The New Southern African Customs Union Agreement

Africa Region Working Paper Series No. 57
June 2003

Abstract

The Southern African Customs Union (SACU)-Botswana, Lesotho, Namibia, South Africa and Swaziland-has been renegotiated to take account of the new socio-political environment in the region following the demise of apartheid. After eight years of negotiations a new Agreement was signed in October 2002. From its origins in 1910 SACU has been characterized by striking asymmetries in policies, levels of development and administrative capacity. In this paper, we outline the main characteristics of the 2002 Agreement and assess whether it meets the negotiators original objectives. The 2002 Agreement clearly addresses the main criticisms of the 1969 Agreement by promoting shared decision-making and allowing for a new revenue sharing arrangement that seeks to support fiscal stability. The varying levels of trade policy capacity along with policy divergences between the members present new challenges. Moreover, the exclusion of Services, Intellectual Property Rights and the Singapore issues gives the 2002 Agreement a somewhat jaded appearance. Nevertheless, the reconstituted SACU could form the core of a larger regional customs union that would facilitate a realignment of the existing regional organizations. This will depend on the ongoing trade negotiations with both the EU and the United States. Moves towards North-South Free Trade Agreements will put pressure on SACU to address the excluded 'new' issues as well as the need to reduce cross border transaction costs in order to realize the benefits from economic cooperation.

Authors' Affiliation and Sponsorship

Robert Kirk, Trade Policy Adviser, SADC Secretariat
E-mail: rkirk@sadc.int

Matthew Stern, Economist, World Bank, South Africa Country Office
E-mail: mstern@worldbank.org

The Africa Region Working Paper Series expedites dissemination of applied research and policy studies with potential for improving economic performance and social conditions in Sub-Saharan Africa. The Series publishes papers at preliminary stages to stimulate timely discussion within the Region and among client countries, donors, and the policy research community. The editorial board for the Series consists of representatives from professional families appointed by the Region's Sector Directors. For additional information, please contact Paula White, managing editor of the series, (81131), Email: *pwhite2@worldbank.org* or visit the Web site: *http://www.worldbank.org/afr/wps/index.htm*.

The findings, interpretations, and conclusions expressed in this paper are entirely those of the author(s), they do not necessarily represent the views of the World Bank Group, its Executive Directors, or the countries they represent and should not be attributed to them.

The New Southern African Customs Union Agreement

Robert Kirk
Matthew Stern

June 2003

The New Southern African Customs Union Agreement

The authors would like to thank John Bristow, Frank Flatters, Clark Leith, Geoff West and Fahrettin Yagci for the many useful comments, of course the usual disclaimer applies and any remaining errors are the responsibility of the authors. The views and opinions expressed in this paper are those of the authors and should not in any way be attributed to SADC and its institutions, the World Bank or any other agency or individual.

Contents

1. INTRODUCTION **1**

2. A BRIEF HISTORY OF SACU **2**

3. KEY CHARACTERISTICS OF THE ECONOMIES OF SACU **3**

4. THE 1969 SACU AGREEMENT **5**

5. THE NEW SACU AGREEMENT **7**

Institutional Arrangements *7*
Economic Policy Issues *8*
The New Revenue Sharing Formula *9*

6. AN ASSESSMENT OF THE NEW SACU AGREEMENT **11**

Shared responsibilities and decision making *13*
Economic policy and industrial development *13*
Stable, sustainable and fair compensation *14*

7. EXTERNAL TRADE RELATIONS **15**

8. CONCLUSION **16**

ANNEX A. NEW SACU REVENUE SHARING FORMULA **18**

REFERENCES **19**

1. INTRODUCTION

After eight years of negotiations the Heads of State from South Africa, Botswana, Namibia, Lesotho and Swaziland signed a new Southern African Custom Union (SACU) Agreement on 21 October 2002. The new Agreement represents an important element in the reshaping of the Southern African region following the demise of Apartheid in South Africa. It seeks to entrench a democratic approach to trade policy while minimizing revenue instability during a period of declining tariffs.

Throughout its history SACU has been characterized by severe divergences in policies, levels of development, political systems, and administrative capacity. Notwithstanding these disparities it managed, through extremely fraught political circumstances, to maintain virtually free internal trade behind a high common external tariff, while allowing for large revenue payments to the smaller members.

These unique political and economic circumstances influenced the characteristics of the SACU. Indeed, the 1969 Agreement reflected both the dominance of South Africa during its period of isolation, and the revenue concerns of the landlocked countries of Botswana, Lesotho and Swaziland (BLS) following their independence from the United Kingdom. South Africa accounts for more than 90 per cent of total SACU GDP and assumed absolute discretion over external trade policy. This was acceptable for as long as the smaller member countries considered the customs union a vehicle for the collection and distribution of customs and excise revenues, and to a lesser extent for facilitating imports. Whilst the possible costs of the customs union were recognized, calls for reform were muted by the increasing magnitude of the revenue transfers.

The democratic transition in South Africa provided an opportunity to comprehensively renegotiate the customs union. These negotiations re-opened long standing policy debates, including the extent of trade diversion in SACU and its impact on the development of the lesser-developed members. There was also some optimism that the changed political terrain might enable deeper economic cooperation and regional integration in SACU. But revenue issues remained of foremost concern, with all parties looking to stabilize future payments and receipts.

Rapid changes within both the regional and multilateral environments posed new challenges for SACU that had to be reflected in the Agreement. These included the implementation of a free trade agreement within the Southern African Development Community (SADC)[1], the negotiations for a reciprocal trade agreement with the EU, ongoing WTO negotiations and plans to conclude an FTA between SACU and the USA.

Against this background and weighed down by historical baggage, SACU negotiators crafted a new Agreement. How will the new Agreement work for the Members given the changed regional and international environment? Does the new Agreement meet the expectations of the original negotiators who set out to redress the negative aspects of the 1969 Agreement?

[1] In September 2000, Eleven Member States within SADC (Botswana, Lesotho, Namibia, Swa ziland, South Africa, Malawi, Mauritius, Mozambique, Tanzania, Zambia and Zimbabwe) began to implement a Free Trade Area.

Sections II and III present a brief overview of the history and key economic characteristics of SACU. Section IV highlights the main features and 'problems' of the 1969 Agreement and Section V outlines the characteristics of the new Agreement. Finally Sections VI and VII assess the extent to which the new Agreement may impact on the development and external trade relations of all the Members.

2. A BRIEF HISTORY OF SACU

The Southern African Customs Union (SACU) dates back to June 29 1910, when South Africa, Basutoland, Swaziland and Bechuanaland signed at Potchefstroom. Only Britain and South Africa were involved in the 1910 negotiations[2]. This Agreement lasted until the British Protectorates received Independence in the mid 1960s. It was then renegotiated with the apartheid government, culminating in the 1969 Agreement[3].

The 1969 Agreement has attracted widespread attention from economists and political commentators since it effectively ensured that throughout the sanctions period three frontline states (Botswana, Lesotho and Swaziland) continued to depend on South Africa for their imports and to a lesser extent their exports. The agreement also included a revenue sharing formula for the division of customs and excise revenue collected in the union and the BLS received a significant proportion of their government revenue through this formula.

When Namibia became independent in 1990 it became a SACU member in its own right[4]. However, by then, it was evident that the 1969 Agreement had almost run its course. Tarnished by its connection to the apartheid regime it was apparent that the Agreement would be reviewed as soon as political circumstances in South Africa permitted[5]. This process began prior to the first democratic elections in South Africa. The National Institute of Economic Policy in collaboration with the ANC's Department of Economics organized a Workshop on SACU in Botswana (6-8 March 1994) aimed at 'informing the democratic movement…[in the RSA]… and other parties on issues relating to SACU, including the identification of negotiable points[6]'.

Against this background the smaller Members of SACU expected that upon the formation of the first South African government of national unity in April 1994, negotiations would begin for a new reconstituted and democratized SACU. On 11 November 1994, in Pretoria, SACU

[2] S.J.Ettinger, *The Economics of the Customs Union between Botswana, Lesotho, Swaziland and South Africa*, University of Michigan, Ph.D., 1974. p.59 Indeed Lord Gladstone as Governor of the Union of South Africa and High Commissioner for the three protectorates had only to agree with himself and then sign the Agreement four times.

[3] *Ibid* pp 99-108 provides an account of the negotiations leading up to the 1969 Agreement. In their original request the BLS requested, inter alia, 'specific and extensive rights of consultation on all changes affecting BLS, including tariff revisions'. p.100.

[4] No negotiations were involved since South Africa had previously treated South West Africa/Namibia as a *de facto* Member of SACU.

[5] The BLS attempted to initiate a series of negotiations in the late 1980's to address a number of problems with the application of the 1969 Agreement, but in 1992 South Africa quashed all negotiations pending the outcome of domestic constitutional negotiations.

[6] Reconstituting and Democratising The Southern African Customs Union: Report of the Workshop held in Gaborone, Botswana, March 1994, Max Sisulu, Morley Nkosi, Bethuel Setai and Rosalind Thomas, Eds., NIEP, 1994.

Ministers agreed to launch negotiations for a new SACU. After almost 8 years of 'on-off' negotiations, in October 2001, agreement was reached on a new revenue sharing formula and the new institutional dispensation. Negotiations to finalize the text of the new Agreement continued and culminated in the signing of a new Agreement in October 2002. The new Agreement is expected to enter into effect in 2003 once ratified by all the Member States.

3. KEY CHARACTERISTICS OF THE ECONOMIES OF SACU

The five Members of the SACU have close economic relations going back over a century. Four[7] of the Members also form part of a monetary union. The defining characteristic of the SACU is the economic dominance of South Africa in contrast to the size of the other four members. The BLNS (Botswana, Lesotho, Namibia and Swaziland) depend heavily on South Africa for a significant proportion of their trade, investment and in some cases (migrant) employment.

South African companies dominate the business landscape in the BLNS. The BLNS also source most of their imports from South Africa, although their exports are more geographically diverse. Moreover, the commodity pattern of South Africa's exports to the BLNS differs significantly from its exports to the rest of the world. Whereas South Africa continues to export predominantly resource-based goods, the BLNS represent a significant market for South African consumer goods and services.

Notwithstanding the economic and geographic closeness of the BLNS to South Africa, and the fact that they share a common trade and (to a lesser extent) industrial policy, the performance and management of the smaller SACU economies differs markedly from each other and South Africa. The essential economic characteristics of the member countries are shown in Table 1.

While the BLNS are dwarfed by South Africa in terms of economic and population size, they have experienced higher growth rates and in the case of Botswana, have a higher level of GDP per capita. Over the past two decades Botswana has experienced much higher growth rates than all other member states (and most of the world) based on the successful exploitation of its diamond reserves. The mining industry dominates the economy, accounting for over 30 per cent of GDP, although its share is declining as trade, financial and government services expand. Manufacturing accounts for less than 5 per cent of GDP.

Lesotho remains one of the poorest economies in the world with a GDP per capita of less than $500 in 2000. It is heavily dependent on remittances from migrants working in South African mines, though the numbers employed have declined over the past decade. The magnitude of these remittances is reflected in a GNP per capita exceeding GDP per capita, although with the decline in migrant labor the gap has narrowed significantly over the past decade. The past three

[7] The Common Monetary Area includes South Africa, Lesotho, Namibia and Swaziland. Botswana withdrew from its predecessor the Rand Monetary Area in 1974.

years has witnessed considerable private sector investment in textiles and clothing aimed at exporting to the United States under AGOA preferences[8].

Swaziland is predominantly an agricultural economy and about 60% of the population are employed in this sector. Sugar production and processing is the largest single industry, though the country also has large forestry reserves. Other export commodities include coal, asbestos, cotton and diamonds. The manufacturing sector grew strongly during South Africa's economic isolation in the 1980's but many of these strategic investments have since relocated to South Africa. In the past two years Swaziland has experienced investment from Taiwan aimed at supplying clothing to the US using the AGOA preferences.

Namibia joined SACU at Independence in 1990. Although large geographically, much of the country is desert and the economy is dominated by mining, fishing and ranching. Diamonds constitute almost half of the country's total exports, but most Namibians are employed in commercial or subsistence agriculture. Future growth is expected to come from manufacturing and Namibia has also benefited from AGOA preferences on clothing and textiles.

The South African economy is also based on the extraction and beneficiation of natural resources, but is much more diversified than any of the BLNS. Mining and agriculture constitute a relatively small share of total GDP and exports are dominated by mineral, metal and agriculture products. Manufacturing growth has been outstripped by the services sector, which now represents more than 60% of GDP.

Table 1:SACU Countries Basic Data: 2000

Country	Population ($ million)	GDP ($ Billion)	GDP per capita $	Av. Growth Rate 1990 - 2000
Botswana	1.7	5.65	3,424	4.8
Lesotho	2.16	0.88	407	4.2
Namibia	1.76	3.47	2,006	4.2
South Africa	43.8	125.6	2,864	1.7
Swaziland	1.0	1.28	1,308	3.4
SACU	50.42	136.88	2,715	1.9[9]

Source: IMF Annual Financial Statistics, 2001/2002 and World Bank African Development Indicators, 2002.

Different macroeconomic conditions are also reflected in the financial management of the BLNS. Botswana has pursued a conservative fiscal policy and has shown a budget surplus for most of the previous 20 years. Although rising income from offshore investments have reduced its dependence on SACU revenues, they remain significant at around 13 per cent of total government revenue. Lesotho, Swaziland and Namibia on the other hand regularly record budget

[8] Under the African Growth and Opportunity Act (2000) eligible African economies qualify for duty free access to the United States for most products. For a limited period, AGOA rules of origin on clothing are more lenient for exports from less developed African economies, including Swaziland and Lesotho. Producers in these countries can use fabric from third countries. An amendment to AGOA in 2002 extended less developed status to Namibia and Botswana.

[9] Weighted by 2000 GDP

deficits and remain dependent on SACU revenue for between 30 and 60 per cent of total government income.

The high level of dependence of the smaller SACU member countries on South Africa is therefore reinforced by the revenue sharing arrangement. Over the last few decades the payments of customs and excise revenues made by South Africa to the BLNS as a proportion of the total SACU customs and excise revenue has increased. Table 2 shows the extent to which the BLNS rely on the revenue sharing formula for a significant share of total budget revenues.

Table 2: SACU Revenue Payments under the current RSF, 2001/02

	Botswana	**Lesotho**	**Namibia**	**Swaziland**	**South Africa (residual)**
SACU Payment (R million)	2,622	1,438	2,641	1,503	9,897
% of Total Revenue Pool	14.5	7.9	14.6	8.3	54.7
% of total Government Revenue (excl. Grants)	12.8	51.0	30.4	54.1	3.9

Source: Derived from Customs Union Commission Reports

Note: From 1980/1981 – 1989/1990 South Africa received an average of 80.2 per cent of the CRP. Year ending March 31st.

4. THE 1969 SACU AGREEMENT

There is a wide literature outlining the operation of the 1969 SACU Agreement[10]. Initially the 1969 Agreement was considered a satisfactory deal by all signatories. It kept the BLS markets open for South African consumer products and provided a guaranteed source of revenue for the smaller member countries[11]. For differing reasons, the BLS and South Africa were also content for the South African Board of Tariffs and Industry to make recommendations on external trade policy. As the largest and most industrialized country in the union South Africa believed it important to retain control over tariff decisions. On the other hand, the economies of the newly independent BLS were largely rural based and they lacked technical and administrative capacity.

With the passage of time all members of SACU came to consider the Agreement seriously flawed[12]. Although there had been numerous discussions on the 1969 Agreement prior to 1994, these lacked serious commitment from South Africa and were largely aimed at resolving technical aspects of the 1969 Agreement. The renegotiation of the agreement in its entirety only began in November 1994 and was eventually concluded 8 years later.

The main weakness of the 1969 SACU Agreement was the absence of joint decision-making. The 1969 SACU Agreement provided for South Africa alone to determine the external tariff policy of the customs union: all changes to customs tariffs, rebates, anti-dumping and

[10] For a summary through to 1990 refer, The Dependent Economy: Lesotho and the Southern African Customs Union, Mats Lundahl and Lennart Petersson, Westview Press, 1991.
[11] Which enabled the BLS to eliminate their dependence on income transfers from the United Kingdom for balancing their budget.
[12] Lundahl and Petersson (1991) and Mayer and Zarenda (1994).

countervailing duties were effected by the South African Minister of Trade upon the recommendation of the South African Board of Tariffs and Trade. Excise policy was determined the South African Minister of Finance[13]. SACU itself was administered on a part-time basis by annual meetings of the Customs Union Commission and there were no effective procedures to ensure compliance or to resolve disputes.

Given the asymmetry in decision making the Common External Tariff and related trade policies were set to protect or promote South African producers with no consideration of the developmental interests of the BLNS. Attempts to develop new industries in the BLNS that competed with established South African interests were constrained by a host of non-tariff barriers[14] and the BLNS were unable to address issues of predatory pricing and unfair competition by conglomerates located in South Africa. Moreover, preferential trade agreements entered into by South Africa with Third Parties compromised the integrity of the customs union[15].

The aspect of the 1969 Agreement that has received most attention is the Revenue Sharing Formula (RSF) designed to distribute the Common Revenue Pool (CRP) between the Members of SACU. The SACU RSF is unique in a number of ways, most notably because it applies to just four of the five member countries[16]. South Africa receives the net amount of customs and excise duties collected after payment has been made to the BLNS. The 1969 RSF was amended in 1976 with the inclusion of a 'stabilization factor' that requires that the BLNS receive at least 17 per cent and at most 23 per cent of the value of their c.i.f. imports (from all sources) plus excisable production inclusive of excise duties. In so doing SACU effectively adopted a "target-rate" of 17% (Walters 1989) and this floor has applied since 1980.

The RSF, with the stabilization factor, provided an arrangement for allocating tariff revenue to the BLNS that was unrelated to trade policy. Consequently it could not be expected to reflect the welfare and distributional costs (the so-called price-raising effect), which would change over time with tariff adjustments, and the changing commodity composition of trade. During the 1980's and early 1990's the target-rate almost certainly underestimated the price raising effect (see Guma 1990 and Maxwell Stamp 1994 – noted below). However, with the removal of import surcharges, the reduction of tariffs and the abolishment of quantitative restrictions, the stabilization factor of 17 per cent began to exceed the price raising effect. Over the latter half of the 1990's the payments to the BLNS accelerated to around 50% of the total pool (authors' estimates indicate that the payment to the BLNS would have reached around 80% of the total pool by 2011). This heightened concerns regarding the long-term sustainability of the formula.

Another unusual feature of the 1969 RSF is the inclusion of excise duties. Although excise duties can be used to discriminate against imports, they are fundamentally a domestic tax

[13] The Agreement did require consultation on excise changes but these seldom took place and the BLNS usually learned of changes to SACU excise rates during the delivery of the South African National Budget.

[14] For example, in the late 1970's and early 1980's a firm assembling televisions in Lesotho and a fertilizer plant in Swaziland found it impossible to meet South African Standards and eventually closed down.

[15] Most notably South Africa's bilateral agreements with Zimbabwe and Malawi.

[16] For a more complete description of the 1969 formula refer to Lundahl & Petersson (1991).

and are generally excluded from customs union payment regimes. The 1910 Agreement did not include excise duties, however, in an exchange of notes between the parties excise duties, surtax revenue from cigarettes and all other excise duties (except spirits and beer) were included in the revenue pool from 1911 and 1913 respectively. The 1969 Agreement explicitly provided for common excise rates and introduced excise duties in the revenue sharing arrangement.

Perhaps the most controversial and misunderstood aspect of the 1969 Agreement is that cash payments to the BLNS from the CRP lag accruals by up to two years: the so-called 'two-year lag'. In 1969/70 (and again in 1970/71), payments to the BLNS were calculated from the most recent data available i.e. 1968/69. This was a one-off arrangement to allow for the immediate implementation of the new revenue sharing formula. No attempt was made to add-in the expected change in imports and consumption between the year from which data was available (1968/69) and the year of the payment (1969/70 and 1970/71). Instead, adjustment payments were made in later years to reflect this estimation error and subsequent data errors. Put more simply, for the duration of the 1969 Agreement the BLNS received payments in year n on the basis of trade and consumption data from year n-2. There is no two-year delay in payment, though the real value of the payment is partially reduced by the effect of inflation and the non-payment of interest on the value of the estimation error only.

5. THE NEW SACU AGREEMENT

The new SACU Agreement is more comprehensive than the earlier Agreement and contains 51 Articles. This represents a significant enlargement of the scope of the 1969 Agreement, which contained just 22 Articles and a Secret Memorandum of Understanding (which only spread into the public domain in the early 1990s). The new Agreement encompasses three main areas, governance and administration; economic policy and regulatory issues; and revenue sharing. Its stated objectives include:

- To promote the integration of the Members into the global economy;
- The facilitation of cross-border movement of goods between the Members;
- The establishment of effective, transparent and democratic institutions which will ensure equitable trade benefits to the Members;
- To facilitate the equitable sharing of revenue from customs, excise and additional duties;
- To promote fair competition, substantially increase investment and facilitate economic development; and
- To facilitate the development of common policies and strategies.

Institutional Arrangements

The new Agreement provides for the establishment of an independent, full-time but administrative secretariat to manage the affairs of SACU, to be located in Namibia. The South African Board of Tariffs and Trade (BTT) will be replaced by a 'SACU Tariff Board', which will consist of a panel of professionals appointed (each Member State will nominate a candidate) to consider all changes to the common external tariff. All recommendations emanating from the

Tariff Board must be ratified by the SACU 'Council of Ministers', which will consist of one Minister from each member state. The Council will be supported and advised by a Customs Union Commission, made-up of senior SACU civil servants, and an independent but ad-hoc Tribunal to arbitrate on any disputes. Decisions of the Council and all other SACU institutions will be made on the basis of consensus.

Critically, all technical work is subjugated to 'national bodies' to be established by each member state. Thus the South African BTT will remain (albeit under a new name) and will have a national rather than a SACU mandate. The BLNS will also develop national level bodies or departments (or may just appoint officials) to conduct tariff and trade remedy investigations and make recommendations to the SACU Tariff Board. This could prove a major challenge for the BLNS, none of which have experience or expertise in this area.

Economic Policy Issues

Under the new SACU external trade policy will be agreed jointly by the Council of Ministers. But the BLNS had to accept the existing tariff policy of the SACU as a starting point. Future changes in policy will be determined jointly with each Minister receiving advice from his own officials.

The new Agreement permits national protection for infant industries in the BLNS but not in South Africa. Under this Article the BLNS can impose duties on imports from South Africa provided the same duties are also imposed on imports from the rest of the world. An infant industry is defined as an activity that has not been located in the BLNS for more than 8 years, and this protection is also limited to 8 years[17]. The Council of Ministers may impose additional conditions, which are not specified. This Article replicates a similar loophole that was contained in the 1969 Agreement. During the period 1969-2000 Swaziland and Botswana used this loophole on occasion and recently Namibia granted additional protection to a pasta manufacturer. The use of the infant industry clause imposes costs on domestic consumers, reduces the SACU revenue due to government and provides for substantial levels of effective protection to the infant.

It was necessary to retain an Article addressing Agricultural Marketing arrangements as several of the BLNS economies continue to retain single marketing channels. Under the 1969 Agreement this Article had been used to justify closing markets within SACU to protect domestic agricultural producers. The new Article (29) explicitly allows for each Member State to impose marketing regulations for agricultural products '…providing such marketing regulations shall not restrict the free trade of agricultural products between Member States, except as defined below.' The loophole includes both emergent agriculture and related agro-industries and 'any other purposes as agreed upon between Member States', and consequently provides for the continuance of restrictions on agricultural trade within the SACU.

The earlier Agreement contained no reference to either Technical Barriers to Trade (TBT) or to Sanitary and Phyto-Sanitary (SPS) Measures. The new Agreement contains two

[17] This requirement allows for the a country to grant protection to a new entrant even though there may be firms already in the sector, as long as existing firms are less than eight years old.

articles. Article 28 on TBT explicitly references the WTO Agreement on Technical Barriers to Trade and seeks that 'Member States shall strive to harmonize product standards and technical regulations within the Common Customs Area'. The Article on SPS (30) simply urges consultation and notes that Member States reserve the right to apply SPS measures in accordance with their national SPS laws and international standards.

The Agreement provides for common policies in industry, agriculture, competition, and unfair trade practices. These all remain hortatory with no attached annexes. In each case it is understood that the existing policies will remain in place pending development and agreement on new common policies and strategies. The development of common policies will remain the responsibility of Member States rather than the new Secretariat. The divergent levels of capacity between Member States will have implications for future SACU policy developments and the Secretariat may be drawn into policy analysis work.

The New Revenue Sharing Formula

The new formula will apply to all members and will be limited by the size of the customs and excise duty pools. The formula was developed with the aim of providing a degree of revenue security to the BLNS. It was recognized that real tariff revenue is likely to decline over time – by including excise duties it became possible to ensure greater revenue stability and arrange for revenue transfers to the lesser-developed Members[18].

The new SACU Revenue Sharing Formula deals with customs and excise revenues separately and explicitly through two distinct components (refer to Annex A for an analytic exposition of the new formula). Total customs revenues collected will be distributed according to each country's share of total intra-SACU imports[19]. Country's that import most from within the union will receive the largest share of the customs pool, thereby providing implicit compensation for the "cost-raising" and "polarization" effects of the customs union. In theory, this may also encourage trade diversion within the customs union. By focusing on intra-SACU trade, no consideration is given to the price-raising effects arising from extra-SACU imports. The distribution of the customs component by intra-SACU trade is shown in Table 3.

Table 3: The distribution of the customs component

R million	Botswana	Lesotho	Namibia	Swaziland	South Africa
Intra-SACU imports (1998/99)	9,769	4,914	9,137	5,366	7,520
Share of customs component	27%	13%	25%	15%	20%

Source: Customs Union Commission Reports and Submissions by Member States to the CUTT

[18] In 2002/03 customs duties accounted for 50% of the SACU Revenue Pool.

[19] Re-exports were explicitly excluded under the 1969 Agreement, however, in practice they are very difficult to identify since they have to be classified as temporary imports. Re-exports arising from bulk purchase by wholesalers and retailers cannot be easily identified and are not considered explicitly in the new formula. For example, it is not uncommon for vegetables to be exported to South Africa and then re-exported back by a retail chain store.

Excise revenues will be distributed on the basis of each country's share of total SACU GDP – a proxy for the value of excisable goods consumed. South Africa, as the largest economy in SACU, can expect to retain around 80% of total excise revenue collected (assuming 15% is allocated to the development component). This is shown in Table 4.

Table 4: Distribution of the excise component

R million	Botswana	Lesotho	Namibia	Swaziland	South Africa
GDP (1998)	28,500	4,921	16,826	7,081	740,581
Share of excise[20] component	4%	1%	2%	1%	93%

Source: Submissions by Member States to the CUTT

The new formula also provides for the creation of a development component, to be set as a fixed percentage of the excise pool (initially 15%). This arrangement differs markedly from the development fund proposed by McCarthy in 1985 (and described in Walters 1989). Payments into and out of the development component are determined by a formula and not allocated or tied to specific projects. The development component is therefore an additional compensation mechanism and is not designed to achieve specific development objectives.

All five SACU countries will receive near equal shares of the development component [21]. Thus, those countries that receive the largest share of excise duties contribute most towards and benefit least from the development component (in effect, South Africa funds 93% of the development component and is the only net contributor). In addition, the shares accruing to each member state are adjusted marginally in favor of the lesser-developed countries in SACU.

Table 5: Distribution of the development component

Rand	Botswana	Lesotho	Namibia	Swaziland	South Africa
GDP/capita (1998)	17,968	2,395	9,615	7,024	17,578
Deviation from SACU average	65%	-78%	-12%	-36%	61%
Deviation/10	7%	-8%	-1%	-4%	6%
(1-Deviation/10) * 20% = Share of development component	19%	22%	20%	21%	19%

Source: Authors calculations from submissions by Member States to the CUTT

There will also be significant changes to the manner in which revenue shares are calculated, managed and distributed. The shares of each component will be calculated from the most recent and audited trade, GDP and GDP/capita data, and will not be adjusted for estimation

[20] Does not add to 100% because of rounding.
[21] Initially, the shares of each member were fully adjusted for differences in GDP/capita. This raised the shares of the least developed Members disproportionately. To ensure revenue stability for all Member Countries it was agreed to reduce the deviation in GDP/capita form the SACU average by a factor of 10.

errors in future years. These shares will be applied to agreed customs and excise forecasts, with adjustments necessary in the ensuing two years to reflect revised estimates and then actual collections. Although South Africa will continue to manage the pool and payments for the first two years of the new agreement, negotiations are currently under way to establish a more transparent mechanism.

Table 6: Net contribution to the development component (2001/02 based on 1998 GDP/capita data)

R million	Botswana	Lesotho	Namibia	Swaziland	South Africa
Contribution to development component	51	9	30	13	1,319
Receipt from the development component	266	306	287	294	267
Net contribution	-215	-297	-257	-281	1,052

Source: Authors calculations from submissions by Member States to the CUTT

6. AN ASSESSMENT OF THE NEW SACU AGREEMENT

How should the new SACU Agreement be evaluated? After eight years of negotiation the Member States have found a way of retaining the existing level of integration and are committed to increasing the degree of policy coordination through new and democratic structures. They have also agreed on a revenue sharing arrangement that is responsive to the current economic climate and provides fiscal stability to all Member States, and marginally expanded the coverage of the Agreement. But does the new agreement go far enough and meet the objectives of the initial negotiators? Table 7 outlines the coverage of the 1969 and 2002 Agreements.

Table 7: Coverage of the 1969 and 2002 Agreements

Policy Issue	1969 SACU Agreement	2002 SACU Agreement
Common external tariff	Determined by South Africa.	Determined by consensus.
Common excise duties	Determined by South Africa.	Determined by consensus.
Customs Legislation	Identical.	Identical.
Revenue sharing	Formula applied to notional customs and excise pool.	Formula applied to actual customs and excise collections.
Transit Trade	Transport rate discrimination not permitted.	Transport rate discrimination not permitted.
Trade Relations with Third Parties	Permitted subject to obtaining prior concurrence.	Negotiations with Third Parties to take place through a common negotiating mechanism.
Dispute Settlement	Allowed for consultation.	Allows for the creation of a formal structure to make binding recommendations.
Industrial Development Policy	Excluded.	Agreement in principle to develop common policies and strategies.
Limitations on Internal Trade	Permitted, by unilateral action.	Permitted, by unilateral action.
Protection of Infant Industries	Permitted, but only by BLNS.	Permitted, but only by BLNS.
Agricultural Policy	Excluded.	Agreement in principle to cooperate on policies.
Agricultural Marketing	Permitted, but must be non-discriminatory.	Permitted, but must be non-discriminatory.
Competition Policy	Excluded.	Each Member State to develop its own competition policy and cooperate.
Unfair trade practices	Excluded.	Agreement to develop policies and specific instruments aimed at addressing unspecified unfair trade practices.
Technical Barriers to Trade	Excluded.	Includes reference to WTO.
Sanitary and Phyto-Sanitary Measures	Excluded.	Includes reference to WTO.
Intellectual property	Excluded.	Excluded.
Trade and the environment	Excluded.	Excluded.
Trade in services	Excluded.	Excluded.
Migration and labor standards	Excluded.	Excluded.
Government procurement	Excluded.	Excluded.
Trade facilitation	Included.	Included.
E-commerce	Excluded.	Excluded.
Investment Protection and Incentives	Excluded.	Excluded.
Macroeconomic policy, including exchange rate policy	Excluded.	Excluded.

Shared responsibilities and decision making

A key weakness of the 1969 agreement was that South Africa assumed sole responsibility for the administration of tariffs and revenue payments within SACU. Consequently, the greatest accomplishment of the new agreement is that it introduces joint-decision making into all aspects of the customs union and allows for the creation of a number of new and genuinely independent institutions. The structure of these institutions is perhaps a little complex, their terms of reference vague and their performance untested, but it is a significant improvement on the previous regime.

That said, a number of challenges remain. Firstly, member countries were unable to reach a decision on how the common revenue pool and payments out of this pool will be managed. The agreement provides for a two-year period during which South Africa will continue to administer the pool, after which this responsibility must be allocated to the Secretariat or any Member State. Although South Africa accounts for most of the revenue collected within SACU and the smaller SACU members will reap significant benefits from the interim arrangement[22], it runs counter to the democratic spirit of the agreement. On the other hand, it is doubtful whether any other member or the Secretariat could manage a pool of this size as efficiently as South Africa, or whether South Africa would be prepared to handover this responsibility to any other party. Unless some middle ground can be found that satisfies both the BLNS and South Africa, this issue could raise serious problems for the new SACU over the next two years.

Secondly, the new tariff setting process appears unwieldy and unlikely to deliver serious tariff reform. A simple change in tariff will now have to be considered by multiple layers of institutions before it can be implemented (indeed a number of South African Members of Parliament have expressed their concern over this issue). Moreover, Ministers of Trade of all five countries will need to consent to such decisions – with a dispute mechanism established to address deadlocks. In order to minimize disagreements over tariff policy it will be necessary for SACU Ministers of Trade to meet and identify their interests on a routine basis. Without regular dialogue it is unlikely that South Africa's trade agenda will automatically dovetail with that of the BLNS and this may create serious difficulties in future unilateral, bilateral and multilateral trade liberalization initiatives.

Economic policy and industrial development

A key argument in favor of economic integration amongst developing countries is that it contributes towards gradual structural change and economic development. Larger regional markets bring with them economies of scale that should enable member countries to specialize and develop sufficient productive capacity to compete globally. Although this was certainly the intention of the 1969 agreement, it relied heavily on fiscal compensation and failed to address the causes of unequal development within SACU (McCarthy 1994). As a result, there has been little industrialization within the BLNS and South Africa continues to record large trade surpluses with all other member countries. Although there are a number of causes of polarization, the pursuit of an import substituting trade policy by South Africa almost certainly resulted in

[22] Largely because payments are made in advance and revenues remitted only two quarters later.

significant trade diversion for the BLNS. It was therefore rational for the BLNS to focus on trying to maximize the revenue.

Although the new agreement does provide for democratic decision-making in all SACU structures and requires the development of common industrial and agricultural policies, the approach remains fundamentally unchanged. Lesotho, Namibia and Swaziland will continue to receive more than a third of their total budget revenue through the revenue sharing formula. This will do little to stimulate economic development and grow the tax base in these countries. Instead, such dependence increases the risk that the smaller members of SACU will measure the success of the Agreement in revenue terms rather than in its impact on trade or investment.

The major differences between the BLNS and South Africa on industrial policy in general, and agricultural policy in particular, continue. While South Africa has liberalized its agricultural sector by abolishing single channel marketing some of the other countries continue to allow national monopolies. Differences also remain on import policies in selected sectors, such as wheat flour, milk and milk powder. Failure to reach agreement has resulted in *de facto* free trade being suspended while Member States protect narrow industrial or other interests in their own countries

The SACU Agreement only provides for trade in goods - there is no provision to liberalize trade in services or allow freer movement of people. Given the importance of trade in services to the SACU economies and the ongoing negotiations within the WTO this remains a major lacuna. Future trade negotiations between SACU and third countries will almost certainly include services, and to a lesser extent, the movement of natural persons.

Stable, sustainable and fair compensation

One of the more difficult aspects of the negotiations was reaching consensus on the costs and benefits of the customs union to its respective members – and the level and type of compensation that should be paid as a result. Any form of explicit compensation, such as the establishment of a development fund, was rejected by the smaller member states. Instead, negotiators attempted to build in sufficient implicit compensation into the new formula to deal with polarization and cost-raising effects. Table 8 compares the payments under the old and new formulas.

Table 8: Total payment – a comparison of the new and old formula (2001/02)

Rand million	Botswana	Lesotho	Namibia	Swaziland	South Africa	Total
Old (1969) formula	2,622	1,438	2,641	1,503	9,897	18,102
New formula	2,851	1,512	2,606	1,628	9,506	18,102
Customs component	2,297	1,156	2,149	1,262	1,769	8,632
Excise component	288	50	170	71	7,471	8,050
Development component	266	306	287	294	267	1,421

Source: Authors calculations from submissions by Member States to the CUTT and the National Treasury of South Africa Budget Review 2003.

Almost all of this compensation takes place through the customs component of the new RSF. If the new formula would be applied in 2003/04, about 80% of the total payment to the BLNS would consist of customs' revenues (authors' estimate). This customs payment amounts to about 20% of total intra-SACU imports by the BLNS. This is significantly higher than the average external trade weighted tariff and seems to provide implicit compensation for more than just the cost-raising effects of the customs union. Thus, although difficult to quantify, the new formula appears to provide more than sufficient compensation to the BLNS to address the economic costs of the union.

It is also very responsive to changes in trade policy. If external tariffs decline, the trade preferences enjoyed by South Africa are eroded and the amount of compensation from South Africa to the BLNS falls in line with the relative size of the customs pool. This might create serious revenue problems for the smaller member states. For this reason, it was decided to establish an alternative method of compensation that is independent of customs revenues. Although currently small compared to the customs component, the size of the development component is likely to become increasingly important over the next decade. Any amendment to the size of this component (i.e. changing the share of total excise revenue allocated to 'development') requires the consent of all the Members. As South Africa is the only net contributor to the development component, it is unclear how amenable they will be to raising their contribution to compensate for reduced tariff revenue. If the development component remains unchanged the BLNS will need to diversify their revenue base and review government expenditure policies.

Finally, the method used to calculate country shares for each of the three components eradicates the 'two-year lag' or estimation error inherent in the 1969 formula. By applying these shares to custom and excise forecasts rather than past receipts, the relationship between current payments and revenues is firmly entrenched. South Africa accounts for over 90 per cent of all customs and excise revenues and currently publishes three-year revenue forecasts. This will enhance the ability of SACU member countries to predict future revenue flows. On the other hand, revenue forecasts are inherently inaccurate and adjustments for actual collections are likely to be sizeable.

7. EXTERNAL TRADE RELATIONS

Until now, the external trade relations of SACU have been driven by the bilateral and regional alliances of individual member states, rather than the customs union. This is best illustrated by the terms and operation of the Trade and Development Cooperation Agreement (TDCA) signed between South Africa and the EU in 2000. The EU-SA TDCA provides for the establishment of free trade area between the two signatories. Although the BLNS are not signatories to this agreement, Article XIX of the 1969 SACU Agreement requires that they concur with the terms of the TDCA. In the absence of concurrence, the BLNS continue to charge the Common External Tariff on goods imported directly from the EU.

This situation was further complicated by the fact that the BLNS are signatories to the Cotonou Agreement and are expected to conclude a reciprocal trade agreement (referred to as an Economic Partnership Agreement) with the EU by 2008.

New negotiations between SACU and a number of external trading countries and groups of countries have begun and will have major implications for the future of SACU and its role in the region. SACU has commenced negotiations with the USA towards an extensive free trade agreement, which is scheduled to conclude by 2005. Discussions with Mercosur are also under way and South Africa has expressed a willingness to lead SACU into bilateral trade agreements with Nigeria, China and India. Economic Partnership Agreement (EPA) negotiations with the EU have not begun in earnest, but it is expected that the BLNS will offer to remove tariffs in accordance with the schedule agreed by South Africa under the TDCA.

These developments will help to cement SACU as a unified trading block, but in doing so, might impede efforts to integrate the members of SACU with other regional trade arrangements. South Africa, Botswana and Lesotho are members of the Southern African Development Community (SADC), while Namibia and Swaziland are members of both SADC and the Common Market for Eastern and Southern Africa (COMESA). SADC and COMESA have already launched regional free trade agreements and COMESA is committed to implementing a customs union from 2004. SADC is likely to follow. It will not be possible for SACU members, who are also members of SADC or COMESA, to participate in a parallel customs union. Moreover, it is likely that SACU, SADC and COMESA will pursue separate trade agreements with the EU and other external partners.

Whilst the EU and COMESA appear to favour negotiating an EPA for all the economies in Eastern and Southern Africa excluding South Africa, the reticence of SACU and SADC to agree to such a geographical configuration raises the possibility that the obligations of the Cotonou could act as the catalyst for reconfiguring the membership of existing regional groupings. SACU revenues and trade are of such importance to the BLNS that they are unlikely to choose SADC or COMESA membership over that of SACU. South Africa already has a reciprocal trade agreement with the EU and has now renewed its commitment to SACU. As the economic power of Southern Africa, South Africa's participation is critical in any new regional integration initiative. This raises the possibility that SACU could form the core of a new regional customs union that could gradually expand to include other members of SADC and possibly COMESA.

8. CONCLUSION

In principle, the new SACU Agreement should be considered a success. It normalizes trade relations between South Africa and the BLNS, provides for the creation of a number of new and democratic regional institutions, and reforms an outdated and unsustainable revenue-sharing arrangement. But in practice, it is questionable whether this new agreement will contribute towards more rapid and equitable economic development within SACU. The actual outcome will to an extent depend on the ability, capacity and willingness of the BLNS to participate fully in the SACU decision-making process.

From a revenue perspective, the new formula offers greater security and stability to the BLNS, in return for some moderation in their future share of the pool. This bodes well for the long-term sustainability of the new formula, but in so doing, it also ensures the continued dependence of Lesotho, Namibia and Swaziland on SACU revenues. This need not be a curse and the challenge for the BLNS is to optimally use the transfers received through the revenue

sharing arrangement to improve their overall level of competitiveness within the South African market.

For South Africa, it is difficult to gauge whether the fiscal costs of SACU continue to justify the economic benefits accruing to the country in terms of exports and to a lesser extent, investment and cheaper imports. Prior to 1994 this cost was regarded as the political price for retaining some form of relations with independent African states (McCarthy 1994). These benefits have dissipated with the demise of Apartheid, but the level of transfer has increased. To some extent, South Africa is now paying heavily to retain the system of dependency that has been created. But it also retains preferential access to a large market for products, largely consumer goods, in which it does not have an international comparative advantage with the rest of the world. The collapse of SACU would almost inevitably lead to severe revenue instability in at least two of the member countries. It would also have serious adverse effects for some South African exporters.

It is disappointing that the negotiators were unable to take this Agreement a little deeper and deal with some of the more fundamental obstacles to economic integration in the region. For an agreement that is supposed to take SACU into the 21st century, it deals with very little of the current world trade agenda. Some attempt to incorporate services or the movement of labor within SACU would have been appropriate, though understandably much more difficult. Moreover, the SACU countries face real challenges in reducing cross border transaction costs, and in developing cooperative programs in TBT and SPS that would permit regulatory economies of scale. Separate border posts have also been retained.

Finally, it is disappointing that little progress was made on industrial policy issues and tax harmonization. Member countries will continue to compete with each other for investment through tax incentives[23]. Given the extent of free trade within SACU and the fact that all member countries share common customs and excise tax rates, further tax harmonization is possible and necessary. There is no commitment to develop a common competition policy and countries retain the right to protect infant industries from other SACU members. Successfully resolving some of these issues would increase the authority of the newly established Secretariat and augment the international standing of the new Agreement.

Looking forward, it is possible but unlikely that SACU will re-open discussions on these issues soon. Instead, it would seem that the future of SACU may be determined by external factors rather than from within. The new agreement has opened up possibilities for a range of new SACU bilateral agreements, beginning with the US. SACU will also have to cooperate more closely in WTO negotiations and is likely to find itself the target of an economic partnership agreement (EPA) with the EU[24]. All of this will contribute towards and require much closer integration within SACU. The fact that the new Agreement can allow and facilitate such cooperation, is probably it greatest strength.

---

[23] South Africa and Namibia competed for the large textile and clothing conglomerate-Ramatex.

[24] It will be extremely difficult for the EU to sign an EPA with SADC (excluding South African but including the BLNS). Either the SADC EPA would have to be identical to the existing SA-EU Agreement or, the agreement with SADC would have to exclude the BLNS.

ANNEX A. NEW SACU REVENUE SHARING FORMULA

According to the New RSF the total payment (P) to each SACU member country (i) is calculated from its share of three different components: $P_i = C_i + E_i + D_i$

Where:

$$C_i = \frac{M_i}{\sum_{i=1}^{i=n} M_i} * C$$

$$E_i = \frac{GDP_i}{\sum_{i=1}^{i=n} GDP_i} * E$$

$$D_i = \left[1 - \left(\frac{GDPC_i}{\sum_{i=1}^{i=n} GDPC_i \big/ n} - 1\right) / 10\right] * D/n = \left[11 - \left(\frac{GDPC_i \cdot n}{\sum_{i=1}^{i=n} GDPC_i}\right)\right] * D/10n$$

And:

C	=	total customs duties collected in SACU (the customs component)
E	=	total excise duties collected in SACU less D (the excise component)
D	=	a predetermined share (initially 15%) of total excise duties collected in SACU (the development component)
GDP_i	=	GDP of country i
$GDPC_i$	=	GDP per capita of country i
M_i	=	total intra-SACU imports of country i
n	=	number of member countries in SACU

REFERENCES

Customs Union Commission Reports, (Annual) Various

Ettinger S. J., '*The Economics of the Customs Union between Botswana, Lesotho, Swaziland and South Africa'*, University of Michigan, Ph.D., 1974.

Guma, X.P. "The Revised Southern African Customs Union Agreement: An Appraisal", *South African Journal of Economics*, vol. 58, no. 1, pp.63-77, 1990.

IMF, *Annual Financial Statistics 2001/2002,* Washington, 2002.

Leith, J.C. "The Static Welfare Economics of a Small Developing Country's Membership in a Customs Union: Botswana in the Southern African Customs Union", *World Development*, vol. 20, no. 7, pp. 1021-1028, 1992.

Lundahl M. & Petersson, *The Dependent Economy: Lesotho and the Southern African Customs Union*, Westview Press, 1991.

Maxwell Stamp, *Namibia: Trade Policy Reform Study*, Volume 1, 1995.

Mayer M. & Zarenda H., *The Southern African Customs Union : a review of costs and benefits*, Development Bank of Southern Africa, 1994.

McCarthy, C.L. *The Southern African Customs Union - A report prepared for the Central Economic Advisory Service*, Republic of South Africa, Mimeo, University of Stellenbosch, 1985.

McCarthy, C.L. "Revenue distribution and Economic Development in the Southern African Customs Union", *South African Journal of Economics*, vol. 62, no. 3, pp. 167-187, 1994.

National Treasury of South Africa, *Budget Review 2003*, Pretoria, 2003.

Sisulu M. et al, *Reconstituting and Democratizing the Southern African Customs Union: Report of the Workshop held in Gaborone*, Botswana, March 1994.

Walters, J. "Renegotiating Dependency: the case of the Southern African Customs Union", *Journal of Common Market Studies*, vol. XXVIII, no.1, September, pp. 29-52, 1989.

The World Bank, *African Development Indicators 2002,* Washington, 2002.

Africa Region Working Paper Series			
Series #	**Title**	**Date**	**Author**
ARWPS 1	Progress in Public Expenditure Management in Africa: Evidence from World Bank Surveys	January 1999	C. Kostopoulos
ARWPS 2	Toward Inclusive and Sustainable Development in the Democratic Republic of the Congo	March 1999	Markus Kostner
ARWPS 3	Business Taxation in a Low-Revenue Economy: A Study on Uganda in Comparison with Neighboring Countries	June 1999	Ritva Reinikka Duanjie Chen
ARWPS 4	Pensions and Social Security in Sub-Saharan Africa: Issues and Options	October 1999	Luca Barbone Luis-A. Sanchez B.
ARWPS 5	Forest Taxes, Government Revenues and the Sustainable Exploitation of Tropical Forests	January 2000	Luca Barbone Juan Zalduendo
ARWPS 6	The Cost of Doing Business: Firms' Experience with Corruption in Uganda	June 2000	Jacob Svensson
ARWPS 7	On the Recent Trade Performance of Sub-Saharan African Countries: Cause for Hope or More of the Same	August 2000	Francis Ng and Alexander J. Yeats
ARWPS 8	Foreign Direct Investment in Africa: Old Tales and New Evidence	November 2000	Miria Pigato
ARWPS 9	The Macro Implications of HIV/AIDS in South Africa: A Preliminary Assessment	November 2000	Channing Arndt Jeffrey D. Lewis
ARWPS 10	Revisiting Growth and Convergence: Is Africa Catching Up?	December 2000	C. G. Tsangarides
ARWPS 11	Spending on Safety Nets for the Poor: How Much, for How Many? The Case of Malawi	January 2001	William J. Smith
ARWPS 12	Tourism in Africa	February 2001	Iain T. Christie D. E. Crompton
ARWPS 13	Conflict Diamonds	February 2001	Louis Goreux
ARWPS 14	Reform and Opportunity: The Changing Role and Patterns of Trade in South Africa and SADC	March 2001	Jeffrey D. Lewis
ARWPS 15	The Foreign Direct Investment Environment in Africa	March 2001	Miria Pigato
ARWPS 16	Choice of Exchange Rate Regimes for Developing Countries	April 2001	Fahrettin Yagci
ARWPS 17	Export Processing Zones: Has Africa Missed the Boat? Not yet!	May 2001	Peter L. Watson

Africa Region Working Paper Series			
Series #	Title	Date	Author
ARWPS 18	Rural Infrastructure in Africa: Policy Directions	June 2001	Robert Fishbein
ARWPS 19	Changes in Poverty in Madagascar: 1993-1999	July 2001	S. Paternostro J. Razafindravonona David Stifel
ARWPS 20	Information and Communication Technology, Poverty, and Development in sub-Saharan Africa and South Asia	August 2001	Miria Pigato
ARWPS 21	Handling Hierarchy in Decentralized Settings: Governance Underpinnings of School Performance in Tikur Inchini, West Shewa Zone, Oromia Region	September 2001	Navin Girishankar A. Alemayehu Yusuf Ahmad
ARWPS 22	Child Malnutrition in Ethiopia: Can Maternal Knowledge Augment The Role of Income?	October 2001	Luc Christiaensen Harold Alderman
ARWPS 23	Child Soldiers: *Preventing,Demobilizing and Reintegrating*	November 2001	Beth Verhey
ARWPS 24	The Budget and Medium-Term Expenditure Framework in Uganda	December 2001	David L. Bevan
ARWPS 25	Design and Implementation of Financial Management Systems: An African Perspective	January 2002	Guenter Heidenhof H. Grandvoinnet Daryoush Kianpour B. Rezaian
ARWPS 26	What Can Africa Expect From Its Traditional Exports?	February 2002	Francis Ng Alexander Yeats
ARWPS 27	Free Trade Agreements and the SADC Economies	February 2002	Jeffrey D. Lewis Sherman Robinson Karen Thierfelder
ARWPS 28	Medium Term Expenditure Frameworks: From Concept to Practice. Preliminary Lessons from Africa	February 2002	P. Le Houerou Robert Taliercio
ARWPS 29	The Changing Distribution of Public Education Expenditure in Malawi	February 2002	Samer Al-Samarrai Hassan Zaman
ARWPS 30	Post-Conflict Recovery in Africa: An Agenda for the Africa Region	April 2002	Serge Michailof Markus Kostner Xavier Devictor
ARWPS 31	Efficiency of Public Expenditure Distribution and Beyond: A report on Ghana's 2000 Public Expenditure Tracking Survey in the Sectors of Primary Health and Education	May 2002	Xiao Ye S. Canagaraja

Africa Region Working Paper Series			
Series #	**Title**	**Date**	**Author**
ARWPS 32	Promoting Growth and Employment in South Africa	June 2002	Jeffrey D.Lewis
ARWPS 33	Addressing Gender Issues in Demobilization and Reintegration Programs	August 2002	N. de Watteville
ARWPS 34	Putting Welfare on the Map in Madagascar	August 2002	Johan A. Mistiaen Berk Soler T. Razafimanantena J. Razafindravonona
ARWPS 35	A Review of the Rural Firewood Market Strategy in West Africa	August 2002	Gerald Foley Paul Kerkhof Djibrilla Madougou
ARWPS 36	Patterns of Governance in Africa	September 2002	Brian D. Levy
ARWPS 37	Obstacles and Opportunities for Senegal's International Competitiveness: *Case Studies of the Peanut Oil, Fishing and Textile Industries*	September 2002	Stephen Golub Ahmadou Aly Mbaye
ARWPS 38	A Macroeconomic Framework for Poverty Reduction Strategy Papers : With an Application to Zambia	October 2002	S. Devarajan Delfin S. Go
ARWPS 39	The Impact of Cash Budgets on Poverty Reduction in Zambia: A Case Study of the Conflict between Well Intentioned Macroeconomic Policy and Service Delivery to the Poor	November 2002	Hinh T. Dinh Abebe Adugna Bernard Myers
ARWPS 40	Decentralization in Africa: A Stocktaking Survey	November 2002	Stephen N. Ndegwa
ARWPS 41	An Industry Level Analysis of Manufacturing Productivity in Senegal	December 2002	Professor A. Mbaye
ARWPS 42	Tanzania's Cotton Sector: *Constraints and Challenges in a Global Environment*	December 2002	John Baffes
ARWPS 43	Analyzing Financial and Private Sector Linkages in Africa	January 2003	Abayomi Alawode
ARWPS 44	Modernizing Africa's Agro-Food System: *Analytical Framework and Implications for Operations*	February 2003	Steven Jaffee Ron Kopicki Patrick Labaste Iain Christie
ARWPS 45	Public Expenditure Performance in Rwanda	March 2003	Hippolyte Fofack C. Obidegwu Robert Ngong

Series #	Africa Region Working Paper Series Title	Date	Author
ARWPS 46	Senegal Tourism Sector Study	March 2003	Elizabeth Crompton Iain T. Christie
ARWPS 47	Reforming the Cotton Sector in SSA	March 2003	Louis Goreux John Macrae
ARWPS 48	HIV/AIDS, Human Capital, and Economic Growth Prospects for Mozambique	April 2003	Channing Arndt
ARWPS 49	Rural and Micro Finance Regulation in Ghana: *Implications for Development and Performance of the Industry*	June 2003	William F. Steel David O. Andah
ARWPS 50	Microfinance Regulation in Benin: *Implications of the PARMEC LAW for Development and* Performance of the Industry	June 2003	K. Ouattara
ARWPS 51	Microfinance Regulation in Tanzania: *Implications for Development and Performance of the Industry*	June 2003	Bikki Randhawa Joselito Gallardo
ARWPS 52	Regional Integration in Central Africa*: Key Issues*	June 2003	Ali Zafar Keiko Kubota
ARWPS 53	Evaluating Banking Supervision in Africa	June 2003	Abayomi Alawode
ARWPS 54	Microfinance Institutions' Response in Conflict Environments: *Eritrea- Savings and Micro Credit Program; West Bank and Gaza – Palestine for Credit and Development; Haiti – Micro Credit National, S.A.*	June 2003	Marilyn S. Manalo
AWPS 55	Malawi's Tobacco Sector: *Standing on One Strong leg is Better than on None*	June 2003	Steven Jaffee
AWPS 56	Tanzania's Coffee Sector: *Constraints and Challenges in a Global Environment*	June 2003	John Baffes
AWPS 57	The New Southern AfricanCustoms Union Agreement	June 2003	Robert Kirk Matthew Stern