

Striving for Regional Integration

Baseline Study on the Implementation of the SADC Protocol on Finance and Investment



Context

The Protocol on Finance and Investment (FIP) is one of the protocols entered into by the Southern African Development Community (SADC) Member States to give legal and practical effect to their commitments under the SADC Treaty. As the name suggests, the FIP has two overarching objectives:

- To improve the investment climate in each Member State and thus catalyse foreign and intraregional investment flows; and
- To enhance cooperation, coordination and harmonisation in domestic financial sectors in the region.

The FIP is supported by the content of the SADC Regional Indicative Strategic Plan (RISDP) which articulates the broader level goals that underpin the FIP, including full regional financial integration, the formation of a monetary union and the adoption of a single currency.

The FIP was signed in August 2006 by fourteen SADC Member States¹, was ratified by a two-thirds majority in 2010, and came into force on 16 April 2010². The SADC Secretariat is facilitating the implementation of the FIP by Member States, while Member States are beginning the initial stages of domestication. The Committee of Senior Treasury Officials (CSTO) at its Livingstone meeting in July 2010, directed the SADC Secretariat to develop a Matrix of Commitments – a measurement framework to track progress in implementing the FIP.

Purpose of the baseline study

In light of the above, the study was commissioned by the SADC Secretariat in partnership with FinMark Trust and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). It seeks to:

- Document the status of FIP implementation across Member States;
- Design a measurement framework of indicators to measure progress in the implementation of the FIP;
- Populate the indicators for 2011 as a baseline (with data collected mainly through in-country interviews); and
- Identify strategic country-level or regional-level interventions that will catalyse the implementation of the FIP.

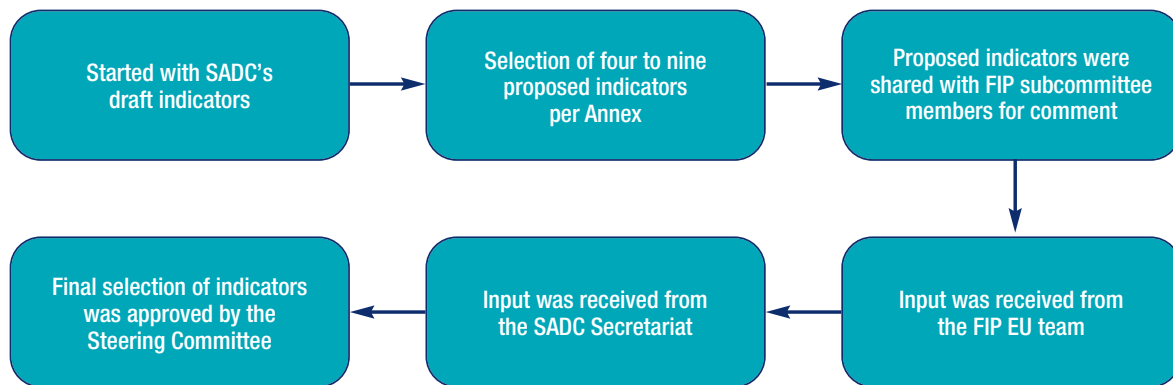
Baseline study methodology

- A Steering Committee, chaired by the SADC Secretariat, and with representation from FinMark Trust, GIZ, and the European Union (EU) FIP Project, was formed. The purpose of the Steering Committee was to guide the study and endorse the approach and output.
- The study was funded by FinMark Trust and GIZ, and was conducted by Genesis Analytics.
- A measurement framework for the FIP was developed based on a thorough review and examination of the Protocol (outlined in Figure 1).
- The FIP Matrix of Commitments was populated for the baseline year 2011 with data collected during country visits, supplemented by desktop research. The following process was implemented:
 - Stakeholders were probed regarding constraints to FIP implementation, the extent of domestic coordination, lessons learned to date, and the impact of each annex within the member state;
 - Country reports were prepared and circulated to each country visited;
 - The status of implementation, conclusions and recommendations for each Member State were analysed to inform the consolidated regional report;
 - A FIP stakeholder workshop, funded by FinMark Trust and GIZ, was convened in August 2011, to validate the methodology, findings and analysis of the study. Collectively, stakeholders drafted recommendations which were adopted by the SADC Senior Treasury Officials (CSTO) and the Ministers of Finance at their meeting which was held in October 2011.

¹ At that time, including Madagascar, excluding the Seychelles.

² DRC, Seychelles, Swaziland, Tanzania and Zimbabwe were yet to ratify at the time the study was undertaken (in July 2011).

Figure 1: Design process for measurement frameworks



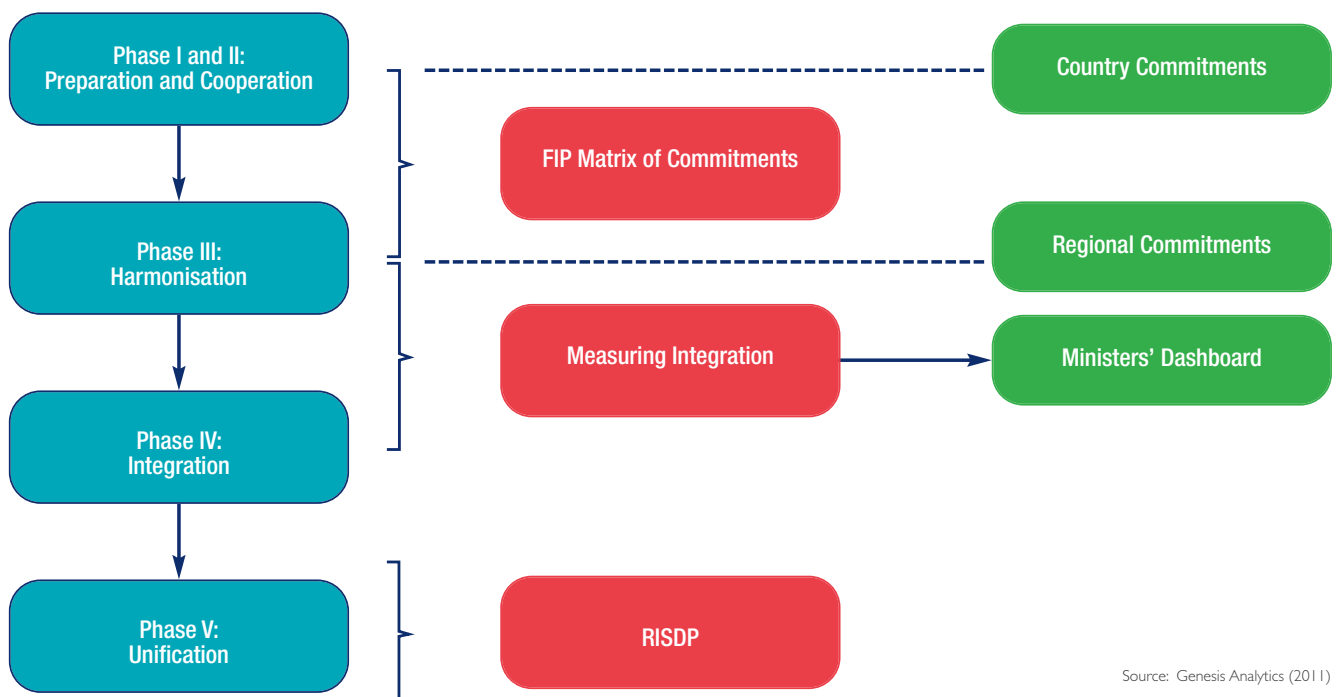
Source: Genesis Analytics (2011)

Phases of regional integration and the FIP

Regional financial integration is an economic and political process whereby domestic capital and financial markets in a region become increasingly integrated and capital is able to flow freely across borders. This means eliminating barriers and constraints to regional capital mobility, and includes adopting a regional integrated payments system and harmonising regulatory and supervisory frameworks. Ultimately, a region is fully financially integrated when domestic financial systems in the region function as a single system.

Figure 2 helps us to understand the conceptual structure of integration and where the FIP fits into the process. The diagram shows that regional financial integration is not an event, but rather an ongoing process which can be split into five phases. Although they are shown as distinct in the diagram, the phases actually flow into one other; can progress simultaneously and are not perfectly delineated:

Figure 2: The process of financial integration, the FIP matrix of commitments and the Ministers' Dashboard



Source: Genesis Analytics (2011)

It should be noted that the FIP only deals with Phases I and II and parts of Phase III.

Phase I – Preparation: Member States make domestic preparations for integration by modernising and upgrading domestic financial systems and investment regimes.

Phase II – Cooperation: Member States engage in a process of cooperation with other Member States to exchange information, engage in joint capacity building initiatives, agree on regional aspirations and standards, and build coordination channels.

Phase III – Harmonisation: Focus shifts from individual Member States to the region. Agreement is reached on harmonised standards, systems and policies. Through domestic adoption of these, individual domestic frameworks start to look and function the same. At the end of this phase, all domestic frameworks are harmonised to a regional standard.

Phase IV – Integration: *De facto* integration starts to occur, and is visible in a number of ways (for example, interest rates converge, improved capital mobility in the region, private financial institutions develop integrated regional systems, single financial regulatory agency and single licensing and regulatory processes emerge). External investors view the region as a single market. Regional financial markets are established, for example, a regional bond market and stock exchange.

Phase V – Unification: In the final phase Member States surrender sovereignty over monetary policy to a regional authority; a regional Central Bank becomes operational and a common currency is introduced. There is a single monetary union.

The Matrix of Commitments and the Ministers' Dashboard

The indicators in the Matrix of Commitments measure progress towards the achievement of Phases 1 to 3 of the financial integration process. The achievement of preparation, cooperation and harmonisation does not mean there will be an increase in financial integration or investment. Rather, these phases establish the enabling environment for financial integration and increased investment. In fact, it would be possible for every Member State to be in full compliance with all the terms of the FIP, without any actual financial integration. This raises the need for a second measurement framework and a second set of indicators that can measure *de facto* financial integration and *de facto* investment success.

Consequently, two measurement frameworks have been developed to monitor and measure the implementation of the FIP and Regional Financial Integration:

- **The FIP Matrix of Commitments:** This is the core measurement framework for the implementation of the FIP. It establishes indicators for two types of commitments:
 - **Country-level commitments:** These indicators measure the Member States' independent level of compliance with the preparation and cooperation phase commitments in the FIP. The obligation falls on a Member State. Assessing achievement of country-level commitments relies on 54 indicators³.
 - **Regional-level commitments:** These indicators measure the achievement of collaborative commitments that are framed in the FIP as a regional responsibility, rather than the responsibility of any single country. Regional-level commitments rely on 21 indicators. These are progressed through multilateral collaboration and cooperation through the various subcommittees with representatives from the Member States, and are mostly implemented during the harmonisation phase⁴.
- **The Ministers' Dashboard:** The Ministers' Dashboard includes six categories of indicators measuring *de facto* Regional Financial Integration (RFI) and two categories of indicators measuring progress in improving the investment climate. The purpose of the dashboard is to give the Ministers a snapshot view of the state of financial integration and investment in the region.

3 Examples of a country-level commitment in the FIP would be: "The Member State will introduce a domestic investment law that protects investors" or "The Member State will be in compliance with the 25 Basel Core Principles on supervision". Six indicators have been added to the matrix at country level after the completion of the baseline study so the data is based on 48 indicators.

4 Examples of a regional-level commitment would be: "A network of tax agreements will be developed between Member States" and "A SADC Model Central Bank law will be drafted".

Key to abbreviations

AATM	Agreement on Assistance in Tax Matters	ICSID	International Centre for the Settlement of Investment Disputes
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism	ICT	Information and Communication Technology
CISNA	Committee for Securities, Insurance and Non-Banking Financial Authorities	IFRS	International Financial Reporting Standards
CoMFI	Committee of Ministers for Finance and Investment	IOPS	International Organisation of Pension Supervisors
COSSE	Committee of SADC Stock Exchanges	IOSCO	International Organisation of Securities Commissioners
DFI	Development Finance Institution	IPA	Investment Promotion Agency
DFRC	Development Finance Resource Centre	MIGA	Multilateral Investor Guarantee Agency
DTAA	Double Taxation Avoidance Agreement	MS	Member States
ESAAMLG	East and Southern African Anti-Money Laundering Group	NBFI	Non-Banking Financial Institutions
FATF	Financial Action Task Force	OECD	Organisation of Economic Cooperation and Development
FDI	Foreign Direct Investment	PPP	Public Private Partnerships
FIP	Protocol on Finance and Investment	RISDP	Regional Indicative Strategic Development Plan
GDP	Gross Domestic Product	SA	South Africa
IAIS	International Association of Insurance Supervisors	SADC	Southern African Development Community
		SMSD	SADC Statistical Macroeconomic Database

Table 1: FIP matrix of commitments

Annex	Article	Indicator	Reason for Inclusion
None	None	FIP instrument ratified by all Member States (MS).	Ratification gives legal position to implement the FIP within the national context.
None	None	National FIP coordinating structures in place to facilitate better FIP implementation.	An essential institutional arrangement to facilitate and ensure that financial and human resources are allocated to enable a coordinated response to FIP implementation.
Annex 1: Cooperation in Investment	5, 6, 8, 9, 27	Existence of domestic investment law that: protects investors, allows repatriation of profits, allows access to courts.	Investor protection is a fundamental requirement to facilitate increased inter- and intra-regional investment.
	21	Signatory to international conventions: New York Convention.	Ascension to convention is a signal of investor-friendly conditions.
	21	Signatory to international conventions: ICSID.	Ascension to convention is a signal of investor-friendly conditions.
	21	Acceded to international conventions: MIGA.	Membership to MIGA is a signal of investor-friendly conditions.
	8	Investment policies, information etc. easily accessible to investors.	Meets the commitment to improve openness and transparency around all investment codes and regimes.
	23	MS has an active IPA.	Essential institutional provision to enable improvements in the investment climate, to improve coordination between domestic stakeholders and to attract investment.
	2	Member ranked above (or equal) to OECD average rating for strength of investor protection.	Investor protection is a fundamental requirement to facilitate increased inter- and intra-regional investment.
	19	MS' national policies and regulations comply with the Regional Investment Policy Framework and/or the minimum principles for investment regimes in the region.	Measure of MS convergence on harmonised investment policies and investment principles.
	19	Regional Investment Policy Framework is drafted and agreed to by MS.	Improves the regional investment climate and decreases the incidence of harmful investment competition in the region.
	23	Evidence of events and activities run by IPA Forum and attended by MS IPAs.	Evidence that IPA Forum is operational at a regional level.

It should be noted that the blue highlighted areas indicate regional-level commitments.

Annex	Article	Indicator	Reason for Inclusion
Annex 2: Macroeconomic Convergence	2, 3, 4	Inflation rate low and stable (< 9%).	Inflation target as agreed upon in RISDP.
	2, 3, 4	Public and publicly guarantee debt to GDP < 60%.	Debt to GDP ratios as agreed upon in RISDP.
	2, 3, 4	Budget deficit to GDP ratio at widely accepted prudent levels (< 5%).	Fiscal balance to GDP ratio as agreed upon in RISDP.
	5, 8	Cooperation/information sharing: submission of data to SMSD.	MS are required to provide data and reports to CoMFI for review and monitoring of progress in achieving macroeconomic convergence.
	7	Cooperation/information sharing: participation in peer review panel.	Peer review panel gives power to the commitment to establish a collective surveillance procedure to monitor macroeconomic convergence.
	7	The Peer Review Mechanism is approved for establishment and operational.	Peer review panel gives power to the commitment to establish a collective surveillance procedure to monitor macroeconomic convergence.
Annex 3: Cooperation in Taxation Matters	5.3	Number of DTAA's signed with other SADC MS.	Network of agreements improves the exchange of information, mutual agreement procedures and cooperation amongst MS, ultimately promoting the movement of capital within the region (Annex 1, Article 17.1).
	2	Up to date and publicly available tax database (national).	In the absence of the SADC tax database, national databases enable information exchange amongst MS.
	2	Up to date information submitted to SADC tax database (when fully operational).	Publication of data on tax database improves public accessibility to information about MS' tax regimes.
	6.6	Signatory to the Mutual Agreement for Information Exchange with MS.	AATM gives power to MS' commitment to information exchange, in order to prevent unlawful activities (like cross-border smuggling and the importation of counterfeit goods).
	6	Harmonised to the regional guidelines for the administration of indirect taxes.	Harmonisation of policy frameworks forms the foundation for financial integration.
	4	Harmonised to the regional tax incentives guidelines.	Harmonisation of policy frameworks forms the foundation for financial integration.
	3	Tax officials participate in capacity building activities.	Activity to promote achievement of other commitments in this Annex.
	5	Existence of Model Double Taxation Avoidance Agreement.	Ensures that MS employ a harmonised approach to the negotiation and completion of double taxation avoidance agreements.
	4	Guidelines for the appropriate treatment of tax incentives drafted and approved for adoption by MS.	Improves the exchange of information, mutual agreement procedures and cooperation between MS, ultimately promoting the movement of capital within the region.
	4	A fiscal model for cost benefit analysis developed and approved by Ministers of Finance. Fiscal model must comply with items articulated in Article 4 section 5.	Harmonisation of policy frameworks forms the foundation for financial integration.
	6	SADC AATM approved and signed by all MS (multi-lateral agreement).	Harmonisation of policy frameworks forms the foundation for financial integration.
	6	Guideline for the administration of indirect tax in the region is approved for adoption by MS.	AATM gives power to MS' commitment to information exchange, in order to prevent unlawful activities (like cross-border smuggling and the importation of counterfeit goods).
	7	Mechanism for the settlement of tax disputes developed and approved by Ministers of Finance.	Harmonisation of policy frameworks forms the foundation for financial integration.

Annex	Article	Indicator	Reason for Inclusion
Annex 4: Cooperation on Exchange Control	2a	Liberalised current account.	Achievement promotes capital flows within the region.
	2a	Liberalised capital (financial) account.	Achievement promotes capital flows within the region.
	2c, 3.1c	Full currency convertibility.	Achievement promotes capital flows within the region.
	2d, 3d	Collect and publicise data on foreign exchange transactions (e.g. automated cross border reporting system).	Improves the availability of information between MS.
	2a	Roadmap for exchange control liberalisation in current and capital (and financial) account transactions is drafted and approved.	Consensus on this roadmap will create a focal point for MS' exchange control liberalisation programmes and improve coordination of policy reform.
Annex 5: Harmonisation of Legal and Operational Frameworks	3b	Autonomy/independence of Central Bank.	Encourages convergence on a sound operational framework, aligned with international best practice.
	2	Compliant with SADC Central Bank Model Law (when/if made binding).	Encourages harmonisation of Central Banks' legal frameworks, aligned to international best practice and promotes transparency and accountability.
	4.2	Adoption of price stability as mandate.	Encourages convergence on one primary objective, namely to maintain price stability (in pursuit of financial stability).
	3c	Ability of Central Bank to set own budget.	A measure of <i>de facto</i> Central Bank autonomy.
	2e	Extent to which Central Bank can lend to government.	A measure of <i>de facto</i> Central Bank autonomy.
	3	Existence of Model Central Bank Law.	Drafting and approval of this guiding document facilitates the harmonisation of legal frameworks.
	2	Roadmap for the establishment of a common Central Bank developed and approved.	This roadmap is a firm commitment under the FIP, despite the MS not yet gaining consensus on the establishment of a common Central Bank.
Annex 6: Cooperation on Payments Systems	3a	Payments systems in place domestically.	MS implement a safe and efficient national payments system, based on internationally accepted principles.
	3c, 3e, 4.1c	Risk mitigation strategy implemented.	MS implement a safe and efficient national payments system, based on internationally accepted principles.
	4.1d	Existence of national payments system law.	MS implement a safe and efficient national payments system, based on internationally accepted principles.
	2	National payment system law aligned to regional model law.	MS implement a safe and efficient national payments system, based on internationally accepted principles.
	2, 3d	MS linked to SADC regional payments systems (when operational).	Promotes the movement of capital within the region.
	2	Model Payment System Law developed and approved.	Achieves the harmonisation of payment systems in the region.
	3	Model Payment System Strategy is developed.	Achieves the harmonisation of payment systems in the region.
Annex 7: Cooperation in the area of ICT	3, 4	Legal framework for data privacy in place.	To enable cross border business based on ICT taking into account that all businesses are supported by ICT platforms.
	3	Standard regarding ICT systems interpretability in place.	Promote cross border business specifically for payment systems.
	3.5	IT Governance framework adopted for the region.	To promote convergence on best practise in governance arrangements.
	3	ICT communication Infrastructure to connect MS in place.	Promotes easier and faster flows of information and funds between states.

Annex	Article	Indicator	Reason for Inclusion
Annex 8: Cooperation in Banking and Regulatory Supervision	2	Compliant with the 25 BASEL core principles.	Encourages convergence on an efficient and effective banking supervisory and regulatory system, based on internationally accepted principles.
	2	Self-assessment audit on annual basis.	Enables the identification, measurement and management of banking risks.
	Annex 14	Membership of ESAAMLG and completion of a mutual evaluation.	Facilitates cooperation on AML/CFT.
	Annex 13	Compliant with international standards for auditing and accounting – IFRS.	Encourages convergence on internationally accepted principles.
	2, 4	Regional agreement on framework for Central Bank supervision.	Achievement of convergence on an efficient and effective banking supervisory and regulatory system, based on internationally accepted principles.
Annex 9: Cooperation on Development Finance Institutions	3, 9	Participate in regional development projects through cooperation in pooling of funds, project identification and project management.	Gives power to the commitment to effectively increase cross-border flows of finance for developmental projects in the region.
	3f, 7	Attending capacity building activities organised by DFRC (secondment, work placement, training).	Activity to promote achievement of other commitments in this Annex.
	Annex 1	PPP: Establishment of PPP Policy Framework, Legal Framework, Institution Framework.	Promotes cooperation and mobilisation of PPPs to encourage regional development.
	2	The DFI network and DFRC are established and active.	The establishment of the network is a firm commitment in the FIP, to give power to the other commitments of Annex 9.
	11	Regional Insurance Guarantee system in place and approved.	Regional commitment to mitigate political risk, with the ultimate aim of mobilising capital for development projects.
	3	Number of regional development projects in progress (where regional refers to projects with benefits to more than one country, or with more than one country collaborating on a project).	Achievement of commitment to effectively increase cross-border flows of finance for developmental projects in the region.
Annex 10: Cooperation on Non-Banking Financial Institutions and Services	7	Membership of IOSCO (harmonising with international standards).	Encourages convergence on internationally accepted principles.
	7	Membership of IOPS (harmonising with international standards).	Encourages convergence on internationally accepted principles.
	7	Membership of IAIS (harmonising with international standards).	Encourages convergence on internationally accepted principles.
	3, 4, 5	Committed to information sharing (multi-lateral agreement signed by all CISNA members).	Gives power to the commitment to exchange information and provide assistance when requested.
	10	Participating in capacity building activities.	Activity to promote achievement of other commitments in this Annex.
	9	Alignment to SADC regulatory framework for non-banking financial institutions (when drafted and approved).	Signifies harmonisation of financial regulatory regimes, thereby preventing or reducing regulatory arbitrage.
	9	SADC regulatory framework for non-banking financial institutions established and approved for the region.	Drafting and approval of a SADC regulatory framework enables the harmonisation of NBFi regulatory regimes.
Annex 11: Cooperation in SADC Stock Exchanges	2	Cooperation: Member of COSSE.	Membership enables cooperation and assistance in areas listed in Article 2.
	2	Cooperation: Information exchange.	Information shall be shared with the aim of promoting the harmonisation of approaches (where practical).
	2	MS harmonised to SADC common principles.	Promotes harmonisation of the approaches employed by the various stock exchanges.
	2.3	Participate in capacity building activities (either attend or host).	Activity to promote achievement of other commitments in this Annex.
	2.5	MS complete the minimum standards for surveillance and risk assessment.	Promotes harmonisation of the approaches employed by the various stock exchanges.
	2.7	Diversification of the registered market participants (% individuals, % trusts, % corporates).	Indicated effective consumer education, diversification and deepening capital market.

Table 2: Ministers' Dashboard

Indicator	Justification for Inclusion	Data Required
General indicator		
All MS committed to the implementation of the FIP.	Ratification of the FIP indicates commitment to the protocol.	Number of MS' Instrument of Ratification deposited with SADC Secretariat.
Regional Financial Integration Indicators		
Improved efficiency in cross border transfer of funds.	As a region becomes more integrated, cost of transferring funds across borders will decline.	Average cost of a USD 200 remittance from South Africa (SA) through main SADC corridors.
Banking sector regulation is harmonised across MS.	As regional market is more integrated, the ratio of bank licenses to commercial banks will decrease.	Number of bank licenses to number of SADC registered banks.
Increase capital flows into and within SADC.	As barriers are removed, capital will flow more freely around the region.	Value of intra-SADC capital flows (USD).
		Value of international capital flows into SADC (USD).
Increase in the SADC component of institutional investors' portfolios.	Integration will allow investors to take advantage of regional investment opportunities.	Share of SA bond market held by institutional investors registered in other SADC countries (%).
		Share of SADC bond market held by institutional investors registered in SA (%).
		Share of SA money market held by institutional investors registered in other SADC countries (%).
		Share of SADC money market held by institutional investors registered in SA (%).
Increased financial products and services available for SADC consumers.	Higher integration means increased financial services competition, promoting new product development and converging prices for comparable banking services/products.	Price differentials of products/services offered by MS (USD).
	Cheaper and more appropriate financial services and products lead to increased potential access and demand by the consumers.	Access to finance (formally served) (%).
Interest rates across SADC MS converge.	Higher integration means the interest rate differentials for assets of the same maturity and the same credit risk class should converge.	Interest rate differential on public debt in each MS.
		Interest rate differential on mortgage debt in each MS.
		Interest rate differential on consumer debt in each MS.
Investment Indicators		
Investment flows into and within SADC increase.	Improved investment climate will attract and facilitate more investment.	International inward FDI flows to SADC (USD).
		International inward FDI stock in SADC (USD).
		SADC Intraregional FDI flows (USD).
		SADC Intraregional FDI stock (USD).
SADC MS improve ratings according to globally accepted investment climate measurements.	Multiple factors contribute to improved investment climate such as political risk, strength of investor protection and financial market sophistication.	Overall Competitiveness Score (SADC average score).
		Financial Market Development Index (SADC average score).
		Investor Protection Index (SADC average).
		Corruption Perceptions Index 2010 (SADC average score).

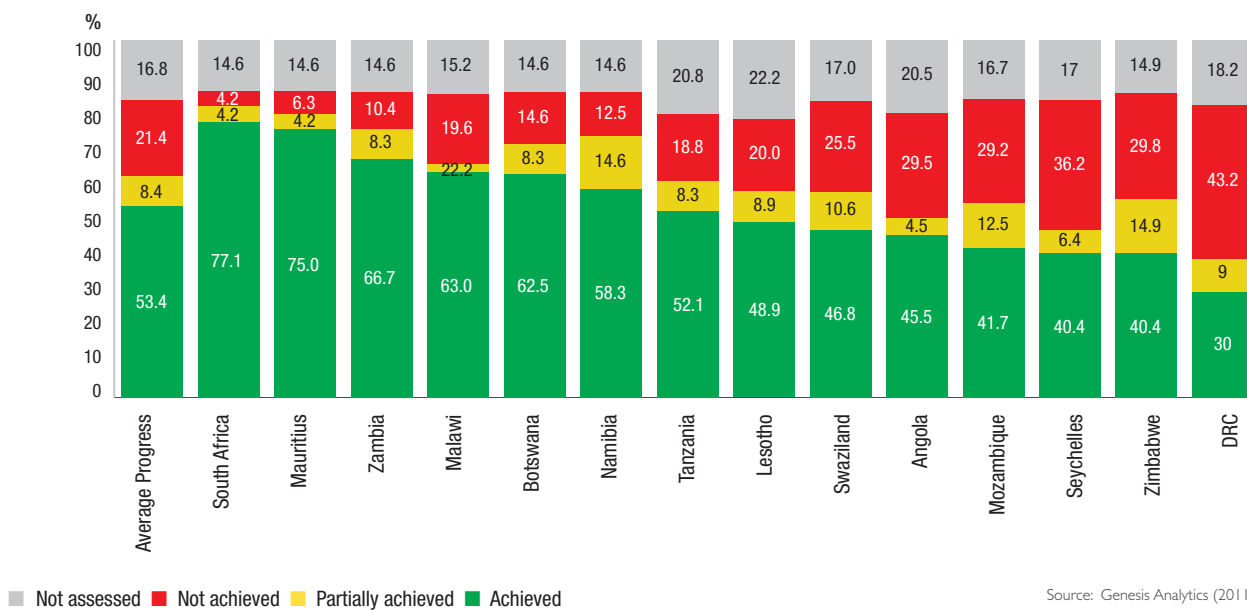
Baseline status of FIP implementation

Country-level progress on FIP implementation

There has been good progress in most countries with respect to the country-level commitments. Figure 3 shows the achievement of implementation of FIP commitments for each country⁵.

It is clear that there has been progress in implementing the country-level commitments of the FIP (these relate to the preparation and cooperation phases). The graph shows that on average and across the region, 53.4% of the country-level FIP commitments have been implemented (see column on the far left) with 8.4% of commitments in progress, and 21.4% of commitments still unachieved. However, seven countries (South Africa, Mauritius, Zambia, Malawi, Namibia, Botswana and Tanzania) have implemented more than half of the country-level commitments.

Figure 3: Status of FIP implementation by country (using country-level commitments only)



Regional progress on FIP implementation

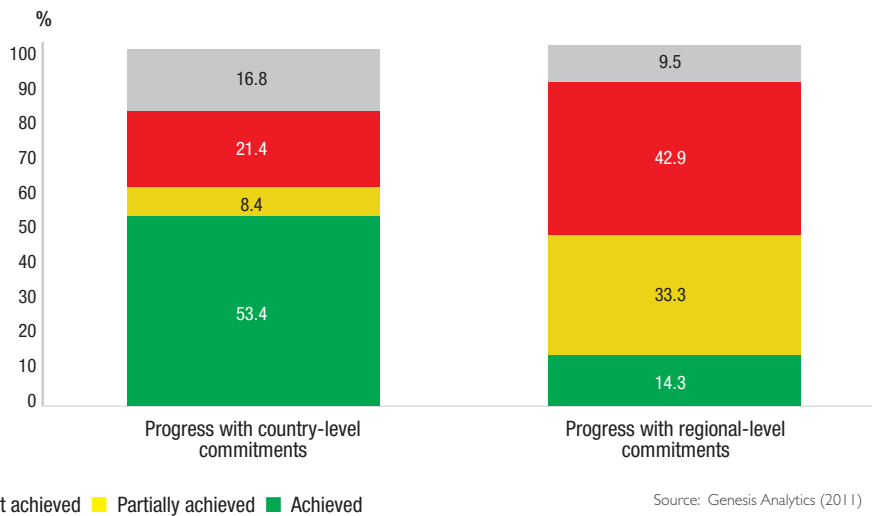
The harmonisation phase clearly presents increased challenges as displayed in Figure 4. When comparing the achievement of country-level commitments (preparation and cooperation) to regional-level commitments (harmonisation), it is obvious that increased efforts need to be made at the regional-level in order to further financial integration in SADC.

With respect to the difficult-to-achieve regional commitments, there has been little progress. The graph shows that there has been minimal progress with regional-level commitments: only 14.3% of FIP commitments have been achieved. Many of the regional-level commitments are in progress (33.3% partially achieved commitments) – this reflects the long, on-going and often delayed discussions at subcommittee level to agree on regionally harmonised frameworks – while almost half (42.9%) of regional-level commitments remain unachieved.

While important regional successes including the drafting and signing of a Model SADC Bank Law and a Double Taxation Avoidance Agreement should be acknowledged, Member States need to recognise and commit to the challenging processes still to come. The preparation and cooperation phases are relatively easy to achieve. However, in the harmonisation phase, Member States will have to make difficult choices in favour of integration which requires them to relinquish some sovereign independence in the interest of achieving regional consensus. A comparison of Figures 3 and 4 indicate that although progress has been made beyond the halfway mark for six countries, only 14% of regional commitments have been achieved. It is clear that the pace of overall FIP implementation is hindered by regional-level commitments more than country-level commitments.

⁵ The level of achievement of FIP implementation represented here is based solely on desktop research.

Figure 4: Average country-level progress compared to regional-level progress



Analysis and insights

50% of SADC Member States have achieved at least half of the country-level commitments and some of those have reached even higher levels, including reaching levels of international best practice. Progress should be acknowledged and highlighted by the SADC Secretariat to add to the momentum which started with the ratification of the FIP in 2010.

However, progress should not be overstated. The following points keep the progress to date in perspective:

- **The FIP has been in the process of implementation for a long time.** Though the FIP was ratified in 2010, most Member States have been implementing parts of the Protocol at least since signature in 2006, and in some cases, since the MOUs were in place over a decade ago.
- **Progress is not focused on areas of key commitments, but is considered more generally.** All commitments in the FIP evaluation framework are weighted equally. Thus, relatively easy-to-achieve commitments are weighted equally to more onerous and arguably more important⁶ commitments⁷.
- **Many of the achieved commitments relate only to cooperation, which is easier to achieve.** If Member States send representatives to subcommittee meetings, exchange information, attend regional capacity building programmes and are generally amenable to other Member States, then the commitment to cooperate is achieved. This requires no difficult domestic reform – the simplicity is reflected in the higher levels of achievement of the country-level matrix. Cooperation should not be confused with the much more challenging process of harmonisation.
- **Where progress has been made, it is not driven by compliance with the FIP.** During this early stage of national preparatory activities, reforms have been driven primarily by direct national interests, in response to exogenous shocks or in compliance with strong international standards. Traction is noticeable where there are clear international standards which are in the national interest to adopt, and where the sanction for non-compliance with international standards is severe.
- **FIP is only a framework for the early stages of integration – preparation, cooperation and a degree of harmonisation.** Progress should not be confused with actual financial integration.

While the FIP may not be the driver of reform per se, it is still useful as a regionally approved framework for pursuing international best practice, and guiding thinking about appropriate reform, especially where politically difficult decisions have to be made. In addition, the channels established by the FIP structures are excellent for good neighbourliness and cooperation within the region. Finally, the FIP's alignment to international standards should be considered an accolade, showing that it is aligned with best practice.

⁶ With respect to progress or requirements to achieve harmonisation or integration.

⁷ To vary the weighting would have required the exercise of judgement on what is important and what is not and the FIP does not give guidance on this. The brief was to measure implementation of the FIP in its current form.

With respect to the difficult-to-achieve regional-level commitments, there has been little progress.

- **One implication is that Member States who are members of more than one regional bloc will soon have to make choices that may be incompatible with other blocs.** While multiple membership of regional blocs is feasible in the preparation and cooperation phases, the harmonisation phase, by definition, requires a commitment to a single approach.
- **Outside of government, levels of awareness of the FIP are negligible.** The process of Regional Financial Integration is one that necessarily starts with government led actions. The state sets up the *de jure* infrastructure ultimately for use by the private sector. The implication is that the private sector should increasingly be made aware of and engaged with on the plans for integration, and be regularly updated on progress made.
- **Within government, only those directly handling FIP implementation have a comprehensive understanding of the FIP its goals.** Within the departments of finance, tax, investment and Central Banks, awareness of the existence of the FIP is generally good. However, even within these institutions the understanding of the implications and the ultimate purpose of the FIP is low. The need to raise levels of awareness is important regarding the specific FIP integration agenda and what this means for the country.
- **There is weak coordination of the FIP within countries.** Critically, the FIP does not make allowance for any national institution to provide strategic guidance and management across all its annexes and subcommittees. This omission has resulted in numerous coordination issues, both at country and regional level. Only three countries have established cross-annex implementation committees. A sense of the national integration aspirations is weak, as is the understanding of the long-term route to integration. Each country would thus benefit from a technically competent champion, who has the mandate to pull together and coordinate implementation across all areas. A more coordinated approach in the form of a National FIP Forum would achieve huge benefits.
- **Accountability for performance is weakened by the fact that the FIP does not contain any timelines. Consequently, there is no deadline for implementation.** The open-ended nature of the FIP means Member States are never in clear breach of their commitments. It would be advisable for the Ministers of Finance to implement timelines for the FIP to improve accountability.
- **There is a general impression that responsibility for implementation of the FIP lies with the SADC Secretariat.** The SADC Secretariat has no political mandate to achieve Member State reforms. It is at the Member State level that implementation must take place. Holding states accountable will be easier in future with the adoption of a single, coherent measurement framework that Member States will be required to update annually.
- **Interventions and resources should be directed at improving implementation capacity in the Member States and not capacity within the Secretariat (except with respect to data management – see below).** The Secretariat can help by facilitating an in-depth needs assessment per country in each technical area, working with International Cooperating Partners (ICPs), bearing in mind that the momentum for reform must come from the Member States themselves.
- **A key Secretariat function needed is data management and information sharing.** One of the challenges of this study was finding reliable data. For instance, macroeconomic convergence indicator data differs amongst sources consulted. Questions around data quality decreases confidence and trust amongst Member States.

Recommendations emanating from the FIP stakeholder workshop

On 18 and 19 August 2011, a FIP stakeholders workshop was convened in Johannesburg, South Africa to validate the adoption of the Matrix of Commitments and the findings of the consolidated regional report. The purpose of the workshop was also to agree on specific recommendations informed by the baseline study, for discussion at the SADC Senior Treasury Officials and the Ministers of Finance meetings in October 2011. These recommendations were in fact adopted by the Ministers and Treasury Officials at this meeting.

- **Adoption of the Matrix of Commitment and indicators:** That the FIP Indicators, see Table 1, be adopted as the standard indicators according to which the implementation by Member States of the FIP will be tracked, and that the progress be shared amongst Member States.
- **Ministers' Dashboard indicators:** That the Ministers' Dashboard indicators, see Table 2, be adopted as the indicators to be used for the measurement of actual financial integration and improvements in the investment climate. Member States to begin to collect the data and information required to populate the indicators.



Recommendations continued

- **Validation of baseline:** That the status of FIP implementation by individual Member States as at 31 July 2011 be noted as the baseline for future monitoring of progress.
- **Calibration of indicators:** That the SADC Secretariat be directed, with the assistance of the relevant FIP sub-committees and their secretariats, to calibrate the FIP indicators according to urgency and priority of implementation.
- **Monitoring:** That Member States task their national FIP coordination functions/committees to monitor progress with national-level FIP indicators on an ongoing basis, and that the SADC Secretariat be tasked to monitor progress with regional-level FIP indicators. FIP subcommittees must assist with monitoring of both national-level and regional-level indicators and provide the information to the Secretariat. The Secretariat must develop data gathering standards and procedures for the indicators.
- **Reporting:** That the Secretariat report progress against all the FIP indicators (national-level indicators and regional-level indicators) as well as the actual level of financial integration and improvements in the investment climate (using the Ministers' Dashboard) to the Ministers of Finance on an annual basis.
- **Frameworks for harmonisation:** That the SADC Secretariat be directed to cooperate with the secretariats of other Regional Economic Communities within the Tripartite to ensure coherence and convergence of regional frameworks or standards. Preference should be given to alignment with international standards, where these exist.
- **National FIP policy-making and coordination:** That Member States establish (where they do not exist) and strengthen their national FIP policy-making and coordination committees – preferably to be located within a financial sector policy-making body – and that all institutions and stakeholders tasked with implementing aspects of the FIP be invited to participate in this policy-making and coordination committee. National FIP policy-making and coordination committees should be tasked with developing national road maps for FIP implementation.
- **Implementation support:** That the SADC Secretariat, other FIP secretariats and ICPs focus their support for FIP implementation at the level of Member States primarily, but not limited to, the following:
 - Capacity building, especially in economic and financial management;
 - Technical assistance to help identify and formulate policy, institutional and legal reforms needed to implement FIP commitments;
 - Assistance with the establishment and operation of national FIP coordinating committees, policy-making and the formulation of national implementation road maps;
 - Facilitating cooperation with international financial institutions, such as the IMF, World Bank and African Development Bank (AfDB), to support capacity building and financial sector reforms occurring as part of FIP implementation; and
 - Facilitating peer support and peer learning between Member States.
- **Private sector engagement and involvement:** That Member States promote ongoing communication and awareness-building regarding the FIP, targeting their national private sector. Similar activities should be undertaken at a regional-level by the SADC Secretariat. In addition, the input of the private sector should be sought in national and regional policy-making and implementation processes.

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