Annual Report 09/10

Implementing a common agenda towards regional integration in Southern Africa

SOUTHERN AFRICAN CUSTOMS UNION

SACU

100 YEARS 1910 - 2010

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PREAMBLE

THE GOVERNMENTS OF THE REPUBLIC OF BOTSWANA, KINGDOM OF LESOTHO, REPUBLIC OF NAMIBIA, REPUBLIC OF SOUTH AFRICA AND KINGDOM OF SWAZILAND

ACKNOWLEDGING the positive role which the Southern African Customs Union (SACU) has played in the past one hundred years and the important role it can play in promoting regional integration and the economic development of all its Member States;

MINDFUL of the different levels of economic development of the SACU Member States and the need for their integration into the regional and global economy;

RECOGNISING the challenges presented by developments at the regional and global level and the need to position SACU to respond to these;

CONVINCED that SACU can be a vehicle for deeper development integration both within itself and within the Southern African region;

Hereby commit to the following:

VISION

An economic community with equitable and sustainable development, dedicated to the welfare of its people for a common future.

MISSION

To serve as an engine for regional integration and development, industrial and economic diversification, the expansion of intra regional trade and investment, and global competitiveness.

To build economic policy coherence, harmonization and convergence to meet the development needs of the region.

To promote sustainable economic growth and development for employment creation and poverty reduction.

To serve as a building block of an ever closer community among the peoples of Southern Africa.

To develop common policies and strategies for areas such as trade facilitation; effective customs controls; and competition.

To develop effective, transparent and democratic institutions and processes.

Done in Windhoek, Namibia on this 22nd day of April, 2010 in the English Language.

Republic of Botswana

Kingdom of Lesotho

Republic of Namibia

Republic of South Africa

Kingdom of Swaziland

SACU
SOUTHERN AFRICAN CUSTOMS UNION

Implementing a Common Agenda
Towards Regional Integration
in Southern Africa

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

Table of contents

Foreword by SACU Executive Secretary

Tswelopele Moremi

The financial year 2009/2010 was characterized by a number of remarkable milestones for the Southern African Customs Union (SACU). One of the proudest moments in the history of this Organisation occurred in 2010 with the launch of the centenary celebrations of SACU. Commemoration of a 100 years in the life of any regional organization is a major achievement. SACU reached this milestone with some outstanding distinctions; such as being the oldest customs union in the world. Throughout this period of cooperation, Members of the Union have shared a unique history and established strong political, economic and social bonds.

SACU celebrated this occasion with a special function attended by all the Heads of State and Government of the Member countries in Windhoek, Namibia on 22 April 2010. A special theme was adopted for these celebrations: "Implementing a Common Agenda towards Regional Integration in Southern Africa." This was meant to inspire the Organisation to remain focused and mindful of existing as well as new challenges.

The launch of the Centenary resulted the Heads of State and Government deciding to add a new institution to the structures of SACU, namely the SACU Summit. The implementation of this decision will result in the adoption of the required amendments to the SACU Agreement during the course of 2011. This is a significant development in the life of SACU. It will provide the Organization with a new structure to provide political guidance and leadership at the highest level. This brings SACU's institutional structure at par with other Regional Economic Communities in Africa.

Another milestone was the adoption of a Common Vision and Mission for SACU, which contains practical guidelines for the Member States and SACU institutions on how to act jointly in the face of considerable challenge. Part of the task ahead will be to keep the ideals in the Vision and Mission alive through practical implementation. One of the challenges in this regard is the need to reform the Organisation in line with regional and global developments.

One of the key priorities identified by the Heads of State and Government is the consolidation and strengthening of the SACU Secretariat. In order to serve Member States optimally the Secretariat has to be equipped with the necessary technical and analytical capacity, skills and resources. These operational and human resource needs are dealt with on a continual basis. This process will be further intensified in 2011.

During the financial year 2009/2010, SACU was placed under enormous strain as a result of both external and internal pressures. These included the divergent views among Member States concerning how to conduct trade negotiations with third parties as well as a growing concern over the slow progress with the implementation of the 2002 SACU Agreement and the consolidation of the Organisation. These matters remain high on the agenda for the Organisation.

Finally, the impact of the global, financial and economic crisis was felt quite acutely as Member States' revenue shares were, for the first time under the new formula, reduced rather drastically compared to previous levels. In response to these developments, Member States took proactive steps to explore the development of alternative sources of domestic public revenue over the medium to long-term

This report covers work done during the financial year under review and highlights several issues in Policy Development Area where common policies are called for, such as Regional Industrial Development Policy, Competition Policy, Agricultural Policy and Policy on Unfair Trade Practices. It also highlights work done on technical areas typical of a functioning customs union, such as Trade Negotiations with third parties, Trade Facilitation as well as the administration of customs revenue. Lastly the report also highlights development on Regional Integration Initiatives.

We at the Secretariat are committed to the new SACU Vision and the challenges to bring about its successful implementation. We will work even harder to assist Member States to attain the ideals contained therein.

Tswelopele C. Moremi
Executive Secretary

SOUTHERN AFRICAN CUSTOMS UNION
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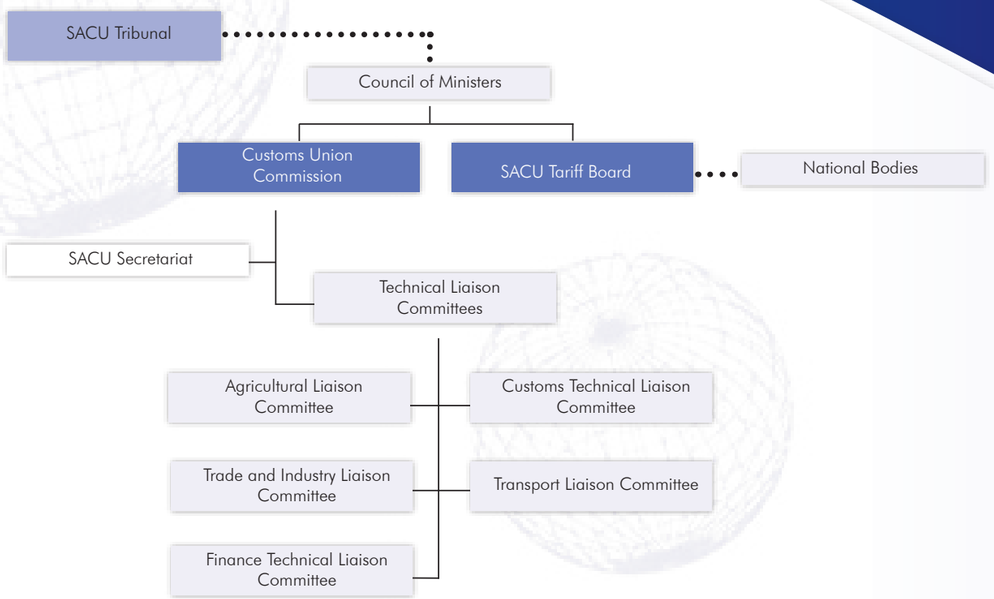
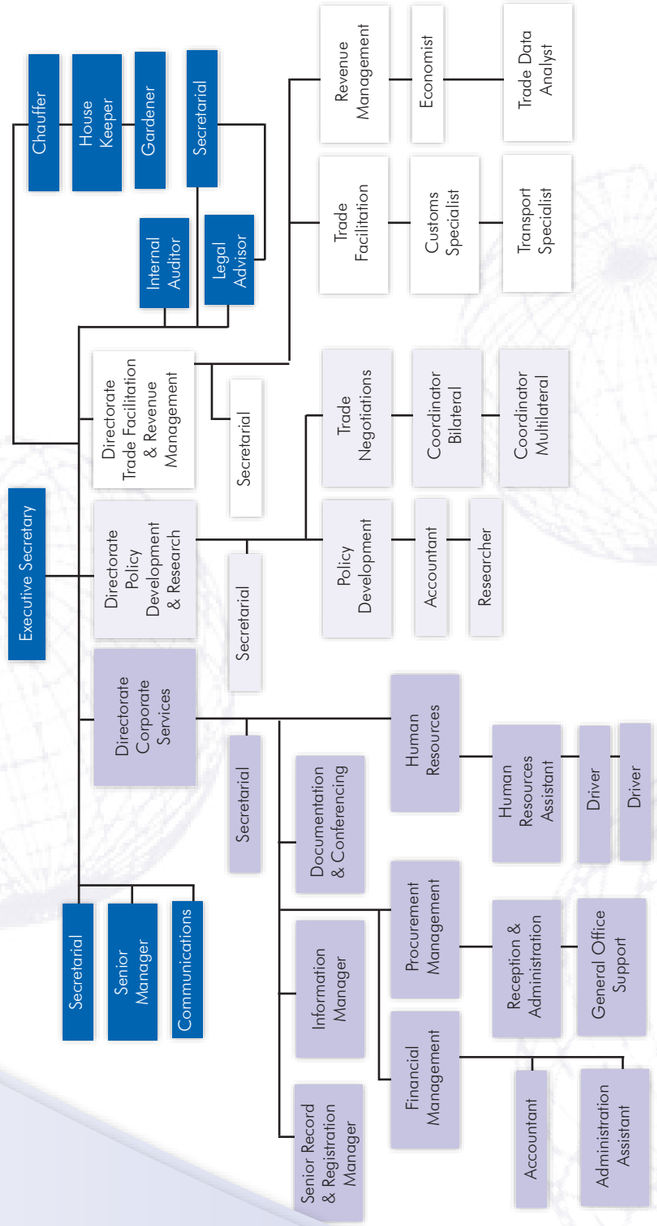
100 YEARS 1910 - 2010

Organogram Organisational Structure and Management



Structures of SACU
Organogram



Structures of SACU
Organisational Structure

Dumisani Mahlinza
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Hiskia Ndjavera
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David Maleleka
Deputy Director: Revenue Management

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Yusuf Daya
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Bongani Motsa
Deputy Director: Finance

Ndibo Oitsile
Chief Legal Officer

Rolf-Joachim Otto Deputy Director: Trade Negotiations

Structures of SACU

Management

SOUTHERN AFRICAN CUSTOMS UNION
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"An economic community with equitable

and sustainable development, dedicated

to the welfare of its people for

a common future."

Chapter one

Trade Facilitation

SOUTHERN AFRICAN CUSTOMS UNION SACU 100 YEARS 1910 - 2010

Chapter one

Trade Facilitation

100 YEARS 1910 - 2010

Chapter overview – Trade facilitation looks at how procedures and controls governing the movement of goods across national borders can be improved to reduce associated cost burdens and maximise efficiency, while safeguarding legitimate regulatory objectives. In a customs union, trade facilitation is of particular importance, because it helps to ensure the free movement of goods. This chapter discusses the trade facilitation initiatives being pursued by SACU, including the SACU-World Customs Organisation (WCO) Customs Development Programme and the Transport Sector Programme, as well as related achievements, challenges and expectations concerning the future.

Introduction

Seeking to improve the trade environment within Member States and the Customs Union, trade facilitation is a key component of the SACU mandate. At SACU, measures to facilitate trade are based on internationally accepted norms and practices. Trade facilitation is largely used to improve the regulatory interface between government bodies and traders at national borders.

During the year under review SACU focused its efforts towards simplifying and harmonising procedures and processes that have certain legislatory and financial implications for traders. The facilitation of trade is essential to reducing transaction costs of businesses in Member States and therefore, has the potential of contributing to their overall competitiveness. Moreover, improving processes and procedures optimises government's ability to control and collect revenue.

SACU's trade facilitation programme addresses a wide agenda in the areas of economic development and trade taking place in Member States. At SACU trade facilitation consists mainly of two parts: the SACU-WCO Customs Development Programme, which incorporates the five key customs initiatives* and the Transport Sector Programme. More specific areas include: the reform and modernisation of customs, promoting greater customs cooperation, the removal of non-tariff trade barriers, and enhancing the role of transport in trade facilitation.

During the 2009/2010 period, SACU continued to concentrate on the main trade facilitation components, which form part of the SACU-WCO Customs Development Programme. These are: Customs Policy Development; Customs Legislation; Standard Operating Procedures; IT Connectivity; Risk Management; and Trade Partnerships, as well as the five key customs initiatives*.

* Single Administrative Document; Electronic Data Interchange; One Stop Borders; Joint Customs Control and Capacity Building.

SACU-WCO Customs Development Programme

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

In December 2008, the Council of Ministers adopted the comprehensive Customs Development Programme for SACU. The programme builds upon the progress achieved under the five customs initiatives* that SACU pursued since 2004.

The main goal of the SACU-WCO programme is to contribute to the development of a sustainable and improved economic environment in SACU with regards to trade, security and social protection through the 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 modernise their respective Customs Administrations. The specific objective is to assist 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.

During the past year, SACU has established the management structure for the programme. Member States have nominated National Project Managers to oversee implementation of the projects at the National Level. A Regional Programme Manager responsible for coordinating implementation across the Region has also been appointed. A Steering Committee, consisting of Customs Commissioners for each Member State, the Regional Programme Manager and the SACU and WCO Secretariats, have also been established. During the past financial year two Steering Committee meetings were held to guide project design and implementation.

Another highlight during the past year included the development of a Regional Customs Policy Framework under the programme. This framework sets out customs priority areas and the strategic objectives for customs cooperation. This framework has been approved by the Council of Ministers and sets trade facilitation, economic protection and societal protection as the key imperatives for customs in the region. The SACU Customs Policy framework is intended to provide an umbrella framework that promotes the objectives of the 2002 SACU Agreement; gives effect to the provisions of the Agreement; takes into account and builds on work already done under the customs initiatives; and given the regional customs priority areas, provides direction for the implementation of the entire Customs Development Programme.

Work on the five customs initiatives that was previously pursued by SACU is now continuing under the Customs Development Programme.

In June 2008, SACU Member States adopted a uniform SACU Single Administrative Document (SAD) form as a customs declaration document. Member States also approved a uniform SACU SAD declaration model and customs procedure codes to be used in conjunction with the SAD form. The SACU Single Administrative Document (SAD) is aimed at ensuring openness in regional administrative requirements, rationalising and reducing administrative documentation, reducing the amount of requested information, as well as standardising and harmonising trade data. Striving to maintain the consistent application of the SAD, work on developing a SACU SAD manual continues under the Standard Operating Procedures project of the Customs Development Programme.

In 2007 the Juxtaposed Model was accepted as the preferred model for establishing one-stop borders in SACU. Following this decision, a series of initiatives were undertaken to develop one-stop border posts. Work on identifying pilot sites for these one-stop border posts has continued during the period under review. Consultations with the relevant government agencies are ongoing and work on piloting one-stop border posts will continue in the next period.

Joint border controls enable customs administrations to better utilize staff and resources. SACU has therefore compiled a Joint Controls Programme that consists of: launching a linked intelligence database, implementing anti-smuggling operations, acquiring non-intrusive examination equipment and setting up joint teams. Work on finalising the strategy and implementing joint controls continued in 2009/2010 and will continue to be pursued under the Risk Management component of the Customs Development Programme.

Interconnectivity is one of the fundamental steps in customs cooperation that is required to facilitate trade, ensure economic protection and create one-stop-border-posts between countries. In the upcoming year, SACU will further pursue the implementation of the Electronic Data Interchange initiative and IT interconnectivity. During the past year SACU has progressed with developing a regional customs IT policy consisting of all elements of data exchange. Work will continue under the IT interconnectivity project of the Customs Development Programme.

In order to sustainably improve the cross-border movement of goods, it is vital to build in-house capacity of customs staff, as well as to enhance the understanding of the required processes and procedures of the entire trading community. In this regard training programmes have been identified and

SACU has developed specific training programmes for the regional customs priority areas. Training of all affected parties will streamline and harmonise the operations between cross border agencies and key stakeholders.

During the year under review, the Secretariat in conjunction with the WCO facilitated the provision of capacity building programmes on project management for nominated National Project Managers. Training on conducting Time Release Studies for the purpose of collecting baseline data to measure the success of the programme was also provided to all Member States. In addition, the development of a Standard Operating Procedure template was completed. Training on the development of Standard Operating Procedures for import, export and transit will be conducted. The aim is to develop generic Operating Procedures that can be applied across the SACU borders to the benefit of economic operators.

SACU strives to enhance the capacity levels of Member States through identified training interventions to support implementation of the Customs Development Programme. The execution of the identified initiatives will continue in the 2010/2011 financial year.

Other Activities

In order to streamline the procedures for facilitating the issuance of supplier's declarations, an Annex on SACU Procedures to facilitate the issuance of supplier declarations was approved by Council. Member States are in the process of ratifying this Annex, which will facilitate the issuance of supplier declarations where a third party recognizes SACU as a single market.

Another important development to take note of is that the Council approved the review of the Annex on Mutual Administrative Assistance, forming part of the 2002 SACU Agreement. This Annex provides for cooperation between Members States customs administrators and is therefore an essential instrument for fostering greater cooperation. In the coming financial year, SACU will aim to complete the review and ensure that the Annex supports the implementation of the Customs Development Programme and is benchmarked against international conventions and best practice.

The SACU Common External Tariff (CET) is a cornerstone of the Customs Union. The interim administration of the Common External Tariff, whilst the SACU Tariff Board is being established, is currently done on behalf of SACU by the International Trade Administration Commission of South Africa (ITAC). The current practice of tariff amendments poses a challenge to the SACU Common External Tariff in terms of the possible temporal gaps that may arise in the CET as a consequence of the time lags associated with communicating tariff amendments and the actual tariff change being applied across the Common Customs Area. In order to address this, work has commenced on developing an approach to facilitate timely communicating and effecting of tariff amendments across the Common Customs Area, which reduces time lags associated with tariff amendments and ensures that the integrity of the CET is maintained. In addition, work has also commenced on developing an electronic Tariff Book for SACU.

Transport Sector Programme

In 2009, SACU completed an assessment study on the transport sectors of all Member States. It reviewed each of the countries' transport sectors, modes of transport, the volume of traffic, the routes and issues related to regulations – all in the context of how the transport sectors facilitate or hamper trade in SACU countries.

The study highlighted a number of areas within SACU. These include, inter alia:

- The institutional and legislative framework for regional transport;
- High transportation costs;
- Border crossing and enforcement delays due to inconsistent use of similar documents;
- Inconsistent application of procedures by some countries on operators;
- Policies that inhibit rather than promote improved utilisation of the use of transport assets;
- Deterioration of infrastructure on some cross-border routes; and
- Poor road safety records by global standards.

The findings of the report are currently under consideration by Member States and once finalised it is envisaged that the recommendations emanating from the study will be used to develop a SACU transport strategy and form a focused agenda for transport activities in the region.

During the period under review, progress was also achieved in the area of regulations for the transportation of dangerous goods. Member States have agreed to develop national regulations based on the United Nations Model regulations. This will ensure that similar regulations prevail across SACU with regard to the classification and definition of classes of dangerous goods, listing of the principal dangerous goods, general packing requirements, testing procedures, marking, labeling or attaching placards and transport documents. Work on developing national regulations will continue in the 2010/2011 period.

Challenges

In the 2009/2010 financial year, a key challenge has been the launch of the SACU-WCO Programme as planned. The delay was mainly due to capacity constraints and technical problems relating to the collection of baseline data.

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

This is equally valid for SACU and SACU's trade with the rest of the world. In general, the cross-border movement of goods and services and minimising delays at border posts are in need of improvement.

Achievements and future outlook

Considering customs legislation and the impact it has on trade, the SACU Agreement requires Member States to apply similar legislation with regards to customs and excise. A process of defining a collective approach to the redrafting of the existing legislation commenced during 2009/2010. A collective approach to customs legislation will be defined and the review process is planned to take place in the year 2010/2011.

A key achievement for Member States would be to follow a common approach to legislatory reform that will take effect in 2010/2011. After the envisaged review process and subsequent approval thereof, SACU will have modern customs legislation that is aligned to international obligations.

In the coming year, SACU will channel its efforts towards developing a regional customs policy on each of the priority areas, which are: risk management, trade partnerships, standard operating procedures and legislation. SACU foresees the development of standard operating procedures for import, export and transit. In the coming year, SACU will also strive to launch the trade partnership programme and implements regional risk management measures.

Regionally, SACU is a fully functioning customs union with free movement of goods between Member States and a common external tariff. The 2002 Agreement, when fully implemented, will enable SACU to be more than a traditional customs union, because the Agreement addresses common policies, harmonisation, coordination and cooperation of various trade and investment policies. Moving into the future SACU will, therefore, continue to focus its efforts on implementing the initiatives required to achieve the trade facilitation objectives as per the 2002 SACU Agreement.

Chapter two
Revenue Management

SOUTHERN AFRICAN CUSTOMS UNION SACU 100 YEARS 1910 - 2010

Chapter two

Revenue Management

100 YEARS 1910 - 2010

Chapter overview – This chapter discusses issues related to the collection, management and distribution of customs and excise duties in the SACU Common Revenue Pool (CRP). Annex 1 of the 2002 SACU Agreement details the method and procedures for the calculation of each Member State's revenue share out of the CRP. The Revenue Management Programme consists of initiatives aimed at collectively responding to the impact of the global economic crisis, the review of the revenue-sharing formula and the management of the CRP.

Introduction

The SACU CRP contributes significantly to most of the Member States' national revenue - in particular Botswana, Lesotho, Namibia and Swaziland. The recent financial crisis heightened the importance of this revenue stream and the need to reduce the reliance thereon, as well as the need to explore other avenues for more sustainable revenue.

Moreover, recent global developments emphasized the importance of prudent macroeconomic management that would ensure Member States are better prepared should such a crisis occur again in the future. Most countries are now working on interim solutions, but at the same time Member States are also developing long-term solutions to create other ways of generating revenue.

During the past year SACU continued to successfully implement the Revenue Management Programme, which mainly consists of: compiling a collective response to the global economic crisis, reviewing the revenue-sharing formula and managing the CRP. In the year 2009/2010 SACU also launched various initiatives to overcome certain trade data and statistical challenges.

The Revenue Management Programme

The 2002 SACU Agreement, Parts Six and Seven, outline the functioning of the CRP and the operational modalities of the revenue sharing arrangement whilst Annex 1 explains the Revenue Sharing Formula. All the customs, excise and additional duties collected in the Common Customs Area are paid into the CRP whilst payments are made on the first day of each quarter of the financial year to all Member States. The Revenue Management Programme therefore seeks to implement the provisions of the Agreement relating to revenue management and to coordinate and implement Council decisions.

Article 34 of the 2002 SACU Agreement establishes a revenue-sharing formula that has three components, namely: customs, excise and development. 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's 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.

Initiatives

Collective Response to the Economic Crisis

On 24 and 25 September 2009 in Pittsburgh, USA the G20 Member States, of which South Africa is a member, met to consider the impact of the global economic crisis as well as measures to minimise the impact of the recession. Following the G20 meeting at Pittsburgh, the SACU Council noted that there were signs of global economic recovery, though at a slow pace, and Council decided to monitor the impact of global economic crisis and to take this into account in all decisions that affect the Region.

During the year under review, two Special Council meetings were held to articulate the strategic direction for SACU and also to assess the impact of the deficit in the CRP on Member States' respective fiscal frameworks. Council developed short and medium term measures to mitigate the negative impact of the crisis in the region as well as to strengthen regional solidarity.

Review of the Revenue Sharing Arrangement

As part of the medium term measures to respond to the global economic crisis, Council took a decision to review the current revenue sharing arrangement. One of the weaknesses of the current revenue sharing formula is that it is vulnerable to volatile economic cycles. During periods of economic boom it tends to yield higher shares to Member States and during periods of economic slowdown it yields significantly low payouts.

The review of the revenue sharing arrangement follows a three-stage approach. The first and second stages commenced during the year under review. The first stage entailed identifying areas in the current revenue sharing arrangement that required further examination whilst the second stage entailed the commissioning of the study. The outcome, amongst others, of the first stage has been a documented terms of reference and in this regard, the first phase was successfully completed during the year under review. The second stage would entail the execution of the study. During the 2010/11 financial year, it is anticipated that the study would be concluded in preparation of the third phase, which covers the negotiation process on the new revenue sharing arrangement.

It is intended that the new revenue sharing arrangement would be aligned to the new SACU Vision and Mission which promote competitiveness, industrial development, intra-regional trade and deeper regional integration.

Management of the Common Revenue Pool

In line with Article 33(1) of the 2002 SACU Agreement, South Africa continues to manage the Common Revenue Pool on a transitional basis and a decision was taken to formalize this arrangement through a Memorandum of Understanding (MOU). The MOU on the transitional arrangement for the management of the CRP was concluded during the year under review, defining the role and operational relationships of the Parties. It is expected that South Africa would continue to manage the CRP on a transitional basis until a long-term arrangement is in place.

During the period under review, Council decided that a more binding tool for the management of the CRP, in the longer term, should be developed. Pursuant to this Council decision, the process of developing an Annex to the 2002 SACU Agreement on a long-term arrangement for the management of the CRP has commenced.

Other Initiatives

Harmonisation of GDP Compilation

During the year under review, the initiative for harmonizing the compilation of GDP data amongst Member States continued. Two workshops were held to standardise the compilation of taxes on products, focusing on the classification of SACU receipts in the National Accounts. Other elements of this programme include: widening statistical coverage to include small units and the informal sector into the national accounts, development of business registers that would serve as sampling frame, full implementation of the System of National Accounts (SNA) and adoption of recent base years in the statistical compilation. The work programme for this particular project stretches to 2014.

Trade Data Limitations Study

During the year under review, Council noted that the absence of timely and reliable trade data hampers comprehensive policy analysis in SACU. The Secretariat undertook a study to assess trade data limitations amongst Member States and the study is expected to be concluded in 2011.

Establishment of a Statistical Database

The SACU Secretariat is in the process of establishing a fully fledged user-friendly economic and trade database based on an interactive web application that will provide reliable data which will be accessible to both internal and external users. The database will also be used as a tool to monitor the performance of the SACU Member States in achieving the objective of economic development, industrialisation and competitiveness.

During the year under review, the SACU Secretariat held consultations with main producers of statistics in Member States namely: Customs Offices; Ministries of Finance; Central Statistical offices and the Central Banks. The Consultations were aimed at determining the time horizon of the data, the compilation methodology; release calendars for the publications; revision policy; identification of focal persons; introduction of the standardised templates; transmission of data to the Secretariat; and lastly, confirmation of the trade and economic data already submitted to the Secretariat.

The SACU Secretariat also visited the COMESA Secretariat in Lusaka, Zambia. The purpose of this visit was to learn from their experiences in developing their COMSTAT database. Processes undertaken to set up COMSTAT, as well as the ongoing maintenance of the database and procedures for uploading data into the database were explored during the meeting.

It is anticipated that the database would be fully established and operational by the end of the 2010/11 financial year.

Quarterly Border Reconciliation

Trade data is mainly collected at the border-post and as such, the border provides an ideal location to conduct trade data reconciliations. Therefore, Member States agreed to complement the annual trade data reconciliations with more regular quarterly reconciliations. Border officials will be in a position to quickly identify challenges, suggest as well as take remedial actions. This will further enhance the accuracy of trade data and statistics being recorded.

The pilot exercise on the feasibility of quarterly border reconciliation was completed during the year under review. The results of the pilot exercise suggested that the quarterly border reconciliation was feasible at major commercial border posts with computerised declaration systems. The initiative is aimed at simplifying the annual intra-SACU trade data reconciliation process. The quarterly border reconciliation was rolled out at the major commercial border posts in Botswana, Namibia and South Africa using the most recent quarterly data in 2010/11. Swaziland and Lesotho would participate in the quarterly border reconciliation once the computerisation of borders has been finalised.

Key highlights

The CRP is currently managed under a transitional arrangement, and processes are underway to establish a long-term arrangement. In addition, inadequate trade data makes it challenging to calculate the revenue to be shared amongst the Member States. Hence, another key highlight is the initiative to develop a trade and economic statistics database, which will consolidate trade and economic statistics of the Member States. The need for a database has been highlighted by third parties enquiring for information from SACU, as well as data and statistics required for policy research.

Challenges

The impact of the global economic crisis continued to pose daunting challenges in the Southern African region, particularly in SACU. The Common Revenue Pool, which is highly responsive to import demand, recorded a further deficit in the 2009/10 financial year. For the second year running, customs duty collection performed below expectations and dropped drastically whilst excise duty collection remained stable. As a result, SACU Member States, particularly the BLNS Member States experienced differing levels of fiscal shock. It is, however, expected that the duty collections would recover in the medium term.

Major challenges facing SACU in the area of Revenue Management are, therefore, as follows:

- The revenue sharing formula that is vulnerable to volatile economic cycles, and with a structure susceptible to exogenous factors; and
- The availability of reliable trade data amongst Member States to inform policy analysis and trade negotiations with third parties.

Outlook

The future of revenue management within SACU and its Member States is very much dependent on the results of the revenue-sharing study, which was commissioned during the year under review. The results of this study will form an important base for negotiation on how revenue will be shared amongst Member States in the future.

Chapter three
Trade Negotiations

Introduction

Initiatives

- SACU - USA Trade, Investment and Development Cooperation Agreement (TIDCA)
- SACU - EC Economic Partnership Agreement (EPA)
- SACU - MERCOSUR Preferential Trade Agreement
- SACU - India Preferential Trade Agreement
- SACU - European Free Trade Agreement (EFTA)
- Notification of SACU and WTO Trade Policy Review

Key highlights

Challenges

Future Outlook

SOUTHERN AFRICAN CUSTOMS UNION SACU 100 YEARS 1910 - 2010

Chapter three

Trade Negotiations

100 YEARS 1910 - 2010

Chapter overview - Trade negotiation is a process where nations meet to discuss the possibility of trade with the goal of reaching a trade agreement. Nations have a vested interest in negotiating a successful trade agreement, because it has the potential of promoting economic growth and allowing companies to expand their markets, but countries are also concerned with protecting their economy. This chapter covers trade negotiations and agreements that are under consideration and those that were concluded during the year under review.

Introduction

International trade is one of the backbones of almost every economy in the world. While many companies do thriving business domestically, the ability to expand into international markets is critical. SACU countries count on international trade to access goods and services which cannot be produced regionally, and to export goods and services where a need exists elsewhere in the world.

One of the fundamental objectives of the 2002 SACU Agreement is to integrate SACU into the world economy through trade negotiations. The SACU Common External Tariff (CET) is one of the cornerstones of the Customs Union and in order to ensure its integrity and to comply with Article 31 of the 2002 Agreement, SACU was mandated to develop a Common Negotiating Mechanism, which is a formalised structure for trade negotiations.

One of the advantages of belonging to a customs union is the subsequent collective power of member countries when negotiating with the rest of the world. Being the oldest customs union in the world, SACU has negotiated a number of beneficial trade agreements since its modest beginnings in 1910. Today, SACU continues to negotiate terms of trade that ultimately contributes to stronger economies in each respective member country.

During the past year, SACU progressed well with key initiatives including: the SACU-USA Trade, Investment and Development Cooperation Agreement (TIDCA), Economic Partnership Agreement (EPA) between the Southern African Development Community (SADC) and the European Community (EC); SACU-MERCOSUR Preferential Trade Agreement, SACU-India Preferential Trade Agreement, the implementation of the Free Trade Agreement with the European Free Trade Area (EFTA) and the notification of SACU to the World Trade Organisation (WTO), as well as the WTO trade policy review of SACU.

Initiatives

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

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

The agreement focuses on trade, investment and development and it identifies a number of key priority areas, which strive to improve the SACU-USA trading relationship. The key areas include: customs cooperation, trade standards, sanitary and phytosanitary measures (SPS) on agriculture and lastly, trade and investment promotion. SACU started work on identifying the approach to cooperating with the USA on each of these priority areas.

Overarching to these areas is the provision of technical assistance concerning capacity. SACU initiated relevant engagements with role players during the past year and established national coordinators in each of these priority areas. Additionally, issue-specific experts were identified in SACU Member States. In March 2010, SACU held its first technical meeting in Windhoek. The purpose of the meeting was to begin implementing the agreement in order to derive optimal benefits from it.

SADC-EC Economic Partnership Agreement (EPA)

The year 2009 was marked by the signing of the Interim Economic Partnership Agreement (IEPA) by three SACU Member States, which are: Botswana, Swaziland and Lesotho. The other two Member States, Namibia and South Africa, chose not to sign the interim agreement. This development created a challenge for SACU, leading to introspection about SACU's future role.

As a result, the SACU Council of Ministers met in Ezulwini, Swaziland on 17 September 2009. The purpose of this meeting was, amongst others, to review the challenges and determine a way forward concerning the EPA. An important outcome of the meeting was that the Council agreed that SACU needed to pursue a common vision and strategy in order to achieve deeper regional economic integration in Southern Africa. Moreover, the Council had agreed to double their collective efforts to resolve the outstanding issues concerning the IEPA and EPA. This meeting was followed up by a special Council meeting in January 2010, where, most importantly, Council reconfirmed that SACU should approach these and all other negotiations as a unit and instructed SACU negotiators to regroup and find a common purpose for these negotiations going forward.

Every effort will be made in concluding the negotiations of the final Economic Partnership Agreement, whilst enabling all Member States to sign the agreement. These negotiations will receive priority in 2010. It is expected that the negotiations will continue into the next review period.

SACU-MERCOSUR Preferential Trade Agreement

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

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

During the period 2009/2010, the process of ratification commenced that is required before the Agreement can be implemented. The ratification processes is expected to be completed during the coming year.

SACU-India Preferential Trade Agreement

In October 2007, SACU and India launched negotiations towards a Preferential Trade Agreement.

The SACU-India Preferential Trade Agreement negotiations continued during the year under review. However, towards December 2009, challenges arose due to different approaches taken by SACU and India, respectively. The main challenge was that the two parties had different views on the scope of the agreement. This meant that new negotiating mandates had to be established, which delayed the negotiation process. It is expected that the negotiations will continue in 2010.

SACU-European Free Trade Agreement (EFTA)

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

The FTA makes provision for a Joint Committee that deals with the administration and implementation of the agreement. A number of initiatives were identified in the previous year under review. These initiatives are aimed at deepening the implementation of the FTA. One was to launch the review

of the bi-lateral agriculture agreements that SACU has with Iceland, Norway and Switzerland/Lichtenstein, respectively. The review is mandated by the respective agricultural agreements. The aim of the review was to improve market access of the involved countries, but also to make an assessment of the implementation of the agreements, aimed at finding appropriate ways of addressing any challenges that might exist. However, no real challenges were identified during that review.

In March 2010, SACU and EFTA agricultural experts met to take the review one step further. The review process will continue in the next financial year.

In terms of GATT Article 24, the EFTA agreement was notified to the WTO in October 2009 and it was reviewed by the Committee on Regional Trade Agreements of the WTO in March 2010. It was conducted in accordance with the transparency mechanism of the WTO. The WTO compiled a factual report, which was distributed to all WTO Member States prior to the review. SACU received a number of written questions from the WTO Member States, which SACU answered in writing prior to the review. In addition, some questions were received during the review itself. Those questions were dealt with verbally or in writing after the review. Following this process, the review was completed and the agreement successfully notified to the WTO.

Notification of SACU and WTO Trade Policy Review

Following its notification to the WTO in 2008, in terms of the transparency mechanism, the SACU Agreement, was reviewed in April 2009. The WTO Secretariat prepared a factual report, which was distributed to WTO Member States. SACU received a number of written questions before the review, which it answered. SACU also received oral questions during the review, which it answered during the review meeting or provided written answers to the WTO afterwards.

This review is quite significant, because it was the first time that the SACU Agreement was reviewed by the WTO. This review demonstrates that SACU is a fully-fledged customs union that is compliant with the WTO regulations and obligations – specifically in terms of Article 24 of the GATT 1994 Agreement.

Moreover, in terms of the Trade Policy Review Mechanism, the third WTO Trade Policy Review of SACU took place in Geneva, Switzerland in November 2009. Whilst the purpose of this review is to look at the trade policies of individual SACU Member States, it also reviews SACU in its entirety. The aim of this review is to achieve greater transparency and understanding of trade policies of the WTO Member States. The WTO prepared country reports, as well as a SACU report, which was distributed amongst WTO Member States. A number of questions were raised in response to these reports. SACU answered the questions in writing after the review meeting. This review enabled SACU to promote itself in the broader global economy as a customs union, while highlighting the convergence that is taking place and also pointing out challenges that SACU continues to deal with.

Key achievements

The Council of Ministers meeting that took place in Ezulwini, Swaziland on 17 September 2009 was a key highlight during the period under review. The fact that the Council emphasized the need for a common SACU trade strategy and trade negotiation agenda illustrates the significance of this meeting. Taking into account the capacity of Member States, the Council agreed on the content of negotiations that SACU is prepared to enter into. Furthermore, trade diversification was identified as an important objective for trade relations and negotiations.

The commitment to a common approach amongst SACU members was again confirmed during a Council Meeting in January 2010. This meeting resulted in specific actions that aim to achieve the agreed upon common approach. One such action was the decision to host the Heads of State and Government that took place in Windhoek in the following financial year.

SACU recognizes the changing trading landscape and the importance of developing a common strategy in a new generation of issues such as services, investment and intellectual property rights. These issues will impact on trade agreements and therefore, SACU has to consider it in their current strategies.

Challenges

During the period under review, the global financial and economic crisis continued to impact on the trading environment. However, it has led to an introspection of SACU's current position in the international and regional trading environment. SACU became acutely aware that Member States are dependent on international trade and whathever development is taking place in another part of the world impacts on SACU countries as well. This further highlighted the need for a common approach amongst Member States.

In the past, SACU has struggled to find common views or positions on trade negotiations. The main reason for that were the diverging interests that made it difficult to find common positions. It was further hampered by the lack of common policies like industrial, agricultural, trade and tariff policies. To address this challenge, SACU States met at the highest possible level, which is the Council of Ministers, with the aim of developing a framework for the negotiations – specifically, with respect to the SADC-EPA negotiations.

Future outlook

SACU, India and MERCOSUR are considering the possibility of entering into a tri-lateral trade agreement. A meeting between the ministers responsible for Trade from the three regions took place in Geneva in December 2009. The Ministers agreed that technical work need to be finalised first before such an arrangement can be entered into. The SACU Council of Ministers also decided not to enter into formal negotiations - if at all - before the parties have concluded the ongoing bilateral negotiations and implemented these agreements. These ongoing negotiations on the SACU side are: the SACU-India and SACU-MERCOSUR Preferential Trade Agreements. Therefore, the bilateral agreements must be concluded before SACU can consider the tri-lateral agreements. Ultimately, SACU's aim remains to enhance Southern African cooperation amongst member countries first, before considering other arrangements.

A most recent regional development within SADC and the broader Southern African countries are the consideration of establishing a SADC customs union. This will definitely have an impact on SACU. Following this particular development, the Council made the decision to position SACU as a basis or nucleus of deeper regional integration in Southern Africa.

Furthermore, the proposed EAC-COMESA-SADC Tri-lateral Free Trade Agreement will have an impact on SACU, but this agreement is expected to create broader trade opportunities for SACU Member States. This, however, requires a detailed analysis to assess the implications for SACU's trade policy initiatives and how it might shape SACU's future trade negotiations. Therefore, it was decided to conduct an impact study that would determine how SACU will be affected by this new development in terms of its trade relationships, as well as revenue in Southern Africa.

At the same time, SACU and the East African Community (EAC) are also exploring possible trade cooperation and a study has been launched to conduct research on a possible trade arrangement between the two parties. The study will be completed in 2010.

Chapter four

Policy Development and Research

SOUTHERN AFRICAN CUSTOMS UNION SACU 100 YEARS 1910 - 2010

Chapter four

Policy Development and Research

100 YEARS 1910 - 2010

Chapter overview – Policy Development and Research mainly deals with all areas of economic policy and strategy development. It also administers and supports the Trade Negotiations function of SACU and provides inputs, advice and research outputs on important Regional Integration initiatives affecting SACU. This chapter covers the main policy initiatives undertaken, as well as other highlights and challenges that SACU experienced in terms of policy development and research during the year under review.

Introduction

The 2002 SACU Agreement requires the development of: common industrial strategies and policies; the harmonisation of agricultural policies, cooperation on competition policies, laws and regulations; and developing policies and instruments to address unfair trade practices. An important objective of the SACU Agreement is to facilitate the development of common policies and strategies contained in Part Eight (8) of the SACU Agreement.

Over the last few years, increasing efforts have been made to develop new policies and harmonise existing regional policies. However, the challenge remains to harmonise socio-economic interests and priorities of the different Member States. The common policies are therefore developed, bearing in mind: differences in the level of development in the various Member States, vulnerability to third party imports, as well as tariff revenue implications.

During the year under review, SACU continued to work on: industrial, agricultural and competition policies, as well as various other policy development initiatives. In addition, SACU supported the areas of Trade Negotiation and Regional Integration.

Initiatives

The Secretariat prepared annual policy development and trade negotiations work programmes, which were submitted to Council for approval in December 2009. Research was commissioned in several economic policy-related areas. Three research studies were completed dealing with agricultural policy, textile and clothing strategy and the impact of tariff policies on food prices in the region. Other initiatives included: work on infant industry protection, the motor industry development programme (MIDP), trade defense instruments and standards, as well as technical regulations. In addition, Member States continued to work together to prepare a Long Term Strategy for the SACU Textiles and Clothing Sector. Efforts to develop the sub-region's industrial policy, competition policy and the agriculture policy also continued.

Industrial Policy

Member States have emphasised the need for an industrial policy for SACU as it is an important step towards the effective operation of the National Bodies and the Tariff Board. It will also be an important component in formulating tariff and trade policy, which have a bearing on revenue sharing arrangements. Common industrial policies are seen as a driver for regional economic development as well as that of individual Member States.

The industrial policy aims to achieve: balanced economic development in Member States; enable the revision of the tariff structure; consider infant industry protection needs; and consider the geographic location of economic activity across international frontiers.

Member States have 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. Furthermore, Member States are continuing to identify lessons learnt from international best practice and to identify critical issues of policy design for developing a framework on industrial development policy. The industrial policy formulation process continued during the year under review.

Agricultural Policy

Member States recognize the importance of the agricultural sector to their economies and agree to cooperate on agricultural policies in order to ensure the coordinated development of the agricultural sector within the Common Customs Area. As part of drafting a coordinated policy framework on agriculture and to implement Article 39 of the 2002 SACU Agreement, prioritisation is given to areas directly related to and facilitating production, processing, marketing and trade in agriculture products.

The aim is to establish a framework proposal on mechanisms for cooperation to promote coordinated agricultural development in the Customs Union as envisaged in Part Eight of the 2002 SACU Agreement. A well-articulated agricultural policy could boost agriculture exports, improve productivity, develop more rational and competitive production systems, improve value-addition and strengthen value chains, and guarantee stable and acceptable farm incomes.

An agricultural policy audit was conducted in the previous financial year. The audit did not address the analytical scope necessary for developing a coordinated policy framework and therefore work continued during 2010.

Competition Policy

Member States are cooperating to enforce competition laws and regulations. As such, relevant policies and instruments are to be developed to address unfair trade practices between Member States. During the 2008/2009 financial year, Annexes were developed on how to deal with unfair trade practices, as well as how Member States could cooperate on competition policy matters.

During the year under review, these two draft Annexes were distributed to Member States for comments. It is expected that the Annexes on Unfair Trade Practices and Cooperation on Competition Policy Matters will be submitted to Council for approval in the next financial year.

Other policy initiatives

Apart from the industrial, agricultural and competition policies, SACU has also undertaken other policy development initiatives during 2009/2010.

A Textile and Clothing Sector strategy has been developed during the year under review and it is expected that this will be finalised and implemented by Member States during the upcoming year. A SACU position was also developed and submitted to SADC on the MMTZ Market Access Arrangement under which certain SADC countries can export textiles and clothing products to SACU.

Modalities and policy guidelines were developed for the implementation of infant industry protection in SACU. Work on infant industry protection will continue in the coming financial year.

Key highlights

In the past year, key highlights included the three commissioned research studies on agricultural policy, textile and clothing strategy, as well as the impact of tariff policies on food prices. A further milestone had been the development of the strategy for the textile and clothing industries in Member States. The Secretariat continued to play an important role in providing advice and support on the areas of Trade Negotiation and Regional Integration.

Furthermore, the Directorate: Policy Development and Research supported the Union's Trade Negotiations function with the third Trade Policy Review of SACU by the World Trade Organisation (WTO), which was successfully undertaken in Geneva, Switzerland on 4 and 6 November 2009. Trade policy reviews are an exercise, mandated in the WTO agreements, in which trade and related policies of individual Members States of the WTO, Regional Economic Communities (RECs) and their member countries are examined and evaluated at regular intervals for purposes of transparency. Trade policy reviews are also used to monitor significant developments that may have an impact on the global trading system.

Challenges

Operationally, capacity constraints and the cancellation of essential stakeholder meetings played a major role in the progress made during the past year.

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

Future Outlook

Conducting relevant research and subsequently developing relevant policies are vital to ensure stable and balanced economic development within the Common Customs Area. During the next financial year, SACU will continue to develop and finalise critical economic policies that would lead to growth and prosperity for all its Member States.

Chapter five
Regional Integration

SOUTHERN AFRICAN CUSTOMS UNION SACU 100 YEARS 1910 - 2010

Chapter five

Regional Integration

Chapter overview – The theme of the centenary celebrations is: "Implementing a common agenda towards regional integration in Southern Africa". Regional integration is a process in which countries enter into a regional agreement in order to enhance regional cooperation through regional institutions and rules. This chapter provides an overview of the current state of regional integration in Member States of SACU, as well as the initiatives that were undertaken during the past year.

Introduction

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

SACU has made significant progress in achieving deeper integration in SACU and the integration of Member States into the global economy. SACU has negotiated several trade agreements such as the SADC Trade Protocol, with the SACU–EFTA Free trade Agreement, the SACU-USA Trade, Investment and Development Cooperation Agreement and the SACU-MERCOSUR Preferential Trade Agreement. Regionally, SACU is the only fully functioning customs union with free movement of goods and a Common External Tariff. SACU is, however, taking cognisance of the fact that Member States are at different levels of economic development, which impacts on the extent to which the deepening of regional integration can be realized.

During the year under review Member States have increasingly recognized that there are challenges that need to be resolved if deeper regional integration is to be successfully achieved. At the core of this realization lies Member States' renewed commitment to one common vision.

Regional Integration Work Programme

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

In 2008, the SACU Council of Ministers has already set up a Task Team consisting of SACU Senior Officials of Trade and Industry as well as Finance to address the challenges surrounding deeper regional integration. The Task Team successfully commissioned two studies to better inform them about the opportunities and challenges of deepening regional integration in the SADC area.

In its drive to consolidate and deepen integration in SACU, there are a number of areas being addressed. These include:

- Pursuing cooperation, harmonization and the development of common policies and strategies in a number of areas such as: industrial, agriculture and competition;
- Converging trade-related policies;
- Developing comprehensive economic surveillance and greater policy coordination;
- Establishing transport and communication infrastructure; and
- Strengthening the provision of regional public goods and commodities.

In the 2009/2010 financial year, a successful fact-finding and cooperation mission was undertaken to the East African Community Secretariat in Arusha, Tanzania. SACU continues to be in dialogue with the COMESA Secretariat, as well as the East African Community Secretariat and established working relationships with these organisations. Both these organisations are also aiming to achieve deeper regional integration.

Key highlights

During the past financial year a key highlight has been the intent to deepen regional integration in Southern Africa amongst the Heads of State and Government of SACU.

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

Challenges

SACU, as a customs union, has very specific legal requirements. It is a single customs territory, which demands that SACU complies with the legal framework concerning trade and the way in which Member States share revenue. However, the areas that SADC pursue are overlapping with certain areas in the SACU Agreement.

Thus, if SADC address those similar areas, SACU needs to be actively involved. Furthermore, the SACU Agreement has a very specific scope – it is a trade agreement between the five Member States. Other matters such as services, the movement of people, labour, competition and investment are outside the scope of the SACU Agreement. SADC has a different agenda, which is much wider. The difference in agenda poses some challenges for cooperation between the two regional economic blocs.

Future outlook

Heads of State and Government has emphasized that SACU ought to play a more leading role in terms of regional integration. As a result, SACU anticipates that more regular interactions with SADC will take place in the future. In addition, SACU will be exploring avenues of improved interaction with SADC in the upcoming financial year.

Chapter six
Institutional Development

Chapter overview – Article seven of the 2002 SACU Agreement makes provision for the SACU Council of Ministers, the Secretariat, the Commission, National Bodies, a Tariff Board, Technical Liaison Committees and a Tribunal. During the year under review SACU has made extensive progress in developing these institutions that help achieve the objectives of the 2002 SACU Agreement.

Introduction

The Southern African Customs Union (SACU) Agreement was signed on 21 October 2002 in Gaborone, Botswana and came into effect in July 2005. It establishes SACU as an international organisation and confers the necessary legal status on the organisation.

The obligations and commitments under the implementation of the 2002 Agreement is to establish eight regional institutions, the Council of Ministers being the decision-making body supported by the Commission; Secretariat; Technical Liaison Committees (in the form of trade and industry, transport, agriculture, finance and customs); an ad hoc Tribunal; a Tariff Board and National Bodies as well as a Common Negotiating Mechanism.

In 2009/2010, SACU has made noteworthy progress with the development of these institutions, in particular: the National Bodies and the Tariff Board.

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. Moreover, 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 provision for the Chairperson of the Council to be held in turn by each member state for a period of 12 months starting from 15 July of each year.

During the 2009/2010 financial year the Council held three ordinary meetings and one special meeting on 3 April 2009, 18 September 2009, 4 December 2009 and 15 January 2010 under the chairpersonship of Lesotho and Namibia, respectively. Namibia attained Chairmanship of the SACU Council on 15 July 2009. Various critical issues have been discussed and decided on by Council, such as one common vision and issues pertaining to trade negotiations and agreements, trade facilitation, regional integration and revenue management. The Council of Ministers will continue to play a major role in paving the way forward concerning SACU.

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 further supervises the work of the Secretariat. In the reporting period,

the Customs Union Commission met four times prior to each Council meeting, and executed its responsibilities as outlined in the SACU Agreement, which are inter alia to monitor the implementation of the Agreement, ensure implementation of Council decisions, overseeing the management of the CRP and supervise the work of the Secretariat.

The Secretariat

The SACU Secretariat is the technical arm of SACU. It is one of the permanent and operational institutions of SACU. The Secretariat's function is to provide a wide range of services such as: coordinating technical studies, implementing the 2002 SACU Agreement and monitoring and implementing decisions of the SACU Council of Ministers. It is headed by the Executive Secretary, assisted by three directors. They are: the Directors of Trade Facilitation, Policy Development and Research and the Director of Corporate Services. The Secretariat continued to execute SACU's mandate during the year under review.

Tariff Board

The Tariff Board is an independent institution consisting of members appointed by the Council from experts nominated by Member States. One of the main objectives is to manage the Common External Tariff of SACU. The Tariff Board is also responsible for conducting investigations and 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.

In November 2009, an official was appointed as a Tariff Board Coordinator to spearhead the process of establishing the Tariff Board. During the past financial year, efforts were channeled to developing a work programme in order to achieve this objective. It is expected that the work programme will be approved by Council in the next financial year.

Currently the South African National Body, which is the International Trade Administration Commission (ITAC), is mandated by the Council to conduct tariff investigations pending the establishment of the Tariff Board.

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 are being developed to ensure efficient and transparent functioning of the National Bodies.

Presently, South Africa is the member state with an operational National Body in the form of ITAC, while the other Member States are in the process of developing National Bodies. Namibia and Botswana has made significant progress in enacting legislation that will enable the establishment of a National Body in each of these countries. In this regard, Namibia hosted a workshop to increase awareness about the establishment of a National Body. In addition, Namibia expressed its commitment to establish a National Body before the end of 2010.

The global crises posed some challenges for countries to fully participate in the drive to establish National Bodies in each of the Member States. However, SACU expects Namibia and Botswana to have fully functioning National Bodies in the near future. Furthermore, Lesotho and Swaziland are also expected to make progress by enacting the required legislation in the next financial period. Other initiatives in the coming financial year include: establishing model legislation for National Bodies, developing procedures for the Tariff Board and, once the National Bodies have been set up, SACU Member States will be in the position of nominating members for the Tariff Board.

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 issues referred to it and furnish Council with its recommendations. The Tribunal will be composed of three members, except as otherwise determined by Council. Decisions are made by a majority vote.

In the event of any dispute or difference arising between two 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. In the 2009/2010 financial year, work continued to further developing the Tribunal.

Technical Liaison Committees

There are five Technical Liaison Committees, which have to assist and advise the Commission in its work. They are: the Agricultural, Customs, Trade and Industry, Transport and lastly, Finance Technical Liaison Committee. Council determines the Terms of Reference of these Committees. The Committees play a major operational role by ensuring that the objectives of the Organisation are met in each of the technical areas. The Technical Liaison Committees continued to meet regularly during the past financial year.

Chapter seven
SACU Secretariat Operational Environment

Chapter overview - The SACU Secretariat is responsible for the day-to-day administration and roll-out of SACU's work program. The Directorate of Corporate Services is responsible for the provision of effective and efficient services to all SACU institutions. The key focus area is, however, the support of the operational activities of the Secretariat. This chapter gives an overview of the operational areas of Financial Management, Procurement and Facilities Management, Human Resources, Information Technology (IT), as well as Records and Information Management.

Human Resources (HR)

The HR sub-directorate is responsible for all people issues within the Secretariat. It is commonly said that your people are your most valued resource in a business and the Secretariat is a firm believer of this. The HR sub-directorate ensures the recruitment of the best skills through a well-defined process.

The sub-directorate is also responsible for:

- The recruitment of professional support staff to meet the requirements of the business;
- Staff training and development;
- Management of employment contract terminations and re-staffing;
- Ensuring that processes and systems are in place to manage staff; and
- Ensuring proper record keeping of all of the above.

To date, great strides have been made in these areas, which ensure smooth operations within the Secretariat. Currently, a well-defined Conditions of Services, which has been benchmarked against best practice, is in place.

Issues of leave, salaries and others are tracked on an electronic system called VIP. This unit manages the implementation of the Performance Management System, which is in its infant stage.

Some of the key challenges facing this unit are:

- The development of a succession plan that caters for the Secretariat's working environment (short term contract)
- An employee well-being program that supports healthy and balanced staff;
- Provision of training and awareness on the rules and procedures of the organisation; and
- Skills Audit.

The HR sub-directorate will constantly align the policies and procedures and business processes with best practices and objectives of the organisation.

Financial Management

The Financial Management sub-directorate is responsible for the development, implementation, and monitoring of financial processes, policies and procedures to support the SACU work programme.

The sub-directorate is required to ensure that:

- The Secretariat operates within the financial policies as set by the Council;
- Compliance with various external financial requirements is achieved; and
- The Secretariat's financial records satisfy internal and external audit requirements.

This involves organising and managing the financial and accounting affairs of the SACU Secretariat, including the preparation and presentation of annual accounts and the provision of financial information for use by management in day-to-day and strategic decision-making and planning.

The main areas covered by the Sub-Directorate include:

- Production of financial plans such as budgets, capital plans, cash flow forecasts and business cases;
- Treasury management including investment of surplus funds;
- Monitoring against financial plans and providing management information for budget holders, the Executive Committee, the Finance and Audit Committees, and ultimately, the Commission and Council;
- Management of accounting policies, procedures and processes;
- Financial management and safeguarding of assets;
- Financial risk management and corporate governance;
- Financial accounting (production of Audited Financial Statements on an annual basis);
- Ongoing financial reporting for management (Management Accounts); and
- Payroll management.

Since inception, the Secretariat has adopted International Financial Reporting Standards (IFRS) to ensure consistent alignment with international best practice. There is an important distinction between management accounts, which involves the provision of information to managers for

ongoing decision-making, and financial accounting which is concerned with the preparation of financial statements in accordance with IFRS.

The Secretariat received an unqualified external audit report for the year under review. The established practice is that the Secretariat is audited by the Auditor Generals of the Member States on a three-year rotational basis, with the last year being a joint audit by the outgoing and incoming auditor. The audit reports have been consistently unqualified since inception. The Secretariat believes that this arises from the world class internal control measures and implementation of best practice financial management practices and processes.

The corporate governance framework of the Secretariat is based on a strong set of codes and principles derived mainly from guidelines of the King III Report (King III Code of Governance Principles for South Africa). The framework aims to provide clarity of roles, separation of powers, independence and availability of appropriate skills. During the year, the sub-directorate developed Corporate Governance Guidelines for the Secretariat, which still requires the appropriate review and approval structures. It is meant to provide definitive guidelines to support decision-making and organisational behaviour to ensure harmony with international best practices on corporate governance.

During the year under review, the Secretariat has undergone a formal review of its four pillars of Accounting, Auditing, Internal Control and Procurement. The review, which was funded by the European Union, was conducted by a European consultancy team comprising three highly qualified chartered accountants and was entitled: "Assessment and Capacity Building on Four-Pillar International Standards". The review found that, except for a few areas that require improvement, the Secretariat has a sound operating environment that is comparable with global best practice.

Another notable achievement is the fact that the sub-directorate was able to achieve a full staff complement with the appointment of the Finance and Administration Assistant. To ensure continuous improvement, the staff benefitted from the training and professional development framework of the Secretariat.

Automation of financial processes is one of the areas that brought about both achievements and challenges during the year. An accounting software package called SAP Business One is the current centre piece of the accounting system. The focus on automation was the achievement, within the SAP system, of real-time reporting, full automation of the payment system and implementation of an e-procurement system. The sub-directorate is focusing its efforts on the full implementation of the SAP system in the context of Enterprise Resource Planning (ERP) system to achieve full automation. Such automation is expected to ensure availability of real-time financial information on all operations in an environment that provides seamless reporting, data processing and controls.

Another area that provided achievements and challenges is the revision of financial policies and procedures. After six years of operation, the Secretariat has identified the need to review its operating environment as well as its financial policies and procedures to ensure that they remain relevant, flexible and robust. The review of financial policies and procedures was completed during the year and what remains is an accompanying Delegation of Authority that will be used to develop the final policies, procedures and flowcharts that will be taken through the approval structures.

Information Technology (IT)

The Information Technology Department seeks to provide responsive and cost-effective technology platforms that provide modern information technology management and communications solutions to SACU institutions and stakeholders.

The Secretariat's robust and scalable network infrastructure and server virtualisation technologies ensure a high availability of services and provide diverse application and database support. This has enabled the deployment of versatile Financial, Payroll, Procurement, Asset Management, Document Management, Internet, Email, Disaster Recovery and Network Security solutions.

The investment in up-to-date laptops, desktop applications, broadband technologies and support solutions enable our employees to deliver a quality service to stakeholders from virtually anywhere in the world.

As part of continuing effort to provide convenient access to information, the Secretariat is engaged in the development of an Online Harmonized Customs and Excise Tariff Database to provide stakeholders with timely access to duty rates applicable across the Customs Union and to serve as a research and planning tool.

The planned deployments of a Records Management System, IP Desktop Video Conferencing, Enterprise Resource Planning System, Upgraded Voice Communications System, Human Resources System and Trade Statistics Database will serve to further strengthen the Secretariat's capacity to deliver on its mandate.

Records and Information Management

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

The goals of the Secretariat's records and information management programme are based on the Generally Accepted Recordkeeping Principles (GARP)*, and are to achieve:

- A clear system of accountability and responsibility for record keeping and use;
- Reasonable authenticity and reliability of records;
- Appropriate confidentiality and security of records;
- Recordkeeping compliance with applicable laws, any binding authority and internal policies, as well as credibility and authoritative evidence of records in cases of disputes;
- Efficient, accurate and appropriate retrieval of information;
- Retention of records and information for an appropriate period, based on legal, regulatory, operational and historical value; and
- Secure and appropriate disposal of records no longer required; and
- Appropriate documentation and transparent communication of the program's processes and activities.

During 2009/10 the sub-directorate focused on introducing systems in the Secretariat, as a stepping stone towards creating a conducive environment for the organisation to play its repository role effectively.

* Developed by the Association of Records Management and Administrators (ARMA International) GARP comprises of the principles of Accountability, Integrity, Protection, Compliance, Availability, Retention, Disposition and Trenasparency.

The following provides a sense of the progress made during the period.

- A file plan was designed and implemented to introduce a standardised recordkeeping method, define responsibility over records and improve access to information.
- In order to increase the level of awareness on records management and clarify staff responsibilities over records, a training programme was designed and delivered to all the secretaries. This followed an extensive assessment on the level of understanding of records management among the group.
- A vital records identification process was initiated. The activity resulted into the centralised storage and special care for crucial records such as trade agreements, personal and historical records; as well as improved storage of service contracts and tenders.
- A Records Management Policy for the Secretariat was compiled to guide recordkeeping in the organisation.
- A Records Centre facility and service was established to provide storage of and access to non-current records.

Among the challenges facing the sub-directorate moving forward are:

- Locating and availing the historical records of SACU's rich 100 years existence;
- Implementation of a reliable electronic records management system to improve access, security, and uniformity;
- Standardisation of recordkeeping practices of various SACU institutions and achieving optimal professional and responsive administrative services to all the institutions;
- Benchmarking against international best practices, including adoption of some of international standards; and
- Allocation of adequate human, financial and infrastructural resources, to ensure excellent delivery of the service.

The sub-directorate will continue with its efforts to improve the efficiency and effectiveness of the records management function and service delivery to stakeholders.

Procurement & Facilities Management

The main aim of this unit is to support business operations with the procurement of goods and services. Furthermore, its role is to maintain and manage all assets of the Secretariat.

SACU operates transparently and is committed to Good Corporate Governance. A key achievement for the unit was the review and benchmarking of relevant policies and procedures with an objective to align it with good corporate governance principles and international best practice. In this regard, the procurement policy is currently under review.

The key focus going forward is to ensure the consolidation and then recommending the benchmarking exercise with regards to the procurement policies and procedures. Moreover, the aim is to have a well-defined process for Facilities Management, which would guide the organisation.

The Secretariat envisages changes to the future structures of Procurement and Facilities Management to achieve better focus and control. This would further achieve the segregation of duties, which promotes better management and reduces risk of fraud.

Some of the other challenges will be addressed in the coming year are:

- Fully automated procurement processes aligned with our SAP system; and
- The creation of a more advanced electronic supply database to manage our suppliers.

SOUTHERN AFRICAN CUSTOMS UNION SACU 100 YEARS 1910 - 2010

Annexures

Annex 1: The impact of the global economic crises on SACU economies

Annex 2: Member States economic indicators and trade statistics

Annex 3: SACU turns 100 years

Annex 4: Centenary celebration statements by Heads of State

The impact of the global economic crisis on SACU economies

Overview

The economic performance of the SACU Member States was heavily affected by the global economic crisis, during the year under review. Global economic growth slowed down, weakening demand for commodities. The economic crisis had dire consequences on global trade, employment, investment and growth. According to the July 2010 World Economic Outlook report, global output contracted by 0.6 percent in 2009 and growth in sub-Saharan Africa contracted by 1.5 percent.

The SACU region was also heavily affected by the crisis, as it is reliant on export-oriented industries in the mining and manufacturing sectors. As a result, these industries experienced job losses, lower than expected export earnings and a considerable contraction in output. Worst affected were the customs and excise duty collections into the Common Revenue Pool (CRP) which resulted in a significant drop in Member States revenue shares for 2010/11. It is however, expected that the CRP will revert to pre-crisis levels in 2012/13 as the region recovers from the crisis.

Real Sector Developments

Like other countries in Sub-Saharan Africa, Botswana was hit hard by the economic crisis. In real terms, GDP contracted by 3.7 percent in 2009 as a result of a drastic decline of 20.9 percent registered in the mining sector. The mining sector is the anchor of the economy and contributes about 40 percent of GDP and has dominated the national economy since the early 1980s. Diamond has been the leading component of the mineral sector and its production was of gem quality, which resulted in the country's position as the world's leading producer of diamond by value. Other minerals like copper, gold, nickel, and soda ash production also contribute to the mining sector though at a smaller scale.

Given the diamond vulnerability to prices and export demand, the mining sector was gravely affected by the economic crisis. According to the 2010 National Budget, employment in the mining sector dropped by 9.3 percent as at March 2009 from 11 673 to 10 592 employees. The growth in the non-mining sector remained modest, cushioned by prudent macroeconomic management and accelerated government spending. The non-mining sector grew by a healthy 6.2 percent in 2009.

The mining sector showed signs of recovery from the second quarter of 2009, which was reflective of global developments although the mining output is expected to recuperate to normal levels in the medium term. It is expected that real GDP growth would rebound to 5 percent in 2010/11.

Monetary Sector Developments

The financial sector in Botswana, like in other SACU Member States, showed remarkable resilience to the economic crisis with no cases of bank failures. The Bank of Botswana continued to practice prudent financial regulation and supervisory role despite the threatening financial environment which unfolded during the financial crisis. However, credit extension to the private sector dropped to 10 percent of GDP as a result of slowdown in lending to the business and household sectors.

Preliminary estimates showed that broad money measured by M3, dropped by 1.8 percent in 2009 compared to the growth of 21.1 percent registered in 2008 due to a plunge in net foreign and net domestic assets.

Interest Rate and Inflation

The Bank of Botswana operates within a minimum term inflation range of 3 to 6 percent. As an attempt to stimulate the consumption demand, the Bank Rate was reduced by a cumulative 500 basis points between December 2008 and December 2009. Since then, the Bank Rate has been maintained at 10 percent. Inflation dropped from 13.7 percent in December 2008 to 6.0 percent in July 2009 and ultimately reached 5.8 percent in December 2009 falling within the objective inflation range. The introduction of 30 percent alcohol levy in November 2008 to some extent contributed to the inflationary pressures during 2008 but was counteracted by the low fuel and food prices in 2009. However, the increase in VAT and other adjustments to the administered prices, led to inflation reaching 7.8 percent in May 2010. Inflation has since been on a downward trend and reached 6.7 percent in August 2010.

Government Budget Operations

The 2008/09 budget outturn showed a deficit of P4.7 billion compared to P7.1 billion deficit announced in 2009 Budget Speech. Total revenue and grants amounted to P30.5 billion with mineral revenue totaling P10.2 billion, SACU revenue amounting to P7.9 billion whilst VAT amounted to P4.4 billion. Total expenditure and net lending amounted to P35.2 billion representing an under-expenditure of 4.5 percent compared to the initial projection of P36.8 billion announced in 2009 Budget Speech. Recurrent and capital expenditure totaled P23.9 billion and P11.5 billion respectively.

The preliminary actual figures show a revised budget deficit of P9.321 billion in 2009/10 compared to the revised budget estimates, which projected a deficit of P13.4 billion. This is reflective of the impact of the economic crisis which resulted in remarkable fiscal stimulus package to rekindle the economy. Measures were undertaken to cut costs and finance the deficit including a budget support loan of US$1.5

billion from the African Development Bank, the issuance of domestic bonds and embarking on reforms in budgeting and financial management. Despite improvements in the domestic economy, Government will still allow a substantial budget deficit of P12.118 billion, about 12.2 percent of GDP for 2010/11. The budget deficit will be reduced during 2011/12, and is expected to reach budget balance in the financial year 2012/13.

External Developments

The preliminary estimates showed that exports of goods and services f.o.b. dropped by 26.1 percent in 2009 exacerbated by a plunge in diamond exports whilst imports also dropped by 5.4 percent. The official reserves fell by 15.6 percent at the end of December 2009, representing an equivalent of 19 months import cover compared to 22 months import cover realized in 2008. This behaviour reflects the impact of the global economic crisis on the reserves as a result of lower than expected diamond exports.

The preliminary balance of payments recorded a deficit of 13 percent of GDP compared to a surplus of 11 percent realised in 2008. This affirmed a drastic drop in diamond exports. The current account registered a deficit of 2.1 percent compared to a surplus of 3.5 percent recorded in 2008. However, the current account balance would certainly improve gradually as recovery in the diamond market boosts export receipts.

Economic Outlook

The global economic recovery gained momentum towards the end of 2009 though at differing pace across the global economic blocs. The unprecedented stimulus packages provided by Government accelerated the recovery and real GDP growth is estimated at approximately 6 percent over the medium term, as diamond production gradually recovers towards pre-crisis levels and investment in the power sector boosts growth in the non-mining sector.

Overall, the medium-term outlook is favourable with the ensuing structural reforms and fiscal consolidation. The accelerated implementation of the Government development programmes, including major infrastructure investments like power generation and roads construction would remarkably contribute to economic growth.

Lesotho is the only Least Developed Country in SACU and continues to be vulnerable to external shocks. The impact of the economic crisis was no exception to the economy which is pillared on manufacturing and diamond mining sectors, which are export-led and therefore remain highly vulnerable to exogenous factors.

Real Sector Developments

The economic crisis reversed the gains of prolonged years of macroeconomic stability. In 2009, the economic performance deteriorated due to reduced demand in textiles and diamonds exports to an extent that two mines, Kao and Liqhobong, were shut down and three major textiles firms closed down. A significant decline in workers' remittances from South Africa was also experienced during 2009. The preliminary growth estimate thus showed a decline in real terms of 2.9 percent from 5.1 percent registered in 2008 mainly due to the weak performance in primary sector (-2.2%), particularly diamonds and agricultural activities.

The mining sector has emerged as one of the pillars for the economic growth and contributes on average about 6 percent to GDP. However, the economic crisis negatively affected the mining output as a result of dampened demand for diamonds and low prices. The mining and quarrying sector registered a slow growth of 1.7 percent in 2009, relative to a growth of 8.7 percent recorded in 2008. Agriculture on the other hand continued to show a waning performance regardless of Government interventions to revive the sector. Government's effort to support the farmers through subsidized agricultural inputs and mechanical equipment as well as introduction of block farming programme has not borne much fruits. The sector recorded a decline of 3.9 percent in 2009 from a growth of 27.4 percent recorded in 2008 due to a significant decline in livestock and agricultural services of 5.3 percent and 26.3 percent respectively. The manufacturing sector, which is also regarded as a mainstay to the economic growth, was highly affected by the low consumer demand in the United States and competition from Asian countries. As a result of the economic crisis, textiles and clothing exports dropped to record low, sales turnover also declined with a consequent loss of employment in the textile industry. The textile sector registered a further decline of 4.9 percent in 2009 from 1.6 percent recorded in 2008.

Monetary Sector Developments

The financial sector also showed some resilience to the economic crisis and the Central Bank of Lesotho plans to amend the Financial Institutions Act in order to strengthen the Bank supervisory and regulatory role over non-bank financial institutions, deepen securities market and facilitate access to financial services across the country.

In December 2009, the broad measure of money supply, M2, grew by 31.4 percent compared to 19.7 percent realized in December 2008. The growth was attributable to an increase in net foreign assets and domestic credit, particularly net claims from Government.

Inflation and Interest Rates

Lesotho is the member of the Common Monetary Area in which a South African Rand is a legal tender. As such, Lesotho follows the South African monetary policy regime though the Central Bank of Lesotho sets its own monetary policy targets and pursues similar instruments in counteracting inflationary pressures.

Following the trend in the region, annual inflation dropped from 10 percent realised in 2008 to 7.3 percent in 2009. The decline was attributed to low food and fuel prices since the second quarter of 2008. Inflation rate declined further in the first and second quarter of 2010 registering 4.2 and 3.8 percent respectively. It is expected that inflation will return to within the South African inflation target on a sustained basis until the final quarter of 2011 due to subdued inflationary pressures from the leading economies. The interest rate followed a downward trend with prime lending rate falling from an average 10 percent in December 2009 compared to 15 percent recorded in December 2008, representing an annual drop of 500 basis points. A further downward trend in interest rates was observed in the first half of 2010, and is expected to continue throughout 2010 as inflation continues to drop during 2010.

Government Budget Operations

The macroeconomic management remains prudent though its fiscal stance deteriorated in 2009. The fiscal balance shifted from five consecutive years of surpluses into a deficit in 2009/10. According to the 2010 Budget Speech, the 2008/09 budget outturn showed a total revenue including grant of R8.9 billion whilst total expenditure was R7.8 billion depicting a surplus of R1.1 billion equivalent to 8.2 percent of GDP. However, the projected outturn for 2009/10 showed a fiscal deficit of 4.7 percent of GDP. The actual outturn for 2009/10 recorded a deficit of M378.4 million reflecting a deficit of 2.6 percent of GDP.

SACU revenue contributes almost 60 percent to the total revenue which increased remarkably from R1.4 billion in 2004/05 to R4.9 billion in 2009/10. However, due to economic crisis which resulted in a drop of customs and excise duties collected in the SACU Common Revenue Pool, Lesotho's share dropped to R2.2 billion in 2010/11. In the 2010 Budget Speech, Lesotho Government made an undertaking to shift from dependence on SACU revenue and anchor its long-term expenditure planning on the long term growth of domestic revenue. The Government intends to use SACU revenue to finance investment projects.

The 2010/11 budget projects a fiscal deficit of 14.0 percent of GDP mainly due to the decline in revenue, particularly SACU revenue and increased Government spending to cushion the effects of the economic crisis. The expansionary fiscal stance showed Government intent to revitalise economic growth by increasing infrastructural investment and other recurrent expenditure geared towards supporting economic recovery. However, the Government would strive towards a fiscal deficit of 3 percent of GDP in the long term. In order to pursue its objective of Fiscal Prudence, Lesotho signed an Extended Credit Facility (ECF) with the International Monetary Fund (IMF), in June 2010.

External Sector Developments

The external sector position deteriorated in 2009 with an overall balance deficit of R72 million as a result of a decline in current account balance. Current account registered a deficit of 14.2 percent of GDP in December 2009. As a result of the economic crisis and the appreciation of the Rand which is at par with the Loti, merchandise exports and current transfers plunged drastically; which worsened the trade balance and the current account deficit.

In December 2009, gross reserves grew by 4.5 percent to R8.3 billion compared to R7.9 billion registered in December 2008, resulting in an increase in Net International Reserves. As such, official reserves rose to 6.8 months of import cover from 6.5 months of cover recorded in December 2008

Economic Outlook

It is projected that the fiscal stance will revert to surpluses from 2013/14. However, the inflationary fiscal policy adopted by Government to stimulate the economy would result in an increase in infrastructural investment. Some structural reforms have been proposed, including widening the scope of the Lesotho Revenue Authority to also collect non-tax revenue in the long term. The reduced revenue from SACU is expected to negatively affect the impact of fiscal policy on growth. The dwindling SACU revenues in the medium term and the call to shift from SACU revenue dependence, enhancing domestic revenue collection whilst putting measures to control expenditure would consolidate fiscal policy.

Economic growth in Lesotho is expected to accelerate mainly driven by the construction sector as the country implements the US funded MCC projects, which includes construction of clinics and water convergence systems, Metolong dam. In the medium term, the implementation of phase II of the Lesotho Highlands Water Project which is estimated to cost between R6 billion to R7 billion, would again contribute towards infrastructural development programme that would boost the economic growth and the wellbeing of the Basotho nation.

The opening of a new mine, Mothae, towards the end of 2010, coupled with improved performance of other manufacturing and Telecommunication services will also boost economic growth in the medium term.

The IMF approval of US$ 61.4 million for a three-year arrangement to Lesotho under the Extended Credit Facility would further support the medium term adjustment program and reduce balance of payment risks. This is one of the programs adopted by the IMF to assist economies adversely affected by the economic crisis. The three year programme for 2010-2013 would assist in restoring fiscal and external sustainability to the pre-crisis levels.

Like other countries in the region, the Namibian economy was adversely affected by the contagion from the global economic crisis, reversing the recent economic gains and suppressing commodity price boom especially in the primary sector. However, the countercyclical fiscal strategy adopted by the Government has cushioned the impact of the global economic crisis on the domestic economy and the medium term outlook is favourable.

Real Sector Developments

In 2009, the economy registered a negative growth of 0.8 percent, down from 4.3 percent growth realized in 2008. The primary sector appeared to be the most vulnerable sector, with a 45.0 percent decline in mining. Diamond production halved in 2009, whilst the copper mine suspended operations in 2008 as a result of lower than expected prices. Fishing and the fish processing industry recorded a negative growth of 14 percent as a result of unfavourable climate change, subdued product prices and high oil prices. Tight resource management measures, which maintained Total Allowable Catches of the main commercial species at moderately low levels, also resulted in low production output. Thus, the primary sector contribution to GDP slowed to 18.9 percent in 2009 from the 24.5 percent recorded in 2008.

The secondary sector registered a slow growth of 2.7 percent, mainly attributable to a 12.6 percent improvement in onshore fish processing in 2009 as compared to a contraction of 3.6 percent recorded during 2008. The tertiary sector also exhibited a slow growth of 4.4 percent in 2009 compared to 5.8 percent realised in 2008. The tertiary sector remains the anchor to the Namibian economy (accounting for 54.4% of GDP in 2009). Key tertiary sub-sectors include wholesale/retail trade, transport and communications, financial intermediation and public services.

Monetary and Financial Developments

The financial sector showed resilience, as demonstrated by profitability and solvency of the banking and non-bank financial institutions, despite the effects of the economic crisis. The insurance and pension funds were sufficiently capitalised. However, the banking industry applied some cautionary measures and tightened private and domestic credit amid weakened economic activity. Banks tightened credit extension to the household and business sector whilst mortgage loans also dwindled. The Namibian Stock Exchange also came under pressure and the annual growth of the overall index slowed. Various financial reforms were initiated in 2009 including legislative and administrative reforms, aimed at strengthening the supervision of financial institutions.

Inflation and Interest Rates

Namibia is also a member of CMA and the Namibian Dollar is pegged on par with the South African Rand. As such, the monetary policy regime follows that of South Africa. The Monetary Policy Committee of the Bank of Namibia meets regularly to consider global, regional and domestic developments that may exert inflationary pressures. Inflation peaked at 10.3 percent in 2008 and slowed to an annual average of 8.8 percent as high international food and oil prices moderated to relatively low levels during 2009. Between the end of 2008 and June 2009, the Bank of Namibia has cut the repo rate by 350 basis points to 7 percent. In line with global monetary conditions, which remained accommodative, the Bank of Namibia has kept the repo rate unchanged at 7 percent from June 2009.

Government Budget Operations

The sound macroeconomic management practiced by Government and the countercyclical spending policy, helped to cushion the economy from the adverse effects of the economic crisis. Along with this short-term expansionary policy, the Government has maintained key fiscal targets which seek to maintain: average debt/GDP ratio within 30 percent target; fiscal balance/GDP ratio at 5 percent in the medium term; expenditure/GDP ratio below 30 percent and contingent liability/GDP below the target level of 10 percent.

Namibia has been enjoying consecutive fiscal surpluses until a budget deficit of 1 percent of GDP was realized

in 2009/10. Total revenue including grants amounted to N$24.1 billion in 2009/10, equivalent to 29.8 percent of GDP whilst total expenditure outturn amounted to N$24.9 billion, equivalent to 30.8 percent to GDP. Despite the prevailing economic crisis, debt to GDP ratio amounted to 14.8 percent in 2009/10, which was below the 30 percent target band. Domestic debt constituted 11.0 percent while foreign debt stood at 3.8 percent.

External Sector Developments

Due to the downturn in global demand, growth in Namibia's external sector deteriorated during 2009, recording an overall balance of payments surplus of N$1.1 billion compared to a surplus of N$6.3 billion registered in the previous year. The deterioration in the balance of payments was mainly reflected in the current account due to merchandise trade deficit, while current transfers remained firm mainly due to receipts from SACU. Export earnings for Namibia's key exports declined substantially during 2009 due to a drop in global demand for these products. Alongside this development, the capital and financial account recorded continued outflows, driven mainly by outflows from portfolio investments and other short term investments.

Namibia's international reserves increased to N$13.8 billion at the end of 2009, mainly due to the allocation of SDRs, SACU receipts and foreign investment. In 2009, the official reserves were equivalent to 3.9 months of imports, lower than 4.1 months recorded in 2008. The lower import cover for 2009 was due to reserves having grown more slowly than imports in relation to the same development in the previous year.

Economic Outlook

In line with the global and regional trend in economic recovery, the medium term economic prospects are favourable and a rebound to a growth territory looks likely. The economy is expected to grow by 3.8 to 4.8 percent during the current Medium Term Expenditure Framework (2010/11 – 2012/13). This is mainly due to the resurgence of the export-led industries such as mining. Private and government investment are also expected to contribute towards revitalizing economic growth in the medium term. Planned government spending is forecast to result in a widening of the budget deficit, estimated at 7.1 per cent of GDP in 2010/11 and 8.2 per cent in 2011/12 .

Despite the economic growth prospects in the medium term, there are some key socio-economic challenges facing the country. For example, reforms in education have been identified as key to improving skills development and reducing the unemployment rate, currently recorded at 51.2 percent by the broad definition, remains a priority of the highest order.

Another challenge facing the government is dwindling SACU revenue. This is one of the main downstream risks on revenue in the medium-term. However, the Government is embarking on some reforms aimed at optimising and diversifying the revenue base.

The South African economy fell into recession for the first time since 1992, when the economy contracted by 1.8 percent in 2009. Weak internal as well as external demand resulted in a collapse of manufacturing output, significantly lower exports and sharply lower levels of commercial and industrial inventories. Consequently, many jobs in the key sectors of the economy were lost and private sector investment contracted. However, prudent macroeconomic policies supportive of an economic recovery, aimed at the creation of a favourable environment for investment, job creation and growth through stable prices, a competitive real exchange rate and financial stability will contribute to an expected pick up of growth during the 2009/10 period.

Real Sector Developments

Notwithstanding the positive growth of 3.2 percent recorded in the last quarter of 2009, the South African economy contracted by 1.8 percent in 2009 from a positive growth of 3.7 realised in 2008. Mining and manufacturing sectors were adversely affected due to the weakened global demand and low commodities prices triggered by the global economic downturn. As a result, output in the mining and manufacturing sectors dropped by 7.2 percent and 10.7 percent respectively, whilst agricultural output declined by 3.2 percent in 2009. The agricultural output declined during all four quarters of 2009 as a result of dampened consumer demand, in which prices of agricultural products fell substantially from the highs seen in 2008.

In 2009, construction continued to show positive growth registering growth of 7.8 percent in 2009, boosted by the construction of stadiums geared towards the 2010 FIFA World Cup and substantial related infrastructural development by the state.

Overall, the tertiary sector continued to expand in 2009, but at a subdued level. Value added in finance, real estate and business services; and transport, storage and communication sectors expanded by a mere 1.3 percent and 0.5 percent respectively, significantly lower than the growth seen in previous years. Furthermore, wholesale, retail, motor trade and accommodation contracted by 2.9 percent in 2009 compared to a positive growth of 1.1 percent in 2008, while general government services maintained a growth rate of 4.2 percent in 2009.

Monetary and Financial Sector Developments

The South African financial system is highly sophisticated, stable and well regulated. Whilst financial institutions of the advanced economies were bailed out during the financial crisis, the banking sector in South Africa remained largely unaffected. In line with the financial reforms agreed in various G-20 forums, several initiatives have been announced in the 2010 Budget Speech to enhance the regulatory system. In addition, the 2009 MTBPS announced exchange control reforms as a strategy to manage external risks while lowering the cost of doing business.

Inflation and Interest Rates Developments

The South African Reserve Bank (SARB) has a mandate to achieve and maintain price stability to contribute to an environment conducive for sustainable growth and as such, formulate and review the monetary policy accordingly. Other members of the Common Monetary Area (CMA) move in tandem with the South African monetary policy decisions in order to maintain price and currency stability in the CMA.

The average annual inflation rate peaked to 13.7 percent in the latter half of 2008, well in excess of the target band of 3 to 6 percent. This unfolded in regular meetings of the Monetary Policy Committee held in 2009 to assess any developments that may influence the monetary policy stance. However, a strengthening rand, dampened consumer demand and low fuel prices helped to reduce inflation to inside the target range, before briefly moving out again due to technical reasons in December 2009. Despite sharp increases in administered prices (mainly electricity) and high wage settlements the declining inflationary pressures allowed the SARB adequate policy space to cut the repo rate by 500 basis points to 7 percent between August 2008 to December 2009 and further to 6.0 percent in September 2010.

Government Budget Operations

Prudent macroeconomic management provided adequate policy space to support the economy during the recession. In 2008/09, the budget balance registered a deficit of 1.0 percent of GDP. Revenue for 2008/09 totaled R689 billion representing 29.7 percent of GDP, against total expenditure of R713.8 billion or 30.8 percent of GDP.

The counter cyclical fiscal stance, possible due to the low-debt starting point continued in 2009/10, resulted in a fiscal deficit of 7.3 percent of GDP as tax revenues declined while borrowing expanded. This resulted in maintained spending on economic and social services intended to stimulate economic growth and limit the human costs associated with the recession. The fiscal stimulus would continue in 2010/11 with an estimated fiscal deficit of 6.2 percent of GDP. Spending priorities are focused on job-creation, enhancement of the quality of basic services, education, rural development, infrastructure development and tackling crime and corruption as announced in the 2010 Budget Speech.

The financing of the deficit would be sourced domestically as well as from the international markets. As such public debt is expected to rise from 22.7 percent of GDP to an estimated 39.8 percent in 2012/13 of which foreign debt would account for about 4.6 per cent of GDP.

External Sector Development

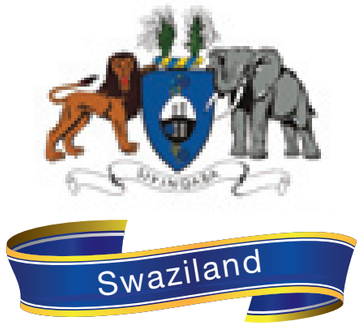
South Africa is an open economy with strong domestic demand outweighing export growth. This has resulted in current account deficit hovering around 6.3 percent of GDP in the period 2006 to 2008. However, for 2009 as a whole, the current account deficit was -4.0 percent, from -7.1 percent in 2008. The improvement in the current account deficit over the course of 2009 was mainly due to a number of monthly surpluses recorded on the trade balance and declining deficits on the services and income balances. Increased export values (export volumes contracted 19.5 percent from 2008. Interestingly, although the trade-weighted rand appreciated 22.8 percent during 2009 and the US dollar price of commodities decreased by 12 percent, the rand price of merchandise exports increased by 0.9 percent during 2009), lower imports (for the year, import volumes contracted 17.4 percent) and declining dividend payments were mainly responsible for the lower current account deficit. Cumulatively, the trade balance for 2009 recorded a surplus (the first annual surplus since 2003) of R2.2 billion compared to a deficit of R35.6 billion in 2008. The deficit on the income, services and current transfer account declined from 5.6 percent of GDP in 2008 to 4.1 percent in 2009.

The financial account of the balance of payment recorded capital inflows during 2009 valued at R113.6 billion. The total surplus of the financial account, including unrecorded transactions, declined from 8.2 percent of GDP in 2008 to 4.7 percent in 2009. The economic recovery prospects gave rise to speculative capital inflows particularly during the latter part of 2009 with the high net inflows of direct and portfolio investment during 2009 reflecting the low levels of risk aversion toward South Africa. The JP Morgan Emerging Market Bond Index for South Africa, a measure of risk, declined from 528 points at the end of 2008 to an average of 198 points in the last quarter of 2009. As a result, the current account deficit was financed by net inflow of capital which increased net international reserves by R17 billion bringing import cover up to more than 5 months.

Economic Outlook

South Africa, like other global economies, is gradually recovering from the economic recession. The continuation of stabilising fiscal policy together with a shift towards longer term considerations namely job creation and a stronger growth trajectory is supportive of sustained economic expansion. As such the economy is expected to recover (although moderately at first) with growth rates estimated at between 2.3 and 3.6 percent over the medium term. Significant infrastructure investment and the successful hosting of the 2010 FIFA World Cup already contributed to this. The mining and manufacturing sectors are expected to rebound to pre-crisis levels, boosted by the revived aggregate demand, private and public investment and general increase in consumer and business confidence.

In addition, the need for job creation, poverty reduction and faster economic growth, resulted in the announcement of a new economic growth path in realisation of these challenges in the 2010 Budget Speech. In particular, key aspects of growth include support to labour-intensive industries, sustainable public and private investment, skills development, increase in productivity and competiveness and a stable inflation environment.



In Swaziland the impact of the economic crisis was remarkable across all sectors of the economy, particularly on manufacturing which accounts for almost 32 percent of GDP in 2009. The economy is expected to grow by an average of 3 percent in the medium term, which is below the 5 percent growth target set by Government in order to half poverty in 2015.

Real Sector Developments

The economic crisis resulted in a sluggish economic growth of 1.2 percent in 2009 from 2.4 percent realised in 2008. The manufacturing sector which is the mainstay of the economy and consists of export-led industries, contracted by 3.1 percent in 2009 from a positive growth of 1.6 percent experienced in 2008. Worst hit was the wood and wood pulp industry which gave effect to the winding down of operations and a resultant sizable number of job losses. The textile and clothing sub-sector was also negatively affected with the shedding of jobs estimated at 3 000 in 2009.

There are strong links between the agricultural and manufacturing sector and the agricultural sector contributes on average 10 percent to GDP. The commercialised crops are mainly the sugar cane, citrus, timber and pineapple and contribute about three quarter of the total agricultural output. However, since these industries are export-led, they are highly vulnerable to external factors including export demand and appreciation of Lilangeni.

The tertiary sector is as equally important to the economy, contributing on average 38 percent of GDP through public administration, finance and business service, transport, communication and hotels and catering. Tourism is regarded as a prospective sub-sector to boost the economic growth.

Monetary and Financial Sector Developments

The banking sector was resilient to the economic crisis with adequate capitalization of banks and prudent regulatory and supervisory role practiced by the Central Bank of Swaziland (CBS). The private sector credit dropped by 5.6 percent in 2009 whilst government net balances with the depository corporation also declined by approximately 6.3 percent. The slowdown in economic activity resulted in dwindling profits from the banking sector as household and private sector loans and advances dropped.

The official reserves were maintained within the international benchmark and registered 4.2 imports cover in June 2009. However, the decline in SACU revenue and intended draw-down of the reserves to finance the deficit threatened the reserve outlook in the medium term.

Inflation and Interest Rates Developments

Swaziland is the member of the CMA and like Lesotho, imports more than 90 percent of its goods and services from South Africa. The CBS broadly pursues similar monetary policy adopted by the South African Reserve Bank. In 2009, average annual inflation dropped to single digits at 7.6 percent from 12.6 percent realised in 2008 due to global easing of oil and food prices. The CBS followed similar discourse on interest rate developments in South Africa though CBS maintains an interest rate differential of about 50 basis points to prevent speculative capital outflows. By the end of 2009, the repo rate dropped to 6.5 percent whilst the prime lending rate was recorded at 10 percent.

Government Budget Operations

For several years, fiscal surpluses have been realised. However, the actual outturn for 20008/09 showed fiscal deficit of 1.5 percent of GDP. Total revenue including grants amounted to R9.4 billion of which R6 billion constituted SACU receipts whilst expenditure totaled R9.8 billion, with recurrent expenditure totaling R7.3 billion. SACU revenue contributes on average, 67 percent of total revenue, posing questions of revenue sustainability.

The estimated outturn for 2009/10 indicates another budget deficit of 5 percent of GDP compared to a deficit of 8 percent announced in 2009 Budget Speech. The improvement in fiscal position is attributable to savings in capital expenditure.

However, the impact of the economic crisis worsened the fiscal position in 2010/11 with the fiscal deficit estimated at 13 percent of GDP. The SACU receipts dropped by 62 percent to R1.97 billion in 2010/11 from R5.2 billion realized in 2009/10. The drastic drop in SACU revenue was as a result of weakened import demand, which led to less than expected collections of customs and excise duties into the Common Revenue Pool.

The Government is currently embarking on some institutional reforms to enhance domestic revenue collection. The establishment of a Revenue Authority during 2010/11, the introduction of VAT in the medium term and measures to constrain the wage bill would ease the worsening fiscal position.

External Sector Development

The overall balance of payments recorded a deficit to the tune of E19.1 million in 2009 as a result of deteriorating current account which registered deficits for the past three years consecutively. The trade, services and income accounts were in deficit whilst current transfers showed a positive balance in 2009 explained by SACU receipts. The economic downturn and the appreciation of Lilangeni adversely affected the export earnings mainly sourced from the wood pulp and sugar exports. In contrary, merchandise imports increased to E14 billion in 2009 taking into consideration that about 90 percent of goods are imported from South Africa.

Economic Outlook

Pursuant to the global economic recovery, the economy is expected to recoup in the medium term with real GDP growth estimated at 2.0 percent and 3.3 percent in 2010 and 2011 respectively, though the projected growth rates are still below the Government target of 5 percent. The inflation rate is expected to surpass the target range of 3 to 6 percent in the medium term, with an estimation of 7 percent in 2011 as the inflationary pressure mounts due to increases in fuel.

The financing of the proposed deficit of 13 percent of GDP in 2010/11 would pose a challenge in the medium term since it may necessitate drawing down reserves and accumulation of debt. The fiscal space is very limited given current spending pattern, of which the average wage bill is estimated at 52 percent of the budget.

However, the recognition of the Government to enhance domestic revenue in order to drift from dependence on SACU revenue is an important milestone for fiscal sustainability.

Member States economic indicators and trade atatistics

Table 1: Intra-SACU Trade for the Period 2007/08 Fiscal Year (R Millions)

Table 2: Intra-SACU Imports statistics (R Millions)

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	2007/08 for 2010/11 Shares	Annual growth
Botswana	17 164.74	16 520.23	19 083.36	16 878.56	18 233.29	25 253.21	38.5%
Lesotho	8 072.62	7 927.53	8 358.23	8 483	9 638.15	9 246.24	-4.1%
Namibia	13 943.12	16 586.73	13 542.51	15 336	17 367.65	23 205.27	33.6%
South Africa	7 045.30	13 099.43	10 266.18	13 424	13 597.67	14 770.60	8.6%
Swaziland	12 453.17	10 937.45	15 162.34	10 667	10 195.12	9 220.35	-9.6%

The reconciled intra-SACU trade increased by 18.3 percent in the fiscal year 2007/08 over 2006/07. This was fuelled by demand in countries such as Botswana (38.5 percent intra-import growth), Namibia (33.6 percent intra-import growth) and South Africa (8.6 percent intra-import growth). On the supply side, the highest intra-export growth was recorded in South Africa (20.7 percent intra-export growth), followed by Botswana (14.6 percent intra-export growth) and Swaziland (9.7 percent intra-export growth).

Botswana continued to top the intra-SACU import market share accounting for 30.9 percent in 2007/08. This was followed by Namibia (28.4 percent of the import market share), and South Africa (18.1 percent of the import market share). Lesotho and Swaziland all accounted for 11.3 percent of the intra-SACU import market share respectively in the period under review. On the export side, South Africa continues to dominate the intra-SACU export market accounting for 81.4 percent, followed by Swaziland accounting for 8.0 percent

and Namibia accounting for 6.0 percent of the market respectively. Botswana registered export market share of 3.5 percent, while Lesotho registered export market share of 1.2 percent for the period under review.

Intra-import trade among the BLNS was limited during the period under review, share of Botswana imports from Namibia accounted for 0.81 percent, followed by the share of Lesotho imports from Swaziland accounting for 0.42 percent.

All Members States, with the exception of South Africa, recorded intra-SACU trade deficit for the year 2007/08. South Africa recorded intra-SACU trade surplus of R51.7 billion for the year under review, while the rest of the Member States recorded the following intra-SACU trade deficits: Namibia (R18.3 billion), Swaziland (R2.7 billion), Lesotho (R8.3 billion) and Botswana (R22.4 billion).

Table 3: Trends in member states revenue shares (R Billions)

Revenue Shares (in Rbn)	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Annual growth %
Botswana	4 007.55	5 549.24	8 329.58	9 472.80	9 166.67	7 114.82	-22.4%
Lesotho	1 983.98	2 784.02	3 822.29	4 901.10	4 918.21	2 907.67	-40.9%
Namibia	3 228.19	5 393.87	6 014.53	8 502.20	8 585.46	6 447.14	-24.9%
South Africa	13 027.10	16 477.91	20 795.90	24 264.40	24 124.59	22 650.58	-6.1%
Swaziland	2 794.96	3 653.63	4 591.06	6 009.00	5 188.95	2 955.91	-43.0%
Forecast of CRP (does not represent actual payments made to Member States)	25 041.78	33 858.67	43 553.35	53 149.50	51 983.89	42 076.12	-19.1%
% SHARE OF CRP							
Botswana	16	16.39	19.13	17.82	17.63	16.91	-4.1%
Lesotho	7.92	8.22	8.78	9.22	9.46	6.91	-27.0%
Namibia	12.89	15.93	13.81	16	16.52	15.32	-7.2%
South Africa	52.02	48.67	47.75	45.65	46.41	53.83	16.0%
Swaziland	11.16	10.79	10.54	11.31	9.98	7.03	-29.6%

SACU turns 100 years

The year 2010 marks 100 years of the Southern African Customs Union's (SACU) existence. This is a remarkable achievement and an extraordinary milestone given the history of the region.

SACU is the oldest customs union in the world. SACU dates back to the 1889 Customs Union Convention between the British Colony of Cape of Good Hope and the Orange Free State Boer Republic. SACU was established on 29 June 1910 when the first Customs Union Agreement between the then Union of South Africa and territories of Basutoland (Lesotho), Swaziland and Bechuanaland (Botswana) Protectorate entered into force. It was merely a revenue collection instrument for the Union of South Africa. South West Africa (Namibia) "was a defacto member, since it was administered as part of South Africa" before it became a dejure member.

The 1910 SACU Agreement which was in effect until 1969, created the following:

- A common external tariff (CET) on all goods imported into the Union from the rest of the world; a common pool of customs duties as per the total volume of external trade; and excise duties based on the total production and consumption of excisable goods.
- Free movement of SACU manufactured products within SACU, without any duties or quantitative restrictions.
- A revenue-sharing formula (RSF) for the distribution of customs and excise revenues collected by the Union.

As early as 1925, South Africa adopted import substitution industrialisation (ISI) policies, backed by the common external tariffs on non-SACU products. These measures guaranteed a regional market for South African manufactures, while relegating the British High Commission Territories (HCTs) to producing primary commodities. Under apartheid, South Africa was the sole administrator of the common SACU revenue pool, setting SACU import duties and setting excise policy.

With the structural issues of management and decision-making processes and the issues arising from the inequitable revenue sharing, the British High Commission Territories (HCTs) constantly called for a revision of the 1910 agreement. Negotiations to change the 1910 Agreement began after the HTCs gained their independence in the early 1960s, resulting in the 1969 Agreement. Even though the establishment of SACU was based on the need by a colonial power for a workable trade and customs sharing arrangement among neighbouring territories, SACU has shown flexibility to adapt to changing circumstances over the years.

The conclusion of the 1969 Agreement between the Republic of South Africa, Republic of Botswana, Kingdom of Lesotho and the Kingdom of Swaziland marked a significant milestone in the history of the common customs area, being the first time Member States entered into an international agreement as sovereigns.

The 1969 SACU Agreement, signed by the sovereign states of Botswana, Lesotho, and Swaziland (BLS) and South Africa on 11 December 1969 provided two major changes:

- The inclusion of excise duties in the revenue pool; and
- A multiplier in the revenue-sharing formula that enhanced BLS revenues annually by 42 percent.

However, similar to the 1910 agreement, South Africa retained the sole decision-making power over customs and excise policies. It also retained open access to the BLS market, while the high common tariff raised barriers for Southern African neighbours' exports to SACU. These trade-diverting effects benefited South African manufacturers.

Because of the "absence of a joint decision-making" process, the BLS requested factoring compensation into the revenue-sharing formula, in order to address the loss of fiscal discretion (from 1969 onwards); the BLS expressed their concern with the following three key issues.

- No joint decision-making processes – Prior to 2002 SACU was administered on a part-time basis by annual meetings of the Customs Union Commission and there were no effective procedures to ensure compliance or resolve disputes.
- Revenue-sharing formula - The issue of most concern in the 1969 Agreement was the Revenue-sharing Formula (RSF), which determined each country's share of the Common Revenue Pool. Following negotiations, the RSF was amended in 1976 to include a stabilisation factor that ensured that the BLS received at least 17 percent, and at most 23 percent, of the value of their imports and excise duties.
- Question of external (outside SACU) trade - The BLS argued that South Africa consistently entered into preferential agreements, which benefited only one of the five members.

However, with the political changes that took place in the region such as the independence of Namibia in 1990 and subsequent accession to the agreement, with South Africa's attainment of democracy in 1994, as well as the developments in the global trade environment (following the establishment of the WTO and the Uruguay Round that led to trade liberalisation) the member states of SACU decided to re-negotiate the 1969 Agreement. All SACU member states agreed to negotiate a more comprehensive agreement, based on democratic principles, common institutions and common policies. It was a process that culminated in the signing of the latest SACU Agreement on 21 October 2002, which became effective on 15 July 2004. The current member states of SACU are: the Republic of Botswana, the Kingdom of Lesotho, the Republic of Namibia, the Republic of South Africa and the Kingdom of Swaziland.

Following the signing of the 2002 Agreement, the Council of Ministers embarked on a recruitment process to appoint the Executive Secretary for the SACU Secretariat. The Executive Secretary assumed office in January 2004. The immediate priority was to ensure the ratification of the 2002 Agreement by member states and the establishment of the SACU Secretariat's office, which acted as a depository for the Instruments of Ratification.

The 2002 SACU Agreement introduced a number of new provisions, which did not exist in the previous arrangement and transformed the Customs Union into a new organisation with a strong emphasis on common institutions and common policies, which are based on principles of effectiveness, transparency and democracy in decision-making. An important difference between the 2002 Agreement and the previous 1969 Agreement is that it provides for joint-responsibility over decisions affecting tariff settings, the Common Revenue Pool and the overall direction of SACU. The 2002 Agreement provides for the establishment of institutions to reflect the joint-decision making responsibility.

The creation of these institutions is part of continued efforts towards a more cohesive regional market. The Agreement further represents a framework for deeper integration amongst its five member states, as well as the possible extension thereof beyond the current borders of the Customs Union.

Some further improvements over the 1969 version include: the democratization of decision-making and the establishment of a dispute resolution mechanism, a commitment to explore ways to devise common and coordinated policies, as well as the fact that all members must negotiate as a single entity.

On 22 April 2010, to mark 100 years of SACU's existence, the Custom Union held its first Heads of State and Government Meeting in Windhoek, Namibia and used this occasion to commemorate the Union's anniversary. At this event member states reflected on the achievements and challenges and deliberated on the future direction of the Union in view of recent regional and global developments. This event was also seen as the start of all other planned activities to profile and mark the 100 years of SACU's existence.

The meeting was chaired by His Excellency President Hifikepunye Pohamba, President of the Republic of Namibia and was attended by His Majesty, King Mswati III of the Kingdom of Swaziland, His Excellency President Lieutenant General Seretse Khama Ian Khama of the Republic of Botswana, His Excellency President Jacob Zuma of the Republic of South Africa and His Excellency the Right Honourable Prime Minister Pakalitha Bethuel Mosisili of the Kingdom of Lesotho. The Heads of State and Government recognized the role that SACU plays as a building block for deeper regional integration in Southern Africa.

The Heads of State agreed that the commemoration marks a great milestone for SACU and signifies the important political, cultural, economic and developmental relationships that exist amongst the five SACU member states. They further jointly adopted a new Vision and Mission for SACU and agreed to meet for further discussions on the challenges facing SACU.

The Vision and Mission statement, as endorsed and signed by the Heads of State and Government, read as follows:

Vision:

An economic community with equitable and sustainable development, dedicated to the welfare of its people for a common future.

Mission:

- To serve as an engine for regional integration and development, industrial and economic diversification, the expansion of intra-regional trade and investment, and global competitiveness.
- To build economic policy coherence, harmonization and convergence to meet the development needs of the region.
- To promote sustainable economic growth and development for employment creation and poverty reduction.
- To serve as a building block of an ever closer community amongst the people of Southern Africa.
- To develop common policies and strategies for areas such as trade facilitation; effective customs controls; and competition.
- To develop effective, transparent and democratic institutions and processes.

The impact of the recent global economic crisis was felt during 2009/2010. However, this event has led to a level of introspection at SACU. The Customs Union has refocused and positioned itself strategically in order to address future challenges successfully. With a newly adopted vision and mission in place, as well as the political determination and commitment to the organisation, SACU will continue to play a significant role in the socio-economic development of Southern Africa. SACU remains optimistic about its role and persists to contribute to the enhancement of trade amongst countries of Southern Africa in years to come.

Annexure four

Centenary celebration statements by Heads of State

His Excellency Hifikepunye Pohamba, President of the Republic of Namibia

His Majesty King Mswati III, Head of State of Swaziland

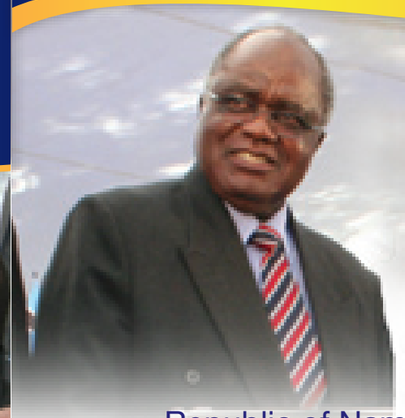
His Excellency Lt. General Seretse Khama Ian Khama,President of the Republic of Botswana

His Excellency, President J. G. Zuma, of South Africa

Right Honourable Pakalitha B. Mosisili, Prime Minister of the Kingdom of Lesotho

Statement delivered by Tswelopele Moremi Executive Secretray of SACU

Introductory Remarks on the SACU Vision and Mission by Saara Kuugongelwa-Amadhila



Republic of Namibia

Address by his excellency Hifikepunye Pohamba, President of the Republic of Namibia, on the occassion of the launch of SACU's Centenary Celebrations on 22 April 2010, Windhoek

Your Majesty, King Mswati III of the Kingdom of Swaziland,
Your Excellency Lieutenant General Seretse Khama Ian Khama, President of the Republic of Botswana,
Your Excellency Mr. Jacob Zuma, President of the Republic of South Africa,
Right Honourable Pakalitha Mosisili, Prime Minister of the Kingdom of Lesotho,
Your Excellencies, Former Heads of State and Government,
Honourable Ministers and Deputy Ministers,
Honourable Members of Parliament,
Your Excellency, Dr. Jean Ping, Chairman of the African Union Commission,
Distinguished Executive Secretary of SACU,
Distinguished Executive Secretary of SADC,
Distinguished Executive Secretary of COMESA,
Your Excellencies Members of the Diplomatic Corps,
Distinguished Invited Guests,
Members of the Media,
Ladies and Gentlemen,

On behalf of the Government and people of Namibia and indeed on my own behalf, I greet and welcome you all to Namibia and to this auspicious event. I also extend a special word of welcome to the former Heads of State and Government, whose visionary leadership has transformed SACU into the instrument of regional economic integration. On behalf of all the Heads of State and Government of SACU Member States, I also extend a word of welcome to the distinguished invited guests from the AU Commission and SADC and other partners and friends of SACU from far afield.

Your Majesty,
Your Excellencies,

Some 100 years ago, SACU was born. This makes it the oldest customs union in the world. Over the years, particularly during the past two decades, SACU has undergone important changes that culminated in the signing of the SACU Agreement of 2002 in Gaborone, Botswana. The Agreement aims to achieve deeper regional economic integration through the harmonisation of policies and closer cooperation in areas of common interest such as industrialisation, trade, agriculture, standards, intellectual property rights and competition. It also provides for joint management of the Union's affairs and the establishment of democratic and transparent institutions.

Earlier today, we held the first ever Heads of State and Government Summit where we re-affirmed our commitment to the strategic vision and future of our Customs Union, as an important instrument for deeper economic integration and for equitable and sustainable industrial and economic development in our region. I believe that the outcome of this historic Summit will accelerate the process of consolidating SACU and make it a reliable vehicle for deeper regional economic integration to attain sustainable economic growth and development for the welfare of the citizens of our region.

Our gathering is taking place against the backdrop of significant progress and encouraging achievements. However, there are also challenges, emanating from both within the Union and from developments that are taking

place in the region and around the globe. These include, the increased international competition faced by our industries in the global trading environment and the recent global financial crisis and economic meltdown. They also include the divisive nature of the negotiations of an Economic Partnership Agreement with the European Union. This exerts pressure on the socio-economic coherence of our Union. It, therefore, remains imperative that we withstand such pressures, collectively.

Your Majesty,
Your Excellencies,

Notwithstanding the aforesaid, I believe that where there are challenges, there are also opportunities. We recognise the substantial work that has already been done, towards the full implementation of the common objectives of the 2002 Agreement. However, more work remains to be done on the establishment of the key institutions that are necessary for the effective operation of the Union, such as the Tribunal, the Tariff Board and the National Bodies.

We recognise the need to place equitable industrial development at the centre of our regional economic integration and development agenda. This is essential for employment creation and the promotion of investment and trade as well as poverty alleviation in the region. The details of this strategy will be communicated by the Chairperson of the SACU Council of Ministers at a later stage, while details on the outcome of our meeting will be provided by way of a Communiqué.

Your Majesty,
Your Excellencies,

The integration within SACU is important for the wider regional integration under the auspices of the Southern Africa Development Community. In this context, the integration strategy for SACU will also have positive contributions to the broader economic integration in the SADC Region. After all, every SACU member state also belongs to SADC.

Throughout our discussions this morning, we recognised the important role that SADC continues to play in the integration of our region. The strategies that we have discussed are complementary to the SADC plan of action in respect of regional integration.

We also recognise the important role that SACU, as a sub-group within SADC, can play in spearheading the integration process within the larger, southern Africa region. In this respect, SACU maintains high levels of synergy with SADC in respect of the integration agenda.

Your Majesty,
Your Excellencies,

We are now gathered here to launch the Centenary Celebrations of our Union and to unveil the plaque marking the site for the future Headquarters of SACU. At this very site, the Heads of State and Government will also sign the SACU Vision and Mission Statements, thereby signalling a renewed drive towards optimising the operations of the Customs Union. I am pleased to say that the Government and people of Namibia saw it fit to offer this piece of land for the construction of the future SACU Headquarters. As you may be aware, Namibia will be hosting the 30th Summit of SADC Heads of State and Government, in August later this year.

Your Majesty,
Your Excellencies,

The strength of SACU has stood the test of time. Therefore, there should be no doubt, that the Union can play an important role in regional and continental integration efforts. This year is indeed eventful for SACU, SADC and for Africa in general. In less than 50 days, the 2010 FIFA Soccer World Cup will kick-off in South Africa, our fellow SACU and SADC Member State.

I, therefore, wish to equally congratulate the Government and people of South Africa, for all the preparations, that they have made to successfully host this prestigious global showpiece. We have no doubt that the event will be a resounding success that will do the whole of Africa proud. I wish Bafana Bafana and other participating African soccer teams a successful outcome.

I would like to reaffirm Namibia's commitment to the objectives of the Union and our belief that our future is closely linked to the future of SACU.

I take this opportunity to congratulate the Union on its Centenary Commemoration.

I thank you.

Kingdom Of Swaziland

Speech by His Majesty King Mswati III, Head of State of Swaziland at the occasion of the launch of the Southern African Customs Union (sacu) Centenary Celebrations at Windhoek, Namibia, 22 April 2010.

King's Office
Your Excellency, President Hifikepunye Pohamba,
Your Excellencies, Heads of State and Government,
Inkhosikati and the First Ladies,
Ministers,
The Executive Secretary of SACU,
Excellencies Members of the Diplomatic Corps,
Distinguished Delegates,
Ladies and Gentlemen.

Introduction

On behalf of the Inkhosikati and my delegation, let me take this opportunity to express our heartfelt gratitude to his Excellency the President, government and the people of the Republic of Namibia for the warm welcome and generous hospitality extended to us since our arrival in this beautiful city of Windhoek.

100 Years Celebrations for Sacu

It is with deep satisfaction and a sense of pride that we are gathered here today, to celebrate 100 years of our existence as the Southern African Customs Union (SACU).
As we celebrate this important milestone, it is imperative to reflect on our successes and the challenges we have faced over time.

We are happy that SACU, being one of the oldest customs unions in the world, has over the decades exhibited greater unity and withstood a number of challenges in pursuit of our common goals for sustainable development.

Applaud the founders Of SACU

Your Excellencies, we applaud the founders of our union for their wisdom and foresight in establishing an organisation that continues to deliver handsomely for the benefit of our peoples. SACU has set itself as a working model for other Customs Unions in our region and beyond.

SACU Dynamism - SACU Treaty

SACU is a dynamic organisation which has been able to transform and position itself to deal with emerging regional and global challenges which often derail our developmental agenda.

The Kingdom of Eswatini appreciates that in spite of all these challenges SACU has over the years successfully contributed to the development of our economies.

Another notable milestone of this dynamism was the conclusion of the 2002 SACU Treaty. Through this treaty the union saw the establishment of a new Secretariat here in Namibia to effectively and efficiently manage the affairs of our organisation.

We have entrusted the Secretariat with very important responsibilities to ensure that the decisions and aspirations of our organization are implemented timeously.

Therefore, it is imperative to collectively put more effort to build the capacity of the Secretariat to enable it to achieve its mandate.

Revenue sharing formula

Our Revenue-Sharing Formula is a pivotal and unique element of SACU, which could be a model of reference to other organisations. All these achievements attest to the existence of strong economic ties between our countries.

Future aspirations for our organisation

As we reflect on the past, it is opportune and ideal for us to also take a closer look at current regional developments.

As The Southern African Development Community (SADC) aims at moving towards a Customs Union, it is prudent for us as SACU to have a common position in this integration agenda.

This approach will consolidate our coherence and ensure that our collective interests are taken on board in the SADC Customs Union.

In view of our historic experience, I sincerely believe that SADC, COMESA and other regional organisations have a lot to learn from SACU.

For example, our collaboration as a union has resulted in our macro-economic convergence which has over the years worked to remove bottlenecks in the way we do business - particularly through the easy flow of capital among Member States.

Tripartite Summit - COMESA, SADC and EAC

It shall be recalled that the first Tripartite Summit of COMESA, SADC and EAC initiated the establishment of a single Free Trade Area (FTA). This Single FTA will cover 26 out of the 54 countries that make up our continent, carrying with it multiple benefits for all our people.

We hope the study commissioned to assess the viability of the tripartite arrangement will confirm our belief that the merger of the three regional economic communities into one grand FTA will among other things enhance the economies of scale and promote the expansion of trade. It will also increase the size of the region as an investment destination and trade area.

As indicated in the proposed road map towards the launch of the FTA, there is need for SACU to adopt a common position before this proposal is tabled for discussion in other fora.

The new SACU vision

The Kingdom of Eswatini is optimistic that the new vision of SACU will enable our organisation to move into the future with great confidence and determination. It is pleasing to note that the new vision of SACU recognizes that SACU has to evolve into deeper economic integration in order to be able to deal with rapidly changing economic challenges.

This will include moving from the current Customs Union arrangement into an economic community and ultimately a single currency union. It will also promote the free movement of factors of production within the Member States.

It is imperative and urgent for SACU to move forward to these levels in view of the fact that we have been a Customs Union for this long.

Commitment from Member States

However, we recognize that there is a great deal of work that still needs to be done in our countries and as a region in order to move the Customs Union to the next levels of economic integration.

There is no doubt that this requires hard work, creative thinking and Commitment by all Member States. This will also help us to safeguard our economic interests and to appropriately position ourselves in the wider regional economic agenda.

Challenge of economic disparities

As we move forward with our integration programme we should not forget that one of the challenges in this integration arrangement is that it involves countries at uneven levels of development.

It is therefore important for us to manage the process with great care and continue working together as a family for the equitable benefit of all Member States.

We therefore need to build on the existing relationship that has guided our organisation through the 100 years of its existence. It is encouraging that the new vision recognizes the importance of integrity and full participation by SACU Member States in all decision making processes of our union. Indeed, this will require full commitment from all of us.

The Kingdom of Eswatini fully supports the move to incorporate the Heads of State and Government Summit into the formal structure of SACU.

This will assist SACU to make strategic decisions for the effectiveness of the union.

The Kingdom of Eswatini remains committed to SACU programmes and activities aimed at our prosperity and we wish SACU many more years as it strives to work for the sustainability of our region.

Congratulate President Pohamba

Mr. President, since I was not here on the 22nd of March, let me in conclusion take this opportunity to personally, congratulate you, Your Excellency and your government on your re-election as the President of this great nation. We applaud the people of Namibia for a peaceful and successful elections process as well as the prosperous 20 years of independence.

I thank you. May God Almighty bless us all!!

Republic of Botswana

Statement by His Excellency Lt. General Geretse Khama Ian Khama,President of the Republic of Botswana at the 2010 SACU Heads of State and Government Meeting on 22nd April 2010, in Windhoek, Namibia

Your Excellency, President Hifikepunye Pohamba, President of the Republic of Namibia, our Host and Chairman of this meeting,
Your Majesty, King Mswati III, of the Kingdom of Swaziland,
Your Excellencies Heads of State and Government of SACU Member Countries,
Honourable Ministers,
Members of the Diplomatic Corps,
Madam Executive Secretary of SACU,
Distinguished Guests,
Ladies and Gentlemen.

It is a privilege for me to address this inaugural meeting of the Southern African Customs Union (SACU) Heads of State and Government. Allow me, Mr. Chairman, to start by thanking the Government and the People of the Republic of Namibia for the warm hospitality extended to me and my delegation. I also commend your Government for the excellent preparations and arrangements which have been put in place to ensure the success of this meeting and the centenary celebrations.

Mr. Chairman, we in Botswana take pride in having been an active member of SACU since its inception in 1910. As we celebrate one hundred years of SACU's existence, it is appropriate that we are meeting at the highest political level to re-affirm our commitment and give new impetus to those areas that need strategic leadership. This meeting is very important and should therefore be instutionalised to regularly provide political and strategic guidance to the organisation. The theme for the centenary celebrations – "A Common Agenda towards Regional Integration in Southern Africa" could not have been more appropriate. This theme underscores the understanding that we stand to benefit more if we operated as a group than as individual countries.

This celebration affords us an opportunity to assess our performance in the past hundred years in order to determine whether or not our set objectives have been adequately accomplished. In this way, we will be able to chart a better future for generations to come.

Mr Chairman, if we are to effectively deliver on our mandate as SACU, we need to increase trade amongst ourselves and with the rest of the world with a view to diversifying and industrialise our economies.

For this reason, I am happy to note that work is being undertaken to develop a SACU wide Industrial Development Policy, which I hope will build synergies and ensure equitable industrialisation and trade amongst ourselves. My view is that this work must be accorded the urgency it deserves as it is long overdue.

As SACU Member States, we face common challenges of poverty, HIV/AIDS and unemployment, among others. In this regard, we need to work together to mitigate the effects of these challenges so that we improve the living standards of our people.

Mr. Chairman, Botswana like other SACU Members has been affected by rising food and oil prices as well as the global financial crisis which together negatively impacted on the performance of our economy. This impact was

experienced through reduced demand and prices for our major export commodity, diamonds resulting in significant drop in government revenues. This situation has forced us to cut our diamond production levels leading to loss of jobs and economic opportunities for our country. This therefore calls for our resolve to work together more than ever before to effectively build resilient economies in our region so that we are able to withstand these kinds of crises and their ramifications in the future.

For this to happen, we should redirect the aspirations of SACU through the development of a new vision and mission. This exercise should entail setting up the institutional mechanisms of SACU such as National Bodies, Tariff Board and the Tribunal. In this respect, I am pleased to inform you that Botswana is at an advanced stage in establishing her National Body. It is my conviction that we also need to seriously explore the feasibility of extending the scope of SACU to include the New Generation Issues such as Investment, Trade in Services and Competition to name but a few. This is in view of the increasing importance of some of these areas to our economies.

In exploring avenues for deeper regional integration, we should be cognisant of the need to consolidate and implement our commitments as per the SACU 2002 Agreement. However, as we implement the ideals of SACU we must take into account our membership to and objectives of SADC as we move forward in our regional integration initiatives. This is because it is only through working together as a team in the wider SADC context that we can ensure smooth regional integration in Southern Africa.

Your Excellencies, Ladies and Gentlemen, the need for the provision of requisite infrastructure for our regional integration cannot be over emphasised. It is in this light that we in Botswana strongly support the establishment of One Stop Border Posts such as the one to be established at Mamuno on the Trans-Kalahari road on the Botswana and Namibian border. Such a development will reduce transport time and costs and facilitate trade within the region and beyond. In this case, we need to modernise our customs administration through initiatives such as e-customs and e-passports for the benefit of our traders.

As we celebrate the centenary of SACU this year, addressing outstanding institutional issues and harmonising our policies should remain a priority for the agenda of the Council of Ministers. This will ensure the consolidation of SACU as a nucleus for deepening regional integration and provide the basis for our integration at the next level.

Furthermore, when we negotiate as SACU with other countries and international bodies, we ought to assess the benefits that are likely to accrue from such arrangements as well as the scope of such relationships.

Mr. Chairman, it should no longer be considered attractive to have to judge the success or otherwise of our Union on the basis of the size of the Revenue Shares from customs duties alone as there are other benefits to be explored. Henceforth our citizens should rather be able to judge the success of SACU by the number of decent new job opportunities created as a result of deliberate pro-development regional policies and or by the number of business opportunities generated.

At its very best, SACU will have identified and equitably exploited complementaries in constituent Member States to optimise the use of scarce resources, do away with unnecessary duplications as well as limit unhealthy competition to a level where it may be possible to operate mega strategic regional industries in select sectors.

In conclusion, let us commend ourselves for having existed for one hundred years in spite of historical and other problems that have and continue to challenge our existence as a Union. Let us also note that our journey is a life time one and as such we should never tire in our efforts to maintain our solidarity for the benefit of our people and the region at large.

I thank you.

South Africa

Address by His Excellency, President J. G. Zuma, of South Africa on the Occasion of the Commemoration of the SACU Centenary on 22 April 2010 in Windhoek, Namibia.

Your Majesty Mswati III;
Your Excellency, the President of the Republic of Namibia;
Your Excellency Lieutenant-General, President Ian Khama;
Your Excellency, Prime Minister Pakalitha Mosisili
Ministers and Deputy Ministers;
Heads of Continental and International Organisations;
Ambassadors and High Commissioners;
Distinguished guests,

I am honoured to join in the celebrations marking the centenary of the Southern African Customs Union.

It is a meeting of friends and neighbours, and peoples who have so much in common, let alone blood ties in many instances.

We congratulate the government and the people of Namibia for hosting this historic event, and thank them for contributing this fine site for the new SACU Headquarters. The road travelled by SACU since its formation in 1910 has been long marked by notable milestones.

We have progressed from a customs union designed by colonialism in the interests of the colonial powers, through an unbalanced system under apartheid, to a system where we can interact as free countries.

Yet, we are still to agree on a developmental architecture that will address the interests of our peoples.

We wanted a consultative decision-making process so that no longer will decisions be made by one member alone. So we agreed on Article 15 - that we shall consult with each other.

Because we remain an economic community with ambitions to engage the world, we agreed to negotiate as a unit and as a family. We called, very importantly, for a Common Negotiating Mechanism in Article 31 (2).

We acknowledged that a trade arrangement between vastly different economies would need a form of revenue sharing that would compensate for any price-raising or trade-diversion effects that might disadvantage some countries.

We recognised that in order to deepen our integration and promote development, it would be fundamental to pursue, amongst others, common approaches in industrial, competition and agricultural policies.

Your Majesty, Excellencies;

On this basis, we concluded the negotiations in 2002. A new 2002 SACU Agreement was born. It entered into force in July 2004.

We are now six years into the process of implementation. Today, as we mark one hundred years of SACU, we must look at how to strengthen the arrangement; how to eliminate all vestiges of colonial systems of domination and dependency, and how to operate within a changing geopolitical environment.

Your Majesty, Your Excellencies,

As we celebrate this milestone, we are mindful of the challenges we face.

The dynamic of global growth has shifted to the developing countries. Countries and regions of the world cannot ignore this shift. It will shape the future international systems of finance, trade, production, and reconfigure the terms of global engagement.

The combined trade contribution of developing countries is 37% and is rising rapidly to 50%. We must therefore engage with this international reality to enhance our collective development objectives.

Distinguished guests,

The key strategic question that developing countries, in particular, have to ask is: how should we best position our political and external trade strategies?

We feel strongly that SACU's external strategy could include serious exploration of South-South cooperation, since this has excellent prospects for advancing our economic development.

Another factor to consider, as we celebrate today, is that there is a drive towards deeper integration in the Southern African Development Community.

This is a matter we must engage with seriously in regard to how it affects SACU and how SACU should respond.

A new approach to regional integration should focus on building SACU and SADC, principally, on the basis of common understanding and objectives with respect to a development-oriented regional integration.

The most powerful prerequisite for success is the commitment to action rooted in a common vision.

Such actions include the pursuit of an agenda that addresses our complimentary and differentiated needs, and that we position ourselves in the changing global economy, taking into account the imperative of South-South cooperation.

Your Majesty, Excellencies,

Now that we have such a fine site for our headquarters, we must look at the unfinished business of establishing, streamlining and strengthening SACU institutions, including the SACU Tariff Board, SACU Tribunal, Common Negotiating Mechanism, and the Secretariat.

We need to ensure that there is a viable way for SACU institutions to operate effectively. This will help in better managing the alignment and coordination of SACU objectives as well as enriching the policy-making processes.

It is important that greater attention is paid to these in order to lend impetus to the integration agenda.

Another important part of the economic development agenda in SACU is the harmonisation of various institutional arrangements.

These include competition, agriculture, standard authorities; and dealing with behind-the-border barriers, ensuring closer customs cooperation, as well as with respect to sharing of capacity for effective formulation and implementation of policies.

Your Excellencies,

We must also remain true to our commitments particularly upholding Article 31, where we agreed to negotiate as a single bloc as a cardinal principle of our existence.

This will be absolutely important if the policy and legal coherence of SACU are to be sustained. Most urgently, if we cannot pursue the unfinished business of the EPA negotiations as a united group, the future of SACU is undoubtedly in question.

Your Majesty, Your Excellencies,
Ladies and gentlemen,

The Southern African Customs Union was created as a tool of colonialism.

In 2002 we began the process of transforming SACU into an instrument for the development of the free and sovereign nations who are its voluntary members.

The year 2002 was the beginning of the transformation of SACU and we have not yet reached the end. The policies, tasks and programmes I have talked about today would help us move forward in this mission.

We look forward to pursuing the excellent cooperation between SACU Member States that will result in meaningful developmental integration for its people.

Our mission is a prosperous and peaceful Southern Africa. Let SACU be one of its key building blocks.

The Republic of South Africa wishes SACU every success in the accomplishment of the challenging tasks ahead.

I thank you.

Lesotho

Statement by the Right Honourable Pakalitha B. Mosisili, Prime Minister of the Kingdom of Lesotho Delivered during the Centenary Celebration of the Southern African Customs Union (SACU) on 22 April 2010 in Windhoek, Namibia

Your Majesty King Mswati III
Your Excellency President Hifikepunye Pohamba, our Gracious Host
Your Excellency President Lieutenant General Seretse Khama Ian Khama
Your Excellency President Jacob Gedleyihlekisa Zuma
Honourable Ministers
The SACU Executive Secretary
Invited Guests
Ladies and Gentlemen,

Today we celebrate one hundred years of the existence of the Southern African Customs Union. It has been a journey that we can look back at with pride, as the oldest Customs Union in the World. It is therefore a great honour and privilege for me to address this gathering today. Let me take this opportunity to thank the Government and people of Namibia for their warm hospitality and excellent arrangements made for this occasion. The Namibian hospitality is indeed legendary and unsurpassed! Some of us were here not so long ago, for the Independence celebration as well as the inauguration of your good self Mr. President; and we were made to feel exceptionally comfortable and at home. So, it really comes as no surprise to us that even this time around we have been so warmly received.

Your Majesty, Your Excellencies,

We are gathered here today to commemorate a very special occasion, the centenary of our very own Customs Union, SACU. The concept of a Customs Union was first applied on the 29th June 1910 at Potchefstroom, South Africa, when Basutoland, Bechuanaland, Swaziland and South Africa entered into the very first Customs Union in the modem economic history of the world. Since then customs unions have become an integral part of regional integration initiatives, and currently there are more than a dozen Customs Unions spanning almost every continent. It is for this reason that we salute those who initiated this Union, which managed to mould our region to be so closely integrated.

The Centenary of SACU confirms the close relations of our states our peoples, our cultures and our economies. It is a significant moment that highlights the long history of statehood in the sub-region, and one that should be a good opportunity to reflect on the achievements so far, and to chart the future direction for the Union.

This occasion affords us a unique opportunity to reaffirm our commitment to the aims and objectives of SACU, as we recognise that it is only when we are together as a region, that we can make the vision of SACU of a prosperous, democratic and poverty-free region, a reality. We should also ensure that every single one of our citizens knows and appreciates the benefits and obligations that stem from our membership in this Union. This is especially crucial as only with adequate knowledge about the Customs Union can we all take full advantage of our countries' membership in the Union. That is why we welcome the events that are planned to take place throughout the year to enhance awareness about SACU in our countries and regionally.

Your Majesty, Your Excellencies;

Since the signing of the Agreement a century ago, SACU has come a long way and adapted to the ever changing political and economic environment. The grave injustice of the apartheid era is now firmly in the past and this has paved the way for the most recent renegotiation of the Agreement in 2002. This new Agreement provides for effective democratic institutions that support joint decision-making in the Union. The Agreement further provides for dispute settlement procedures, the tariff board and the adoption of common negotiation procedures. Currently, the SACU Region is one of the most closely integrated regions in the world with a Common External Tariff, a range of common practices, and with four of our five Members using a Common Currency. However, there is still a lot of work that remains to be done. Work on the finalization of the establishment of the SACU Tribunal, the Tariff Board and the Common Negotiating Mechanisms has to be expedited.

Today, as we look back over the hundred years of SACU's existence, we should do so with satisfaction that we are undoubtedly moving in the right direction. We have had some successes, some setbacks, and a fair share of challenges. But the sheer commitment that our countries have to the Union has seen us through to this day. Those very challenges have taught us to press on in our resolve and commitment to the common future and welfare of our peoples.

Your Majesty, Your Excellencies,

As a member of SACU, we have benefited significantly from the Customs Union. While when some people look at SACU what immediately comes to their mind is revenue sharing, I put it to you, ladies and gentlemen, that SACU is not just about revenue. The ultimate goal of SACU is to promote trade, initially among its Member States, and then with the rest of the world, with the aim of integrating the economies of its members in the global economy. In the past decade trade amongst SACU Members has increased nearly twofold. Intra-SACU investments have also increased. As a result SACU has contributed to enhancing economic growth in the region and to the region's overall development.

SACU is a Customs Union with large disparities in income and economic weight among its member states. It comprises of one large country - South Africa - and several smaller states which, among themselves, have significant differences in GDP. Lesotho is, for example, the only member of SACU that is classified as a Least Developed country. It is true that due to our different levels of development, we cannot always agree on everything, but must always strive to accommodate each other in the spirit of sustainable development and harmony in the region. As Mahatma Gandhi once said, and I quote, "Friendship that insists upon agreement on all matters is not worth the name. Friendship to be real must ever sustain the weight of honest differences, however sharp they may be." (End of quote).

It is my view, ladies and gentlemen, that the Southern African Development Community (SADC) need not look any further for a model that has stood the test of time to emulate. SACU is well poised to be used as a central building block towards deeper integration in Southern Africa. This is important because SACU and overall regional integration efforts in Southern Africa can bring about increases in trade, economic growth, development and poverty alleviation. Regional integration has the potential to expand market opportunities, which will ultimately increase production and employment. As production increases, firms can further cut their costs, benefiting from economies of scale. This is particularly important for smaller SACU Members in which firms suffer from small internal market size.

Consolidation of SACU is no doubt critical for the Union to play a central role in deepening regional integration in Southern Africa. It is imperative that the remaining trade barriers that still interfere with free flow of goods and services within the Union, should be dismantled in order to enable firms in SACU to take full advantage of the enhanced market opportunities that a larger regional market presents.

This is particularly important in the face of the slow recovery from the biggest economic crisis that the world economy has witnessed since the great depression of the 1930's. SACU Members have been significantly hit by the crisis, with a sharp fall in economic growth in BLNS countries and a recession in the South African economy. The SACU economies have been hit twice as the demand and price of several of their export commodities have plummeted. Lesotho, in particular, has witnessed a significant fall in exports of clothing and diamonds - its two main export commodities. Exports of textiles in the two crisis years, 2008 and 2009, have decreased by 27% and two diamond mines shut down their operations. Also as a result of lower growth in SACU economies, revenues derived from the Agreement in the BLNS plummeted by over 50% this year, 2010.

It is imperative, therefore, within the current economic climate, to maximise the gains from regional integration within SACU. We therefore need to make a decisive move towards creating an efficient, democratic and prosperous SACU by finalizing work on a range of common policies and institutions, and provide coherent and efficient joint industrialization strategy that will further deepen regional integration. This will enhance economic growth and reduce poverty and inequality in our region and make our countries more competitive on the world's market.

The same indomitable spirit that enjoined us to struggle together, to suffer together, to die together, and to triumph together as we sought to rid our people of the yoke of colonialism and apartheid, must inform and underpin our new struggle to eradicate poverty, diseases, homelessness, unemployment and hunger amongst our people. It is incumbent upon us as Leaders to provide clear guidance on how the economic recovery can be achieved and on the future direction that SACU should take as a vehicle for the economic integration and growth of our region. We owe this to our people.

Thank you for your attention.

SACU

Statement delivered by Tswelopele Moremi Executive Secretray of SACU on the Launch of the SACU Centenary Commemoration Thursday on 22 April 2010 in Windhoek, Republic of Namibia

Your Excellency Mr. Hifikepunye Pohamba, President of the Republic of Namibia
Your Majesty King Mswati III of the Kingdom of Swaziland
Your Excellency Lieutenant General Seretse Khama Ian Khama, President of the Republic of Botswana
Your Excellency Mr. Jacob Zuma, President of the Republic of South Africa
Your Excellency, Mr. Festus Mogae Former President of the Republic of Botswana
The Right Honourable Pakalitha Bethuel Mosisili - Prime Minister of the Kingdom of Lesotho
The Right Honourable Nahas Angula, Prime Minister of the Republic of Namibia
Honourable Marco Hausiku Deputy Prime Minister of the Republic of Namibia
Honourable Dr. Theo-Ben Gurirab, Speaker of the National Assembly of Namibia
Honourable Asser Kapere, Chairman of the National Council of Namibia
Your Honour Peter Shivute, Chief Justice of the Republic of Namibia
Honourable Ministers
Honourable Members of Parliament
Honourable Governor of the Khomas Region
Your Worship the Mayor of the City of Windhoek
Your Excellencies, Representatives of the Regional Organizations
Your Excellencies Members of the Diplomatic Corps
Distinguished Invited Guests
Ladies and Gentlemen

I am greatly honoured to address this august gathering on the occasion of the first meeting of the Heads of State and Government of the Southern African Customs Union (SACU) and the launch of the SACU Centenary commemoration. It is my privilege and honour to welcome you all most sincerely on behalf of the SACU Secretariat to this joyous occasion.

At the outset, I would like to thank His Excellency President Hifikepunye Pohamba, the Government and the people of the Republic of Namibia for hosting this historic meeting and the launch of the celebrations of the 100th Anniversary of SACU. Since 2004, with the entry into force of the new Agreement, the Government of Namibia has generously supported the work to establish the new SACU Secretariat here in Windhoek. The hosting of today's meeting and the donation of this site for the construction of a Headquarters building for SACU is a further demonstration of the commitment of the Republic of Namibia to the ideals that this Organization stands for. I would like to express our gratitude for this act of generosity.

Your Majesty, Your Excellencies, Honourable Ministers

We are today celebrating the centenary of the SACU, the oldest Customs Union in the world. This is a remarkable achievement and we are grateful to be able to commemorate what is, by any standard, an extraordinary milestone. However, we are at the same time acutely aware of the challenges facing us. It is for that reason too that we have adopted a theme for the centenary celebrations which is meant to inspire us to remain focused on the tasks ahead of us. We have to work towards achieving these tasks. Attaining our objectives will require committed leadership, a shared vision and dedication by all role players.

The theme "Implementing a Common Agenda Towards Regional Integration in Southern Africa", points towards the challenges facing SACU and the resolve required to deal with them. It points towards the need for the collective action to address these challenges and to ensure SACU's continued adaptation to emerging regional and global integration imperatives. Allow me therefore to share with you my views as what is required from SACU and its Member States in order to be successful in our endeavours.

Firstly, we have to focus on the renewal and the consolidation of the Union. When the Members States embarked on the road towards a new SACU based on a renegotiated agreement, they did so in order to bring about a fresh start. The Member States were also desirous to deepen their integration into the global economy through common policies and common democratic institutions. At a technical level the adoption of the 2002 Agreement was inspired by a desire for an Organisation which could promote the interests of the Member States through a Customs Union suitable for the conditions of the 21st century and aligned with the obligations of the Member States under WTO. This implied a new modus operandi within SACU.

One can conclude that by observing that the adoption of the 2002 Agreement demonstrated a realisation that renewal was needed. However, the formal renewal of an existing institution is not sufficient. There should be evidence of new achievements and the temptation to go along with "business as usual" has to be resisted.

Your Majesty, Your Excellencies, Distinguished Invited Guests,

Well-functioning institutions are a prerequisite for the efficient operations of any organisation. Therefore, SACU cannot fulfil the functions provided for in the 2002 Agreement without proper institutions and the necessary mandates. Failure to do this will result in a fragmented operation of the Union. It is therefore imperative that high priority is given to the full establishment of all institutions as provided for in the 2002 SACU Agreement.

The second point I would like to make is that we have to strive for excellence in operations of the Customs Union. This requires a new approach towards the way we do business. In this regard, while the Secretariat has grown in terms of our technical capacity and ability to assist our Member States, a lot still needs to be done. It is gratifying to note that the SACU Council of Ministers recognises that in order to meet the current and new challenges, the Secretariat needs to be further strengthened. Without technical skill and resources, this organisation will not be able to operate at the level of excellence required to meet the challenges we face. We must strengthen the institutions of the Union and provide them with the required capacity and mandate to promote SACU's collective interests and to assist Member States and SACU Institutions when confronted with particular technical issues.

Your Majesty, Your Excellencies, Honourable Ministers,

The final point I would like to raise is the importance of visionary leadership. Today we have witnessed a historic occasion. For the first time since the adoption of the 2002 Agreement a Summit of the Heads of State and Government of the SACU Member States has taken place. This development has the potential to bring a new vitality to the organisation and its operations. If we are to overcome these challenges, we need visionary and committed leadership at all levels of our Union.

The evolution of the Union over time and through the various Agreements has been underscored by the desire of the Member States to modernise and deepen the integration arrangement. It also forged a new set of values and new institutional arrangements among the Member States. Therefore as we celebrate SACU Centenary today, it is appropriate that we pause to remind ourselves of the vision which inspired the adoption of the 2002 SACU agreement. We should ask ourselves whether we are succeeding in implementing it.

Your Majesty, Your Excellencies, Distinguished Invited Guests,

The adaptability and responsiveness of the Organisation to both external and internal political and economic realities represent some of the greatest strengths and successes of SACU. It bears testimony to the ability of the Member States to implement reform measures when required in order to serve the interests of all Member States, their people and the region.

SACU has made significant progress in promoting both regional integration and the integration of Member States into the global economy. Regionally, SACU is the only fully functioning Customs Unions, with free movement of goods between Members, Common External Tariff, etc.

The deeper regional integration process that the region has embarked upon is another matter that poses specific challenges to our traditional approaches and our way of doing business. That is one of the reasons for this Summit; to find answers to these problems and to move our organisation forward. I am confident that the meeting of the Heads of State and Government that took place will provide answers to some of these issues.

Your Majesty, Your Excellencies, Heads of States and Government, Honourable Ministers, Distinguished Ladies and Gentlemen;

One can ask what should inspire this process and how should the contemporary challenges be tackled? I would like to offer the following for your consideration:

Having evolved out of colonial arrangements a hundred years ago, SACU adapted to new needs and conditions over time and remained able to offer an effective mechanism of intergovernmental cooperation. The continuation of regional stability in the SACU region should be a paramount guiding principle in whatever is decided.

All the Member States have close relationships based on a common history, and a common legal and administrative tradition. These are important features of our cooperation in SACU and should facilitate our endeavour to find solutions to practical problems, while continuing to cooperate and work together.

Democratic governance is an important part of the 2002 Agreement and should be strengthened.

We still have to fulfil the promise and expectations contained in the 2002 SACU Agreement. Our people, the business community and the international community are aware of these aspects and require from us to work diligently to achieve our aims and objectives.

Finally, we should not lose sight of the fact that SACU is not an end in itself. It is an instrument for advancing economic development and growth, and for promoting deeper regional integration. Ultimately it is about the improvement of the lives of the people of the five Member States. Therefore, SACU's success or failure should be measured by the extent to which the Member States succeeds in utilizing this organisation as an instrument for achieving these objectives.

In conclusion, Your Majesty, Your Excellencies, Honourable Ministers,

It is my sincere belief that this Summit will go down in history as an occasion signifying the recommitment of the political leadership to define SACU's future role and a collective determination to move the Union forward. It is in this spirit that I appeal to you for your guidance.

I thank you for this opportunity and trust you will enjoy these celebrations.

Minister of Finance of the Republic of Namibia

Introductory Remarks on the SACU Vision and Mission by Saara Kuugongelwa-Amadhila, Honourable Minister of Finance of the Republic of Namibia, on the Occasion of the SACU Heads of State and Government Meeting on 22 April 2010 in Windhoek, Namibia

Your Majesty, King Mswati III
Your Excellency President Hifikepunye Pohamba
Your Excellency Lieutenant General President Seretse Khama Ian Khama
Your Excellency President Jacob Zuma
Your Excellency the Right Honourable the Prime Minister Phakalitha Mosisili
Your Excellencies, Former Heads of State and Government
Your Excellency, the Chairman of the African Union Commission
Honourable Ministers here present
Executive Secretary of the Southern African Customs Union
Distinguished Executive Secretary of SADC
Distinguished Executive Secretary of COMESA
Members of the Diplomatic Corps
Distinguished Invited Guests
Ladies and Gentlemen,

In a moment we will all be witnesses to an important signing ceremony to happen here at the site where the new SACU Headquarters is soon to be constructed. I have been requested to provide you with an overview of what this entails and, in this regard, it is my pleasure and honour to present to you the new SACU Vision and Mission, which their Excellencies, the SACU Heads of State and Government adopted this morning when they met in a strategic session. This important event signifies another step in the development of SACU as a strong and viable institution that adopts a forward-looking approach in tackling the challenges that face the organisation.

The development of a SACU Vision and Mission is our response to the developments that are happening at the regional and continental level. The Vision seeks to construct a position for SACU within the plethora of integration initiatives currently taking place within the region and defines a future form for the organisation moving forward. The Mission clearly identifies what is needed for SACU to achieve the aim of forming the nucleus for deeper regional integration within Southern Africa.

Distinguished guests,

Their Excellencies, the SACU Heads of State and Government have agreed to the following, which is in line with the theme chosen by Council for the SACU centenary celebrations and encompasses the new direction SACU wishes to steer the Customs Union to:

Vision:

"An economic community with equitable and sustainable development for the welfare of its people"

Mission:

To serve as an engine for regional integration, industrial and economic diversification, global competitiveness and the expansion of intra regional trade and investment;

To meet the needs of the region through economic

policy development in the areas of trade facilitation, finance, investment and regulatory environment, services, policy harmonization, trade negotiations and implementation of trade agreements;

To promote sustainable economic growth and development for employment creation and poverty reduction;

To serve as a foundation of an ever closer community among the peoples of Southern Africa;

To develop common policies and strategies for the facilitation of cross border trade and negotiations with third parties; and

To develop effective, transparent and democratic institutions and processes.

This new Vision and Mission forms the cornerstone for SACU as an international organisation of repute and supports the transformation of the organisation beyond a Customs Union to a strong economic integration arrangement focussed on the growth and development of its members. It also emphasises the improved welfare of SACU citizens.

The new SACU Vision and Mission will be supported by a new strategic SACU work programme, with a renewed focus on the development of the core elements of deeper regional integration.

Your Excellencies, the Heads of State and Government,

It is my honour to present to you the new SACU Vision and Mission. I humbly invite you to put your signature to this important document. By putting your signature to this document, you are not only renewing your commitment and faith towards SACU as an institution, but you are also opening the door for the future of SACU as a strong, viable and admired organization within Southern Africa and the World; an organization which will definitely play an important role in future regional integration efforts in Southern Africa.

I thank you.

Financials 09/10

Implementing a Common Agenda Towards Regional Integration in Southern Africa

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

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

Index

Southern African
Customs Union Secretariat
Annual Financial Statements
for the year ended 31 March 2010

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 82.

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 83 to 103, which were approved on 3 December 2010 and are signed by:

Hon. Pravin Gordhan
Minister of Finance – South Africa
Chairperson: Council Of Ministers

Tswelopele C. Moremi
Executive Secretary

Report of the Auditor General to the Council of Ministers on the Financial Statements of Southern African Customs Union for the year ended 31 March 2010

We have audited the accompanying financial statements of the Southern African Customs Union, which comprise the balance sheet as at 31 March 2010, 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 84 to 103.

Management's 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.

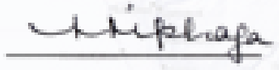
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Secretariat as of 31 March 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Southern African Customs Union Agreement.



Lucy L. Liphafa (Mrs) 3 December 2010
Auditor General

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 2010.

State of affairs

The state of affairs of the Secretariat at 31 March 2010 and the results of its operations for the year then ended are fully set out in the annual financial statements.

Results of operations

The Secretariat recorded total spending amounting to R36,043,495 for the year under review, out of a budget of R49,828,925.

The following provides comparative information:

	2010	2009
	R	R
Operating expenditure	35,465,944	41,001,066
Finance cost	5,912	2,783
Capital expenditure	571,639	908,540
	36,043,495	41,912,389

When formulating the annual budget, the Secretariat applies the activity-based approach in conjunction with the medium-term expenditure framework as a basis for planning. During the year under review, budget absorption was hampered by the prevalence of an abnormal operating environment arising from uncertainties regarding the future direction of SACU. In response to this, focus was shifted to the preparation of strategic papers which culminated in the development of a new SACU vision and mission statement. Against this background, a number of technical studies planned for the year under review were re-phased into the succeeding year. Of note is that renewed impetus has been infused into the organization as a result of the need to implement the strategic work programme developed during the year, following resolution of the uncertainty that had prevailed.

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 which could materially affect the financial statements or require additional disclosures regarding these events.

Southern African Customs Union Secretariat
Balance Sheet
as at 31 March 2010

	Note	2010	2009
		R	R
Assets			
Non-current assets			
Property, plant and equipment	5	7,215,833	8,975,380
		7,215,833	8,975,380
Current assets			
Trade and other receivables	7	2,880,769	2,796,930
Cash and cash equivalents	8	36,847,486	11,973,108
		39,728,255	14,770,038
Total assets		**46,944,088**	**23,745,418**
Capital and reserves			
Accumulated funds		23,429,478	10,884,145
		23,429,478	10,884,145
Current liabilities			
Trade and other payables	9	22,478,111	3,890,218
Provisions	10	1,036,499	8,971,055
		23,514,610	12,861,273
Total liabilities		23,514,610	12,861,273
Total reserves and liabilities		**46,944,088**	**23,745,418**

Southern African Customs Union Secretariat
Income Statement
for the year ended 31 March 2010

	Note	2010	2009
		R	R
Income:			
Common revenue pool contribution	2.12	36,037,583	35,704,090
EU donor funding		2,250,831	1,207,667
Host Country Contribution		1,780,680	1,452,888
DFID-RTFP Funding		-	10,814
WCO-SIDA Funding		142,305	
Total Income		**40,211,399**	**38,375,459**
Expenses:			
Advertising for procurement		(409,040)	(634,212)
Audit fees		(46,868)	(54,563)
Bank charges		(58,075)	(70,520)
Communication costs		(605,083)	(712,284)
Depreciation	2.3	(2,407,947)	(2,515,997)
Electricity, water and rates		(143,520)	(134,350)
General expenses		(12,670)	(25,488)
Hospitality expenses		(173,959)	(81,880)
Household expenses		(180,883)	(178,269)
Insurance		(77,860)	(81,416)
IT services		(596,111)	(615,180)
Media and Public relations		(493,111)	(475,160)
Motor vehicle expenses		(138,948)	(113,230)
Office Supplies		(261,886)	(293,206)
Professional fees		(3,535,558)	(14,873,525)
Recruitment costs		(648,995)	(794,058)
Relocation costs		(96,312)	(267,429)
Rent	2.13	(1,780,680)	(1,452,888)
Repairs and maintenance		(171,854)	(61,865)
Salaries	11	(19,750,813)	(13 316 835)
Security		(116,472)	(152,085)
Staff training and development		(130,479)	(7,214)
Subscriptions and reference materials		(26,260)	(29,405)
Travel, accommodation and subsistence		(3,056,592)	(3,563,574)
Workshops and conferences		(545,968)	(496,433)
Total expenses		**(35,465,944)**	**(41 001 066)**
Operating surplus		**4,745,455**	**(2,625,607)**
Profit and loss on disposal of fixed assets		144,470	-
Finance income	12	1,940,451	1,262,868
Finance cost	12	(5,912)	(2,783)
Surplus/(Deficit) for the year		**6,824,464**	**(1,365,522)**

Southern African Customs Union Secretariat Statement of Changes in Equity

for the year ended 31 March 2010

	Note	Accumulatedfunds	Total
		R	R
Balance at 1 April 2008		12,249,665	12,249,665
Deficit for the year		(1,365,522)	(1,365,522)
Balance at 1 April 2009		10,884,143	10,884,143
Surplus for the year		6,824,464	6,824,464
Unused provision from prior year	10	5,720,871	5,720,871
Balance at 31 March 2010		**23,429,478**	**23,429,478**

Southern African Customs Union Secretariat Cash Flow Statement

for the year ended 31 March 2010

	Note	2010	2009
		R	R
Cash flows from operating activities			
Cash generated in operations	13	23,511,478	6,850,514
Interest received		1,940,451	1,262,868
Interest paid		(5,912)	(2,783)
Net cash from operating activities		25,446,017	8,110,599
Cash flows from investing activities			
Additions to Property, Plant and Equipment	5	(571,639)	(908,540)
Net cash from investing activities		(571,639)	(908,540)
Cash flows from financing activities			
Net (decrease)/increase in cash and cash equivalents		**24,874,378**	**7,202,059**
Cash and cash equivalents at beginning of year	8	11,973,108	4,771,049
Cash and cash equivalents at end of year	8	**36,847,486**	**11,973,108**

General information

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

Statement of compliance

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

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.

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.

Foreign currency translation

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).

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 reco nuity.

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.

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.

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.

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.

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.

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).

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.

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.

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.

Trade payables

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

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.

Employee benefits

Pension obligations

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

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

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.

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.

Revenue recognition

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

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

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

Deferred Income:

In compliance with IAS18, unused funds received from the common revenue pool have been deferred to match the costs incurred during the period with the recognizable income for the year.

The transfer to deferred income has been calculated as follows:

	2010 R	2009 R
Receipts from the common revenue pool	56,110,509	35,704,090
Less: Expenses	(35,465,944)	(41 001 066)
Less: Capital expenditure	(571,639)	(908,540)
	20,072,926	(6,205,516)
Transfer to deferred income	20,072,926	-
		-
Common revenue pool contribution	36,037,583	35,704,090

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.

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, until a notional annual rent of R1,780,680, which was determined by property evaluators in March 2010, 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.

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.

Financial risk management

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.

Market risk:

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.

Price risk:

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

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.

Southern African
Customs Union Secretariat
Notes to the Financial Statements
for the year ended 31 March 2010

Credit risk

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

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

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

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

The Secretariat will only invest in the following:

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

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

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

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

Counterparty	31 March 2010 Credit limit	31 March 2010 Balance R	31 March 2009 Credit limit	31 March 2009 Balance R
Standard Bank Namibia Ltd	None	36,846,882	None	11,972,707
Receiver of Revenue – VAT	None	121,771	None	734,313
Prepaid expenses	None	24,933	None	-
Prepaid staff allowances	None	41,208	None	-
Interest and refunds receivable	None	415,603	None	-
Donor funding – DFID/RTFP	None	-		10,814
Donor funding – WCO-SIDA	None	69,797	None	-
Arbitration refund from PCA	None	209,870	None	-
Donor funding – EU	None	1,997,587	None	2,051,803
Total Trade and other receivables		2,880,769		2,796,930
Total Counterparty balances		39,727,651		14,769,637

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

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 2010	Less than 1 year R	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years
Borrowings	–	–	–	–
Trade and other payables	22,478,111	–	–	–

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	–	–	–

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.

Fair value estimation

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

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.

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.

Residual value of land and buildings

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

Critical judgments in applying the entity's accounting policies

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

Property, Plant and Equipment

	2010			2009		
	Cost/ valuation	Accum. depreciation	Carrying value	Cost/ valuation	Accum. depreciation	Carrying value
	R	R	R	R	R	R
Land and buildings	5 588 086	12 329 58	4 355 128	5 511 031	982 406	5 511 031
Motor Vehicles	1 164 462	527 490	636 972	1 103 134	677 502	425 632
Furniture & Fittings	813 807	514 245	299 562	802 919	396 432	406 487
Household Furniture & Fittings	720 806	412 265	308 541	670 610	269 808	400 802
Office Equipment	414 588	227 137	187 451	443 695	183 728	259 968
IT Equipment	4 498 051	3 718 084	779 967	4 476 518	2 457 973	2 018 545
Leasehold Improvements	1 274 878	626 666	648 212	1 247 096	311 774	935 322
	14 474 678	7 258 845	7 215 833	14 255 003	5 279 623	8 975 380

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

2009	Carrying value at the beginning of the year	Additions	Disposals	Depreciation	Carrying value at the end of the year
	R	R	R	R	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

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

Southern African
Customs Union Secretariat
Notes to the Financial Statements
for the year ended 31 March 2010

Property, plant and equipment

Financial Instruments

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	2,880,769	–	–	–	2,880,769
Cash and cash equivalents	36,847,486	–	–	–	36,847,486
Total	39,728,255	–	–	–	39,728,255

	Liabilities at fair value through the profit and loss	Other financial liabilities	Total R
Liabilities as per balance sheet			
Borrowings	–	–	–
Trade and other payables	–	2,405,185	2,405,185
Deferred income	-	20,072,926	20,072,926
Total	–	22,478,111	22,478,111

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:

	2010 R	2009 R
Trade receivables		
Counterparties without external credit rating, but who had no defaults in the past:		
Receiver of Revenue – VAT	121,771	734,312
Prepaid expenses	24,933	
Prepaid staff allowances	41,208	-
Interest and refunds receivable	415,603	
Donor funding – DFID/RTFP	-	10,815
Donor funding – WCO-SIDA	69,797	
Arbitration refund from PCA	209,870	
Donor funding – EU	1,997,587	2,051,803
Total trade receivables	2,880,769	2,796,930
Cash at bank and short-term bank deposits		
Standard Bank Namibia Limited	36,846,882	11,972,707
	39,727,651	14,769,637

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

	2010 R	2009 R
Trade and other receivables		
Pre-payments	66,141	-
Other receivables – VAT	121,771	734,312
Interest and refunds receivable	415,603	
Donor funding – DFID/RTFP	-	10,815
Donor funding – WCO-SIDA	69,797	
Arbitration refund from PCA	209,870	
Donor funding – EU	1,997,587	2,051,803
	2,880,769	2,796,930

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

As of 31 March 2010, trade receivables of R883,182 (2009: R745,127) 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 R1,997,587 (2009: R2,051,803) were past due but not impaired. This amount relates to an EU grant that will only be paid on conclusion of an analysis of the results of a financial audit which was concluded during the year. The ageing analysis of the trade receivables is as follows:

	2010 R	2009 R
Up to 3 months	883,182	745,127
3 to 18 months	1,997,587	2,051,803
	2,880,769	2,796,930

As of 31 March 2010, trade receivables that were impaired and provided for were R54,215 (2009: nil). This relates to a reduction in the amount refundable from the first EU Contribution Agreement (CA). The reduction was recommended by a report of an EU-funded grant transactions audit on the first CA.

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.

Cash and cash equivalents

	2010 R	2009 R
Standard Bank current account	14,966,307	861,739
Standard Bank call account 1	9,386	8,810
Standard Bank call account 2	5,720,350	5,371,250
Standard Bank 32 day deposit	6,150,839	425,072
Standard Bank short-term fixed deposit	10,000,000	5,305,836
Cash in hand	604	401
	36,847,486	11,973,108

Trade and other payables

	2010 R	2009 R
Trade payables	22,478,111	3,890,218
	22,478,111	3,890,218

Provisions for other liabilities and charges

	2010 R	2009 R
At 1 April	8,971,055	1,147,859
Charged/(credited) to the income statement:		
– Expenses charged to income statement	(2,612,969)	
– Additional provisions	399,284	8,333,840
– Unused amounts reversed	(5,720,871)	(510,644)
At 31 March	1,036,499	8,971,055

Provisions relate to:

- An amount of R1,036,490 is for leave pay which accrues on termination of the services of members of staff.
- An amount of R5,720,871, which was part of a prior year provision for arbitration costs, was reversed after the completion of the arbitration process at a cost below the originally provided amount of R8,333,840. The contributing factor for the savings is that cost-saving methods were used to execute the exercise and one member state was able to obtain funding for some of the processes.

Employee benefit expense

	2010 R	2009 R
Wages and salaries	19,750,813	13,316,835
Number of employees	36	34

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.

Finance income and costs

	2010 R	2009 R
Interest expense:		
– Standard Bank Namibia	(5,912)	(2,783)
Finance costs	(5,912)	(2,783)
Finance income		
– Interest income on short-term bank deposits	1,940,451	1,262,868
Net finance costs	1,934,539	1,260,085

Cash generated from operations

	2010 R	2009 R
Cash flows from operating activities		
Surplus/(Deficit)	6,824,464	(1,365,522)
Adjustment for:		
- Depreciation and amortization	2,407,947	2,515,997
- Unused prior year provision	5,720,871	
- Non-cash adjustment to fixed assets	(76,764)	
- Interest income	(1,940,451)	(1,262,868)
- Interest expense	5,912	2,783
	12,941,979	(109,610)
Changes in working capital:		
Trade and other receivables	(83,839)	(159,795)
Trade and other payables	10,653,338	7,119,919
	23,511,478	6,850,514

Commitments

Operating lease commitments – Secretariat as lessee

There are no future aggregate minimum lease payments under non-cancellable operating leases.

Southern African
Customs Union Secretariat
Notes to the Financial Statements
for the year ended 31 March 2010

Related-party transactions

The Secretariat is funded from the Common Revenue Pool.

	2010 R	2009 R
The following transactions were carried out with related parties:		
(a) Common Revenue Pool contributions		
- Receipts during the year	56,110,509	35,704,090
	56,110,509	35,704,090
(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	-	-

List of abbreviations

BLNS	Botswana, Lesotho, Namibia, Swaziland
CET	Common External Tariff
CRP	Common Revenue Pool
COMESA	Common Market for Eastern and Southern Africa
EPA	Economic Partnership Agreement
ERP	Enterprise Resource Planning
EC	European Community
FTA	Free Trade Agreement
EFTA	European Free Trade Area
EAC	East African Community
GARP	Generally Accepted Recordkeeping Principles
GDP	Gross Domestic Product
HR	Human Resources
IEPA	Interim Economic Partnership Agreement
IFRS	International Financial Reporting Standards
IT	Information Technology
ITAC	International Trade Administration Commission of South Africa
MIDP	Motor Industry Development Programme
MMTZ	Malawi, Mozambique, Tanzania, Zambia
MOU	Memorandum of Understanding
RECs	Regional Economic Communities
SACU	Southern African Customs Union
SAD	Single Administrative Document
SADC	Southern African Development Community
SNA	System of National Accounts
SPS	Sanitary and Phytosanitary Standards
TIDCA	Trade, Investment and Development Cooperation Agreement
WCO	World Customs Organisation
WTO	World Trade Organisation

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