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Economic Commission for Africa

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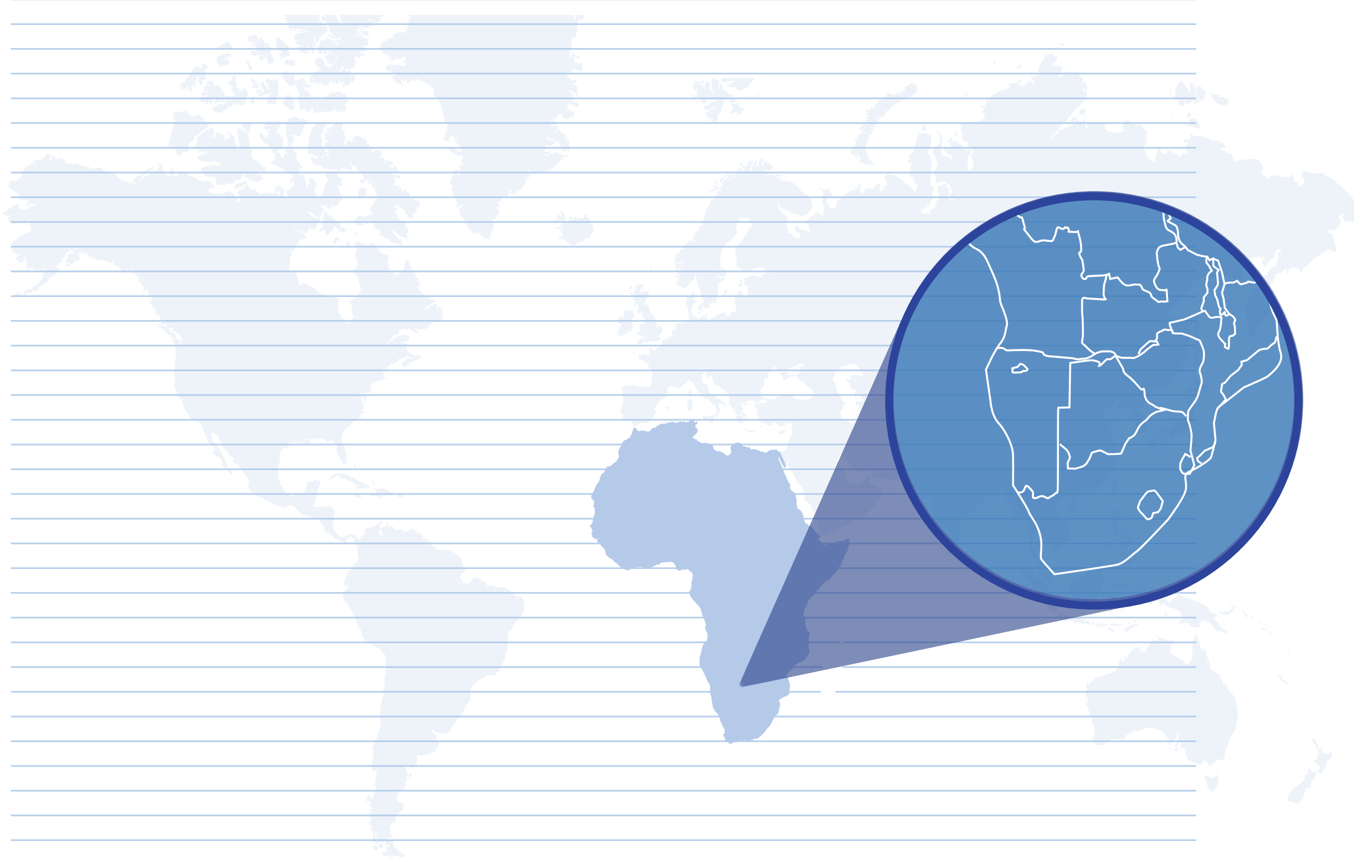

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CONTENTS

ACRONYMS

AEC	African Economic Community
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AMU	Arab Maghreb Union
ASEAN	Association of Southeast Asian Nations
CEN-SAD	Community of Sahel-Saharan States
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECA	Economic Commission for Africa
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IGAD	Intergovernmental Authority on Development
MERCOSUR	Southern Common Market
SADC	Southern Africa Development Community
UNIDO	United Nations Industrial Development Organization

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1 Any remaining errors or omissions are the sole responsibility of the author. In addition, the views and opinions expressed in the report are those of the author and do not necessarily reflect those of the Economic Commission for Africa.

ABSTRACT

The fundamental role of a robust and vibrant private sector for effective and sustained growth is incontestable. A growing private sector is a major source of wealth, dynamism, competitiveness and knowledge diffusion, all of which lead in many ways to long-term growth and sustainable development. The role of the private sector in this whole process is particularly relevant in the African context where the capacity of governments to invest and spur continued growth is very much limited and in some cases, their efficiency may be questioned. Nevertheless, regional integration in particular is widely acknowledged as being essential in facilitating economic, social and political development, as well as structural transformation of the continent's economies. Importantly, since the promulgation of the Abuja Treaty in 1991, one factor that has emerged and become increasingly apparent to the continent's political leadership and decision makers is that, to achieve successful and sustainable regional integration, it is imperative that the private sector plays a leading and catalytic role in the process.

This report includes reviews and a discussion on the state and dynamics of regional integration processes in Southern Africa, with a special emphasis on the role, issues, challenges, and investment potential of the private sector in the integration agenda. The review shows that the pace of integration has been relatively slow in the region. While significant progress has been made leading to the establishment of the Southern Africa Development Community (SADC) Free Trade Area in 2008, the integration agenda has stalled thereafter. It is noted that the regional trade market is still very fragmented and characterized by low levels of intra-industry trade and productive integration, which clearly suggest little participation in regional value chains and the existence of untapped potential for investment and growth. The continued lack of industrial growth in the region has motivated the adoption of the SADC Industrialization Strategy and Roadmap 2015–2063, in which the development and strengthening of regional value chains is stressed, with the private sector put at the centre stage of the implementation plan. In this report, the key and multifaceted role of the private sector in the whole process is discussed extensively. For instance, the private sector is mainly responsible for running operations and investing along the identified regional value chains; can also facilitate the implementation of the industrialization strategy by actively contributing to infrastructure and skills development and by creating conditions for enhanced access to finance.

The report provides key recommendations for better involvement of the private sector. In particular, it emphasizes the need to consolidate the free trade area by sustaining efforts towards the elimination of existing non-tariff barriers and curtailing the development of new ones; to deepen regional integration in business and professional services markets; to facilitate labour mobility by expediting the implementation of the Protocol on Movement of Persons; to maintain regular communication with private sector bodies; to strengthen safeguards for protection of foreign and domestic investors; and to allow the private sector to participate on an equal and complementary footing with public providers of infrastructure.

1. INTRODUCTION

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

While the establishment of the African Continental Free Trade Area does not feature explicitly in the treaty to establish the African Economic Community and road map, the extent of the Agreement to establish the African Free Trade Area is clearly consistent with the grand scheme of integration and should act as a facilitator for the remainder of the process. Importantly, continent-wide market integration is envisioned to be built around the consolidation of integration processes at subregional levels within the eight African Union-recognized regional economic communities. Accordingly, it is of critical importance to ensure that the integration agendas within these communities are carefully and effectively implemented in reasonable timeframes.

In Southern Africa, regional integration has mainly taken the institutional form of SADC, which was established in 1992 superseding the Southern African Development Cooperation Conference, which was established in 1980. A number of SADC member States are also part of the Common Market for Eastern and Southern Africa (COMESA), a sister regional organization, which was formed in 1994. Despite being one of the most developed regional economic communities on the continent, a closer examination of the integration dynamics within the SADC shows that the pace of the process has been relatively slow, at least over the past decade. At a very early stage, the organization elected to pursue a trade integration approach for regional integration, as evidenced by the SADC Treaty and Trade Protocol, signed in 1996. Notable progress has been made since then, with the establishment of the SADC Free Trade Area in August 2008. However, the integration agenda of the region stalled thereafter and greater efforts need to be made to ensure the smooth functioning of the free trade area. In particular, more than two decades after the launch of the SADC Trade Protocol, the level of fragmentation of the regional market is still very high, with trade with the rest of the world growing disproportionately more rapidly than intraregional trade.

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

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

Building on reports and studies related to the topic as well as data and official documents from regional and international sources, this report provides a background review and discussion on the state and dynamics of regional integration in Southern Africa, with a special emphasis on the role, priorities and investment potential of the private sector in the integration agenda. Evidently, there are numerous and highly relevant issues and challenges surrounding the implication of the private sector in Southern Africa integration efforts. The report is not intended to offer an exhaustive review, nor is it meant to cover all aspects of the topic. It should be regarded as a means to provide a basis for deeper reflections and actions on the subject. It may also assist some readers to familiarize or refamiliarize themselves with the concepts, issues and challenges around the theme.

The remainder of the report is organized as follows. The next section (section 2) provides a brief overview of the resurgence of private sector-led projects promotion in Africa in general and in it some of the ways through which private sector actors could be engaged in the regional integration agenda are introduced. Section 3 contains reviews of the trends of integration processes in the region, highlighting issues, priorities and the investment potential of the private sector. Section 4 includes a discussion on the approach taken in Southern Africa for using regional value chains to achieve industrialization, which features the central role to be played by the private sector. Key enablers of the regional industrialization strategy, including infrastructure, access to finance and skills development are reviewed in this section. Section 5 is devoted to concluding remarks, including some of the key recommendations.

2. TOWARDS PRIVATE SECTOR-LED GROWTH AND REGIONAL INTEGRATION EFFORTS

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

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

During the last five years, African entrepreneurs and political leaders at the highest decision-making levels have been intensifying the push for private sector-led growth in Africa. A recent example of this accentuated advocacy is the organization in January 2018 of the first Africa Business and Investment Forum by the Economic Commission for Africa (ECA) in partnership with the Corporate Council on Africa. The Forum, which took place on the margins of the thirtieth African Union Summit in Addis Ababa on 28 and 29 January 2018, had more than 150 participants, including senior executives of key United States of America and African companies and many African Heads of State and Government. It served as a unique platform for African political leaders to engage the public and private sectors in the continent and abroad on benchmarking the mainstreaming of private sector-led growth in their business and development agendas.

Clearly, the fact that a business and investment forum was organized during the African Union Summit is testimony to the important role and space accorded to the private sector in the continental development agenda. Another similar and relatively recent initiative was the organization of the African Continental Free Trade Area Business Summit, held on 20 March 2018 ahead of the signing of the Agreement to establish the African Continental Free Trade Area in Kigali on 21 March 2018. The Summit was an opportunity for African leaders and development partners to solicit the input and aspirations of the private sector towards the integration of the economies of Africa. It should be highlighted that support programmes for private-sector development across the continent are legion and mainly supported by the World Bank, the African Development Bank (AfDB), the European Union and other development partners.

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

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

Undeniably, there is an enormous investment potential for the private sector in all the above-mentioned areas, which are essentially an integral part of the regional value chains. Nevertheless, it is imperative that governments and the regional economic communities work closely to create an enabling business environment, including legal and institutional frameworks and a strong regulatory capacity that could facilitate the investment decision-making of private entities to whom profitability and sustainability considerations are of particular importance. It is also vital to establish and maintain strong communication between public and private sectors, and for the latter to be well informed and made aware of the regional integration programmes at the country and regional levels, and ultimately be able to take advantage of the numerous investment opportunities. The benefits of private sector active participation need to be explained and disseminated to a wide range of private sector operators, through proactive marketing strategies, as many of the potential investors may not be cognizant of the available opportunities. Furthermore, the private sector can play a key role in shaping and adjusting the regional integration agenda.

3. ASSESSING THE STATE AND DYNAMICS OF REGIONAL INTEGRATION IN SOUTHERN AFRICA

3.1. STATUS AND PROGRESS OF THE INTEGRATION AGENDA

The neoclassical integration theory,[2] which was used to set the foundation of regional integration, suggests five main stages in the integration process, in which each step is considered a precondition for reaching the next, as it provides the required achievements for further integration. Some elements of the process need not be gradual from one stage to another. The establishment of any of the types of integration depends ultimately on the agreements among participating countries. The basic principle is that of market integration, through the increasing liberalization of goods, services, labour and capital as the path to a fully integrated region. The five successive stages are summarized in the box.

Box The Neoclassical Five-Stage Economic Model of Regional Integration

(1). The free trade area: It is characterized by internal trade liberalization, namely the abolition of tariffs and non-tariff barriers between countries that have chosen to form a free trade area.

(2). The customs union: It consists of a common external tariff on trade with third countries (outside the region), in addition to a liberalized internal market.

(3). The common market: It has the features of a customs union combined with the full liberalization of the movement of people and capital within the integration area. In practice, the concepts of "common market", "single market" and "internal market" are often used interchangeably, although they may have significant nuances of meaning.

(4). The economic union: It includes the adoption of common policies, especially on product regulation, within the common market. In cases in which a common currency is adopted, which entails the harmonization of fiscal and monetary policies, the economic union is designated as an economic and monetary union.

(5). The political or supranational union: This is the last stage of the regional integration process and requires member States of the region to renounce their national sovereignty in favour of a politically unified entity.

In the SADC region, the integration agenda is envisioned to culminate ultimately into an economic and monetary union. The 2003 Regional Indicative Strategic Development Plan[3], which was initially crafted as the guiding document for the regional integration and development programme over the period 2005-2020, includes an outline of a series of milestones to be achieved within the context of the regional common agenda and in line with the SADC Treaty. The targets include the formation of a free trade area by 2008; the establishment of a customs union by 2010; the achievement of a common market by 2015; the creation of a monetary union by 2016; and finally, a single currency and an economic union by 2018.

2 The neoclassical integration theory is based on the work Viner (1950), who combined the concepts of free trade and protectionism, which are contradictory.

3 SADC Regional Indicative Strategic Development Plan, www.sadc.int/files/5713/5292/8372/Regional_Indicative_Strategic_Development_Plan.pdf.

The first milestone was achieved when the SADC free trade area was launched in August 2008, following a tariff reduction programme that commenced in 2001. Since then, no substantive progress has been made with regard to the key integration steps. To date, the customs union has yet to be established, resulting in postponements of the remainder of the agenda. Overlapping memberships of some SADC member States with other regional integration arrangements, COMESA, the Southern Africa Customs Union (SACU), the East African Community (EAC), Economic Community of Central African States (ECCAS) and the Intergovernmental Authority on Development (IGAD) and the subsequent challenge of having to meet multiple obligations simultaneously have also impeded the process. Moreover, the issue of non-tariff barriers within the free trade area has been a real concern and a challenge, as discussed in section 3.3.

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

3.2. TRADE AND PRODUCTIVE INTEGRATION

The recently developed Africa Regional Integration Index by the ECA, African Union, and AfDB (2016)[4] provides an excellent overview of regional integration dynamics and may be used as a starting point to gauge the overall performance of the African Union-recognized regional economic communities with regard to their integration efforts. Specific performances are measured in five key integration areas: trade integration; productive integration; regional infrastructure; free movement of people; and financial and macroeconomic integration. This section is focused on the trade and production integration assessments, while other areas, such as infrastructure and labour mobility, are discussed in further sections. The Africa Regional Integration Index is calculated using 16 relevant indicators[5] and ranges from 0 (lowest integration score) to 1 (highest integration score). In terms of overall performance for the 2010-2014 period, SADC is among the top three performers, with a higher than average score of 0.531, next to the top performing EAC, which has a score of 0.540.

The Trade Integration Index is based on four indicators: the level of customs duties on imports; the share of intraregional goods exports (as a percentage of gross domestic product (GDP)); the share of total intraregional goods imports (as a percentage of GDP); and the share of total intraregional goods trade (as a percentage of total intraregional trade, including intraregional trade in services). In this category, SADC is among the bottom four performers, with a score of 0.508, which is below the average for regional economic communities of 0.546.

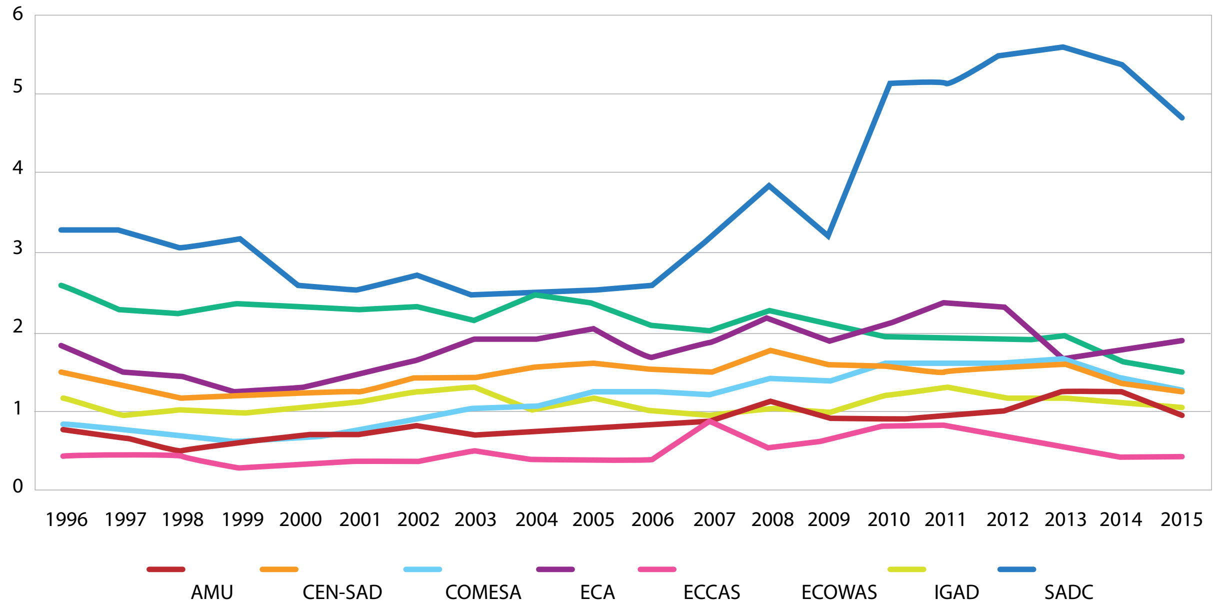
The Productive Integration Index is constructed using three indicators: the share of intraregional intermediate goods exports (as a percentage of total intraregional exports goods); the share of intraregional intermediate goods imports (as a percentage of total intra-regional imports goods); and the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

The underperformance of SADC in terms of trade integration may to some extent come as a surprise considering that the region has consistently had the highest intraregional trade as a share of GDP share among the eight African Union-recognized regional economic communities as shown in figure I.

4 Further details on the African Regional Integration Index, including computation procedures, are available at www.integrate-africa.org.

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

Figure I Intraregional trade as a share of regional gross domestic product (in percentage)



Source: *ECA, African Union and AfDB (2017).*

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

Historical data show that intraregional trade (as a percentage of GDP) has remained relatively constant in the SADC region, growing by less than two percentage points since the establishment of the free trade area in 2008. In particular, the Southern African market is still highly fragmented, which implies that trade with the rest of the world is growing disproportionately more rapidly than intraregional trade. While the level of regional trade in Southern Africa has been very high relative to the other regional economic communities, it is predominantly a lopsided trade, in which South Africa is dominant (in terms of both exports and imports). Traditional exports of agricultural raw materials and minerals continue to dominate regional trade, which also tends to be concentrated in a very limited number of products. Moreover, regional trade liberalization has not brought about much specialization in production patterns among countries. The potential for larger and deeper intraregional trade can be evaluated by examining data on bilateral trade complementarity and intra-industry trade. The trade complementarity index measures the similarity between the export basket of one country and the import basket of another. The value of the index ranges from zero (no complementarity) to 100 (perfect match). As shown in table 1, with the notable exception of South Africa, the type of goods exported by the region compared to those imported are relatively dissimilar.

Table 1 Bilateral trade complementarity in Southern Africa

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

Source: *World Bank (2011).*

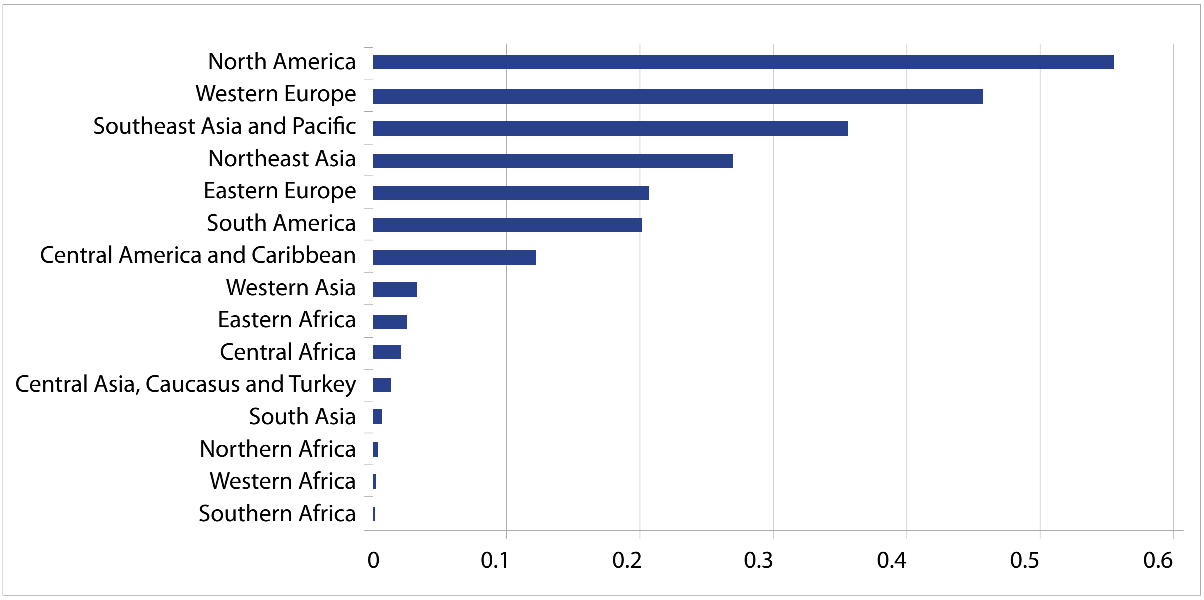
It can be misleading to exclusively rely on the complementarity indices to assess the potential for increased specialization in regional trade. In fact, while lower values for the indices may suggest limited opportunities for regional partners to exploit sources of comparative advantage, they could also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

Intra-industry trade, which results from specialization within products and specialization at different levels of the same product, is a robust indicator that can complement the similarity indices. Furthermore, as discussed in section 4, it is also very relevant to the analysis of regional value chains. Statistics from the World Bank and the United Nations Industrial Development Organization (UNIDO) show that the Southern Africa subregion has one of the lowest intra-industry scores[6] in the world (figure II, and Figure A7 in the appendix).

The low intra-industry score in Southern Africa is clearly consistent with the poor performance of SADC with regard to the Productive Integration Index. The potential of the subregion to increase substantially levels of subregional trade lies in developing this type of trade, namely intra-industry trade that is closely linked to participation in regional value chains and specialization. For this potential to be effectively tapped, it is imperative that the subregion deepen and accelerate the integration process, including the elimination of non-tariff barriers, which impede the flow of trade and investment within the free trade area. The persistent issue of non-tariff barriers in the subregion is discussed in the next section.

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

Figure II Intra-industry trade by region as measured by the Grubel-Lloyd Index, 2008



Sources: *International Monetary Fund (IMF) Direction of Trade Statistics (http://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85); World Economic Outlook Database (https://www.imf.org/external/pubs/ft/weo/2019/01/weodata/index.aspx); Brülhart (2008).*

3.3. PERSISTENCE OF NON-TARIFF BARRIERS: A BURDEN FOR PRIVATE SECTOR INVESTMENT AND TRADE

As reviewed in section 3.2, while intraregional trade has been very important in Southern Africa, the regional market is still highly fragmented, and the establishment of the SADC free trade area has not brought about significant regional trade growth. The regional configuration of trade and the low level of productive integration play a major role. The detrimental effect of non-tariff barriers within the region cannot be overstated. Lessons from successful regional integration experiences, such as the Association of Southeast Asian Nations (ASEAN) and the Southern Common Market (MERCOSUR) in Asia and Latin America respectively, suggest that benefits from regional trade agreements can only be maximized if countries prioritize regional trade facilitation, not only through tariff reductions, but also by tackling other at- and behind-the border issues. Global and regional evaluations of non-tariff barriers clearly show that they are in most cases more restrictive than tariffs. Non-tariff barriers impede investment dynamics and competitiveness of the private sector regardless of the nature and the size of firms in the sector and might even invalidate the actual existence of a free trade area.

It has been argued that the existence and persistence of some of the non-tariff barriers are in some cases a result of the persistence of tariff peaks. The reasoning is that as high tariff lines often create incentives for trade deflection or even fraud, misclassification and smuggling, there might be need to intensify border checks to prevent transhipments and leakages of products originating from third countries. For instance, it has been reported that South Africa, which has the most developed textile sector in the region and a relatively mature clothing industry, both of which are heavily protected, has maintained a restrictive stance on rules of origin for preferential imports of clothing from other SADC member States. This stance has been taken in order to prevent the use of lower-cost third country fabrics, such as those from China entering through SADC member States for sale in South Africa. Thus, the region's highest applied tariffs (as inferred from the relatively low trade integration score previously discussed) might also explain somewhat the persistence of non-tariff barriers at the regional level. Data from the United

Nations Conference on Trade and Development (UNCTAD) Trade Analysis Information System[7] show that for most countries in the region, over one third of tariff lines are peaks, defined as high tariffs with an ad valorem rate equal to or more than 15 per cent. It is, therefore, reasonable to believe that lower, more uniform tariffs applied across all countries may significantly reduce the need for some of the barriers that persist and hinder regional trade and investment in Southern Africa.

The nature and scope of non-tariff barriers in Southern Africa are very complex and far-reaching. The barriers are among others, weak transport and logistics, customs delays, restrictive rules of origin, import bans, quotas and levies, technical barriers, import permits, and licensing and export restrictions.

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

- The efficiency of customs and border clearance;
- The quality of trade and transport infrastructure;
- The ease of arranging competitively priced shipments;
- The competence and quality of logistics services;
- The ability to track and trace consignments;
- The frequency with which shipments reach consignees within scheduled or expected delivery times.

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

7 For more details, see http://unctad.org/en/Pages/DITC/Trade-Analysis/Non-Tariff-Measures/NTMs-trains.aspx.

Table 2 Logistics Performance Index for selected southern African countries

Country	Logistics performance Index overall score	Logistics Performance Index ranking	Customs ranking	Infrastructure ranking	International shipment ranking	Logistics quality ranking	Tracking and tracing ranking	Timeliness ranking
South Africa	3.78	20	18	21	23	22	17	24
Botswana	3.05	57	48	54	70	75	70	43
Namibia	2.74	79	73	64	86	86	100	85
Mozambique	2.68	84	88	116	58	109	79	97
Zambia	2.43	114	119	113	106	114	119	124
Democratic Republic of the Congo	2.38	127	123	146	135	123	118	102
Angola	2.24	139	157	129	128	128	130	141
Madagascar	2.15	147	112	131	149	153	148	151
Zimbabwe	2.08	151	144	123	153	141	150	158
Lesotho	2.03	154	151	149	158	138	151	150

Source: *Compiled from the World Bank's Logistics Performance Index database (2016).*

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

Issues related to restrictive rules of origin, technical regulations and standards of products, albeit sensitive, should be relatively easy to address at the regional economic community level. It is also worth pointing out that there are already some laudable initiatives and policy reforms at the national and regional levels to tackle some of the obstacles. These initiatives should be encouraged and sustained.

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

Another initiative that involves closer collaboration with the private sector is the Non-Tariffs Barriers Monitoring Mechanism. This regional mechanism, shared among the three regional economic communities of the Tripartite Free Trade Area, namely, SADC, COMESA and EAC, incorporates an online platform on which the private sector can report complaints about non-tariff barriers to regional trade in the Southern and Eastern African regions. One of the key merits of the mechanism is that it has mainstreamed the participation of the private sector in regional non-tariff barriers reduction processes. Participating countries are all represented by a government and a private sector focal point, attached to the mechanism. Evidence shows that small and medium-sized enterprises are in particular affected by non-tariff barriers.[8] Accordingly, this online reporting mechanism is also highly laudable in that it accords an opportunity to these firms to directly voice their perspectives and drive the integration agenda.

Trade-related administrative non-tariff barriers are one of the most frequently reported complaints by the private sector, together with export and import permits, and transit issues. Although there have been some concerns over the very slow pace in resolving those that have been notified, the Non-Tariff Barriers Monitoring Mechanism is clearly one of the tools that is in line with the concept of private sector-led integration efforts. Reflections should be made on ways to improve the mechanism and render these more effective than the current situation. Other initiatives along these lines should also be promoted.

3.4. DEEPENING SERVICES MARKETS INTEGRATION: A HUGE INVESTMENT POTENTIAL FOR THE PRIVATE SECTOR

The services sector produces intangible goods. It is comprised of a wide variety of services, including, among others, warehousing, truck transportation, information sector, retail, commodities and other investment services, tourism and business. Generally, services have been the most important[9] component (in terms of contribution to regional GDP) of Southern African economies and more importantly, are a strategic sector for economic development, as some specialized services such as professional services, are key inputs to the production of other sectors. Moreover, a very large number of private sector operators work in the services industry. Accordingly, the role of the private sector in regional integration processes cannot be discussed without reflecting on the state and dynamics of the regional services markets. This section begins with a review of the overall state of openness of the services market in Southern Africa and then is focused on the professional services sector, in which some of the key issues and the potential gains that could be derived from deepening the regional market are highlighted. The issue of labour mobility is central to this analysis.

- **Services trade restrictiveness in Southern Africa**

A review of services trade policies in Southern Africa suggests that countries in the region fare relatively well in terms of their level of services sector liberalization, the extent to which foreign service providers are able to operate in a particular country given the existing policies. Nevertheless, there is room for substantial improvements in many subsectors, and large gains are awaiting realization. World Bank has developed the Services Trade Restrictiveness Index, which could provide some supporting evidence in this area. The Index is essentially a measure of the restrictiveness of a country's policy regime based on the policy information alone and is designed to depict the overall patterns in policy across countries and sectors.[10] It is based on surveys covering five key service sectors: financial services; telecommunications; retail distribution; transportation; and professional services. There are also subsectors associated with each of the key sectors. Within each sector or subsector, the database covers the most relevant modes of supplying the respective service: cross-border supply (mode 1); commercial presence or foreign direct

8 For instance, the lack of scale economies in the transactions of small and medium-sized enterprises makes it relatively more costly for them to meet non-tariff barriers requirements than for large-scale enterprises.

9 Statistics from SADC and the World Bank Development Indicators (WDI) indicate that the sector has consistently contributed approximately 50 per cent to the regional GDP.

10 See Borchert and others (2012) for details.

investment (mode 3); and the presence of service supplying individuals (mode 4). For each sector and mode of supply, the openness of policy towards foreign suppliers is mapped on a five-point scale ranging from 0 (no restrictions) to 100 (closed), with three intermediate levels of restrictiveness (25, 50 and 75).

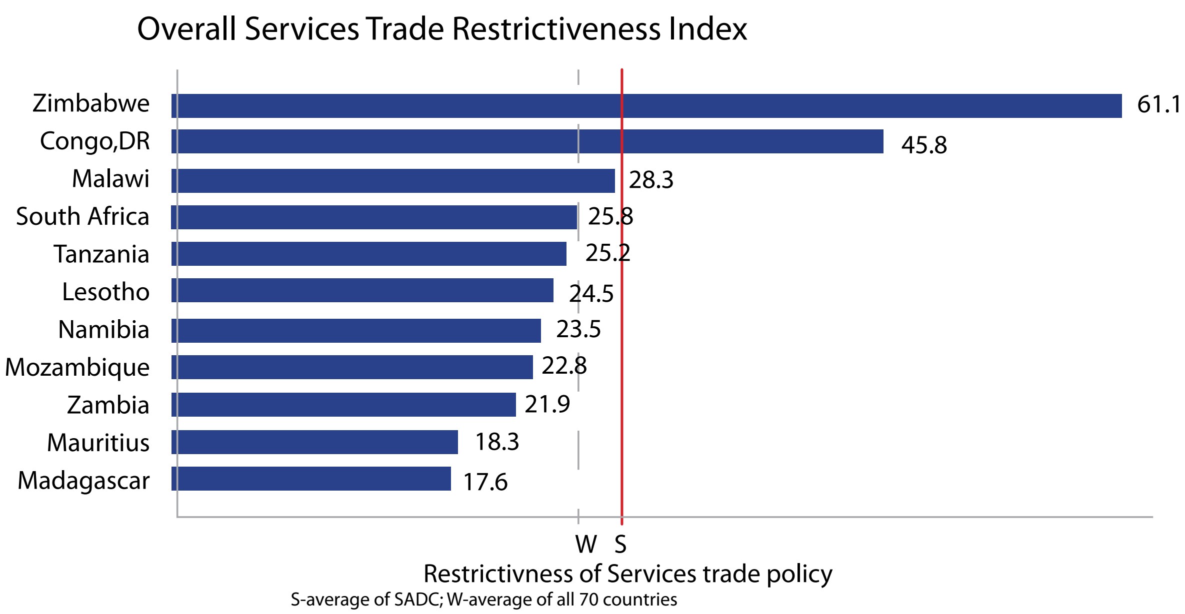
A snapshot of the overall restrictiveness of services trade policies for a number of countries in the region is provided in figure III. Clearly, most of the countries in the sample (Zimbabwe and the Democratic Republic of the Congo being the notable exceptions) are remarkably open, even when compared to the world average, which is based on a sample of 70 countries, including developed countries that are generally found to be more open in that area. These overall scores, however, may conceal sector-specific heterogeneities. A breakdown by key sectors or subsectors is provided in the Appendices (figures AI to AVI).

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

This state of openness of the financial services sector, in general, and of the banking industry, in particular, is beneficial to private sector expansion in the region and should be advocated. This is because access to finance is one of the major challenges faced by the private sector in general, and small and medium-sized enterprises, in particular. Evidence shows that greater competition in the banking sector, including through entry of foreign banks, increases credit availability to these firms.[11]

The picture is strikingly different in the telecommunications services sector. Whereas in most sectors, the SADC average is not very far from the world average, in the specific case of telecommunications, SADC is approximately twice as restrictive as the world benchmark.

Figure III Services trade restrictiveness in Southern Africa



Source: *World Bank (2011).*

11 See the study by Love and Peria (2015) based on multi-year firm level data for 53 countries including a few countries in Southern Africa.

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

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

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

- **Professional services and regional integration: What is at stake?**

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

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

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

In terms of professional services, the shortage in engineering services (including information technology, seems to be the main concern in all Southern African countries, especially in Botswana, Mauritius and Mozambique, followed by accounting and legal services. With regard to country-specific differences, the more acute shortages are observed in Malawi and Mozambique where the development of professional services markets seems to be hindered by the relatively low number of middle- and higher-level professionals, however countries, such as Mauritius and to a lesser extent, South Africa, are well endowed with accounting professionals. The limited availability of middle-level professionals across countries in the region is particularly problematic given that this important subset of skilled workers are the main providers of professional services to underserved groups of private-sector clients, such as small and medium-sized enterprises.

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

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

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

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

4. A REGIONAL VALUE CHAIN APPROACH TO INDUSTRIALIZATION IN SOUTHERN AFRICA

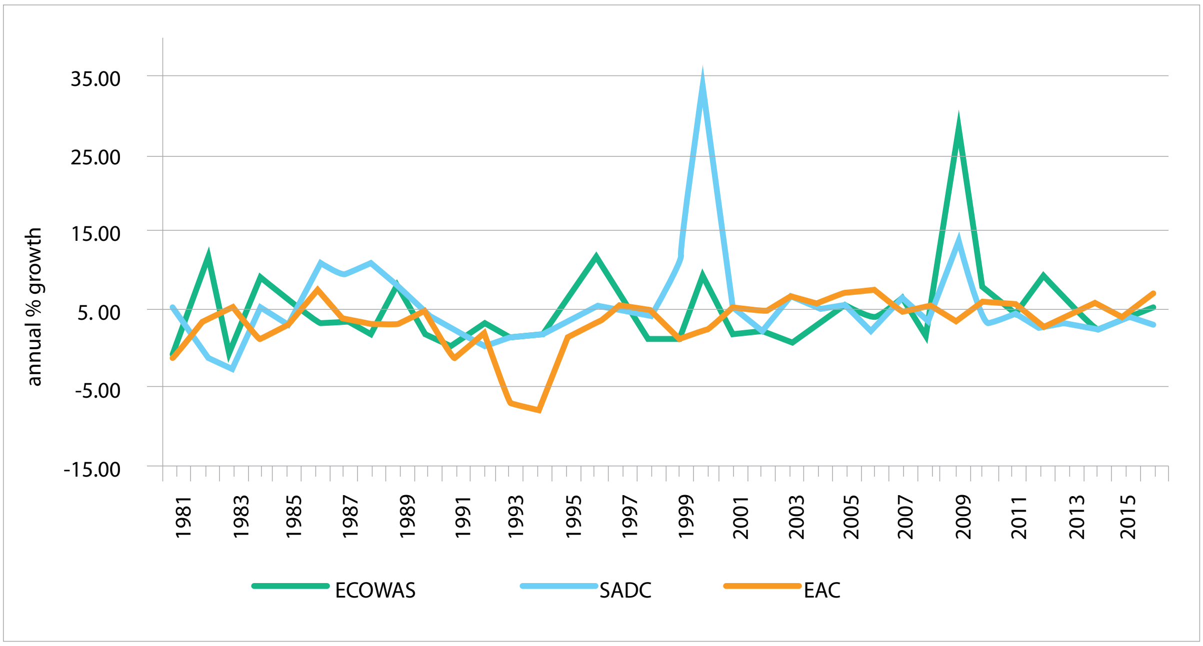
4.1. RATIONALE AND RELEVANCE OF DEVELOPING REGIONAL VALUE CHAINS IN SOUTHERN AFRICA

Industrial development is generally viewed as a powerful force for advancing economic and inclusive growth, a major source of employment, income, goods and services. For instance, one of the Sustainable Development Goals (Goal 9) is to "build resilient infrastructure, promote sustainable industrialization and foster innovation". To achieve this Goal, in which industrialization is clearly prioritized in the fight against poverty and exclusion, Africa, in general, and Southern Africa, in particular, needs to scale up its industrialization process in an effort to increase employment and enhance socioeconomic development.

Although the preoccupation of industrialization has been at the forefront of the regional integration agenda for a while, historical data spanning over at least the past two decades show that industrial growth, especially in the manufacturing sector, has been lower in Southern Africa than in other parts of the continent. Figure IV shows the growth in manufacturing value addition in EAC, the Economic Community of West African States (ECOWAS) and SADC, arguably the most developed regional economic communities on the continent and table AI (in appendices) provides the annual growth in industry value added for the eight African Union-recognized regional economic communities. These figures are also consistent with the relatively higher, but rapidly decreasing share of manufacturing valued added in GDP in the region, compared to the other regional economic communities (figure AVII in appendices).

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

Figure IV Annual growth of Manufacturing value added (in percentage)



Source: *Data extracted from the AfDB Socio Economic Database 1960-2019.*

While integration of developing countries into global value chains is commonly portrayed as a key route to sustainable industrialization, owing to, for example, the prospects of entering new markets and gaining access to new skills, knowledge and information, it is also generally recognized that participation in global value chains does not guarantee sustainable and inclusive growth nor does it ensure upgrading. For instance, firms and countries can find themselves locked in lower-level segments of the chains, which prevent them from taking full advantage of the perceived above-mentioned deeper benefits. This appears to be the general case in Southern African countries that are essentially involved at the bottom of the global commodity value chains.

Developing and strengthening regional value chains is a pragmatic stepping stone towards effective and more high-level participation in global value chains that can promote the development of an integrated industrial base within the region through the exploitation of synergies and complementarities between countries and private sector actors at the regional level.[12] This could, in effect, accelerate value addition and enhance export competitiveness. To date, there has been very little participation of the Southern Africa region in regional value chains, as suggested by the low level of productive integration (especially the poor intra-industry trade score) documented in the section 3.2. Intensity of regional intra-industry trade, whether horizontal (exchange of varieties of goods of same quality) or vertical (exchange of similar goods with different qualities and prices) is generally considered a good proxy for the level of participation in regional value chains, as they both involve some level of specialization and use of comparative advantage. More importantly, a substantial part of intra-industry trade in vertically differentiated products results from the phenomenon of product fragmentation, that is, the division of a production process into separate parts, which can occur in different locations. This is an aspect of regional intra-industry trade that may appear as being closer to the concept of regional value chains. In the same vein, trends in intermediate goods trade at the regional level are also indicative of regional value chain integration, as fragmented production processes require parts, components and partially manufactured subassemblies to cross borders before final goods are produced and shipped to final consumer markets.

12 Weigert (2016) discusses the relevance of regional value chains in West Africa.

The very low productive integration index and intra-industry trade score point to underdeveloped regional value chains in Southern Africa and suggest that there is an untapped potential for boosting investment and industrial growth through this channel. Indeed, the potential for value addition and diversification through regional value chains strategies is enormous. In a study by the ECA subregional office in Southern Africa conducted in 2017 on industrialization strategies and policies in the region, several production areas with immense investment opportunities available to the private sector for beneficiation and value addition within a regional value chain system were identified. These include: diamond, platinum, gold, iron ore, cotton, fruits, coal, crude oil, marine products, natural gas and copper sectors.

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

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

Clearly, a regional value chain approach to industrialization is vital and relevant in the context of Southern Africa and has the potential to unlock the full potential of the region (home to the largest number of middle-income countries in Africa), thereby lifting it to higher and sustained levels of industrialization. The following section provides the key elements of the SADC Industrialization Strategy and Roadmap Implementation Plan, which features a regional value chain-based industrial development approach and discusses the central role of the private sector in this agenda.[13]

4.2. Implementing the Southern African Development Community Industrialization Strategy and Roadmap: opportunities for private sector investment and growth

Cognizant of the importance of revitalizing the industrial sector to spur sustainable economic growth and socioeconomic transformation, the SADC Heads of State and Government adopted at their Extra-Ordinary Summit, held on 29 April 2015, in Harare the SADC Industrialization Strategy and Roadmap, 2015-2063. The Strategy is built on key institutional and policy frameworks at the regional level, which are aimed at fostering trade and industrial growth in Southern Africa. In particular, it incorporates relevant

13 While the discussion in this report focuses on the SADC Industrialization Strategy and Roadmap 2015-2063. COMESA also recently adopted an industrialization strategy for a ten year-period 2017-2026. This adoption was carried out following the decision of the COMESA Council of Ministers, which directed the secretariat to develop an implementing strategy of the COMESA Industrial Policy adopted by the same council in 2015. The policy includes using approaches that focus on value addition of commodities skills-based industrialization. The industrialization strategy is essentially aimed at structural economic transformation for the creation of jobs and wealth in the region, and as with the long-term strategy of SADC, gives a prominent role to the private sector as a key engine in leading the strategy.

elements of the SADC Trade Protocol, the Industrial Policy Development Framework, the Regional Infrastructure Development Master Plan and the Industrial Upgrading and Modernization Programme and is consistent with the Revised Regional Indicative Strategic Development Plan[14], adopted in 2015, which is the blueprint for the SADC regional integration agenda. The original plan was approved by the SADC Summit in 2003 with an implementation timeframe of 2005 to 2020. After a review in 2012, the revised version places industrialization at the centre of the regional integration agenda with the goal of accelerating the socioeconomic objectives of the region.

In essence, the SADC Industrialization Strategy and Roadmap was developed as an inclusive long-term modernization and economic transformation mechanism that enables substantial and sustained raising of living standards, intensifying structural change and engendering the possibility for SADC member States to catch up with industrializing and developed economies. The SADC Industrialization Strategy and Roadmap and its private sector-driven implementation plan are therefore closely aligned with Agenda 2063: the Africa We Want, of the African Union, the strategic framework for the socioeconomic transformation of the continent over the 2013-2063 period. The focus areas of the national and regional economic communities' development priorities have been included in the First Ten-Year Implementation Plan 2014-2023 of the continental agenda in order to ensure that the national and subregional priorities in the near term converge with the priority areas contained in the 50-year framework document.

Three interdependent and strategic pillars form the basis of the SADC strategy: industrialization as champion of economic and technological transformation; enhanced competitiveness; and deeper regional integration. From these three pillars, it is clear why the focal point of the Strategy is on developing and prioritizing regional value chains and promoting investment-led trade. Following the adoption of the SADC Industrialization Strategy and Roadmap in April 2015, SADC developed an action plan covering 2016–2030, which was approved by the Summit in March 2017, in Lozitha, Eswatini. Some of the key issues addressed by the action plan are as follows:

(a). Identification of high potential areas for value chains and value addition.

(b). Infrastructural needs and removal of constraints on trade and industry.

(c). Regional integration as the fulcrum for collective industrialization and competitiveness.

(d). Consideration of the resources and ingenuity of the private sector for industrial transformation.

(e). Competitiveness constraints of the business environment.

(f). Enhancement of productive capacities within the context of industrial clusters and Small and medium-sized enterprises development while ensuring resource efficiency, environmental sustainability and climate resilience.

(g). Institutional structure to drive, support, monitor, evaluate and govern the industrialization process in SADC.

One of the most important principles guiding the action Plan framework (as well as the revised Regional Indicative Strategic Development Plan) is the acknowledgement of the central role to be played by the private sector as the engine of investment, growth and employment creation in the region. The theme of the thirty-seventh SADC Summit of Heads of State and Government, held in Pretoria on 19 and 20 August 2017 was "Partnering with the private sector in developing industry and regional value chains". It served as an opportunity for regional leaders and policymakers to deliberate on ways to harness public-private partnerships to drive forward the industrialization agenda of Southern Africa.

14 See SADC (2017b).

The private sector plays an enormous, multifaceted role in the whole process of regional integration and industrialization. Investment, participation and positioning into value chains essentially come from the private sector, whose role as the primary implementer of the industrialization strategy is fundamental. The private sector needs to be acquainted with existing and promising supply chains in the region and understand the broader economic and institutional context of the regional strategy to ensure its participation in regional value chains. Moreover, specific investment and industrial opportunities also emerge from integrating into value chains and ensuring specialization across the region. Section 4.2.1 contains a discussion of the value chain potential in SADC.

The role of the private sector as leader of the industrialization strategy, however, extends beyond specific production investment or direct participation in regional value chains. While the development and strengthening of regional value chains may only advance and accelerate the integration agenda, it is also clear that deeper integration is an essential prerequisite for the development of regional value chains. Accordingly, whatever role the private sector is to play in improving regional integration processes, for instance through infrastructure and logistics development, skills development, elimination of non-tariff barriers, funding and innovation, also becomes relevant in the context of the industrialization strategy. In section 4.2.2, the key enablers of the SADC Industrialization Strategy and Roadmap are reviewed with a focus on the role of the private sector in the process.

It is equally important for the private sector to be actively involved in the setting up of institutional structures or mechanisms designed to lead, monitor, assess and govern the industrialization strategy. In this regard, in section 4.2.3, one such initiative, the Southern African Business Forum Operating Model, is highlighted.

4.2.1. VALUE CHAINS WITH POTENTIAL IN THE SOUTHERN AFRICA DEVELOPMENT COMMUNITY

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

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

While the implementation plan attached to the SADC Industrialization Strategy and Roadmap is not designed to be prescriptive as to the value chains that member States have to prioritize and promote, the plan builds on several resources, including national reports by country, industrial reports, case and sector studies and existing value chains, and points out key value chains with demonstrable potential to deepen regional integration and foster the industrialization process. The following six main value chain clusters have been identified:[15]

(a). Agro-processing;

(b). Minerals beneficiation and related mining operations;

(c). Pharmaceuticals;

(d). Consumer goods;

(e). Capital goods;

(f). Services.

Southern Africa is undeniably one of the richest regions in the world in terms of agricultural and mineral resources. In order to take full advantage of its vast resource endowment, the Industrialization Strategy and Roadmap accords priority to three resource-based value chain clusters: agro-processing, minerals beneficiation, and pharmaceuticals.

Greater production of higher-value agricultural products and value addition to agricultural commodities are at the centre of efforts towards developing and strengthening regional value chains in the agro-processing sector. The potential of the region in this area is immense and untapped. About 70 per cent of the region's population heavily depends on agriculture for food, income and employment. Many smallholder farmers, which constitute a significant part of the private sector in agricultural industry, still lack access to modern means of farming, which can hinder their effective participation in regional value chains. Clearly, an increased mechanization can help unlock underutilized agricultural potential and significantly contribute to the industrialization agenda. The SADC Regional Agriculture Investment Plan (RAIP, 2017-2022)[16] was adopted in 2016 by SADC ministers responsible for agriculture and food security as the basis for promoting agricultural growth in support of industrialization. In the agro-processing cluster, existing or potential value chains cover the following products: soya; sugar and related products; cassava; food and drinks; fisheries; forestry; dairy; leather and leather products; meat and meat products; fruits and vegetables.

Mining is an industry of strategic importance in Southern Africa. The region is especially endowed with abundant mineral resources. According to figures from SADC, about 50 per cent of the world's vanadium, platinum and diamonds originate in the region together with 36 per cent of gold and 20 per cent of cobalt. Two of the countries in the region, the Democratic Republic of the Congo and Zambia, are among the top ten copper producers in the world. The region as a whole is still characterized by a high dependency on exports of unprocessed or semi-processed mineral products. The importance and necessity of minerals value addition within the region cannot be overemphasized. According to findings by ECA (2017), the current levels of minerals beneficiation at the national and regional levels are extremely low and suboptimal. In Southern Africa, the bulk of participation in existing mineral value chains has been forward (through upstream linkages) rather than backward (via downstream linkages) and global rather than regional. The development of a regional mining vision[17] is underway, which could result in the optimal use of the resources and endowments available in the regional ecosystem. The following are the potential value chains that have been identified by recent profiling studies:

15 SADC (2017a) provides a detailed list of the value chains.

16 See: www.fao.org/support-to-investment/news/detail/en/c/434424.

17 As of April 2019, the draft regional mining vision has been finalized. It will be presented to the SADC Ministerial Task Force for adoption in June 2019.

(a). Energy mineral value chains based on coal, oil and gas resources;

(b). Ferrous minerals value chains that process iron ore, zinc, chromium, nickel, manganese, tungsten and vanadium to produce different types of steel for infrastructure development;

(c). Base metals mineral value chains that utilize copper and aluminium;

(d). Fertilizer mineral value chains based on coal gas, phosphate and potassium;

(e). Cement value chains that utilize limestone;

(f). Mineral value chains in which SADC has producer power, such as diamonds, platinum and cobalt to produce catalysts and jewellery;

(g). Mining inputs value chains for upstream linkages into mining capital goods, consumables and service industries.

Recognizing that pharmaceutical manufacturing can provide new dimensions and opportunities for growth, either in active pharmaceuticals ingredients, or in finished products in the region, in August 2017, SADC launched a pharmaceuticals manufacturing business plan, in which active private sector participation is encouraged. The objective of the business plan is to build capacity within the region in order to facilitate affordable, accessible and quality medicines. The opportunities for creating regional value chains in the sector exist for the following products: anti-retrovirals, anti-tuberculosis drugs; artemisinin, condoms, bed-nets and dichlorodiphenyltrichloroethane. The development of an anti-retroviral value chain has been prioritized with completion expected by 2019.

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

4.2.2. KEY ENABLERS OF THE INDUSTRIALIZATION STRATEGY

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

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

1. Skills development

The implementation of the industrialization strategy through the development of regional value chains and firms' specialization in specific segments along the links necessitates the availability of human resources and expertise in key sectors across the region. One of the key constraints to beneficiation and value addition that emerged from a review of national industrial policy documents of SADC member States conducted by ECA (2017) is the inadequacy of human capital and skills for industrial processes, science and technology, a feature common to all countries in the region. Moreover, as discussed in section 3.4, there are important skills shortages and skills mismatches in the business services sector, especially in the professional sector, which supplies strategic inputs to all other sectors, allowing for the functioning of the value chain links and increasing the productivity of firms, small and medium-sized enterprises in particular, operating along them. Accordingly, it is critical that skills development strategies are adopted and implemented at the national and regional levels, and integrated into the industrial development components.

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

For instance, the private sector can participate in developing function-specific skills, whether technical, vocational or academic; designing and implementing upskilling programmes; connecting talents to specific markets or segments of the value chains; and enhancing the economic ecosystem by encouraging entrepreneurship along the value chains through financial support for start-ups and non-financial support such as training, mentoring and networking. Skills shortages in the region are also a result of limited investment in research and development, science, innovation and technology. Also in this situation, private sector finance and expertise can be leveraged. It should be noted, however, that raising awareness about the benefits of research and development among small entrepreneurs has proven to be challenging in a number of countries in the region, such as Madagascar and the United Republic of Tanzania (ECA, 2017). In some cases, this might be linked to an issue of funding constraints. Integration of markets, support from lead firms along the different value chains and closer collaboration with public and private research institutions could help mitigate these constraints and contribute towards human capital enhancement in the region. Furthermore, the private sector could strengthen skills development by contributing to governance, including by pushing forward reforms agendas, through national and regional committees or other institutional arrangements.

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

2. Access to finance

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

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

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

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

The venture capital and angel investment markets are generally underdeveloped in Africa. Although venture capital is recognized as a more appropriate source of funding (as compared to banks financing) for nascent entrepreneurs because of the structure of the risks and gains on equity, among other factors, it requires a great deal of rigour, discipline, commitment, business planning and good understanding of business projects from entrepreneurs. This is an area in which assistance through training or other means is needed from specialized government agencies and from more mature private sector firms.

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

3. Infrastructure development

Poor infrastructure is arguably the most serious impediment to regional trade and industrialization efforts in Africa in general and Southern Africa in particular. The lack of sufficient infrastructure, including energy, water, ICT and transport, in Africa is widely recognized. Foster and Briceño-Garmendia (2010) estimated that the total annual expenditures required to meet the continent's infrastructure needs stood at about $93 billion, or approximately 15 per cent of the region's GDP. Two thirds of this total relate to capital expenditures and the remaining one third to operation and maintenance requirements. Yet, only $45 billion of the required amount are currently spent – 66 per cent, budget expenditures; 20 per cent, private investment; and 12 per cent, Official development assistance (ODA) – leaving an important financing gap of approximately $48 billion per year.

In Southern Africa, substantial progress has been made in improving infrastructure in all areas, and the overall status in the region is relatively good when compared to other regions on the continent. However, greater efforts need to be made, especially in the areas of energy, water and transport networks, for the region to achieve its integration objectives, in particular, the implementation of its industrialization strategy. Cognizant of the enormous infrastructure needs of the Southern African region, SADC Heads of State and Government adopted at their thirty-second Ordinary Summit, held in August 2012 in Maputo, the SADC Regional Infrastructure Development Master Plan Vision 2027,[19] a 15- year blueprint, which is expected to guide the implementation of cross-border infrastructure projects between 2013 and 2027. The main sectors in the Master Plan are (a) transport; (b) energy; (c) telecommunications; (d) water infrastructure; (e) metrology; and (f) tourism. The priority projects covered in the plan are estimated to require $500 billion. These requirements are over and above the resources needed for maintaining and upgrading existing domestic infrastructure networks at the country level.

Clearly, enhancing and promoting private sector participation in infrastructure development will be critical for the successful implementation of this ambitious but much needed plan, as public investment and development assistance alone will not be sufficient. The contribution of the private sector, however, goes far beyond financing. Private sector investors can bring in their expertise and new technologies, improve service delivery and efficiency, and reduce other kinds of inefficiencies in the sector as a whole.

19 SADC Regional Infrastructure Development Mast Plan Executive Summary (www.sadc.int/files/7513/5293/3530/Regional_Infrastructure_Development_Master_Plan_Executive_Summary.pdf).

In fact, although such inefficiencies can characterize both private and public infrastructure provision, they mainly reflect weak performance of State-owned enterprises in the markets of Southern Africa that have traditionally been dominated by parastatals.

Although there has undoubtedly been progress in recent years, private investment in infrastructure remains weak and underdeveloped in the region. It is generally recognized that public-private partnerships in infrastructure development cannot succeed without the right institutions and policies in place and real and sustainable political commitment to the collaboration. Indeed, political commitment is critical for ensuring private investors that their investments will be protected and upheld, and institutional and regulatory issues that may hamper private participation will be dealt with. In this regard, the recent and increasing push by regional policymakers and political leaders at the highest level towards greater private sector involvement in regional integration projects suggests that necessary conditions and policies will be put in place, or at least, concessions might be made to accommodate the private sector and provide investors with an enabling environment within which they can effectively operate.

There is scope for private sector participation in all infrastructure sectors. Evidently, sectors such as ICT and telecommunications are almost completely led by the private sector and more amenable to private investment than others, such as road transportation, energy or water infrastructure. This is partly explained by the strategic nature of these sectors and their complex investment structures. Accordingly, as mentioned above, governments in the region are increasingly becoming more receptive to private investment in the areas and paving the way for accentuated private sector investment in all sectors without discrimination. Key considerations are worth taking into account to enhance private investment in infrastructure. Among them are the following:

(a). Priority should be placed on strengthening safeguards for the protection of foreign and domestic investors, including tackling restrictions on private participation in infrastructure sub sectors.

(b). In making and implementing the choice between public provision of infrastructure services and various forms of private sector participation, it is crucial to avoid unsuccessful and costly attempts made by the private sector to enter the utility markets. One way to mitigate these risks is by establishing clear legal rules for the full spectrum of public procurement options, including public-private partnerships, and full privatization, and by enhancing capacity and coordination of all agencies engaged in public procurement.

(c). It is equally imperative to make room for the private sector to participate on an equal and complementary basis with public providers. To accomplish this, the corporate governance and efficiency of State-owned enterprises must be improved and sound competition and pricing policies need to be adopted.

4. Private investment in power transmission in Southern Africa: an emerging issue

The deficit in the energy infrastructure subsector is the most challenging infrastructure deficit in Southern Africa. While the region has made significant strides in the establishment of regional infrastructure in the electricity subsector, as evidenced by the interconnection of nine of SADC member States to the regional power pool, the Southern Africa Power Pool, it still faces important challenges regarding energy delivery, access and price. For instance, when compared to the two other relatively developed regional economic communities on the continent, EAC and ECOWAS, SADC does not fare well with regard to overall access to electricity: 24 per cent of SADC residents have access to electricity against 36 per cent in Eastern Africa and 44 per cent in West Africa (SADC, 2012). This is alarming considering that access to reliable and affordable electricity is critical for the smooth functioning of businesses operations and fundamental to the implementation of the industrialization strategy of the region.

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

The majority of SADC member States have in place legislations that open the power generation to independent power producers, whereas power transmission and distribution functions remain under the monopoly of State-owned enterprises, which purchase the power from the independent power producers under the single-buyer model. Almost all transmission investment in Africa is financed by State-owned enterprises, including through development partners. World Bank (2017) argues for the scaling up of private investment in electricity transmission in Africa and explores potential business models of public-private partnerships than can be adopted in the African context. Four main business models are identified, as follows:

(a). Indefinite privatizations: Provide ownership of the transmission network to a private company, usually through a trade sale or public flotation of a government-owned transmission business. The private owner has the exclusive right (and obligation) to develop new transmissions in its area of operation.

(b). Whole-of-grid concessions: Provide similar rights and responsibilities to privatizations, but for a shorter period. In most cases, the government implements this business model with a competitive tender of the concession and enters a concession contract with the winning bidder.

(c). Independent power transmissions: Provide the rights and obligations associated with a single transmission line or package of a few lines. In most cases, the government implements this business model by tendering a long-term contract with payment dependent on the availability of the line.

(d). Merchant investors: Build and operate a single transmission line (“merchant line”). In many cases, this is an high-voltage direct current line. The merchant investor benefits from moving power from low-price regions to high-price regions. In most cases, merchant lines are a private initiative that are not initiated by the government.

While World Bank (2017) acknowledges the inexistence of privately financed transmission lines through independent power transmissions in Africa, it tends to suggest, based on experiences from other developing countries, that they could be the most promising model on the continent to involve the private sector. One of the reasons supporting this is that, the risks inherent to independent power transmissions are similar to those faced by independent power producers, and the independent power producer business model has achieved great success in Africa. Clearly, a number of conditions need to be respected and an enabling environment has to be created (including legal and regulatory frameworks) for the independent power transmission model to succeed and reach its full potential in the region. It is a direction worth exploring to boost investment in the building-up of national and regional transmission lines in Southern Africa. Of the six identified potential transmission projects that may serve as pilot independent power transmission exercises in Africa, two belong to the Southern African Power Pool: the Zambia-United Republic of Tanzania interconnection, with an estimated cost of $780 million; and the Mozambique Backbone ("Sociedade Nacional de Transporte de Energía") estimated at $1.7 billion.

4.2.3. ENGAGEMENT WITH THE PRIVATE SECTOR: ACKNOWLEDGING THE SOUTHERN AFRICAN BUSINESS FORUM MODEL

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

The Southern African Business Forum was established in 2015 with intention to formalize public-private dialogue in SADC, particularly in the context of trade and industrialization strategies of the region. It is, in essence, a formal grouping of regional business organizations from the private sector, which acts as a key dialogue partner of SADC through its secretariat and structures. The inaugural forum was hosted by the New Partnership for Africa's Development (NEPAD) Business Foundation (as the coordinating institution of the event), the Business Council of Southern Africa and Business Botswana (formerly the Botswana Confederation of Commerce, Industry and Manpower) in Gaborone on 10 and 11 August 2015. It brought together more than 100 business leaders from across the region to identify shared priorities for enhancing regional integration in Southern Africa. The key outcome of the meeting is the Savuti Declaration in which the Southern Africa Business Forum set the groundwork for the development of an operating model through which the private sector can effectively affect the integration priorities of the region.

The framework is essentially comprised of two main components:

(a). Six working groups that have been identified under thematic focus areas: (i) industrialization and regional value chains; (ii) movement of skills and services; (iii) transport corridors; (iv) trade facilitation and non-tariff barrier mechanisms; (v) energy; and (vi) water.

(b). A steering group composed of a steering committee chaired by the SADC secretariat and a private sector desk. Its overall role is to ensure that the outputs of the working groups are consolidated and fed back to SADC structures and processes. The private sector desk is the central coordinating unit of the model. Its ultimate goal is to coordinate and facilitate input from the private sector into regional trade and industrial policy formulation, including the design of relevant policies, and ensure buy-in from key stakeholders.

As part of the operating model, a multi-stakeholder platform is to be created and chaired by SADC secretariat through which the activities of the working groups are monitored, strategic direction provided, and mandate ascertained in the execution and implementation of the working groups' projects. To date, the model appears to function well, as evidenced by the subsequent 2016 Esibayeni Declaration and 2017 Sunninghill Declaration that resulted from the annual SADC Industrialisation Weeks co-hosted by Southern African Business Forum and SADC.

5. CONCLUSION

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

In this report, the state and dynamics of regional integration processes in Southern Africa are reviewed, with particular attention to the role, priorities, issues and challenges of the private sector in the region. The review has shown that the pace of integration has been relatively slow in the region. While significant progress has been made leading to the establishment of the SADC free trade area in 2008, the integration agenda has stalled thereafter. The regional trade market is still fragmented and characterized by low levels of intra-industry and productive integration, which suggest little participation in regional value chains and the existence of untapped potential for investment and growth. The continued lack of industrial growth in the region has motivated the adoption of the SADC Industrialization Strategy and Roadmap, 2015-2063, which emphasizes the development and strengthening of regional value chains and places the private sector at the centre stage of the implementation plan.

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

(a). Consolidate the free trade area by sustaining efforts towards the elimination of all kinds of existing non-tariff barriers, including restrictive rule of origins and poorly designed technical regulations and standards, and curtailing the development of new ones.

(b). Deepen regional integration in services markets, in particular business and professional services markets, as professional services are key inputs to other sectors.

(c). Facilitate labour mobility within the region by expediting the implementation phases of the Protocol on Movements of Persons.

(d). Maintain regular communication with the private sector and organize sensitization workshops in order to advise the sector on the integration priorities of the region, including investment opportunities, and the benefits that the individual firms could derive from being involved in different areas of the agendas, depending on their comparative advantage.

(e). Deepen regional integration of financial services markets, including through harmonization of banking regulations to allow well-functioning and well-managed firms to compete, which in turn, will increase access to affordable investment finance.

(f). Formalize local and regional angel investing ecosystems and provide tax and other incentives to angel investors and other financiers of early stage entrepreneurs, especially those financing projects having a regional integration perspective.

(e). Strengthen safeguards for protection of foreign and domestic investors, including tackling restrictions on private participation in infrastructure subsectors.

(f). Allow the private sector to participate on an equal and complementary footing with public providers of infrastructure by improving the corporate governance and efficiency of State-owned enterprises, and adopting sound competition and pricing policies.

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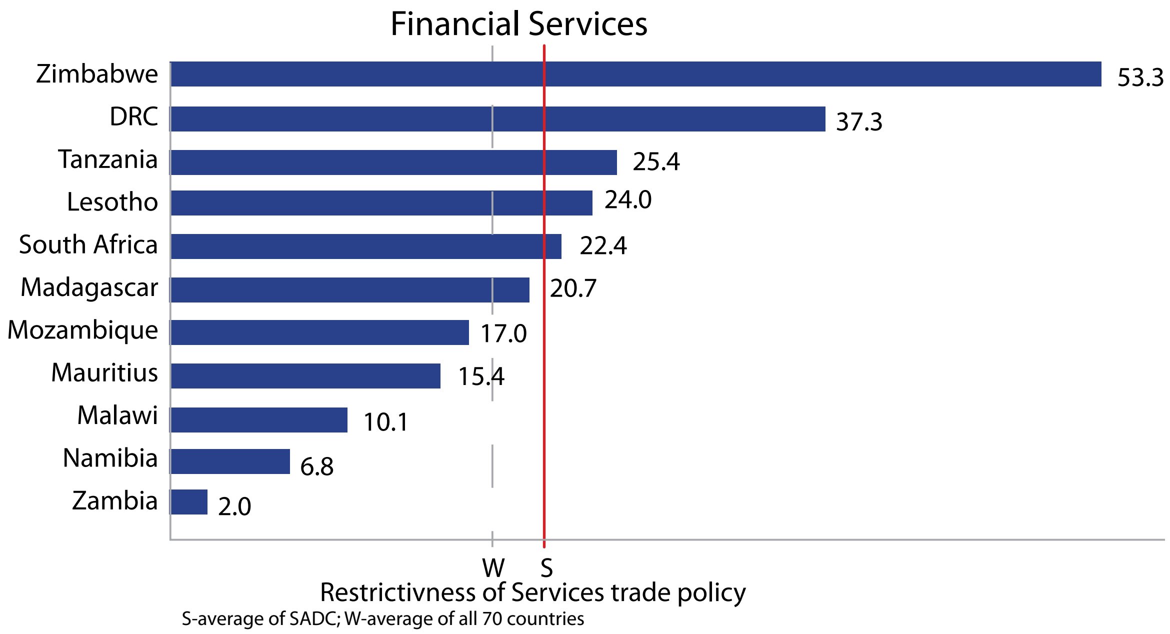
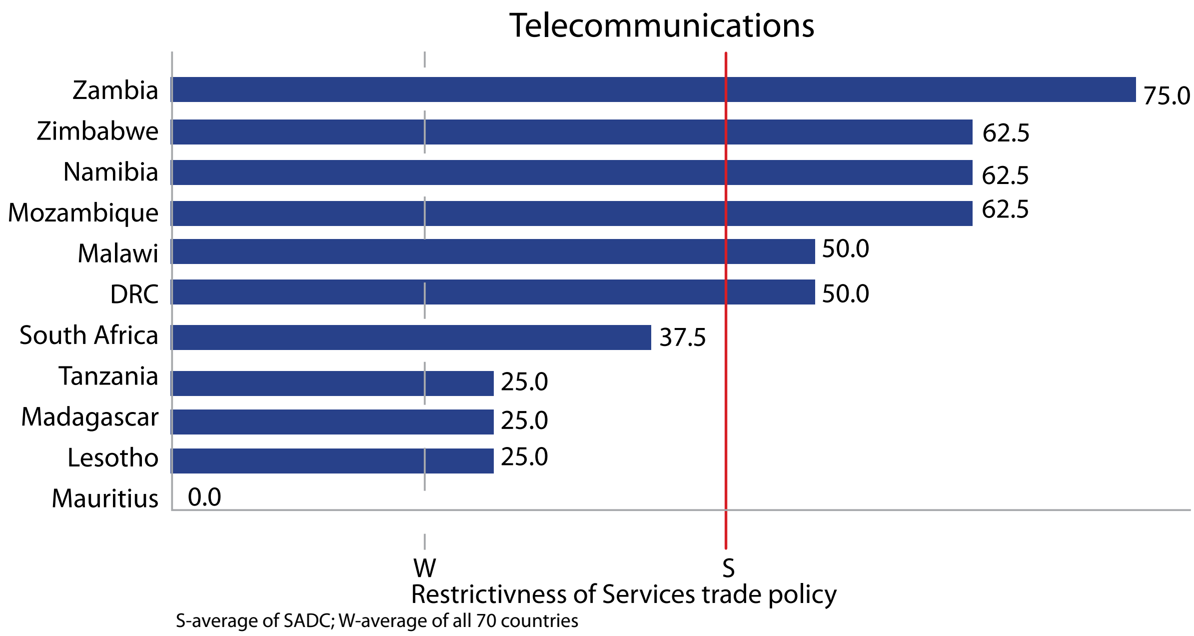
APPENDICES

Figure AI Trade restrictiveness in financial services



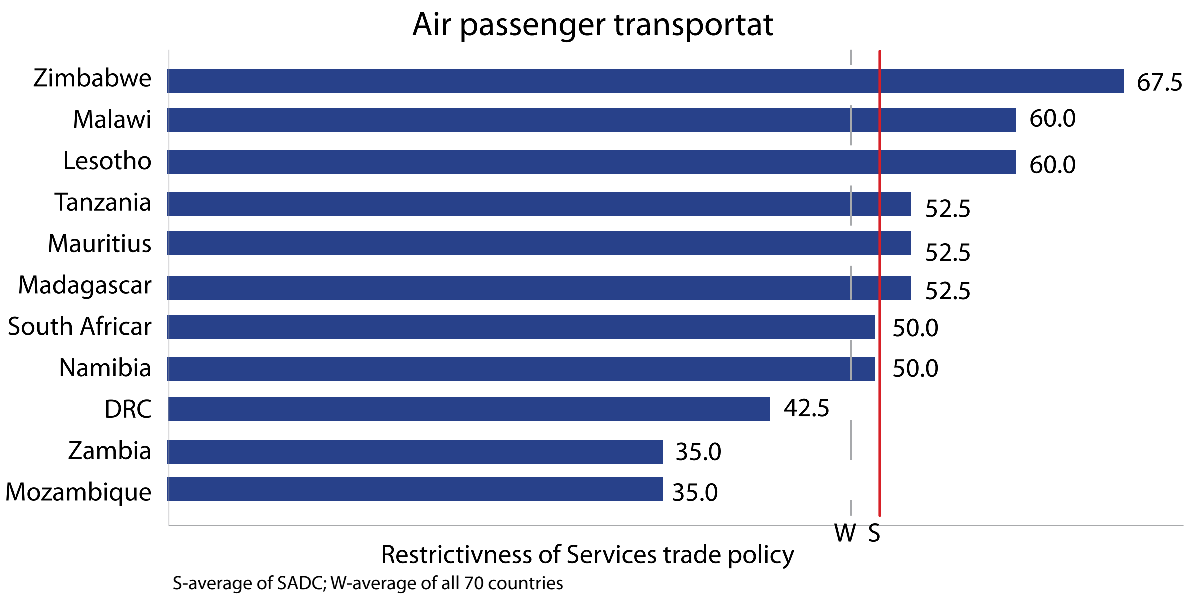
Source: *World Bank (2011).*

Figure AII Trade restrictiveness in telecommunications



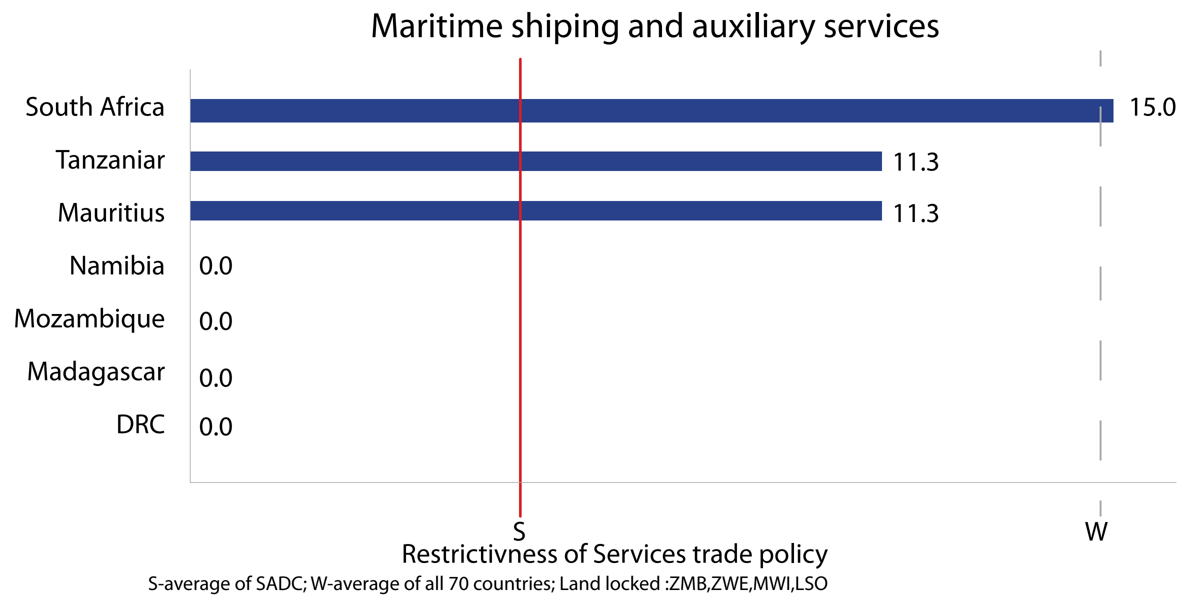
Source: *World Bank (2011).*

Figure AIII Trade restrictiveness in air passenger transport



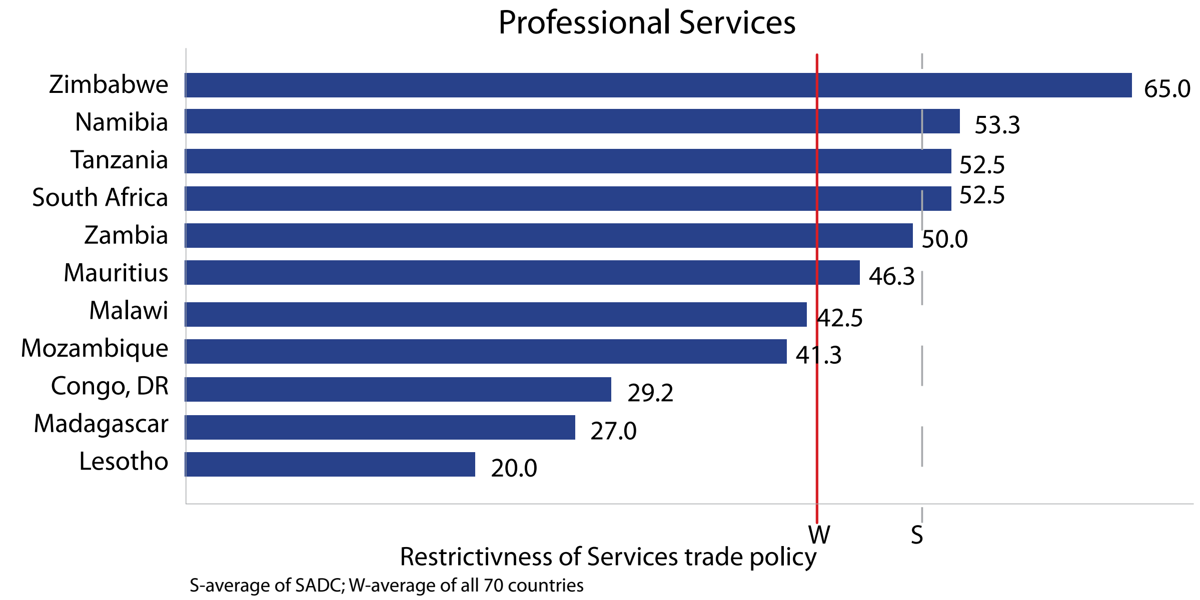
Source: *World Bank (2011).*

Figure AIV Trade restrictiveness in maritime shipping and auxiliary services



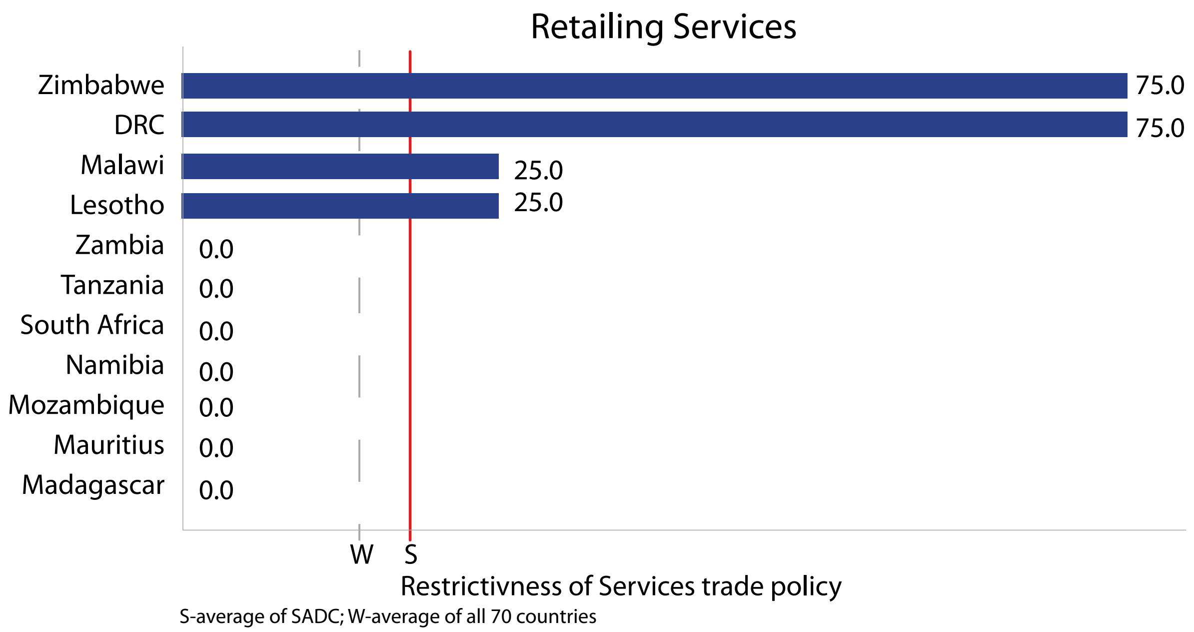
Source: *World Bank (2011).*

Figure AV Trade restrictiveness in professional services



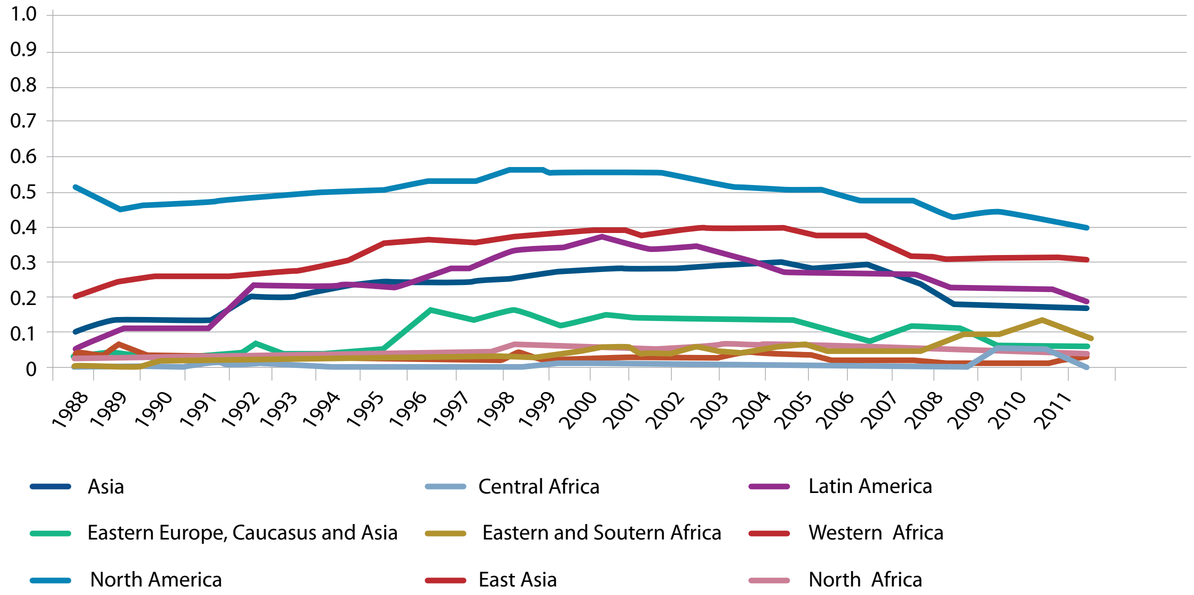
Source: *World Bank (2011).*

Figure AVI Trade restrictiveness in retailing services



Source: *World Bank (2011).*

Figure AVII Intra-industry trade scores across regions in the world



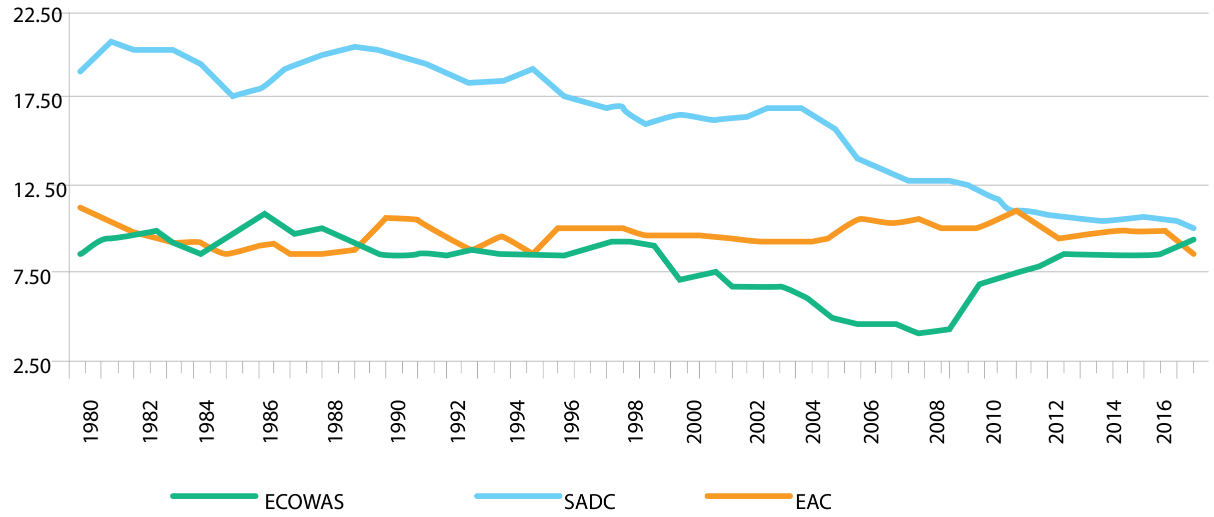
Source: *UNIDO (2016).*

Table AI Industry, value added, annual growth

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
ECOWAS	15.23	1.00	2.46	10.83	5.70	4.89	6.59	4.70	4.58	4.18	2.00	4.56	2.62	4.21	12.48	12.92	10.31	5.35	18.51	30.54	43.46
SADC	4.36	25.68	8.94	.35	3.26	6.12	4.77	7.61	7.58	8.43	7.50	3.58	-.78	8.01	6.59	5.33	4.37	4.12	9.79	8.58	5.43
EAC	6.85	115.34	12.86	1.70	5.48	6.43	7.70	8.75	10.01	7.36	8.65	9.33	7.26	6.27	9.85	4.66	6.55	6.62	7.08	7.06	5.21
ECCAS	33.32	6.99	9.32	11.52	14.38	8.79	8.85	21.68	8.73	2.53	5.46	4.26	.40	5.90	3.95	2.67	-.87	3.98	4.05	4.67	3.21
COMESA	3.54	2.08	9.81	2.50	2.74	5.07	3.26	8.15	8.83	8.86	9.17	6.01	2.60	7.02	6.03	5.38	3.98	5.35	8.69	8.40	6.33
AMU	3.65	2.21	5.59	1.45	-.41	-.26	6.79	4.84	6.30	13.62	1.10	1.16	-3.63	2.84	-5.02	333.12	-5.61	-7.30	14.55	7.73	1.06
CEN-SAD	9.67	1.56	3.20	15.58	3.29	2.40	9.79	11.53	3.91	4.68	4.88	2.70	2.53	4.79	5.33	117.94	.05	1.26	10.43	9.71	8.17
IGAD	3.10	4.00	4.27	14.92	8.66	7.12	7.00	11.17	10.26	10.43	13.11	6.17	7.97	5.52	4.59	.81	9.69	9.27	8.15	9.01	10.57

Source: *Extracted from AfDB Socio Economic Database (http://dataportal.opendataforafrica.org/bbkawjf/afdb-socio-economic-database-1960-2019).*

Figure AVIII Manufacturing, value added (percentage of GDP)



Source: *Data extracted from the AfDB Socio Economic Database (http://dataportal.opendataforafrica.org/bbkawjf/afdb-socio-economic-database-1960-2019).*

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