Striving for Regional Integration
Introducing the SADC Protocol on Finance and Investment
Introductory fact sheet

What is regional financial integration?

Across the world small and large countries are coming together in regional markets to improve the lives of their people. In larger markets businesses can sell to more clients and people have more jobs to choose from. Foreign companies are also more likely to invest in a unified SADC market with 280 million people and a GDP of $650 billion (2011) rather than a single market with 2, 10 or even 40 million people.

To create a regional market with multiple countries means that barriers have to be removed. Removing barriers to financial transactions between countries is called regional financial integration. It makes it easier for one company to invest in a neighbouring country, for one person to receive money from a family member working in another country, for one government to share customs revenue with another, and for pensioners to ensure that their hard earned money is invested to get the highest possible returns for their old age.

Making regional financial integration happen requires countries who want to join the common market to set and apply common standards, harmonise their laws, and then work together to make sure that the common rules are applied with the same vigour by everybody. Making sure that this happens is what the SADC Protocol on Finance and Investment (FIP) sets out to do.

What is the Protocol on Finance and Investment?

The FIP is an agreement between the 15 SADC Member States to cooperate in the area of finance and investment. It was approved and signed by the SADC summit in August 2006 and came into operation in April 2010. The protocol sets the rules and creates the institutions by which the SADC countries will integrate their investment regimes and financial sectors to create a SADC common market and monetary union. The intention is that SADC will eventually join other regional markets in Africa and in turn compete with regional blocs in other parts of the world such as the European Union and the South East Asian economic bloc. If countries in Southern Africa do not join hands, they are likely to lose their bargaining power against these emerging economic communities.

Who is who in the Protocol on Finance and Investment?

It is the responsibility of the Committee of Ministers of Finance and Investment to make sure that the FIP is implemented. The Committee of Central Bank Governors (CCBG) assists the Ministers by overseeing those matters which typically fall under central banks. When important decisions are to be taken on the macro-economy of the region, the Ministers and the Governors meet in a peer review panel.

Regional financial integration involves a lot of technical work. For example, decisions must be made on common statistical standards to measure inflation or budget deficits. Unified technical standards must be set before the payment systems of countries can be linked up so that money can flow seamlessly from one country to another. This technical work is done by various technical committees that report to the Ministers and the CCBG.

The most critical role to realise the vision of the FIP however lies with individual Member States. If they do not implement the decisions made by the technical committees and Ministers, regional financial integration will not happen. Fortunately, SADC countries started to change their financial laws and practices to reduce barriers before the protocol came into force. To accelerate this process, in October 2011, the Ministers of Finance and Investment decided that each Member State should establish a national FIP policy-making and coordination committee. Each country must then develop its own road map towards financial integration with the rest of the region. To make the process easier, the Ministers also agreed on a set of standard indicators to measure.

The task of the Secretariat is to coordinate these multiple levels of activity and to facilitate the Member States' monitoring and reporting against the indicators.

Which thematic areas are covered in the Protocol on Finance and Investment?

Finance and investment provide the pulse and lifeblood of every economy. The protocol thus covers multiple thematic areas in its annexes, each of them essential to the overall vision of an integrated regional financial market and investment zone:

Investment cooperation (Annex 1): Before SADC can become an integrated investment regime with harmonised laws, individual countries must make sure that their own regimes are attractive for foreign investors. This annex sets out the basic rules. It also encourages investment promotion agencies in the region to work together.

Macro-economic convergence (Annex 2): Macro-economic stability is the bedrock for economic growth. Without macro-economic stability across the region there can be no common market. This annex sets common macro-economic targets for all the Member States to move towards.

Taxation (Annex 3): Governments need adequate tax revenue to take care of their people. When they enter a common market, their sources of revenue change and could even be undermined by fraud or tax evasion. Preparing and adjusting tax laws and practices is thus essential to make regional financial integration work.

Central banks (Annexes 4 – 8): The finances of a government are usually managed by its central bank which also oversees its banking sector, payment system and the stability of the currency. The FIP therefore deals extensively with all the various areas of responsibility of central banks. It encourages central banks to have operational and legal independence and to start harmonising the laws under which they are set up so that it will be easier to work together later. A lot of emphasis is placed on the information and technology systems used by central banks. If these are not of a similar standard across the region, regional financial integration will be negatively affected. Similarly, central banks have to move to common standards and practices in banking supervision. The integration of the various national payment systems is already far advanced. The protocol also encourages Member States to liberalise their current and capital accounts and to move to a unified exchange control regime.

Development finance (Annex 9): If SADC is to continue the high growth path seen in most Member States in recent years, it will need new infrastructure to be built: Roads, railways, harbours, dams, irrigation schemes, etc. Many of these schemes will cross multiple national boundaries and can be realised through public-private partnerships. Virtually no government or bank will be able to finance these on their own. This annex provides the framework for development finance institutions across the region to work together to ensure that the projects are realised.

Capital markets (Annexes 10 and 11): Raising and investing capital for economic growth and long-term savings is most effective if there are multiple investment options that are adequately protected. Sound capital markets should also adhere to international standards. These annexes encourage Member States to harmonise their capital market laws based on international standards and to create an integrated real time network of stock exchanges within SADC. More investment options will mean better returns for pensioners and savers across the region.

Which documents are the most relevant for the FIP?

- **FIP protocol** (http://www.sadc.int/documents-publications/show/1009)
- **FIP baseline study** (http://www.finmark.org.za/wp-content/uploads/pubs/Broch_FIP0312.pdf)
- **CCBG website** (www.sadcbankers.org)
- **Investment Portal** (https://extranet.sadc.int/english/investment/)
- **Tax Database** (www.sadc.int/information-services/tax-database/)

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