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)

<table>
<thead>
<tr>
<th>Country</th>
<th>Excise</th>
<th>Devel’mt</th>
<th>Custom</th>
<th>Total</th>
<th>% of GDP</th>
<th>% Gov Rev</th>
<th>per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>586</td>
<td>483</td>
<td>4565</td>
<td>5634</td>
<td>9.0</td>
<td>20.1</td>
<td>3,692</td>
</tr>
<tr>
<td>Lesotho</td>
<td>85</td>
<td>560</td>
<td>2191</td>
<td>2836</td>
<td>28.2</td>
<td>53.0</td>
<td>1,398</td>
</tr>
<tr>
<td>Namibia</td>
<td>357</td>
<td>523</td>
<td>4584</td>
<td>5463</td>
<td>12.2</td>
<td>41.0</td>
<td>2,695</td>
</tr>
<tr>
<td>Swaziland</td>
<td>152</td>
<td>534</td>
<td>3023</td>
<td>3708</td>
<td>24.1</td>
<td>56.9</td>
<td>4,256</td>
</tr>
<tr>
<td>South Africa</td>
<td>13512</td>
<td>493</td>
<td>3620</td>
<td>17625</td>
<td>1.0</td>
<td>3.9</td>
<td>666</td>
</tr>
</tbody>
</table>
Problems with the ‘new’ SACU RSF
Problems

‘Technical problems’

• The reconciliation of \textit{cif} and \textit{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

<table>
<thead>
<tr>
<th>SACU revenues (R mn)</th>
<th>% Change</th>
<th>% Share of Revenue Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Before Reduction</strong></td>
<td><strong>After Reduction</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Botswana</strong></td>
<td>4008</td>
<td>3423</td>
</tr>
<tr>
<td><strong>Lesotho</strong></td>
<td>1984</td>
<td>1709</td>
</tr>
<tr>
<td><strong>Namibia</strong></td>
<td>3228</td>
<td>2753</td>
</tr>
<tr>
<td><strong>Swaziland</strong></td>
<td>2795</td>
<td>2371</td>
</tr>
<tr>
<td><strong>South Africa</strong></td>
<td>13027</td>
<td>12787</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>25042</td>
<td>23042</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Country</th>
<th>Gross Cost Raising (R billions)</th>
<th>RSF Customs Transfer</th>
<th>Net Cost Raising</th>
<th>RSF Transfer/ Cost Raising Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>2.3</td>
<td>4.6</td>
<td>-2.3</td>
<td>2.0</td>
</tr>
<tr>
<td>Lesotho</td>
<td>0.9</td>
<td>2.2</td>
<td>-1.3</td>
<td>2.5</td>
</tr>
<tr>
<td>Namibia</td>
<td>1.0</td>
<td>4.6</td>
<td>-3.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Swaziland</td>
<td>1.0</td>
<td>3.0</td>
<td>-2.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>
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’

<table>
<thead>
<tr>
<th>Country</th>
<th>Net Transfer (R billions)</th>
<th>Net Transfer (% of GDP)</th>
<th>Net Transfer (R per capita)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>2.7</td>
<td>4.8</td>
<td>1509</td>
</tr>
<tr>
<td>Lesotho</td>
<td>1.9</td>
<td>23.1</td>
<td>876</td>
</tr>
<tr>
<td>Namibia</td>
<td>4.0</td>
<td>11.9</td>
<td>2058</td>
</tr>
<tr>
<td>Swaziland</td>
<td>2.5</td>
<td>17.5</td>
<td>2329</td>
</tr>
<tr>
<td>South Africa</td>
<td>-11.1</td>
<td>-0.9</td>
<td>-240</td>
</tr>
</tbody>
</table>
Costs and benefits

The development effectiveness of the transfer

![Graph showing Total Net Revenue Transfer as % of GDP vs. Per Capita Income (R) for Lesotho, Swaziland, Namibia, and Botswana.](image)
Costs and benefits

The development effectiveness of the transfer

![Graph showing the relationship between Per Capita Income (R) and Total Net Revenue Transfer per Capita (R) for Lesotho, Swaziland, Namibia, and Botswana.](image-url)
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.