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Challenges to Implement *BPM6* in Southern African Customs Union Countries

Prepared by the
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Introduction

The Southern African Customs Union (SACU) is the oldest customs union in the world. It was established in 1910 and consists of five member states, i.e. Botswana, Lesotho, Namibia, South Africa and Swaziland. Part 1 of the paper will briefly explain South Africa's approach in implementing *BPM6* guidelines. Part 2 will cover the existing SACU arrangements with reference to the distribution of the proceeds from the common revenue pool and certain factors affecting the consistent treatment of transaction flows in the respective SACU member states.

Part 1: South Africa's approach in preparing for the implementation of *BPM6*

In South Africa, the South African Reserve Bank (the Bank) is responsible for the compilation of balance-of-payments statistics, the country's international investment position and foreign debt statistics. In addition, the Bank is also responsible for the quarterly estimation of South Africa's gross domestic product based on the expenditure approach as well as the estimation of other macro-economic aggregates such as saving. Statistics South Africa (Stats SA), the official statistical agency is responsible for the compilation of the country's gross domestic product from the production side. The authorities intend to implement the 2008 SNA and *BPM6* simultaneously by the end of 2014. The current dispensation in terms of which the Bank is responsible for the compilation of both national accounts and balance of payments statistics, contributes significantly to the harmonization of national accounts and balance-of-payments statistics.
In the run-up to the implementation of *BPM6* and mindful of its responsibility to compile and disseminate quality statistics, the Bank embarked on a number of initiatives that will facilitate and enhance the conversion from *BPM5* to *BPM6*, but at the same time ensure that the Bank will be in a position to disseminate timely, reliable and accurate balance-of-payments statistics in future.

The first initiative entailed the undertaking of a Census of South Africa's Foreign Transactions, Liabilities and Assets as at the end of 2011. Projects of similar nature were conducted previously in respect of the years 1956, 1973, 1980, 1989, 1995 and 2001. The undertaking of census projects, the timing of which usually follows a period of significant change in either the domestic economy or the global economic environment, provides the Bank with comprehensive, up to date information on the stock of the country's liabilities and assets valued at calendar year-ends. Apart from providing new benchmarks, the census results also play a key role in establishing comprehensive and representative sample surveys to be used in the collection of quarterly and annual balance-of-payments statistics in intervening years. During the most recent census project conducted in respect of the year 2011, (the project took roughly 24 months to complete), the Bank used the opportunity to revisit and expand some of its questionnaires in order to facilitate the conversion from *BPM5* to *BPM6*.

Secondly, in keeping with the additional requirements of *BPM6*, more especially in estimating transactions in international trade in services, the Bank has revisited and expanded the number of categories and sub-categories to be recorded in the cross-border-information flow system (ITRS) managed by the Bank's Financial Surveillance Department. In South Africa, like in many other countries, the International Transactions Reporting System (ITRS) is the refined outcome of past and existing exchange control regulations. In accordance with official government policy to gradually liberalise exchange control regulations, the Bank took a decision in 1999 to broaden the responsibilities of the then Exchange Control Department (now known as the Financial Surveillance Department) in the Bank to collect a more comprehensive set of data from reporting entities. Of significance was the fact that the detailed set of information that had to be collected from Authorised Dealers in foreign exchange was better aligned to meet the requirements of balance-of-payments manuals and data compilers.

In terms of the existing system, Authorised Dealers in foreign exchange (i.e. resident banks and bureaux de change – Authorized Dealers with limited authority) report the settlement of transactions between South African residents and non-resident parties to the Bank on a daily basis (indirect reporting). In addition, the system also makes provision for the direct recording of foreign-exchange transactions between major domestic companies and their overseas counterparties for which prior approval had to be obtained from the Bank (direct reporting). In view of the fact that South African residents (i.e. individuals or enterprises) are still subject to exchange control regulations, the settlement of all international transactions has to be routed via local Authorised Dealers in foreign exchange.

Thirdly, the collection and dissemination of a uniform set of bilateral merchandise trade statistics between South Africa and other member countries of the Southern African Customs Union received special attention in recent months. It is envisaged, that the availability of a more comprehensive set of bilateral trade statistics may lead to a more accurate coverage adjustment not only in the South African balance of payments, but also in similar data sets of other SACU member states. The timely availability of a more reliable set of intra-SACU trade statistics may in future also have a bearing on the compilation and distribution of income from the common revenue pool, affecting all SACU member states.

Fourthly, transactions in derivatives conducted by the banking sector in South Africa – monthly regulatory data obtained from the Registrar of Banks - have been monitored and analised over the past eighteen months. It is envisaged that transactions in derivatives will be incorporated in the analytical presentation of the balance of payments and disseminated quarterly from 2015 onwards.

Key challenges in implementing *BPM6* in South Africa

This section briefly highlights some of the major challenges faced by balance-of-payments compilers in South Africa in the run-up to the conversion of balance-of-payments statistics from *BPM5* to *BPM6*.

Current account

1. Net exports of goods under merchanting

Based on the feedback obtained from questionnaires submitted during the Census project, it became evident that in the case of South Africa, multinational companies are primarily responsible for merchanting transactions. These findings were corroborated by information obtained from the Bank's ITRS data base. In future, mini-sample surveys will be conducted on a regular basis to collect timely and reliable information for incorporation in balance-of-payments statistics.

2. Manufacturing services on physical inputs owned by others

In South Africa manufacturing services on physical inputs owned by others are to a large extent performed by mining-related companies. Refinery-related services are rendered to non-resident owners of gold and platinum on a regular basis, capacity permitting. The mining industry is surveyed on a quarterly basis to obtain estimates of processing fees earned from abroad. The information will be frequently matched with the net deviation between the import and export value of merchandise goods that have entered the borders of the country for (further) processing without a change of ownership.

3. Maintenance and repair services

The sample survey of domestic companies providing maintenance and repair services to the shipping industry and to foreign airlines operating to and from South Africa have been expanded to comprehensively cover the export proceeds of South African companies. Information regarding similar services rendered by non-resident entities to South African companies abroad is obtained directly from South African entities.

4. Other services

The measurement of other services where the methodology is currently being revised and enhanced includes insurance and pension services, financial services including FISIM, charges for the use of intellectual property, and transactions in research and development. The Bank plays a key role in assisting the Department of Science and Technology in developing a technology balance of payments for South Africa. Reliable and fairly detailed information is required on a continuous basis to facilitate policy formulation in this regard.

Financial account

The identification of transactions with fellow enterprises and the incorporation thereof in the financial account of the balance of payments are receiving special attention at this point in time.

Part 2: Background and brief history of the Southern African Customs Union

The Southern African Customs Union (SACU) is a single customs territory and has a common external customs tariff. Goods grown, produced or manufactured in the Common Customs Area are, however, traded freely among member states, free of customs duties and quantitative restrictions.

SACU operates a Common Revenue Pool into which all customs, excise and additional duties are paid. Each member state receives a share from the pool, calculated in accordance with the Revenue Sharing Formula outlined by the SACU Agreement. In terms of the Agreement, member states agreed collectively on common policies and common institutions to promote industrial and economic development and regional integration.

The 2002 Agreement provides for joint responsibility in decision making affecting the customs tariff setting and the Common Revenue Pool. The Agreement furthermore provides for the establishment of new institutions including an independent SACU Secretariat, a Tribunal and a Tariff Board. The creation of these institutions forms part of continued efforts towards the development of a more cohesive regional market.

The 2002 SACU Agreement provides for closer economic integration through the development of common industrial, agricultural and competition policies, including policies on unfair trade practices. The Agreement furthermore allows for the democratization of decision-making, now consensus-based, and the concomitant establishment of a dispute resolution mechanism, a commitment to explore ways to devise common or coordinated policies and the restriction of any one member’s ability to negotiate bilateral trade agreements with third parties. Negotiations should favor all member states operating as a single entity.

The SACU Council of Ministers is the supreme policy and decision-making body on all SACU matters. It consists of at least one Minister from the Ministry of Finance, and Ministry of Trade and Industry of each member state. The Council is responsible for the overall policy direction and functioning of SACU institutions, including the formulation of policy mandates, procedures and guidelines for these institutions.

Objectives of the Agreement

The 2002 Agreement encompasses three main areas, namely: governance and administration; economic policy and regulatory issues; and revenue sharing. Its stated objectives include:

- To promote the integration of the member states into the global economy;
- The facilitation of cross-border movement of goods between the member states;
- The establishment of effective, transparent and democratic institutions that will ensure equitable trade benefits to the member states;
- 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.

The Revenue Sharing Formula contained in the SACU Agreement comprises three components, namely:

- The customs component that consists of the gross amount of customs and ad valorem customs duties leviable (and collected) on goods imported into the Common Customs Area excluding any duties rebated or refunded under the provisions of any law relating to customs duties.
- Each member state's share of the customs component is calculated from the value of goods imported from all other member states in a specific year as a percentage of total intra-SACU imports in that year.
- The excise component consists of the gross amount of excise duties leviable (and collected) on goods produced in the Common Customs Area, less the amount set aside to fund the development component, but do not include any duties rebated or refunded under the provisions of any law relating to excise duties.
- Each member state's share of the excise component is calculated from the value of its Gross Domestic Product (GDP) in a specific year as a percentage of total SACU GDP in that year.

- A development component is calculated as a fixed percentage of the excise component.

- Each member state receives a share of the development component. The distribution of this component is weighted in favor of the less developed member states.

- The following Table encapsulates the arrangements and outcomes attached to the Revenue Sharing Formula:

Payments in terms of the Customs Union Agreement
R'000

	2012	2013
Contributions to the Common Customs Pool.	**61 437 395**	**66 620 097**
Namibia	571 067	846 951
Botswana	427 153	459 060
Lesotho	157 758	161 516
Swaziland	146 624	132 587
Sub-total	**1 302 602**	**1 600 114**
South Africa	60 134 793	65 019 983

All SACU member countries collect customs and excise duties at SACU border posts as well as excise duties from domestic producers and remit these into the Tax and Loan account held by SARS. Revenue collected by SARS is remitted continuously whilst Botswana, Lesotho, Namibia and Swaziland (BLNS) remit their collections in this regard to SARS on a quarterly basis.

	2012	2013
Received from the common Custom Pool	**61 437 395**	**66 620 097**
Botswana	8 948 678	15 283 134
Namibia	7 136 965	13 795 784
Swaziland	2 881 093	7 062 523
Lesotho	2 752 650	5 966 327
Secretariat	40 579	43 508
Sub-total	**21 759 965**	**42 151 276**
South Africa	39 677 430	24 468 821

Payments out of the SACU revenue pool from South Africa to the BLNS countries are effected at the beginning of each quarter. The share of these payments is determined annually according to the structure of the revenue sharing formula. The National Treasury effects these payments into the nominated bank accounts of the BLNS countries.

Source: South African Revenue Service Annual Report 2012-2013

Issues inhibiting the consistent treatment of payments into and distributions from the Common Revenue Pool amongst Member States

- Customs and excise duties are part of taxes on products and as such have a bearing on the estimates of the gross domestic product of the respective member states.

- Quarterly payments from the Common Revenue Pool are done in the first month of every quarter based on forecasted numbers. Payments to SACU member states are therefore not synchronized with the member states' actual contributions made to the Common Revenue Pool.

- Owing to a lack of synchronization, surpluses or deficits may develop – the legal obligation for payment and the required "accrual" principle are accordingly quite ambiguous.

- The collected amounts (on a cash basis) are included in national accounts estimates as part of "Taxes on products" in order to be consistent with Public Finance statistics.

- The abovementioned issues have implications for the treatment of balance of payments statistics as well as for the financing of these payments by Government in the short term.

- Currently, the amount that South Africa pays to other SACU member countries in excess of what those countries have paid into the Common Revenue Pool, is treated as a current transfer payment in the balance of payments of South Africa.

Conclusion

The successful implementation of *BPM6* and the consistent treatment of intra-SACU transactions between member countries will require continuous communication, coordination and co-operation amongst the various member states.