

SADC: think like a region

A research report spells out strategies to attract foreign investment to the SADC region

Mail & Guardian reporter

The 2007 *Africa Competitiveness Report* — a joint effort of the World Economic Forum, the World Bank and the African Development Bank — identifies low overall competitiveness as one of the main obstacles to maintaining high growth levels across the African continent.

Key to encouraging sustained growth is the development of sound business policies.

“More than geography or geology, countries that have implemented sound policies score better on subjective rankings, with more objective measures showing better conditions and better growth and productivity outcomes. Resource-endowed countries ... do enjoy a few advantages ... However, overall, when we take into account a wider set of issues, entrepreneurs in Africa do not see these countries as presenting a business climate that is significantly better than those ... in resource-scarce countries,” the report says.

The Pretoria-based Emerging Market Focus (EMF), a private economic research group, recently conducted a study commissioned by the Southern Africa Trust (SAT), an NGO working to fight poverty in Southern Africa.

The research looks at foreign direct investment (FDI) in the mining sector in four countries in Southern Africa.

The study identifies key elements that must be in place for the sector to attract FDI that will contribute meaningfully to national economic growth in line with the Southern African Development Community (SADC) protocol on mining, which stipulates that: “Member states shall strive to create a conducive environment for attracting local and foreign investment to the region and to the mining sector in particular.”

The countries identified in the study fall into two groups: those such as the Democratic Republic of Congo and Zambia, which have large mineral endowments and whose mining sector has been organised and operational for decades, and those such as Madagascar and Mozambique, which have potential but have not yet harnessed



Pedestrians cross a road in Caia, northern Mozambique, during floods in February this year. Photograph: AP

this potential for national economic growth.

In all four countries, the report emphasises, the right policies must be in place — not only to attract initial FDI into the mining sector, but also to ensure that the countries benefit economically from the exploitation of their mining sectors.

Themba Mhlongo, of the SAT's Regional Poverty Observatory Unit, says it is key that SADC as a

region adopt unified policies to streamline campaigns to attract FDI. “There are still quite a lot of issues involved — especially that different countries have different policies ... The rules of the game are not always conducive. SADC member countries must coordinate at a regional level; SADC policy should be harmonised.”

Because of the disparate nature of the four countries, the EMF con-

Growth in Mozambique, but ...

Mozambique has been making a remarkable economic recovery in the past few years, with figures indicating that economic growth rose to 7.9% in 2006 from 2% in 2005.

However, almost 50% of Mozambique's annual budget continues to be financed by foreign aid, while growth has been greatly stimulated by two mega-projects — the US\$2-billion Mozal smelter and Sasol's US\$1.2-billion natural gas pipeline in the country.

The report by research group Emerging Market Focus (EMF) says that while such projects have kept growth high, there has been

little trickle-down effect in the economy. It says the mining sector is a “nascent alternative source of foreign revenue for the post-war economy” with five major investments under way, primarily in the titanium, tantalite and granite sectors.

EMF's report says existing geological information indicates that Mozambique has extensive mineral deposits that include 47 000 tons of gold, substantial coal and copper, as well as bauxite. But it notes that “despite having a broad mineral base, foreign and domestic investment into commercial mining has been slow”.

While investors have indicated

Zambia: 'tax the minehouses'

Mining companies have been active in Zambia for at least 100 years and the mining sector is well developed.

After a slump in production because of the unbundling and privatisation of Zambia Consolidated Copper Mines (ZCCM) between 1997 and 2000, copper production has increased again, reaching 389 000 tons in 2004. Despite this recovery, however, Zambia's mineral resources could attract greater FDI still and make a more significant contribution to Zambian economic growth.

Research group Emerging Market Focus recommends that to facilitate this, the Zambian government complete a geological survey to locate and map all resources, including infrastructure development in future mining clauses, so that mining companies contribute to a toll tax, creating a new fiscal regime that will increase the Zambian government's share of the royalties and encourage the introduction of value-added processes, such as smelting and the polishing of stones.

ducted individual country studies that identify the challenges specific to each country. However, the overall study identifies several key areas that need significant improvement: access to finance, infrastructure, uncertain land tenure, poor legal systems and the deficiency of geological data.

The SADC has recognised these obstacles and is working actively to remedy them, focusing in particular on improving access to finance and enhancing infrastructure.

Chowa Chanda, the senior project manager for mining and technology transfer, says SADC is setting up two programmes that will facilitate access to finance for local and international companies looking to invest in the mining sector in the Southern African region. “We have two mechanisms: the Project Preparation Development Fund [PPDF] and the SADC Develop-

ment Fund. The PPDF will support projects from the pre-feasibility study to the bankable phase of the project ... and the SADC Development Fund will provide financing for projects. We expect the PPDF to be up and running by next year; the SADC development fund will take a bit longer.”

Chanda says SADC member countries will have to sign up to the SADC mining and finance protocols if they want to get access to capital, but says the imminent introduction of a free-trade zone in SADC will facilitate access to capital: “The free-trade zone will facilitate the free movement of capital and ease the problem of capitalisation.”

SADC is working on improving regional infrastructure and the quality of geological data. It is in the process of collating national data to create a comprehensive, automated database that will be available to the private sector.

SADC's actions support the study's finding that rather than creating additional policies to attract FDI, Southern African countries should focus on improving their investment climate from an operational perspective. To do so they must strengthen their economic foundations and fiscal management, improve infrastructure — such as road and rail links — and upgrade power and water supply.

This, the study says, is a far greater incentive for foreign investors than foreign investment schemes that provide tax cuts and the like.

If this path is followed, there will be a greater benefit to the population, which will benefit equally from the economic growth that follows increased investment and from enhanced and much-needed physical infrastructure.

Overcoming Poverty through inclusive policy dialogue

There are numerous people and organisations working to end poverty, to varying degrees of success. By talking to each other and working together, we are able to multiply efforts aimed at eliminating poverty in southern Africa.

The Southern Africa Trust was therefore established to promote and facilitate regional policy dialogue for an inclusive approach to the challenges of overcoming poverty in the SADC region.

Please contact us on +27 11 313 3065 or go to www.southernafricatrust.org for more details.