



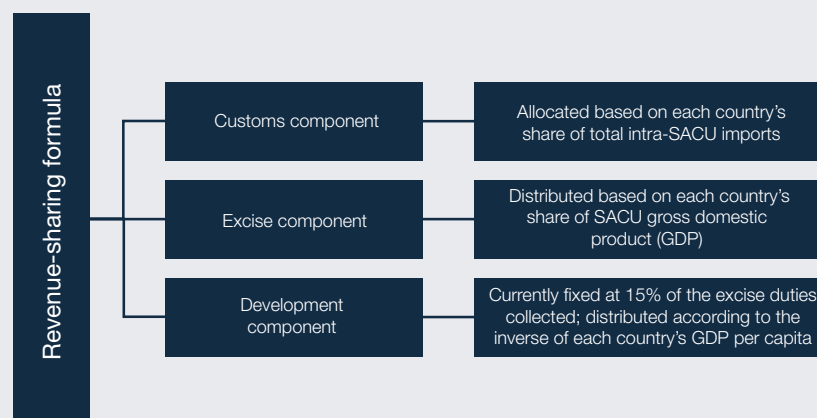
### Box 3 Unpacking the Southern African Customs Union's common revenue pool distribution

The Southern African Customs Union (SACU) was established in 1910 and is the oldest functioning customs union<sup>1</sup> in the world. Its objectives include the facilitation of the free movement of goods among member states,<sup>2</sup> the adoption of a common external tariff (CET)<sup>3</sup> on imports from non-member countries, and a revenue-sharing arrangement (the management of which is designated to South Africa).

Since its inception, SACU has gone through various changes. The political and economic developments of the early 1990s necessitated a renegotiation of the 1969 SACU agreement, with the aim of democratising SACU and more effectively addressing the needs of the member states. This culminated in the SACU agreement of 2002, which ushered in clear mandates, objectives, and transparent and democratic institutions with the adoption of a rules-based dispensation and joint decision-making by all member states.

A new revenue-sharing formula (RSF) was also included in article 34 of the 2002 SACU agreement and comprises three components, namely customs, excise and development. The agreement also provides for a common revenue pool (CRP)<sup>4</sup> into which all customs, excise and additional duties collected in the Common Customs Area (CCA)<sup>5</sup> are paid. South Africa is the appointed administrator of the CRP and ensures that transactions between member states are audited and reported to the SACU member states. This box unpacks the mechanism employed by SACU to distribute funds among member states.

#### Components of the revenue-sharing formula



Source: SACU

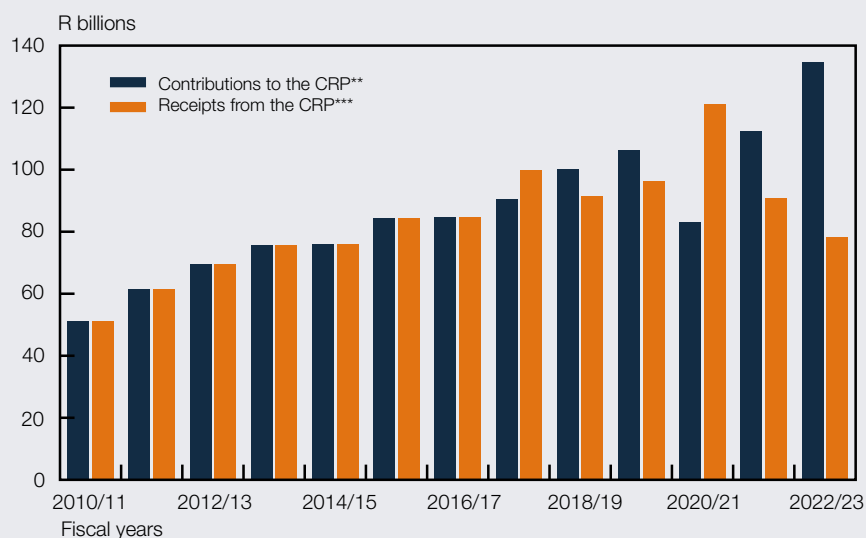
The SACU member states apply a CET while imposing the same rate of excise duties on imported and locally manufactured goods. The revenue collected is then shared among the member states and allocated to the budget of the Secretariat in accordance with the agreed RSF. South Africa, as the current administrator of the CRP, is responsible for providing the forecast of the member states' revenue shares based on customs and excise transaction data per member state. Since each member state's revenue share is based on a forecast, the 2002 SACU agreement stipulates that adjustments will be made with a two-year lag to account for the difference between the forecast and the actual revenue collected, informed by an annual audit outcome published in the *Medium Term Budget Policy Statement (MTBPS)*.

- 1 A customs union is a group of countries that has eliminated tariffs on trade among themselves and agreed to apply the same tariffs on imported goods from non-union members.
- 2 SACU member states comprise Botswana, Eswatini (formerly Swaziland), Lesotho, Namibia and South Africa.
- 3 A CET is a tariff, or tax, applied to imported goods by a customs union. The purpose of a CET is primarily to protect the member countries of the customs union from outside competition by making imported goods more expensive, while at the same time promoting trade among the member countries by eliminating tariffs on their trade.
- 4 All customs, excise and additional duties (trade taxes) collected in the Common Customs Area are paid into the CPR and shared among member states in accordance with the SACU agreement's RSF.
- 5 The CCA is the combined areas of Botswana, Eswatini, Lesotho, Namibia and South Africa.



The adjustments are calculated in accordance with the RSF, with excess payments subtracted from the revenue shares (negative adjustments) and a shortfall in payments added to the revenue shares (positive adjustments) in the subsequent fiscal year.

### SACU-related\* transactions



\* Comprising Botswana, Eswatini, Lesotho, Namibia and South Africa (BELNS)

\*\* Contributions to the actual CRP collection of the BELNS

\*\*\* BELNS share including SACU Secretariat budget

Source: SARS

Between fiscal 2010/11 and fiscal 2016/17, the contributions made by member states to the CRP were closely aligned to the proceeds received from the CRP. The global financial crisis (GFC) negatively impacted both the contributions and receipts in fiscal 2008/09 and fiscal 2009/10 as trade slowed globally and within the SACU member states. Since fiscal 2017/18, the contributions to and receipts from the CRP have diverged.

### Contributions to the common revenue pool, 2010/11 – 2022/23\*

R millions

Fiscal years	Botswana	Eswatini	Lesotho	Namibia	Total BELN states	South Africa	Total
2010/11	433.4	54.9	184.5	601.2	1 274.1	49 917.4	51 191.5
2011/12	427.2	146.6	157.8	571.1	1 302.6	60 134.8	61 437.4
2012/13	459.1	132.6	161.5	847.0	1 600.1	68 007.5	69 607.6
2013/14	476.5	162.6	232.8	960.8	1 832.6	73 748.9	75 581.5
2014/15	393.5	193.5	225.0	962.7	1 774.6	74 200.0	75 974.7
2015/16	745.3	209.7	210.9	1 173.7	2 339.6	82 001.3	84 340.9
2016/17	555.6	214.4	245.9	1 197.8	2 213.7	82 535.4	84 749.1
2017/18	855.0	222.4	203.6	1 276.4	2 557.4	87 731.1	90 288.5
2018/19	846.7	246.1	320.0	1 024.5	2 437.3	97 552.4	99 989.6
2019/20	868.7	263.7	422.7	1 930.3	3 485.4	102 893.8	106 379.2
2020/21	800.0	172.2	318.1	1 170.3	2 460.6	80 488.3	82 948.9
2021/22	916.9	234.7	365.3	1 605.5	3 122.5	109 301.6	112 424.0
2022/23	989.2	291.1	340.5	1 845.0	3 465.8	131 155.0	134 620.8

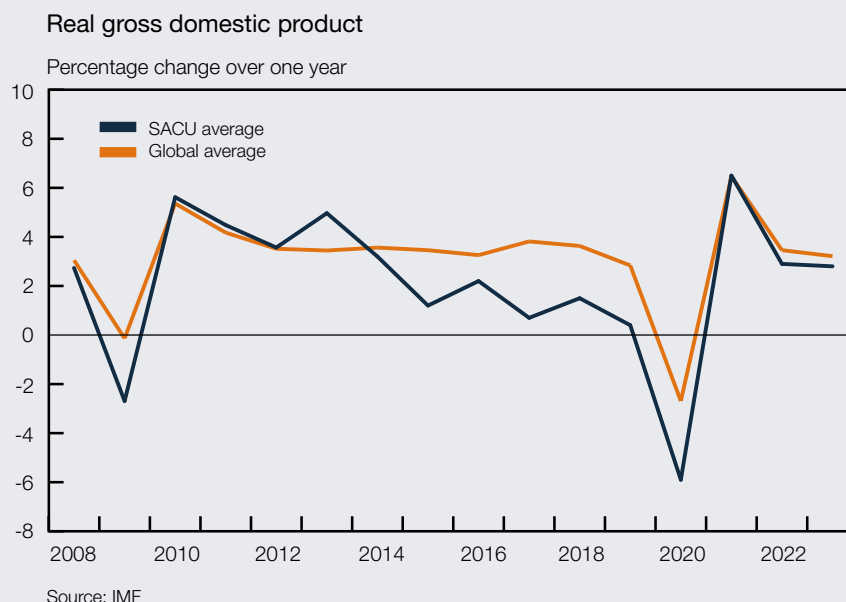
\* Components may not add up to totals due to rounding off.

Source: SARS





Contributions to the CRP decreased significantly in fiscal 2020/21 due to the impact of the global coronavirus disease 2019 (COVID-19) pandemic, which restricted the movement of people and goods between countries and resulted in severe global supply chain constraints. These limitations contributed to the 2.7% contraction in global real gross domestic product (GDP) in 2020 and a significant contraction of 5.9% in the real GDP of the SACU member states. Contributions to the CRP recovered in fiscal 2021/22 and fiscal 2022/23 as trade-related tax collections improved in line with the recovery in nominal imports following the easing of the pandemic-induced restrictions. On average, the contributions to the CRP by South Africa were 97.4% between fiscal 2010/11 and 2022/23, with the balance attributed to Botswana, Eswatini, Lesotho, and Namibia (BELN).

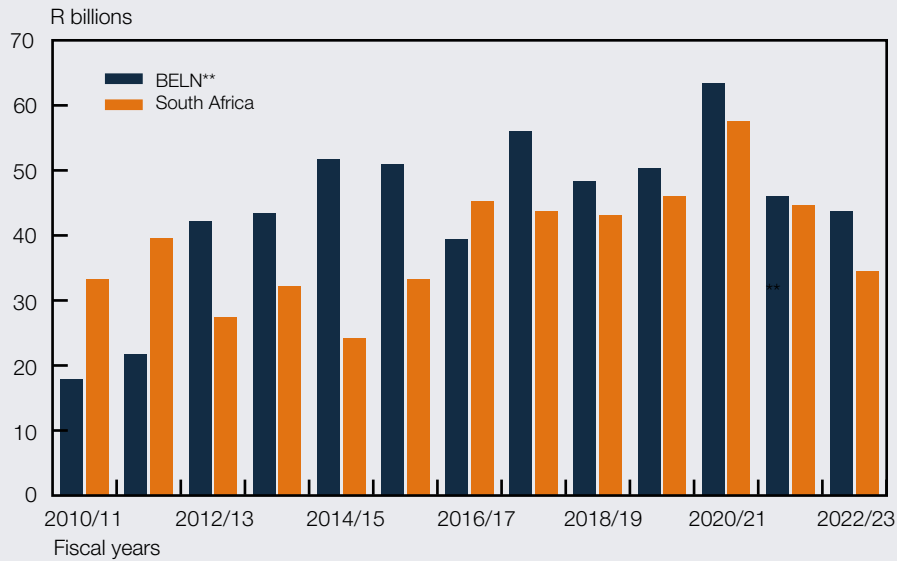


As the administrator of the CRP, South Africa is also responsible for the disbursement of funds and any adjustments to all the SACU member states, following the institutional decisions on each member states' share for that particular period. The annual audit outcome would reflect the difference between the projected revenue shares and the actual payments, with adjustments implemented with a two-year lag. The SACU receipts can be quite volatile due to the impact of fluctuations in the contributions to the CRP for a given year, along with the structure of the RSF which allows correcting for the CRP's over/under estimations from two years prior.

The SACU CRP distributions to the BELN states increased from 35.0% in fiscal 2010/11 to 55.9% in fiscal 2022/23, with South Africa's receipts declining from 65.0% to 44.1% over the same period. The BELN receipts decreased significantly from R51.0 billion in fiscal 2015/16 to R39.4 billion in fiscal 2016/17, mainly owing to the reclassification of the imported component of South Africa's fuel levy. The misclassification, which occurred in fiscal 2014/15, was adjusted in fiscal 2016/17 in line with the SACU RSF. The receipts rebounded in fiscal 2017/18 and reached a peak of R63.4 billion in fiscal 2020/21, which included an upward adjustment of R4.3 billion from fiscal 2018/19. The distributions from the CRP to the BELN states subsequently trended lower in fiscal 2021/22 and fiscal 2022/23, mainly impacted by the COVID-19 pandemic which resulted in lower projected imports and customs duties as well as adjustments of R2.0 billion and R14.5 billion for excess payments during fiscal 2019/20 and fiscal 2020/21 respectively.



### SACU\* common revenue pool distributions



\* Comprising Botswana, Eswatini, Lesotho, Namibia and South Africa

\*\* Comprising Botswana, Eswatini, Lesotho and Namibia, and the SACU Secretariat budget

Sources: National Treasury and SARS

### Shares received from the common revenue pool, 2010/11 – 2022/23\*

R millions

Fiscal years	Botswana	Eswatini	Lesotho	Namibia	Secretariat	Total BELN states	South Africa	Total
2010/11	6 618.1	2 629.6	2 628.2	5 975.9	53.9	17 905.7	33 285.8	51 191.5
2011/12	8 949.0	2 881.0	2 753.0	7 137.0	40.6	21 760.6	39 676.0	61 436.6
2012/13	15 283.1	7 062.5	5 966.3	13 795.8	43.5	42 151.3	27 456.3	69 607.6
2013/14	15 334.9	7 154.1	6 054.6	14 726.6	104.3	43 374.4	32 207.1	75 581.5
2014/15	19 023.3	7 486.7	7 034.1	18 116.6	77.0	51 737.7	24 237.0	75 974.7
2015/16	20 039.1	6 815.1	6 308.2	17 126.8	733.0	51 022.2	33 318.7	84 340.9
2016/17	15 546.6	5 252.1	4 519.0	14 070.7	60.0	39 448.3	45 300.7	84 749.1
2017/18	23 030.7	7 108.7	6 154.2	19 597.4	59.8	55 950.9	43 746.2	99 697.0
2018/19	19 464.6	5 844.0	5 542.2	17 374.9	62.9	48 288.6	43 068.5	91 357.2
2019/20	18 744.0	6 318.2	6 226.2	18 922.3	69.4	50 280.0	46 115.3	96 395.3
2020/21	23 742.8	8 348.6	8 980.5	22 251.9	71.4	63 395.2	57 653.4	121 048.6
2021/22	18 762.4	6 375.1	6 007.8	14 751.2	69.8	45 966.2	44 663.0	90 629.2
2022/23	18 207.0	5 817.6	5 399.5	14 189.5	69.8	43 683.4	34 457.5	78 140.9

\*Components may not add up to totals due to rounding off.

Source: SARS

The BELN states' share from the CRP increased sharply from R43.7 billion in fiscal 2022/23 to R79.8 billion in fiscal 2023/24 (82.7% year on year) on account of the improved CRP forecast and the upward adjustment of R8.8 billion for fiscal 2021/22. According to the *2024 Budget Review*, the SACU share distributions to BELN states are projected to increase further and peak at R89.9 billion in fiscal 2024/25 before declining to R79.7 billion in fiscal 2026/27.