thus, in 2017, the region exported 30.3 percent of GDP and imported 30.4 percent. The main exporter is South Africa, with 72 percent of total exports in 2017, followed by Angola at 6 percent and Botswana at 5 percent. The share from Angola has been falling since 2012, while those of Botswana and South Africa have been rising steadily.

Capital formation has generally not exceeded a quarter of GDP, and the private sector's contribution is not far from the government's. Government investment has been gradually increasing. And while South Africa leads in its contribution to capital formation, its share has been dwindling while those of Angola and Zambia have been increasing —Angola's share rose from 19 percent in 2010 to 30.3 percent in 2017, as South Africa's fell from 60 percent to 45 percent. These changes will continue to redefine leadership in research and development, market penetration, job creation, and economic dominance.

OPPORTUNITIES AND RISKS

Global tailwinds and (mainly) headwinds

The expected slow growth of Southern Africa's main exports to the European Union, the United States, and China will dampen trade and growth somewhat, since the region exports around 33 percent of its GDP. The slight decline in the region's trade and growth is because growth in the EU economy is expected to decline by 0.2 percentage point in 2019, from the 2 percent expected at the end of 2018, while growth in the United States is anticipated to decline by 0.4 percentage

TABLE 4 Regional expenditure patterns *(% of GDP)*

Component	2010	2011	2012	2013	2014	2015	2016	2017	2018
Household consumption	57.5	56.8	58.1	57.7	58.1	60.4	60.8	60.2	59.2
Government consumption	18.9	18.9	19.2	20.2	19.7	19.3	18.8	18.2	18.2
Private gross capital formation	12.7	12.9	12.9	13.5	13.1	13.6	12.5	11.9	12.5
Public gross capital formation	9.2	9.1	9.9	10.0	10.6	11.7	9.6	9.8	10.2
Exports	35.0	37.4	36.5	36.7	36.0	31.3	31.3	30.3	32.0
Imports	33.4	35.1	36.6	38.1	37.5	36.3	33.0	30.4	32.2

Source: African Development Bank statistics.

point in 2019. The Chinese economy is projected to maintain growth around 6 percent but with an expected growth decline by 0.3 percentage point in 2019.[26] The lukewarm external market bodes ill for Southern Africa's exports, just as the recent upward trend in fuel prices does for regional economic performance, since Angola is the region's only net oil exporter. Due to the high dependency on oil imports, non-oil-producing countries have difficulty diversifying their risks. But with the rising commodity prices, mineral-producing countries are expected to benefit. In contrast, countries like Malawi, Mauritius, and eSwatini are not blessed with mineral resources.

China's rapid growth, if it continues for the next few decades, offers Southern Africa a huge economic opportunity, not least by underpinning commodity prices, thus boosting the region's terms of trade, and investing more widely in infrastructure. Greater trading opportunities would support fragile balance of payments positions throughout the region, potentially assisting with pervasive debt repayment problems.

While imports of cheap Chinese manufactures have produced a large and widening bilateral trade deficit over the past decade with South Africa, Southern Africa stands to gain from the minerals nexus. China's manufacturing boom is driven by imported minerals, such as platinum, copper, iron ore, and chromium, which Southern Africa possesses in abundance. This implies increasing mineral exports to China, together with growing Chinese investment in the region, to securely supply natural resources in exchange for infrastructure. China's agricultural imports should also continue to rise, as land in that country is taken out of agricultural production and its urban population expands. Southern Africa has the potential to export such goods to China. Much depends on greater regional investment to increase export capacity, and further Chinese investment in the region would most likely support it.

Mauritius and South Africa, with their world class banking sector and internationally competitive service companies, can supply those services to the Chinese market. Moreover, the services are set to benefit from the broader trade expansion with China, possibly creating a virtuous circle of investments and exports.

But China's rise also holds risks for Southern Africa. Imports of cheap Chinese goods threaten to displace regional production, particularly in labor-intensive manufacturing. Given the structural characteristics of the region dominated by pervasive unemployment, a key question is how to ensure future employment growth. Indeed, fears are growing that Southern Africa will be condemned to the role of exporter of raw materials. South Africa's exports to China support these concerns. In 1993, advanced manufactured goods accounted for 50 percent of total exports to China, while raw materials and intermediate goods made up the remainder. By 2018, advanced manufactures accounted for a mere 8 percent of the total, with resources and intermediate products accounting for the rest. Such negative effects on manufacturing of engaging with China seem to be increasing.[27]

Regional tailwinds and headwinds

The continuing slow growth in South Africa holds back the fiscal revenues of countries in the Southern African Customs Unions (SACU).[28] Those countries could find alternative sources of revenue to reduce their exposure to South Africa —by strengthening tax administration, minimizing tax evasion, expanding the tax rates on natural resources, and reducing corruption. The region performed dismally between 2015 and 2016 because of a 0.7 percentage point decline in South Africa's growth and a 3.5 percentage point decline in Angola's.[29] The low growth was due to drought, continual power outages, and declining terms of trade. The development of regional infrastructure by regional economic communities is expected to increase competitiveness and expand the opportunities for trade and investment, while improving social conditions and eradicating poverty.[30] Tourism is another avenue to promote economic development, as with the flourishing tourism sectors in Botswana, Mauritius, and South Africa.

The development of regional infrastructure by regional economic communities is expected to increase competitiveness and expand the opportunities for trade and investment, while improving social conditions and eradicating poverty. Tourism is another avenue to promote economic development, as with the flourishing tourism sectors in Botswana, Mauritius, and South Africa

Peace and security

Largely peaceful and secure, Southern Africa is the most stable region in Africa. But there have been instances of political crises, democracy and governance deficits, and even armed conflict.[31] Lesotho had political instability and a security crisis in 2015 and 2017. Angola had a new president in 2017 after 38 years, and Zimbabwe in 2018 after 37 years. And South Africa witnessed changes in political leadership likely to boost investor confidence. Botswana continues to rank as a peaceful country on the global peace index, remaining in second place in Africa after Mauritius.

MACROECONOMIC STABILITY

Inflation

The macroeconomic environment in Southern Africa appears to be improving as inflation pressures are generally slowing in many countries, in single digits in 2018 except for Angola and Malawi (table 5). The increase in global oil prices feeds into the domestic prices of importing countries. Tight monetary policy in many countries allowed them to experience somewhat low inflation, with single digits projected for 2019 and 2020.

The liquidity crisis in Zimbabwe put pressure on prices and, if not contained, will result in end-of-year inflation above expectations in 2019 and 2020. Successful implementation of the new transitional stabilization program in Zimbabwe and the macroeconomic stabilization program in Angola, to promote fiscal consolidation and reduce external debt, will help in improving the 2019 inflation outlook for the two countries.

The depreciation of the South African rand has dragged along the Southern Africa Customs Union currencies

Exchange rates

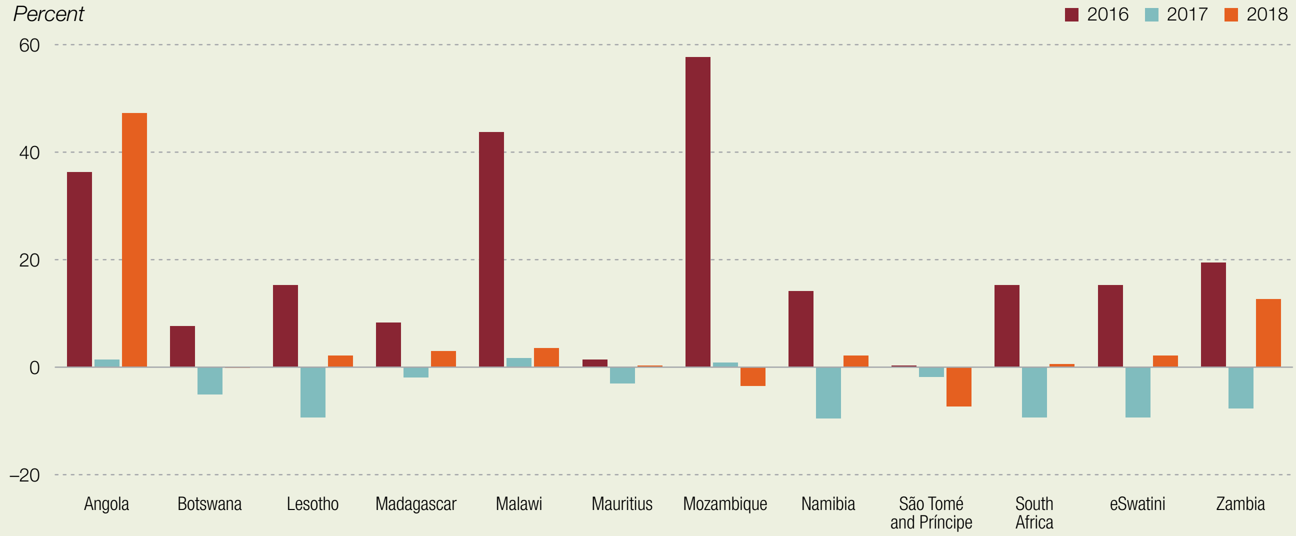
The depreciation of the South African rand has dragged along the Southern Africa Customs Union currencies. Due to volatility in commodity prices and uncertainty in emerging markets such as South Africa, most national currencies lost ground against the US dollar in 2018 and are expected to continue depreciating in 2019, except for the Mauritian rupee (which is not underpinned by commodity exports) (figure 3). Continuing strength in service exports (mainly tourism) and brighter prospects for goods exports due to stronger economic growth in Mauritius's key trading partners (India, South Africa, and the United Kingdom) and favorable balance of payments are some of the factors that will strengthen the rupee.[32] The relatively large depreciations in Angola, Malawi, and Mozambique in 2019 will partly be caused by expected large current account deficits—Mozambique's is expected to increase by 7 percentage points to 30 percent of GDP in 2019. In Malawi the increase in the importation of maize announced in the

TABLE 5 Average consumer inflation, by country, 2008–20

Country	2008–10	2011–13	2014–16	2017	2018 (estimated)	2019 (projected)	2020 (projected)
Angola	13.6	10.8	16.7	31.7	21.1	16.8	12.6
Botswana	9.2	7.3	3.4	3.3	3.4	3.9	3.8
Lesotho	6.6	5.3	5.1	5.3	4.8	4.9	5.1
Madagascar	9.1	7.2	6.7	8.3	7.7	7.1	6.3
Malawi	8.2	18.7	22.5	11.5	10.4	7.7	7.0
Mauritius	5.0	4.6	1.8	3.7	5.1	4.5	4.4
Mozambique	8.8	5.6	8.0	15.1	4.6	5.0	5.1
Namibia	7.8	5.8	5.2	6.2	4.2	5.2	5.3
São Tomé and Príncipe	20.8	11.1	5.9	5.7	6.8	5.5	4.5
South Africa	7.6	5.5	5.7	5.3	4.9	5.3	5.5
eSwatini	8.2	6.9	6.2	6.2	5.4	5.4	5.5
Zambia	11.4	7.4	11.9	6.6	7.6	7.9	7.6
Zimbabwe	5.5	2.9	–1.4	0.9	3.6	3.5	3.5
Southern Africa	8.7	6.7	7.7	9.3	7.4	7.1	6.6

Source: African Development Bank statistics.

FIGURE 3 **Exchange rate depreciation, by country, 2016–18**



Note: Data for Zimbabwe are not available.

Source: African Development Bank statistics.

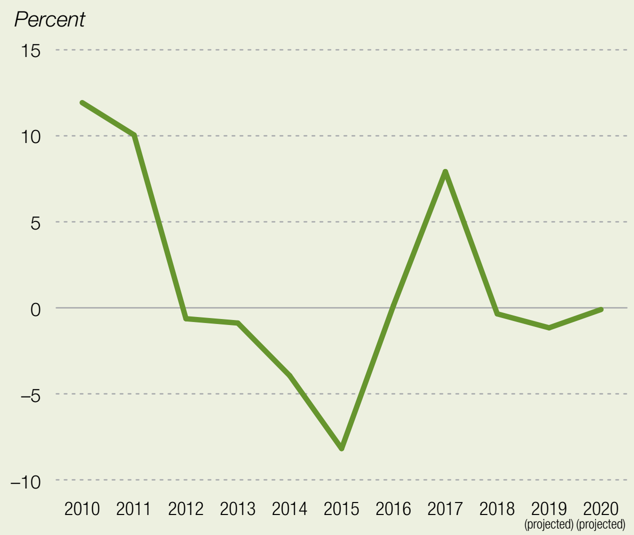
2018/19 national budget will also contribute to the expected exchange rate changes. In Angola, the projected exchange rate changes will be due to monthly devaluations by the National Bank of Angola to realign the country's exchange rate and reduce its overvaluation.[33]

At the regional level, exports have fallen short of imports since 2013, contributing to exchange rate depreciations. Angola is the only country that has generally been running a positive trade balance since 2010, while Botswana and South Africa's trade balances have been positive though declining since 2016. Botswana, Malawi, Namibia, eSwatini, and Zimbabwe expect export growth to be greater than import growth for 2018–20.

Terms of trade

The terms of trade for goods and services slowly deteriorated until 2015, picked up again in 2016, and declined again in 2017 (figure 4). The decline has been exacerbated by the recent declines in global commodity prices.

FIGURE 4 **Terms of trade changes in Southern Africa, 2010–20**



Source: African Development Bank statistics.

Current account

The region's current account deficit is estimated to have worsened from an average of 2.1 percent of GDP in 2017 to 2.9 percent in 2018. Despite a general global recovery in commodity prices (although with significant dispersion), the recent weak economic performance in South Africa has slowed export growth in SACU countries, while stronger import growth and exchange rate deteriorations have hit non-resource-intensive countries (figure 5). For 2011–19, Botswana is the only country that consistently ran large positive current account balances, followed by eSwatini. High diamond prices and a rebound in agriculture following the 2015–16 drought are some of the reasons behind Botswana's good current account performance. Mozambique continues to record the largest current account deficit, with large imports of capital goods and services related to natural gas megaprojects the main driver. Contributing to the continuing fragility of Lesotho's current account balance are declining SACU revenues, which account for more than 40 percent of total revenue, lower demand (from South Africa), and the poor performance of textile manufacturing. Zimbabwe's current account deficit fell sharply to 2.1 percent of GDP in 2017 from an average of 8.2 percent over 2014–16, when liquidity challenges compressed imports. Despite an uptick in export revenues from improved mineral and tobacco prices, Zimbabwe's current account deficit persists, as manufacturing exports continue to be constrained by outdated equipment and restrictive exchange controls. In São Tomé and Príncipe, the current account deficit declined to 6.7 percent of GDP in 2018 from 8.2 percent in 2017, but is expected to rise again to 7.3 percent in 2019.

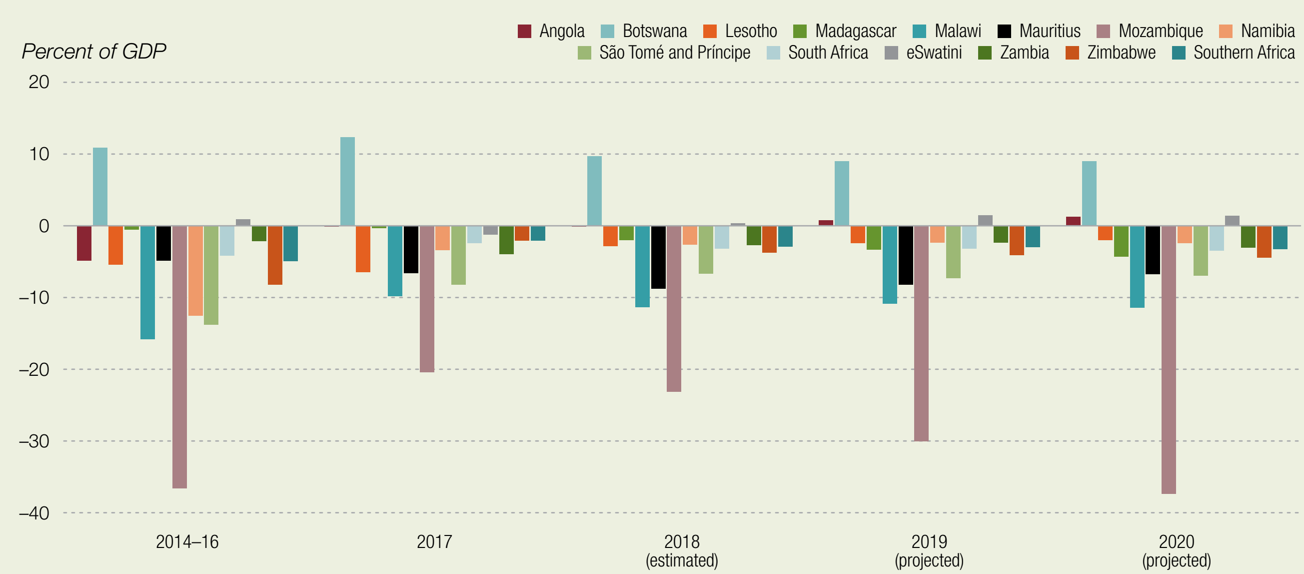
Public sector finance

Debt

Southern Africa's many development aspirations come with big challenges. Massive financing in a dynamic financing landscape is rapidly increasing public debt. As the region pursues economic transformation, it needs to balance increased financing and overall debt sustainability.

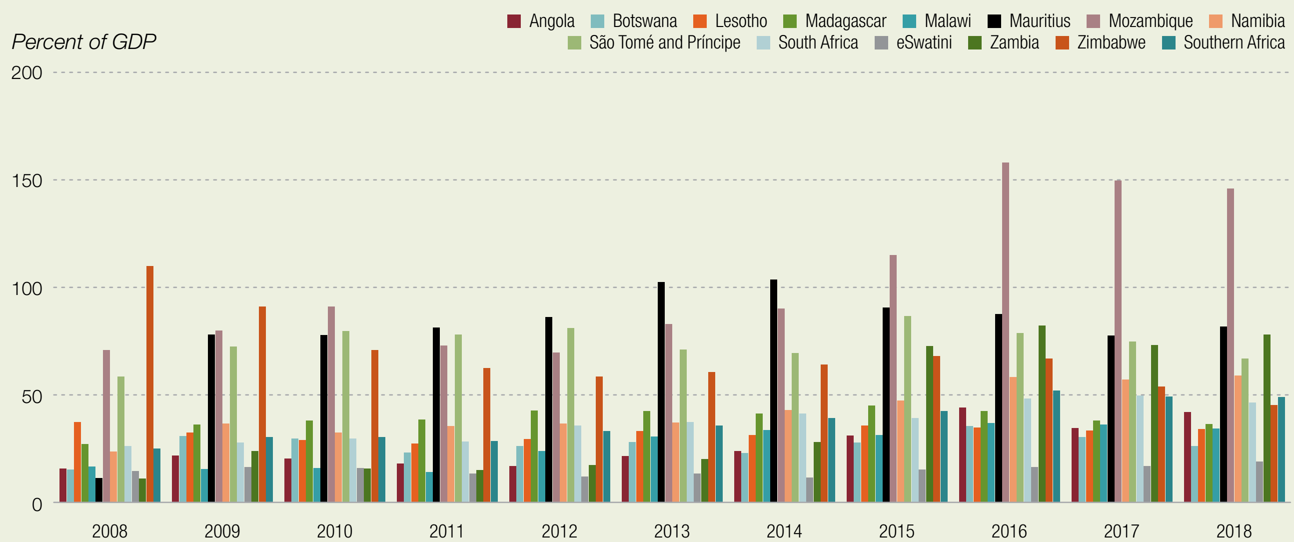
Public debt for 2010–18 is generally high, continuing to rise in some countries (figure 6). Tighter global financial conditions and fading investor sentiment toward emerging markets contributed to a reversal in capital inflows and to higher financing costs. Public debt remains high though declining, especially in Mauritius, Mozambique, and Zambia. Exchange rate depreciations in Zambia and the reporting of previously undisclosed debt in Mozambique contributed to the deterioration in their debt-to-GDP ratios.[34] In 2018, government debt rose rapidly in Angola and Zambia, because of continued exchange rate depreciations. In addition to the rise in debt ratios, variations in the composition of debt have made many countries

FIGURE 5 **Current account balances, by country, 2014–20**



Source: African Development Bank statistics.

FIGURE 6 External debt accumulation, by country, 2008–18



Source: African Development Bank 2018a.

susceptible to changes in financing conditions. Nonconcessional financing accounted for more than 50 percent of total public debt in Zambia and Zimbabwe and more than 30 percent in Mozambique. Debt's sustainability has deteriorated in some Southern African countries. At the end of 2017, Mozambique and Zimbabwe were classified in debt distress under the World Bank–International Monetary Fund debt sustainability framework. And previously moderate ratings for Zambia were changed to high risk of debt distress.

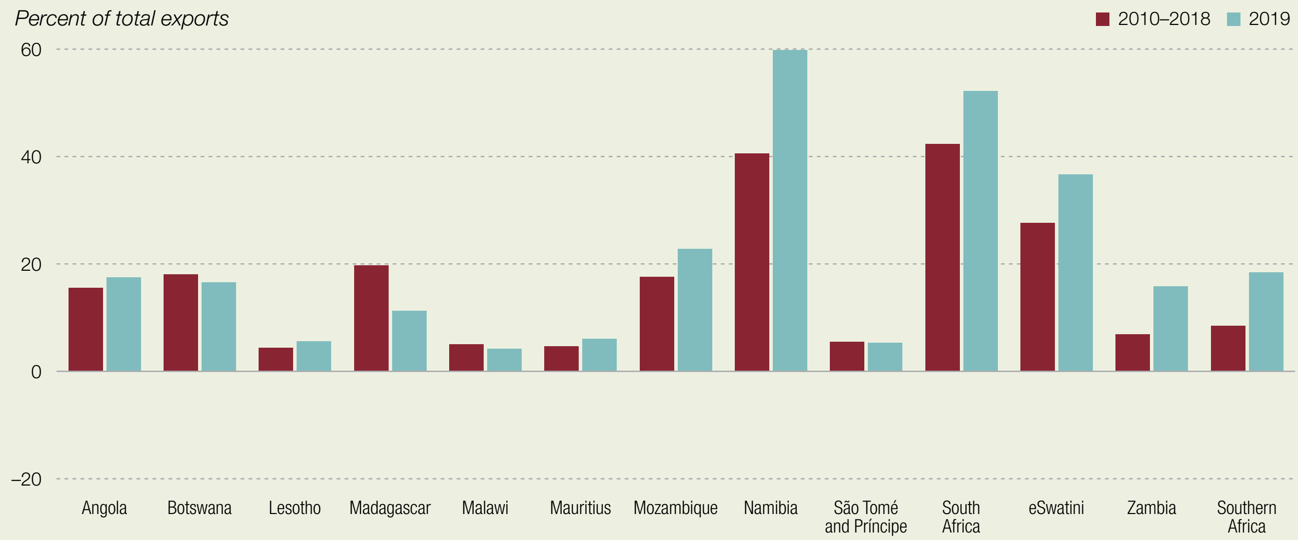
In 2010 and 2014, total public debt as a percentage of GDP was relatively low in most Southern African countries and lower than the recommended maximum of 60 percent, except in Mauritius, Mozambique, and Zimbabwe. From 2016 to 2018, debt levels remained sustainable in eight Southern African countries, including Namibia, where levels are slowly approaching the 60 percent threshold. eSwatini has been recording the lowest external debt levels, followed by Botswana. Interest payments as a percentage of exports of goods for 2010–18 have been below 30 percent for the region, though high in Namibia. The expected increases in debt servicing by Angola, Mozambique, Namibia, South Africa, and Zambia in 2019 partly reflect the commitment by their governments to reducing debt accumulation (figure 7). Debt servicing is very low in Mauritius even though the country is indebted unsustainably.

There is no guarantee for debt sustainability because any severe shock could throw a country over the limit. Reform of the nonbanking financial sector can strengthen domestic debt markets. Strengthening retirement benefits and insurance will increase the long-term finance available for the domestic debt markets. Traditional and new alternative sources for financing development should be considered, including investment-seeking opportunities for sovereign wealth funds and pension funds as well as innovative financial instruments such as diaspora bonds to unlock capital in remittances. There must be a balance between ensuring that new concessional and nonconcessional borrowing from domestic and external sources goes to high growth projects and managing ongoing fiscal adjustments to place public debt on a sustainable path.

Fiscal deficits

General government expenditure has been rising steadily and is expected to continue its gradual upward trend. In 2017, it was recorded at

FIGURE 7 Debt service—interest and amortization, by country, 2010–19



Note: Data for Zimbabwe are not available.

Source: African Development Bank statistics.

30.1 percent of GDP (table 6), with two-thirds of it final consumption expenditure. In most countries, recurrent expenditure as a proportion of GDP is higher than government gross capital formation, except in Angola and Malawi, where government total expenditures are equally shared. Higher 2017 shares of government expenditure in GDP in Angola (40 percent), Lesotho (45 percent), Mozambique (44 percent), and Zimbabwe (36 percent), despite their fiscal consolidation measures, may impede growth since their GDP is driven largely by the state. The 2019 outlook for government recurrent expenditure is not expected to change much, except in eSwatini, where it is projected to increase from 19 percent of GDP to 28 percent. The low expected growth of the South African economy, the main importer of about 60 percent of eSwatini's exports, will continue to weigh heavily on growth. Indeed, the economic situation in South Africa may compromise the eSwatini government's ability to implement the fiscal reforms announced in its 2018/19 budget.

The region's fiscal balance is in deficit, has worsened, and remains above the 3 percent economic convergence target set by the SADC. Except for Botswana, all other Southern African countries

TABLE 6 Public finances in Southern Africa, 2010–18 *(% of GDP)*

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total revenue	29.0	28.2	26.6	25.3	24.9	27.2	25.9	26.0	25.8
Tax revenue	8.0	8.5	8.2	8.9	9.2	8.6	8.7	...	...
Total expenditure and net lending	31.6	32.0	32.4	31.0	24.9	29.4	30.0	30.1	30.0
Fiscal balance	–2.4	–3.0	–4.2	–4.4	–4.1	–4.5	–4.1	–4.2	–4.1

... is not available.

Source: African Development Bank statistics and IMF Government Finance Statistics 2018.

reported budget deficits in 2017. The 2019 fiscal position is expected to worsen in Botswana, Madagascar, Mozambique, and South Africa (figure 8).

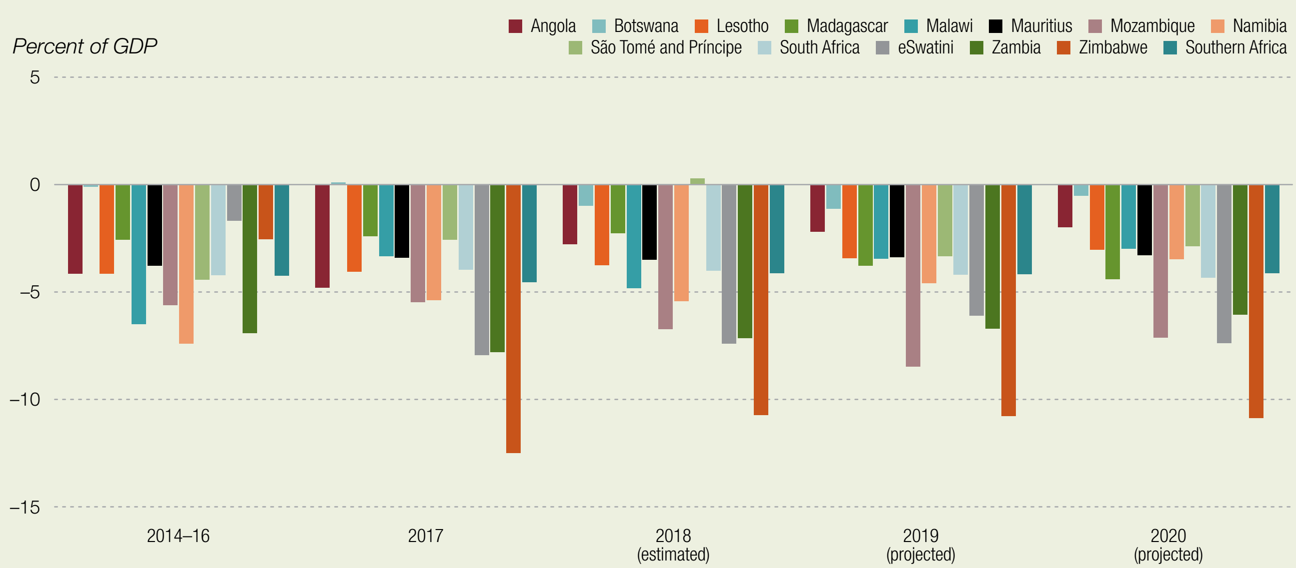
- In Botswana, the widening deficit is due to declining disbursements from the Southern African Customs Union (SACU) and weak mineral revenue growth against the backdrop of the government's commitment to increase public spending in a bid to diversify the economy away from mining.
- In Madagascar, although the IMF is happy with the country's performance under the extended credit facility approved in 2016, increased spending to finance capital expenditures to boost the economy will continue to burden the fisc.
- In Zimbabwe and Zambia, the improved fiscal outlook has been driven by deeper policy reforms aimed at enhancing fiscal discipline, maintaining macroeconomic stability, and achieving debt sustainability.
- In Mozambique, the hidden debt crisis continues to haunt the economy, and growth has been falling since 2016 although expected to recover in 2019. External debt levels are still unsustainably high (estimated at 146 percent of GDP in 2018), and high government financing needs (including expenditure on capital-intensive projects) are pushing up the fiscal deficit.[35]
- In South Africa, poor revenue collection at South Africa Revenue Services (SARS), coupled with high public spending to prop up the ailing economy, is putting a strain on the fisc.
- In São Tomé and Príncipe, steadfast efforts to implement fiscal and legal procedures to collect tax arrears owed by some companies, complemented by spending restraint on personnel costs and domestically financed capital expenditure, should improve the fiscal balance.

The fiscal deficit trend is expected to continue until 2020 (see figure 8). In most countries in the region, budget deficits are expected to ease a bit due to fiscal consolidation and improved revenue inflows from commodities. But delays or weak implementation of reforms relating to public finance management, as well as deviations from planned expenditures, pose a downside risk to ongoing fiscal consolidations.

Domestic resource mobilization

Across the region, public financial management reforms have become a pillar of fiscal policy initiatives to ensure sound budgeting and effective

FIGURE 8 Fiscal balance, by country, 2014–20



Source: African Development Bank statistics.

resource allocation to key development areas. Improving domestic resource mobilization includes measures to widen the tax base and strengthen revenue collection through modernizing tax administration systems.

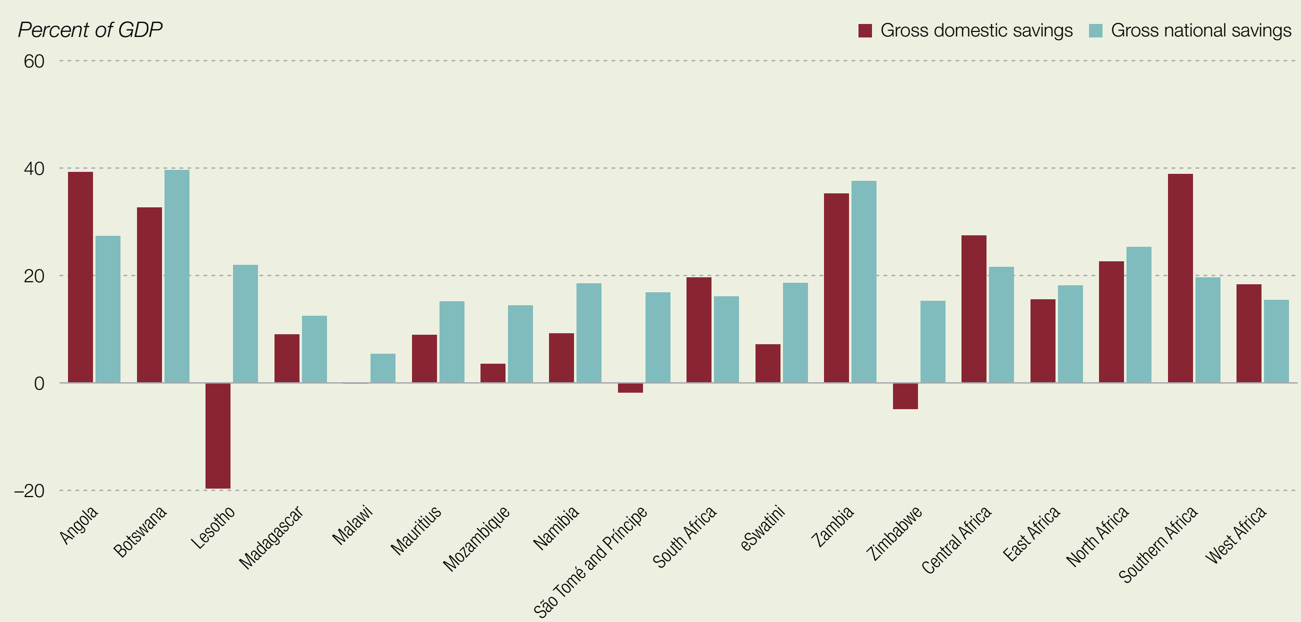
The primary sources of domestic resources in Southern Africa are private savings and public revenues. While workers' remittances are generated externally, they can also become an important source of domestic resources for the receiving country. Given that financial intermediation is a crucial link between savings and investment, an efficient and effective financial system is vital in mobilizing resources and allocating them to the most productive investment opportunities.

Southern African countries have one of the lowest national savings rates in the continent. For 2010–18, the average gross national savings as a percentage of GDP for Southern Africa was 16.5 percent, lower than the average for North Africa (23.5 percent) and East Africa (17.5 percent; (figure 9).[36] Only in Southern Africa and West Africa are gross domestic savings are higher than national savings, implying that net foreign savings in these regions are negative. In other regions, net savings from abroad are positive, resulting in national savings greater than the domestic.

The average savings rates for Southern Africa disguise discrepancies across the region. The 2010–18 averages show that Angola and Botswana have the highest gross domestic savings rate while Lesotho, São Tomé and Príncipe, and Zimbabwe recorded negative domestic savings rates (see figure 9). This could be explained by natural resource savings (sovereign wealth and pension funds), natural resources coming onstream (copper in Zambia), and deeper financial markets (South Africa and Mauritius). Notably, all countries recorded positive gross national savings as a percentage of GDP, suggesting that people from Zimbabwe and Lesotho save more outside their home countries, possibly due to emigration. Differences in growth and financial development could explain the disparities in the savings rate in the region, as could demographic differences.

Lagged savings are positively associated with productivity growth in poor countries but not in rich countries, and domestic savings matter for

FIGURE 9 Gross savings, by country and region, 2010–18



Source: African Development Bank statistics.

innovation, implying that mobilizing savings is important for growth.[37]

The evidence also suggests that across the region, efforts to rein in public debt and lower budget deficits to sustainable levels underpin fiscal consolidation initiatives. In the short term, fiscal consolidation may have a negative effect on aggregate demand and economic activity. However, consolidation efforts promoting transparent and effective public spending is vital in the medium term to reduce poverty and inequality. Improving the allocation of tax revenues reinforces the legitimacy of public spending and increasing tax compliance. Tax revenue represents almost all of government revenue in most Southern African countries, so boosting it should substantially enhance domestic resource mobilization.

The average tax revenue in Southern Africa was 19.5 percent of GDP in 2016. Compare that with 16.4 percent for the East African Community (EAC), 8.9 percent for the Economic Community of West African States (ECOWAS), 16.1 percent for the Central African Economic and Monetary Community (CEMAC), and 18.2 percent for the West African Economic and Monetary Union (WAEMU).

The tax share in GDP for Namibia in 2016 was 28.5 percent, for South Africa 27.1 percent, for Malawi 15.4 percent, and for Zambia 14.9 percent (figure 10).[38] A large source of tax revenue in most of these countries in the subregion is from income, profits, and capital gains, except in Mauritius and Lesotho (figure 11). Trade taxes are a major source of revenue for countries in the SACU region. Mauritius uses indirect taxes (value added tax) to raise a large share of revenue. Lesotho is the only country that uses export taxes to raise revenue (2.8 percent of total tax revenue for 2010–16). Data on nontax revenue for the region are not readily available and should include interest receipts (received on loans by the governments to local authorities and state-owned enterprises) and dividends and profits received from state-owned enterprises.

Taxes form more than 75 percent of government revenue in South Africa, and anecdotal evidence suggests a similar figure for other countries in the region. The tax-to-GDP ratio is largely a function of structural features encompassing per capita income, urbanization, literacy, sectoral shares, and trade.[39] The discrepancies in these variables among countries in the region explain the differences in their tax performance. Sub-Saharan countries could mobilize on average up to 5 percent of GDP in additional tax revenues in the next few years.[40] Success depends largely on policy design, institutional development, and

FIGURE 10 Tax revenue, selected countries and regional economic communities, 2014–16

Source: World Bank 2018c.

FIGURE 11 Tax profiles, selected Southern African countries, 2010–16

Source: World Bank 2018c.

political support, with economic and political stability also crucial.

For SACU countries, a large share of total revenue comes from international trade taxes, with Lesotho (41 percent) and eSwatini (45 percent) the most dependent. Tax revenues are also relatively low in most of the countries in the region, partly because of administrative and technical difficulties in tax collection.

Maximizing the development impact of tax revenue will require much more attention to increasing both their volume and use. Key steps to widen the tax base would be to strengthen value added tax systems, streamline exemptions, and expand coverage of income taxes. Introducing new sources of taxation such as property taxes and harnessing new technologies could also facilitate access to more reliable information.[41] Improving the mobilization and use of domestic resources should have a strong positive impact on growth and development. Increased domestic resource mobilization and the corresponding reduction in dependence on aid should enable countries to own their development process and identify priority sectors for investments to generate sustained growth.

Corruption in some countries hampers the efficiency of using public resources. The corruption perception index calculated by Transparency International—which looks at perceived levels of public sector corruption—shows that in 2017, Botswana is the country rated least corrupt in Southern Africa, ranked 34 of 180 countries, followed by Namibia at 53. The lowest ranked are Angola (167), Zimbabwe (157), and Madagascar (155).

DOMESTIC FINANCIAL SYSTEMS AND FINANCIAL INCLUSION

The financial sector is the engine of any economy, mobilizing savings and dispensing loanable funds to the productive sectors and thus stimulating investment, employment, and economic growth. Southern Africa's low gross savings (see figure 9) partly underscores the need to expand the coverage, competitiveness, and affordability of financial services to bring the unbanked into the mainstream economy. Encouraging financial inclusion will ensure that all interested economic agents—households, business, and government—drive inclusive growth. Universal access to finance stimulates economic growth and allows micro, small, and medium enterprises to flourish, resulting in higher and greater income opportunities.[42]

A number of the countries in Southern Africa have stable economies and fairly well developed and competitive financial markets where market forces influence interest rates and private sector borrowing activities. Where these conditions are not satisfied, as in Zimbabwe and Angola, governments have tended to control interest rates, impeding financial development. It is now generally accepted in policy circles that proper alignment of interest rates is important for economies that have open capital markets.

In the recent past, most governments of the region allocated credit extensively. But with rapidly changing relative prices, increasingly complex economic structures, and more sophisticated financial markets, the risk of mismanaging such controls increased, as the experience of Zimbabwe in the late 2000s showed. The lesson is that countries could allocate resources better by reducing the number of directed credit programs, the proportion of total credit affected, and the degree of interest rate subsidization. More important, governments that continue to direct credit should specify their priorities narrowly.

Commercial banks are the dominant financial institutions for most countries of the region. To enhance their developmental role, banks should be made more efficient by improving their management systems and having to face increasing competition. Better bank management requires new lending policies, better loan recovery procedures, more sophisticated information systems, and better-trained staff. The entry of new banks, domestic or foreign, may stimulate competition.

Southern African countries also need to develop other financial institutions, whose services compete with and complement those of commercial banks. Nonbank financial intermediaries, such as development finance institutions, insurance companies, and pension funds, are critical sources of long-term finance. As more citizens and communities desire to make provision for retirement, contractual savings institutions such as pension funds will grow in size. Allowing pension funds and insurance companies to invest in financial instruments other than low-interest government bonds will increase the supply of long-term finance to the private sector and spur investment.

All countries of the region have a long history of the informal financial sector providing services to the noncorporate sector, households, small farmers, and small businesses. Even though family and friends are usually the most important source of credit, pawnbrokers provide a substantial amount of credit to those with marketable collateral, and moneylenders to those without. Merchants such as those in the car industry provide financing to their customers, and purchasing agents advance funds to their suppliers. Rotating savings and credit associations are also common in Southern Africa. But informal lending has severe drawbacks—the scale of lending tends to be small, the range of services limited, markets fragmented, and interest rates sometimes usurious.

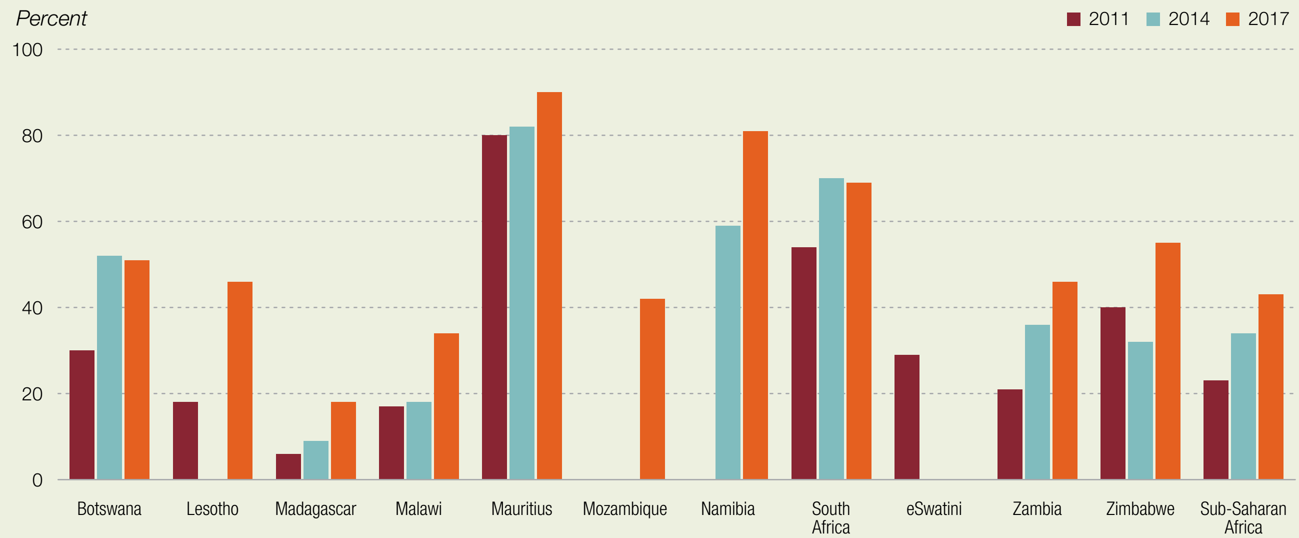
As Southern Africa moves toward more sophisticated financial systems, it can draw on the experience of middle- and high-income countries to design appropriate financial instruments and institutions. For example, though competitive financial markets may be efficient at mobilizing and allocating funds and managing risk, they can still make mistakes—as in the excessive lending to developing countries in the 1970s and the savings and loan crisis in the United States in the 1980s and 1990s. Equally, market-based financial systems can be unstable and susceptible to fraud and moral hazard. This underlines the importance of adequate regulation and supervision. Given that finance evolves rapidly, regulators must continually get the right balance between stimulating competition and growth and limiting fraud and instability.

Of developing regions, Southern Africa is among those with the lowest percentage of adults with bank accounts. The share of adults in Sub-Saharan Africa with bank accounts increased from 23 percent in 2011 to 43 percent in 2017. The change occurred across countries in Southern African, except Botswana and South Africa. Large changes were recorded in Namibia and Zimbabwe (figure 12).

For Southern African countries to reap the full benefits of financial development, financial sector policies should focus on building institutions, promoting sound legal and regulatory frameworks, and broadening financial inclusion. Reducing

Southern African countries also need to develop other financial institutions, whose services compete with and complement those of commercial banks

FIGURE 12 **Adults with bank accounts, by country, 2011–17**



Note: Data for Botswana and São Tomé and Príncipe are not available.

Source: World Bank 2018b.

intermediation costs through stronger bank competition, opening the financial sector to foreign entry, and having a flexible approach to the adoption of innovative financial products will go a long way in enhancing financial inclusion. Supporting the development of mobile banking by promoting inexpensive and flexible use of technology, creating favorable conditions for banks to develop new products, and keeping the legal framework open and adaptable also facilitate financial inclusion.

POVERTY, INEQUALITY, EMPLOYMENT, AND HUMAN DEVELOPMENT

Poverty and inequality

Around 54 percent of the region's population lives in rural areas. The upper middle-income countries, Botswana and Mauritius, had the lowest rural population shares—about 52 percent for Botswana and 59 percent for Mauritius.[43] Of the lower middle-income countries, South Africa's rural population is lowest at 35 percent, and eSwatini's highest at 78 percent. Generally, the share of rural population in most Southern African countries is declining, indicative of rural–urban migration.

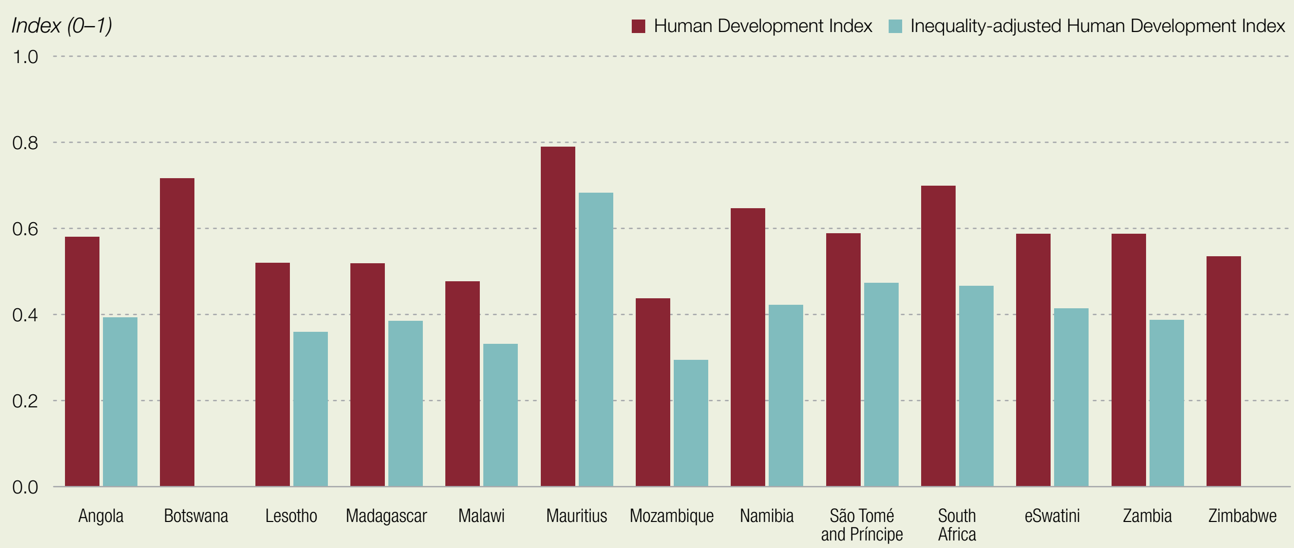
Poverty remains high, with slow economic growth stalling poverty reduction. The poverty headcount ratios for 2010–15 show that 78 percent of Malagasy lived below the national poverty line of $1.90 a day, compared with 64 percent in Zambia, 71 percent in Malawi, and 60 percent in Lesotho. Mauritius is the only country with poverty at less than 10 percent (figure 13). The population below poverty line of $1.90 a day is around 17 percent in South Africa, while the poverty gap is only 5 percent of the poverty line. The intensity of poverty (using the poverty gap ratio at $1.90 in 2011 PPP-adjusted international dollars per day) is highest in Madagascar, followed by Malawi, Lesotho, and Zambia.

On the Human Development Index in 2017, Mauritius (65), Botswana (101), and South Africa (118) were the three highest-ranked countries, while Mozambique (180), Malawi (171), and Lesotho (159) ranked the lowest (figure 14). On the Inequality-Adjusted Human Development Index, which accounts for the human cost of inequality, some countries' global rankings improved since

FIGURE 13 Poverty indicators, selected Southern African countries, 2010–15

Note: The poverty gap is expressed as a percentage of the poverty line while the head count ratio and population below poverty line are percentages of the population.
Source: African Development Bank statistics.

FIGURE 14 Human Development Index and Inequality-Adjusted Human Development Index values, by country, 2017



Source: UNDP 2018.

the index was introduced in 2010 (Madagascar, Malawi, Mauritius, and Mozambique).

By two other measures of inequality—the Gini index and the Palma ratio (figure 15)—between 2010 and 2017, South Africa, Namibia, and Botswana were among the world's five most unequal countries. For instance, although post-apartheid South Africa has experienced sustained economic progress, the growth has not been inclusive. In Botswana and Namibia, persistent high inequality is mainly due to disparities in the quality of economic opportunities and services, exacerbated by limited economic diversification. Income inequality is also linked to the high rate of unemployment, while labor market structural problems, such as inadequate skills and skill mismatches, are cited as a major contributor to the high rate of unemployment. Such high inequality has attenuated the rate of transforming economic growth into poverty reduction in Africa and globally.[44]

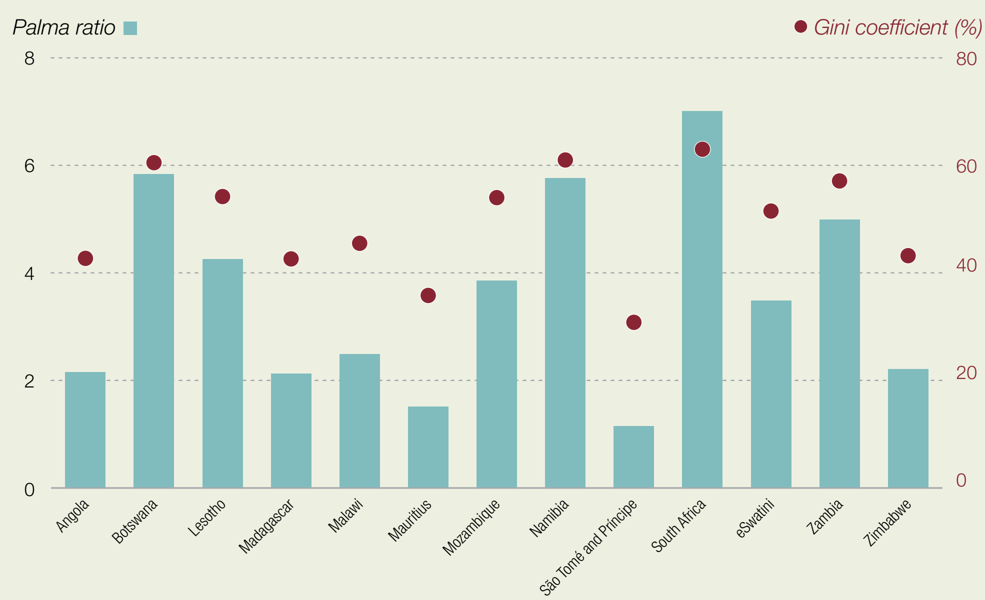
Without inclusive growth and pro-growth government policies, the region's inequalities will continue to worsen. Botswana and South Africa, where inequality and poverty are highest in the rural areas, need to increase the provision of rural-based social and economic infrastructure and welfare support. South Africa needs to improve access to and quality of education, especially among rural dwellers, females, and black Africans and those with limited education.[45] To foster sustained declines in poverty and inequality, the countries in the region need to focus on growth and employment creation across all sectors in the economy.

Unemployment is in double digits in more than half of the region's countries

Employment

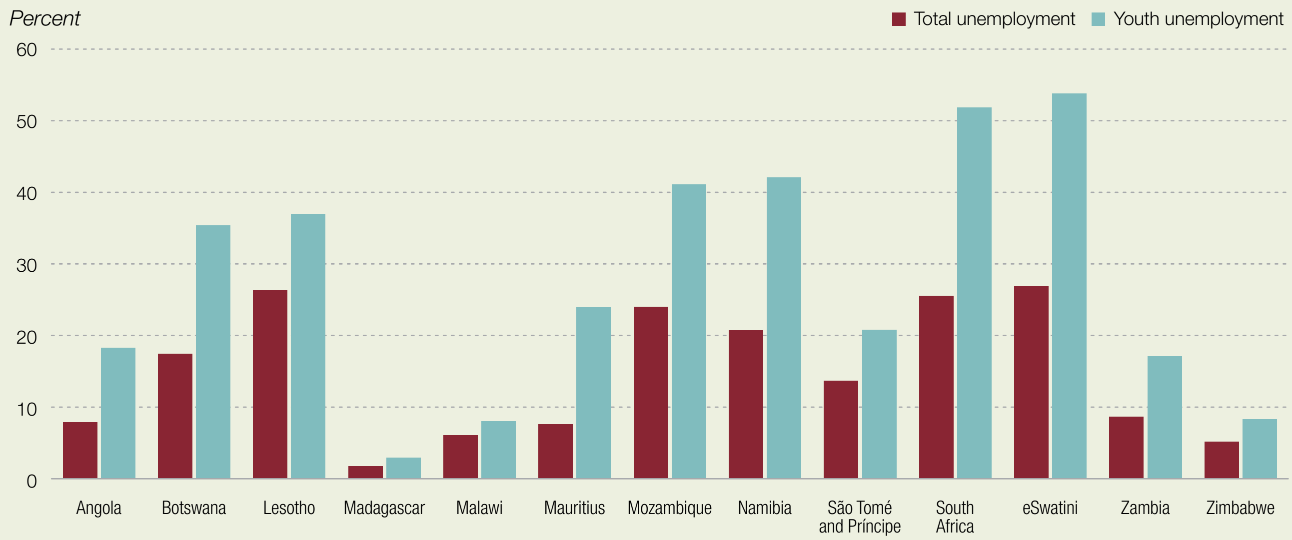
Unemployment continues to be a major challenge. It is in double digits in more than half of the region's countries. The average unemployment rate for 2010–18 was 27 percent in eSwatini, followed by Lesotho at 26 percent and South Africa at 26 percent (figure 16). Ironically, Madagascar—with 80 percent of the population below $1.90 a day and high poverty gap—has the lowest unemployment in the region, at 2 percent, followed by Zimbabwe at 5 percent. Youth unemployment (ages 15–34) has been about as high as the overall unemployment. Madagascar (3 percent) followed by Malawi (8.1 percent), and Zimbabwe (8.3 percent) have the lowest youth unemployment. Depressed economic growth underlies the high unemployment rates in the region. In eSwatini, declining SACU revenue shares, loss of African Growth and Opportunity Act eligibility between 2015 and 2017, and volatility in the South African economy have all contributed to the unemployment challenges.[46] Increased investment in socioeconomic infrastructure can spur medium- to long-term growth and enhance investment to translate growth into lower unemployment.[47]

FIGURE 15 **Inequality indicators, by country, 2010–17**



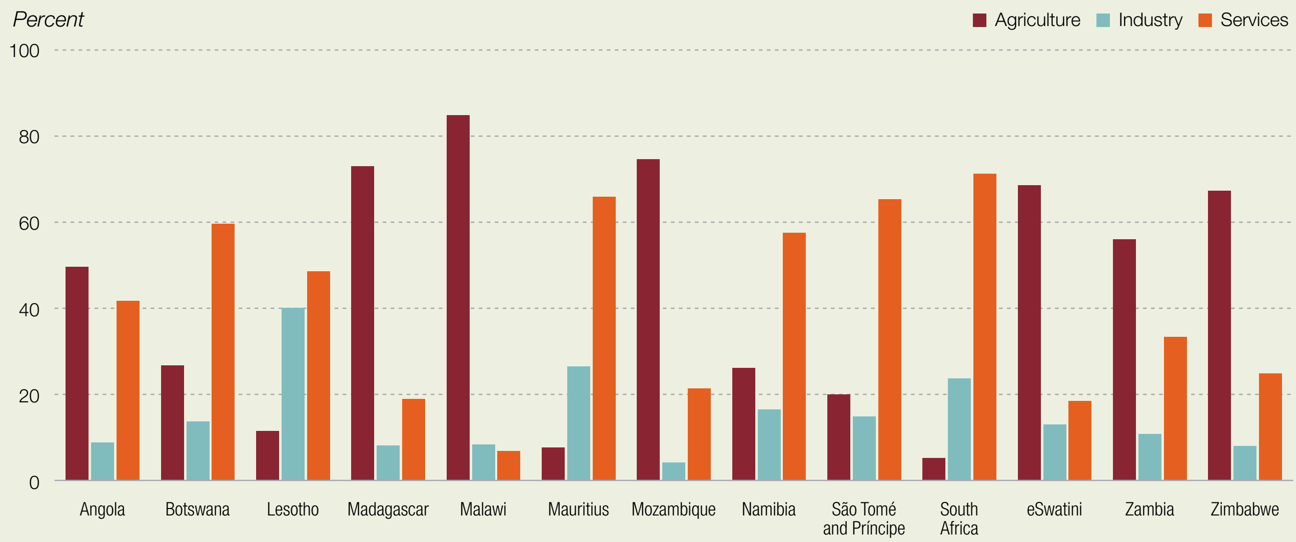
Source: UNDP 2018.

FIGURE 16 **Unemployment, by country, 2010–18**



Source: World Bank 2018c.

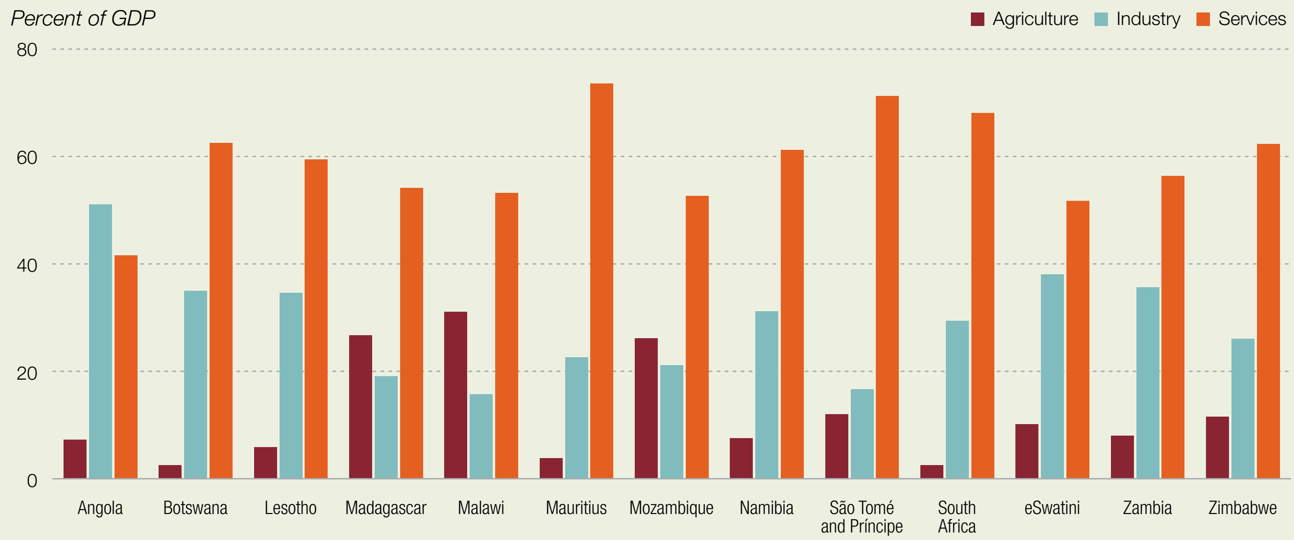
FIGURE 17 **Sectoral distribution of employment, by country, 2010–18**



Source: World Bank 2018b.

In 7 of the 13 countries, most workers were in agriculture during 2010–18 (figure 17). The highest rate was in Malawi (85 percent), followed by Mozambique (75 percent) and Madagascar (73 percent). That agriculture contributes the second largest share of GDP in these three countries suggests low productivity (figure 18). Botswana, Lesotho, Mauritius, Namibia, and South Africa are service-driven economies, and so is their employment sector. For Malawi and eSwatini, high service sector shares of

FIGURE 18 **Sectoral contribution to GDP, by country**



Source: African Development Bank statistics.

GDP are associated with low employment shares, suggesting high productivity.

In Lesotho, Mauritius, and South Africa, industry contributes the second largest share to employment, but the smallest share of GDP, suggesting low productivity (see figure 18). The value added–employment mismatch in services in Malawi and eSwatini suggests that the sector is not labor-intensive.

Structural characteristics of the labor market have implications for unemployment. For example, South Africa's labor legislation is very trade union–friendly, reducing flexibility in the labor market and the ability of businesses to adapt to change. In this regard, special attention needs to be given to the drivers of productivity and firm growth, including the appropriate skills mix.

Firm productivity, and thus firm growth, are shaped by five interrelated factors, often determined by policy choices. First is the need to get the basic business ecosystem right. This includes adequate infrastructure (utilities, transport, communications, and the like), financial capital, and functioning institutions. The second is identifying the appropriate market for firms to target to sell their products—domestically and internationally. A wealth of research in Africa and other developing regions has identified manufactured exports as an important source of productivity growth, but for this to succeed, greater market access is paramount. Third is forming industrial clusters to take advantage of the economics of agglomeration. Fourth is attracting foreign direct investment. And fifth is ensuring investments in skill development to remedy skill shortages and structural unemployment.

To dent the unemployment ailments in Southern Africa, there is a case for promoting small and medium enterprises (SMEs), which account for almost 90 percent of the businesses in both developed and developing economies. But in Africa, many SMEs face numerous challenges: power shortages, lack of capital, inadequate information, and poor management skills and competencies.[48] Nor do most African governments give much support to SMEs, neglecting a vital economic catalyst.

In the absence of a robust and strong private sector in most countries in the region, governments have provided some public services through state-owned enterprises (SOEs) that should have been left in the hands of the private sector. SOEs constitute a significant segment of the economies in the region and should realize developmental objectives including job creation, skill development, industrialization, and regional integration. But few countries have a clear and consistent policy on how SOEs fit into national development strategies and priorities. Policymakers in the region recognize SOE underperformance, fiscal costs, and negative impact on growth and poverty alleviation and have embarked on commercialization and privatization reforms to promote efficiency and competitiveness.

The growth–employment nexus

Estimation of the elasticity of employment at the sectoral level provides insights into growth's impact on employment. A general theme is that low productivity is in part driving the growth trends in Southern Africa. Among the five countries with services as the largest contributor to GDP (see figure 18), sectoral employment elasticity is high in Botswana (0.68), Lesotho (0.18), and Mauritius (0.43) (table 7). Although employment elasticity was positive in those three between 2012 and 2017, it was less than one, possibly suggesting that employment growth was accompanied by increasing productivity. South Africa and Namibia, the other service-driven economies, recorded negative employment elasticities, indicating declining use of labor in favor of capital.

Factor substitution is also observed for the agriculture-driven economies. Zambia and Madagascar were the only countries that had elasticity coefficients greater than unity for the sector (13.09 in Zambia and 3.19 in Madagascar), indicating that the agricultural growth enhanced employment creation (see table 7). Generally, across all three sectors, growth has not been generating employment, since elasticity values in most countries are positive but less than one. To improve the ability of these sectors to absorb more labor as they grow requires encouraging investments that are employment-intensive.

Rising labor productivity can boost and sustain growth. But the region's productivity has generally been stunted because of declines in commodity prices (for South Africa and Angola) and adverse weather conditions (for Botswana, Malawi, and eSwatini).[49] Productivity declined between 2010 and 2017 in Botswana (–5.1 percent), eSwatini (–5.8 percent), Angola (–3.3 percent), and

TABLE 7 Average sectoral employment elasticity, by country, 2010–17

Country	Agriculture	Industry	Services
Angola	0.35	1.73	0.44
Botswana	0.25	–0.01	0.68
Lesotho	0.15	0.02	0.18
Madagascar	3.19	–8.33	1.29
Malawi	0.10	0.29	0.04
Mauritius	0.16	0.44	0.43
Mozambique	0.09	0.97	37.86
Namibia	–0.23	–1.42	–6.76
South Africa	–0.41	0.08	–1.03
eSwatini	–0.35	–0.11	–0.59
Zambia	13.09	15.02	12.41
Zimbabwe	–0.47	–0.17	0.13

Note: Data for São Tomé and Príncipe are not available.
Source: Computed from ILO 2018.

TABLE 8 Productivity growth (all workers), by country, 2010–17

	Labor productivity	
Income group	Average output per worker (GDP constant 2011 international $ in PPP)	Percent change, 2010–17
Upper middle income		
Botswana	38,709	–5.1
Mauritius	41,721	19.6
Lower middle income		
Namibia	30,914	7.0
South Africa	43,509	0.01
eSwatini	30,971	–5.8
Low income		
Angola	15,932	–3.3
Lesotho	8,465	8.6
Madagascar	2,782	–1.0
Malawi	2,685	1.3
Mozambique	3,165	31.3
São Tomé and Príncipe	10,076	11.5
Zambia	9,489	3.4
Zimbabwe	3,899	24.4

Source: ILO 2018.

Madagascar (–1.0) (table 8). Disconnects between wages and productivity and skill mismatches in the labor market contributed to low productivity growth in Namibia and eSwatini.[50] South Africa's labor productivity between 2010 and 2017 barely increased (0.01 percent), attributable to within-industry changes and the higher productivity of smaller, previously less productive firms.[51] Increased worker protection through the labor relations act and the rise of bargaining councils also muted productivity growth in South Africa.[52] Given the link between productivity and economic growth, countries in the region have to increase their investments in physical infrastructure and human capital and promote innovation. Many of these investments will lower physical barriers to entry for local firms and enhance regional integration.

Indeed, some progress has been made through better codification of regulations on international transactions, the actual flows of funds, and co-movements of prices, as well as investments in regional public infrastructure. Yet, other nonregulatory barriers to integration persist. The regulatory frameworks in the region need to be revisited to spur development—especially of the private sector. The region's regulatory environment is arguably the most complex and stringent on the African continent, and corporate compliance has become particularly important as Southern African countries adapt their legislative regimes to meet external and internal economic forces. For example, Zambia and Zimbabwe had to revisit their mining laws in the face of new realities. And a single review in one jurisdiction—say South Africa or Zimbabwe—can give rise to consequences, including litigation, in others. Clarity on reform remains critical to allow local and foreign investors to respond to regulatory and compliance issues and investigations wherever they arise.

PART 2

REGIONAL INTEGRATION AND PRIVATE SECTOR DEVELOPMENT

Regional integration in Southern Africa dates back as far as 1910, when the Southern African Customs Union (SACU) was formed by Botswana, Lesotho, South Africa, and eSwatini, joined by Namibia in 1990. The Southern African Development Community (SADC) was formed in 1980, and free trade area status (SADC-FTA) was achieved in 2008 and became fully-fledged in 2012. All Southern African countries except Angola and São Tomé and Príncipe are part of the SADC-FTA. The Common Market for Eastern and Southern Africa (COMESA), formed in 1994 and replacing a preferential trade area that had existed since 1981, is home to some Southern African countries (not Lesotho, Mozambique, Namibia, São Tomé and Príncipe, or South Africa). COMESA also became a free trade area in 2000. São Tomé and Príncipe is a member of the Economic Community of Central African States (ECCAS) and Community of Portuguese Speaking Countries (CPLP). It has an observer status in the Central African Economic and Monetary Community.

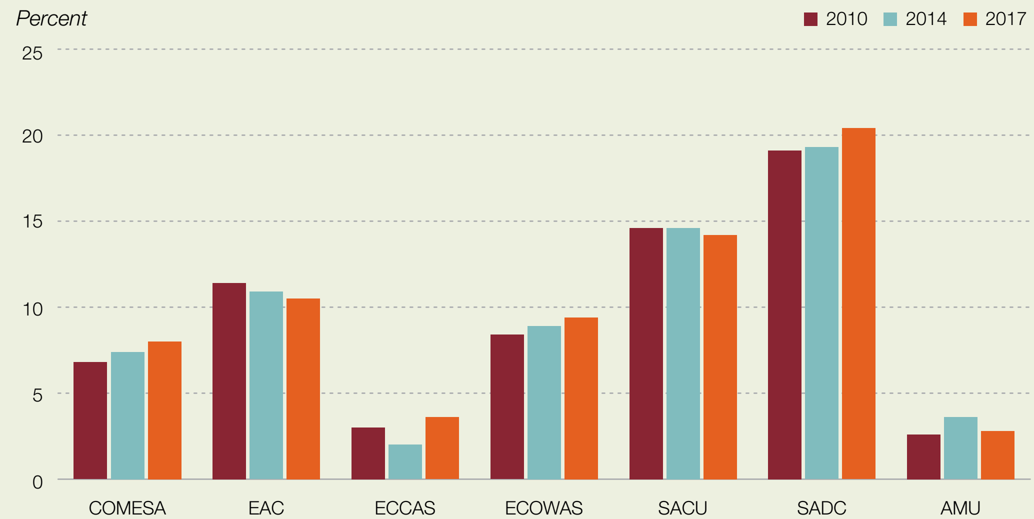
With 10 of the 13 Southern African countries belonging to more than one regional economic community, the problem of overlapping membership is common. Harmonizing these regional arrangements can boost intraregional trade by ensuring the smooth flow of goods and services. The Tripartite Free Trade Area being negotiated by COMESA, SADC, and the East African Community (EAC) is a step in the right direction. It should also be aligned with the provisions of the African Union's Continental Free Trade Area (CFTA), signed in Kigali in March 2018.[53] The CFTA will expand the SADC-FTA's benefits. It will also solve overlapping memberships, stimulate and improve the coordination of cross-border infrastructure, boost industrialization through regional value chains, and support macroeconomic convergence.

ASSESSING INTEGRATION

Over 2010–17, EAC, SADC and SACU were the only regional economic communities with intraregional trade above 10 percent (figure 19). Intraregional trade in Southern Africa has not changed much, and the graduation of SADC and COMESA into free trade areas has done little to spur trade growth. SADC intraregional trade was 19 percent of the region's world trade in 2008 and rose to a peak of 22 percent in 2016 before falling to 20.4 percent in 2017.

For COMESA, intraregional trade averaged 7.3 percent of world trade over 2000–17, with a peak of 10 percent in 2006. For SACU, intraregional trade jumped from a low of 4.5 percent in 2009 to 14.7 percent in 2010 and remained above 13 percent after that (figure 20). The message is that there is still

FIGURE 19 Intraregional trade in selected African regional economic communities, 2010–17



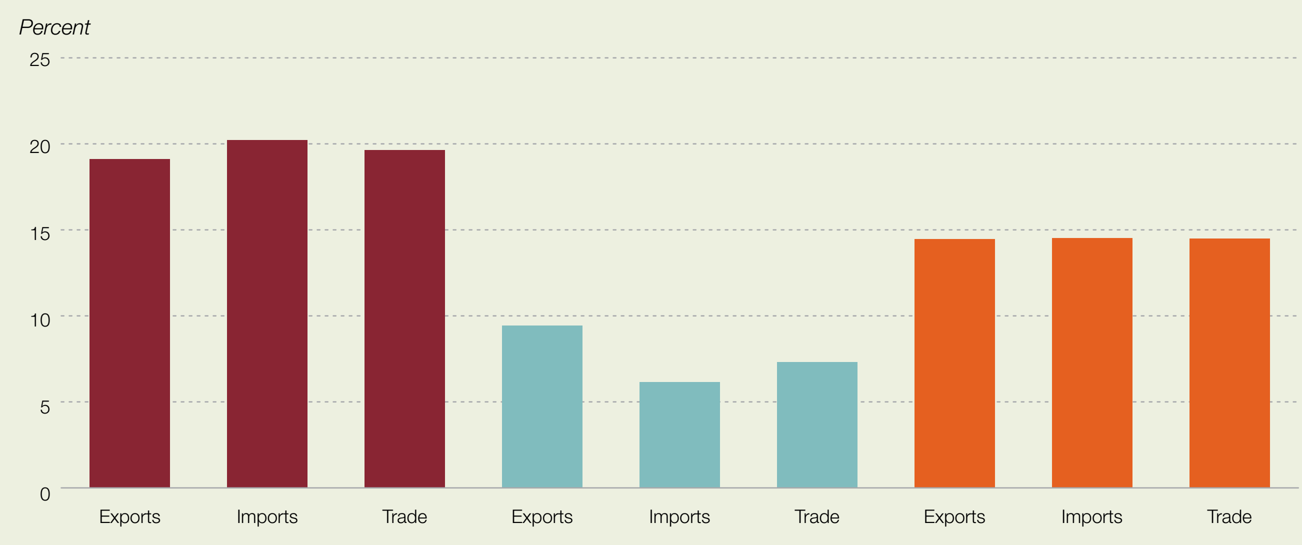
Note: Shares are calculated as a percentage of each region's world trade.

Source: International Trade Centre 2018.

more to do to ensure that goods can move freely across the region's borders—by removing non-tariff barriers and streamlining customs clearance across borders.

Intraregional trade in the 16-member SADC is far greater than in the 21-member COMESA, without accounting for overlapping memberships. Integration indices for 2016 show that SADC's

FIGURE 20 Intraregional trade in Southern Africa, by regional economic community, 2010–17



Note: Shares are calculated as a percentage of the region's world exports, world imports, and world trade.

Source: UNCTAD.

integration is higher than the average of the eight main regional economic blocs but lower than that of the East African Community. If the index is calculated only for the 12 SADC member countries in Southern Africa, it falls below 0.5, implying that a lot still needs to be done to strengthen economic cooperation and integration in the region (table 9).

Only South Africa scores highly across all the five dimensions of the integration index—trade integration, productive integration, regional infrastructure, free movement of people, and finance and macroeconomic integration—followed by Botswana, Namibia, and Zambia. A country's GDP economic weight thus does not necessarily correspond to its level of integration (Botswana, Namibia, and Zambia individually contribute less than 10 percent to the region's GDP). Malawi and Madagascar appear to be struggling to integrate into the region. Showing the integration dimensions that need improvement both at the country and regional levels, SADC and the Southern African countries recorded low scores on productive integration and financial and macroeconomic integration but performed better on free movement of people and regional infrastructure (see table 9).

FINANCIAL INTEGRATION

On financial and macroeconomic integration, the region is also performing below average, scoring below 0.5 on the integration index (see table 9). The most financially integrated country is South Africa, followed by Namibia and then Botswana. Malawi and Angola are the lowest performers. Recognizing that an integrated system of banks, credit institutions, and capital markets can drive new business and redirect funds into new projects, SADC established the Protocol on Finance and Investment in 1996. The focus of the protocol

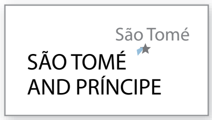
TABLE 9 Integration indices for Southern Africa, 2016

Country	Overall	Trade integration	Regional infrastructure	Productive integration	Free movement of people	Finance and macroeconomy
Angola	0.281	0.488	0.435	0.268	0.050	0.166
Botswana	0.559	0.611	0.820	0.175	0.600	0.589
Lesotho	0.386	0.541	0.292	0.073	0.600	0.421
Madagascar	0.343	0.499	0.388	0.301	0.200	0.324
Malawi	0.367	0.491	0.466	0.280	0.600	0.00
Mauritius	0.466	0.513	0.444	0.257	0.664	0.451
Mozambique	0.483	0.530	0.503	0.465	0.586	0.333
Namibia	0.555	0.620	0.666	0.189	0.650	0.650
São Tomé and Príncipe	0.240	…	0.340	0.180	0.700	0.010
South Africa	0.741	1.000	0.591	0.551	0.650	0.915
eSwatini	0.520	0.549	0.584	0.394	0.700	0.372
Zambia	0.523	0.628	0.444	0.533	0.693	0.320
Zimbabwe	0.488	0.084	0.456	0.738	0.664	0.498
SADC	0.531	0.508	0.502	0.350	0.530	0.397
COMESA	0.415	0.572	0.439	0.452	0.268	0.343
Southern Africa	0.476	0.500	0.549	0.381	0.599	0.453

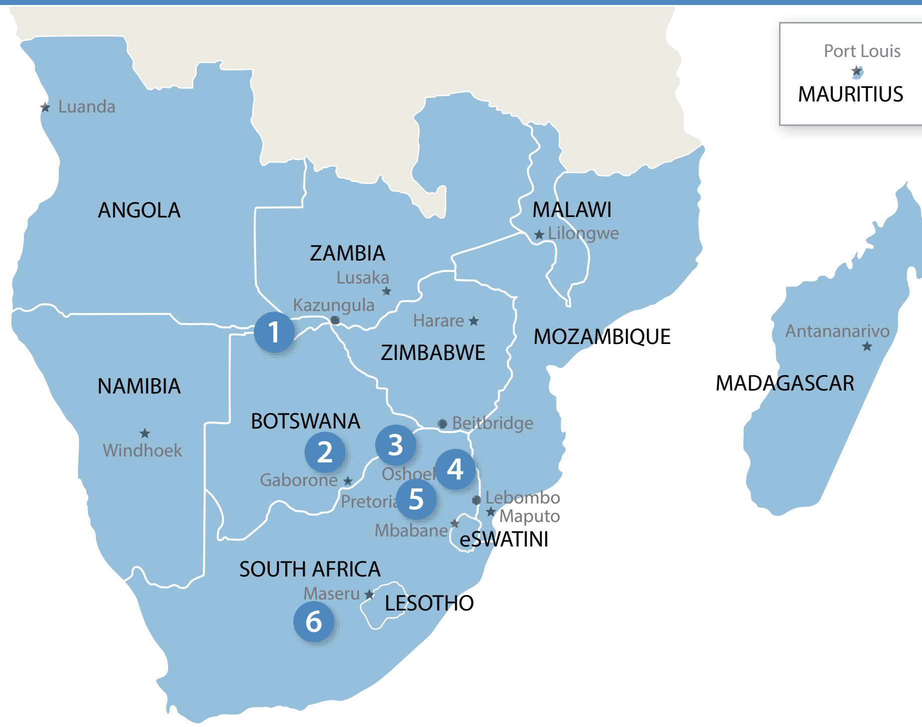
... is not available.

Note: Indices range from a low of zero to a high of 1. The higher the index, the higher the integration. The data for São Tomé and Príncipe are based on its integration in the ECCAS region.

Source: UNECA, AU, and African Development Bank 2016.



Moving Across
SOUTHERN AFRICA



To learn more about border crossings and processes for people and goods in Southern Africa, the African Development Bank fielded a mission that visited Beitbridge, Kazungula, Lebombo, Oshoek, Maseru Bridge, and the Kopfontein–Tlokweng Gate.

Beitbridge (South Africa/Zimbabwe) and Kazungula (Zambia/Botswana) are the biggest and busiest border crossings, serving movements to Botswana, Democratic Republic of Congo, Malawi, Tanzania, Zambia, and Zimbabwe.

At some borders, runners (touts) offer to expedite visa and passport processing in return for some payment. This appears to be in collusion with some immigration officers because they actually get things done.

Some truckers and passengers complained about police harassment, sometimes being slammed with trumped up charges just to extort money from them.

The absence of dedicated immigration counters for commercial drivers in most borders subjects them to double jeopardy of queuing to clear with customs and to clear with immigration, leading to long waiting time.

1 Kazungula (Zambia–Botswana)

- Ferries are the means to cross the border.
- Customs and immigration services are judged to be good.
- Infrastructure inadequacy, mainly security and unavailability of proper sanitary (bathing and toilet) facilities at truck stops on the Botswana side, are major concerns to commercial transporters.
- Completion of the $260 million rail and road bridge in 2020 is expected to bring much needed relief and unlock trade for most of the countries served through this border crossing.

2 Kopfontein–Tlokweng Gate

- Generally good service by customs and immigration officials.
- Truckers cannot cross the border after 4:30 pm on weekdays or on weekends.
- Truckers traveling across Botswana complain of narrow roads full of potholes, often with roaming cattle.

3 Beitbridge

- Insecurity, especially at night due to poor patrolling by security operatives, sometimes leading to robberies at night.
- Clearing is slow and long, with four clearing points. It takes about an hour to process a single truck—and longer when the clearing system is slow or down.
- The South African side is more efficient, with only two clearing points.
- 31 percent of truckers interviewed expressed dissatisfaction with the clearing process on the Zimbabwe side.

4 Lebombo (Mozambique–South Africa)

- Travelers and truckers have few challenges crossing the South Africa side but many on the Mozambique side, where police officers may demand bribes to ease passage.
- By contrast, customs and immigration officials are fine, if they are on the job.

5 Ngwenya–Oshoek

- On the South African side, the parking place for trucks while waiting to be processed is dark and needs good lighting, especially since many truckers spend the night there as the border closes at midnight.
- Truckers also complain about the lack of a dedicated immigration counter.

6 Maseru Bridge

- A drive-through system allows travelers in private vehicles to be processed in their cars by immigration and customs officers. This decongests immigration and customs clearing halls and improves efficiency.

is on harmonizing financial and investment policies of member states and achieving and maintaining macroeconomic stability and convergence. Many countries in the region have liberalized interest rates and foreign exchange markets, removed credit controls, privatized the banking system, and introduced indirect instruments of monetary policy. To ensure financial and macroeconomic stability, the SADC committees of central bank governors and of treasury officials were created in 1995, with the South African Reserve Bank hosting the secretariat of the Committee of Central Bank Governors.[54]

The Committee of Central Bank Governors established a regional real time gross settlement system, the SADC Integrated Regional Electronic Settlement System (SIRESS), in 2013. This interbank system facilitates the settlement of cross-border transactions and payments denominated in South African rand.[55] All the Southern African countries (excluding Madagascar and São Tomé and Príncipe) are active members of the Committee of Central Bank Governors and SIRESS. About 74 Southern African banks, including central banks, participate, and more than a million transactions have so far been settled, with a total of 5 trillion rand.[56] Since SIRESS membership includes banks from the region, the SADC Banking Association was formed and mandated to be the SIRESS payment scheme management body.[57] Another body established to promote financial stability—through a sound, harmonized regulatory framework and effective supervision of nonbank financial institutions—is the Committee of Insurance, Securities, and Non-Banking Financial Authorities (CISNA). This committee reports to the SADC Committee of Ministers of Finance and Investment through the Committee for Senior Treasury Officials. The CISNA subcommittees of microfinance and financial cooperatives, capital markets and insurance, retirement funds, medical schemes, and financial intermediaries are all at different stages of developing model laws that will help harmonize country regulations governing their respective financial submarkets. But the different levels of financial deepening and capital market development pose challenges.

SIRESS is the only major project that has been implemented to encourage financial integration in the region. But financial liberalization has also resulted in some regional banks penetrating the banking space in other countries. For example, South African banks are found in all the countries in the region except Madagascar. And Togo's Ecobank has made significant inroads in the region, together with Zimbabwe's BancABC and Mauritius's FMBcapital. This penetration should improve banking competition and enhance the quality and affordability of banking services.

Financial sector development is low, particularly in Madagascar, Malawi, and Zambia (table 10). The financial system's deposits and domestic credit to the private sector are very low in these countries, as is the percentage of adults with bank accounts. More than a third of the firms in these countries struggle to get access to credit.[58] In Malawi, eSwatini, Zambia, and Zimbabwe, the collateral required is more than twice the loan value. Compare that with Mauritius, where firms need to collateralize only 60 percent of the loan value (figure 21). More than a third of firms in Angola, Lesotho, Malawi, and Zimbabwe identify access to finance as a major constraint to doing business.

The banking sector in the region is highly concentrated and oligopolistic, with the five-bank concentration ratio close to 100 percent in some countries (see table 10). The more negative the Boone indicator, the greater the competition, as in Lesotho, eSwatini, and, surprisingly, Malawi.[59] Mauritius and South Africa have fairly developed financial sectors. But Madagascar and Malawi have very high interest rate spreads, suggesting that their banking sectors may be less efficient. Malawi can be explained by the contestable market theory which emphasizes that a highly concentrated market can be highly competitive even if few firms dominate it.[60] Despite the banking sectors being less competitive in most of the countries, banks appear sound and stable. The reasonably high Z-scores indicate a low probability of insolvency except in Mozambique. The Central Bank of Mozambique intervened in Moza Banco in 2016 and the ongoing liquidation of Nosso Banco, Micro Banco Fides Mocambique, and Caixa Cooperativa De Credito, while Atlas Mara's BancABC Mozambique needed a cash injection from shareholders.[61] These cases exposed fragilities in the legal framework and explain the low Z-score.

The banking sector in the region is highly concentrated and oligopolistic, with the five-bank concentration ratio close to 100 percent in some countries

TABLE 10 Financial depth, efficiency, stability, and competition, 2016

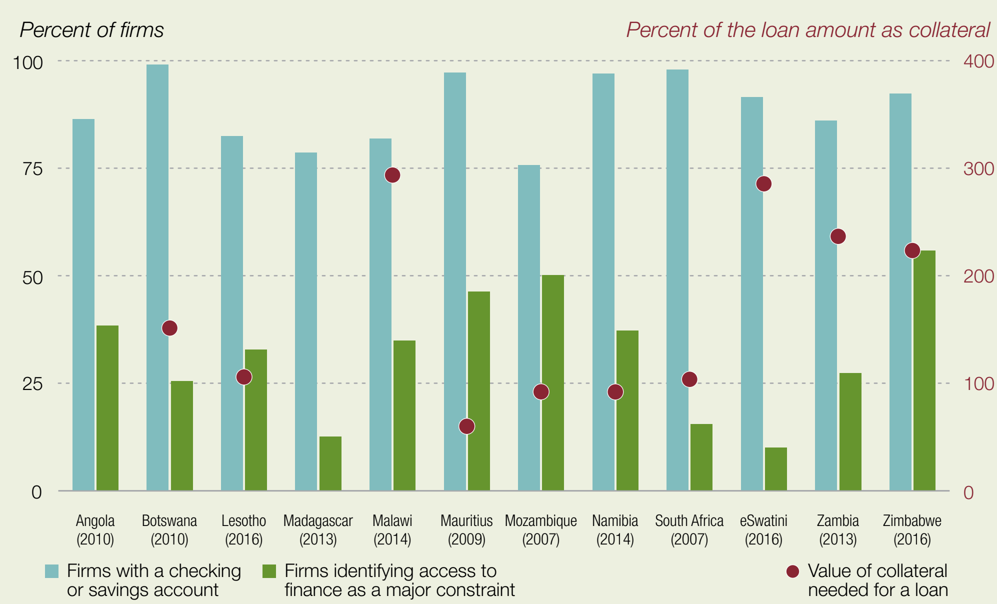
	Depth			Efficiency and stability		Competition		
Country	Financial system deposits (% of GDP)	Domestic credit to private sector (% of GDP)	Stock market capitalization (% of GDP)	Bank lending-to-deposit ratio	Bank Z-score	Five-bank concentration ratio	Boone indicator (coefficient)	Foreign banks to total banks (% of GDP)
Angola	38.2	21.1	...	6.0	9.6	77.9	–0.03	46
Botswana	39.6	31.5	28.5	5.0	8.4	89.7	–0.08	60
Lesotho	27.0	16.8	...	10.6	11.0	...	–0.16	...
Madagascar	17.4	13.1	...	45.0	8.4	98.4	–0.01	100
Malawi	17.7	10.5	13.7	32.5	13.5	100.0	–0.11	25
Mauritius	98.6	96.3	66.6	3.7	7.8	66.8	–0.01	60
Mozambique	45.5	34.5	...	15.0	4.3	89.3	–0.06	85
Namibia	51.1	65.0	9.0	4.2	8.5	98.0	–0.01	43
South Africa	59.5	144.3	328.1	3.3	14.7	98.8	0.02	24
eSwatini	25.8	21.6	...	6.8	10.4	...	–0.23	60
Zambia	19.1	15.4	13.8	4.7	9.2	74.8	–0.07	94
Zimbabwe	31.6	...	...	6.4	...	78.6	–0.08	38

... is not available.

Note: The Boone indicator, a measure of efficiency, is the elasticity of profits to marginal costs. The higher the elasticity, the greater the efficiency and competition. Data for São Tomé and Príncipe are not available.

Source: World Bank 2018c, 2018e.

FIGURE 21 Firm access to finance, by country, various years



Source: World Bank 2018d.

MACROECONOMIC CONVERGENCE

A memorandum of understanding on macroeconomic convergence, signed in August 2002 by SADC ministers of finance, was based on the premise that—to achieve and maintain macroeconomic stability, balance intraregional development, and eliminate obstacles to the free movement of factors of production and commodities—they needed to converge on stability-oriented economic policies. Its implementation was delegated to the committee of senior treasury officials, and the committee of ministers of finance is responsible for monitoring progress toward convergence.

For 2003–18, three of the six macroeconomic convergence indicators are within target: the budget deficit (2.6 percent), the total debt outstanding at year end (34.4 percent), and the current account deficit (3 percent) (table 11). Five countries have on average met the targets for inflation of 3–7 percent and budget deficit of 3 percent. Mauritius, Mozambique, and Zimbabwe are the only countries with a relatively unsustainable public debt, while Botswana is the only one to achieve the foreign reserves target. No country has achieved the GDP growth target of 7 percent a year, but all the countries except Malawi, Mozambique, and Zimbabwe have achieved the current account deficit target of less than 9 percent.

Botswana, Lesotho, Namibia, and South Africa are the only countries that have on average met all their primary targets. Botswana is the only one to have met two of the three secondary targets. Mozambique and Zimbabwe have not met any of the six targets. For 1993–2018, the average growth rate of all the countries in the region is positive except for Zimbabwe, and several countries have average growth higher than that of Mauritius and South Africa. However, GDP per capita disparities have remained unchanged since 1993, casting doubt on the ability of poorer countries to

Botswana, Lesotho, Namibia, and South Africa are the only countries that have on average met all their primary SADC macroeconomic convergence targets

TABLE 11 **Southern African Development Community macroeconomic convergence targets, 2003–18**

	Primary criteria			Secondary criteria		
Country	Inflation (3%–7%)	Budget balance (less than 3% of GDP deficit)	Public sector debt (less than 60% of GDP)	GDP growth (7% minimum)	Foreign reserves (6 months of imports minimum)	Current account (less than 9% deficit)
Angola	24.2	–0.3	30.2	3.1	5.7	+3.9
Botswana	6.9	–0.5	23.1	2.6	17.1	+7.2
Lesotho	5.8	+1.5	37.3	3.1	5.1	–2.3
Madagascar	8.5	–3.3	47.7	1.0	3.0	–7.7
Malawi	13.9	–4.3	35.8	2.2	1.7	–13.2
Mauritius	4.6	–3.3	63.4	3.5	5.1	–4.7
Mozambique	9.3	–4.8	100.6	3.8	4.1	–25.2
Namibia	5.9	–3.3	38.0	2.6	2.7	–2.2
South Africa	5.6	–3.0	32.2	1.4	4.0	–3.7
eSwatini	8.4	–3.4	14.6	1.2	3.1	–0.8
Zambia	15.9	–4.1	45.2	3.0	3.3	–2.0
Zimbabwe	19.4	–3.4	65.9	–0.7	0.9	–11.3
Southern Africa	8.0	–2.6	34.4	1.2	4.6	–3.0

Note: A negative number is a deficit, a positive number is a surplus. Data for São Tomé and Príncipe are not available.

Source: African Development Bank statistics.

catch up with richer ones. Macro convergence will continue to be elusive for some countries, given the mixed growth and inflation outlook. What can help deepen macroeconomic convergence in the region? Coordinating monetary and fiscal policies by the Committee of Central Bank Governors and the Committee of Treasury Officials, establishing a free trade area and removing nontariff barriers, and mobilizing domestic resources as defined in the Regional Indicative Strategy Development Plan (RISDP).

FREE MOVEMENT OF PEOPLE

The private sector contributes on average about 70 percent to GDP in the region, lower than the continental average of 80 percent

The free movement of people and harmonizing, standardizing, and easing visa requirements should continue to be improved to facilitate movements of skills and business persons. The challenges that led some member states to refuse to ratify the 2005 Protocol on Facilitation of Movement of Persons must also be ironed out. The low performers under the free movement of people (Angola and Madagascar) are the same countries that require entry visas from citizens of other SADC member states.[62] Although SADC's score (0.53) on free movement of people is higher than on the other five integration dimensions, it is far lower than that of ECOWAS (0.8) and EAC (0.72), suggesting room to learn from them.

THE PRIVATE SECTOR AND INFRASTRUCTURE DEVELOPMENT

Transport infrastructure across the region is the most visible face of integration, especially with six landlocked countries. Improving road quality, port efficiency, civil aviation, and communication infrastructure will reduce trading costs and likely increase the volume of trade. To build first-class networks, governments should involve the private sector in infrastructure planning and ownership. Governments should ensure an appropriate enabling environment for the private sector, since it provides the most efficient allocation of resources and is the most sustainable source of economic growth. Public–private partnerships (PPPs) should come together to make the often large and complex infrastructure investments so crucial to deepening regional integration.

MEASURING THE PRIVATE SECTOR

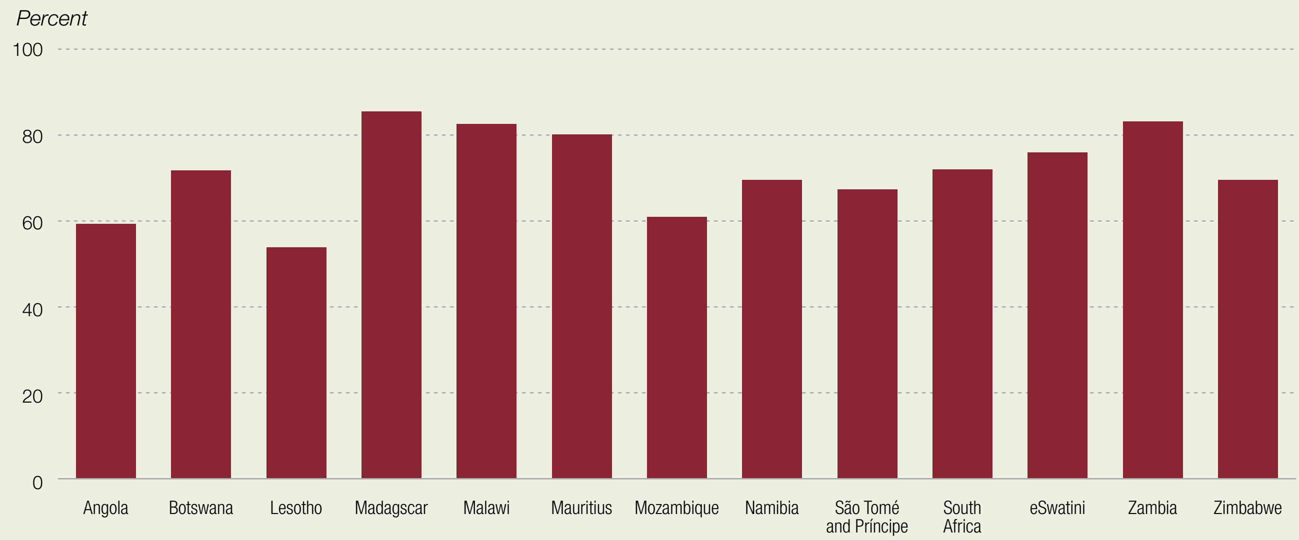
Private sector development is crucial for growth, employment, and industrialization. The private sector contributes on average about 70 percent to GDP in the region (figure 22),[63] lower than the continental average of 80 percent of total production.[64] The average size of the private sector is lowest in Angola, Lesotho, and Mozambique. About 40 percent of production in Africa's private sector is in the informal sector,[65] which is becoming a permanent feature of most African countries. Informality is no longer a training ground for budding entrepreneurs or a trampoline to formality, nor is it a built-in economic stabilizer that vanishes after growth has taken off.[66] So, the size of the formal private sector may greatly underestimate the size of the formal and informal private sectors. Regardless of size, a healthy private sector creates jobs, generates income, provides essential consumer goods and services, and by investing in infrastructure, frees up public sector funds for other uses.[67]

Infrastructure quality and efficiency—both low

Transport and logistics infrastructure reduces the costs of trade in goods and services and underlies deepening integration.[68] Indeed, Shepherd finds, "There is a strong positive association between infrastructure and trade facilitation improvements in neighbouring countries, and greater value chain connectivity at home. It is therefore not just what a country does that matters for its connectivity, but also what its neighbours do."[69]

In most of Southern Africa, road and rail networks are constructed and managed mainly by the government. Much less than 50 percent of road network is paved in Botswana (37 percent), Lesotho (20 percent), Malawi (26 percent), Mozambique (21 percent), Namibia (15 percent), and eSwatini (45 percent). The quality of roads, rail, and air transport is poor in Lesotho, Madagascar, Malawi Mozambique, Zambia, and Zimbabwe, all

FIGURE 22 Private sector–GDP ratio, by country, 2010–18



Source: African Development Bank statistics.

ranked near the bottom for infrastructure of 137 countries in the Global Competitiveness Index (table 12). The pattern is similar for the quality of electricity supply.

Angola, Lesotho, Malawi, Mozambique, Zambia, and Zimbabwe are ranked below 100 in most infrastructure efficiency indicators (table 13). More than half the population in six of the region's countries (with data), have no access to electricity —in Malawi, 90 percent. Close to 20 percent of electrical output is lost in transmission and distribution in Mozambique and Zimbabwe, likely due to the aging and poor maintenance of power infrastructure.

A recent World Bank survey data on Southern African firms show that more than a quarter identified transport as a major constraint to doing business in Angola, Lesotho, Mauritius, and Namibia (figure 23). Electricity challenges, measured by the percentage of firms that own and operate generators, appear to be severe in Angola, Malawi, eSwatini, and Zimbabwe.

Although SADC members signed a protocol on transport, communications, and meteorology in 1996, much still needs to be done. The protocol ushered in a new era in which governments assumed the role of regulator and provider of an enabling environment, while the private sector assumed the role of service provider except in special circumstances. To facilitate communication between service regulator and provider, several provider associations were formed, among them the Southern African Business Forum, the Southern African Railways Association, the Southern Africa Telecommunications Association, the Telecommunications Regulators Association of Southern Africa, and the Federation of East and Southern Africa Road Transport Associations.

The signing of the protocol and the formation of service provider associations paved the way for the active participation of the private sector in infrastructure development and identifying shared priorities that can enhance integration in the region. Several PPP projects have been implemented (figure 24), though none in Lesotho, Malawi, or eSwatini, where the governments continue to fund all infrastructure-related projects. This could help explain why the quality of infrastructure is still poor in Lesotho and Malawi, for example.

Mozambique, South Africa, and Zambia are the only countries in the region that appear to have partnered appreciably with the private sector and invested billions of US dollars in infrastructure

TABLE 12 Competitiveness rankings for infrastructure quality, 2017

	Infrastructure quality overall	Transport infrastructure quality	Quality of roads	Quality of rail	Quality of ports	Quality of air transport	Quality of electricity supply
Botswana	80	91	80	54	109	88	99
Lesotho	120	135	125	…	112	137	117
Madagascar	119	121	134	90	86	109	132
Malawi	127	131	117	85	130	135	133
Mauritius	50	55	48	…	65	50	52
Mozambique	126	114	129	75	88	110	114
Namibia	45	52	31	51	26	58	51
South Africa	72	35	50	47	37	25	97
eSwatini	81	76	39	48	48	80	98
Zambia	107	112	86	77	128	118	121
Zimbabwe	115	113	116	86	108	104	112

… is not available.

Note: Rankings are out of 137 countries. Data for Angola and São Tomé and Príncipe are not available.

Source: World Economic Forum 2017.

TABLE 13 Rankings for efficiency of infrastructure, 2018

	Efficiency of train services	Efficiency of air transport	Efficiency of sea ports	Electrification rate	Power transmission, distribution losses	Reliability of water supply
Angola	117	124	121	122	73	138
Botswana	59	106	106	117	80	104
Lesotho	140	140	…	123	…	127
Malawi	110	117	131	137	…	121
Mauritius	39	54	65	69	27	87
Mozambique	96	136	112	131	113	125
Namibia	80	50	41	116	41	57
South Africa	65	34	51	102	50	93
eSwatini	73	111	94	104	…	88
Zambia	107	99	122	125	60	119
Zimbabwe	124	115	103	124	106	129

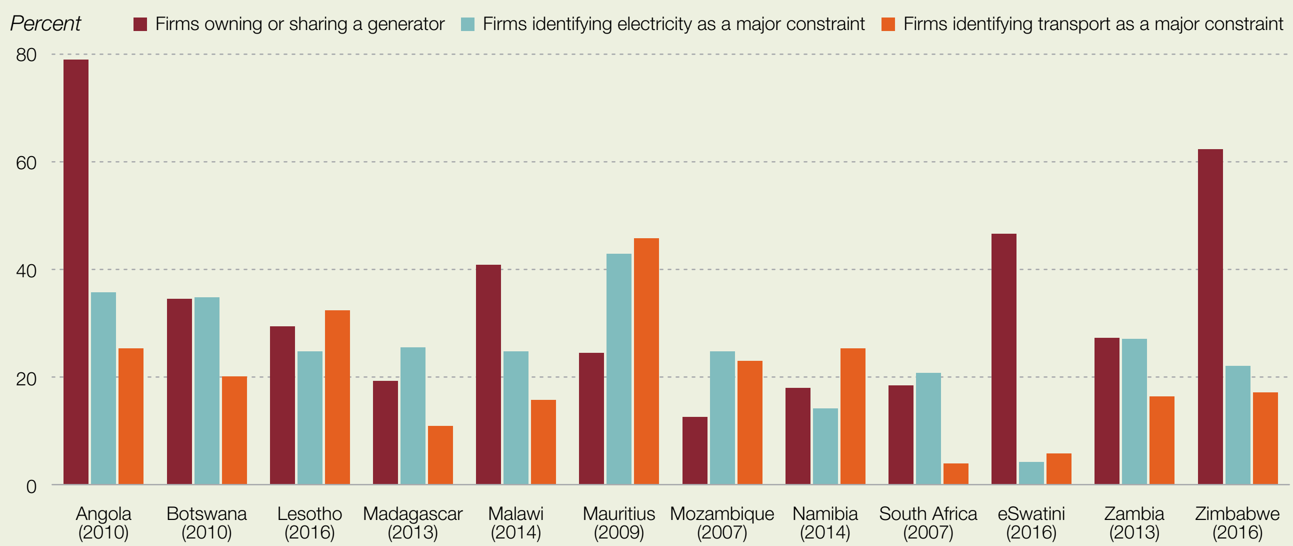
… is not available.

Note: Rankings are out of 140 countries. Data for Madagascar and São Tomé and Príncipe are not available.

Source: World Economic Forum 2018.

development. In Mozambique, the private sector is also involved in the development of pit-to-port infrastructure to facilitate the movement of coal and other raw materials. The region clearly needs functioning, well maintained, and tightly integrated transport systems—as an exporter of bulky minerals (gold, coal, copper, cobalt, iron, diamonds, bauxite, platinum, soda ash), agricultural products

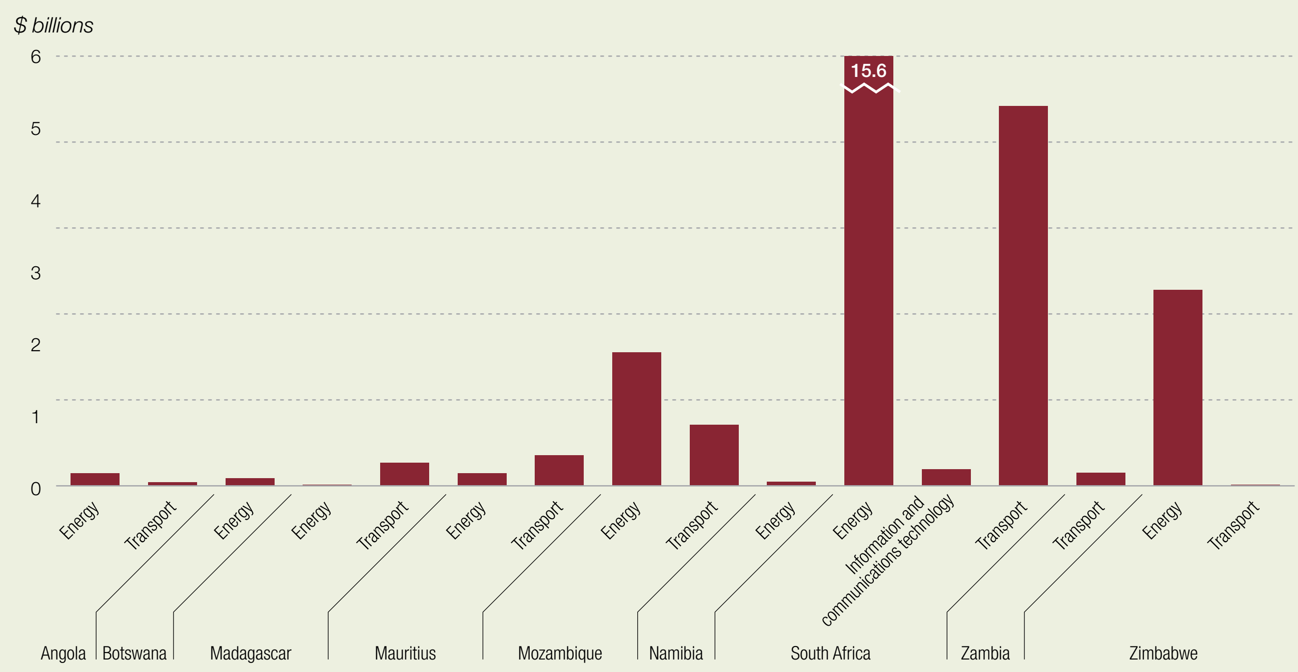
FIGURE 23 Firms identifying infrastructure as a major constraint, by country, various years



Note: Data for São Tomé and Príncipe are not available.

Source: World Bank 2018d.

FIGURE 24 Public–private partnership projects executed, selected Southern African countries



Source: World Bank 2018c.

(tea, beef, cotton, coffee, sugar, tobacco, horticultural products), and as an importer of oil, machines, vehicles, and consumer goods.[70]

Fuel levies and bridge tolls (found only in Mozambique, South Africa, and Zimbabwe) can help in maintaining infrastructure but not in financing new projects. To crowd in the private finance needed to complement public infrastructure spending, new projects need de-risking through such instruments as co-financing, guarantees, hedging, credit enhancements, and regulatory reforms to ease capital repatriation.

For energy, the private sector has many opportunities in South Africa, where the government initiated an Independent Power Producers Procurement Programme for the private sector to generate electricity using solar, wind, and biogas. This is one approach that can be adopted by other countries in the region and, if feasible, extended to include transmission. The region is heavily dependent on thermal and hydro power stations, with climatic demand changes and poor maintenance of infrastructure leading to severe power disruptions in some countries. Reducing the region's 75 percent dependency on thermal generation will go a long way to reduce carbon emissions. And there are vast sources of alternative and environmentally friendly energy sources such as solar, wind, natural gas (in Angola, Mozambique, and South Africa), and agrofuels such as jatropha beans, sugarcane, and castor and palm oil. These options can be explored with the private sector, as alluded to in the SADC energy protocol.

To crowd in the private finance needed to complement public infrastructure spending, new projects need de-risking through such instruments as co-financing, guarantees, hedging, credit enhancements, and regulatory reforms to ease capital repatriation

The communications sector is driven mostly by private firms, with government playing a regulatory role in most countries. The cost of information and communication technology (ICT) services varies markedly across the region. A mobile cellular basket of 30 outgoing calls and 100 text messages costs much more in Angola, São Tomé and Príncipe, and Zimbabwe than in Mozambique and Namibia (table 14).

The cost of a fixed broadband basket based on monthly data use of 1 gigabyte, although falling in most countries, is still high in Angola, Madagascar, and eSwatini, while mobile broadband costs more in Angola, São Tomé and Príncipe, and

TABLE 14 **Information and communication technology basket prices, 2014 and 2017** *($ per month)*

	Mobile cellular basket		Fixed broadband basket (1 GB)		Mobile broadband basket (1 GB)	
	2014	2017	2014	2017	2014	2017
Angola	18.6	16.8	49.8	41.0	...	22.6
Botswana	9.9	9.1	32.3	28.0	74.9	12.5
Lesotho	13.7	8.3	9.1	11.2	24.0	9.4
Madagascar	18.5	5.1	61.7	63.9	19.1	7.2
Malawi	11.0	7.3	0.1	6.9	9.4	4.8
Mauritius	6.1	5.1	22.8	14.5	6.5	8.7
Mozambique	11.6	2.9	20.7	10.2	6.7	2.5
Namibia	9.2	4.9	46.0	37.5	13.7	14.7
São Tomé and Príncipe	13.9	12.5	33.2	28.2	33.2	28.2
South Africa	10.2	8.3	15.2	12.4	7.3	5.6
eSwatini	15.2	...	57.8	47.0	36.8	...
Zambia	11.2	7.6	65.0	26.3	21.3	13.7
Zimbabwe	20.1	13.4	25.0	15.0	45.0	35.0

... is not available.

Source: International Telecommunication Union 2018.

Zimbabwe. The percentage of cellular phone subscribers in Southern Africa is around 86 percent but very low in Angola (58 percent), Madagascar (38 percent), and Malawi (31 percent), the same countries where the costs of mobile are high.

Internet usage is generally very low at 23 percent of the population—and dismal at 6 percent in Malawi and Mozambique and 4 percent in Madagascar. Better internet access is essential for globalizing trade, and the access gap provides another opportunity for independent private investment or public–private partnerships.

INNOVATION HUBS AND SPECIAL ECONOMIC ZONES

Increasing intraregional trade requires changing the industrial structure and promoting import substitution through a cautious industrial policy that avoids the harmful effects of trade diversion.[71] The SADC industrialization strategy launched in 2015 aimed to complement eliminating tariffs by promoting structural transformation and enhanced competitiveness of the entire region. It is anchored on industrialization as a driver of competitiveness and economic and technological transformation. This strategy makes industrialization the fulcrum of regional integration and expects that successful industrialization will be achieved by doing things better and by diversifying.

One way to promote an integrated industrial base is to develop and strengthen regional value chains—to accelerate value addition and enhance export competitiveness. The low participation of Southern Africa in value chains indicates the untapped potential for boosting investment and industrial growth. A recent study reviewing industrialization policies of countries in the region identified several areas with immense investment opportunities available to the private sector for adding value in a regional value chain,[72] including fruit, coal, gold, diamonds, copper, cotton, crude oil, iron ore, platinum, marine products, and natural gas.

Establishing growth poles, as well as special economic zones (SEZs) and innovation hubs, depends on resource endowments and comparative advantages. Special economic zones can attract foreign direct investment in high technology sectors, while incubation centers nurture the small and medium firms that will form part of the value chain. How best to make SEZs successful? With a sustained and coordinated package of incentives, infrastructure, and services, and a clear vision of the country's development agenda to build a consensus.[73]

Some countries in the region run formally recognized incubation centers or have special economic zones. South Africa's Small Business Connect, funded by the Department of Trade and Industry, lists 14 incubation facilities in South Africa. It also lists eight special economic zones to attract foreign direct investment and export value added commodities. Zimbabwe's government gazettes list 12 special economic zones around the country, but there is no official information on incubation centers.[74] Malawi's Investment and Trade Center intends to develop an agro-processing zone in Zalewa and industrial parks in Blantyre, Lilongwe, Chinthenche, Chigumula, and Nkhata Bay. Zambia has three multifacility economic zones: Chambishi, Lusaka East, and Lusaka South. Botswana's SEZ law was approved in 2015, with zones proposed for Lobatse, Palapye, Gaborone, Francistown, Pandamatenga, and Selibe Phikwe to cover mining, leather, energy, and agriculture. Lesotho has eight industrial parks developed by the Lesotho National Development Corporation and recently obtained funding to conduct a feasibility study to set up SEZs. Having no established SEZs, Madagascar, Namibia, and eSwatini are planning to develop them, and Mauritius signed a memorandum of understanding to develop one in Madagascar.

The SADC industrialization strategy makes industrialization the fulcrum of regional integration and expects that successful industrialization will be achieved by doing things better and by diversifying.

TURNING LATENT COMPARATIVE ADVANTAGE TO COMPETITIVE ADVANTAGE

The Growth Identification and Facilitation Framework can identify products or areas where countries can grow their latent comparative advantage in line with their resource endowments (table 15).[75] If products are losing comparative advantage in their benchmark countries, Southern African countries—given similar resource

TABLE 15 Growth Identification and Facilitation Framework–identified tradable goods and self-discovery products, by country

Country	Benchmark countries	Products identified with increasing domestic import shares	Self-discovery products (increasing revealed comparative advantage)
Angola	China, Turkmenistan, Serbia, Azerbaijan, and Kazakhstan	**Toy games and sport parts,** preparations of vegetables and fruits, mineral fuels and oils, **articles of apparel,** animal and vegetable fats, **footwear gaiters,** and natural and cultured pearls	Mineral fuels and natural or cultured pearls
Botswana	Turkey, Costa Rica, and Poland	**Articles of apparel, ships, boats, floating structures**	Salt sulphur and stone, meat, and edible meat offal
Lesotho	Belize, Bhutan, Cabo Verde, and Sri Lanka	Preparation of vegetables and fruits, mineral fuels and oils, articles of apparel, raw hides and skins, natural or cultured pearls	Salt sulphur stone, wool, cotton, articles of apparel, toys, games, and sport requisites
Madagascar	Uganda, Gambia, Nepal, Mali, Benin, Cambodia, Ethiopia, Kenya, Tanzania, Sierra Leone, and Comoros	Coffee, tea and spices, animal and vegetable fats, **essential oils, cosmetic perfumes, articles of apparel,** cotton, **printed books and newspapers, and aircraft and spacecraft**	Coffee, tea and spices, lac, gums and resins, fertilizers, nickel and articles thereof, base metal, cermet
Malawi	Uganda, Rwanda, Kenya, Mali, Nepal, and Tanzania	Ores, slag and ash, **optical and photographic, printed books and newspapers, aircraft and spacecraft,** animal and vegetable fats	Edible fruits and nuts, coffee, tea, spices, cereals, oil and oleaginous fruits, preparation of vegetables, fertilizers, tobacco and manufactured tobacco, raw hides, railway, and tramway
Mauritius	Lithuania, Panama, Turkey, and Republic of Korea	**Articles of apparel, electrical machinery and equipment,** mineral fuels and oils, **ships, boats and floating structures, and vehicles other than railways and tramway.**	Works of art, fabrics, cotton, printed books, essential oils and perfumes, sugar products, fish and crustacea, live animals
Mozambique	Tajikistan, Myanmar, Ethiopia, and Cambodia	**Articles of apparel,** mineral fuels and oils, **aluminum and articles thereof, coffee, tea, spices,** raw hides and skins	Special woven fabrics, man-made filaments
Namibia	Botswana, Costa Rica, Dominican Republic, and China	**Electrical machinery and equipment, toy games and sports parts**	Live animals, raw hides and skins, natural and cultured pearls, tins, and articles thereof, furniture, bedding, mattresses
South Africa	Mauritius, Bulgaria, Chile, Romania, Poland, Malaysia, and Slovakia	**Apparel and clothing,** sugar and sugar products, iron and steel, **footwear gaiters, ships, boats**	Edible fruits, nuts, ores, slag and ash, fertilizers, raw hides and skins, straw of esparto, pulp of wood, wool, nickel, and articles thereof
eSwatini	Belize, Costa Rica, Bulgaria, Lebanon, and Mauritius	Preparation of vegetables and fruits, **electrical machinery and equipment, machinery and mechanical appliances,** iron and steel, **footwear and gaiters, inorganic chemicals,** natural or cultured pearls	Lac, gums, sugar and sugar confectionery, preparation of vegetables, essential oils, wood and articles thereof, articles of apparel
Zambia	Ghana, Lao PDR, and Namibia	Natural or cultured pearls, aluminum articles, **beverages, spirits and vinegar,** fish and crustacea	Sugar and sugary products, oil seeds and fruits, salt sulphur stone, inorganic chemicals, printed books and newspapers, articles of stone plaster cement, copper and articles thereof, lead and articles thereof
Zimbabwe	Honduras, Kenya, Lao PDR, Lesotho, Nicaragua, and eSwatini	Edible fruits and nuts, **essential oils and perfumes, articles of apparel, beverages, spirits and vinegar, pharmaceutical products,** wood and articles thereof, fish and crustacea, live animals, **coffee, tea, and spices,** ores, slag and ash, natural or cultured pearls	Live animals, live tress and other plants, edible vegetables fruits, nuts and roots, coffee, tea, and spices, sugars and related products, tobacco and manufactured tobacco, salt sulphur and stone, printed books and newspapers, raw hides and skins, iron and steel

Note: The products in bold are manufactured products with rising import shares not part of self-discovery. Data for São Tomé and Príncipe are not available.

Source: African Development Bank compilation using the Growth Identification and Facilitation Framework and International Trade Centre (2018) and World Bank (2018c).

endowments—could have a potential comparative advantage in them. The import shares of the identified products in Southern African countries are checked to see whether they are declining or increasing. The purpose is to select subsectors with both the potential for growth and the feasibility for production—potential that depends largely on market demand from international and domestic markets.[76] Changes in import shares are a proxy for the size of the domestic market. The feasibility of production depends on capital requirements, the size of production firms, and factor endowments. Since most firms in Southern Africa are small and medium enterprises, production feasibility should focus on identified products that can be produced by these types of firms.[77]

For most countries in the region, articles of apparel knitted and crocheted or not knitted and crocheted, as well as footwear and gaiters, are the manufactured products identified as losing export market share in the benchmark countries. Relatively labor-intensive with low to medium technology, these products can easily be produced. The other products identified but not related to the known natural resource endowments include essential oils; perfumery and cosmetics; electrical machinery and equipment and parts thereof; printed books, newspapers, and other products of the printing industry; ships; and boats (see table 15). There are also several products identified through GIFF that are not part of self-discovery, and their local production should be explored and encouraged. Special economic zones and incubation facilities should be developed and designed to accommodate their production.

The challenge is that some of these products are capital-intensive with medium to high technology, including aircraft, spacecraft, vehicles other than railway or tramway rolling stock, machinery, nuclear reactors, boilers, and vehicles. Although some countries in the region may not have the capacity to produce these goods, others are already exporting some of them.[78] Countries in the region generally have low capital formation—below 20 percent of GDP in Malawi, Madagascar, South Africa, eSwatini, and Zimbabwe. The only countries with higher levels are Zambia and Mozambique at 44 percent, followed by Angola at 32 percent. SEZs could improve foreign direct investment in these nascent sectors.

DOING BUSINESS

Realizing the GIFF growth opportunities requires easy, predictable, and transparent rules and procedures that foster business, backed by effective monitoring and enforcement. Of the bottom 20 countries in the World Bank's Doing Business rankings, 12 are in Sub-Saharan Africa and one is in Southern Africa. The business climate in many countries is still not conducive to private sector development, with 9 of the region's 13 countries ranked among those with the poorest business climate—ranking higher than 100 of 190 (table 16). Angola, Madagascar, Malawi, Mozambique, and Zimbabwe improved their rankings in 2019, but South Africa did not.

Other countries in the region need to learn from Botswana, Lesotho, and eSwatini about how to streamline border processing procedures

Trading across borders and access to credit are some of the important factors that foster private sector growth. The time and cost associated with the logistics of importing and exporting is lowest in Botswana, Lesotho, and eSwatini (the highly ranked countries in the region) but very high in Angola, Zambia, and Zimbabwe. Importing and exporting costs are far higher in South Africa, Madagascar, and Angola than in Lesotho, Malawi, and eSwatini. Other countries in the region need to learn from Botswana, Lesotho, and eSwatini about how to streamline border processing procedures. A single-window customs processing system will help streamline and minimize cross-border trading costs. Access to credit, which can help businesses finance their growth plans, appears to be a major impediment in Madagascar, Mozambique, and Zimbabwe. Overcoming restrictions on credit access is necessary for industrial and trade growth, and for (manufacturing) employment growth.[79]

BUSINESS CODES AND PRODUCTS

The relationship between trade and the environment is dynamic and complex. Economic activities, including trade, often depend on natural

TABLE 16 Doing Business rankings, 2019

Country	Ease of doing business (rank)	Exporting		Importing		Trading across borders (rank)	Getting credit (rank)
		Time (number of hours)	Cost ($)	Time (number of hours)	Cost ($)		
Angola	173	164	825	72	1,030	174	184
Botswana	86	5	317	4	98	55	85
Lesotho	106	4	150	5	150	38	85
Madagascar	161	70	868	99	595	134	124
Malawi	111	78	243	55	143	126	8
Mauritius	20	24	303	41	372	69	60
Mozambique	135	66	602	9	399	91	161
Namibia	107	120	745	6	145	136	73
São Tomé and Príncipe	170	83	426	150	406	122	161
South Africa	82	92	1,257	87	676	143	73
eSwatini	117	2	134	3	134	32	85
Zambia	87	120	370	120	380	153	3
Zimbabwe	155	88	285	228	562	157	85

Note: Rankings are out of 190 countries.

Source: World Bank 2019.

resources and the environment. Changes in industrial and other emissions need to be anticipated by robust environmental regulations. Trade liberalization and a sustainable environment should be mutually supportive. Although increased trade may come with external environmental costs, integration can provide environmental opportunities. Reducing tariffs and nontariff measures for sanitation and wastewater treatment should help lower prices and make life-saving technologies affordable for importing countries.

SADC's Regional Indicative Strategy Development Plan (RISDP) for 2005–20 commits to setting environmental standards and guidelines, producing state of environment reports every five years, and managing the brown environment and transboundary natural resources. SADC has also ratified major multilateral environmental agreements such as conventions to combat desertification, climate change, and loss of biodiversity. The Africa Institute coordinates regional efforts regarding the Rotterdam, Basel, Bamako, and Stockholm chemical conventions. For air quality, the 1998 Harare Resolution initiated the SADC protocol on regional air quality and atmospheric emissions. As part of the protocol's development, Botswana, Malawi, Mozambique, South Africa, Zambia, and Zimbabwe have completed status reports on air pollution. The SADC established the Environment and Land Management Sector and the Food, Agriculture and Natural Resources Directorate to coordinate environmental and sustainable development issues in the region's policies, strategies, and programs. Enforcing all these regulations is important for encouraging green trade and sustainable development. But they should be implemented gradually so that they are not economically burdensome.

Trading across borders also requires harmonizing business codes. The nomenclature all customs officials use to classify traded goods should be standard across the region. The harmonized commodity description and coding system (HS) developed by the World Customs Union in 1988 is the most widely used product nomenclature.[80] All Southern African countries except Madagascar and Namibia apply the HS and have upgraded to the latest 2017 version. Only Angola, Mauritius, Mozambique, and South Africa do not yet use the

UNCTAD Automated System for customs data, a management system to reform customs clearance.

Most countries in the region (except Lesotho) are either full members or corresponding members of the International Organisation for Standardization (ISO), with the right to sell and adopt standards nationally. Standards ensure that market failure and incomplete information are minimized when products are produced and distributed. Each member country has an institution with the mandate to ensure that quality products are traded within and across borders. The International Maritime Organization covers services provided by the shipping industry, and the International Air Transport Association supports aviation with global standards for airline safety, security, efficiency, and sustainability.[81] The SADC Protocol on Transport and Communication prescribes adherence to the International Civil Aviation Organization standards, but domestic airlines may follow other recognized standards. Private sector service providers that belong to these different bodies can ensure quality services and relieve governments of some burden of regulatory oversight.

CONCLUSIONS

The success of the European Union and the expected synergistic effects of regional integration on wealth and standards of living have encouraged many countries to come together and cooperate on economic and noneconomic issues. Deeper regional integration means larger markets, which are good for productivity and industrialization. It also encourages the mobility of people, goods, and services thanks to greater visa openness, infrastructure investment, and trade facilitation. SADC has scope to learn from the best performing RECs—EAC for trade and production integration, Intergovernmental Authority on Development (IGAD) for regional infrastructure integration, and ECOWAS for the free movement of people as well as financial and macroeconomic integration. Other actions to deepen regional integration include implementing the SADC industrialization strategy, removing nontariff barriers to trade, improving the business environment, finalizing model laws to harmonize different financial subsectors, and speedily ratifying the free movement of people protocol.

Development of the Southern Africa region requires making strategic choices that resolve the complex challenges described earlier and take advantage of the opportunities. It actualizes the region, preserving as well as widening its policy space, while having a common set of goals and priorities. Countries often find their space for making domestic policy choices constrained by the dilemmas of how they can attain the manifold benefits of extensive international development engagement while precluding limitations. To do that, Southern African countries must resolve numerous internal contradictions, structural constraints, and political economy dynamics.

Because the private sector is both a driver and a beneficiary of regional integration, governments must create a landscape accommodating the sector's different roles. Public–private partnership arrangements have been used successfully for infrastructure development, reducing trade costs to spur trade growth. The Southern African Business Forum (SABF), collaborating with the SADC secretariat and NEPAD, prepared the Savuti (2015), Esibayeni (2017), and Sunninghill (2017) declarations on the central role of the private sector in implementing the region's industrialization strategy and integration agenda.

With Southern Africa now a free trade zone, eliminating unnecessary nontariff barriers should be the next step to foster integration, complemented by developing regional growth poles so that the benefits of integration are shared fairly across the region. Special economic zones and incubation hubs should be encouraged to nurture nascent industries, promote diversification, and convert latent comparative advantage into true competitive advantage.

With Southern Africa now a free trade zone, eliminating unnecessary nontariff barriers should be the next step to foster integration, complemented by developing regional growth poles so that the benefits of integration are shared fairly across the region

POLICY RECOMMENDATIONS

The following specific actions and policies can ensure a healthy macroeconomic environment, foster private sector development, and deliver regional integration following a holistic agenda.

- *Address fiscal challenges.* To ensure that countries' growth prospects are shielded

In addition to strengthening fiscal positions, an active debt management strategy would help strengthen confidence in the economy, rebuild some much-needed fiscal space, and stimulate economic growth

against risks arising from domestic and external shocks, governments need to scale up fiscal adjustment efforts, including measures to improve public spending efficiency and enhance revenue generation. They should continue efforts to strengthen fiscal consolidation, secure spending on essential social services, enhance domestic resource mobilization, and seek alternative sources of financing infrastructure, notably public–private partnerships. And they should rigorously implement reforms relating to public financial management because deviations from planned expenditures could threaten ongoing fiscal consolidation efforts. Countries should also strive to meet the macroeconomic convergence criteria set by SADC for 2018 and maintain macroeconomic stability, including prudent fiscal policies.

- *Reduce high dependency on SACU revenues.* A new sharing formula could lead to a further decline of SACU transfers, especially if growth in South Africa remains weak. SACU countries, especially Lesotho and eSwatini, should diversify and expand government sources of revenue to reduce vulnerability to volatile SACU inflows. They should improve the execution and prioritization of the development budget to accelerate the development of infrastructure fostering private investment, spurring growth, and thus enlarging the tax base. They could establish stabilization funds or adopt fiscal rules to reduce the volatility and uncertainty of SACU revenue flows to the budget. And they should pursue efforts to build adequate international reserve buffers over the medium term to augment their countries' resilience to risks emanating from the volatility and decline of SACU revenues.
- *Resolve high levels of debt.* In addition to strengthening fiscal positions, an active debt management strategy would help strengthen confidence in the economy, rebuild some much-needed fiscal space, and stimulate economic growth. Countries should slow debt accumulation, clear arrears, and boost domestic resources. They should also strengthen the functioning of domestic debt markets, such as reforming the nonbank financial sector, including pension and insurance funds, to increase the long-term finance available for domestic debt markets. And they should develop new alternative sources for financing development, including opportunities in sovereign wealth funds and pension funds as well as innovative financial instruments such as diaspora bonds.
- *Reduce poverty, unemployment, and inequality.* With promising medium-term growth prospects and ample fiscal space in some countries, government policy priorities should aim at deepening much-needed economic transformations to deliver growth that is more inclusive, more resilient, and more capable of creating enough jobs. Such policy priorities need to be accompanied by measures developing the skills of the labor market, improving the business climate, and increasing access to affordable financing by micro, small, and medium enterprises. Recognizing that youth unemployment is high, governments should reorient the education system to better respond to the needs of industry and produce personnel with skills that match demands. They should also encourage young people—technically and financially—to start their own businesses and empower young entrepreneurs to venture into tourism, agribusiness projects, climate-smart agriculture, and trades such as plumbing and sewing. And they should target youth in public procurement contracts, including community-based tendering that allows low-capital youth businesses to qualify for downstream tenders associated with big contracts or investments in their areas.
- *Reduce high dependence on commodities.* With appropriate policies for enhancing productivity and export competitiveness, Southern African country memberships in regional bodies and trade agreements could provide opportunities to integrate their economies into regional and global value chains. To maximize national and regional economic prosperity through economic diversification and higher productivity, countries should implement trade facilitation reforms to ensure the free movement of goods and services across the region's borders, including the simplification and harmonization of international trade procedures, modernization of border procedures

and control techniques, and removal of nontariff barriers that hinder industrial development. They should also establish growth poles based on resource endowments and comparative advantages, supported by special economic zones and innovation hubs. And they should undertake reforms in product markets aimed at promoting competition in businesses, improving quality, and reducing prices—given that the lack of competition in goods and services markets is one of the major weaknesses in the region, particularly in South Africa.

- *Increase private participation in infrastructure.* Legal and regulatory frameworks relevant to infrastructure development should be reviewed to ensure that they are comprehensive and sufficiently transparent, as well as accessible to the public. Governments should technically and financially restructure and, where appropriate, privatize state enterprises that are likely to enter into partnerships with potential equity investors, or likely to go to the financial markets for long-term funding for infrastructure projects. Governments should also pursue efforts to strengthen public–private engagement and enable the domestic private sector to participate effectively in private–public partnerships. A credible pipeline of bankable projects with adequate cost recovery systems also needs to be developed to present to prospective investors. To boost confidence in potential projects and crowd in capital from private investors, governments should take advantage of credit enhancement financing instruments that are offered by multilateral development banks. Governments can also take advantage of project investment loans that those banks offer for infrastructure development, especially in countries with very low external debt and investment needs that are unmet because of the lack of investor interest.

NOTES

1. African Development Bank 2018b.
2. Since 2008, the African Development Bank Group has used the harmonized Multilateral Development Bank approach to classify countries as "fragile." The term "fragile situations" indicates either a harmonized African Development Bank/World Bank average Country Policy and Institutional Performance Assessment (CPIA) rating of 3.2 or less, or the presence of a United Nations and/or regional peacekeeping or peace-building mission during the previous three years. In almost all cases, the CPIA rating has been the primary criterion for a country to be classified as fragile.
3. IMF 2018a.
4. African Development Bank 2018c.
5. South Africa National Treasury 2018.
6. Kumo 2018.
7. IMF 2018a.
8. African Development Bank 2018d.
9. IMF 2018b.
10. African Development Bank 2018e.
11. IMF 2018a.
12. World Bank 2018i.
13. African Development Bank 2018f.
14. African Development Bank 2018f.
15. African Development Bank 2018a.
16. World Bank 2018h.
17. IMF 2018a.
18. World Bank 2018j.
19. World Bank 2018k.
20. IMF 2018c.
21. African Development Bank 2019.
22. Nseera 2018.
23. Lopes et al. 2017.
24. African Development Bank 2019.
25. African Development Bank 2018c; African Development Bank 2019.
26. IMF 2018a.
27. Smith 2017.
28. SACU countries are Botswana, Lesotho, Namibia, South Africa, and eSwatini.
29. African Development Bank 2018a.
30. SADC 2012b.
31. Lins de Albuquerque and Wiklund 2015.
32. World Bank 2018h.
33. World Bank 2018g.
34. World Bank 2018a.
35. According to the World Bank (2018i), Mozambique has also been defaulting on its Eurobonds and two previously undisclosed loans, making it difficult to use external sources of funding to reduce pressure on the fisc.
36. African Development Bank 2018b.
37. Aghion et al. 2009.
38. No data were available for some Southern African countries such as Zimbabwe and eSwatini from 2013 onward or for Madagascar after 2009. We thus could not calculate Southern Africa regional averages.
39. Tanzi and Zee 2000.
40. IMF 2018d.
41. IMF 2018d.
42. Park and Mercado 2015.
43. World Bank 2018c.
44. Fosu 2018; 2017.
45. World Bank 2018f.
46. Okoth 2015; IMF 2015.
47. OECD 2018.
48. Murithi 2017.
49. African Development Bank 2018a.
50. IMF 2017.
51. Rankin 2016.
52. Fin 24 2012.
53. According to the Trade Law Centre, by December 2018, 49 of 55 countries had signed the agreement and 14 countries had deposited their ratification instruments or received parliamentary approval for ratification. In Southern Africa, eSwatini deposited its ratification instrument in July 2018, and South Africa has received ratification approval from parliament. https://www.tralac.org/resources/infographic/13795-status-of-afcfta-ratification.html.
54. The Committee of Central Bank Governors was created to attend to monetary issues and the Committee of Treasury Officials to fiscal issues.
55. There are plans to include more regional currencies in the settlement system.
56. 2018 SIRESS settlement report.
57. SADCBA is a subcommittee and reports to the Committee of Central Bank Governors and its secretariat is in South Africa. This committee was also set up to implement regional standards for payment messaging and to develop regional payment instruments. Madagascar is not an active member of this committee.

58. World Bank enterprise surveys 2018.
59. Moyo 2018.
60. Baumol 1982.
61. Fin 24 2017.
62. UNECA 2018.
63. We estimate the size of the private sector indirectly using the expenditure approach to GDP by summing private consumption and investment. But this tends to overestimate private output since these expenditures include purchases of foreign goods imports and the part of private production purchased by foreign consumers (exports). To correct for this, we add net exports. This is the same definition as in the African Development Bank (2011) report titled "Private Sector Development as an Engine for Africa's Economic Development."
64. African Development Bank 2011.
65. African Development Bank 2011.
66. World Bank 2011.
67. African Development Bank 2011.
68. Arndt and Roberts 2018.
69. Shepherd 2016, p. 20.
70. Peters-Berries 2010.
71. Altenburg and Lutkenhorst 2015.
72. UNECA-SA 2017.
73. World Bank 2001.
74. According to the Zimbabwe Special Economic Zones Authority, the designated zones are in Beitbridge, Bulawayo, Harare, Mutare, and Norton.
75. Lin and Monga 2010. The first step is to select benchmark countries whose per capita income is 100–300 percent above that of each Southern African country and whose growth is equal to or above that of each regional country. To ensure similarity, we compare factor endowments (labor force and capital formation, mining, and oil ratios). By identifying products with declining export shares in the benchmark countries, we identify potential comparative advantage for each Southern African country. The potential for growth and feasibility for local production also depend on domestic market demand, and this varies indirectly with the identified product's declining import share. We also identify self-discovery products by looking at those goods with increasing revealed comparative advantage in each Southern African country. For a detailed discussion of the GIFF, see Lin and Xu (2016).
76. Lin and Xu 2016.
77. Latest World Bank Enterprise Survey data show that about 54 percent of firms in Southern Africa employ fewer than 100 workers.
78. Malawi was the only country in the region in 2017 with a revealed comparative advantage in exporting railway or tramway locomotives, rolling stock, and parts thereof; Angola and Mauritius had comparative advantage in exporting ships, boats, and other floating structures.
79. Fox and Oviedo (2013) find that access to credit has a significant positive impact on long-term manufacturing job growth in Africa.
80. The harmonized system comprises approximately 5,300 product descriptions that appear as headings and subheadings, arranged in 99 chapters, grouped in 21 sections.
81. International Maritime Organization membership excludes Botswana, Lesotho, and eSwatini; the International Air Transport Association excludes Lesotho, Malawi, eSwatini, Zambia, and Zimbabwe.

REFERENCES

African Development Bank. 2011. *African Development Report 2011: Private Sector Development as an Engine of Africa's Economic Development*. Abidjan.

———. 2018a. *African Economic Outlook 2018*. Abidjan.

———. 2018b. *Southern Africa Economic Outlook*. Abidjan.

———. 2018c. "South Africa: African Economic Outlook Country Note." Abidjan, Côte d'Ivoire.

———. 2018d. "Angola: African Economic Outlook Country Note." Abidjan.

———. 2018e. "Mozambique: African Economic Outlook Country Note." Abidjan.

———. 2018f. "Mauritius: African Economic Outlook Country Note." Abidjan.

———. 2019. *African Economic Outlook 2019.* Abidjan.

African Development Bank and African Union. 2018. "Peace and Security." Press Release. Abidjan.

Aghion, P., D. Comin, P. Howitt, and I. Tecu. 2009. "When Does Domestic Saving Matter for Economic Growth?"

Working Paper 09–080. Harvard Business School, Cambridge, MA.

Altenburg, T., and W. Lutkenhorst. 2015. *Industrial Policy in Developing Countries*. Northampton, MA: Edward Elgar Publishing.

Arndt, C., and S. Roberts 2018. “Key Issues in Regional Growth and Integration in Southern Africa.” *Development Southern Africa* 35(3): 297–314.

Baumol, W.J. 1982. “Contestable Markets: An Uprising of the Theory of Industrial Structure.” *American Economic Review* 72(1): 1–15.

Fin 24. 2012. “Labour Productivity Hits 46-year Low.” https://www.fin24.com/Economy/Labour-productivity-hits-46-year-low-20120813.

——. 2017. “Mozambique Banks Snared in Debt Crisis Must Merge to Thrive.” 28 June. Available at: https://www.fin24.com/Companies/Financial-Services/mozambique-banks-snared-in-debt-crisis-must-merge-to-thrive-20170628.

Fosu, A.K. 2017. “Growth, Inequality, and Poverty Reduction in Developing Countries: Recent Global Evidence.” *Research in Economics* 71(2): 306–336.

——. 2018. “The Recent Growth Resurgence in Africa and Poverty Reduction: The Context and Evidence.” *Journal of African Economies* 27(1): 92–107.

Fox, L., and A.M. Oviedo. 2013. “Institutions and Job Growth in African Manufacturing: Does Employment Protection Regulation Matter?” *Journal of African Economies* 22(4): 616–50.

Hussein, K., and A. Thirlwall. 1999. “Explaining Differences in the Domestic Savings Ratio across Countries: A Panel Data Study.” *Journal of Development Studies* 36(1): 31–52.

Hussein, S. 1997. “Towards the Free Movement of People in Southern Africa?” Occasional Paper 18. Institute for Security Studies, Pretoria.

IMF (International Monetary Fund). 2015. “Country Report: Kingdom of Swaziland.” Country Report 15/353. Washington, DC.

——. 2017. “Country Report: Kingdom of Swaziland.” Country Report 17/275. Washington, DC.

——. 2018a. *World Economic Outlook*. Washington, DC.

——. 2018b. “Country Report: Angola.” Country Report 18/157. Washington, DC.

——. 2018c. “Country Report: Malawi.” Country Report 18/116. Washington, DC.

——. 2018d. *Regional Economic Outlook: Sub-Saharan Africa Domestic Revenue Mobilization and Private Investment*. Washington, DC.

ILO (International Labour Organization). 2018. ILO Statistics Database. Geneva.

International Telecommunication Union. 2018. ICT database. Geneva.

International Trade Centre. 2018. TradeMap database. Geneva.

Kumo, W.L. 2018. “African Economic Outlook Country Note, South Africa.” African Development Bank, Abidjan.

Lin, J.Y., and C. Monga. 2010. “Growth Identification and Facilitation: The Role of the State in the Dynamics of Structural Change.” Policy Research Working Paper 5313. World Bank, Washington, DC.

Lin J.Y., and J. Xu. 2016. “Applying the Growth Identification and Facilitation Framework to the Least Developed Countries: The Case of Uganda.” CDP Background Paper 32. United Nations Department of Economic and Social Affairs, New York.

Lins de Albuquerque, A., and C. Wiklund. 2015. “Challenges to Peace and Security in Southern Africa: The Role of SADC.” FOI Memo 5594. Swedish Defence Research Agency, Stockholm.

Loayza, N., K. Schmidt-Hebbel, and L. Servén. 2000. “Saving in Developing Countries: An Overview.” *World Bank Economic Review* 14(3): 393–414.

Lopes, C., A. Hamdok, and A. Elhiraika, eds. 2017. *Macroeconomic Policy Framework for Africa’s Structural Transformation.* New York: Palgrave Macmillan.

Makumbe, R. 2001. “The Role of Transport Associations in the SADC Region.” Paper prepared for the 20th South African Transport Conference, “Meeting the Transport Challenges in Southern Africa,” 16–20 July, Pretoria.

Moyo, B. 2018. “An Analysis of Competition, Efficiency and Soundness in the South African Banking Sector.” *South African Journal of Economic and Management Sciences* 21(1): a2291.

Murithi, S. 2017. “African Small and Medium Enterprises: Contributions, Challenges, and Solutions.” *European Journal of Research and Reflection in Management Sciences* 5(1).

Nseera, E. 2018. “African Economic Outlook Country Note, Lesotho.” African Development Bank, Abidjan.

OECD (Organisation for Economic Co-operation and Development). 2018. *South Africa Economic Outlook*. Paris.

Okoth, E. 2015. “Unemployment Remains the Top Issue In the Minds of Swazis.” News Release. *Afrobarometer*. www.afrobarometer.org.

Park, Y.C., and R.V. Mercado. 2015. “Financial Inclusion, Poverty and Income Inequality in Developing Asia.” Economics Working Paper Series 426. Asian Development Bank, Mandaluyong City, Philippines.

Peters-Berries, C. 2010. *Regional Integration in Southern Africa: A Guidebook.* Bonn, Germany: Internationale Weiterbildung und Entwicklung.

Rankin, N. 2016. “Labour Productivity, Factor Intensity and Labour Costs in South African Manufacturing.” REDI3x3 Working Paper 21. Research Project on Employment, Income Distribution and Inclusive Growth, University of Cape Town, Cape Town, South Africa.

SADC (Southern African Development Community). 2012a. “Tourism.” Gaborone. https://www.sadc.int/themes/infrastructure/tourism.

———. 2012b. “Regional Infrastructure Development Master Plan (RIDMP).” Gaborone.

———. 2017a. “Action Plan for SADC Industrialization Strategy and Roadmap.” Gaborone.

———. 2017b. “Summary of the SADC Revised Regional Indicative Strategic Development Plan 2015–2020.” Gaborone.

Shepherd, B. 2016. “Infrastructure, Trade Facilitation, and Network Connectivity in Sub-Saharan Africa.” *Journal of African Trade* 3(1–2): 1–22.

Smith, C.-A. 2017. “South Africa Must Modernize Its Manufacturing Industry to Mutually Benefit from Its Partnership with China.” Position Paper. IOA (In On Africa), Johannesburg, South Africa.

South Africa National Treasury. 2018 “Budget Speech by the Minister of Finance.” Pretoria.

Tanzi, V., and H. Zee. 2000. “Tax Policy for Emerging Markets: Developing Countries.” Working Paper WP/00/35. International Monetary Fund, Washington, DC.

UNAIDS (Joint United Nations Programme on HIV/AIDS). 2018. *Global AIDS Update 2018*. Geneva.

UNDESA (United Nations Department of Economic and Social Affairs). 2017. *World Population Prospects: The 2017 Revision*. New York.

UNDP (United Nations Development Programme). 2018. *Human Development Report*. New York.

UNECA (United Nations Economic Commission for Africa). 2018. “SADC: Free Movement of Persons.” Addis Ababa. https://www.uneca.org/pages/sadc-free-movement-persons.

UNECA (United Nations Economic Commission for Africa), AU (African Union), and African Development Bank. 2016. *Africa Regional Integration Index Report 2016.* Addis Ababa.

UNECA-SA (United Nations Economic Commission for Africa, Office for Southern Africa). 2017. “The Private Sector and Regional Integration in Southern Africa: Accelerating Opportunities for Investment and Growth.” Lusaka.

Watson, P. 2001. “Export Processing Zones in Sub-Saharan Africa.” Africa Region Findings 193. World Bank, Washington, DC.

WHO (World Health Organization)/UNICEF (United Nations Children’s Fund) Joint Monitoring Programme. 2015. *Progress on Sanitation and Drinking Water: 2015 Update and MDG Assessment.* Geneva and New York.

World Bank. 2011. “Policies to Reduce Informal Employment: An International Survey.” Technical Note for the Government of Ukraine. World Bank, Washington, DC.

———. 2017. World Development Indicators [database]. Washington, DC: World Bank.

———. 2018a. *Africa’s Pulse.* Washington, DC.

———. 2018b. The Global Findex Database. Washington, DC.

———. 2018c. World Development Indicators [database]. Washington, DC.

———. 2018d. World Bank Enterprise Surveys. Washington, DC.

———. 2018e. *Global Financial Development Report 2017/2018: Bankers without Borders*. Washington, DC.

———. 2018f. *Overcoming Poverty and Inequality in South Africa: An Assessment of Drivers, Constraints and Opportunities.* Washington, DC.

———. 2018g. “Country Overviews: Angola.” Washington, DC. https://www.worldbank.org/en/country/angola/overview.

———. 2018h. “Country Overviews: Mauritius.” Washington, DC. https://www.worldbank.org/en/country/mauritius/overview.

———. 2018i. “Country Overviews: Mozambique.” Washington, DC. https://www.worldbank.org/en/country/mozambique/overview.

———. 2018j. “Country Overviews: Zambia.” Washington, DC. https://www.worldbank.org/en/country/zambia/overview.

———. 2018k. “Country Overviews: Zimbabwe.” Washington, DC. https://www.worldbank.org/en/country/zimbabwe/overview.

——. 2019. *Doing Business 2019*. Washington, DC.

World Customs Organization. 2018. "WCO Members" Available at: http://www.wcoomd.org/.

World Economic Forum. 2017. Global Competitiveness Index [database]. Cologny, Switzerland.

——. 2018. *Global Competitiveness Report 2018*. Cologny, Switzerland.

Zimbabwe Government Gazette. 2018. "Declaration of Special Economic Zones." Vol. 51, No. 80. Harare, Zimbabwe.

Zheng, D.Z. 2016. "Multi-facility Economic Zones in Zambia: Progress, Challenges and Possible Interventions." Working Paper 115143. World Bank, Washington, DC.

ANNEX

TABLE A1 Benchmark countries for the Growth Identification and Facilitation Framework analysis, 1998–2017

Country	GDP growth rate (%)	GDP per capita ($, 2011 purchasing power parity)	Labor force (% of population)	Population density (people per km^2)	Capital formation (% of GDP)	Natural resources (% of GDP)		
						Oil	Gas	Minerals
Angola	**7.2**	**3,485**	**41**	**17.5**	**14.6**	**39.4**	**0.05**	**0.0**
Azerbaijan	9.5	5,805	48	106.3	28.2	25.4	2.6	0.05
China	9.1	7,329	58	140.5	42.3	1.3	0.05	1.1
Kazakhstan[a]	6.1	3,933	52	5.9	24.8	15.9	1.1	2.9
Serbia[a]	2.5	3,573	44	83.9	20.4	0.65	0.1	0.24
Turkmenistan	8.6	7,318	43	10.6	25.9	15.3	27.2	0.0
Botswana	**4.0**	**7,523**	**42**	**3.4**	**28.5**	**0.0**	**0.0**	**3.5**
Costa Rica	4.2	9,792	45	85.8	20.1	2.0	0.0	0.0
Poland	3.8	15,751	46	124.6	21.5	0.05	0.08	0.4
Turkey	4.7	14,933	35	91.5	26.3	0.09	0.01	0.14
Lesotho	**3.4**	**1,409**	**43**	**66.2**	**27.7**	**0.0**	**0.0**	**0.0**
Belize	4.0	4,315	41	13.3	20.9	2.0	0.0	0.0
Bhutan	7.5	2,955	45	17.8	51.7	0.0	0.0	0.03
Cabo Verde	5.6	3,537	38	120.6	22.3	0.0	0.0	0.0
Sri Lanka	5.3	3,842	41	317.0	28.9	0.0	0.0	0.0
Madagascar	**2.6**	**422**	**49**	**34.2**	**20.1**	**0.0**	**0.0**	**0.9**
Benin	4.4	860	40	76.8	23.5	0.1	0.0	0.0
Cambodia	7.9	1,135	53	78.2	19.2	0.0	0.0	0.0
Comoros	2.5	770	25	352.2	15.6	0.0	0.0	0.0
Ethiopia	8.2	550	45	82.8	12.9	0.0	0.0	0.3
Gambia	3.6	534	32	156.9	16.7	0.0	0.0	0.0
Kenya	4.4	1,169	38	68.6	18.9	0.0	0.0	0.05
Mali	5.0	762	32	11.6	19.8	0.0	0.0	5.8
Nepal	4.1	728	53	183.2	30.3	0.0	0.0	0.0
Sierra Leone	5.5	462	35	82.9	13.2	0.0	0.0	4.3
Tanzania	6.4	901	46	49.0	23.5	0.0	0.06	1.9
Uganda	6.3	667	36	158.4	23.0	0.0	0.0	0.04

(continued)

Country	GDP growth rate (%)	GDP per capita ($, 2011 purchasing power parity)	Labor force (% of population)	Population density (people per km²)	Capital formation (% of GDP)	Natural resources (% of GDP)		
						Oil	Gas	Minerals
Malawi	**3.9**	**486**	**42**	**151.7**	**15.6**	**0.0**	**0.0**	**0.02**
Kenya	4.4	1,169	38	68.6	18.9	0.0	0.0	0.05
Mali	5.0	762	32	11.6	19.8	0.0	0.0	5.8
Nepal	4.1	728	53	183.2	30.3	0.0	0.0	0.0
Rwanda	7.7	765	50	393.4	19.8	0.0	0.0	0.1
Tanzania	6.4	901	46	49.0	23.5	0.0	0.06	1.9
Uganda	6.3	667	36	158.4	23.0	0.0	0.0	0.04
Mauritius	**4.1**	**10,186**	**49**	**606.4**	**23.1**	**0.0**	**0.0**	**0.0**
Korea, Rep.	4.0	26,152	51	504.5	31.0	0.0	0.0	0.0
Lithuania	4.1	16,793	49	51.1	21.2	0.14	0.0	0.0
Panama	6.1	11,513	45	46.9	34.3	0.0	0.0	0.05
Turkey	4.7	14,933	35	91.5	26.3	0.09	0.01	0.14
Mozambique	**7.3**	**519**	**45**	**29.0**	**30.0**	**0.06**	**0.8**	**0.03**
Cambodia	7.9	1,135	53	78.2	19.2	0.0	0.0	0.0
Ethiopia	8.2	550	45	82.8	12.9	0.0	0.0	0.3
Myanmar	10.0	1,484	48	75.4	12.7	0.96	1.3	0.2
Tajikistan	7.4	1,015	36	52.4	18.2	0.08	0.05	0.9
Namibia	**4.1**	**5,855**	**36**	**2.6**	**23.4**	**0.0**	**0.0**	**3.5**
Botswana	4.0	7,523	42	3.4	28.5	0.0	0.0	3.5
China	9.1	7,329	58	140.5	42.3	1.3	0.05	1.1
Costa Rica	4.2	9,792	45	85.8	20.1	2.0	0.0	0.0
Dominican Republic	5.0	7,153	44	197.8	24.9	0.0	0.0	1.2
South Africa	**2.6**	**7,525**	**37**	**41.5**	**19.1**	**0.05**	**0.02**	**2.2**
Bulgaria	3.2	8,311	45	65.9	23.7	0.03	0.03	1.1
Chile	3.7	15,059	44	22.2	22.9	0.04	0.03	12.4
Malaysia	4.5	11,421	44	81.9	23.9	4.3	0.9	0.1
Mauritius	4.1	10,186	49	606.4	23.1	0.0	0.0	0.0
Poland	3.8	15,751	46	124.6	21.5	0.05	0.08	0.4
Romania	3.4	10,932	47	90.9	24.7	0.9	0.7	0.03
Slovakia	3.7	19,897	49	112.2	26.3	0.01	0.01	0.02
eSwatini	**2.9**	**3,914**	**31**	**68.2**	**14.5**	**0.0**	**0.0**	**0.0**
Belize	4.0	4,315	41	13.3	20.9	2	0.0	0.0
Bulgaria	4.1	8,311	45	65.9	23.7	0.03	0.03	1.1
Costa Rica	4.2	9,792	45	85.8	20.1	2.0	0.0	0.0
Lebanon	3.3	7,198	34	425	23.7	0.0	0.0	0.0
Mauritius	5.7	10,186	49	606.4	23.1	0.0	0.0	0.0
Zambia	**5.5**	**1,646**	**42**	**17.7**	**34.9**	**0.0**	**0.0**	**11.8**
Ghana	6.1	1,814	45	101.8	19.4	1.4	0.0	3.7
Lao PDR	7.1	1,730	49	25.9	25.8	0.0	0.0	6.0
Namibia	4.1	5,855	36	2.6	23.4	0.0	0.0	3.5

(continued)

Country	GDP growth rate (%)	GDP per capita ($, 2011 purchasing power parity)	Labor force (% of population)	Population density (people per km^2)	Capital formation (% of GDP)	Natural resources (% of GDP)		
						Oil	Gas	Minerals
Zimbabwe	**1.2**	**927**	**47**	**35.6**	**11.3**	**0.0**	**0.0**	**2.9**
Honduras	3.8	2,211	40	69.4	26.7	0.0	0.0	0.5
Kenya	4.4	1,169	38	68.6	18.9	0.0	0.0	0.05
Lao PDR	7.1	1,730	49	25.9	25.8	0.0	0.0	6.0
Lesotho	3.4	1,409	43	66.2	27.7	0.0	0.0	0.0
Nicaragua	4.1	2,016	42	46.2	28.0	0.0	0.0	0.9
eSwatini	2.9	3,914	31	68.2	14.5	0.0	0.0	0.0

a. Based on 1998 GDP per capita.

Note: GDP per capita figures are for 2017.

Source: World Bank 2018c.

STATISTICAL ANNEX

STATISTICAL TABLE 1 Basic indicators, 2018

	Population (thousands)	Land area (km^2 thousands)	Population density (people per km^2)	Gross domestic product[a] ($ millions)	Gross domestic product per capita[a] ($)	Average annual real GDP growth, 2010–20 (%)
Angola	30,774	1,247	25	197,889	6,430	2.6
Botswana	2,333	582	4	41,763	17,899	4.7
Lesotho	2,263	30	75	6,864	3,033	2.8
Madagascar	26,263	587	45	42,805	1,630	3.4
Malawi	19,165	118	162	23,699	1,237	4.8
Mauritius	1,268	2	622	30,063	23,703	3.8
Mozambique	30,529	799	38	39,283	1,287	5.7
Namibia	2,588	824	3	27,505	10,629	3.6
São Tomé and Príncipe	209	1	218	730	3,497	4.6
South Africa	57,398	1,219	47	790,934	13,780	1.9
eSwatini	1,391	17	80	12,023	8,641	2.1
Zambia	17,609	753	23	73,220	4,158	5.1
Zimbabwe	16,913	391	43	36,344	2,149	6.8
Southern Africa	208,704	6,571	32	1,323,122	6,340	2.6
Africa	1,286,206	30,049	43	6,764,685	5,259	4.0

a. Based on purchasing power parity valuation.

Source: UNDESA 2017, African Development Bank statistics and estimates, and various domestic authorities.

STATISTICAL TABLE 2 Real GDP growth, 2010–20 *(%)*

	2010	2011	2012	2013	2014	2015	2016	2017	2018 (estimated)	2019 (projected)	2020 (projected)
Angola	4.9	3.5	8.5	5.0	4.8	0.9	–2.6	–0.2	–0.7	1.2	3.2
Botswana	8.6	6.0	4.5	11.3	4.1	–1.7	4.3	2.4	4.2	3.8	4.1
Lesotho[a]	6.1	6.9	6.0	1.8	3.1	2.8	3.2	–2.3	0.9	1.2	1.0
Madagascar	0.7	1.8	3.0	1.5	3.3	3.5	4.0	4.2	5.0	5.4	5.2
Malawi	9.5	3.5	2.1	6.1	6.2	3.3	2.9	5.1	3.7	4.6	5.6
Mauritius	4.2	3.9	3.2	3.2	3.7	3.6	3.8	3.8	4.1	4.0	3.9
Mozambique	6.7	7.1	7.2	7.1	7.4	6.6	3.8	3.7	3.5	4.5	5.0
Namibia	6.0	5.1	5.1	5.6	6.4	6.1	0.7	–0.9	–0.1	2.8	3.3
São Tomé and Príncipe	6.7	4.4	3.1	4.8	6.5	3.8	4.1	3.9	4.1	4.6	5.0
South Africa	3.0	3.3	2.2	2.5	1.8	1.3	0.6	1.3	0.7	1.7	2.0
eSwatini	1.8	1.3	3.4	4.8	3.6	1.1	1.4	1.9	–0.5	1.7	2.3
Zambia	10.3	5.6	7.6	5.1	4.7	2.9	3.8	4.1	4.0	4.2	4.3
Zimbabwe	19.7	14.2	16.7	2.0	2.4	1.8	0.8	4.7	3.5	4.2	4.4
Southern Africa	4.4	3.9	4.2	3.5	3.0	1.6	0.7	1.6	1.2	2.2	2.8
Africa	5.8	2.9	7.3	3.6	3.7	3.5	2.1	3.6	3.5	4.0	4.1

a. Based on fiscal year data (April–March).

Source: African Development Bank statistics, estimates, and projections and various domestic authorities.

STATISTICAL TABLE 3 Demand composition and growth rate, 2017–20

	2017						2018 (estimated)				2019 (projected)				2020 (projected)			
	Final consumption		Gross capital formation		External sector													
	Private	Public	Private	Public	Exports	Imports	Total final consumption	Total gross capital formation	Exports	Imports	Total final consumption	Total gross capital formation	Exports	Imports	Total final consumption	Total gross capital formation	Exports	Imports
	(% of GDP)						(% real growth)				(% real growth)				(% real growth)			
Angola	56.4	10.6	5.4	21.8	28.1	22.3	1.8	7.0	–16.1	–11.9	1.6	0.0	–1.6	–4.4	6.0	3.2	–2.5	0.9
Botswana	47.6	18.4	20.0	8.1	39.8	33.9	4.0	7.2	2.0	3.4	2.8	5.2	3.4	2.2	3.3	6.4	4.0	4.1
Lesotho[a]	77.4	35.3	13.8	14.8	42.7	84.1	–1.4	–0.7	3.2	–2.8	1.1	–1.0	1.4	0.0	0.7	–0.1	1.4	0.1
Madagascar	79.9	11.3	9.6	6.3	31.1	38.3	5.2	13.2	3.5	7.8	5.4	10.0	4.8	7.1	5.0	11.0	4.8	7.2
Malawi[b]	92.4	10.3	15.4	9.7	16.4	44.2	4.6	2.7	4.4	6.4	5.0	2.4	5.0	4.6	6.2	5.0	4.9	7.1
Mauritius	80.9	15.1	12.8	4.1	42.1	55.0	3.1	3.8	3.8	2.3	3.3	1.8	2.4	1.2	3.1	0.3	2.6	0.9
Mozambique	67.2	25.5	29.3	9.9	40.7	72.7	3.8	2.8	4.6	4.3	1.9	9.4	3.0	2.6	3.9	7.1	3.0	3.4
Namibia	68.7	24.5	11.8	5.8	36.7	47.5	–2.3	5.5	3.2	–2.1	0.9	7.0	5.9	1.8	1.9	7.1	5.3	2.9
São Tomé and Príncipe	81.7	12.8	18.2	13.0	23.4	49.2	0.1	9.5	3.6	2.2	1.5	11.2	2.4	4.4	2.4	8.7	3.6	3.8
South Africa	59.1	20.9	11.7	6.9	29.8	28.4	–0.3	3.4	1.4	0.1	1.3	3.6	1.6	1.7	1.7	4.0	1.6	2.1
eSwatini	64.0	24.0	7.7	4.4	46.6	46.6	–3.9	1.4	3.3	–3.9	0.2	2.8	3.2	0.3	2.8	3.8	0.7	1.9
Zambia	48.1	12.1	38.0	3.8	34.5	36.5	1.8	6.4	2.6	1.7	3.9	5.3	3.6	4.2	4.4	6.5	3.0	5.7
Zimbabwe	79.4	21.7	7.4	2.3	19.7	30.4	3.0	5.2	5.0	3.2	3.8	12.5	4.2	5.2	4.2	10.2	4.6	5.3
Southern Africa	60.2	18.2	11.9	9.8	30.3	30.4	0.5	4.7	–1.5	–0.7	1.7	3.6	1.6	1.5	2.6	4.6	1.4	2.6
Africa	68.7	13.6	13.7	9.5	22.7	28.1	1.3	4.4	2.9	–1.4	2.7	5.3	3.4	2.3	3.5	5.1	2.9	3.3

a. Based on fiscal year data (April–March).
b. Based on fiscal year data (July–March).
Source: African Development Bank statistics, estimates, and projections and various domestic authorities.

STATISTICAL TABLE 4 Public finances, 2017–20 *(% of GDP)*

	2017			2018 (estimated)			2019 (projected)			2020 (projected)		
	Total revenue and grants	Total expenditure and net lending	Overall balance	Total revenue and grants	Total expenditure and net lending	Overall balance	Total revenue and grants	Total expenditure and net lending	Overall balance	Total revenue and grants	Total expenditure and net lending	Overall balance
Angola	15.3	20.1	–4.8	16.7	19.5	–2.8	16.4	18.5	–2.2	15.7	17.7	–2.0
Botswana[a]	31.6	31.5	0.1	32.5	33.5	–1.0	32.6	33.7	–1.1	32.7	33.2	–0.5
Lesotho[a]	39.8	43.9	–4.0	42.4	46.1	–3.7	42.3	45.7	–3.4	42.3	45.3	–3.0
Madagascar	14.8	17.2	–2.4	15.4	17.6	–2.3	14.8	18.6	–3.8	14.7	19.1	–4.4
Malawi[b]	23.5	26.8	–3.3	23.0	27.9	–4.8	22.3	25.7	–3.4	22.6	25.6	–3.0
Mauritius	22.4	25.8	–3.4	22.9	26.4	–3.5	23.1	26.5	–3.4	22.7	26.0	–3.3
Mozambique	26.6	32.0	–5.5	26.4	33.2	–6.7	26.4	34.9	–8.5	26.1	33.2	–7.1
Namibia[a]	33.1	38.4	–5.4	30.8	36.2	–5.4	30.5	35.1	–4.6	30.5	33.9	–3.5
São Tomé and Príncipe	23.8	26.4	–2.6	28.4	28.1	0.3	25.6	28.9	–3.3	25.4	28.3	–2.9
South Africa[a]	29.0	32.9	–4.0	29.9	33.9	–4.0	30.1	34.3	–4.2	30.1	34.5	–4.3
eSwatini[a]	28.3	36.2	–7.9	27.5	34.9	–7.4	28.9	35.0	–6.1	28.7	36.0	–7.4
Zambia	17.6	25.4	–7.8	18.0	25.1	–7.1	18.2	24.9	–6.7	18.7	24.7	–6.0
Zimbabwe	17.3	29.8	–12.5	17.8	28.5	–10.7	17.9	28.7	–10.8	18.2	29.1	–10.9
Southern Africa	29.2	33.7	–4.5	30.1	34.2	–4.1	30.3	34.5	–4.2	30.3	34.4	–4.1
Africa	21.7	27.5	–5.8	21.2	25.7	–4.5	21.3	25.3	–4.0	22.2	25.9	–3.7

a. Based on fiscal year data (April–March).
b. Based on fiscal year data (July–March).
Source: African Development Bank statistics, estimates, and projections and various domestic authorities.

STATISTICAL TABLE 5 Monetary indicators

	Inflation (%)				Exchange rate (local currency unit per US dollar)			
	2017	2018 (estimated)	2019 (projected)	2020 (projected)	2015	2016	2017	2018 (estimated)
Angola	31.7	21.1	16.8	12.6	120.1	163.7	165.9	244.4
Botswana	3.3	3.4	3.9	3.8	10.1	10.9	10.3	10.3
Lesotho[a]	5.3	4.8	4.9	5.1	12.8	14.7	13.3	13.6
Madagascar	8.3	7.7	7.1	6.3	2,933.5	3,176.5	3,116.1	3,208.9
Malawi	11.5	10.4	7.7	7.0	499.6	718.0	730.3	756.2
Mauritius	3.7	5.1	4.5	4.4	35.1	35.5	34.5	34.6
Mozambique	15.1	4.6	5.0	5.1	40.0	63.1	63.6	61.4
Namibia	6.2	4.2	5.2	5.3	12.9	14.7	13.3	13.6
São Tomé and Príncipe	5.7	6.8	5.5	4.5	22.1	22.1	21.7	20.2
South Africa	5.3	4.9	5.3	5.5	12.8	14.7	13.3	13.4
eSwatini	6.2	5.4	5.4	5.5	12.8	14.7	13.3	13.6
Zambia	6.6	7.6	7.9	7.6	8.6	10.3	9.5	10.7
Zimbabwe	0.9	3.6	3.5	3.5	...	...	...	...
Southern Africa	9.3	7.4	7.1	6.6	...	...	...	...
Africa	12.6	10.9	9.2	8.1	...	...	...	...

... is not available.

a. Based on fiscal year data (April–March).

Source: African Development Bank statistics, estimates, and projections; various domestic authorities; and the International Monetary Fund International Financial Statistics database.

STATISTICAL TABLE 6 Balance of payments indicators

	Trade balance ($ millions)				Current account balance ($ millions)				Current account balance (% of GDP)			
	2017	2018 (estimated)	2019 (projected)	2020 (projected)	2017	2018 (estimated)	2019 (projected)	2020 (projected)	2017	2018 (estimated)	2019 (projected)	2020 (projected)
Angola	20,150	23,620	23,201	22,178	–151	–135	877	1,509	–0.1	–0.1	0.8	1.2
Botswana	930	561	568	566	2,149	1,588	1,517	1,619	12.3	9.7	9.0	9.0
Lesotho[a]	–799	–551	–554	–559	–166	–55	–49	–40	–6.5	–2.8	–2.4	–2.0
Madagascar	–460	–572	–692	–839	–36	–232	–425	–589	–0.3	–2.0	–3.3	–4.3
Malawi[b]	–583	–659	–697	–805	–621	–713	–722	–810	–9.8	–11.3	–10.9	–11.4
Mauritius	–2,623	–3,702	–3,742	–3,797	–875	–1,462	–1,433	–1,248	–6.6	–8.8	–8.2	–6.8
Mozambique	–498	–930	–1,262	–1,629	–2,586	–3,555	–4,758	–6,148	–20.4	–23.1	–30.0	–37.3
Namibia	–1,387	–1,165	–1,091	–1,112	–446	–332	–308	–343	–3.4	–2.6	–2.3	–2.4
São Tomé and Príncipe	–6,016	–7,723	–8,127	–8,589	–32	–29	–35	–36	–8.2	–6.7	–7.3	–7.0
South Africa	5,164	2,122	1,556	445	–8,348	–10,963	–11,393	–12,996	–2.4	–3.2	–3.2	–3.5
eSwatini	5	82	114	75	–54	16	67	65	–1.3	0.4	1.4	1.4
Zambia	364	334	323	51	–1,007	–639	–586	–796	–3.9	–2.7	–2.4	–3.0
Zimbabwe	–1,254	–1,716	–1,861	–2,073	–455	–802	–945	–1,114	–2.1	–3.7	–4.1	–4.4
Southern Africa	12,995	9,699	7,734	3,912	–12,627	–17,312	–18,194	–20,926	–2.1	–2.9	–3.0	–3.3
Africa	–76,217	–69,644	–76,739	–87,419	–81,227	–70,979	–69,596	–78,510	–3.6	–3.0	–2.8	–3.0

a. Based on fiscal year data (April–March).
b. Based on fiscal year data (July–March).
Source: African Development Bank statistics, estimates, and projections.

STATISTICAL TABLE 7 Intraregional trade, 2017 *($ millions)*

	Exports to														
	Angola	Botswana	Lesotho	Madagascar	Malawi	Mauritius	Mozambique	Namibia	São Tomé and Príncipe	South Africa	eSwatini	Zambia	Zimbabwe	Southern Africa	Africa	World
Angola	na	....	....	....	....	....	....	1.7	23.8	1,288.6	....	....	....	1,314.1	1,314.1	34,474.4
Botswana	1.0	na	0.3	0.0	6.1	0.0	0.8	262.2	....	441.7	3.1	20.9	51.1	787.1	794.1	5,898.1
Lesotho	....	7.2	na	0.1	0.1	2.7	0.1	0.1	....	366.1	32.2	0.0	0.4	409.1	411.6	1,032.6
Madagascar	....	0.0	0.0	na	1.6	58.9	5.4	0.1	...	76.9	0.4	0.2	0.4	144.0	197.7	2,847.0
Malawi	0.1	1.0	...	0.1	na	0.3	101.3	0.1	...	65.3	1.0	16.6	113.9	299.8	399.3	970.0
Mauritius	0.4	0.3	0.0	139.3	0.1	na	3.4	0.3	...	187.8	7.6	1.7	4.2	345.2	442.8	2,102.6
Mozambique	2.0	31.4	6.2	0.8	42.8	8.0	na	3.9	...	739.9	57.5	78.6	34.8	1,005.7	1,052.8	4,718.5
Namibia	57.4	421.2	0.3	0.0	2.0	1.6	31.1	na	0.0	848.0	0.7	133.8	14.0	1,510.2	1,825.8	3,994.5
São Tomé & Príncipe	0.2	...	...	...	...	...	0.0	...	na	0.1	...	0.0	...	0.3	0.5	15.6
South Africa	580.8	3,840.2	1,346.1	198.4	408.7	405.0	2,890.8	3,567.8	0.8	na	1,284.8	2,246.9	2,089.8	18,860.2	23,297.6	88,268.0
eSwatini	...	7.0	...	12.1	...	11.7	48.1	21.7	...	1,315.5	na	18.4	...	1,434.5	1,759.9	2,016.5
Zambia	1.9	25.5	1.8	0.1	97.8	3.0	13.0	175.0	...	359.1	14.7	na	418.8	1,110.8	1,956.4	8,157.6
Zimbabwe	1.8	48.2	...	1.7	28.1	2.2	273.0	9.6	...	1,131.3	45.7	133.0	na	1,674.6	1,760.2	4,060.1

	Imports from														
	Angola	Botswana	Lesotho	Madagascar	Malawi	Mauritius	Mozambique	Namibia	São Tomé and Príncipe	South Africa	eSwatini	Zambia	Zimbabwe	Southern Africa	Africa	World
Angola	na	0.8	...	0.2	0.0	0.5	2.6	85.4	0.2	785.9	11.5	1.9	1.4	890.5	1,310.8	14,463.2
Botswana	0.1	na	1.4	0.0	1.5	0.6	35.2	475.2	...	3,454.7	7.8	23.7	25.5	4,025.7	4,029.4	5,284.2
Lesotho	...	1.4	na	...	0.6	1.5	2.3	1.4	...	1,838.4	2.3	2.8	2.5	1,853.1	1,853.7	2,107.4
Madagascar	0.0	0.0	0.6	na	0.3	113.4	1.3	0.0	...	192.2	8.0	0.1	1.4	317.3	439.0	3,654.5
Malawi	...	10.1	0.3	3.5	na	32.1	58.5	3.7	...	517.5	11.9	106.9	21.5	765.9	888.1	2,433.4
Mauritius	0.1	0.0	1.4	73.6	1.9	na	10.5	1.7	0.0	448.6	10.9	6.0	3.3	557.9	746.9	5,269.5
Mozambique	1.2	0.6	0.2	4.7	53.7	10.3	na	24.8	0.0	1,726.9	36.3	9.0	135.2	2,002.9	2,058.9	5,701.7
Namibia	3.7	323.5	0.8	0.1	0.2	4.8	5.1	na	0.0	4,020.7	50.4	187.8	4.9	4,602.1	4,800.7	6,778.2
São Tomé & Príncipe	29.1	...	...	...	...	...	...	0.0	na	0.2	...	...	...	29.3	35.5	147.0
South Africa	1,340.2	421.3	310.7	96.1	57.3	172.8	895.4	839.4	0.2	na	1,222.7	222.3	170.1	6,079.9	8,543.0	83,030.8
eSwatini	...	0.4	...	1.1	...	8.2	1.8	0.9	...	1,374.6	na	4.4	...	1,391.5	1,401.9	1,617.2
Zambia	0.3	25.6	0.2	0.3	19.6	93.4	101.9	171.0	0.0	2,624.7	14.2	na	96.6	3,147.8	5,382.6	8,773.9
Zimbabwe	0.0	60.5	0.2	0.2	107.6	8.1	39.2	13.1	...	1,970.3	30.6	457.5	na	2,687.3	2,763.3	3,900.0

... is not available.
na is not applicable.
Source: United Nations Conference on Trade and Development.

STATISTICAL TABLE 8 Demographic indicators, 2018

	Population growth rate (%)	Urban population (% of total)	Age distribution (% of population)			Fertility rate (births per woman)
			0–14	15–64	65 and older	
Angola	3.3	65.5	46.6	50.9	2.5	5.6
Botswana	1.8	69.4	31.2	64.8	4.1	2.6
Lesotho	1.3	28.2	35.3	60.2	4.5	3.0
Madagascar	2.7	37.2	40.7	56.4	3.0	4.1
Malawi	2.9	16.9	43.7	53.3	2.9	4.4
Mauritius	0.3	40.8	17.9	70.7	11.5	1.4
Mozambique	2.9	36.0	44.5	52.3	3.2	5.1
Namibia	2.1	50.0	36.5	59.9	3.6	3.3
São Tomé and Príncipe	2.2	72.8	42.4	54.7	2.8	4.3
South Africa	1.2	66.4	28.8	65.7	5.5	2.4
eSwatini	1.8	23.8	37.0	59.8	3.2	3.0
Zambia	3.0	43.5	44.5	53.1	2.5	4.9
Zimbabwe	2.3	32.2	41.0	56.2	2.8	3.6
Southern Africa	2.4	47.8	39.1	57.3	3.7	3.9
Africa	2.5	42.5	40.6	55.8	3.5	4.4

Source: African Development Bank statistics and estimates, UNDESA 2017, and various domestic authorities.

STATISTICAL TABLE 9 Poverty and income distribution indicators

	National poverty line[a]		International poverty line ($1.90 a day)		Gini index[b]	
	Survey year	Population below the poverty line (%)	Survey year	Population below the poverty line (%)	Survey year	Value
Angola	2008	36.6	2008	30.1	2008	42.7
Botswana	2009	19.3	2009	18.2	2009	60.5
Lesotho	2010	57.1	2010	59.6	2010	54.2
Madagascar	2012	70.7	2012	77.6	2012	42.6
Malawi	2016	51.5	2010	71.4	2010	45.5
Mauritius	2012	7.9	2012	0.5	2012	35.8
Mozambique	2014	46.1	2014	62.9	2014	54.0
Namibia	2009	28.7	2015	13.4	2015	59.1
São Tomé and Príncipe	2010	66.2	2010	32.3	2010	30.8
South Africa	2014	55.5	2014	18.9	2014	63.0
eSwatini	2009	63.0	2009	42.0	2009	51.5
Zambia	2015	54.4	2015	57.5	2015	57.1
Zimbabwe	2001	70.9	2011	21.4	2011	43.2
Southern Africa		...		...		...
Africa		...		...		...

... is not available.

a. Defined as two-thirds of average consumption.

b. Based on income distribution.

Source: Various domestic authorities and the World Bank.

STATISTICAL TABLE 10 Access to services

	Telecommunications, 2016					
	Main telephone lines (per 100 people)	Mobile telephone lines (per 100 people)	Population using the Internet (%)	Access to electricity, 2016 (% of population)	Population using at least basic drinking water services, 2015 (%)	Population using at least basic sanitation services, 2015 (%)
Angola	1.1	45.1	13.0	40.5	41.0	39.4
Botswana	6.3	146.2	39.4	60.7	79.2	60.0
Lesotho	0.6	32.1	4.7	22.9	50.6	9.7
Madagascar	0.1	39.7	11.5	11.0	67.2	43.5
Malawi	1.1	112.4	11.1	35.1	74.3	31.3
Mauritius	30.9	143.7	52.2	98.8	99.9	93.1
Mozambique	0.3	52.1	17.5	24.2	47.3	23.6
Namibia	7.6	107.3	31.0	51.8	78.8	33.8
São Tomé and Príncipe	2.9	89.1	28.0	65.4	79.7	40.1
South Africa	8.1	147.1	54.0	84.2	84.7	73.1
eSwatini	3.1	74.1	28.6	65.8	67.6	58.0
Zambia	0.6	72.4	25.5	27.2	61.2	31.1
Zimbabwe	1.9	79.7	23.1	38.1	66.6	38.6
Southern Africa	3.2	81.2	26.9	45.1	63.5	43.3
Africa	2.1	78.5	23.7	51.6	63.3	38.0

Source: African Development Bank statistics, the International Telecommunication Union World Telecommunication/ICT Indicators database, the United Nations Statistics Division Energy Statistics Database, WHO/UNICEF Joint Monitoring Programme for Water Supply and Sanitation 2015, and various domestic authorities.

STATISTICAL TABLE 11 Health indicators

	Life expectancy at birth, 2018 (years)			Prevalence of undernourished, 2016 (% of population)	Health personnel, 2010–16 (per 100,000 people)	
	Total	Male	Female		Physicians	Nurses and midwives
Angola	62.1	59.2	64.9	23.9	...	...
Botswana	68.3	65.7	70.8	28.5	38.4	272.7
Lesotho	54.9	52.6	57.0	12.8	...	...
Madagascar	66.7	65.1	68.3	43.1	14.3	21.8
Malawi	64.1	61.4	66.6	26.3	1.9	28.3
Mauritius	75.0	71.6	78.6	5.8	200.3	334.7
Mozambique	59.4	57.2	61.5	30.5	5.5	40.1
Namibia	65.2	62.2	68.1	25.4	37.4	277.5
São Tomé and Príncipe	66.9	64.7	69.1	10.2	...	...
South Africa	63.9	60.4	67.4	6.1	81.8	522.9
eSwatini	58.7	55.4	61.7	20.7	...	...
Zambia	62.6	59.8	65.4	44.5	9.1	88.6
Zimbabwe	62.1	60.1	63.9	46.6	7.7	116.7
Southern Africa	63.1	60.4	65.7	25.8	35.8	223.8
Africa	63.1	61.4	64.9	18.5	33.6	123.3

... is not available.

Source: African Development Bank statistics, UNDESA 2017, the Food and Agriculture Organization, and the World Health Organization.

STATISTICAL TABLE 12 Major diseases

	Healthy life expectancy at birth, 2016 (years)			Prevalence of HIV, ages 15–49, 2017 (%)	Infant mortality rate, 2017 (per 1,000 live births)	Under-five mortality rate, 2015 (per 1,000 live births)
	Total	Male	Female			
Angola	55.8	53.8	57.7	1.9	53.8	81.1
Botswana	57.5	55.2	59.5	22.8	30.8	37.6
Lesotho	46.6	45.0	47.9	23.8	66.5	85.9
Madagascar	58.3	57.1	59.5	0.3	32.7	44.2
Malawi	56.2	53.9	58.4	9.6	38.5	55.4
Mauritius	65.8	63.6	68.2	...	11.6	13.1
Mozambique	52.2	50.3	53.9	12.5	53.3	72.4
Namibia	55.9	53.8	57.9	12.1	31.8	44.2
São Tomé and Príncipe	60.7	59.0	62.3	...	25.2	32.4
South Africa	55.7	53.2	58.2	18.8	28.8	37.1
eSwatini	50.2	47.8	52.2	27.4	40.8	53.9
Zambia	54.3	52.6	56.0	11.5	41.5	60.0
Zimbabwe	54.4	52.7	55.9	13.3	36.5	50.3
Southern Africa	55.3	53.3	57.2	11.6	41.5	57.9
Africa	55.1	54.0	56.3	3.5	47.7	68.7

... is not available.

Source: UNAIDS 2018, the UN Inter-agency Group for Child Mortality Estimation CME Info database, and the World Health Organization Global Health Observatory Data Repository.

STATISTICAL TABLE 13 Education indicators

	Estimated adult literacy rate, 2010–17 (% ages 15 and older)			Gross enrollment ratio, primary, 2010–17 (%)			Public expenditure on education, 2010–17 (% of GDP)
	Total	**Male**	**Female**	**Total**	**Male**	**Female**	
Angola	66.0	80.0	53.4	113.3	121.6	105.2	3.5
Botswana	87.7	86.7	88.7	105.4	107.2	103.5	...
Lesotho	76.6	67.7	84.9	104.8	106.7	103.0	...
Madagascar	71.6	75.0	68.3	143.8	143.7	144.0	2.1
Malawi	62.1	69.8	55.2	139.9	137.5	142.4	5.6
Mauritius	93.2	95.4	91.0	101.6	100.7	102.5	4.9
Mozambique	56.0	70.8	43.1	105.0	108.7	101.3	6.5
Namibia	88.3	88.6	88.0	119.1	121.0	117.3	8.3
São Tomé and Príncipe	90.1	95.0	85.4	110.2	112.4	108.1	3.8
South Africa	94.4	95.4	93.4	102.3	104.2	100.3	6.0
eSwatini	83.1	83.9	82.4	105.0	109.5	100.4	7.0
Zambia	83.0	88.7	77.7	102.3	102.0	102.7	...
Zimbabwe	88.7	89.2	88.3	98.7	99.5	97.9	8.4
Southern Africa	78.8	84.2	73.9	113.7	115.8	111.6	4.1
Africa	65.5	77.0	62.6	99.5	101.6	97.4	4.9

... is not available.

Source: African Development Bank statistics, the United Nations Educational, Scientific and Cultural Organization Institute for Statistics database, and various domestic authorities.

STATISTICAL TABLE 14 Labor indicators, 2018

	Employment to population ratio, ages 15 and older (%)			Labor force participation rate, ages 15 and older (%)			Unemployment rate, total (%)
	Total	Female	Youth	Total	Female	Male	
Angola	71.0	68.5	45.6	68.6	60.0	77.4	8.5
Botswana	59.4	52.0	28.9	77.5	73.2	81.7	17.6
Lesotho	47.6	40.8	26.4	67.4	60.5	74.6	28.5
Madagascar	85.1	82.2	74.0	86.4	83.8	89.0	1.8
Malawi	72.6	67.2	58.8	81.1	81.5	80.7	5.9
Mauritius	54.3	40.3	32.1	59.7	46.4	73.6	7.1
Mozambique	59.1	60.3	40.6	79.3	82.4	75.8	24.9
Namibia	47.7	44.3	17.6	60.4	56.5	64.5	23.3
São Tomé and Príncipe	50.2	32.3	28.2	60.4	45.2	75.9	13.5
South Africa	39.8	33.8	11.9	53.9	46.7	61.5	27.4
eSwatini	40.1	31.3	16.6	54.1	42.1	66.2	26.5
Zambia	68.9	64.3	46.2	75.3	70.1	80.6	7.8
Zimbabwe	79.7	74.4	67.9	82.8	78.3	87.5	5.0
Southern Africa	60.7	56.9	42.1	70.2	66.0	74.6	14.6
Africa	59.6	51.0	40.1	65.9	55.5	75.9	7.8

Source: International Labour Organization ILOSTAT database.

The Southern Africa economy is projected to grow slower than others in the continent—at 2.2 percent in 2019 and 2.8 percent in 2020. At the heart of this slow growth are the major headwinds of high inflation, increasing government debts, and tepid growth in South Africa, which contributes about two-thirds of the region's GDP. The second largest regional economy, Angola, is expected to grow at 1.2 percent in 2019 and 3.2 percent in 2020, while Mozambique will grow at 4.5 percent in 2019 and 5.0 percent in 2020.

With the share of the private sector in GDP above 70 percent in most countries, no regional integration is sustainable without active private participation. The private sector is a beneficiary and driver of regional integration, and governments must create an accommodative landscape. Public–private partnerships have been successful in other countries for infrastructure development, and reducing trade costs can spur trade.

With Southern Africa now a free trade zone, eliminating unnecessary nontariff barriers should be the next step to foster integration. This should be complemented by developing regional growth poles to share the benefits from integration across the region. The use of special economic zones and innovation hubs should be encouraged to nurture nascent industries, promote diversification, and convert latent comparative advantage into competitive advantage.

African Development Bank Group
Avenue Joseph Anoma
01 BP 1387 Abidjan 01
Côte d'Ivoire
www.afdb.org