Southern African Development Community (SADC)

Overview

The Southern African Development Community (SADC) has its origins in the Southern African Development Coordination Conference (SADCC) which was established in 1980. In 1992, the member states signed the declaration and treaty establishing SADC as a replacement to the SADCC. Currently SADC has 16 member states: Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, eSwatini, United Republic of Tanzania, Zambia, Zimbabwe and the newest member, Comoros.

The vision of SADC is for a regional community in which the people of Southern Africa can realise economic well-being, improved living standards and quality of life, freedom, social justice, peace and security. SADC's mission is to *"promote sustainable and equitable economic growth and socio-economic development through efficient productive systems, deeper co-operation and integration, good governance, and durable peace and security, so that the region emerges as a competitive and effective player in international relations and the world economy"*.[1]

In 2017, SADC had a total population of approximately 343 million people making up 32 percent of Sub-Saharan Africa's population.[2] In the same year, 42 percent of the population were residing in urban areas, while the average urban population growth rate across the region was 3.3 percent.[3]

While still low, the average real GDP growth rate across SADC increased to 2.2 percent in 2017, up from 1.7 percent in 2016. Within SADC, Tanzania recorded the highest real GDP growth rate in 2017 at 6.0 percent, followed by Seychelles at 4.2 percent, and Madagascar and Malawi at 4.0 percent respectively. Namibia recorded negative growth in the same year (-1.2 percent), while eSwatini (Swaziland) registered near zero growth at 0.2 percent.[4] The following factors contributed to the region's growth in 2017: improved weather conditions across most parts of the region leading to increased agriculture output; the recovery of commodity prices; and an improved global economic outlook.[5] However major challenges still exist for most member countries, including but not limited to, the economic policy and political uncertainty in South Africa leading to weakened business confidence and investment, structural and fiscal constraints in Angola driven by their reliance on the oil price, as well as a challenging business environment in Zimbabwe as a result of the country's political transition.[6] Despite this, economic growth in SADC is expected to increase in the short-term with real GDP growth forecasted to be 3.0 percent in 2019. This is lower than the forecasted growth for Sub-Saharan Africa at 3.7 percent. In addition, SADC predicts that none of the member states will reach the regional target of 7 percent growth in the short to medium term.[7]

Long-term growth prospect across the region remain subdued due to several factors, most notably the high fiscal deficits and growing debt levels in many member states. In 2017, SADC's fiscal deficit as a percentage of GDP increased to 5.0 percent, up from 4.5 percent in 2016. Botswana was the only country to register a fiscal surplus in 2017, while the Comoros and Malawi registered double digit fiscal deficits in the same year. In 2017, South Africa's fiscal deficit increased to 4.5 percent of GDP, up from 4.1 percent in 2016.[8] As the region's largest economy,[9] South Africa's poor fiscal performance remains a risk to SADC's overall macroeconomic performance.

In terms of government debt, the four countries (Angola, Seychelles, Mozambique and Zimbabwe) exceeded the regional government debt to GDP target of 60 percent in 2017. Mozambique and Zimbabwe are considered to be in "debt distress" with debt-to-GDP ratios sitting at 102 percent and 78 percent respectively, while Zambia is considered to be in "high risk of debt distress" with a ratio of 62 percent in 2017.[10]

A key challenge faced by most SADC countries is the need to diversify their economies away from commodity-led sectors to higher-productivity sectors such as manufacturing and services, particularly to allow SADC to benefit from its trade agreements. Data from the United Nations Conference on Trade and Development (UNCTD) indicates that 11 of the 16 SADC member countries are categorised as having "low economic diversification", while the remaining four (South Africa, Namibia, Tanzania and Mauritius) are classified as having "medium economic diversification".[11]

The European Union (EU) remains SADC's largest trading partner with total exports in 2016 reaching US$42 billion, while total imports into SADC was US$35 billion. The top three exports from SADC included gold, diamonds and oil.[12] Six SADC member countries benefit from their membership to the Economic Partnership Agreement (EPA) signed in 2016. The EPA provides Botswana, Lesotho, Mozambique, Namibia, South Africa and eSwatini guaranteed access to the EU market without any duties or quotas. Angola also has the option to join the EPA at a later stage.[13] This free trade agreement offers significant potential to boost member countries long-term macroeconomic performance.

In terms of the potential for future foreign investment into SADC, Rand Merchant Bank (RMB) Annual Investment Attractiveness Index provides a good measure of this. The RBM Investment Attractive Index looks at both the economic activity and operating environment in a country and scores countries from 1 to 10 (with 10 being the best). Based on the 2017 index, South Africa is the most attractive SADC country to invest in with a score of 6.3, followed by Tanzania (5.6) and Botswana (5.4). The SADC member countries that score the lowest on the index include Comoros (2.7), Zimbabwe (3.0) and eSwatini (3.5).

Despite being an attractive economy, South Africa's sluggish growth, political uncertainty and poor performing state-owned enterprises continue to weaken the country's sovereign ratings and, as of 2018, the country remains off the list of investment grade countries. However, of the four countries in Africa that have investment-grade ratings, three are in SADC including Botswana, Mauritius and Namibia.[14]

South Africa also dropped in the Global Competitiveness report in 2017/18 dropping 14 places to 61st out of 137 countries. Mauritius maintains its position as the most competitive economy in SADC and Sub-Saharan Africa with an overall position of 45 out of 137. Madagascar was the most improved economy in 2017/18 having increased seven positions to 121st out of 137. This improvement was largely driven by Madagascar's improved macroeconomic performance in recent years.[15]

With a young, increasing mobile and urban population, future prospects for the SADC region rest on its ability to tap into the entrepreneurial spirit of the urban youth. This was one of the key messages of the 38th Ordinary Summit of the Heads of State and Government of the Southern African Development Community (SADC) which took place in Namibia in August 2018. As the outgoing chair, President Cyril Ramaphosa stressed the importance of creating a conducive environment for public sector investment, prioritising infrastructure development for the benefit of all member states and investing in the region's youth. [16]

Access to finance

According to a 2018 RMB report, access to finance is the single biggest problem for doing business in seven of the 16 SADC member countries including: the

Democratic Republic of Congo (DRC), Lesotho, Malawi, Namibia, Seychelles, Zambia and Zimbabwe.[17] While there are intentions for regional financial integration, the 16 member states currently function as independent economies with their own independent financial systems. However, efforts to improve the flow of money between member states have made good progress.

The SADC Integrated Regional Electronic Settlement System (SIRESS), established in 2013, facilitates intra-SADC transactions without the need for an external clearinghouse. This has generated significant cost and time efficiencies for transactions within the region. Furthermore, with the recent development to include US dollars as currency in the SIRESS, transactions are said to become even faster. The SIRESS system is reported to have reduced the intra-SADC transaction time from approximately two to three days, to just 24 hours.[18] This project, which is run by the SADC Banking Association, forms part of a greater strategy to improve regional cooperation in the finance and investment sectors and is in line with the region's Protocol on Finance and Investment.

A further effort by the region aimed at mobilising much-needed funds for infrastructure development projects is the proposed SADC Regional Development Fund (SADC-RDF). Members states are reported to have signed the agreement in 2016, although as at June 2018 there were still calls for some countries to sign and complete the agreement by depositing the necessary funds in the RDF.[19] Operationalising the SADC-RDF will be a major step forward towards decreasing the infrastructure financing gap on the continent which the African Development Bank estimates is between US$67.6 and US$107.5 billion per annum. However, concerns about member states' ability to contribute funds remain.[20]

The banking sector is highly concentrated across the region. South African banks tend to dominate with most of the major South African based banks operating subsidiaries across SADC. For example, Standard Bank operates in all SADC countries, except for the Comoros, Madagascar and Seychelles. First National Bank (FNB) operates in Botswana, Lesotho, Namibia, eSwatini Tanzania, Mozambique and Zambia. While ABSA also operates in Botswana, Mozambique, Zambia, Seychelles, Tanzania, Mauritius and Namibia.

According to IMF data, banking sector assets as a percentage of GDP vary considerably across the region from over 300 percent in the case of Mauritius to less than 50 percent in four member states (Comoros, Lesotho, eSwatini and Zambia). A significant risk to the regional banking sector is the rise in non-performing loans in many member states – most notably in Angola with non-performing loans (NPLs) reaching over 25 percent in 2017 and Tanzania and Zambia with over 10 percent NPLs to total loans.[21]

Levels of financial inclusion also vary across the region. According to the latest available data (FinScope 2015) 66 percent of adults in the region are financially included amounting to approximately 83.5 million people. Mauritius has the highest percentage of financially-included adults at 90 percent, followed by South Africa at 86 percent and the lowest is Mozambique with 40 percent. While only 36 percent of adults are banked across SADC member states, this is a significant increase from 24 percent in 2011, indicating progress in financial inclusion in the region. Still, exclusion rates are high at 34 percent (41.9 million people), hampering access to credit from formal institutions. Twelve percent of adults rely on informal mechanisms and 18 percent use formal non-bank products/services. Of the 83.4 million adults who are financially included in the region, 53 percent say they have access to, and use, credit products.

The Findex survey explores use of loans for housing (whether they are secured or unsecured was not specified in the questionnaire). According to the latest survey (2017), the proportion of adults over the age of 15 that had an outstanding home loan in the SADC region ranged from 12.9 percent in Mauritius to 1.9 percent in the Democratic Republic of Congo. The proportion of adults with an outstanding housing loan in Botswana decreased from 9.6 percent in 2014 to 3.0 percent in 2017.[22] This follows a general decrease in commercial bank lending to households in the country.

Mortgage markets across the region are in part constrained due to high interest rates. In at least five member states, interest rates on mortgage loans exceed 20 percent per annum.[23] Mauritius and Botswana charge the lowest interest rates at 5.5 percent and 8.8 percent respectively.

Among other areas for improvement, improving access to formal credit is a key priority of the SADC Financial Inclusion Strategy for the period 2016 to 2021. Current barriers to credit market development in the region, and financial inclusion more broadly, include small capital markets, limited and/or unreliable borrower information, and lack of collateral or assets, among other reasons.[24]

Affordability

With persistent poverty across the region, affordability remains a constraint to housing supply and delivery. According to IMF data, the Seychelles has the highest GDP per capita in the SADC region at US$16 427 while Mozambique has the lowest at US$472. Mauritius, Botswana and South Africa have the second, third and fourth highest GDP per capita in the SADC region, respectively.[25]

While inflation rates across SADC vary considerably, they are typically high which further affects households' purchasing power. The average annual regional inflation rate, measured by the harmonised consumer price indices (HCPI), was recorded at 9.3 percent in February 2018, with 11 states recording rates below the regional average.[26] Angola, DRC, Malawi and Mauritius recorded rates higher than the regional average. The DRC recorded the highest annual inflation rate of 51.9 percent as at February 2018, while Zambia recorded a rate of -1 percent over the same period.

Providing access to affordable, well-located housing remains a major challenge across the SADC region. The prices of the cheapest newly built houses by a private developer in the SADC region range from approximately US$14 615 in Lesotho to US$65 000 in Zambia. eSwatini, Madagascar, Seychelles, Botswana, Angola, Namibia and Zambia have some of the least affordable houses with the price of a newly built house starting at US$50 000.[27]

Housing supply

Large housing deficits exist across the SADC region with demand far outweighing housing supply and delivery. In the Democratic Republic of Congo, the housing backlog is estimated to be close to four million housing units, while three million units are required in Tanzania. Zimbabwe is estimated to need 20 years to clear the backlog of over one million houses, while Zambia needs to build 46 000 units per year until 2030 to clear their backlog.

In an effort to clear the backlog, deliver affordable housing and improve the living conditions of the poor, a number of initiatives are taking place.[28] Some of these efforts are focused on specific segments of the market, such as civil servants. Two examples in this regard include the Watumishi Housing Company (WHC) in Tanzania and the Institutional Housing Project (IHP) in eSwatini. By April 2018, the WHC in Tanzania is reported to have delivered 631 housing units out of a total of 50 000 units promised under the Public Servants Housing Scheme, while 390 housing units are reported to have been completed under the IHP in eSwatini.

Public sector support for affordable housing delivery also continues in some countries. For example, in Namibia, the City of Windhoek has pledged US$11 million to build 1 200 housing units and in Mauritius the government has set aside a budget in 2018-29 for the construction of 1 000 low cost housing units. However, in some countries, such as the DRC, there remains little government support for low income housing.

South Africa still has the most comprehensive subsidised housing programme, however given the large expenditure required and the country's low growth prospects, the programme is widely viewed as unsustainable in the long term. Given South Africa's experience, it is unsurprising that the recent announcement by Zimbabwe's new ruling party to deliver 1.5 million houses by 2023 has been met with scepticism.

NGOs continue to play a major role in the development of improved living conditions in the region. One example is Habitat for Humanity's work in Lesotho. The organisation is reported to have helped over 2 700 households in the country. Many other organisations are also continuing their good work across the region including UK-based Reall, which has recently approved housing and improved sanitation projects in Zimbabwe, among others. Private sector development of affordable housing still remains relatively low across the region, though there is a growing awareness of the gap market and its opportunities, particularly in countries such as South Africa.

Policy and regulation

The SADC Protocol on Finance and Investment (FIP) remains the key instrument to facilitate regional integration and aims at making the SADC region an attractive destination for FDI and regional investment. The FIP's key strategies in this regard include the harmonisation of tax policies, macroeconomic convergence in the region, liberalisation of capital and current accounts, as well as alignment of the Central Bank's policies amongst other issues.

While not legally-binding, another noteworthy agreement among SADC member states is the Regional Indicative Strategic Development Plan (RISDP) for the period 2015 to 2020. The RISDP sets out the key priorities and specific objectives of SADC and focuses on four key areas: industrial development, market integration, infrastructure in support of regional integration, and peace and security cooperation. In addition, the SADC Industrialisation Strategy and Roadmap 2015 – 2065, approved in 2015, seeks to achieve economic transformation by encouraging regional integration and economic and technological transformation through enhancing its competitive and comparative advantages. This has direct implications for housing and human settlement development as increased employment-generating activity will increase demand for housing. Furthermore, diversifying the economy and increasing production rates will create an attractive investor destination. This will in turn spur demand for accommodation.

Several member states' housing policies require attention in order for their housing markets to develop further. In addition, policy and regulatory bodies require improved capacity to manage their land and housing markets efficiently. For example, Zimbabwe faces numerous challenges with housing despite having relatively updated, progressive housing policies and laws. This stems from inadequate institutional capacity to support the country's housing laws.[29] Zambia provides another example where delays in the approval of the Draft Land and National Urbanisation Policy act as a barrier to the implementation of a nation-wide housing delivery programme. However, many countries have implemented reforms that have a direct impact on the housing market, as noted in more detail below.

Property market and opportunities

According to the World Bank Doing Business Index, fifteen out of 16 countries improved their position between 2016 and 2018. South Africa was the only country in the SADC region to decrease its position over the same period. Malawi is one of the most improved countries in the ranking, jumping 31 positions to 110th since 2016. During the year, Malawi operationalised a new credit bureau, Credit Data CRB, and established rules for bankruptcy procedures, which contributed to its success in the ranking. The country also halved the fees charged by the city council to process building plan approvals.

Several member states also implemented reforms to their credit sector. eSwatini adopted the Consumer Credit Act 2016 guaranteeing borrowers' right to inspect their own data, while Zambia strengthened access to credit by adopting a new Movable Property Act and by setting up a new collateral registry. Madagascar consolidated microfinance and bank credit registries, expanding the number of borrowers in the registry to more than 5 percent of the adult population, while Zimbabwe launched a new credit registry but discontinued credit scoring. Other countries implemented changes, both positive and negative, to the building permit and property registration process. Mauritius reduced the time to provide a sewage connection and eliminated the transfer tax and registration duty, implementing a complaint mechanism and publishing service standards, making it easier to transfer property. Angola made dealing with construction permits easier by improving its system for building permit applications, while the Seychelles improved the quality of its land administration system by digitizing its maps and introducing a complaint mechanism. Tanzania implemented a one-stop shop which streamlines the building permit process, but also increased the land and property registration fee. Botswana made registering property (temporarily) more difficult by reducing the efficiency of its Registrar of Deeds as it implements the computerisation of manual records, while the Democratic Republic of Congo made dealing with construction permits more expensive by revising the formula to assess building permit fees.

Chinese-owned firms still dominate the construction and real estate sector in Africa. According to RMB's Where to Invest in Africa Report, Chinese firms account for approximately 50 percent of Africa's internationally contracted construction and real estate projects with annual revenues in Africa estimated at US$40 billion.[30] Overall, 40.6 percent of all foreign direct investment in Africa was directed towards the real estate, construction and hospitality sectors.[31] Ranked by amount invested, three SADC countries, namely Angola, South Africa and Mozambique, were listed in the top 10 receivers of FDI in 2016.[32]

Real Estate Investment Trusts (REITs) are still gaining momentum in SADC countries such as South Africa and Zambia and Tanzania. A REIT acts as an investment vehicle that aggregates diverse sources of funding from international and institutional investors through to individuals, and channels the funds into real estate portfolios comprising of mortgages and/or large developments. REITs offer investors a more diverse real estate investment package than the alternative option of investing in an individual project. South Africa has at least 25 publicly traded REITs with a total market capitalisation of over US$20 billion in 2018.[33] In 2017, the market capitalisation of Tanzania's REIT was US$40 million. While REITs have typically focused more on commercial developments, residential-specific REITs are emerging and creating an opportunity to diversify 'risky' housing investment portfolios.[34]

With renewed focused on growing private sector investment by creating conducive environments for businesses to flourish, increasing inter-regional trade, routing out corruption and strengthening judicial and oversight systems, SADC member states maintain their commitment to driving economic development across the region. In addition, the focus on operationalising the SADC Regional Development Fund in the near future shows promise for infrastructure development across the region. This in turn should create a more attractive environment for future investors. Still, the region faces major macroeconomic challenges, more specifically high levels of debt and growing fiscal deficits. This, among other challenges, presents risks for future public sector investments aimed at alleviating the large (and growing) housing backlogs and the sub-standard living conditions characteristic of the region's urban centres.

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