Since 1910

SACU

SOUTHERN AFRICAN CUSTOMS UNION

Annual report 2010/11

Implementing a common agenda towards regional integration in Southern Africa

The centenary of SACU confirms the close relations of our states, our peoples, our cultures and our economies.

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Executive Secretary's Report

Executive Secretary

TSWELOPELE MOREMI

The 2010/2011 Annual Report of the Southern African Customs Union (SACU) Secretariat provides an opportunity to give an account of the activities undertaken during the year. This Report also draws attention to the various tasks undertaken by the Secretariat, milestones achieved as well as the challenges encountered. Many aspects of SACU's agenda remain work in progress.

The 2010/2011 Financial Year was unique in terms of new initiatives, institutional developments and expectations regarding the future. This was also the year in which SACU celebrated its centenary. While the main celebratory event took place in Windhoek Namibia, several regional activities were organized as part of the effort to involve a broad spectrum of stakeholders in these events, in particular the private sector.

On 22nd April 2010, an inaugural Summit of Heads of State and Government of SACU Member States was convened. This first Summit adopted a new SACU Vision and Mission. The Heads of State and Government also decided to establish the Summit as a permanent institutional feature of the Organization. This Summit of Heads of State and Government was the culmination of a process of introspection and planning which had started some time earlier.

Two follow up Summits were held during the year under review; on 16 July 2010 in Pretoria, South Africa and again on 25 March 2011 in Pretoria. At each of these special occasions important decisions were adopted about the future of SACU. At the second Summit the Heads of State and Government deliberated on the challenges facing the Organization in terms of its own agenda, but also in the context of multilateral and regional developments and challenges.

At the third Summit the Heads of State and Government recalled that SACU aims at becoming "an economic community with equitable and sustainable development, dedicated to the welfare of its people for a common future" as stated in the new SACU Vision. They decided on the following five priorities areas to be singled out for urgent attention:

i. The development of a Regional Industrial Policy should be an overarching objective of the new SACU work programme. Regional industrialization should promote balanced, equitable and sustainable regional economic growth and development in line with the new SACU Vision.

ii. Trade Facilitation across SACU borders has to be a key element in the development of the region. SACU will need to focus very sharply on attaining this objective and how to resolve the technical issues which prevent success.

iii. The review of the Revenue Sharing Arrangement has become a critical task in the light of the volatility of customs revenues. The Summit underscored the need for a final and urgent conclusion of this matter; in line with the development objectives embedded in the SACU Agreement.

iv. The establishment of SACU's Common Institutions, such as the Tribunal and Tariff Board, which are provided for in the 2002 SACU Agreement.

v. The adoption of principles for a Unified Engagement in Trade Negotiations. The Summit decided on principles to underpin unified engagement in trade negotiations.

The work necessary for attaining these priority objectives is of an ongoing nature. The Secretariat has an essential role to play in implementing the new SACU Work Programme and has to respond to new technical needs confronting the collective. The Secretariat continues to invest in building its own technical capacity, while learning from experience. This is particularly important given the complexity and challenges associated with the new Agenda.

One of the priority areas identified by the second Summit was the need to strengthen the capacity of the Secretariat in terms of analytical and technical capabilities; which are vital for the future success of the Organization. In order to position itself to improve assistance to the Member States in the context of the new work programme, the Secretariat has started a process of reviewing its Organizational Structure and to align it with the emerging demands. The outcome of this exercise will become clearer during the course of 2012/13 Financial Year.

The Secretariat has, over the years, consistently obtained unqualified audit reports. During the financial year under review, the Secretariat once again achieved an unqualified audit report, continuing the trend of demonstrating fiduciary responsibility over finances. We have continued to improve on this score and to adhere to good governance principles and best practice.

Finally, I would like to express my gratitude and appreciation to the following stakeholders:

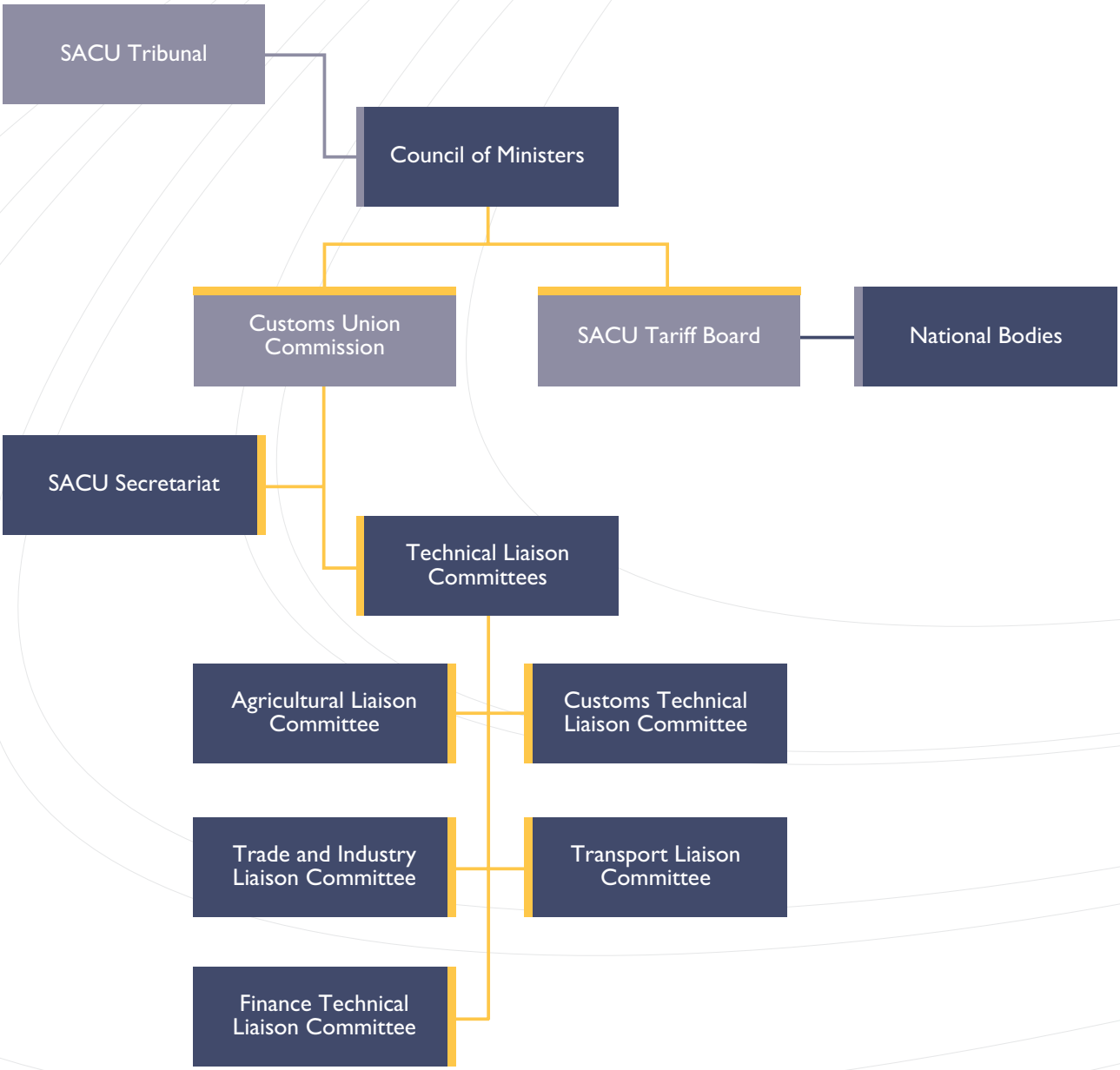
- The SACU Council of Ministers for their wise counsel and strategic leadership;
- The SACU Commission for their guidance and oversight;
- The Member States for their support and cooperation;
- The Government of the Republic of Namibia for their hospitality and support; and
- The SACU Secretariat staff for their commitment and hard work.

To conclude, several new tasks emerged from the decisions taken at the Summits of the Heads of State and Government. All SACU institutions and the Members States share the responsibility for their implementation and the realization of the SACU Vision and Mission. The Secretariat commits to supporting the process of realizing the Vision and the Mission.

Tswelopele C. Moremi
Executive Secretary

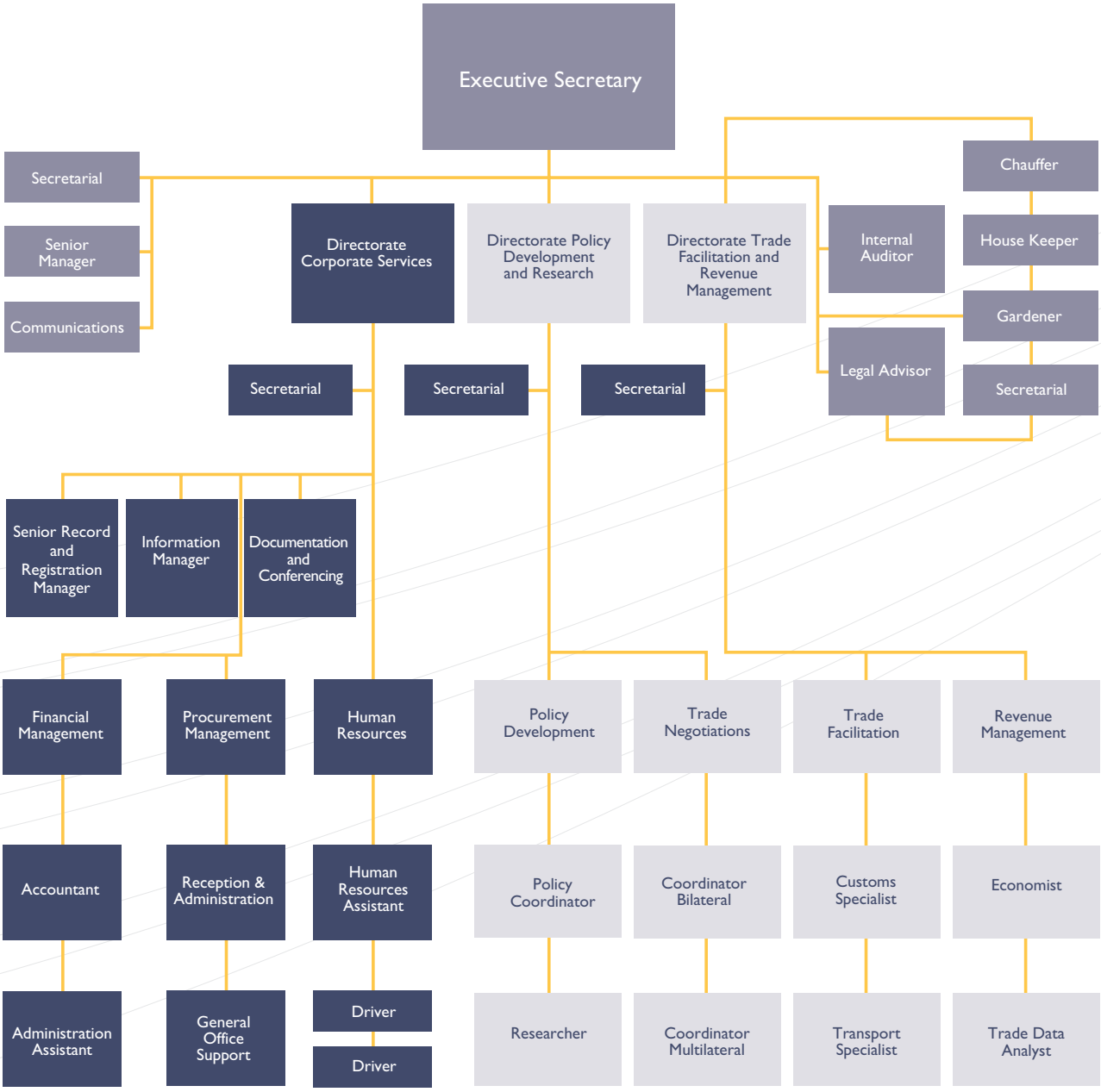
Structures of SACU

Organogram



Structures of SACU

Organisational Structure



Structures of SACU

Management

DUMISANI MAHLINZA
Director:
Trade Facilitation
and Revenue Management

HISKIA NDJAVERA
Internal Auditor

DAVID MALELEKA
Deputy Director:
Revenue Management

ANTON FAUL
Director:
Policy Development
Research and Trade
Negotiations

TSWELOPELE MOREMI
Executive Secretary

IVAN SUNDARPARSAD
Director: Corporate Services

YUSUF DAYA DEPUTY
Director: Trade Facilitation

MOUREEN MATOMOLA
Deputy Director

BONGANI MOTSA
Deputy Director: Finance

NDIBO OITSILE
Chief Legal Officer

ROLF-JOACHIM OTTO
Deputy Director: Trade Negotiations

Structures of SACU

Staff members

KHUTSAFALO SEKOLOKWANE
Policy Researcher

ABEL SINDANO
Trade Data Analyst

RICHARD YAWE
IT Specialist

MARIA HEWICKE
Finance Assistant

SUSARA VAN RENSBURG
Trade negotiations Coordinator

MOTSELISI MATSELA
Economist

ELSIE MAMAREGANE
PA: Executive Secretary

ALETTA SHANTONA
Records and Information Officer

SOPHIA LUBAKI
Human Resources Officer

ISABELLA KWALA
Accountant

Structures of SACU

Staff members (continued)

RASSIDY DIERGAARDT
Secretary: Director
Corporate Services

INGRID NANUS
Receptionist

ANNELINE MATHIS
Secretary: Executive
Secretary's Office

ROSALIA AUGUSTINUS
Secretary: Chief Legal Officer

ANITHA GANASES
Secretary: Director
Policy Development &
Research

ROSEMARY MOKATI
Regional Project Manager: WCO

DAVID NALUPE
Driver

ABED SHIPINGANA
Driver

ELSON KAMBURONA
Driver

JECKSON HAIPUMBU
Handyman


SILE IGEO

Chapters

Chapter 1: Trade facilitation

In seeking to improve the trade environment within Member States and the Customs Union, trade facilitation is a key component of the SACU mandate. Trade facilitation is largely used to improve the regulatory interface between government bodies and traders at national borders. The primary goal of trade facilitation is to reduce the transaction costs and complexity of international trade for business and improve the trading environment in a region, while at the same time optimising efficient and effective levels of government control and revenue collection.

Trade Facilitation relates to a comprehensive and integrated approach aimed at developing a consistent, transparent and predictable environment in which international trade transactions take place and covers all the steps necessary to facilitate the movement of goods across borders.

During the 2010/2011 period, SACU continued to concentrate on the main trade facilitation components, which form part of the SACU-WCO Customs Development Programme. These are; Customs Policy Development; Customs Legislation; Standard Operating Procedures; IT Connectivity; Risk Management; and Trade Partnerships. The five customs initiatives relating to a Single Administrative Document; Electronic Data Interchange; One Stop Borders; Joint Customs Controls; and Capacity Building continue to be pursued and are accommodated under the SACU-WCO Customs Development Programme.

SACU-WCO Customs Development Programme

Increasingly, attention is shifting to international coordination of border activities, not only national or regional coordination. SACU member states are all members of the World Customs Organisation (WCO), as well as members of the World Trade Organisation (WTO). These organisations are involved in a process of modernising the processes underpinning trade among economic operators in response to the changing demands of international trade. Under its Columbus Programme, the WCO Capacity Building Directorate has entered into an agreement with SACU to provide technical and strategic support with the design and implementation of new initiatives.

During the year under review the SACU Heads of State and Government identified twelve strategic issues for priority attention. Trade Facilitation was identified as one of the priority areas requiring immediate attention. A meeting of the SACU Heads of Customs Administrations was convened on 29 October 2010 in Johannesburg, South Africa, to review the range of activities and initiatives being pursued to facilitate trade at the national, bilateral and regional levels with a view to consolidating the activities into a single plan that addresses the priorities set out by Heads of State and Government. Heads of Customs agreed that the projects being pursued under the SACU-WCO Customs Development Programme should continue to be pursued and that the Programme should serve as the umbrella for promoting trade facilitation in the region. Taking into account national, bilateral and regional lessons and experiences the meeting agreed on a set of principles to support customs cooperation and trade facilitation initiatives in the region and identified immediate priorities and specific interventions. The agreed principles to support customs cooperation and trade facilitation initiatives in the region include:

- Trade facilitation initiatives should focus on delivery i.e. making a real and measurable difference on the ground and targeting quick wins;
- The need to enhance the monitoring and implementation capacity for trade facilitation programmes;
- Member States should provide leadership in the co-ordination of donor activities and various customs activities in SACU; and
- The SACU trade facilitation initiatives should leverage on best practices and current bilateral and national initiatives.

In addition to the above principles, the following priority areas under the Customs Development Programme to underpin the trade facilitation programme for the region were also identified. These include IT Interconnectivity; Enforcement; Improving Border Efficiencies; Trade Partnerships; Legislation; and establishing One Stop Border Posts.

During 2010, implementation of the SACU-WCO Customs Development Programme continued. Significant progress was achieved in the development of regional customs policies in the areas of Risk Management, Trade Partnerships, Standard Operating Procedures, IT Connectivity, and Legislation. Draft policies for each of these areas were developed and stakeholder consultations with the private sector in each of the Member States were initiated. The stakeholder consultations will continue in the coming year with a view to finalize the Customs Policies as well as provide a platform for the establishment both national and regional stakeholder forum.

The application of similar customs legislation with regard to customs and excise duties is a requirement in terms of Article 22 of the SACU Agreement, 2002. In addition, the application of similar legislation within the Common Customs Area serves to facilitate trade, standardize procedures and processes and promote greater customs cooperation. The process of redrafting the Customs and Excise Act was initiated in 2003. During 2010 this process culminated in the development of a Draft Customs Control Bill and a Draft Customs Duty Bill. The Draft Customs Control Bill is intended to regulate the movement of people and goods at borders and is therefore primarily concerned with the control of goods imported or intended for export. The Draft Customs Duty Bill is intended to regulate duties payable and is therefore confined to the levying, payment and recovery of customs duties on goods imported or exported. These Draft Bills have been approved to be used as models for SACU and Member States are currently in the process of interrogating the Draft Bills with a view to utilizing them as a basis for developing similar domestic customs legislation.

Another important development to take note of is that the Council approved the review of the Annex on Mutual Administrative Assistance, forming part of the SACU Agreement, 2002. This Annex provides for cooperation between Member States customs administrations and is therefore an essential instrument for fostering greater cooperation. In this regard a workshop of customs legal experts was convened to undertake the review of the Annex. Some proposed revisions to the text have been developed and a revised Annex is currently under consideration by Member States. The expectation is that the review process will be completed and the Annex adopted in the coming year.

Interconnectivity is one of the fundamental steps in customs cooperation that is required to facilitate trade, ensure economic protection and the creation of one-stop-border-posts between countries. During the past year SACU has progressed with developing a regional customs IT policy consisting of all elements of data exchange.

During the year under review the Secretariat in conjunction with the WCO, and utilizing the capacity created through the provision of training on Time Release Studies, conducted Pilot Time Release Studies at the Mamuno-Trans Kalahari Border Post between Botswana and Namibia. The draft report of the TRS is with the respective Customs Administrations and additional TRS studies along the Trans-Kalahari Corridor are planned for the coming year. The aim is to identify bottlenecks at the border and inform the development of generic Operating Procedures that can be applied across the SACU borders to improve border efficiencies and benefit economic operators.

In 2007 the Juxtaposed Model was accepted as the preferred model for establishing one-stop borders in SACU. Following this decision, a series of initiatives were undertaken to develop one-stop border posts. Work on identifying pilot sites for these one-stop border posts has continued during the period under review and consistent with the decision of Heads of Customs the Secretariat has engaged with the Trans Kalahari Corridor Secretariat to support the TKC's initiative to establish a One Stop Border at the Mamuno-Trans Kalahari Border Post between Botswana and Namibia.

In order to sustainably improve the cross-border movement of goods, it is vital to not only build in-house capacity of customs staff, but also to enhance the understanding of the required processes and procedures of the entire trading community. In this regard training programmes have been identified and SACU has developed specific training programmes for the regional customs priority areas. Training of all affected parties will streamline and harmonise the operations between cross border agencies and key stakeholders. SACU strives to enhance the capacity levels of member states through identified training interventions to support implementation of the Customs Development Programme. The execution of the identified initiatives will continue in the 2011/2012 financial year.

Transport Sector Programme

Member States have recognized the importance for the transport sector to regional integration and undertaken to integrate transport into the SACU Programme. In 2009 SACU completed an assessment study on the transport sectors of all member states. It reviewed each of the countries' transport sectors, modes of transport, the volume of traffic, the routes and issues related to regulations – all in the context of how the transport sectors facilitate or hamper trade in SACU countries.

During the period under review a draft Transport Programme for SACU was developed and the Secretariat undertook missions to all Member States to engage Senior Transport Officials on the outcome of the study, the development of transport programme in the region and the integration of transport into the SACU work programme.

Challenges

In the 2010/2011 financial year a key challenge has been the implementation of the SACU-WCO Programme as planned. The delay was mainly due to changes in the priority areas of focus following the Heads of State and Government Summit and changes in the project management personnel at national level.

Furthermore, trade documentation and the associated capturing of trade data remains a challenge for authorities and businesses in Member States, particularly in those Member States that are in the process of computerizing data capture processes and those that are presently not computerized.

Achievements and future outlook

Considering customs legislation and the impact it has on trade, the SACU Agreement requires member states to apply similar legislation with regards to customs and excise. A collective approach to customs legislation has been defined and process of developing domestic legislation is continuing. A process of defining a collective approach to the redrafting of the existing excise legislation will also be required in the coming year.

Chapter 2: Revenue management

Following the global economic crisis that reached its peak in mid 2008, recovery in the global economy gained momentum during the year under review. Advanced economies experienced sluggish economic growth whilst emerging and developing economies enjoyed robust economic growth. The Sub-Saharan Africa region experienced strong economic recovery although there were some challenges pertaining to rising fuel and food prices. There were further challenges pertaining to the inclusiveness of such growth as well as its sustainability.

During the year under review, SACU economies also showed signs of economic recovery, with all economies registering positive growth rates. The economic recovery was supported by increasing commodity prices, renewed global demand and accommodative policies. The recovery also impacted positively on customs and excise duty collections, which showed an improvement in 2010/11. However, the increasing fuel and food prices, geo-political instability in East Africa and the impact of the Euro sovereign debt crisis may reverse the economic gains.

The SACU Revenue Management programme consists of initiatives aimed at harmonizing the compilation of variables used in the Revenue Sharing Formula, and establishment of a trade and economic statistics database.

REVIEW OF THE REVENUE SHARING ARRANGEMENT

During the year under review, the study on the review of the Revenue Sharing Arrangement (RSA) was undertaken. The objective of the study was to evaluate issues relating to the operations of the current RSA and develop possible options on an equitable revenue sharing arrangement. A draft report was presented to SACU Senior Finance Officials on 21 January 2011 in Johannesburg, South Africa, wherein extensive comments were made.

The final report of the study was to be subsequently made to Council at their next sitting.

MANAGEMENT OF THE COMMON REVENUE POOL

In December 2010, the SACU Council signed a Memorandum of Understanding (MOU) on the Transitional Arrangement for the Management of the Common Revenue Pool (CRP). The MOU formalizes the current arrangement, where South Africa manages the CRP on a transitional basis. The MOU outlines the operational modalities and responsibilities of South Africa, as the transitional manager of CRP as well as the role of the Secretariat and Member States. The MOU will be in force until such time that a long-term arrangement for the management of the CRP is concluded.

The Secretariat is continuing with efforts to develop an Annex on the Long-term Arrangement for the Management of the CRP. This will provide a more binding tool for the management of the Pool. It is anticipated that the Annex will be presented to Council for approval during the next financial year.

ESTABLISHMENT OF THE STATISTICAL DATABASE

As part of an effort to improve the availability of economic and trade statistics to researchers and policy makers in SACU, the SACU Secretariat identified a need to develop an online economic and trade statistics database. The database will be used as a tool to monitor the performance of the SACU Member States in achieving the objective of economic development, industrialization and competitiveness. The database will also inform the processes of policy development as well as trade negotiations.

During the year under review, a consultant was appointed to develop the economic and trade statistical database. An analysis of the requirements for hosting the database at the Secretariat was undertaken. It is anticipated that the database will be launched towards the end of the next financial year.

HARMONISATION OF GDP COMPILATION

In an effort to standardize the compilation of GDP among SACU Member States a programme for harmonizing GDP compilation was developed. During the year under review, technical work was started to standardize the compilation of taxes on products, focusing on the classification of SACU receipts in the National Accounts.

The harmonisation programme also entails improvements to the coverage of National Accounts to include production by the informal sector; adoption of a five year cycle for rebasing GDP and regular updates of the comprehensive business register. Member States are currently engaged in preparations for migrating to System of National Accounts (SNA) 2008 which is scheduled for roll-out in 2014.

TRADE DATA LIMITATIONS STUDY

During the year under review, a study on trade data limitations amongst Member States was undertaken. The study seeks to evaluate trade data problems among Member States with a view to improve reliability and timeliness. It is anticipated that an Action Plan for the implementation of the recommendations of the study will be completed in the next financial year 2011/12.

TRADE DATA RECONCILATION

In line with Annex 1, of the SACU Agreement, 2002, Member States are required to submit intra-SACU trade data to the Secretariat for purposes of calculating annual revenue shares. Given the challenges faced by Member States in the capturing and compilation of trade data, the reconciliation process takes too long. The Secretariat is exploring avenues to simplify and improve the trade data reconciliation process.

KEY HIGHLIGHTS

During the year under review, key highlights included:

- Completion of the study on the Review of the Revenue Sharing Arrangement and the establishment of the Task Team on the Review of the Revenue Sharing Arrangement to develop additional options on a new revenue sharing arrangement;
- The signing of an MOU on the Transitional Arrangement for the Management of the CRP which will be in force until the Annex on a Long-term Arrangement for the Management of the CRP is in place.

CHALLENGES

The major challenge facing SACU in the area of Revenue Management is availability of reliable and timely trade data. This poses a challenge for informed decisions, in relation to internal policy advice and requests for data from external stakeholders.

FUTURE OUTLOOK

The process of designing a new Revenue Sharing Arrangement aligned to SACU Vision and Mission will be challenging. In this respect the Task Team on the Review of the Revenue Sharing Arrangement will also investigate financing mechanisms to support industrial and infrastructure work programme.

A trade and economic statistical database will be operational at the end of 2011/12 financial year. The Secretariat will have to work closely with Member States in updating the database in order to ensure timely and reliable economic and trade data.

"During the year under review, SACU economies also showed signs of economic recovery, with all economies registering positive growth rates."

Chapter 3: Trade negotiations

International trade is important for almost every economy in the world. While many companies do thriving business domestically, the ability to expand into international markets is critical for continued economic growth. SACU countries count on international trade to access goods and services which cannot be produced regionally, or to obtain goods and services that are available regionally at better prices and better quality, as well as to export goods and services to markets elsewhere in the world.

One of the aims of the SACU Agreement, 2002 is to integrate SACU into the world economy through trade negotiations. The SACU Common External Tariff (CET) is one of the cornerstones of the Customs Union. One of the advantages of belonging to a customs union is the subsequent collective power of member countries when negotiating with the rest of the world. Being the oldest customs union in the world, SACU has negotiated a number of beneficial trade agreements since its modest beginnings in 1910. Today, SACU continues to negotiate terms of trade that ultimately contribute to stronger economies in each respective member country.

During the past year SACU considered key initiatives including: the SACU-USA Trade, Investment and Development Cooperation Agreement (TIDCA), Economic Partnership Agreement (EPA) between the Southern African Development Community (SADC) and the European Community (EC); SACU-MERCOSUR Preferential Trade agreement, the SACU-India Preferential Trade Agreement, as well as the SACU-EFTA Free Trade Agreement (FTA). A new initiative is the proposed COMESA-EAC-SADC Tripartite FTA.

SACU- USA Trade, Investment and Development Cooperation Agreement (TIDCA)

The SACU-USA TIDCA was signed in July 2008 and became effective immediately. It provides a framework for formal interaction between the two parties, while also providing a basis to enter into separate agreements on technical issues. Furthermore, the agreement provides for a Consultative Forum that aims to promote an attractive investment climate and the expansion and diversification of trade between SACU and the United States.

The agreement focuses on trade, investment and development and it identifies a number of key priority areas, which strive to improve the SACU-USA trading relationship. The key areas include: customs cooperation, trade standards, sanitary and phytosanitary measures (SPS) on agriculture and lastly, trade investment promotion. Overarching to these areas is the provision of technical assistance concerning capacity. The focus is falling, for the time being, on the areas of Custom Cooperation, Technical Barriers to Trade and Sanitary and Phytosanitary Measures, as these are crucial elements in any trade facilitation program aimed at increasing trade flows between the USA and SACU countries.

In August 2010, a meeting took place between the Executive Secretary and the Office of the United States Trade Representative aimed at paving the way forward in the implementation of this agreement. At this meeting, both sides reaffirmed their commitment towards building a strong trade relationship between SACU and the USA, using the TIDCA as a basis from which to start this process.

SADC-EC Economic Partnership Agreement (EPA)

The negotiations towards the SADC-EC EPA continue throughout the year, with several engagements taking place both in Brussels and in the SADC Region. Following the SACU Council of Ministers agreement to double the collective efforts to resolve the outstanding issues concerning the IEPA and EPA, substantial progress was made in these negotiations. SACU approached these negotiations based on a common vision and strategy, leading to a collective approach that has as the main aim the preservation of unity amongst SACU and the vision of a deeper integrated Southern African region.

However, notwithstanding the progress achieved, some issues still remain unresolved, requiring further discussions. It is therefore expected that the negotiations will continue through the coming year, but also that the negotiations will be concluded during that time. The outcome will be an all-inclusive final EPA that will positively shape the trade relationship between SACU and the European Union for the years to come, leading to substantial economic benefits for all involved.

SACU-MERCOSUR Preferential Trade Agreement

MERCOSUR is the biggest trading bloc in South America and boasts a market of over 250 million people. Signing a preferential trade agreement with this trading bloc poses a number of opportunities for SACU Member States.

Member States belonging to MERCOSUR signed the Preferential Trade Agreement during a Council meeting on 15 December 2008 in Salvador, Brazil, while the SACU Member States signed the agreement in April 2009. The agreement is aimed at providing tariff preferences for a selected number of goods on both sides. The agreement is further seen as an important contribution to greater South-South cooperation amongst developing countries, which is aimed at diversifying market opportunities and creating better synergies in Southern economies. It also provides for the possibility of entering into negotiations on a fully-fledged Free Trade Agreement at a future date.

During the period 2010/2011 the process of ratification continued on both sides. So far, Botswana, Brazil and South Africa have ratified the agreement and it is expected that the other countries will finalize this process during the coming year, where after the agreement can be implemented.

SACU-India Preferential Trade Agreement

In October 2007 SACU and India launched negotiations towards a Preferential Trade Agreement between the two countries. Negotiations continued during the year under review. The challenges that arose during 2009 regarding the different views on the scope of the agreement were resolved. During January 2011, tariff preference request lists were exchanged, indicating the potential trade interest on both sides. Work has started to analyze these lists and prepare adequate responses. During the year under review, the negotiations continued. The aim was to conclude the negotiations during this period.

SACU-European Free Trade Agreement (EFTA)

The Free Trade Agreement (FTA) between SACU and the European Free Trade Association (EFTA) entered into force on 1 May 2008. The agreement implies that exporters on both sides can enjoy trade preferences that were granted; thereby promoting trade between EFTA and SACU member states.

Implementation of the FTA continued during 2010/11, with another cut in import tariffs occurring on 1 January 2011 in line with the commitments undertaken. The agreement foresees the elimination of duties on imports into SACU from EFTA States by 2015. At that date, more than 80% of all import duties will be at zero levels, with a few exceptions on products that were deemed sensitive.

These exceptions also include most basic agricultural products, which are covered under separate bilateral agricultural agreements between SACU and Iceland, Norway and Switzerland respectively. In order to improve the market access granted to agricultural products, a review of these bilateral agricultural agreements was launched in March 2010. It is expected that this review will be completed during the coming year, leading to an improvement in market access for basic agricultural products on both sides.

COMESA-EAC-SADC Trilateral Free Trade Agreement

Work on creating a broad-based Southern and Eastern African Free Trade Area continued throughout the year under review. A draft text of the agreement was developed, which is aimed to form the basis for this agreement. It is expected that during the coming year, these discussions will intensify and that the negotiations will be formally launched during a Tripartite Summit scheduled for the first quarter of the coming year. SACU has started a process of analyzing the impact of this agreement on SACU and SACU Member States' economies, as well as to define its role in this process.

Key achievements

At its meeting that took place in Ezulwini, Swaziland on 17 September 2009, the SACU Council of Ministers emphasized the need for a common SACU trade strategy and trade negotiation agenda, agreeing on the content of negotiations that SACU is prepared to enter into. Following up from this meeting, SACU Heads of State and Government adopted the principle of "unified engagement amongst SACU Member States in trade negotiations with third parties, while recognizing different levels of development and capacity of Member States". The Council of Ministers then agreed on a set of principles and guidelines to ensure that SACU negotiates with third parties on the basis of common positions. These will form the basis on which SACU will undertake any negotiations in future, both new and existing.

Challenges

The global financial and economic crisis continues to impact on the trade environment. This has lead to a significant slowing in the growth in world trade. The implications are significant for SACU Member States, which rely on trade as an engine of economic growth. The result has been slower economic growth in the region, which, together with a decrease in customs revenue, has had significant negative socio-economic impacts on all Member States. However, this has led to the realization that for SACU countries to grow and develop economically, they are dependent on each other's economic successes. This has created a renewed vigor in the Customs Union's efforts to achieve even deeper integration, which requires the development of common economic policies, including industrial, agricultural, trade and tariff policies. Work has started to ensure that this vision of deeper economic integration is achieved. The challenge remains to transform this vision into reality, given the global economic environment and the differing levels of economic development amongst SACU Member States.

Future outlook

The negotiations towards a Preferential Trade Agreement with India will continue during the coming year and the expectation is that these will be concluded during this period. Negotiations towards the conclusion of the SADC-EC EPA will also continue during the coming year. This will significantly change the trade environment for SACU Member States, presenting new opportunities for economic operators in two large consumer markets.

It is expected that work on establishing a SADC customs union will speed up. SACU will have to define its role in this process and it is expected that more resources will have to be devoted to this matter.

Finally, the proposed COMESA-EAC-SADC Tripartite FTA will have significant implications for SACU. It will become important for the Customs Union to define its role in this process, taking into account that SACU has agreed that enter into all trade agreements as a bloc. SACU will have to play an important facilitating role, basing its contribution on the vast experience it has in this regard, while also taking into account the significant trade opportunities this agreement holds for SACU member countries.

Chapter 4: Policy development and research

The SACU Agreement, 2002 requires the development of common industrial strategies and policies, coordination of agriculture development in SACU, and cooperation on competition policies, laws and regulations. It further calls for the development of policies and instruments to address unfair trade practices. Another important objective of the SACU Agreement is to facilitate the development of common policies and strategies contained in Part Eight of the SACU Agreement, 2002.

Over the last few years, efforts have been made to develop new policies and harmonize existing regional policies. However, the challenges of differences in the level of development in the various Member States, vulnerability to third party imports, as well as tariff revenue implications have constrained the development of common policies and strategies.

During the year under review, SACU continued to work on; industrial, agricultural and competition policies, as well as various other sectoral policy development initiatives, such as in the Textiles and Clothing sector.

During the year under review, the Policy Development and Research Directorate developed annual policy development and trade negotiations work programmes, which were submitted to Council for approval in December 2010. This included a strong research element with studies planned in the areas of Sanitary and Phyto-sanitary measures, Industrial Development Policy and Unfair trade Practices. The planned research was however not implemented as a result of fundamental policy differences in Member States on the approach to be taken with regards to policy development.

During the year under review, SACU Heads of State and Government met three times to critically assess the challenges facing SACU and to agree on a way forward for the Customs Union. The outcome of these meetings provided the necessary direction to SACU and its Member States and Institutions such as the Secretariat on the future of the Customs Union as well as the priority areas of work to be undertaken. In this respect one of the fundamental decisions was that regional industrialization should be the overarching priority area of policy work for SACU. This decision served to pave a way for a comprehensive industrial development policy work programme to be developed and implemented during the new financial year 2011/12.

Throughout the year, Member States continued to work together to prepare a Long Term Strategy for the SACU Textiles and Clothing Sector. This included the identification of a suitable incentive scheme for the Textiles and Clothing Sector in all Member States, to be funded at a SACU level. A proposal for such an incentive scheme was tabled to Council in December 2010, and it was agreed that the matter of incentives to fund industrial development in SACU should be considered by a Task Team of Senior Officials of Finance, as part of the ongoing work to review the SACU Revenue Sharing Arrangement.

Challenges

Operationally, capacity constraints and the cancellation of essential stakeholder meetings played a major role in the sluggish progress observed during the past year. All the policy work programmes were initiated, developed and undertaken by the Trade and Industry and Agricultural Liaison Committees and when their meetings and activities were suspended, so too were the activities of the work programme.

The global financial and economic crisis also continued to put pressure on Member States' economic growth and available resources, which ultimately affected their revenues earned through international and regional trade. Despite these challenges, the global crisis enabled SACU to revisit current practices and approaches and adopt a new vision and mission moving forward.

Future Outlook

Conducting relevant research and subsequently developing relevant policies are vital to ensure stable and balanced economic development within the Common Customs Area. During the next financial year, SACU will therefore continue with the development of a comprehensive industrial development policy programme of work and implement several research studies to support Member States in this area of work.

"The SACU Agreement, 2002 requires the development of common industrial strategies and policies, coordination of agriculture development in SACU, and cooperation on competition policies, laws and regulations."

Chapter 5: Regional integration

SACU plays an important role as a building block for deeper regional integration in Southern Africa. Regional integration is a process in which countries enter into a regional agreement in order to enhance regional cooperation through regional institutions and rules. Once the 2002 SACU Agreement has been fully implemented it will greatly add to the overall objective of deepening regional integration. Regional integration is an all-encompassing objective that, ultimately, is the outcome of other key areas of SACU work such as; trade negotiations, trade facilitation, policy development, institution building and revenue management.

SACU has made significant progress in the past in achieving deeper integration in SACU and the integration of Member States into the global economy. SACU has negotiated several trade agreements such as the SADC Trade Protocol, with the SACU–EFTA Free trade Agreement, the SACU-USA Trade, Investment and Development Cooperation agreement and the SACU-MERCOSUR Preferential Trade Agreement.

Regionally, SACU is the only fully functioning customs union with free movement of goods and a Common External Tariff. SACU is however taking cognisance of the fact that Member States are at different levels of economic development, which impacts on the extent to which the deepening of regional integration can be realized.

SACU Member States have recognized that there are challenges that need to be resolved if deeper regional integration is to be successfully achieved. At the core of this realization lies Member States' renewed commitment to one common vision. During the year under review a SACU Summit was held to address, inter alia, the challenges regarding a common vision for SACU, to determine the future path the Customs Union needs to take.

Regional Integration Work Programme

During the past financial year SACU continued to pursue the development of policies and a work programme that aimed to improve trade competitiveness and enhance economic development at a regional, continental and global level. SACU also celebrated the 100-year anniversary, but most importantly, also focused its discussions in positioning the organisation strategically at a regional level. There was a need to gain renewed focus and in this regard, the new vision and mission adopted by Heads of State and Government of SACU explicitly calls for deeper regional integration in Southern Africa.

In order to address the need for SACU to reposition itself given regional and global integration developments, SACU successfully held three Summits during the 2010/11 financial year.

The first Summit focused solely on celebrating the 100 years of existence of SACU and was held on Thursday, the 22nd April 2010 at the site where the new SACU Headquarters is to be constructed in Windhoek, Namibia. At this Summit, the Heads of State and Government recognised the role that SACU can play as a building block for deeper regional integration in Southern Africa.

The Heads of State and Government noted that in order to ensure that SACU remains a viable institution and achieves its new vision; it has to be transformed into a vehicle for regional economic integration capable of promoting equitable development.

The Heads of State and Government considered SACU's achievements and the internal and external challenges facing SACU and resolved that these challenges and strategic opportunities require that SACU do things in a different way to the benefit of all members. In relation to regional integration, the Heads of State and Government directed the Ministers to develop strategies to promote win-win solutions to address among others the followings challenges:

a) Strengthening the capacity in the Secretariat;
b) Developing the necessary policies and procedures to conclude the establishment of institutions;
c) Ensuring that all work on industrial policy, agricultural policy, competition policy, unfair trade practices and other priority commitments in the SACU Agreement are being implemented;
d) Developing a SACU trade and tariff policy, and trade strategy that support industrialisation in SACU;
e) Developing deliberate initiatives to promote intra-SACU trade;
f) Following the principle of unified engagement amongst SACU Member States in trade negotiations with third parties, while recognising different levels of development and capacity of Member States;
g) Developing SACU positions on new generation issues, taking into account ongoing negotiations;
h) Positioning SACU at the centre of the regional economic integration agenda.

The Heads of State and Government recognised that despite the challenges, SACU has played and continues to play an important role in the economies of its Member States and agreed that SACU be transformed into a vehicle for regional economic integration capable of promoting equitable development, in order to ensure it achieves its new vision.

The Heads of State and Government further recognised the role that SACU can play in Southern Africa as a building block for deeper regional integration, given its current level of integration.

A third Summit held during March 2011 further reflected on the strategies and priorities SACU had agreed to during 2010 to take the Customs Union forward. Summit agreed to consider progress made in addressing the challenges identified in the July 2010, Summit, and to develop a SACU approach towards future engagements on the proposed COMESA-EAC-SADC.

Tripartite Free Trade Area (TFTA)

The Summit endorsed five priority areas in SACU's work programme focusing on: i) Regional industrial development policy; ii) Review of the Revenue Sharing Arrangement; iii) Trade facilitation; iv) Development of SACU institutions; and v) Unified engagement in trade negotiations. The Summit agreed that the outstanding priority areas will be addressed in due course.

The Summit agreed that regional industrialisation shall be an overarching objective in the SACU work programme and that the aim of regional industrialisation should be to promote balanced, equitable and sustainable regional economic growth, development and integration. The Summit noted that cross border collaboration in specific sectors has commenced and this work is ongoing. The Summit further noted that progress had been achieved with respect to the development of regional industrial policy.

The Summit recognised the importance of facilitating trade across borders in SACU. As such, the Summit endorsed a regional trade facilitation programme focusing on Information Technology (IT) Interconnectivity; Stronger Enforcement; Improved Border Efficiencies; Partnerships with Traders; the development of similar Customs Legislation; and the establishment of One Stop Border Posts.

The Summit acknowledged the importance of the COMESA-EAC-SADC Tripartite initiative to establish a Free Trade Area among the three economic communities. This will extend markets in line with the objectives of the Abuja Treaty for economic integration in Africa and Summit decided that SACU should advance a coordinated position in these negotiations.

Challenges

SACU, as a customs union, has very specific legal requirements. It is a single customs territory, which demands that SACU complies with the legal framework concerning trade and the way in which Member States share revenue. However, the areas that SADC pursue are overlapping with certain areas in the SACU Agreement. During the past year, SACU has also witnessed the launch of the Tripartite Free Trade Agreement negotiations amongst COMESA, the EAC and SADC, which further adds to the complexities of regional integration in Southern Africa and on the continent. At the same time, it also provides great opportunity for increased trade and development and SACU is ready to play its part.

A strategic retreat for the SACU Council is planned to critically assess the relationship between SACU and SADC in deepening integration in the region as well as to define exactly what it would mean for SACU to play a leadership role and to be a building block in deepening integration in the region.

Future outlook

During the past financial year a key highlight has been the intent to deepen regional integration in Southern Africa amongst the Heads of State and Government of SACU. SACU adopted a new vision, which paves the way forward for deepening integration in SACU and to serve as a building block for deeper regional integration. Following the increased commitment to a common agenda, the SACU Council has been tasked by the Heads of State and Government to establish work programmes that would achieve the new vision, as well as deepen regional integration. SACU anticipates committing resources and developing work programmes in the upcoming year.

Heads of State and Government has emphasized that SACU ought to play a more leading role in terms of regional integration. As a result, SACU anticipates that more regular interactions with SADC and with other Regional Economic Communities, such as COMESA and the EAC, as well as the African Union will take place in the future.

"Regional integration is a process in which countries enter into a regional agreement in order to enhance regional cooperation through regional institutions and rules."

Chapter 6: Institutional development

SACU functions through its various institutions established under Article 7 of the 2002 SACU Agreement, in order to reach its objectives under the Agreement. To date, only the Council of Ministers, the Customs Union Commission, the Secretariat and the Technical Liaison Committees are operational. The Tariff Board and the Tribunal have not yet been established. However, during the year under review, progress was made with the development of the outstanding institutions. The establishment of a new institution within the SACU structures, the Summit of Heads of State and Government, was also initiated.

SACU Summit

As a result of the decision in April 2010 to institutionalise the Summit of Heads of State and Government into the structures of SACU, Draft Amendments were made to the SACU Agreement, 2002. The Draft Amendments make broad provision for the establishment of the Summit, its composition, powers and functions, taking into account the role of existing institutions of SACU. Draft Rules of Procedure of the Summit were also developed. The Commission and Council considered the Draft Amendments in December 2010. Work to finalise the adoption of the Draft Amendments and that of the Draft Rules of Procedure of the Summit, is ongoing.

During the period under review, the Heads of State and Government met on 22 April 2010 in Windhoek, Namibia; 15 July 2010 and 25 March 2011 in Pretoria, South Africa. Progress reports were presented by the Council on the Priority Areas of the SACU Work Programme at the meetings.

SACU Council of Ministers

During the 2010/2011 financial year, the SACU Council of Ministers held two Ordinary Meetings and two Special Meetings. The Ordinary Meetings were held on 20 April 2010 and 3 December 2010 in Windhoek, Namibia, and chaired by Namibia and South Africa respectively. The two Special Meetings were held under the chairmanship of South Africa, on 14 July 2010 and 24 March 2011 in Pretoria, South Africa, in preparation for the Meetings of the Heads of States or Government. South Africa's tenure as the Chair of the Council of Ministers commenced on 15 July 2010, following the expiry of Namibia's tenure on 14 July 2010.

In line with its mandate under Article 8 of the SACU Agreement, the Council of Ministers decided on various issues presented by the Commission on the implementation of the SACU Agreement, as reflected in the different chapters of this publication.

Customs Union Commission

The Customs Union Commission continued to discharge its mandate to implement the SACU Agreement and the decisions of the Council, and oversee the management of the Common Revenue Pool. During the period under review, the Commission met five times on 16 - 18 April 2010 in Windhoek, Namibia; 23 – 25 August 2010 in Gaborone, Botswana; 21 – 22 September 2010 in Gaborone, Botswana; 28 November – 2 December 2010 in Windhoek, Namibia and 23 March 2011 in Pretoria, South Africa. The Commission presented reports on technical work undertaken and made the necessary recommendations to the Council for decision-making as indicated in the chapters of this publication.

The Secretariat

Responsible for the day-to-day administration of SACU, the SACU Secretariat continued to provide its technical and administrative support to facilitate the work of the SACU institutions. This covered the ongoing coordination of various technical studies, and monitoring and implementation of the decisions of the Council of Ministers as reflected in this publication.

Tariff Board and National Bodies

The Tariff Board Coordinator in the Secretariat and representatives of the Member States (appointed to the Task Team on the Establishment of the Tariff Board and National Bodies) continued work on the establishment of the Tariff Board during the period under review. The Task Team was established by the Council to monitor progress made in this regard. Pending the establishment of the SACU Tariff Board, the International Trade Administration Commission (ITAC) of South Africa continues to discharge the function of the management of the SACU common external tariff (CET), as mandated by the Council.

The establishment of the National Bodies in the Member States continued primarily with the enactment of the appropriate legislation and setting up of entities to serve as the National Bodies. The National Bodies will carry out preliminary investigations and recommend any necessary tariff changes to the Tariff Board. The latter will only become functional once all the National Bodies have been established and the Tariff Board members have been appointed.

Tribunal

The Tribunal is one of the SACU institutions that still have to come into operation. It will settle disputes on the interpretation or application of the SACU Agreement. During the period under review, a Workshop was convened on 8 March 2011 in Johannesburg, South Africa during which SACU Legal Experts reviewed a Draft Annex on the SACU Tribunal. The Workshop took into account the proposed Amendments to the SACU Agreement to institutionalise the SACU Summit and ongoing developments regarding the SADC Tribunal.

The Workshop formulated provisions on the functionality and other procedural issues that will enable the Tribunal to operate within the parameters of the SACU Agreement. Some of the key issues included: the jurisdiction of the Tribunal, the appointment and removal of the judges, and compliance with and enforcement of the judgements of the Tribunal in the SACU Member States. The development of the Draft Annex is ongoing.

Technical Liaison Committees

The Meetings of the five Technical Liaison Committees, which assist and advise the Commission in its work, were suspended during the period under review. The efficacy of the operations of these Committees was to be evaluated. In the interim, specific Task Teams were established to undertake any focused technical work that the Council required in a particular area.

Chapter 7: SACU Secretariat operational environment

The SACU Secretariat is responsible for the day-to-day administration of SACU and the roll-out of the SACU Work Programme. In support of the Secretariat's role, the Directorate of Corporate Services is responsible for the provision of effective, efficient and cost effective services to all SACU institutions, with the key focus being the support of the operational activities of the Secretariat. This chapter gives an overview of the operational areas of Human Resources, Information and Communications Technology (ICT), Records and Information Management, and Financial Management.

Human Resources

Human capital is, and continues to be, the most important asset of the Secretariat. During the year under review, the Human Resources Sub-directorate focused on recruiting excellent, professional and well-equipped staff, identified and provided training opportunities and ensured that staff members receive market-related remuneration. Furthermore, it is the custodian of the Conditions of Service at the Secretariat, aiming to create amongst staff a common understanding of policies and procedures through provision of training and awareness.

The Sub-directorate also manages the implementation of a Performance Management System, ensuring that management's and staff members' key performance areas are properly aligned to achieve the organisation's objectives, and that staff are rewarded for value added to the organisation.

The Human Resources Sub-directorate consistently aligns human resource policies, procedures and business processes with best practice and the objectives of the organisation.

Going forward, the Secretariat will strengthen its succession planning programme as well as the employee wellness programme.

Information and Communication Technology (ICT)

The ICT sub-directorate continues to strive to equip employees with technology solutions and services, within a secure and reliable environment, that support the provision of an efficient and cost-effective service to SACU stakeholders.

During this period, the establishment of a Trade and Economic Statistics Portal (TESP) was identified by the Secretariat as a key research and planning tool. Significant investigations and consultations with service providers and product specialists were undertaken to identify a technology solution that would integrate with the current platforms. The outcome of this process should result in an internally hosted, publicly accessible, online database during the next financial year.

The client computing environment was standardised via a "Technology Refresh Programme" to provide employees with a more secure, robust and reliable operating environment. This has reduced end-user downtime, improved productivity and reduced service-desk calls.

To further enhance employees' grasp of technology concepts, the Secretariat deployed Intranet-based computer training materials. This tool provides easy and instant access to basic instructions on using office applications and is cost effective.

In recognizing the increasing operational dependency on computer systems and the potential loss of operational control that may occur in the event of a disaster a stringent, a review of the IT Disaster Recovery Plan was undertaken. The review improved the delineation of responsibilities, actions, and procedures for recovering critical technology platforms in the event of an unscheduled interruption.

The planned upgrade of the Server Infrastructure, Internet Broadband, Financial Accounting Systems and deployment of the TESP will serve to further strengthen the Secretariat's capacity to deliver on its mandate.

Records and Information Management

The importance of the Records AND Information Management Office stems from Article 10 of the 2002 SACU Agreement, which declares the Secretariat as the repository of all SACU records. In this role, the sub-directorate manages and preserves the records of the Secretariat and other SACU institutions such as the Council, Commission, Technical Liaison Committees, Tariff Board and Tribunal. The focal point is in ensuring that the records of all institutions are usable and available for decision making, research and institutional memory.

The Secretariat has long identified the need to introduce electronic document and records management. During the financial year a benchmarking exercise was undertaken to assess viability for an electronic system, looking at current operations, IT infrastructure and users' perspectives. The exercise identified critical areas for automated records management readiness and estimated resources required. The results of the assessment will be used for planning and implementing an organisation wide enterprise content management (ECM).

"In support of the Secretariat's role, the Directorate of Corporate Services is responsible for the provision of effective, efficient and cost effective services to all SACU institutions."

An offside storage agreement was concluded, which facilitated the relocation of vital records to a more secure facility and improved preservation of the records. During the relocation exercise, most of the records were also digitised to enhance access.

Financial Management

The Financial Management Sub-directorate focuses on fulfilling its primary role as a strategic partner and adviser on financial management and financial reporting issues of the Secretariat.

Specifically, the Financial Management Sub-directorate is responsible for the following:

- Production of financial plans such as budgets, capital plans, cash flow forecasts and financial reports;
- Treasury management including investment of funds;
- Providing financial information to all relevant stakeholders to enhance decision-making within the Secretariat
- Compliance with all the applicable accounting standards and regulatory requirements;
- Safeguarding of assets;
- Financial risk management and corporate governance; and
- Payroll management.

The financial reporting framework that has been applied in the preparation of the Secretariat's annual financial statements is International Financial Reporting Standards (IFRS) as applied in accordance with the provisions of the 2002 SACU Agreement. This has ensured consistent alignment with international best practice on financial reporting, especially with respect to published annual accounts.

The annual external audit of the Secretariat is carried out by the Auditor-Generals of the Member States on a three-year rotational basis, with the last year being a joint audit by the outgoing and incoming auditor. In this regard, the joint audit of the financial statements for the year ended 31st March 2011 was carried out by both Lesotho and Namibia, as this was the final year in the audit cycle for the Auditor-General of Lesotho.

To date, the Secretariat has achieved unqualified audit reports since its inception and strives to continuously maintain this status.

Improvements were also recorded in the area of Investment Policy implementation. The actual return on the investment of funds was more than double the budgeted amount. This was achieved through the deployment of a prudent investment approach, which resulted in a better than expected rate of return.

In the area of process automation, the Secretariat developed and implemented an electronic payment system based on an electronic interface between SAP and the web-based Standard Bank Business Online system. Further improvements are being implemented to reach the ultimate goal of running a fully fledged host-to-host electronic banking system.

In the coming year, the Secretariat will add improvements in the area of process automation, specifically with regard to procurement work flows, a comprehensive electronic supplier database, and fixed assets management.

An upgrade of the SAP system, which is the centrepiece of the Secretariat's accounting system, is expected to provide improvements in this area. Specifically, the new version is expected to facilitate online real-time self service, customizable reports for budget holders as well as automated IFRS reporting and compliance checking. It is envisaged that Enterprise Resource Planning (ERP) capabilities will be improved to integrate the various software packages within the Secretariat to provide robust reporting and internal control capacity.

Annexures

Annexure 1: SACU Member States economic profiles
Annexure 2: Member States economic indicators and trade statistics

Annexure 1

SACU Member States Economic Performance – A road to economic recovery

1. Overview of International and Regional developments

1.1 Following the two consecutive years of global economic and financial crisis, signs of economic recovery were recognised in 2010. According to the IMF June 2011 World Economic Outlook, the world economy grew by 5,1 in 2010 from a contraction of 0,5 percent recorded in 2009. The expansion in the world economy was underpinned by continued policy support and accelerated economic recovery in the emerging economies. However, the recovery is gaining momentum across the globe at differing pace. The economic growth in the major advanced economies reached 3,0 percent in 2010, spurred by strong consumption, increased manufacturing and investment. Nonetheless, the recovery in the advanced economies is modest, clouded by increasing unemployment levels, fragile financial conditions, debt crisis contagion particularly in Europe and overall unfavourable business confidence threatening the sustainability of the world economic recovery. It should be noted that these advanced economies were worst hit by housing bubbles and indebtedness, though the magnitude differed geographically, therefore the speed of recovery emanating from such low base, would comparatively be modest.

1.2 The economic activity in emerging economies was buoyant, reaching 7,4 percent in 2010. China, India and Indonesia grew rapidly and contributed significantly to the overall improved economic performance. The growth in the emerging economies was principally supported by resurgent capital inflows, increased consumer demand particularly, private demand and accommodative policy stance. However, much as the growth rates are higher than that of advanced economies, the economic growth failed to translate into job creation, especially among the youth. There have been signs of overheating in some emerging economies as indicated by rapid credit growth and rising asset prices.

1.3 In the continent, Sub-Saharan Africa recovered well from the economic crisis and achieved relatively high growth rates at 5,0 percent in 2010 and estimated to expand by 5,5 percent in 2011. The economic revival was mainly driven by robust domestic demand, increasing trade and commodity prices and accommodative macroeconomic policies. The IMF states that output gap in many of the economies is narrowing though there is some variation among country grouping. The economic recovery is robust across the low-income and oil producing countries but modest in middle-income countries dominated by South Africa. However, the economic resilience of these economies would be tested with the advent of increasing food and fuel prices which may result in higher inflation and threaten the countries' external position.

1.4 In line with the global economic recovery, SACU economies are experiencing positive growth mainly spurred by revived consumer demand. The recovery is supported by accommodative macroeconomic policies, increasing commodity prices and structural reforms. The profound economic crisis necessitated SACU Member States to pursue expansionary fiscal policies. Four Member States are also members of the Common Monetary Area (CMA) and to some extent pursue similar monetary policy. In this regard, the inflation rates have been low and stable and thus the monetary policies eased by largely reducing interest rates including in Botswana, which is a not a member of CMA. Notwithstanding the worsened fiscal position in all the economies in 2009/10 and 2010/11, the economic outlook is positive and the fiscal and external position is expected to improve in the medium term.

1.5 The main challenge confronting the SACU economies is the translation of economic growth to developmental growth particularly among the youth. Another challenge is ability to improve and sustain domestic revenue especially among the BLNS Member States. However, all Member States have responded to the plight of rising unemployment by establishing youth funds for the purpose of promoting self-employment and supporting small and medium enterprises. Other measures have been put in place to streamline expenditure and increase revenue.

1.6 Furthermore, all the Member States have embarked on expansionary fiscal policies to cushion the effect of economic crisis and stimulate growth. However, the increased expenditure has resulted in large fiscal deficits which would require appropriate financing. In recognition of possible increase in financing, Member States continue to pursue prudent debt management strategy despite the reduced levels of reserves.

2. Botswana

2.1 Real sector developments

2.1.1 Primary sector

Botswana's economy was adversely affected by the economic crisis and performed below its potential. In real terms, the economy grew sluggishly by 2,9 percent in 2008 and contracted by 4,9 percent in 2009. The mining sector was worse hit by the economic crisis and contracted by 3,8 percent and 21,0 percent in 2008 and 2009, respectively. The drastic drop in mining output in 2009, which accounts for 30,3 percent of total GDP, triggered the country's poor economic performance. However, the gains of economic recovery are starting to be felt and the economy showed positive growth of 7,2 percent in 2010. The mining sector rebounded in 2010 and increased the output by 7 percent, notably in diamond and copper whilst non-mining grew by 7,3 percent.

2.1.2 Secondary sector

Manufacturing revived from an output contraction of 4,8 percent in 2009 to a positive growth of 6,6 percent in 2010. Notable improvement was observed in water and electricity which grew by 5,5 percent mainly driven by recovery in mining, and construction which grew by 15,4 percent.

2.1.3 Tertiary sector

Wholesale and retail trade also improved from 1,4 percent realised in 2009 to 7,3 percent in 2010. Hotel and restaurants showed resilience in 2009 and grew by 14,2 percent in 2010. However, output in services, particularly, transport and communications; general government; and social services contracted in 2010.

2.2 Employment developments

2.2.1 According to the 2005/06 Labour Force Survey, unemployment stood at 17,5 percent. This translates into a total unemployment figure of 114, 042 out of 653, 191 people considered to be economically active. The latest quarterly employment survey shows that

the total number of employed people in the formal sector increased by 11 933 between September 2009 and September 2010, of which private and parastatal sectors absorbed 54,0 percent whilst central government and local government absorbed 27,3 percent and 18,7 percent respectively. The Local Government figure includes 11 percent (38,153 employees) employment of people enrolled in Ipelegeng programme, the public works programme introduced in 2008, Government considers these people as employed.

2.3 Price developments

2.3.1 Botswana pursues a medium-term inflation objective range of 3-6 percent. The average headline consumer price inflation dropped to 6,9 percent in 2010 from 12,6 percent and 8,2 percent registered in 2008 and 2009 respectively. Regardless of decelerating trajectory, inflation rate fell outside the upper band by 0,9 percentage points and it is expected that inflation could fall within the objective range in 2012. Domestically, the increase in VAT from 10 percent to 12 percent in 2010 as well as other administered prices exerted upward inflationary pressure. Botswana's inflation is largely weighted on food and non-alcoholic beverages, transport and housing, water and electricity. The inflationary pressures eased in 2010 amidst a decline in food, alcoholic and non-alcoholic beverage prices driven by low international fuel and food prices. However, the political conflicts in the oil-producing countries at the beginning of the 2011 are expected to exert upward pressure on international prices of food and oil.

2.4 Interest rates

2.4.1 Monetary policy eased amidst low and stable inflation. The Bank of Botswana decreased the bank rate from 10,0 percent registered in December 2009 to 9,5 percent in December 2010. Accordingly, the commercial banks also reduced prime lending rates from 11,5 percent to 11,0 percent in December 2010.

2.5 Balance of payments

2.5.1 The provisional overall balance of payments for 2010 was in deficit to the tune of P6,5 billion compared to P4,6 billion recorded in 2009. In 2009, the financial account was boosted by utilisation of part of loan received from the African Development Bank (AfDB), which to some extent cushioned the level of deficit. The preliminary estimates of the current account show a deficit widening to P5,1 billion compared to P3,9 billion recorded in 2009. This was mainly driven by deteriorating position in services, merchandise trade, income and net transfer accounts.

2.5.2 The trade account deficit improved from P4,0 billion recorded in 2009 to P1,2 billion realised in 2010 mainly as a result of rapid growth in diamond exports. Total exports amounted to P31,2 billion from P24,6 billion recorded in 2009 largely driven by economic recovery which saw an increase in exports of diamonds and nickel by 40,6 percent and 14,7 percent respectively. The services account deficit widened by P1,7 billion to P6,1 billion mainly due to low service exports in transportation and other services. The income account also deteriorated and the deficit widened to P1,4 billion in 2010 compared to a marginal surplus of P287,7 million realised in 2009. The weakened position emanated from an increase in expatriated dividends and profits of foreign companies. The net transfers were positive at P3,6 billion, a marginal decline of P697 million from P4,3 billion registered in 2009. The positive position was mainly driven by SACU receipts including an additional payment of P893 million related to the SACU arbitration award.

2.5.3 The capital account, which mainly constitutes capital grants and transfer of migrants assets, registered a surplus although it declined to P129 million from P639 million realised in 2009. On the other side, the financial account of the Balance of Payments (BOP), which is constituted of direct and portfolio investment as well as other investment, showed an estimated outflow amounting to P2,2 billion compared to inflow to the tune of P5,4 billion recorded in 2009. The outflow recorded in 2010 included among other things, government participation in a "rights issue" by De Beers's mining company.

2.5.4 At the end of 2010, the foreign exchange reserves amounted to P50,8 billion from P57,9 billion registered in December 2009, showing a decrease of 12,2 percent. The P50,8 billion of reserves, equivalent to SDR5,1 billion and US$7,9 billion is equivalent to 18 months of imports of goods and services.

2.6 Monetary account

2.6.1 The broad money supply (M2) grew by 10,7 percent from a contraction of 1,3 percent realised in 2009 whilst M3 also followed similar growth pattern. The positive growth in money supply was attributed to an increase in foreign reserves mainly from export earnings on diamond sale. Total credit decelerated from 15,2 percent registered in December 2009 to 11,9 percent in December 2010. Credit extension to the private sector slowed down to 8,5 percent in 2009 compared to 11,3 percent in 2010. Household credit grew by 12,5 percent compared to 17,1 percent recorded in 2009. The sluggish growth on credit extension partially eased inflationary pressures.

2.7 Government finance

2.7.1 The 2009/10 budget outturn showed that the total revenue including grants amounted to P30,0 billion, which was P2,2 billion higher than the original budget. The improved outturn was mainly driven by more than expected mining output and revived domestic consumption, thus resulting in additional revenue to the tune of P2,25 billion from mining, particularly diamonds; and an increase of P256 million on VAT. On the other side, total expenditure and net lending amounted to P39,5 billion compared to P41,3 billion in the revised budget, representing under-spending of 4,3 percent. Recurrent expenditure accounted for 65 percent of the total expenditure, equivalent to P25,7 billion whilst development expenditure amounted to P13,0 billion. The under-spending emanated from the development expenditure which indicates capacity constraints in that area. The overall fiscal deficit therefore amounted to P9,5 billion, equivalent to 10,9 percent of GDP.

2.7.2 The 2010/11 budget outturn for the revised budget showed that total revenue including grants amounted to P30,3 billion, which was P3,2 billion higher than the original budget. Additional revenue of P2,8 billion came from mining receipts whilst P893 million was part of SACU additional payments. On the other side, revised total expenditure and net lending amounted to P40,5 billion which was revised upwards from the original budget of P39,2 billion as a result of an increase in development spending. The overall fiscal deficit therefore amounted to P10,2 billion, representing 10,1 percent of GDP. Given that most development projects are nearing completion, development expenditure is expected to decline, giving rise to lower than expected fiscal deficit.

Annexure I (continued)

SACU Member States Economic Performance – A road to economic recovery

2.8 Public debt

2.8.1 The expansionary fiscal policies meant to cushion the effect of the economic crisis, necessitated the government to increase borrowing both external and domestic sources, and draw down government deposits. In order to manage the debt, government enacted debt strategy and limited government debt to 40 percent of GDP allocated equally between domestic and external debt. As at March 2011, total outstanding debt stock amounted to P18,8 billion, disaggregated as P6,2 billion for domestic debt (5,9% of GDP) and P12,6 billion (11,9% of GDP) for external debt. However, it is expected that by the end of March 2012, total debt would increase to P25,9 billion with external and domestic debt amounting to P19,4 billion and P6,5 billion, thus, representing 19,1 percent and 6,4 percent of GDP respectively. The surge in external debt in 2010/11 was mainly driven by drawing down of the AfDB loan and multilateral loans to finance infrastructure projects.

2.8.2 The external debt portfolio is almost reaching the 20 percent ceiling and the government intends to increase the domestic borrowing to finance the fiscal deficit and subsequently boost the domestic capital market by issuing government bonds.

2.9 Economic outlook

2.9.1 The economic outlook is positive as indicated by increasing output in mining, particularly diamonds. The economy is expected to grow by an average of 7,0 percent in the medium term mainly driven by the mining sector. Given the favourable economic growth, it is expected that revenue will outpace expenditure, resulting in an average budget surplus of 1,7 percent of GDP in the medium term. However, the fiscal projections indicate that the budget will be in balance in 2012/13.

2.9.2 Notwithstanding the positive outlook, there remain some social challenges including high poverty level, estimated at 30 percent, HIV Aids pandemic though the prevalence is declining, and unemployment especially among the youth. In response to these challenges, the Government has embarked on structural reforms which will be closely monitored.

3. Lesotho

3.1 Real sector developments

The economy is estimated to have grown by 3,6 percent in 2010 compared to 3,1 percent experienced in 2009 mainly due to good performance in the secondary sector.

3.1.1 Primary sector

Diamond production gained momentum alongside prices of other commodities in the international market. The primary sector registered a positive growth of 15,7 percent in 2010 from a constant, zero growth realised in 2009. The improvement in the diamond mining production was largely driven by continued increase in the international price of rough diamonds coupled with improved production in Letseng Diamond and reopening of Kao and Lighobong Mines. Agriculture, forestry and fishing sub-sector declined by 2,5 percent due to among others, floods that hit hard on livestock (of about 4,0 percent) in 2010.

3.1.2 Secondary sector

The secondary sector comprising of manufacturing; electricity and water; and construction sub-sectors collectively grew by 4,2 percent from a decline of 1,0 percent experienced in 2009. The good performance was attributed to a surge in construction activities mainly boosted by construction of the public referral hospital, new health clinics, Metolong Dam and rural roads. Manufacturing remains the biggest contributor to the overall secondary sector with textile and clothing sub-sectors accounting for 62,3 percent of the value added of the secondary sector. Manufacturing recovered moderately in 2010, registering a growth of 4,2 percent compared to a contraction of 5,1 percent experienced in 2009. The fragile economic recovery in the advanced economies, particularly in the US contributed to the overall sluggish performance in manufacturing. Electricity and water experienced a slower growth of 2,8 percent in 2010 from 3,2 percent realised in 2009, as factories were only recovering.

3.1.3 Tertiary sector

Tertiary sector is expected to register a growth of 3,4 percent due to, amongst others, growth in transport and communication (an expansion in service providers to rural areas) of 6,8 percent, as well as an expansion in the banking sector which will result in a 3,9 percent growth of the Financial Intermediation.

3.2 Employment developments

3.2.1 Manufacturing, especially in the clothing and textile industry, remain the single largest employer followed by general government. Employment in manufacturing subsector fell to 45 595 in December 2010 from 46 386 registered in 2009 as a result of winding down of production activity in clothing and textile industry. On the other side, employment in the public sector rose from 43 259 to 43 781 mainly attributed to an increase in teachers and civil servants enrolment. Migrant mineworkers employed in South Africa continue to follow a downward trend from an average of 55 000 workers for the period 2005 – 2007 to 41 555 registered in December 2010. The declining commodity prices especially in mid-2000 resulted in significant retrenchments of mineworkers even though it has stabilised.

3.3 Price developments

3.3.1 The overall inflation rate, measured as a percentage change in the Consumer Price Index (CPI), slowed to an average of 3,6 percent from 7,5 percent recorded in 2009. The low inflation environment mainly reflects the subdued demand conditions and appreciation of the Rand. The economic recovery may exert inflationary pressures as a result of improved domestic demand but given the Loti peg to the South African Rand, which is fairly strong, it is expected that inflation will remain in single digits in 2011.

3.4 Interest rates

3.4.1 In 2010, interest rates in the Common Monetary Area (CMA) followed a downward trend mainly anchored by South Africa's monetary policy, which was relaxed to augment economic recovery coupled with strong Rand. Lesotho's prime lending rate dropped from 11,67 percent realised in 2009 to 10,50 percent in 2010. The 91-day Treasury bill also dropped from 6,6 percent to 5,52 percent in December 2010.

3.5 Balance of payments

3.5.1 The aftermath of the economic crisis saw Lesotho's external sector position deteriorate in 2010. The overall balance of payments (BOP) deficit widened from R643,9 million registered in 2009 to R1,6 billion in 2010 mainly attributed to weakened current account position. The current account deficit widened from R130 million recorded in 2009 to R2,7 billion, equivalent to 17,5 percent of GDP as a result of lower than expected current transfers which dropped by 32,5 percent. The poor performance of current transfers was mainly due to a reduction in SACU revenue. Income account also deteriorated by 16 percent as a result of a drop in labour income emanating from Basotho mineworkers. The trade account declined by 7,0 percent mainly driven by a drop in merchandise exports, particularly to the US whilst imports increased.

3.5.2 The capital and financial accounts experienced a marginal surplus of R1,2 billion in 2010 from R1,1 billion recorded in 2009, equivalent to 7,2 percent of GDP. The capital account recorded net inflows to the tune of R1,3 billion as a result of a surge in donor grants whilst financial account experienced outflows of R125,1 million as the commercial banks increased their foreign asset holdings.

3.6 Monetary accounts

3.6.1 The growth in money supply as measured by M2 increased by 11,2 percent compared to growth of 9,9 percent realised in 2009. The increase in money supply is attributable to a 53,1 percent rise in domestic credit including net claims on government. The surge in net claims on government signalled deterioration in government deposits held with the Central Bank due to the financing of fiscal deficit. Credit extended to the private sector increased by 18 percent, lower than 27,1 increased recorded in 2009, as a result of reduced borrowing costs. Credit extended to households and businesses also rose by 13,0 percent and 23,7 percent respectively.

3.7 Government finance

3.7.1 In 2010/11, SACU revenue contributed 30 percent to the total revenue, deviating from an average 60 percent recorded in the previous years. The decline in SACU revenue resulted in a fiscal deficit equivalent to 6,1 percent of GDP. Total revenue including grants amounted to R8,8 billion with grants and non-tax revenue totalling R1,36 billion and R1,29 billion respectively. However, the adverse impact of the decline in SACU revenue was slightly offset by an increase in domestic revenue, which saw Income Tax and VAT growing by 5,70 percent and 16,60 percent respectively. Income tax growth was mainly driven by a surge in individual income tax whilst company tax and other taxes plunged. Non-tax revenue improved mainly due to an increase in property income and dividends whilst capital grants also surged as a result of increased disbursement geared towards infrastructural projects.

3.7.2 In 2010/11, total expenditure was estimated at R9,5 billion, of which current expenditure accounted for 79 percent. A large portion of recurrent expenditure was geared towards purchases of goods and services which grew by 22,6 percent compared to a decline of 9,3 percent realised in 2009/10. Notable was payment of services rendered to government and personnel emolument driven by 3,5 percent salary increase for the civil servants. In contrast, interest payments dropped by 22,4 percent as a result of a decline in the Maloti value of the public debt stock. Capital expenditure accounted to 21 percent of total expenditure which grew by 37,1 percent realised in 2009/10 due to grants from Millennium Challenge Account.

3.7.3 The fiscal deficit would be financed by the issuance of domestic bonds and drawdown of government deposits.

3.8 Public debt

3.8.1 The public debt comprises external and domestic debt. Foreign debt constituted 85,9 percent of total debt whilst domestic debt accounted for 14,1 percent in 2010. Total debt increased by 5,1 percent as a result of issuance of domestic bonds in the last quarter of 2010. As a percentage of GDP, public debt stood at 36,8 percent; disaggregated, external debt constituted 31,6 percent of GDP whilst domestic debt constituted 5,2 percent of GDP. The ratio of public debt to GDP remained below the 60 percent sustainability threshold, showing that public debt is sustainable as a result of high concessionality and long term nature of the bulk of external debt.

3.9 Economic outlook

3.9.1 The economic outlook is positive and the economy is expected to grow by 4,2 percent in 2012/13. The Government is currently undertaking some reforms including the establishment of Financial Management Information System (IFMIS) meant to improve financial efficiency. In the wake of the global economic crisis, the Government undertook measures to consolidate macroeconomic stability and entered into the IMF Extended Credit Facility to support economic programs aimed at moving towards stable and sustainable macroeconomic position. Moreover, the Government implemented fiscal consolidation measures by reducing expenditure and enhancing domestic revenue whilst continuing with capital and social spending.

3.9.2 Notwithstanding the aforementioned reforms, the positive economic growth still fails to translate into job creation and poverty reduction. Undoubtedly, the clothing and textile industry is the major employer but the stiff competition from the Asian producers and the uncertain future of the AGOA necessitate the Government to start engaging on product and market diversification.

4. Namibia

4.1 Real sector developments

4.1.1 Primary sector

In real terms, the economy is projected to grow by 4,8 percent in 2010 from a contraction of 0,7 percent realised in 2009. The mining sector was worst hit by the global economic crisis in 2009 due to its reliance on external demand but rebounded in 2010. The mining and quarrying sector is estimated to have recovered remarkably by an estimated 42,5 percent in 2010, after a steep contraction of 45,0 percent in 2009. The recovery realised in the sector was mainly due to improved global recovery, which led to improvement in demand for mineral commodities, such as diamonds and other mineral products. Diamond and uranium mining rebounded in 2010, despite operational challenges at the mining sites during the course of the year. Agriculture also improved as reflected in the increased production of livestock and crop farming. Agriculture is estimated to have expanded by approximately 2,5 percent in 2010 compared to the contraction of 0,2 percent during 2009. Fishing and on-board fish processing is estimated to have recorded marginal growth in 2010, which is an improvement from the contraction realized in the previous year.

Annexure I (continued)

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4.1.2 Secondary sector

The performance in the secondary industry was relatively strong during 2010 compared to the previous year. The industry is estimated to have grown by 3,9 percent in 2010 compared to 3,5 percent realised in 2009 as a result of increased activities in other manufacturing sub-sector comprising, primarily, mineral processing and beneficiation spurred by recovery in the mining sector. The construction sector continued to contract, albeit at a slower pace than the contraction of 7,2 percent recorded in 2009. Growth in the manufacturing sector is estimated to have moderated to 6,2 percent in 2010, compared with a growth of 6,5 percent realised in 2009. A slowed growth was notable in the meat processing and fish processing onshore, other food products and beverages.

4.1.3 Tertiary sector

Despite the global economic recovery, the tertiary industry is estimated to have moderated in 2010. The tertiary industry dropped to 3,5 percent in 2010 compared with 4,4 percent recorded in 2009 mainly attributed to a plunge in real estate and business services; and wholesale and retail, whilst transport and communication sector was estimated to have slightly improved. Growth in the real estate and business services sector hotel and restaurant is estimated to have slowed to 2,1 percent in 2010 compared with 6,0 percent growth recorded in 2009. The hotels and restaurants sector is estimated to have recorded subdued growth of 4 percent, compared to 5 percent recorded during 2009. The slow economic recovery, particularly in the advanced economies as well as the appreciation of Namibia Dollar, contributed to the sluggish growth in the sector. Wholesale and retail trade also recorded lower growth, estimated at 2,5 percent relative to 3,1 percent achieved in 2009, while public administration and defence sub-sector remained relatively unchanged at 4 percent.

4.2 Price developments

Namibia's annual inflation rate maintained a downward trend during 2010, starting the year at 6,3 percent in January and dropping to 3,1 percent in December. The overall inflation rate for 2010 averaged 4,5 percent, compared to 8,8 percent realised in 2009. The slowdown in overall inflation during the year was characterised by low international food and oil prices as well as strong macroeconomic fundamentals in the CMA, particularly the strong Rand which is pegged to member country currencies. However, the economic recovery coupled with rising international oil prices may exert inflationary pressures going forward.

4.3 Interest rates

Interest rates followed a downward trajectory in 2010 in line with inflation. The repo rate was reduced to 6,0 percent in December 2010 together with the prime lending rate which also dropped to 9,75 percent from 11,25 percent recorded in 2009. The reduction in interest rate was boosted by improved inflation outlook, sufficient international reserves and the revised domestic demand.

4.4 Balance of payments

4.4.1 The external sector deteriorated significantly during 2010 with overall balance of the balance of payments (BOP) recording a deficit of R3,8 billion compared to a surplus of R1,1 billion realised in 2009. The current account deteriorated mainly due to reduced current transfer receipts, particularly SACU receipts as well as income transfer. Current transfers declined by 15,1 percent to R9,0 billion in 2010, as a result of reduced SACU receipts which are the major component of this category.

4.4.2 The capital and financial account also deteriorated as a result of increased outflows in portfolio and other long-term investments during 2010. The deficit was mainly due to increased outflows in portfolio investment, which grew by 13,0 percent. In contrary, foreign investors expanded their business operations domestically through reinvested earnings, resulting in foreign direct investment (FDI) increasing by 43,5 percent to R6,3 billion. However, inflows in other capital dropped to R2,2 billion compared to R2,8 billion recorded in 2009.

4.4.3 The stock of international reserves declined sharply by 26,6 percent to R10,2 billion at the end of 2010 as a result of net outflow observed in the capital and financial account. During 2010, the stock of reserves declined to 3,1 months of import cover which was lower than 4,0 months of import cover registered in 2009. The 3,1 months of import cover remains in line with the international benchmark requirement of 3,0 months.

4.5 Monetary accounts

4.5.1 Broad money supply measured by M2 decelerated from 66,0 percent registered in 2009 to 9,5 percent mainly driven by contraction in net foreign assets, net claims on Central Government and claims on non-residents by commercial banks. Credit extension to households also declined by 4,5 percent whilst credit extension to business increased by 12,0 percent. Deposits by financial institutions grew by 10,3 percent whilst deposit by non-financial institutions slowed by 6,8 percent.

4.6 Government finance

4.6.1 The Government has continuously pursued the following fiscal rules in a strive to maintain macroeconomic stability over the MTEF period: (i) Debt as ratio to GDP maintained at 30 percent; (ii) budget deficit maintained at 7 percent of GDP; (iii) expenditure target maintained at 40 percent of GDP; (iv) interest rate payment maintained at 10 percent of total revenue annually; and (v) contingent liability maintained at 10 percent of GDP annually. However, expenditure and fiscal deficit benchmarks reflect an upward adjustment from 30 percent and 5 percent respectively due to the implementation of expansionary fiscal policy to cushion the effects of the global economic crisis.

4.6.2 In 2009/10, total revenue and grants amounted to R24 billion, showing a marginal increase of 2,6 percent from R23,4 billion recorded in 2008/09, which is below the pre-crisis revenue average growth rate recorded at 11,3 percent. In 2010/11, the revenue outturn was estimated at R22,7 billion, presenting a drop in revenue as a result of a decline in SACU revenue, which remains the main contributor to total revenue averaging 39,3 percent of total revenue. Tax revenue constituted 92,8 percent of total revenue in 2010/11 compared to 92,6 percent realised in 2009/10. Despite a slowdown in tax revenue, personal income tax and VAT showed resilience and exceeded the targets by 5,5 percent and 5,1 percent respectively even though mining company tax dropped drastically.

4.6.3 In response to the economic crisis, the Government pursued expansionary fiscal policy since 2008/09, resulting in expenditure increasing from 29,5 percent of GDP in 2008/09 to 31,1 percent in 2009/10. It is anticipated that the average expenditure will reach R29,7 billion during 2010/11 – 2012/13 MTEF. The development budget increased to R4,5 billion in 2009/10 from R3,8 billion recorded in 2008/09. And of the capital budget, 85,9 percent was spent as appropriated, indicating an increased absorptive capacity as a result of ongoing reform measures.

4.6.4 Moderate increase in revenue coupled with increased expenditure, resulted in a fiscal deficit to the tune of R867,7 million, equivalent to 1,1 percent of GDP registered in 2009/10. It is expected that in 2010/11 the fiscal outturn would be lower than projected, with revenue collection estimated at R22,69 billion and expenditure estimated at R27,74, resulting in a fiscal deficit to the tune of R5,04 billion which is equivalent to 5,7 percent of GDP.

4.7 Public debt

4.7.1 During the year under review, total debt stock declined including loan guarantees by government. Domestic debt constituted approximately 77,0 percent to total debt in pursuit to develop and sustain domestic capital market. In an attempt to stimulate domestic financial market, the government issued short and long term debt instruments locally. As a result, domestic debt increased to 11,3 percent of GDP which was marginally lower than 12,7 percent realised in 2009. In nominal terms, the aggregate domestic debt stock fell slightly to R10,0 billion in 2010 compared to R10,2 billion at the end of 2009.

4.7.2 At the end of December 2010, total external debt dropped by 10,4 percent to R2,9 billion from R3,3 billion recorded in 2009. The decline in total external debt was mainly due to the repayment of R305,6 million to bilateral creditors as well as the appreciation of the Namibia Dollar against major trading currencies. The share of external debt to total central government debt therefore decreased from 24,6 percent realised in 2009 to 23,6 percent at the end of December 2010. External debt as a share of GDP stood at 3,4 percent in 2010, 0,8 percentage points lower than in 2009. Loans from multilateral creditors continued to dominate the composition of external debt, accounting for 67,1 percent at the end of December 2010 higher than the 57,1 percent recorded the same period in the preceding year. The ratio of debt servicing to exports stood at 5,3 percent in 2010, significantly lower than 12,8 percent registered at the end of 2009 and the ratio remains far below the international benchmark of 15,0 - 25,0 percent.

4.8 Economic outlook

4.8.1 The economic projections indicate a positive outlook in the medium term. In real terms, GDP is expected to grow by an average of 5,3 percent whilst fiscal deficit is expected to average 7,0 percent during the MTEF period. However, the economic recovery is fragile against the backdrop of prevailing downside risks in Euro Zone, which is Namibia's major trading partner, particularly in mining and tourism. Like other SACU economies, Namibia is confronted with structural socio-economic challenges. Unemployment remains high at 51,2 percent which exacerbates poverty and inequality and the HIV/AIDS prevalence is also high. Government has embarked on a targeted intervention program for employment and economic growth to accelerate job creation in addition to other policy interventions aimed at achieving other socio-economic development objectives.

5. South Africa

5.1 Real sector development

5.1.1 Primary sector

In 2010, real GDP grew by 2,8 percent. Mining and quarrying output increased by 5,8 percent from a contraction of 4,2 percent recorded in 2009 as global demand for raw materials recovered along with the global economy in 2010; agricultural output grew by 0,9 percent from a contraction of 3,0 percent realised in 2009.

5.1.2 Secondary sector

Manufacturing continues to be an important pillar of South African economy, although it was worst hit by the economic crisis in 2009. Manufacturing grew by 5,0 percent in 2010 following a sharp contraction of 10,4 percent experienced in 2009. The rekindled performance was mainly driven by increased production of motor vehicles, petrochemicals and basic iron and steel. Growth in the construction sector also complemented the improved performance in manufacturing even though it grew sluggishly by 1,5 percent in 2010 from 9,5 percent and 7,4 percent growth registered in 2008 and 2009 respectively. Slower growth was the result of weaker residential construction activity as well as a winding down of construction related activities for the 2010 FIFA World Cup.

5.1.3 Tertiary sector

The growth in the tertiary sector continues to be supported by general government, even though 2010 saw a marginal decline in growth from 4,1 percent realised in 2009 to 3,0 percent. The real value added in the finance, insurance, real-estate and business services sector recorded a slight improvement in growth in 2010, rising from 0,9 percent registered in 2009 to 1,9 percent in 2010. The slightly stronger performance of the sector in the final quarter of 2010 primarily reflected an increase in the real output of the banking sector. By contrast, trading activity in the domestic securities market lost momentum over this period. Real output in the transport, storage and communication sector grew by 2,9 percent in 2010 from 0,6 percent recorded in 2009. Freight transport volumes increased concurrently with the increase in merchandise export volumes though partly offset by a moderate decline in the volume of imports; communication subsector growth maintained its momentum throughout 2010.

5.2 Employment developments

5.2.1 South Africa's employment levels dropped sharply in response to the global recession and total employment levels have still not recovered to the pre-recession level. The number of employed South Africans stands at 13,1 million. There are 4,5 million unemployed South Africans, with the problem particularly acute amongst the youth, where unemployment is above 50 percent.

5.2.2 The unemployment rate stood at 25,7 percent in quarter two of 2011, from a low of 21,8 percent in 2008. The absorption rate is just 40,5 percent, below the 2008 peak of 45,0 percent.

Annexure I (continued)

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5.3 Price developments

5.3.1 Domestic consumer price inflation continued to moderate during 2010 within an environment of relatively subdued local demand and an appreciation in the external value of the Rand throughout the year. Consumer price inflation accordingly slowed from an annual average of 7,1 percent in 2009 to 4,3 percent in 2010. Consumer price has averaged 4,4 percent year-on-year in 2011 through to July. Headline producer price inflation (which relates to domestic output prices) accelerated from zero percent in 2009 to an annual average rate of 6,0 percent in 2010 and 6,7 percent year-on-year in 2011 through to June.

5.3.2 Twelve-month consumer price inflation has remained within the inflation target range of 3 to 6 percent for an extended period. From levels around 6 percent at the beginning of 2010, inflation reached a low of 3,2 percent in September 2010, before rising to 5,3 percent in July 2011.

5.3.3 The observed acceleration in consumer price inflation and expectations that inflation will temporarily breach the inflation target range in coming months, resulted from significant increases in the prices of food and petrol. There is currently little evidence of second-round effects from these price shocks and inflation is expected to fall back within the target band by mid-2012.

5.4 Interest rates

5.4.1 Subdued inflationary pressures allowed the Monetary Policy Committee (MPC) to adopt an accommodative monetary policy stance in the course of 2010, thereby supporting the recovery in domestic economic activity. The repurchase rate was subsequently reduced three times during the year by a cumulative one-and-half percentage point to 5,5 percent in November 2010. Since then, the repo rate remained unchanged to July 2011 in light of improved demand conditions both at home and abroad and contained inflationary developments. The Reserve Bank Governor has however, signalled that the SARB is ready to respond in the face of global and domestic growth risks that may arise due to the Eurozone sovereign debt crisis.

5.5 Balance of payments

5.5.1 In 2010, the current account deficit averaged 2,9 percent of GDP, an improvement from the deficit of 4,1 percent of GDP in 2009, largely by an improvement in the trade deficit and declining net service, income and transfer payments to the rest of the world. Export and import growth recovered strongly in 2010, with volume growth of 4,5 percent and 9,6 percent respectively. Terms of trade grew by 6,9 percent, offsetting the sharp increase in the volume of imports. The balance on current account reached 3,1 percent of GDP in the first quarter of 2011.

5.5.2 The deficit increased in the first quarter largely as a result of a sustained deficit on the services, income and current transfer account and a sharp decline in the trade surplus from 2,7 percent of GDP in the last quarter of 2010 to a deficit 0,8 percent of GDP (R22 billion) in the first quarter of 2011. Net payments for "other services" increased further mainly due to higher gross payments for services of a technical nature rendered by non-resident parties relating to infrastructural development during the second phase of the Gautrain project.

5.5.3 International concerns regarding sovereign and banking-sector risk in the European financial markets as well as overheating and a build-up of inflationary pressures in some emerging-market countries caused a slowdown in capital flows into these economies. However, South Africa's well-structured capital markets showed resilience to the financial crisis. During the first quarter of 2011, non-residents were net sellers of both equity (R3,1 billion) and debt (R7 billion) in response to continued uncertainty in global financial markets. However, portfolio capital still recorded net inflows to South Africa of R20,8 billion in the first quarter of 2011 on the back of foreign currency debt issuance to non-resident investors, principally by the National Treasury and parastatals, which exceeded non-resident net sales of domestic equity and debt. Net international reserves have steadily increased, reaching US$44,7 billion in the first quarter of 2011, from US$43,3 billion in 2010 and US$37 billion in 2009.

5.5.4 The gross international reserves of SARB increased from US$5,6 billion in 2008 to US$39,7 billion by end of 2009 and US$43,8 billion at the end of 2010, and further increased to US$50,1 billion by end of July 2011, of which only US$2,9 billion was held in SDRs. The stock of gross reserves has risen from 17,2 weeks in December 2008 to 19,1 weeks import cover at the end of March 2011.

5.6 Monetary account

5.6.1 Broadly defined money supply (M3) began decelerating in 2008 but reached the lowest level in February 2010 mainly driven by slow growth in nominal output and expenditure. However, the economic revival saw a 3,7 percent year-to-year increase of M3 in July 2010. M1 also grew during the same period boosted by an increase in call and overnight deposit, which signalled investor confidence. Growth in corporate and household deposits was sluggish in 2009 but moderately increased during the first half of 2010. The velocity at which M3 increased from a record low of 1, 22 in the first quarter of 2009 to 1, 34 in the second quarter of 2010 indicated that growth in M3 was less than the growth in GDP.

5.6.2 Growth in banks' total loans and advances extended to private sector was on a downward trajectory since 2008 mainly driven by high household debt and low corporate income. However, during the first half of 2010, credit extension recouped by 1,7 percent.

5.7 Government finance

5.7.1 Total revenue amounted to R664,8 billion in 2009/10 which was equivalent to 27,2 percent of GDP and the preliminary outcomes for 2010/11 indicate an increase in revenue collection to the tune of R757 billion, representing 28,4 percent of GDP. Tax revenue is the largest source of budget revenue and in 2009/10; tax revenue amounted to R598,7 billion, representing 90 percent of total revenue and 24,5 percent to GDP. Non-tax revenue amounted to R8,9 billion whilst other revenue (provinces, social security funds and public entities) amounted to R85,2 billion: SACU payments amounted to R27,9 billion. In 2010/11, tax revenue collected increased to R674,2 billion whilst non-tax and other revenue reached R12,1 billion and R88,6 billion, respectively.

SACU payments amounted to R17,9 billion, including R2,9 billion payments to SACU partners in respect of a previous error in calculation of the 1969 agreement.

5.7.2 The increase in revenue during 2010/11 is driven by moderate growth in personal income tax, despite a 1,1 percent decline in corporate income tax collections. Taxes on goods and services recorded brisk growth due to significantly higher collections of value-added tax (VAT) and fuel levy. Firm growth in consumer spending and lower VAT refunds contributed to the buoyant VAT collections. Taxes on international trade and transactions increased significantly due to a substantial rise in customs duties. The robust growth in customs duties resulted from strong growth in vehicle imports on account of an upswing in household consumption expenditure.

5.7.3 The government follows medium-term expenditure framework (MTEF) which outlines public service delivery commitments in pursuit of national development and transformation goals. The MTEF for the period ahead reflects government's commitment to creating jobs, growing the economy, promoting equity and accelerating access to quality social services. Growth in spending focuses on education and skills development, improved health outcomes, integrated and sustainable human settlements, and rural development. In addition, social and economic infrastructure investments are to be scaled up. In 2009/10, total expenditure amounted to R825,9 billion, of which provincial expenditure amounted to R303 billion. Total expenditure for 2010/11 is provisionally estimated to be R891,3 billion, representing 33,4 percent of GDP.

5.7.4 According to 2011 Budget, R808,6 billion would be spent over the medium term on public sector infrastructure programme with an annual growth averaging 3,4 percent. However, capital expenditure continues to underperform budgeted amounts particularly at the provincial and municipal level. Since 2006/07 to 2009/10, provincial capital expenditure has averaged about 86 percent of allocated capital budgets. The municipal performance has improved from 72 percent in 2006/07 to 85 percent in 2008/09, before declining to 80 percent in 2009/10. Given the dwindling revenue, fiscal deficit increased from 1,2 percent of GDP in 2008/09 to a deficit of 6,6 percent in 2009/10. The preliminary outcome for the fiscal position in 2010/11 is 5 percent.

5.8 Public debt

5.8.1 In 2009/10, total gross debt amounted to R805 billion representing 33 percent of GDP and the 2010/11 revised estimate for total debt increased to R988,7 billion, which is 37,1 percent of GDP. In 2010/11, domestic debt contributes 90 percent to total debt whilst foreign debt contributes 10 percent. Total loans and advances extended to the private sector recovered from a decline of 0,1 percent in 2009 to an increase of 5,4 percent in 2010 and recorded consistent positive growth rates in the early months of 2011. In June 2011, credit extension to the private sector grew by 5,3 percent year-on-year. The slow pace of credit growth continued to reflect prevailing fragility in both consumer and business confidence and hesitant lending activity by the banking sector. In addition, the corporate sector's low demand for credit was reflective of a sluggish pickup in new investment alongside the protracted recovery in economic conditions. The quarter-to-quarter growth rate of total loans and advances decelerated from 7,5 percent in the third quarter of 2010 to 4,5 percent in the first quarter of 2011. Despite the slower rate of growth, the rate of increase remained higher than that observed throughout 2009 and the first half of 2010.

5.8.2 The substantial increase in the country's outstanding external debt mainly resulted from an increase in rand-denominated foreign debt reflected by non-resident purchases of domestically issued bonds and their holdings of rand-denominated deposits with the South African banking sector. The increase in rand terms was held back as a result of the appreciation of the rand against the US Dollar over this period. During January 2011 the credit rating agencies Fitch and Standard & Poor's revised South Africa's sovereign credit ratings outlook from negative to stable, following the country's emergence from the recession. In July 2011, South Africa's sovereign credit rating was affirmed by Rating and Investment Information, Inc (R&I) at A- with a stable outlook.

5.9 Economic outlook

5.9.1 Real GDP growth is expected to expand to an average of 4,0 percent for the period 2011 – 2013. It is expected that the fiscal deficit would stabilise at 5,3 percent of GDP in 2011/12 from the previous year, down from 6,6 percent in 2009/10 and average a lower 4,6 percent during the MTEF period as the economy recovers. South Africa pursued countercyclical fiscal policy to support economic growth and attain sustainable macroeconomic stability by creating an economic environment that is able to adjust to the volatility of the business cycle. This was achieved through creating fiscal space during the upward phase of the economy. Despite the impact of the economic crisis, social spending increased on social programmes and infrastructure development necessitating increased borrowing and a widened fiscal deficit.

6. Swaziland

6.1 Real sector development

6.1.1 Primary sector

Like other developing economies, Swaziland economy was adversely affected by the economic recession, particularly in 2009. The estimates show that real GDP recovered moderately in 2010 in line with the global recovery, growing by 2,0 percent following a sluggish growth of 1,2 percent experienced in 2009. Agriculture declined by 2,0 percent in 2009 but improved in 2010 following the good rains and increased irrigation capacity that rejuvenated the sector performance, and is estimated to have grown by 1,6 percent in 2010. The mining sector, mainly comprising anthracite coal and quarried stones, recorded a negative growth since 2007 and credit extension to the industry also dropped by 71,2 percent in 2009, revealing the under investment in this sector. However 2010 preliminary estimates show an improvement in the sector performance, with a growth of 16,3 percent as both coal and quarry production realized positive growth.

6.1.2 Secondary sector

Growth in the manufacturing sector slowed down in 2009 as a result of sluggish growth experienced by the main trading partners leading to closures of major companies. Manufacturing includes sugar, canned fruit, meat and meat products, and pulp and pulp products. Despite the weak performance in this sector, positive growth was recorded in sugar products and soft

drink concentrates, which are leading export commodities. The textile industry was adversely affected by the economic crisis which resulted in a slowdown in demand for textiles in the US and South African market. Despite this, the 2010 estimates revealed improvement in the growth of the sector registering a decline of 0,7 from a 2 percent decline recorded in 2009. Growth in this sector was mainly driven by the rebound of the global economy which led to the increased demand for the domestic exports including beef and soft drink concentrates. Nonetheless, the eventual closure of the country's major pulp mill in 2010 negatively impacted the performance of the manufacturing sector. The construction sector was also negatively affected mainly by the slowdown in public infrastructure development registering a decrease of 3,0 percent in 2009. However the sector regained momentum in 2010 attributable to the private infrastructure development and some major public infrastructure development that continued in the period.

6.1.3 Tertiary sector

In the wake of the economic crisis, hotel and restaurant registered a positive growth of 4,0 percent in 2009 and number of tourists increased by 13,3 percent but declined in 2010 by 3,4 percent as the number of beds sold decreased. Financial intermediation declined by 3,3 percent in 2010 after a good performance of 5,0 percent growth in 2009, partly as a result of the company closures coupled with retrenchments negatively impacting the loans performance. Public administration and defence grew by 5,4 percent in 2010 as Government took a decision to maintain budget allocations at reasonable levels despite facing fiscal challenges, in order to improve service delivery especially for essential services such as education and health.

6.2 Employment developments

Like other countries in the region, economic growth over the years has not been translated into job creation and the level of unemployment remains high especially among the youth. The economic crisis resulted in job losses of about 3 000 people in the textile industry and 900 in other industries. The unemployment incidence was further exacerbated by forest fires which resulted in the closure of two paper-milling companies. However, the number of employed people is high in the informal sector and subsistence agriculture. In addressing the youth unemployment, the government established the Youth Enterprise Fund which became operational in 2010.

6.3 Price developments

Inflation rate developments indicate a downward trajectory, dropping from 12,6 percent recorded in 2008 to 7,5 percent in 2009 and further decelerated to 4,5 percent in 2010. Within the consumer basket, food and transport prices declined, thus curtailing the effect of the inflationary pressures. Food inflation accounts for an average of 37,7 percent in the consumer basket and dropped from 10,2 percent in 2009 to annual average growth of 0,43 percent in 2010. On the other hand, transport inflation realized an increase of 5,0 percent in 2010 after dropping from 28,4 in 2008 to 1,8 in 2009. The hike in transport inflation was as a result of the substantial increase in global fuel prices especially in the last quarter of 2010. Inflationary pressures looming in South Africa as a result of fuel and electricity price hikes may adversely affect the inflationary outlook though the strong domestic currency may subdue the effect.

6.4 Interest rates

Swaziland is a member of CMA and therefore follows the monitory policy response pursued by South Africa. In line with low inflation, interest rates also followed a downward trend and the repo rate fell to a lowest rate of 5,5 percent whilst prime-lending rate dropped to 9,0 percent in November 2010.

6.5 Balance of payments

6.5.1 Overall balance of payments deteriorated to a deficit of R19,1 million in 2009 from a surplus of R1,8 billion realised in 2008. This performance was a result of current account deficit amounting to R3,6 billion swinging from deficit of R1,9 billion registered in 2008. The current account deficit is largely explained by deficits recorded in the trade, services and income accounts.

6.5.2 The trade account registered a deficit of R1,1 billion in 2009 which largely widened from R81,6 million recorded in 2008 driven by weak export growth and higher import growth. Total exports grew by merely 7,5 percent to R13,3 billion with 65 percent exports destined to South Africa whilst 35 percent was destined to the rest of the world. The sluggish export growth gave effect to lower than expected export earnings. The services account also recorded a deficit to the tune of R3,1 billion mainly driven by significant reduction in imports of services, net outflows in transportation services, tourism, and payment of royalties and licenses to parent companies. Income account also deteriorated with a deficit of R1,04 billion recorded in 2009 compared to R42,7 million recorded in 2008. The drastic deterioration of the income account was mainly driven by outflows on company earnings, reinvested earnings and interest paid by the official sector. However, the current transfers account registered a net surplus of R1,6 billion in 2009, slightly lower than R1,7 registered in 2008 attributed to SACU receipts.

6.5.3 The financial account of the BOP registered a net inflow of R4,0 billion compared to R3,7 billion recorded in 2008 mainly due to increased investment inflows from abroad. This is mainly because of the Retirement Act of 2005 which requires that 30 percent of locally owned assets invested abroad should be repatriated back to the country. However, the weak economic performance resulted in a drastic drop in net direct investment from R939,1 million realised in 2008 to R497,3 million attained in 2009.

6.5.4 At the end of December 2010, gross official reserves dropped by 30,6 percent to R4,5 billion, covering 2,9 months of imports compared to the import cover of 4,1 realised in 2009. The level of reserves declined as a result of higher than expected expenditure coupled with sustained appreciation of the Rand/Lilangeni exchange rate.

6.6 Monetary account

During the last quarter ending December 2010, broad money supply measured by M2 decelerated by 1,6 percent to R8,2 billion. This was mainly attributed to 7,5 percent drop in time deposits even though narrow money supply grew by 8,3 percent to R2,5 billion. Total deposits also decelerated to R8,5 billion during the last quarter of 2010 driven by 26,4 percent decline in financial institutions. Business sector deposits grew by 11,8 percent whilst household deposits increased moderately by 1 percent.

6.7 Government finance

6.7.1 SACU revenue contributes on average 60 percent of total revenue. A large decline in SACU revenue experienced for the 2010/11 and 2011/12 financial years coupled with widened wage bill gave effect to the prevailing fiscal situation. Total revenue in 2009/10 amounted to R9,22 billion compared to R9,63 collected in 2008/09. During the same period, SACU receipts declined by 13,6 percent from R6,04 billion to R5,21 billion. Income Tax collection reached R2,33 billion from R1,94 billion recorded in 2008/09, of which company tax amounted to R708 million compared to R532 million collected in 2008/09. Sales Tax increased from R984 million collected in 2008/09 to R998 million in 2009/10. The preliminary estimates for 2010/11 showed that total revenue collection dropped by 24 percent to R6,94 billion whilst SACU revenue dropped by 50 percent to R2,59 billion.

6.7.2 The actual outturn for 2009/10 shows a total expenditure of R11,04 billion, of which R8,7 billion was recurrent expenditure and R2,6 billion was capital expenditure. And of the recurrent expenditure, wages and salaries amounted to R4,4 billion representing 50,6 percent, whilst goods and services; and subsidies and transfers amounted to R2,3 billion and R1,7 billion respectively. Compared to 2008/09, recurrent expenditure increased by 13,0 percent as a result of 12,5 percent salary increase. Preliminary estimates for 2010/11 show that total expenditure dropped by 10 percent to R10,8 billion due to a decline in recurrent expenditure particularly on goods and services and subsidies and transfers. However, wages and salaries increased by 9 percent despite on-going measures to curtail the wage bill. It is expected that total expenditure would decline in 2011/12 with recurrent expenditure decelerating by 5 percent, of which wages and salaries and goods and services declining by 2 percent and 11 percent respectively.

6.7.3 In 2009/10, fiscal deficit amounted to R1,8 billion equivalent to 7,1 percent of GDP. The 2010/11 fiscal deficit was planned at 13 percent of GDP but has since improved to 11 percent of GDP. The improved fiscal deficit was as a result of additional receipts from SACU totalling R600 million for the arbitration award and supplementary budget of R406 million primarily due to lower than expected absorption rate of the capital projects.

6.8 Public debt

6.8.1 At the end of December 2010, total public debt amounted to R3,78 billion. External debt stock amounted to R2,54 billion, constituting 67 percent of total debt stock. Of the total public external debt, central government debt, which constitutes the largest share of total loan portfolio, amounted to R2,44 billion compared to R2,97 billion recorded in December 2009. The improvement was largely attributed to appreciation of the local currency and principal repayments.

6.8.2 Total domestic debt amounted to R1,24 billion at the end of December 2010 from R396,3 million recorded during the same period in 2009. The surge in the domestic debt stock was largely driven by the issuance of 5-year bonds and the introduction of 182-days treasury bills. Disaggregated, 91-days and 182-days treasury bills amounted to R772,3 million whilst R469,4 million accounted for 3-year and 5-year government bonds. Notwithstanding that domestic debt has increased to an equivalent of 5 percent of GDP, it signals a milestone in developing domestic money and capital markets.

6.9 Economic outlook

6.9.1 The economy is expected to grow by an average of 2,2 percent in the medium term. The manufacturing sector is the pillar of the economy complemented by agricultural and services sectors. Furthermore, the medium term outlook will be boosted by the implementation of the strategies in the national Economic Recovery Strategy. The three (3) years strategy is aimed at apprehending the continued trends of low economic growth experienced by the country by implementing decisive reforms to accelerate economic growth and create sustainable employment. The fiscal position was adversely affected by the economic crisis. The aftermath of the economic crisis necessitated an implementation of Fiscal Adjustment Roadmap (FAR) which outlines short to medium term strategies to address fiscal challenges as well as to mitigate the impact of the economic crisis. With the effective implementation of FAR, it is expected that the fiscal deficit would be reduced to less than 3 percent of GDP by 2014/15 financial year whilst structural reforms would be put in place in order to bolster economic growth.

6.9.2 In the short term, expenditure is rationalised whilst protecting social spending. In the medium term, government is committed to (i) broaden tax base and enhance revenue collection; (ii) streamline the public sector wage bill and improve efficiency – freeze the wage bill; (iii) improve governance in order to build investor confidence; (iv) improve export base and increase participation of Small and Medium Enterprises; and (v) put measures in place in order to attract foreign direct investment (FDI).

Annexure 2

Member States Economic Indicators and Trade Statistics

Table 1: Intra-SACU trade for the period 2008/9 fiscal year (R millions)

		Botswana import	Lesotho import	Namibia import	South Africa import	Swaziland import	Total
Botswana	Export	–	8	162	2 585	5	2 760
	% of Intra-SACU	–	0,01	0,17	2,74	0,01	–
Lesotho	Export	0	–	0	2 134	7	2 141
	% of Intra-SACU	0,00	–	0,00	2,26	0,01	–
Namibia	Export	204	8	–	4 244	32	4 488
	% of Intra-SACU	0,22	0,01	–	4,50	0,03	–
South Africa	Export	31 676	10 197	26 286	–	10 770	78 930
	% of Intra-SACU	33,59	10,81	27,87	–	11,42	–
Swaziland	Export	18	32	100	5 846	–	5 996
	% of Intra-SACU	0,02	0,03	0,11	6,20	–	–
Total		31 898	10 246	26 548	14 809	10 814	94 316

Table 2: Trends in Member States revenue shares (R billions)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Annual growth
Botswana	4 008	5 549	8 330	9 473	9 167	7 115	11 502	61,7%
Lesotho	1 984	2 784	3 822	4 901	4 918	2 908	4 103	41,1%
Namibia	3 228	5 394	6 015	8 502	8 585	6 447	9 567	48,4%
South Africa	13 027	16 478	20 796	24 264	24 125	22 651	25 747	13,7%
Swaziland	2 795	3 654	4 591	6 009	5 189	2 956	4 310	45,8%
Forecast of CRP (does not represent actual payments made to Member States)	25 042	33 859	43 553	53 150	51 984	42 076	55 229	31,3%
% Share of CRP								
Botswana	16,00	16,39	19,13	17,82	17,63	16,91	20,83	23,2%
Lesotho	7,92	8,22	8,78	9,22	9,46	6,91	7,43	7,5%
Namibia	12,89	15,93	13,81	16,00	16,52	15,32	17,32	13,1%
South Africa	52,02	48,67	47,75	45,65	46,41	53,83	46,62	13,4%
Swaziland	11,16	10,79	10,54	11,31	9,98	7,03	7,80	11,1%

The reconciled intra-SACU imports increased by 15,4 percent in the fiscal year 2008/9. The growth was underpinned by country data as follows: Botswana registered a growth of 26,3 percent; Namibia registered a growth of 14,4 percent; and South Africa registered a growth of 0,3 percent. On the export side, growth in 2008/9 was recorded in Lesotho (123,7 percent) followed by South Africa (18,7 percent). The rest of the Member States registered negative growth rates.

Botswana continued to top the intra-SACU import market share accounting for 33,8 percent in 2008/9 financial year. This was followed by Namibia (28,1 percent), South Africa (15,7 percent), Swaziland (11,5 percent), and Lesotho (10,9 percent). On the export side, South Africa continued to dominate the intra-SACU export market in 2008/9, accounting for 83,7 percent, followed by Swaziland at 6,4 percent and Namibia accounting for 4,8 percent of the market. Botswana's intra-SACU export market share stood at 2,9 percent, while Lesotho's market share stood at 2,3 percent.

Trade among the BLNS countries was limited during the period under review. The highest trade was recorded between Botswana and Namibia, where Botswana imported goods worth R204 million from Namibia and in turn exported goods worth R162 million.

All Members States with the exception of South Africa recorded intra-SACU trade deficits for the year 2008/9. South Africa recorded an intra-SACU trade surplus of R64,1 billion for the year under review, while the rest of the Member States recorded the following intra-SACU trade deficits: Namibia (R22,0 billion), Swaziland (R4,8 billion), Lesotho (R8,1 billion) and Botswana (R29,1 billion).

Table 3: Intra-SACU Imports (R millions)

	2002/3 for 2005/6 shares	2003/4 for 2006/7 shares	2004/5 for 2007/8 shares	2005/6 for 2008/9 shares	2006/7 for 2009/10 shares	2007/8 for 2010/11 shares	2008/9 for 2011/12 shares	2008/9 Annual growth
Annual growth								
Botswana	17 165	16 520	19 083	16 879	18 233	25 253	31 898	26,3 %
Lesotho	8 073	7 928	8 358	8 483	9 638	9 246	10 246	10,8 %
Namibia	13 943	16 587	13 543	15 336	17 368	23 205	26 548	14,4 %
South Africa	7 045	13 099	15 162	13 424	13 598	14 770	14 809	0,3 %
Swaziland	12 453	10 937	10 266	10 667	10 195	9 220	10 814	17,3 %

Financial Statements

Contents

The reports and statements set out below comprise the Annual Financial Statements for the SACU Secretariat:

Council approval and statement of responsibility

for the year ended 31 March 2011

The Council of Ministers, duly represented by the Chairperson of Council, has delegated the responsibility of monitoring, reviewing and managing the business operations to the Commission, Finance and Audit Committee and the Executive Secretary. The final approval of the annual financial statements is jointly signed by the Chairperson of Council and the Executive Secretary.

The Commission and the Finance and Audit Committee meets quarterly to monitor and review the affairs of the Secretariat and then present to Council.

The Executive Secretary, Executive Management and Internal Auditor are responsible for regular reviews and ensuring compliance with the policies and procedures in the day to day operations of the Secretariat. Further, the Secretariat is accountable for the implementation and maintenance of an adequate system of internal controls, dependable records and ensures the safeguarding of assets. The Secretariat is further accountable for ensuring that all transactions are duly authorised.

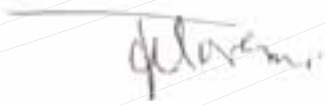
The financial statements have been prepared in accordance with International Financial Reporting Standards and are based on appropriate accounting policies, which are consistently applied and supported by reasonable and prudent judgments and estimates.

The Auditor General who is appointed by the Council of Ministers is responsible for the external audit process and to give an independent opinion on the fairness of the financial statements. The Auditor General's report is presented on pages 44 to 45.

The financial statements have been prepared on the going concern basis, since the Council members have every reason to believe that the Secretariat has adequate resources in place to continue in operation for the foreseeable future.

Against this background, on behalf of the Council, the Chairperson of the Council and the Executive Secretary accept the responsibility for the annual financial statements set out on 46 to 63, which were approved on 16 September 2011 and are signed by:

Hon Majozi V Sithole
Minister of Finance – Swaziland
Chairperson: Council of Ministers



Tswelopele C Moremi
Executive secretary

Report of the Auditor General to the Council of Ministers on the financial statements of Southern African Customs Union

for the year ended 31 March 2011

We have audited the accompanying financial statements of Southern African Customs Union, which comprise the balance sheet as at 31 March 2011, the income statement, statement of changes in equity and cash flow statement for the year that ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 51 to 61.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the Southern African Customs Union Agreement. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

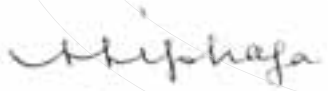
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Secretariat as of 31 March 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Southern African Customs Union Agreement.



Lucy L Liphafa (Mrs)
Office of the Auditor General of Lesotho

16 September 2011

Report of the Council

The Council of Ministers has pleasure in submitting their report together with the annual financial statements of the organization for the financial year ended 31 March 2011.

State of affairs

The state of affairs of the Secretariat at 31 March 2011 and the results of its operations for the year then ended are fully set out in the annual financial statements.

Results of operations

The Secretariat recorded total spending amounting to R50 036 236 for the year under review, out of a budget of R54 708 664. The following provides comparative information:

	2011 R	2010 R
Operating expenditure	**41 752 200**	35 465 944
Finance cost	**1 904**	5 912
Capital expenditure	**8 282 132**	571 639
	50 036 236	36 043 495

When formulating the annual budget, the Secretariat applies the activity-based approach in conjunction with the medium-term expenditure framework as a basis for planning. During the year under review, budget absorption was hampered by the deferral of some studies as a result of additional preparatory work being identified and implemented. Two of the most important of these studies are the Development of an Online Harmonised Customs and Excise Tariff Database and Reference tool and the Development of a SACU Industrial Policy Framework. Of note is that budget absorption for the succeeding financial year will be mainly influenced by the implementation of the strategic work programme and the construction of the new SACU headquarters building.

Executive management

The members of the executive management team who served during the year under review were:

T C Moremi	Executive Secretary
D H Mahlinza	Director – Trade Facilitation and Revenue Management
I Sundarparsad	Director – Corporate Services
A J Faul	Director – Policy Development, Research and Trade Negotiations

The Secretariat and the SACU Council of Ministers

The Secretariat was established by the 2002 SACU Agreement as the technical and administrative arm of the Southern African Customs Union (SACU). The SACU Council is the highest decision-making body of SACU and it is comprised of ministers of Trade and Finance from the SACU member states. The member states are: Botswana; Lesotho; Namibia; South Africa and Swaziland.

Subsequent events

No material events have occurred between the balance sheet date and the date of this report which could materially affect the financial statements or require additional disclosures regarding these events.

Statement of financial position

as at 31 March 2011

	Note	2011 R	2010 R
ASSETS			
Non-current assets			
Property, plant and equipment	5	13 802 748	7 215 833
		13 802 748	7 215 833
Current assets			
Trade and other receivables	7	255 558	2 880 769
Cash and cash equivalents	8	60 905 818	36 847 486
		61 161 376	39 728 255
Total assets		74 964 124	46 944 088
Capital and reserves			
Accumulated funds		36 419 703	23 429 478
		36 419 703	23 429 478
CURRENT LIABILITIES			
Trade and other payables	9	37 511 927	22 478 111
Provisions	10	1 032 494	1 036 499
Total liabilities		38 544 421	23 514 610
Total reserves and liabilities		74 964 124	46 944 088

Income statement

for the year ended 31 March 2011

	Note	2011 R	2010 R
Total revenues and other income:			
Common revenue pool contribution	2.12	**44 947 732**	36 037 583
EU donor funding		**–**	2 250 831
Host Country Contribution		**1 932 612**	1 780 680
WCO-SIDA Funding		**168 984**	142 305
Total income		**47 049 328**	40 211 399
Expenses:			
Tariff Board		**(880 084)**	(346 594)
Executive Secretary and Internal Audit		**(5 841 189)**	(4 543 981)
Legal Assurance		**(902 431)**	(809 152)
Communications		**(2 669 398)**	(755 206)
Trade Facilitation and Revenue Management		**(9 511 165)**	(7 272 131)
Policy Devt and Research		**(7 721 014)**	(5 551 784)
Corporate Services		**(14 226 919)**	(16 187 096)
Total expenses	16	**(41 752 200)**	(35 465 944)
Operating surplus		**5 297 128**	4 745 455
Profit and loss on disposal of fixed assets		**(243)**	144 470
Finance income	12	**3 225 575**	1 940 451
Finance cost	12	**(1 904)**	(5 912)
Surplus for the year		**8 520 556**	6 824 464

Statement of comprehensive income

for the year ended 31 March 2011

	Note	2011 R	2010 R
Surplus for the year		**8 520 556**	6 824 464
Other comprehensive income:			
Host Country donation of land	2.13	**5 086 600**	–
Total comprehensive income		**13 607 156**	6 824 464

Statement of changes in equity

for the year ended 31 March 2011

	Note	Accumulated funds R	Total R
Balance at 1 April 2009		10 884 143	10 884 143
Total comprehensive income		6 824 464	6 824 464
Unused provision from prior year	10	5 720 871	5 720 871
Balance at 1 April 2010		23 429 478	23 429 478
Total comprehensive income		13 607 156	13 607 156
Prior year overstatement of receivables	6b	(616 931)	(616 931)
Balance at 31 March 2011		**36 419 703**	**36 419 703**

Statement of cash flows

for the year ended 31 March 2011

	Note	2011 R	2010 R
Cash flows from operating activities			
Cash generated in operations	13	**29 116 793**	23 511 478
Interest received		**3 225 575**	1 940 451
Interest paid		**(1 904)**	(5 912)
Net cash from operating activities		**32 340 464**	25 446 017
Cash flows from investing activities			
Additions to Property, Plant and Equipment	5	**(8 282 132)**	(571 639)
Net cash from investing activities		**(8 282 132)**	(571 639)
Cash flows from financing activities			
Net (decrease)/increase in cash and cash equivalents		**24 058 332**	24 874 378
Cash and cash equivalents at beginning of year	8	**36 847 486**	11 973 108
Cash and cash equivalents at end of year	8	**60 905 818**	36 847 486

Notes to the financial statements

for the year ended 31 March 2011

1. General information

The Secretariat has been established according to the Southern African Customs Union agreement and is responsible for the day-to-day administration of SACU.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Secretariat's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

2.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional and presentation currency of the SACU Secretariat is the South African Rand (ZAR).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

2.3 Property, plant and equipment

Land is not depreciated as it is deemed to have an indefinite life.

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Secretariat and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

– Buildings	5%	(20 years)
– Motor vehicles	20%	(5 years)
– Furniture and fittings	20%	(5 years)
– Household Furniture and fittings	20%	(5 years)
– Office equipment	20%	(5 years)
– IT Equipments and software	33%	(3 years)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the income statement.

2.4 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.5 Financial assets

The Secretariat classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Secretariat's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet (note 7 and 8).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Secretariat commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Secretariat has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Secretariat's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, while translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Secretariat's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Secretariat establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Secretariat assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note 2.6.

2.6 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Secretariat will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

2.7 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of six months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.8 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.9 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Secretariat has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.10 Employee benefits

(a) Pension obligations

The Secretariat participates in a provident fund. The fund is generally funded through payments to a trustee-administered fund, determined by periodic actuarial calculations. The Secretariat has a defined contribution plans. A defined contribution plan is a pension plan under which the Secretariat pays fixed contributions into a separate entity. The Secretariat has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Secretariat pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Secretariat has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(b) Bonus plans

The Secretariat recognises a liability and an expense for bonuses, based on performance ratings. The Secretariat recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.11 Provisions

Provisions are recognised when: the Secretariat has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.12 Revenue recognition

Revenue comprises the Secretariat's share of the customs, excise and additional duties collected in the Common Customs Area. Revenue is shown net of value-added tax, returns, rebates and discounts.

During the year under review, additional revenue has been received in the form of donor funding from the WCO-SIDA Customs Development Programme.

The Secretariat recognises revenue when the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration receivable. An exchange for goods or services of a similar nature and value is not regarded as a transaction that generates revenue (IAS 18.9).

Deferred Income:

In compliance with IAS 18, unused funds received from the common revenue pool have been deferred to match the costs incurred during the period with the recognizable income for the year. The transfer to deferred income has been calculated as follows:

	2011 R	2010 R
Receipts from the common revenue pool	**53 878 447**	56 110 509
Donated land	**5 086 600**	–
Less: Expenses	**(41 752 200)**	(35 465 944)
Less: Capital expenditure	**(8 282 132)**	(571 639)
Transfer to deferred income	**8 930 715**	20 072 926
Common revenue pool contribution	**44 947 732**	36 037 583

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Secretariat reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.13 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Secretariat will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

The Secretariat has received the free use of the current office premises from the Government of Namibia. A notional annual rent of R1 932 612 is recognised in the income statement as a rental cost and as the Host Country Contribution. This amount is based on an evaluation that was carried out by property evaluators in March 2010 and the standard rental cost escalation in Namibia of 10% per annum. Rehabilitation costs were incurred to make the building habitable and these were capitalized as Leasehold improvements, amortized over a period of four years.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

An amount of R5 086 600 relating to the cost of land that was donated by the Government of Namibia has been recognised under property, plant and equipment. This land, for which a title deed was obtained in the name of SACU, was donated during the year for the construction of the new SACU headquarters building. The full amount of the government grant has been credited to the statement of comprehensive income as land is deemed to have an indefinite life.

2.14 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

3. Financial risk management

3.1 Financial risk factors

The Secretariat's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Secretariat's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Secretariat's financial performance.

Risk management is carried out by the Executive Committee under policies approved by the Finance and Audit committee. The Executive Committee provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Secretariat operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

(ii) Price risk

The Secretariat is not exposed to equity securities price risk at balance sheet date.

(iii) Cash flow and fair value interest rate risk

The Secretariat's interest rate risk arises from investments in a current account, call accounts, a fixed deposit account and a 32 day deposit account. Investments at variable rates expose the Secretariat to cash flow interest rate risk. Investments at fixed rates expose the Secretariat to fair value interest rate risk.

(b) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to outstanding receivables and committed transactions. For banks and financial institutions, only reputable commercial institutions are accepted. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Council.

The Secretariat will only deal with Financial Institutions that conform to the following criteria:

- Should have minimum audited capital and reserves of R50 million.
- Must be registered in terms of the Namibia Banks Act, Unit Trust Control Act No. 54 of 1981 or and with Namfisa.

Written quotations on interest rates will be required from at least three financial institutions and the investments will be placed with the counterparty with the highest offered interest rate – provided that criteria set above have been met.

The Secretariat will only invest in the following:

- Call and other term deposits at major banks
- Government of Namibia Treasury Bills and Government Stocks
- Money Market Unit Trust Funds registered in terms of the Unit Trust Control Act No. 54 of 1981.

Funds must be well diversified between authorised investment products and financial institutions as to spread the risk.

Investment Type	Maximum Percentage of portfolio	Purpose of investment
Operation Bank Account	Up to 100% of total portfolio	These funds will be used to contribute towards the daily operations and will be deposited in a current account opened specifically for this purpose, which will be an interest-bearing account.
Bank Call account and Money Market Account	Up to 100% of total portfolio	These funds will be used to provide the Secretariat with immediately available funds for any unforeseen payments whilst maximising the interest return.
Bank Deposits and Treasury bills up to 12 months	Up to 80% of total portfolio.	These funds will be invested in money market instruments and term deposits to enable the Secretariat to have easy access to its funds but at the same time earn higher returns on its investments.

3. Financial risk management

3.1 Financial risk factors

(b) Credit risk

The table below shows the credit limit and balance of the major counterparties at the balance sheet date.

	31 March 2011		31 March 2010	
Counterparty	Credit limit	Balance R	Credit limit	Balance R
Standard Bank Namibia Ltd	None	60 903 244	None	36 846 882
Receiver of Revenue – VAT	None	181 430	None	121 771
Prepaid expenses	None	13 768	None	24 933
Prepaid staff allowances	None	2 480	None	41 208
Interest and refunds receivable	None	4 531	None	415 603
Donor funding – WCO-SIDA	None	53 349	None	69 797
Arbitration refund from PCA	None	–	None	209 870
Donor funding – EU	None	–	None	1 997 587
Total Trade and other receivables		255 558		2 880 769
Total Counterparty balances		61 158 802		39 727 651

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The table below analyses the Secretariat's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 31 March 2011	Less than 1 year R	Between 1 and 2 years R	Between 2 and 5 years R	Over 5 years R
Borrowings	–	–	–	–
Trade and other payables	37 511 927	–	–	–
At 31 March 2010				
Borrowings	–	–	–	–
Trade and other payables	22 478 111	–	–	–

3.2 Capital risk management

The Secretariat's objectives when managing capital are to safeguard the Secretariat's ability to continue as a going concern in order to provide benefits to the Member States.

3.3 Fair value estimation

The fair value of financial instruments approximates its carrying amount due to the short-term nature of these instruments.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Secretariat makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Residual value of land and buildings

No depreciation has been provided on land, since the land has significant residual value.

4.2 Critical judgments in applying the entity's accounting policies

No critical judgments were required in applying the entity's accounting policies.

5. Property, plant and equipment

2011	2011 Cost/ valuation R	2011 Accumulated depreciation R	2011 Carrying value R	2010 Cost/ valuation R	2010 Accumulated depreciation R	2010 Carrying value R
Land and buildings	13 484 559	1 484 517	12 000 042	5 588 086	1 232 958	4 355 128
Motor vehicles	1 164 462	731 331	433 131	1 164 462	527 490	636 972
Furniture and fittings	863 712	637 776	225 936	813 807	514 245	299 562
Household furniture and fittings	741 870	556 406	185 464	720 806	412 265	308 541
Office equipment	428 029	308 826	119 203	414 588	227 137	187 451
IT equipment	4 746 068	4 252 626	493 442	4 498 051	3 718 084	779 967
Leasehold improvements	1 292 326	946 796	345 530	1 274 878	626 666	648 212
	22 721 026	8 918 278	13 802 748	14 474 678	7 258 845	7 215 833

The carrying amounts of property, plant and equipment can be reconciled as follows:

2011	Carrying value at the beginning of the year R	Additions R	Disposals R	Depreciation R	Carrying value at the end of the year R
Land and buildings	4 355 129	7 896 473	–	(251 559)	12 000 043
Motor vehicles	636 972	–	–	(203 842)	433 130
Furniture and fittings	299 560	49 905	–	(123 531)	225 934
Household furniture and fittings	308 540	21 064	–	(144 141)	185 463
Office equipment	187 450	13 441	–	(81 688)	119 203
IT equipment	779 969	283 801	(35 784)	(534 542)	493 444
Leasehold improvements	648 212	17 448	–	(320 130)	345 530
	7 215 833	8 282 132	(35 784)	(1 659 433)	13 802 748

2010	Carrying value at the beginning of the year R	Additions R	Disposals R	Depreciation R	Carrying value at the end of the year R
Land and buildings	4 528 625	77 055	–	(250 552)	4 355 129
Motor vehicles	425 632	410 491	(349 163)	150 012	636 972
Furniture and fittings	406 485	10 888	–	(117 813)	299 560
Household furniture and fittings	400 801	50 196	–	(142 457)	308 540
Office equipment	259 968	(26 308)	(2 800)	(43 410)	187 450
IT equipment	2 018 548	21 533	–	(1 260 111)	779 969
Leasehold improvements	935 322	27 783	–	(314 892)	648 212
	8 975 380	571 639	(351 963)	(1 979 223)	7 215 833

6. Financial Instruments

6a. Financial instruments by category

	Loans and receivables R	Assets at fair value through the profit and loss R	Held-to-maturity R	Available-for-sale R	Total R
31 March 2011					
Assets as per balance sheet					
Trade and other receivables	255 558	–	–	–	255 558
Cash and cash equivalents	60 905 818	–	–	–	60 905 818
Total	61 161 376	–	–	–	61 161 376

	Liabilities at fair value through the profit and loss R	Other financial liabilities R	Total R
Liabilities as per balance sheet			
Borrowings	–	–	–
Trade and other payables	–	8 508 286	8 508 286
Deferred income	–	29 003 641	29 003 641
Total	–	37 511 927	37 511 927

6b. Credit quality of financial assets

	2011 R	2010 R
The credit quality of financial assets that are neither past due nor impaired are assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The counterparty balances and attributes are as follows:		
Trade receivables		
Counterparties without external credit rating, but who had no defaults in the past:		
Receiver of Revenue – VAT	181 430	121 771
Prepaid expenses	13 768	24 933
Prepaid staff allowances	2 480	41 208
Interest and refunds receivable	4 531	415 603
Donor funding – WCO-SIDA	53 349	69 797
Arbitration refund from PCA	–	209 870
Donor funding – EU	–	1 997 587
Total trade receivables	255 558	2 880 769
An amount of R616 931 represents a shortfall between the amount previously receivable from the EU (2010: R1 997 587) and the actual settlement received from the EU. The settlement, which was received during the year under review, amounted to R1 380 656. The shortfall resulted from the outcome of a financial audit that was conducted by the EU and a loss on foreign exchange.		
Cash at bank and short-term bank deposits		
Standard Bank Namibia Limited	60 903 244	36 846 882
Total Financial Assets	61 158 802	39 727 651
The rest of the balance sheet item 'cash and cash equivalents' is cash on hand.		

	2011 R	2010 R
7. Trade and other receivables		
Pre-payments	**16 248**	66 141
Other receivables – VAT	**181 430**	121 771
Interest and refunds receivable	**4 531**	415 603
Donor funding – WCO-SIDA	**53 349**	69 797
Arbitration refund from PCA	–	209 870
Donor funding – EU	–	1 997 587
	255 558	2 880 769
The fair values of trade and other receivables approximate its carrying amounts.		
As of 31 March 2011, trade receivables of R255 558 (2010: R883 182) were fully performing.		
Trade receivables that are less than three months past due are not considered impaired. As of 31 March 2011 no trade receivables were past due and none were impaired. The ageing analysis of the trade receivables is as follows:		
Up to 3 months	**255 558**	883 182
3 to 18 months	–	1 997 587
	255 558	2 880 769
The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Secretariat does not hold any collateral as security.		
8. Cash and cash equivalents		
Standard Bank current account	**(536)**	14 966 307
Standard Bank call account 1	–	9 386
Standard Bank call account 2	**227 610**	5 720 350
Standard Bank 32 day deposit	**60 673 246**	6 150 839
Standard Bank short-term fixed deposit	–	10 000 000
Standard Bank garage card	**2 924**	–
Cash in hand	**2 574**	604
	60 905 818	36 847 486
9. Trade and other payables		
Trade payables	**8 508 286**	2 405 185
Deferred grant income	**29 003 641**	20 072 926
	37 511 927	22 478 111
10. Provisions for other liabilities and charges		
At 1 April	**1 036 499**	8 971 055
Charged/(credited) to the income statement:		
– Expenses charged to income statement	**(4 005)**	(2 612 969)
– Additional provisions	–	399 284
– Unused amounts reversed	–	(5 720 871)
At 31 March	**1 032 494**	1 036 499
Provisions relate to:		
The amount of R1 032 494 (2010: R1 036 499) is for leave pay which accrues on termination of the services of members of staff.		

Notes to the financial statements (continued)

for the year ended 31 March 2011

	2011 R	2010 R
11. Employee benefit expense		
Wages and salaries	22 556 408	19 750 813
Number of employees	37	36
The Secretariat has a defined contribution provident fund plan for support staff. There are no liabilities for defined benefits as there is no defined benefit plan.		
12. Finance income and costs		
Interest expense	–	(5 912)
Profit/loss on foreign exchange	(1 904)	–
Finance costs	(1 904)	(5 912)
Finance income:		
– Interest income on short-term bank deposits	3 225 575	1 940 451
Net finance costs	3 223 671	1 934 539
13. Cash generated from operations		
Cash flows from operating activities		
Surplus/(deficit)	13 607 156	6 824 464
Adjustment for:		
– Depreciation and amortization	1 746 316	2 407 947
– Unused prior year provision	–	5 720 871
– Prior year overstatement of receivables	(616 931)	–
– Non-cash adjustment to fixed assets	(51 100)	(76 764)
– Interest income	(3 225 575)	(1 940 451)
– Interest expense	1 904	5 912
	11 461 770	12 941 979
Changes in working capital:		
Trade and other receivables	2 625 212	(83 839)
Trade and other payables	15 029 811	10 653 338
	29 116 793	23 511 478
14. Commitments		
Operating lease commitments – Secretariat as lessee		
There are no future aggregate minimum lease payments under non-cancellable operating leases.		
15. Related-party transactions		
The Secretariat is funded from the SACU Common Revenue Pool.		
The following transactions were carried out with related parties:		
Common Revenue Pool contributions		
– Receipts during the year	53 878 447	56 110 509
	53 878 447	56 110 509

	Note	2011 R	2010 R
16. Detailed Income Statement			
Income			
Common revenue pool contribution	2.12	44 947 732	36 037 583
EU donor funding		–	2 250 831
Host Country Contribution		1 932 612	1 780 680
WCO-SIDA Funding		168 984	142 305
Total Income		47 049 328	40 211 399
Expenses			
Advertising for procurement		(430 142)	(409 040)
Audit fees		(91 744)	(46 868)
Bank charges		(65 203)	(58 075)
Communication costs		(581 432)	(605 083)
Depreciation	2.3	(1 746 316)	(2 407 947)
Electricity, water and rates		(134 323)	(143 520)
General expenses		(2 187)	(12 670)
Hospitality expenses		(336 348)	(173 959)
Household expenses		(267 141)	(180 883)
Insurance		(113 266)	(77 860)
IT services		(468 763)	(596 111)
Media and Public relations		(1 175 827)	(493 111)
Motor vehicle expenses		(157 814)	(138 948)
Office Supplies		(268 281)	(261 886)
Professional fees		(4 859 579)	(3 535 558)
Recruitment costs		(981 991)	(648 995)
Relocation costs		(309 438)	(96 312)
Rent	2.13	(1 932 612)	(1 780 680)
Repairs and maintenance		(93 177)	(171 854)
Salaries	11	(22 556 408)	(19 750 813)
Security		(125 417)	(116 472)
Staff training and development		(210 827)	(130 479)
Subscriptions and reference materials		(13 190)	(26 260)
Travel, accommodation and subsistence		(3 972 043)	(3 056 592)
Workshops and conferences		(858 731)	(545 968)
Total expenses		(41 752 200)	(35 465 944)
Operating surplus		5 297 128	4 745 455
Profit and loss on disposal of fixed assets		(243)	144 470
Finance income	12	3 225 575	1 940 451
Finance cost	12	(1 904)	(5 912)
Surplus/(deficit) for the year		8 520 556	6 824 464

List of abbreviations

ACP	African, Caribbean and Pacific Group of Countries
BLNS	Botswana, Lesotho Namibia Swaziland
CET	Common External Tariff
CRP	Common Revenue Pool
COMESA	Common Market for Eastern and Southern Africa
EPA	Economic Partnership Agreement
ERP	Enterprise Resource Planning
EC	European Community
EU	European Union
FTA	Free Trade Agreement
EAC	East African Community
ECM	Enterprise Content Management
EFTA	European Free Trade Area
GARP	Generally Accepted Recordkeeping Principles
GDP	Gross Domestic Product
HR	Human Resources
ICT	Information Communications Technology
IEPA	Interim Economic Partnership Agreement
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IT	Information Technology
ITAC	International Trade Administration Commission of South Africa
LDC	Least Developed Country
MERCOSUR	Southern Common Market comprising of Argentina, Paraguay, Uruguay, and Brazil
MIDP	Motor Industry Development Programme
MMTZ	Malawi, Mozambique, Tanzania, Zambia
MOU	Memorandum of Understanding
PMS	Performance Management System
PTA	Preferential Trade Agreement
RECs	Regional Economic Communities
RSF	Revenue Sharing Formula
RTA	Regional Trade Agreement
SACU	Southern African Customs Union
SAD	Single Administrative Document
SADC	Southern African Development Community
SAP	Systems Applications and Programs
SNA	System of National Accounts
SPS	Sanitary and Phyto-sanitary Standards
TBT	Technical Barriers to Trade
TCIDP	Technical Clothing Industry Development Programme
TDCA	South Africa- EC Trade Development and Cooperation Agreement
TESP	Trade and Economic Statistics Portal
TFTA	COMESA/EAC/SADC Tripartite FTA
TIDCA	US-SACU Trade, Investment and Development Cooperation Agreement
TLC	Technical Liaison Committee
UNCTAD	United Nations Conference on Trade and Development
US(A)	United States (of America)
WCO	World Customs Organisation
WTO	World Trade Organisation

List of tables

Administration

Business address	66 Robert Mugabe Avenue Windhoek Namibia
Postal address	Private Bag 13285 Windhoek Namibia
Bankers	Standard Bank Namibia Limited
Auditors	Office of the Auditor General 4th Floor Finance House High Court Road PO Box 502 Maseru 100 Lesotho

Midnight Star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