IMPLEMENTING A COMMON AGENDA TOWARDS REGIONAL INTEGRATION

2014 ANNUAL REPORT

SACU Since 1910

SOUTHERN AFRICAN CUSTOMS UNION

SACU MEMBER STATES

BOTSWANA

LESOTHO

NAMIBIA

SOUTH AFRICA

SWAZILAND

ADMINISTRATION

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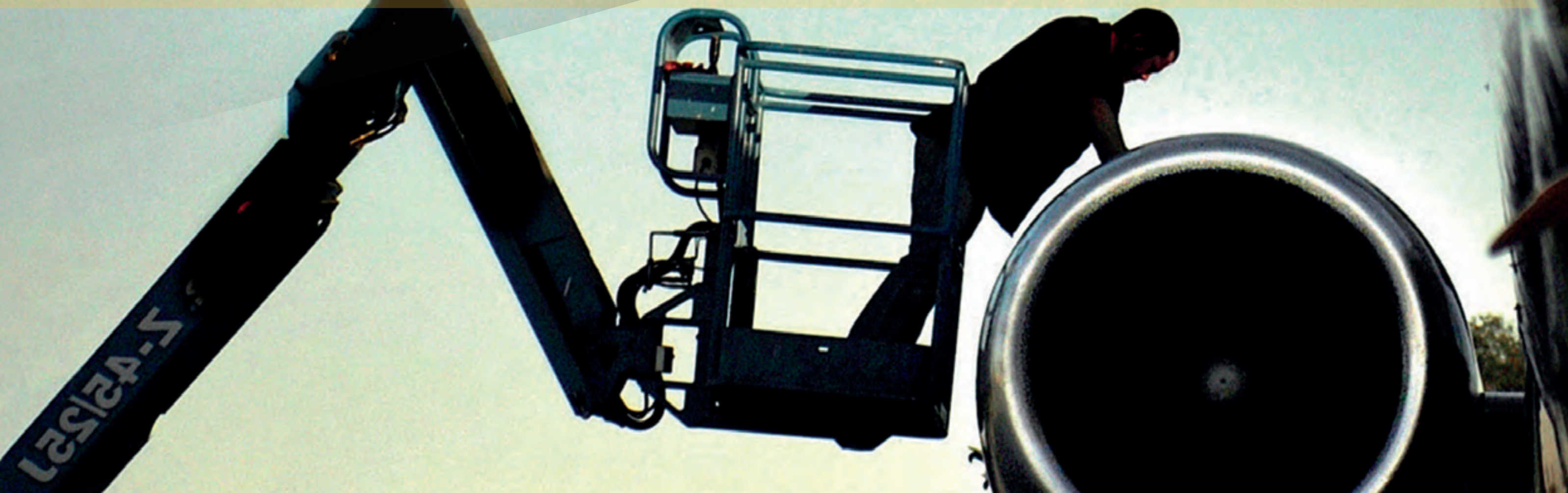

HISTORY OF SACU

As the world's oldest customs union, the Southern African Customs Union (SACU) dates back to 1889 Customs Union Convention between the British Colony of Cape of Good Hope and the Orange Free State Boer Republic. A new agreement, signed on 29 June 1910, was extended to the Union of South Africa and the British High Commission Territories (HCTs), i.e. Basutoland (Lesotho), Bechuanaland (Botswana) and Swaziland. South West Africa (Namibia) "was a defacto member, since it was administered as part of South Africa" before it became a dejure member. The primary goal was to promote economic development through regional coordination of trade.

The SACU Agreement 1910, 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 manufacturers, while relegating the 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.

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

The SACU Agreement 1969, signed by the sovereign states of Botswana, Lesotho and Swaziland (BLS), and South Africa, on

- 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.

With the independence of Namibia in 1990 and the end of apartheid in South Africa in 1994, SACU members embarked on new negotiations in November 1994, which culminated in a new SACU agreement in 2002.

The SACU Agreement 2002 addressed the following three outstanding issues:

- Joint decision-making processes: Article 3 established an independent Administrative Secretariat to oversee SACU with its headquarters in Windhoek, Namibia. Article 7 created several independent institutions including a Council of Ministers, a Customs Union Commission, Technical Liaison Committees, a SACU Tribunal and a SACU Tariff Board. These institutions are designed to enhance equal participation by member states. The SACU Agreement 2002 also provides for policy coordination in agriculture, industry, competition and unfair trade practices, and protection of infant industries.
- New Revenue Sharing Formula: Revision of the RSF to include a customs excise and development component.
- Question of external (outside SACU) trade: The need to develop strategies that enhance the political, economic, social, and cultural integration of the region without jeopardizing the economies of the smaller states. The SACU Agreement 1969, signed by the BLS and South Africa on 11 December 1969.

Vision

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

Mission

- Serve as an engine for regional integration and development, industrial and economic diversification, the expansion of intra-regional trade and investment, and global competitiveness.
- Build economic policy coherence, harmonisation and convergence to meet the development needs of the region.
- Promote sustainable economic growth and development for employment creation and poverty reduction.
- Serve as a building block of an ever closer community among the peoples of Southern Africa.
- Develop common policies and strategies for areas such as trade facilitation; effective customs controls; and competition.
- Develop effective, transparent and democratic institutions and processes.

Current Work Programme

- Regional Industrial Development Policy
- Review of the Revenue Sharing Arrangement
- Trade Facilitation
- Development of SACU Institutions
- Unified Engagement in Trade Negotiations
- Trade in Services
- Strengthening the Capacity of the Secretariat

Contents

MESSAGE FROM THE CHAIRPERSON OF THE SACU COUNCIL OF MINISTERS

The robust growth in SSA is indicative of a strong demand which is underpinned by the increasing investment in infrastructure and mining sectors as well as high agricultural production

Honourable Minister Saara Kuugongelwa – Amadhila

As the Chairperson of SACU Council of Ministers, it is my pleasure to present the SACU Annual Report for 2013/14 Financial Year. Firstly, let me thank the Government of the Republic of Namibia for affording me an opportunity to serve as the Chairperson of SACU Council of Ministers for a duration of one year starting from 14 July 2014.

As the theme of the Annual Report states, the global economic recovery continues to be weak and uneven across regions, thus posing uncertain economic outlook. Recently, the IMF cautioned that the legacies of pre-crisis boom still cast a shadow on the recovery and that the pace of recovery is country specific. This has necessitated a downward revision of the global output to 3,3 percent in 2014, reflecting the same growth rate realised in the preceding year. Central to the downward revision is the continued sluggish economic growth in the Euro Area as well as in the emerging markets and developing economies. These are among the largest trading partners of SACU Member States.

In the advanced economies, as much as the US economy grew sluggishly during the first quarter of 2014, it is gaining momentum and is expected to boost global economic performance. Economic growth in the Euro Area remains stagnant amidst possible deflation and geopolitical tensions in Ukraine and Russia. Germany, the biggest economy in the bloc, experienced a sluggish growth during the first three quarters of the year but recuperated in the last quarter, resulting in the annual growth of 1,6 percent.

The emerging markets and developing economies also remain volatile. The change in the US monetary policy stance during the second half of 2013 led to the volatility in the capital and currency markets, culminating in subdued growth. In China, the economic growth remained unchanged at 7,7 percent in 2013 and is expected to decelerate to 7,4 percent in 2014. The economic slowdown was driven by the implementation of the structural changes aimed at changing economic path from exports and investment oriented growth to consumption oriented growth. However, the authorities responded by providing a stimuli to the economic growth, which resulted in the Chinese economy gaining momentum during the second half of 2014. The Russian economy remains weak due to geopolitical tension and subsequent economic sanctions.

Economic growth in Sub-Saharan Africa (SSA) remains relatively high and averaged 5,0 percent in 2013 to 2014. The robust growth in SSA is indicative of a strong demand which is underpinned by the increasing investment in infrastructure and mining sectors as well as high agricultural production.

Among SACU Member States, economic growth levels during the year under review have been uneven. However, the economic outlook for the Union is positive mainly supported by infrastructural development as well as promotion of private sector development. There is an increasing determination within Member States to diversify their economies and move to beneficiation and the development of regional industrial value chains.

The SACU Work Programme remains our priority in pursuit of a collective effort to deepen regional integration and the development of the regional industrial policy is an overarching objective of the programme. Work to support the programme is in progress including development of cross-border value chains. The World Customs Organisation supported our Trade Facilitation programme which is funded by SEDA, which continues to make significant progress in modernising the processes underpinning the facilitation of trade within the Customs Union and most importantly, promote dialogue between Revenue Authorities and other stakeholders. During the period under review, work was in progress in reviewing the current revenue sharing formula to align the new revenue sharing arrangement with the new SACU Vision.

On international trade, SACU is negotiating the preferential trade agreements as a bloc and a number of FTAs have been concluded. SACU Member States continued their participation in the Tripartite FTA negotiations. Additionally, and during the year under review, substantial progress was made in resolving outstanding issues arising from the Interim Economic Partnership Agreement (EPA). With regard to SACU Member States' participation in the World Trade Organisations (WTO), slow implementation of the Doha Development Agenda remains a concern. However, the commitment of world leaders to implement the Bali package and swiftly resolve the outstanding issues brings positive developments in resuscitating the round of negotiations.

During the year under review, the construction of the Headquarters building continued with final completion date projected for the coming financial year.

Finally, the Secretariat has gone through a change in leadership at Executive Secretary level. In this regard, let me take this opportunity to express my heartfelt gratitude to Ms Tswelopele Cornelia Moremi, the former Executive Secretary, who has served the SACU Secretariat diligently for 10 years. She leaves behind a legacy of a well-functioning Secretariat successfully established under her leadership. On behalf of the SACU Council of Ministers, I wish her well in her endeavours.

In the same vein, I am delighted to welcome Ms Paulina Mbala Elago, the new Executive Secretary, who joined the Secretariat on 1 April 2014. She joins the Secretariat at the time when full implementation of the SACU Work Programme as informed by the Priorities agreed upon by SACU Heads of State and Government gets underway. We trust that under her excellent leadership, remarkable progress will be made in the implementation of the Programme resulting in delivery of the desired results. Let me also extend my gratitude to the staff of the Secretariat for their continued dedication and commitment in pursuit of the SACU Secretariat mandate and serving Member States with diligence and utmost professionalism.

S Kuugongelwa-Amadhila
Minister of Finance
Chairperson of SACU Council of Ministers

EXECUTIVE SECRETARY'S REPORT

During the year under review the implementation of the SACU-WCO Customs Development programme continued to make remarkable progress

Paulina M Elago
Executive Secretary

The 2013/14 financial year was a challenging, yet an important year in the history of the Southern African Customs Union. Key global and regional developments have had a profound impact on the manner in which the Customs Union and, in particular, its Membership, approached the continued implementation of the SACU Work Programme.

Globally, countries were still recovering from the effects of the global financial crisis, which had resulted in substantial economic downturns, lowered GDP growth and increased unemployment. As a result, governments had to redirect their limited resources internally in order to recover from the crisis. The approach adopted by many countries at the World Trade Organisation (WTO) Ministerial meeting held in December 2013, is a case-in-point of the renewed interests to adopt inward looking strategies and policies that favour protectionism, with less appetite for initiatives and commitments geared towards liberalisation at multilateral levels.

On the African continent, the Tripartite Free Trade Agreement negotiations gained momentum with significant negotiating capacity and resources invested by participating Member States into the negotiating process. Meanwhile, the Economic Partnership Agreement negotiations also intensified, which demanded a greater focus by the region's trade negotiators on the timely conclusion of the negotiations by the set deadline. This would secure continued preferential market access into the European Union.

The SACU Heads of State and Government met for their 4th Summit on 12 April 2013 in Gaborone, Botswana. The Summit, chaired by His Excellency, Lieutenant General Seretse Khama Ian Khama, President of the Republic of Botswana, recalled the five priority areas identified earlier to underpin a new SACU Work Programme, namely i) Regional Industrial Development Policy; ii) Review of the Revenue Sharing Arrangement; iii) Trade Facilitation; iv) Development of SACU Institutions; and v) Unified Engagement in Trade Negotiations. The Heads of State and Government also endorsed two additional priority areas: Trade in Services and Strengthening the Capacity of the Secretariat.

During their 4th Summit, Heads of State and Government also critically evaluated progress made towards implementation of the key priority areas in the SACU Work Programme. Summit observed slow progress towards the implementation of the priority areas and called for renewed effort to ensure that progress is achieved.

The Heads of State and Government finally proceeded to sign the Amendments to the SACU Agreement, 2002, institutionalising the SACU Summit.

During the year under review the implementation of the SACU-WCO Customs Development programme continued to make remarkable progress. The SACU regional Customs-to-Business Forum was launched in November 2013, thus establishing a platform to facilitate dialogue and interactions with the Public Sector, specifically the Revenue or Customs Authorities and the business community in the SACU region. In addition, the pilot projects on the Preferred Trader Programme commenced in the BNLS, to promote compliance with required customs procedures and processes. Another key development was the successful execution of a joint customs operation involving the five SACU Member States, aimed at combating illicit trade in tobacco. This joint exercise resulted in the seizure of tobacco and tobacco products with a revenue prejudice of R229 million, detected at border crossings, road blocks, manufacturing warehouses and other concealed storage facilities.

On Revenue Management, the review of the revenue sharing arrangement continued with significant progress being made on the development of options on a new revenue sharing arrangement. Furthermore, intra-SACU trade increased by 8,3% in 2011/12 compared to 5,9% in 2010/11. The Common Revenue Pool continued to post positive growth, mainly reflecting strong domestic demand.

One of the major capital projects of the year under review was the commencement of construction of the new SACU headquarters building in Windhoek, Namibia, a significant milestone in the history of SACU. It is anticipated that the building would be completed by the beginning of the new financial year.

The duration of the term of office of the SACU Executive Secretary is a five year contract, renewable for a second term upon approval by the Council of Ministers. The term of office of the first Executive Secretary came to an end after a 10-year tenure in January 2014, and the Council of Ministers appointed a new Executive Secretary to commence duty on 1 April 2014.

During the year under review, the Secretariat also commenced with a review of several of its internal policies and procedures, with a view to streamline the internal operations of the institution. The outcome will be tabled to the SACU Council of Ministers for their consideration and approval.

We are pleased to report that the SACU Secretariat has once again achieved an unqualified audit report, which reflects the trend of continued fiduciary responsibility over its resources. We are committed to continuous improvement of our performance in this area, and a number of supplementary internal audits will be undertaken in the new financial year to monitor and evaluate our systems, procedures and practices.

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

- The SACU Heads of State and Government for their strategic and political leadership and guidance.
- SACU Council of Ministers for providing the required policy direction.
- The SACU Customs Union Commission for their oversight on the implementation of the SACU Work Programme.
- The host Country (Republic of Namibia) for their unrelenting support and hospitality.
- The cooperating partners who have contributed to SACU's Work Programme.
- The SACU Secretariat staff for their unrelenting commitment and dedication.

I am anticipating that the 2014/15 FY will pave the way for a renewed focus on the vision and operations of the oldest Customs Union in the world and the benefits it brings about, not only for its individual Members, but also the region as a whole.

I thank you!

Paulina M Elago
Executive Secretary

SACU SECRETARIAT SENIOR MANAGEMENT

1 ***DUMISANI MAHLINZA***
Director: Trade Facilitation and Revenue Management

2 ***HISKIA NDJAVERA***
Internal Auditor

3 ***DAVID MALELEKA***
Deputy Director: Revenue Management

4 ***ANTON FAUL***
Director: Policy Development and Research

5 ***PAULINA M ELAGO***
Executive Secretary

6 YUSUF DAYA
Deputy Director: Trade Facilitation

7 RUMBIDZAISHE CHINYOKA
Legal Officer

8 MAUREEN MATOMOLA
Deputy Director: Policy Development and Research

9 NDIBO OITSILE
Chief Legal Officer

10 MARK BENNETT
Tariff Board Coordinator

11 ROLF-JOACHIM OTTO
Deputy Director: Trade Negotiations

SACU SECRETARIAT (CONTINUED)
MANAGERS

1 *MOHAMMED HOOSAIN*
Finance Manager

2 *LINDIWE DLAMINI*
Communications Manager

3 *MOLUPE PHEKO*
Policy Development Coordinator

4 *SUSARA VAN RENSBURG*
Trade Negotiations Coordinator

5 *KHUTSAFALO SEKOLOKWANE*
Policy Researcher

6 *LEONARD PHUTHI*
Trade Negotiations Coordinator

7 *ABEL SINDANO*
Trade Data Analyst

8 RICHARD YAWE
IT Specialist

9 LESLIE MPOFU
Transport Specialist

10 MARCEL RATSIU
Customs Specialist

11 MOTSELISI MATSELA
Economist

12 THEMBA TLADI
Human Resources Manager

13 ALETTA SHATONA
Records and Information Officer

14 SOPHIA LUBAKI
Human Resources Officer

15 HERMANUS ESTERHUIZEN
Procurement Officer

SACU SECRETARIAT (CONTINUED)
SUPPORT STAFF

16 PRUDENCE KOTZE
Accountant

17 ANNELINE MATHIS
Secretary: Executive Secretary's Office

18 ROSALIA AUGUSTINUS
Secretary: Chief Legal Officer

19 ANITHA GANASES
Secretary: Director – Policy Development and Research

20 XOLILE NGWENYA
Documentation and Conferencing Officer

21 DORIAN AMATETA
Secretary: Director – Trade Facilitation and Revenue Management

22 ELSEPTOY MAMAREGANE
Personal Assistant: Executive Secretary

23 INGRID NANUS
Receptionist

24 MARIA HEWICKE
Finance Assistant

25 RASSIDY DIERGAARDT
Secretary to Director – Corporate Services

26 ABED SHIPINGANA
Driver

27 ELSON KAMBURONA
Driver

28 EGIDIUS NAMBARA
Facilities and Administration Officer

29 DAVID NALUPE
Chauffeur

30 GIDEON PINEAS
Handyman

In seeking to improve the trade environment within Member States and the Customs Union, trade facilitation is a key component of the SACU mandate

SACU
Since 1910
SOUTHERN AFRICAN CUSTOMS UNION

Chapters

Trade facilitation is largely used to improve the regulatory interface between government bodies and traders at national borders

At SACU, trade facilitation procedures are based on internationally accepted norms and practices. Certain formalities and procedures have been simplified, infrastructure and facilities improved, and applicable laws and regulations realigned.

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

Trade facilitation demands a comprehensive and integrated approach to develop a consistent, transparent and predictable environment, encouraging trouble-free international trade transactions. It includes all measures necessary to facilitate the movement of goods across borders.

At SACU, trade facilitation procedures are based on internationally accepted norms and practices. Certain formalities and procedures have been simplified, infrastructure and facilities improved, and applicable laws and regulations realigned.

SACU's trade facilitation programme addresses a number of issues in economic development and trade in member states. At SACU, trade facilitation consists of two parts, the SACU-WCO Customs Development Programme, which incorporates the five key customs initiatives, and the Transport Sector Programme. Other areas include: promoting greater customs cooperation; removal of non-tariff trade barriers; and enhancing supply chains across the region to support development.

During the 2013/14 financial year, SACU continued to concentrate on the main trade facilitation components, which form part of the SACU-WCO Customs Development Programme. These are customs policy development; customs legislation; standard operating procedures; IT connectivity; risk management; and trade partnerships. The five customs initiatives continue to be pursued and are accommodated under the SACU-WCO Customs Development Programme. These are electronic data interchange;

one-stop borders; joint customs controls; and capacity building. SACU also identified priority areas in the transport sector which are required to strengthen regional trade facilitation.

SACU-WCO Customs Development Programme

Increasingly, attention is shifting from national or regional coordination to international coordination of border activities. SACU Member States are all members of the World Customs Organisation (WCO), and of the World Trade Organisation (WTO). In response to the changing demands of international trade, these organisations are involved in modernising the processes underpinning trade between economic operators. 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 has 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 regarding trade, security and social protection, where customs authorities become fair and effective trade management partners. The programme will assist SACU member countries to comply with international customs instruments and modernise their respective customs administrations. It will also advise them on the design and implementation of 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. The programme is supported by the Swedish International Development Cooperation Agency (SIDA) and the WCO.

During the past year and following the adoption of a Regional Customs Policy, implementation of the SACU-WCO Customs Development Programme has continued. Significant progress was achieved in the areas of partnerships with the trading community, Customs Enforcement and Risk Management and IT Interconnectivity. The financial support to the programme was also extended following the conclusion of the first phase of the programme in December 2013. The second phase of the programme commenced in January 2014, and SIDA and WCO support for this phase will continue until December 2018.

In order to facilitate trade, increase transparency, maximise revenue collection and improve the quality of trade data, Member States agreed to pursue the automation and interconnectivity of their customs information technology systems to enable the timely electronic exchange of data between customs administrations. This automated electronic transfer of trade information will allow risk assessments to be undertaken prior to the arrival of goods at the border and data matching where necessary, thus reducing the processing time at border posts. IT connectivity will also contribute to generating reliable and accurate trade data promoting the equitable sharing of customs revenue.

During the past year, work on establishing IT connectivity between Member States continued. Following the endorsement by SACU Heads of Customs for using the World Customs Organisation's (WCO) data sharing approach called Globally Networked Customs (GNC) for the SACU region, the development of standard data clusters for information exchange commenced. To date, the development of data clusters for import, export and transit information has been completed.

In addition, Member States continued with the implementation of the two IT connectivity pilot projects. One project is between Namibia and Botswana under the Trans Kalahari Corridor Initiative, and the other project is between South Africa and

Swaziland. Test data has been exchanged successfully under each of the pilot projects and the data is being analysed with a view to refine the data exchange platforms. A consultant has also been appointed to review the two pilot connectivity programmes between Botswana/Namibia and South Africa/Swaziland. Following this, a comprehensive proposal for an IT connectivity approach for the SACU region will be developed.

A core objective of regional customs activities relates to the protection of society and the combating of illicit trade. The risk management and enforcement project aims to modernise customs control in SACU by applying intelligence based risk management techniques to facilitate trade and promote compliance and security in line with international instruments, such as the Revised Kyoto Convention and SAFE Framework of Standards.

In order to achieve this regional risk management capacity building has been provided to all Member States. A regional risk framework detailing the risk criteria to be used by Customs has been developed and is being implemented by Member States. In addition, a number of high risk sectors have been identified for the region and Member States will conduct regular information exchanges on seizures in these sectors to identify trends. The high risk sectors include, tobacco, liquor, electronics, clothing and textiles and second hand motor vehicles.

During the past year, joint regional training programmes were conducted on audits, verification and risk assessment in order to ensure a common regional approach to customs risk activities across the Customs Union. In addition, a joint operations report on "Operation Auto", targeting imported second hand motor vehicles was compiled and circulated to Customs Administrations. A second joint enforcement operation under the auspices of the WCO Global Operation "Gryphon", targeting illicit trade in tobacco products was also initiated and commenced in October 2013. In the coming year, Member States will cooperate in implementing another joint enforcement operation targeting one of the identified high risk sectors in the region.

The application of similar legislation with regard to customs and excise duties in the Customs Union is a requirement in terms of Article 22 of the SACU Agreement, 2002. As part of an effort to align the customs and excise legislation with international instruments, a process of redrafting the Customs and Excise Act was initiated in 2003. In 2010 this process culminated in the development of a Draft Customs Control Bill and a Draft Customs Duty Bill. The Draft Customs Control Bill is intended to regulate the movement of people and goods at borders and is primarily concerned with the control of goods imported or intended for export. The Draft Customs Duty Bill is intended to regulate duties payable and is confined to the levying, payment and recovery of customs duties on goods imported or exported. These Draft Bills have been adopted as model legislation by Member States.

Member States are currently interrogating the Draft Bills with a view to utilising them as a basis for developing similar domestic customs legislation, in line with Article 22 of the SACU Agreement. South Africa has tabled the Draft Bills to Parliament for approval. Botswana, with the assistance of the Secretariat, has appointed a legal expert to assist in the legal review. Namibia, Swaziland and Lesotho are also at different stages of reviewing the draft Bills with a view to domesticating them. In addition, Member States are simultaneously pursuing short term legislative amendments to support information exchange, implementation of the Preferred Trader Programme and facilitate greater customs cooperation. At a regional level, an Annex on Mutual Administrative Assistance (MAA) and an Annex to Facilitate the Issuance of Supplier Declarations has been developed and adopted. Member States are engaged in their respective national legal processes that will allow these Annexes to enter into force.

Trade partnerships are one instrument that has become a valuable tool to achieve trade facilitation objectives within SACU. The Trade Partnerships strategy for SACU is anchored on strengthening customs to business dialogue and the development of an Authorised Economic Operator (AEO) programme. The AEO programme is a partnership between Customs Administrations and the trading community, which is aimed at rewarding compliance; facilitating legitimate trade; and promoting mutual recognition among Member States and third parties. In developing the AEO programme, Member States have agreed on a phased approach, starting with the establishment of a Preferred Trader Programme. Preferred Traders can include, inter alia, manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses and distributors.

During the year under review, work towards launching a pilot preferred trader programme continued. All the Member States have established preferred trader project teams at the national level, and regional capacity building programmes on customs audits have been facilitated. Member States have also received joint training on the verification and audit process to be followed for preferred traders in the pilot programme and agreed on the templates, documents and forms to be utilised for the preferred trader programme. All Member States have commenced audits of pilot operators and are continuing work on establishing their national preferred trader programmes. A peer review exercise was conducted to identify additional areas of support for Member States in developing their national programmes. Member States are expected to launch their national pilot programmes during 2014.

In addition to the preferred trader programme, efforts at strengthening dialogue between customs and traders continued. Member States continued to engage with the private sector through their respective National Customs to Business forums and a regional engagement with the private sector was also initiated. This regional discussion culminated in the launch of a regional Customs to Business Forum in November 2013 in Maseru, Lesotho. The forum brings together private sector representatives and Customs Commissioners from all Member States and provides a platform to discuss the role of the private sector in the implementation of the SACU trade facilitation programme as well as to obtain input on the establishment of SACU's pilot programmes. In the coming year follow-up meetings of the forum will take place.

Transport Sector in SACU Programme

At the Ministerial Retreat held on 30 August to 1 September 2008 in Kasane, Botswana, the SACU Council of Ministers concurred that an efficient transport system is vital for trade facilitation, especially in land-locked member states. They agreed that priority be given to the SACU transport agenda and the role of the transport sector in facilitating trade.

In 2009, SACU completed an assessment study on the transport sectors of all Member States. The assessment reviewed each of the countries' transport sectors, modes of transport, traffic volumes, routes and issues related to regulations – all in the context of how the transport sector facilitates or hampers trade in SACU countries. Following the completion of the study, the Secretariat undertook missions to all member states to consider the outcomes and recommendations of the report.

During the year, a Senior Transport Officials meeting was convened to deliberate on the report and identify priority areas to underpin a transport programme in SACU. It was agreed that initial focus be limited to road transport. At the 27th Council of Ministers meeting, the Council approved a set of priority areas to underpin a Road Transport Programme in SACU. These include:

- Development of a Policy Instrument to guide the SACU Transport Sector.
- Achieving a seamless, efficient, cost effective and non-discriminatory transport system in SACU through the simplification of Transport Documentation and Road User Charges.
- Achieving equitable transport market access within SACU.
- Promotion of a safe, reliable and environmentally friendly transport system within the region.
- Strengthening relationships with other Regional Economic Communities.

Working Groups in the areas of transportation of dangerous goods; road safety; and transport documentation have been established and work in these areas have commenced. However, in the course of implementation and given the number of policy and legislative issues arising, the SACU Commission noted that there is a need to define more precisely how work on transport will support the trade facilitation agenda. The Commission agreed that it was necessary for the technical teams on transport and trade facilitation to work together to clarify the links between transport and trade facilitation and ensure that transport activities are aligned to the trade facilitation agenda.

In order to ensure alignment, the Secretariat is continuing research on transport matters to support the development of a transport programme for the region. In this regard the Secretariat is partnering with the World Bank on an initiative to improve trade and transport facilitation in SACU Member States. This initiative is based on application of a Trade and Transport Facilitation Assessment (TTFA) toolkit. This toolkit has been developed by the World Bank and applied in several countries and regions. The TTFA is expected to provide an analysis of the state of the trade facilitation and logistics systems to support policy and strategic decisions for the region. This will be achieved especially (a) through identifying trade costs which hamper development of regional supply chains, and (b) through providing information on the performance of logistics and transport services that are at least partly in the realm of the private sector, and on the policy and regulatory environment. Initial desktop and field research has commenced and an initial draft report is in the process of being compiled. It is anticipated that a final draft report will be available in 2014, whereafter recommendations can be taken to the SACU institutions for consideration.

Challenges

In the 2013/14 financial year a key challenge was the varied pace of implementation of customs reform and modernisation efforts at national level, particularly with respect to the preferred trader programme. The required legislative reforms in Member States to support information exchange, customs reform and modernisations resulted in the pilot programmes being delayed. In addition, capacity constraints of the Secretariat and Member States and the different developmental levels of member states also contributed to slow implementation in some areas. The decision to review the transport programme, the inability to convene technical meetings and delays in conducting the TTFA study has also resulted in the transport programme not being implemented as envisaged.

Furthermore, changing trade regulations remains a challenge for Member States and businesses as increasing demands for supply chain security prevail. In general, the cross-border movement of goods and services and minimising delays at border posts are in need of continuous improvement and consultations between Member States needs to be strengthened.

Achievements and future outlook

A significant achievement was the successful audit of the first phase of the Customs Development Programme and the consequent extension of financial support to the programme. The second phase of the programme commenced in January 2014 and SIDA and WCO support for this phase will continue until December 2018, which will allow the region to continue implementation of the customs reform and modernisation initiatives. In addition, following the first ever joint customs enforcement operation by SACU Member States targeting imported second hand motor vehicles, the region has gained valuable insight and experience in coordination and conducting joint operations. The lessons learnt will be applied to future joint enforcement operations. In the coming year, SACU intends to channel its efforts towards other joint enforcement operations in high risk sectors. In addition, launching the Pilot Preferred Trader programme at national level is also prioritised. A review of the IT Connectivity pilots will also be undertaken and an approach to interconnectivity for SACU will be determined. Work on the alignment and implementation of a transport programme focused on supporting trade facilitation will continue and will be assisted by the outcomes of the TTFA.

Regionally, SACU is a fully functioning customs union with free movement of goods between member states and a common external tariff. The SACU Agreement, when fully implemented, will enable SACU to be more than a traditional customs union, as the agreement addresses common policies, harmonisation, cooperation and coordination 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 SACU Agreement, 2002.

The second half of the year rebounded though economic recovery continued to be uneven and remained fragile, with some economies recovering faster while others lagged behind

Growth in sub-Saharan Africa (SSA) remained buoyant during the year under review and the economic growth is expected to improve mainly driven by large investments in infrastructure and mining.

Global economic growth was sluggish during the first half of 2013, characterised by signs of recovery in advanced economies and the Euro area while growth in the emerging and developing economies was subdued. The second half of the year rebounded though economic recovery continued to be uneven and remained fragile, with some economies recovering faster while others lagged behind. The economic rebound in the advanced economies supported by the US normalisation of monetary policy through quantitative easing, created an unconducive environment for the emerging and developing economies. Consequently, these economies had to undertake difficult adjustments resulting in a high degree of capital and currency turbulences and subdued economic growth. Furthermore, much as the advanced economies continue to provide impetus to the global growth, the Euro Area is faced with the possibility of deflation due to large output gaps.

Growth in sub-Saharan Africa (SSA) remained buoyant during the year under review and the economic growth is expected to improve mainly driven by large investments in infrastructure and mining. However, the economic prospects are threatened by the external factors such as the subdued growth in the emerging markets, which have been supportive to the robust growth in SSA. Furthermore, domestic factors such as the reduced fiscal space, continue to pose a threat to the macroeconomic fundamentals.

In line with the weak and uneven global economic recovery, economic growth in SACU Member States further decelerated in 2013. The prolonged stagnation in the Euro Area as well as the subdued growth in the emerging economies, which are SACU's largest trading partners, had profound implications on the economies. Furthermore, the Federal Reserve's normalisation of monetary policy resulted in reversals of capital inflows and currency turbulences in emerging economies. The Rand experienced a depreciation during the year under review, but the depreciation of the

Rand did not boost exports as expected due to low domestic economic activity as well as the weakened demand in China and in the Euro Area. Notwithstanding, SACU Member States continue to pursue accommodative macroeconomic policies as well as embarking on major infrastructural programmes to stimulate inclusive growth.

Revenue Management activities during the year under review

The Revenue Management sub-directorate pursued various activities during the period under review. These included the review of the Revenue Sharing Arrangement; a programme for the harmonisation of the compilation of gross domestic product; and improvement of trade data quality in SACU.

Review of the Revenue Sharing Arrangement

The Task Team on the review of the Revenue Sharing Arrangement made notable progress in the review of the Revenue Sharing Arrangement with technical support from the Ad hoc Technical Committee. During the year under review, the Task Team developed a framework to guide the choice of variables in a new Revenue Sharing Arrangement. The Task Team has also agreed on economic variables to be used in the new Revenue Sharing Arrangement and endorsed that the new formula should be simple, robust, flexible, equitable, stable and efficient. Based on the approved framework, the Task Team has developed three draft proposals and technical work is ongoing to reach one proposal which will form the basis for the negotiations on the new Revenue Sharing Arrangement.

During the year under review, the study on the Dynamic Effects of the Expansion of SACU Membership was completed and the findings of the study will be used to inform the ongoing process of the review of the Revenue Sharing Arrangement.

One of the tasks of the Task Team is to investigate financing mechanisms to support the SACU industrial and infrastructure work programme. In this regard, the Secretariat is undertaking further technical work in order to inform the feasibility and structure of a financing mechanism.

Programme for the Harmonisation of the Compilation of gross domestic product (GDP)

During the period under review, work on the standardisation of the compilation of GDP at market prices among SACU Member States continued. At the 27th Council meeting held on 21 September 2012 in Ezulwini, Swaziland, Council approved the establishment of a study group comprising representatives of Member States to undertake a study on the estimation of "taxes on products" in the compilation of GDP at market prices. The study group undertook a study on the treatment and magnitude of "taxes on products" in the SACU Member States with a view to harmonise the GDP compilation at market prices. It is anticipated that the recommendations of the study group will be presented to the Commission and Council in the next financial year.

Improvement of Trade Data Quality in SACU

During the period under review, the Secretariat, with the support of the COMESA Secretariat, provided technical assistance on EUROTRACE to some Member States. The mission assisted Member States in addressing data errors; computing FOB values; and reconfiguring the EUROTRACE domains. EUROTRACE is a dedicated software for the compilation of foreign trade statistics developed by Eurostat. Specifically, it enables users to import customs data from external sources in order to generate trade statistics; review and clean trade data; and generate and export reports for secondary consumers, and calculate key data aggregates, such as trade indices.

As part of improving intra-SACU trade data quality and having comparable trade data in SACU, Member States started exchanging monthly trade data on the 15th of each month. This is expected to facilitate post-clearance investigations as well as data verification. It is anticipated that the practice will enhance the availability of timely and credible trade data over time.

Key Highlights

- The narrowing of options to three draft proposals of a new revenue sharing arrangement which are subject to further technical analysis and improvement.
- Completion of the study on the Dynamic Effects of the Expansion of SACU Membership intended to inform the process of the review of the revenue sharing arrangement.
- Completion of a study on the harmonisation of the compilation of “taxes on products” in the estimation of GDP at market prices.
- Monthly exchange of trade data files for Member States.

Challenges

Although the global economy has strengthened compared to the previous year, recovery remains uneven across the regions. While the US Federal Reserve Bank decision to taper quantitative easing signals recovery in the US, the emerging markets experienced a high degree of capital and currency fluctuations, and economic growth declined in China. These developments create uncertainty for the global economic recovery going forward.

Future Outlook

It is anticipated that the current options on a new revenue sharing arrangement will be further narrowed down. Furthermore, technical work on the feasibility of establishing a financing mechanism to support the SACU industrial and infrastructure work programme will be concluded.

CHAPTER 3: TRADE NEGOTIATIONS

The SACU Agreement, 2002, stipulates that no individual Member State may negotiate or enter into new preferential trade agreements with third parties on its own. To give effect to this provision, the SACU Council of Ministers decided that SACU will negotiate all agreements as a bloc. A nominated Member State will lead a specific set of negotiations, providing the chief negotiator. This approach is being followed in all negotiations that SACU is involved in.

Since the implementation of the SACU Agreement, 2002, SACU concluded a Free Trade Agreement (FTA) with the Member States of the European Free Trade Association (EFTA – Iceland, Liechtenstein, Norway and Switzerland) and a Preferential Trade Agreement (PTA) with the Member States of the Common Market of the South (MERCOSUR – Argentina, Brazil, Paraguay and Uruguay). In addition, in 2008, SACU Member States signed a Trade, Investment and Cooperation Agreement (TIDCA) with the USA, which entered into force immediately upon signature.

The EFTA-SACU FTA has been in force since May 2008 and also includes Bilateral Agricultural Agreements between SACU and Iceland, Norway and Switzerland/Liechtenstein respectively. It offers market access preferences on all industrial products, as well as a large number of agricultural products. In terms of the built-in agenda of the Agreements, a review of the market access provisions for all products is scheduled to take place five years after implementation of the Agreement. Given the ongoing negotiations in other areas, specifically the SADC-EC Economic Partnership Agreement, it was agreed that this review be launched at a later date. The intention is to start with this review once the SADC-EC EPA Negotiations have been concluded, which will be towards the middle of 2015.

The PTA with MERCOSUR has not yet been implemented, pending ratification by all signatory parties. Once this process is complete, the Agreement will enter into force 60 days later, offering margins of preferences on the tariffs applied on selected products covered under the agreement.

The TIDCA presents a forum for cooperation between the USA and SACU in a number of areas. These include Customs Cooperation, Sanitary and Phytosanitary Measures (SPS), Technical Barriers to Trade (TBT), as well as Trade and Investment Promotion. To support the aims and objectives of the TIDCA, the Southern African Trade Hub, based in Gaborone, Botswana, conducted a study that identified technical capacity constraints that affect SACU exports access into the USA market under TIDCA and proposed mitigation measures. Based on the results of this study, a technical assistance programme will be developed with the USA, which will address these constraints. This will, in all likelihood, be done in the form of a Memorandum of Understanding between SACU and the USA, to be signed under the umbrella of the TIDCA. Overall, the TIDCA serves as a useful tool to engage with the USA to facilitate trade and investment flows between the USA and the SACU Member States.

With respect to on-going negotiations, SACU is negotiating a preferential trade agreement with India.

In addition, SACU is participating in the negotiations with the EU on a SADC-EU Economic Partnership Agreement (EPA), as well as the negotiations on a Tripartite Free Trade Agreement between COMESA, the EAC and SADC. All SACU Member States are also participating in the World Trade Organizations' (WTO) Doha Development Round of negotiations by virtue of them being members of the WTO.

The **SADC-EC Economic Partnership Agreement (EPA)** will have significant implications for SACU and SACU Member States. Not only will it ensure preferential market access for SACU economic operators into the biggest single market in the world, but it will also allow European operators access into the SACU market as a whole. It will also be the first time that SACU Member States' trade relations with the European Union will be coordinated. Substantial progress has been made on most of the unresolved issues arising from the finalisation of the Interim EPA in 2007, and only few issues remain to be resolved, including market access for agricultural products, as well as finding agreement on some policy issues, including the question of export taxes and the Most Favoured Nation provision.

A complicating factor in these negotiations is the impending deadline of 1 October 2014 for not only having concluded the negotiations, but also having ratified the Agreement in order for SACU Member States, specifically Botswana, Namibia and Swaziland, not to lose their current preferential market access into the European Union. This arises from the fact that the European Union will withdraw the relevant market access regulation that allows ACP States to enjoy duty-free, quota-free access into the European Union as of that date. This matter is addressed at the highest possible level, while the pace of the negotiations has increased significantly during the year under review. It is therefore expected that the negotiations can be concluded in time, allowing unhindered continuing preferential market access for SACU products into the European Union.

Negotiations on a **Tripartite FTA between COMESA, the EAC and SADC** started with the June 2011 Tripartite Summit, where Heads of State and Government agreed on a 36-month schedule to conclude the agreement. The Tripartite Free Trade Area (FTA) with a combined population of some 600 million people and a Gross Domestic Product of about US$1 trillion covers half of the Member States of the African Union and is intended to boost intra-regional trade, increase investment and promote the development of cross-regional infrastructure. It is also intended to address the current situation of overlapping memberships by individual Member States in different regional trade arrangements.

SACU is approaching these negotiations as a bloc, under the SADC umbrella. According to a roadmap adopted in June 2011, negotiations for a Tripartite FTA are being conducted in three different phases – preparatory phase, phase one and phase two.

The Preparatory Phase: The Tripartite Trade Negotiation Forum (TTNF), the body responsible for the negotiations, has successfully completed the preparatory phase. This phase involved the exchange of relevant information, including applied national tariffs, and trade data and measures and it also involved the adoption of the terms of reference and rules of procedure for the establishment of the TTNF. This phase began in December 2011 and lasted about 12 months.

Phase 1: Phase 1 of the negotiations were started in 2013 and are continuing. This phase covers the core FTA issues of tariff liberalisation, rules of origin, customs procedures and simplification of customs documentation, transit procedures, non-tariff barriers, trade remedies and other technical barriers to trade and dispute resolution. Part of this work includes the negotiation of the text for the Tripartite FTA Agreement and commencement of the actual exchange of tariff offers.

The text based negotiations are almost complete and most Tripartite Member/Partner States have indicated their willingness to commence with the actual exchange of tariff offers. As a result, the TTNF at its 8th meeting in Entebbe, Uganda, in October 2013, encouraged Member/Partner States that were ready to exchange their tariff offers to do so and a few bilateral meetings were already held in this respect.

Facilitating movement of business persons within the region is being negotiated in parallel with the first phase.

Phase 2: The last stage of the negotiations, phase 2, is expected to start within the next year and will cover trade in services and trade-related issues, such as intellectual property rights, competition policy and trade development and competitiveness.

According to the roadmap, all negotiations should be completed within 36 months. Thereafter, COMESA, EAC-SADC are expected to launch a single FTA by 2016, building on the FTAs that are already in place.

Challenges

Each set of negotiations presents its own unique challenges, which are difficult to list. Some issues that arise are the pace of the negotiations, as well as implementing concluded agreements and speeding up the different ratification processes. A further challenge remains to ensure the effective communication with economic operators and other affected stakeholders to make them aware of the benefits that these agreements offer, and fully understand the conditions attached.

The Annex on the SACU Common Negotiating calls for the development of a common SACU Trade Policy, which requires a concerted effort by all SACU Member States to develop national positions and consolidate these into a regional position. Such a Trade Policy will have to be placed under the broader umbrella of a common SACU Regional Industrial Development Policy. However, the same capacity challenges that hamper the development of a Regional Industrial Development Policy, apply here as well. In addition, the slow progress made in implementing the SACU Work Programme will also impact on developing a common Trade Policy for SACU.

Future Outlook

It is expected that the negotiations with India, the European Union and on the Tripartite FTA will continue during the next financial year, and will increase in intensity. At the same time, the review of the agreement with EFTA will commence and cooperation with the USA expanded. Work on a common Trade Policy is likely to commence towards the end of the year.

CHAPTER 4: POLICY DEVELOPMENT AND RESEARCH

The SACU Agreement, 2002, calls for the development of common industrial strategies and policies, coordination of agriculture development in SACU, and cooperation on competition policies, laws and regulations. It further calls for the development of policies and instruments to address unfair trade practices. Another important objective of the SACU Agreement is to facilitate the development of common policies and strategies contained in Part 8 of the SACU Agreement, 2002.

During the period under review, SACU continued to work towards the development of its common policies such as industrial, agricultural and competition policies as well as undertaking the review of the Agricultural Rebates in SACU.

Regional Industrial Development Policy: With regard to the development of the Regional Industrial Development Policy, an in-depth research study was commissioned to provide inputs towards a detailed SACU-wide Industrial Development Policy. To facilitate the smooth implementation and monitoring of the study, UNIDO was engaged to provide technical assistance in terms of the review of the output of the Regional Industrial Development Policy study. The research work is at an advanced stage, with a second draft report produced and awaiting another round of review by the SACU Industrial Development Policy Task Team at a Regional Workshop to be held to finalise the study.

Parallel to the research work, SACU Member States have embarked on an initiative to conduct cross-border value chains analysis in the Agro-Processing areas of fruits and vegetable, dairy, leather and meat as well as the Automotive sub-sector, with a view to identify pilot project(s) for cross-border collaboration. The exercise is ongoing and will continue in the current financial year with Member States undertaking national consultations and the assessment of the value chains in collaboration with their respective national Development Finance Institutions.

To facilitate the smooth implementing of the cross-border value chains initiative, the SACU Task Team on Industrial and Development Policy has developed a set of guidelines that will assist them with their national consultations as well as the development of value chains and the packaging of bankable pilot projects.

Promotion of conditions of fair competition: As part of the regional objectives to promote conditions of fair competition in the Common Customs Area, Member States resuscitated work on the development of Annexes on the Competition Policy and Unfair Trade Practices. In this regard, the SACU Task Team on Unfair Trade Practices and Competition Policy was constituted during 2013 and was directed to review the findings and recommendations of the study on Unfair Trade Practices in SACU. Further national consultations are still being undertaken by Member States and the outcome of these consultations will inform the development of the Competition Policy and Unfair Trade Practices Annexes. The SACU Task Team on Unfair Trade Practices and Competition Policy consists of Trade and Competition Authority Officials, and most recently the participation of Legal Officers due to the legal nature of the discussions and the work to be undertaken in the drafting of the Annexes. This work will continue in the next financial year.

Agricultural policy: With regard to the agricultural policy related activities, the review of the merits of the agricultural rebate quotas that the BLNS[1] countries have to implement in order to import duty-free staple food commodities, such as wheat, butter, cheese, and milk powder was commissioned. In this regard, an Ad hoc Technical Committee consisting of the SACU Technical Experts on Agriculture, Trade, Finance and Customs was constituted in 2012 and assigned to review all agricultural rebates within SACU. The review will continue in the next financial year.

Southern African Development Community Free Trade Area (SADC-FTA): As part of the process to consolidate the Southern African Development Community Free Trade Area, review of the SADC Rules of Origin for Trade in Textile and Clothing Products with the aim to improve trade among SADC Member States is being undertaken. In light of this, the SACU Member States have commissioned a research study to inform their position on the matter. The aim of the study is to comprehensively assess the possible impact of the change to the current rules of origin for trade in textiles and clothing on SACU and SACU Member States. The research work is at an advanced stage, with a draft study report produced. The report will be finalised once the outstanding data is received from some Member States.

Trade in Services: As a new development area, SACU Member States included Trade in Services as the sixth (6th) priority area in the current Work Programme. Trade in Services was introduced as a new priority area due to the important role it plays in the economies of SACU Member States and in the trade relations with third parties. A SACU Task Team on Trade in Services was constituted to guide the implementation of this work, including defining the level of ambition for SACU and determining the necessary Legal Framework required to cover services in the broader SACU trade agenda. Terms of reference for a study to better understand the status quo regarding Trade in Services in SACU are being prepared for approval, following which the study will be commissioned. SACU countries are however, continuing their active participation in the SADC Trade in Services negotiations.

Challenges

Regional Industrial Development is the overarching objective of the SACU work programme through which industrialization of the region can be attained. However, capacity constraints in terms of technical and human expertise within Member States has hampered progress in the completion of initiatives such as the development of cross-border value chains as well as the completion of work related to the review of the Agricultural Rebates and Unfair Trade Practices in SACU. Previously, all the policy work programmes were initiated, developed and undertaken by the Trade and Industry and Agricultural Liaison Committees and, when their meetings were suspended, so too were the activities in their respective work programmes.

Future Outlook

During the next financial year, SACU will continue conducting relevant research, and subsequently developing relevant policies aimed at improving the SACU economies, to ensure a stable and balanced economic development within the Common Customs Area.

1 *Botswana, Lesotho, Namibia and Swaziland.*

CHAPTER 5: INSTITUTIONAL DEVELOPMENT

The SACU Agreement, 2002, establishes institutions of SACU in Article 7, to implement the Agreement. To date, only the Council of Ministers, the Customs Union Commission, the Secretariat and the Technical Liaison Committees have been operational since 2004. During the year under review, work continued to operationalise the other institutions, being the Summit of Heads of State or Government, Tribunal and Tariff Board.

The Summit: The Amendments to the SACU Agreement, 2002, to institutionalise the SACU Summit, were signed by the Heads of State or Government on 12 April 2013, in Gaborone, Botswana. The key function of the Summit is to provide political and strategic direction to SACU. In accordance with Article 9, the Amendments will enter into force thirty (30) days following ratification by all the Member States. The process of ratification is ongoing in the Member States.

Council of Ministers: The SACU Council of Ministers held one Ordinary Meeting on 28 June 2013 in Windhoek, Namibia and convened a Special Meeting on 12 December 2013. The Council considered various issues presented to it by the Commission, and provided overall policy direction on the implementation of the SACU Agreement and the Work Programme. The Council took decisions on other issues during the period under review, in accordance with the Rules of Procedure for the Council.

In accordance with the established procedure of the rotation of the chairing of Meetings of institutions of SACU, the Kingdom of Lesotho assumed the chairmanship on 15 July 2013, following the end of the Republic of Botswana's term on 14 July 2013.

Customs Union Commission: In accordance with Article 9 of the Agreement, the Customs Union Commission is tasked with the implementation of the Agreement and the decisions of the Council, as well as to oversee the management of the Common Revenue Pool. During the period under review, the Commission met on 25 to 27 June 2013 in Windhoek, Namibia, at which it considered reports on the technical work undertaken by the various Task Teams and Technical Committees, and made the necessary recommendations to the Council for decision. The details on the issues considered by the Commission are reflected in other chapters of this publication.

The Commission further convened Special Meetings as follows: on 27 November 2013, in Matsapha, Swaziland; and on 18 March 2014 in Johannesburg, South Africa. The Commission considered other issues during the period under review, in accordance with the Rules of Procedure for the Commission.

The Secretariat: As part of its responsibility of the day-to-day administration of SACU, the Secretariat coordinated and monitored the implementation of the decisions of the Council and the Commission. In accordance with Article 10 of the SACU Agreement, the Secretariat provided technical and administrative support to facilitate the work of all the institutions of SACU and continued to assist in the negotiation of trade agreements with third parties. The Secretariat further coordinated various technical studies as reflected in other chapters of this publication.

Tribunal: Article 7 of the SACU Agreement establishes an ad hoc Tribunal, which, in terms of Article 13, will settle disputes on the interpretation or application of the SACU Agreement. During the period under review, work on the development of the Annex to operationalise the SACU Tribunal continued, with particular focus on the determination of the jurisdiction of the Tribunal in the context of the SACU Agreement. This will inform the finalisation of the Annex on the SACU Tribunal.

Technical Liaison Committees: In accordance with Article 12 of the Agreement, the Technical Liaison Committees (TLCs) are mandated to assist and advise the Commission in its work. Following the decision to restructure the operations of the TLCs in order to streamline their operations, work on reviewing the Terms of Reference of the TLCs continued. This entailed consideration of proposals on merging and rationalising the functions of some of the TLCs with a view to streamlining the SACU institutional structure, as well as clarifying the reporting lines between the TLCs and Task Teams established by the Council. During the period under review, the Task Teams continued to meet to undertake focused technical work as reported in other chapters of this publication.

Tariff Board: SACU's Member States have agreed that, from time to time, it may be necessary to adjust SACU's common external customs tariff in order to foster economic growth and development. The SACU Agreement, 2002, outlines the institutional architecture for the five Member States to collectively manage the process of amending the Customs Union's common external customs tariff outside the trade negotiation processes that SACU becomes involved in.

The SACU Agreement, 2002 stipulates that each SACU Member State must establish a National Body. Each National Body is mandated to receive applications for adjustments to SACU's common external tariff, to carry out preliminary customs tariff investigations, and finally to recommend any tariff changes necessary to the SACU Tariff Board.

The Tariff Board has the responsibility of considering National Body reports and making recommendations to the SACU Council of Ministers on the level and changes to customs, anti-dumping, countervailing and safeguard duties on goods imported from outside the Common Customs Area. The Tariff Board will undertake work based on the policy mandates given to it by the Council.

In the period under review the Republic of Botswana became the second SACU Member State – after the Republic of South Africa – to have legislation that would give effect to its National Body. Lesotho, Namibia and Swaziland are now engaged in processes relating to the development of their own National Body legislation.

The SACU Council of Ministers authorised that an assessment of the current architecture and modus operandi for establishing and operationalising Member State's National Bodies and the Tariff Board be undertaken by expert consultants. The terms of reference for the study were approved and consultants were appointed to undertake the assignment.

CHAPTER 6: SECRETARIAT OPERATIONAL ENVIRONMENT

Financial Management

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

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

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

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

The annual external audits of the Secretariat are carried out by the Auditors-General of the Member States on a three-year rotational basis. The Auditor-General of Namibia has conducted the audit for the past two years. To date, the Secretariat has achieved unqualified audit reports since its inception and strives to continuously achieve this milestone.

For the 2013/14 financial year the Secretariat has achieved considerable success in improving its internal controls and financial systems.

This includes the upgrade of the financial system to the latest version of the SAP B1 accounting package so that the Secretariat benefits from the additional functionality. Consequently, the use of budget monitoring reports and an inventory management system has also commenced.

Work has commenced in the area of process automation, specifically with regard to procurement and travel work flows, with subsequent projects expected in budget reporting and related workflows.

Information and Communication Technology (ICT): The main focus of the ICT Sub-directorate is to equip employees with technology solutions and services, within a stable and secure computing environment, that support the provision of efficient and cost-effective services to SACU stakeholders.

During this period, the Secretariat reviewed the corporate data processing requirements and enterprise network infrastructure for the SACU headquarters building. As a result a more scalable network backbone was deployed to enable faster and secure processing of voice, video and data across both wired and wireless networks.

On the systems development front, an integrated risk management and audit solution was deployed to facilitate the internal audit cycle and management of enterprise risks and controls. In addition, a cloud based help desk solution was deployed to assist with the management of the Secretariat's facilities. Further work was also undertaken on enhancing the functionality of the Financial Management System as well as the development of a new SACU Website, Electronic Documents and Records Management System and Online Performance Management System. It is envisaged that the completion of this work during the 2014/15 financial year will streamline operational processes and reduce paper trails.

During the next financial year, the ICT sub-directorate key focus will be the relocation of IT Services to the new headquarters building, the replacement of outdated server hardware, improvement of employee awareness with regard to IT Security as well as the introduction of technologies to enhance security, employee mobility and workflow in operations.

Human Resources: The Human Resources function, which is under the Directorate of Corporate Services, provides a strategic support for the Secretariat. It provides Human Resources support in line with business processes to achieve the overall mandate of the Secretariat.

The Secretariat has a lean and flat organisational structure which is aimed at strengthening its capacity in order for the SACU work programme to advance. The Human Resources Unit has a role of ensuring adequate staffing levels and capacity in all directorates to provide the necessary technical advice and high quality reports to the Commission and Council as well as for implementation of all the SACU policies, strategies and the SACU Work programme. In order to have a consistent skills capacity and a robust team within the Secretariat, the Human Resources Unit ensures that the following interventions are made:

- Recruitment of highly experienced and qualified staff.
- Retention and motivation of staff through competitive, welfare-based policies and strategies as well as performance management.
- Staff development and training.
- Effective management of employee relations.
- Team building initiatives.
- Continual review of Human Resources polices and processes.
- Effective Wellness programmes.

The Secretariat has (46) professional and support staff positions in its organisational structure of which forty-one (41) are filled. The Secretariat is in the process of filling four (4) vacant positions of Deputy Executive Secretary, Industrial Policy Expert, Senior Office Manager and Communications Officer in this financial year.

The current process of the review of the Conditions of Service is intended to strengthen the Human Resources function of the Secretariat as well as to align it with best practice. The process further seeks to review and strengthen the performance management system of the Secretariat.

Records and Information Management: The importance of the Records and Information Management Office stems from Article 10 of the 2002 SACU Agreement, which declares the Secretariat as the repository of all SACU records. In this role, the sub-directorate manages and preserves the records of SACU institutions such as the Council, Commission, Tariff Board, Technical Liaison Committees and Secretariat.

During the period, a records management policy was implemented, after Council approval. Further work was done on developing retention and information classification policies, to enhance information sharing and security within SACU institutions.

Facilities and Maintenance: Construction of the SACU headquarters building: At the meeting of the Finance and Audit Committee (FAC) held on 9 July 2012, the FAC approved the recommendation of the Technical Evaluation Team and Task Team, and awarded the tender for the construction of the SACU headquarters (HQ) building to New Era Investments (Pty) Ltd. This is a proposed five storey (including basement for parking) building to accommodate the SACU Secretariat.

The Secretariat then concluded a contract with the contractor, New Era Investments (Pty) Ltd, which was officially signed on 22 April 2012, and the construction site was handed over to the contractor on 6 September 2012, which is the official starting date of the project. The contract period for the project is fourteen months (14), with the completion date set for 6 November 2013. However, numerous time extensions were claimed by the Main Contractor and was approved by the SACU Secretariat on recommendation by the Principal Agent. As a result, the project completion date was extended to April 2014 of which a Completion Certificate was issued to the main contractor on 15 April 2014 and the building was officially handed over to SACU. On 11 July 2014, a certificate of fitness for the building was issued by the Windhoek Municipality.

The total project contract amount is ZAR43 598 595,39 (excluding VAT) which includes ZAR2 200 000 as contingency. By the end of March 2014, actual progress made on the project was at 100% completion rate as per the project programme and was within project budget. A total amount of ZAR42 000 000 was certified for payment to the Main Contractor, New Era Investments. A total number of 19 Namibian local companies also benefited from this project as sub-contractors and received a combined amount of ZAR17 000 000.

During the construction period, the Secretariat felt that there was a need for an interior designer to provide the expertise and provide a conceptual interior design of the building, which included assisting the Secretariat with technical specifications and management of the tender process for the supply and installation of furniture and fittings. The Secretariat then solicited the services of an interior designer through a public tender. On 14 August 2013, the Secretariat Tender Committee (TC) awarded the Interior Design Services Tender to DNA Design Associates, a South African based company. The total amount for the Interior Design Tender is ZAR779 460.

At its meeting held on 18 March 2014, the Finance and Audit Committee (FAC) awarded a tender amounting to ZAR6 841 138 (excluding VAT) for the supply and installation of furniture at the new HQ building. The said tender was awarded to a South African-based manufacturing company called Woodcreations for the duration of four (4) months.

The Main Contractor has a 12-months final completion period in which repairs have to be done to all defects that occur on the building. Final completion is scheduled for 15 April 2015.

Challenges encountered

During the planning and preparation for the commencement of the project the ERF had to be rezoned. The Ministry of Finance of Namibia assisted the Secretariat in the rezoning process to ensure that it was finalised on time. The application for rezoning was made to the City of Windhoek through a private town planner, Barrie Watson Town and regional planner, who oversaw the timely completion of the process. The SACU Secretariat was also granted exemption from the payment of betterment fees, as well as the environmental clearance certificate by the Ministry of Environment and Tourism, Namibia which is a requirement for the approval of the building plans at the Municipality.

Delay in the completion of the project: The completion period for the project was scheduled for 6 November 2013. However, there were delays caused by a number of issues such as builders' holidays during the festive season, delayed delivery of some of the ordered construction materials from overseas and the installation of furniture and fittings.

PROJECT DETAILS

Client	SACU Secretariat
Consultant Architect	Barnard Mutua Architects
Consultant Quantity Surveyor	Hendrik Herselman Quantity Surveyors
Consultant Engineers (Civil/Structural)	Windhoek Consulting Engineers
Consultant Engineers (Mechanical)	Seelenbinder Consulting Engineers
Consultant Engineers (Electrical)	Burmeister & Partners Consulting Engineers
Main Contractor	New Era Investments (Pty) Ltd
Contract commencement date	6 September 2012
Contract period	14 calendar months (62 weeks)
Contract completion date	6 November 2013
Actual completion date	15 April 2014
Final completion date	15 April 2015

Following the economic crisis, global economic recovery continues to be weak and uneven

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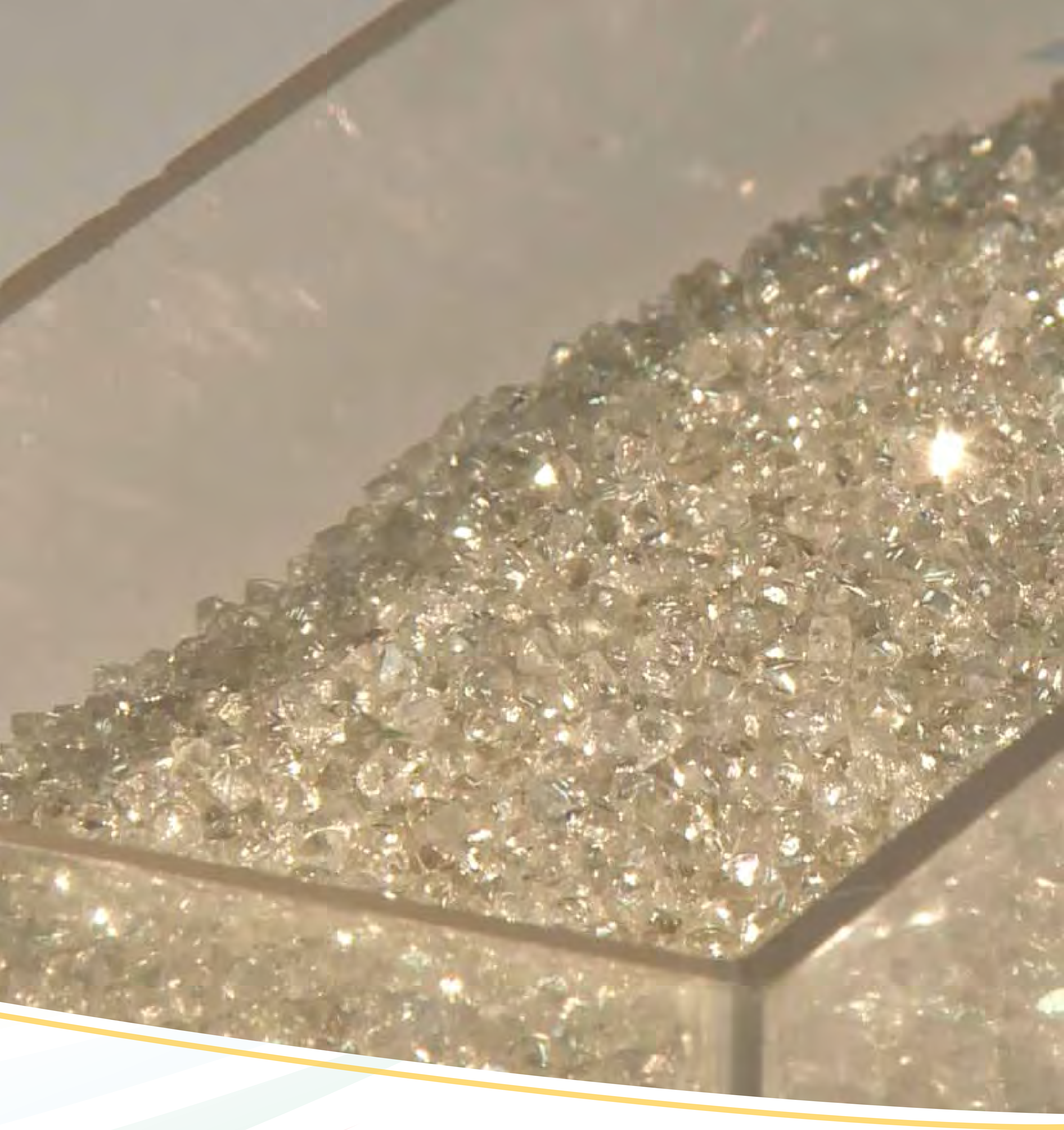


Annexes

ANNEX 1

SACU Member States Economic Performance

1. Overview of International and Regional Developments

1.1 Following the economic crisis, global economic recovery continues to be weak and uneven. According to the July 2014 IMF World Economic Outlook (WEO) Update, global economic growth decelerated by 3,2 percent in 2013 compared with 3,5 percent growth registered in 2012. Economic growth in the advanced economies showed economic prospects although it decelerated to 1,3 percent from 1,4 percent recorded in 2012. In particular, growth in the US declined to 1,9 percent from 2,8 realised in 2012, while the Euro Area remained in recession. The economic growth in the emerging economies declined to 4,7 percent from 5,1 percent realised in 2012, mostly affected by financial instability and currency turbulences caused by monetary policy adjustments.

1.2 Growth in the advanced economies decelerated to 1,3 percent from 1,4 percent realised in 2012, although Japan, the United Kingdom and Canada showed signs of economic recovery. Following a slow start due to fiscal tightening, the US economy regained speed mainly supported by the recovery in the real estate sector, increasing consumption demand and conducive monetary policies. The Euro Area remained in recession in 2012 and 2013 mainly driven by output contraction in Italy and Spain, while Germany, the largest economy in the Euro Area, registered a subdued but positive growth of 0,4 percent; France registered a sluggish growth of 0,3 percent. Japan also recovered from the effects of the tsumani and grew by 1,5 percent from 1,4 percent growth realised in 2012, boosted by, among other things, bold economic strategy that seeks to restore the Japanese economy. However, growth in the advanced economies is expected to increase to 1,8 percent in 2014, while the US economy is expected to modestly decline to 1,7 percent as the rebound in the economic activity would offset first quarter weak performance. The Euro Area is expected to sluggishly grow by 1,1 percent in 2014, although the region is characterised by uneven economic recovery amidst a continued fragmented financial system as well as rising levels of unemployment.

1.3 The change in the US monetary policy stance during the second half of 2013 led to the volatility in the capital and currency markets of the emerging economies, culminating in subdued growth. Economic growth declined to 4,7 percent in 2013 from 5,1 percent recorded in 2012, while economic growth in China remained unchanged at 7,7 percent and is expected to decelerate to 7,4 percent in 2014. The economic slowdown would be driven by the implementation of the structural changes aimed at changing exports and investment oriented growth to consumption oriented growth. In India, the economy grew by 5,0 percent in 2013 and is expected to grow by 5,4 percent in 2014 supported by economic reforms aimed at boosting growth. The Russian economic growth declined to 1,3 percent in 2013 from 3,4 percent registered in 2012 and is expected to further decelerate to 0,2 percent in 2014. The subdued growth in Russia emanates from geopolitical tensions in Ukraine and to some extent, the economic sanctions may adversely affect economic activity.

1.4 Economic growth in Sub-Saharan Africa (SSA) remains relatively high and increased to 5,4 percent in 2013 from 5,1 percent growth realised in 2012. The robust growth in SSA is indicative of a strong demand which is underpinned by the increasing investments in infrastructure and mining sectors as well as high agricultural production. Most importantly, oil producing countries continue to show sustained economic growth. However in South Africa, the economy grew sluggishly by 1,9 percent in 2013 and the IMF has projected that the economy would remain weak and grow by 1,7 percent in 2014 mainly due to labour tensions, shortages in electricity supply and low investor confidence.

1.5 In SSA, inflation remained moderate and averaged 6,3 percent in 2013 from an average of 9,0 percent in 2011/12 mainly driven by low international food and fuel prices. Given generally low productivity levels, the current account deficits widened in many countries and some currencies including the Rand depreciated, indicating the effect of the capital outflows.

1.6 With regard to the global economic outlook, the IMF has revised down the 2014 global growth as projected in the April 2014 WEO by 0,3 percent to 3,4 percent mainly driven by weak growth outlook in the emerging markets and the subdued quarter one economic growth in the US. Although the projection for the 2014 economic growth rate has been revised downwards, it shows a moderate improvement from the 3,2 percent growth realised in 2013. The effect of the dampened domestic demand in the US is perceived as a temporary setback which will be corrected in the subsequent quarters. The projection for 2015 remained unchanged from the April forecast at 4,0 percent mainly driven by expected economic rebound in the advanced economies which would offset dampened growth in the emerging economies.

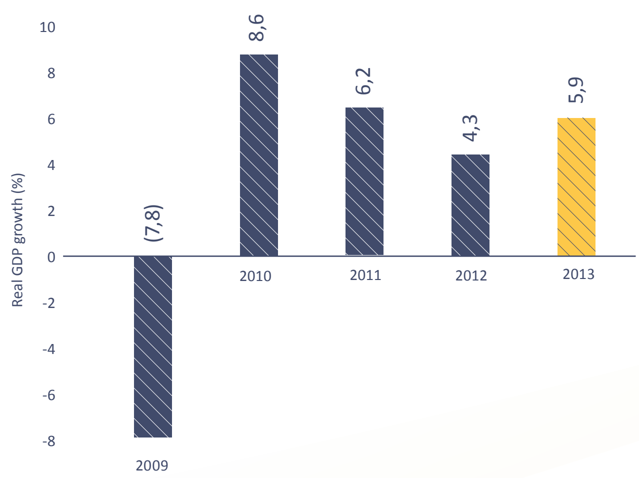
1.7 In SSA, the spill-over effects from the global slowdown, in particular, in the Euro Area and in China, are expected to exert some aspects of vulnerability in the growth prospects. Moreover, volatility in the capital and likely tightening of the monetary policies may result in subdued growth. It is expected that economic growth in SSA will remain unchanged at 5,4 percent in 2014 and increase to 5,8 percent in 2015, reflecting improved growth prospects in some countries in the region and also in advanced economies as major trading partners.

2. Botswana

2.1 Real sector developments

2.1.1 In real terms, the Botswana economy grew by 5,9 percent in 2013 from 4,3 percent growth realised in 2012 as shown in Figure 1, mainly driven by the mining industry. The industry remains the anchor of the economy and its contribution to GDP increased to 22,4 percent in 2013 from 19,9 percent recorded in 2012. The mining industry grew by 10,6 percent from a contraction of 7,0 percent registered in 2012, in particular, diamond production increased by 12,4 percent compared to 11,9 percent growth realised in 2012. It is expected that the relocation of the Diamond Trading Centre (DTC) from London to Gabarone would further bolster growth.

Figure 1: Real GDP growth



Statistics Botswana, March 2014

2.1.2 Trade, hotels and restaurants grew by 6,6 percent from 5,5 percent realised in 2012, while transport and communication grew sluggishly by 4,0 percent from 9,5 percent. Business service also decelerated by 5,6 percent from 11,0 percent recorded in 2012. The construction industry grew by 3,8 percent from 14,4 percent registered in 2012.

2.2 Employment developments

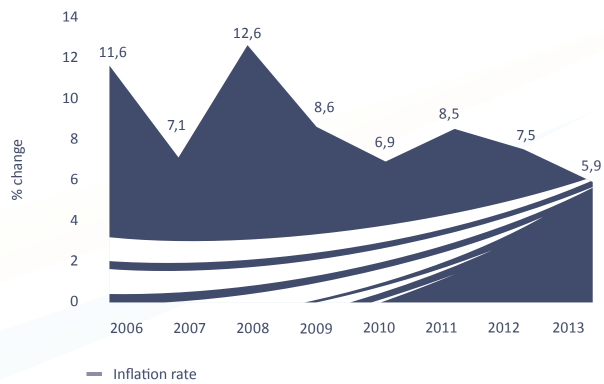
2.2.1 According to the 2009/10 Botswana Core Welfare Indicators Survey, the overall unemployment rate is 17,8 percent. The survey showed improvement in poverty reduction and indicated that the number of Batswana who fall under the poverty line has declined from 30,6 percent recorded in 2002/03 to 20,7 percent. The survey further showed that unemployment was higher among women at 21,4 percent compared to men at 14,5 percent.

2.2.2 On formal sector employment, the 2012 Employment Survey shows that employment increased by 0,6 percent from 387 426 in June 2011 to 389 665 persons in September 2012. The Central Government recorded highest number of employment followed by State Owned Enterprises (SOEs). In diversifying the economy, the Government has largely reinvested the proceeds from diamond sales into other sectors such as tourism, manufacturing and agriculture with a view to boost employment. The Government has also established a wide range of programmes and initiatives to address issues of unemployment, particularly among the youth.

2.3 Price developments

2.3.1 Botswana pursues a medium-term inflation objective range of 3 to 6 percent. The headline inflation trended downwards from 2012 as shown in Figure 2. In line with the easing of the global inflation, Botswana headline inflation dropped from 7,5 percent in 2012 to 5,9 percent in 2013, mainly driven by the modest demand pressures as echoed by low price changes in most of the categories of goods and services.

Figure 2: Inflation rate



2.3.2 The impact of an increase in administered prices and levies was muted mainly because they increased at a lower rate in 2013 compared to 2012. As cited in the 2013 Bank of Botswana Annual Report, on average, the administered prices and levies added approximately 0,34 percentage points to inflation in 2013 compared to 1,95 percent realised in 2012. It is expected that inflation would remain within the objective range in 2014 due to expected modest economic activity.

2.4 Interest rates

2.4.1 In December 2010, the Bank of Botswana decreased the bank rate from 10,0 to 9,5 percent and remained unchanged throughout to 2012. In 2013, the bank rate was cut by 200 percentage points to 7,5 percent and it has remained unchanged. The reduced bank rate is aimed at supporting economic growth. Accordingly, the commercial banks also reduced the prime lending rate from 11,0 to 9,0 percent during the same period.

2.5 Balance of payments

2.5.1 The preliminary data show that the overall balance of payments recorded a surplus of P1,3 billion in 2013 from a deficit of P862 million recorded in 2012. The improvement in the balance of payments is attributed to the surpluses realised in trade and current accounts. The account surpluses were driven by an increase in export earnings owing to a surge in sales of diamond and other mineral resources as well as an increase in current transfers boosted by SACU receipts.

2.5.2 The current account recorded a surplus of P12,9 billion in 2013 as shown in Table 1. The trade account recorded a surplus of P2,0 billion compared to a deficit of P4,8 billion registered in 2012, while net current transfers recorded a surplus of P13,8 billion, depicting a major contribution to the current account surplus. The transfer of operations of the Diamond Trading Centre from London to Gabarone in November 2013 provided an impetus to the surge of diamond exports. According to the Bank of Botswana, total exports increased by 39,2 percent in 2013 and, in particular, diamond exports increased by 46,0 percent from P36,1 billion in 2012 to P52,8 billion. A surge in exports was driven by high prices as well as an impact of the depreciation of the Pula. Imports also increased by 2,0 percent from P60,6 billion in 2012 to P61,8 billion and a significant growth was realised on importation of fuel, diamonds, chemicals, rubber products and food.

Table 1: Balance of payments (P million)

	2009	2010	2011*	2012*	2013**
Overall balance	(4 563)	(6 511)	3 430	(862)	1 340
Current account	(8 152)	(5 602)	(605)	(4 331)	12 890
Financial account	1 409	(1 886)	6 284	(667)	(7 715)
Capital account	–	23	3	–	–

Source: Bank of Botswana, 2013 Annual Report
* Revised
** Provisional

2.5.3 Net current transfers registered a surplus of P13,8 billion from a surplus of P13,4 billion recorded in 2012, mainly due to SACU receipts which amounted to approximately P13,5 billion. The capital account registered a small movement of transfers. The financial account, recorded a net outflow of P7,7 billion compared to a net outflow of P667 million registered in 2012. As cited by the Bank of Botswana, an increase in outflows was attributed to a surge in offshore investment, in particular pension funds from P23,9 billion in 2012 to P34,1 billion by the end of November 2013.

2.5.4 At the end of 2013, the foreign exchange reserves amounted to P67,8 billion from P59,3 billion recorded in 2012, equivalent to 16,5 months of import cover compared to 14 months recorded in 2012.

2.6 Monetary account

2.6.1 The broad money supply (M2) grew by 4,0 percent, a deceleration from 9,0 percent growth recorded in December 2012. Year-on-year, commercial bank credit declined from 23,6 percent recorded in 2012 to 15,1 percent mainly because credit extension to the business sector dropped from 26,8 percent in December 2012 to 4,6 percent in December 2013. The decline in credit extension is in line with slowdown in growth in the non-mining sectors. However, credit extended to households increased from 21,0 percent in December 2012 to 24,2 percent in December 2013, mainly driven by an increase in mortgage financing as well as personal loans.

2.6.2 In 2013, Moody's Investors Service and Standard & Poor's released the sovereign credit rating for Botswana and maintained credit rating of A2 and A-/A-2 respectively. The economic outlook was also maintained as stable. Despite a commendable rating, concerns were raised about the slow progress in the economic diversification programme as the country continues to rely on mining.

2.7 Government finance

2.7.1 In 2012/13, the actual budget outturn indicates that total revenue and grants amounted to P41,7 billion, a 2 percent increase from total revenue collected in the previous year. Both tax and non-tax revenue increased although tax revenue registered a significant increase as a result of the SACU receipts which amounted to P14,03 billion, equivalent to 34 percent of total revenue. Similarly, VAT collections increased due to the increase of the tax base, while mineral revenue dropped to approximately P12,1 billion. Total expenditure and net lending amounted to P40,7 billion. As a result, a nominal budget deficit of P0,36 billion, which is equivalent to 0,8 percent of GDP, as shown in Table 1, was attained.

Table 2: Government budgetary operations (P billion)

	2012/13	2013/14*	2014/15**
Total revenue and grants	**41,66**	**45,43**	**50,18**
Mineral	12,08	13,26	15,34
Non-mineral	29,58	32,17	34,94
of which SACU	14,03	13,06	16,19
% of SACU to total revenue	33,7%	28,7%	32,3%
% of SACU revenue to GDP	12,4%	10,3%	11,9%
Total expenditure	**40,74**	**45,04**	**48,86**
Recurrent	32,11	32,98	36,69
Development	8,28	12,12	12,24
Balance (% of GDP)	**0,8%**	**0,3%**	**1,0%**
GDP, current prices (millions)	112 855	127 227	136 140

Source: Ministry of Finance and Development Planning and 2013 National Budget
* *Revised estimate*
** *Estimate*

2.7.2 The revised budget estimates for 2013/14 indicate a budget surplus of 0,3 percent of GDP notwithstanding an increase of 9 percent of total revenue while total expenditure also increased by 10,6 percent from 2012/13. Total revenue is projected to amount to P45,4 billion boosted by mineral revenue which contributed 30,4 percent to total revenue and SACU revenue which also accounted for 28,7 percent of total revenue. Total expenditure is expected to amount to P45,04 billion of which P1,1 billion was allocated to the energy sector amidst disruption of the electricity supply.

2.7.3 It is projected that in 2014/15 a budget surplus of 1,0 percent of GDP will be achieved since the revenue is estimated to increase by 10,5 percent, reaching P50,2 billion, while total expenditure is also expected to increase at a lower rate of 8,5 percent to P48,9 billion. An improvement in revenue will be boosted by tax and non-tax revenue, in particular, SACU receipts, mineral revenue as well as non-mineral revenue.

2.8 Public debt

2.8.1 The statutory debt limit caps the debt to GDP ratio at 40 percent allocated equally to domestic and foreign debt. On average since 2011/12, domestic debt has accounted for 29 percent of total debt, while foreign debt accounted for 71 percent. In 2012/13, total outstanding debt amounted to P29,6 billion from P29,4 billion recorded in 2011/12, and it is projected to increase marginally to P30,9 billion and P32,6 billion in 2013/14 and 2014/15 respectively. Expressed by debt to GDP ratio, total debt is expected to reach 23,9 percent in 2014/15 from 27,5 percent recorded in 2011/12, falling within the statutory limit.

2.9 Economic outlook

2.9.1 Consistent with an uneven and uncertain global economic recovery, in particular weak recovery in the Euro Area and slower than expected growth in China, the Botswana economy is projected to grow by 5,1 percent in 2014, a deceleration from 5,9 percent growth realised in 2013. Despite ongoing programmes to diversify the economy, the mining sector, particularly diamond mining, continues to be the anchor of the economy. The transfer of operations of the DTC from London to Gaborone is expected to further bolster economic growth. However, the recent disruptions in the power supply adversely affected the supply-side of the economy and the efforts are underway to restore reliable and sustainable power supply.

2.9.2 The buoyancy in revenue, as stipulated in the 2014 National Budget, created a fiscal space for additional financing of programmes, while maintaining fiscal consolidation. This is supported by continuous Government commitment to balance the budget as evident from 2012/13. The Government undertook to contain expenditure to sustainable levels given that approximately 60 percent of the revenue is sourced from diamond mining and SACU. The Government is further committed to improving tax collection and efforts are underway to develop a Medium Term Fiscal Framework and strengthen the forecasting of Government budget.

2.9.3 Botswana continues to pursue economic diversification through promoting non-mining sectors, in particular, financial services, construction, agriculture, tourism, manufacturing and improved productivity. Botswana continues to invest in human capital as well as in infrastructural development, specifically in energy, water, transport, land and ICT with a view to support economic growth.

3. Lesotho

3.1 Real sector developments[2]

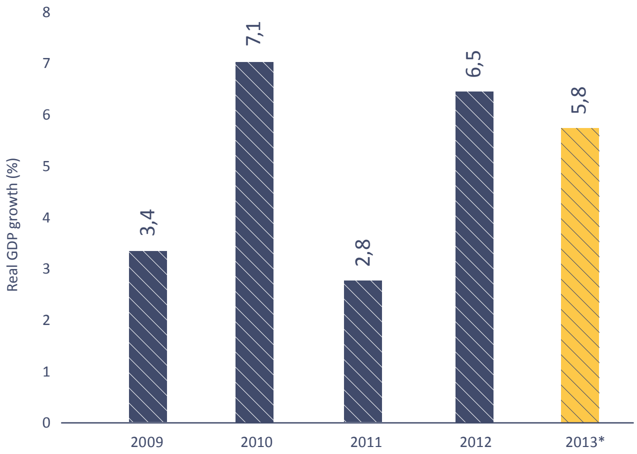
3.1.1 In real terms, the Lesotho economy grew by 6,5 percent in 2012 from 2,8 percent recorded in 2011 as shown in Figure 3. The economic rebound was mainly driven by construction which increased by 34,4 percent from 3,5 percent growth registered in 2011. The manufacturing industry, in particular clothing and textiles, remains the major contributor to the economy although its contribution is following a downward trajectory from 20,1 percent realised in 2004 to 10,3 percent registered in 2012. The manufacturing industry depicted a negative growth of 3,9 percent in 2012, an improvement from negative growth of 11,8 percent recorded in 2011.

3.1.2 In the primary sector, the mining and quarrying industry grew by 20,8 percent from 18,6 percent growth realised in 2011. However, its contribution to GDP declined by 6,6 percent from 9,3 percent registered in 2011. The good performance in the mining and quarrying industry was boosted by the depreciation of the Loti as well as the high prices of diamonds. Agricultural production, in particular crops production, was adversely affected by weather conditions and registered a negative growth of 0,7 percent in 2011 because of floods and worsened to a negative growth of 3,9 percent in 2012 due to drought.

3.1.3 Wholesale and retail increased by 12,3 percent from 6,6 percent realised in 2011 mainly attributed to the emergence of shopping malls while the electricity and water industry grew 3,8 percent from 1,7 percent growth realised in 2011. Transport and communication increased by 10,9 percent from 8,0 percent recorded in 2011, mainly boosted by post and telecommunications. Real estate grew by 2,7 percent mainly driven by the emergence of private property development.

1. 2013/14 SACU revenue converted to Pula using 1,1748 and the same exchange rate was assumed for 2014/15.
2. 2013 National Accounts were not yet released at the time of publication.

Figure 3: Real GDP growth



Source: Bureau of Statistics, National Accounts of Lesotho 2003 – 2012.
** Provisional estimate, Ministry of Finance*

3.1.4 Preliminary estimates indicate that the economy grew moderately by 5,8 percent in 2013, in line with the global output, and most importantly due to slow growth in the manufacturing sector, given that the renewal of trade preference under AGOA beyond 2015 remains uncertain. However, the winding down of the construction activities related to Metolong Dam, Millennium Challenge Compact (MCC) and other public investment on infrastructure are expected to have contributed to economic growth. It is expected that Phase II of the Lesotho Highlands Water Project will boost economic growth in the medium term.

3.2 Employment developments

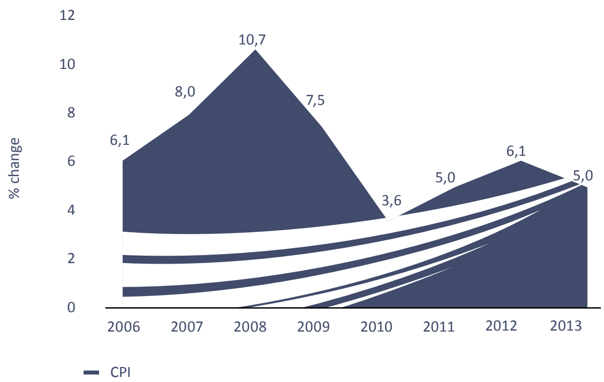
3.2.1 Manufacturing, in particular, the clothing and textile industry, remains the single largest employer followed by general government. In December 2013, a number of employees in the clothing and textile industry increased to 47 971 from 45 877 recorded in December 2012, mainly driven by increased production activity. Public sector employment increased by 2,2 percent in 2013 and the number of employees increased from 43 282 to 44 234, notably from armed forces and teachers.

3.2.2 The number of migrant mineworkers employed in South Africa continues to follow a downward trend from an average of 55 000 workers between 2005 and 2007 to 33 513 workers in December 2013. It is expected that construction activities related for phase II of the Lesotho Highlands Water Project and other major infrastructural projects will create jobs.

3.3 Price developments

3.3.1 The overall inflation rate, measured as a percentage change in the Consumer Price Index (CPI), followed a downward trajectory and declined to an average of 5,0 percent in 2013 from 6,1 percent recorded in 2012 as shown in Figure 4. The acceleration in annual inflation was driven by a slowdown in food prices which carry the highest weight in the CPI basket. This is in line with global food prices which declined in 2013.

Figure 4: Inflation rate



3.3.2 The categories which are expected to exert inflation pressure in 2014 are housing, electricity, gas and other fuel and transport services.

3.4 Interest rates

3.4.1 The interest rates movement follow South Africa's monetary policy stance, and interest rates in the Common Monetary Area (CMA) remained low since 2011 to stimulate economic growth, and it is expected to marginally increase in 2014. The 91-day Treasury Bill rate slowed moderately from 5,4 percent in December 2012 to 5,2 percent in December 2013 in line with the Lombard Rate[3] which declined from 9,4 percent to 9,2 percent over the same period.

3.5 Balance of payments

3.5.1 The preliminary estimates show that Lesotho's external position improved in 2013, registering a current account deficit of 1,9 percent of GDP compared to 10,2 percent recorded in 2012. The narrowing current account deficit from M1,9 billion registered in 2012 to M404,7 million as shown in Table 3 is attributed to an increase in current transfers as well as high income receipts from abroad. The net current transfer was boosted by SACU receipts, while the income account was boosted by large returns of the Central Bank assets. Similarly, the trade account deficit narrowed mainly due to the increase in exports of clothing and textiles, culminating from a recovery in orders subsequent to an extension of Third Country Fabric Provision, although it remains uncertain whether trade preferences under AGOA will be extended beyond 2015. The depreciation of the local currency also boosted the export growth.

Table 3: Balance of payments (M millions)

	2009	2010	2011	2012*	2013**
Current account	524,7	(1 200,0)	(1 096,6)	(1 945,8)	(404,7)
Capital account	592,5	990,9	1 379,4	1 611,5	1 085,3
Financial account	142,4	(1 344,1)	234,7	1 476,8	567,2

Source: Central Bank of Lesotho
* *Revised* ** *Preliminary*

3.5.2 Notwithstanding the supply-side constraints in the mining sector, Letseng Diamond mine continued to support the increasing production in the mining sector. On the other hand, the capital and financial account registered a lower surplus compared to 2012, mainly due to the winding down of the major capital projects, which were financed by Millennium Challenge Account (MCA), and the completion of Metolong Dam.

3.5.3 The gross official reserves increased to 6,1 months of imports in 2013, compared to 4,7 months of imports recorded in 2012. An increase in gross reserves was supported by a higher overall fiscal surplus in 2013, which allowed government to build up its deposits.

3.6 Monetary accounts

3.6.1 Real growth in broad money supply measured by M2 accelerated by 16,1 percent in December 2013 compared to 2,8 percent growth registered in December 2012. The acceleration in money was driven by a decline in domestic credit including claims on government. A decline in net claims on government was attributed to the build-up of government deposits with the Central Bank as a result of the fiscal surplus. The Net Foreign Assets (NFA) of both the Central Bank and the commercial banks increased. An increase in the NFA of the Central Bank was driven by a surge in SACU revenue, while the NFA of the commercial banks increased because of liquidity injected by government and the private sector.

3.6.2 Credit extended to businesses decelerated by 5,9 percent in 2013 from 23,0 percent recorded in 2012, while credit extended to the households also decelerated by 30,2 percent in 2013 from 55,3 percent growth registered during the previous year. Personal loans registered a significant share of the credit extended to the household followed by mortgages.

3.7 Government finance

3.7.1 The budget outturn in 2012/13 indicates that total revenue including grants, increased to M13,15 billion from M9,6 billion realised in the previous year. The increase in total revenue was mainly driven by SACU revenue which amounted to M5,97 billion, contributing 45 percent to the total revenue and 30,7 percent of GDP. Income tax amounted to M2,35 billion equivalent to 12,1 percent of GDP while VAT amounted to M1,64 billion, equivalent to 8,4 percent to GDP. Total expenditure amounted to M12,16 billion, of which compensation of employees amounted to M3,75 billion, equivalent to 30 percent of total expenditure and 19,3 percent of GDP. Goods and services amounted to M2,36 billion, contributing 19 percent to total expenditure and 12,1 percent to GDP. Capital expenditure amounted to M4,14 billion representing 34 percent of total expenditure, resulting in a fiscal surplus of 4,9 percent of GDP.

3.7.2 The projected outturn for 2013/14 shows that total revenue including grants, amounted to M14,2 billion while total expenditure reached M13,54 billion, resulting in another surplus of 4,2 percent of GDP. Total revenue increased by 7 percent mainly boosted by SACU revenue, which amounted to M6,05 billion, equivalent to 42 percent of total revenue, while income tax and VAT increased to M3,15 billion and 1,95 billion respectively. Total expenditure amounted to M13,5 billion, while goods and services amounted to M2,99 billion. Capital expenditure amounted to M3,92 billion.

Table 4: Government budgetary operations (M billions)

	2012/13	2013/14*	2014/15**
Total revenue and grants	**13,15**	**14,20**	**15,75**
Tax revenue	4,60	5,85	6,36
SACU	5,97	6,05	7,03
% SACU to total revenue	45,4	42,6	44,6
% of SACU revenue to GDP	30,7	27,5	28,6
Non-tax revenue	0,88	1,10	1,31
Grants	1,70	1,20	1,04
Total expenditure	**12,16**	**13,54**	**15,47**
Recurrent	8,76	10,34	11,61
Development	4,14	3,97	5,00
Balance (% of GDP)	**4,9**	**4,2**	**1,2**
GDP, current prices (millions)	**19 465,9**	**22 004,1**	**24 535,6**

* *Projected outturn*
** *Estimate*

3.7.3 The 2014/15 budget proposals indicate that total revenue is estimated at M15,75 billion, while expenditure is expected to total M15,47 billion, resulting in a fiscal surplus of 1,2 percent of GDP. In this budget, SACU revenue accounts for 44 percent of total revenue equivalent to 28,7 percent of GDP. Capital expenditure is estimated to increase to M5,0 billion, of which government will contribute M2,98 billion. As announced in the 2014/15 Budget, efforts are underway to establish the Independent National Monitoring and Evaluation Authority, which will provide an oversight to improve and monitor implementation and absorptive capacity.

3. Lombard Rate is used by the Central Bank of Lesotho as a penalty to commercial banks if they do not meet the liquidity requirements. It is calculated as a Treasury Bill rate plus 400 basis points.

3.8 Public debt

3.8.1 The public debt comprises external and domestic debt. Total debt to GDP ratio reached 49,8 percent in 2012/13 and it is expected to increase to 52,2 percent of GDP in 2013/14 and decline to 49,3 percent in 2014/15.

3.9 Economic outlook

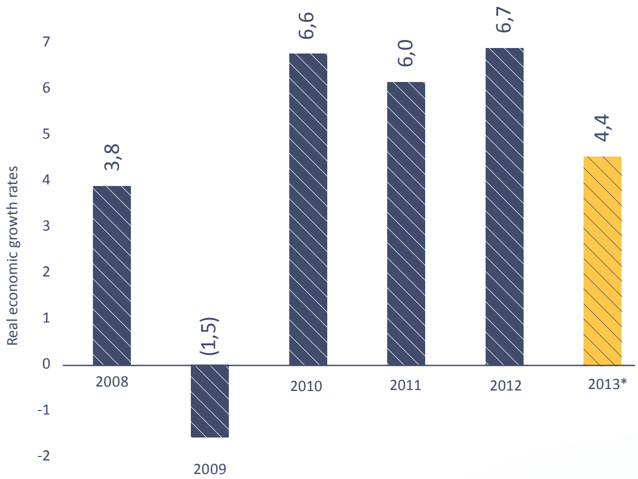
3.9.1 The economy is expected to grow moderately by 4,0 percent in 2014/15 and rebound in 2015/16 and grow by 4,9 percent and average 5,5 percent in the medium term. The economic growth would be supported by strong performance in construction, mining and private sector services. The implementation of phase II of the Lesotho Highlands Water Project, as well as the expansion of the private sector credit towards private property development, is expected to boost growth. However, the uncertainty with regard to the extension of trade preferences beyond 2015 under AGOA, as well as subdued economic growth in South Africa may pose risks to the economic outlook.

4. Namibia

4.1 Real sector developments

4.1.1 The preliminary 2013 National Accounts show that the economy grew by 4,4 percent, a slowdown from 6,7 percent growth experienced in 2012 as shown in Figure 5. The slowdown was mainly driven by a contraction of 9,3 percent in the primary industries compared to 16,7 percent positive growth realised in 2012. Diamond mining depicted a positive growth of 6,6 percent.

Figure 5: GDP growth rates



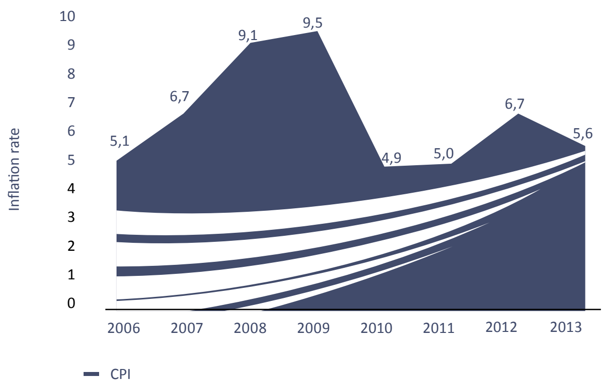
Source: Namibia Statistics Agency, 2013 Preliminary Annual National Accounts
* Estimate

4.1.2 Secondary industries grew by 8,7 percent in 2013 from 4,3 percent recorded in 2012 mainly driven by construction, which grew, by 35,2 percent compared to 7,2 percent in 2012. Tertiary industries grew by 6,4 percent, boosted by financial intermediation, hotels and restaurants and transport.

4.2 Price developments

4.2.1 Like other members in the CMA, Namibia's inflation rate followed a downward trend in 2013, averaging 5,6 percent from 6,7 percent recorded in 2012, as shown in Figure 6. The decline in inflation was attributed to the reduction in food and transport prices. In particular, a decline in annual inflation for food and non-alcoholic beverages was in line with international food prices which dropped in 2013 due to favourable weather. The prices for fuel also declined in 2013 compared to 2012. The inflation rate reached 6,1 percent in January 2013 and slowed to 4,4 percent in November and reached 4,9 percent in December 2013.

Figure 6: Inflation rate



4.3 Interest rates

4.3.1 Following a reduction of the repo rate to 6,0 percent in December 2010, it was further reduced to 5,5 percent in August 2012. Since then, it remained unchanged until it was increased by 25 basis points to 5,75 percent in June 2014.

4.4 Balance of payments

4.4.1 The overall balance of payments recorded a surplus of N$598 million, an improvement from a surplus of N$231 million registered in 2012 as shown in Table 5. An improvement in the external sector position was driven by a significant inflows in the capital and financial accounts which totalled N$7,1 billion.

4.4.2 The current account recorded a deficit of N$7,4 billion equivalent to 6,2 percent of GDP, lower than a deficit of N$8,0 billion registered in 2012. The merchandise imports increased to N$64,0 billion, while exports totalled N$44,8 billion. An increase in imports was mainly driven by importation of fuel, motor vehicles and capital goods, while diamond exports increased the value of exports followed by manufactured goods. The net current transfers increased to N$15,2 billion, mainly due to SACU receipts which amounted to N$14,5 billion.

Table 5: Balance of payments (N$ millions)

	2009	2010	2011	2012*	2013*
Overall balance	1 022	(3 794)	4 114	231	598
Current account	(1 284)	(3 424)	(3 025)	(8 010)	(7 433)
Capital and financial	3 144	1 897	8 571	6 482	7 142

Source: Bank of Namibia 2012 Annual Report
* *Provisional*

4.4.3 The capital and financial account registered a surge in net inflows, mainly driven by an increase in foreign direct investment and other long term investment. According to the Bank of Namibia, equity capital increased from N$4,1 billion recorded in 2012, to N$13,8 billion as a result of an equity swap carried out by the mining entities. Reinvested earnings declined due to a decrease in operating profits of foreign owned entities.

4.4.4 In 2013, the stock of international reserves increased by 6,7 percent to N$15,7 billion compared to N$14,7 billion registered in 2012. An increase in the stock of reserves was driven by a surge in net inflows.

4.5 Monetary accounts

4.5.1 In 2013, broad money supply measured by M2 increased by 12,8 percent compared with 4,1 percent growth realised in 2012. Private sector credit extension moderated and grew by 14,3 percent compared to the growth of 17,0 percent registered in 2012. The underlying factor behind the deceleration is the subdued growth in credit extended to businesses, which declined to 13,5 percent from 22,1 percent growth recorded in 2012. Credit extended to the households grew by 14,6 percent, mainly driven by a surge in mortgage loans which constituted 52,0 percent of the private sector credit extension.

4.6 Government finance

4.6.1 The Government pursued an expansionary fiscal policy from 2008/09 with a view to cushion the economy from the effects of the economic crisis. The fiscal expansion was strengthened during 2011/12 with the introduction of the Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) which is estimated at N$14,37 billion and focused mainly on infrastructure and transport, agriculture, housing and sanitation and tourism. However, the fiscal policy is premised on fiscal counter-cyclicality, promotion of sustainable growth and social welfare, and achievement of long-term fiscal sustainability.

4.6.2 In 2012/13, total revenue and grants amounted to N$38,0 billion, while expenditure amounted to N$38,1 billion as shown in Table 6. An increase in revenue was mainly boosted by an improvement in domestic revenue as well as SACU revenue. SACU receipts amounted to N$13,8 billion. Tax revenue amounted to N$35,3 billion, while non-tax revenue totalled N$2,5 billion. Of the total expenditure, operational expenditure amounted to N$32,6 billion, while development budget amounted to N$5,6 billion.

Table 6: Government budgetary operations (N$ millions)

	2012/13	2013/14*	2014/15**
Total revenue	38,0	43,9	52,5
Tax revenue	35,3	40,9	49,2
Non-tax revenue	2,5	2,8	3,2
Grants	0,17	0,19	0,007
SACU	13,8	14,7	18,1
% to total revenue	36	34	34
% to GDP	12	12	14
Total expenditure	38,1	47,6	60,3
Balance	(115)	(3,7)	(7,6)
% to GDP	(0,1)	(3,0)	(5,4)
GDP at market prices	104 580,0	125 285,0	129 863,0

Source: Ministry of Finance, 2014/15 Fiscal Policy Framework
* *Preliminary outturn* ** *Budget estimate*

4.6.3 In 2013/14, the original estimate of total revenue amounting to N$40,1 billion was revised upward to N$43,9 billion, equivalent to 35,1 percent. The preliminary outturn indicates that of the total revenue, SACU receipts amounted to N$14,7 billion, which accounts for 34 percent of total revenue. Tax revenue amounted to N$40,9 billion, while non-tax totalled N$2,8 billion. Total expenditure reached N$47,6 billion, resulting in a fiscal deficit of 3 percent, lower than the original estimated deficit of 6,4 percent.

4.6.4 It is projected that total revenue will amount to N$52,5 billion, while total expenditure is expected to reach N$60,3 billion. Of total revenue, SACU receipts amounted to N$18,1 billion accounting to 34,5 percent of total revenue. The development budget amounted to N$9,6 billion earmarked for infrastructural development.

4.7 Public debt

4.7.1 The consecutive countercyclical fiscal expansion has largely contributed to the considerable increase in the total debt stock. During 2012/13, total debt amounted to N$24,6 billion, representing debt to GDP ratio of 24,9 percent and further increased to N$32,4 billion in 2013/14, mainly driven by the issuance of the USD denominated Eurobond. It is expected that total debt would reach N$38,4 billion in 2014/15, equivalent to 29,6 percent of GDP. The fiscal rule sets the debt to GDP ratio at 35 percent and as much as the total debt stocks has been increasing, it is within the limit.

4.8 Economic outlook

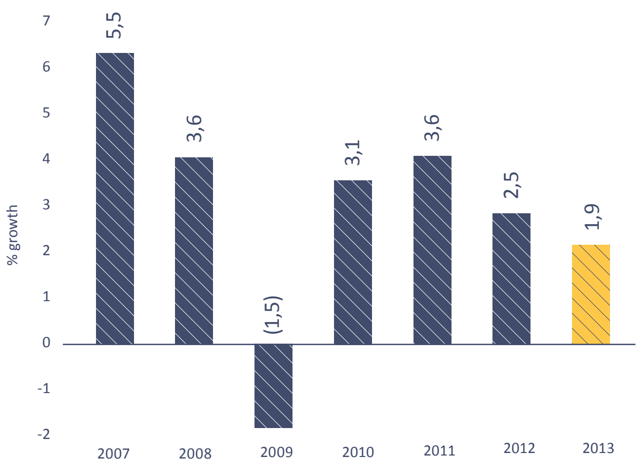
4.8.1 Growth prospects remain favourable in the medium term supported by the recovery in the developed economies. In real terms, the Namibian economy is expected to grow by 5,0 percent in 2014 and remain at 4,8 percent in the MTEF. A robust investment activity in the mining, construction and manufacturing industries is expected to bolster growth. Inflation outlook remains positive although expected to reach an average of 6,0 percent in 2014. Efforts are underway to improve tax administration and enhance domestic revenue by introducing alternative sources of revenue.

5. South Africa

5.1 Real sector development

5.1.1 In 2013, the tertiary sector contributed on average 19,3 percent to GDP compared to 17,0 percent in 2012. In real terms, the economy recorded a slow growth of 1,9 percent, as shown in Figure 7. The growth rate of 1,9 percent compared to 2,5 percent realised in 2012, below the potential of an annual growth rate target of more than 5 percent as stipulated in the National Development Plan.

Figure 7: Real GDP growth rates



Source: Statistics South Africa; GDP 1st Quarter Report, 2014

5.1.2 The slow growth was mainly driven by a deceleration in manufacturing output, which grew by 0,8 percent from 2,1 percent recorded in 2012 while, the mining industry rebounded from a negative growth of 3,6 percent recorded in 2012 and grew by 3,1 percent. The labour unrest as well as the weak growth in the Euro Area are some factors that contributed to the low output in the manufacturing industry. It was expected that the deprecation of the Rand should have boosted the productivity in the export-led industries.

5.1.3 Growth in electricity, gas and water contracted by 0,4 percent, a marginal improvement from negative growth of 1,6 percent recorded in 2012. Wholesale trade and transport industries also depicted a deceleration in growth from 3,8 percent and 2,4 percent in 2012 to 2,2 percent and 1,9 percent respectively. The growth in these industries was mainly driven by higher prices due to the depreciation of the Rand, household indebtedness and employment outlook.

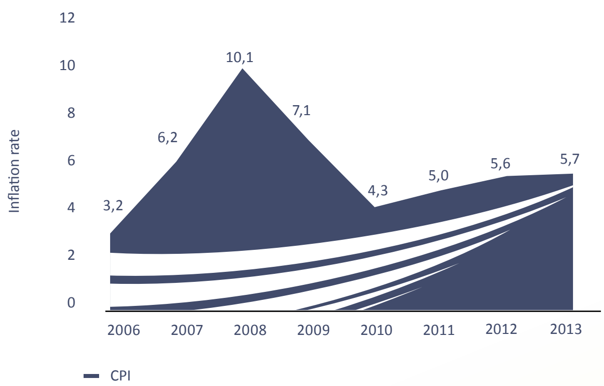
5.2 Employment developments

5.2.1 On average, the unemployment rate slipped to 24,7 percent in 2013 from 25,1 percent recorded in 2012. According to the Quarter 1: 2014 Quarterly Labour Force Survey which also includes employment in the agricultural and informal sectors, employment increased in the first three quarters of 2013 but declined in the last quarter.

5.3 Price developments

5.3.1 Following subdued inflationary pressures in 2010, headline inflation increased to an average of 5,6 percent and 5,7 percent in 2012 and 2013 respectively as shown in Figure 8, edging towards the upper limit of the inflation target band. Inflationary pressures intensified due to the depreciation of the Rand. Furthermore, the lagged pass-through to consumer inflation was notable in the latter half of 2013 and early 2014.

Figure 8: Inflation rate



5.3.2 The headline inflation moderated to 5,3 percent in November and reached 5,4 percent in December 2013. In early 2014, headline inflation continued to edge towards the upper end of the target range and reached 5,9 percent in February and further increased to 6,6 percent in May 2014. The inflationary pressure was exerted by the weakening Rand, and the wage-price spiral as a result of wage bargaining and settlement. The headline inflation is projected to reach 6,3 percent in 2014 and moderate to an average of 5,3 percent in 2015.

5.4 Interest rates

5.4.1 The Monetary Policy Committee (MPC) maintained an accommodative monetary policy stance to stimulate economic output until January 2014 when the repo rate was increased. The repo rate was left unchanged at 5,5 percent since November 2010 to May 2012, mainly due to the volatile and uncertain economic outlook as well as the upside risks. However, the repo rate was reduced by 50 basis points to 5,0 percent in July 2012 to stimulate the economy and was left unchanged until January 2014 when it was increased by 50 basis points. The MPC further increased the repo rate in July 2014 by 25 basis points to 5,75 percent in an attempt to continue the normalisation programme amid the weak Rand, volatile capital flows and wage settlement pressures.

5.5 Balance of payments

5.5.1 In 2013, the current account deficit deteriorated and increased to 5,8 percent of GDP from 5,2 percent registered in 2012 as shown in Table 7. The current deficit of 5,8 percent of GDP is the largest deficit since 2009 although lower than forecast as a result of the inclusion of BLNS Member States' trade in the trade account. The current account deteriorated because growth in domestic expenditure, supported by low interest rates, was higher than domestic production. The high import penetration ratio reflects high propensity to import capital, intermediate and consumption goods.

5.5.2 Merchandise exports increased to R854 billion from R744 billion registered in 2012, while value of imports also increased from R854 billion recorded in 2012 to R991 billion, resulting in a trade deficit of R74 billion. The value of exports increased by 14 percent owing to the depreciation of the Rand as well as the recovery of the global economy. This is further exacerbated by the major infrastructural development programme, which is expected to boost imports of capital goods, thus machinery and electrical equipment.

Table 7: Current account of balance of payments (R billions)

	2010	2011	2012	2013
Merchandise exports	565,9	671,2	744	854
Net gold exports	59,5	75,3	71	64
Merchandise imports	(598,2)	(730,1)	(854)	(991)
Trade balance	**27,2**	**16,4**	**(39)**	**(74)**
Net service, income and current transfer	(102,2)	(115,2)	(125)	(124)
Balance on current account	**(75)**	**(98,8)**	**(164)**	**(197)**
% of GDP	**(2,8)**	**(3,4)**	**(5,2)**	**(5,8)**

Source: SARB Annual Economic Report 2013 and March 2014 Quarterly Economic Bulletin

5.5.3 The services income and transfer account, marginally decreased from a deficit of R125 billion registered in 2012 to R124 billion in 2013. With regard to the financial account, South Africa like other emerging markets, was adversely affected by US Fed decision of tapering quantitative easing, and the effect was further exacerbated by the uncertainty, regarding the actual time and pace of the tapering of future bond purchases.

5.5.4 These international developments resulted in the reversal of portfolio flows, which was evident in the fourth quarter of 2013 during which net capital inflows dropped to R35,9 billion from R79,9 billion recorded in the third quarter. Specifically, foreign direct investment amounted to R4,1 billion in the fourth quarter, marking a decline from R47,4 billion recorded in the third quarter. However, other investment and portfolio investment declined in 2013 to R49,8 billion and R14,2 billion compared to R66,8 billion and R95,1 billion registered in 2012 respectively.

5.5.5 The value of South Africa's gross gold and international reserves amounted to USD49,6 billion by the end of December 2013, equivalent to 5,2 months of imports cover. According to the March 2014 Quarterly Economic Bulletin of the South African Reserve Bank, the level of reserves marked a decline of USD1,1 billion, mainly due to the lower gold price.

5.6 Monetary account

5.6.1 South Africa broadly defined money supply (M3) to measure money supply. M3 growth was subdued but showed signs of recovery in 2010 and 2011 before following a downward trend in 2012. Thereafter it picked up in the first half of 2013 and reached 12,3 percent during the second quarter. The increase in money supply during the first half of 2013 was driven by an improved yield differential between the deposit holdings and bonds.

5.6.2 Overall total loans and advances extended to the private sector dropped to R147 billion in 2013 from R209 billion recorded in 2012. Credit extension moderated in 2013 amid labour unrest in the manufacturing and mining industries, which necessitated cautionary lending. Following an annual growth of 9,5 percent in June 2013, year-on-year, total loans and advances extended to the private sector receded to 7,4 percent in November and further decelerated to 6,4 percent in December 2013. Contribution of general loans extended to household declined from 74 percent in 2012 to 60 percent in 2013. In the latter part of 2013, credit extended to the corporate sector outpaced credit extended to the household sector, which was a notable structural change given that the former has been lagging behind since mid-2012.

5.7 Government finance

5.7.1 South Africa's macroeconomic framework is premised on countercyclical fiscal policy to support growth and investment, alongside monetary policies which continue to counter inflationary pressure, while stimulating economic activity. In light of the global economic down turn, dampened domestic growth and a rising debt level, the Government has reaffirmed its fiscal stance that is underpinned by counter-cyclicality, debt sustainability and intergenerational fairness. As stated in the 2013 Medium Term Budget Policy Statement, the Government undertook to contain expenditure, reduce the budget deficit and stabilise debt, and improve the quality of spending, while reducing waste.

5.7.2 The Government follows the medium-term expenditure framework (MTEF) which outlines public service delivery commitments in pursuit of national development and transformation goals. The MTEF for the period ahead reflects Government's commitment to create jobs, grow the economy, promote equality and accelerate access to social services. The expenditure therefore focuses on infrastructure, education and skills development, improved health outcomes, integrated and sustainable human settlements, and rural development. In addition, social and economic infrastructure investments have been scaled up. Since 2011/12, special focus has been placed on infrastructural development, signalling a renewed public-sector investment drive as a foundation for long-term growth, employment creation and development.

5.7.3 In 2012/13, total revenue amounted to R909,3 billion equivalent to 28,3 percent of GDP, while expenditure reached over a trillion for the first time and totalled R1,05 trillion, equivalent to 32,7 percent of GDP, resulting in a budget deficit of 4,3 percent of GDP. The revised budget for 2013/14 indicates that revenue amounted to R1,01 trillion, equivalent to 29,2 percent of GDP, while expenditure totalled R1,15 trillion (30,2 percent of GDP), resulting in a budget deficit of 4,0 percent of GDP as shown in Table 8.

Table 8: South Africa fiscal performance (R billion)

	South Africa			
	2011/12	2012/13	2013/14	2014/15
Total revenue	842,3	909,3	1 010,5	1 099,2
Total expenditure	953,1	1 045,2	1 149,3	1 252,3
Fiscal balance	(110,8)	(135,9)	(138,8)	(153,1)
% of GDP	**(3,7)**	**(4,3)**	**(4,0)**	**(4,0)**
Total debt stock#	989,7	1 181,5	1 370,4	1 573,7
Domestic	891,7	1 065,7	1 245,7	1 455,7
Foreign	98,0	115,8	124,7	118,0
Debt as % of GDP	33,3	36,8	39,3	41,4

 # Total net loan debt; Source: National Treasury

5.7.4 The 2014/15 budget proposals were premised on the National Development Plan (NDP), which is a framework for economic and social transformation by reducing poverty and inequality and creating jobs. It is estimated that in 2014/15, total revenue would amount to R1,1 trillion, while total expenditure is expected to reach R1,3 trillion, resulting in the budget deficit of 4,0 percent of GDP. Despite the global and domestic economic challenges, the 2014/15 budget framework outlines that in the medium term, the budget deficit will narrow to 2,8 percent of GDP; net debt stock will stabilise at 45 percent of GDP; and non-interest spending will also grow by 2 percent.

5.8 Public debt

5.8.1 Issuance of bonds, in particular fixed-income and inflation-linked bonds as well as Treasury Bills, remain the primary source of financing the fiscal deficit over the medium term. On average, domestic debt contributes 88 percent to total debt, while foreign debt contributes 12 percent. The low level of foreign debt reduces the government exposure to external risks, while the long-term maturity structure of the government debt stock as well as the prudent maturity profiles, cushions the impact of short-term fluctuations in the capital markets.

5.9 Economic outlook

5.9.1 Given that South Africa is intertwined in the global economy, uneven economic recovery has further created uncertainty. In light of the domestic and global economic developments, most institutions have revised down the 2014 economic growth forecast. Among such institutions is the South African Reserve Bank, which has revised down the 2014 economic forecast to 1,7 percent from the initial forecast of 2,8 percent, while the World Bank also revised down the forecast from 2,7 percent to 2,0 percent. The IMF, in its July 2014 WEO Update has revised down the April forecast by 0,6 percent from 2,3 percent to 1,7 percent. Central to these revisions is the labour unrest, rising inflation rates, lower output in key sectors, increases in interest rates and power supply shortages.

5.9.2 Government is working on some economic and structural reforms to address supply and demand-side constraints with a view to provide a conducive environment to grow the economy, create jobs, and reduce poverty and inequality. The planned infrastructural development is expected to expand the productive capacity of the economy while sectoral developments are expected to boost productivity and competitiveness. The MPC will monitor global and domestic developments to keep inflation in check while also creating an environment to stimulate economic growth. It is expected that inflation will breach the inflation target range and average 6,3 percent in 2014 and fall within the target range in the medium term.

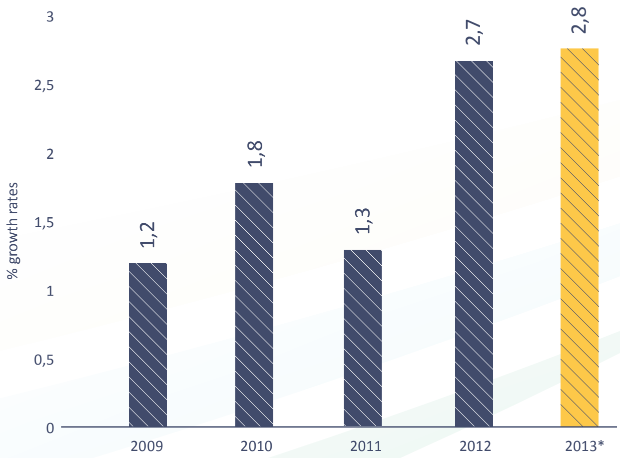
6. Swaziland

6.1 Real sector development[4]

6.1.1 The preliminary figures show that the economy grew by 2,8 percent in 2013 as shown in Figure 9. Central to the economic growth in 2012 was the tertiary sector which grew by 4,7 percent and the secondary sector grew by 2,5 percent while the primary sector depicted a negative growth of 5,6 percent. The negative growth in the primary sector was driven by low output due to poor weather conditions. Mining and quarrying also grew by 35,5 percent in 2012 from a contraction of 14,4 percent registered in 2011.

6.1.2 Growth in the secondary sector was boosted by the construction industry which grew by 20,2 percent, rebounding from a negative growth of 4,3 percent realised in 2011. The recovery in this industry is reflective of the revival of public investment as well renewed business confidence. The communications industry grew by 10,0 percent mainly driven by increased cellphone connectivity as well as access to internet services, while the transport industry also grew by 9,0 percent supported by the revived economic activity.

Figure 9: Real GDP growth rates



Source: Central Statistics Office

* *Estimate provided by the Ministry of Economic Planning and Central Bank of Swaziland and IMF*

6.1.3 The preliminary figures for 2013 indicate positive growth prospects, with the secondary sector expected to lead the growth trajectory. The secondary sector is expected to grow by 4,8 percent while the tertiary sector is expected to decelerate and grow by 2,5 percent; the primary sector is expected to improve although it would still depict a negative growth of 0,4 percent.

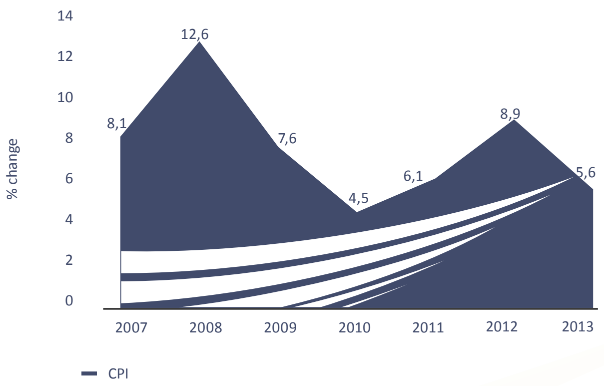
6.2 Employment developments

6.2.1 According to the Central Statistics Office, unemployment rate stands at 28,5 percent and stands at 40,6 percent using the alternative definition. The promotion of private sector development and the SMEs will have a positive effect on employment creation especially among the youth.

6.3 Price developments

6.3.1 Inflation followed a downward trajectory in 2013, dropping from 8,9 percent registered in 2012 and averaged 5,6 percent in 2013 as shown in Figure 10. In 2013, inflation trended downwards, mainly driven by a decrease in food and fuel prices in line with the international trend.

Figure 10: Inflation rate



6.4 Interest rates

6.4.1 Swaziland is a member of the CMA and therefore follows the monetary policy stance pursued by South Africa. The Central Bank of Swaziland left the discount rate unchanged at 5,5 percent since 2010 but reduced the rate to 5,0 percent in July 2012 to stimulate economic growth. However, in July 2014, the discount rate was increased by 25 basis points to 5,25 percent. Accordingly, the commercial banks also increased the prime lending rate to 8,75 percent.

6.5 Balance of payments

6.5.1 Preliminary data show that Swaziland's overall balance of payments improved in 2012 and registered an overall surplus of E1,3 billion from a deficit of E690 million recorded in 2011. The improved performance was mainly driven by the trade and current accounts. The current account registered a surplus of E1,08 billion from a revised deficit of E2,7 billion recorded in 2011, as shown in Table 8. The current account was boosted by net transfers, which improved to a surplus of E8,01 billion from a surplus of E3,85 billion registered in 2011. A drastic increase of the net transfers was mainly driven by SACU receipts, which amounted to E6,02 billion compared to E2,65 billion received in 2011. Grants also contributed to the improved performance of the net current transfers and amounted to E1,44 billion compared to E397,8 million recorded in 2011.

6.5.2 The trade account registered a surplus of E639,2 million from a deficit of E319,2 billion recorded in 2011, mainly driven by exports in the mining and manufacturing sectors. Total merchandise exports amounted to

ANNEX 1 (CONTINUED)

SACU Member States Economic Performance

E15,81 billion from E13,84 billion recorded in 2011, while imports totalled E15,16 billion compared to E14,09 billion recorded in 2011. Services account registered a deficit of E5,09 million, mainly due to the services that were sourced from outside the country.

Table 8: Balance of payments (E millions)

	BOP in E million			
	2009	2010	2011*	2012**
Current account	(3 477,50)	(2 946,60)	(2 674,5)	1 084,10
Financial account	(2 298,6)	785,20	835,50	(663,8)
Capital account	91,1	105,20	146,90	930,3

Source: Central Bank of Swaziland Annual Report 2012/13
* *Revised*
** *Preliminary*

6.5.3 The financial account registered a deficit of E663,8 million mainly due to the net outflows in the portfolio and other investments accounts, while foreign direct investment registered a net inflow of E789,1 million, which was offset by the net outflow, resulting in a deficit. The capital account registered a surplus of E930,3 million due to the capital injection amounting to E968,01 million.

6.5.4 The reserves increased to 3,2 months and 4,6 months of imports cover in 2012 and 2013 respectively. In May 2014, the reserves totalled E8,2 billion, enough to cover 4,1 months of estimated imports.

6.6 Monetary account

6.6.1 As at March 2013, M2 grew by 17,0 percent compared to 3,3 percent growth registered in March 2012. Growth in money supply was boosted by a recovery in net foreign assets largely driven by SACU receipts and depreciation of the local currency. NFA amounted to E7,12 billion compared to E3,69 billion registered in March 2012, and according to the Central Bank of Swaziland, an increase in NFA was recorded in both official and other depository corporations.

6.6.2 Credit extended to the private sector increased by 16,2 percent, reflecting continued support to the mining and manufacturing industries. Credit extended to the household sector increased by 12,2 percent and was mainly channeled towards personal and housing finance.

6.7 Government finance

6.7.1 On average, SACU revenue contributes 55 percent to the total revenue. A decline in SACU revenue experienced in 2010/11 and 2011/12, coupled with a widened public wage bill, gave effect to the fiscal crisis. SACU revenue fell by almost 25 percent in 2010/11 and amounted to E1,97 billion and recouped marginally to E2,88 billion in 2011/12. However, the fiscal deficit improved to 5 percent in 2011/12 supported by the IMF Staff-Monitored Programme, which advocated for expenditure cuts and supported the establishment of the Swaziland Revenue Authority (SRA).

6.7.2 In 2012/13, total revenue amounted to E12,3 billion, of which SACU revenue amounted to E7,1 billion, accounting for 58 percent of total revenue as shown in Table 9. VAT was introduced on 1 April 2012 to replace sales tax and in 2012/13, it accounted to 0,5 percent of GDP. Efforts to contain expenditure were effective and the total expenditure amounted to E10,8 billion, resulting in a budget surplus of 4,4 percent of GDP.

Table 9: Government budgetary operations (E millions)

	2011/12	2012/13	2013/14*	2014/15**
Total revenue	**7,4**	**12,3**	**13,2**	**14,6**
Tax revenue	7,3	11,9	12,7	13,6
of which SACU	2,9	7,1	7,2	7,5
% of total revenue	39	58	55	52
% of GDP	9,3	20,7	19,2	18,5
Non-tax revenue	0,12	0,28	0,23	0,25
Grants	0,02	0,04	0,20	0,70
Total expenditure	8,8	10,8	13,1	15,0
Fiscal balance	(1,6)	1,5	(0,1)	(1,1)
% of GDP	**(5,0)**	**4,4**	**0,3**	**(0,9)**
Total debt stock	**5,1**	**5,9**	**6,7**	**7,0**
Domestic	**1,9**	**2,5**	**3,1**	**3,7**
Foreign	**3,5**	**3,4**	**3,6**	**3,4**
Debt as % of GDP	**16,6**	**17,4**	**17,8**	**17,2**

Source: IMF Consultation IV Report, July 2014
* *Expected outturn*
** *Budget estimates*

6.7.3 The projected outturn for 2013/14 indicates that total revenue amounted to E13,2 billion of which E7,2 billion is SACU revenue, accounting for 55 percent of total revenue. Domestic revenue increased by 12 percent from the previous year and is expected to reach E5,7 billion mainly boosted by income tax, which compensated more than expected VAT refunds. Total expenditure amounted to E13,1 billion, resulting in a fiscal surplus of 0,3 percent of GDP, partly due to the enhanced domestic revenue collection.

4. *The 2012 National Accounts were not yet published during the preparation of this report since the rebasing is expected to be undertaken in August 2014, following which the National Accounts will be published.*

6.7.4 The 2014/15 budget estimates indicate a 19 percent increase in the resource envelope, and total revenue is expected to amount to E14,6 billon, of which E7,5 billion is SACU revenue, representing 52 percent of the total revenue. This implies that 48 percent of the budget will be financed by non-SACU revenue, a strong signal of the government commitment to reduce dependency on SACU revenue. SRA is putting in place measures to strengthen and broaden the tax base in an effort to enhance domestic tax. On the other side, total expenditure is expected to reach E14,95 billion, of which E3,7 billion is capital expenditure, thus resulting in a small fiscal deficit of 0.9 percent of GDP.

6.8 Public debt

6.8.1 Debt to GDP ratio is the lowest in SACU. On average, foreign debt constitutes 75 percent of total debt and efforts are underway to develop domestic capital markets to bolster domestic borrowing. Domestic debt has been increasing over time due to the increasing issuance of government securities, mainly the Treasury Bills. In financing the deficit, total debt to GDP ratio increased from 16,6 percent recorded 2011/12 to 17,8 percent in 2013/14 and is expected to marginally decline to 17,2 percent in 2014/15.

6.9 Economic outlook

6.9.1 The outlook remains positive as the economy is recuperating from the fiscal crisis following an increase in SACU receipts as well as the improvement in the collection of domestic taxes. The improvement of SACU receipts has boosted the fiscal and external balances and the business confidence has been invigorated. The secondary sector is expected to boost the economic growth and the manufacturing industries, in particular, the production of concentrates, sugar and textiles are expected to rebound and increase export earnings and revitalise the economy. The government has put in place some economic reforms and initiatives to bolster economic growth, improve competitiveness and promote private sector development and small and medium enterprises.

ANNEX 2

Member States Economic Indicators and Trade Statistics

Table 1: Intra-SACU Trade for the period 2011/12 fiscal year (R millions)

		Botswana import	Lesotho import	Namibia import	South Africa import	Swaziland import	Total
Botswana	Export	–	23	238	2 556	27	2 844
	% of intra-SACU	–	–	0,2	2,3	–	–
Lesotho	Export	92	–	1	1 960	44	2 098
	% of intra-SACU	0,1	–	0,0	1,8	–	–
Namibia	Export	409	12	–	5 378	18	5 817
	% of intra-SACU	0,4	–	–	4,9	–	–
South Africa	Export	35 171	11 951	33 871	–	12 704	93 698
	% of intra-SACU	31,4	10,7	30,3	–	11,4	–
Swaziland	Export	39	41	130	7 220	–	7 430
	% of intra-SACU	–	–	0,1	6,5	–	–
Total		**35 711**	**12 028**	**34 241**	**17 114**	**12 793**	**111 887**

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

	2010/11	2011/12	2012/13	2013/14	2014/15	Annual growth
Botswana	7 115	11 502	12 608	13 452	18 121	34,7%
Lesotho	2 908	4 103	4 980	5 438	6 666	22,6%
Namibia	6 447	9 567	11 339	13 160	17 305	31,5%
South Africa	22 651	25 747	28 651	32 219	34 158	6,0%
Swaziland	2 956	4 310	6 078	6 504	7 044	8,3%
Forecast of CRP[1]	42 076	55 229	63 656	70 774	83 293	17,7%
% Share of CRP						
Botswana	16,9	20,8	19,8	19,0	21,8	
Lesotho	6,9	7,4	7,8	7,7	8,0	
Namibia	15,3	17,3	17,8	18,6	20,8	
South Africa	53,8	46,6	45,0	45,5	41,0	
Swaziland	7,0	7,8	9,5	9,2	8,5	

1. Does not represent actual payments made to Member States.

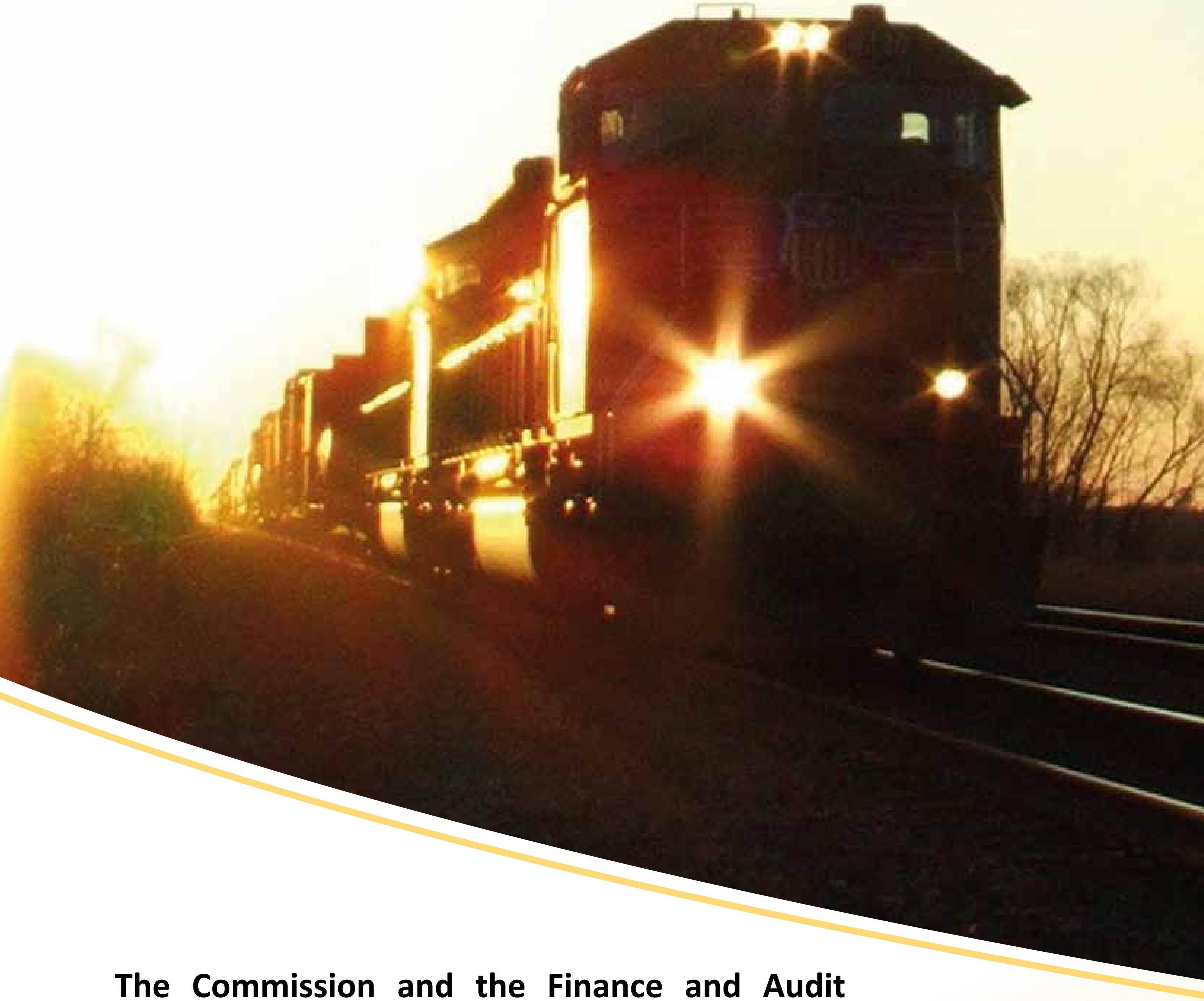
The reconciled intra-SACU trade grew by 8,3 per cent in the fiscal year 2011/12 from the trade level of R103,3 billion registered in 2010/11 fiscal year. During the year 2011/12, Botswana's intra-SACU exports increased by 19,1 percent compared to a decline of 0,5 percent in 2010/11, while intra-SACU imports increased by 16,6 percent compared to an increase of 2,8 percent in 2010/11. Lesotho's intra-SACU exports declined by 4,7 percent compared to a decline of 0,7 percent in 2010/11, while intra-SACU imports increased by 7,0 percent as compared to 4,3 percent in 2010/11. Namibia's intra-SACU exports increased by 3,4 percent in 2011/12 compared to an increase of 3,2 percent in 2010/11, while intra-SACU imports increased by 13,4 percent in 2011/12 as compared to 12,7 percent in 2010/11. South Africa's intra-SACU exports grew by 11,8 percent in 2011/12 compared to an increase of 6,0 percent in 2010/11, while intra-SACU imports declined by 1,3 percent as compared to an increase of 5,1 percent in 2010/11. While, Swaziland's intra-SACU exports declined by 9,5 percent in 2011/12 compared to an increase of 10,5 percent in the previous year, with intra-SACU imports also declining by 8,2 percent as compared to an increase of 1,9 percent in 2010/11.

In terms of intra-SACU import market share, Botswana accounted for 31,9 percent in 2011/12, followed by Namibia (30,6 percent of the import market share), South Africa (15,3 percent of the import market share), Swaziland (11,4 percent of the import market share), and Lesotho (10,9 percent of the import market share). The main commodities that were imported by the Member States in 2011/12 were mineral fuels, oils and products of their distillation (Chapter 27) accounting for a share of 13,4 percent of total intra-SACU imports, followed by vehicles (Chapter 87) accounting for 9,5 percent. On the export side, South Africa continued to dominate the intra-SACU market in 2011/12, accounting for 83,2 percent of intra-SACU exports, followed by Swaziland and Namibia accounting for 7,1 percent and 5,2 percent of the market, respectively. Botswana accounted for an export market share of 2,6 percent, while Lesotho accounted for 1,9 percent of the export market share.

All Members States with the exception of South Africa, recorded an intra-SACU trade deficit for the year 2011/12. South Africa recorded an intra-SACU trade surplus of R73,2 billion for the year under review, while the rest of the Member States recorded intra-SACU trade deficits as follows: Botswana (R32,8 billion), Lesotho (R10,0 billion), Namibia (R28,6 billion) and Swaziland (R5,1 billion).

Table 3: Intra-SACU Imports statistics for the purposes of revenue sharing (R millions)

	2007/08 for 2010/11 shares	2008/09 for 2011/12 shares	2009/10 for 2012/13 shares	2010/11 for 2013/14 shares	2011/12 for 2014/15 shares	2011/12 annual growth
Botswana	25 253	31 898	29 809	30 639	35 711	16,6%
Lesotho	9 246	10 246	10 775	11 240	12 029	7,0%
Namibia	23 205	26 548	26 798	30 191	34 241	13,4%
South Africa	14 770	14 809	16 494	17 339	17 114	(1,3%)
Swaziland	9 220	10 814	13 695	13 938	12 793	(8,2%)



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

SACU Since 1910
SOUTHERN AFRICAN CUSTOMS UNION

Annual Financial Statements

The reports and statements set out below comprise the annual financial statements for the Southern African Customs Union (SACU) Secretariat:

Council approval and statement of responsibility

for the year ended 31 March 2014

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 annual financial statements are jointly signed by the Chairperson of Council and the Executive Secretary.

The Commission and the Finance and Audit Committee meet quarterly to monitor and review the affairs of the Secretariat and then present to the 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 annual 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 annual financial statements. The Auditor General's report is presented on pages 51 and 52.

The annual 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 Council and the Executive Secretary accept the responsibility for the annual financial statements set out on pages 54 to 69, which were approved on 23 December 2014 and are signed by:

S Kuugongelwa-Amadhila
Minister of Finance
Chairperson: SACU Council of Ministers

Paulina M Elago
Executive Secretary
SACU Secretariat

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 2014

We have audited the accompanying financial statements of Southern African Customs Union, which comprise the Statement of Financial Position as at 31 March 2014, the Statement of Financial Performance, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 59 to 69.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the SACU Agreement, 2002. 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.

MY RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I 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 my 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, I consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1. Findings in prior year management report

The audit discovered that the IT Specialist prepared the IT Disaster Recovery Plan, The IT Strategy and The Information Security Policy. However these documents have not yet been approved, despite being recommended in the previous audits.

Recommendation

The Executive Secretary is requested to ensure that the IT Disaster Recovery Plan, The IT Strategy and The Information Security Policy are presented for approval by Council.

Management comments

(a) A draft IT Strategy is already in place. However it had been awaiting the completion of the Secretariat's Strategy whose completion is delayed by ongoing discussions on SACU priorities. Going forward, the Secretariat will finalise the IT Strategy and present it to Commission for consideration. The IT Strategy will be reviewed once the Secretariat Strategy is completed.

(b) An IT Disaster Recovery Plan has been developed, however it requires alignment to the Business Continuity Plan (BCP). Development of the BCP will be informed by the Enterprise Risk Management Policy whose draft is ready for submission and approval by Council. Going forward, the Secretariat will finalise the IT Disaster Recovery Plan and present it to Commission for consideration. The Disaster Recovery Plan will be reviewed once the BCP has been completed.

(c) The Information Security Policy (IT Policy) was approved by the FAC at its 34th Meeting held on the 16th September 2013, in Windhoek, Namibia. It now requires a review by Commission and subsequent approval by Council.

2. Position of director corporate services

The position of Director Corporate Services has been vacant for a relatively long time since the departure of the previous Director Corporate Services. The former Executive Secretary has been acting in capacity of both Executive Secretary and Director Corporate Services respectively.

Recommendation

The Secretariat is requested or required to ensure that key/critical positions are filled within a reasonable period.

Management comments

The Secretariat has noted this finding and has since filled this position on the 15th July 2014. The position was under sub-judice (under judgment) and could not be filled earlier.

Report of the Auditor-General to the Council of Ministers on the financial statements of Southern African Customs Union (continued)

for the year ended 31 March 2014

3. Prior year audited financial statements

The 2012/2013 financial statements have not yet been approved by the Council of Ministers since its finalization by the Auditor-General.

Recommendation

The Secretariat is required to ensure that the audited prior year financial statements are approved by the Council of Ministers.

Management comments

The Secretariat has noted this finding. The audited annual financial statements of the SACU Secretariat for the 2012/13 financial year were presented at the 34th Finance and Audit Committee meeting on the 16th September 2013, in Windhoek, Namibia. These audited annual financial statements were subsequently recommended for approval by Commission, via round-robin. Council thereafter approved the audited annual financial statements of the SACU Secretariat for the 2012/13 financial year, on 1 August 2014 via round robin.

4. Standard bank call and 32 notice deposit accounts

An amount totalling NS 82 193 272 has been invested in the above interest bearing accounts. This is a good financial management practice, but it is contrary to the letter and spirit of SACU's modus operandi.

Recommendation

The Secretariat is advised to consider, revisiting its budget proposal if it is of the opinion that the current contribution is more than required.

Management comments

The Secretariat has noted this finding. The Secretariat is developing proposals that would be addressing this concern and these will be presented to the FAC before December 2014. In addition, the Secretariat is exploring the development of a contingency fund. The Secretariat is also in the process of reviewing the budgeting process with a view to improve planning, budgeting and budget absorption rates.

5. Non-review of management accounts by the finance and audit committee

Management accounts have not been reviewed by the Finance and Audit Committee on a quarterly basis.

Recommendation

It is recommended that the Secretariat ensures that its management accounts are reviewed by the Finance and Audit committee on a timely basis in order to enhance the decision making process of the Secretariat's operations.

Management comments

The Secretariat has noted this finding and will, in close consultation with Member States, attempt to convene meetings of the Finance and Audit Committee in future to ensure the regular review of the management accounts on a quarterly basis. The Secretariat Executive Committee has however, continued to review the monthly management accounts on a regular basis.

OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Secretariat as of 31 March 2014, 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, 2002.

Junias Etuna Kandjeke
Auditor-General of Namibia

23 December 2014

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 2014.

STATE OF AFFAIRS

The state of affairs of the Secretariat as at 31 March 2014 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 R104,000,566 for the year under review, from a budget of R106,977,857. The following provides comparative information:

	2014	2013
	R	R
Operating expenditure	**54 156 728**	46 655 846
Finance cost	–	–
Capital expenditure	**47 790 805**	6 433 105
	101 947 533	53 088 951

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 impacted by the vacancy of the Deputy Executive Secretary and the late appointment of the Executive Secretary. The delays in the completion of the construction of the new SACU Headquarters building and the trade negotiation meetings not materialising also hindered spending. Positive spending was generated on the Legal Opinion on the jurisdiction of the Tribunal, Study on the Dynamic Effects of SACU Expansion and the Expert Assessment on the Tariff Board architecture.

EXECUTIVE MANAGEMENT

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

Ms T C Moremi	Executive Secretary (until 18 January 2014)
Mr D H Mahlinza	Director: Trade Facilitation and Revenue Management
Mr A J Faul	Director: Policy Development and Research
Ms N D Oitsile	Chief Legal Officer

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 reporting date and the date of this report which could materially affect the financial statements or require additional disclosures regarding these events.

Statement of financial position

as at 31 March 2014

	Note	2014 R	2013 R
ASSETS			
Non-current assets			
Property, plant and equipment	5	**69 519 884**	23 597 239
Current assets		**84 428 529**	61 133 190
Trade and other receivables	7	**1 412 166**	2 413 147
Cash and cash equivalents	8	**83 016 363**	58 720 043
Total assets		**153 948 413**	84 730 429
Capital and reserves			
Accumulated funds		**127 114 647**	70 827 387
CURRENT LIABILITIES		**26 833 766**	13 903 042
Trade and other payables	9	**24 609 691**	11 172 026
Provisions	10	**2 224 075**	2 731 016
Total reserves and liabilities		**153 948 413**	84 730 429

Statement of financial performance

for the year ended 31 March 2014

	Note	2014 R	2013 R
Total revenues and other income:		**104 338 916**	45 720 458
Common revenue pool contribution	2.12	**101 971 383**	43 507 813
Host Country Contribution		**2 367 533**	2 212 645
Total operating expenses:	16	**(54 097 942)**	(46 619 060)
Tariff Board		**(2 302 803)**	(1 055 668)
Executive Secretary and Internal Audit		**(6 723 134)**	(6 323 051)
Legal Assurance		**(4 003 135)**	(2 712 727)
Communications		**(2 541 270)**	(1 857 707)
Trade Facilitation and Revenue Management		**(10 895 142)**	(9 100 611)
Policy Development and Research		**(10 452 498)**	(10 307 938)
Corporate Services		**(17 179 960)**	(15 261 358)
Operating surplus/(deficit)		**50 240 974**	(898 602)
Finance income	12	**3 810 767**	3 517 858
Loss on disposal of fixed assets		**(17 538)**	(26 727)
Loss on foreign exchange		**(41 248)**	(10 059)
Surplus for the year		**53 992 955**	2 582 470

Statement of comprehensive income

for the year ended 31 March 2014

	2014 R	2013 R
Surplus for the year	**53 992 955**	2 582 470
Realised savings from the previous financial year	**2 294 305**	–
Total comprehensive income	**56 287 260**	2 582 470

Statement of changes in equity

for the year ended 31 March 2014

	Accumulated funds R	Total R
Balance at 31 March 2012	68 244 917	68 244 917
Total comprehensive income	2 582 470	2 582 470
Balance at 31 March 2013	70 827 387	70 827 387
Total comprehensive income	**56 287 260**	**56 287 260**
Balance at 31 March 2014	**127 114 647**	**127 114 647**

Statement of cash flows

for the year ended 31 March 2014

	Note	2014 R	2013 R
Cash flows from operating activities			
Cash generated in operations	13	**65 979 593**	(1 322 314)
Interest received		**3 810 767**	3 517 858
Net cash from operating activities		**69 790 360**	2 195 544
Cash flows from investing activities			
Additions to property, plant and equipment	5	**(47 790 805)**	(6 804 786)
Proceeds on disposal of property, plant and equipment		**2 460**	–
Net cash from investing activities		**(47 788 345)**	(6 804 786)
Cash flows from financing activities			
Deferred Income		**2 294 305**	–
Net cash from financing activities		**2 294 305**	–
Net (increase)/decrease in cash and cash equivalents		**24 296 320**	(4 609 242)
Cash and cash equivalents at beginning of year	8	**58 720 043**	63 329 285
Cash and cash equivalents at end of year	8	**83 016 363**	58 720 043

Notes to the financial statements

for the year ended 31 March 2014

1. GENERAL INFORMATION

The Secretariat has been established according to the SACU Agreement, 2002, and is responsible for the day-to-day administration of SACU.

Statement of compliance

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

2.3 Property, plant and equipment

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

Property, plant and equipment are 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 carrying amount of the asset 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 Statement of Financial Performance during the financial period in which they are incurred.

Depreciation on property, plant and equipment 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 equipment and software	33%	(3 years)
– Leasehold improvements	25%	(4 years)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Property, plant and equipment (continued)

The residual values of the assets and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Capital work in progress, which represents additions to property, plant and equipment that have not yet been brought into use, is not depreciated. Additions are transferred from Capital work in progress into the above depreciable asset classes once they are brought into use.

The carrying amount of an asset 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 variances are recognised in the Statement of Financial Performance.

2.4 Impairment of non-financial assets

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

2.5 Financial assets

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting 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 Statement of Financial Position (note 7 and 8).

(c) Available-for-sale financial assets

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

Regular purchases and sales of financial assets are recognised on the trade date being the date on which the Secretariat commits to purchase or sell the assets. 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 Statement of Financial Performance. 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 Statement of Financial Performance 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 Statement of Financial Performance 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 Statement of Financial Performance as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the Statement of Financial Performance as part of other income. Dividends on available-for-sale equity instruments are recognised in the Statement of Financial Performance 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 reporting 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 Statement of Financial Performance. Impairment losses recognised in the Statement of Financial Performance on equity instruments are not reversed through the Statement of Financial Performance. Impairment testing of trade receivables is described in note 2.6.

2.6 Trade receivables

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

2.7 Cash and cash equivalents

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

2.8 Trade payables

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

2.9 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Financial Performance 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 reporting date.

2.10 Employee benefits

(a) Pension obligations

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

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

(b) Bonus plans

The Secretariat recognises a liability and an expense for bonuses, based on performance ratings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Provisions

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

2.12 Revenue recognition

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.

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.

Deferred Income:
In compliance with IAS18, funds received from the Common Revenue Pool have been deferred to match the costs incurred during the period with the recognisable income for the year.

The unused funds at the end of the financial year are transferred to Accumulated Funds, and then used to reduce the budgetary requirements for the following year.

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

2.13 Government grants

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

Government grants relating to costs are deferred and recognised in the Statement of Financial Performance over the period necessary to match them with the costs that they are intended to fund. The unused funds are held in reserves, so that future funding takes into account these unused funds.

The Secretariat has received the free use of the current office premises from the Government of Namibia. A notional annual rent of R2,367,533 is recognised in the Statement of Financial Performance as a rental cost and also as the Host Country Contribution. This amount is based on an evaluation that was carried out by property evaluators in March 2010 and the standard rental cost escalation in Namibia of 7% (2013: 7%) per annum. Rehabilitation costs were incurred to make the building habitable and these were capitalised as leasehold improvements, amortised 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 then credited to the Statement of Comprehensive Income on a straight-line basis over the expected lives of the related assets.

2.14 Leases

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

Risk management is carried out by the Executive Committee using the guidance of policies approved by the Finance and Audit Committee.

(a) Market risk

(i) Foreign exchange risk

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

(ii) Price risk

The Secretariat is not exposed to equity securities price risk at the reporting date.

(iii) Cash flow and fair value interest rate risk

The Secretariat's interest rate risk arises from investments in a Current account, two Call accounts and a 32 day Notice Deposit account. Investments at variable rates expose the Secretariat to cash flow interest rate risk. Investments at fixed rates expose the Secretariat to fair value interest rate risk.

(b) Credit risk

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

The Secretariat will only deal with financial institutions that conform to the following criteria:

- Should have minimum audited capital and reserves of R50 million.
- Must be registered in terms of the Namibia Banks Act, Unit Trust Control Act No. 54 of 1981 and/or 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 so as to spread the risk.

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

	31 March 2014		31 March 2013	
Counterparty	Credit limit	Balance R	Credit limit	Balance R
Standard Bank Namibia Ltd	–	83 012 074	R1 million	58 716 815
Receiver of Revenue – VAT	None	618 944	None	1 190 734
Prepaid expenses	None	121 581	None	184 083
Interest receivable	None	6 812	None	220 281
WCO-SIDA funding	None	664 829	None	818 049
Total trade and other receivables		1 412 166		2 413 147
Total counterparty balances		84 424 240		61 129 962

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

(c) Liquidity risk

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

The table below analyses the Secretariat's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date 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 2014	Less than 1 year R	Between 1 and 2 years R	Between 2 and 5 years R	Over 5 years R
Trade and other payables	24 609 691	–	–	–
At 31 March 2013				
Trade and other payables	11 172 026	–	–	–

3.2 Capital risk management

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

3.3 Fair value estimation

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

4.1 Critical accounting estimates and assumptions

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

(a) Residual value of land and buildings

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

The construction costs and furniture for the SACU Headquarters building has been disclosed as Capital work in progress and will be depreciated when the asset is brought into use.

(b) Deferred income

The transfer of deferred income into the next financial year was approved with the budget for the next financial year.

4.2 Critical judgments in applying the entity's accounting policies

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

5. PROPERTY, PLANT AND EQUIPMENT

Asset class	2014 Cost/ valuation R	2014 Accumulated depreciation R	2014 Carrying value R	2013 Cost/ valuation R	2013 Accumulated depreciation R	2013 Carrying value R
Land and buildings	**25 523 806**	**2 771 944**	**22 751 862**	18 203 222	1 960 688	16 242 534
Capital work in progress	**44 874 168**	**–**	**44 874 168**	5 565 565	–	5 565 565
Motor vehicles	**1 647 393**	**995 212**	**652 181**	1 164 462	738 134	426 328
Furniture and fittings	**714 417**	**589 871**	**124 546**	723 675	547 808	175 867
Household furniture and fittings	**866 262**	**810 881**	**55 381**	1 023 603	954 134	69 469
Office equipment	**361 108**	**308 373**	**52 735**	422 401	312 146	110 255
IT equipment	**5 606 968**	**4 625 590**	**981 378**	5 099 230	4 147 744	951 486
Leasehold improvements	**1 339 541**	**1 311 908**	**27 633**	1 339 540	1 283 805	55 735
Total	**80 933 663**	**11 413 779**	**69 519 884**	33 541 698	9 944 459	23 597 239

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

Asset class	Carrying value at the beginning of the year R	Additions R	Disposals R	Reclassification R	Depreciation R	Carrying value at the end of the year R
2014						
Land and buildings	**21 808 099**	**1 755 018**	**–**	**–**	**(811 255)**	**22 751 862**
Capital work in Progress	**–**	**44 874 168**	**–**	**–**	**–**	**44 874 168**
Motor vehicles	**426 328**	**482 930**	**–**	**–**	**(257 077)**	**652 181**
Furniture and fittings	**175 867**	**22 111**	**(8 462)**	**–**	**(64 970)**	**124 546**
Household furniture and fittings	**69 469**	**18 801**	**(683)**	**–**	**(32 206)**	**55 382**
Office equipment	**110 255**	**18 843**	**(10 523)**	**–**	**(65 840)**	**52 735**
IT equipment	**951 486**	**618 934**	**(330)**	**–**	**(588 712)**	**981 378**
Leasehold improvements	**55 735**	**–**	**–**	**–**	**(28 102)**	**27 633**
Total	**23 597 239**	**47 790 805**	**(19 998)**	**–**	**(1 848 162)**	**69 519 884**
2013						
Land and buildings	15 961 082	877 525	–	–	(596 073)	16 242 534
Capital work in Progress	–	5 565 565	–	–	–	5 565 565
Motor vehicles	278 664	–	–	–	147 664	426 328
Furniture and fittings	193 454	24 296	–	–	(41 883)	175 867
Household furniture and fittings	62 105	95 445	(73 304)	–	(14 777)	69 469
Office equipment	98 766	19 356	(11 744)	–	3 877	110 255
IT equipment	531 642	702 450	(394 803)	(394 803)	112 197	951 486
Leasehold improvements	68 250	–	–	–	(12 515)	55 735
Total	17 193 963	7 284 637	(479 851)	–	(401 510)	23 597 239

The reclassification of fixed assets from the correction of errors in prior financial years.

6. FINANCIAL INSTRUMENTS

6a. Financial instruments by category

	Loans and receivables R	Assets at fair value through the profit and loss R	Held-to-maturity R	Available-for-sale R	Total R
31 March 2014					
Assets as per Statement of Financial Position					
Trade and other receivables	1 412 166	–	–	–	1 412 166
Cash and cash equivalents	83 016 363	–	–	–	83 016 363
Total	84 428 529	–	–	–	84 428 529

	Liabilities at fair value through the profit and loss R	Other financial liabilities R	Total R
Liabilities as per Statement of Financial Position	–	24 609 691	20 451 387
Total	–	24 609 691	20 451 387

	2014 R	2013 R
7. TRADE AND OTHER RECEIVABLES		
Pre-payments	121 581	184,083
Other receivables – VAT	618 944	1 190 734
Interest receivable	6 812	220,281
Donor funding – WCO-SIDA	664 829	818,049
Total	1 412 166	2 413 147

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

As at 31 March 2014, trade receivables of R1 412 166 (2013: R2 413 147) were fully performing.

Trade receivables that are less than three months past due are not considered impaired. As of 31 March 2014, no trade receivables were past due and none were impaired. The ageing analysis of the trade receivables is as follows:

	2014 R	2013 R
Up to 3 months	1 412 166	2 413 147
Total	1 412 166	2 413 147

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.

	2014 R	2013 R
8. CASH AND CASH EQUIVALENTS		
Standard Bank Current Account	**832 469**	1 479 375
Standard Bank Call Account	**48 010 108**	468 722
Standard Bank 32 day Notice Deposit Account	**34 183 164**	56 779 656
Standard Bank garage card	**(13 667)**	(10 938)
Cash on hand	**4 289**	3 228
Total	**83 016 363**	58 720 043
9. TRADE AND OTHER PAYABLES		
Trade payables	**24 609 691**	11 172 026
Total Trade and other payables	**24 609 691**	11 172 026
10. PROVISIONS FOR OTHER LIABILITIES AND CHARGES		
At 1 April	**2 731 016**	2 475 075
Charged/(credited) to the Statement of Financial Performance		
– Expenses charged to Statement of Financial Performance	**1 658 283**	1 531 024
– Unused amounts reversed	**(2 165 224)**	(1 275 083)
At 31 March	**2 224 075**	2 731 016

Provisions relate to:

- The amount of R1 074 312 (2013: R1 626 504) is for leave pay which accrues on termination of the services of members of staff.
- A further provision of R1 149 763 (2013: R1 104 512) is made for the payment of performance bonuses to staff.

	2014 R	2013 R
11. EMPLOYEE BENEFIT EXPENSE		
Wages and salaries	**31 974 037**	28 756 515
Number of employees	**41**	40
The Secretariat has a defined contribution provident fund plan for support staff. There are no liabilities for defined benefits as there is no defined benefit plan.		
12. FINANCE INCOME AND COSTS		
Profit/(loss) on foreign exchange	**(41 248)**	(10 059)
Finance income		
– Interest income on short-term bank deposits	**3 810 767**	3 517 858
Net finance income	**3 769 519**	3 507 799

Notes to the financial statements (continued)

for the year ended 31 March 2014

	2014 R	2013 R
13. CASH GENERATED FROM OPERATIONS		
Cash flows from operating activities		
Surplus/(deficit)	**53 992 955**	2 582 470
Adjustment for:		
– Depreciation and amortisation	**1 848 162**	401 510
– Non-cash adjustment to fixed assets	**17 538**	–
– Interest income	**(3 810 767)**	(3 517 858)
Changes in working capital:	**52 047 888**	(533 878)
Trade and other receivables	**1 000 981**	(1 924 511)
Trade and other payables	**12 930 724**	1 136 075
	65 979 593	(1 322 314)
14. COMMITMENTS		
Operating lease commitments – Secretariat as lessee		
There are no future aggregate minimum lease payments under non-cancellable operating leases.		
15. RELATED-PARTY TRANSACTIONS		
The following transactions were carried out with related parties:		
The Secretariat is funded from the SACU Common Revenue Pool.		
Common Revenue Pool contributions		
– Receipts during the year	**101 971 383**	43 507 813
	101 971 383	43 507 813

16. DETAILED STATEMENT OF FINANCIAL PERFORMANCE

	Note	2014 R	2013 R
Income			
Common revenue pool contribution		**101 971 383**	43 507 813
Host Country Contribution	2.13	**2 367 533**	2 212 645
Total income		**104 338 916**	45 720 458
Expenses		**(54 097 942)**	(46 619 060)
Advertising for procurement		**(626 472)**	(1 014 442)
Audit fees		**(11 592)**	(40 226)
Bank charges		**(61 107)**	(66 026)
Communication costs		**(665 637)**	(715 222)
Depreciation	5	**(1 848 162)**	(401 510)
Electricity, water and rates		**(297 871)**	(234 618)
General expenses		**(11 379)**	(699)
Hospitality expenses		**(206 683)**	(227 911)
Household expenses		**(249 082)**	(256 682)
Insurance		**(52 646)**	(92 235)
IT services		**(647 070)**	(409 772)
Media and public relations		**(905 564)**	(121 059)
Motor vehicle expenses		**(198 167)**	(158 946)
Office supplies		**(306 806)**	(217 594)
Professional fees		**(4 889 994)**	(4 118 024)
Recruitment costs		**(194 872)**	(931 842)
Relocation costs		**(190 814)**	(289 692)
Rent	2.13	**(2 367 533)**	(2 212 645)
Repairs and maintenance		**(116 417)**	(189 951)
Salaries		**(31 974 037)**	(28 756 515)
Security		**(151 513)**	(144 780)
Staff training and development		**(436 425)**	(130 132)
Subscriptions and reference materials		**(31 681)**	(24 391)
Travel, accommodation and subsistence		**(6 222 943)**	(5 169 187)
Workshops and conferences		**(1 433 475)**	(694 959)
Operating deficit		**50 240 974**	(898 602)
Loss on disposal of fixed assets	13	**(17 538)**	(26 727)
Loss on foreign exchange		**(41 248)**	(10 059)
Interest income	13	**3 810 767**	3 517 858
Surplus for the year		**53 992 955**	2 582 470

List of abbreviations

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

List of tables

Notes

Midnight STAR

SACU Since 1910
SOUTHERN AFRICAN CUSTOMS UNION