DNA Economics

The SACU Revenue Sharing Formula:

Issues and Options

Based on a paper by Frank Flatters and Matthew Stern

Key features of the ‘new’ SACU RSF

Revenue sharing

Approach

- Excise – 85% distributed by GDP

- Excise – 15% reserved as a ‘development component’ and shared by some inverse measure of GDP/capita

- Customs – distributed by intra-SACU trade

Revenue sharing

Rationale version 1

- Excise component – GDP = reasonable and available proxy for consumption
- Development component – redistributes some funds towards ‘poorer’ member states
- Customs component - compensates net importers for the “cost raising impact” of the tariff

Source: Flatters and Stern (2006)

Revenue sharing

Rationale version 2

- Imposed a cap on the total transfer from South Africa
- Restricted the transfer almost entirely to the customs pool

- The numbers worked!

Revenue sharing

Result (2006)

	Excise	Devel'mt	Custom	Total	Total	Total	Total
	R million				% of GDP	% Gov Rev	per Capita
Botswana	586	483	4565	5634	9.0	20.1	3,692
Lesotho	85	560	2191	2836	28.2	53.0	1,398
Namibia	357	523	4584	5463	12.2	41.0	2,695
Swaziland	152	534	3023	3708	24.1	56.9	4,256
South Africa	13512	493	3620	17625	1.0	3.9	666

Problems with the ‘new’ SACU RSF

Problems

‘Technical problems’

- The reconciliation of *cif* and *fob* import values
- The definition and measurement of re-exports
- The handling of non-reported trade
- Reconciliation of electronic data from different data systems
- The distinction between imports of goods (included in the definition of intra-SACU imports) and imports of services (excluded from intra-SACU imports)

Problems

‘Fundamental problems’

- Source of Conflict – a zero-sum game
- Customs and Trade Facilitation - additional data costs can be substantial
- Predictability and Stability
- Perverse incentives for trade policy – SACU expansion
- Perverse incentives for trade policy – tariffs and rebates

Problems

Perverse incentives for trade policy

Distribution of Revenue Losses from a R2 Billion Reduction in Duty Collections

	SACU revenues (R mn)		% Change	% Share of Revenue Loss
	Before Reduction	After Reduction		
Botswana	4008	3423	-15%	29%
Lesotho	1984	1709	-14%	14%
Namibia	3228	2753	-15%	24%
Swaziland	2795	2371	-15%	21%
South Africa	13027	12787	-2%	12%
Total	25042	23042	-8%	100%

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Costs & benefits of the ‘new’ SACU RSF

Costs and benefits

‘The ‘cost-raising effect’

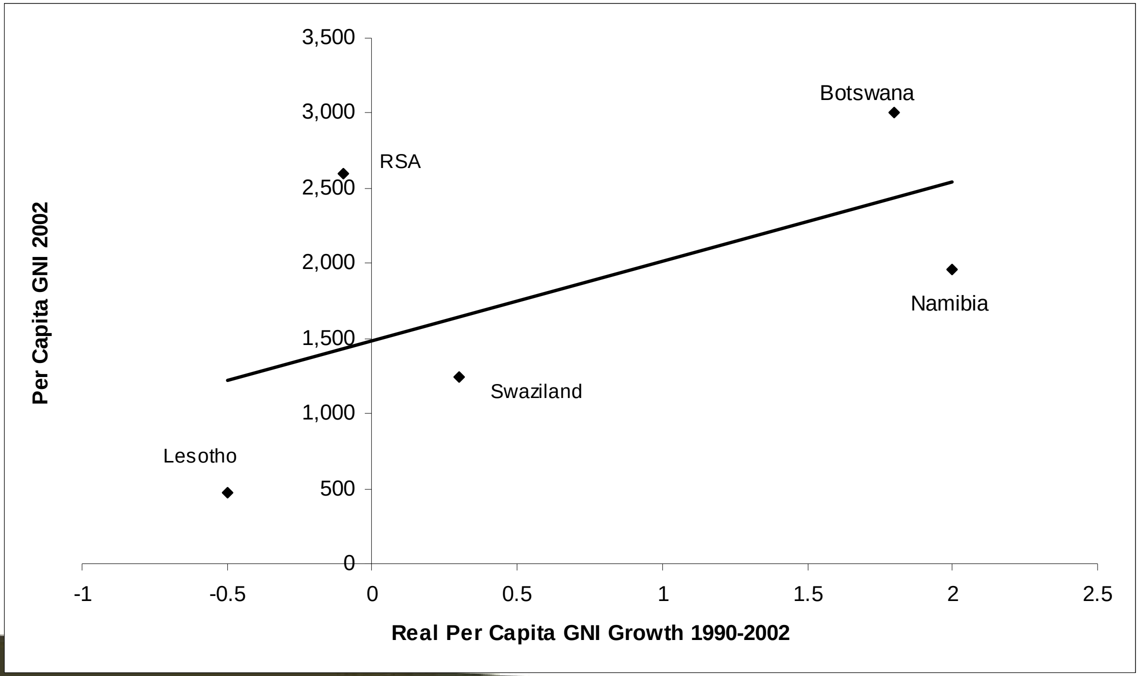
- Gross - largely the impact of the tariff on higher prices for consumers
- Net - the *difference* between tariff structures that would be put in place by independent BLNS states and those in place under SACU
- The exact cost-raising impacts could vary by sector and could be positive or negative, overall and in any sector

	Gross Cost Raising	RSF Customs Transfer	Net Cost Raising	RSF Transfer/ Cost Raising Ratio
		(R billions)		
Botswana	2.3	4.6	-2.3	2.0
Lesotho	0.9	2.2	-1.3	2.5
Namibia	1.0	4.6	-3.6	4.5
Swaziland	1.0	3.0	-2.0	3.0

Costs and benefits

‘Polarization’

- Richest members are getting relatively richer and the poorer members relatively poorer
- But real story is perhaps more complex and nuanced



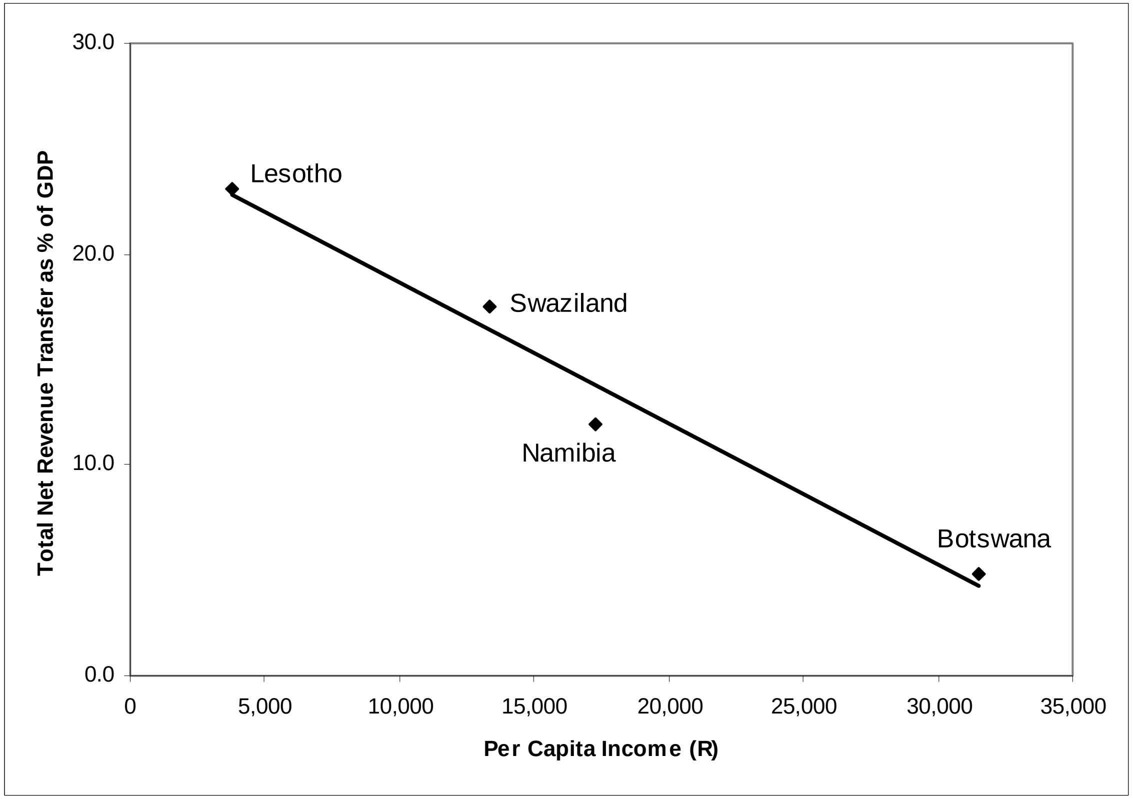
Costs and benefits

The size of the 'transfer'

	Net Transfer (R billions)	Net Transfer (% of GDP)	Net Transfer (R per capita)
Botswana	2.7	4.8	1509
Lesotho	1.9	23.1	876
Namibia	4.0	11.9	2058
Swaziland	2.5	17.5	2329
South Africa	-11.1	-0.9	-240

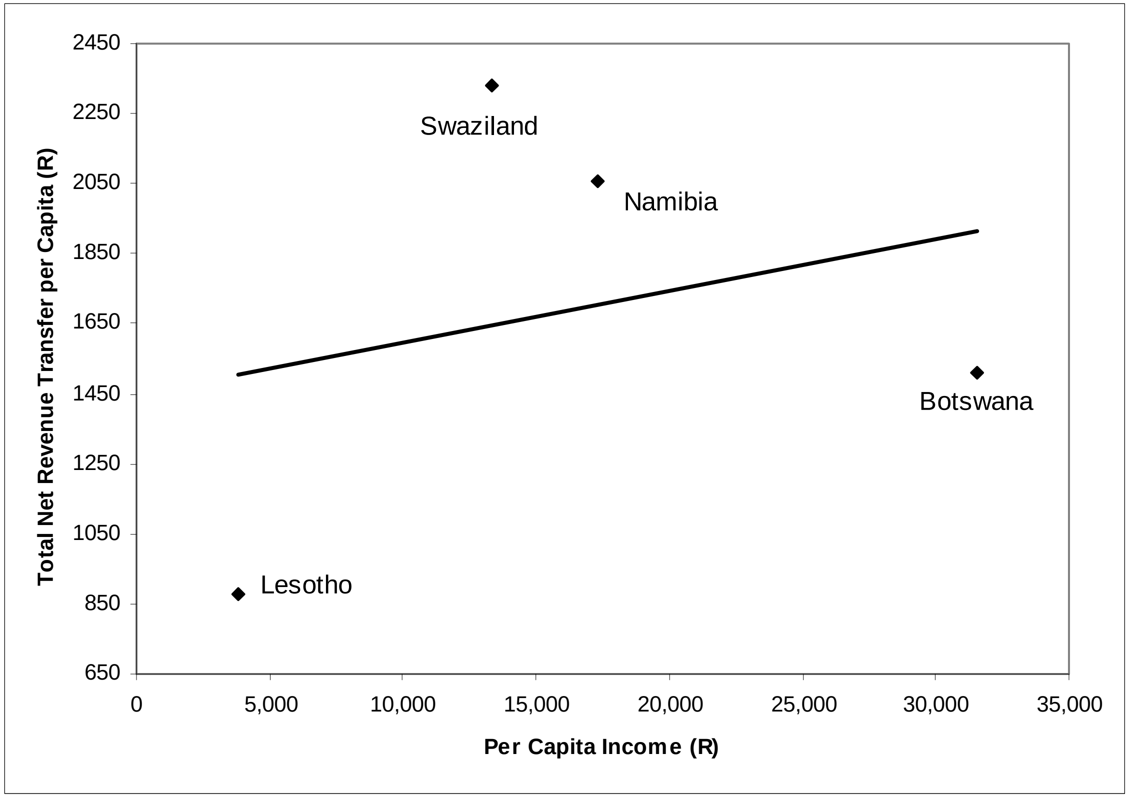
Costs and benefits

The development effectiveness of the transfer



Costs and benefits

The development effectiveness of the transfer



The way forward

Revenue sharing

The contribution of the SACU RSF

- It is a tax collection and coordination mechanism for collecting common excises and customs revenues on behalf of the five Member States.
- It has been regarded as a means for compensating the BLNS for the cost raising effects of the SACU (*aka* South African) tariff.
- It is a means for distributing fiscal revenues from wealthier to poorer members, to promote economic development of the poorer members and to prevent polarization within SACU.

Revenue sharing

The cost of the SACU RSF

- Disrupts public financial management
- Bloats the public sector
- Blunts the development sustainable revenue systems
- Discourages trade reform
- Raises border costs
- Frustrates regional integration

Revenue sharing

Principles for reform

- Separate the revenue collecting and development functions of the revenue pool.
  - Remove most of the redistributive effect of the current customs sharing arrangement by basing the shares of all members’ on imports from everywhere, i.e. of intra-SACU and extra-SACU imports.
  - Develop a separate development budget that would draw on the common revenue pool but not necessarily be tied to it in any rigid proportions

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