Understanding the Southern African Development Community

Living with a powerful neighbour

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This background paper is part of a series on the Political Economy Dynamics of Regional Organisations (PEDRO) and builds on an earlier paper conducted under the Political Economy of Regional Integration in Africa (PERIA) project. It was prepared in March 2017. In line with ECDPM's mission to inform and facilitate EU-Africa policy dialogue, and financed by the Federal Ministry for Economic Cooperation and Development, BMZ, the studies analyse key policy areas of seventeen regional organisations in Sub-Saharan Africa. In doing so they address three broad questions: What is the political traction of the organisations around different policy areas? What are the key member state interests in the regional agenda? What are the areas with most future traction for regional organisations to promote cooperation and integration around specific areas? The studies aim to advance thinking on how regional policies play out in practice, and ways to promote politically feasible and adaptive approaches to regional cooperation and integration. Further information can be found at www.ecdpm.org/pedro.

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1. Introduction

SADC was established in 1992, at a time of drastic changes in the global and continental context for regional dynamics and integration. SADC ushered in a new era for regional cooperation in Southern Africa after the Cold War, liberation wars and the transfer of power in South Africa from white minority rule to a non-racial democracy. This marked the transition from a *politically inspired regional cooperation* between nine frontline states to a broader coalition of fifteen members behind a comprehensive political, economic and development agenda. SADC committed to deliver on peace and security, and regional reforms in areas of trade, transport, tourism, environment, anti-corruption, infrastructure development, good governance, gender equality, energy, etc.

But what have been the areas or sectors in which SADC has been able to deliver on this vast agenda of deepening cooperation in the region? The purpose of this background paper is to provide answers on when and why particular policy issues are put on the regional agenda, and what actors and factors explain the drive behind implementation. At a general level, the role of the region's swing state, South Africa, jumps to the fore.

This background paper draws on the findings of the *Political Economy of Regional Integration in Africa* study[1]. Section 2 deals with the political traction of SADC in shaping policies and contributing to implementation of the regional agenda. Section 3 looks at the political interests of two member states, South Africa and Zimbabwe. Section 4 highlights the principle drivers behind sector specific political traction, more particularly behind regional industrialisation policies and behind the creation of a regional energy market. The latter involved the creation of a single-purpose regional organisations, the *Southern African Power Pool*. Section 5 concludes.

2. On assessing the political traction of SADC

Regional cooperation in Southern Africa has a turbulent history and faces an uncertain future. There were high expectations for peace and security, and for the numerous opportunities for jointly addressing a range of political and development challenges. But there was also a concern that South Africa with its powerful and diversified economy, would somehow dominate the SADC agenda and the direction and pace of its implementation. This section sets out some of the foundational factors as these continue to shape the institutional environment in which regional institutions evolve and in which stakeholders operate and decide on policies and on what gets implemented and what not. The main research questions for this section can be framed as follows: *has the regional organisation enabled decision making around regional agendas or agreements and their implementation at national and/or regional level? And if so, how?*

2.1. Structural drivers and obstacles to regional dynamics

Nine neighbours of apartheid South Africa established the *Southern African Development Coordination Conference (SADCC)* in 1980, with strong support from the then European Community. That year, Zimbabwe had become independent, and expanded and formalised an earlier partnership between so-called *frontline states* into SADCC (Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, and Zambia). In full Cold War, these countries and SADCC faced military and

[1] For more information see http://www.ecdpm.org/peria.

economic destabilisation from the minority government in South Africa, which sought to preserve its hold on power.

The geo-strategic interest of the region drastically altered with the end of the Cold War, which sped up the process of independence of Namibia and the democratisation process in South Africa. After the independence of Namibia, the Windhoek Treaty transformed SADCC into the Southern African Development Community in 1992. South Africa became the eleventh member state in 1994, followed soon by Mauritius, the Democratic Republic of Congo (DRC) and the Seychelles. Madagascar joined in 2005, bringing SADC membership to fifteen.

Historical factors that have shaped each of the SADC member states differ across the region and continue to influence the institutional arrangements in the different countries. Most of the member states were former British colonies and have taken English as their official language, Mozambique and Angola are former Portuguese colonies with Portuguese as official language. The DRC became independent from Belgium, with French as the national language. The island states of Mauritius and the Seychelles have both a French and British past. And finally, Madagascar was a colony of France until its independence in 1960.

Besides the fact that these different colonial forces imposed different administrative regimes, they also introduced different exploitative colonial practices, some of which profoundly affected the domestic political economies of these countries. The discovery of diamonds and gold in South Africa at the end of the 19th century even partially transformed the sub-region into a reservoir of cheap migrant labour for South Africa's mines. This process also laid the foundation for South Africa's industrialisation and infrastructure development in the sub-region (rails, roads, ports). Some of these century old infrastructural choices still affect investment choices and options today (Sequeira, 2011).

The region is marked by an extreme diversity of countries. Political regimes differ substantially, with varying degrees of stability and economic development trajectories. Angola participates very little in SADC processes and focuses more on its relationship with Portugal and Brazil. Large areas of the DRC remain ungovernable, resulting in the regional agenda paling in importance to domestic issues, despite the fact that much of the conflict and efforts to address it have regional dimensions. Madagascar has been sanctioned after an unconstitutional transfer of power, and has only recently been reinstated as a SADC member state. Furthermore, SADC member states are highly heterogeneous in terms of land size, population size, domestic markets, per capita income, the share of value added that the manufacturing sector produces, and the global exposure of their economies. Rapid urbanisation is a regional phenomenon. Most SADC countries are still dependent on primary production and rely on two or three exports for most of their export earnings. South Africa is Africa's most sophisticated and second largest economy. The country is both member of the G20 and BRICS (the Brazil, Russia, India, China and South Africa grouping), and it is one of the EU's ten strategic partners. This structural factors profoundly shape the potential for economic transformation and regional industrialisation.

2.2. Institutions

The system of regional cooperation through SADCC differed significantly from other regional organisations and from its successor, SADC. The organisational and institutional arrangements of SADCC were decentralised, with member states taking on responsibilities for coordinating one sector. SADCC sought to build cooperation in areas of obvious mutual advantage to at least two of its nine founding members. It also tried to avoid taking on board sectors or policy issues that stirred controversy among the member states or that were likely to raise unmanageable tensions. Given apartheid South Africa's destabilisation strategies against its neighbours, the stakes were extremely high for the frontline states to guard the regional agenda carefully as regime survival and stability depended on it.

These frontline states established structures that build mutual confidence. Major decisions were taken at senior political level on the basis of consensus, with the involvement of sector specific ministerial level meetings and Heads of States meetings. The responsibility for coordinating the implementation of agreed policies and programmes rested with a *Sector Coordinating Unit*, managed by the member state with the sectoral responsibility. Hence the bureaucratic power was not vested in a central Secretariat, but distributed among the member states.

The adoption of the SADC Treaty in 1992 brought about a change in legal regime of the regional organisation. Its predecessor, SADCC, was governed by a *Memorandum of Understanding*, which created no obligation on the part of member states. The *SADC Treaty* laid down key fundamental principles upon which member states were to relate to one another (Afadameh-Adeyemi and Kalula, 2010). Once member states signed and ratified the Treaty, participation and implementation were no longer optional but a legal obligation. Protocols set the *rules of the game* for the various sectors and form the legal foundation for cooperation. Most protocols call for the harmonisation by member states of national policies in these sectors (Hartzenberg and Kalenga, 2015).

The institutional architecture for ensuring implementation of the protocols includes the *Summit of Heads of State or Government*, the *Council of Ministers*, the *Standing Committee of Officials* and the Secretariat. For security issues in the region, the *Organ on Politics, Defence and Security Cooperation* was established, which has become a powerful political mechanism of SADC. In addition, there are the *Integrated Committee of Ministers* and the *SADC National Committees*. The decision-making power rests almost entirely with the Summit and with the Council of Ministers through the support of the Standing Committee of Officials. The latter provides inputs to the preparations of the Summit meetings.

2.3. The budget, ownership and implementation challenges

The SADC Secretariat is the main executive institution and is responsible for organising, coordinating and administering policies and programmes, and for mobilising resources. The restructuring of the SADC Secretariat in 2008 has created an even more comprehensive structure, but seven years later most directorates still struggle with human resource deployment and coordination between directorates. The Summit remains the only political authority, with a Secretariat that can only act with the full cooperation of the member states. Even when Summits agree – for example on the need for a well-resourced and funded Secretariat – there is little space to allow for implementation. The budget for the Secretariat and the programmes and policies that it implements are largely donor funded. Donors pay 76% of the budget. Member states are expected to fund the operational budget ($37million), yet in 2015 they only contributed $13million.

Member states are the pillars for the implementation of the SADC agenda. Heads of State and Government are of central importance in defining the SADC agenda. Yet, there are numerous discrepancies in commitment to implement the ever expanding agenda. Already in the phase of ratification of the protocols by member states this becomes evident. Protocols require ratification by a two-thirds majority before entering into force. They only bind those SADC states that have become parties to the protocol. Some important protocols have not obtained these two thirds support yet. The *Protocol on Facilitation of Movement of Persons* (2005), which targets the progressive elimination of obstacles to the free movement of people in the region, has not yet entered into force because of insufficient ratification by member states. This results from profound differences of assessments of political and other risks by key member states.

But even those protocols that have been ratified by sufficient member states face implementation constraints at national level (SADC, 2013; Hartzenberg and Kalenga, 2015). SADC agreements do not contain a binding obligation to translate or integrate these regional decisions into national legislation of member states. Hence, failure of member states to comply with their regional obligations has no consequences. Hartzenberg and Kalenga (2015) conclude "Under these circumstances, protocols are simply regarded as *best endeavour instruments*, and not *rules-based instruments*, with consequences for non-compliance."

As responsibilities for defining regional policies and ensuring implementation rest with member states, section 3 will further deal with one key actor in the region, South Africa and with the SADC Tribunal. The tribunal has been created to encourage a more *rules-based* approach to SADC regionalism - and hence to improved implementation.

2.4. External influences and renewed reform efforts

Donors are an external variable in the political economy analysis, which have played and continue to play important roles in the design, creation and financing of regional organisations in Southern Africa. Europe was instrumental in the creation of SADCC in 1980. As of the nineties, with the creation of SADC and South Africa's inclusion, new opportunities arose for pursuing trade, diplomatic, security, scientific and broader development cooperation objectives. The EU was the most important sponsor of SADC and has been influential in shaping SADC institutions, strategies and policy priorities. Other donors included the African Development Bank, the World Bank, the US, Canada, Japan, the Netherlands, Germany, France, Spain, Sweden and Denmark. By 2015, donors funded four fifths of the SADC budget (ISS, 2014; SADC, 2013).

In 2006, donors and SADC had agreed to adopt the principles of the *Paris Declaration on Aid Effectiveness* (2005), which resulted in the *Windhoek Declaration on a New Partnership* between the SADC and donors. Twice a year a core group meets to discuss SADC ownership over regional developments and measures to deliver assistance in more transparent and sustainable ways through jointly agreed arrangements. This way, the partnership intends to optimise the potential of aid, and reduce the multiple risks that result from an over-reliance on it.

3. On the political interests of member states

South Africa is key to a better understanding of the political traction in the region and within SADC, as it is a particularly powerful player - a *swing state* - that can influence the SADC agenda and its implementation. The case of Zimbabwe in relation to the SADC Tribunal further illustrate how other individual member states can hamper or otherwise influence the gradual institutionalisation of important regional functions for regional integration.

3.1. The roles of South Africa as a *swing state*

The transition from white minority rule in South Africa to a democratic, non-racial political settlement marked a decisive change in the direction of regional integration in Southern Africa. The first democratic elections created the political conditions for regional cooperation in a context of enhanced peace and stability in Southern Africa, and the resolution of development challenges through dialogue and cooperation. In fact, South Africa became involved in continental and regional peace efforts and the promotion of democratic transitions (Burundi, Sudan, the DRC). But it also marked an era of increased investments and trade promotion by South Africa's conglomerates throughout the region and the continent. There were fears that South Africa might want to abuse its economic, military, diplomatic and political dominance as well as its relatively strong institutions. Many of the structural and socio-economic imbalances in the region continued to shape the smaller margins of manoeuvre for the other SADC member states and their influence on and in regional organisations.

In South Africa's new political settlement, a coalition between the biggest trade union federation, the African National Congress (ANC) and the Communist Party dominated political life, with the ANC becoming the only party in national government. For winning the political competition within the ANC, ANC factions have to rely on the trade unions. This dependency gives the trade unions a particularly powerful voice in politics. Some of their positions go against longer term objectives of regional market integration in sectors or policy areas where these unions see their vested interests negatively affected.

This pressure has been felt in those sectors where cheap manufactured products from the region are imported and replace locally produced products. In the labour intensive clothing and textiles industries, for example, the unions fear further job losses because of cheaper imports, including from the region. Hence, while tariffs have gone down under the application of the *SADC Trade Protocol* (entered into force in 2000), other measures – such as discriminatory application of *rules of origin*, or the introduction of all sorts of *non-tariff barriers* – have been applied to protect certain South African industries. Non-tariff barriers in SADC affect one fifth ($3.3bn) of regional trade (World Bank, 2011), and are not at all unique to South Africa.

South Africa also shapes regional cooperation through bilateral or multi-country initiatives. The Mandela government launched a major public private partnership around the *Maputo Development Corridor.* Other programmes, such as the *Lesotho Highland Water Project,* highlighted the country's strategic vulnerabilities in areas that are vital for the country's economic growth potential such as water and energy. South Africa may alter its position in support of – or in opposition to – a regional agenda depending on internal political economy dynamics, but also in response to external pressures such as changes in global markets.

The pursuit of particular sectoral, short-term interests can compete with other, often longer-term and broader interests. These tensions were well captured by South Africa's *National Planning Commission (NPC)*, which prepared South Africa's *National Development Plan. Vision 2030.* The NPC Commissioners admitted that the widely debated development plan had encountered views of South Africa being the "regional bully", and that there were inherent strategic trade-offs for South Africa in pursuing deeper regional integration. According to the National Planning Commission, "it may be necessary, for instance, to cede certain national opportunities for regional benefits on the assumption that regional growth will benefit the South African economy. However, regional growth may benefit only some sectors of the domestic economy (such as financial and professional services) to the detriment of other sectors (especially labour-intensive lower wage sectors like mining)" (National Planning Commission, 2012, p. 245).

3.2. Zimbabwe and the SADC Tribunal

Other SADC member states can also exert influence on the regional agenda and on its institutional or governance arrangements. Zimbabwe, for example, was able to block the workings of the SADC Tribunal. This tribunal was established to strengthen the functions of SADC as a rules-based organisation (Erasmus, 2012). It started to operate in 2005 and had the power to ensure compliance with the SADC Treaty. Until its demise in 2010 the Tribunal had heard 14 cases with no inter-state complaints filed, and only one complaint by a private company involving customs procedures. Two cases involved Zimbabwe nationals who filed complaints against the Zimbabwe government, one of which involved an unlawful expropriation of private land without compensation. In both cases, the SADC Tribunal determined that the confiscation of private agricultural land in Zimbabwe was in violation of the SADC Treaty.

Zimbabwe contested the ruling and pressurised SADC to suspend the tribunal in 2010. According to Gray “it was clearly not in the interest of any of the other member states to override those objections, since they would have also been potentially compromised by such a court’s future rulings” (Gray, 2013, p.18). So when the matter reached the SADC Summit, which is responsible for taking action in cases of non-compliance by member states, the Summit called for a new Protocol for the SADC Tribunal and did not renew the terms of the sitting judges, thereby de facto suspending the Tribunal as no new judges were appointed.

4. Political economy features in specific sectors

Zimbabwe and South Africa were key players within SADC in the design and promotion of the sector policy on industrialisation. Both players, though, were pulling in different directions. Regional energy dynamics present a different type of institutionalisation around the *Southern African Power Pool*, a regional organisation with a single-purpose orientation and a slightly more adaptive approach. In these two sectors, South African preferences and power plays dominate.

4.1. The political traction behind regional industrialisation policy

SADC has placed industrial development “at the core of its developmental integration agenda” (SADC, 2014) to promote diversification of the member states’ economies, employment creation, poverty reduction and sustainable growth. On paper, SADC member states are strongly supportive of regional industrialisation to deliver on high end development objectives, while some don’t have national industrialisation policies. This section presents some of the sector characteristics, looks at the diversity of national economies and their political economy drivers, assesses the institutional arrangements and the competing external pressures.

Sector characteristics

Industrial policy is a contested concept that has seen a global resurgence since the financial crisis of 2008. One way of approaching this *sector* is to think of industrial policy as comprising *horizontal* and *vertical* dimensions. The horizontal dimension consists of those policy issues that affect the economy as a whole, while the vertical one focuses on particular measures in support of particular industries. Horizontal measures target improving the overall business climate and may encompass visible aspects, such as the provision of infrastructure, as well as more intangible ones, such as licensing, registration and labour market regulations. Even though such horizontal policies may not target specific categories of private sector actors, they nonetheless affect different groups in different ways.

Industrial policy that takes a more vertical approach or attempts to ‘pick winners’ results in the creation of clearly defined competitive dynamics between sectors, and even within sectors in some instances. These can be complicated at the national level, even where there are mechanisms for compensating ‘losers’ and where decision making processes are more transparent and (ideally) inclusive of key stakeholders. The regional level political choices about the allocation of resources and the likely trade-offs are even more complex.

Well-connected stakeholders will seek to influence the direction of industrial policies. Trade unions, for example, particularly those in South Africa tend to see employment in some service sectors not as ‘decent work’. They continue to place a strong emphasis on creating ‘factory’ jobs, reflecting the traditional location of the power base of unions in manufacturing sectors. For unions there are also interests in ensuring that these jobs remain at a national level rather than taking a regional view of industrial development. The growing bulge of unemployed, largely unskilled youth is also contributing to the pressure on the political elites in the region to create economic opportunities, although this plays out in different ways in different SADC member states.

Other key characteristics that can influence the approach by governments to industrialisation in SADC, include the nature and volume of intra-regional trade and the structure of member states' industries and businesses. Following the implementation of the *SADC Free Trade Area (FTA),* the volumes of trade have largely remained static, both in terms of overall share as in the composition of products that are traded. During the negotiation of the FTA, it was observed by Kalenga (1999) that there were limited complementarities between SADC countries with regards to trade. The South African market was opened up significantly under the SADC FTA but there remain other structural barriers to entry. There are protected industries that rely heavily on support from the government by way of tariffs, trade remedies, non-tariff barriers and even incentives. Larger companies have been found to be monopolistic in structure and therefore fearful of competition. These characteristics are clearly reflected in the South African industrial policy and play a role in the approach to regional initiatives.

South Africa as a swing state

South Africa developed national industrial policies and practices that are premised on a combination of institutions and incentives that are largely unique to South Africa. These relate to the structure of its economy, the history of its extractives industry with a vast regional pool of migrant labour, and the recent shift from exclusive political institutions to inclusive ones. In fact, the South African Constitution promote and support broad based development objectives, with other institutions establishing legal arrangements covering among other things the tripartite dialogues between state, business and labour (Hirsch and Levy 2017).

There are few economic or political incentives for South Africa to push for, or even accept, regional policies on industrialisation that compromise its domestic policy space on related matters. Moreover, South Africa is loath to invest scarce resources for regional processes on processes that are unlikely to have any real impact in the short term. South African officials do complain that its exporters are suffering from the delays in achieving full implementation of the SADC Free Trade Agreement and that trade is being diverted to China and other countries outside of the region.

Initially, South Africa seemed primarily concerned for the implementation of the Trade Protocol not to be held hostage by Zimbabwe and other member states. Zimbabwe, in particular, is an important regional destination for South African exports and there is a concern among officials that South Africa is losing ground to others as Zimbabwe drags its feet with the implementation of the preferential market access for SADC partners. Some have questioned the real motives of South Africa in the SADC FTA, as South African exporters have been relatively successful in penetrating African markets, even in the absence of preferential market access.

Also within South Africa there are differences in prioritisation of the goals and approaches to industrial policy. In the *National Development Plan 2030* South Africa's National Planning Commission openly addressed the underlying tensions in the pursuit of an industrial policy between different sectors and departments. At the regional level, South Africa's development plan promotes 'developmental integration', with a need to focus on specific areas where there could be enhanced regional cooperation in support of industrial development, such as building the necessary infrastructure. South Africa's Department of Trade and Industry takes a lead on industrialisation at national and regional level, and seemingly combines the horizontal and vertical strategies.

Other actors and incentives

In August 2014, at the SADC Summit, **Zimbabwe** took over the one-year presidency of SADC. It pushed the industrialisation agenda, with the support of **Malawi**, to deflect attention away from the pressures to fully implement the SADC Free Trade Agreement. Both countries had signed up, but were reluctant to implement the FTA. Traditionally, Zimbabwe was a mini-industrial powerhouse in SADC, and its motive to pursue industrialisation is (at least at one level) to try and reverse the de-industrialisation that has happened over the past decade. It is equally likely, that in the short term, revenue considerations are playing a role. Zimbabwe has historically been an advocate of regional industrialisation policy and argued that there should not be any further liberalisation of trade in the region without an industrial policy in place.

Already in 2013, the *Southern African Customs Union (SACU)* **- Botswana, Lesotho, Namibia, South Africa and Swaziland -** had embarked on a similar process. Among this smaller sub-grouping of SADC members there were tensions between South Africa and the rest. There were signs of competition between SACU countries due to the approach taken to focus on specific sectors. This competition was characterised as a bidding war around the allocation of certain industries between member states, e.g. clothing and textiles to Lesotho, but also with investments in Swaziland, agro-processing to Namibia, pharmaceuticals to Botswana. Such division was seen as unrealistic and almost impossible to implement.

With respect to other countries, **Mauritius** has limited interest in pursuing the type of industrialisation agenda currently being proposed for SADC. It is more concerned with ensuring that the approach adopted is not used by other member states to roll back commitments made in other areas, including building a role in the region as a service hub. The national studies prepared for **Zambia** and **Mozambique** as part of the development of the SADC Industrialisation Strategy and Roadmap, indicate a strong focus on the need to find ways to encourage greater value addition to commodities and natural resources (mainly minerals), which are the export sectors both countries currently rely on.

Until the launching of the Southern African Business Forum in 2005, there was no common voice for the **business community** at the regional level. There are public-private national dialogue mechanisms in most SADC member states. Therefore, the ability of the private sector to participate directly in the dialogue on industrialisation in SADC was constrained. Instead, the business community had been involved through member states governments, a fact that has been bemoaned by senior representatives of the SADC Secretariat and member states alike. The criticism of the Secretariat pointed to the lack of commitment of the national level business community to regional objectives and plans. Some member states struggled to get the representation that is needed in such consultation processes and therefore feel that the current regional engagement through the Southern African Business Foundation could be a useful supplement.

For an industrial policy to be meaningful and effective for private stakeholders, concerns related to skills, labour market regulation and the movement of people in the region will have to be taken on board. In this context, the views of **organised labour** can be particularly important when it comes to the design and the implementation of these aspects of industrial policy. There is no common voice for labour in the region on industrialisation. There has been some engagement at the national level on the development of the regional action plan but the platform for regional discussions between member states, business and labour tends to narrowly focus on employment issues at the annual meeting of SADC Labour Ministers. While organised labour does have significant power in some member states, particularly South Africa, it is not such a major force at the regional level.

External variables - trade and aid

Certain SADC member states have used trade policy as a tool for industrialisation. This is, however, constrained by existing trade agreements with external partners. SADC is not party to any such trade agreements, while its members have a variety of commitments, including among themselves. The overlapping arrangements are part of political economy considerations at a broader regional level, and they also limit the available policy space for national level governments. The trade agreements with other countries outside of the region set similar limitations on the policy space with SADC. The EU's Economic Partnership Agreements (EPA) with some of the SADC member states include limitations on the tariffs that these countries can charge on imports from the EU, which is still the region's most important trading partner. EPA's also contain restrictions on the use of other tools for industrialisation, such as export taxes, infant industry protection and quantitative measures.

According to Krapohl et al. (2014) South Africa's economic policy since 1994 has followed a unilateral trade policy focused primarily on extra-regional trade, despite the rhetorics of regional integration. Because of South Africa's level of development and industrialisation, the EU reinforced this unilateralism by offering South Africa a preferential trade agreement outside of the existing development framework with the rest of the region and Africa. This bilateral aid and trade agreement[2] was beneficial to South Africa but posed problems for the region, for example it obstructed SADC attempts to establish a customs union. So, given the aid and trade incentives offered by the EU, "South Africa preferred the extension of its extra-regional trade relations to the EU over a co-ordinated regional approach" (idem, 2014, p. 890). Meanwhile, South Africa seems to have adopted a more open-ended approach to different forms of bottom-up regional industrialisation.

4.2. Pooling energy - the pull and pushes behind a regional power pool

As with the rest of sub-Saharan Africa, Southern Africa is a region severely short of electricity but rich in potential to generate electric power. It also lacks electricity transmission and distribution networks. The region is increasingly confronted with energy shortages due to the failure of existing generation capacity to keep up with demand. Increasing cross-border trade in electricity represents a potential cost-effective way to improve access to reliable and affordable electricity supply. SADC prioritises regional energy trade and security within the region. A stable, affordable energy supply underpins socio-economic development by acting as an enabler for infrastructure development, investment, and ultimately increased industrialisation. In 1995, the SADC Summit created the first regional power pool in sub-Saharan Africa, the *Southern African Power Pool (SAPP).*

Sector characteristics - the Southern African Power Pool

Regional power pooling is the trade of electric power between utilities in neighbouring countries based on an integrated master plan and pre-established rules. Such a power pool provides a mechanism for pooling resources to create a more robust regional power grid and regional power market. It also exploits economies of scale in the generation and distribution of electric power. It requires the development of cross-border infrastructure for the integration of national power grids into a regional network. Power pools involve the establishment of a common legal and regulatory framework and the creation of a multi-country organisational structure to oversee planning, harmonise rules and develop a commercial framework for cross-border power trade.

Regional power pools have the potential to bring about a number of benefits for their members, including lower operating costs, lower capital costs, improved power system reliability and enhanced security of supply. Importantly, both electricity-exporting and importing members should be able to benefit from connecting their national grids within the framework of an institutionalised regional power pool. Potential electricity-exporters benefit from being able to export excess capacity to multiple partners. Potential importers benefit from being able to defer investments in domestic generation capacity. Furthermore, in regions with underdeveloped energy infrastructure, the pooling of risks and improvements in efficiency can help create a more attractive environment for investments.

[2] The *Trade, Development and Cooperation Agreement,* signed between the EU and South Africa in 1999.

There are, however, numerous political economy considerations that affect the dynamics and outcomes of regional power pooling. One of the most challenging aspects of regional energy integration is whether governments consider power trade to be politically acceptable or desirable, especially in importing countries. For potential importers, the main concern is security of supply. They need to have confidence that exporting countries within a regional power trade arrangement will continue to supply electric power in predictable and reliable ways. They have to be confident that their exporting partners will not use energy dependency as a political or diplomatic pressure tool. Importing countries also have to accept that, at least in some cases, importing power generated elsewhere means foregoing potential construction jobs at home.

Historical and foundational factors of energy trade in Southern Africa

This sub-section situates the SAPP against the background of the political history of the region and more recent developments that have altered regional energy cooperation in Southern Africa. It deals with foundational factors and path dependency, but also the critical junctures that have occurred and how external and internal actors and factors have interacted in this particular sector. One can distinguish **three crucial episodes** in Southern Africa's energy history, with institutions and political incentives shifting drastically in each episode, resulting in evolving regional outcomes in the energy sector.

The first episode lasted until 1992, and began with South Africa's political economy of mines, migrant labour and early twentieth century industrialisation. These foundational factors had lasting imprints on the energy outlook of the region. Under apartheid, the energy sector became ever more strategic in Pretoria's politics of autarky and of regional domination. South Africa's electricity parastatal ESKOM played a vital role in that strategy. By the time of the country's first free and democratic elections in 1994 South Africa had twenty-two heavily subsidised power plants that provided an excess of comparably cheap electricity (Grynberg, 2012). Examples of early cooperation on energy in the broader region dates back to the late fifties, when Zambia and Zaire[3] signed the first bilateral energy trading agreement.

After independence of Mozambique (1974) Angola (1975) and Zimbabwe (1980), the frontline states intensified mutual cooperation through the SADCC, with one priority objective to reduce energy dependency from South Africa. Such energy dependency risked giving South Africa excessive political leverage in case it became the sole provider of electricity. Still, South Africa's minority government managed to arrange long-term bilateral agreements on cross-border electricity trade with some of its smaller neighbours. Investment and cooperation decisions in that era were primarily politically motivated.

Three events and developments in 1992 proved to be important game changers in the built up of the creation of the Southern African Power Pool in 1995. A severe drought hit Southern Africa. Resources for electricity generation in Southern Africa are largely split between the hydro-rich north and the thermal-rich south. As a result of the drought, there was a shortage of hydro-power, which necessitated closer cooperation between the energy surplus producing powerhouse of South Africa and its affected neighbours. This coincided with the creation by the frontline states of the SADC. In that same year, the main negotiation partners in South Africa managed to come to an agreement constitutional steps to end apartheid, thereby fundamentally shifting the direction of South Africa's foreign and regional policies.

Energy policies in a post-apartheid era were characterised by dialogue on how to overcome the structural divide within the regional power pool and connecting those countries with significant excess capacity to those with shortages. South Africa's artificial overcapacity of equally artificial cheap

[3] The former Belgian colony of Congo, now the Democratic Republic of Congo.

electricity is the key driver for setting the parameters for regional energy cooperation in the first stages of the SAPP. Countries with a shortage of supply were eager to cooperate under such circumstances. This also fitted well in South Africa's agenda of promoting regional solidarity and cooperation under the Presidencies of Mandela and Mbeki, who also framed it in the broader *African Renaissance* ideology. Another asymmetry relates to the unequal regional distribution of energy infrastructure such as transmission lines. Besides Zambia and Zimbabwe, all other SADC members are only connected to one or two neighbouring SADC countries.

In 2007, a third episode sets in with a major electricity crisis in South Africa, which resulted in a significant shortfall in the available energy supply within SAPP. While SAPP requires member countries to carry a reserve capacity margin of about 10%, increased demand and a lack of sufficient investments for additional generation capacity has eroded past surpluses and resulted in energy shortages and insecurity in the region, characterised by power cuts and blackouts. In 2014, the difference between installed capacity and peak demand was about 3%. By comparison, the SAPP had a reserve capacity of nearly 25% in 1998 (Hammons, 2011). South Africa's share of total generation capacity in the region has declined in the past decade. Still, it remains the largest energy producer with more than 75% of the region's installed capacity (down from 83% in 2004). Other countries in the region, most notably Angola, Botswana, Mozambique and Tanzania have increased their installed capacity since 2004. These developments set the background against which the institutionalisation of the SAPP took place and evolved.

Institutional arrangements

The focus in this paper is on the creation of a *Regional Energy Market*, and the political economy factors that shape regional institution building through the SAPP. SADC member states signed the Protocol on Energy in 1996, which created a complex of institutional mechanisms and financial provisions, including the SAPP. Within that setting, the SAPP is responsible for reporting to the SADC, with the SADC Secretariat providing general direction to the SAPP, while it has little influence on the day-to-day operations of the power pool.

The SAPP executes its mandate through the *SAPP Coordination Centre,* which is based in Harare. The centre coordinates activities of planning on expanding electricity generation, transmission and distribution among member states. Daily operations are carried out by various committees, including the *Management Committee* with five sub-committees on environment, markets, coordination, operations and planning. The SAPP reports on progress within the region to the SADC Directorate of Infrastructure and Services and the SAPP *Executive Committee*, which consists of Chief Executive Officers (CEOs) of national energy utilities. Despite being mandated by SADC to carry out regional energy related strategies, the SAPP is financially independent from SADC (ICA, 2011).

The SAPP is officially registered as a non-profit organisation. The SADC Protocol on Energy notes that membership contributions to SAPP should follow the repartition formula of other institutions of SADC. Zimbabwe contributes an additional 10% of funding to the SAPP (totalling US$51,476 in 2014), and does so because of the advantages of its capital Harare hosting the SAPP Coordination Centre. Besides generating income from membership fees, the SAPP also derives funds from administration fees through managing the *Regional Energy Market (REM),* and it receives contributions of development partners. Past reports indicate that up to 80-90% of membership fees are directed to SAPP operations, while external funding is mainly geared towards studies and projects in pursuit of regional energy cooperation (ECA, 2009). Income from the *Day Ahead Market (DAM)* administration fees has increased from US$1,732 in 2009 to about US$170,000 in 2014, representing some 7% of income in 2014 (SAPP, 2014). A significant increase in trading on the market in 2015 allowed the organisation to generate more than $1m from administration fees.

The SAPP coordinates technical support to its member states (for example, through studies), collects and shares energy related data for reporting to its members and the SADC Secretariat, facilitates donor funding for various infrastructure projects and provides capacity building to national utilities. Various actors consider the SAPP Coordination Centre to be a well-run and a transparent organisation that effectively promotes the regional energy agenda and regional energy cooperation (Muntschick, 2013; ECA, 2009). Member states have praised the capacity building efforts of SAPP.

The formation of a Regional Energy Market to facilitate regional power trade was one major project on the agenda of SAPP. This project was intended to transform energy trade from a bilateral trading endeavour to a competitive and flexible regional initiative. Bilateral agreements had served the purpose for long-term energy security, yet their inflexible nature - with fixed prices, fixed volumes and fixed durations - was inadequate to deal with the short-term requirements of various member states. A regional market could help solve these shortcomings, as well as increase competition through inclusion of additional, independent, electricity producers and distributors.

In 2001, SAPP established the *Short-Term Energy Market (STEM)*. This mechanism institutionalised cooperation in the regional electricity market in SADC. It was "driven by regional demand and fuelled by external financial and technical support" (Economic Consulting Associates, 2009, p. 40). Only the member states' national power utilities were allowed to participate in STEM. The market was neither fully liberalised nor competitive, with demand almost always exceeding available supply offers. Pricing mechanisms further constrained trade as the sellers did not benefit from higher prices. Trade volumes in electricity through STEM only covered about 5-10% of total regional trade in electricity. By the mid 2000s South Africa's surplus generation slowed, with a deep energy crisis in 2007. Combined with inadequate electricity infrastructure, it resulted in the decline of STEM and finally its closure (Muntschick, 2013).

This energy crisis reinforced some of the tensions around South Africa's dominant position in the regional energy market. It resulted from two sources of internal demand that had risen sharply: one source was from consumers and the other was from South Africa's industry. Connecting all citizens to the electricity grid had been one of the first electoral promises of ANC leaders. Yet, while it invested heavily to deliver on this promise, the investments in refurbishing or creating new production capacity had not kept pace with growing demands. Another policy concern related to climate change as 85% of South Africa's electricity is produced in coal-fired power plants, catapulting South Africa into the world's top twenty producers of Greenhouse Gas.

Under basically the same economic conditions, STEM was replaced with a similar institution to facilitate short-term regional electricity trade, the *Day Ahead Market, DAM*. DAM became operational in 2009, and featured some innovations. It opened participation to independent power producers and distributors. State Owned Enterprises among the SAPP members were generally reluctant to allow Independent Power Producers (IPPs) to be included in the SAPP structures. Especially South Africa's ESKOM was opposed, while other countries, such as Zambia, were more open to increased private sector participation. Yet due to inefficiencies within public electricity utilities, private players gradually had started to address the shortages and insufficient generation capacity from the mid-2000s onwards. Given the energy crisis, the need was more sharply felt for private sector involvement in the financing of electricity generation and transmission infrastructures.

In 2006, SADC altered the provisions for membership of SAPP so as to include independent power producers and independent transmission companies. Currently, nine SADC countries with a total of thirteen SAPP members, are interconnected and hence can trade electricity, with three members still not interconnected (SAPP, Annual Report 2013/2014). All thirteen interconnected SAPP members are active in the bilateral market, with nine of them active in the competitive market of DAM and a newly created *Post Day Ahead Market* (as of 2013). By 2014, SAPP members included two independent power producers and two independent transmission companies. Independent members, however, do not share the same decision making powers as national regulators given that their domestic roles are seen as of minor significance (Interview: SAPP).

As in the case with STEM, DAM is considered to be an effective organisation. Yet, Muntschick (2013) remarks that even a "perfectly institutionalised power pool is rather useless if there is no (surplus) electricity left to trade or if inadequate capabilities of power lines put constraints on potential trade". Recently, the volumes of regional electricity trade have picked up again, though the bilateral energy markets continue to remain more important than the regional ones. The next subsections look in more detail at South Africa's role as a swing state in the regional energy dynamics and some of the other players that affect the energy agenda.

South Africa as a swing state in regional energy

National interests are manifest in bilateral and regional electricity trading and infrastructure arrangements in Southern Africa. South Africa's political economy in the energy sector dominates the regional sector dynamics, including the institutionalisation of the SAPP.

South Africa's voluntarist foreign policies after apartheid and its energy interests reinforced one another for a few years. The *New South Africa* wanted to engage constructively with its neighbours in the pursuit of regional development and stability. It also wanted to sell its surplus energy in more effective ways through the creation of a regional energy market and transnational electricity infrastructure. In that latter strategy, ESKOM, South Africa's vertically integrated state-owned energy utility, played a central role. ESKOM holds a monopoly in South Africa over the entire *electricity value chain* (generation, transmission and distribution of electricity). Within that value chain, coal-based energy generation priorities weigh more heavily than the transmission and distribution components. That generation component has become the driving force behind ESKOM's national and regional strategies (Morris and Martin, 2015).

In the late nineties, the South African government attempted to restructure the national energy sector by reducing the influence of the state owned enterprise ESKOM and by injecting more oxygen for independent power producers. However, faced with an energy crisis, the government yielded to a coalition of vested interests behind cheap energy supply (including industry and trade unions). In the second half of the 2000s, South Africa was confronted with a more serious and internal energy crisis. First, the implementation of the ANC's electoral promises of providing universal access to the electricity grid had resulted in growing demand by households, with connectivity increasing from 30% in 1994 to 87% in 2012. Secondly, demand from industry rose drastically. And thirdly, artificially low electricity prices failed to generate resources for ESKOM to invest in necessary infrastructures.

For ESKOM to invest in new capacity and infrastructures, it had to drastically raise revenues and the electricity price. Subsequently, some of ESKOM's allies - including the major South African trade unions - lost confidence and weakened the position of the energy giant. This created space for an emerging but loose coalition for change behind renewable alternatives. This coalition consisted of the Department of Finance, the Department of Energy, the Department of Environmental Affairs, foreign owned independent power producers, and ancillary professionals. By 2015, South Africa's capacity in renewable energy had risen substantially through *Independent Power Producers*. Yet, despite these significant changes in the political economy, "the future trajectory of sustainable energy is by no means assured" (Morris and Martin, 2015, p.11).

These developments and actors also affected South Africa's energy policies and interventions towards the regional energy market and the SAPP agenda. Because of the erosion of South Africa's surplus capacity, the country reached out to its neighbours, most notably Mozambique and the Democratic Republic of Congo, to assist with its capacity shortfall. This engagement with Mozambique has largely been conducted on a bilateral basis, with direct investments from South

Africa in Mozambique's generation and transmission infrastructure. In the case of the DRC, however, Pretoria worked through the SAPP to further explore developing the Inga hydropower schemes, yet without losing control of ensuring that the lion's share of the generated capacity would be reserved for South Africa. Direct transmission from the DRC to South Africa was not possible, hence the importance of the SAPP.

As of 2006, Eskom started to re-examine its supply contracts to the rest of Southern Africa in order to obtain more flexible ones. The renegotiated contracts provided Eskom with more leverage, e.g. to block supply when its own grid came under pressure. The unintended consequence of this move has been an increase in market stimulation. Previously, countries could rely on cheap energy supply from South Africa. Gradually, its neighbours started to feel a greater urgency to secure energy supply independently from South Africa.

Other actors and incentives

With the 2007 electricity crisis in South Africa, the regional energy market and incentive environment altered dramatically. This resulted in the repositioning of other countries and players in the region towards the regional energy market, and the maintenance of strong bilateral energy relations as safer bets in a dysfunctional or unpredictable context.

Unlike most countries in Southern Africa, **Namibia** has thus far been able to avoid *load shedding* (as planned electricity outages are locally referred to). It has achieved this through bilateral energy deals with neighbouring Angola and Zimbabwe in order to secure supply. It has also embarked on an innovative approach to securing power. It shared the capital costs of the rehabilitation of some of Zimbabwe's generation infrastructure, and in return obtained long-term fixed contracts for electricity supply (New Era, 2014).

Zimbabwe sought to secure its interest in electricity supply through the SAPP. The country produces little more than half of the peak demand. Generation infrastructure has long been neglected and new infrastructure investments have been minimal. Zimbabwe's energy crisis has been compounded by the fact that some of the major suppliers with whom it had fixed bilateral contracts, including South Africa's ESKOM, Zambia's ZESCO and *Electricidad de Mocambique* have cut off electricity supply due to non-payment. Zimbabwe stands to potentially benefit significantly from energy trading across the region given its central geographic location and key interconnectors already passing through it.

The **DRC** interest in SAPP was primarily linked to the development of the Inga hydro complex and interconnectors to link its national grid with the regional electricity network. It is hoped that the Grand Inga complex, once finalised, will generate 40,000MW, which is considerable given that total current installed capacity in SAPP is just under 60,000MW. However, the current political instability and energy infrastructure challenges faced in the DRC severely hamper the development of the scheme and buy-in from other stakeholders. Another concern regarding the development of Inga has been the combined membership of the DRC state owned electricity company (SNEL) of SAPP, of the Eastern Africa Power Pool (EAPP) and of the Central African Power Pool (CAPP). It is unclear how multiple memberships would work given the likelihood that operating standards of the power pools might differ. It thus seems as if the DRC is not so much committed to the Southern African energy integration agenda, but more towards developing its own resources.

Angola, **Malawi** and **Tanzania** are yet to be connected to the SAPP grid. The project to connect transmissions between Zambia-Tanzania-Kenya falls under the ambit of the *Nile Basin Initiative*[4]. SAPP coordinates the projects to connect Angola and Malawi to SAPP. Within SAPP, there appears to be a greater push to connect Angola to the grid via the Namibia-Angola interconnector, largely due

[4] See also PEDRO background paper on the Nile Basin Initiative.

to the significant thermal and hydro generation potential within Angola. Hence the urgency for Namibia to procure bilateral contracts with Angola and in developing the *Baynes Hydropower* project along with Angola.

The external variables - donors

Already during the apartheid days of SADCC, the European Community and member states, provided support for the renewal, interconnection and expansion of regional electricity projects. In the post-apartheid era until 2006, several donors (including USAID and the World Bank) facilitated regional energy and electricity cooperation in SADC. Once SAPP was established, donors also provided support to the SAPP and its Coordination Centre. USAID also has a long history of involvement with the SAPP, although its emphasis has now shifted. The EU and bilateral donors (mainly from Scandinavian countries) provided other sources of funding for the SAPP. The EU, through its *ACP-EU Energy Facility*, was instrumental in the development of STEM, the predecessor of DAM. Further support has been provided mainly for capacity building for network operations, systems planning and promotion of public-private partnerships. Total grant funding oscillated between 12 and 46% of the total SAPP budget, levelling off to 20% by the beginning of this decade.

Muntschick commented that “due to their importance as lead donors, Scandinavian countries and the EU are in a likely position to exert influence on the establishment, design, and effectiveness of institutionalised regional electricity cooperation in Southern Africa” (Muntschick, 2013, p. 124). For example, donors influenced the development of the Regional Energy Market at a time that the *Short Term Energy Market* gradually faded out due to negative market conditions. However, according to Muntschick (2013) and Hammons (2011) donors enabled the creation of a successor institution for energy trade through the Day-Ahead-Market in 2009. Donors such as the EU and Norway may have incentivised SADC and SAPP to go ahead with this project, even though underlying market conditions were not conducive for it to function properly. Recent figures suggest that energy trade through DAM has grown, and that by 2014 it covered roughly 6% of total regional trade volumes (SAPP, 2015).

Regional power pooling requires both hard and soft infrastructure development, and the SAPP has been able to rely on long-term support from different development partners with interests in both domains. The SAPP has contributed to facilitate funding in these areas. However, the preparation and planning stages of transnational infrastructure projects remain problematic given the reluctance of national governments to commit to initial investments required for preparing such intricate projects.

Looking forward

The picture to emerge from regional energy dynamics has become volatile, creating both uncertainties and opportunities in terms of a regional energy market. The political and economic traction behind SAPP shifted since SADC member states could no longer rely on electricity imports from South Africa’s surplus. Hence, they started to explore other - mostly bilateral - options. These are often not related to the SAPP per se.

5. Conclusions

As with most multi-purpose regional organisations in Africa, identifying the sectors with most political traction remains an arduous task. SADC covers a broad agenda and fine grained analyses of the political economy conditions in which this agenda is developed and implemented remain rather scarce. Building on the findings of the PERIA study and available literature, this report has dealt with the political traction of SADC, as well as the dynamics behind two important sector policies: on regional industrialisation and on the creation of a regional energy market. Within the context of PEDRO, two other background papers deal with the peace and security agenda of SADC and with its water sector policies.

The establishment of SADC in 1992 and the nearing end of apartheid in South Africa marked profound political, economic and social changes in the region. The ambitious SADC agenda reflected the aspirations of the time, but could not hide the more sobering reality of deeply rooted path dependency through structural factors such as wide disparities in polities, country size, institutional capabilities, and economic underpinnings that reflect the contrast between the South African diversified economic powerhouse and poorly developed economies with weak industrial sectors. South Africa also faces strategic vulnerabilities, such as water shortages, energy dependency and transport bottlenecks, with all countries in the region sharing concerns for peace and stability.

South Africa continues to influence and dominate regional dynamics. Still, other countries also influence SADC agenda-setting. This report specified actors and dynamics in the area of the regional industrialisation policy. This case illustrates the interests and incentives of different countries, as well as the external influences such as those of donors or the global market. Zimbabwe has taken a keen interest in putting this policy on the agenda, as it sought to deflect attention away from the lack of commitment to the agreed regional Free Trade Agreement. South Africa's interests are more diversified, with a ruling elite that responds to a broader range of political incentives than some of its neighbours, with strong pressures from trade unions (for instance around the protection of formal jobs or the low prices for energy) and varied demands from private sector actors.

Furthermore, there are inherent *sector* characteristics that turn industrial policy into a contested area. For example, choices made - whether economy-wide measures to improve the business and investment climate or sector specific ones through picking winners (hence disfavoring losers) - create within country and between country tensions that require a solid institutional architecture to mediate or resolve such conflicts. Moreover, path dependencies and diverging political economy traction between SADC member states don't bode well for comprehensive regional reforms in the area of industrialisation. The industrialisation agendas of South Africa and Zimbabwe, for example, differ substantially. However, some pragmatism seems to prevail within a number of member states, including South Africa, around functional cross-country problem solving as exemplified by transport corridor development[5]. Such dynamics may involve drivers of two or more countries coalescing, with a less central role for the SADC Secretariat.

In the energy sector, SADC did play a role in setting the regional energy policy and establishing the Southern African Power Pool. SAPP is a single-purpose regional organisation with a clear agenda, functional focus and working on policy challenges that are of direct practical concern to most of the SADC member states. The was part of the overall SADC agenda to further regional integration in an area that is crucial for its members' socio-economic development. Through the regional power pool, there was a solid beginning to the institutionalisation of a regional energy market. However, structural factors such as the unstable and unpredictable environment drives member states to focus more on bilateral and trilateral rather than regional energy projects. This sector case illustrates how South Africa can swing a regional organisation in the direction of more energy integration, but that domestic political economy factors such as the dominance of its state-owned electricity company and the risks of political fall-out with major interest groups such as trade unions, reduce the attractiveness of other members relying on SAPP.

It is too early to assess whether the bilateral or trilateral energy deals constitute building blocks or stumbling blocks for the establishment of a regional energy market over time. But it appears safe to suggest that the institutional capabilities developed for serving and facilitating such market can be built on and further developed over time.

[5] See also PEDRO background paper on SADC trade and transport agendas.

One can conclude this report with a pertinent observation from South Africa's *National Planning Commission.* In its *National Development Plan 2030* it highlighted the inherent tensions in such regional and SADC dynamics. It clearly affirmed, on the one hand, the need to "stabilise the regional political economy through increased integration and cooperation". On the other hand, it also reminded policymakers to remain vigilant about the "differences between African geopolitical ambitions, notions of solidarity and domestic realities" (National Planning Commission, 2013, p. 243).

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