ANNUAL REPORT

SACU
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SOUTHERN AFRICAN CUSTOMS UNION

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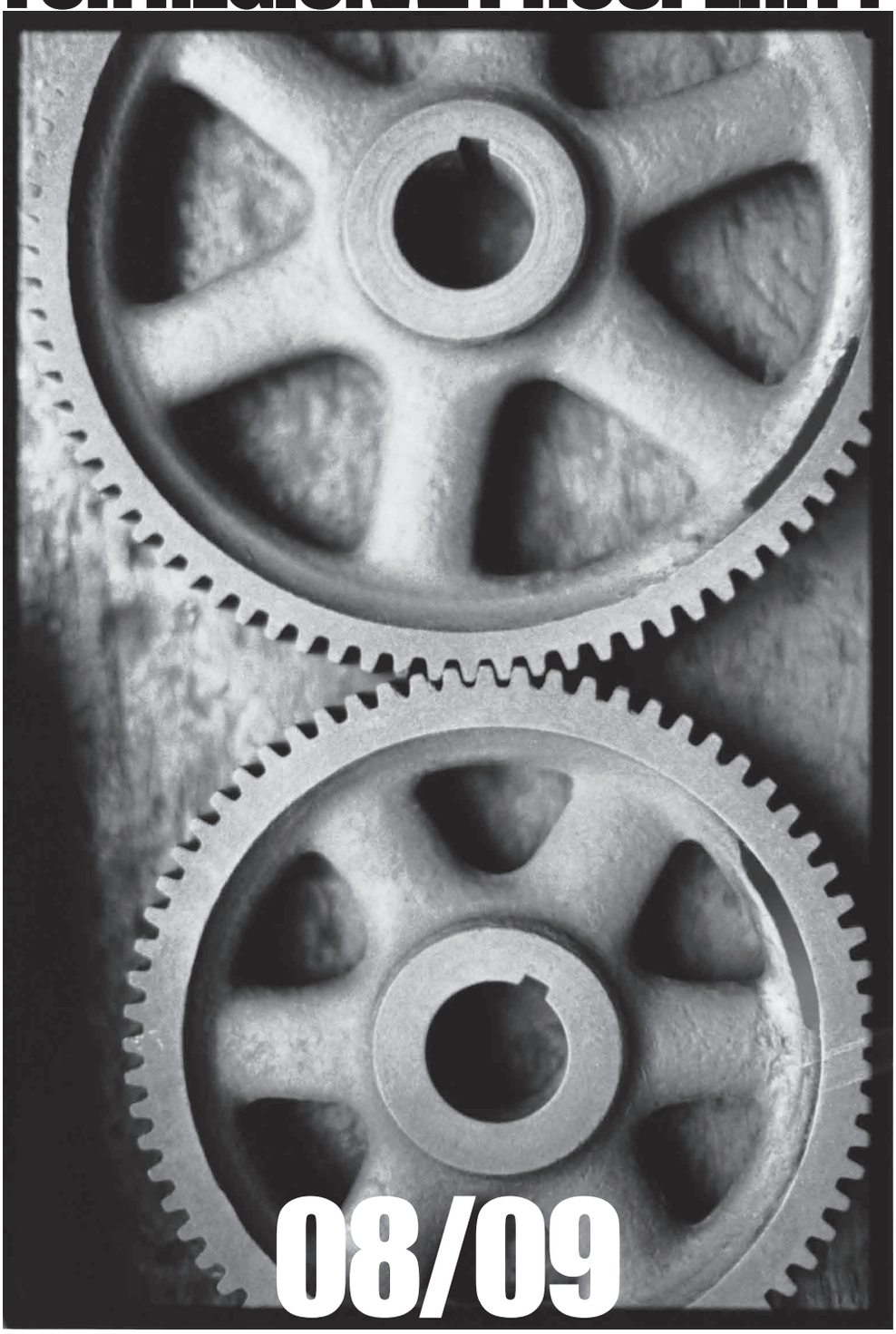
WORKING TOGETHER FOR REGIONAL PROSPERITY



08/09

SOUTHERN AFRICAN CUSTOMS UNION ANNUAL REPORT 2008/2009

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ABBREVIATIONS

ACP	African, Caribbean and Pacific Group of countries
ALC	Agricultural Liaison Committee
CMA	Common Monetary Area
CNM	Common Negotiating Mechanism
EFTA	European Free Trade Area
EPA	Economic Partnership Agreement
FTA	Free Trade Area
GATT	General Agreement on Trade and Tariff
IT	Information technology
LDC	Least Developed Country
MERCOSUR	Southern Common Market comprising Argentina, Paraguay, Uruguay and Brazil
MMTZ	Mozambique Malawi Tanzania and Zambia Market Access Arrangement with SACU Countries.
SACU	Southern African Customs Union
SAD	Single Administrative Document
SADC	Southern African Development Community
SPS	Sanitary and Phyto - Sanitary
TCIDP	Textile and Clothing Industry Development Programme
TDCA	Trade Development and Cooperation Agreement
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

FOREWORD BY THE SACU EXECUTIVE SECRETARY

Tswelopele Moremi,
Executive Secretary of the Southern African Customs Union

The year 2008/2009 was challenging; with an international financial crisis and new concerns about the impact of climate change. The multilateral trading system remained under siege as the Doha Development Round is still stalled. These developments constitute additional challenges for the integration of developing nations into the global economy. The conclusion of several Free Trade Agreements has resulted in the creation of several new regional trading blocs with their own internal rules and preferences. In Africa efforts to wrap up the Economic Partnership Agreements with the EU continued. There have also been some major initiatives to establish new regional structures for promoting trade and deeper integration amongst African states and between existing regional structures.

The financial crisis posed a specific challenge for the SACU Member States. It has had implications for SACU Member States' economic growth rates due to lower commodity prices, contraction of real sector activity, subdued global tourism demand etc. These negative developments are but another reminder that the SACU Member States share a common destiny and therefore there is need for developing joint responses. African countries and African regional organizations have been called upon to devise plans to cope with, amongst other things, the fallout of declining commodity prices and changing global trade relationships.

As a long established common institution, SACU can be put to better use in combating these challenges. The Southern African Customs Union too had been confronted by the consequences of these developments. It responded by taking a number of initiatives to deal with them. In early 2008, the SACU Council started an important new dialogue and a process of introspection. The Member States decided that SACU needs to adopt a strategic plan to respond to contemporary external and internal challenges facing the Organization. A decision was taken to convene a Retreat for the Council of Ministers to engender the process of assessment and map out of a vision and action plan for the way forward. This Council Retreat which took place at the end of August 2008 in Kasane, Botswana provided an opportunity for in-depth debate regarding the future of SACU.

The Member States reaffirmed their commitment to SACU and its objectives and noted that the Organization had served them well over the years. SACU needs to be strengthened and consolidated to play a more meaningful role in regional integration initiatives.

The Retreat identified key issues which require urgent attention in the SACU Work Programme in order to strengthen the Organization for the tasks ahead. The Kasane Retreat generated not only a debate about strategic matters but in effect amounted to a structured discourse on the assessment of SACU's institutional, legal and policy features.

The Retreat emphasized that the trade facilitation programme should be strengthened, focusing on the

establishment of One Stop Border Posts in SACU; joint training programmes for customs officials; prioritizing the SACU transport agenda and the role of the transport sector in facilitating trade; and reform of customs laws.

The Retreat resolved that in order to strengthen SACU as an effective customs union the internal integration of the SACU economies should be promoted, inter alia by addressing supply-side constraints. Member States should identify relevant sectors and start with harmonization as a basis for common policy development.

In the area of trade negotiations, the Members had to face up to technical challenges involved in the EPA negotiations and in developing joint policies for concluding trade agreements with third parties. The Retreat recognised that the need for a common SACU trade policy is also called for in order to comply with rules and requirements of the global economic order, while considering specific regional and local challenges.

The implementation of the SACU-EFTA FTA started and the SACU-USA TIDCA was signed. A Memorandum of Understanding with India was also signed outlining a framework for negotiations towards a preferential trade agreement between SACU and India.

This debate, which has started a positive momentum towards introspection and action, should continue in the New Year; under-pinned by solid preparation and the necessary studies. The Secretariat considers its contribution to this process as one of its priorities for the next year.

The year under review also witnessed some important achievements. They include the adoption of a comprehensive customs reform and modernization programme for the region; the adoption of principles for a cooperation mechanism on competition and a common approach towards the development of a SACU Industrial Development Policy.

As these developments unfold, relationships with other regional organizations have become even more important. The Secretariat has embarked on a programme to promote collaboration with other regional institutions. The first of these initiatives involved an engagement with the East African Community (EAC). The objective is to establish formal ties between the two Organizations and to explore future trade relations.

The consolidation and strengthening of the Secretariat, which is the only permanent institute of SACU, is a continuous task. The Secretariat can only serve the Member States properly if equipped with the necessary administrative, technical and analytical skills and resources. For this reason, operational and staffing issues are addressed on an ongoing basis.

This Annual Report provides an overview of progress regarding the implementation of the 2002 SACU Agreement through the SACU Work Programme, the challenges faced and the measures put in place to address them. The SACU Secretariat hopes to keep playing a constructive and supporting role in realising this potential. Let us conclude by a reminder, that SACU is not an end in itself; it is to be a focused and effective instrument in the service of the Member States and the people of the region.

Tswelopele C. Moremi
Executive Secretary

Chapter 1

1.1. Overview of the SACU Work Programme on Trade Facilitation

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. Trade facilitation is based on internationally accepted norms and practices resulting from the simplification of formalities and procedures; the standardization and improvement of physical infrastructure and facilities and the harmonization of applicable laws and regulations.

The decline in imports and exports; reduction in investment through development assistance and aid; and the decline in private sector investment brought about by the current global crisis has serious implications for developing countries. Trade facilitation provides an opportunity to mitigate the effects of the current crisis. The facilitation of trade is essential to reducing transaction costs faced by business and contributes to the competitiveness of businesses in Member States. 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 the region, while at the same time optimising efficient and effective levels of government control and revenue collection. Trade facilitation therefore remains a key objective for the region.

The key trade facilitation instruments in SACU include the application of similar legislation with regard to customs and excise duties, customs cooperation, use of common customs documentation and common procedures and practices. One of the key objectives of SACU, as enshrined in Article 2 of the Agreement, is to facilitate the cross border movement of goods between the territories of the Member States. In support of this trade facilitation objective, Article 24 provides for freedom of transit across Member States while Article 27 provides for non-discrimination with respect to transport operators from within the Common Customs Area.

Efforts to promote the key tenets of trade facilitation within SACU during the review period include: the development and implementation of programmes for the key customs initiatives, facilitating meetings of the Technical Liaison Committees and developing support instruments to facilitate trade.

1.2 The SACU Single Administrative Document

As part of an effort to improve the efficiency of Customs Administrations and to make the clearance of goods easier and more convenient for traders, the Single Administrative Document (SAD) was introduced on 1 October 2006 across the Customs Union. This followed the successful piloting of the SAD in the Trans Kalahari Corridor (TKC) between Namibia, Botswana and South Africa over a two-year period.

Following the introduction of the SAD across the Customs Union, the Working Group on the SAD Initiative has held a series of meetings for purposes of rationalizing and promoting uniformity in the application of the SAD form among SACU Member States.

In June 2008, SACU Member States adopted a uniform SACU SAD form as a customs declaration document for all SACU trade together with the proposed designation of mandatory, optional and conditional fields. Member States also adopted a uniform SACU SAD Declaration Model and Customs Procedure Codes to be used in conjunction with the SAD form. In order to maintain consistent application of the SACU SAD, work on developing a SACU SAD Manual will continue under the Customs Development Programme.

1.3. Establishment of a One Stop Border Arrangement

In September 2007, the Juxtaposed Model of the one Stop Border was adopted as the preferred model for One Stop Borders in SACU.

In 2008, a series of initiatives were undertaken to operationalise the establishment of a One-Stop-Border Post. These included the selection of site; establishment of a legal basis for cooperation among the Member States; establishment of appropriate institutional support mechanisms; establishment of ICT and technological infrastructure; harmonisation of operations and processes; and joint capacity development programmes. Work on identifying the pilot sites will continue under the Customs Development Programme in 2009.

1.4. Introduction of Joint Border Controls

Priority areas underpinning a Coordinated Customs Operations Strategy and Joint Controls Programme have been identified. These include a linked intelligence database; flexible anti-smuggling operations; employment of non-intrusive examination equipment; and establishment of joint teams at border posts. Work on finalising the strategy and implementing joint controls will continue to be pursued under the Customs Development Programme in 2009.

1.5. Use of Electronic Data Interchange by Customs Authorities

Real time exchange of customs data between the Customs Administrations of Member States is essential in facilitating the cross border movement of goods. Work on developing a regional customs IT policy encompassing all elements of data exchange will be pursued under the Customs Development Programme in 2009.

1.6 Capacity Building Initiative

Regional customs priority areas requiring focus and training have been identified. Work on developing a needs assessment tool and developing uniform customs training programmes in these priority areas will continue under the Customs development Programme.

1.7 SACU-WCO Customs Development Programme

Efforts to develop modern Customs Administrations in SACU also continued under the review period. All SACU Member States are members of the World Customs Organisation (WCO) and members of the World Trade Organisation (WTO) and are engaged in trade facilitation negotiations at the WTO. All of 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. A consultative process with the World Customs Organisation (WCO) was initiated during 2007 to explore the possibility, feasibility and desirability of a regional approach to the implementation of the second phase of the WCO Columbus Programme on customs reform and modernization. This culminated in Council adopting a comprehensive Customs Development Programme for SACU in December 2008.

The overall objective of the programme is to contribute to the development of a sustainable and improved economic environment in SACU with regard to trade, security and social protection through development of the Customs Authorities as fair and effective trade management partners. The programme aims to assist the SACU Member Countries to comply with international customs instruments and modernize their respective Customs Administrations. The specific objective of this programme is to assist the Customs Administrations in the SACU region to design and implement a comprehensive regional reform programme with a focus on: policy development; legislation; risk management; trade partnerships; standard operating procedures in common areas; and IT Connectivity. These activities will be underpinned by an overarching Human Resource and Strategic Management support programme, focussing on integrity; HR development; and strategic/change management. Implementation of the Customs Development Programme will commence in 2009 and will incorporate the five key customs initiatives.

1.8. Key Achievements in Trade Facilitation

In addition to the above-mentioned initiatives, some key achievements on Trade Facilitation and Revenue Management were made during the year under review.

During the year under review, the following Trade Facilitation instruments were developed:

- The Annex on SACU Single Origin, now titled the "Annex on SACU Procedures to Facilitate the Issuance of Supplier Declarations", was reviewed and approved by Member States. This Annex lays down the rules to facilitate the issue of certificates of origin by Customs Authorities of the Member States. The Annex provides procedures for facilitating the: issuing of certificates of origin and the verification and follow up of suppliers declarations; issuing of approved-exporter authorisations that would be valid in several Member States; and methods of administrative cooperation between Member States.

- Development of a Trade Data Integrity Minimum Standard. The standard is a tool that will be used by the Secretariat to audit intra-SACU trade data supplied by Member States for the purposes of determining SACU revenue shares. The standard lists potential risks and controls which should be applied to the

data from its capture through to its summarization. It therefore provides a benchmark by which Member States data and processes for data capture can be evaluated and audited for purposes of applying the Revenue Sharing Formula.

- Establishment of a SACU Excise Committee. A SACU Excise Committee was established to ensure that the excise business in the SACU is uniformly administered in order to ensure that the excise revenue in SACU is protected and collected and that all SACU Member States pro-actively legislate and be prepared to facilitate new developments in excise industries in SACU.

Additional efforts to facilitate cross border movement of goods are further promoted through specialized Technical Liaison Committees, which deal with operational aspects of the Customs Union, transport and customs legislation. Four meetings of these Technical Liaison Committees were held during the review period. The main areas of discussion centred on technical barriers to the movement of goods; amendments of the customs legislation as well as fostering greater cooperation and consultation among Member States; sectors and product specific issues.

Chapter 2

2.1. Overview of the SACU Work Programme on Revenue Management

The Agreement outlines the provisions for the operation and management of the Common Revenue Pool. This section provides the basis upon which all customs, excise and additional duties collected in the Common Customs Area are deposited into the Common Revenue Pool. The Agreement also provides a definition of the duties, which make up the different components of the Common Revenue Pool; the forecasting of customs and excise duties; the timing of payments out of the Common Revenue Pool; and the procedure for financing the Secretariat, the Tariff Board and the Tribunal. Annex 1 of the SACU Agreement details the method and procedures for the calculation of each Member State' revenue share out of the Common Revenue Pool.

Article 34 of the 2002 SACU Agreement establishes a revenue sharing formula that has three components, namely: Customs Component, Excise Component and a Development Component. The customs component is distributed on the basis of each country's share of intra-SACU imports. The excise component is distributed on the basis of each country share of Gross Domestic Product (GDP). The development component, which is fixed at 15 percent of total excise revenue, is distributed according to the inverse of each country's GDP per capita.

2.2. Management of the Common Revenue Pool

Article 33 of the 2002 SACU Agreement provides a framework for the management of the Common Revenue Pool. In line with Article 33 (4) of the 2002 SACU Agreement, South Africa continues to manage the Common Revenue Pool on a transitional basis pending the conclusion of a permanent arrangement for the management of the Pool.

Council has approved a long-term arrangement for the management of the Common Revenue Pool. The management option entails that South Africa continues to manage the Common Revenue Pool and all Member States share the interest costs and benefits proportionately. The long-term arrangement further introduces some operational changes relating to the timing of remittances into the CRP and payments out of the CRP in an effort to minimise the cost of borrowing.

In order to formalise the current transitional revenue management arrangement, in December 2008, Council decided that a Memorandum of Understanding (MOU) should be concluded between SACU and South Africa. The MOU would define the roles and responsibilities of the parties in the management of the Common Revenue Pool as well as the operational relationships among the parties.

2.3. The Required Data for the Calculation of Revenue Shares

The data requirement for the purpose of determining revenue shares is outlined in Annex 1 of the 2002 SACU Agreement. The customs component requires intra-SACU imports, whilst the excise and the development components require GDP and population statistics.

In order to maintain the integrity and quality of trade data, a Data Integrity Minimum Standard (DIMS) was adopted by Council in June 2008. The DIMS provides a benchmark by which Member States data and processes for data capturing can be evaluated and audited for purposes of applying the Revenue Sharing Formula. This tool will be used by the Secretariat to audit data prepared by Member States for purposes of calculating revenue shares.

During the year under review, a process of quarterly border reconciliation at selected border posts was initiated. This pilot exercise is being implemented at border posts with computerised customs clearing systems and is being facilitated by the Secretariat. The purpose of this initiative is to ensure that intra-SACU trade data, at the border post level, is reconciled.

2.4. Statistical Database

The availability of reliable trade and economic data is important for policy advice, analysis and trade negotiations. In an effort to improve the SACU trade and economic statistics database, the Secretariat started a process of assessing databases hosted by other regional and international organisations. During the year, the Secretariat held discussions with the African Development Bank regarding assistance on the SACU trade and economic database as well as possible collaboration in other related areas. The process of establishing a comprehensive and operational economic and trade database will be consolidated in 2009.

2.5. Other Initiatives in Revenue Management

The initiative to harmonise the compilation of National Accounts across the Member States was launched with a workshop hosted in collaboration with the United Nations Statistics Division during the review period. A programme, which addresses immediate, short and long-term challenges for the compilation of National Accounts, was developed. It is anticipated that the immediate measures, which entails standardising the compilation of taxes on products, will be in place by 2009. The short-term measures entail broadening the scope of statistical surveys to include the activities of small production units as well as development of a business register. The long-term measures include the development of 'supply and Use' tables, adherence and implementation of SNA 1993, and the adoption of more recent base years by all the Member States.

Chapter 3

3.1. Overview of the SACU Work Programme on Trade Negotiations

The year under review has seen some significant developments in the area of international trade. The suspension of the WTO Doha Development Round of negotiations in July 2008 represents as a setback for the multilateral agenda of further trade liberalization. Secondly, the onset of the global financial crisis towards the end of the year has increased pressures on global trade with a return of protectionist policies in many countries trying to minimize the negative consequences of this crisis on their domestic economies. This has created some reluctance by the major players in the multilateral negotiations to return to the negotiating table, with negative implications for developing countries, including SACU Member States. While Africa has largely been insulated from this global crisis, there are concerns that there may be a spill over effect because of the degree of financial integration and trade linkages. This would have implications for SACU Member States' economic growth rates in 2009 due to envisaged lower commodity prices, contraction of real sector activity, subdued global tourism demand etc. SACU Member States found it increasingly difficult to participate in global trade, as market conditions weakened and exports declined as a result. There are expectations that this will have a negative impact on revenue collection and therefore Government revenue in the SACU region.

Regionally, the decision to establish a tripartite arrangement between COMESA, SADC and the EAC leading to the establishment of a Free Trade Area between the three regions has significant implications for SACU's regional integration agenda. This requires detailed analysis to assess the implications for SACU's trade policy initiatives and might shape the way SACU will conduct future trade negotiations.

SACU is also being challenged to maintain the integrity of the Common External Tariff. The SADC-EC EPA negotiations have amplified this challenge. The Common External Tariff (CET) is one of the cornerstones of a Customs Union. Ensuring the integrity thereof is therefore important, as this will, inter alia, ensure the continued credibility of SACU as an institution. For this purpose, Article 31 of the 2002 SACU Agreement envisages the establishment of a Common Negotiating Mechanism (CNM), to facilitate common negotiations with third parties. There is also a provision in the 2002 Agreement that no individual SACU Member State can enter into a new or amend an existing preferential trade agreement with a third party without the prior consent of all the other Member States.

Work on developing the CNM started in 2007 and the SACU Secretariat was tasked to coordinate this process. A final draft Annex was developed and tabled to Council during its meeting in December 2007. After considering this Annex, Council referred it to SACU Ministers responsible for Trade to provide further policy direction on the CNM. Specific issues that were to be addressed included placing the CNM within the proper context of regional integration efforts in SACU, while also dealing with the question of developing common policies for SACU as a whole, especially in the area of industrial policy, agricultural policy and competition. It is expected that SACU will continue to develop this mechanism during the course of 2009.

Until such time that the CNM has been formally adopted and a structure for trade negotiations has been created, Council will appoint a SACU Member State as the lead negotiator for each negotiation. For the ongoing negotiations with MERCOSUR, the USA and EFTA, this role is the responsibility of South Africa, while Namibia was appointed as Chief Negotiator for the negotiations with India, which started in 2007.

3.2. Bilateral Trade Initiatives

During 2008, SACU trade negotiators dealt with the following bilateral initiatives:

1. Free Trade Agreement (FTA) between SACU and the European Free Trade Association (EFTA)
2. In March 2008, Member States concluded their ratification procedures of the FTA between SACU and EFTA . As a result, the agreement entered into force on 1 May 2008. This implies that exporters on both sides can now enjoy the trade preferences that were granted, thereby promoting trade between EFTA and SACU Member States.
3. The instruments establishing the Free Trade Area between SACU and EFTA consist of the main FTA, which includes all four EFTA and all five SACU Member States as contracting parties, as well as of three separate bilateral agricultural agreements between SACU and Iceland, Norway and Switzerland/ Liechtenstein respectively. The FTA covers trade in

industrial goods, fisheries and processed agricultural products. The three bilateral agricultural agreements cover trade in basic agricultural products between the respective EFTA country and SACU.

4. EFTA is granting SACU duty-free-quota-free market access on all industrial goods, as well as on fisheries products. On processed agricultural products, EFTA will grant products originating in SACU the same treatment than what they grant products originating in the European Community. SACU is offering market access to products originating in an EFTA state according to specific schedules outlined in the agreement. With respect to basic agricultural products, both sides are offering preferences in according with preference schedules outlined in the respective bilateral agreements. The agreement can be found on the SACU website (www.sacu.int).
5. The FTA was negotiated in compliance with GATT Article XXIV. In order to ensure this compliance, the agreements were notified to the Committee on Regional Trade Agreements (CRTA) of the World Trade Organisation (WTO) in October 2008. A factual review of the agreements will take place during November 2009. In addition, SACU and EFTA are considering joint workshops to publicise the FTA within the SACU region. These workshops will take place during the course of 2009. Finally, the FTA makes provision for a Joint Committee that deals with the implementation and administration of the agreement. Expectations are that this Joint Committee will conduct its first meeting during the first half of 2009.

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

1. The SACU-USA TIDCA was signed on the margins of the 2008 AGOA Forum. It became effective immediately. This agreement provides a framework for formal interaction between the two parties, while also providing a basis to enter into separate agreements on technical issues. Issues that have so far been jointly identified were sanitary and phytosanitary measures (SPS), technical barriers to trade (TBT), customs cooperation, as well as trade promotion involving the private sector. The agreement is also available on the SACU website (www.sacu.int).
2. The agreement provides for a Consultative Forum that has as its aim the promotion of an attractive investment climate and expansion and diversification of trade between SACU and the United States. Several areas of cooperation have already been identified. They include Customs/Trade Facilitation; Standards/Technical Barriers to Trade; Sanitary and Phytosanitary Measures, as well as trade and investment promotion and trade capacity building. Work in these areas will continue during 2009, with the aim to schedule a first meeting of the Consultative Forum before the end of the year.

Economic Partnership Agreement (EPA) between the Southern African Development Community (SADC) and the European Community (EC) (SADC-EC EPA)

1. As part of the built-in agenda of the Cotonou Agreement between the European Union and the African, Caribbean and Pacific (ACP) group of countries, a commitment was made to conclude Economic Partnership Agreements (EPA) aimed at developing a trade relationship based on reciprocity in accordance with WTO obligations. This was necessary as the preferences granted under the Cotonou Agreement were subject to a WTO waiver that expired on 31 December 2007. Specific negotiating configurations were formed, based on regional affiliations.
2. All five SACU Member States are members of the SADC EPA negotiating configuration, together with Angola and Mozambique. Tanzania was initially also a member of this group but decided to join the East Africa Community (EAC) configuration in view of its membership of that specific organization.
3. In December 2007, five of the SADC EPA states – Botswana, Lesotho, Mozambique, Namibia (with reservations) and Swaziland –initialled an Interim EPA that represented the outcome of the negotiations at that stage. In order to ensure a continuation of preferences the five countries enjoyed in terms of the Cotonou Agreement, the European Commission published regulations that allowed duty-free-quota-free access of goods originating in these three countries as of 1 January 2008.
4. Angola, Namibia and South Africa identified a number of concerns that should be addressed before the negotiations could be regarded as concluded. These concerns were presented to European Commission (EC) negotiators. However, although indicating a willingness to address these concerns, the EC felt that the SADC EPA Group as a whole should own these. The SADC EPA Group therefore started a process that would lead to a common ownership of

these concerns, simultaneously developing proposals on how to address these within the context of the negotiations.

5. In August 2008, the SACU Council met during a retreat in Kasane, Botswana, and agreed that SACU should develop common positions on these concerns and present these to the larger SADC EPA Group. Specific attention was given to the challenges to SACU arising from the initialling and possible implementation of the Interim EPA, specifically:
   - *The integrity of the CET;*
   - *The impact on efforts towards deepening regional integration within the SACU region;*
   - *Restricting existing and future policy space vis-à-vis common trade and industrial policy within SACU; and*
   - *Effective customs control measures to prevent transhipment of goods amongst Member States.*
6. Negotiations continue towards a final or full EPA, which included dedicated negotiating sessions on services and investment. Although it was envisaged to complete this process by the end of 2008, negotiations could not be concluded and will be continuing into 2009.

SACU-MERCOSUR Preferential Trade Agreement

1. In December 2004, SACU and MERCOSUR Member States signed a Preferential Trade Agreement (PTA) aimed at providing tariff preferences for a selected number of goods on both sides. The PTA also provides for the possibility of entering into negotiations on a fully-fledged FTA at a future date. However, as not all areas of negotiations were concluded, an understanding was reached that negotiations should continue to address these outstanding issues. These negotiations were concluded in 2008, resulting in a new PTA that will replace the PTA of 2004 once it has been signed, ratified and implemented. MERCOSUR Member States signed the agreement during a MERCOSUR Council meeting on 15 December 2008 in Salvador, Brazil, while SACU Member States intended to sign the agreement by no later than April 2009. Thereafter the respective ratification procedures will commence. The aim is to implement the agreement by 1 January 2010.

SACU-India Preferential Trade Agreement

1. In October 2007, SACU and India launched negotiations towards a PTA between the two sides. Namibia was appointed to lead the negotiations on the SACU side.
2. The negotiations continued in 2008, with two meetings taking place during the course of the year. The focus fell on concluding the Memorandum of Understanding (MoU) outlining the framework for the negotiations, as well as on establishing the technical prerequisites that would form the basis of the PTA. Negotiations on the MoU were completed during November 2008 and it was signed on 26 November 2008 by India, as well as Botswana, Lesotho, Namibia and Swaziland. For logistical reasons South Africa could not sign the MoU on that date, but gave a written undertaking that it will do so as soon as possible.
3. The MoU represents the framework within which the negotiations should take place, which includes the establishment of a formal negotiating structure. In addition, the MoU outlines the envisaged bilateral trade relations between SACU and India, as well as including an undertaking to assess the possibility and feasibility of entering into a free trade agreement at a later stage, as well as assessing the possibility of including services and investment into the formal trading relationship.
4. It is expected that South Africa will sign the Memorandum of Understanding in early 2009, while the negotiations on the PTA will continue during 2009.

SACU collaboration with the East African Community (EAC)

1. SACU started a process of engaging the EAC to determine the feasibility of entering into a trade agreement between the two sides. The Secretariats from both organisations met during November 2008 to explore possible future trade relations between the two sides. The following issues were discussed:

   - *Possibility of trade relations and joint research between the two organisations;*
   - *Scope and coverage of the treaties establishing the two organisations;*
   - *Operations, functions and current activities of both organisations;*

- *Current and future regional integration initiatives; and*
- *Outcomes and implications of the recently concluded EAC/COMESA/SADC Trilateral Summit.*

2. The two sides agreed to continue their engagement, agreeing that further assessments are needed before a final determination on the scope of any future trade arrangement can be made. This further assessment is important within the broader context of the envisaged tripartite arrangement between the EAC, COMESA and SADC. SACU has started work on determining a common position with respect to the latter. An important aspect of this work is to determine how the engagement with the EAC can fit into this broader arrangement. The launch of the SADC - COMESA – EAC FTA will have implications for the SACU Agreement with the EAC. The discussions between the EAC and SACU will continue during the course of 2009 when the EAC Secretariat will pay a return visit to the SACU Secretariat.

3.3. Multilateral Trade Initiatives

All SACU Member States are members of the WTO. As such, they participate in the activities of this organization, including the Doha Development Round of Negotiations. Following two weeks of intense negotiations at the end of July 2008, the WTO Doha Development Round of Negotiations failed, notwithstanding the significant progresses made in a number of areas, including in NAMA and agriculture. This development is a major setback for the negotiations. It is expected that WTO Member States will now increasingly turn to regional bilateral agreements to address some of the issues that were under discussion at this round. The next two to three years might therefore see a proliferation of bilateral trade agreements, which could have a significant distorting impact on world trade. SACU Member States will continue to play an active role in these negotiations aimed at ensuring that the initial objective of benefitting the developing world is not lost.

SACU Member States and the Secretariat officials also participated in a number of other multilateral forums, including the SADC summit, African Union meetings, UNEACA, meetings organised by United Nations agencies, 2008 AGOA Forum, as well as meetings of the African, Caribbean and Pacific Group of Countries.

3.4. Notification of SACU to the WTO

SACU was notified as a Customs Union to the WTO in terms of Article 24 of GATT 94. This will ensure a better understanding of SACU as a region amongst WTO members, giving SACU a legal standing and improve coordination amongst SACU Member States on positions on issues discussed at the WTO and in the negotiations. The factual review of SACU will take place during April 2009.

3.5. The WTO Trade Policy Review of SACU

The World Trade Organisation (WTO) Trade Policy Review Mechanism (TPRM) aims to achieve greater transparency in, and understanding of, trade policies through regular collective appreciation of their impact on the multilateral trading system. The Trade Policy Review of SACU is scheduled to take place towards the end of 2009. SACU has started a process aimed at preparing itself adequately for this review, which includes the preparation of Government reports for distribution to the WTO membership. In addition, the WTO Secretariat started preparing a WTO Secretariat report. These two reports will form the basis for the review.

3.6. Key Achievements in Trade Negotiations

The key achievements in the area of trade negotiations can be summarised as follows:

- Implementing the SACU-EFTA FTA
- Signing the SACU-USA TIDCA
- Signing the Memorandum of Understanding outlining the framework for negotiations towards a preferential trade agreement between SACU and India
- Starting an engagement with the EAC aimed at explore possible future trade relations between the two sides
- Launching the SACU WTO Trade Policy Review
- Notification of SACU to the WTO

3.7. Challenges and measures to address the challenges

Major challenges facing SACU in this area are as follows:

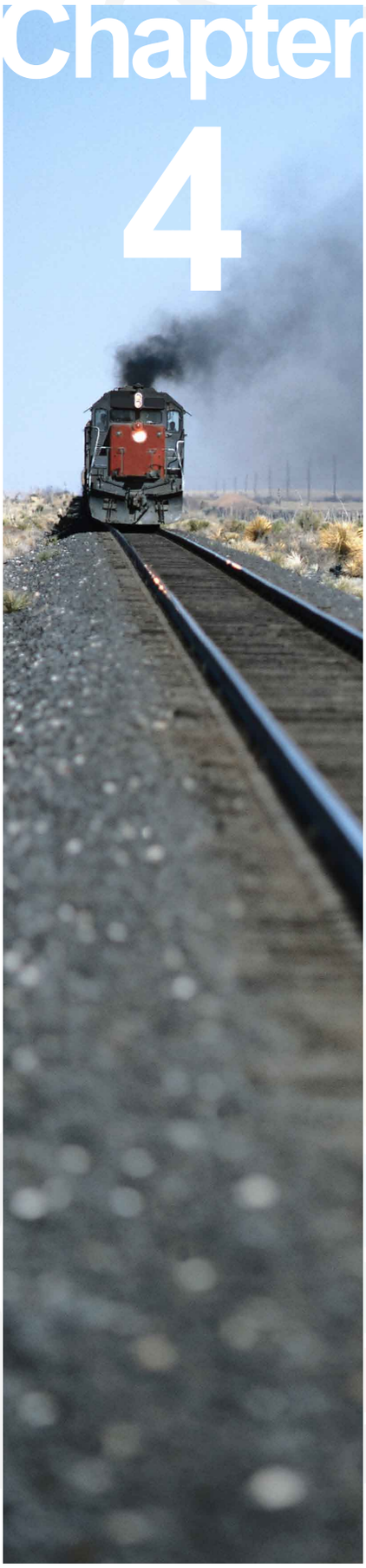
- Dealing with the challenges arising out of the initialling of the Interim SADC-EC EPA by four of the five SACU Member States
- *Outcomes and implications of the recently concluded EAC/COMESA/SADC Trilateral Summit.*

3. The two sides agreed to continue their engagement, agreeing that further assessments are needed before a final determination on the scope of any future trade arrangement can be made. This further assessment is important within the broader context of the envisaged tripartite arrangement between the EAC, COMESA and SADC. SACU has started work on determining a common position with respect to the latter. An important aspect of this work is to determine how the engagement with the EAC can fit into this broader arrangement. The launch of the SADC - COMESA – EAC FTA will have implications for the SACU Agreement with the EAC. The discussions between the EAC and SACU will continue during the course of 2009 when the EAC Secretariat will pay a return visit to the SACU Secretariat.

Possible measures to address these challenges:

- Dialogue amongst SACU Member States to develop common views and goals with respect to the SACU trade policies, including on trade capacity building and the Common Negotiating Mechanism
- Continued participation by SACU Member States in the multilateral processes aimed at restarting the WTO Doha Development Round of negotiations
- Engagement with the WTO Secretariat to ensure the smooth conclusion of the WTO Factual Review of SACU and the WTO Trade Policy Review of SACU.

Chapter 4



4.1. Overview of the SACU Work Programme on Policy Development and Research

The implementation of SACU's policy development and harmonisation agenda took place within the context of the need for SACU to be consolidated. An important objective of the SACU Agreement is to facilitate the development of common policies and strategies. The focus for SACU to start work on common policy development is contained in part eight of the SACU Agreement, which deals with common policies. Work on policy development has been implemented gradually, due to the extensive preparatory work required before the actual policy development process can start. This was amplified by the fact that SACU Member States are at variable levels of development in so far as the existence of industrial, agricultural and competition policies are concerned.

Policy work was given further impetus by the Council Retreat in August 2008, which provided clarification on how to approach development of Common Policies and Harmonization in SACU. At the Retreat, Council recognised that given the different levels of economic development of Member States, it is imperative to promote balanced industrial development in the Common Customs Area as an important objective to enhance economic development and diversification.

4.2. Industrial Policy

The Retreat also decided on a process of developing an industrial policy. There has been noticeable progress with respect to the development of an Industrial Policy Framework for SACU. So far, two SACU Industrial Policy workshops were held and a scoping study will be undertaken to audit Member States' industrial policies and strategies with a view to develop a common SACU Industrial Development Policy Framework during 2009.

The purpose of the workshops were to gain a conclusive understanding on the ambitions of the Member States in the areas of industrial development policy; take stock of industrial policies in each Member States; as well as to identify elements of a common vision and priority areas, obstacles and divergences about the processes of developing of a common industrial policy framework for SACU.

Member States agreed on a list of common elements for a broad vision for SACU's industrial development as well as a set of priority sectors for developing a SACU wide industrial development policy. Member States are further considering lessons learned from international best practice and identifying critical issues of policy design for developing a framework on industrial development policy.

The work done formed the base for the development of draft terms of reference that aim to respond to the development of detailed country - specific assessments on identifying key common sectors for a SACU wide industrial development policy. In addition, the industrial policy formulation process for SACU took into consideration ongoing work on other similar regional and continental processes, in particular focusing on Southern African Development Community (SADC) and the African Union (AU).

4.3. Agricultural Policy

Member States recognise the importance of the agricultural sector to their economies and agree to cooperate on agricultural policies in order to ensure the co-ordinated development of the agricultural sector within the Common Customs Area. As a result, an agricultural policy audit was done in Member States. The audit outlined the existing policies, policy processes, and sectoral competitiveness of each Member State and further identified areas where policy harmonization already exists and where gaps in policies and potential policy conflicts occur. As the audit did not address the analytical scope necessary for developing a coordinated policy framework, further work is needed, which will be completed during 2009. The aim is to put forward a framework proposal on mechanisms for cooperation to promote co-ordinated agricultural development in the Customs Union as envisaged under Part 8 of the 2002 SACU Agreement.

4.4. Competition Policy

Member States have agreed that there shall be Competition policies in each Member State. They also agreed to cooperate with each other on the enforcement of competition laws and regulations. Policies and instruments to address Unfair Trade Practices between Member States must also be developed. UNCTAD assisted SACU with this work, developing Annexes on how to deal with Unfair Trade Practices as well as how Member States could cooperate with each other on Competition Policy matters. The two draft Annexes were circulated to the Member States and it is expected that a workshop will be held early in the New Year to present these two Annexes to SACU Member States.

4.5. Other Policy Development Initiatives

SACU Textile and Clothing Sector: The development of the long-term strategy for the SACU textile and clothing sector has become a priority for the Council during 2008. Technical work has commenced on the development of a long-term strategy for the SACU textile and clothing sector. A tender has been awarded for this purpose. This includes a cost-benefit analysis of the Textile and Clothing Industry Development Programme (TCIDP) and the options for a replacement scheme for the TCIDP. The SACU Task Team on Textiles and Clothing continuously reviewed progress made in this regard. It is expected that this work will be concluded by the end of 2009.

Infant Industry Protection: The work on developing guidelines for Infant Industry Protection has advanced to a legal stage. Several workshops were held in this regard and all Member States are currently reviewing the legal draft in its current form for comments. It is expected that this work would be completed during 2009.

Aid for Trade: Work has started to assess the needs of Member States in the trade-related capacity and supply-side areas. The aim is to develop a SACU-wide programme to solicit financial support for the initiative. This is the first attempt by SACU Member States to discuss the relevance of Aid for Trade for SACU. There is still a need to understand conceptually how Aid for Trade differs from other development aid. In order to ensure better understanding and relevance of Aid for Trade for SACU, a study to define a SACU wide framework on Aid for Trade taking into account priorities of Member States will be launched during 2009.

Key Achievements in Policy Development

The key achievements in the area of policy development for 2008 can be summarised as follows:

- Development of principles for a cooperation mechanism on Competition Policy relating to Article 40 of the 2002 SACU Agreement.
- Implementation of an Agricultural Policy Audit of Member States.
- Production of draft legal guidelines on Infant Industry Protection (Article 26)
- A common approach for the development of a SACU Industrial Development Policy
- Launch of a comprehensive study to develop a long term strategy for the SACU Textiles & Clothing Sector

4.6. Challenges Faced

The development of Common Policies is a complex process as it involves Member States at different levels of development and with different interests. The key challenge is to ensure that the interests of all the Member States are taken on Board in developing common policies.

Chapter 5

5.1. Overview of the SACU Work Programme on Regional Integration

SACU undertook two studies during the year to consider implications and options for SACU in participating in the SADC Integration agenda. The context for this work is drawn from the perception that SACU and its Member States will be affected, either negatively or positively, by the decisions taken by SADC to deepen its integration. As all SACU Member States are also members of SADC, it is inevitable that deeper integration in SADC will therefore also affect SACU Member States. Therefore, SACU undertook research to better inform itself of the possible implications for SACU should SADC move to a Free Trade area and a Customs Union.

During the SACU Council Retreat, important decisions regarding the future role of SACU in support of regional integration initiatives were adopted. These decisions revolved around the outcome of the finalized technical studies on regional integration with the objective of consolidating SACU. The Retreat also clarified the manner in which to approach deeper integration within Southern Africa. Member States agreed on the need for a comprehensive and collective SACU vision and strategy on integration and communication programmes to reposition SACU within the Southern African region.

The question of regional integration in the region was given renewed prominence with the decision taken at the level of Heads of Government to establish a tripartite Free Trade Agreement between COMESA, SADC and the EAC. It therefore has become necessary for SACU to consider the implications of the decisions of the Tripartite Summit of the Heads of State and Government of the Member States of COMESA, the EAC and SADC held on 22 October 2008 met in Kampala, Uganda. The Summit was convened to discuss deepening regional integration amongst the three Regional Economic Communities (REC's) in pursuit of the broader objectives of the African Union to accelerate continental integration. The Summit took a decision to start work on establishing a Free Trade Area (FTA) amongst the three RECS'. To this end, the outcome of the Summit was:

1. A decision to establish a FTA which would take into account the principle of variable geometry;
2. The development of a legal and institutional framework to underpin the FTA;
3. Agreement to merge the three Regional Economic Communities (REC's); and
4. Measures to facilitate the movement of businesspersons across the REC's.

The full implications of these decisions will only be known once the commissioned technical studies have been finalized. However, the outcome of the Tripartite Summit has specific implications for SACU and SADC in the context of implementing their integration programmes. Since all five SACU Member States are also members of SADC, it is a foregone conclusion that they have to participate in the preparatory work towards a tripartite FTA.

To respond to the commitment of deepening regional integration at the SADC and COMESA level, Council appointed the SACU Task Team consisting of Senior Officials to guide SACU studies on regional integration and to monitor developments at SADC level and provide appropriate responses. SACU's Regional Integration initiative was focused on the finalisation and adoption of the two SACU studies commissioned by the Task Team on Regional Integration. The policy recommendations from the two studies will serve as input towards the development of a SACU Wide Strategy in 2009.

For SACU in the region to play a meaningful role in deepening regional integration, SACU should pursue clear policies and action programmes in 2009 to improve its Member States for trade competitiveness and enhance economic development at a regional, continental and global level.

5.2. Challenges

The major challenges facing SACU regional integration initiatives are:

- Development and Adoption of a SACU Wide Strategy taking into account the developments on the broader regional integration agenda unfolding at the SADC and continental level
- Positioning SACU as a building block for a SADC Customs Union through expansion of membership.
- Implications of the SADC-EU EPA negotiations on the Regional integration agenda for SACU
- Clarifying the manner in which SACU Member States will participate in future integration initiatives given the decisions taken at the SACU Retreat and the Tripartite Summit.

5.3. Key Achievements in Regional Integration

The key achievements in the area of regional integration for 2008 can be summarised as follows:

- Commissioning of a study on the consolidation of SACU.
- Commissioning of a study to analyse the impact of the SADC FTA and Customs Union Initiatives on SACU.

Chapter 6

6.1. Overview of the SACU Secretariat's Operational Environment

The year 2008 marked the fourth year of the SACU Secretariat's existence and, during the year, significant progress was made with regard to improving the Secretariat's operational environment. The Secretariat started with the appointment of the Executive Secretary in 2004 and since then there have been a number of start up activities that have been implemented to build the capacity for carrying out the Secretariat's mandate.

The strategic theme for operational excellence of the Secretariat is under the ambit of the Directorate of Corporate Services, which is mandated to champion the provision of professional, effective and efficient support services to all SACU institutions.

Specific achievements during the year under review include the recruitment of staff into a number of vacancies that had been vacant since the approval of the organisational structure. The filling of these positions has improved the capacity of the Secretariat to accelerate the implementation of the SACU work programme

Further progress was also made with regard to the development of policies, procedures and processes that facilitate improved management of human and financial resources as well as records of the Secretariat. In addition to the development of the relevant manuals, the level of automation in the accounting and payroll systems was improved.

6.2. Human Resources

The human resources unit manages the secretariat's human resource requirements, terms and conditions of service of staff, recruitment, performance management, staff training and skills development, remuneration policy and general human resources policies and procedures.

Performance Management System: during the period under review, a performance management system was established and adopted with a view to establishing the basis and parameters for managing and directing the performance of both existing and new staff of the secretariat.

Review of HR Polices: a remunerations committee (REMCO) was established to deliberate on a new remuneration policy for the Secretariat. The REMCO recommended to Council some of the changes in the remuneration and reward policy for professional and support staff. These changes, which include the utilisation of the Paterson grading system, were implemented during the period under review.

Staff Recruitment: Staff recruitment continued to be major focus to support the technical directorates with a 90% staff compliment achieved for both professional and support staff.

During the period under review, a new Director for Corporate Services was appointed, as well as an Accountant, an HR Assistant and a Records and Information Officer, thereby strengthening the directorate and ensuring the required support for the technical directorates.

6.3. Information Technology Capabilities

The Information Technology (IT) unit seeks to ensure the adoption of secure, stable, responsive and cost effective information systems to enable the provision a quality service to the Secretariat's stakeholders.

During the year under review, the Secretariat's adoption of information and communications technologies continued to improve with the implementation of systems for Enterprise Resource Planning (ERP), Online Purchase Requisitions, Web Collaboration, Content Management, Payroll, Electronic Help Desk, Asset Tracking and Network Monitoring.

During 2009, the IT unit will undertake a virtualization project to curb rising infrastructure costs, strengthen application availability, increase security, improve disaster recovery processes and create capacity for future systems development. Further improvements to the Secretariat's voice, video, HR and IT Management systems are also envisaged.

6.4. Records and Information Repository

This unit is responsible for managing the Secretariat's documents, registry, and mail services and it ensures that the organization's records are maintained in a safe and systematic manner. The unit is tasked with overseeing the development and maintenance of a Repository of all SACU related documentation.

During 2009, the Records and Information Officer was appointed and she commenced the implementation of the filing and records management system, which was benchmarked against international best practice.

6.5. Facilities Management and Procurement

One of the key projects for this unit is the construction of the SACU Head Quarters Building. The Road Map for the project includes securing a title deed and appointment of Architects, Civil and Structural Engineers, Quantity Surveyors, Electrical Engineers and Mechanical Engineers. Drawings will be submitted to Council for approval in July 2009 and construction is expected to be completed by mid 2011.

The unit is responsible for coordinating the work of the Tender Committee and overseeing procurement of all the Secretariat's goods and services. The unit is also tasked with custodianship for all the assets of the Secretariat.

6.6. Financial Management

Financial Management of the Secretariat is supervised under the Corporate Services Directorate and is governed by the 2002 SACU Agreement, which provides for financing through the Common Revenue Pool (CRP), International Financial Reporting Standards (IFRS), and international best practice in corporate governance and the four pillars of:

1. Accounting;
2. Auditing;
3. Internal Controls; and
4. Procurement

Functions of the following staff provide direct capacity for strengthening the internal control environment:

1. Director Corporate Services
2. Internal Auditor
3. Finance Manager
4. Administration & Procurement Manager
5. Accountant
6. Finance and Administration Assistant

The checks and balances of the Secretariat include the existence of a full time Internal Auditor and submission of monthly Management Accounts to the Executive Management of the Secretariat, quarterly Management Accounts to the Finance and Audit Committee, which are adopted by Commission and Council, as well as an annual audit of the Secretariat's financial statements.

External audit appointments for the audit of the SACU Secretariat's annual financial statements are rotated amongst Auditor Generals of the Member States on a three-year rotational basis. In this regard, the Auditor General of Botswana was appointed to serve as external auditor of the SACU Secretariat for the years 2005/06, 2006/07 and 2007/08. The approach to rotate audit appointments amongst Auditors-General of the Member States on a three-year basis was decided by the SACU Council of Ministers at the 8th Council meeting held on 8 September 2006 in Gaborone, Botswana.

Since its establishment, the Secretariat has received unqualified audit certificates from, respectively, the Auditor General of Namibia as the first external auditor and the Auditor General of Botswana as the successor for Namibia.

Chapter 7

7.1. The Legal Framework of SACU

The Southern African Customs Union (SACU) Agreement signed on the 21st October 2002 in Gaborone, Botswana and came into effect in July 2005 is the cornerstone of SACU. It establishes SACU as an International Organization and confers the necessary legal status on the Organization.

7.2. Objectives of the 2002 SACU Agreement

Article 2 of the 2002 Agreement, identifies eight objectives of SACU covering revenue-sharing, trade facilitation, competition, investment, industrialisation and common policy development and balanced economic development and the establishment of transparent institutions as follows:

1. To facilitate the cross-border movement of goods between the territories of the Member States
2. To create effective, transparent and democratic institutions which will ensure equitable trade benefits to Member States such as Council of Ministers, the SACU Customs Union, the Technical Liaison Committees, the Tariff Board, the Tribunal and the Secretariat.
3. To promote conditions of fair competition in the Common Customs Area
4. To substantially increase investment opportunities in the Common Customs Area
5. To enhance the economic development, diversification, industrialization and competitiveness of Member States
6. To promote the integration of Member States into the global economy through enhanced trade and investment
7. To facilitate the equitable sharing of revenue arising from customs, excise and additional duties levied by Member States; and
8. To facilitate the development of common policies and strategies.

7.3. Features of the SACU 2002 Agreement

An important difference between this agreement (2002) and the previous one (1969) is that it provides for joint responsibility over decisions affecting tariff setting, the Common Revenue Pool and the overall direction of SACU. The 2002 Agreement provides for the establishment of new institutions to reflect the joint decision making process. These include an independent SACU Secretariat, which is already established in Windhoek, Namibia; a Tariff Board, a Tribunal and National Bodies. The National bodies will be established by each member state to coordinate SACU matters and to deal with requests from the private sector on tariff changes.

The creation of these institutions is part of continued efforts towards a more transparent and democratic SACU and also provides for deeper economic integration through the development of common Industrial, Agriculture Competition policies as well as policies on Unfair Trade Practices.

The major improvements of the 2002 Agreement over the 1969 Agreement is the democratization of decision-making on SACU matters the establishment of a Dispute Resolution Mechanism as well as the development of common policies

7.4. Member States Obligations and Commitments

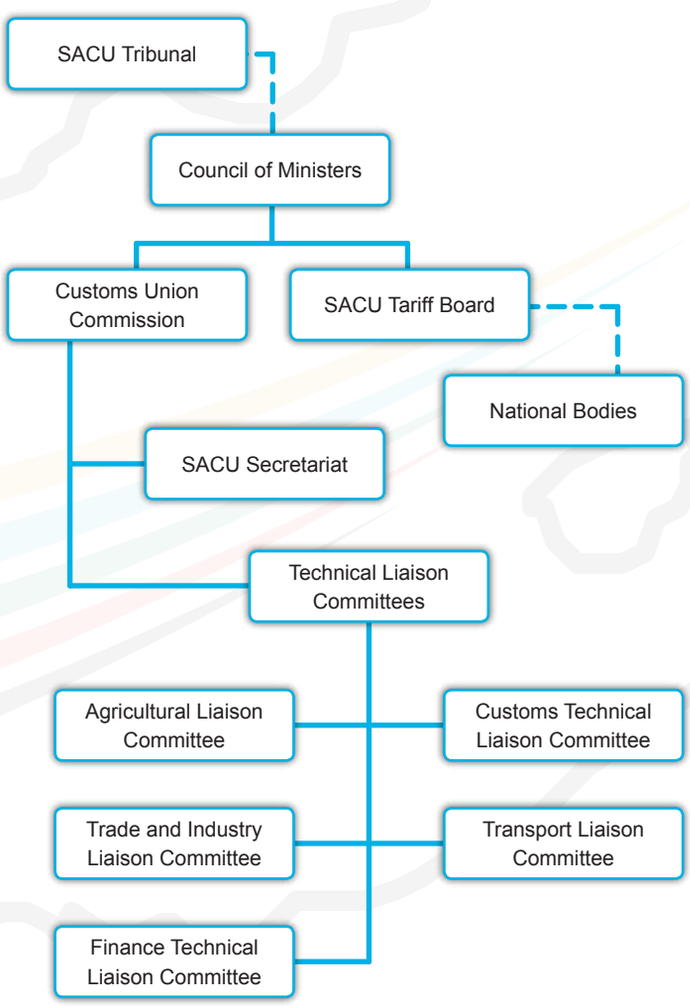
The Member States Obligations and Commitments in the implementation of the 2002 Agreement, as outlined by the Agreement are:

- To establish eight regional institutions, the Council of Ministers being the decision-making body supported by the Commission; Secretariat; Technical Liaison Committees (in trade and industry, transport, agriculture, finance and customs); an ad hoc tribunal; a tariff board and national bodies; and a common negotiating mechanism.
- To jointly determine customs, excise duties, and apply a common external tariff regime to non-SACU members, as well as a common system of rebates, refunds and drawbacks.
- To transfer all customs and excise duties into a common revenue pool with disbursements to member states based on a revenue sharing formula contained in the agreement (including customs revenues, excise revenues, and a development component).
- To create tariff-free trade between members (with an exception provided to infant industry levies allowed to the BLNS members on approval from Council).
- To apply non-discrimination principles in rail and road transport and transit between SACU members.

- To pursue simplification, harmonization of customs documentation and procedures and co-operation on customs initiatives.
- To negotiate as a bloc with third parties for external negotiations and to establish a common negotiating mechanism to undertake negotiations with third parties.
- To develop common policies and strategies for industrial development.
- To develop policies and instruments to address unfair trade practices.
- To co-operate in the areas of technical barriers to trade, agricultural policy and competition policy.
- To adjudicate disputes on the interpretation and application of the agreement through the tribunal.

7.5. The Structure of SACU Institutions

Figure 1 The Structure of SACU Institutions



7.6. SACU Institutions

SACU Institutions are provided for in Article 7 of the 2002 SACU Agreement and include the SACU Council of Ministers, the Secretariat, the Commission, National Bodies, a Tariff Board, Technical Liaison Committees and a Tribunal.

7.7. SACU Council of Ministers

The SACU Council of Ministers is the supreme policy and decision-making body on all SACU matters, and is responsible for the overall policy direction and functioning of SACU Institutions, including the formulation of policy mandates, procedures and guidelines for these Institutions. It consists of at least one Minister of Finance or Minister of Trade from each Member State.

The Council also appoints the Executive Secretary of SACU, members of the SACU Tariff Board, and approves the budget of the Secretariat, the Tariff Board and the Tribunal.

The Council approves customs tariffs, rebates, refunds or drawbacks and trade related remedies, upon the recommendation from the Tariff Board. Finally, the Council has the authority to create additional Technical Liaison Committees and other additional Institutions and to determine and alter their terms of reference.

The 2002 SACU Agreement makes provisions for the Chairman of Council to be held in turn by each Member State (Botswana, Lesotho, Namibia, South Africa, and Swaziland) for a period of one calendar year.

Namibia attained Chairmanship of the SACU Council on 15 July 2009 following Lesotho.

7.8. Customs Union Commission

The Commission consists of senior officials at the level of Permanent Secretaries, Directors-General, and Principal Secretaries from each Member State. The Commission is responsible for the implementation of the SACU Agreement and the decisions of the Council.

The Commission is also responsible for overseeing the management of the Common Revenue Pool in accordance with the policy guidelines decided by the Council. It also supervises the work of the Secretariat.

7.9. Secretariat

The SACU Secretariat is the technical arm of SACU. It is one of the permanent institutions of the SACU. The Secretariat's function is to provide a wide range of services, such as coordination of technical studies, implementation of the 2002 SACU Agreement and monitoring and implementation of decisions of the SACU Council of Ministers. It is headed by the Executive Secretary, assisted by three Directors.

Article 10 of the 2002 SACU Agreement states that the SACU Secretariat shall:

1. Be responsible for the day-to-day administration of SACU;
2. Coordinate and monitor the implementation of all decisions of the Council and the Commission;
3. Arrange meetings, disseminate information and keep minutes of meetings of SACU institutions;
4. Assist in the harmonization of national policies and strategies of Member States in so far as they relate to SACU;
5. Be headed by an Executive Secretary who shall be a citizen of a Member State;
6. Have such other staff as may be determined by the Commission from time to time;
7. Be responsible for keeping a record of all transactions into and out of the Common Revenue Pool;
8. Coordinate and assist in the negotiation of trade agreements with third parties;

    - Perform such other duties as may be assigned to it from time to time by the Council and the Commission; and
    - Be the depositary of all records of SACU.

The work of the Secretariat is implemented through the following Directorates:

1. Office of the Executive Secretary
2. Directorate Trade Facilitation and Revenue Management;
3. Directorate Policy Development and Research; and
4. Directorate Corporate Services.

The Executive Secretary's Office comprises four units, namely:

- Office of the Executive Secretary
- Legal Assurance
- Audit Assurance
- Communications and Public Relations

The role of the Executive Secretary's office is to facilitate and ensure the implementations of all decisions of the SACU Council of Ministers and the SACU Commission.

As the Head of the Secretariat the Executive Secretary is responsible for the overall management and administration of the Secretariat, provides strategic direction on the functioning of the SACU Secretariat, facilitate communication to position, profile SACU, and enhance its image. The Office of the Executive Secretary also facilitates and ensures Legal Assurance and Audit Assurance of the Organisation.

The Directorate of Trade Facilitation and Revenue Management comprises of two units, i.e.:

- Trade Facilitation
- Revenue Management

The objectives of this Directorate are to:

1. Facilitate the equitable sharing of revenue arising from customs, excise and additional duties levied by Member States;
2. Support Member States in implementing an agreed Revenue Sharing Formula;
3. Promote intra SACU free movement of goods through cross-border co-operation and trade; and
4. Provide a reliable database on key SACU economic indicators.

The Directorate of Policy Development and Research comprises of two units, i.e.:

- Policy Development and Research
- Trade Negotiations

Objectives of this Directorate are to:

1. Support the SACU objectives for enhanced economic development, diversification, industrialization, and competitiveness;
2. Support SACU's regional and global integration through trade negotiation with third parties

The Directorate of Corporate Services comprises of five units, i.e.:

- Human Resources
- Information Technology
- Documentation and Conferencing
- Facilities Management and Procurement
- Financial Management

The primary objective of this Directorate is to provide professional and efficient corporate support services to the Technical Directorates.

The Directorate focuses on the internal consolidation of the Secretariat in terms of ensuring the development of sound operational policies and the provision of human resources, Management practices and adherence to good corporate governance.

7.10. Tariff Board

The Tariff Board is an independent Institution consisting of experts drawn from Member States. The Tariff Board is responsible for making recommendations to the Council on the level and changes of customs, anti-dumping, countervailing and safeguard duties on goods imported from outside the Common Customs Area, and rebates, refunds, or duty drawbacks based on the directives given to it by the Council as provided for in Article 8 of the SACU Agreement.

The terms of reference, the Council in accordance with Article 8 of the SACU Agreement determines policy mandates, procedures and regulations of the Tariff Board.

7.11. National Bodies

National Bodies are specialised and dedicated entities in the Member States entrusted with receiving requests for tariff changes and other related SACU issues. The National Bodies are to carry out preliminary investigations and recommend any tariff changes necessary to the Tariff Board. National Bodies are in the process of being established. Common procedures and capacity is being developed to ensure efficient and transparent functioning of the National Bodies.

7.12. Tribunal

The Tribunal will adjudicate on any issue concerning the application or interpretation of the 2002 SACU Agreement or any dispute arising at the request of the Council. Its determinations shall be final and binding. The Tribunal will also, at the request of the Council, consider any issue referred to it and furnish Council with its recommendations. The Tribunal will be composed of three members except as otherwise determined by Council. Decisions will be made by a majority vote.

In the event of any dispute or difference arising between Member States in relation to or arising out of the SACU Agreement, including its interpretation, the parties shall in the first instance meet and consult in an attempt to settle such dispute or difference before referring the matter to the Tribunal.

7.13. Technical Liaison Committees

There are five Technical Liaison Committees, which have to assist and advise the Commission in its work. They include the Agricultural Technical Liaison Committee, a Customs Technical Liaison Committee, a Trade and Industry Technical Liaison Committee, a Transport Technical Liaison Committee and a Finance Technical Liaison Committee. Council determines the Terms of Reference of these Committees.

7.14. Progress on the Establishment of the Remaining SACU Institutions

Tariff Board

The SACU Tariff Board is one of the Institutions provided for in the SACU Agreement, but which is not yet operational. Member States are at various stages of adopting the legal framework for National Bodies based on the SACU Model Law on National Bodies recognised by the SACU Council of Ministers. It is expected that work on establishing these institutions will continue during the course of 2009, and the Tariff Board will be operational in 24 months.

SACU Tribunal

The SACU Tribunal is one of the Institutions established by the SACU Agreement, which is yet to be operational. The Secretariat developed a Draft Annex on the SACU Tribunal in 2008. The Draft Annex on the SACU Tribunal addresses important aspects such as the independence of the Tribunal, jurisdiction, standing before the tribunal, appointment of the Pool of judges, implementation of

decisions as well as the general administration of the Tribunal. This document was circulated to Member States during the beginning of 2008 to allow Member States time to hold national consultations on the draft Annex. The Draft Annex confirms the essential qualities of the tribunal in order to enable it to function as a judicial arm of SACU.

A meeting was held in May 2008, where experts from Member States thoroughly discussed the document and made valuable inputs into the draft Annex. The Secretariat completed the task of incorporating Member States inputs and expects to present the document for the approval of Council during the course of 2009.

States was reviewed during an era of global financial crisis, which started to show its effects in the middle of 2007 and into 2008. The financial crisis was characterized by among others the fall in stock markets and the collapse of large financial institutions, which severely affected the developed economies. Towards the end of 2008, resilience of emerging economies could not be sustained, posing a threat to developing economies.

According to the International Monetary Fund (IMF) World Economic Outlook published in April 2009, recessions associated with financial crises tend to be severe especially if they are globally synchronized. It is anticipated that the current recession is likely to be unusually long resulting in sluggish recovery. The IMF suggests that strong countercyclical policy actions that are combined with action to restore confidence in the financial sector, could improve prospects for recovery.

The SACU Member States remain vulnerable to the effects of the financial crisis. The global economic crisis has resulted in a slowdown in import demand and a consequent reduction in customs revenue. During the first half of 2008, the region experienced economic shocks, which included among others, rising interest rates; high inflation rates; rising input costs; and generally a slowing consumer demand, though during the second half of the year interest rates started to come down as inflation was subdued.

The economic meltdown has resulted in a downward revision of the size of the Common Revenue Pool for 2008/09 from the original estimate of R53.2 billion to R46.2 billion as published in South Africa (SA) 2009 Budget. This followed an earlier revision to R49.1 billion as announced on SA 2008 Medium Term Budget Policy Statement (MTBPS). The revision is mainly attributed to the downward revision of customs pool from R31.1 billion to R23.8 billion. SACU is currently developing a strategy to deal with the downward revision of the CRP whilst ensuring that Member States national budgets are not disrupted. The BLNS, particularly Lesotho and Swaziland are highly vulnerable since they depend on SACU receipts to finance their respective budgets. In Lesotho, SACU revenue contributes an estimated 55 percent to total revenue whilst in Swaziland SACU receipts contribute an estimated 63.1 percent.

This section reports on SACU Member States economic performance in 2008. Member States 2009 National Budgets and Budget background documents were used as a source of information and data. The 2008 Economic Profiles for the SACU Member.

BOTSWANA

At independence in 1966, Botswana was rated as one of the poorest countries. However, following its rapid economic growth, Botswana is now classified as an upper middle-income country. Botswana has a population of 1.7 million, with an annual growth rate of 2.4%, between 1991 and 2001 Population Census, with a per capita income of approximately US$ 6 000 in 2007. The economic performance is attributable to mining revenue, particularly diamond mining. The non-mining sectors have also shown significant growth, though agriculture has been sluggish. In 2007/08, the mining sector depicted poor growth, registering a sharp decline of 3.5 percent in real terms compared to 4.7 percent growth realized in 2006/07. The non-mining sector grew by 8 percent in 2007/08 from 5.7 percent registered in 2006/07. According to the 2009 National Budget Speech, the acceleration in non-mining sector reflects the positive gains from the economic diversification programme.

In 2007/08, the economy grew by 3.3 percent in real terms compared to 5.3 percent growth realized in 2006/07, which was revised downwards from an initial estimate of 6.2 percent. The slowdown in the economy is attributed to the sluggish performance by the mining sector, which was hard hit by low consumer demand, resulting in a sharp decline in commodity prices. According to the 2009 Budget Speech, the volume of diamond sales recorded a 17 percent decline in 2008 compared to 2007. Diamond revenue is expected to decline by approximately 39 percent in 2009. Efforts are underway to diversify even with the diamond industries through the mineral beneficiation processes. The prospective sector to bolster the economy is the non-mining sector, particularly the service industry. Communication and transport; construction and financial intermediary sectors remain the main contributors in the non-mining sector.

Botswana is highly reputable for its prudent macroeconomic policies and good governance. Since October 2007, rising inflation has continued to pose threat to macroeconomic stability. In an attempt to provide a monetary policy space, the annual inflation objective was abandoned and monetary policy formulation now focuses on medium-term objective. During the first half of 2008, inflation averaged 11.3 percent with the highest rate of inflation recorded at 15.1 percent in August 2008. The average annual inflation increased to 12 percent in 2008 compared to 7.1 percent in 2007. The hike in inflation was attributed to rising fuel and food prices. However, inflation followed a declining trend towards the end of 2008.

In light of increasing inflation trends since October 2007, the Bank of Botswana continued to tighten monetary policy. In August 2008, the bank rate was increased to 15.5 percent in an attempt to contain second-round effects of inflation. However, due to the expectation that the domestic inflation will maintain the downward trend that began in November 2008, the Bank rate has been constantly reduce. Furthermore, in reducing interest rates, the Bank of Botswana recognises the favourable inflation outlook in the medium term, which is the relevant period for the monetary policy, and provides scope for monetary policy easing.

The global competitiveness of the economy has been improved by its competitive exchange rate. Since the introduction of the crawling peg exchange rate regime in May 2005, the Pula has remained relatively stable in real terms. In 2008, the Pula depreciated by 18.2 percent and 20.1 percent against the Special Drawing Rights (SDR) and the US dollar respectively but appreciated by 10 percent against the Rand in nominal terms.

In 2008, the Balance of Payments depicted a current account surplus of P6.4 billion compared to P10.9 billion recorded in 2007. The value of merchandise exports amounted to P32.2 billion whilst the value of imports totalled P 34.7 billion. According to the 2009 Budget Speech, total exports accelerated during the first ten months of 2008 offsetting the dwindling diamonds exports. It is estimated that the overall Balance of Payments would reach a surplus of P7.4 billion compared to P10.7 billion in 2007. Foreign reserves increased by 17.2 percent from P 58.5 billion in 2007 to P 68.6 billion in 2008 representing 23 months of import cover.

Unemployment remains one of the main challenges facing Botswana. The 2008 Annual Formal Sector Employment Survey showed that all sector employment increased from 301,978 in March 2007 to 308 617 in March 2008, depicting an increase of 2.2 percent. However, structural reforms that were geared towards improving youth development and small to medium entrepreneurship were implemented.

The National Development Plan 9 (NDP 9) ended in March 2009 and preparations are underway to develop NDP 10, which will cover a period of seven years ending in 2016. The NDP serves as a budgetary framework, which brings fiscal discipline in the national budgeting process of Botswana. The 2007/08 outturn exhibited a budget surplus of P3.81 billion due to revenue windfall, particularly positive adjustments from SACU, and higher than expected mineral tax and dividends, as well as improved performance of the Botswana Unified Revenue Service (BURS) in terms of tax collection.

LESOTHO

Lesotho is a landlocked country with a population of 1.88 million according to the 2006 Population Census and the population is projected to grow by 0.9 percent annually. Some structural reforms were undertaken in 2008 including the rebasing of the National Accounts from 1995 to 2004 and the reclassification of fiscal accounts to align to 2001 Government Finance Statistics Manual (GFSM 2001).

Manufacturing had been a cornerstone to the economic growth until recently when the mining sector, particularly the diamond mining recouped. Between 2002 and 2007, the real GDP growth rate averaged 4.4 percent. In 2005, the textile and clothing industry was severely affected by an appreciation of a Rand and the end of the Multi Fibre Agreement (MFA), which resulted in weak performance of the manufacturing sector. The economy grew by 0.7 percent in 2005 but rebounded to 8.1 percent in 2006 as a result of the strong performance of the diamond mining and the recovery of textile manufacturing. In 2007, the economic growth declined to 5.1 percent. The mining sector continues to be the main driver of economic growth though the global financial crisis had resulted in a sharp decline in commodity prices, necessitating the scaling down and suspension of operations in the two mines.

According to the United Nations (UN) classification, Lesotho is classified as a Least Developed Country (LDC) and the only LDC in SACU, but sustains prudent macroeconomic stability. The country follows the inflation patterns of South Africa but with an additional 1 percentage point above that of South Africa to account for imported inflation. This development was attributed to the fact that substantial imports of goods and services are from South Africa. In 2006, inflation reached 6.1 percent and further hiked to 8 percent in 2007. In 2008, against a backdrop of increasing global fuel and food prices that lasted until the end of the first half of 2008, the average annual inflation rate surged to 11.2 percent, the highest rate since 2002. Inflation is expected to follow a downward trend in 2009.

Lesotho is a member of the Common Monetary Area (CMA), with the Loti pegged at par to the Rand, which is recognized as legal tender. The monetary policy stance is to ensure stability of the peg through the maintenance of an adequate level of foreign reserves. As stated in the 2009 Budget Background document, the Loti continued to depreciate against the US Dollar and other major trading currencies in 2008.

The preliminary estimates showed that in 2008, the current account recorded a surplus of 16.5 percent of GDP compared to 15.6 percent realized in 2007. The surplus was mainly attributed to the rise in labour income and current transfers, specifically SACU transfers. The official reserves reached 8.6 months of imports cover in December 2008.

As an LDC, Lesotho is faced with daunting economic and social challenges. Poverty and the scourge of HIV and AIDS remain the most important social phenomenon that requires budget intervention. The situation is exacerbated by increasing levels of unemployment. The clothing and textile sector continues to be the main employer with a record high of 42 000 jobs. The prevailing global financial crisis threatens the job security of the factory workers as the demand for clothing exports declines. The diamond-mining sector is also at risk due to falling commodity prices, which has resulted in the sizable retrenchments in South African mines where the majority of Basotho work.

Government budgetary operations continued to support a favourable macroeconomic environment with a recurrence of fiscal balance surpluses in recent years. The budget surplus reached 10.7 percent of GDP in 2007/08. However, preliminary estimates showed a fiscal deficit of 0.8 percent of GDP in December 2008 and it is projected that the fiscal deficit would worsen to 10.6 percent of GDP in 2009/10. SACU receipts continued to be the main contributor to total revenue including grants at an estimated average of 55 percent of total revenue. Income Tax and VAT are expected to contribute 10.6 percent to GDP and 6.8 percent to GDP in 2008/09 respectively. Lesotho's dependence on SACU receipts may be at risk in the wake of the current global economic slowdown. The evident decline in consumer demand has resulted in lesser than expected customs and excise duty collections of the CRP, which would lead to a fall in revenue shares.

NAMIBIA

Namibia is a vast country with the estimated population of 2.07 million, growing at an average rate of 1.8 percent per annum. The economy is premised on mining and the non-mining sector, particularly the tertiary sector. In 2008, Namibia's mining sector was hard hit by the global economic meltdown, which resulted in a drastic fall in commodity prices. The preliminary National Accounts estimates showed that the economy grew sluggishly by 2.9 percent in 2008, down from the 5.5 percent growth experienced in 2007. Confronted by the unfavourable global developments, it is expected that the economy would further slowdown to 1.1 percent in 2009 and average 2.2 percent in the medium term.

The Government uses a Medium Term Expenditure Framework (MTEF) as a budgetary tool to provide policy guidelines and budget estimates over a period of three years. The IMF 2008 Article IV Consultations commended the country for its continued sound macroeconomic management, which had resulted in solid growth and strong external and fiscal positions. However, the IMF cautioned against possible threats posed by the global economic turmoil and advised on implementation of structural reforms and diversification towards the non-mining sector.

Inflation averaged 4.7 percent during 2005 – 2007, which was largely underpinned by sound macroeconomic management. However, in 2008 inflation hiked to the two-digit level, reaching 10.3 percent as a result of the global increase on fuel and food prices. In response to rising inflation, the Bank of Namibia increased the interest rate by 350 basis points in 2006 and 2007, and easing inflationary pressures led to reduction in interest rates towards the end of 2008.

Namibia is a member of the CMA and the Namibian Dollar is pegged at par with the rand. Like in other CMA Member States, the Namibian Dollar depreciated against the major trading currencies, particularly the US Dollar and the Euro. The weakening of the Namibian Dollar resulted in a 10 percent increase on the foreign debt portfolio in 2008/09.

The current account exhibited surpluses since 2005 with a record high of N$ 4.1 billion surplus in 2007 compared to N$1.1 billion recorded in 2006. The boom in the export-led mining sector and the increase in SACU revenue contributed to this behavioural pattern. However, the current account position remains vulnerable to the economic shocks, which have negatively affected the volume of merchandise exports while imports for mineral exploration and infrastructure are expected to surge. The level of official reserves increased to 3.7 months of import cover from 3 months of import cover recorded in 2007.

The 2007/08 budget outturn recorded a budget surplus of 5.2 percent of GDP, which was higher than the budget estimate of 1.1 percent. The performance is attributed to improved revenue performance and expenditure controls underpinned by a fiscal consolidation programme. SACU receipts accounted for about 40 percent of total revenue and are expected to decline in the medium term. According to the 2009 Budget Speech, the total revenue including grants is expected to decline by 9.4 percent during the MTEF period. The Government is engaged on structural reforms aimed at diversifying the non-mining sector, specifically the growth-led industries in order to bolster economic growth and employment. Measures are in place to improve revenue administration in an attempt to broaden the tax and non-tax base.

Despite the positive trends in economic growth, poverty and unemployment remains prevalent. This social phenomenon was amplified by a scourge in HIV and AIDS pandemic. The increasing share of the National Budget towards social spending indicates the Government efforts to address these social challenges.

SOUTH AFRICA

The global financial crisis is a setback to South African's performance as a regional economic hub. A highly sophisticated financial system complemented by prudent regulation, limited South Africa's exposure to the financial crisis. However, the domestic economy could not withstand the effects of the global economic meltdown and falling commodity prices. The economic outlook has deteriorated with real GDP growth estimated at 3.1 percent in 2008 after averaging 5 percent in the previous four years. The economy is expected to grow by 1.2 percent in 2009, the lowest rate since 1998 and rebound to 3 percent in 2010.

The economic slowdown experienced in 2008 was characterized by weak consumer demand resulting from high inputs costs, high interest costs, reduced credit extension and high inflation. The global economic crisis also contributed to slower growth in the mining and manufacturing sectors. The construction sector was resilient with a strong growth associated with the 2010 FIFA World Cup, and capacity expansion in the electricity and transport sectors. Over the medium term, Government's R787 billion infrastructure investment programme is expected to provide a countercyclical fiscal stimulus that is expected to boost the economy in the future.

Since 2006, the mining sector had been experiencing a decline in output and contracted by a further 6.9 percent in 2008. The drop in global commodity prices coupled with domestic electricity supply constraints, negatively affected mining production. In the second half of 2008, the Bloomberg Global Commodity Index dropped by 45 percent, while oil prices plunged to US$45 per barrel from US$145 a barrel. Following a drastic drop in global car sales, the platinum price fell by approximately 57 percent from a record high of US$2 254/oz to US$976/oz as stated in 2009 Budget Review. These factors did not only affect mining output but also the manufacturing sector. Growth in manufacturing output fell to 1.2 percent in 2008 as the production of basic products including vehicles fell sharply.

In 2008 inflation averaged 11.3 percent fuelled by rapid increases in fuel and food prices and adjustments in electricity tariffs, compared to the annual rate of 6.5 percent recorded in 2007. The inflation rate has been outside the target band of 3 - 6 percent since 2007. However towards the end of 2008, fuel and food prices dropped, creating an improved inflation outlook. In response, the Reserve Bank reduced interest rates by 0.5 percent in December 2008 and a further 4.0 percent between February and May 2009. It is expected that inflation will be within the inflation target range in the medium term.

In the Balance of Payments, the current account deficit widened to 7.4 percent of GDP in 2008 from 7.3 percent in 2007. The rising trade deficit as a result of a surge in imports relative to exports contributed to the large deficit, but net service and income payments also increased. The disruptions in electricity supply together with weakened global demand affected the export volumes whilst the infrastructure investment contributed to the increasing volume of imports. It is expected that the deficit would be narrowed to 6.7 percent of GDP in the medium term due to the improved economic outlook.

Exchange rate volatility increased in 2008 due to intensification of the global financial crisis and outflows of portfolio capital. The nominal Rand exchange rate declined by an average of 26.8 percent in 2008. However, the floating exchange rate regime minimized the effects of falling commodity prices on the real economy though competitiveness was somewhat eroded by rising inflation. Fluctuations in the gold price and the exchange rate affected the value of foreign exchange reserves. Net reserves reached US$33.5 billion at the end of 2008 from US$31.3 billion in 2007.

South Africa continues to practice prudent macroeconomic management and sound countercyclical fiscal policy, which is versatile in responding to economic cycles. The budget surplus increased from 0.3 percent of GDP in 2005/06 to 1.7 percent in 2007/08 but slid to a deficit estimated at 1.0 percent in 2008/09. The fiscal deficit is projected to deteriorate further to 3.8 percent of GDP in 2009/10 and improve to 1.9 percent in 2011/12. In 2007/08, total revenue amounted to R642 billion, up from the R553 billion realized in 2006/07, whilst expenditure totalled R607 billion. As a percentage of GDP, total revenue and expenditure reached 31 percent and 29.3 percent respectively in 2007/08. Income Tax and VAT contribute more than 80 percent to total revenue with Income Tax contributing more than 50 percent while SACU revenue accounts for less than 4 percent of total revenue.

While the fiscal policy has been expansionary and tilted towards social spending, South Africa is still faced with daunting social challenges. The unemployment rate is estimated at 22.9 percent; more than 40 percent of the population live below the poverty line; and the scourge of HIV/AIDS is still prevalent though controlled. Fiscal measures to support economic growth and poverty relief have been put in place particularly on service and manufacturing oriented sectors. The public and investment infrastructure programme earmarked for the medium term is expected to boost economic growth and job creation whilst the increased social spending provides a policy response to address the social challenges.

SWAZILAND

Swaziland is a land-locked country. The 2007 Population Census estimated the population at 1.164 million growing at 2.9 percent annually with a per capita income of US$2,778. The cornerstone of the economic growth is premised on manufacturing and the tertiary sectors. Whilst Swaziland has remarkable arable land, agricultural performance has been sluggish but recouped by 2.9 percent in 2007 compared to 2.1 percent decline experienced in 2006.

The preliminary estimates for 2008 indicated a sluggish economic growth rate of 2.6 percent compared to 3.5 percent realized in 2007. The decline in the growth rate is spurred by lower than expected foreign earnings as a result of a fall in global commodity prices, reduced consumer spending and the general effects of the global economic meltdown. The economic outlook for 2009 showed a further decline estimated at 2 percent as the effects of the prevailing financial crisis continue to erode consumer demand.

Swaziland is a member of the CMA and follows the monetary policy stance of South Africa. In this regard, the Lilangeni is pegged at par with the Rand. In 2008, the annual inflation averaged 12.5 percent though it peaked to 14.7 percent in August 2008. The inflationary pressure was exacerbated by the global increase of fuel and food prices and other domestic developments on the real sector. Like in the rest of the SACU region, inflation followed a downward trend towards the end of 2008 and is expected to reach 8.7 and 7.5 percent in 2009 and 2010 respectively.

The downward trend in inflation is a result of falling fuel prices and more importantly the effective tightening of the monetary policy stance. The Central Bank of Swaziland increased the interest rates by 250 basis points in 2007 and 2008 and the prime rate reached 15 percent whilst the mortgage rate reached 14 percent. However, towards the end of 2008, the Central Bank of Swaziland cut the interest rate and the prime rate and the mortgage rate reached 13.5 percent and 12.5 respectively.

In 2008, the Lilangeni depreciated against the US Dollar and other major trading currencies as a result of the inflation outlook. However, the local currency is expected to appreciate moderately in the medium term but without certainty due to the fluctuations in exchange rates. According to the 2009 Budget Speech, gross official reserves increased to E6.9 billion representing 34.4 percent increase over a year.

8.52. The Balance of Payment recorded an estimated surplus of E2, 364 million in 2007 compared to a surplus of E586 million realised in 2006, attributed to an improved performance in the financial account whilst the current account recorded a deficit. Although the current account recorded a deficit in 2007, it had improved from E1, 332 million in 2006 to E462 million mainly due to SACU receipts. Consequently, the level of reserves is equivalent to 4.7 months of import cover compared to 3.7 months of import cover realised in 2007.

On the fiscal stance, SACU receipts remained the main contributor to total revenue at an average of 63.1 percent. The 2007/08 budget outturn depicted a fiscal surplus of 3.2 percent attributable to SACU receipts and improved performance on non-SACU revenue, particularly on Income Tax and Sales Tax. With regard to current expenditure, the wage bill accounted for approximately 52 percent of the recurrent budget, which is not in line with the international standards. Reforms are underway to control the recurrent expenditure and improve tax administration given the volatile revenue base. The establishment of the Swaziland Revenue Authority is at an advanced stage and it is intended that the process would be complete in mid-2009 gearing for an official launch by end of 2009.

The budget surpluses realized in recent years have not translated in a reduction in the levels of poverty, HIV/AIDS and unemployment. The 2007 Labour Force Survey estimated a 28.2 percent unemployment rate, and 69 percent of the population live below the poverty line. In an effort to address these social challenges, the Government has officially declared poverty as 'public enemy two to HIV/AIDS'. The Government, in close collaboration with development partners and civil society, is engaged in various programmes to alleviate poverty and reduce the prevalence of HIV/AIDS while creating job opportunities.

Table 2: Member States Macroeconomic Indicators for 2007/08 (R Billions) **SACU19/CM/10**

	Botswana	Lesotho	Namibia	South Africa	Swaziland
Population (million)	1.7	1.9	2.0	48.5	1.1
GDP at market Price	92.3	11.8	62.7	1,999.1	19.4
Real GDP Growth Rate	3.3	5.1	4.1	5.1	3.5
GDP /Capita (US$)	6 ,000.0	663.5	4, 130.0	5,701.0	2, 777.6
Total Revenue	32.9	7.2	20.7	642.1	8.0
Tax	19.9	6.3	19.2	597.5	7.4
Non-Tax	0.9	0.8	1.5	44.6	0.6
Public Expenditure and net lending	28.6	5.3	17.7	606.7	6.2
Budget Balance/GDP (%)	3.1	10.7	4.7	1.7	3.2
Debt/GDP (%)	5.6	45.6	18.7	34.4	18.8
Annual Inflation Rate *	12.6	10.7	10.3	11.5	12.9
Prime Interest Rates *	16.50	16.58	14.75	15.00	14.50
Current Account /GDP (%)	11.0	15.6	9.2	-7.3	-1.4

Data as at 2007 unless otherwise stated.
*As at December 2008

Table 3: Intra-SACU Import Statistics for the Purposes of Revenue Sharing (R Millions) **SACU19/CM/10**

INTRA-SACU IMPORTS	2002/03 for 2005/06 shares	2003/04 for 2006/07 shares	2004/05 for 2007/08 shares	2005/06 for 2008/09 shares	2006/07 for 2009/10 shares	Annual growth %
Botswana	17,164.74	16,520.23	19,083.36	16,878.56	18,233.29	8.0
Lesotho	8,072.62	7,927.53	8,358.23	8,483.02	9,638.15	13.6
Namibia	13,943.12	16,586.73	13,542.51	15,336.44	17,367.65	13.2
South Africa	7,045.30	13,099.43	10,266.18	13,423.75	13,597.67	1.3
Swaziland	12,453.17	10,937.45	15,162.34	10,667.22	10,195.12	-4.4

Table 4: Intra-SACU Trade for the Period 2006/07 Fiscal Year* (R Millions) **SACU19/CM/10**

		South Africa	Namibia	Swaziland	Lesotho	Botswana	Total intra-SACU
		Imports	Imports	Imports	Imports	Imports	**trade**
South Africa	Exports	1	17 240	10 178	9 609	18 070	**68 693.42**
	% of Intra-SACU	1	12.78	7.54	6.96	13.39	
Namibia	Exports	4 436	1	11	2	135	**21 952.46**
	% of Intra-SACU	3.29	1	0.01	0.00	0.10	
Swaziland	Exports	5 889	55	1	26	27	**16 192.07**
	% of Intra-SACU	4.36	0.04	1	0.02	0.02	
Lesotho	Exports	876	0	3	1	2	**10 520.16**
	% of Intra-SACU	0.65	0.00	0.00	1	0.00	
Botswana	Exports	2 393.18	73	3	0	1	**20 704.73**
	% of Intra-SACU	1.77	0.05	0.00	0.00	1	
Country Imports		**13 595**	**17 369**	**10 196**	**9 638**	**18 234**	**138 062.84**

Source: SACU Member States

*Fiscal year = 1 April - 31 March

The intra-SACU trade as measured by the aggregate transactional value of imports and exports increased by 14.7 percent in the review year compared to the previous period. It rose from R120 322 million to R138 062.84 million. The increase was mainly underpinned by 25% increase in Namibia's trade, followed by 20.5 percent increase in Lesotho's trade and 14.7 percent increase in South Africa' intra-SACU trade. Botswana recorded an increase of 14.3 percent, while Swaziland recorded a 1.1 percent increase.

Intra-SACU trade is characterised by movements between South Africa and the BLNS countries and low trade volumes amongst the BLNS countries. BLNS imports from South Africa, other than food items, were concentrated on productive economic sectors. An analysis of the top five product categories indicates the following: electrical machinery and equipment, vehicles imports, mineral fuels, mineral oils and their by-products, steel and rubber and by-products.

Intra-SACU trade data indicates that Namibia, Swaziland, Lesotho and Botswana import more than 90 percent of their products from South Africa. While the share of total South Africa intra-SACU imports from Namibia was estimated at 32.63 percent; 43.31 percent from Swaziland; 17.60 percent from Botswana, and 6.45 percent from Lesotho. Trade among the BLNS was limited; share of Namibia intra-SACU imports from Botswana was estimated at 0.42, while the share of total Swaziland intra-SACU imports from Namibia was estimated at 0.11 percent.

On exports, BLNS export more to South Africa than amongst each other as a group. The share of total South Africa intra-SACU exports to Botswana was estimated at 32.80 percent, followed by Namibia at 31.29 percent, Swaziland at 18.47 percent and Lesotho at 17.44 percent. The share of total Botswana intra-SACU exports to Namibia was recorded at 2.94 percent, and the share of exports to Lesotho was negligible. Swaziland share of total intra-SACU exports to Lesotho and Botswana was estimated at 0.43 percent, and 0.44 percent respectively.

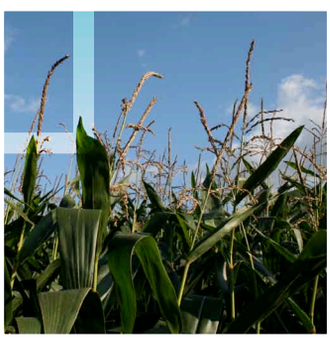
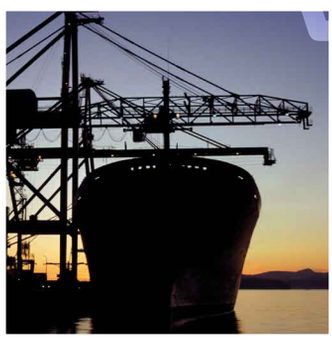
South Africa is the only Member State that maintains a trade surplus with other Member States. In nominal value, Swaziland recorded the smallest trade deficit, while Botswana registered the highest.

Table 5: Trends in Member States Revenue Shares (R Billions) **SACU19/CM/10**

REVENUE SHARES	2005/06	2006/07	2007/08	2008/09	2009/10	Annual growth %
Botswana	4,007.55	5,549.24	8,329.58	9,472.80	9,166.67	-3.2
Lesotho	1,983.98	2,784.02	3,822.29	4,901.10	4,918.21	0.3
Namibia	3,228.19	5,393.87	6,014.53	8,502.20	8,585.46	1.0
South Africa	13,027.10	16,477.91	20,795.90	24,264.40	24,124.59	-0.6
Swaziland	2,794.96	3,653.63	4,591.06	6,009.00	5,188.95	-13.6
Total payment out of CRP	25,041.78	33,858.67	43,553.35	53,149.50	51,983.89	-2.2
% SHARE OF CRP						
Botswana	16.00	16.39	19.13	17.82	17.63	-1.0
Lesotho	7.92	8.22	8.78	9.22	9.46	2.6
Namibia	12.89	15.93	13.81	16.00	16.52	3.2
South Africa	52.02	48.67	47.75	45.65	46.41	1.7
Swaziland	11.16	10.79	10.54	11.31	9.98	-11.7

SACU FINANCIALS 08/09

WORKING TOGETHER FOR REGIONAL PROSPERITY


SOUTHERN AFRICAN CUSTOMS UNION ANNUAL REPORT 2008/2009

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The reports and statements set out below comprise the annual financial statements for the SACU Secretariat:

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Standard Bank Namibia Limited

Auditors
Office of the Auditor General
4th Floor Finance House
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Maseru 100
Lesotho

APPROVAL AND STATEMENT OF RESPONSIBILITY

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 50.

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 pages 47 to 67, which were approved in November 2009 and are signed by:

Hon. Saara Kuugongelwa-Amadhila
Minister of Finance – Namibia
CHAIRPERSON: COUNCIL OF MINISTERS

Tswelopele C. Moremi
EXECUTIVE SECRETARY

Office of the Auditor General
P.O. Box 502, Maseru 100
Lesotho

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 2009

We have audited the accompanying financial statements of Southern African Customs Union, which comprise the balance sheet as at 31 March 2009, 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 6 to 29.

Council of Ministers' Responsibility for the Financial Statements

The Council of Ministers 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.

Auditor's 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.

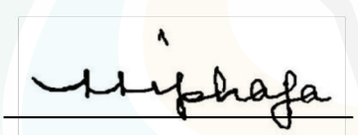
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Secretariat as of 31 March 2009, 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.

Report on other Legal and Regulatory Requirements
In accordance with Section 16.4 of Southern African Customs Union Financial Policies and Procedures we confirm that:

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of the audit;
- In our opinion, proper books of account have been kept by the Secretariat;
- The Secretariat's balance sheet and income



LUCY L. LIPHAFA (MRS)
AUDITOR GENERAL

12 November 2009

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 2009.

State of affairs

The state of affairs of the Secretariat at 31 March 2009 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 of R41,912,389 for the year under review out of a budget of R47,536,275. The following provides comparative information:

	2009	2008
	R	R
Operating expenditure	**41,001,066**	28,077,116
Interest expense	**2,783**	394
Capital expenditure	**908,540**	3,284,314
	41,912,389	31,361,824

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 & 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.

BALANCE SHEET
as at 31 March 2009

	Note	2009 R	2008 R
Assets			
Non-current assets			
Property, plant and equipment	5	8,975,380	10,582,837
		8,975,380	10,582,837
Current assets			
Trade and other receivables	7	2,796,930	2,637,135
Cash and cash equivalents	8	11,973,108	4,771,049
		14,770,038	7,408,184
Total assets		**23,745,418**	**17,991,021**
Capital and reserves			
Accumulated funds		10,884,145	12,249,667
		10,884,145	12,249,667
Current liabilities			
Trade and other payables	9	3,890,218	4,593,495
Provisions	10	8,971,055	1,147,859
		12,861,273	5,741,354
Total liabilities		12,861,273	5,741,354
Total reserves and liabilities		**23,745,418**	**17,991,021**

INCOME STATEMENTS
for the year ended 31 March 2009

	Note	2009 R	2008 R
Income:			
Common revenue pool contribution	1	35,704,090	21,607,224
EU donor funding		1,207,667	5,716,299
Host Country Contribution		1,452,888	1,452,888
DFID-RTFP Funding		10,814	-
Total Income		**38,375,459**	**28,776,411**
Expenses:			
Accounting fees		-	(91,827)
Advertising for procurement		(634,212)	(314,612)
Audit fees		(54,563)	(35,190)
Bank charges		(70,520)	(55,332)
Communication costs		(712,284)	(525,727)
Depreciation		(2,515,997)	(1,515,021)
Electricity, water and rates		(134,350)	(104,431)
General expenses		(25,488)	(4,990)
Hospitality expenses		(81,880)	(108,217)
Household expenses		(178,269)	(217,692)
Insurance		(81,416)	(177,652)
IT services		(615,180)	(418,393)
ITAC Attachments		-	(714,221)
Media and Public relations		(475,160)	(153,571)
Motor vehicle expenses		(113,230)	(97,198)
Office Supplies		(293,206)	(421,507)
Professional fees		(14,873,525)	(3,316,336)
Recruitment costs		(794,058)	(645,730)
Relocation costs		(267,429)	(291,369)
Rent	2.13	(1,452,888)	(1,452,888)
Repairs and maintenance		(61,865)	(132,394)
Salaries	11	(13,316,835)	(13,463,542)
Security		(152,085)	(117,842)
Staff training and development		(7,214)	(325,562)
Subscriptions and reference materials		(29,405)	(31,109)
Travel, accommodation and subsistence		(3,563,574)	(2,793,250)
Workshops and conferences		(496,433)	(551,513)
Total expenses		**(41,001,066)**	**(28,077,116)**
Operating surplus		**(2,625,607)**	**699,295**
Profit and loss on disposal of fixed assets		-	2,336
Finance income	12	1,262,868	1,467,616
Finance cost	12	(2,783)	(394)
Surplus/(Deficit) for the year		**(1,365,522)**	**2,168,853**

STATEMENT OF CHANGES IN EQUITY
as at 31 March 2009

	Accumulated funds R	Total R
Balance at 1 April 2007	29,042,575	29,042,575
Surplus for the year	2,168,853	2,168,853
Transfer to deferred income	(18,961,761)	(18,961,761)
Balance at 1 April 2008	12,249,667	12,249,667
Deficit for the year	(1,365,522)	(1,365,522)
Balance at 31 March 2009	**10,884,145**	**10,884,145**

CASH FLOW STATEMENTS
for the year ended 31 March 2009

	Note	2009 R	2008 R
Cash flows from operating activities			
Cash generated in operations	13	6,850,514	(21,303,585)
Interest received		1,262,868	1,467,616
Interest paid		(2,783)	(394)
Net cash from operating activities		8,110,599	(19,836,363)
Cash flows from investing activities			
Additions to Property, Plant and Equipment	5	(908,540)	(3,284,314)
Proceeds on disposal of fixed assets		-	12,444
Net cash from investing activities		(908,540)	(3,271,870)
Cash flows from financing activities			
		-	-
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		7,202,059	(23,108,233)
Cash, cash equivalents and bank overdrafts at beginning of year	8	4,771,049	27,879,282
Cash, cash equivalents and bank overdrafts at end of year	8	11,973,108	4,771,049

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 the International Financial Reporting Standards (IFRS) and, with effect from 31 March 2009, they have been prepared on the basis of enhanced compliance with the standards that apply to the Secretariat.

In particular, revenue from the previous period has been restated to comply with IAS18 by deferring unused income from the common revenue pool to match costs incurred with the CRP amounts for each year. A reconciliation of the restated revenue and surplus for the previous year is presented below:

	2008 Restated	2008
Income:	R	R
Common revenue pool contribution	2,645,463	2,645,463
Add: Allocation from prior year deferred contribution arising from prior year surplus receipts	18,961,761	
Total	21,607,224	2,645,463
Surplus for the year:		
Reported surplus for the year	(16,792,908)	(16,792,908)
Add: Change in the measurement of the common revenue pool contribution	18,961,761	
Total	2,168,853	(16,792,908)

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 plan. 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.

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].

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 R1,452,888, which was determined by property evaluators in 2008, is recognized in the income statement, as a rental cost and as the Host Country contribution under income. 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 income statement on a straight-line basis over the expected lives of the related assets.

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 board 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.

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

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 100% 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.

Counterparty	31 March 2009 Credit limit	31 March 2009 Balance R	31 March 2008 Credit limit	31 March 2008 Balance R
Standard Bank Namibia Ltd	None	**11,972,707**	None	**4,767,033**
Receiver of Revenue – VAT	None	**734,313**	None	**584,532**
Prepaid staff allowances	None	**-**	None	**800**
Donor funding – DFID/RTFP	None	**10,814**	None	**-**
Donor funding – EU	None	**2,051,803**	None	**2,051,803**
Total Trade and other receivables		**2,796,930**		**2,637,135**
Total Counterparty balances		**14,769,637**		**7,404,168**

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 2009	Less than 1 year R	**Between 1 and 2 years**	Between 2 and 5 years	**Over 5 Years**
Borrowings	–	**–**	–	**–**
Trade and other payables	3,890,218	**–**	–	**–**

At 31 March 2008	Less than 1 year R	**Between 1 and 2 years**	Between 2 and 5 years	**Over 5 Years**
Borrowings	–	**–**	–	**–**
Trade and other payables	4,593,495	**–**	–	**–**

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

	2009			2008		
Owned assets	Cost/ valuation R	Accum. Depreciation R	Carrying value R	Cost/ valuation R	Accum. Depreciation R	Carrying value R
Land and buildings	5,511,031	982,407	4,528,624	5,440,666	733,639	4,707,027
Motor Vehicles	1,103,135	677,502	425,633	943,562	478,151	465,411
Furniture & Fittings	802,917	396,432	406,485	781,424	236,625	544,799
Household Furniture & Fittings	670,609	269,810	400,799	652,847	138,964	513,883
Office Equipment	443,695	183,727	259,968	289,849	105,333	184,516
IT Equipment	4,476,520	2,457,971	2,018,549	4,031,019	1,070,914	2,960,105
Leasehold Improvements	1,247,096	311,774	935,322	1,207,096	-	1,207,096
	14,255,003	**5,279,623**	**8,975,380**	**13,346,463**	**2,763,626**	**10,582,837**

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

	2008				
	Carrying value at the beginning of the year R	Additions R	Disposals R	Depreciation R	Carry value at the end of the year R
Land and buildings	4,660,935	264,581	-	(218,488)	4,707,028
Motor Vehicles	431,621	202,274	-	(168,485)	465,410
Furniture & Fittings	425,732	235,021	-	(115,954)	544,799
Household Furniture & Fittings	597,822	20,337	-	(104,274)	513,885
Office Equipment	150,736	83,424	-	(49,644)	184,516
IT Equipment	2,559,143	1,271,581	(12,444)	(858,176)	2,960,104
Leasehold Improvements	-	1,207,096	-	-	1,207,096
	8,825,989	**3,284,314**	**(12,444)**	**(1,515,021)**	**10,582,837**

	2009				
	Carrying value at the beginning of the year R	Additions R	Disposals R	Depreciation R	Carry value at the end of the year R
Land and buildings	4,707,028	70,365	-	(248,768)	4,528,625
Motor Vehicles	465,410	159,573	-	(199,351)	425,632
Furniture & Fittings	544,799	21,493	-	(159,807)	406,485
Household Furniture & Fittings	513,885	17,762	-	(130,846)	400,801
Office Equipment	184,516	153,846	-	(78,394)	259,968
IT Equipment	2,960,104	445,501	-	(1,387,057)	2,018,548
Leasehold Improvements	1,207,096	40,000	-	(311,774)	935,322
	10,582,837	**908,540**	-	**(2,515,997)**	**8,975,380**

6. Financial Instruments

6.a Financial instruments by category

	Loans and receivables	Assets at fair value through the profit and loss	Held-to-maturity	Available-for-sale	Total R
31 March 2009					
Assets as per balance sheet					
Trade and other receivables	2,796,930	–	–	–	2,796,930
Cash and cash equivalents	11,973,108	–	–	–	11,973,108
Total	**14,770,038**	–	–	–	**14,770,038**

	Liabilities at fair value through the profit and loss	Other financial liabilities	Total R
Liabilities as per balance sheet			
Borrowings	–	–	–
Trade and other payables	–	3,890,218	**3,890,218**
Total	–	**3,890,218**	**3,890,218**

6.b Credit quality of financial assets

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	2009	2008
Counterparties without external credit rating, but who had no defaults in the past:	R	R
Receiver of Revenue – VAT	734,312	584,532
Prepaid staff allowances	-	800
Donor funding – DFID/RTFP	10,815	
Donor funding – EU	2,051,803	2,051,803
Total trade receivables	2,796,930	2,637,135
Cash at bank and short-term bank deposits		
Standard Bank Namibia Limited	11,972,707	4,767,033
	14,769,637	7,404,168

The rest of the balance sheet item 'cash and cash equivalents' is cash on hand.

7. Trade and other receivables

6.a Financial instruments by category

	2009	2008
	R	R
Pre-payments	-	800
Other receivables – VAT	734,312	584,532
Donor funding – DFID/RTFP	10,815	
Donor funding – EU	2,051,803	2,051,803
	2,796,930	2,637,135

The fair values of trade and other receivables approximate its carrying amounts.

As of 31 March 2009, trade receivables of R745,127 (2008:R585,332) were fully performing.

Trade receivables that are less than three months past due are not considered impaired. As of 31 March 2009, trade receivables of R2,051,803 (2008: R2,051,803) were past due but not impaired. These relate to an EU grant that will only be paid out once an audit has been conducted by the EU. The ageing analysis of these trade receivables is as follows:

Up to 3 months	745,127	585,332
3 to 18 months	2,051,803	2,051,803
	2,796,930	2,637,135

As of 31 March 2009, no trade receivables were impaired and provided for (2008: nil).

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

	2009	2008
	R	R
Standard Bank current account	861,739	(737,410)
Standard Bank call account 1	8,810	1,442
Standard Bank call account 2	5,371,250	1,954
Standard Bank 32 day deposit	425,072	5,501,047
Standard Bank short-term fixed deposit	5,305,836	-
Cash in hand	401	4,016
	11,973,108	4,771,049

9. Trade and other payables

Trade payables	3,890,218	4,593,495
	3,890,218	4,593,495

10. Provisions for other liabilities and charges

At 1 April	1,147,859	666, 948
Charged/(credited) to the income statement:		
– Additional provisions	8,333,840	480,911
– Unused amounts reversed	(510,644)	-
At 31 March	8,971,055	1,147,859

Provisions relate to:

- R637,215 for leave pay which accrues on termination of the services of members of staff.
- R8,333,840 for the approved arbitration process which is expected to be finalized after the balance sheet date.

11. Employee benefit expense

	2009	2008
	R	R
Wages and salaries	13,316,835	13,463,542
Number of employees	34	31

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:		
– Standard Bank Namibia	(2,783)	(394)
Finance costs		(394)
Finance income	(2,783)	
– Interest income on short-term bank deposits	1,262,868	1,467,616
Finance income	1,262,868	1,467,616
Net finance costs	1,260,085	1,467,222

13. Cash generated from operations

	2009	2008
Cash flows from operating activities	**R**	**R**
Surplus/(Deficit)	(1,365,522)	2,168,853
Adjustment for:		
- Depreciation and amortization	2,515,997	1,515,021
- Interest income	(1,262,868)	(1,467,616)
- Interest expense	2,783	394
	(109,610)	2,216,652
Changes in working capital:		
Trade and other receivables	(159,795)	(1,864,191)
Trade and other payables	7,119,919	(21,656,046)
	6,850,514	(21,303,585)

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 Common Revenue Pool.

The following transactions were carried out with related parties:

	2009	2008
	R	R
(a) Common Revenue Pool contributions		
- Receipts during the year	35,704,090	2,645,463
- Transfers from deferred income	-	18,961,761
	35,704,090	21,607,224
(b) Related parties compensation		
- Wages and salaries	-	-
- Social security costs	-	-
- Medical aid fund contributions	-	-
- Pension costs – defined contribution plans	-	-
(c) Year-end balances		
- Receivables from related parties:	-	-
– Common Revenue Pool	-	-

SOUTHERN AFRICAN CUSTOMS UNION

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