

# 2017 Annual Report

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Implementing a common agenda  
towards regional integration  
in Southern Africa

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## Vision

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

## Mission

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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, harmonization 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 amongst 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.

## Work Programme

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

## Administration

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Windhoek  
Namibia

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Bankers: Standard Bank Namibia Limited

External auditors: Auditor General of South Africa  
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Pretoria  
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**Hon. Ontefetse Kenneth Matambo**  
Minister of Finance & Economic  
Development, Botswana and  
*Chairperson of the SACU Council of Ministers*

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## Message from the Chairperson of the SACU Council of Ministers

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It gives me great pleasure to present the SACU Annual Report for the 2016/17 Financial Year. The Report presents an overview of the major achievements in SACU and highlights the economic challenges faced by the Member States, as well as the audited Annual Financial Statements of the Secretariat.

The Report is presented at a time when the global economy continued to be weak and uneven with growth declining from 3.4 percent in 2015 to 3.2 percent in 2016. The subdued economic outlook was mainly due to weaker-than-expected growth in the United States of America (USA). The growth rates in most of the large economies slowed down in 2016 compared to 2015, with China slowing down from 6.9 percent in 2015 to 6.7 percent in 2016, USA from 2.6 percent in 2015 to 1.6 percent in 2016, Japan from 1.1 percent in 2015 to 1.0 percent in 2016, and the United Kingdom from 2.2 percent in 2015 to 1.8 percent in 2016.

Economic growth in Sub-Saharan Africa was very challenging for most of the countries, resulting in the regional growth dropping to 1.3 percent in 2016, compared to 3.4 percent in 2015. This was the lowest level of growth that the region experienced in more than 20 years. The low growth is attributed mainly to low commodity prices which resulted in most of the oil exporting countries being in recession. The projections for 2017 indicate a conservative recovery of about 2.7 percent, with most of the economies projected to perform better.

The performance of the SACU economies has mirrored the global and regional performances, which also experienced weak performance in 2016. The average growth rate for the SACU region was 2.3 percent in the reporting period, compared to an average of 2.2 percent in 2015. However, only two Member States (Botswana and Lesotho), recorded improved economic performance in 2016. Botswana recorded a growth of -1.7 percent

in 2015 which improved to 4.3 percent in 2016, while Lesotho recorded a growth of 3.1 percent in 2016 from 2.9 percent in 2015. The rest of the Member States recorded a growth of less than 1.0 percent. This subdued performance of the SACU economies was largely influenced by the slow global economic recovery, falling commodity prices, policy uncertainty, the persistent drought and subdued world merchandise trade.

On the SACU Work Programme, I am pleased to report that notable progress has been attained during the period under review. In accordance with the Roadmap to re-invigorate the SACU Work Programme, the SACU Council of Ministers convened the 3rd Ministerial Retreat in June 2016 in Muldersdrift, South Africa. The Retreat provided an opportunity for the Ministers to reflect and agree on how to move the SACU Agenda forward. The Retreat was followed by the Special Meeting of the Council which was held on the 31st March 2017.

The Council agreed to revive its quarterly meetings and established two Ministerial Task Teams to facilitate the implementation of the Work Programme pertaining to the outcomes of the 3rd Ministerial Retreat. The quarterly Meetings remain crucial for the Council to continue monitoring progress towards the implementation of the SACU Work Programme, and also ensuring good governance in SACU's operations.

On Trade Negotiations, the major highlights during the year were the coming into force of the EU-SADC Economic Partnership Agreement (EPA) provisionally on the 10th October 2016, as well as the entry into force of the MERCOSUR - SACU Preferential Trade Agreement on the 1st April 2016. It is anticipated that an engagement for a trade arrangement between the UK and SACU, post Brexit will start in the course of the 2017/18 Financial Year. The SACU Customs Modernisation Programme continued to achieve significant progress. This was particularly towards modernising processes and

# 94%

## absorption capacity for capital expenditure

procedures underpinning the facilitation of cross-border movement of goods in the region to enhance partnership and dialogue between Customs and Business. The priorities for the SACU Modernisation Programme remained as follows:

- a) IT Connectivity;
- b) Risk Management and Enforcement;
- c) Preferred Trader Programme; and
- d) Customs Legislation.

I have noted with appreciation, improvements in the overall performance of the Secretariat, particularly on the continued efforts towards the enhancement of the internal capacity of the Secretariat. The budget performance for the 2016/17 Financial Year was also impressive, with an absorption capacity of 90 percent for operating expenditure, and 94 percent for the capital expenditure, respectively.

Some of the key activities that were completed in the reporting period include, among others, the ICT Strategy and the Business Continuity Plan. The Secretariat continued to adhere to good governance principles and received unqualified audit reports, and this was the same for the 2016/17 Financial Year. As the Chairperson of the SACU Council, I am pleased to have an opportunity to work closely with Ms Paulina Mbala Elago, the Executive Secretary of SACU. Ms Elago has been

very supportive and has demonstrated exceptional leadership and commitment in managing the Secretariat as she made the SACU mandate her priority in all her dealings. I am gratified by her level of professionalism and continued leadership of the Secretariat, aimed at achieving excellence.



.....  
**Hon. Ontefetse K. Matambo**

Minister of Finance and Economic Development,  
Botswana and Chairperson of the SACU Council of  
Ministers





*Members of the SACU Council with the Executive Secretary, at the Special Council Meeting held at Birchwood, Johannesburg, South Africa on 31 March 2017. The Council of Ministers consists of Ministers of Finance and Trade from each Member State. In the picture from left to right are:*

Hon. Immanuel Ngatjizeko, former Minister of Industrialization, Trade and SME Development of Namibia | Hon. Calle Schlettwein, Minister of Finance of Namibia | Hon. Kenneth Matambo, Minister of Finance and Development Planning of Botswana | Hon. Martin G. Dlamini, Minister of Finance of Swaziland | Ms. Paulina M. Elago, SACU Executive Secretary | Hon. Vincent T. Seretse, Minister of Trade and Industry of Botswana | Hon. Dr. Rob Davies, Minister of Trade and Industry of South Africa | Hon. Joshua Setipa, former Minister of Trade and Industry of Lesotho | Hon. Jabulani Mabuza, Minister of Commerce, Trade and Industry of Swaziland.



**Ms. Paulina Mbala Elago**  
*Executive Secretary*

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# Executive Secretary's Report

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This Report highlights key developments in SACU during the 2016/17 Financial Year.

On the economic front, the year under review was one of the most challenging years for the SACU region. In particular, the SACU economies continued to register low growth rates, which averaged 2.3 percent in 2016 compared to 2.2 percent in 2015. The low growth for the region is attributed to the weaker global economic recovery, low commodity prices and the persistent drought, amongst others. Going forward, the region's economic performance is projected to improve over the medium term.

On institutional matters, the SACU Finance and Audit Committee and the Commission held their quarterly meetings. The Council of Ministers was not able to convene its quarterly meetings during the period under review. However, a 3rd Ministerial Retreat was held on 19-20 June 2016, in Muldersdrift, South Africa. At the Retreat, the Council of Ministers agreed on the broader principles that are crucial to move the SACU Agenda forward. The Ministers established two dedicated Task Teams at the Ministerial level to facilitate the implementation of a Work Programme to resuscitate the SACU Agenda. This follows a discussion of the SACU Heads of State and Government on 12 November 2015, where they approved the Approach and Roadmap to re-invigorate the SACU Work Programme.

The Council also held a Special Meeting on the 31st March 2017 and considered and adopted the draft Report of the Ministerial Retreat, held on 19-20 June 2016, in South Africa. Furthermore, the Council considered the proposed Terms of Reference for the Ministerial Task Teams as well as the proposed Work Programme emanating from the 3rd Ministerial Retreat and directed the Commission to consider the drafts. The Council would thereafter consider the proposed Work Programme, for approval. The Ministers further agreed to resume the quarterly Meetings of the Council, with the first meeting scheduled to take place in June 2017, preceding the 5th SACU Summit of Heads of State and Government.

Surely, these developments are significant in that the adoption of the Terms of Reference for the Ministerial Task Teams and the proposed Work Programme will pave the way for the resuscitation of the full SACU Work Programme, going forward. The implementation of the outcomes of the Ministerial Retreat will be a key priority in the next Financial Year.

The Secretariat also held successful Public Awareness Roadshows in the Member States as planned. In Botswana, the roadshow was held from 20 - 22 November 2016 in Gaborone, and in Lesotho, it was held from 22 -24 March 2017 in Maseru. Both Roadshows were a success and the Secretariat

**2.3%** ▲

**growth rate for SACU economies in 2016**

## Executive Secretary's Report *(continued)*

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addressed different stakeholder segments, which included media practitioners, the private sector and academics. The Secretariat further took part in a Corporate Social Investment initiative in each Member State with the desire to give back to our communities.

As part of its communications strategy, the Secretariat also took part in: the Swaziland International Trade Fair from 2 - 16 September 2016; the Namibia Industry and Agricultural Show from 1 - 9 October 2016, and the Botswana Global Expo International Exhibition, from 22 - 26 November 2016. These trade fairs offered an opportunity for the Secretariat to interact directly with the public in the Member States as a way to raise awareness about SACU and its impact in their economies.

The Secretariat continued to facilitate the conclusion and implementation of the regional frameworks to strengthen the collaboration amongst the Customs Administrations to facilitate trade efficiently in the region. The key highlight in this regard was the conclusion of the Regional Customs Risk Management Strategy. Further, to capitalise on the gains achieved under the Customs Modernisation Programme, Member States agreed to revise the SACU Trade Facilitation Programme to align it with the national, regional and international developments, and the review process commenced in the 2016/17 Financial Year.

Despite the economic challenges that led to the downward adjustment of the Member States' revenue shares for 2016/17 by a total of R7.395 billion, the coordination and management of the Revenue Sharing Arrangement was carried out successfully. In 2017/18, it is expected that the SACU Member States will commence work to establish a Stabilisation Fund to avert uncertainties resulting from volatility of the Common Revenue Pool, which negatively impacts the national fiscus. In the area of trade negotiations, a major

milestone was the signing of the EU-SADC Economic Partnership Agreement (EPA) on 10 June 2016, in Kasane, Botswana. The EU-SADC EPA subsequently entered into force on 10 October 2016, ensuring SACU's continued market access into the EU. Similarly, the SACU-MERCOSUR Preferential Trade Agreement (PTA) entered into force on the 1st April 2016, nearly eight (8) years after it was signed by the MERCOSUR and SACU States on the 15th December 2008 and 3rd April 2009, respectively. The institutions established under the SADC-EU EPA and the MERCOSUR-SACU PTA has since commenced engagements to consider various implementation related issues.

At the regional level, SACU continued its engagement in the COMESA-EAC-SADC Tripartite Free Trade Area (TFTA) negotiations during the year under review. The negotiations primarily focused on the conclusion of the outstanding Annexes namely; Annex II on Trade Remedies and Annex IV on Rules of Origin, while at the same time pursuing the bilateral tariff negotiations with the East African Community (EAC) and Egypt, under the Tripartite framework. It is pleasing to note that remarkable progress was achieved with respect to the SACU-EAC negotiations, while the SACU-Egypt negotiations were also initiated.

Under the Continental Free Trade Area (CFTA) negotiations, the 55 Member States of the African Union (AU) commenced consideration of the modalities for negotiations on trade in goods and services. A major achievement was the completion of the Rules of Procedure for the CFTA institutions, and the commencement of work by the Technical Working Groups (TWGs) in their respective areas of specialisation.

Furthermore, the SACU Member States engaged in a review of SACU's offer to India, both in terms of product coverage and margins of preference. The implementation of the SACU-EFTA FTA continued and the Parties agreed on the modalities, scope

and coverage of the review of the Agreement. Following the United Kingdom's June 2016 referendum to exit the European Union, a possible trade arrangement with the United Kingdom was also considered to ensure continuity and market predictability granted under the SADC- EU EPA, post Brexit.

The Secretariat continued with its efforts to improve its operational environment. In this regard, I am pleased to report that the Secretariat acquired an electronic budget monitoring system, called IDU, to serve as a tool for budget planning, preparation and monitoring. During the period under review, the Secretariat also commenced the review of some of its Policies, in line with the requirement to review its Policies every two years. Furthermore, the Secretariat developed a Business Continuity Policy, which provides a foundation for a comprehensive Business Continuity Management System to minimize service disruptions and the impact on operations in the event of a disaster.

The Secretariat also developed an ICT Strategic Plan to set the strategic direction and priorities for ICT operations and investments in the Secretariat. The Secretariat also continued to maintain and strengthen strategic relations with regional and international organizations. To this end, the Secretariat held various engagements with the World Customs Organisation, SADC, and representatives of our trading partners. The Secretariat also participated in the Annual Meetings of the International Monetary Fund and the World Bank Group; the World Economic Forum; and the SADC Summit, amongst others.

In conclusion, I wish to sincerely thank the SACU Heads of State and Government, the Council of Ministers and Commission for the support, leadership and guidance provided to the Secretariat during the period under review. Equally, I wish to express my sincere appreciation to the staff of the Secretariat for their efforts, commitment, hard

work, dedication and invaluable contributions that made it possible to achieve the milestones I have highlighted.

As we move forward with the implementation of the outcomes of the 3rd Ministerial Retreat, I am optimistic that through our efforts, the SACU Secretariat will continue to perform to the highest standards to ensure that the agreed Work Programme is implemented effectively and timely. Ultimately, the key goal is to attain results that translate into meaningful and concrete benefits for the SACU region.



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Paulina Mbala Elago  
Executive Secretary



# Corporate Governance Statement

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The Executive Management and the Finance and Audit Committee set standards and manage the implementation of systems of internal control, accounting and information systems. These aim to provide reasonable assurance that assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls which are contained in established Policies and Procedures include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

The internal audit function operates unimpeded and independently from operational management, and has unrestricted access to the Finance and Audit Committee. The Internal Audit appraises, evaluates and when necessary, recommends improvements in the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business.

The Finance and Audit Committee, together with the external and internal auditors, play an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.



## Office of the Executive Secretary

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**Seated (Left to right)**

Mr. Abed Shipingana - Chauffer | Ms. Anitha Ganases - PA: Executive Secretary | Ms. Paulina Elago - Executive Secretary  
Ms. Rosalia Augustinus - Secretary: Chief Legal Officer | Mr. Abed Iyambo - Senior Office Manager

**Standing (Left to right)**

Ms. Elsie Mamaregane - PA: Deputy Executive Secretary | Ms. Rumbidzaishe Chinyoka - Legal Officer | Ms. Kungo Mabogo - Communications Manager | Ms. Rauna Mumbuu - Communications Officer | Ms. Xolile Ngwenya - Documentation and Conferencing Officer  
Ms. Ndibo Oitsile - Chief Legal Officer



**Mr. Hiskia Ndjavera**  
Internal Auditor



**Mr. Thabo Khasipe**  
Deputy Executive Secretary



## Directorate Corporate Services

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**Seated (Left to right)**

Ms. Alma Andrade -Director: Corporate Services | Mr. Hermanus Esterhuizen -Procurement Officer

**Standing (Left to right)**

Mr. Elson Kamburona - Driver | Mr. David Nalupe -Driver | Mr. Refiloe Motjoloane -IT Manager | Ms. Maria Hewicke -Finance Assistant  
Ms. Sophia Lubaki - Human Resource Officer | Ms. Ingrid Nanus - Receptionist | Ms. Prudence Kotze - Accountant | Mr. Mohammed Hoosain -  
Finance Manager | Ms. Rassidy Diergaardt - Secretary: Director Corporate Services | Mr. Gideon Pineas - Handyman  
Mr. James Shipena -Facilities and Administration Officer | Mr. Themba Tladi -Human Resource Manager



**Ms. Aletta Shatona**  
Records and Information Officer

## Directorate Trade Facilitation and Revenue Management

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### *Back Row (Left to right)*

Mr. Tiroyaone Sirang - Economist | Ms. Dorian Amateta - Secretary: Director Trade Facilitation and Revenue Management  
Mr. Abel Sindano - Trade Data Analyst.

### *Seated*

Ms. Ngoanamokgotho Tladi - Deputy Director: Trade Facilitation



**Mr. David Maleleka**  
Deputy Director:  
Revenue Management  
(Departed 31 January 2017)



**Mr. Marcel Ratsiu**  
Customs Specialist



**Mr. Donald Ndwandwe**  
Deputy Director:  
Revenue Management  
(Joined March 2017)



## Directorate Policy Development, Research and Trade Negotiations

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### *Standing (Left to right)*

Ms. Khutsafalo Sekolokwane - Policy Researcher | Ms. Moureen Matomola -Deputy Director: Policy Development and Research  
Ms. Anneline Mathis - Secretary: PDR | Ms. Rejoice Karita -Trade Negotiations Coordinator | Ms. Lerato Ntlopo -Deputy Director:  
Trade Negotiations.

### *Seated*

Mr. Anton Faul - Director: Policy Development, Research and Trade



**Dr. Susara Jansen Van Rensburg**  
Trade Negotiations Coordinator



**Mr. Molupe Pheko**  
Policy Development Coordinator





CHAPTER 1

# Institutional Development







# Institutional Development

## Introduction

The SACU Agreement, 2002, as amended in April 2013, establishes the following institutions: Summit of SACU Heads of State or Government; Council of Ministers; Customs Union Commission; Secretariat; Tariff Board; Technical Liaison Committees; and *ad hoc* Tribunal.

The Chair of SACU institutions rotates amongst the Member States in an alphabetical order, for a period of 12 months. For the period under review, the Kingdom of Swaziland was the Chair effective on the 15<sup>th</sup> July 2016, following the end of the Republic of South Africa's term on the 14<sup>th</sup> July 2016.

## Key highlights for the year

The following were achieved during the year under review:

- (a) in relation to the SACU Summit, the Amendments to the SACU Agreement, 2002, to institutionalise the SACU Summit, 2013, entered into force on the 16<sup>th</sup> September 2016;
- (b) the SACU Council of Ministers convened the 3<sup>rd</sup> Ministerial Retreat, on 19 - 20 June 2016, in Muldersdrift, South Africa; where it was agreed to establish Ministerial Task Teams to reinvigorate the SACU Work Programme;
- (c) the SACU Council of Ministers convened its 3<sup>rd</sup> Special Meeting on the 31<sup>st</sup> March 2017;
- (d) the SACU Commission and Finance and Audit Committee convened all their quarterly Meetings; and
- (e) the Secretariat continued providing support to the institutions of SACU.

## SACU Summit

The Amendments to the SACU Agreement, 2002, to institutionalise the SACU Summit, 2013, entered into force on the 16<sup>th</sup> September 2016, following the completion of the ratification processes by all the Member States. The SACU Summit consists

of the Heads of State or Government of the SACU Member States. The Summit receives reports on the work of the Council and provides political and strategic direction to SACU. The Summit meets once a year.

During the period under review, the Summit did not convene, pending the implementation by the Council, of the Roadmap to reinvigorate the SACU Work Programme, adopted in November 2015.

## SACU Council of Ministers

In accordance with Article 8 of the Agreement, the Council of Ministers is primarily responsible for the overall policy direction and functioning of SACU institutions. For the period under review, no ordinary meetings were convened, however, the Council held:

- (a) the 3<sup>rd</sup> Ministerial Retreat, on 19-20 June 2016 in Muldersdrift, South Africa; and
- (b) a Special Meeting, on the 31<sup>st</sup> March 2017, in Johannesburg, South Africa.

## 3<sup>rd</sup> Ministerial Retreat

The purpose of the Retreat was mainly to:

- (a) undertake an introspection of SACU as an organisation that supports the economic development of the SACU Member States;
- (b) engage on all issues related to the SACU Work Programme;
- (c) assess the SACU Work Programme and the SACU Agreement, 2002, in view of the regional and global developments; and
- (d) assess the significance of developments in other regional bodies for SACU's Work Programme.

At the Retreat, the Ministers reflected on the Six (6) SACU Priority Areas and approaches to move the SACU Agenda forward. Furthermore, the Ministers identified broad principles that are crucial to enhancing the SACU Work Programme.

The outcomes of the Retreat would be reported to the next SACU Summit.

### Special Meeting of the Council

The Special Meeting of the Council was convened to adopt the Report of the 3<sup>rd</sup> Ministerial Retreat. The Meeting also considered the draft Terms of Reference of the Ministerial Task Teams and the proposed Work Programme, which were developed based on the outcomes of the Retreat. The Council adopted the decisions of the 3<sup>rd</sup> Ministerial Retreat and referred the draft Terms of Reference and the proposed Work Programme, to the Commission for consideration and thereafter recommendation for approval by the Council.

### Customs Union Commission

In pursuit of its mandate to ensure the implementation of the SACU Agreement and the decisions of the Council as set out in Article 9 of the Agreement, the Commission convened all its quarterly meetings. The Commission met on:

- (a) 7 - 8 April 2016, in Johannesburg, South Africa;
- (b) 28 - 29 June 2016, in Windhoek, Namibia;
- (c) 20 - 21 September 2016, in Maseru, Lesotho; and
- (d) 6 - 7 December 2016, in Windhoek, Namibia.

Following its deliberations on trade, finance and institutional matters, the Commission submitted recommendations to the Council for relevant decisions, as reflected in other Chapters of this publication.

### The Secretariat

The Secretariat discharged its mandate of ensuring the day-to-day administration of SACU, as set out in Article 10 of the SACU Agreement. The Secretariat arranged and provided technical support to the meetings of the Council, Commission

and the Finance and Audit Committee. The Secretariat further coordinated and monitored the implementation of the decisions of the Council, as well as in relation to the 3<sup>rd</sup> Ministerial Retreat. The Secretariat also continued to coordinate and assist the SACU Member States, in their negotiations of trade agreements with third parties, as reported in other Chapters of this publication.

### Challenges faced

Pending the resumption of the ordinary meetings of the Council in accordance with the Roadmap to reinvigorate the SACU Work Programme, the Council continued to take decision through round-robin, pursuant to the Rules of Procedure of the Council. In some instances, the approval process took a longer period, thereby affecting the timelines for the implementation of the decisions.

### Outlook for 2017/18

Following the 3<sup>rd</sup> Ministerial Retreat and the 3<sup>rd</sup> Special Meeting of the Council, a clear direction on the operationalisation of the remaining Institutions was provided, as part of the Work Programme for the Ministerial Task Teams. The Council also agreed to resume its quarterly Meetings with effect from June 2017. It is therefore expected that through the implementation of the Work Programme, the objectives of the SACU Agreement, 2002, on the institutional arrangements, will be achieved.





CHAPTER 2

# Trade Facilitation and Revenue Management

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# Trade Facilitation and Revenue Management

## Introduction

Trade Facilitation and Revenue Management entail simplification of the cross-border movement of goods, and equitable revenue sharing amongst SACU Member States.

## Key highlights for the year

The following are key highlights and achievements of the Trade Facilitation and Revenue Management Programme in the 2016/17 Financial Year:

- a) successfully undertook a joint Customs Enforcement Operation on textile and clothing “Operation Texo”;
- b) concluded a gap analysis/diagnostic study to assess the readiness of the SACU Member States to implement their national Preferred Trader Programmes;
- c) developed Preferred Trader Programme External and Internal manuals for the Traders and Customs Officials;
- d) undertook the process for the determination and of allocation of Revenue Shares to Member States;
- e) training of experts to improve Trade Data Quality in the Member States; and
- f) provided technical assistance on Supply and Use Tables (SUT) for the compilers of national accounts in the Member States.

## Customs Modernisation Programme (WCO-SACU Connect Project)

The key priority for the SACU Customs Modernisation Programme is to enhance efficiencies and harmonise procedures, processes and legislative requirements that affect cross border movement of goods. The SACU Customs Modernisation Programme is anchored on Trade Partnership; Customs Legislative Framework; IT Connectivity; and Risk Management and Enforcement and the key highlights stated are enshrined in the components of the Programme.

*Trade Partnership* seeks to strengthen compliance and Customs to Business dialogue by focusing on the Preferred Trader Programme (PTP). The PTP is a Customs Compliance programme that is aimed at rewarding compliance, expediting legitimate cross border trade, and promoting mutual recognition of compliant traders in the SACU region. The Stakeholders Engagement aims at strengthening Customs to Business dialogue in the SACU region through the National Customs Trade Forums and the Regional Customs Trade Forum.

For the period under review, the SACU Member States concluded:

- a) the PTP Internal Procedure Manual that will serve as a guide for Customs Officials on implementation of the PTP;
- b) the PTP External Procedure Manual to guide the trading community on the eligibility requirements and procedure for accreditation as a Preferred Trader; and
- c) the gap analysis/diagnostics study to assess the capacity gaps and readiness of the Member States toward implementation of their PTPs.

The SACU region also convened a third (3<sup>rd</sup>) meeting of the Regional Customs Trade Forum (RCTF) that was attended by the representatives of the private sector and Customs Commissioners. Amongst others, the RCTF called on the need to strengthen collaboration between the public and private sector to curb illicit trade and improve compliance with the laws.

*Customs Legislative Framework* serves to align the Customs and Excise legislations in the SACU Member States, and to also enable exchange of information on trade transactions within the agreed parameters. During the period under review, the Annex E on Mutual Administrative Assistance, to the SACU Agreement, 2002, came into force. Full implementation of Annex E will facilitate automatic exchange of import and export trade transactions in real time. This will significantly

# Trade Facilitation and Revenue Management *(continued)*

enhance efficiencies and reduce the turnaround times associated with manual processing of documents at border crossings. The SACU Member States also commenced drafting the Mutual Recognition Annex that will be used as a regional legal framework to facilitate mutual recognition of Traders accredited under the Member States' Preferred Trader Programme (PTP).

**IT Connectivity** facilitates automation and interconnectivity of the IT Systems to enable real time exchange of information and data between Customs Administrations in the SACU Member States. This is an important component of the SACU Customs Modernisation agenda whose full implementation will contribute to generation of reliable and accurate trade data. During the period under review, Member States finalised the regional IT Framework for the Preferred Trader Programme, named the "SACU Preferred Trader Utility Block". The Utility Block will guide Member States on the requirements and specifications to develop common IT information exchange platforms and to mutually recognise the Preferred Traders. In addition, the IT and Customs Experts were trained on the WCO Data model that will enable them to simplify and standardise IT data requirements for Customs declarations.

**Risk Management and Enforcement** focuses on the development and implementation of instruments that curb illicit trade and protect the society. This is done through modernisation of Customs controls and applying intelligence based risk management techniques. For the period under review, the SACU Member States adopted a SACU Regional Customs Risk Management Strategy. As part of the strategy, a SACU wide Joint Customs Enforcement Operation named "Operation Texo" was carried out. The objective of the Operation was to identify risks associated with the clothing and textile sector and to also test the level of compliance with the Customs laws. The report of the Operation will be published in the 2017/18 Financial Year.

## Implementation of WTO Trade Facilitation Agreements (TFA)

During the period under review, the SACU Secretariat, in collaboration with the World Trade Organisation (WTO), United Nations Conference for Trade Development (UNCTAD), International Trade Centre (ITC), and the World Bank, provided technical support to the SACU Member States towards implementation of the WTO Trade Facilitation Agreement (TFA).

## Determination of the Revenue Shares

The Secretariat facilitated the annual process leading to the determination and allocation of revenue shares for the Member States. The revenue shares were affected by a sluggish global economic growth.

In this regard, according to the International Monetary Fund's (IMF) World Economic Outlook (October 2017) the global growth rate was 3.2 percent in 2016. As a result, the SACU Common Revenue Pool (CRP) registered a deficit of R7.4 billion, with respect to the 2014/15 Financial Year. This was factored in the determination of Member States' revenue shares for 2016/17 Financial Year. Table 1 summarises the revenue shares for the Member States for the 2016/17 relative to 2015/16 Financial Year.

The IMF's World Economic Outlook (April 2017) estimated global growth rate of 3.1 percent in 2016. As a result, the SACU Common Revenue Pool (CRP) registered a deficit of R7.4 billion, with respect to the 2014/15 Financial Year, and this was factored in the determination of Member States' revenue shares for 2016/17 Financial Year. Table 1 summarises the revenue shares for the Member States for the 2016/17 relative to 2015/16 Financial Year.

Table 1: Member States' Revenue Shares (Billion Rand) for 2015/16 and 2016/17

Financial year	Botswana		Lesotho		Namibia		South Africa		Swaziland	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
Revenue shares	18.7	18.6	5.8	5.5	15.8	17.0	37.7	39.2	6.2	6.3
Adjustments	1.3	-3.1	0.5	-1.0	1.3	-3.0	0.8	0.7	0.6	-1.1
Total	20.0	15.5	6.3	4.5	17.1	14.0	38.6	39.9	6.8	5.2
% Change		-22.4		-28.4		-17.8		3.3		-22.9

Table 1 highlights that the receipts from CRP for Botswana, Lesotho, Namibia and Swaziland declined during 2016/17 Financial Year compared to 2015/16 Financial Year. The country with the highest decline was Lesotho at 28.4 percent followed by Swaziland and Botswana at 22.9 percent and 22.4 percent respectively. The revenue shares for South Africa increased slightly by 3.3 percent.

### Improvement of Trade Data Quality in SACU

During the period under review, the Secretariat in collaboration with the United Nations Statistics Division (UNSD) provided training to twenty-three (23) Customs and Statistics Officials on International Merchandise Trade Statistics for the Member States. The training targeted officials who are responsible for the overall compilation and dissemination of International Merchandise Trade Statistics (IMTS). The training focused on the measurement of trade data quality in the region. An agreement was also reached on the indicators of quality that will be implemented in SACU countries and be used for reporting purpose on the SACU Quality Report on IMTS.

### SACU Publications

During the period under review, the monthly SACU Inflation and the Annual SACU Merchandise Trade Statistics Reports were published. These reports were made available to the public.

### Challenges

Under the period under review, challenges identified for Trade Facilitation and Revenue Management were:

- the varied pace of implementation of Customs Modernisation reforms under the Customs Modernisation Programme, has delayed implementation of some of the concluded regional Customs frameworks. This includes the entry into force of the Annex E on Mutual Administrative Assistance, at the end of the 2016/17 financial year, following ratification by all Member States; and
- the limited work undertaken as a result of the stalled revision of the SACU Work Programme especially the review of the revenue sharing arrangement and long-term management of the CRP.

# Trade Facilitation and Revenue Management *(continued)*

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## Outlook for 2017/18

It is anticipated that the focus for Trade Facilitation and Revenue Management during the 2017/18 financial year will be on:

- a) technical support to the SACU Member States towards finalisation of the regional frameworks such as the Regional Customs Compliance Strategy, the IT Connectivity Roadmap, the Preferred Trader Programme Roadmap, and the Regional Customs Risk Management System;
- b) production of an Exporters' Guide for the SACU-EFTA Free Trade Agreement;
- c) conclusion of the Study to review and streamline the Trade Facilitation Programme. The study will be used as input in the deliberations on strengthening existing cooperation and collaboration on Trade Facilitation to improve border efficiencies as part of the revised SACU Work Programme;
- d) provision of continued technical support to the trade data reconciliation process; and
- e) review of the revenue sharing arrangement, establishment of a Stabilisation Fund and exploring the feasibility of establishing a Financing Mechanism for infrastructure, regional projects and industrialisation.





CHAPTER 3

# Policy Development, Research and Trade Negotiations

# Policy Development, Research and Trade Negotiations

## Introduction

The Policy Development, Research and Trade Negotiations programme facilitates and coordinates the SACU Member States work programme on the development of common policies, the integration of the Member States into the global economy through negotiations as well as the conclusion of preferential trade agreements with third parties. Furthermore, work in this area includes undertaking research to inform policy development and trade negotiations.

## Key highlights for the year

The following were the key highlights and achievements under the Policy Development, Research and Trade Negotiations programme:

- a) completion of the Study on the Implication of the Continental Free Trade Area on SACU which guided the Member States in the CFTA negotiations;
- b) advancement of bilateral tariff negotiations between SACU and the EAC under **COMESA-EAC- SADC Tripartite Free Trade Agreement (TFTA)**;
- c) agreement on the modalities, scope and coverage of the review of the **SACU- European Free Trade Association (EFTA) Free Trade Agreement**;
- d) the entry into force of the SACU-MERCOSUR Preferential Trade Agreement in April 2016; and
- e) the signing and entry into force of the **Economic Partnership Agreement between the European Union and the Southern African Development Community** in June and October 2016, respectively;

## Continental Free Trade Agreement (CFTA) Negotiations

The negotiations to establish a Continental Free Trade Agreement (CFTA) amongst the 55 African Union Member States continued during the period under review. The CFTA aims to create a single

market for goods and services, free movement of business people and investments for over a billion people with an aggregate GDP of close to USD 4 trillion. The CFTA is anchored on three pillars namely; market integration, industrial development and infrastructure development.

The SACU Secretariat facilitated SACU Member States' participation in the Technical Working Groups (TWGs) meetings, the CFTA Negotiating Forum (CFTA-NF) as well as Senior Officials and African Ministers of Trade Meetings (AMOT) to inform the CFTA negotiations. In this regard, three (3) SACU consultative meetings were held in October 2016, November 2016, and March 2017.

Key highlights during the period under review include the effective and successful coordination of SACU positions emanating from the SACU consultative meetings held prior to the technical round of negotiations as well as a coordinated and unified SACU engagement in the CFTA negotiations at all levels of the CFTA negotiations.

In addition to their internal SACU consultations, Member States also participated in the Tripartite Group consultative meetings to formulate positions and to ensure to the extent possible, that the CFTA takes lessons from the TFTA as per the Tripartite Ministers decision.

## COMESA-EAC-SADC Tripartite Free Trade Agreement (TFTA) Negotiations

The COMESA-EAC-SADC Tripartite Free Trade Area (TFTA) launched in June 2015, will establish a single market for 26 African countries with a combined population of over 600 million people (57% of Africa's population) and Gross Domestic Product (GDP) above USD 1 trillion. SACU Member States participate in the TFTA negotiations as Members of the Southern African Development Community (SADC). However, SACU is recognised as customs union and acts as such within the negotiations.



During the period under review, the Secretariat facilitated the SACU Member States' participation in the TFTA negotiations through consultative meetings prior to the TWG and bilateral tariff liberalisation meetings with the TFTA Partner/Member States. In this regard, four (4) SACU consultative Meetings (August, October 2016 (two meetings), November and December 2016) were held to engage with the EAC and TWGs. The negotiations on Phase I issues continued under the Technical Working Groups and the Tripartite Trade Negotiating Forum (TTNF). These negotiations included work on Tariff Liberalisation, Rules of Origin, Trade Remedies, and Dispute Settlement Annexes.

The key highlights during the review period included Secretariat facilitation of SACU consultative meetings to ensure SACU's positions are conveyed in the decisions of the negotiating forum, Senior Officials and the Tripartite Council. As a result SACU played a major role in the finalisation of the Annex on Rules of Origin, in October 2016.

As part of the market access package, Tripartite Member/Partner States were engaged in bilateral tariff negotiations. Although SACU had finalised initial tariff offers to all TFTA Member/Partner States/RECs, during the review period, the SACU Secretariat facilitated the review of the tariff offers and development of request list for the EAC and Egypt. Of significant progress were the negotiations with the EAC, with the Parties having hosted seven bilateral meetings to date.

The meetings that made significant progress were the 6<sup>th</sup> and 7<sup>th</sup> SACU-EAC bilateral Meetings which were held on 24-25 October 2016 in Nairobi, Kenya and 13 December 2016 in Johannesburg, South Africa. As the result of the progress made from these two meetings, the offers for both parties reached the agreed TFTA modalities. The SACU-EAC Senior Officials Meetings held on 27 October 2016 in Nairobi, Kenya and 15 December 2016 in Johannesburg, South Africa resulted in improved

offers and raised levels of ambition between the Parties through consideration of each other's request lists. The Secretariat continues to work with the EAC Secretariat for the parties to at least reach the agreed framework for the immediate liberalisation category to enable coming into force of the Agreement.

The Secretariat facilitated the review of the SACU offer to Egypt. However, limited progress was achieved in the negotiations with Egypt with only one bilateral meeting held on 15 August 2016 in Cairo, Egypt where the Parties exchanged tariff offers. Attempts to schedule more bilateral meetings were not successful partly due to the congested trade negotiations programme and the ongoing consultations in SACU Member States to reconsider the offer.

Eighteen (18) Member/Partner States have signed the TFTA Agreement since its launch in June 2015. Within SACU, only Namibia and Swaziland have signed the Agreement while others await finalisation of all the outstanding Phase I issues. The Agreement will come into force upon ratification by at least two thirds of the Member/Partner States.

### **SACU-India Preferential Trade Agreement Negotiations**

Negotiations towards a Preferential Trade Agreement between SACU and India commenced in 2008. In January 2012, tariff preference request lists were exchanged.

SACU Member States undertook internal consultations with a view to improve the offer to India both in terms of product coverage as well as margins of preference. A line-by-line analysis of the offer to India was conducted. This resulted in improvements of Margins of Preference in several tariff lines. The technical work will be finalised during the next financial year, in anticipation of the resumption of talks with India.

## Policy Development, Research and Trade Negotiations *(continued)*

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### **Free Trade Agreement between SACU and the European Free Trade Association (EFTA)**

The Free Trade Agreement (FTA) between SACU Member States and the European Free Trade Association (EFTA) countries, consisting of Iceland, Liechtenstein, Norway and Switzerland, which came into force in 2008, is under review. The Agreement distinguishes between Industrial Products (NAMA), Processed Agricultural Products (PAPS) and Basic Agricultural Products (BAPS). The former two, are covered under the general FTA between all EFTA and SACU Member States, and the latter is covered under three Bilateral Agricultural Agreements between SACU and Iceland, Norway and Switzerland/Liechtenstein, respectively.

The national consultations and regional engagement to facilitate adoption of a SACU position on the scope, coverage, modalities and to formulate position on the EFTA's request lists continued in the period under review. During the Joint SACU-EFTA Meeting held in Namibia in November 2016, both Parties agreed on the modalities, scope and coverage of the review. In order to ensure efficient utilisation of resources, the Parties agreed to combine the Customs Sub-committee with the Market Access Sub-committee and to have two to three engagements during the 2017/18 FY.

As part of capacity building support, EFTA organised a Joint EFTA-SACU seminar in December 2016, in Johannesburg, South Africa to share best practices and identify areas that require strengthening in the SACU Member States in relation to migration from Euro 1 movement certificate to Invoice Declaration as proof of origin.

### **Preferential Trade Agreement between SACU and the Common Market of the South (MERCOSUR)**

The SACU-MERCOSUR Preferential Trade Agreement (PTA) entered into force on 1 April 2016. This necessitated both Parties to put in place the

necessary administrative processes and measures to enable full implementation of the Agreement. These included, inter alia, the amendment of customs legislations, acquiring Certificates of Origin; and exchange of information and contact points to oversee the operationalisation of the PTA in accordance with the provisions of the PTA. The inaugural Joint Administration Committee (JAC) Meeting, as established by Article 25 of the PTA is scheduled to take place during the 2017/18 Financial Year.

### **Economic Partnership Agreement between the European Union and the Southern African Development Community (EU-SADC EPA)**

As part of the SADC-EPA Group, SACU Member States concluded the negotiations towards the EU-SADC Economic Partnership Agreement (EPA) in July 2014. A notable highlight of the 2016/2017 Financial Year was the signing of the EU-SADC EPA on 10 June 2016 in Kasane, Botswana. Following, the deposit of the instruments of ratification by all the SACU Member States, the EU-SADC EPA in accordance with Article 113(4) applied provisionally between the EU and the SACU Member State on 10 October 2016.

Subsequent to the provisional application of the EU-SADC EPA, three (3) meetings were held both at the SADC EPA level and jointly with the EU to consider issues emanating from the EPA. The 1st EU-SADC EPA Joint Trade and Development Committee held on 16-17 February 2017, considered various issues related to the implementation of the EPA. The Secretariat facilitated SACU internal meetings prior to engagements both at SADC EPA level and preparation for joint meetings with the EU. In this regard, the Secretariat facilitates a total of three (3) SACU consultative meetings.

As part of the Market Access offer to the EU, SACU offered Tariff Rate Quotas (TRQs) for 9 products (Pork, Pig fat, Butter, Cheese, Barley, Wheat,



Cereal Based Food Preparations, Ice Cream and Mortadella Bologna). The TRQs were allocated amongst the SACU Member States and unused quotas will be re-allocated on 1st September of each year. SACU is working towards developing a permanent TRQ Management System.

### **Study on the Implication of the Continental Free Trade Area on SACU**

In order to support SACU Member States in the CFTA negotiations, the SACU Secretariat commissioned a study to assess the implications of the CFTA on SACU. The study was completed in March 2017. The recommendations of the study have guided Member States in developing the negotiation modalities for goods.

### **African Growth and Opportunity Act (AGOA)**

The Secretariat and SACU Member States attended the 2016 AGOA Forum, which was held on 22-26 September 2016, in Washington D.C. The Secretariat facilitated a Ministerial consultative Meeting of SACU Trade Ministers prior to the forum in preparation for both the Africa Trade Ministers Meeting and the 15<sup>th</sup> AGOA Forum

During the Forum, the US Government expressed its desire and presented options to conclude a reciprocal trade and investment agreement beyond AGOA with African countries. 'Beyond AGOA' highlights important changes both in the US and in the African continent that requires a rethink of US-Africa future trade policy. It calls Sub-Saharan African policy makers to consider a number of policy building blocks, which simultaneously can improve conditions for trade. These include trade facilitation, intellectual property, services, labour, sanitary and phytosanitary measures, amongst others. These include options and guiding principles for countries willing to negotiate trade agreement with the US once AGOA expires in 2025. In light of these developments, technical work to assessing SACU's possible scenarios for future trade relations with the US is to be complete in the following year.

### **Challenges Faced Under Trade Negotiations**

The challenges experienced during the period under review included a congested trade negotiating agenda, the tight timelines for completion of the TFTA and the CFTA negotiations as well as the volume of work that needed to be undertaken towards these two areas. These factors affected both Member States and the Secretariat in terms of human and financial resources and which has in turn has had an impact on the ambitions under the TFTA and the CFTA. Other challenges experienced during the period under review included the limited scope of activities pertaining to the implementation of the policy related issues prior to the 3rd SACU Ministerial Retreat and the subsequent approval of the post retreat work programme.

### **Outlook for 2017/18**

The Secretariat would continue to support the Member States in their engagements with third parties in the following areas:

- a) Ongoing negotiations towards establishment of the CFTA and TFTA;
- b) work towards the resumption of the negotiations with India;
- c) Implementation of the Economic Partnership Agreement between the EU and the SADC EPA States after coming into force on 10th October 2016;
- d) SACU engagements with the UK to ensure continuity of trade and avoid trade disruptions when the UK finally exit the EU in March 2019;
- e) Implementation of the SACU-MERCOSUR PTA including the Inaugural SACU-MERCOSUR Joint Administrative Committee Meeting;
- f) The review of the SACU-EFTA; and
- g) Implementation of the SADC Trade Protocol especially completion of SACU's work on the RoO review for textiles and clothing.



CHAPTER 4

## Secretariat's Operating Environment

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# Secretariat's Operating Environment

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## Introduction

This Chapter provides an overview of activities undertaken in the areas of Finance, Human Resources, Procurement, Records & Information Management, Information & Communications Technology (ICT) and Facilities & Administration.

## Key highlights for the year

Key highlights for the year under review included the following:

- a) installation of the IDU Budgeting System to improve budget management, monitoring and evaluation controls;
- b) staff recruitment and enhancement of performance management process;
- c) development of a Business Continuity Plan for the Secretariat;
- d) development of an ICT Strategic Plan;
- e) organisational skills assessment; and
- f) continued wellness programmes and team building for the Secretariat.

## Installation of IDU Budget System

During the year under review, the Secretariat focused on improving the budget planning, monitoring and evaluation capabilities, in order to enhance the budget management as well as overall budget performance and absorption rates. The IDU Budgeting system was installed to enable real-time monitoring of commitments and spending. Additional users and role-players in the procurement process were added to the system in order to ensure that it provides the maximum value to the Secretariat. This has led to improved budget monitoring rates during the reporting period.

The IDU Budgeting system also serves as a budget capturing tool and replaced the Excel-based system used during the previous budget cycles. This allowed the budget reviewers the ability to conduct intense reviews and to manage allocated resources effectively.

## Business Continuity Plan

To ensure good Governance of the ICT function, the Secretariat developed a Business Continuity Plan (BCP), which provides a foundation for a comprehensive Business Continuity Management System. It will ensure that measures are established to minimize service disruptions on the Secretariat's operations. The Secretariat further developed an ICT Strategic Plan to set the strategic direction and priorities for ICT investments within the Secretariat. This Plan will also help ensure that the ICT function's goals and objectives are aligned to the priorities of the Work Programme.

## Staff Recruitment and Enhancement of the Performance Management Process

Vacant positions were filled to ensure that staffing levels are adequate. New staff members were appointed in the following positions: Economist, Deputy Director: Revenue Management, ICT Manager and Trade Negotiations Coordinator.

The Secretariat continued the process of reviewing its human resources policies as a way of making them more relevant, practical, and competitive. This review is still ongoing and covers two sets of review exercises, mainly the Conditions of Service and the Pay Structure. It is expected that the exercise will enhance the Secretariat's ability to remain competitive in attracting, motivating, and retaining staff.

The Secretariat also undertook an organisational skills assessment exercise in order to enhance its staff development and training programme. The exercise identified skills gaps and training requirements and will inform the development and application of an organisational training plan and approach.

The Secretariat also reviewed its Performance Management system with the aim of making it more robust and fair in the development of Key Performance Areas and the implementation of and improved performance rating mechanism.



# Secretariat's Operating Environment *(continued)*

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## Staff Wellness and Teambuilding

Teambuilding and staff wellness sessions, as well as a Staff Retreat were held during the period under review. They have contributed greatly to the strengthening of the Secretariat's team building efforts as well the promotion of organisational values.

## Challenges Faced

During the year under review the upgrading of the accounting system, SAP Business One, to version 9 was halted after experiencing technical challenges with importing some of the historical data on fixed assets. The upgrade was postponed to the 2017/18 Financial Year.

The ICT Security Infrastructure assessment project was not undertaken in the current financial year due to delays in the procurement process of securing a suitable service provider. This project has since been carried forward to the 2017/18 Financial Year.

The review of the Conditions of Service and the Pay Structure were delayed due to challenges faced in obtaining relevant information for benchmarking purposes.

The recruitment process for other existing positions such as the Director: Trade Facilitation and Revenue Management and the Tariff Board Coordinator have not yielded successful placements and are still ongoing.

## Outlook for 2017/18

The outlook for the 2017/18 Financial Year is as follows:

- a) Implementation of the IDU Reporting module to complement the IDU system;
- b) The SAP Business One upgrade will be undertaken and completed;

- c) The outstanding issues relating to the SACU Headquarters should be resolved so that the final completion certificate can be issued;
- d) The development of the Health and Safety Policy;
- e) Review of the following policies: Financial, Procurement, Travel, Investment, Fleet Management, Risk Management, Fixed Assets, ICT Security, Bring-Your-Own Device, and Communications Device. Following approval by the Council the policies will be rolled out to secretariat staff and implemented;
- f) Implementation of the ICT Strategy, focusing on the following key initiatives:
  - i. the Revamp of the ICT Security Infrastructure
  - ii. development of a Disaster Recovery Plan and the implementation of the approved Business Continuity Policy.
- g) Completion of the review of the Conditions of Service and the Pay Structure;
- h) The recruitment process to fill the existing vacancies will continue; and
- i) The development and implementation of the organisational training plan.



ANNEX 1

# SACU Member States' Economic Performance

REPUBLIC OF NAMIBIA  
MINISTRY OF INDUSTRIALISATION, TRADE AND SME DEVELOPMENT  
KHOMAS - HEAD OFFICE  
PRIVATE BAG 12345, WINDHOEK  
TELEPHONE NUMBER: 061-2837111  
FAX: 061-223922

**BLOCK B**

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# SACU Member States' Economic Performance

## Global Economic and International Trade Outlook for 2015/2016

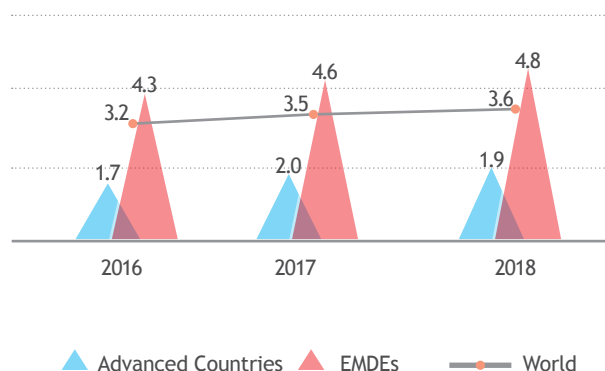
The global economic performance slowed down to 3.2 percent in 2016 from 3.4 percent in 2015 (Figure 1). According to the World Economic Outlook (WEO) update for July 2017, the global growth for 2017 is projected at 3.5 percent, which is underpinned by growth in emerging markets and developing economies (EMDEs). The EMDEs are expected to grow by 4.6 percent which will be mainly driven by China, as the country continues to rebalance from industry to services and continued policy stimulus. The global manufacturing, investment and trade rebound amid higher commodity prices, robust demand and lower inflationary pressures are the key drivers in the projected improvement in the global economy in 2017.

Like most regions in 2016, developed economies also experienced a slow growth of 1.7 percent compared to 2.1 percent in 2015. A growth prospect in 2017 is positive with a projection of 2.0 percent projected for the developed economies led by USA, Germany, Spain, UK and Japan.

Sub-Saharan Africa registered a 1.3 percent growth in 2016 compared to 3.4 percent in 2015. The performance is expected to improve in 2017 with a projected growth of 2.7 percent. This is in the light of stabilizing commodity prices and adjustment to negative terms of trade shocks.

The global trade volumes have been stagnant during the first half of 2016, owing to subdued demand from developed countries and contracting imports from key commodity exporting countries. The weak growth in investment also added downward pressure on trade in capital goods. As pointed out in the World Bank's (2017) growth projections, there was also a slowdown in global value chains and a resultant lower income elasticity of trade. Nonetheless, global trade is expected to slowly recover in 2017 and 2018, albeit at lower rates.

Figure 1: World and Regional Economic Growth Rates (Percentage) for 2016 -2018

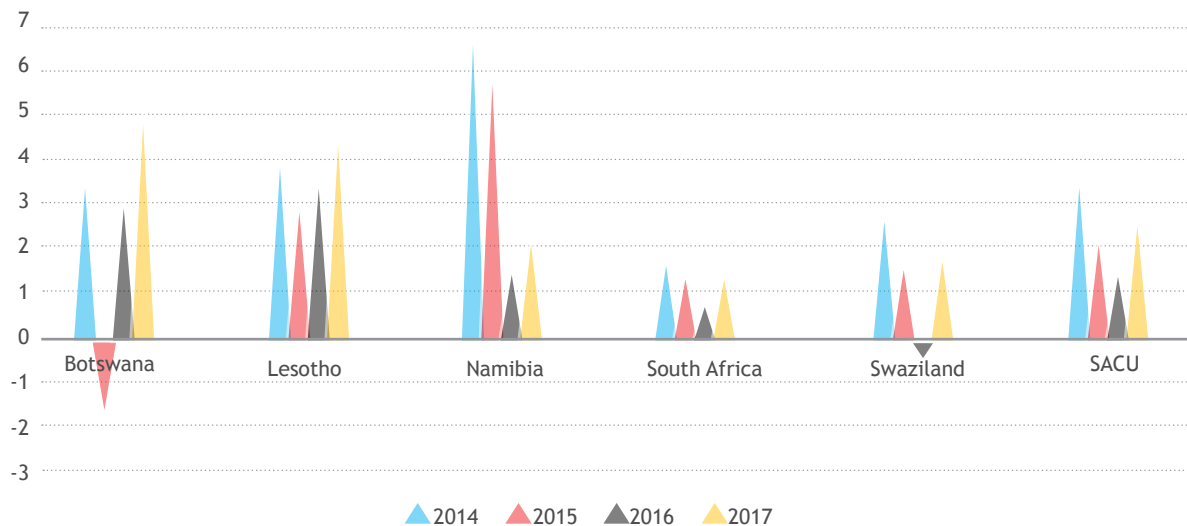


## Economic performance and outlook for SACU

In the SACU region, the economic performance was uneven across the Member States in 2016 (Figure 2). The region recorded an increase in average growth rate for 2016 with 2.3 percent compared to 2.2 percent in 2015. This trend is expected to continue in 2017 with a projected average growth rate of 2.5 percent compared to the 2.3 percent in 2016. While the average growth in the reporting period was an improvement from 2015, only two Member States, Botswana and Lesotho, recorded improved economic performance compared to 2015.

Botswana recorded a growth of 4.3 percent in 2016 from -1.7 percent in 2015 while Lesotho registered growth rate of 3.1 percent in 2016 from 2.9 percent in 2015. The rest of the Member States recorded growth rates of less than 1.0 percent. This subdued performance of the SACU economies was largely influenced by the slow global economic recovery, falling commodity prices, policy uncertainty, the persistent drought and subdued world merchandise trade.

Figure 2: Member States Economic Growth Rates (Percentage)



## Real Sector, Budget and Current Account Developments

### BOTSWANA

During the period under review, the Gross Domestic Product (GDP) at market prices was P169.7 billion for Botswana as compared to P145.9 billion recorded in 2015. Botswana's GDP increased by 4.3 percent in 2016 compared to -1.7 percent in 2015. This was mainly due to the great performance in trade, hotels and restaurants as well as transport and communications industries with an increase in value-added of 13.5 and 5.6 percent, respectively. However, the mining and agriculture declined in 2016 to 3.7 and 1.0 percent respectively owing to the poor metal prices and declining horticulture.

Botswana recorded a budget surplus of 3.7 percent in 2015 which later declined to a deficit of -4.7 percent of GDP in 2016. The balance of payments recorded an overall surplus of P5.0 billion in 2016 compared to a deficit of P57 million in 2015 due to positive trade balances, on account of exports

of rough diamonds. Similarly, the current account recorded a surplus amounting to P20 billion during the period under review as compared to the preceding year's P12.1 billion. The current account balance stood at P19.9 billion in 2016 compared to a revised surplus of P12.1 billion in 2015. The larger surplus is primarily the result of the merchandise trade surplus arising mainly from the increase in mineral exports. Botswana's economy is projected to grow to 4.2 percent in 2017. The optimistic growth projection is based on improvements in the mining sector and growth in non-mining sector.

### LESOTHO

Lesotho posted an estimated GDP at current prices amounting to M25.9 billion during 2016 relative to the M24.1 billion recorded in 2015. Real GDP growth improved from 2.9 percent in 2015 to about 3.1 percent in 2016 and is projected to average 4.6 percent in the medium term. This growth recovery will be largely boosted by stronger than expected recovery in the mining sector as well as growth in services sector compared to the previous year

## SACU Member States' Economic Performance *(continued)*

wherein growth was primarily negatively affected by a dipping primary sector, while manufacturing and construction sectors will be weak.

On the fiscal side, after improving in 2015, the fiscal position worsened to 6.3 percent of GDP in 2015 amid declining government revenues and fairly high recurrent government expenditure but later improving in 2017 in the face of improving SACU receipts. On the other hand, the external sector recorded deficit of 8.6 percent in 2016 compared to a surplus of 6.4 percent of GDP in 2015. The Overall Balance of Payments is projected to decline in the medium term averaging a deficit of 3.1 percent from 2016 to 2018 amid global economic and regional uncertainties.

Lesotho's economic outlook is moderately upbeat with growth projected to rise to slightly above the figures for 2016 reaching 3.5 percent in 2017 mainly driven by primary, secondary and tertiary sectors.

### **NAMIBIA**

During the period under review, Namibia's nominal GDP stood at N\$159 billion in 2016 compared to N\$147 billion in 2015. Namibia's real GDP growth remained rather strong in 2015 at 6.1 percent but declined to 0.2 percent in 2016. Leading to 2015, the economy was buoyed by construction in the mining and housing sectors, and expansionary fiscal policy. Strong public consumption, and investment supported by accommodative monetary conditions underpinned growth and domestic demand in 2015. Growth was curtailed in 2016 as construction and government services slowed down.

According to the International Monetary Fund (IMF) (2017), the robust domestic demand and declining SACU transfers widened the current account deficit to 13.7 percent of GDP in 2015 compared to 11.9 percent in 2016. Meanwhile external debt increased to about 42 percent of

GDP in 2016 compared to 4.0 percent in 2015. In addition, the country has suffered negative budget deficits of 8.7 percent in 2015 and later reducing to 4 percent in 2016. The deficit was mainly driven by a widening trade deficit at 25 percent of GDP despite the real effective exchange rate depreciation. The deficit has mainly been financed by increased Foreign Direct Investment flows and lower portfolio outflows.

The Namibian economy is expected to grow from 0.2 percent in 2016 to a projected 2.5 percent in 2017. The growth will be driven largely by an anticipated recovery in the primary sectors such as mining and agriculture, as well as growth in the tertiary services sectors especially tourism while the reduced figures for 2016 are mainly premised on unfavorable economic climate and domestic conditions.

### **SOUTH AFRICA**

South Africa's nominal GDP in 2016 is estimated at market prices stood at R4.3 trillion, representing an increase of R287 billion from 2015 owing to an expansion of government services, finance, real estate and business services amongst other expanding industries. During the period under review, real GDP growth was 0.3 percent compared to the 1.3 percent posted in 2015. This growth was primarily led by tertiary sector economic activity and somewhat the secondary sector. The primary sector (mining and quarrying, agriculture and forestry) declined by 5.4 percent. Economic growth in South Africa was expected to rise to 1.3 percent in 2017 amid rebounding commodity prices, an appreciating exchange rate, lower inflation and improved business confidence as well as abating drought conditions and improved power supplies.

The country has experienced a narrowing current account deficit of -3.9 percent in 2016 after the recorded figure of -4.3 percent in 2015 wherein



net exports buoyed the deficit amid a surplus recorded in the trade account albeit at weaker terms of trade. The country financed the deficit through FDI and net portfolio investments. During 2016, the budget deficit fell to 3.4 percent of GDP (R11.5 billion) compared to the 3.7 percent recorded in 2015 as fiscal policy is geared towards consolidation measures and prioritizing capital investment as well as attaining sustainable levels of national debt.

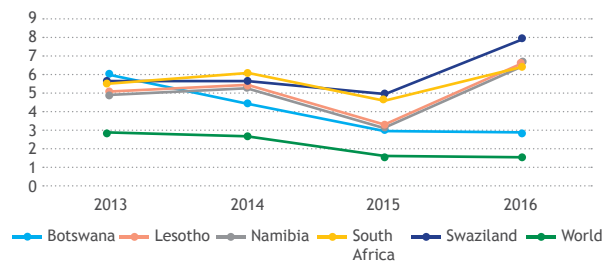
## SWAZILAND

In Swaziland, nominal GDP stood at E54.8 billion in 2016 representing an increase from E52.5 billion in 2015. However, in 2016, the economy contracted by -0.6 percent from 1.9 percent in 2015 due to poor primary sector performance caused by severe droughts harming particularly sugar production and industrial agriculture. In the last quarter of 2016, the country's current account recorded a surplus of E320 million representing 0.6 percent of GDP and larger than initially expected and buoyed by the unexpected trade surplus against improved export performance as miscellaneous exports grew by 3.6 percent year-on-year basis albeit lower than the 5.5 percent of 2015.

In 2016, the estimated budget deficit for Swaziland stood at 12.3 percent of GDP and significantly higher than the recorded 4.8 percent in the previous year as the deficit significantly increased from E2.5 billion to E6.8 billion in 2016 relative to the previous year.

Similarly, Swaziland's current account continued to record positive balances in 2016 at E7.9 billion compared to the previous year's surplus of E4.7 billion. The upward trajectory and surplus was not a new occurrence though with the same account having been in positive territory since 2012 according to official records mainly boosted by net surpluses with respect to merchandise trade. Swaziland's economy is projected to rise from

Figure 3: Member States Average Annual Inflation Rates (percent)



-0.6 percent contraction in 2016 to 1.9 percent in 2017 according to World Bank forecast and official figures.

## Consumer Price Developments in SACU

The world average inflation rates have been on the decline over the past five years with rates often below central bank targets particularly since 2014 when oil prices tanked resulting in lower inflation rates especially in advanced countries (Figure 3). World average inflation was 1.61 percent in 2016 compared to the rate of 1.59 percent in 2015.

This ran counter economic theory particularly in light of general world economic recovery and highly expansionary monetary policies. CPI in SACU has been on a downward trajectory since 2013. Changes in the overall consumer prices in 2016, as measured by percentage change in consumer price index, was on the upswing in the majority of the Member States.

In Botswana, the consumer prices continued to be on downward trajectory since 2011. Botswana further recorded benign inflation rates with average annual inflation rate for 2016 hugging the lower-bound of the 3-6 percent medium term inflation rate relative to the recorded average inflation rate of 3.1 percent in 2015 as most categories recorded declining inflation rates especially fuel prices which were curtailed by 3.3 percent. Average annual inflation for the country stood at 2.8 percent in

## SACU Member States' Economic Performance *(continued)*

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2016. In Lesotho, the annual average inflation rate was low at 3.2 percent in 2015 due to the decline in the prices of housing and utilities. However, in 2016, the annual average inflation rate rose to 6.6 percent primarily due to rising food prices and pressure on the domestic currency.

With respect to price developments in Namibia, the average inflation in the build up to and after the financial crisis for the period between 2008 and 2015, were 9.5 percent and 3.4 respectively. During 2016, the average inflation rate for the country was 6.7 percent, which is significantly higher than the 3.4 percent average registered for 2015. The increase in the overall inflation was primarily due to increases in administrative prices including water, electricity, gas and other fuels. In the same period, inflation was also high for categories such as food and non-alcoholic beverages, as well as transport, relative to the previous year.

Meanwhile in South Africa, the inflation rate eased to 4.6 percent in 2015 but breached the inflation target upper limit of 3-6 percent at 6.4 percent in 2016 due to lower than-anticipated electricity and import-price inflation. The recorded higher inflation was also fueled by private sector expectations picking to about the high end of the inflation target rate over the last five years while promoting wage demand and price increases.

Finally, in Swaziland, average inflation rate for 2016 was 7.8 percent from 5.0 percent recorded in 2015 largely owing burgeoning food prices. In fact, food inflation is reported to have driven headline inflation for the larger part of the year at record 18.7 and 19.0 percent in November and December 2016, respectively.

ANNEX 2

## INTRA-SACU IMPORTS 2014/15

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# 1. Intra-SACU Imports 2014/15

1.1 In 2014/15, intra-SACU import receipts increased by 3.6 per cent to R173.2 billion from R167.2 billion in 2013/14, recording the lowest growth since 2009/10. For the period under review, South Africa recorded the highest increase with 11.6 per cent

followed by Botswana (7.3 per cent), while the rest of the Member States registered contraction in imports, Lesotho (-3.7 per cent), Namibia (-0.6 per cent) and Swaziland (-1.7 per cent).

Table 2: Intra-SACU imports

R Million	2010/11	2011/12	2012/13	2013/14	2014/15
Botswana	30,639	35,711	47,315	58,035	62,284
Lesotho	11,240	12,029	12,718	14,457	13,921
Namibia	30,191	34,241	39,143	52,755	52,418
South Africa	17,339	17,114	22,256	25,225	28,140
Swaziland	13,938	12,793	13,629	16,716	16,434
SACU	103,346	111,887	135,062	167,187	173,197
<b>Annual percentage change</b>					
Botswana	2.8%	16.6%	32.5%	22.7%	7.3%
Lesotho	4.3%	7.0%	5.7%	13.7%	-3.7%
Namibia	12.7%	13.4%	14.3%	34.8%	-0.6%
South Africa	5.1%	-1.3%	30.0%	13.3%	11.6%
Swaziland	1.9%	-8.2%	6.5%	22.7%	-1.7%
<b>% of intra SACU imports</b>					
Botswana	29.6%	31.9%	35.0%	34.7%	36.0%
Lesotho	10.9%	10.8%	9.4%	8.6%	8.0%
Namibia	29.2%	30.6%	29.0%	31.6%	30.3%
South Africa	16.8%	15.3%	16.5%	15.1%	16.2%
Swaziland	13.5%	11.4%	10.1%	10.0%	9.5%

1.2 Botswana and Namibia continue to account for the highest share of total intra-SACU imports in 2014/15, accounting for 36.0 per cent and 30.3 per cent, respectively, followed by South Africa (16.2 per cent), Swaziland (9.25 per cent) and Lesotho (8.0 per cent). Botswana and South Africa's share of

intra-SACU imports increased in 2014/15 compared to 2013/14 while the shares of Lesotho, Namibia and Swaziland declined. On the supply side, South Africa remains the main source of goods imported as reflected in Table 3.

Table 3: Intra-SACU trade 2014/15

	Botswana	Lesotho	Namibia	South Africa	Swaziland	Total Exports
Botswana	0	13	2 156	5 385	17	7 571
Lesotho	4	0	8	2 862	105	2 979
Namibia	11 202	3	0	6 526	323	18 054
South Africa	50 915	13 860	50 004	0	15 988	130 767
Swaziland	163	45	250	13 367	0	13 826
Total Imports	62 284	13 921	52 418	28 140	16 434	173 197



**1.3** Natural or cultured pearls, precious or semi-precious stones or metals (chapter 71) continued to be the leading commodity imported among the Member States in 2014/15, accounting for 12.2 per cent of total intra-SACU imports followed by mineral fuels, mineral oils, electricity (chapter 27) accounting for 11.8 per cent; vehicles (chapter 87) accounting for 10.1 per cent; machinery and mechanical appliances (chapter 84) accounting for 7.4 per cent; and electric machinery and equipment (chapter 85) accounting for 4.8 per cent

**1.4** In **Botswana** import receipts continues to grow over the years, recording imports worth R62.3 billion in 2013/14 compared to R58.0 billion in 2013/14. The increase in imports was mainly reflected in natural or cultured pearls, precious or semi-precious stones or metals (chapter 71) that accounted for 27.2 per cent of intra-SACU imports mainly sourced from Namibia and South Africa. South Africa remains the main source of commodities imported into Botswana from the Common Customs Area in 2014/15, accounting for 81.7 per cent of total intra-SACU imports followed by Namibia accounting for 18.0 per cent of total intra-SACU imports.

**1.5** In **Lesotho** import receipt declined by 3.7 per cent to R13.9 billion in 2014/15 from R14.5 billion recorded in 2013/14. The decline was mainly reflected in furniture, bedding, mattress, lamps and lighting fittings (chapter 94). Mineral fuels, mineral oils, electricity (chapter 27) continued to be the leading product imported in Lesotho, accounting for 21.5 per cent of total intra-SACU imports followed by vehicles (chapter 87) with a share of 13.7 per cent. South Africa remains the main source of commodities imported into Lesotho from the Common Customs Area in 2014/15, accounting for 99.6 per cent of total intra-SACU imports followed by Swaziland accounting for 0.3 per cent of total intra-SACU imports.

**1.6** **Namibia's** imports receipts slightly declined by 0.6 per cent in 2014/15 to R52.4 billion from R52.8 billion recorded in 2013/14, recording the first decline in intra-SACU imports since 2004/05. The decline was mainly reflected in natural or cultured pearls, precious or semi-precious stones or metals (chapter 71). In 2014/15, vehicles (chapter 87) with a share of 18.4 per cent mainly from South Africa was the major import commodity for Namibia, followed by machinery and mechanical appliances (chapter 84) with a share of 11.1 per cent. South Africa continues to be the main source of commodities imported into Namibia from the Common Customs Area in 2014/15, accounting for 95.4 per cent of total intra-SACU imports followed by Botswana accounting for 4.1 per cent.

**1.7** **South Africa's** import receipts continue to grow at a slower pace by 11.6 per cent in 2014/15 compared to 13.3 per cent increase in the previous year. Imports stood at R28.1 billion in 2014/15 compared to R25.2 billion in 2013/14. The main commodities imported from other SACU Member States in 2013/14 were essential oils, perfumery, cosmetic or toilet preparations (chapter 33) accounting for 13.0 per cent of total intra-SACU imports mainly from Swaziland, followed by sugar and sugar confectionery (chapter 17) with a share of 9.6 per cent mainly sourced from Swaziland. Swaziland remains the main source for commodities imported into South Africa from the Common Customs Area in 2014/15, accounting for 47.5 per cent of total intra-SACU imports, followed by Namibia accounting for 23.2 per cent.

**1.8** **Swaziland's** import receipts declined by 1.7 per cent to R16.4 billion in 2014/15 from R16.7 billion recorded in 2013/14. The decline in imports was mainly reflected in the import receipts of vehicles (chapter 87). Mineral fuels, mineral oils, electricity (chapter 27) was the main import commodity in

## 1. Intra-SACU Imports 2014/15 *(continued)*

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2014/15, with a share of 19.3 per cent of total intra-SACU imports mainly from South Africa, followed by vehicles (chapter 87) with a share of 9.3 per cent mainly from South Africa. South Africa remains the main source of commodities imported by Swaziland from the Common Customs Area in 2014/15, accounting for 97.3 per cent of total intra-SACU imports, followed by Namibia accounting for 2.0 per cent of total intra-SACU import.

## 2. Revenue Shares

2.1 Table 4 indicates that the CRP forecast increased by 14.8 per cent to R99.5 billion for 2017/18 compared to R86.7 billion in 2016/17. The distribution of the CRP in 2017/18 indicates

that Botswana and Namibia increased their shares when compared to 2016/17, while the rest of the Member States recorded a decline in their shares of the CRP.

Table 4: Trends in Member States revenue shares (R millions)

	2013/14	2014/15	2015/16	2016/17	2017/18	Annual growth%
Botswana	13 452	18 121	18 663	18 624	23 259	24.9
Lesotho	5 438	6 666	5 802	5 508	6 196	12.5
Namibia	13 160	17 305	15 771	17 028	19 778	16.2
South Africa	32 219	34 158	37 771	39 214	43 149	10.0
Swaziland	6 504	7 044	6 188	6 308	7 155	13.4
Forecast of CRP <sup>1</sup>	70 774	83 293	84 195	86 682	99 537	14.8
<b>% Share of CRP</b>						
Botswana	19.0	21.8	22.2	21.5	23.4	
Lesotho	7.7	8.0	6.9	6.4	6.2	
Namibia	18.6	20.8	18.7	19.6	19.9	
South Africa	45.5	41.0	44.9	45.2	43.3	
Swaziland	9.2	8.5	7.3	7.3	7.2	

<sup>1</sup>Does not represent actual payments made to Member States





## General Information

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<b>Executive Committee</b>	Ms. PM Elago Mr. JA Faul Ms. A Andrade Ms. ND Oitsile Mr. A Iyambo
<b>Business address</b>	Corner Lazarett and Feld Street Windhoek Namibia
<b>Postal address</b>	Private Bag 13285 Windhoek Namibia
<b>Bankers</b>	Standard Bank Namibia Limited

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

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## Council Approval and Statement of Responsibility

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

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

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

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

The Auditor General who is appointed by the Council of Ministers is responsible for the external audit process and to give an independent opinion on the fairness of the financial statements.

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

### **Approval of annual financial statements**

Against this background, on behalf of the Council, the Chairperson of the Council and the Executive Secretary accept the responsibility for the annual financial statements set out on pages 4 to 30, were approved on 21 September 2017 and were signed by:



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**Hon. Ontefetse K. Matambo**  
Minister of Finance and Economic  
Development, Botswana  
Chairperson: SACU Council of Ministers



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**Paulina M Elago**  
Executive Secretary



# Report of the Council

The Council of Ministers has the pleasure in submitting their report together with the annual financial statements of the SACU Secretariat for the year ended March 31, 2017.

## 1. General information

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

## 2. State of affairs and results of operation State of affairs

The state of affairs of the SACU Secretariat as at 31 March 2017 and the results of its operations for the year then ended are fully set out in the annual financial statements.

The SACU Secretariat recorded total spending amounting to R74,404,253 for the year under review, out of a budget of R83,580,972. The following provides comparative information:

SACU Secretariat spending	2016 R	2017 R
Operating expenditure	71,922,085	64,602,950
Capital expenditure	2,482,168	7,357,782
	<b>74,404,253</b>	<b>71,960,732</b>

When formulating the annual budget, the SACU Secretariat applies the activity-based approach in conjunction with the medium-term expenditure framework as a basis for planning.

## 3. Going concern

The Council has, at the time of preparation of the annual financial statements, a reasonable expectation that the SACU Secretariat will have adequate resources to continue operations in the foreseeable future. Thus, the going concern basis of accounting was adopted in preparing the annual financial statements.

#### 4. Executive Committee

The members of the Executive Committee team during the year and to the date of this report are as follows:

Name	Designation	Changes
Ms. PM Elago	Executive Secretary	
Mr. TD Khasipe	Deputy Executive Secretary	Resigned 30 November 2016
Mr. JA Faul	Director: Policy Development and Research	
Ms. A Andrade	Director: Corporate Services	
Ms. ND Oitsile	Chief Legal Officer	
Mr. A Iyambo	Senior Office Manager	

#### 5. Events after the reporting period

The Council is not aware of any fact or circumstance, which occurred between the date of the financial statements and the date of this report, which may require adjustment to the financial statements.

#### 6. The Secretariat and the SACU Council of Ministers

The Secretariat was established by the SACU Agreement, 2002, as the technical and administrative arm of the Southern African Customs Union (SACU). The SACU Council of Ministers 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.

# Report of the Auditor-General to the Council of Ministers on the Southern African Customs Union Secretariat

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## Report on the audit of the financial statements for the year ended 31 March 2017

### Opinion

1. I have audited the financial statements of the Southern African Customs Union (SACU) Secretariat set out on pages ... to ..., which comprise the statement of financial position as at 31 March 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the SACU as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the SACU Agreement of 2002 and SACU policies and procedures.

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.

4. I am independent of the Secretariat in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Responsibilities of the Secretariat for the preparation of financial statements

6. The Secretariat is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS and the requirements of the of the SACU Agreement of 2002 and for such internal control as the Secretariat determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

7. In preparing the financial statements, the Secretariat is responsible for assessing the SACU's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the government component or cease operations, or there is no realistic alternative but to do so.

### Auditor-general's responsibilities for the audit of the financial statements

8. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report



that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

9. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on audit of compliance with legislation**

### **Introduction and scope**

10. I have performed procedures in order to identify and report findings on compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

11. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

#### **Council of Ministers - quarterly meetings**

12. The council did not meet at least once every quarter during the period 1 April 2016 to 31 March 2017, as required by article 8 of the SACU Agreement of 2002.

#### **Procurement and contract management**

13. A bidder not meeting the prequalification requirements stipulated in the bidding documents was awarded a tender to the value of NAD 340 000. This bidder did not meet the technical requirements of the project. This was in contravention of the paragraph 1.7 of the Procurement Policy.

#### **Other information**

14. The SACU's Secretariat is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in the auditor's report.

15. My opinion on the financial statements and findings on compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

# Report of the Auditor-General to the Council of Ministers on the Southern African Customs Union Secretariat *(continued)*

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16. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Internal control deficiencies

17. Below is a summary of significant deficiencies identified during our audit of the Financial Statements and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused or could cause the financial statements to be materially misstated and material instances of non-compliance with legislation to occur.

### Leadership

18. The Council has failed to meet quarterly as required by the SACU Agreement, 2002.

19. The SACU Secretariat does not have an approved strategic plan to ensure that the SACU is achieving its vision, mission and strategic objectives.

20. The SACU Secretariat did not have an approved information technology (IT) governance framework, which includes a business continuity and disaster recovery plan. Response from management was slow due to the IT function not being adequately capacitated and lack of implementation by the Secretariat in the review and approval process.

### Financial and performance management

21. The Secretariat did not adequately review the financial statements to ensure compliance with the IFRS, which resulted in the audit team identifying audit adjustments that were required in order to ensure compliance with the IFRS.

22. The Secretariat did not develop and implement an effective action plan to address all previously reported internal control deficiencies to ensure that there were no repeat audit findings.

## Governance

23. Management did not fully implement the requirements of the risk management policy. Management did not review the risk assessment and register to ensure that effective risk mitigation procedures are developed and implemented in the year under review.

24. The Secretariat did not have a fraud prevention plan, which exposed the Secretariat to risk of fraud. The Secretariat appointed an independent consultant to develop a fraud prevention strategy and the fraud policy. At the conclusion of my audit; the said report was still in draft form and will be

presented at the next finance and audit committee meeting for approval.

25. The finance and audit committee did not capacitate the internal audit function to ensure that there is effective execution and review of internal audit work. Furthermore, the finance and audit committee did not ensure that there are measures in place to protect the independence of internal audit duties without interfering with management responsibilities.

Pretoria  
30 November 2017



**A U D I T O R - G E N E R A L**  
**S O U T H A F R I C A**

*Auditing to build public confidence*

## Annexure: Auditor-General's responsibility for the audit

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1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected programmes and on the government component's compliance with respect to the selected subject matters.

### Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit 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 government component's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
- conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the SACU's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a government component to cease continuing as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### Communication with those charged with governance

3. I communicate with the Secretariat and the finance and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



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4. I also confirm to the Secretariat and the finance and audit committee that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

# Statement of Financial Position

	Note(s)	2016 R	2017 R
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, plant equipment	3	102,925,973	100,869,990
Intangible assets	4	466,036	454,968
		<b>103,392,009</b>	<b>101,324,958</b>
<b>Current Assets</b>			
Trade and other receivables	5	804,650	1,243,395
Cash and cash equivalents	6	78,316,294	80,260,135
		79,120,944	81,503,530
<b>Total Assets</b>		<b>182,512,953</b>	<b>182,828,488</b>
<b>Reserves and Liabilities</b>			
<b>Capital and Reserves</b>			
Revaluation reserve		38,670,439	33,855,603
Accumulated funds		137,524,555	143,501,384
		<b>176,194,994</b>	<b>177,356,987</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	8	3,774,674	3,349,803
Provisions	10	2,543,285	2,121,698
		6,317,959	5,471,501
<b>Total Reserves and Liabilities</b>		<b>182,512,953</b>	<b>182,828,488</b>

## Statement of Profit or Loss and Other Comprehensive Income

	Note	2017 R	2016 R
Revenue	11	59,986,476	49,717,360
Other income	12	60,002	355,296
Operating expenses		(71,806,297)	(64,602,950)
<b>Operating deficit</b>	<b>13</b>	<b>(11,759,819)</b>	<b>(14,530,294)</b>
Finance income	16	5,898,778	5,463,561
Loss on foreign exchange		(115,788)	(146,749)
<b>Deficit for the year</b>		<b>(5,976,829)</b>	<b>(9,213,482)</b>
<b>Other comprehensive income:</b>			
Gains on property revaluation		4,814,836	33,855,603
<b>Total comprehensive income</b>		<b>(1,161,993)</b>	<b>24,642,121</b>

## Statement of Changes in Equity

	Revaluation reserve R	Accumulated funds R	Total reserves R
<b>Balance at April 1, 2015</b>	-	152,714,866	152,714,866
Changes in equity			
Deficit for the year	-	(9,213,482)	(9,213,482)
Other comprehensive income	33,855,603	-	33,855,603
<b>Total changes</b>	<b>33,855,603</b>	<b>(9,213,482)</b>	<b>24,642,121</b>
<b>Balance at April 1, 2016</b>	<b>33,855,603</b>	<b>143,501,384</b>	<b>177,356,987</b>
Changes in equity			
Deficit for the year	-	(5,976,829)	(5,976,829)
Other comprehensive income	4,814,836	-	4,814,836
<b>Total changes</b>	<b>4,814,836</b>	<b>(5,976,829)</b>	<b>(1,161,993)</b>
<b>Balance at March 31, 2017</b>	<b>38,670,439</b>	<b>137,524,555</b>	<b>176,194,994</b>



# Statement of Cash Flows

	Note(s)	2017 R	2016 R
<b>Cash flows from operating activities</b>			
Cash used in operations	17	(5,418,576)	(15,527,615)
Interest received		5,898,778	5,463,561
<b>Net cash from operating activities</b>		<b>480,202</b>	<b>(10,064,054)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant equipment	3	(2,262,982)	(6,989,782)
Sale of property, plant equipment		60,002	355,300
Purchase of other intangible assets	4	(219,186)	(368,000)
Sale of financial assets		(115,788)	(146,749)
Customs duty refund received		113,911	-
<b>Net cash from investing activities</b>		<b>(2,424,043)</b>	<b>(7,149,231)</b>
<b>Total cash movement for the year</b>		<b>(1,943,841)</b>	<b>(17,213,285)</b>
Cash at the beginning of the year		80,260,135	97,473,420
<b>Total cash at end of the year</b>	6	<b>78,316,294</b>	<b>80,260,135</b>

# Significant Accounting Policies

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## 1. Presentation of Financial Statements

The financial statements have been prepared in accordance with International Financial Reporting Standards. The financial statements have been prepared on the historical cost basis, as modified by the revaluation of land and buildings, and financial assets and financial liabilities which are initially measured at fair value.

These financial statements incorporate the principal accounting policies set out below. They are presented in South African Rand (R).

These accounting policies are consistent with the previous period.

### 1.1 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant judgements include:

#### 1.1.1 Revaluation of land and buildings

The SACU Secretariat measures land and buildings at revalued amounts with changes in fair value being recognised in other comprehensive income. Two valuation methods were used namely, the replacement costs and discounted cash flow method to determine the market value of the land and buildings. Refer to note 3 for more details.

#### 1.1.2 Useful lives and residual values of property, plant and equipment and intangible assets

The SACU Secretariat assesses the useful lives and residual values of equipment at each reporting date. In reassessing asset lives, factors such as technological innovation, and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

### 1.2 Property, plant equipment

The cost of an item of property, plant equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the SACU Secretariat; and
- the cost of the item can be measured reliably. Property, plant equipment is initially measured at cost.

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Costs include costs incurred initially to acquire or construct an item of property, plant equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant equipment, the carrying amount of the replaced part is derecognised.

Property, plant equipment is carried at cost less accumulated depreciation and any impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment.

## 1.2 Property, plant equipment (continued)

When an item of property, plant equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is recognised to other comprehensive income and accumulated in the revaluation surplus in equity. The increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in profit or loss in the current period. The decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in the revaluation surplus in equity.

The revaluation surplus in equity related to a specific item of property, plant equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Land and buildings are the only asset class that is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

# Significant Accounting Policies *(continued)*

The useful lives of items of property, plant equipment have been assessed as follows:

<i>Item</i>	<i>Average useful life</i>
Buildings	20 years
Motor vehicles	5 years
Furniture and fittings	5 years
Household furniture and fittings	5 years
Office equipment	5 years
IT equipment	2 - 5 years
Leasehold improvements	4 years

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

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

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The gain or loss arising from the derecognition of an item of plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

## 1.3 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably. Intangible assets are initially recognised at cost. Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

<i>Item</i>	<i>Useful life</i>
Computer software	3 years



## 1.4 Financial instruments Classification

The SACU Secretariat classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

### Initial recognition and measurement

Financial instruments are recognised initially when the SACU Secretariat becomes a party to the contractual provisions of the instruments.

The SACU Secretariat classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

### Derecognition

The SACU Secretariat derecognises a financial asset when the contractual rights to cash flows from the asset expires, or it transfers the rights to receive the contractual cash flows in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial asset that is created or retained by the entity is recognised as separate asset or liability.

### Offset

Financial assets and liabilities are offset and the net amount presented in the statement of financial position, when and only when, the SACU Secretariat has a legal right to offset the amounts and intends to settle them on a net basis or realise the asset and settle the liability simultaneously.

### Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

# Significant Accounting Policies *(continued)*

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## Impairment of financial assets

At each reporting date the SACU Secretariat assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the SACU Secretariat, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

## Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is an objective evidence that the asset is impaired. 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 allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Receivables of a short term nature are not discounted due to the insignificance of the amortisation amount.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

#### 1.4 Financial instruments (continued)

Trade and other receivables are classified as loans and receivables.

##### Trade and other payables

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

Trade and other payables are classified as liabilities measured at amortised cost.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Cash and cash equivalents are classified as loans and receivables.

##### Fair value of financial instruments

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the entity for similar financial instruments.

#### 1.5 Impairment of non-financial assets

The SACU Secretariat assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the SACU Secretariat estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

# Significant Accounting Policies *(continued)*

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## 1.5 Impairment of non-financial assets (continued)

The SACU Secretariat assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

## 1.6 Fair values of financial assets and liabilities

The fair value of derivative instruments reflects the estimated amount the Company would receive or pay in an arm's length transaction. Fair values are determined according to the following hierarchy:

- Level 1 - quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets.
- Level 2 - valuation techniques using observable inputs: quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable.
- Level 3 - valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

Refer note 3, Property, plant and equipment, for assets measured at fair value.

## 1.7 Employee benefits Pension obligations

The SACU Secretariat participates in a provident fund for support staff. The fund is generally funded through payments to a trustee-administered fund, determined by periodic actuarial calculations. The SACU Secretariat has a defined contribution plan. A defined contribution plan is a pension plan under which the SACU Secretariat pays fixed contributions into a separate entity. The SACU 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 SACU Secretariat pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The SACU Secretariat has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.



## Bonus plans

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

### 1.8 Provisions and contingencies

Provisions are recognised when:

- the SACU Secretariat has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

#### 1.8.1 Provisions and contingencies

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised.

### 1.9 Commitments

The SACU Secretariat enters into contracts and agreements with various service providers and has a legal commitment to honour the conditions of the contracts and agreement. Commitments disclosed in the annual financial statements represent the goods and services for the contract or agreement which have not been received by the end of the financial year.

### 1.10 Revenue recognition

The SACU Secretariat recognises revenue when the amount of revenue can be reliably measured and is receivable from the Common Revenue Pool. 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.

# Significant Accounting Policies *(continued)*

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## Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the SACU 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.

## 1.11 Translation of foreign currencies 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 (R).

### Foreign currency transactions and balances

A foreign currency transaction is recorded, on initial recognition in the South African Rand, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in the South African Rand by applying to the foreign currency amount the exchange rate between the South African Rand and the foreign currency at the date of the cash flow.

# Significant Accounting Policies *(continued)*

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## 2. New Standards and Interpretations

### 2.1 Standards and interpretations not yet effective

There are new or revised Accounting Standards and Interpretations in issue that are not yet effective as at 31 March 2017. These include the following Standards and Interpretations that are applicable to the business of the SACU Secretariat and may have an impact on future financial statements:

#### IFRS 9 Financial Instruments

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard will most likely have a significant impact on the SACU Secretariat, which may include changes in the measurement bases of the SACU Secretariat's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the SACU Secretariat.

Management is in the process of assessing the impact of this standard on future financial statements.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The standard will be applied retrospectively.

#### IFRS 15 Revenue from contracts with customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue - Barter of Transactions Involving Advertising Services. This standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or overtime. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

The new standard will result in possible change in the timing when revenue is recognised and the amount of revenue recognised.

The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The SACU Secretariat, plans to adopt IFRS 15 in its financial statements for the year ending 31 March 2019. The SACU Secretariat is currently performing a detailed assessment of the impact resulting from the application of IFRS 15 and expects to disclose additional quantitative information before it adopts IFRS 15.

## Notes to the Financial Statements

		2017 R	2016 R			
<b>3. Property, plant equipment</b>						
		2017		2016		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land buildings	94,608,940	-	94,608,940	101,085,860	(8,679,153)	92,406,707
Furniture and fixtures	7,900,349	(3,507,435)	4,392,914	7,892,662	(2,349,128)	5,543,534
Motor vehicles	2,112,469	(499,255)	1,613,214	2,385,954	(509,540)	1,876,414
Household furniture and fittings	1,936,234	(967,981)	968,253	1,116,245	(936,923)	179,322
IT equipment	7,722,331	(6,498,695)	1,223,636	5,964,757	(5,217,179)	747,578
Office equipment	320,721	(201,705)	119,016	309,411	(192,976)	116,435
<b>Total</b>	<b>114,601,044</b>	<b>(11,675,071)</b>	<b>102,925,973</b>	<b>118,754,889</b>	<b>(17,884,899)</b>	<b>100,869,990</b>

### Reconciliation of property, plant equipment - 2017

	Opening balance	Additions	Disposals / Refund	Revaluations	Depreciation	Total
Land and buildings	92,406,707	891,610	-	4,814,836	(3,504,213)	94,608,940
Furniture and fittings	5,543,534	7,687	-	-	(1,158,307)	4,392,914
Motor vehicles	1,876,414	-	(113,911)	-	(149,289)	1,613,214
Household furniture and fittings	179,322	819,988	-	-	(31,057)	968,253
IT equipment	747,578	532,388	-	-	(56,330)	1,223,636
Office equipment	116,435	11,309	-	-	(8,728)	119,016
<b>Total</b>	<b>100,869,990</b>	<b>2,262,982</b>	<b>(113,911)</b>	<b>4,814,836</b>	<b>(4,907,924)</b>	<b>102,925,973</b>

### Reconciliation of property, plant equipment - 2016

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Total
Land and buildings	56,547,678	5,164,034	-	33,855,603	(3,160,608)	92,406,707
Furniture and fittings	7,078,078	14,039	-	-	(1,548,583)	5,543,534
Motor vehicles	471,074	1,743,451	-	-	(338,111)	1,876,414
Household furniture and fittings	211,653	31,919	(4)	-	(64,246)	179,322
IT equipment	1,457,066	29,234	-	-	(738,722)	747,578
Office equipment	156,597	7,105	-	-	(47,267)	116,435
	<b>65,922,146</b>	<b>6,989,782</b>	<b>(4)</b>	<b>33,855,603</b>	<b>(5,897,537)</b>	<b>100,869,990</b>

Disposals of R 113,911 reflected in the 2017 reconciliation above relates to customs duty refunded from the Ministry of Finance. This was not recognised when the asset was acquired because the amount could not be reliably estimated. The refund is treated as a discount or rebate in the current year.

2017	2016
R	R

### 3. Property, plant equipment (continued) Revaluation of property, plant and equipment

Land and Buildings consists of the following property:

- Erf 235 Eros Park, Windhoek
- Erf 5525 Windhoek
- Erf 8531 (Portion of Erf 182), Windhoek

The effective date of the revaluations was 31 March 2017. Revaluations were performed by independent valuer, Mr PJ Scholtz, National Diploma Property Valuations, of Property Valuations Namibia. Property Valuations Namibia is not connected to the SACU Secretariat.

The valuation was performed based on market values, adjusted for any difference in nature, location or condition of the specific property.

#### Measurement of fair values

The fair value measurement of land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used as set out below.

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

Land and buildings		
Balance at 1 April	92,406,707	56,547,678
Additions	891,610	5,164,034
Depreciation	(3,504,213)	(3,160,608)
Gain included in other comprehensive income		
Changes in fair value	4,814,836	33,855,603
	<b>94,608,940</b>	<b>92,406,707</b>

Discounted cash flows: The valuation model considers the present values of net cash flows that could be generated by the property in terms of rentals taking into account market conditions such as inflation rate, occupancy rates and letability of the property.

#### Significant unobservable inputs

- Expected market rentals
- Occupancy rates
- Letability of the property
- Discount rates



# Notes to the Financial Statements *(continued)*

	2017	2016
	R	R

### 3. Property, plant equipment (continued)

Interrelationship between key observable inputs and fair value measurements The estimated fair value would increase/ (decrease) if:

- expected market rentals were higher/ (lower)
- potential occupancy rates were higher/ (lower)
- letability of the properties were higher / (lower), or
- discount rates were lower/ (higher).

### 4. Intangible assets

	2017		2016	
	Cost Accumulated amortisation	Carrying value	Cost Accumulated amortisation	Carrying value
Computer software	1,748,831	(1,282,795)	466,036	1,472,037
			(1,017,069)	454,968

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	454,968	219,186	(208,118)	466,036

#### Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	153,394	368,000	(66,426)	454,968

### 5. Trade and other receivables

WTO receivable	-	386,077
Prepayments	394,648	344,484
Receiver of Revenue - Value Added Tax	347,307	267,549
Customs duty and other receivables	62,695	237,874
Interest receivable	-	7,411
	804,650	1,243,395

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The SACU Secretariat does not hold any collateral as security.

## 5. Trade and other receivables (continued) Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. All counterparties at year end have no external credit rating. All counterparties have no history of default.

### Fair value of trade and other receivables

Due to their short term nature, the carrying value of trade and other receivables is assumed to approximate to fair value.

### Ageing of trade and other receivables

Trade and other receivables that are less than three months past due are not considered impaired. As of 31 March 2017 no trade and other receivables were past due and none were impaired. The ageing of the trade and other receivables is as follows:

Up to 3 months 804,6501,243,395

## 6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6,000	543
Bank balances	4,733,942	6,959,287
Short-term (32 day) deposits	73,576,352	73,300,305
	<b>78,316,294</b>	<b>80,260,135</b>

### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

### Cash at bank and short-term bank deposits

Standard Bank Namibia Limited: BBB- rating	4,733,942	6,959,287
Bank Windhoek Limited: AA rating	73,576,352	73,300,305
	<b>78,310,294</b>	<b>80,259,592</b>

# Notes to the Financial Statements *(continued)*

2017  
R

2016  
R

## 7. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

### 2017

	Loans and receivables	Total
Trade and other receivables	62,695	62,695
Cash and cash equivalents	78,316,294	78,316,294
	<b>78,378,989</b>	<b>78,378,989</b>

### 2016

	Loans and receivables	Total
Trade and other receivables	631,363	631,363
Cash and cash equivalents	80,259,592	80,259,592
	<b>80,890,955</b>	<b>80,890,955</b>

## 8. Trade and other payables

Trade payables	1,894,219	1,374,931
Staff payable	59,492	3,000
Retention payable	688,743	653,591
Accruals	1,132,220	1,318,281
	<b>3,774,674</b>	<b>3,349,803</b>

### Fair value of trade and other payables

Due to their short term nature, the carrying value of trade and other payables is assumed to approximate to fair value.

## 9. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

### 2017

	Financial liabilities at amortised cost	Total
Trade and other payables	3,774,674	3,774,674

2017	2016
R	R

## 9. Financial liabilities by category (continued) 2016

	Financial liabilities at amortised cost	Total
Trade and other payables	3,349,803	3,349,803

## 10. Provisions

### Reconciliation of provisions - 2017

	Opening balance	Charged/ (credited) to profit or loss	Payments made	Unused amounts reversed	Total
Provision for leave and bonus	2,121,698	2,543,285	(1,420,844)	(700,854)	2,543,285

### Reconciliation of provisions - 2016

	Opening balance	Charged/ (credited) to profit or loss	Payments made	Unused amounts reversed	Total
Provision for leave and bonus	1,880,067	1,886,218	(1,257,865)	(386,722)	2,121,698

Provisions relate to:

- The amount of R1,450,335 (2016: R1,101,212) is for leave pay which accrues on termination of the services of members of staff.
- A further provision of R1,092,950 (2016: R1,020,486) is made for the payment of performance bonuses to staff.

## 11. Revenue

Realised savings from previous year	-	4,186,965
Common Revenue Pool contributions	59,986,476	45,530,395
	<b>59,986,476</b>	<b>49,717,360</b>

The SACU Secretariat recognises contributions from the Common Revenue Pool as revenue when the amount accrues to the SACU Secretariat. The amount accrued in the prior year has been received in full, as reflected above. Realised savings originate from an over allocation of funding to the SACU Secretariat in the prior year and only accrued in the reporting period. The allocation includes an interest income of R154,035 which accrued in 2015.

## 12. Other income

Profit on disposal of property, plant and equipment	60,002	355,296
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# Notes to the Financial Statements *(continued)*

	2017	2016
	R	R

## 13. Operating deficit

Operating deficit for the year is stated after accounting for the following:

Gain on disposal of plant and equipment	60,002	355,296
Depreciation and amortisation	5,116,042	5,963,963
Employee costs	40,433,813	35,973,433
Relocation expenses	552,013	1,027,370

## 14. Employee benefits expense

Salaries and wages	40,433,813	35,973,433
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The SACU 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.

Number of employees	37	40
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## 15. Auditors' costs

Disbursements	205,373	297,912
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## 16. Finance income

Interest on short-term bank deposits	5,898,778	5,463,561
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## 17. Cash used in operations

Deficit for the year	(5,976,829)	(9,213,482)
<b>Adjustments for:</b>		
Depreciation and amortisation	5,116,042	5,963,963
Gain on disposal of plant and equipment	(60,002)	(355,296)
Interest received	(5,898,778)	(5,463,561)
Loss on foreign exchange	115,788	146,749
<b>Changes in working capital:</b>		
Trade and other receivables	438,745	308,022
Trade and other payables	424,871	(3,006,952)
Deferred income	-	(4,148,689)
Provisions	421,587	241,631
	<b>(5,418,576)</b>	<b>(15,527,615)</b>



	2017	2016
	R	R

## 18. Related parties

### Relationships

#### Member States

Botswana

Lesotho

Namibia

South Africa

Swaziland

#### Members of key management

SACU Secretariat's Executive Committee

### Related party transactions

#### The following transactions were carried out with related parties:

The SACU Secretariat is funded from the SACU Common Revenue Pool.

#### Common Revenue Pool contributions

Receipts during the year	59,986,476	45,530,395
Realised savings from previous year	-	4,186,963

#### The compensation of key management personnel who served as Executive Management during the year was as follows:

Short-term employee benefits	15,069,758	13,433,391
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## 19. Commitments

### Operating leases - SACU Secretariat as lessee (expense)

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

### Tender commitments

The SACU Secretariat enters into various contracts and agreements with various suppliers for the provision of goods and services. At year end, the SACU Secretariat had the following commitments in respect of contracts and agreements signed before the financial year end for which the goods and services had not been received:

Electronic budgeting tool	-	133,600
Disaster Recovery Plan	270,713	-
Acquisition of property and equipment	-	969,601
Short term insurance	141,372	247,401
Cleaning services	430,302	860,603
Security services	311,400	726,600
Media monitoring	99,459	-
Establishment of the Continental FTA	-	1,305,481
Trade data statistics database	-	370,053
	1,253,246	4,613,339

# Notes to the Financial Statements *(continued)*

2017	2016
R	R

## 20. Risk management

### Financial risk management

The SACU Secretariat's activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk and price risk), credit risk and liquidity risk.

The SACU Secretariat's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the SACU Secretariat's financial performance. Risk management is carried out by Executive Management in accordance with policies approved by the Finance and Audit Committee. The Finance and Audit Committee provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

### Liquidity risk

Liquidity is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities that are being settled by delivering cash or another financial assets. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the ability to close out market positions.

The SACU Secretariat's risk to liquidity is a result of the funds available to cover future commitments. The SACU Secretariat manages liquidity risk through an ongoing review of future commitments.

Cash flow forecasts are prepared and monitored.

The table below analyses the SACU Secretariat's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position 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 March 31, 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	3,774,674	-	-	-
At March 31, 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	3,349,804	-	-	-

### Interest rate risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The SACU Secretariat's significant interest rate risk arises from bank balances and short-term bank deposits. Interest receivable on bank balances and short-term deposits is at variable rates and expose the SACU Secretariat to cash flow interest rate risk. During 2017 and 2016, the SACU Secretariat's interest bearing bank balances and short-term deposits at variable rate were denominated in South African Rand.

2017	2016
R	R

## 20. Risk management (continued)

At March 31, 2017, if interest rates on Rand-denominated bank balances and short-term deposits had been 10% higher/lower with all other variables held constant, the deficit for the year would have been R589,879 (2016: R 546,356) lower/higher, mainly as a result of higher/lower finance income on short-term deposits.

### 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 SACU 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 SACU Secretariat will only invest in the following:

- Call and other term deposits at major banks
- Government of Treasury Bills and Government Stocks; and
- 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.

# Notes to the Financial Statements *(continued)*

2017  
R

2016  
R

## 20. Risk management (continued)

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 SACU Secretariat with funds immediately for any unforeseen payments whilst maximising the interest return.
Bank Deposits and Treasury bills up to 12 months	Up to 100% of total portfolio	These funds will be invested in money market instruments and term deposits to enable the SACU Secretariat to have easy access to its funds but at the same time earn higher returns on its investments.

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The maximum exposure to credit risk is represented by the carrying amount of each financial asset as summarised in note 7.

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

### Foreign exchange risk

The SACU 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.

### Price risk

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

# Detailed Income Statement

	Note	2017 R	2016 R
<b>Revenue</b>			
Common revenue pool allocation		59,986,476	45,530,395
Realised savings from previous year		-	4,186,965
	11	<b>59,986,476</b>	<b>49,717,360</b>
<b>Gross income</b>			
		<b>59,986,476</b>	<b>49,717,360</b>
<b>Other income</b>			
Interest income	16	5,898,778	5,463,561
Gains on disposal of assets		60,002	355,296
		<b>5,958,780</b>	<b>5,818,857</b>
<b>Operating expenses</b>			
Advertising costs		(1,556,400)	(1,551,319)
Auditors costs	15	(205,373)	(297,912)
Communication costs		(636,946)	(526,472)
Depreciation		(5,116,042)	(5,963,963)
Financial expenses		(63,989)	(63,432)
General expenses		-	(9,369)
Hospitality		(464,067)	(348,482)
Household expenses		(712,981)	(923,801)
Insurance		(168,459)	(121,608)
IT services		(951,449)	(1,241,361)
Media and public relations		(1,456,464)	(2,319,605)
Motor vehicle expenses		(169,736)	(136,318)
Office supplies		(634,910)	(370,933)
Professional fees		(3,575,361)	(2,059,578)
Property expenses		-	(400,000)
Recruitment costs		(979,256)	(355)
Relocation costs		(552,013)	(1,027,370)
Repairs and maintenance		(804,186)	(911,777)
Salaries and wages		(40,433,813)	(35,973,433)
Security		(380,065)	(242,836)
Skills development		(451,349)	(320,246)
Subsistence and travel		(9,255,423)	(7,662,718)
Subscriptions and reference materials		(68,682)	(72,899)
Utilities		(631,941)	(747,412)
Workshops and conferences		(2,537,392)	(1,309,751)
		<b>(71,806,297)</b>	<b>(64,602,950)</b>
<b>Operating deficit</b>	13	<b>(5,861,041)</b>	<b>(9,066,733)</b>
Loss on foreign exchange		(115,788)	(146,749)
<b>Deficit for the year</b>		<b>(5,976,829)</b>	<b>(9,213,482)</b>

The supplementary information presented does not form part of the financial statements and is unaudited



## List of Abbreviations

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AfDB	African Development Bank	UK	United Kingdom
AGOA	African Growth and Opportunity Act	UNCTAD	United Nations Conference for Trade Development
BCP	Business Continuity Policy		
BVOP	Bring Your Own Device Policy	UNIDO	United Nations Industrial Development Organisation
CFTA	Continental Free Trade Area	UNSD	United Nations Statistics Division
COMESA	Common Market for Eastern and Southern Africa	WCO	World Customs Organisation
CRP	Common Revenue Pool	WEO	World Economic Outlook
E	Emalangeni (Swaziland Currency)		
EAC	East African Community		
EFTA	European Free Trade Association		
EMDEs	Emerging Market and Developing Economies		
EPA	Economic Partnership Agreement		
EU	European Union		
FDI	Foreign Direct Investment		
FTA	Free Trade Agreement		
GDP	Gross Domestic Product		
ICT	Information Communication Technology		
IMF	International Monetary Fund		
IMTS	International Merchandise Trade Statistics		
ITC	International Trade Centre		
JAC	Joint Administration Committee		
M	Maloti (Lesotho Currency)		
MoP	Margin of Preference		
N\$	Namibia Dollar (Namibian Currency)		
P	Pula (Botswana Currency)		
PTA	Preferential Trade Agreement		
PTP	Preferred Trader Programme		
R	Rand (South African Currency)		
SACU	Southern African Customs Union		
SADC	Southern African Development Community		
SIDA	Swedish International Development Cooperation Agency		
StatsSA	Statistics South Africa		
TCBP	Trade Capacity Building Programme		
TFA	Trade Facilitation Agreement		
TFTA	Tripartite Free Trade Area		
TIDCA	Trade, Investment and Development Cooperation Agreement		
TRQs	Tariff Rate Quotas		

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