FINAL REPORT

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SUBMITTED TO
USAID/Washington

UNDER CONTRACT NO.
PCE-I-00-98-00016-00,
Task Order 816

SUBMITTED BY
Nathan–MSI Group

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Introduction

This is the final technical report for Nathan Associates' activities under contract PCE-I-98-00-00016-00, SEGIR General Business, Trade and Investment IQC, Task Order 816 for the *Technical Assistance to the Southern African Development Community (SADC) Secretariat for the Implementation of a Macroeconomic Performance Support Program for the SADC Region*, carried out from December 2000 – September 2004. The project was implemented by the Nathan-MSI consortium for SEGIR-GBTI, with Nathan Associates Inc. as the sole contractor. For convenience, we will refer to this here as the SADC-TIFI project.

The principal objective of the SADC-TIFI project was to enable the SADC Macroeconomic and Tax Subcommittees to make measurable progress towards achieving their objectives in macroeconomic convergence and tax policy harmonization. At the outset, the Senior Macroeconomic Policy Advisor (SMPA) advocated the adoption of two Memoranda of Understanding (MOU) covering Macroeconomic Convergence, and Cooperation in Taxation. These efforts led to a series of consensus building meetings with the SADC Council of Ministers, the Integrated Committee of Ministers (ICM) and the Ministers for Finance and Investment, deconstructing the objectives to be contained in the MOU, achieving consensus, and advocating for a Protocol on Finance and Investment. Both MOUs were signed in August of 2002. These two path-breaking documents have been the fulcrum for virtually all activities pursued by Nathan Associates for this project.

Whereas the project began by providing technical assistance to help SADC formulate and develop the two key MOU's, after the documents were signed the main aim of the technical assistance agenda was to help SADC move towards implementation of the MOUs, with the help of international experts in the fields of tax policy and macroeconomic policy. This work helped to provide a roadmap that will guide SADC member states as they move gradually but deliberately towards achieving the goals of macroeconomic convergence and tax policy harmonization.

The basic formula for the technical assistance program under the SADC-TIFI project was fairly straightforward - each MOU contained several articles where member states agreed to develop common policies; those articles were then translated into scopes of work, and Nathan Associates identified international experts to collect the necessary data, prepare technical reports, and deliver related capacity building events. The technical reports were distributed to member states for comment, followed by workshops where participants had the opportunity to discuss the findings and seek a consensus on how to pursue the goals identified in the MOU.

In the course of helping SADC develop and pursue two MOUs, which are vital to future integration of the Community, the principal achievements of the project include:

- Three major technical studies and associated workshops on macroeconomic convergence, including influential work on macroeconomic indicators and the establishment of a macroeconomic monitoring, surveillance and performance unit;
- Two major technical studies andsix workshops on tax policy and tax administration, with particular attention to the application of tax incentives, and implementation of the value added tax (VAT) in the SADC region; and,
- Concerted assistance in the development of a comprehensive and publicly accessible database of information on tax systems in the SADC region.

The project faced considerable setbacks and implementation problems. For the most part, the problems were logistical in nature, and do not detract from the body of work that was produced, and the value of the project's contributions to technical analysis and capacity building. Nonetheless, there are several planned activities for which scopes of work were drafted, but which we were unable to complete due to a series of delays and subsequent budget cuts. This unfinished business could serve as the starting point for a follow-on program to provide further support for SADC member states in their quest to develop a thriving regional economy. It is unlikely that any follow-on project would experience delays comparable to those encountered by Nathan Associates in the SADC-TIFI project since many of the problems were incumbent on the cumbersome process for official approval of the two MOUs, and on the difficulty of getting Member States to reach an initial consensus on steps towards cooperation in the areas of macroeconomic policy and tax policy. In addition, lessons learned from dealing with the problems we encountered in the collection of data for the Tax Database and for various technical studies should help future contractors in planning and implementing similar endeavors.

The main purpose of the present report is to detail the objectives, activities, and accomplishments of the SADC/TIFI project, and to provide recommendations on future action needed to continue helping the SADC subcommittees achieve their objectives. The report is divided into two main parts—*Program Design and Objectives*, and *Program Review*. The first part outlines the structure of the project, highlighting project resources, and outlining key objectives. It also describes key successes of the project as well as areas of difficulty and setbacks that affected project deliverables. Drawing on this experience, the paper discusses where follow-on work is appropriate, and where new initiatives could have a significant impact. The second part is divided into two major sections covering macroeconomic convergence and tax policy harmonization. A third section briefly describes other project contributions. Under each of the main headers the report provides a comprehensive review of each project activity—including workshops, reports, and any other relevant products. Finally, part three of the report offers broad conclusions about the extent to which the project accomplished the main objectives of the Task Order.

Project Design and Objectives

This section reviews the project design and objectives, and the program management. It also provides a discussion of the main successes and setbacks, along with recommendations based on lessons learned in carrying out the program of activities.

The project falls under the purview of USAID's Regional Center for Southern Africa (USAID/RCSA), as a component of the Agency's Initiative for Southern Africa (ISA). The goal of the ISA is to promote equitable, sustainable economic growth in a democratic southern Africa. In pursuit of this goal, USAID/RCSA identified "a more integrated regional market" as Strategic Objective 2 (SO2). The SADC-TIFI project falls under this SO, as embodied in Intermediate Result 1 -- Reduced Barriers to Broadened Participation in the Regional Market, through reduction of tariff and non-tariff barriers to trade, reduced barriers to investment and increased access to and utilization of financial services. The project also supports Intermediate Result 3 -- Advocacy for Sustained Regional Integration Strengthened.[1]

USAID/RSCA initially entered into a two-year contract with Nathan Associates to provide senior level policy advising to the SADC Finance and Investment Sector Coordinating Unit (FISCU), to enhance the Unit's capacity to manage and coordinate SADC's macroeconomic convergence program in support of regional integration. The advisor was supported by short-term technical experts. The period for the Task Order originally ran from December, 2000, through November, 2002.

The SADC-FISCU program had four specific objectives:

- Provide a full-time Senior Macroeconomic Policy Advisor (SMPA) to FISCU;
- Provide a flexible mechanism to respond to short-term requests for consulting services that are directly related to the goal of promoting macroeconomic convergence and regional economic integration in the region;
- Provide resources for three regional workshops on taxation issues; and,

[1] USAID/RCSA contract with Nathan Associates Inc., PCE-I-98-00-00016-00, Task Order 816.

- Provide resources and support for three regional workshops on macroeconomic convergence issues.

In August of 2001, SADC underwent a re-organization in order to centralize operations in Gaborone, Botswana. At that time, FISCU's activities and functions were transferred into the Directorate of Trade, Industry, Finance and Investment (TIFI). Accordingly, the SMPA moved from Pretoria to Gaborone, to work at the SADC Secretariat headquarters.

In May, 2002, USAID/RCSA issued a Modification to Nathan's Task Order. The project name was changed to "Technical Assistance to the Southern African Development Community (SADC) Secretariat Directorate of Trade, Industry, Finance, and Investment (TIFI) for the Implementation of a Macroeconomic performance Support Program for the SADC Region" –for short, the SADC/TIFI project. The modification was designed to provide additional technical assistance to the TIFI Directorate to enhance its capacity to manage and coordinate the SADC macroeconomic convergence program in support of regional economic integration. The main tasks identified in the amended Statement of Work included:

- Advise the SADC Secretariat and SADC Member States on policy matters related to macroeconomic convergence and regional economic integration;
- Provide a full-time program assistant to the Senior Macroeconomic Policy Advisor;
- Provide resources and support for an additional five regional workshops on macroeconomic convergence issues; and,
- Provide resources and support for an additional five regional workshops on taxation issues.

The completion date for the new project and objectives was September 30, 2004. In line with the expanded program of activities, the budget ceiling was also increased, as discussed in the next section.

Program Funding

The initial award for Task Order 816, effective for two years from December 1, 2000, was in the amount of $1,451,682.14. As noted, the goal was to provide technical assistance to the Finance and Investment Sector Coordinating Unity (FISCU) of the Southern African Development Community to enhance its capacity to manage and coordinate FISCU's macroeconomic convergence program in support of regional economic coordination.

Modification #1, dated December 8, 2000, was issued to correct an administrative error under the amount obligated, increasing it from $643,774.38 to the ceiling price.

Modification #2, dated May 23, 2002, extended the task order completion date through September 30, 2004, incorporated a revised Scope of Work, and increased the ceiling price of the task order by US$1,696,600, to US$3,148,282.

Although there have been no formal modifications since June 7, 2002, USAID/RCSA informed Nathan Associates in September, 2003 that project funding would be held at the originally obligated amount of $1,451,682.14.

In response to a letter from the acting Mission Director, dated October 16, 2003, Nathan Associates provided USAID/RCSA with a revised pipeline and projected expenditures, under which the project has since been operating. Within the confines of the revised budget, USAID/RCSA and Nathan Associates agreed that the scope of work for the remainder of the project would be narrowed to focus on the completion of two major technical reports on tax incentives, and on the administration of VAT, along with the respective capacity building workshops.

The funding cut and the scale-back of project activities were linked to a decision by both USAID/RCSA and Nathan Associates to terminate the long-term resident advisor position (as discussed below). At the same time, there was a mutual recognition that the agenda of activities stipulated in Modification #2 was overly ambitious in two respects: first, to obtain quality results on ambitious scopes of work, each study was proving to take far more time than originally envisioned; and second, the host subcommittees balked at participating in such a concentration of events under this project.

In late 2003 the tax incentives study and workshop were completed successfully. The VAT administration study was also completed, but due to coordination issues between USAID/RCSA and the SADC Secretariat relating the participation of Zimbabwe and DRC as well as scheduling conflicts within SADC, it was not possible to convene the planned VAT workshop prior to the end date for the current project. Given the high importance of this topic for moving towards regional integration, the tax subcommittee still intends to hold the workshop on VAT administration in 2004, but it will have to be funded from other sources (most likely from DfID). In place of the VAT workshop, Nathan Associates worked closely with the CTO to reprogram the corresponding budget resources to alternative capacity building activities. These developments are discussed in detail in the program review, below.

Program Staffing and Level of Effort

The project inaugurated operations in December 2000 in the Directorate of Finance and Investment Sector Coordinating Unity (FISCU) at the National Treasury in Pretoria, South Africa. Staffing consisted of the Chief of Party, Dr. Moeketsi Senaoana, who functioned as the Senior Macroeconomic Policy Advisor (SMPA) to FISCU. Over the life of the project approximately 1181 days of professional services were supplied, comprised of 282 days for expatriate short-term labor, 701 days for the Chief of Party, and 198 days for third country nationals (TCNs)[2].

Modification #2 included funding for a program assistant (PA) to help the SMPA deal with the administrative burden of project implementation. Due to office space limitations at the SADC Secretariat, and the fact that the concerned parties could not achieve a consensus on the appropriate candidate, a decision was reached after considerable discussion to leave the PA position unfilled.

As a result of a home office management trip by Jennifer Graetz, Nathan Associates determined that the SMPA did require assistance in formulating and formatting scopes of work for the large number of technical assistance activities stipulated in the SOW for modification #2. For this purpose, Nathan then hired Dr. Malcolm McPherson from Harvard University. After a follow-up management visit by Christa Lachenmayr, six SOWs were either finalized or close to completion during the first quarter of 2003, and the process began of identifying consultants to undertake these analyses.[3]

In August, 2003, Nathan Associates and USAID/RCSA jointly agreed that Dr. Senaoana should be terminated and replaced as COP and SMPA. Nathan Associates offered two highly qualified candidates. USAID expressed a preference for the appointment of Mr. Mohamed Cassam as a new COP. Because of the close working relationship between the sitting SMPA and senior officials at SADC, deliberations on the decision to replace him were kept to a limited sphere of senior personnel at USAID, the SADC Secretariat, and the contractor. When the replacement SMPA was presented to the Executive Secretary and TIFI Director, Mr. Cassam's candidacy was rejected. USAID and the contractor then decided that the SMPA position would be terminated and that the project would continue without the services of a COP in Gaborone. As a result, the project management functions were assumed by the project director Paola Lang at Nathan headquarters. In mid-October, 2003, Ms. Lang left her position at Nathan Associates. The position of project director was then assigned to Dr. Bruce Bolnick (who was now a full-time Nathan employee, rather than a consultant), supported heavily by program backstoppers at the head office.

Project Management

At the outset, the project was managed by Dr. Moeketsi Senaoana in the field from Pretoria, South Africa and subsequently from Gaborone, Botswana. Dr. Senaoana was supported by home office project directors John Varley, Leila Calnan, Sammy Nadifi, Paola Lang and Bruce Bolnick, in that

[2] Note that this was the LOE figure from the July 2004 invoice and will be revised upward at project completion.
[3] The six SOWs covered: the effectiveness and impact of tax incentives in SADC (study and workshop delivered);; assessment of VAT implementation in SADC (study delivered);; establishing the Macroeconomic Convergence Monitoring, Surveillance, and Performance Unit (study and workshop delivered);; administration and coordination issues for tax harmonization (dropped due to budget cuts); implementation of a macroeconomic convergence program for SADC (dropped due to budget cuts); indirect tax barriers to intra-SADC trade (not approved due to overlap with other projects); and assessment of the economic impact of the Zimbabwean crisis on the SADC region (not approved due to political issues).

order.[4] After Dr. Senaoana left the project in 2003, first Paola Lang and then Bruce Bolnick assumed the responsibilities of project manager / acting Chief of Party.

Activities were programmed in annual work plans approved by the Mission, the TIFI Director, and the tax and macroeconomic committee chair persons. The project was supported by four home office backstoppers at different intervals, Paola Meta, Jennifer Graetz, followed by Christa Lachenmayr and finally Alexander Greenbaum. The project should also recognize the stellar contributions of David Hollinrake from DFID, who worked with the project extensively on tax issues in his role as advisor to the SADC tax subcommittee. The project could also not have functioned without the support of Travelwise in Gaborone, Botswana for arranging conferences and handling logistics on the ground. Particularly after the resident COP position ended, with no administrative staff from Nathan on the ground in Gaborone, we could not have completed these major undertakings without their dependable support. We also wish to acknowledge the highly capable support of the Cognizant Technical Officer at USAID, Mr. Stanley Muponamunda, who was involved in programming and implementing the project.

Successes

The great success of the SADC-TIFI project was its support to SADC Member States in determining a program for moving towards tax policy harmonization and macroeconomic convergence in the respective Memoranda of Understanding, and then assisting the respective SADC subcommittees in taking initial steps towards implementation of these historic agreements. The two MOUs place the community firmly on a path towards the central goal of regional integration.

Many of the topics covered by the MOUs were, and continue to be, highly controversial. Thus, achieving a consensus required a great deal of analytical support and diplomacy on the part of the SMPA to present and advocate the policies and actions contained the MOUs. Once the MOUs were adopted, the SADC-TIFI project assisted member states in getting a head start on realization of the goals, by providing international experts to assess issues and commitments in the areas of macroeconomic integration and tax policy harmonization . The project also helped SADC plan and organize events which provided a forum for ministry staff from member states to come together, use the technical analysis as a tool to stimulate discussion , and formulate a unified position on various issues or commitments. In addition, several of the technical outputs have been highly instrumental in influencing SADC activities and attitudes of the member states. Each of the accomplishments is deconstructed in the Program Review section of this report.

[4] To explain the turnover of project directors: Ms. Calnan left the head office was assigned to take up a long term position with a Nathan project in Sri Lanka. For career reasons, Mr. Nadifi and Ms. Lang chose to move to other jobs. Dr. Bolnick joined Nathan Associates in October, 2003 as a full time employee, in the role of Chief Economist for the International Group.

The project was also highly successful in working with other international agencies and organizations such as the World Bank, International Monetary Fund (IMF), and the United Kingdom's Department for International Development (DfID), and the Organization for Economic Cooperation and Development (OECD). The project brought internationally renowned experts in tax issues and regional integration at little or no cost to SADC and nominal cost to the project. These interactions have improved overall donor coordination and relations with SADC member states and the subcommittees. They have also heightened the interest of leading technical experts in helping SADC member states address problems of tax coordination and macroeconomic convergence.

Together, the deliverables from the SADC-TIFI project compose a body of work that the member states are able to refer to and use as a roadmap to achieve the macroeconomic integration and tax policy harmonization targets that were set out in the MOU. Without the assistance of the project, it is highly unlikely that this critical research would have been conducted. Activities are as follows:

- Macroeconomic Convergence, Phase 1, study and workshop;
- Macroeconomic Convergence, Phase 2, study and workshop;
- Value added tax workshop;
- Establishing an Macroeconomic Monitoring, Performance and Surveillance Unit (MSPU), study and workshop;
- Development of the SADC tax database;
- Revenue Estimation workshop;
- Double Taxation workshop;
- Excise Tax workshop;
- Effectiveness and Impact of Tax Incentives, study and workshop;
- Assessment of the Implementation of VAT study ; and,
- Analysis of Tax Incentives, training workshop.

The most notable and influential project achievements included our work on macroeconomic convergence indicators; the establishment of a macroeconomic monitoring, surveillance and performance unit; the SADC tax database; and the role of tax incentives. These outputs will have long-lasting beneficial effects in helping promote regional cooperation. For example, the tax database will serve as a benchmarking resource and tool for policy makers and investors, as a first operational step in realizing SADC's goal of tax policy harmonization.

Without a doubt, the SADC-TIFI project also made major contributions to improve the economic and analytical capacity of the workshop participants from SADC member states. In the two central areas of programmatic activity – macroeconomic convergence and tax harmonization – the studies and workshops had a discernible impact in raising the levels of technical understanding among key officials in SADC and in the member states.

Set-Backs and Implications for Further Support

The main problem faced in carrying out the project was an acute mismatch between the objectives and deliverables laid out in the contract, on the one hand, and the ability and availability of counterparts to participate in the implementation of those commitments. Given the manner in which the contract and objectives were written, the prospects for success or failure of the project depended from the outset on actions of our partners not only from the SADC Secretariat, but also from the member states. Given the limited project staff and funding for this activity and the wide geographical dispersion of the SADC member states, and the bureaucracy of an organization of SADC as such, the objective in modification #2 of developing and implementing ten major technical studies and ten additional workshops in a two year time frame was essentially unachievable.

The management team and our consultants were regularly faced with the issue of assistance saturation on the part of the member state representatives, as well as scheduling conflicts and funding issues internal to SADC and its member states. Each workshop was preceded by a prior study or assessment. Many of the studies required cooperation from each of the thirteen member states – fourteen, after the DRC joined SADC – in completing questionnaires to provide the researchers with adequate data from which to draw conclusions. Then, when draft reports were written, each counterpart was expected to provide feedback on the report and then prepare for detailed discussion at the workshop. Timely feedback was very difficult to obtain, and in many cases absent altogether. Once the workshop was held, it was the job of the participants, as representatives of the member states, to disseminate the findings in their home country. Most often, the same official for a member state was designated for multiple tasks such as providing data or respond to queries or disseminate information, without being freed from other responsibilities at Ministries wh ich were already understaffed.

Additionally, to streamline the approval process for each project deliverable, the official counterpart for this project was the Supervisor of the TIFI Directorate. Yet implementation of the deliverables relied heavily on the involvement of the Committee Chairs, for they were best placed to motivate committee members to respond to requests for data and information. They were also best positioned to utilize the technical results of the reports that were written. In too many instances, this organizational structure did not provide for adequate input from the Committee Chairs on timing or content of the research agenda. As a direct consequence, the project work plan often proved to exceed the absorptive capacity of the principal operational clients.

Given the project's structure, special difficulties arose after the decision was made to terminate the SMPA position. Without having a project team resident in the field, it was much more difficult to coordinate with committee chairs, pursue the research agenda, and organize workshops, especially because the management costs were then borne primarily from the contractor's overhead. At the same time, the elimination of the SMPA position helped the contractor and USAID to refocus the project's activities on the research program, since the SMPA was expected by SADC to be heavily involved in day-to-day operations of the Secretariat.

In any future USAID activities in conjunction with SADC, it would be most helpful if the research could be developed more flexibly, to be more responsive to client demands and constraints – akin to a local indefinite quantity contract (IQC). In this way, a manageable research program can be laid out between USAID/RCSA, the SADC Executive Secretary, the Supervisor of the TIFI Directorate, and the Committee Chairpersons. In addition, each study can then be implemented in a realistic and mutually agreeable timeframe – again, flexibility to modify deadlines subject to exigencies in the field. With this design, one might even be able to run the program without requiring a full-time SMPA in the field, but allow for counterparts on the Tax Committee and the Macroeconomic Committee to drive and coordinate the research efforts. This approach could be highly cost effective for USAID/RCSA, and provide the client organization (SADC) with a highly efficient vehicle for obtaining essential technical support and capacity building assistance.

A prime example where procedural rigidities impaired the achievement of results was the problem of funding professional translation of the tax database questionnaire into French and Portuguese, and then translating the responses back into English. This service was clearly needed. Because the project was enjoined from using funds for this purpose, the non-English speaking member states translated the questionnaires themselves, and often replied in their own language. This meant that the questions were not interpreted consistently. In the end, the South African national language service completed the translations without compensation, and therefore not as a priority adding months to the process of completing the tax database. If the project had been structured with flexibility to cover this exigency, the consultant and the tax subcommittee would have had better quality control and faster turn-around, allowing more resources to be used for the actual database implementation. In addition, delays in compiling the tax database caused knock-on delays in carrying out other studies on tax harmonization, because the latter were supposed to use the database as an input for comparative analysis.

Lastly, the project encountered unexpected set-backs stemming from the United States government's standing policy not to fund workshop delegates coming from Zimbabwe or the Democratic Republic of Congo (DRC). The problem arose midway through 2003, when the SADC Secretariat took the position that SADC would not have any delegates participate in workshops that did not provide funding for delegates from all member states. This impasse seriously interrupted the research agenda and workshop program of the project.

Nathan Associates' experience in managing the SADC/TIFI project suggests several avenues for follow-on work and new initiatives could have a significant impact. First and foremost, several project initiatives were not implemented due to the implementation delays, procedural problems, management changes, and budget cuts discussed above. The most important of these activities for future attention are:

- On-the-ground technical assistance to SADC headquarters and targeted member states on appropriate policies and measures for implementing agreements on macroeconomic convergence.
- Analysis of administration and coordination issues relating to tax harmonization.
- Analysis of indirect tax barriers to intra-SADC trade.

Further technical support would also be valuable to ensure that the SADC tax database initiative reaches fruition. Particular emphasis should be placed on developing effective systems for updating the tax data, extending the database to include detailed time-series statistics on revenue collection and the overall fiscal position of each member state, and linking the SADC database to national government websites in the member states.

Program Review

This section provides a review of SADC/TIFI program activities.[5] The main activities fell into two categories: macroeconomic convergence; and tax policy harmonization. This section also briefly covers other project contributions, a catch-all for other activities.

Macroeconomic Convergence

The project played a major role in facilitating the development of a consensus that led to the signing of the historic Memorandum of Understanding on Macroeconomic Convergence in August, 2002. The project also provided critical technical inputs into the MOU. Thereafter, the project made important contributions to helping the macroeconomic subcommittee take the first steps towards implementation of the Memorandum.

The Memorandum of Understanding on macroeconomic convergence recognized the importance of macroeconomic stability among member countries, and sought to support this through identifying stability-oriented policies, measuring convergence, and establishing a collective procedure to monitor progress on convergence. More specifically, the objective of the MOU was to establish a framework under which signatories source their efforts to move towards co-operation and co-ordination of macroeconomic policies in pursuit of eventual macroeconomic convergence, as a requisite for eventual regional economic integration. This MOU sets forth a statement of intent of the SADC Ministers of Finance and Investment to establish a framework for mutual assistance and to facilitate exchange of information between authorities to enforce or secure compliance with any laws or regulations of their respective jurisdictions. The MOU also served to promote the integrity, efficiency and sound macroeconomic (monetary and fiscal) policies by providing effective co-ordination and enhancing or fostering investor confidence thereby leading to cross-border investment flows.

[5] Note: Modification #2, Nathan's contract with USAID/RCSA indicates that a final report should be approximately 100 pages in length. The subsequent agreement between USAID/RCSA and Nathan Associates Inc. in 2003 to hold budget ceiling to $1.45 million rather than increasing it to $3.15 million obviously had the effect of reducing the number of project activities. The length of our final technical report is reduced accordingly.

The project's accomplishments with regard to the MOU included assisting the macroeconomic subcommittee with:

- Finalization of the Macroeconomic Stability MOU, which provides impetus to SADC work on economic governance, and outlines areas of regional policy cooperation and coordination to achieve the desired goals;

- Identification of economic stability indicators and providing for fiscal and monetary policy coordination in pursuance of macroeconomic stability objectives , under the MOU; and,

- Establishment of the Monitoring and Surveillance Unit as an independent institution to foresee the implementation process and assess the level of compliance

To further support implementation of the MOU, additional activities were identified and developed, but not implemented due to the delays and budget cuts discussed in the previous section . These objectives of these activities included:

- Estimation of targets for four main indicators: inflation, public budget deficits, external balance; and debt as a percentage of GDP;

- Determination of the degree of divergence from the estimated target indicators for each SADC Member State; and,

- Review and analysis of existing macroeconomic policies in relation to the stability objectives stipulated in the MOU.

REPORT ON MACROECONOMIC CONVERGENCE, PHASE I

The structure of the report included two phases. Under Phase I consultant Eric Schaling of Genesis Analytics was tasked with defining variables and indicators of stability and convergence. The author then designed targets that the SADC economies would be expected to meet to further convergence efforts. In the report resulting from these activities, the author assessed the current state of convergence in the SADC region. SADC countries were compared to the J.P. Morgan Emerging Markets Bond Index, and each country was then compared against the SADC average. The author provided details on the availability of data from SADC member states and proposed an institutional design for the SADC convergence program. An initial draft report was presented at the initial macroeconomic convergence workshop in July 2001 (see below). A second draft was presented at the following macroeconomic convergence workshop in August 2002 in Gaborone, Botswana. The final report was submitted to USAID/RCSA in March 2003.

In July 2001, in Pretoria, South Africa, the SADC ministers of finance and investment unanimously endorsed a draft memorandum of understanding on macroeconomic stability and convergence. Member States concurred that macroeconomic convergence in SADC will be measured by a set of four key indicators. In the scope of work for the Report on Macroeconomic Convergence, Nathan Associates and USAID/RCSA provided a list of these indicators. Indicators provided included:

- Rate of inflation in each Member State, measured by the Consumer Price Index (CPI);
- Ratio of the budget deficit to GDP, cyclically adjusted;
- Ratio of the public debt to GDP, including all publicly guaranteed debt; and,
- Balance and structure of the external account.

The author of the Macroeconomic Convergence Report was required to specify quantitative targets to which Member Countries should be expected to adhere. Based on the findings in his report, the following targets were deemed appropriate:

- Inflation rates (CPI) of SADC countries in a 6 – 9 percent range;
- Ratio of the budget deficit to GDP of any SADC country must be in a minus 3 to plus 3 percentage range;
- Ratio of the net present value of public or publicly guaranteed debt to GNI must be no larger than 40 percent; and,
- Current account deficit as a percentage of GDP must be no larger than 6 percent.

With respect to the indicators, only Mauritius met the inflation target. In terms of the budget deficit, Botswana, Mauritius, Namibia, Swaziland and Tanzania fell within the required percentage range. A larger portion of member states met the debt to GNI ratio. These countries included: Botswana, Mauritius, Namibia, South Africa, Swaziland and Zimbabwe. An equal number fell within the acceptable range of the current account deficit as a percentage of GDP. For example, Botswana, Mozambique, Namibia, Seychelles, South Africa, and Swaziland fell within this range.

In terms of the availability of data from SADC member states required for a convergence program, the report found that the fewest data are available for Tanzania, Zambia, Malawi, Angola, Mozambique, and the Democratic Republic of Congo. In these countries, the biggest gaps concern data related to budgetary issues, balance of payments, and level of indebtedness. More extensive work needs to be done to determine capacity both at an institutional and procedural level to gather much needed data.

FIRST MACROECONOMIC CONVERGENCE WORKSHOP, JULY 2001

The first macroeconomic convergence workshop was held in Pretoria during the week of July 9, 2001. The purpose of the workshop was to debate the appropriateness of macroeconomic convergence as an objective for SADC and, in particular, the use of the policy convergence indicators relating to:

- Debt (as a percentage of GDP);

- External balance (as a percentage of GDP);
- Fiscal deficit (as a percentage of GDP); and,
- Inflation (CPI).

The basic objectives of the workshop included:

- To develop a common understanding of the macroeconomic policy co-ordination, convergence issues, challenges and prospects investment leading to an accelerated growth and development;
- To provide a platform for debate and promote greater awareness as well as an appreciation of the need to enhance investor (domestic and foreign) confidence in terms of macroeconomic stability, risk mitigation and an improvement of the investment climate in SADC region;
- To highlight the aims and objectives of macroeconomic convergence, explain the reasons why there has been a need for convergence as part of regional economic integration and explain whether convergence can address both economic stability and income distribution ;
- To highlight the envisaged potential benefits of achieving convergence and to explain the anticipated gains which will serve as incentives for SADC member countries to comply;
- To highlight the experiences of other regional blocks which have attempted macroeconomic convergence including the major obstacles and problems of achieving convergence targets ; and,
- To build consensus, obtain a political buy-in and commitment from key stakeholders in SADC region.

Day one of the workshop was devoted to a plenary session which provided an opportunity for dialogue on global issues of macroeconomic convergence, trade integration, monetary union and political economy. On day two and three, the workshop focused on key topics related to fiscal and monetary policy coordination with an emphasis on the four key macroeconomic convergence indicators. On day four, issues complementing these themes were discussed.

Nathan Associates and USAID / RCSA were pleased to have eminent scholars and policy makers serve as panelists for the workshop. Members of the panel included:

- Thomas Lynne of the Centre for Research on Economics and Finance in Southern Africa (CREFSA), London School of Economics;
- Carolyn Jenkins of CREFSA, London School of Economics;
- Charles Harvey of the Botswana Institute for Development Policy Analysis;
- Martin Grote of the SADC Tax Sub-Committee;
- Eric Schaling of Genesis Analytics and the Rand Afrikaans University;
- Kennedy Mbekeani of the Botswana Institute for Development Policy Analysis;

- Iraj Abedian of the Standard Bank of South Africa;
- Colin McCarthy of the University of Stellenbosch;
- Jefferey Frankel of the Kennedy School of Government, Harvard University; and,
- Jonathan Shields of the IMF.

Workshop panelists and participants addressed the question of whether the suggested macroeconomic indicators are appropriate for the SADC region, or whether SADC-specific indicators need to be utilized. The workshop also addressed the issue of whether it is feasible to achieve specified targets of these variables given the diversity of SADC economies and which factors are to be considered when designing a program of macroeconomic convergence. This high-profile workshop provided a strong impetus for development of the MOU.

SECOND MACROECONOMIC CONVERGENCE WORKSHOP, AUGUST 2002

Macroeconomic convergence is the platform for eventual currency and economic union—a goal introduced in the 1992 SADC Treaty. This goal depends on member states relinquishing a semblance of sovereignty in terms of economic policy in order to realize the collective benefits available under a common market. As workshop participants noted, macroeconomic convergence is a key part of regional integration and therefore also a part of African rejuvenation.

The objective of the Second Macroeconomic Convergence Workshop was to discuss the state of macroeconomic convergence in the region, the design of the convergence process, and the functions and composition of the regional economic unit envisaged in the Memorandum of Understanding (MoU). The workshop was held on August 28 and 29, 2002 in Gaborone, Botswana. The panel included workshop chairman Dr. Themba Mhlongo from the SADC secretariat, Dr. Malcolm McPherson of the Harvard Kennedy School of Government, Moeketsi Senaoana, Eric Schaling of Genesis Analytics and the Rand Afrikaans University, and Dr. Johan van den Heever of the South African Reserve Bank.

Workshop participants were presented with design proposals for the convergence mechanism and the central economic unit. These proposals are contained in the research report on institutional design. Seven design principles were distilled from that report and presented to the workshop. These principles included the following:

1. ***Voluntarism.*** Countries decide for themselves whether they want to participate. Once they do so, they are committed to subjecting themselves to the full rigors of the process.
2. ***National ownership of national programs.*** Members themselves design their programs aimed at getting them to meet specified targets. But, as part of the credibility mechanism, these programs have to be proven to be consistent (1) in terms of other commitments made by the nation and (2) in the context of that nation's economy. A program that turns out to be inconsistent upon review is referred back to the member for adjustment.
3. ***Public commitment.*** With consistent programs in hand, members commit publicly to

precise numerical targets within specified timeframes.

4. ***Autonomy and robustness.*** The technical elements of the convergence mechanism, particularly the central economic unit, must remain resolutely autonomous and apolitical, rendering international quality analysis and recommendations on the basis of objective technical grounds only.

5. ***Mutual surveillance***. A politically independent SADC body is tasked to assess and review progress, and to report results to the Committee of Ministers of Finance and Investment. For the system to impart discipline, it is essential that targets, progress, and outcomes be published, and that the process be transparent.

6. ***Recognition of achievement.*** This occurs at two levels: first, members that achieve long-term stability goals become members of a "convergence club" to signal success. Globally acceptable stability targets define the convergence club. Membership in the club is a signal to the global community that the country has achieved a high measure of stability even by global standards. Convergence club members that slip in performance publicly lose their position in the club. Second, members that have not yet achieved long-term goals receive public commendation for progress. In both categories, public rebuke is an available discipline mechanism.

7. ***Institution-building and policy development supported at national level.*** A large part of the resources of the convergence process would be dedicated to ongoing interaction with member governments to build key institutions and policy processes at national level.

Workshop participants agreed that a successful convergence initiative in SADC will require (1) credibility, (2) an autonomous and robust central economic unit, (3) compliance incentives, (4) sound national policies, (5) support for national policy processes and institutions, (6) well-designed targets and feedback, and (7) design principles. In terms of the next steps, participants agreed to the following:

1. ***Prepare detailed implementation plan and backing analysis***. A detailed convergence implementation plan that addresses all important structural and policy issues is needed. It should contain a menu of options on key points, as well as substantive analysis to motivate proposals and provide member states with the background required to make informed decisions. This will require considerable effort. The Secretariat was advised to tap into international experience with convergence mechanisms, particularly in Europe and West Africa, to ensure that proposals are appropriate. The workshop recognized that a great deal of complex analytical and institutional design work still needed to be done to yield a stability mechanism that will work well in the complex regional environment, and that will be endorsed by member states.

2. ***Circulate draft implementation plan and backing analysis to governments***. The draft implementation plan and analysis will become the key decision document of the process, and will therefore need to be circulated to governments by the SADC Secretariat for formal consideration. The consideration process will take approximately one month.

3. ***Arrange meeting of high-level officials to discuss initial responses from governments and to seek provisional agreement on the full scope of technical decisions.*** This meeting

should be held in 2003, and should yield a provisionally agreed detailed implementation plan.

4. ***Achieve formal endorsement by member states of the proposed implementation plan as per the usual SADC processes.***

5. ***Start implementation process.***

REPORT ON MACROECONOMIC MONITORING, SURVEILLANCE, AND PERFORMANCE UNIT (MSPU)

The draft MOU endorsed by the SADC ministers of finance on July 31, 2001, envisaged a regional convergence program driven by a “dynamic, sustainable and credible regional economic unit.” A mutual stability mechanism (MSM) is a regional and multilateral arrangement dealing with monetary and fiscal policy. It is based on an agreement between states to achieve certain macroeconomic stability targets. The agreement creates a transnational body that monitors and evaluates the performance of member states. Participating countries may be penalized or rewarded for performance.

The monitoring an assessment function of the MSM is the touchstone for its credibility and success. To perform this function, it was proposed that a new Stability Surveillance Unit (SSU) `be established. It was determined that the unit embody both the expertise and independence required to ensure that the MSM has backbone and credibility. Following the project’s work on Macroeconomic Convergence, Dr. Clive Gray held consultations at the SADC secretariat and in six member countries to review institutional arrangement for a structure to implement the macro convergence MOU and present recommendations for its operation. Dr. Gray suggested an initial MSPU unit consisting of one senior and one junior economist with a location dependent on the question of whether a separate unit is established, inside or outside TIFI, to monitor the SADC trade protocol.

An early task of the MSPU was to recommend to the Committee of Ministers of Finance and Investment (CMFI) target values for these indicators. It was recommended that the MSPU begin its work on prospects for convergence by drawing maximum information from IMF reports available to it. Article IV reports give "medium-term scenarios," allowing projection and comparison of SADC’s four convergence indicators over a period of up to five years. The report reiterated the importance of coordination between IMF and MSPU missions and on making it as simple as possible for the authorities to "repackage" their submissions to the fund in a form acceptable to SADC.

Once SADC’s macroeconomic convergence program is under way and member states have submitted their individual programs to the CMFI, the question will arise of the relationship between MSPU and IMF monitoring. Officials interviewed by Nathan Associates in six countries expressed concern about the burden of dealing with a plethora of international missions with overlapping interests. This puts a premium on coordination between IMF and MSPU missions and on making it as simple as possible for the authorities to "repackage" their submissions to the fund in a form acceptable to SADC.

In the report, comparisons were made to the convergence model established by the West African Economic and Monetary Union (WAEMU) which, of all exercises in regional integration, is the most relevant to SADC. To be sure, WAEMU's convergence is much further along than SADC's, first and foremost because its eight member countries have long shared a common central bank, and second, because the structures of the respective member economies exhibit much less divergence than do SADC's. Nonetheless, useful lessons for the structure and operational methods of the MSPU may be learned from the experience of WAEMU's Commission, which monitors the convergence of member countries toward quantitative targets for four primary and four secondary criteria, and reports on them to WAEMU's Conference of Heads of State and Government and its Council of (Finance) Ministers. The eight criteria noted above include all four of SADC's convergence criteria.

The Nathan Associates report concludes by suggesting, as a goal, that SADC's MSPU acquire sufficient technical capability and credibility to provide insights to the CMFI (through SADC's Executive Secretary) analogous to the perceptive analysis of member economies that WAEMU's Commission submits to that region's political leadership.

WORKSHOP ON MACROECONOMIC MONITORING, SURVEILLANCE, AND PERFORMANCE UNIT (MSPU), JUNE 2003

The drafting of the MSPU report by Dr. Gray was followed by an MPSU workshop held in Maputo, Mozambique on June 27, 2003. Members of the panel included Clive Gray, Eric Schaling from Genesis Analytics and invited guests Jon Shields of the IMF and Mathew Stern of the World Bank Group. The aim of the workshop was to generate consensus among technical stakeholders in the region on principles for establishing the SADC Macroeconomic Surveillance and Monitoring Unit.

Some of the issues raised during the workshop are highlighted below. These ideas included the following:

- The MSPU should focus on what can be done for the next five years. The principal objectives are achieving macroeconomic stability and convergence in all countries rather than full economic or monetary union.
- The main aims of the convergence program documentation should be to assist with :
    - establishing macroeconomic stability in all countries;
    - facilitating peer review;
    - enhancing capacity; and,
    - evaluating any sub-group seeking or maintaining monetary union, such as the Common Monetary Area.
- It should be acknowledged that there is limited capacity in most SADC countries and at the SADC Secretariat.
- The MSPU should aim to provide support for difficult policy decisions.

- The country convergence programs should be based on existing programs or studies.
- The MSPU should focus on principal policy issues and self-appraisal, with detailed up-to-date figures serving as background information.
- With regard to the timeframe, SADC countries should aim to produce an initial report by March / April each year so that it can include the latest annual data, but be reviewed and revised in time for the regular August ministers' meeting.

Tax Policy Harmonization

Consultations, consensus building, technical assistance, and training in the area of tax cooperation have been among the major achievements of the SADC-TIFI project. This was also one of the most difficult and controversial tasks, because it affects member states' revenue policies, and remains politically charged, especially with regard to the role of tax incentives. The problems are accentuated by weak capacity for tax policy analysis within the ministries of finance.

In the initial stages of the project, the SMPA worked closely with the SADC Tax Sub-committee and the SADC Committee of Ministers of Finance and Investment to help the Member States develop the milestone ***Memorandum of Understanding on Co-operation in Taxation and Related Matters***, which was signed on August 8, 2002. This MOU will serve as the foundation for Member States to make material progress towards improving tax cooperation, reducing tax competition, and eventually moving towards tax harmonization, to improve revenue collection, safeguard the respective members' tax bases, and reduce obstacles to intra-SADC trade and investment. In addition, the MOU served as an important building block for development of a SADC Protocol on Finance and Investment Protocol.

In the MOU on Tax Cooperation, Member states agreed to pursue six major initiatives:

- Development of a comprehensive and publicly accessible SADC Tax Database;
- Capacity building to develop the professionalism and expertise of tax officials throughout the Community;
- Working towards a common approach to the provision of tax incentives, and to avoid harmful tax competition, including guidelines and a fiscal framework covering the effectiveness, impact, cost, and distributional effects of tax incentives within each Member State;
- Development of a common policy for the negotiation of tax treaties among Member States or with countries outside the Community;
- Co-ordination and harmonization in the administration of indirect taxes throughout the Community; and,
- Consideration of establishing mechanisms and procedures for the settlement of tax disputes between Member States.

Both before and after conclusion of the MOU itself, Nathan Associates provided substantial and effective support to help SADC and the Tax Subcommittee make progress on nearly every aspect of this agenda for tax cooperation. This support was manifest through a demand-driven series of studies, training workshops, and direct technical assistance by the SMPA (through August, 2003). In particular, the project provided support in development of the tax database, analysis of the effectiveness and impact of tax incentives, harmful tax competition, administration of the value added tax (VAT), evaluation of the role of excise taxes, tax revenue estimation methods, and the coordination of tax treaties to avoid double taxation. The remainder of this section reviews the major project activities and outputs in the area of tax cooperation.

WORKSHOP ON TAX REVENUE ESTIMATION AND FORECASTING, JULY 2001

Held between July 9 and 14, 2001, the tax revenue estimation component was arranged by the Tax Policy Chief Directorate staff and delivered by several prominent IMF tax experts, including Dr. Howell Zee, Dr. John King and Dr. Bill Trautman. The workshop was attended by officials from the finance ministries and tax administration department of all member states.

The objectives of the workshop were:

- To familiarize participants with the objectives of revenue forecasting and the relationship between revenue forecasting, estimating and policy analysis;
- To provide participants with the necessary skills to comprehend and undertake tax revenue forecasting and estimating;
- To build the capacity and capability of Member States to quantify their tax revenue base to make informal decisions with respect to tax policy issues; and,
- To familiarize participants with the concepts and types of investment incentive schemes and their effectiveness.

The IMF agreed to provide tax revenue estimation experts to facilitate and conduct the workshop and in addition to carrying their own costs. The SADC Subcommittee Secretariat in South Africa assisted with logistical preparations for the workshop.

This Workshop created great interest amongst the SADC Members and was very well attended. Places were limited to +/-35 delegates, because of the practicality of access to IT equipment, and the workshop was completely full. The topic was one of great interest to Treasury and Tax Administration officials, as a tool in governmental financial planning.

WORKSHOP ON VALUE ADDED TAX, JANUARY 2002

In January 2002, Nathan Associates facilitated and sponsored a Value Added Tax (VAT) Workshop in collaboration with the IMF.[6] The workshop was originally planned for October, 2001, however, due to the September 11, 2001 terror attacks, the workshop was postponed. Its objective was twofold. Firstly it aimed to build capacity in tax policy and administration in SADC member-states. A second objective was to undertake a consensus oriented decision making process in the implementation of VAT programs in those SADC member states still using sales tax regimes.

[6] The IMF primarily provided experts and resource persons.

The SADC Member State participants were trained in methods of determining VAT liabilities, the efficiency and effectiveness to VAT in terms of revenue performances, and the importance of imports in VAT collection. Specific training included:

- The importance of VAT. This section covered issues relating to change facilitation in tax structures, introduction of a new consumption tax, replacement of existing sales and services taxes, and initial steps in introducing comprehensive tax reforms;
- Collection costs and the complexity of VAT. It discussed the methods of assessing the sustainability of VAT in developing countries, and the administration and compliance costs;
- Implementation issues. Including political commitment, policy legislation, organization structure, and manpower development; and,
- Policy framework. Benefits, risks and legislation.

Moreover, the workshop was a significant step in developing a consensus on matters related to the signing of the SADC Memorandum of Understanding (MOU) on “Cooperation in Taxation and Related Matters”, which emphasized the need for SADC countries to harmonize their tax systems. It was particularly important in developing Article 6(1), (2), (9), and (10) that stressed the need for harmonization and cooperation in the formulation of policy and administration of VAT or sales tax.

DEVELOPMENT OF THE SADC TAX DATABASE

The MOU on Tax Cooperation is an article that calls for the creation of a comprehensive, publicly available database on tax systems for all Member States. The database is to be published on the SADC website and updated annually, containing information on direct and indirect taxes; applicable rates; exemptions and allowances; tax incentives ; and tax treaties. The database should also provide up-to-date statistics on revenue collection, and the importance of various direct and indirect tax instruments in each Member State.

The importance of the database initiative is reflected in the fact that Article 2 of the MOU is devoted entirely to its establishment. The aim of creating the database is to provide tax officials, analysts, businesses, and investors with a convenient and accurate source of comparative information on tax systems in the SADC region. For SADC purposes, the database is designed to serve as a resource tool for comparison of tax systems in the region (direct and indirect taxes, and tax incentives) and a benchmarking instrument for :

- Analyzing areas where tax cooperation may bring substantial revenue benefits, while preserving the general principle of fiscal sovereignty of Member States;
- Analyzing areas for effective administrative cooperation, including harmonization of tax rates and systems;
- Analyzing areas for mutual assistance and exchange of information, including joint audit;

- Devising a road map for elimination of indirect tax barriers to SADC-intra trade; and,
- Taking appropriate measures to control harmful tax competition.

Thus, SADC views the tax database as the lynchpin to other co-operation and co-ordination aims. For this reason, its development has been a primary objective of the Tax Subcommittee. The endeavor consisted of several components:

- Data and questionnaire design;
- Data collection and validation;
- Translation to English, for information from non-English-speaking countries;
- IT design and testing;
- Legal authentication ; and,
- Ongoing commitment of Member States to review and update the data.

Through the SADC-TIFI project, Nathan Associates was heavily involved in the development of the database. A senior tax consultant, Dr. Lynette Olivier, worked closely with the chair of the Tax Subcommittee, beginning in May, 2002. In this capacity, Dr. Olivier was the principle architect of the database and also conducted the initial data collection, validation, cleaning, and data compilation process.

The consultant presented the questionnaire design to the SADC Tax Subcommittee meeting in June 2002. The basic structure involved three chapters: Chapter 1 on Direct Taxes; Chapter 2 on Indirect Taxes ; and Chapter 3 on Tax Incentives. In light of subcommittee discussions, the chapter on indirect taxes had to be revised to reflect efforts at regional co-ordination. The questionnaire was then distributed to designated contacts in the Member States by email in July 2002. Many of the responses were received well past the initial deadline, and they varied considerably in detail and accuracy. This required a detailed quality control effort by the consultant and the SMPA, with many queries being referred back to the Member States for clarification. Once the queries were resolved, the data were formatted and placed into an interactive Web Page designed for this purpose by IT specialists at the SA National Treasury.

It should be noted that the language barrier posed a larger problem than had been anticipated. Although the non-English speaking member states have at least one English speaker who attends Subcommittee meetings, much of data collection was done by their non-English speaking colleagues. This meant that each country translated the questionnaire into their local language individually before the collection could begin. Some of the subsequent data problems clearly arose because of nuances involved in translating the questionnaire forms. The often lengthy responses then had to be translated back into English. Thanks are due to the South African national language service, which provided most of the translation on a *pro bono* basis. However, technical translations of this kind are difficult and time consuming. Hence, the language problem substantially elongated the response time on data queries.

This is but one instance in which a project activity encountered long delays in obtaining quality feedback from diverse respondents in 14 countries. In retrospect, the work plans and the consultants' contract should have allowed for a more realistic time frame for completing data collection activities of this nature.

Due to these response delays, the consultant's contract with Nathan ended before the database was complete. Nonetheless, Dr. Olivier accomplished most of the first-round data compilation, on a very tight time frame. The status of the database at the end of Dr. Olivier's involvement is summarized in Table 1 below. As can be seen, most of the required information had been collected by December 2002. Moreover, the overall standard of replies was high. At that time, answers to queries were still outstanding from several Member States, but the database was of high enough quality for the Tax Subcommittee to assume responsibility for completing this important product.

The launch of the tax database was scheduled for September 2003. In the end, it was not possible for SADC go live with the database at that time because of two other technical problems. The first was a knotty legal issue concerning disclaimers. In order to place the data in the public domain, lawyers determined that each Member State needed to provide a disclaimer that: 1) the Member State agrees that the data as provided by them may be presented in the public domain; and 2) the Member State task responsibility for the content of the data, e.g. for its accuracy and with regard to any copyright issues that may arise. A second source of delay was the website design. Initially, the database was to be placed on the SA National Treasury website. Following a decision by SADC in 2003 to reconstruct the Secretariat's own website, it was decided instead to post the database there instead. The redesigned website is now operational, and required reprogramming of the database itself has now been completed. At the time this report was being written, the Tax Subcommittee expected that the database would "go live" shortly on the SADC website.

It should be noted the database activity was the first test for the Tax Subcommittee in terms of moving beyond discussions of coordination towards taking action to effectively implement coordination. Through this important exercise, the Member States have shown that they can work together (though more discipline in meeting deadlines would clearly be of benefit), and more importantly, that they can deliver a quality product.

Ultimately, the success of the database relies on the officials in the SADC Member States to provide accurate and complete updates, on strictly imposed deadlines. The existence of the database will not, in itself, achieve coordination, but will provide a tool for SADC Member States to focus on areas where there is divergence and provide a benchmark from which policies can be improved. It will also assist potential investors to the region with its information on governmental transparency and accountability.

Table 1. *Summary of the Responses on the SADC Tax Database as of December 10, 2002*

Country	Status
Angola	• initial reply received, in Portuguese, Ch 1,2,3 • significant number of queries on all chapters, possibly as a result of poor translation, queries were referred back • response awaited, basic information could be input to database
Botswana	• Ch 1,2,3 received, queries returned and responses received • Data complete
Democratic Republic of Congo (DRC)	• Ch 1,2,3 received, queries returned and responses awaited on Ch 2 • Though not ideal, responses to Ch 1 & 3 were deemed acceptable and are able to be posted in the database
Lesotho	• Ch 1,2,3 received, queries returned and responses awaited on Ch 1 & 3 • Information from Ch 2 being posted in the database
Malawi	• Ch 1,2,3 received, queries on Ch 1 & 3 returned and responses awaited, queries on Ch 2 incomplete • Basic information can be posted in t he database
Mauritius	• Ch 1,2,3 received, queries on Ch 1 & 3 returned and responses receieved for Ch 3 only • Ch 2, 3 satisfactory and posted in the database
Mozambique	• Ch 1,2,3 received in Portuguese, queries returned and responses awaited • Ch 2 satisfactory and posted in the database
Namibia	• Ch 1,2,3 received, queries returned and responses received • Data complete
Swaziland	• nothing has been received to date
South Africa	• data was completed as the model for the questionnaire
Seychelles	• Ch 1,2,3 received, queries on Ch 1 & 3 returned and responses received, responses awaited on Ch 2 • Ch 1 & 3 posted in the database
Tanzania	• Ch 1,2,3 received, queried on Ch 1 & 3 returned and responses received, responses awaited on Ch 2 • Ch 1 & 3 posted in the database
Zambia	• Ch 1,2,3 received, queried on Ch 1 & 3 returned and responses received, second set of queries retuned and responses awaited, responses awaited on Ch 2
Zimbabwe	• Ch 1,2,3 received, queried on Ch 1 & 3 returned and responses received, responses awaited on Ch 2 • Ch 1 & 3 posted in the database

WORKSHOP ON THE NEGOTIATION OF TAX TREATIES ON THE AVOIDANCE OF DOUBLE TAXATION, NOVEMBER 2003

The need to increase capacity in the SADC Region with regard to the application and interpretation of treaties on the avoidance of double taxation (hereafter "tax treaties") become a priority area in view of the commitment by Member States, through the signed SADC Tax MOU, to create a network of tax treaties in the region. Though the majority of SADC Member States already have some tax treaties currently in operation, it is vital that the officials to be tasked with ensuring that the treaties are correctly applied are given the necessary training in this regard. Failure to ensure effective capacity building in this area will lead to inconsistent application and rulings. Ultimately, it will result in the loss of revenue to the various States. On the other hand, the correct and timely application of the treaties will lead to a consistent approach from all Member States which can only result in the lowering of at least some of the barriers to trade and investment.

With regard to training, the project funded a joint SADC-OECD capacity building workshop that was targeted at senior and middle management officials with hands-on involvement in tax treaties. The principal presenters were David Partington from the OECD Secretariat (leader) and Mr. Ron van der Merwe from the South Africa Revenue Service. Lectures were given on all Articles covered by standard tax treaties under thefollowing groupings:

- Scope of Conventions and Taxes Covered;
- Definitions, including Resident and Permanent Establishment;
- All Articles dealing with the various items of income;
- Elimination of Double Taxation;
- Administrative Provisions such as Exchange of Information and Non-Discrimination; and,
- Entry into Force and Termination.

Lectures were also presented on the following subjects:

- Overview of tax treaties;
- Interpretation of tax treaties;
- Countering the abuse of treaties;
- Information resources;
- Electronic Commerce;
- Tax Recovery agreements; and,
- Negotiation of tax treaties.

WORKSHOP ON EXCISE TAXATION, JUNE 2003

The project arranged and hosted a high-level regional conference on excise taxation in South Africa between June 11 and 13, 2003. It was organized as an ambitious joint collaboration between South African National Treasury, the International Tax and Investment Centre (ITIC), the Southern Africa Tax Institute (SATI), and was jointly funded by USAID and inWent. This conference had multiple benefits as it included elements of capacity building and explored areas for future excise tax coordination in the region. The conference incorporated direct interaction between officials and industry representatives in this notoriously politically sensitive area. Particular emphasis was given to the idea of excise taxes as an instrument of social control. In this regard, a detailed evaluation was made concerning excise taxation of:

- Tobacco products;
- Alcohol products;
- Energy products, including road fuels and user charges fuel concessions and environmental concerns; and,
- Luxury goods - and in particular the use of *ad valorem* excises compared to multiple VAT rates.

The conference was intended to benefit tax policy and administration officials from the SADC Member States and was supported by donors on that basis. Furthermore, officials were invited from Rwanda, Kenya and Uganda (on a self-funded basis). Other stakeholders who were afforded the opportunity to make presentations included industry representatives, officials from health departments and NGO's.

The conference was facilitated by some of the world's leading academics and practitioners in the field, coming from the Netherlands, the UK, Germany and the USA. It provided invaluable exposure to the challenge of setting appropriate tax policy in the face of fierce lobbying by stakeholders from both colleagues in the health sphere and from industry.

The primary objective of the conference was to ensure that the tax coordination effort is meaningful and beneficial to all the SADC member states. That is, good policy should be shared policy and coordination has obvious benefits in our region in terms of more efficient bureaucracy, cost-effective revenue raising strategies and enhanced business certainty with a view to making this region an attractive investment destination. Speakers and presenters also noted that there is an inherent tension in the revenue-raising function of government that necessitates a fundamental obligation by governments to grant taxpayers sufficient opportunities for consultation during the design stages of the tax policy intervention.

Given the fact that tax administration is influential in shaping tax policy design, another objective was to minimize the problems of smuggling, illegal cross-border shopping, counterfeiting, etc. that can occur when rates and practices differ widely within the regional context.

The Excise Tax Conference was characterized as a unique endeavor in the region aimed at opening a robust and transparent dialogue on appropriate excise tax coordination options for the SADC member states. For most of the participants this conference provided the first real experience of the necessary debate and rigorous economic analysis that should accompany each individual tax design initiative.

TECHNICAL REPORT ON TAX INCENTIVES IN THE SADC REGION

Article 4 of the MOU on Taxation mandates Member States to develop guidelines on tax incentives in SADC, including provision for exceptional cases. It also calls for the development of a fiscal framework, focusing, among other things, on the effectiveness of proposed tax incentives in achieving their stated policy goals; the revenue costs of tax incentives; the role of tax sparing arrangements in treaties of Member States; the impact of tax incentives on tax administration; and the effects of such incentives on the distribution of the tax burden.

To implement this mandate, the Tax Subcommittee called on Nathan Associates to conduct a study on *The Effectiveness and Impact of Tax Incentives in the SADC Region.* This study, and the associated workshop, proved to be one of the most important and influential products of the SADC-TIFI project.

The purpose of the study was to provide a general review of the economics of tax incentives and harmful tax competition drawing on lessons from international experience, a detailed appraisal of tax systems and tax incentive programs in the SADC member states, and draft recommendations for consideration by the tax subcommittee.

The study was delayed until March, 2003, in part because of the need to complete the Tax Database as an input into the study. Nathan Associates then engaged Dr. Bruce Bolnick (then at the Kennedy School of Government at Harvard University), to produce the study. In the course of a start-up trip in late March, the consultant conferred with the chair of the tax subcommittee, the SMPA, and RCSA to reach agreement on practical modifications to the original scope of work. He also obtained a preliminary version of the tax database. The consultant distributed a short email questionnaire, through the chair of the tax subcommittee, to subcommittee contacts, in order to confirm the accuracy and timeliness of information in the tax database, and to acquire additional information on the evolution of tax incentives in the region, examples of successes and failures, country experience in administering tax incentives, and perceptions about tax competition among SADC member states. Because the response rate was very low, the consultant had to supplement the database with information derived from a wide variety of other sources, including country websites and reports from international organizations such as the IMF and UNIDO.

The tax incentives report was submitted to SADC and USAID at the end of August, 2003, and then revised in November based on comments received from the chair of the tax subcommittee. (The final version is dated February, 2004, because of minor editing that was done for the Tax Incentives Workshop, which is discussed below.)

The report was written not only to provide an analytical input into discussions about the coordination of tax incentives in the SADC region, but also as an instructional manual on the economics of tax incentives.

In the introduction, the report discussed the definition of tax incentives and explained the distinction between "effectiveness" and "impact." It went on to cover:

- The economic relationship between taxation, investment and growth ;
- The economics of tax incentives, both pro and con, with special emphasis on three aspects that are not widely understood: the indirect revenue costs, the efficiency effects, and the implications for tax a dministration and tax avoidance;
- An economic toolkit for analyzing tax incentives, focusing on the Marginal Effective Tax Rate analysis, methods of estimating tax expenditures, and screening criteria for selective;
- The design of investment tax incentives, in terms of four criteria: effectiveness, impact on revenue, economic distortions, and administrative impact;
- The economics of harmful tax competition; and,
- A comparative review of tax systems and tax incentive programs in the SADC region.

The report also included an appendix with more complete information on tax incentive programs in the region, and an extensive bibliography of literature on tax incentives and the determinants of investment in developing countries.

On the basis of our review of how investment tax incentives work in theory and in practice, as well as their economic advantages and disadvantages, the report offered twelve recommendations covering the definition of tax incentives, policy coherence, the importance of professional tax policy analysis, revenue management and the role of the finance ministry, the structure of tax incentives, the need for fiscal transparency, the vital importance of capacity building for tax policy analysis, and areas for cooperation to minimize harmful tax competition.

Overall, the five main conclusions were that:

- Non-tax elements of the investment climate are far more important than tax incentives in determining the level and quality of investment flows;
- The effect of incentives on productivity and efficiency is at least as important as the effect on the amount of investment;
- Investment tax incentives may work well in some contexts but they work poorly in many others; decisions about tax incentives must be country specific;
- The benefits of investment tax incentives are widely exaggerated, while the costs are often underestimate d or overlooked altogether; and,
- Capacity building to strengthen tax policy analysis should be a central priority.

Notably, the Tax Incentives Study was the first major application of the SADC tax database, which was still in draft form at the time the study was undertaken. The database proved to be a highly valuable source of comparative information on tax systems and tax incentives in the region. Even so, the consultant encountered more than a few problems in the form of pertinent information that was missing, out of date (already), or difficult to interpret clearly. These problems underscore both the importance of the database initiative, and the difficulty that will be faced in the continuing process of ensuring that the information is up-to-date, accurate, and thorough.

The report was extremely well received by the clients, and has already spawned follow-up studies in Zambia, South Africa and Mozambique, as well as additional capacity building initiatives.

WORKSHOP ON TAX INCENTIVES IN THE SADC REGION, APRIL 2004

The technical study on tax incentives was designed as an input to a training workshop under the auspices of the SADC Tax Subcommittee. The subcommittee originally scheduled the workshop for September, 2003, but it was delayed due to schedule conflicts on the part of key SADC personnel. The event was rescheduled to early December, then to mid-January 2004, and finally convened in Pretoria on April 4-5, 2004. In attendance were senior tax officials from every Member State except the Seychelles, as well as officials from the TIFI directorate. Due to this rescheduling, the initial plan to involve additional international experts from the IMF, the Harvard Business School, and Duke University could not be pursued. In the end, this did not prove to be a problem at all: in fact, the presence of just the author left more room for participants from the Member States to debate their concerns and develop a consensus on steps that can be taken to move towards cooperation on tax policy.

Following very substantive opening remarks by Mr. Fudzai Pamacheche, Director of TIFI, and by Dr. Martin Grote, chair of the SADC tax subcommittee, Dr. Bolnick presented his report on tax incentives and answered questions about the analysis and the findings. The remainder of Day 1 consisted of presentations by the Member States, and plenary discussions about these presentations. Day 2 started with a tutorial by Dr. Bolnick on the Marginal Effective Tax Rate model. This was followed by completion of the country presentations, plenary discussions focused on three issues: the impact of tax incentives on revenue and tax administration; the advantages and disadvantages of various tax incentive tools; and harmful tax competition. The afternoon was mainly devoted to a plenary discussion on "The Way Forward for SADC" in implementing the MOU, and the subsequent Protocol.

Discussions were informative and energetic, with all delegations participating actively. The Member States tax officials reached broad agreement on a variety of guidelines for tax incentive policies, as well as a framework for policy analysis. The results were compiled by the Tax Subcommittee Secretariat and distributed to the Subcommittee for further discussions, leading to the development of draft guidelines on tax incentives and a draft fiscal framework for adoption by SADC. Perhaps the most difficult issue confronted at the meeting was the possibility of pursuing a "Peer Review" mechanism for surveillance and dispute resolution relating to perceived instances of harmful tax competition. To develop these initiatives, the workshop proposed that the SADC Tax Subcommittee form a "Tax Incentives Working Group" made up of nominated experts from each Member State.

According to the tax subcommittee secretariat, "The workshop was an invaluable beginning to the very challenging process of developing a tax incentives policy for SADC…. It is important therefore that we now further develop these Guidelines and the Fiscal Framework." The meeting also resulted in a strong consensus on the importance of capacity building for tax policy analysis. As a direct result of this clear resolve to strengthen training on tax policy, Nathan Associates followed up the workshop by agreeing to support two additional training activities (discussed below) prior to the close of the SADC-TIFI project.

Nathan Associates wishes to express our deep gratitude to Travelwise for organizing and flawlessly implementing the logistics for this workshop, and to David Hollinrake, SADC Tax Advisor in the TIFI Directorate, for his extremely capable and energetic involvement in planning, organizing, implementing, and following up on the workshop. We also wish to acknowledge vital assistance from DfID in funding components of the workshop that could not be covered USAID.

STUDY ON IMPLEMENTATION OF THE VALUE ADDED TAX (VAT)

The SADC Memorandum of Understanding (MOU) on "Cooperation in Taxation and Related Matters" states that "Member States will take such steps as are necessary to harmonize their VAT regimes and will: (a) set minimum standard rates; (b) harmonize, over time, the application of zero-rating and VAT exemption of goods and services; and (c) establish a SADC forum for collectively dealing with VAT matters.

In support of this provision of the MOU, Nathan Associates produced a major technical study on *The Assessment of the Current State of VAT Implementation in SADC Member States.* The report was written by Dr. Graham Glenday, with support from David Hollinrake of the SADC Secretariat in conducting the field investigations. Over a period of seven months, Mr. Hollinrake visited nearly every SADC member state to collect data for the report.[7] The study was completed in August 2004.

Since Malawi first introduced a VAT structure to its surtax in 1989 and South Africa adopted a formal VAT in 1991, 10 of the 13 SADC member countries have introduced VATs. Zimbabwe is the most recent in January 2004. Thus, there is significant VAT experience within the region, but many countries are still in the early stages of implementation. The VAT is fairly demanding of high standards of accounting and book keeping. It places a significant compliance burden on the private sector taxpayer. Also, any new tax system demands the development of adequate tax administration capacity to make it efficient and effective. SADC member countries are at different stages of development, face different fiscal pressures, and have different capacities to raise tax revenues to meet their public sector revenue demands. The implications of these factors on the pace at which harmonization of indirect tax systems can be achieved need to be taken into account in assessing how fast co-ordination of VAT systems can be achieved.

To address these issues, the VAT study analyzes, among other things,:

[7] Nathan Associates covered Mr. Hollinrake's travel expenses, apart from his trips to Zimbabwe and Angola. His time on the task was covered by DFID.

- the current status and revenue importance of domestic indirect taxes in each member state, with special attention to VAT or sales tax
- structural issues that arise with the implementation of a VAT in developing countries
- the revenue demands of member states, especially those relating to implementation of the SADC and SACU agreements, and implications for VAT
- the potential of VAT and other taxes to solve revenue problems.
- the role of VAT exemptions, zero rating, and refund rules
- the operation of a VAT in a multi-jurisdictional region where the customs controls are weakened

One of the main conclusions of the report is that most SADC countries have scope to increase VAT yields through

- Economic development structural changes that will expand effective tax base as formal and monetary sectors grow and per capita incomes and educational attainment rises.
- Minimization of official exemptions
- Introduction of "unified" presumptive taxes below minimum threshold for compulsory VAT registration to expand effective base of domestic indirect taxation (see below).
- Improved administrative and compliance efficiencies

A second major finding is that the collection of VAT in most member states is dependent on effective customs control and collection at border, since imports are a high share of GDP. By the same token, economic integration raises major challenges for indirect consumption taxes. SADC countries will need to either maintain customs controls at the internal borders, or charge compensating VAT on internal exports.

This report suggests approaches to the development of a regional consumption tax structure. The early stages would involve the gradual establishment of a compensating community VAT (CVAT) structure with a reconciliation arrangement. Agreements could also be reached about the degree of harmonization of VAT structures and rates within the SADC region to allow revenue sharing based on estimated consumption tax bases or collections. This could also allow a potential switch from revenue reconciliation to revenue pooling and sharing once the legal and institutional arrangements exist for managing a SADC revenue pool.

An early initiative that should be undertaken is an effort to compile accurate data on VAT revenue, particularly that derived from imports. Data to available to date suggest that some 15% to 40% of final VAT could be collected at the border. This represents a significant share of VAT revenues that could be at risk and the fundamental motivation for changing the VAT treatment of internal trade within a common market where fiscal borders are weakened or eliminated.

The report also recommends that SADC provide assistance to help all member states establish complete web-based information on the VAT and other tax regimes, to benefit national taxpayers, international investors, trader. This initiative will also enhance SADC efforts to promote tax co-operation and co-ordination.

A follow-up workshop to discuss the VAT report was planned under the SADC/TIFI project.. However, scheduling conflicts prevented its fruition during the contract period. It is likely that the workshop will go ahead with DFID funding later in 2004.

ADDITIONAL TRAINING ON TAX POLICY ANALYSIS

Workshop on the analysis of tax incentives, July 2004

The Centre for Tax Policy and Administration at the Organization of Economic Cooperation and Development (OECD) was involved in several previous capacity building workshops with SADC, including events supported by Nathan Associates under the SADC-TIFI project. In 2003, the OECD began discussions with the tax subcommittee about offering additional training activities. There were two main problems in carrying this out. First, while the OECD could provide experts and well developed training materials, they could not fund venue costs or travel expenses for participants. Second, key members of the tax subcommittee were extremely busy with operational duties, and found it difficult to schedule more workshops than were already planned. However, following the success of the USAID-supported workshop on tax incentives, and the consequent resolution of Member States to intensify capacity building for tax policy analysis, the tax subcommittee asked Nathan Associates and USAID to co-finance with DFID an OECD workshop on the analysis of tax incentives.

The workshop was held in Pretoria, South Africa, from July 5-9, and run by Ms. Susan Himes, and Mr. Ulf Pederson from the OECD, and Ms. Muriel Hinch from Ireland. (All of the faculty costs were covered by the OECD.) Its objective was "to provide policy-makers and tax administrators with information on and experience with common forms of tax incentives used in OECD and SADC countries to implement economic programs. The workshop was designed as a capacity building event to follow-up on the April, 2003, SADC workshop on tax incentives, drawing on conclusions of the Bolnick report.

The event spanned four and a half days, and covered the following main topics, through a combination of lectures, country presentations, participatory case studies, and discussions:

- Issues in the design of tax incentives;
- Tax incentives for natural resources;
- Tax holidays;
- The EU code of conduct on tax competition ;
- Tax expenditures and tax incentive evaluation ; and,
- Anti-avoidance strategies .

According to the Tax Subcommittee Secretariat, "the workshop was successful in providing a solid information base for all Member States, although for some the level was too low."

Nathan Associates is grateful to the OECD for providing the international tax experts who developed and delivered this outstanding capacity building activity. And once again, we wish to express our gratitude to Travelwise, our local contractor, and to David Hollinrake, SADC Tax Advisor, for their excellent performance in planning and organizing the event.

The Southern African Tax Institute (SATI) 2004 Winter Program in Taxation, June-July 2004

Between June 21 and July 16, 2004, Nathan Associates provided funding for 10 tax experts to present at the SATI 2004 Winter Program in Taxation in Pretoria, South Africa. The experts were E. Zolt, V. Thuronyi, A. Kitunzi, J. Rosengard, R. Ebel, H. Ault, and S. Caner, R. Krever, D. Child, and S. Cnossen.

Consistent with the Nathan Associates' report on *The Effectiveness of Tax Incentives in the SADC Region*, and its recommendation to "establish intraregional technical assistance and train programs", the program was designed to benefit and enhance the skills of mid and senior-level African public officials and tax administrators from national, regional and local treasuries. The program covered a broad range of tax topics and included the following ten seminars:

1. Comparative Tax Policy;
2. Comparative Tax Administration;
3. Public Finance & Economics of Taxation;
4. Legal Drafting;
5. Property Tax;
6. Local Government Finance;
7. Tax Analysis & Revenue Forecasting;
8. International Taxation;
9. Value-added Taxation; and,
10. Customs and Excise Taxation.

Early indications are that the program was well received and SATI is currently preparing a follow-on program scheduled for May and June 2005.

Other Project Contributions

SMPA advice to SADC Secretariat and SADC committees

By design, the Chief of Party for the SADC-TIFI project served a dual role as Senior Macroeconomic Policy Advisor to SADC. In the latter capacity he was heavily involved in a wide range of strategic and operational activities of the SADC secretariat, on top of duties directly relating to the Nathan program. Among other things, the SMPA actively supported the Secretariat in functions such as SADC Review meetings, and meetings of the SADC Council of Ministers, the Ministers of Finance and Investment, and the Committee of Central Bank Governors. He provided assistance in the restructuring of the TIFI directorate, participated in the Task Force on SADC Self Financing Mechanism, and took part in discussions about the establishment of the Southern Africa Tax Institute (SATI). The SMPA also had a hand in discussions about other MOUs, including one on exchange control policies, and one on legal and operational frameworks of SADC central banks. While these contributions were of undoubted benefit to the SADC secretariat, USAID/RCSA and Nathan Associates determined that they diminished from the COP's focus on immediate project activities and objectives. This was one of the basic reasons for terminating this position after August, 2003.

Dissemination of Project Reports

To help with knowledge management under the SADC/TIFI project, Nathan Associates has uploaded the major project reports to USAID Center for Development Information and Evaluation, and provided summaries on our corporate website. In addition, Nathan Associates commissioned Travelwise to print 110 hard copies of four major reports produced under the project:

- Schaling, Eric. *A Macroeconomic Convergence Program for SADC, Phase I*. Nathan Associates Inc. March 2003.
- Senaoana, Meketsi P. *Third SADC Macroeconomic Convergence Workshop*. Nathan Associates Inc. March 2003.
- Gray, Clive. *Establishing the Macroeconomic Convergence Monitoring, Surveillance, and Performance Unit in the SADC Region*. Nathan Associates Inc. June 2003.
- Bolnick, Bruce. *The Effectiveness and Economic Impact of Tax Incentives in the SADC Region*. Nathan Associates Inc. July 2003.

One hundred copies of each report were sent to the SADC secretariat for distribution beyond the original group of recipients (those who participated in the workshops). The remaining 10 copies were delivered to USAID/RCSA.

Conclusion

To conclude this technical report on the accomplishments of the SADC / TIFI project, the central question is: To what extent were the programmatic objectives of the Task Order fulfilled?

Combining the original scope of work and that of modification #2 in 2002, USAID specified four major objectives for the project:

1. Provide SADC with a full-time Senior Macroeconomic Policy Advisor (SMPA);
2. Advise the SADC Secretariat and SADC Member States on policy matters related to macroeconomic convergence and regional economic integration;
3. Provide resources for regional workshops on taxation issues ; and,
4. Provide resources and support for regional workshops on macroeconomic convergence issues.

The first objective was fully satisfied through August, 2003, at which time the SMPA position was terminated by mutual agreement between USAID / RCSA and Nathan Associates. The second objective was fully satisfied. The project first provided vital and highly valued support for SADC in establishing path-breaking Memoranda of Understanding in the two areas of macroeconomic convergence and regional economic integration – with a particular focus on cooperation and coordination on taxation.

On objectives three and four, the project was immensely successful. Nathan Associates delivered six high-quality technical products and organized or supported ten outstanding capacity building workshops, all of which were targeted carefully to help SADC pursue its vital agenda of macroeconomic convergence and cooperation in taxation.[8]

8 In terms of the number of deliverables, the project did not reach the targets set in modification #2. However, the additional funding that was to be provided under this modification did not materialize. In any case, given the difficulties of developing, organizing, scheduling, and implementing activities involving the SADC secretariat, two subcommittees, and fourteen member states, the targets were unattainable in the time provided.

More broadly, the project made large and important contributions to the achievement of USAID/RCSA's Strategic Objective 2 – a more integrated regional market -- and to the realization of Intermediate Result 1-- reduced barriers to broadened participation in the regional market -- and to Intermediate Result 3 -- advocacy for sustained regional integration strengthened. The excellent fit between these objectives and the project accomplishments needs no elaboration beyond the review contained in the body of this report.