SOUTHERN AFRICA TRUST

Innovative Sources of Financing for Regional Integration in SADC

Southern Africa Trust 2017

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Acronyms

ACPs	African, Caribbean and Pacific Countries
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
ASYCUDA	Automated System for Customs Data
AU	African Union
AUC	African Union Commission
CEMAC	Economic Community of Central African States
COMESA	Community of East and Southern Africa
CoSSE	Committee of SADC Stock Exchanges
DFI	Development Finance Institution
EAC	East African Community
EC	European Commission
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EPA	Economic Partnership Agreement
EU	European Union
FTA	Free Trade Area
FTT	Financial Transaction Tax
HNWI	High Net Worth Individuals
ICPs	International Cooperating Partners
NTBs	Non-Tariff Barriers
OECD	Organisation for Economic Cooperation and Development
PPPs	Public Private Partnerships
RAIP	Regional Agriculture Investment Plan
RDF	Regional Development Fund
REC	Regional Economic Community
RIDMP	Regional Infrastructure Development Master Plan
RISDP	Regional Indicative Strategic Development Plan
SACU	Southern African Customs Union
SADC	Southern African Development Community
TFTA	Tripartite Free Trade Agreement
UN	United Nations
UNECA	United Nations Economic Commission for Africa
UNWTO	World Tourism Organisation of the United Nations
WCO	World Customs Organisation
WTO	World Trade Organization

Executive Summary

The Southern African Development Community (SADC) has been in existence for more than 36 years. The signing of the Windhoek Treaty in August, 1992, ushered a new dispensation, an Economic Community which adopted an integration development model that was later buttressed by the adoption of the SADC Regional Indicative Strategic Development Plan (RISDP) in 2003, which set out clear milestones for deepening regional integration and trade liberalization amongst SADC States.

Following the adoption of the Revised RISDP 2015 – 2020, as an outcome of the RISDP Mid Term Review, which frontloaded industrialisation as the key regional priority programme, SADC Council of Ministers came up with a strategy that would not only accelerate implementation of priority programmes, but also expand the funding base for regional integration, in particular industrialisation, through innovative and sustainable funding options. The main objective was to move away from over-dependence on International Cooperating Partners (ICPs) for funding of core programmes, an unsustainable model.

Alternative sources must be explored to finance the regional integration agenda. As directed by the SADC Council of Ministers, this report explores and analyses several funding options and their modalities, based on the studies that were undertaken in the year 2016.

Based on the current model of financing, the regional integration agenda is mainly funded through (1) Member States contributions of US$42,276 million for the financial year 2017-2018; and (2) by ICPs contributions of US$24,962,000. The costs for coordinating the regional integration agenda for the period of 2015-2020 were budgeted with US$620 million and the indicative investment costs ADC Programmes are as follows:

- Infrastructure (within the framework of the SADC Regional Infrastructure Development Master Plan (RIDMP): US$398 billion
- Regional Agriculture Investment Plan (RAIP): US$1,288 billion

The costs for the coordination of the regional integration agenda and the implementation of the SADC Programmes significantly exceed the available funding. Consequently, SADC Council of Ministers directed the SADC Secretariat to (1) establish a Working Group on a SADC Resource Mobilisation Framework and (2) to conduct a study on alternative sources of funding. In the present report, three components of funding were identified:

- Alternative sources of financing
- Innovative sources of financing
- ICP funding

Alternative sources of financing

This report presents six options of alternative sources of resource mobilisation for funding the regional integration agenda. These are export and import levies, tourism levy, financial transaction tax, philanthropy, lottery and regional events.

For the short to medium term, these six options present real and feasible opportunities for SADC to mobilize significant amounts of revenue to finance the coordination of the regional integration agenda and, to a certain extent, SADC programmes and projects through the SADC Regional Development Fund (RDF).

The regional import levy is the most feasible source of resource mobilisation because of its "natural" relationship with regional economic integration, which from the level of a Customs Union provides for a Common External Tariff. Best practices from other Regional Economic Communities (RECs) provide solid evidence for the feasibility and viability of this option. A clear example where this is applied is in the Economic Community for West African States (ECOWAS). The recent adoption by the African Union (AU) of a continental import tax signals an appetite and willingness by SADC to adopt this option. However, for this to be implemented, SADC will need to rationalise with processes underway at the continental level. ECOWAS is already considering how its community levy can be rationalised with the process in the AU.

A regional tourism levy can also be used to raise large amounts of revenue to finance regional integration. It can be introduced in two ways - tax on international travel tickets; and a tourism levy. Regional Financial Transaction Taxes are backed by considerable empirical evidence, demonstrating that these are viable sources of resource mobilisation, particularly in economically and financial distressed countries. These have considerable potential for SADC to fund its development programmes.

Philanthropic initiatives and Lottery have been used in other regions to mobilise resources for development. These are on the rise in Africa as new sources of innovative financing, with their flexibility to be blended with other sources of financing such as venture capital, equities and bonds. Several studies show that there are huge amounts of money from High Net Worth Individuals, foundations and private sector that flow from and to Africa. The United Nations Foundation was established to mobilise resources in this regard. Recently, the African Union established an African Union Foundation to address its funding situation, acting on the recommendations that emanated from the study by former President Olusegun Obasanjo on behalf of the AU. In the same line as the UN and the AU, SADC can establish a SADC Foundation as a platform to mobilise resources from the private sector, HNWIs, philanthropic foundations and individuals.

The foundation can also be given the role of running regional lotteries within a developed legal, institutional and policy framework. This would be in addition to many other fundraising initiatives that the foundation would conduct, such as crowd funding, exhibitions and donations. A foundation instrument can also be used to redistribute many resources and assets back to society, such as stolen assets, abandoned state enterprises or debt swaps. Examples where a foundation has been used for these purposes are the BOTA Foundation in Kazakhstan. The BOTA Foundation arose out of the seizure of assets that totalled about US$84 million, that an American citizen had secured from US oil companies and channelled towards government officials in Kazakhstan to get oil drilling rights.

The King Baudouin Foundation in Belgium is another example that came out of a state- controlled asset. There are more than 50 such foundations globally and the SADC region could explore such innovations around:

- debt swaps
- restoring stolen or stranded assets
- converting quasi-government organisations into private profit-making businesses
- transferring ownership or control of government assets such as buildings, airports and cultural institutions
- utilizing streams of revenue generated by state activities such as lotteries and mining into charitable endowments.

If the region began with these six options, it has the potential to mobilise revenue of approximately $1,460 billion annually, namely:

- If SADC were to implement a 0.2% levy on all eligible imports from outside the SADC Region, it would yield approximately US$331,3 million annually on a gross basis, based on the 2014 import figures for SADC.
- If SADC charged a levy of $5 per air ticket on international tourists – it would raise approximately US$123 million per annum.
- A tourism levy of a charge of between 5-10% on tourist activities in the SADC region would raise about US$100 million annually - and a tourism visa levy could raise about US$245 million.

- The Financial Transaction Tax at a rate of 0.1% on international payments from 15 SADC Member States settled through SWIFT could raise about US$659,1 million.
- Research on philanthropy flows shows that there is a potential to tap into about US$1,25 billion from different sources. This amount does not include other innovative sources such as those exposed by the 'Philanthropication thru Privatization' project (www.ccss/jhu.edu/research-projects/ptp/) that have led to major institutions of funding like the Volkswagen Foundation in Germany, the King Baudouin Foundation in Belgium and the foundations of banking origins in Italy.
- Regional Lottery could raise about US$33,4 million per annum.

If these options were to be implemented and to avoid double dipping from Member States, a consideration could be made to replace the current direct Member States contributions with regional taxes on selected economic or social activities. Revenue earnings obtained from the selected sources would be adequate to fund both the Secretariat coordination budget and regional integration and development programmes as outlined and costed in the RISDP.

Practically, this would mean that SADC activates the SADC Regional Development Fund as the main coordination agency for resource mobilisation, but also as the main funder for regional integration. This would require some legal, institutional and coordination structures to be put in place. However, to fully finance the SADC Programmes, a gradual approach is recommended, starting with some low hanging areas like the already accepted import and tourism levies at the AU level where SADC is a building bloc.
The institutionalisation of regional revenue taxes could potentially require some amendment of the SADC Treaty and the adoption of some specific protocols or agreements. However, to note is that the Treaty in its current form and the RISDP provide a solid legal, institutional, strategy and policy framework for the introduction of new sources of resource mobilisation for funding regional integration.

Innovative sources of financing

The report also recommends options for innovative sources of financing regional programmes at national level. Such innovative sources are implemented at the national level and require bankable projects (e.g. larger energy projects) that are introduced onto the market. The first goal of innovative sources is to raise additional funds, to mobilize private capital flows and private investment.

Examples for innovative sources are market-based financial transactions, issuing bonds in the capital markets, securitisation of insurances and/or pension funds, blended finance and Public Private Partnerships (PPPs).

The African Development Bank estimates the potential of private funding at US$600 billion, if SADC can tap into financial resources managed by institutional investors and held in the region's pension schemes and insurance companies.

In summary, closing the gap of funding regional infrastructure will require a mix of public financing, e.g. from institutes such as AfDB and tapping into the private funding.

It is recommended that SADC explores these types of innovative sources to finance the SADC Programmes and projects, and works closely together with the SADC Project Preparation Facilities, namely (1) SADC's Project Preparation and Development Facility (PPDF); (2) NEPAD Infrastructure Project Preparation Facility (NEPAD-IPPF); and (3) SADC 3P Network. However, national governments will also require support by institutions such as the African Development Bank (AfDB) with the SADC Secretariat coordinating the relevant support.

To obtain private investments, it is also recommended that SADC Member States and SADC Secretariat need to:

1. Improve the business and PPP environment
2. Develop project pipelines to develop regional projects to bankability stage
3. Structure financing to reduce risk and bring projects to closure

AfDB can provide technical assistance but also offers services such as Partial Credit Guarantees, which cover a portion of debt service defaults and can therefore support the borrowing of the government or public sector entities in investment operations. Secondly, AfDB can be part of a group of financial institutions/lenders (syndicate), which provides loans (Syndication).

ICP funding

The third component of financing - funding from International Cooperating Partners (ICPs) - is regarded in this study as supplementary funding of the two first components of financing. This is because ICP funding is regarded as unsustainable vis-à-vis the long-term development of a region, creating over-dependencies and conditionalities by donors.

SADC Resource Mobilisation Framework

The SADC Resource Mobilisation Framework has been developed in close consultation with the Working Group of Experts on Finance and Investment from the Member States. The SADC Resource Mobilisation Framework is a structure comprising the policies and strategies, the legal instruments and the main resource pillars and institutions that sustain the resource mobilisation processes of SADC. These include the SADC Treaty, the RISDP, the Resource Mobilisation Strategy and the main resource mobilisation components, including alternative sources, innovative sources and ICP contributions.

The main assumptions for the proposed SADC Resource Mobilisation Framework are that:

1. The SADC regional integration agenda, particularly the programme of action, currently translated into the RISDP and SIPO, ought to be financed primarily by Member States.
2. SADC Member States are willing and ready to live up to the SADC Treaty and Founding Fathers commitments.
3. In the medium and long-term, the SADC region has the potential to raise domestic resources to fund the main programmes of regional cooperation and integration.
4. The studies on the alternative sources of resources for funding regional integration have demonstrated that SADC is in the position to raise a substantial and significant amount of the necessary resources required to fund regional integration.

1: Introductory Background

1.1 Establishment and evolution of SADC

SADC was created, initially based on political motivations of the Frontline States and total decolonization of Southern Africa, under the auspices of the Southern African Development and Coordination Conference (SADCC) in 1980. This was subsequently followed by the signing of the Windhoek Treaty by SADCC Heads of State and Government in August 1992, transforming the SADCC into the Southern African Development Community (SADC), through which the organisation sought to deepen economic cooperation and integration to address socio-economic challenges and sustain economic growth. SADC opted for a development integration approach. The Windhoek Treaty gave effect to the SADC region migrating to cooperation for socio-economic development, through the adoption of a community approach and a more formalised framework of cooperation. The implementation of the RISDP provides a coherent and comprehensive approach to fulfil the SADC regional cooperation and integration agenda.

SADC leaders united behind the move towards deepening regional integration based on the conviction that working together, Member States would be more competitive in global trade, strengthen the competitiveness of the region's industries, spur infrastructural development and attract significant investment. In this context, SADC has a longstanding commitment to deepening trade as part of its integration and poverty eradication agenda. This commitment is reflected in its founding Treaty and Protocol on Trade (1996), which mandated the removal of tariffs and non-tariff barriers (NTBs) to intra-SADC trade and the establishment of a SADC Free Trade Area (FTA) in August 2008. Recognising that for trade liberalisation to contribute to sustainable and equitable development, it must be complemented by the requisite capacities to produce and trade effectively and efficiently, so SADC leaders launched the SADC Industrialisation Roadmap and Strategy. SADC also played a pivotal role in the creation of the COMESA-EAC-SADC Tri-Partite Free Trade Area (TFTA) which has a population size of about 360 million and total GDP of US$600 billion (2016). The Continental Free Trade Area (CFTA) launched in March 2018, presents further clear and massive opportunities for strengthening the role of SADC in enhancing intra-African trade, economic development, industrialisation, employment creation and poverty alleviation.

Among RECs, SADC is by far the largest market for African exporters, absorbing close to US$50 billion worth of intra-African imports in 2014 and representing 52% of total intra-African imports, followed by COMESA (31%), ECOWAS (19%), ECCAS (14%) and UMA (10%). The region remains an important market for the continent.

Revenue from the enlarged market and external import levies can provide significant amounts of resources that can be channelled towards financing the SADC's regional integration agenda.
The Treaty establishing and governing SADC at its different phases of development, identifies collective resource mobilisation as one of the strategies and priorities for achieving the region's strategic goals for economic, political and social development and for reaching sustainable development. The Summit Declarations (Dar es Salaam Declaration on Agriculture and Food Security of May 2004; the Maseru Declaration on the Fight Against HIV/AIDS in the SADC region of July 2003), calling for specific actions in these areas also underscored the need to undertake resource mobilisation to effectively implement the required actions and interventions in these areas. The Windhoek Declaration on the SADC-ICP Partnership called for a coordinated approach to resource mobilisation, to implement the SADC programmes.

1.2 Challenges in financing regional integration in SADC

SADC has, since its inception, adopted several of approaches that have assisted in acquiring significant levels of resources to finance its programme of action in the different areas of regional cooperation and integration. Currently, SADC is funded as follows:

- Assessed Member States contributions, based on a graduated scale of Member States GDP and economic growth
- Voluntary contributions from Member States from time to time for short term programmes (e.g. Angola supported the RISDP Mid Term Review)
- Contributions from International Cooperating Partners on a programme or project basis
- Contributions by other regional, continental and global agencies which mobilise resources on behalf of SADC and other RECs (e.g. UN Agencies, AU)
- Private sector funding in the case of investment in projects on which they can achieve their objectives of the profit motive and return on investment.

However, SADC's resource mobilisation efforts concentrated on two main sources of funding, namely assessed (direct) Member States contributions and aid/grants from ICPs on bilateral or multilateral basis. Member States contributions have essentially catered for running costs of the organisation while funding of cooperation and integration programmes has been the responsibility of the ICPs. This modus operandi has, in turn, brought about unintended consequences not only associated with the unpredictability of international aid, but also with conditionalities that are imposed by donors in relation to the design and implementation of SADC development programmes and projects.

There is a significant discrepancy between the available income based on the above resources and the required funding to implement the regional integration agenda including the SADC Programmes and Projects.

Available Income

The available income in the financial year 2017-2018 is described in the Record of the Meeting of the SADC Council of Ministers in August 2017 in Pretoria. In this meeting, the SADC Council of Ministers approved the annual Member States contributions of US$42,276 million (Member States contributions amounting to US$40,263 million and Contingency Fund of US$2,013 million) for the financial year 2017/18, while the contribution of ICPS summed up to US$24,962 million.

Required Funding

Immense resources are required to implement the priority activities in the RISDP, and the activities entail the coordination work of the SADC Secretariat, implementation of projects and programmes that foster the roll out of the RISDP at the level of Member States and related stakeholders.
The Indicative SADC Secretariat and Member States Public Coordination costs, for all the sectors within the revised RISDP 2015-2020 amount to US$620 469 768, averaging about US$104 093 954 per annum. With regard to infrastructure, of the 397 infrastructure projects, indicative costs have been derived for 239 priority projects in the Master Plan, with a total of US$398 billion as indicative investment costs for infrastructure for the period 2012 to 2027, and attendant coordination costs amounting to US$253 million for the period 2015 to 2020.

In the past years, infrastructure financing was received from the Member States (including government-to-government loans) and ICP funding.
The Regional Agricultural Investment Plan (RAIP), is costed at approximately US$1,288 billion for priorities, to be implemented over the period 2017-2021, and these constitute mainly investment coordination costs. The estimated amount for coordination at the regional level over the five-year period is US$41 million.

The Action Plan on Industrialisation foresees the need to urgently operationalise the SADC Regional Development Fund as an important source for long-term financing of the Action Plan, especially in the areas of industry, infrastructure and capacity building. The Committee of Ministers of Finance and Investment finalised the Agreement for the operationalisation of the SADC Regional Development Fund and agreed on a Roadmap that foresees the launch of the Fund by August 2017, with full operationalisation of the Fund by 2020.

It can be noted that the level of funding required to facilitate the implementation of the Revised RISDP, including the capitalisation of the RDF, far exceeds available resources. The major shortfalls in funding requirement result in the region seeking ways to bridge the funding gap.

1.3 The response of the SADC Council of Ministers to fill the identified gaps

It has become clear that efforts must be doubled through the Project Preparation and Development Facility (PPDF), the SADC Regional Development Fund as well as other avenues to mobilise additional resources to ensure the effective implementation of the Revised RISDP 2015 – 2020. The identified gaps to fund the implementation of SADC Programmes require even more substantial efforts of resource mobilisation at both regional and national level.
Therefore, a qualitative shift in the Community's resource mobilisation strategy and framework is required.

In this context, the SADC Council of Ministers, at its August 2015 meeting in Gaborone, Botswana, directed the Secretariat to develop more specific and innovative options for funding SADC regional integration agenda. The SADC Council of Ministers requested the Secretariat to constitute a Working Group of Experts on Finance and Investment from Member States to coordinate work on the development of a SADC Regional Resource Mobilisation Framework. Since establishment, the Working Group has held four meetings in which it has considered several financing options that have been proposed based on in-depth studies.

The SADC Secretariat also commissioned the Southern Africa Trust to conduct a study on sources of financing and propose a SADC Resource Mobilisation Framework.

1.4 Study Objectives

The study aims to provide information on alternative funding options to fill the identified gaps in financing the regional integration agenda and the SADC programmes and projects. Based on the decision of the SADC Council of Ministers from August 2015, the study analysed funding options including, but not limited to:

- Export and Import levies
- Tourism levy
- Financial Transaction Levies
- Regional Lottery
- Philanthropy
- Regional Special Events

The study was also meant to propose a flexible and functional Resource Mobilisation Framework for SADC.

The findings on the various funding options were brought to the attention of the Working Group on a SADC Regional Resource Mobilisation Framework, the SADC Secretariat and the Member States. This report is a consolidated treatise of the findings from research papers on the six options and consultations. The study also includes the feedback of the above Working Group, the SADC Secretariat and Member States, which, among others, also brought in their viewpoints in the form of Country Positions.

1.5 Methodology

The study summarises a variety of research approaches, covering the following working steps:

1. Primary research, including development of six research papers on alternative sources of financing regional integration.

2. Secondary research, which included a desktop study on the various sources of ICP funding to finance the SADC region.
3. Validation workshops to review findings and study drafts.
4. Input from the Working Group on a SADC Regional Resource Mobilisation Framework.
5. Benchmarking of specific alternative funding options, analysing the approaches of the ECCAS, ECOWAS, African Union Commission (AUC), and - on a country-specific level – Rwanda.
6. Impact assessment in all SADC countries, which included both a desktop study on key economic indicators of these countries and in-depth interviews with experts from national governments on the impact that selected funding options will have on the key economic indicators of the country.

2: Overview of the current International, Regional and Sub-Regional frameworks for Financing Regional Integration and Development

This section reviews current sources of funding for the various activities of the Secretariat and further articulates the *modus operandi* of these funding sources. It further highlights some of the challenges that have been encountered with absorption of ICP funds, and the need for SADC to utilise more of its own regional and domestic sources of funding.

2.1 SADC and the current international financing development mechanisms and initiatives

Apart from Member States assessed contributions, the SADC regional programmes have been heavily supported by ICPs, especially projects with finite life spans.

As per the record of the meeting of the SADC Council of Ministers (August 2017, Pretoria), Member States' annual contributions of US$42,276 million were approved for the financial year 2017/18, while the ICPs contributed with US$24,962 million, leading to a total of US$67,238 million available funding.

Although ICPs have rendered this support, several challenges have continued to surface:

- Some of the funding has been conditional, and in some cases (though rare), has excluded other Member States for political reasons.
- Some of the funding has been pledged and funding agreements signed but have either not been disbursed in time or have not been disbursed at all.
- The financial procedures have been cumbersome, to a point where the Secretariat and Member States have not been able to absorb the annual allocations, the balances of which were returned to the partners concerned at year end.
- Partners have expressed discomfort over aspects of double dipping, where Member States benefit from the same funder through dual (e.g. Tanzania in EAC and SADC) or triple (e.g. DRC in COMESA, ECCAS and SADC) membership of regional blocs. There is a call for rationalisation of this aspect, as has become the case with the Economic Partnership Agreement (EPA) and the 11th EDF, both under European Union funding.
- ICPs have at times terminated funding for planned programmes on account of changing dynamics in their capitals, creating unforeseen gaps in funding of RECs and Member States programmes.
- Some of the conditionalities have included mandatory recruitment of experts from the donor countries, even where the region has suitable resources.

2.2 The SADC-ICP coordination mechanism

The SADC-ICP Coordination mechanism is based on the Windhoek Declaration on SADC-ICP Partnership of 2006. The conventional partners that are supporting SADC Include:

The European Union (Lead Partner)	Germany (through GIZ and KFW)
France (through AFD)	China
DFID (UK)	DANIDA

Swedish Development Cooperation	Swiss Development Cooperation
Austrian Development Agency	AusAid
Japan International Cooperation Agency (JICA)	CIDA Canada
USAID	World Bank
AfDB	UNECA
Dutch Aid	

Efforts have been made by SADC and its ICPs to conform to the key tenets of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, as well as the Busan Partnership for Effective Development Cooperation. To streamline aid, the Secretariat has established several thematic groups of partners, who meet twice a year to review the implementation of sector plans, as well as align their support to SADC based on the SADC sectoral strategic plans and work plans. This has not only enabled alignment of aid assistance but has also created a framework for co-funding of projects and programmes. Each thematic group is co-chaired by SADC Secretariat and a Lead ICP that is actively supporting programmes in the respective thematic area.

2.3 European aid and the Cotonou Agreement

The EU provides the bulk of development assistance to SADC, currently through the European Development Fund (EDF) and the residual envelopes of the EDF. The legal underpinning for this support is the Cotonou Agreement signed between the EU and the African, Caribbean and Pacific Group of States in 2000, which came into force in 2003.
In previous pacts, the EU support was based on the provision of dedicated ring-fenced envelopes for each REC. This architecture has been changed recently as the EDF is now channelled to SADC as an integral part of the EU's support to East Africa, Southern Africa and Indian Ocean regions. It comprises of cross regional programmes necessitating joint programming with EAC, COMESA, the Inter-Governmental Agency for Development (IGAD) and the Indian Ocean Commission (IOC).

2.4 Multilateral consensus on funding continental and regional bodies and national programmes

In early years, many donors funded various national and regional programmes with limited coordination, and this brought about aid ineffectiveness. In later years, efforts were made to align aid and create a framework for aid effectiveness.

This gave rise several multilateral donor consensus frameworks on coordinating aid to different entities. These include mechanisms like the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action; the Busan Partnership for Effective Development Cooperation; the conditionalities under the Washington Consensus in respect of the Bretton Woods Institutions (IMF and World Bank).

Whilst multilateral partners continued to support SADC, there has been insistence on instituting aid effectiveness policies. SADC and its recipient Member States have embraced the conditionalities in order to access the much-needed funding.

The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action

These two mechanisms have provided the key shared principles for aid effectiveness and provide greater guidance on alignment of aid. Other frameworks have read from the same or sought to amplify some of the key aspects of the Paris Declaration. Its key goals are:

- scaling up aid to achieve developmental goals
- increased development
- attainment of aid effectiveness
- supporting partner country efforts to strengthen governance of development aid

The Declaration further seeks to achieve several goals, key among them being:
1. Enhancing impact in terms of poverty and inequality, as well as capacity.
2. Enhancing alignment of aid priorities with partner countries and eliminating duplication of aid assistance for enhanced effectiveness.
3. Defining clear measures and standards of performance, transparency and accountability of recipient states, as well as adoption to country circumstances.
4. Promotion of ownership of programmes at the regional and national levels.

The Busan Partnership of Effective Development Cooperation

The key principles of this partnership are:
- offering a framework of continued dialogue, as well as aid effectiveness
- institutionalisation of global partnerships to ensure accountability for implementation of commitments
- adoption of a results-based approach underpinned by multi-stakeholder participation
- mainstreaming transparency and shared responsibility among the key parties

World Bank Funding and the Washington Consensus

The Bretton Woods Institutions (IMF and World Bank) have been a key source of development aid. However, as a Development Finance Institution (DFI), it has also set conditions for access and operationalisation of aid with recipient countries.

These conditions are set out in the Washington Consensus, an accepted Bretton Woods, whose key tenets include:
- fiscal discipline (budget deficits and public expenditure priorities)
- tax reform and regime (low marginal tax rates) and competitive ceiling
- single/competitive market exchange rate regime
- financial markets liberalisation (financial markets, vibrant financial institutions, stock markets etc.)
- trade liberalisation preferring tariffs to quotas
- legal systems to enforce secured property rights
- state to broaden its tax base and enhance fiscal health, on a win-win basis with private sector.

2.5 Key observations as SADC seeks to move forward

SADC has redefined its trajectory for development through the Revised RISDP 2015-2020, informed by its experiences over the last 36 years of its existence, as well as radical global dynamics. The Revised RISDP provides a platform for agenda-setting for the next six years and seeks to align the SADC Programme with the African Union Agenda 2063.

The key challenges that SADC face within the current environment include:
- a re-alignment of development assistance following global trends and tendencies in aid related spheres
- populist tendencies in some developed countries that have challenged globalisation and regional integration
- ICP funding continues to create dependencies and conditionalities
- selective participation on key bilateral and multilateral arrangements, e.g. AGOA, which is subject to being challenged with the new order.

To push forward the implementation of the Revised RISDP and the SADC Programmes, SADC must diversify its sources of income. Not only do innovative and sustainable financing mechanisms need to be put in place, but there must be recognition for the need for adequate resourcing for the stimulation of SADC socio-economic development.

3: Three Components for Funding Regional Integration

The SADC Resource Mobilisation Framework has 3 components:

- Alternative sources
- Innovative sources
- ICP funding

3.1 Component 1: Alternative Sources of Financing

Using the approach of alternative sources will lead to SADC moving away from the current model of financing its regional integration, or at least will result in the replacement of some elements of the current financing approach, in particular the assessed contributions by the Member States, thereby reducing the burden for countries. It will also lead to ICP funding no longer being the core funding but supplementary funding.

The study revealed that the coordination costs of the SADC Regional Integration - estimated at US$620 million – can be covered by the introduction of alternative sources of financing. The alternative sources analysed in the present study are:

- Import levies
- Tourism levies
- Financial Transition Tax (FTT)
- Philanthropy
- Lottery
- Regional events / sundries

3.1.1 Export and Import Levies

This option entails Member States of a given regional grouping agreeing to introduce a tax on either exports or imports to or from outside the region with the aim to raise revenue to fund the implementation of programmes or projects prescribed in the Organisation's Programme of Action (i.e. the Revised RISDP 2015-2020).

The introduction of an export / import levy requires a legal and institutional framework both at national and regional levels, including collection and management structures. In theory, export and import taxes can lead to economic distortions and at least in the long term, they are not welfare-creating because they divert trade. Export and import taxes measures are introduced by many countries (developed and developing) with the objective of protecting domestic markets and/or raising revenue.

The outcome of the use of the two trade policies differs in accordance with the interest and ability of different countries or organisations to select and administer them. In embarking in export / import taxes, countries or organisations must consider the commitments of such countries or organisations to international trade organisations.

Export Taxes

More frequently, in developing countries export taxes can be motivated by food security concerns and restraints on exports in times of higher international prices that may lead to domestic shortages, and export diversification through lowering domestic prices of raw materials vis-à-vis (usually) developed countries.

The most important economic argument on export taxes, however, is probably the simple one of providing domestic revenues. This is likely to be most effective when the sector concerned is earning super profits, e.g. as it occurs in some mining sectors in times of high international prices, or when a country has trouble challenging a multinational entity to pay taxes in the host country or alter the royalty conditions. By restricting its exports, a country that supplies a significant share of the world market in a commodity can raise the world price of that commodity to its advantage. Despite increasing international trade regulations, this remains a common practice at the global level. For instance, some developing countries implemented export taxes and export restrictions during the recent food crisis (2006-2008) to discourage export of food staff amid the risk of depleting domestic stocks.

Export taxes generate serious economic distortions and disincentives and are a poor instrument for encouraging higher value-added activities. In revenue generation, they are likely to be dominated by other tax instruments and should be viewed as at best transitional measures to be replaced as soon as tax administration improves. Despite the negative (inefficient) nature of export taxes, when viewed from the perspective of global welfare, they continue to be used in world trade, especially among developing and middle-income countries. The usage among developing countries and LDCs is much higher than developed countries, with two thirds of all LDCs making use of them but only 10% of OECD countries.

African countries dominate other continents in the use of export taxes, with 91% of them making use of these taxes in one form or another, compared to Asia (76%) and the Americas (71%). Export tax attracts less attention because the focus of the WTO is on trade policy towards imports, not exports. Article XI of the General Agreement on Tariffs and Trade specifies that exports should not be subject to quantitative restriction (with some exceptions) but places no restriction on the level of export taxes that can be used.
Export taxes are not prohibited by WTO. About one third of WTO members impose export duties. In contrast, based on the recognition that export taxes distort trade, many regional trade agreements have prohibited them.

Import Taxes

Import tariffs can be used as both a revenue measure and as a means of protecting domestic industries by raising the domestic price of imported goods. SADC Member States have committed themselves to reducing barriers to international trade through several Agreements that have been signed and ratified - including the Southern African Customs Union (SACU), the SADC Free Trade Area, the East African Community (EAC) and COMESA. In addition to these, the Tripartite Free Trade Area has been launched and the Continental Free Trade Area is currently under negotiation. These commitments limit the space available for Member States to impose import tariffs on trade and to impose non-tariff barriers to trade among themselves. However, as seen in the trends of SADC international trade in the last ten years, the bulk of SADC trade takes place with industrialised countries and emerging economies all outside the Community. In view of this, the possibility of using a levy on imports to raise revenue to fund SADC development programmes and projects is hypothetically feasible, provided the opportunity cost of embarking on it is carefully examined and agreed upon by all participating Member States, and that the necessary legal, institutional and technical frameworks are agreed upon. Collecting import tax mainly requires a regional protocol or agreement, national legislations empowering the revenue authorities to collect it, a payment mechanism and system to put in place.

It is worth noting at this point that the AU Heads of State, including all SADC Heads of State, at their Summit in July 2016, decided to institute and implement a 0.2% levy on all eligible imported goods to the continent to finance the AU operating, programme, peace and security operations budgets from 2017. On the AU Peace Fund, each region of the AU will contribute US$65 million from the levy to support the AU Peace Support operations budget.

Calculations in the study on the hypothetical SADC export and import levy for regional integration show that if SADC was to implement the 0.2% levy on all eligible imports from outside the SADC

Region, it would yield approximately US$331,3 million annually on a gross basis, based on the 2014 import figures for the Region. SADC needs to rationalise its resource mobilisation efforts, viz. the hypothetical export and import levy with other initiatives to which it is party, such as the AU, SACU and the COMESA-EAC and SADC Tripartite.

The SADC Region would not be the first REC to impose an import levy to finance its programmes and projects. The ECOWAS imposes a levy of 0.5% on all goods and vehicles originating from non-ECOWAS countries.

In the CEMAC region, a Regional Integration Tax of 0.4% of imports is imposed, as well as a community integration contribution of 1% on non-CEMAC imports, to finance CEMAC institutions. The duty on commodities imported into SACU stands at 35%.

Trends in Regional Trade and Export and Import Levies over the Past 10 Years

To show the prospects and potential impact of export and import levies, the study undertook an analysis of the trends on intra- and extra- SADC trade over the past ten years. The main findings showed that:

- intra-SADC exports increased by 154% in the ten-year period between 2004 and 2014, from US$11 billion to US$48 billion
- intra-SADC imports also increased in the same period by 170% from US$15,4 billion to US$41,5 billion
- extra-SADC exports grew by 122%, from US$70,3 billion to US$156,8 billion
- extra-SADC imports grew by 153%, from US$65,3 billion to US$165,7 billion

This is a significant increase in trade among SADC Member States and can partly be attributed to the efforts that the Region has been making to lower both tariffs and non-tariff barriers through instruments such as the SADC Free Trade Agreement (FTA) which came into effect in 2008.

Operationalisation of exports and imports option in SADC

Technical, Legal and Institutional Frameworks

The overall technical, legal and institutional frameworks governing the SADC implementation agenda are the same as those that would be required to cover the implementation of this option. The introduction and operationalisation of significant import and export levies in all Member States to finance SADC programmes and projects, would require a re-thinking and re-alignment of specific policies and structures at both regional and national levels. This would require a specific protocol or agreement.

In this context, the experiences from ECCAS and ECOWAS are particularly instructive, given that both RECs are implementing levies on import duty as the principal funding mechanism for their programmes and activities. ECCAS adopted a convention on the implementation of the levy on import duty, coming into effect in 2002-2004, pegged at 0.4% on all eligible imports from third world countries. ECCAS collected all the revenue from the levy on import duty until 2007, when it was revised to a regime whereby ECCAS was only entitled to amounts up to the assessed contribution (as determined by the ECCAS Budget and approved by the Summit of Heads of State). In the case of ECOWAS, a Community Levy of 0.5% was crafted and adopted by a decision of the Heads of State and Government of ECOWAS in 1996 and provides the legal basis for the introduction and operationalisation of the levy. At the level of Member States, appropriate statutes were also introduced to give effect to the collection of the levy. The Member States were required to open the requisite ECOWAS accounts in the central banks of the countries, where the amounts collected from the levies were deposited. ECOWAS Secretariat signs MOUs with Member States on repayment plans for settlement of loans and arrears. ECOWAS collects about 200 million UA (US$350 million) every year from levies on import duties. It was agreed that 4.5% of the Community Levy funds be deposited into the ECOWAS account of a Member State as *"restoume"* (for the purposes of monitoring the implementation of ECOWAS Programmes in Member States, as well as promoting ECOWAS in all states). The ECOWAS budget increased significantly with the introduction of the levy, based on which programmes could be supported on a sustainable basis and that ECOWAS was able to attract and retain high calibre staff.

The following are this study's proposals on the technical, legal and institutional framework:
- The current legal framework governing SADC would need to be enhanced through a Treaty amendment introducing a clause on the nature of Article 26A, which institutes the SADC Development Fund, to enable the establishment of a SADC Export and Import Levy for Regional Integration.
- Member States, in turn, will need to institute legislation and regulations to facilitate the collection of export and/or import levies. E.g. Member States have a Customs Act (or similar legislation) that enables them to collect customs duties and other levies as may be appropriate and empowers the tax administration agency to do so. In most Member States, the responsibility of collecting taxes has been given to a specialised agency usually established through an Act of Parliament and is no longer the responsibility of their Ministries of Finance.
- Changes to domestic tax legislation will be required to enact any decisions made regarding the collection of the levy. As there is no regional Parliament or regional tax collection agency, Member States' tax administrators can bear the responsibility of collecting the levy and passing it on to the SADC Secretariat, through their central banks.
- There are tested instruments and experiences in the region to ensure the technical feasibility of a relatively quick implementation and operationalisation of an import / export levy for funding SADC development programmes/projects.
- Most SADC Member States are already collecting revenues using the Automated System for Customs Data (ASYCUDA). The Harmonised System of Customs Commodities Codes used under the ASYCUDA System also makes commodity codes comparable across Member States. ASYCUDA considers the international codes and standards developed by ISO (International Organisation for Standardisation), WCO (World Customs Organisation) and the United Nations.
- SACU, of which five SADC Member States are members, has significant experience in the Region in the collection and remittance of a common external levy. SADC can tap into the SACU experience.
- The introduction of an import/export levy would require a robust criterion of eligibility and accessibility to the raised funds. This is because Member States often have different interests or order of priorities in the regional integration implementation process.

In this context, further enablers are:
- The political will of a country or region
- The existence of champions at highest level who are convinced of the import levies and willing to drive the process (Prime Ministers)
- Continuous consultation processes with stakeholders
- Provision of legal instruments
- Administrative infrastructure for import levies (such as the collection, transmission, reporting, governance structure).

Recommendations

The urgent need for SADC introducing regional/domestic (alternative) sources of funding regional integration and development projects has been pronounced several times by the highest policy organs of SADC and most notably by the SADC Summit. The study on this option has demonstrated that there is a potential for raising significant level of funds by introducing a regional import tax and best practices elsewhere in the Continent (ECOWAS and CEMAC) provide good examples of the practicability of this option as a source for financing regional integration.

The fact that SADC Member States recently approved the institutionalisation of this resource mobilisation modality at the AU, shows SADC Member States find this option also feasible at the regional level. However, there will be a need to rationalise and reconcile AU and SADC resource mobilisation efforts to avoid duplication and burdening Member States. One way to rationalise AU and SADC resource mobilisation efforts and frameworks could be to introduce one single import tax (say 5%) for regional integration. The total amount raised would then be shared between the key regional integration organisations in which the Member State enjoys membership, according to an agreed formula. Accordingly, SADC could aim at introducing the AU motivated import tax to fund its economic and political programmes at the same time with the SADC import tax. One way of doing this would be to increase the approved AU destined import tax from 0.2 to 0.4/5. This would reduce both the transaction cost related to collection and administration and to political consultations at Member States level.

Based on these considerations, the study recommends the introduction of a regional integration Import Tax to be collected by all SADC Member States following guidelines to be issued by the SADC Secretariat after consultations and approval by the SADC Council of Ministers.
While the study reasonably demonstrated the potential of this option to raise significant funds for regional integration agenda, the precise costs and benefits of the option need to be evaluated to show the magnitude of the anticipated resources.

3.1.2. Tourism Levy

A Tourism Levy is one of the options directed by SADC Council of Ministers for a study as an alternative measure to boost resource mobilisation within the SADC Region.

Empirical Evidence and Best Practice on Tourism Levy

The study shows that there is abundant literature looking at the importance and economic impact of tourism as one of the most dynamic sectors of modern economies, both in developed and developing countries. This has brought about awareness within the African continent of the need to exploit its resources in this sector to finance its development agenda. The same applies to SADC Member States. The tourism industry is beyond any doubt one of the areas with significant potential to provide an alternative to traditional sources of financing, most notably to direct Member States' contributions as well as to over-reliance on external donors. It is estimated that about 70% of funding can be raised from within Africa and can be used to leverage capital requirements for the continent and its regional development needs.

The World Tourism Organisation of the United Nations (UNWTO) reported that the tourism sector in Africa grew by 4% in 2014, making it one of the fastest growing tourism destinations in the world, second only to South East Asia which grew by 6%. This growth translated into US$43,6 billion in revenue. The World Travel & Tourism Council (WTTC), states that the tourism sector now accounts for about 8.1% of Africa's total GDP.

Despite the growth in the tourism sector on the continent, Africa accounts for only 5.8% of the world's total tourists and 3.5% of the global revenue in the tourism sector. On a positive note, the UNWTO forecasts that the growth in international tourists visiting Africa will more than double by 2030 and reach an estimated 134 million tourists.

The Economic Impact of Travel and Tourism reported that in addition to the sustained demand for travel and tourism, the ability of the tourism sector to outperform the wider global economy, and its resilience in the face of shocks, clearly demonstrates the rising significance of the tourism sector to contribute to economic development.

The foregoing analysis shows that the volume of tourism revenue today equals or even exceeds that of oil, food products or motor vehicles. Tourism is therefore a major activity in international commerce and is one of the main sources of income in both developed and developing countries.

The travel and tourism sector is forecast to grow at an average of 4% per year over the next 10 years, resulting in a significant contribution to national GPD. Based on this estimated growth, the tourism sector is expected to outperform all other economic sectors. Some SADC Member States are amongst those with strong growth forecasting this area.

Tourism Trends and Best Practices from other Regions and RECs

The study reveals that tourism has been a major contributor to national economies accounting on average for 4.1% of GDP, 5.9% of employment and 21.3% of service exports in the OECD area. The OECD countries also accounted for 60.2% of global travel. International arrivals have continued to grow, reaching 1,1billion in 2014 and are predicted to reach 1,8 billion by 2030. This is in line with the global average growth of 4.6% per annum.

The African Tourism Monitor 2015 which reports on tourism performance in Africa, states that in 2014, a total of 65,3 million international tourists visited Africa. This represented an increase of about 4.9% over 2013. From 1999 to 2014, the tourism sector growth has quadrupled.

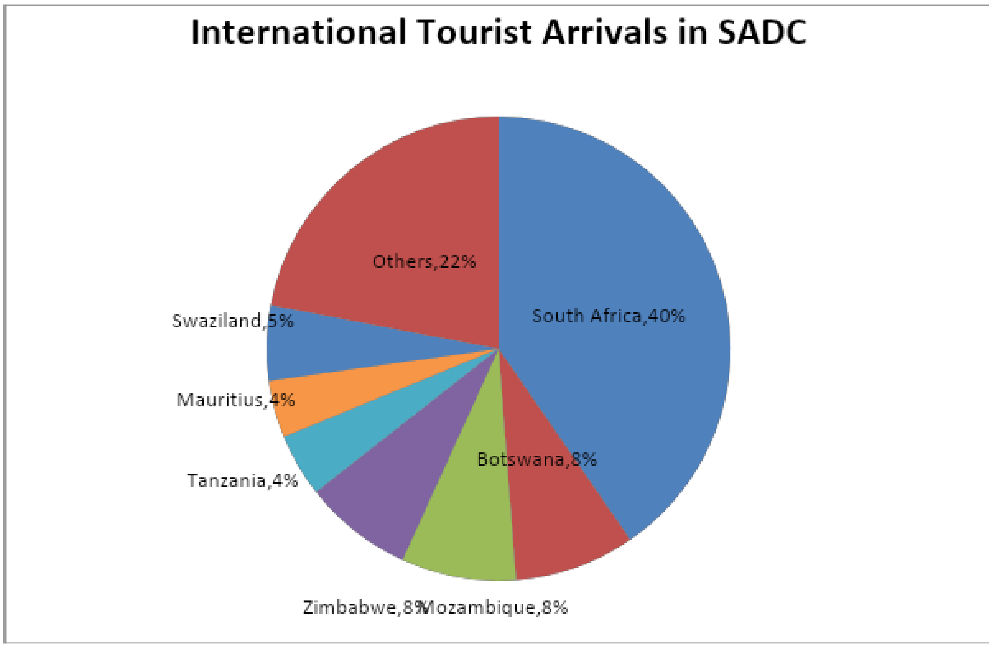
However, the study underscored that the growth of tourism in Africa is adversely affected by the transport system which is inclusive of a network of airports, seaports, railways and public transport. This system in turn has critical scale and regional dimensions that are to be well coordinated, rationalized and integrated for the convenience of tourists. As such, it is essential that there should be integration of tourism and transport policies to maximise the synergies between the two sectors. As reported by the Africa Tourism Monitor (2015), the deficiencies in the transport infrastructure make it more expensive to travel within Africa than to travel from Africa to Europe, Asia or the Americas.

Tourism Trends in SADC

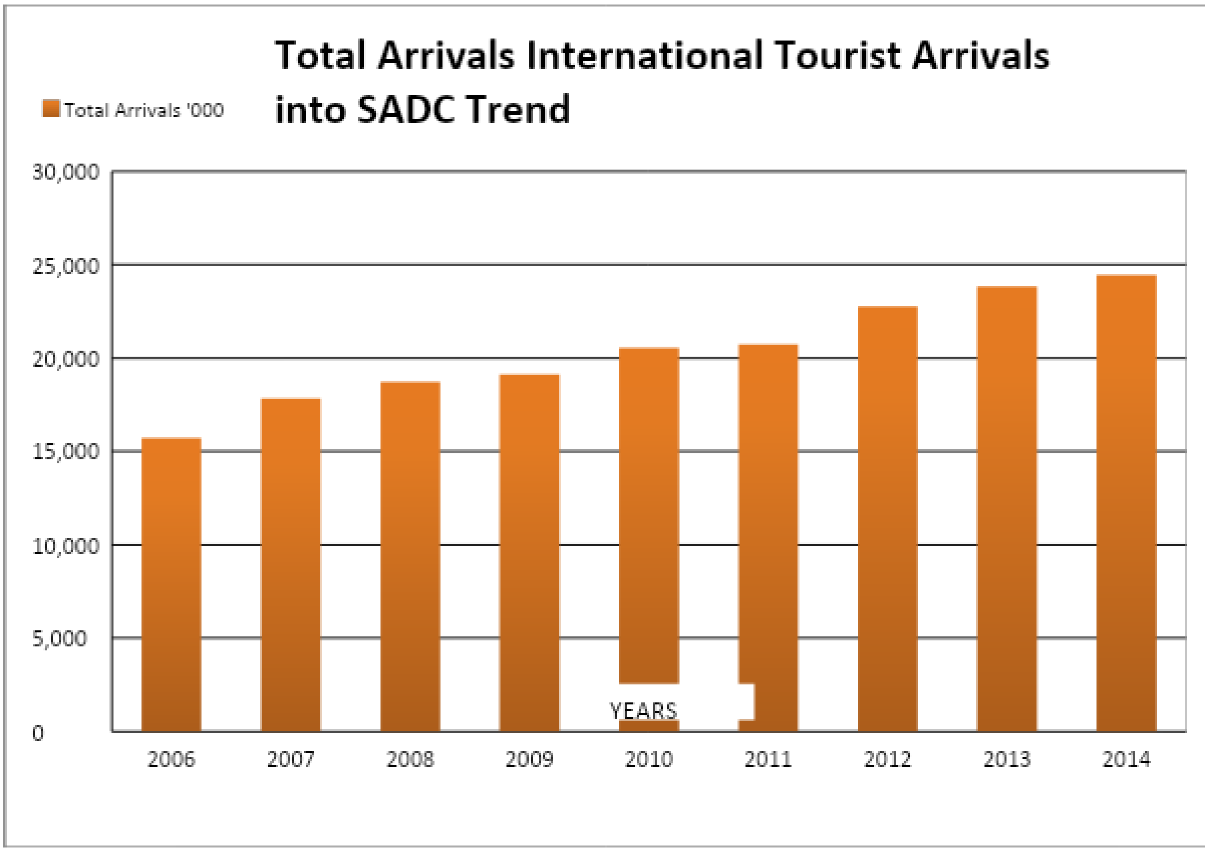
Trends in the SADC region show significant increase in international tourist arrivals in the past ten years, from 2006 to 2015. According to the statistics provided by the UNWTO, the total number of international tourists arriving in the region has increased from 15 million in 2006 to 25 million in 2015 reflecting a growth of almost 40%. It has also been observed that almost all countries within the SADC region registered significant growth in international tourist arrivals in the last decade, except for Zimbabwe which recorded a decline of 9% over the same period.

The study reveals that major host countries to the 25 million tourist arrivals in SADC during 2015 are South Africa at 10 million (40%), Botswana at 2.1 million, Mozambique at 2.0 million, Zimbabwe at 1.9 million, Mauritius at 1.0 million, Swaziland at 1.3 million and Tanzania at 1.1 million. These countries account for 78% of all the international arrivals in the SADC region.

Other SADC countries have also recorded notable increases on a year to year basis thus showing the significant potential of the tourism sector as a key contributor to economic growth and development within the region. In terms of tourism receipts for the SADC region, South Africa alone contributes 62% of the total revenue. In fact, five countries within the region: South Africa, Mauritius, Angola, Tanzania and Zimbabwe account for 92% of the total international tourist revenue in SADC. According to the Tourism Barometer Southern Africa enjoys a 43.4% share of all the international tourist arrivals in Africa.



Source: UNWTO (World Tourism Barometer)



Source: UNWTO (World Tourism Barometer)

While not homogeneous, Tourism Levies in SADC Member State are common practice. The study summarizes such practices in 11 SADC Member States and the exercise demonstrates unequivocally the heterogeneous nature and practices of tourism levies that can be found in the different countries. Disparities in Tourism Levy practices are based on both, the rationale and the legislation environment governing these economic practices.

Experience of Tourism Levy from the AU and Other Regional Bodies Perspective

The African Union Resource Mobilisation Strategy in Tourism

The AU has been also pursuing fast winners in the critical area of resource mobilisation. An AU study on this option has established that, together with Import Tax, the Tourism Levy was one of the two options adopted by the Executive Council and subsequently endorsed by the 9th Ordinary Assembly of Heads of State and Government Session at their meetings of June 2016.

In pursuing the implementation of Tourism Levy option, the following sub-sets were targeted:
(1) Levy on International Travel on all air tickets to and from Africa to the value of US$2 for short distances and US$5 for long distances; the aim is to levy a tax on any airline ticket for flights originating from Africa and also once fixed inter-Africa travels.

(2) Tourism Tax which consists of imposing 0.5% levy on income derived from tourist activities or income to be paid by tourists visiting member countries. The tourism tax was set as uniform and was applicable to all goods and services purchased by tourists coming to Africa.

In making these decisions, concerns were raised by several member countries on the impact of these levies on their economies, regarding competitiveness and national sovereignty. The AU study went on to present the advantages and disadvantages of both International Travel and Tourism Levy as reflected below:

International Travel Levy

Advantages	Disadvantages
• Option already successfully applied elsewhere • Option is solid, reliable and stable. It can easily expand, resulting in an improvement in Africa's economic situation • Option recommended by Civil Society Organisations • Best Practice and experience of collection with systems already in place, for instance in France and Germany, and already supported in some African countries • Option easy to monitor and audit through IATA • Burden would be evenly spread • Principle will not burden low income groups • No domestic legislation required to affect the levy • Low Tax paid by tourists only	• Option could result in a drop in tourism activities • Option would have a negative impact on airline industry • An increase in the burden of taxes and levies within this industry • An agreement between AU and SADC would be required to avoid duplications of taxes • Only countries with a viable tourism sector will be concerned • The activities within the tourism industry are difficult to quantify and differentiate for the purpose of charging the tax particularly those of consumption and goods • Its unreliable due to the vulnerability of the sector

Other options being explored by the AU include Levy on Hotel Stay Tax and a compensation mechanism. The latter was meant to reduce the negative effects of levies set on Member State economies.

The EAC was identified by this study as one of the RECs from which important lessons in the area of tourism can be learned by SADC, particularly about its measures in promoting tourism as a single destination.

Summary of Tourism Levy Options

Given that tourism is a complex industry comprising various subsectors, the study on this option makes 6 proposals which make it necessary for SADC to select the most viable options from the onset. A brief summary of the different options is presented below, providing information on economic impact, collection mode, proposed revenue, anticipated advantages and disadvantages of the different options.

Summary of Proposed Tourism Levy option and Economic Impact

Tourism Levy Option	**Economic Impact**	**Collection Mode**	**Proposed Revenue Tax and Achievable earnings**	**Advantages & Disadvantages of the Option**
Air Ticket Levy	A modest levy of about $5 USD would not significantly increase the airfare. It should be emphasised that intra-Africa air travel is generally expensive, and this may negatively impact domestic air travel.	IATA, Revenue authority with the assistance of Ministry of Transport.	$5 USD per air ticket on international tourists. Expected revenue as shown in will be ± US$123 million per annum.	**Advantages** -Targets tourists and not residents of the country. -The levy is apparently low and negligible. **Disadvantages** -Negative impact on demand for air travel thus affecting tourism.
Landing and Exit Levy on intercontinent al flights	The levy would impact the airline operating costs and would impact the passengers indirectly through revised air fares. A review of the landing fees in SADC would have to be done. This will significantly affect South Africa which has a high volume of intercontinental flights.	Revenue authority with the assistance from Airport Administratio n and Ministry of Transport.	An increase of between US$2 – US$10 depending on the category: Domestic, Regional or International.	**Advantages** -Does not directly affect residents. -The levy is low. **Disadvantages** -Airline operators may resist the levy.
Levy on Major Tourist Activities	Major national events which attract international tourists are jointly marketed by SADC. The ticket charges to these events would include a percentage of between 5-10%	SADC Foundation with the assistance from Ministry of Tourism/ Ministry of Trade & Industry.	A charge of between 5-10%, SADC should aim at raising US$100million.	**Advantages** -Increases the number of tourists into SADC. -Parallel events can be marketed together. **Disadvantages**

	which is then paid to SADC.			-Private sector may resist SADC involvement.
Brand SADC as a singular tourist destination	National Tourist boards pay SADC a fee. The fees can be part of the licence costs paid by the tour, travel and accommodation service providers.	SADC Foundation with the assistance from Ministry of Tourism.	An agreed charge of 5-10% depending on the cost of marketing, SADC can aim at raising US$100 Million	**Advantages** -'Free rider' benefits for all SADC countries. -Reduced cost of marketing for the region. **Disadvantages** **-**Resistance from Member States with strong marketing national bodies.
Accommodation Levy	Impacts the cost of accommodation and not the operating costs of the service providers. The fee would have to be standardised in order to smooth the exchange rate differences	Revenue authority with assistance from Ministry of Tourism	$1-$2 per night. An expected US$ 75 million per annum can be raised.	**Advantages** -The levy is small **Disadvantages** -Some SADC Member States already have the levy in place
Tourist Visa Processing	An increase in the Visa application fee will only have an impact on the international tourists' total tourism package.	Revenue authority with the assistance from Immigration Department.	$10 per application An expected US$245 million can be raised.	**Advantages** -Targets tourists and not residents of the country. -The levy is low. **Disadvantages** -Harmonisation of legislation on Visa processing policy might take long. -Reciprocity from countries affected

While the six options summarized in the table may look attractive and feasible for SADC, it is recommended that SADC, at least at this stage, aims at implementing only two of them, namely the ***a) Levy on International Travel*** on all air tickets to and from the SADC region to the value of US$2 for short distances and US$5 for long distances, (the aim is to levy a tax on any airline ticket for flights originating from the SADC region and also once fixed inter-SADC travels), and ***b) Tourism Tax*** which consists of imposing 0.5% levy on income derived from tourist activities or income to be paid by tourists visiting member countries.

The rationale for this is that these options were recently selected by the AU following detailed studies on the matter. The assumption is that the AU decision which includes SADC member States, was based on several studies and best practices in the continent and elsewhere. However, for SADC the proposed figures should be seen as indicative.

Recommendations on proposed options for SADC under the Tourism Levy

The tourism sector is one of the most dynamic sectors in modern economies with substantial growing trends in many developing countries in Africa and in the SADC region. Although not homogeneous, the use of taxes for raising revenue is common among SADC countries and there is little doubt that a regional version of selected taxes for funding regional integration programmes is feasible as it was demonstrated.

Given the complexity of the Tourism sector and the number of potential sub-sectors where introduction of tax is feasible the recommendation is to select only 2-3 sub-sectors as pilot, namely **(a) Tax on International Travel and (b) Tourism Tax**.

Raising regional funds through the proposed taxes in the area of tourism could even be oriented to fund tourism related infrastructures of regional dimensions.

3.1.3 Financial Transaction Tax (FTT)

Practice and Empirical Evidence on FTT

Taxes on financial transactions are normally imposed by a government upon sales, purchases, transfers or registrations with the aim of improving the efficiency of resource allocation and raising revenue. This type of tax may broadly include currency transactions, security transactions as well as bank debit transactions.

FTTs in their different forms have been the subject of economic theory for decades. More recently, FTTs have again taken centre stage in the policy arena following the collapse of the mortgage-backed securities market and its knock-on effects on the world's financial and economic systems in the crisis that began in mid-2007.

Literature review was undertaken on the main forms of FTT such as currency transaction tax (CTT), stock transaction tax (STT) and bank debit taxes (BDT). The main finding in the literature review is that the financial sector has long been a reliable revenue source for governments, even though from time-to-time (as at present) bank failure events have triggered large fiscal outlays to limit depositor losses and protect the smooth functioning of the payments system. Revenue raising has been a key objective of most of the FTTs that have been brought into effect.
Empirical evidence from the UK and Argentina drew important lessons on how these taxes can be successfully implemented as revenue raising tools, both in developed and developing countries. The case studies also focus on how to avoid potential pitfalls in the process.

The case study on the EU is of interest for SADC, given the regional nature of the two organisations. Accordingly, the EU financial transaction tax (EU FTT) is the first of its kind and the European Commission was to introduce the EU FTT only within some of the Member States initially by 1 January 2014, later postponed to 1 January 2016 and then 2017.

Practice and Trends of FTT since 2008

Findings of the study on the practice and trends of FTT emphasize developments in this area caused by the financial and economic crises that unravelled since 2007/8, which have shaped the pace of international economic developments to date. The study concludes that the economic turmoil has generated renewed interest in a financial transaction tax (FTT). FTT offers a very attractive mechanism for raising revenue that is arguably efficiency-enhancing. Calculations based on 2000 trading volumes showed that a set of scaled transactions taxes, imposed on transfers of stock and other financial assets, could raise more than $100 billion a year, even assuming large reductions in trading volume.

Estimates as to the amount of revenue these taxes could generate at a global level vary widely due to differences in proposed tax rates and differences in the financial transactions covered/ not covered by the tax. The UN estimates that a coordinated 0.005% tax on all the major currencies would raise approximately US$33 billion each year (United Nations 2009). The European Parliament resolution on innovative financing (2011) estimates that a low-rate FTT could, with a large tax base, yield nearly €200 billion per year at EU level and US$650 billion at global level.

The Leading Group's 2010 report, "Globalising Solidarity: The Case for Financial Levies" analysed various forms of tax on financial transactions against several key criteria. It concluded that a centrally collected FTT of multi-currency nature would be "the most appropriate source of revenue to fund public goods and share the wealth generated by globalised economies." The proposal enjoys a lot of support from several developed and developing countries, some of which have signed a political declaration in support of the Financial Transaction Tax. Various forms of FTT have been in effect for some time and more have been implemented by a various countries since 2008, including several G20 countries, Latin American countries, the Republic of Korea, Hong Kong SAR, India, the United Kingdom and from some SADC countries.

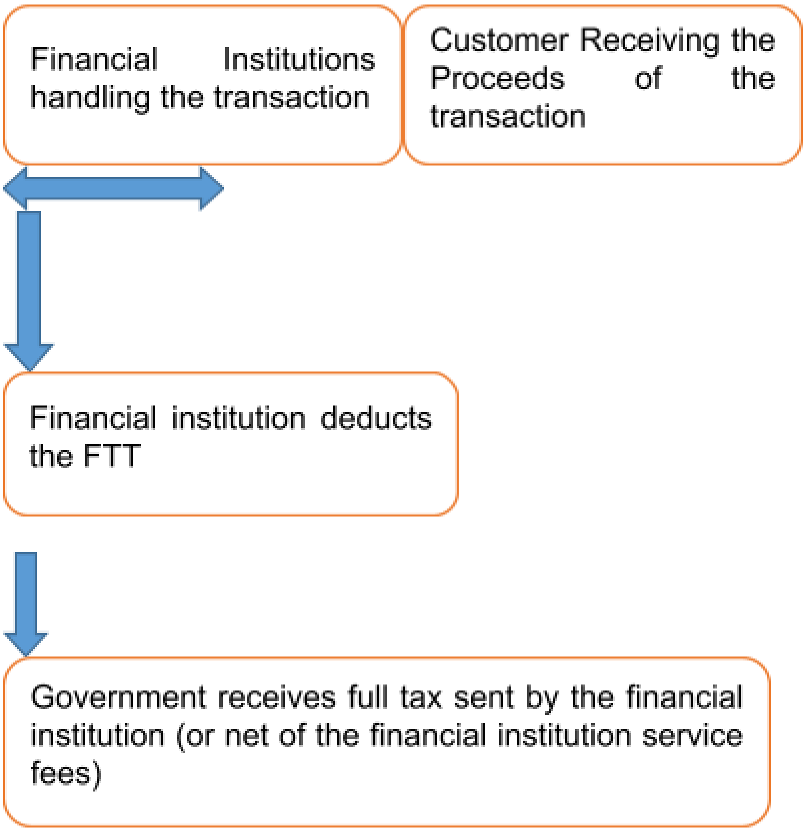
SADC's Financial Transaction Tax Proposal

The foregoing study has concluded that SADC FTT is a viable and feasible strategy to raise revenue to fund integration and development projects. Accordingly, this conclusion assumes that this option has a strong potential to generate huge amounts of revenues for regional projects and does not apparently represent a heavy burden to taxpayers. These taxes have been used by a number of countries throughout the world including the United Kingdom's stamp duty tax (first introduced in 1634), and the United States of America, where a two-cent tax was introduced on bank cheques to finance the Spanish-American war. Similar taxes on financial transactions have also been introduced in less developed countries of Latin America, Asia and Africa.

The feasibility of the SADC proposal of a regional FTT on international payments which are settled through SWIFT can be best supported, among others, by the Latin American experience where fiscal challenges and harsh economic situations were alleviated by FTT measures, which in turn were facilitated by financial institution's sophisticated accounting systems, simplifying tax collection.
The tax is viewed as a suitable measure to raise needed revenue amid high budget deficits, economic constraints, hyperinflation and bailout of financial institutions. As such, financial transactions taxes have been used to improve the fiscal standing of the said countries. These have also been useful sources of public goods (i.e., health, social welfare and calamity funds) during conditions of fiscal distress. The tax has since become an important source of federal government tax revenue in many jurisdictions around the world. In 2002, its share to total tax revenues registered 12.7% in Venezuela, 9.6% in Argentina, 6.1% in Brazil, and 5.3% in Colombia. Furthermore, United Kingdom has also been generating huge revenue from stamp duty ever since it was introduced.

The study proposes for SADC that the financial transaction tax apply on international payments settled through SWIFT and any other formal means such as MoneyGram, Western Union and Post Office. Under this proposal if a single rate of 0.1% was implemented, it would translate to only 10 cents for every US$100 transacted. In contrast, if the value added tax of say, 12%, was applied, this would translate to US$12 for every US$100 settled through SWIFT. The idea for a single rate is to promote administrative simplicity for the international payment transaction tax as well as to avoid issues of relocation of transaction from one region to another. Since the tax comes from international payment transactions settled through SWIFT and other formal financial channels, its collections could be implemented by the financial institutions where the accounting systems are in place. Based on this, collection and administration are outsourced, and the financial institutions could be compensated for their role, or this could be part of their contribution to the regional integration agenda of SADC.

Collection Mechanism of Revenue on SADC's FTT



The proposal is different from other taxes because it will operate only under a trigger mechanism based on the SADC regional financing gap. Member States could set the trigger at less than US$10 billion of resources in reserves for SADC Regional Community. This means that if the resources for SADC regional projects register resources at US$10 billion, the SADC FTT will not be in effect. Correspondingly, when the resources for SADC regional projects falls below the US$10 billion mark, the SADC FTT should automatically be imposed until the US$10 billion mark is reached.

To achieve the goal of mobilising resources to support regional projects without distressing domestic economic operators, several exemptions may be made based on lessons learned from the experience of other countries/regions, which have imposed financial transaction taxes.

These exemptions may include:

- Local payment transfers
- International payment transfers settled through SIRRES
- Inter-bank clearing and inter-bank transfers to ATM operations

Some anti-tax avoidance measures may be embodied in the said proposal, such as the prohibition of re-endorsement of cheques if the tax applies only on final settlements. Otherwise, the tax should apply on each endorsement of a single cheque.

The study further assessed the revenue potential and undertook a sensitivity analysis of SADC's FTT Proposal and concluded that at a tax rate of 0.1% over the US $659,1 billion originating from international payments from the 15 SADC Member States settled through SWIFT in 2015, could raise approximately US$659 million a year in absolute terms. These estimates assume that the entire regional value excluding all inter-bank settlements that are being settled in ZAR through the regional Real Time Gross System called SIRESS-SADC Integrated Regional Electronic Settlement System are excluded.

The incidence of SADC's FTT Proposal is that a large part of the burden of an FTT would fall on owners of financial transactions. Like any tax on capital income, the distribution of this effect would likely be highly progressive: High income individuals possess a disproportionate share of financial assets, and so would contribute more to the financial transaction tax as these would transact more frequently and also transfer substantial amounts. Adverse effects of SADC's FTT Proposal, relocation and tax avoidance towards non-taxed markets, an FTT would have to be coordinated at a regional level. Likely effects of SADC's Proposal of FTT on equity and income distribution are worth examining. Given that the wealthy engage in far more financial transactions than the poor, especially non-cash transactions tax would therefore fall mainly on wealthy people, who will undoubtedly strongly oppose it. To this end the FTT can be said to be progressive (i.e. it taxes the rich proportionally more than the poor or less wealthy).

Finally, the study looked at the technical, legal and institutional frameworks implied and necessary to support the SADC FTT Proposal and minimised the issues which are likely to be sticky between Member States. It argues that collection mechanisms of FTT are today embedded in payment systems which are readily available and internationally standardised.

On the legal framework for a regional FTT, SADC would need to seek the compatibility of such a levy both within Member States systems and with Article XI of the General Agreement on Trade in Services (GATS), which provides that WTO Members cannot apply any restrictions on international transfer and payments for current transactions relating to their specific commitments. In terms of the legal issues, it must be noted that while an agreement or protocol is required to implement an FTT at SADC level, this is already provided for under the Memorandum of Understanding on Cooperation in Taxation and Related Matters of 2002. This document sets out SADC policy on taxation as it relates to the ultimate goals of economic development and Regional Integration.

In terms of governance, the study proposal is that the SADC FTT should be one of the windows of the SADC Development Fund, as opposed to being earmarked for a specific area of regional cooperation and integration.

Summary of SADC's FTT Proposal

Participating members	**All SADC Member States**
Taxable transactions	• International payment transactions (excluding those settled through SIRESS)
Application principle	• Firms and individuals
Tax	• Tax rate between 0.025% - 0,1%
Payment	• Payable at occurrence • Payable by agent or party and if not paid they are jointly and severally liable for the payment • Member States will have to lay down registration, accounting, reporting obligations to ensure payment • Member States must ensure records are kept for five years
Excluded entities	• SADC Member States and in particular SIRESS
Excluded transactions	• Capital market transaction (because our stock markets are still embryonic) • Transactions within Member States and SADC region

	• Transactions with other or international institutions
Revenue potential	• Between US$659 million and US$165 million per annum
Taxation	• Through Settlement system • Direct taxation of financial operators.
Legal	• Member States should develop an agreement based on Annex 3 of the Protocol of Finance and Investment
Opportunities	• Low rate • Solid and stable source of income • No significant incidence • Quick and easy to implement

Conclusions and Recommendations

After reviewing available theoretical and empirical evidence, this study concludes that a financial transaction tax can raise significant amounts of revenue to strengthen the SADC alternative sources of income. One of the main arguments of the study is that the SADC financial sector is sufficiently large to sustain such a policy in the medium and long terms.

Financial transactions have been taxed over the years by governments of both developed and developing countries as well as by the most successful regional integration organisation and they yielded positive results, particularly in times of fiscal distress.

The study has demonstrated that taxing all transactions operated through SWIFT, SADC has the potential to raise US $659 million every year. Finally, the study also demonstrated that the strategy and policy frameworks governing SADC are sufficient basis for a successful implementation of this option, in which case SADC needs nevertheless to strengthen the technical, legal and institutional frameworks required to implement these measures.

3.1.4 Philanthropy

Practice and Empirical Evidence on Philanthropy

Philanthropy is the practice of helping, giving and assisting those in need (individuals, communities, institutions, countries). This study reveals that philanthropy as human gesture of helping and giving those in need is a value embedded in individuals and their communities across the globe over many years of humanity existence. At the core of philanthropy is a tradition of moving beyond self-interest to helping others. Philanthropy is a willingness to give one's personal resources - time, talent, treasure - for the benefit of someone other than oneself. It ranges from spare change given to the beggar on the street corner to millions of dollars distributed globally, e.g. the Bill and Melinda Gates Foundation.

In the African context, there's a great need to address philanthropy as it is practiced daily in Africa, by Africans. The key elements of definition can be (1) the individual or collective effort or inclination to increase the well-being of a person, a group of people or humankind (2) the sense of solidarity and sharing with people in need (3) an activity or institution intended to promote human welfare. Philanthropy is ultimately a matter of context. As mentioned by Richard Holloway (2001): "There are likely to be cultural traditions about giving. However, few cultures remain static - they are changing and changing dramatically".

Philanthropy goes beyond charity and altruism as it not only works for the dignity and fulfilment of all people, but also it seeks to root out the causes of poverty, suffering and inequality. Philanthropy in Africa is shaped by community and social values. It is also true that philanthropy as a set of values and practices is a mirror of social values, visions and norms. Africans give for various and sometimes complex reasons. In general, people want to give to noble causes, if they are asked to give, if they know where to give and if they think their donation is useful or can make the difference.

The study reports on a number of examples that can be defined as philanthropic activities in Africa, including the philosophy of ubuntu in South Africa, the Kenyan philosophy of harambee "all pull together", the Zambian Humanism which was based on basic African values: mutual aid, trust and loyalty to the community.

According to a report released by the African Grant-makers Network in 2013, that looked at various frameworks of African philanthropy, and based on the broad definition of philanthropy, there are three broad categories of "giving" on the continent:

1. High net worth and institutional giving: where centrally controlled resources are directed towards a set of defined charitable aims in the broader society.
2. Mobilised philanthropy: where institutional structures continually mobilise resources from a range of sources to channel towards defined charitable aims in the broader society.
3. Community philanthropy: where givers pool resources to tackle challenges in their own immediate community that any one individual would have been unable to address.

This study has also indicated that there are significant barriers to effective giving by businesses due to lack of quality information vis-a-vis the beneficiaries. This calls for more effective monitoring of the outcomes from the philanthropic entities. While not enough, tax incentives may encourage businesses to engage more on philanthropic activities.
It's important to note that also that most of the countries in Africa and SADC do not have a legal framework on philanthropy, and this might pose a challenge to promoting and growing philanthropy.

Trends of Philanthropy Contributions in Africa and SADC

Prospects for philanthropy as a meaningful source of resource mobilisation for SADC programmes must be based on both the current volume and flows of resources in this area and in the ability of SADC to tap significant levels of income in the area to finance its development needs. This study shows that the last decade of sustained economic growth has seen the rise of a new class of wealthy Africans, who either have or are likely to be engaged in genuine philanthropic activities.

The Southern Africa region led by South Africa's huge contributions, accounted for the highest amounts from HNWIs with US$499 million in donations. West Africa is the region with the second highest contributions from HNWIs with US$167 million. East Africa led by Kenya came third and stood at US$94 million. There was a low number of HNWI and institutional giving in Central and Northern Africa.

In terms of trends, in 1996, Africa had a 2.4% share of the total value of US$16.6 trillion wealth of HNWI value. This position remained the same for Africa in 2015, even though the value of wealth of HNWI had more than trebled to US$58,7 trillion. However, it is worth noting that despite this constant trend in share value of wealth, the actual figures show that Africa experienced an increase in value of HNWI of 253% between 1996 and 2015, and this shows that the number of HNWIs is increasing in Africa.

Africa's wealthiest are giving less than 1% of their net worth, versus 9% in Europe, Asia and Latin America, and many of the richest families are not formally engaged in philanthropy. Nevertheless, recent indications are that the philanthropy bug is fast catching on, with the nouveau riche in West and Southern Africa engaging more significantly in philanthropy. Non-African case studies include a huge number of non-African private philanthropic foundations active in Africa. In a recent study of US foundations involved in international development, 37% (of 160 foundations that participated in the research) supported activities in Africa, with East Africa receiving the highest proportion of funding for international development overall. Many of these organisations provide grant funding directly to local organisations, government departments, quasi-government bodies and institutions, or through the intermediary of international NGOs or other bodies.

Bill and Melinda Gates Foundation (BMGF, or the Gates Foundation) is the largest private foundation in the world, founded by Bill and Melinda Gates. It had an endowment of US$44,3 billion as of 31 December 2014. The scale of the foundation and the way it seeks to apply business techniques to giving, makes it one of the leaders in venture philanthropy. In 2007, its founders were ranked as the second most generous philanthropists in America, with Warren Buffett the first. As of May 16, 2013, Bill Gates had donated US$28 billion to the foundation.

Potential for Philanthropy Revenue in SADC and viability for funding regional integration agenda

To give an idea of the potential for philanthropy revenue in Africa, the study used the Grant makers' method from 2013 Report, which concluded that US$7 billion is the potential amount which the HNWI philanthropy can give as donation, which by far exceeds the US$825 million reported donations.

When applied to SADC, the study concluded that the Community has the potential to mobilise donations from the philanthropy sector whose size ranges roughly between US$1,25 billion and US3,12 billion per annum. According to the World Bank, South Africa and Angola are the two countries with the highest levels of annual income - roughly combined 73% of the total SADC annual income. To this end, it is expected that most of the philanthropic donations could come from these two countries.

The study also hypothesised that if every SADC citizen donated US$1 for regional integration, it could translate to roughly US$277 million per annum. The challenge, however, remains on how to motivate and convince SADC to make such donations. A SADC outreach programme on the benefits of regional integration including potential benefits to development and citizens could raise peoples' appetites for small donations towards regional integration.

Before presenting its conclusions and recommendations, this study advanced some "possible ways of tapping philanthropy resources" which include:

b) tax incentive to donors
c) effective accountability and more transparency in management of international and regional funds
d) mobilisation of more corporate engagement in social responsibility activities
e) active use of internet
f) philanthropy education

Best Practices on Philanthropy

Best practices from other RECs can help SADC not to re-invent the wheel on this important resource. An important case in point is the AU which recently navigated the way of exploring philanthropy as an important source of resource mobilisation. The AU established the AU Foundation through a decision by the Assembly. The AUF has its Council members, raises money on behalf of AU programmes and has a formula for grant making and operational costs. It also has a relationship with the AUC to implement some of its programmes. Not only does the foundation mobilise money, it also receives in-kind donations, e.g. President Mugabe donated 300 cows to the foundation two years ago. During the Ebola crises, the foundation established an Ebola Trust Fund.
The UN also has a foundation and so SADC can use the same approach. Recently the UN through the SDGs process established philanthropy platforms in Kenya, Ghana, Colombia and Indonesia.

This was in recognition that aid was decreasing for governments. Just a few years ago, the government of Liberia established a philanthropy Secretariat in the office of the president and last year the government of Rwanda developed a philanthropy strategy to tap into these sources.

Recommendation

The study on Philanthropy as an option for raising funds to finance regional development projects concludes that:

- based on the trends of philanthropic activities analysed, the SADC region can potentially tap into revenues ranging between US$1,25 billion and US3,12 billion per annum.
- besides continuing to mobilise resources from international philanthropic institutions, SADC needs to increasingly harness and promote regional philanthropic opportunities to create more sustainability and predictability in this potential alternative source of funding for its regional integration agenda. Donations from philanthropy should be channelled through a foundation or the SADC regional development fund. These two instruments will offer the best framework for collection as well as redistribution of the resources to the priority areas and sectors of the community.
- turn private resources into public goods, e.g. the Philanthropication thru Privatization model, which can mobilise stolen assets, debt swaps, abandoned state enterprises, etc. into resources back to society.
- mobilising citizens just as the Rwanda government has done through its local initiatives.

3.1.5 Regional Lottery

Practice and Empirical Evidence

Based on a brief literature review, this study discusses some of the most common theories and forms of lottery. Most popular lotteries include the numbers game, lotto and scratch card. The most traditional is the passive lottery. Theories of judgement under uncertainty and theory of demand for gamblers are the most common forms of lottery theories. Lottery proceeds are used for different purposes in different jurisdictions. Generally, some proportion of revenue is taken by the government in tax whilst the remainder of the proceeds are distributed to a variety of educational, charitable and/or community causes. This is one reason why lotteries are generally perceived favourably, since they are linked with good causes.

Empirical evidence from the Lottery Study shows that the use of lotteries by national and regional governments to raise funds for public sector and charity projects is common across the world. In 2001, there were at least 177 public lotteries (national and local government) in operation, with combined sales amounting to some US$126 billion.

It is clearly the scale of the revenues raised that suggests that lotteries can also be used to provide funds for development programmes. Proposals to establish a global lottery to fund UN development activities have circulated since the early 1970s. The idea of a global lottery has recently been given a major impetus by a former President of Finland, Mr Ahtisaari, together with the NGO Crisis Management Initiative (CMI) and the Ministry for Foreign Affairs of Finland.

The Proposed Global Lottery vs. Regional / National Lotteries

In discussing the possibility of the introduction of a global lottery, the study cautioned against potential conflict of interest between global and local (national or regional!) beneficiaries. This potential conflict is likely to occur also between the proposed regional lotteries and (running) national lotteries and therefore any decision for the introduction of a regional lottery should take into account this potential conflict.

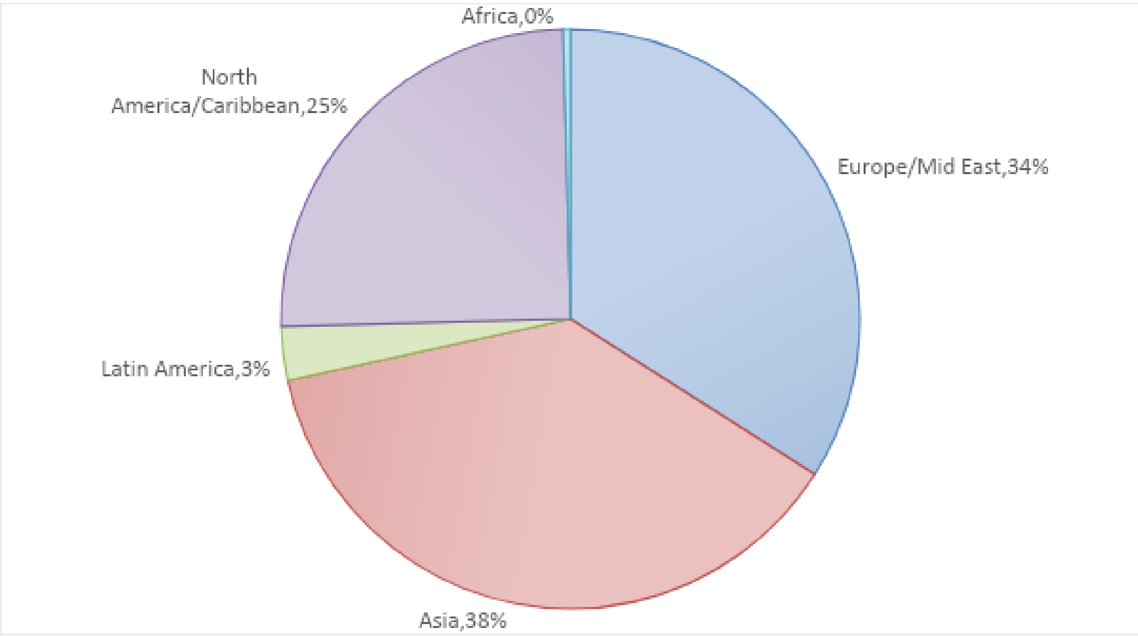
In some countries, national charities have already lobbied hard on the national lottery, fearing its effects on their own charity-lotteries as well as donations. And a global lottery could take some revenues away from private gambling operators; these might be considered 'fair game' especially when they are unregulated and untaxed Internet operations, but gambling taxes provide substantial revenues for many state governments worldwide.

Any opposition to the global lottery may be reduced if the formula for distributing the resulting global lottery funds together with their use are perceived to be in national interests, particularly when global concerns - regarding the environment, health and security - are seen as national interests. Moreover, if a single global lottery had jackpots sufficiently large to attract pure gamblers, then it might take substantial market shares away from private commercial gambling (which, as we noted above, is a large market); this would then permit generous 'compensation' to national causes that lose market share to the global lottery.

Revenue potential of lottery for SADC

From an assessment of the likely revenue-raising potential of the global lottery, the study on lotteries drew some important indicators for SADC. Amongst other things, it showed through figures below that the total size of world lottery market sales was US$292,7 billion in 2014.

2014 (Adjusted) Global Lottery Sales by Region



Africa which ranked lowest in 2014, reported total sales of USD 1,3 billion across the four game categories of draw-based games, instant tickets, sports games (pari-mutuel) and sports games (fixed odds) in 2014, or 0.4%of total sales of US$269,2 billion. Across the four game categories, draw-based games accounted for 61.2% of sales, instant games 5.7% of sales and sports games (pari-mutuel and fixed odds) 33.1% of sales. Two African WLA Lottery Members reported other sales in the "All other sales (VLTs, etc.)" category totalled USD 6.2 million.

The study further concludes that if the global lottery took 10 percent of the 2014 global lottery gross sales (US$292,7 billion) then it would raise US$29,3 billion annually. This compares to total official development assistance (ODA) of US$135,2 billion in 2014.

To illustrate the potential revenue for SADC, the study uses readily available data for 2002 from Global Betting and Gambling Consultants Report. To this end Table 8 shows data of turn over from twelve countries.

Gross Gambling Turnover by Gambling Mode - SADC Countries 2002

Country	Casino		Lottery		Others		Total	
	US$ million	%	US$ million	%	US$ million	%	US$ million	%
South Africa	5808.6	84.4	295.95	88.6	746.7	49.4	6851.25	78.5
Botswana	164.7	2.4	0		0	0	164.7	1.9
DR Congo	9	0.1	17.55	5.3	0	0	26.55	0.3
Lesotho	18.3	0.3	0		0	0	18.3	0.2
Mauritius	477.9	6.9	15.3	4.6	653.1	43.2	1146.6	13.1
Mozambique	4.95	0.1	1.95	0.6	0	0	6.75	0.1
Namibia	52.95	0.8	0		20.4	1.3	73.35	0.8
Seychelles	132.75	1.9	0		0		132.75	1.5
Swaziland	70.8	1.0	0.75	0.2	0		71.55	0.8
Tanzania	17.55	0.3	0.3	0.1	0		17.85	0.2
Zambia	29.55	0.4	1.5	0.4	20.7	1.4	51.75	0.6
Zimbabwe	97.5	1.4	0.6	0.2	71.85	4.7	169.95	1.9
Total	**6884.55**	**100**	**333.9**	**100**	**1512.75**	**100**	**8731.05**	**100**

Source: Global Betting and Gambling Consultants Report, 2002

As shown in above, assuming that SADC had to take 0.1% of the total gross gambling turnover value of US$8, 731, 05 million, this could have translated into roughly US$873,1 million as at December 2002. Similarly, if 0.1% was to be applied to lottery games only, SADC could still have managed US$33,4 million per annum. Considering that this is fourteen years ago, the revenue figures today could be significantly higher than those reported in 2002, clearly demonstrating the potential of SADC mobilising resources from this option.

Recommendation

The study concludes that lottery has been used worldwide to raise funds for different purposes and the results have been positive. Lotteries have raised large amounts of resources and provided there is a lottery-based revenue sharing formula between SADC and Member States, there is a rationale and potential for using lottery as means for raising revenue to finance regional integration.

3.1.6 Regional Events

This study looked at the opportunities for SADC raising funds to finance regional integration programmes through the organisation of regional events aimed at raising funds.

The study analysed the different forms of special events that can be used, including trade fairs, sport events, business summits (where corporate entities would bid for gala dinner tables), expos. Such events offer opportunities to improve relationships between the organisation, stakeholders and the community at large.

After making considerations on the logistical aspects and other challenges, the study recommended that special events can be easily implemented through a foundation, or a framework through which special events programmes could be carried out.

The study, however, recognised that while this option has potential to contribute to resources to support SADC regional programmes and projects, the level of detail provided was not sufficient to allow Member States to make an informed recommendation on the feasibility and viability of this option, at least in the short term.

Conclusion and Recommendations with Regard to Alternative Sources

For all the above options of alternative sources of funding, SADC must decide whether to agree upon:

- A region-wide focus on one alternative source (like the import levies); or
- An "a la carte-approach" which means it is left to each Member State to select an alternative levy.

Highly recommended in this study_is the approach of using an Import Levy, of (e.g.) 0.2%, which would lead to more than US$331 million per year, in the case that each SADC Member State will pay that levy. This would result in paying of the coordination of the regional integration agenda (US$620 million) within 2 years.

In applying lessons from other RECs, it is important for SADC to take possible scenarios into account, in the case Member States refuse to pay import levy.

Scenario 1: In the case that not all Member States are willing to pay a 0.2% import levy, the levy can still be initiated. It is still doable as those Member States can opt out and then will be paying an assessed equivalent of the levy-percentage through budget arrangements (currently their monthly contribution is based on their GDP).

Scenario 2: The proposal of using an import levy is not accepted, which might result in the status quo remaining and the financing will be made through assessed contributions of Member States or through a la carte contributions.

It is important in any case to reiterate that alternative sources will only cover the costs of the coordination of regional integration 2015-2020 (US$620 million), but will **not** cover the costs of the programmes for infrastructure, agriculture, etc.

3.2 Component 2: Innovative Sources of Financing

The innovative sources will be required to finance the biggest gaps, which means the shortfalls of financing of the SADC Programmes and Projects (such as infrastructure, agriculture, peace & security, industrialisation). Innovative sources will have to be developed and implemented in the individual countries, focusing on bankable projects that are introduced onto the market. These sources are based on new ideas to change the current system of financing at national level. The first goal of innovative sources is to raise additional funds, to mobilise private capital flows and private investment.

Countries would mobilise massive resources (to finance energy projects, roads, etc.) using approaches such as market-based financial transactions, issuing bonds in the capital markets, securitisation of insurances and/or pension funds, blended finance, and Public Private Partnerships (PPPs). While securitisation is defined as the financial practice of pooling various types of contractual debt and selling their related cash flows to third party investors as securities, blended finance can be regarded as a strategic mix of development finance and philanthropic funds to mobilise private capital flows to emerging and frontier markets.

Closing the gap of funding the regional integration agenda, a mix will be required based on of public financing and national governments tapping into the private funding. In this context, AfDB estimates the potential of private funding at US$600 billion. However, this figure includes that SADC will tap into financial resources managed by institutional investors and held in the region's pension schemes and insurance companies.

There is a variety of reasons why the potential of private investment has not been fully utilised up to now. AfDB summarised these reasons in a presentation on 20-21 February 2017, in Swaziland, as follows:

- Investment needs to be paid back -- user fees will be necessary
- Not all sectors are appropriate for private financing
- Risk concerns, such as
    - Non-payment risk
    - Country risk
    - Market risk
- Projects in the pipeline already need to be in a bankable status.

Consequently, there needs to both a shift of the mindset in governments and their capacity building. To obtain private investments, it is also recommended SADC Member States and SADC Secretariat need to:

1. Improve the business and PPP environment
2. Improve Member States' investment climates
3. Develop project pipelines to develop regional projects to bankability stage
4. Structure financing to reduce risk and bring projects to closure.
5. Build capacity of national government authorities for them to operationalise blending mechanisms
6. Promote non-traditional development partners such as BRICS
7. Institutionalise and operationalise policies and instruments that minimise capital flight, including illicit financial flows, from the region.

Furthermore, based on SADC's challenges of a fragmentation of bond markets; high transaction costs; lack of transparency and delayed trade reporting (e.g. opaqueness in pre-trade information); the Committee of SADC Stock Exchanges (CoSSE) proposes a centralized bond market, at least of the secondary market, while the e issuance mandate of Central Banks and Treasuries on the primary market needs to be maintained to assure government securities. CoSSE also proposes that trading, clearing and settlement shall be integrated to improve operational efficiencies, minimize the overall transaction costs and to manage systemic risk. An exchange platform is, according to CoSSE the best platform to promote the reach of government securities and its accessibility to retail investors.

Moreover, both the SADC Secretariat and the Member States could also coordinate the processes to identify lead managers or partner institutes to manage the investment process on their behalf, regarding the:

- Development of pipelines of projects to bankability
- Securitise portfolios of existing revenue-generating assets
- Provision of credit enhancement
- Identification of potential investors
- Structuring and closing the financing

SADC can explore the above types of innovative sources by closely working together with the SADC Project Preparation Facilities, namely the (1) SADC's Project Preparation and Development Facility (PPDF); (2) NEPAD Infrastructure Project Preparation Facility (NEPAD-IPPF); and (3) SADC 3P Network. However, national governments will also require support by institutions such as the African Development Bank (AfDB) with the SADC Secretariat coordinating the relevant support.
In this context, AfDB can provide technical assistance but also offers services such as the Partial Credit Guarantees, which cover a portion of debt service defaults and therefore can support the borrowing of the government or public sector entities in investment operations. Second, AfDB can be part of a group of financial institutions / lenders (syndicate), which provides loans (Syndication).

To secure financing from the innovative sources outlined above, governments must be prepared, demonstrate preparedness and develop realistic and bankable projects. Ideally, SADC would have to work with institutions such as the AfDB to assist Member States accessing innovative sources of financing such as investment bonds, insurances – often in connection with PPP. Further partner institutions can be, for example, CoSSE, which has the aim to:

- Promote the "development of efficient, fair and transparent securities markets within SADC
- Make their securities markets more attractive to both regional and international investors
- Increase market liquidity and enhance trading in various securities and financial instruments.

3.3 Component 3: ICP Financing

Currently, donor funding is one of the two key sources of financing in SADC, which provides more than a third of the total financing of the regional integration agenda. However, ICP funding also led to a series of challenges, most of all regarding donor dependency.

It is recommended to start using ICP funding as a supplementary to finance the regional integration agenda. The funding could include both money and technical assistance and would reallocate domestic contributions raised by Member States themselves.

General Conclusion

Based on the above three components, the SADC Member States need to enter a decision-making process and agree upon a common vision on the way of financing the regional integration agenda in the future. A summary of options follows:

Remain Status Quo	Change the financing approach	Partly change the financing approach
Member States contributions and ICP funding	Member States agree upon an (e.g.) 0.2% import levy on eligible goods in each SADC country, to finance the coordination costs for regional integration (US$620 million) within 2 years. Supplement financing will be requested from ICPs. Innovative Sources will be explored at national level to finance SADC Programmes on (e.g.) infrastructure, agriculture, industrialisation, bankable projects, placing products on the market using technical support by AfDB.	Member States implement within their abilities but cannot comprehensively implement alternative and innovative sources. This approach will result in "a la carte-solutions".

4: The proposed SADC Resource Mobilisation Framework

Introduction

The SADC Resource Mobilisation Framework is the structure comprising the policies and strategies, legal instruments, main resource pillars and institutions that sustain the resource mobilisation processes of the Organisation. These comprise the SADC Treaty, the Regional Indicative Strategic Plan (RISDP), Resource Mobilisation Strategy, the main resource mobilisation pillars, including alternative sources, innovative sources and ICP Contributions.

More than outlining the above resource mobilisation structure and framework, this is intended to propose a paradigm shift in the current SADC resource mobilisation framework based on the discussed alternative and innovative options for the regional integration agenda.
The main assumptions for the proposed new SADC Resource Mobilisation Framework are that:

- SADC regional integration agenda, the programme of action, currently translated into the RISDP and SIPO, ought to be financed primarily by Member States.

- SADC Member States are willing and ready to live to the SADC Treaty and Founding Fathers commitments.
- In the medium and long-term, the SADC region has the potential to raise domestic resources to fund the main programmes of regional cooperation and integration.
- The studies on the alternative sources of resources for funding regional integration have demonstrated that SADC is in the position to raise a substantial and significant amount of the necessary resources required to fund regional integration.

4.1. The Policy and Strategic Framework for Resource Mobilisation

The SADC Treaty

In accordance with SADC Treaty [Article 25] (1) "SADC shall be responsible for the mobilisation of its own and other resources required for implementation of its own programmes and projects; (2) SADC shall create such institutions as may be necessary for the effective mobilisation and efficient application of resources for regional development".
Article 26 of the Treaty further asserts that "The funds of SADC shall consist of contributions, coming from SADC contributions and receipts from regional and non-regional sources".

The Regional Development Fund

The Treaty, through its article 26A establishes 'a special fund to be known as the Regional Development Fund in which shall be accounted receipts and expenditure of SADC relating to the development of SADC.' (2) The Regional Development Fund shall, subject to the Treaty, consist of contributions of Member States and receipts from regional and non-regional sources, including the private sector, civil society, non-governmental organisations and workers and employee organisations. (3) The Council shall determine the modalities for institutionalisation, operations and management of the Regional Development Fund.

The SADC Programme of Action: The Regional Indicative Strategic Development Plan (RISDP) and the Strategic Plan of the Organ

The RISDP was approved by SADC Summit in 2003 as the SADC blue print, a plan based on strategic priorities and on the SADC Common Agenda. It is designed to provide strategic direction with respect to SADC programmes, projects and activities.

Based on the assessment and review of the implementation of the (original version of the) RISDP, the Summit approved in 2015 a Revised RISDP 2015-2020 reprioritising the main areas of SADC integration agenda and re-aligning them.

The SADC Resource Mobilisation Strategy

To guide the process of mobilising resources to implement the RISDP in its original version, i.e., as approved in 2003 and following the Windhoek Declaration, as well as to re-affirm the principles of economy, efficiency and effectiveness in the use of resources, SADC Council of Ministers, (in March 2012 in Maputo, Mozambique) approved the SADC Resource Mobilisation Strategy (RMS).

The objective of RMS "is to ensure that there is a clear, systematic, predictable and well-coordinated approach to soliciting, acquiring, and utilisation, management, reporting, monitoring, and evaluating assistance from International Cooperating Partners and for expanding the resource base to ensure sustainable resource availability for implementation of the SADC programmes, in support of regional integration and Millennium Development Goals for the region."
Principles of RMS include the need to meet the SADC needs, promote efficiency and effectiveness, build on national, regional and international synergies, strengthen capacity and results-based management including monitoring and evaluation.

The RMS was based on the following pillars:
a. Planning, Monitoring and Evaluation
b. Capacity for Regional Resource Mobilisation
c. Broadening the Resources Channels
d. Framework of Dialogue with ICPs

This RMS might have been oriented to guide the *modus operandi* and efficiency of the Secretariat. There may be a need to review it and incorporate key elements of the proposed paradigm shift in SADC resource mobilisation approach emphasizing more on domestic/regional sources of resource mobilisation.

4.2 The Proposed Main Pillars of the SADC Resource Mobilisation Framework

The Regional Development Fund (RDF)

In line with its establishment by the SADC Treaty as alluded above, the RDF is in an advanced stage of being operationalised. To this effect, the SADC Council of Ministers, in accordance with its competences, approved the agreement on the modalities guiding the operationalisation of this important institution at its meeting of August 2016 in Lositha, Swaziland.

The Regional Development Fund comprises the following windows reflecting the SADC development priorities:

- Industrialisation
- Infrastructure
- Human and Social Development
- Food Security

Member States Contributions

Since its inception, SADC has relied on the assessed Member States contribution to fund the running costs of the institutions, coordinating the main areas of regional cooperation and integration, most notably the SADC Secretariat. Member States have also but to a lesser extent funded some or part of development programmes and projects. This situation has left the bulk of the integration and development programmes and projects to be funded predominantly by ICPs, a situation which is increasingly not sustainable for SADC. Assessed Member States' contributions are based on an agreed formula, which considers the GDP, per capita income and sometimes the ability of Member States to pay. In most if not all cases, Member States' contributions originate directly from national budgets with different financial calendars, which often create challenges in the timely implementation of the plan and budget of the SADC Secretariat.

In the current *modus operandi,* planning and budgeting of SADC programmes is directly conditioned by the performance of the national economies - a situation achieved by a ceiling established as a function of economic growth and inflation rates in Member States. In these circumstances, the organisation's result framework is subordinated uniquely to national budgets, a situation which makes the medium and long-term plans of the organisation impracticable. The only significant mitigating factor in this situation is the financial and technical support from ICPs which, in turn, is unpredictable.

The Alternative and Sustainable Sources of Funds and the RMF

Although the studies on the viability of a number of alternative sources of income for funding regional integration programmes were not sufficiently comprehensive to determine the precise magnitudes of the potential revenue that can be raised by the introduction of regional levies/taxes on agreed areas (*viz* trade, tourism, financial transactions and others alike), the exercise demonstrated convincingly that to a great extent, the proposed alternative sources of funding for regional integration are feasible.

Empirical evidence and best practices from ECOWAS, CEMAC, and ECCAs have shown that alone the introduction by all Member States of an import tax of 4-5% generated enough resources to fund the Secretariat running budget and a great deal of the programmes' budget.

As was argued in the previous section, a regional levy on activities agreed upon by all Member States is a more reliable and predictable means of generating income for the coordination of the SADC Regional Integration Agenda (US$620 million) than direct Member States contributions from national budgets.

Against this background, it is proposed that SADC replaces the current system of assessed Member States contributions by regional taxes on agreed good. As demonstrated in the studies on the different potential sources of funding and the benchmarking studies that analysed best practices from other RECs, a regional import tax on goods originating outside the region seems to be the most practicable and viable option for SADC, at least in the short and medium term. The introduction of a regional import tax, and innovative sources of funding to finance SADC programmes is provided for in the Treaty (Article 25). Given its potential impact in Member States' economic activities, this process will require a regional protocol or agreement and probably an amendment to the Treaty.

The transition from the status quo to the introduction of the proposed regional self-financing mechanism would require clear guidelines and a road map. A similar process has taken more than 5 years to materialise in case of ECOWAS.

Realigning the Main Sources of Resource Mobilisation

In its Chapter 6, the Revised RISDP (2015-2020) points out that, at this stage "the objective of resource mobilisation is to attract and secure resources for implementation of the SADC programmes and to broaden the resource base to ensure sustainability. The focus will therefore be on establishing innovative approaches to resource mobilisation for the achievement of the regional cooperation and integration agenda of SADC.

Key strategies will include:
- Operationalisation of the SADC Regional Development Fund.
- Operationalisation of blending mechanisms, including building capacity for blending at national and regional levels through the development of blending frameworks and operational guidelines.
- Institutionalisation of self-financing mechanisms, including voluntary contributions by Member States, diaspora, Civil Society Organisations and private sector.
- Promotion of non-traditional development partners such as BRICS in the context of South-South Cooperation.
- Promotion of the use of Public-Private Partnerships (PPPs) in the development and financing of infrastructure.
- Institutionalising and operationalising policies and instruments that minimise capital flight, including illicit financial flows, from the region.

Implementing these strategies clearly requires a paradigm shift. Accordingly, the following structure of resource mobilisation is envisaged and proposed:
- Regional Development Fund
- Member States Contributions
- Regional Self-Financing Mechanisms (regional levies on imports, tourism, financial transactions, philanthropy, Lotteries)
- Voluntary Member States contributions
- Private sector contributions

- Contributions from Civil Society
- Contributions from employers and employees' organisations
- ICPs Funding

Funds from regional self-financing mechanisms should be directed to fund the budget for regional public coordination run by the Secretariat, in replacement of the current Member States contribution, and to the Regional Development Fund, which through its different windows, is the natural custodian of resources for funding SADC priority development programmes, such as industrialisation and infrastructure development. The RDF should also be the recipient of the contributions from other stakeholders, which would be consolidated in the different RDF's windows.

Some regional self-financing mechanisms could be established to raise funds for specific windows of the RDF. For instance, a tourism levy can be oriented to fund the infrastructure window, particularly tourism-related infrastructure.

It will be important to ensure that funds generated through an import tax or any other regional tax are not seen as fleeing abroad without a clear, visible link with national development programmes, particularly those related to regional integration. A solution adopted by ECOWAS was to dedicate 4.5% of the revenue raised for the implementation of ECOWAS programmes, including the regional integration public coordination cost.

The role of international finance in enhancing regional / domestic resources remains critical. For SADC countries to make better use of both international, public and private finance, there should be a greater focus on utilising such funds to unlock and leverage domestic resources to address critical challenges hindering social and economic transformation.
SADC and its governments need to ensure that ICPs continue to support regional integration based on its own priorities as outlined in the Revised RISDP (2015-2020). This will only be possible if ICPs are encouraged to use national and regional planning processes and systems for resource allocation.

The same strategy should be pursued regarding Multinational Corporations (MNCs), which if adequately engaged, will benefit the region and Member States through transfer of technology of key sectors of development. To maximise benefits of MNCs, SADC and Member States need to put in place a conducive policy environment, including the creation of absorptive capacity through, among other things, participation in regional and global value chains.
Regional dimensions of (innovative) resource mobilisation for regional integration and development include the development of capital markets, cross-border and intra-African Investment.

The studies on alternative sources of finance, particularly the options commissioned by the SADC Council of Ministers, have concentrated on regional levies, philanthropic activities, lotteries and other forms of contributions or donations. The RISDP, however, also emphasize innovative sources of finance. These include:
(i) private and institutional finance, such as pension funds, sovereign funds, and private equity
(ii) Public Private Partnerships (PPP), bonds, bankable projects, blended finance.

The use of SADC-mobilised resources should be guided by the Organisation's resource allocation framework which, in turn, is based on SADC priorities as outlined in the RISDP and SIPO.
Taken on a gradual approach, the process of introducing the proposed self-financing mechanism has the potential to raise substantial amount of resources to fund a multitude of regional development programmes and projects, which will significantly contribute to an accelerated socio-economic transformation of the region.

5: Conclusions and Recommendations

As described in the previous chapters, the investigated options for alternative sources for funding the regional integration agenda, although at different levels and degrees of feasibility, offer significant potential for viable and sustainable sources of revenue for SADC to fund its regional programmes and projects.

Empirical evidence and best practices found in the literature reviews suggest that some of the options for raising regional funds are easier to implement than others, particularly based on complexities associated with their operationalisation and implementation, most notably the technical, legal and institutional frameworks. While detailed assessments and consultations with all relevant structures in Member States have not yet taken place, best practices as well as benchmarking with the AU and other RECs provides strong evidence of the viability of alternative sources of sustainable funding in particular import tax and tourism levy. The import tax is currently being implemented in some RECs, such as ECOWAS, ECCAS and soon at the African Union. In the area of tourism, there are several potential options but among them, two seem more attractive and practicable for SADC in the short and medium term, namely *a) Levy on International Travel and b) Tourism Tax*.

The implementation of regional revenue raising is likely to have an economic impact in most if not all Member States. The magnitude of such impact will differ from country to country depending on the level of development, economic structure and performance of the different Member States.

With regard to the operationalisation of an import levy, it is an advantage that much of the infrastructure required to collect the levy already exists in the Member States through their Customs Administrations as well as the ASYCUDA, which is used by almost all the Member States. Remittances of obligations to the SADC Secretariat by the Member States are normally done through the central banks and this model can also be used for the transmission of the levy.

Based on the findings of the study, the following recommendations are hereby made:
1. The main recommendation of the study is for SADC to agree on a paradigm shift, by adopting the introduction of a regional import tax and tourism levy to be implemented by all Member States as the main source of funding to support regional integration programmes and projects.
2. The revenue raised through the proposed levies would replace the assessed Member States' contributions to fund both the budget of the Secretariat and implementation of priority programmes and projects.
3. It will be necessary to put into place an appropriate legal and institutional framework at both national and regional level for the operationalisation of these two options.
4. Whilst the studies on alternative funding options concluded that all these options have the potential to raise resources to support regional integration, it is recommended that a gradual approach be adopted.
5. Given the trend by RECs to adopt the same approach towards funding of regional integration programmes, there is a possibility of other RECs with which SADC Members States are also members, namely COMESA, EAC and IOC, adopting the same funding modality. ECCAS has already adopted a model that affects Angola and DRC. In that regard, it will be important to align and harmonise the Member States' contributions based on this approach, to avoid duplication and complications.

The Southern Africa Trust in cooperation with the SADC Secretariat conducted in-depth national impact assessment studies on the viability of the proposed options, specifically, those on import levy, tourism levy, transport levy and Financial Transaction Tax, taking into consideration key economic indicators for each of the SADC Member States, as well as Country Positions from Member States to better address their concerns.