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IMPLEMENTATION OF NEPAD'S COMPONENT
ON SUSTAINABLE INDUSTRIAL DEVELOPMENT
(Africa Productive Capacity Initiative)

Sub-regional Conference on Improving Industrial Performance and Promoting Employment in the Southern African Development Community (SADC)

Regional Road Map for the Southern African Development Community (SADC)

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Executive Summary

In SADC, industrialisation has been pursued vigorously through various policies and programmes, with various objectives such as import substitution, employment creation and export promotion, with varying degrees of success.

Several attempts have been made in the past to address the limited success that has been achieved in the SADC Region in the area of industrialisation.

The African Productive Capacity Initiative (APCI), which uses the value chain methodology was finally adopted by the SADC Ministers of Industry and Trade as the approach to use in developing strategies and actions to improve industrial performance and employment creation in the region. To kick start this process, nine priority sectors of the economy were selected. These are: Agro-food processing; processing of Minerals (metallic and non-metallic) products; Leather and leather products; Forestry; Fisheries; Chemicals, Petroleum and Pharmaceuticals; Textiles and garments; Machinery and Equipment; and Services.

In this regard, the SADC Expert Group Meeting, organised with the assistance of UNIDO, provides strategies and actions to be used in developing the nine priority sectors. UNIDO provided resources for the value chain studies for two of three priority sectors, namely agro-food processing, minerals processing and pharmaceuticals sector in each SADC Member State. The reports formed the basis for the development of SADC Regional Road Map.

These strategies emphasized enterprise development, industrial upgrading and modernisation, skills development, harmonisation of industrial policies, research and development, information gathering and dissemination, infrastructure development and integration of development policies and networking and collaboration as the most effective ways to develop industries in SADC.

Various “centres of excellence” have been identified at both the national and regional levels, and need to be assessed for their capacities and capabilities in providing enterprise support in this process. Furthermore, the Industrial Development Forum already approved by the SADC Ministers of Industry and Trade can act as a “competitiveness observatory” to monitor and advise on the performance of the various Member States and the SADC region as a whole. Performance Monitoring Committees will be formed at both national and SADC levels to report regularly on the degree to which the set targets are being met.

To enable the implementation of the SADC Road Map, an indicative budget of US$2,605 million for agro-food processing, US$5,233 million for minerals processing and US$3,505 million for pharmaceuticals is proposed for the three-year period 2007 to 2009. Various sources of funds have also been identified. These sources include the Government of SADC Member States, the Private sector, the SADC Development Fund, members of the African Diaspora and the Donor community.

With the desired commitment from all stakeholders, industrial performance in the SADC Region should improve, giving impetus to employment creation and better quality of life for the people of the region.

1. INTRODUCTION

In SADC, industrialisation has been pursued vigorously through various policies and programmes, with various objectives such as import substitution, employment creation and export promotion, with varying degrees of success. However, the contribution of industry to regional GDP has remained low – from 2% to 4%, although some SADC Member States, e.g. Mauritius, have recorded impressive results largely due to special dispensations such as trade preferences.

Following several meetings at both Regional and Sub-regional levels, the SADC Ministers of Industry and Trade adopted a methodology based on the value chain (global/local) of specific industry categories in order to identify priority segments where comparative advantage exists, so as to make specific and appropriate interventions.

The following 9 strategic sectors were selected as those offering the most global comparative advantage and growth potential.

1. Agro-food;
2. Processing of Minerals (metallic and non-metallic) products;
3. Leather and Leather products;
4. Forestry;
5. Fisheries;
6. Chemicals, Petroleum and Pharmaceuticals;
7. Textiles and Garments;
8. Machinery and Equipment; and
9. Services.

The SADC Ministers of Industry and Trade decided that strategies and action plans should be developed, with the assistance of UNIDO, at both the SADC Regional level and national levels to improve industrialisation and promote employment in the SADC region.

UNIDO undertook to sponsor value chain studies for two (2) out of three (3) priority sectors in each SADC Member State, and develop Regional Strategies and Action Plans (***The SADC Regional Road Map***) based on the outcome of the national sectoral action plans. The three priority sectors studied are agro-food processing, minerals (metallic and non-metallic) processing and pharmaceuticals.

The following is a brief summary of the relevant actions to be taken at the regional level:

A. Agro-food processing

1. SME Development

Recommended Actions

i. There is need to develop an SME programme with emphasis on Women in food processing industry as well as a special programme for the people who are physically challenge. This reflects the fact that agro-processing industry has more women players; particular emphasis should be placed on enhancing their skills capacity and income.
ii. Undertake entrepreneurship development and capacity-building in agro-food sector
iii. Establish agro-food processing related skills development programmes to promote technology, technical skills acquisition and technology diffusion;

2. Undertaking integrated infrastructure development

Recommended Actions

i. Physical infrastructure projects should be linked with each other. For example, the ports should be linked with the rail networks, which should also lead to the industrial estates and sources of agro-food raw material
ii. The existing physical infrastructure should be revamped to reduce turnaround time and reduce transportation and logistics costs in SADC
iii. Develop of industrial clusters and encourage collaboration among the members
iv. Communication, energy supply, water and other infrastructure and technology should be provided and linked to these industrial clusters

3. Developing market access

Recommended Actions

i. Develop quality infrastructure (through SQAM - conformity, mutual recognition, equivalence and confidence building; Sanitary and Phytosanitary Systems) and promote compliance with quality standards
ii. SADC Member States should address the Technical Regulations and Technical Barriers to Trade (TBTs); they should accelerate the reduction and eventual total removal of all tariffs/ NTBs in this sector within SADC
iii. Encouraging producers to improve packaging, distribution and marketing of their products;
i. With regard to global markets, Member States should assist private sector companies to participate in international trade fairs in order to promote their products
ii. Business delegations should visit target markets to promote their products
iii. Strategic alliances should be encourage between local companies and foreign companies in the value chain

4. Development/management of water resources

Recommended Actions

i. Address shortage of water in the region by establish of a regional water commission for river basins in line with the SADC Protocol on Shared Water Courses
ii. Improve management of the Regional shared water resources
iii. Ministers of Industry should discuss this with the Ministers responsible for Water.

5. Improving the industrial governance

Recommended Actions

i. Harmonization strategies and policies on agro-processing sector
ii. Involve Sector Associations and Trade Unions in decision-making on the agro-food sector
iii. Establish Performance Monitoring Committee at both regional and national levels. Membership of this committee should be competitive and must be paid in order to attract high-calibre people. Individuals with technical and managerial expertise should be headhunted to serve on this committee.

6. Provision of industrial and market-sensitive information

Recommended Actions

i. Facilitate the gathering and dissemination of technical and marketing information and knowledge on the agro-food sector, through regional and national centres
ii. Promote networking and backward linkages (through Joint Ventures) among private sector stakeholders in agro-food sector
iii. Improve capacity of Statistics Unit of SADC Secretariat to collate industrial statistics. National Statistics Offices should be obliged to provide current industrial statistics on time to this unit.
iv. Promoting positive media reporting about Africa
v. Develop a regional data bank for equipment and machinery suppliers and disseminate information on their products

7. Improving Research and Development

Recommended Actions

i. Increasing investment in R&D
ii. Provide of proactive incentives favouring agro-food processing sector
iii. Undertake an assessment of the identified Centres of Excellence and provide support for any weaknesses identified
iv. Promote and rewarding innovation

B. Minerals processing

i. Enhance and broaden the skills base.
This should involve:

- regional collaboration in HRD (especially at the technicians and engineers level)
- address the bottle-necks in the HRD pipeline (especially in mathematics and science)
- harmonizing HRD accreditation systems in Member States
- assessing regional HRD capacity to produce requisite skills for value-addition
- addressing the HIV/AIDS pandemic to minimise its impact on skills availability

ii Promote beneficiation of minerals and scrap metals

iii. Increase investment in and coordination of R&D

iv. Forster innovation (i.e. promote and reward innovation)

v. Develop vibrant and competitive downstream manufacturing industries (mostly SMEs). In that regard, Member States should re-negotiate any current agreements with the main mining companies in order to ensure buy-in.

* Develop strong foundry industry (1st Stage in beneficiation chain)
* Develop of industrial clusters; promote networking and collaboration
* Subsidize electricity cost to downstream producers
* Provide coordinated technical support services
* Improve technological capabilities of downstream industries (- fundamental to increasing competitiveness)
* Assist firms to upgrade equipment/Invest in new technologies

vi. Translate existing linkages into joint growth and development

vii. Precious Metals and Minerals

- Establish requisite refining capacity
- Establish semis production capacity
- Assess regional design and marketing collaboration

viii. Market Access (Trade Barriers; NTBs)

ix. Marketing (Pricing; Margins; Promotions)

x. Involve Sector Associations and Trade Unions in decision-making

xi. Centres of Excellence
Centres of Excellence should be identified and assisted to play their role in improving industrial performance. Such centres should be at both regional and national levels.
(a) Regional Centres of Excellence, e.g.
    * SEAMIC, Tanzania
    * Mintek
    * CSIR
(b) National Centres of Excellence, e.g.
    * Assess capacities and capabilities to play roles
    * Improve capacities and capabilities

xii. Enhance collaboration between Regional and/or National Centres of Excellence & Industry players (e.g. Project AuTek between Mintek and AngloGold)

xiii. Establish Agency for Registering Patent Rights

xiv. Regulatory Environment and Cost of doing business

xv. HIV / Aids

xvi. Promote positive media reporting about Africa

xvii. Infrastructure development: Without the infrastructure in place, becoming competitive will only remain a dream.

C. Pharmaceuticals

Recommended Actions

i. Collaborate to develop a regional chain for the pharmaceutical industry
ii. Undertake detailed study of pharmaceuticals industry in Angola, DRC, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, South Africa, Tanzania, Zambia, and Zimbabwe (May 2007).
iii. To facilitate the above process, there is need to establish technical working committee whose mandate would be to set up the modalities for the development of the pharmaceuticals sector in SADC (April 2007)
iv. Explore the possibility of integration of indigenous herbal and traditional knowledge and practices into the healthcare industry
v. The SADC pharmaceuticals industry must aspire to be U.S. FDA and European Medical Evaluation Agency (EMEA) compliant in order to harness the growth opportunities in areas of contract manufacturing and research

vi. A study should be undertaken to assess the quality of drugs from India. This is to prevent dumping of low quality drugs onto the market in SADC (June 2007)

vii. Develop internships and mentoring programmes to close the gaps in technical skills. In that regard, there is need for collaboration between government, the private sector and academia to build capacity for quality analysis.

viii. Establish an Africa-wide Medical Evaluation Agency, with the power to grant drug approval for the continent. In doing so, there is need to explore the Chinese model of healthcare provision so that SADC can understand out how China managed to provide pharmaceutical products and healthcare services to its large population without depending on the West countries. SADC can also learn from Algeria's pharmaceuticals industry (July 2008).

ix. Shift the focus of the industry from being research/supply driven to being commercial/demand driven.

viii. For a start, concentrate on the development of generic drugs (tablets, injections and liquid formulations), and the assembly of medical equipments and instruments.

ix. Improve distribution throughout SADC and internationally.

x. Pharmaceutical companies to invest heavily in R&D. A significant increase in the level of funding is required.

xi Establish duty-free pharmaceutical zones, with attractive incentives, in Angola, DRC, Lesotho, Madagascar, Mauritius, Namibia, South Africa, Tanzania, Zambia and Zimbabwe. A reduction in restriction, such as exchange controls, would also encourage foreign investment in the local industry.

xii Research and develop the use of locally available raw materials and local knowledge.

xiii. Certain parts of the value chain should be located in SADC member states where there is comparative advantage.

xiv. Member States should create the appropriate regulatory environment for developing the sector to become commercially and export oriented.

xv. Using NEPAD as a platform, set up an Africa-wide technical working committee on the Pharmaceutical sector to oversee the harmonization of the sector and establish a Mutual Recognition Arrangement for the registration of medicine, inspection of manufacturing facilities, funding of medical research and development, regulation, patent rights, etc.

xvi Certain parts of the value chain should be located in SADC member states where there is comparative advantage. That is, it might be necessary for SADC/African countries with a similar resource base collaborate in developing the value chain (or segments of the value chain). This approach has he advantage of allowing the transformation of African raw materials into finished goods within Africa, hence benefiting both the producers and consumers. Raw material producers benefit from the immediate market access for their produce; while consumers benefit from the relatively low prices for the finished products. Several other benefits (e.g. foreign exchange savings, employment creation, development and protection of indigenous plant species, preservation of indigenous intellectual property, etc) accrue to the SADC/African countries involved.

xvi. The African market is potentially huge and holds a lot of promise for pharmaceutical products that provide immediate cures for common diseases like malaria, Aids, etc. This should be the main focus for development of the pharmaceutical products, medical equipments and instruments;

xvii. Establish an aggressive capacity building programme, hosted by the identified Centres of Excellence, and supported by a special fund for innovation, skills development, and research and development in the Pharmaceutical Industry.

xviii. For the production of export-oriented industries, African countries should agree to grant tariff exemptions to imported goods considered to be inputs for the local industry and which will be packaged, processed and re-exported. This would help contribute to the diversification of the manufactured exports within priority industrial sub-sectors. The reduction in tariff barriers would promote intra African and sub-regional investment and trade within the African continent.

xix African countries should be proactive and take advantage of the fragmentation of the industrial production, which has a direct correlation with the diffusion of technology and transfer of know how.

xx. Incentives must also be provided at the policy level for which intermediary goods are structured in a manner so as to attract more medium to high technology content products in order to foster the upgrading process.

xxi. Governments should act as facilitators of economic activities and empower the private sector to be the major operator in production and distribution. However, Government has to intervene in activities where there are market failures or where economic returns are negative.

xxii. Accreditation of laboratories (including private sector laboratories) and provision of technological infrastructure will help to boost the long-term viability of the pharmaceuticals sector.

xxiii. Development of the Pharmaceutical Sector to carry out, *inter alia*, Clinical Research Outsourcing, production of Generics as well as addressing the Phytodrug sector.

xxv. The Biomedical Industry is rapidly emerging as an engine of growth for the future. In that regard, there is need to identify and select a number of institutions/organisations which should be developed into regional centres of excellence for high-technology medical and biotechnological activities.

2. Background

SADC has always maintained Industrial Development as one of the key elements in its regional development programmes. It is recognized that SADC Members States must industrialise in order to achieve high productivity for accelerated economic growth and enhanced competitiveness in trade (national, regional and international). This will enable the Member States to progress meaningfully toward achieving the challenging objective of poverty eradication and bring prosperity to their peoples.

The SADC vision for industry is to become an integrated industrial sub-regional economy with internationally competitive and environmentally sound industries capable of promoting sustainable human development, promoting industrial efficiency and expansion, global competitiveness and the creation of employment within the SADC region.

The mission is to promote sustainable and equitable economic growth and socio-economic development through productive systems, deeper cooperation and integration, good governance, and durable peace and security, so that the region emerges as a competitive and effective player in international trade and world economy.

To accomplish this mission there is need for the formulation of an industrial development strategy with the following goals:

- Promotion of industrial efficiency and global competitiveness, industrial expansion and the creation of employment within the SADC region;
- Development of an integrated industrial base within SADC based on available resources and being internationally competitive;
- Achieving increased levels of production of value-added goods within a common SADC regional market; and
- Generation of wealth for the people of the region on a sustained basis.

In its efforts to accomplish these goals, a SADC Industrial Development Strategy was developed in 1989 in which various objectives and targets were proposed to accelerate industrial development in the regional by the year 2000. Some successes, some partial successes and some failures were recorded.

The SADC Industry and Trade Ministers' Committee at their 10th meeting held in Pretoria, South Africa, in June 1996 called for the preparation of a Regional Industrial Development Policy and Strategies, and directed SITCD to prepare the policy strategy.

The first draft outline framework, which was based on desk research was completed in mid-October 1997 and was subsequently discussed at a workshop of the SADC stakeholders organized in Zanzibar, in November 1997. The Zanzibar workshop was followed by field visits to SADC Member States by the consultants in order to verify and concretize proposals and policy recommendations made by the participants at the Zanzibar workshop and prepare the second draft policy framework.

The second draft outline framework was the subject for discussion at the second workshop held in Windhoek, Namibia in August 1998. The objective of the second workshop was to enable the main stakeholders in industrial development of the SADC region to contribute towards the preparation of a regional industrial development policy and strategy.

Subsequently the draft Industrial and Development Policy and Strategies was submitted by SITCD to the 13th SADC Industry and Trade Ministers' meeting in 1999 in Gaborone, Botswana. During the consideration of the document, the Ministers called for clarification of certain issues, particularly the polarization of industrial development in SADC (see below).

A workshop on development of a SADC Industrial Development Policy and Strategies was also held in November 2002 in Dar es Salaam, Tanzania. The SADC Ministers of Industry and Trade adopted the recommendations of the workshop and directed once again that the same concerns raised earlier should be addressed.

The workshop further placed special emphasis on the following:

- Harmonise policies to achieve policy convergence,
- Devise appropriate measures to attract citizens back to the Member States to reverse brain drain as an option of building capacity,
- Endorsed the ongoing establishment of a regional development fund to support industrial development,
- The SADC Industrial Development Policy should be formulated as an MOU,
- Benchmark progress within a ten-year time frame but with regular reviews after every two years.

In response to UNIDO's recommendations and as a result of a series of sub-regional meetings held across the continent during 2002 and 2003, the African Productive Capacity Initiative (APCI) was conceived as an initiative of the Conference of African Ministers of Industry (CAMI) to define the concept, strategies and concrete actions to strengthen industrial production and competitiveness in Africa.

The sub-regional meetings of Southern African Ministers of Trade and Industry identified the following priority industrial sub-sectors for Southern Africa as areas of focus for the implementation of the African Productive Capacity Initiative (APCI):

- Agro food processing
- Fisheries
- Forestry
- Textiles and Garments
- Leather and Leather Products
- Processing of Mineral (metallic and non-metallic) products
- Pharmaceuticals and Chemicals
- Machinery and Equipment
- Services

However, a number of common challenges exist for each sub-sector, such as:

- High transaction and environmental costs;
- Limited promotion of networking partnerships among African entrepreneurs within the region;
- Inadequacy of the regional infrastructure (both physical and soft);
- Lack of international quality and service standards;
- Poor productivity, competitiveness and attractiveness of these priority industrial sectors;

- Lack of reliable and mutually supportive relationships up and down the supply chain.

During the 12th meeting of the SADC Special Committee of Industry and Trade Ministers, held in March 2003, in Cape Town, South Africa, the Ministers explicitly gave mandate to SADC to involve UNIDO in the preparation of the regional industrial strategy.

The SADC Secretariat, with the involvement of UNIDO, has been tasked to improve the document in line with the Regional Indicative Strategic Development Plan (RISDP) and ensure that it addresses the concerns raised at the Gaborone meeting and which were reiterated at the Dar es Salaam meeting. A pertinent area of focus of RISDP is enhancing SADC competitiveness in industrial, mining and other productive activities for effective. It was decided to use the value chain approach, which fitted the commodity approach that was discussed at the Dar es Salaam meeting.

During two subsequent meetings in Gaborone (December 2003) and Victoria Falls (October 2004) on Productive Capacity and Competitiveness in SADC, the Ministers of Trade and Industry reiterated that the strategies developed should address the issues of concern identified during earlier meetings (see below).

At the Victoria Falls meeting, the Ministers of Industry approved the establishment of an Industrial Development Forum (IDF) to assist the region in the elaboration of regional industrial strategies and policies. The terms of reference of the Industrial Development Forum includes:

- Oversee the finalisation of the action plans;
- Organise resource mobilisation activities in liaison with the NEPAD Secretariat, UNIDO, CAMI, AU and SADC;
- Management of the Southern African Productive Facility;
- Oversee the implementation of the action plans; and
- Monitor progress made and report to the SADC Ministers of Trade and Industry.

Issues

The issues of concern to the Ministers are:

- Polarisation
- Industrial Investment Potential
- National Industrial Policies and Strategies
- Legal framework and implementation mechanism
- Review and adjustment mechanisms for policy and strategies
- Targets and timeframe for the implementation of the strategies

The Ministers directed the SADC Secretariat to undertake further work to ensure that the above issues are addressed.

In order to complete the process of developing the SADC regional industrial development strategy, it was decided that a regional conference be held under the auspices of UNIDO, NEPAD, African Union and UNECA to develop national action plans as an input for the consolidated SADC regional strategy.

The Expert Group Meeting

A meeting to address the issues raised above was organised at Gallagher Estate, Mid-Rand, South Africa from 6th to 8th December 2006.

It is significant to note that during this meeting, all the three tools identified above were utilised, namely:

i. Commodities approach,
ii. Value chain approach, and
iii. Spatial development approach

These tools were used to develop the strategies for all nine priority (9) sectors.

Objectives of the Meeting

The Conference aims at facilitating regional integration, using the value chain approach as a means of identifying a workable strategy to improve industrial performance in Southern Africa while addressing the issues of concern raised by the Ministers of Trade and Industry.

The specific objectives of the meeting are stated as follows:

- … facilitating implementation of APCI, using the value chain approach as a means of identifying a workable strategy to improve industrial performance in Southern Africa;

- … highlighting the importance of the private sector and non-State actors in the industrial development process;

- … improving the overall business and investment climate in order to achieve convergence on selected macro-economic indicators; and

- …enhancing industrial competitiveness and diversifying SADC economies by promoting intra-regional trade, productive investment and technology cooperation

Methodology of the meeting

Due to the unique background for the SADC industrial process and the greater number of sectors to be covered and presentations to be made at the Expert Group Meeting, it was decided to adopt a slightly different methodology for the meeting. Presentations on the three (3) UNIDO-sponsored sectors (agro-food processing, minerals processing and pharmaceuticals) were made by the UNIDO Regional Coordinator for APCI in the SADC region, while presentations on the other six sectors were developed in collaboration with the UNIDO Regional Coordinator and made by IMANI Consultants. Experts on industrialisation also presented strategies on crosscutting issues pertinent to improving industrial performance and competitiveness in the nine priority sectors.

Each presentation was followed by active discussions in which all participants were engaged and made suggestions for improvement.

Attendance

The workshop drew participants from the following stakeholder groups:

- African Union
- Governments of SADC Member States
- Private sector organisations
- International Cooperating Partners (ICPs)

- Development Finance Institutions (DFIs)
- Intermediary Organisations
- Development Consultants
- Regional Centre of Excellence in the minerals sector

The African Union in their presentation emphasised the importance of cooperation among all stakeholders.

Governments of the SADC Member States will formulate the political agenda that will drive the whole process of industrialisation in SADC.

Government departments with mandates in the priority sectors attended the workshop. These Government departments will be required to discuss and propose policies at the national level and provide the vital links between Member States and the private sector during the implementation of the strategies.

Representatives of private sector associations in the various sectors also attended and participated in the discussions. These included representatives of the textiles sector, the meat industry, transportation sector, chambers of commerce, agri-business, and private companies. The private sector is expected to play the leading role during the programme development and implementation. It is also expected to play a critical role in monitoring the performance of the region and participate actively in strategy review and re-development. The role of the private sector is central to the success of the strategies to be developed.

International Cooperating Partners [ICPs] (e.g. UNIDO, UNCTAD, UNFAO, UNECA and USAID) will be expected to provide the technical and contribute financial assistance to implement the strategies, programmes and projects. Their active participation in the proceedings and discussions was very important.

Some Development Finance Institutions (DFIs) attended and contributed to the discussions on funding. This was in addition to the presentation that was made by SADC-DFRC, the coordinating agency of all DFIs in SADC. DFIs will be expected to provide the needed financing for implementing the projects.

The role of Intermediary Organisations and Development Consultants cannot be over-emphasised. Their active participation in the workshop shed light on a number of issues. Intermediary Organisations and Development Consultants will be expected to provide vital support to governments, the private sector, ICPs and DFIs both as change agents as well as service providers in developing, implementing, monitoring and reviewing the strategies, programmes and projects.

3. Sectoral Regional Value Chain Analysis

With the vast amount of natural resources, trained manpower and a market of several millions of people, the African continent has the potential of satisfying all the segments of the Value Chain Concept.

The geographic distribution of the Value Chain cannot be neglected and could provide added-value to the region if issues such as harmonization of industrial and trade policies as well as competitive manufacturing and trade of goods are addressed.

The importance of producing quality goods, the sustainable exploitation of resources, the harmonization of the industrial and trade policies as well as competitive manufacturing and trade of goods are some of the key features which will need to be addressed.

Of the eight priority sectors identified, this report concentrates on three: agro-food processing, minerals, and pharmaceuticals. The other five sectors, plus the services sectors was covered under a separate contractual arrangement with SADC and the Government of South Africa.

Most of the geographical clustering is around primary industry, i.e. mining, agriculture and the agro industry. Apart from mining, the private sector in South Africa has not been instrumental in creating and sustaining clusters of networks of successful and competitive industry. Most of the industry linkages to these clusters are backward and weak and the industries have not developed many forward linkages to competitive secondary and tertiary industry.

However, contained in the networks described above are some individual companies that are successful exporters and which compete successfully in international markets. Those success stories (especially those promoting growth and employment) should be used to encourage further development of markets.

Value chains can be either Buyer-driven or Producer-driven. Labour-intensive industries common in the Least Developed countries are often Buyer-Driven. The Producer-Drive Chains is both Capital and Technology Intensive and imply a significant injection of Foreign Direct Investment.

Southern African exports are mainly primary and unprocessed goods (about 90% of exports comprise of mineral and agricultural goods), and its imports are mainly capital and intermediate goods. Only the Republic of South Africa (RSA) and to some limited extent Zimbabwe have the capacity to produce capital and intermediate goods. This has a negative impact on the development of the Region and leads to imbalances in economic levels. Furthermore, the Region produces similar primary goods, which are mainly agro and mineral based.

3.1 Agro-food processing

Like most developing countries, agriculture is the cornerstone of the SADC countries economies. Unfortunately, agriculture alone is no longer able to provide reliable livelihood for the growing population in SADC.

Success in the agri-business at the global export level lies in a world-class research system, priority attention to phytosanitary and sanitary issues, and well-established networks in key markets.

For Southern Africa to achieve success in the agro-food processing sector, there are two things that are non-negotiable and have to be right before one can even begin contemplating exporting food (fresh or processed) – **Quality** and **Phytosanitary and Sanitary Assurance.**

State intervention should concentrate in creation of the regulatory environment favourable to agro-food industry, including the up keeping of exports of non-processed food products for a period of at least 5 years; adoption of more flexible labour regulation, which come across with seasonality of the sector; establishment of processing incentives and institutional capacitating for coordination and leadership of the technical, technological, and industrial frame work. In particular the following areas: Inspection, control and testing of products; Reduction of postharvest losses; integral management of food crops, tress; Micro finance (credit)/Rural finance (credit); export marketing research; environmental protection.

The following *strengths, weaknesses, opportunities and threats* associated with the agro-food processing industry in SADC were identified.

Strengths

- Existence of raw materials/conditions for production of raw materials
- Production of some world-class products
- Support at all Governmental levels
  - Programmes
  - Financial support
- Existing processing plants/capacity
- Fairly large market in SADC and Africa

Weaknesses

- Unintegrated industrial development structures
- Limited value addition
- Inadequate marketing and export market access
- Lack of farming infrastructure
- Lack of technical & management skills
- Lack of external trade strategy (strategic protection, promotion, market intelligence, etc)
- Low R&D (infrastructure and spend)
- Poor/indequate, unitegrated transport infrastructure (ports, rail, air-cargo, road)

Opportunities

- Growing demand for finished products worldwide
- Growing SADC & African market
- Labour-intensive production processes
- Growth opportunities in China and India market

Threats

- Low quality & quantity of raw materials
- Unstable supplies of raw materials
- Recurrent drought and seasonality of supplies
- High transportation costs
- Lack of credit facilities
- Existence of TBTs, NTBs/SPS
- Interventionist policies of export countries
- HIV/AIDS

Challenges

Based on the SWOT analysis, the following challenges were identified for the agro-food processing sector in SADC:

- Poor product quality
- Limited market access due to barriers to trade (TBs; NTBs/SPS)

- Limited marketing due to problems with pricing, limited margins and inadequate promotions strategies
- Inadequate/weak Human Capital development
- Shortage of water
- High transaction costs resulting from
  - High transportation and logistics costs
  - Weaknesses in provision of relevant information
  - Poor/lack of coordination in infrastructure development
- Restrictive regulatory environment
- High cost of doing business
- HIV / Aids

Strategies and Actions

The following strategies and actions were suggested for addressing the challenges in the agro-food processing sector in SADC.

1. SME Development

   Recommended Actions

   i. There is need to develop an SME programme with emphasis on Women in food processing industry as well as a special programme for the people who are physically challenge. This reflects the fact that agro-processing industry has more women players; particular emphasis should be placed on enhancing their skills capacity and income.
   ii. Undertake entrepreneurship development and capacity-building in agro-food sector
   iii. Establish agro-food processing related skills development programmes to promote technology, technical skills acquisition and technology diffusion;
   iv. Involve international and regional agencies (e.g. UNIDO Agro-business Division and other local and regional food processing companies) that are competent in this area should be encouraged to complement local efforts

2. Undertaking integrated infrastructure development

   Recommended Actions

   i. Physical infrastructure projects should be linked with each other. For example, the ports should be linked with the rail networks, which should also lead to the industrial estates and sources of agro-food raw material
   ii. The existing physical infrastructure should be revamped to reduce turnaround time and reduce transportation and logistics costs in SADC
   iii. Develop of industrial clusters and encourage collaboration among the members
   iv. Communication, energy supply, water and other infrastructure and technology should be provided and linked to these industrial clusters
   v. Reduce costs in agro-processing by introducing fair competition in pricing transportation, communication and energy services in SADC to support the value chain agro processing activities
   vi. Involve private sector in quality infrastructure regulations development

3. Developing market access

   Recommended Actions

i. Develop quality infrastructure (through SQAM - conformity, mutual recognition, equivalence and confidence building; Sanitary and Phytosanitary Systems) and promote compliance with quality standards
ii. SADC Member States should address the Technical Regulations and Technical Barriers to Trade (TBTs); they should accelerate the reduction and eventual total removal of all tariffs/ NTBs in this sector within SADC
iii. Encouraging producers to improve packaging, distribution and marketing of their products;
iv. With regard to global markets, Member States should assist private sector companies to participate in international trade fairs in order to promote their products
v. Business delegations should visit target markets to promote their products
vi. Strategic alliances should be encourage between local companies and foreign companies in the value chain
vii. Government should not hesitate to intervene strategically in order to protect or ensure fair access to international markets. This can still be done without violating WTO agreements

4. Development/management of water resources

Recommended Actions

i. Address shortage of water in the region by establish of a regional water commission for river basins in line with the SADC Protocol on Shared Water Courses
ii. Improve management of the Regional shared water resources
iii. Ministers of Industry should discuss this with the Ministers responsible for Water.

5. Improving the industrial governance

Recommended Actions

i. Harmonization strategies and policies on agro-processing sector
ii. Involve Sector Associations and Trade Unions in decision-making on the agro-food sector
iii. Establish Performance Monitoring Committee at both regional and national levels. Membership of this committee should be competitive and must be paid in order to attract high-calibre people. Individuals with technical and managerial expertise should be headhunted to serve on this committee.

6. Provision of industrial and market-sensitive information

Recommended Actions

i. Facilitate the gathering and dissemination of technical and marketing information and knowledge on the agro-food sector, through regional and national centres
ii. Promote networking and backward linkages (through Joint Ventures) among private sector stakeholders in agro-food sector
iii. Improve capacity of Statistics Unit of SADC Secretariat to collate industrial statistics. National Statistics Offices should be obliged to provide current industrial statistics on time to this unit.
iv. Promoting positive media reporting about Africa
v. Develop a regional data bank for equipment and machinery suppliers and disseminate information on their products

7. Improving Research and Development

Recommended Actions

i. Increasing investment in R&D
ii. Provide of proactive incentives favouring agro-food processing sector
iii. Undertake an assessment of the identified Centres of Excellence and provide support for any weaknesses identified
iv. Promote and rewarding innovation

These strategies and actions should be classified as short-term, medium-term and long-term and implemented help to transform the identified comparative advantages in the SADC region into global competitive advantages that could be achieved by adopting either low cost strategies or differentiation strategies. Such strategies will provide superior quality products, produced using superior efficiency, adopting superior innovation and superior responsiveness to changes in the global marketplace.

3.2 Processing of Minerals

The Southern African region produces significant quantities of major metals and minerals. It contributes about 53% of vanadium, 49% of platinum, 40% of chromite, 36% of gold, 50.1% of diamonds and 20% of cobalt to the world production. A number of countries in Southern Africa rely on this sector for their foreign exchange earnings and there is potential for investment and wealth creation opportunities.

Mineral processing continues to be a major sector of the economies of the region, contributing an average of about 60% of foreign exchange earnings, 10% of gross domestic product and 5% of employment in the region.

Four stages in the minerals processing value chain were identifed, viz:

Stage 1 – Mining and producing ore or concentrate
Stage 2 – Converting concentrate into intermediate product (i.e. metal or alloy)
Stage 3 – Transforming intermediate good into refined, semi-fabricated product
Stage 4 – Further transformation into finished product

The levels of value creation and employment at the various stages/segments, the benefits of value addition (or beneficiation) and the segments of the value chain in which SADC operators are concentrated were also presented.

The *strengths, weaknesses, opportunities and threats* associated with the mining and minerals processing industry in SADC were identified. These include:

Strengths

- Rich endowment with various minerals deposits
- Conditions for its production
- Strong capabilities in upstream industries
- Support at all Governmental levels
- Primary production being done
- Limited production at downstream levels
- Existing processing plants/capacity

Weaknesses

- Unintegrated industrial development structures (i.e., weak linkages)

- Limited value addition in downstream industries
- Poor quality of products
- General lack of QC & QA => no common quality standards
- Slow speed of delivery due to poor/indequate, unitegrated transport infrastructure (ports, rail, road)
- Low investment in minerals processing
- Shortage of skills – artisan, technical, engineering, managerial levels => low production capabilities in downstream industries
- Lack of technology support structures
- Low R&D (infrastructure and spend)
- Inadequate marketing and export market access
- Lack of external trade strategy (strategic protection, promotion, market intelligence, etc)
- Lack of credit facilities

Opportunities

- Growing global demand for finished mineral products
- Growing global trade in scrap & recycling
- Growing African market
- Labour-intensive production processes
- Under-developed downstream industries (electronics, industrial machinery and equipment, transportation, construction, automotives, etc)
- Growth opportunities in Asian market (esp. China and India)

Threats

- Import-parity pricing of basic metals by upstream minerals processing companies who are very few, but have significant price-setting power
- Interventionist policies (e.g. subsidies) in scrap importing countries
- Increasing emphasis on environmental, health and safety standards => higher costs
- Differential pricing of inputs (e.g. electricity: pre-negotiated prices for upstream companies; municipal rates for downstream companies)
- High transportation costs
- Aging workforce
- Existence of TBTs, NTBs
- HIV/AIDS

Strategies

The following strategies were suggested for addressing the challenges facing the minerals processing sector in SADC.

- Skills development and training
- Improving logistics to reduce the cost of manufacturing
- Facilitating import replacement
  - Enhancing production capabilities
  - Encouraging advanced manufacturing and technologies
  - Building a competitive foundry industry
  - Provide information/data on imports to industry (Early Warning System)

Recommended Actions

The following actions were suggested for improving the performance in minerals processing

i. Enhance and broaden the skills base.
This should involve:

- regional collaboration in HRD (especially at the technicians and engineers level)
- address the bottle-necks in the HRD pipeline (especially in mathematics and science)
- harmonizing HRD accreditation systems in Member States
- assessing regional HRD capacity to produce requisite skills for value-addition
- addressing the HIV/AIDS pandemic to minimise its impact on skills availability

ii Promote beneficiation of minerals and scrap metals

iii. Increase investment in and coordination of R&D

iv. Forster innovation (i.e. promote and reward innovation)

v. Develop vibrant and competitive downstream manufacturing industries (mostly SMEs). In that regard, Member States should re-negotiate any current agreements with the main mining companies in order to ensure buy-in.
 * Develop strong foundry industry (1st Stage in beneficiation chain)
 * Develop of industrial clusters; promote networking and collaboration
 * Subsidize electricity cost to downstream producers
 * Provide coordinated technical support services
 * Improve technological capabilities of downstream industries (- fundamental to increasing competitiveness)
 * Assist firms to upgrade equipment/Invest in new technologies

vi. Translate existing linkages into joint growth and development

vii. Precious Metals and Minerals
 - Establish requisite refining capacity
 - Establish semis production capacity
 - Assess regional design and marketing collaboration

viii. Market Access (Trade Barriers; NTBs)

ix. Marketing (Pricing; Margins; Promotions)

x. Involve Sector Associations and Trade Unions in decision-making

xi. Centres of Excellence should be identified and assisted through capacity building to play their role in improving industrial performance. Such centres should be at both regional and national levels. Some of the identified Centres of Excellence are:
 (a) Regional Centres of Excellence, e.g.
  * SEAMIC, Tanzania
  * Mintek, South Africa
  * CSIR, South Africa
 (b) National Centres of Excellence, e.g.
  * Institute of Mining Research, Zimbabwe
  * Scientific Industrial Research & Development Centre, Zimbabwe
 Assess capacities and capabilities to play roles and improve capacities and capabilities through capacity building

xii. Enhance collaboration between Regional and/or National Centres of Excellence & Industry players (e.g. Project AuTek between Mintek and AngloGold)

xiii. Establish Agency for Registering Patent Rights

xiv. Regulatory Environment and Cost of doing business

xv. HIV / Aids

xvi. Promote positive media reporting about Africa

xvii. Infrastructure development should be pursued vigorously, because without the required infrastructure in place, becoming competitive regionally and globally will only remain a dream.

In the discussions on the above strategies and actions, it was suggested that in implementing the strategies and actions, the following must be kept in mind:

- there is need to prioritise and focus on those actions from which SADC can make the most profits/benefits in the short-term e.g. infrastructure development;
- strengthening the capacity in Government institutions e.g. Ministries of Trade and Industry;
- there is need for transparent and consistent policies so as to remove uncertainty in the minds of investors;
- political stability is also important;
- getting rid of corruption is also important; and
- the big mines control the mining operations in SADC

3.3 Pharmaceuticals

The global pharmaceutical industry (i.e. discovery, development and distribution) is characterised by its large size, high growth, globalisation and high investment in R&D. It is a multinational industry that is highly regulated, capital intensive and driven by large R&D expenditures. The global market (pharmaceutical and bio-technology) is estimated to be currently valued at about $552 billion in 2006 and growing at approximately 8 percent. The U.S. market accounted for about 41 percent of the global pharmaceutical sales, followed by Europe (23.5%) and Japan (15.9%).

Globally, the pharmaceuticals industry operates as a cartel, with only a few manufacturers (i.e. Merck, Bristol-Myers Squibb, GlaxoSmithKline plc, Pfizer Inc., Johnson and Johnson, AstraZeneca, Bayer, Novartis, Aventis, etc) dominating and literally dictating the pace and level of development. Naturally, entry into the industry is very restricted and requires political will and great determination if one is to break into the elite club of industry leaders.

Much of the growth during the next 5 to 10 years will come from the Asia-Pacific and Latin America regions. The Indian pharmaceutical industry currently estimated to be worth about $ 6 billion, and growing at about 12% annually, is expected to reach $ 9.48 billion in the next four years.

The pharmaceuticals industry in SADC is somewhat fragmented and there is only limited local production of generic active ingredients. However, formulation and last step synthesis is common among the local subsidiaries of multinational drug companies.

The scope for development of pharmaceutical products is very large in SADC and the rest of Africa. Products such as gelatine capsules, bulk drugs, medicaments, disposable syringes, perfusers and diffusers are in high demand in the domestic as well as export markets.

The potential exists in SADC and Africa for developing a vibrant pharmaceuticals/medical/biotechnology industry. More importantly, the importance of the concept of value chain within the Pharmaceutical sector is recognized.

The strengths, weaknesses, opportunities and threats of a SADC/African pharmaceuticals sector were identified as follows:

Strengths

- Abundant raw materials available in the region
- Existing processing plants/capacity
- Existence of a large pharmaceutical-manufacturing sector in the region
- Existence of Standards Bureaus to foster acceptance and implementation of Quality Systems
- High quality of technical and science skills in South Africa, Zimbabwe and Mauritius universities

Weaknesses

- Shortage of experience amongst technical staff in commercializing research
- Unintegrated industrial development structures
- Varied regulatory and procedural requirements of each member state
- Fragmentation of various industrial components
- Lack of access to capital
- Lack of technical and management skills
- Low R&D (infrastructure and spend)

Opportunities

- Prevalence of curable diseases in Africa and LDCs
- Pharmaceuticals products worth billions of US dollars imported by SADC member states annually
- Sector has tremendous potential for making significant contributions to SADC economy, but much has to be done to make sector viable and sustainable
- Region imports pharmaceutical grade sugar and starch readily available in the region
- International segmentation of the production process
- Potential for developing biotechnology industry

Threats

- Aggressiveness of international drug manufacturing companies towards new entrants
- Existence of strict regulations in export markets
- HIV/AIDS

Challenges

The challenges facing the pharmaceuticals sector in SADC were identified as:

- Attracting and retaining skilled workforce
- Controlling operating and marketing costs
- Competition from Generics
- Intellectual Property protection
- Managing regulatory compliance
- Pricing pressures and shrinking margins
- Marketing (Pricing; Margins; Promotions)
- Realising tangible value from strategic alliances, joint ventures and partnering arrangements
- Reputation management
- Successfully developing innovative drugs and enhancing Research & Development productivity
- Sustaining growth in global markets
- Information
- Infrastructure
- HIV/Aids

Strategies

The strategies suggested for addressing the challenges include:

- Collaboration to build a regional chain or industry
- Development of sustainable growth through cross-border activities related to trade, production and investment in the pharmaceuticals sector
- Fostering development of modern capital markets, liberalize its activities and reduce the regulatory role of the central bank
- Government financial support to SMEs based on project viability, efficiency and productivity
- Human Capital Development
- Investing in R&D;
- Technological diffusion and innovation
- Promoting and rewarding innovation
- Development of the Pharmaceutical Sector to carry out, *inter alia*, Clinical Research Outsourcing, production of Generics as well as addressing the Phytodrug sector

Recommended Actions

i. Undertake detailed study of pharmaceuticals industry in Angola, DRC, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, South Africa, Tanzania, Zambia, and Zimbabwe (May 2007).
ii. To facilitate the above process, there is need to establish technical working committee whose mandate would be to set up the modalities for the development of the pharmaceuticals sector in SADC (April 2007)
iii. Explore the possibility of integration of indigenous herbal and traditional knowledge and practices into the healthcare industry
iv. The SADC pharmaceuticals industry must aspire to be U.S. FDA and European Medical Evaluation Agency (EMEA) compliant in order to harness the growth opportunities in areas of contract manufacturing and research
v. A study should be undertaken to assess the quality of drugs from India. This is to prevent dumping of low quality drugs onto the market in SADC (June 2007)

vi. Develop internships and mentoring programmes to close the gaps in technical skills. In that regard, there is need for collaboration between government, the private sector and academia to build capacity for quality analysis.

vii. Establish an Africa-wide Medical Evaluation Agency, with the power to grant drug approval for the continent. In doing so, there is need to explore the Chinese model of healthcare provision so that SADC can understand out how China managed to provide pharmaceutical products and healthcare services to its large population without depending on the West countries. SADC can also learn from Algeria's pharmaceuticals industry (July 2008).

viii. Shift the focus of the industry from being research/supply driven to being commercial/demand driven.

viii. For a start, concentrate on the development of generic drugs (tablets, injections and liquid formulations), and the assembly of medical equipments and instruments.

ix. Improve distribution throughout SADC and internationally.

x. Pharmaceutical companies to invest heavily in R&D. A significant increase in the level of funding is required.

xi Establish duty-free pharmaceutical zones, with attractive incentives, in Angola, DRC, Lesotho, Madagascar, Mauritius, Namibia, South Africa, Tanzania, Zambia and Zimbabwe. A reduction in restriction, such as exchange controls, would also encourage foreign investment in the local industry.

xii Research and develop the use of locally available raw materials and local knowledge.

xiii. Certain parts of the value chain should be located in SADC member states where there is comparative advantage.

xiv. Member States should create the appropriate regulatory environment for developing the sector to become commercially and export oriented.

xv. Using NEPAD as a platform, set up an Africa-wide technical working committee on the Pharmaceutical sector to oversee the harmonization of the sector and establish a Mutual Recognition Arrangement for the registration of medicine, inspection of manufacturing facilities, funding of medical research and development, regulation, patent rights, etc.

xvi Certain parts of the value chain should be located in SADC member states where there is comparative advantage. That is, it might be necessary for SADC/African countries with a similar resource base collaborate in developing the value chain (or segments of the value chain). This approach has he advantage of allowing the transformation of African raw materials into finished goods within Africa, hence benefiting both the producers and consumers. Raw material producers benefit from the immediate market access for their produce; while consumers benefit from the relatively low prices for the finished products. Several other benefits (e.g. foreign exchange savings, employment creation, development and protection of indigenous plant species, preservation of indigenous intellectual property, etc) accrue to the SADC/African countries involved.

xviii. The African market is potentially huge and holds a lot of promise for pharmaceutical products that provide immediate cures for common diseases like malaria, Aids, etc. This should be the main focus for development of the pharmaceutical products, medical equipments and instruments;

xix. Establish an aggressive capacity building programme, hosted by the identified Centres of Excellence, and supported by a special fund for innovation, skills development, and research and development in the Pharmaceutical Industry.

xx. For the production of export-oriented industries, African countries should agree to grant tariff exemptions to imported goods considered to be inputs for the local industry and which will be packaged, processed and re-exported. This would help contribute to the diversification of the manufactured exports within priority industrial sub-sectors. The reduction in tariff barriers would promote intra African and sub-regional investment and trade within the African continent.

xxi. African countries should be proactive and take advantage of the fragmentation of the industrial production, which has a direct correlation with the diffusion of technology and transfer of know how.

xxii. Incentives must also be provided at the policy level for which intermediary goods are structured in a manner so as to attract more medium to high technology content products in order to foster the upgrading process.

xxiii. Governments should act as facilitators of economic activities and empower the private sector to be the major operator in production and distribution. However, Government has to intervene in activities where there are market failures or where economic returns are negative.

xxiv. Accreditation of laboratories (including private sector laboratories) and provision of technological infrastructure will help to boost the long-term viability of the pharmaceuticals sector.

xxv. Development of the Pharmaceutical Sector to carry out, *inter alia*, Clinical Research Outsourcing, production of Generics as well as addressing the Phytodrug sector.

xxvi. The Biomedical Industry is rapidly emerging as an engine of growth for the future. In that regard, there is need to identify and select a number of institutions/organisations which should be developed into regional centres of excellence for high-technology medical and biotechnological activities.

4. Creation of observatories on competitiveness, productive capacities and promoting employment

The overall best observatory in the industrial sector is the industry players themselves. In this regard, the proposed SADC Industrial Development Forum (IDF) should have as its overall mandate the responsibility of monitoring the effectiveness of the strategies outlined in this document with regard to regional competitiveness, productive capacity development and employment creation.

The SADC Industrial Development Forum (IDF) is a forum that will bring together operators in the private sector, senior officers in the public sector and technical support institutions to discuss and monitor the performance of the SADC industrial sector.

IDF will provide feedback during its meetings which will be held at quarterly intervals.

At the global level, the WTO, UNIDO, FAO, World Bank and other international institutions will constantly report on the performance of the SADC region vis-à-vis global competition.

5. Centres of Excellence

National and Regional Centres of Excellence will be expected to undertake research and development and commercialise their findings. Their role is critical to the future development of industry in SADC.

The identified institutions will be selected based on their competency, support and reputation in demonstrating their capacity to network effectively with both public and private sector.

5.1 Regional Centres of Excellence

- CSIR, Pretoria
- SQAM – SADC Bureaux of Standards collaborating with each other
- SEAMIC, Tanzania
- Mintek

5.2 National Centres of Excellence

5.2.1 Agro-food processing

- University of Stellenbosch
- University of Pretoria
- Institute of Agrarian Research of Mozambique
- STAB (Food Technology and Biotechnology Section of the University of Eduardo Mondlane, Mozambique)
- Citrus Research Institute (CRI), South Africa
- INAPEM, Angola
- Quessua Agronomy Institute, Angola
- Colleges of Agriculture in all Member States

5.2.2 Minerals

- University of Zimbabwe
- University of Zambia
- Institute of Mining Research (IMR) at the University of Zimbabwe
- Scientific Industrial Research & Development (SIRDC), Zimbabwe

5.2.3 Pharmaceuticals

The Biomedical Industry is rapidly emerging as an engine of growth for the future. In that regard, there is need to identify select number of institutions/organisations which should be developed into centres of excellence for high-tech medical and biotechnological activities. The following are suggested:

- Teaching hospitals in all Member States
- Academic institutions offering courses in Health Sciences in each Member State
- SGS Mauritius Ltd
- Ajanta Pharma (Mauritius) Ltd (APML)
- Selected health care centres

6. Regional Sectoral Action Plan

The reports on the nine priority sectors for SADC as well as the presentations on the other pertinent and crosscutting issues are summarised to address the issues of concern to the SADC Ministers of Industry and Trade. The discussion of each issue is followed by suggested strategies and action plan.

6.1 Polarisation

The skewed development of SADC is attributable to the imbalance in the development of the regional infrastructure. The poor and un-integrated infrastructure in SADC was identified as the primary reason for the polarisation of industrial development in SADC. South Africa, with a better infrastructure, continues to develop its industry faster than the rest of the region.

Suggestions

The workshop concluded that the issue of polarisation could be addressed through the Spatial Development strategy.

Spatial Development strategy is the most sustainable and effective approach for unlocking the economic potential of the SADC region, as it does not focus on political boundaries, but on development of geographical (spatial) common resource endowments. Perhaps, its greatest strength (i.e. most potent force) is the fact that it links all industrial sectors where comparative advantages exist in various Member States and connects such comparative advantages through the value chain methodology to develop competitive advantage.

The Spatial Development strategy shows Member States as being inextricably linked to a regional value chain for most industrial development processes. Therefore no Member State can develop in isolation, nor can the region develop and become competitive without the active participation of its component parts (Member States).

The high transport and logistics costs, the lack of harmonisation and coordination of border controls, and customs requirements were also stressed.

Provision of energy, water and telecommunications services at competitive prices was also identified as a necessary condition for improving industrial development and reducing the disparities in the industrial landscape of SADC.

Actions

To address these issues, the following actions have been proposed:

- SADC should develop strategies and programmes as a coherent entity, with each Member State playing its part. Regional integration and harmonisation of industrial policies and programmes is imperative for sustainable industrial and economic development.
- In line with the SADC RISDP, the national industrial development strategies should be consolidated into a regional industrial strategy in order to promote effective coordination. In this regard, there is need for collaboration in implementing the strategies.

- At the regional level, SADC should adopt the SDP strategy to industrial development, by linking/integrating infrastructure development with the development/exploitation of the region's vast natural resources.
- The regional infrastructure development should be integrated. That is, the network of regional roads, rails and ports infrastructure should be improved;
- Energy, water and telecommunications should be provided at affordable prices; and
- Transaction costs/cost of doing business should be reduced.

6.2 Industrial Investment Potential

There is tremendous industrial investment potential in all the identified priority sectors. However, there is need to prioritise the sectors (and/or sub-sectors) and develop programmes and projects to overcome the inertia that is currently experienced in the region.

The importance of agro-food processing as a critical driver of economic and social development was re-emphasised. Therefore there is need for the provision of all the required support (infrastructure, financing, etc) to this sector.

Actions

The following actions were proposed:

- Entrepreneurship development programmes should be developed for all industrial sectors, with particular emphasis on Small and Medium (scale) Enterprises (SMEs). Special programmes should be developed to cater for women and the physically challenged people;
- To enhance global competitiveness, SADC should collaborate with UNIDO to develop and implement industrial upgrading and modernisation programmes at the national and regional levels; capacity and capability should be improved; productivity should be promoted across all industrial sectors; quality awareness and programmes should also be promoted (under the SQAM) programme;
- Develop programmes to facilitate industrial expansion and diversification;
- Proceeds from minerals and minerals processing should be utilised to develop the other sectors;
- Regional infrastructure (ports, rail, road, energy, water, etc) should be developed and efficiently managed to reduce transaction costs in SADC;
- Creation of an enabling environment (harmonisation of regulations, incentives, removal of tariffs, etc) for private sector development and growth;
- Strong emphasis should be placed on human capital development, increasing investment in R&D, promotion and rewarding innovation, and development of programmes for protecting regional property rights and innovative technologies;
- There is need to develop/strengthen an effective infrastructure for quality in the region;
- Establish African Productive Capacity Facility as the industrial development resource component of the SADC Development Fund;
- Facilitate and promote cross-border investment (using value chain and SDI/SDP and promote SADC region as an attractive investment destination;
- Promote information exchange and visits among private sector players; and
- Promoting positive media reporting about positive developments in Africa.

6.3 National Industrial Policies and Strategies

Current national industrial policies and strategies are largely ineffective or weak in addressing the low level of competitiveness in regional and global trade. This is because they are largely not integrated, with little or no linkages between the various industrial sectors of each Member State, as well as between Member States in the region. That is, each national industrial policy and strategy is developed in isolation, without due regard to the commonalities that exist in the region in terms of natural resource endowments, common history and challenges.

As a result, there is poor coordination of policies across national borders. This tends to militate against/hamper the development of regional trade and, worse still, makes Member States compete against each other for international assistance instead of pooling such resources together for mutual benefit from natural synergies.

As a result of globalisation, no SADC Member State can compete effectively on its own. However, working together and pooling our resources, the combined strength of SADC and Africa could be a very potent force in the global marketplace.

Actions

- The meeting called for the harmonisation of industrial policies and strategies among SADC countries.
- In addition to the value chains analysis that were carried out, each Member State is encouraged to carry out the value chain analyses for the sectors not initially covered. This should form the basis for developing national and regional industrial strategies.
- It is vital to consolidate the strategies and prioritise them, so that short-term actions can be implemented immediately, while medium and longer-term strategies are being worked on. It was stressed that some of the actions (e.g. harmonising customs procedures; carrying out maintenance work on some of the road and rail network) should not be delayed any further.

6.4 Legal framework and implementation mechanism

The Protocols on Mining, Finance and Investment, Trade, etc and the Regional Industrial Development Cooperation Framework will provide the legal framework for the implementation of the industrial development strategies.

The Regional and National Action Plans presented at the meeting, and the programmes and projects to be developed with the assistance of UNIDO and other cooperation partners, will outline the modalities for implementing the strategies.

Various sources of funding and the modalities for funds mobilisation were also discussed during the workshop. UNIDO undertook to assist SADC in mobilising both financial and technical assistance for developing and implementing the strategies, programmes and projects.

Actions

- Present the Draft Regional Industrial Cooperation Framework at the Ministerial Meeting for adoption
- Develop programmes and projects for implementation of the regional and national action plans
- Collaborate with UNIDO and other International Cooperating Partners to mobilize financial and technical assistance for implementing the regional and national action plans.

6.5 Review and adjustment mechanisms for policy and strategies

The review and adjustment mechanisms suggested include:

6.5.1 Peer Review

SADC Member States should agree on a Peer Review Mechanism for industry. This will facilitate information sharing and collaboration in revising and adjusting the policies and strategies in response to the dynamics of the global marketplace.

This process will also assist those Member States that might be lagging in implementing the agreed strategies at the national level to call for assistance from their peers.

3.5.2 Establishment of an Industrial Development Forum (IDF)

It is proposed that SADC should establish an Industrial Development Forum (IDF) to act as a "competitiveness observatory" for implementing the strategies, and providing suggestion for improvement. IDF participants would be private sector operators (or Industry Sector representatives), industrial experts in public (Committee of Senior Officials) and private sector, and regional intermediary organisations. Relevant stakeholders (e.g. civil society, NGOs, etc) can be co-opted to participate as appropriate.

The suggested terms of reference of the IDF would include the following tasks:

- Oversee the finalisation of the action plans;
- Organise resource mobilisation activities in liaison with the NEPAD Secretariat, UNIDO, CAMI, AU and SADC;
- Management of the Southern African Productive Capacity Facility;
- Oversee the implementation of the action plans; and
- Monitor progress made and report to the SADC Ministers of Trade and Industry.

3.5.3 Performance Monitoring Committees

SADC Secretariat, with the assistance of the Industrial Development Forum and sector associations, is encouraged to set up a Performance Monitoring Committee which will monitor the performances of the various sectors in meeting their objectives, analyse bottlenecks and provide input for policy and strategy reviews.

At the national level, each Member State should be encouraged to set up its own Performance Monitoring Committee to carry out the same function.

6.6 Engagements

In implementing its strategies aimed at improving industrial performance and employment creation, SADC should engage with the following stakeholders:

- Regional Associations of the 9 priority sectors;
- International Cooperating Partners;
- Intermediary organisations and industry experts; and
- Other SADC Directorates

6.6 Targets and time frame for implementation of strategies

Target 1

- Harmonisation of industrial policies, strategies and programmes by September 2007
- Carrying out value chain analysis for remaining priority sectors
- Developing national and regional strategies and action plans for remaining priority sectors
- Develop SADC Industrial Policy

Target 2

- Establishment of Industrial Development Forum (March 2007)

Target 3

- Adoption of Regional Industrial Development Cooperation Framework (March 2007)

Target 4

- Initiation of SADC regional upgrading programme(s) in select industrial sub-sectors in cooperation with the EC delegation in Gaborone and UNIDO (February 2007)

Target 5

- Integration of regional physical infrastructure, using SDI/SDP strategy (2015)

Target 6

- Entrepreneurship development
- Industrial upgrading and modernisation (March 2007)
- SME development
- Skills development
- Cluster development
- Quality
- R&D
- Innovation
- Regional and National Awards

Target 7

- Export development programme (August 2007)

Target 8

- Free Trade Area (removal of all tariffs) by 2008

Target 9

- Establishment of APCF as the APCI resource component of SADC Development Fund

Target 10

- Establishment of Performance Monitoring Committees (January 2008)

Target 11

- Promotion of positive media coverage on Africa’s industrialisation (2007)

7. Recommendations

The following recommendations for improving industrial performance in SADC were made:

7.1 Harmonization of Industrial Governance

The need to harmonize industrial governance both at national and regional levels is recognised. To do so, at the regional level, the following are recommended.

7.1.1 Establish the SADC Regional Industrial Development Cooperation Framework, the legal framework to guide the implementation of the SADC Road Map and Industrialisation Policy
7.1.2 Establish an Industrial Development Forum, to act as the Competitiveness Observatory.
7.1.3 Expedite action on the SADC Free Trade Area.
7.1.4 Coordinate the development of export strategies for each priority sector.
7.1.5 Assess the identified Centres of Excellence to determine their capacity and capability to effectively play their roles.
7.1.6 Develop programmes and projects for implementing the Regional Action Plan for each priority sector.
7.1.7 Develop the capacity of the SADC Statistics Unit to provide both Industrial as well as Trade Statistics.
7.1.8 Member States must pursue integration strategy in their industrial policies. An integrated strategy will in the long term, ensure that the whole industrial sector of SADC becomes modern, highly efficient and export-oriented in which all the modernized components, i.e. the EPZ, local industries and the Small and Medium Enterprises, etc are integrated.
7.1.9 Establish Standards Bureaux in each SADC Member State to provide accreditation services for testing/calibration laboratories, inspection bodies and certification bodies (also called conformity assessment bodies) operating certification of products, personnel, quality systems and environmental management systems in carrying out their main function of determining conformity to standards and specifications.
7.1.10 Accreditation of laboratories (including private sector laboratories) and provision of technological infrastructure will help to boost the long-term viability of the pharmaceuticals sector.
7.1.11 Development of the Pharmaceutical Sector to carry out, *inter alia*, Clinical Research Outsourcing, production of Generics as well as addressing the Phytodrug sector.
7.1.12 SADC Industrial Statistics Coordination Point
7.1.13 Develop a website for SADC APCI activities/issues
7.1.14 Link the new website to current SADC Website

7.2 Operational Follow-up Activities

7.2.1 Programmes and projects

The following programmes and projects are suggested for development within the SADC region:

- Industrial upgrading and modernization programme
- Enterprise Development Programmes (e.g. SME Development, Export Development Programme, etc)
- Human Capital Development Programme

- Cluster development programme
- Quality Programmes
- R&D Programmes
- Innovation programme
- ICT Development Programme

7.2.2 Selection and upgrading of National and Regional Centres of Excellence

In almost all SADC Member States there are universities, technical colleges and other technical institutions and organisations that could play the role of National of Regional Centre of Excellence. The capacities and capabilities of these centres vary across the different countries.

It is therefore necessary to assess the various centres of excellence with a view to determining their capacity levels, their needs and abilities to carry our research and development activities, and provide the support that is needed in developing enterprises at the national and/or regional level.

This assessment will form the basis for selecting those centres of excellence that will provide technical assistance at the national level only, and those that can be assisted in terms of capacity building to be enable them provide the needed support for enterprises.

7.2.3 Performance Monitoring Committee

SADC Secretariat, with the assistance of the Industrial Development Forum and sector associations, must set up a **Performance Monitoring Committee** which will monitor the performances of the various sectors in meeting their objectives, analyse bottlenecks and provide input for policy and strategy reviews.

Membership of these committees should be highly competitive and be drawn from Government, the private sector, labour and civic society. The positions should be advertised in the press. Two or three highly competent professionals who have distinguished themselves in the private sector should be headhunted to serve as independent members who will advise on strategy.

Membership of the committee should be a paid job in order to recognise that it’s a serious role requiring real commitment. However, the financial reward should not be the main attraction to serve on the committee.

At the national level, each Member State should be encouraged to set up its own Performance Monitoring Committee to carry out the same function.

7.3 Financial Proposal (SADC flexible African Productive Capacity Facility)

To support the APCI programme, the flexible African Productive Capacity Facility should be set up. However, it is recommended that a study be undertaken to determine the modalities for operating this Facility.

7.3.1 Budget

The following is an indicative budget for the above operational proposals for the three-year period 2007 – 2009.

Budget estimate (indicative) – 2007/09

	Member State	Sector	Budget estimates (in US$) Agro-food	Minerals	Pharmaceuticals	Technical Assistance	Country Total
1	Angola	Agro-food processing	150,000,000			100,000,000	250,000,000
		Minerals processing		200,000,000		50,000,000	250,000,000
		Pharmaceuticals			100,000,000	30,000,000	130,000,000
2	Botswana	Agro-food processing	20,000,000			10,000,000	30,000,000
		Minerals processing		70,000,000		8,000,000	78,000,000
		Pharmaceuticals			10,000,000	5,000,000	15,000,000
3	DRC	Agro-food processing	250,000,000			100,000,000	350,000,000
		Minerals processing		250,000,000		150,000,000	400,000,000
		Pharmaceuticals			200,000,000	100,000,000	300,000,000
4	Lesotho	Agro-food processing	20,000,000			5,000,000	25,000,000
		Minerals processing		30,000,000		10,000,000	40,000,000
		Pharmaceuticals			40,000,000	5,000,000	45,000,000
5	Madagascar	Agro-food processing	60,000,000			20,000,000	80,000,000
		Minerals processing		100,000,000		45,000,000	145,000,000
		Pharmaceuticals			75,000,000	50,000,000	125,000,000
6	Malawi	Agro-food processing	60,000,000			30,000,000	90,000,000
		Minerals processing		50,000,000		25,000,000	75,000,000
		Pharmaceuticals			30,000,000	20,000,000	50,000,000
7	Mauritius	Agro-food processing	30,000,000			40,000,000	70,000,000
		Minerals processing		50,000,000		10,000,000	60,000,000
		Pharmaceuticals			150,000,000	100,000,000	250,000,000
8	Mozambique	Agro-food processing	80,000,000			50,000,000	130,000,000
		Minerals processing		100,000,000		35,000,000	135,000,000
		Pharmaceuticals			35,000,000	50,000,000	85,000,000
9	Namibia	Agro-food processing	120,000,000			50,000,000	170,000,000
		Minerals processing		100,000,000		45,000,000	145,000,000
		Pharmaceuticals			40,000,000	30,000,000	70,000,000
10	South Africa	Agro-food processing	350,000,000			500,000,000	850,000,000
		Minerals		1,500,000,000		1,500,000,000	3,000,000,000
		Pharmaceuticals			1,000,000,000	1,000,000,000	2,000,000,000
11	Swaziland	Agro-food processing	30,000,000			10,000,000	40,000,000
		Minerals processing		30,000,000		15,000,000	45,000,000
		Pharmaceuticals			10,000,000	8,000,000	18,000,000
12	Tanzania	Agro-food processing	150,000,000			30,000,000	180,000,000
		Minerals processing		150,000,000		50,000,000	200,000,000
		Pharmaceuticals			80,000,000	40,000,000	120,000,000
13	Zambia	Agro-food processing	100,000,000			45,000,000	145,000,000
		Minerals processing		250,000,000		150,000,000	400,000,000
		Pharmaceuticals			60,000,000	40,000,000	100,000,000
14	Zimbabwe	Agro-food processing	150,000,000			45,000,000	195,000,000
		Minerals processing		200,000,000		60,000,000	260,000,000
		Pharmaceuticals			120,000,000	75,000,000	195,000,000
		Agro-food processing	**1,570,000,000**			**1,035,000,000**	**2,605,000,000**
	TOTAL REGION	**Minerals processing**		**3,080,000,000**		**2,153,000,000**	**5,233,000,000**
		Pharmaceuticals			**1,950,000,000**	**1,553,000,000**	**3,503,000,000**

7.3.2 Possible sources of financing

The following possible sources of financing for the SADC APCI programmes and projects, as well as the flexible African Productive Capacity Facility (APCF) have been identified. These include:

- **SADC Development Fund**
  The SADC Development Fund is currently being set up by the SADC-DFRC. The modalities for sourcing funds are being discussed and will be finalised by 2008. Project financing is an important component of the Fund. It is expected that there will be a window that will cater for SMEs.

- **Governments**
  It is proposed that 2% - 4% of all funds received from donors by SADC Member States should be earmarked to establish the SADC flexible APCF. This amount should be matched by an equivalent amount from the national budget of each Member State.

  It is also proposed that 10% of the national budget for strategic food security in each SADC Member State (Ministry of Finance) should be earmarked to for national APCI programmes and projects in that Member State.

- **Private sector**
  - Industrial Sector Associations
  - Sector development funds
  - Development Finance Institutions (e.g. ADB, PTA Bank, BDSA, etc)
  - Investment Banks
  - The Stock Markets
  - Other Financial Institutions (e.g. Pension Funds, Insurance Companies,
  - Venture Capitalists, etc)

- **The African Diaspora**
  Another possible source of funds are the African Diaspora, who should be encouraged to open foreign currency accounts to which they have unlimited access (in any currency of their choice). To facilitate the above, the Monetary Policy system must be revised to enable people living either in or outside the region to operate foreign currency accounts with the commercial banks.

- **Donors**
  The Donor community has generously supported SADC's industrialisation process. They will be expected to continue to provide both financial and technical support for the APCI process. Notable donor organisations include:
  - UNIDO
  - EU
  - UNDP
  - UNCTAD
  - UNICEF
  - "Agence français de developpement"
  - USAID Trade Competitiveness Hub for Southern Africa

- GTZ (German Agency for Technical Cooperation)
- Centre for Development of Enterprise
- JITA
- Donations from philanthropists
- Donations from commercial banks, etc

7.3.3 An advocacy team comprising of the SADC Secretariat, UNIDO representatives/experts and the UNIDO Regional Coordinator will present financing proposals to Development Financial Institutions, Donors and other stakeholders to mobilize funds for implementing the SADC APCI programmes and projects as well as the establishment of the APCF.

8. Conclusions

It is concluded that the development of infrastructure and services is critical for promoting and sustaining regional economic development, trade and investment. The potential for deepening integration through the sharing of the production, management and operations of infrastructure facilities, hubs, development corridors or poles is considerable. The overall picture is one of inadequate coverage, poor maintenance, weak financing and inefficient management systems.

On the whole, the trade policies and strategies in Southern African region are consistent with the objectives of eliminating obstacles to the free movement of capital, labour and goods and services and the improvement of the region's economic management and performance through regional cooperation with the ultimate goal of eradicating poverty.

However, the success of these policies and strategies depends on the removal of all obstacles to regional industrialisation and trade (e.g. tariffs) by encouraging the optimum utilization of regional resources and allowing forward and backward linkages in the various production chains.

Measures have also been taken to harmonize customs rules and procedures. These coupled with internationally acceptable standards, quality, accreditation and metrology as well as harmonization of sanitary and phytosanitary measures are expected to enhance intra-Southern African trade. Provision of services should also ensure compliance with international commitments made by SADC Member States.

The APCI methodology, which uses the value chain approach as means of identifying a workable strategy to improve industrial performance in Southern Africa will facilitate regional integration, employment creation, capacity building, export development and provide access of SADC products to the global marketplace.

Annexure I

Summary of Presentations

1. The African Productive Capacity Initiative (APCI)

Dr. Chibo Onyeji, UNIDO Consultant on the APCI, gave an overview of the African Productive Capacity Initiative (APCI), covering its origins, links with the Millennium Development Goals (MDGs 1, 3, 7 and 8), African Union and NEPAD's vision for industrial development and economic growth

The APCI approach, using the value chain concept, was explained, as well as the characteristics and drivers of productive capacity, (namely, skills level of workers, infrastructure (physical; soft), intermediate inputs availability, technology, patterns of joint action and benchmarking), and made a case for the critical role that regional value chains could play in improving industrial performance and achieving the MDGs.

Finally, the urgent need to mobilize resources and set up the flexible African Productive Capacity Facility (APCF) as the funding mechanism for implementing the APCI was stressed.

2. Improving Regional Integration and Cooperation to Facilitate Trade

Mr. Mark Pearson of Regional Trade Facilitation Programme (RTFP) made a presentation on improving regional integration and cooperation to facilitate trade.

Three reasons were given for regional integration; namely,

- Economic Reasons – larger markets, cross-border activities involving transactions in goods and services, more attractive investment opportunities, and regional solutions to supply side constraints;
- Security Reasons – developing structures to resolve potential conflict and post conflict situations; and
- Socio-Cultural Reasons – common histories and traditions

Progress made so far include:

i. In PTA/COMESA region (which followed the Lagos Plan of Action), the close alignment with the UNECA regional structures (MULPOC);
ii. SADCC/SADC - political cooperation of the former Front Line States to address their economic position *vis-à-vis* RSA, apartheid and independence of Zimbabwe/Namibia;
iii. The development of the East African Community (with a long history of economic cooperation), its collapse in 1977, and current revival;
iv. The development since early 1900's of SACU as a Customs Union, with revenue sharing among the BLNS countries as its main benefit.

There have been differences in focus of the different RECs: ECOWAS and PTA, had a strong focus on economic integration; IGADD and SADCC, focussed more on functional cooperation.

It was countries becoming members of more than one REC had not been a major policy coherence problem until Member States expanded the mandates. The overlapping mandates have led to what the World Bank refers to as the "Spaghetti Bowl", and the AU refers to as "institutional cacophony".

To address the problem of overlapping membership, the Assembly of African Union, Banjul, Gambia (2006), suspended the recognition of new RECs other than the eight that had already been recognised (ECOWAS, COMESA, ECCAS, SADC, IGAD, UMA, CEN-SAD and EAC). The Assembly also urged the RECs to co-ordinate and harmonise policies and programmes, and with the AU Commission, to accelerate Africa's integration process. The RECs will fall away with creation of the African Economic Community (AEC). Thus, the harmonisation of RECs is important for AEC.

SADC Trade Protocol

The SADC Trade Protocol was implemented in September 2000. The target is to have a partial Free Trade Area (FTA) by 2008 (with 85% product coverage), a Customs Union by 2010 and a full FTA by 2012.

The 5 SACU Member States have fully liberalised their non-sensitive trade with all other SADC members as per the agreed asymmetry principle. Eleven of SADC's 14 Member States are currently implementing the Trade Protocol. Madagascar submitted tariff phase offer in October, which is being considered by the SADC Member States.

SADC Trade Protocol MTR

The Trade Protocol MTR has problems with implementation, viz: delays in gazetting the annual reductions; discrepancies with original negotiated offers; and suspension of tariff reductions due to economic constraints. An audit is due in early 2007.

The MTR showed that complex product specific rules of origin prevents the SADC region from fully utilising its trade potential. Member States committed to revise and simplify rules of origin.

Progress towards Customs Unions

The presentation highlighted progress being made towards the formation of Customs Unions by identifying the success stories, the potential success stories and experiences to avoid (failures). These include the following:

i. Success Stories

The following success stories were reported:

- Free Trade Area: negotiation and implementation and increased intra-regional trade.
- Air Traffic Liberalisation: COMESA, SADC and EAC cooperated to implement Yamoussoukro Agreement.
- COMESA/SADC/EAC Task Force: Establishment of Task Force to harmonise implementation.
- Conflict Resolution: RECs have played a lead role in arbitration of conflicts and post-conflict resolution.
- SADC Power-pool: Protocol on sharing of electrical power.
- Yellow Card: Regional 3rd party vehicle insurance run by the insurance companies.

- Trans-frontier Parks: Mozambique/South Africa/Zimbabwe and Zimbabwe/Botswana/Zambia

ii. Potential Success Stories

The following developments have the potential to become success stories:

- o The Customs Union
- o The development of Trade Facilitation Instruments
- o The agreements on carriers license, vehicle dimensions and axle-load limits, customs bond guarantee system, and vehicle insurance
- o The institution of one-stop-border posts (single-window systems)
- o The development of harmonised customs procedures – integrated cross-border systems
- o The agreement to develop a regional competition policy
- o The development of the Finance and Investment Protocol, which aims to harmonise regional tax incentives and investment policies and harmonisation of monetary policies.

iii. Experiences not to repeat (failures)

The following experiences are to be avoided:

- ❑ Regional integration not regional rivalry:
  There is need to cooperate in the real sense (through joint policy making and joint implementation) so that the AEC goal is met; conflicts between countries should be avoided; and Change in mindset - there is need to “walk the talk”, no policy reversals and to implement what has been agreed.

- ❑ Failure to capitalise on opportunities:
  There has been a history of bad governance, corruption and a lack of transparency and accountability.
  Also, there have been poor policies coupled with bad timing and sequencing.

3. SECTORAL PRESENTATIONS

2.1. Factors undermining SADC industrial competitiveness

To develop and compete effectively and take advantage of growing international markets, enterprises in developing countries need to constantly upgrade their production and organisational methods, tap opportunities to specialise, exploit economies of scale and scope, forge domestic and international linkages and networks, ensure and / or improve worker skills, promote decent work, undertake research and development, access appropriate technologies, and adopt new marketing strategies.

In the light of the foregoing, the following factors have been identified as having negative impact on the competitiveness of the SADC industrial sector:

Product Quality

Good quality sells anytime (and at good prices), poor quality sells sometimes (and only once). There is a concern that South Africa’s image as a supplier of good quality is slipping. This needs to be addressed. The premiums earned by this image are significant.

Market Access

The degree of access of SADC products to many markets world wide has been mixed, with some products (e.g. citrus) gaining access, while other have met stiff competition and resistance.

Inability to overcome trade barriers (both traditional and NTBs)

With the dismantling of traditional trade barriers such as tariffs and duties as the result of globalisation, other non-traditional barriers e.g. phytosanitary and sanitary barriers, subsidies, etc have assumed prominence. In all industrial sectors, a country's ability to address these new trade barriers will determine the sustainability of its industrial development strategies. In SADC, the key drivers will be research and government action.

Human capital

The quality of the human resources is the single most important factor in industrial success. All successful industries in the world can point to the ability and productivity of the people employed as playing a key role in its ability to compete. In Southern Africa the literacy, numeracy and skills levels amongst the employees is very low. This needs to be addressed.

Information

The general lack of relevant and quality information on world markets, and industry matters has and continues to lead to poor decision-making in SADC enterprises. There is a dearth of information on the competition (domestic as well as international), cost of production, employment levels, capital employed, prices, transportation costs etc.

Infrastructure

Generally, Southern Africa has and continues to develop a relatively good road and port infrastructure. However, maintenance and new capital expenditure on infrastructure has not been satisfactory. This is beginning to have a negative impact on the ability of producers and suppliers to deliver. In particular, the failure to match supply with demand in the energy sector is creating problems with port and cooling facilities, resulting in additional costs of providing alternative sources of power (e.g. purchase of electricity generators as standby facilities).

Promotions

Visitors to trade fairs, such as Fruit Logistica in Berlin, Cermitec in Munich, Cersame in Valencia and Technargila in Italy, will know the amount invested in showcasing both the country and products from the country. Literally millions of dollars are spent ensuring that buyers are aware of what is on offer, and in portraying an image as a reliable supplier of adequate volumes of good quality, safe product.

Southern African exports of grapefruit to Japan are an example of how failure to promote can have disastrous consequences. Although the reasons for the 2005 failure of the Japanese market (which is estimated to have cost the grapefruit supply chain R200 million) are multi faceted, the fact that nothing was done to promote the product is definitely one of them.

Regulatory Environment / Cost of doing business

The amount of paper work involved in farming is overwhelming – VAT, SDL, WC, UIF etc etc. As a result growers either spend more time in their office (sacrificing time that could be put to more productive use), or employ other resources to assist (using funds that could be put to more productive use).

In addition, government is taxing more and more inputs (land and water), while increasing the costs of inputs through legislation (labour). This is having a profound effect on margins.

Economic and Political Stability

The government must be commended for its role in ensuring the economic stability in Southern Africa – and especially in meeting its inflation targets. All aspects of the economy show good governance, except for unemployment, which remains a key challenge.

Political stability is also key to competitiveness; occurrences in South American competitors (Argentina and Brazil) illustrate how this has a role to play. In Argentina, for example, the plant health department has lost integrity due to poor governance.

HIV Aids

Aids impacts on all businesses in Southern Africa. Many employers report on the difficulty in finding labour vacancies, and the fact that many workers fail to return each year is very worrying.

Pricing and Margins

Information on prices and margins is not readily available. This is an aspect of business enterprises in which enterprises in SADC need capacity building.

3.1 Agro-food processing

Mr. Seth Akweshie, UNIDO Regional Coordinator for the SADC APCI project, made a presentation on agro-food processing in the SADC Region.

The presentation began by identifying the *strengths, weaknesses, opportunities and threats* associated with the agro-food processing industry in SADC. These include:

Strengths

- Existence of raw materials/conditions for production of raw materials
- Production of some world-class products
- Support at all Governmental levels
  - Programmes
  - Financial support
- Existing processing plants/capacity
- Fairly large market in SADC and Africa

Weaknesses

- Unintegrated industrial development structures

- Limited value addition
- Inadequate marketing and export market access
- Lack of farming infrastructure
- Lack of technical & management skills
- Lack of external trade strategy (strategic protection, promotion, market intelligence, etc)
- Low R&D (infrastructure and spend)
- Poor/indequate, unitegrated transport infrastructure (ports, rail, air-cargo, road)

Opportunities

- Growing demand for finished products worldwide
- Growing SADC & African market
- Labour-intensive production processes
- Growth opportunities in China and India market

Threats

- Low quality & quantity of raw materials
- Unstable supplies of raw materials
- Recurrent drought and seasonality of supplies
- High transportation costs
- Lack of credit facilities
- Existence of TBTs, NTBs/SPS
- Interventionist policies of export countries
- HIV/AIDS

Challenges

Based on the SWOT analysis, the following challenges were identified for the agro-food processing sector in SADC:

- Poor product quality
- Limited market access due to barriers to trade (TBs; NTBs/SPS)
- Limited marketing due to problems with pricing, limited margins and inadequate promotions strategies
- Inadequate/weak Human Capital development
- Shortage of water
- High transaction costs resulting from
  - High transportation and logistics costs
  - Weaknesses in provision of relevant information
  - Poor/lack of coordination in infrastructure development
- Restrictive regulatory environment
- High cost of doing business
- HIV / Aids

Strategies and Actions

The following strategies and actions were suggested for addressing the challenges in the agro-food processing sector in SADC.

1. SME Development

Recommended Actions

i. There is need to develop with emphasis on Women in food processing industry as well as a special programme for the people who are physically challenge. This reflects the fact that agro-processing industry has more women players; particular emphasis should be placed on enhancing their skills capacity and income.
ii. Undertake entrepreneurship development and capacity-building in agro-food sector.
iii. Establish agro-food processing related skills development programmes to promote technology, technical skills acquisition and technology diffusion;
iv. Involve international and regional agencies (e.g. UNIDO Agro-business Division and other local and regional food processing companies) that are competent in this area should be encouraged to complement local efforts

2. Undertaking integrated infrastructure development

Recommended Actions

i. Physical infrastructure projects should be linked with each other. For example, the ports should be linked with the rail networks, which should also lead to the industrial estates and sources of agro-food raw material
ii. The existing physical infrastructure should be revamped to reduce turnaround time and reduce transportation and logistics costs in SADC
iii. Develop of industrial clusters and encourage collaboration among the members
iv. Communication, energy supply, water and other infrastructure and technology should be provided and linked to these industrial clusters
v. Reduce costs in agro-processing by introducing fair competition in pricing transportation, communication and energy services in SADC to support the value chain agro processing activities
vi. Involve private sector in quality infrastructure regulations development

3. Developing market access

Recommended Actions

i. Develop quality infrastructure (through SQAM - conformity, mutual recognition, equivalence and confidence building; Sanitary and Phytosanitary Systems) and promote compliance with quality standards
ii. SADC Member States should address the Technical Regulations and Technical Barriers to Trade (TBTs); they should accelerate the reduction and eventual total removal of all tariffs/ NTBs in this sector within SADC
iii. Encouraging producers to improve packaging, distribution and marketing of their products;
iv. With regard to global markets, Member States should assist private sector companies to participate in international trade fairs in order to promote their products
v. Business delegations should visit target markets to promote their products
vi. Strategic alliances should be encourage between local companies and foreign companies in the value chain
vii. Government should not hesitate to intervene strategically in order to protect or ensure fair access to international markets. This can still be done without violating WTO agreements

4. Development/management of water resources

Recommended Actions

i. Address shortage of water in the region by establish of a regional water commission for river basins in line with the SADC Protocol on Shared Water Courses
ii. Improve management of the Regional shared water resources
iii. Ministers of Industry should discuss this with the Ministers responsible for Water.

5. Improving the industrial governance

Recommended Actions

i. Harmonization strategies and policies on agro-processing sector
ii. Involve Sector Associations and Trade Unions in decision-making on the agro-food sector
iii. Establish Performance Monitoring Committee at both regional and national levels. Membership of this committee should be competitive and must be paid in order to attract high-calibre people. Individuals with technical and managerial expertise should be headhunted to serve on this committee.

6. Provision of industrial and market-sensitive information

Recommended Actions

i. Facilitate the gathering and dissemination of technical and marketing information and knowledge on the agro-food sector, through regional and national centres
ii. Promote networking and backward linkages (through Joint Ventures) among private sector stakeholders in agro-food sector
iii. Improve capacity of Statistics Unit of SADC Secretariat to collate industrial statistics. National Statistics Offices should be obliged to provide current industrial statistics on time to this unit.
iv. Promoting positive media reporting about Africa
v. Develop a regional data bank for equipment and machinery suppliers and disseminate information on their products

7. Improving Research and Development

Recommended Actions

i. Increasing investment in R&D
ii Provide of proactive incentives favouring agro-food processing sector
iii. Undertake an assessment of the identified Centres of Excellence and provide support for any weaknesses identified
iv. Promote and rewarding innovation

These strategies and actions should be classified as short-term, medium-term and long-term and implemented help to transform the identified comparative advantages in the SADC region into global competitive advantages that could be achieved by adopting either low cost strategies or differentiation strategies. Such strategies will provide superior quality products, produced using superior efficiency, adopting superior innovation and superior responsiveness to changes in the global marketplace.

An example

The presentation concluded with an illustration of example of how the ***value chain*** approach of the APCI can be used to improve performance in the agro-food processing industry and enhance global competitiveness.

The Elephant Pepper (a well-known brand) project of African Spices based in the Livingstone in the Zambezi Valley was used to illustrate.

The presentation illustrated how elephants (seen largely as pests) and chillies (hated by elephants) can co-exist in and environmentally friendly way, while allowing the undertaking of highly successful production activities, which ensured income generation, poverty reduction, and overcame sanitary and phytosanitary barriers to trade, ensured business growth and expansion, and enhanced global competitiveness and success.

3.4 Processing of Minerals

The Southern African region produces significant quantities of major metals and minerals. It contributes about 53% of vanadium, 49% of platinum, 40% of chromite, 36% of gold, 50.1% of diamonds and 20% of cobalt to the world production. A number of countries in Southern Africa rely on this sector for their foreign exchange earnings and there is potential for investment and wealth creation opportunities.

Mineral processing continues to be a major sector of the economies of the region, contributing an average of about 60% of foreign exchange earnings, 10% of gross domestic product and 5% of employment in the region.

Four stages have been identified in the minerals processing value chain, viz:

Stage 1 – Mining and producing ore or concentrate
Stage 2 – Converting concentrate into intermediate product (i.e. metal or alloy)
Stage 3 – Transforming intermediate good into refined, semi-fabricated product
Stage 4 – Further transformation into finished product

The levels of value creation and employment at the various stages/segments, the benefits of value addition (or beneficiation) and the segments of the value chain in which SADC operators are concentrated were also presented.

The potential of the regional mining industry has not been fully utilized due to a number of constraints, which are identified in the SWOT analysis below. The *strengths, weaknesses, opportunities and threats* associated with the mining and minerals processing industry in SADC were identified as follows:

Strengths

- Rich endowment with various minerals deposits
- Conditions for its production
- Strong capabilities in upstream industries
- Support at all Governmental levels
- Primary production being done
- Limited production at downstream levels
- Existing processing plants/capacity

Weaknesses

- Unintegrated industrial development structures (i.e., weak linkages)
- Limited value addition in downstream industries
- Poor quality of products
- General lack of QC & QA => no common quality standards

- Slow speed of delivery due to poor/indequate, unitegrated transport infrastructure (ports, rail, road)
- Low investment in minerals processing
- Shortage of skills – artisan, technical, engineering, managerial levels => low production capabilities in downstream industries
- Lack of technology support structures
- Low R&D (infrastructure and spend)
- Inadequate marketing and export market access
- Lack of external trade strategy (strategic protection, promotion, market intelligence, etc)
- Lack of credit facilities

Opportunities

- Growing global demand for finished mineral products
- Growing global trade in scrap & recycling
- Growing African market
- Labour-intensive production processes
- Under-developed downstream industries (electronics, industrial machinery and equipment, transportation, construction, automotives, etc)
- Growth opportunities in Asian market (esp. China and India)

Threats

- Import-parity pricing of basic metals by upstream minerals processing companies who are very few, but have significant price-setting power
- Interventionist policies (e.g. subsidies) in scrap importing countries
- Increasing emphasis on environmental, health and safety standards => higher costs
- Differential pricing of inputs (e.g. electricity: pre-negotiated prices for upstream companies; municipal rates for downstream companies)
- High transportation costs
- Aging workforce
- Existence of TBTs, NTBs
- HIV/AIDS

Strategies

The following strategies were suggested for addressing the challenges facing the minerals processing sector in SADC.

- ➢ Skills development and training
- ➢ Improving logistics to reduce the cost of manufacturing
- ➢ Facilitating import replacement
  - Enhancing production capabilities
  - Encouraging advanced manufacturing and technologies
  - Building a competitive foundry industry
  - Provide information/data on imports to industry (Early Warning System)

Recommended Actions

The following actions were suggested for improving the performance in minerals processing

i. Enhance and broaden the skills base.
This should involve:

- regional collaboration in HRD (especially at the technicians and engineers level)
- address the bottle-necks in the HRD pipeline (especially in mathematics and science)
- harmonizing HRD accreditation systems in Member States
- assessing regional HRD capacity to produce requisite skills for value-addition
- addressing the HIV/AIDS pandemic to minimise its impact on skills availability

ii Promote beneficiation of minerals and scrap metals

iii. Increase investment in and coordination of R&D

iv. Forster innovation (i.e. promote and reward innovation)

v. Develop vibrant and competitive downstream manufacturing industries (mostly SMEs). In that regard, Member States should re-negotiate any current agreements with the main mining companies in order to ensure buy-in.
* Develop strong foundry industry (1^{st} Stage in beneficiation chain)
* Develop of industrial clusters; promote networking and collaboration
* Subsidize electricity cost to downstream producers
* Provide coordinated technical support services
* Improve technological capabilities of downstream industries (- fundamental to increasing competitiveness)
* Assist firms to upgrade equipment/Invest in new technologies

vi. Translate existing linkages into joint growth and development

vii. Precious Metals and Minerals
- Establish requisite refining capacity
- Establish semis production capacity
- Assess regional design and marketing collaboration

viii. Market Access (Trade Barriers; NTBs)

ix. Marketing (Pricing; Margins; Promotions)

x. Involve Sector Associations and Trade Unions in decision-making

xi. Centres of Excellence
Centres of Excellence should be identified and assisted to play their role in improving industrial performance. Such centres should be at both regional and national levels.
(a) Regional Centres of Excellence, e.g.
* SEAMIC, Tanzania
* Mintek
* CSIR

(b) National Centres of Excellence, e.g.
* Assess capacities and capabilities to play roles
* Improve capacities and capabilities

xii. Enhance collaboration between Regional and/or National Centres of Excellence & Industry players (e.g. Project AuTek between Mintek and AngloGold)

xiii. Establish Agency for Registering Patent Rights

xiv. Regulatory Environment and Cost of doing business

xx. HIV / Aids

xvi. Promote positive media reporting about Africa

xvii. Infrastructure development: Without the infrastructure in place, becoming competitive will only remain a dream.

In the discussions that followed the presentation it was suggested that in implementing the above strategies and actions, the following must be addressed:

- there is need to prioritise and focus on those actions from which SADC can make the most profits/benefits in the short-term e.g. infrastructure development
- strengthening the capacity in Government institutions e.g. Ministries of Trade and Industry
- there is need for transparent and consistent policies so as to remove uncertainty in the minds of investors
- political stability is also important
- getting rid of corruption is also important
- the big mines control the mining operations in SADC

3.5 Pharmaceuticals

The presentation began by giving an overview of the pharmaceuticals sector, its growth potential and the potential existing in SADC and Africa for developing a vibrant pharmaceuticals/medical/biotechnology industry.

The strengths, weaknesses, opportunities and threats of a SADC/African pharmaceuticals sector were identified as follows:

Strengths

- Abundant raw materials available in the region
- Existing processing plants/capacity
- Existence of a large pharmaceutical-manufacturing sector in the region
- Existence of Standards Bureaus to foster acceptance and implementation of Quality Systems
- High quality of technical and science skills in South Africa, Zimbabwe and Mauritius universities

Weaknesses

- Shortage of experience amongst technical staff in commercializing research
- Unintegrated industrial development structures
- Varied regulatory and procedural requirements of each member state
- Fragmentation of various industrial components
- Lack of access to capital
- Lack of technical and management skills
- Low R&D (infrastructure and spend)

Opportunities

- Prevalence of curable diseases in Africa and LDCs
- Pharmaceuticals products worth billions of US dollars imported by SADC member states annually
- Sector has tremendous potential for making significant contributions to SADC economy, but much has to be done to make sector viable and sustainable
- Region imports pharmaceutical grade sugar and starch readily available in the region
- International segmentation of the production process
- Potential for developing biotechnology industry

Threats

- Aggressiveness of international drug manufacturing companies towards new entrants
- Existence of strict regulations in export markets
- HIV/AIDS

Challenges

The challenges facing the pharmaceuticals sector in SADC were identified as:

- Attracting and retaining skilled workforce
- Controlling operating and marketing costs
- Competition from Generics
- Intellectual Property protection
- Managing regulatory compliance
- Pricing pressures and shrinking margins
- Marketing (Pricing; Margins; Promotions)
- Realising tangible value from strategic alliances, joint ventures and partnering arrangements
- Reputation management
- Successfully developing innovative drugs and enhancing Research & Development productivity
- Sustaining growth in global markets
- Information
- Infrastructure
- HIV/Aids

Strategies

The strategies suggested for addressing the challenges include:

- Collaboration to build a regional chain or industry
- Development of sustainable growth through cross-border activities related to trade, production and investment in the pharmaceuticals sector
- Fostering development of modern capital markets, liberalize its activities and reduce the regulatory role of the central bank
- Government financial support to SMEs based on project viability, efficiency and productivity
- Human Capital Development
- Investing in R&D;
- Technological diffusion and innovation
- Promoting and rewarding innovation

- ➢ Development of the Pharmaceutical Sector to carry out, *inter alia*, Clinical Research Outsourcing, production of Generics as well as addressing the Phytodrug sector

Recommended Actions

i. Undertake detailed study of pharmaceuticals industry in Angola, DRC, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, South Africa, Tanzania, Zambia, and Zimbabwe (May 2007).

ii. To facilitate the above process, there is need to establish technical working committee whose mandate would be to set up the modalities for the development of the pharmaceuticals sector in SADC (April 2007)

iii. Explore the possibility of integration of indigenous herbal and traditional knowledge and practices into the healthcare industry

iv. The SADC pharmaceuticals industry must aspire to be U.S. FDA and European Medical Evaluation Agency (EMEA) compliant in order to harness the growth opportunities in areas of contract manufacturing and research

v. A study should be undertaken to assess the quality of drugs from India. This is to prevent dumping of low quality drugs onto the market in SADC (June 2007)

vi. Develop internships and mentoring programmes to close the gaps in technical skills. In that regard, there is need for collaboration between government, the private sector and academia to build capacity for quality analysis.

vii. Establish an Africa-wide Medical Evaluation Agency, with the power to grant drug approval for the continent. In doing so, there is need to explore the Chinese model of healthcare provision so that SADC can understand out how China managed to provide pharmaceutical products and healthcare services to its large population without depending on the West countries. SADC can also learn from Algeria's pharmaceuticals industry (July 2008).

viii. Shift the focus of the industry from being research/supply driven to being commercial/demand driven.

viii. For a start, concentrate on the development of generic drugs (tablets, injections and liquid formulations), and the assembly of medical equipments and instruments.

ix. Improve distribution throughout SADC and internationally.

x. Pharmaceutical companies to invest heavily in R&D. A significant increase in the level of funding is required.

xi Establish duty-free pharmaceutical zones, with attractive incentives, in Angola, DRC, Lesotho, Madagascar, Mauritius, Namibia, South Africa, Tanzania, Zambia and Zimbabwe. A reduction in restriction, such as exchange controls, would also encourage foreign investment in the local industry.

xii Research and develop the use of locally available raw materials and local knowledge.

xiii. Certain parts of the value chain should be located in SADC member states where there is comparative advantage.

xiv. Member States should create the appropriate regulatory environment for developing the sector to become commercially and export oriented.

xv. Using NEPAD as a platform, set up an Africa-wide technical working committee on the Pharmaceutical sector to oversee the harmonization of the sector and establish a Mutual Recognition Arrangement for the registration of medicine, inspection of manufacturing facilities, funding of medical research and development, regulation, patent rights, etc.

xvi Certain parts of the value chain should be located in SADC member states where there is comparative advantage. That is, it might be necessary for SADC/African countries with a similar resource base collaborate in developing the value chain (or segments of the value chain). This approach has he advantage of allowing the transformation of African raw materials into finished goods within Africa, hence benefiting both the producers and consumers. Raw material producers benefit from the immediate market access for their produce; while consumers benefit from the relatively low prices for the finished products. Several other benefits (e.g. foreign exchange savings, employment creation, development and protection of indigenous plant species, preservation of indigenous intellectual property, etc) accrue to the SADC/African countries involved.

xxi. The African market is potentially huge and holds a lot of promise for pharmaceutical products that provide immediate cures for common diseases like malaria, Aids, etc. This should be the main focus for development of the pharmaceutical products, medical equipments and instruments;

xxii. Establish an aggressive capacity building programme, hosted by the identified Centres of Excellence, and supported by a special fund for innovation, skills development, and research and development in the Pharmaceutical Industry.

xviii. For the production of export-oriented industries, African countries should agree to grant tariff exemptions to imported goods considered to be inputs for the local industry and which will be packaged, processed and re-exported. This would help contribute to the diversification of the manufactured exports within priority industrial sub-sectors. The reduction in tariff barriers would promote intra African and sub-regional investment and trade within the African continent.

xix African countries should be proactive and take advantage of the fragmentation of the industrial production, which has a direct correlation with the diffusion of technology and transfer of know how.

xx. Incentives must also be provided at the policy level for which intermediary goods are structured in a manner so as to attract more medium to high technology content products in order to foster the upgrading process.

xxi. Governments should act as facilitators of economic activities and empower the private sector to be the major operator in production and distribution. However, Government has to intervene in activities where there are market failures or where economic returns are negative.

xxii. Accreditation of laboratories (including private sector laboratories) and provision of technological infrastructure will help to boost the long-term viability of the pharmaceuticals sector.

xxiii. Development of the Pharmaceutical Sector to carry out, *inter alia*, Clinical Research Outsourcing, production of Generics as well as addressing the Phytodrug sector.

5. Centres of Excellence

xxv. The Biomedical Industry is rapidly emerging as an engine of growth for the future. In that regard, there is need to identify and select a number of institutions/organisations which should be developed into regional centres of excellence for high-technology medical and biotechnological activities.

3.6 Other sector presentations

In addition to the three sectors sponsored by UNIDO, presentations covering strategies and actions, using the value chain methodology were made on the following sector:

- Fisheries sector
- Forestry sector
- Textiles and Garments sector
- Leather and Leather Products sector;
- Machinery and Equipment, and
- The services sector

3.7 Other pertinent presentations

Other pertinent presentations were made as follows:

3.7.1 The proposed SADC Services Directive by Ms. Martine Julsaint Kidane of the UNCTAD Secretariat. The need to ensure coherence between the services framework being developed and the work undertaken under APCI was stressed. It was also suggested that SADC Member States identify priority services industries (as opposed to the entire services sector) for inclusion in APCI.

3.7.2 Industrial upgrading by Dr. Lamine Dhaoui, Deputy to the Director and Chief of Productivity, Quality and Upgrading Unit of UNIDO. To adequately avail of the benefits of trade liberalization, fundamental changes are necessary in their pattern of industry and trade. There is need to re-orient industrial strategies, policies and programmes in SADC countries to bring about a qualitative change in industry to ensure competitive and accelerated production capability in industrial sub-sectors. This will shift the emphasis from import substitution to an export-oriented strategy for the promotion of private sector enterprises in selected priority sectors.

However, the attainment of enhanced competitiveness and increased productivity requires that concerted efforts be put in place to tackle the supply-side constraints - the problem of *lack of effective industrial productive capacity* being faced by the majority of the SADC member countries. This process focuses on *continuous improvement of quality and competitiveness.*

3.5.1 Identifying and developing strategies for Funds Mobilization and Investment as an input to the Southern Africa Productive Capacity Facility

Dr. Rosalind H. Thomas, CEO of SADC-DFRC made a presentation on identifying and developing strategies for funds mobilisation for the flexible African Productive Capacity Facility (APCF)

The presentation classified projects as either **hard projects** (such as, infrastructure development, minerals refining and beneficiation facilities, SME investment and development) or **soft projects** (e.g. feasibility studies and surveys, policy research, coordination and harmonization, SME linkages and value-chain development, standards setting and improvement).

Various sources of funding were identified and linked to the type of project (e.g. Feasibility Study for SADC Project Preparation and Development Fund (PPDF), which also provides for financing of vertically integrated industry projects)

It was suggested that demand for facility needs to be demonstrated, survey of financing options needs to be carried out, and feasibility study needs to be done to determine if there is a market gap and recommend how this could be addressed.

The presentation identified several existing sources of financing that already exist for the three types needs. It admitted that SME financing is available through debt finance, equity and guarantees, but medium- to long-term financing instruments are missing.

The presentation states asserted that there is adequate financing in the market for funding good projects. The problem is that the need for increased investment is not being translated into bankable projects. A new vehicle is therefore needed for pre-packaging of such projects. The facility could also serve as catalyst to improve the investment environment.

It adds that later, if a stand-alone institution required, Member States should contribute towards covering the recurrent costs of PPDF and second staff as and when required.

In conclusion, the presentation recommends that a feasibility study needs to be done, as a priority, to determine if there is a gap that can be filled by the APCF. Such a study will determine the type of gap and thus focus of Southern African Productive Capacity Fund. The most likely scenario is that softer projects would need funding, but this needs to be coordinated with PPDF. If needed, APCF could be a facility managed by PPDF Fund managers.

3.6 Unlocking the economic potential: the SDI/SDP Approach

"The Case for a Resource-Based Spatial Development Programme", was presented by Dr. Paul Jourdan, CEO of Mintek, South Africa.

The theme of the presentation was "Realising African Resources for Sustainable Growth and Development". Under this theme, resource capital goods and services were identified as the key to sustainability. In that regard, the following strategies have been proposed:

Strategy 1: Beneficiation (RBI)
Strategy 2: Resource Inputs

Strategy 3: Lateral Migration
Strategy 4: Integrated Development: Accessing our resource potential: SDIs: Spatial Development Initiatives
Background:

For the Regional (Southern Africa) SDI Program (RSDIP), the SDP methodology addresses 3 market failures:

1) Infrastructural economies of scale;
2) Synchronised users (time); and
3) Political borders

Key aspects of the SDP Methodology were explained, namely:

- Inherent economic potential;
- Configuration of investments to ensure infrastructure viability through sustainable revenue streams;
- Crowding-in of investment;
- PPPs: public-private-partnerships;
- Political commitment; and
- Rapid planning and delivery (momentum)

Using several SDPs both current (e.g. The Maputo Development Corridor0 and potential (e.g. Nacala Development Corridor), the presentation demonstrated that the SDP programme has the potential for linking major ports and infrastructure facilities development to major mineral deposits and industrial estates in the hinterland. This approach also has the potential for addressing the high costs of transportation and logistics in the various RECs.

The relevance of the SDP to the NEPAD Short-Term Action Plan (STAP) Programme was also emphasised. The aim of STAP is:

- Identification by RECs of critical infrastructure to stimulate African growth & development;
- Alignment with NEPAD Strategic Framework (MLTSF) and SDP;
- Packaged for funding by the designated joint institution;
- Resources mobilised under NEPAD (RECs, AfDB, host countries, et al);
- Project implementation.

Several projects were also identified under the **NEPAD Indicative Spatial Development Programme**

The presentation asserted that due to the global market distortion of First World agri-subsidies (Doha), mineral-based opportunities are generally the only ones with requisite rents to catalyse the provision of infrastructure (transport & energy) for the development of other sectors (agriculture, tourism, etc.).

For this reason the indicative NEPAD SDP “anchor” projects tend to be mineral or energy based. The provision of this infrastructure then underpins the viability of projects in other sectors (densification). The NEPAD SDP goes beyond the “colonial” paradigm (resources to coast) to integrated growth and development, using resources as a catalyst.

In conclusion, the following actions were suggested as a way forward:

i. Develop the indicative SADC SDP with NEPAD to kick-start infrastructure in zones of high economic potential;
ii. Engage with footprint states on conceptual configuration; prioritise the SDPs with greatest socio-economic returns;
iii. Mobilise resources for rigorous SDP scans of economic potential and requisite infrastructure;
iv. Identification of resource-based industrial potential (beneficiation) and resource-inputs industrial potential;
v. Identify potential investors and pre-feasibility studies (PFS) of requisite infrastructure;
vi. Determination of required cross-border enabling regulatory actions (lower transaction costs);
vii. Development of sustainable SDP investment framework to ensure densification;
viii. Unleash growth and development across the SADC

3.7 Harmonization of the Regional Industrial Development Policies in the SADC: The case of South Africa's Regional Industrial Development Strategy (RIDS)

The draft Regional Industrial Development Strategy of South Africa (RIDS) was presented by Ms. Letumile Mojapelo of thedti, South Africa.

The presentation stated the main problem that faced South Africa as follows:

- Sharp regional disparities between the three main metropolitan complexes and the rest of the country
- Three broad categories of regions are considered in determining potential impact scenarios for the RIDS:
  i. 52 Districts and Metros, in the nine provinces;
  ii. main services hubs of a wider functional region or macro-region, in regions where potential and latent potential exists; and
  iii. main production complexes of a cluster or corridor of inter-related industries.

The strategic intent of RIDS is:

- To enable all areas in the South African economy to attain their optimal economic potential by facilitating local development embedded in a region/district through linkages within existing and latent industrial and economic base.

This strategic intent has the following cardinal objectives:

- To stimulate investments that will promote sustained high growth in a local community
- To focus on a region's potential and identify what local stakeholders can and need to do to ensure their local community reaches its potential
- To assess a community's comparative advantage, identify new or existing market opportunities for businesses, and reduce obstacles to business expansion and creation
- To have an impact on the economic viability districts
- To create new jobs, help communities retain existing jobs, help businesses access capital
- To contribute to a broader national framework with a spatial dimension, in order to increase each region's global competitiveness.

The dti's Approach to Local Economic Development (LED)

To bring together resources from within and outside the Community to address:

- local governments' challenges on land management practices, outdated infrastructure, limited business planning and management skills, poor access to markets and market knowledge, and
- to promote economic growth in a systematic and organized manner at the local level
- to become a catalyst for promoting LED as a key ingredient to achieving broad-based and equitable economic growth by assisting:
- the local community to research its own economic strengths, agree upon a common strategy (Regional Industrial Road Map) and organize itself to implement the strategy (Indicative Industrial Business Plan).

Local Economic Development (LED) Intervention Proposition

The dti, in conjunction with the Department of Provincial and Local Government and the Presidency will assist district municipalities to,

- – formulate their industrial road maps,
- – form local growth coalitions,
- – build local capacity and,
- – finalise local growth business plans

- Each region's respective plan can serve as a national development trajectory; promoted to guide all sector departments' interventions in that region.
- Bringing local stakeholders around one table in a form of a PPP helps to build trust, encourages innovation, fosters social cohesion, and thus decreases the risk of further conflict.

RIDS's Three Interlinked Goals

RIDS has three interlinked goals. These are: building partnerships, address economic decline, and build regional agglomerations. Each goal has a number of support measures, which were explained.

Investment Promotion

Trade and Investment South Africa Division (TISA) promotes investment in the following sectors:

- Agro-processing
- Automotive
- Aquaculture
- BPO
- Capital Equipment
- Chemicals
- Cultural Industries
    - Tourism
    - Mining & mineral beneficiation
    - Hand-holds the investor (domestic and international) to ease the investment decision-making process

The Role of the RIDS is to work closely with districts in ensuring some level of readiness/preparedness so that when a viable investment opportunity arises, that investment takes place on the district's terms. An additional role is to match-make the investor with stakeholders within areas of potential, where opportunities can be optimally exploited in the interest of all stakeholders involved.

Finally, it was concluded that South Africa's RIDS programme could provide some insight into the use of spatial development corridors as a methodology for improving industrial development in SADC.

3.8 Standards, Quality, Accreditation and Metrology (SQAM) as Keys to Regional Integration and Export Competitiveness

Dr Oswald Chinyamakobvu, SQAM Expert at the SADC Secretariat, made a presentation on SQAM.

All the components of SQAM (i.e. Standards, Quality, Accreditation and Metrology) were defined and their importance in the industrialisation process was explained.

The SADC SQAM Programme

- The SADC SQAM Programme was then presented, together with the various institutional structures for its implementation.

SQAM Institutional Structures

The institutional structures are: SADCSTAN, SADCMEL, SADCMET, SADCA, and SQAMEG.

In conclusion, the presentation invited the audience to view SQAM as follows:
- Look at Quality as a total picture
- SQAM reduces risk and creates efficiency
- SQAM can help create wealth but needs all stakeholders (business, government, regulators, politicians, consumers etc)
- For as long as there is competition and consumers have a choice, quality is a must in business.
- SQAM arms us effectively for the battle on the global market

3.9 UNIDO Value Chain Approach to Commodities in the Development of Agro-based Productive Capacities

Ms. Kawira Bucyana gave a short presentation on value chain approach to developing capacities in the agro-based industry. The presentation provided possible follow-up scenario to the development of a regional programme(s) and the realization of tangible results.

It was proposed that SADC focuses on policy review, harmonization, development of quality infrastructure, industrial upgrading at the enterprise level and linking all these activities to the market.

3.10 Mobilisation of funding possibilities

Mr. Christophe Yvetot, UNIDO Resource Mobilization Officer, made the presentation on UNIDO's experiences in funds mobilization to finance the industrial development.

The mobilisation of funds was linked to poverty reduction through productive activities, trade capacity building, energy and environment and Geographical priority. The European development framework, which emphasises trade and regional integration, environment and sustainable management of natural resources, water and energy, rural development, social integration and employment, and **Africa as a geographical priority**, was also highlighted.

In conclusion, it was stated that a clear identification of industrial development programmes and donor engagement at the early stage should lead to effective resource mobilization.

3.11 Provisional SADC Industrial Development Cooperation Framework

The draft SADC Industrial Development Cooperation Framework was circulated to participants, who were invited to make contributions for improving the document.

Some input was provided. However, during the discussions, it was agreed that the more input will be made to the SADC Secretariat after participants have had enough time to consider all aspects of the document.