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AFRICAN DEVELOPMENT BANK

MIDDLE INCOME COUNTRY TECHNICAL ASSISTANCE FUND ("MICTAF")

PROJECT: STUDY ON REIMAGINING THE SOUTHERN AFRICAN CUSTOMS UNION

REPUBLIC OF SOUTH AFRICA

PROJECT APPRAISAL REPORT

May 2026

P-ZA-K00-013

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RESULTS FRAMEWORK

A	PROJECT INFORMATION
PROJECT NAME AND SAP CODE: Study on Reimagining the Southern African Customs Union - P-ZA-K00-013	COUNTRY: South Africa
PROJECT DEVELOPMENT OBJECTIVE: The project objective is to conduct a comprehensive study for the re-imagination process of the Southern African Customs Union, contributing to deepening member states regional integration"..	
ALIGNMENT INDICATORS: Intra-Africa trade as a proportion of total goods' trade (%)	

B RESULTS MATRIX

RESULTS CHAIN AND INDICATOR DESCRIPTION	RMF INDICATOR	UNIT OF MEASUREMENT	BASELINE (2026)	TARGET AT COMPLETION (2028)	MEANS OF VERIFICATION
OUTCOME STATEMENT 1: Study report adopted by members of the Southern African Customs Union to deepen/enhance regional economic integration					
OUTCOME INDICATOR 1.1: SACU members formally adopting the study report to deepen regional integration.	☐	Number	0	5	Report of the SACU Council of Ministers at the 7th SACU Ministerial Retreat
COMPONENT 1:					
OUTPUT STATEMENT 1: Study delivered on reimagining the SACU					
OUTPUT INDICATOR 1.1: Validated study report presented to Council of Ministers	☐	Number	0	1	Final Draft of the study with recommendations and roadmap
COMPONENT 2:					
OUTPUT STATEMENT 2: Study on reimagining the SACU validated by SACU Member States					
OUTPUT INDICATOR 1.2: Validation workshop	☐	Number	0	1	Validation report

Table of Contents

1. INTRODUCTION 1
   1.1 Project Objectives 2
   1.2 Sector/Regional Department/Country Office responsible for preparing the Request 2
   1.3 Request Form cleared by RDVP (Y/N) with date: 2
   1.4 Justification for the use of resources: 2
   1.5 Analytical work underpinnings 3
   1.6 Lessons learned 4
2. PROJECT DESCRIPTION 4
   2.1 Description of project components 4
   2.2 Description of the anticipated outcomes and their connections to the targeted project 5
   2.3 Climate Change and Green Growth, Environmental and Social Safeguards, and Gender 5
   2.4 Cost Estimates of the project (in UA) 6
   2.5 Project Cost and Financing Arrangements 7
3. IMPLEMENTATION ARRANGEMENTS 7
   3.2 Procurement Arrangements 8
   3.3 Financial Management, Disbursement and Audit Arrangements 9
   3.4 Monitoring & Evaluation Arrangements & Project Schedule 9
4. POTENTIAL RISKS AND MITIGATION MEASURES 10
5. LEGAL INSTRUMENTS AND AUTHORITY 10
   5.1 Legal Instrument 10
6. COMPLIANCE WITH BANK GROUP POLICIES 11
7. AFDB GROUP INDEPENDENT RECOURSE MECHANISM 11
8. CONCLUSION AND RECOMMENDATION 11
8.1 Conclusion 11
8.2 Recommendation 12
ANNEXES 13
   Annex 1: Official Request Letter 13
   Annex 2: Work Program 15
   Annex 3: Detailed project activities and cost estimates 16
   Annex 4: Procurement Plan 17
   Annex 5: Monitoring and Evaluation Arrangements 18
   Annex 6: Theory of Change 19

Annex 7: Environmental and Social Compliance Note.....20
Annex 8: Climate Change and Green Growth. 23
Annex 9: Map of SACU 25

LIST OF TABLES

Table 1: Project components and activities
Table 2: Financing plan
Table 3: Cost estimates by component
Table 4: Cost estimates by categories of expenditure and by financing sources
Table 5: Procurement activities

LIST OF ANNEXES FIGURES AND TABLES

Annex 1: Official Request Letter
Annex 2: Work Program
Annex 3: Detailed project activities and cost estimates
Annex 4: Procurement Plan
Annex 5: Monitoring and Evaluation Arrangements
Annex 6: Theory of Change
Annex 7: Environmental and Social Compliance Note
Annex 8: Climate Change and Green Growth.
Annex 9: Map of SACU

FISCAL YEAR
April 1 – March 31

CURRENCY EQUIVALENTS

(February 2026)
Foreign Currency

1 UA	=	1.31	US$
1 UA	=	1.25	EUR

ABBREVIATIONS AND ACRONYMS

AESTAP	Africa Energy Sector Technical Assistance Program
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
CET	Common External Tariff
CRP	Common Revenue Pool
CSP	Country Strategy Paper
CSP	Country Strategic Paper
ESCON	The Environmental and Social Compliance Note
FAPA	Fund for African Private Sector Assistance
GHG	Greenhouse Gas
ITAC	The International Trade Administration Commission of South Africa
MIC TAF	Middle Income Country Technical Assistance Fund
MTP-III	Third Medium Term Plan
NDP	National Development Plan
PFM	Public Financial Management
PIU	Project Implementation Unit
PMP	Procurement Methods and Procedures
PPPs	Public Private Partnership
RDGS	Southern Africa Regional Development and Business Delivery Office
RDRI	Regional Integration Coordination Office
RMCs	Regional Member Countries
SACU	Southern African Customs Union
TA	Technical Assistance
TFTA	Tripartite Free Trade Area
ToR	Terms of Reference
UA	Unit of Account

GRANT INFORMATION

Client's Information

RECIPIENT:	Government of South Africa
IMPLEMENTING AGENCY:	South African National Treasury

Financing Plan

Source	Amount	Instrument
ADB	UA500,000	MIC Grant
Government	UA 88,235	GoSA
Total	UA588,235	

ADB's Key Financing Information

MIC Grant Currency	USD

Timeframe – Main Milestones (Expected)

MIC Grant Approval	:	May 2026
Effectiveness	:	May 2026
Closing date	:	Dec 2027

1. INTRODUCTION

1.1 Context

1.1.1 The Southern African Customs Union (SACU) includes Botswana, Eswatini, Lesotho, Namibia, and South Africa. Established in 1910, it is the world's oldest customs union and operates with a Common External Tariff (CET) on imports from outside its membership. SACU aims to become a full economic union by further integrating goods, services, and production factors and harmonizing macroeconomic and fiscal policies for a future monetary union. Its main goals are to promote free movement of goods between member states and boost economic growth, diversification, industrialization, and competitiveness.

1.1.2. SACU operates as a single market, pooling customs duties from imports outside the region into a Common Revenue Pool (CRP) managed by the South African Reserve Bank. The CRP funds are distributed among SACU members—Botswana, Eswatini, Lesotho, and Namibia—and make up a significant portion of their revenues.

1.1.3. The SACU Member States' 2022–2027 Strategic Plan, adopted on June 2, 2022, seeks to shift the organization from a revenue-sharing customs union to a platform for deeper regional economic integration. The plan prioritizes industrialization, regional value chains, and investment facilitation to advance toward an economic union.

1.1.4. Despite implementing the strategic plan, the region still faces major challenges: low industrial growth (due to limited SACU member participation in value chains), infrastructure deficits, policy weaknesses, skills shortages, limited technology adoption and innovation, and insufficient funding for industrial projects. These problems stem from structural imbalances, disputes over revenue-sharing, and a lack of political drive. Global and regional shifts—including new economic powers, resource competition, and conflicting obligations with other trade agreements like the Southern Africa Development Community (SADC)—have further complicated policy harmonization.

1.1.5. In response to these challenges, SACU Council of Ministers recommended a fundamental reimagination of SACU to better align with the Member States' expectations and regional priorities.[1] This recommendation was endorsed at the 8th SACU Summit held in Eswatini on June 29, 2023, emphasising the need for a clear value proposition for SACU and a renewed focus on building a developmental economic community to advance regional integration.

1.1.6. The SACU Council of Ministers, at their meeting on December 4, 2025, authorised the Chairperson (South Africa's Minister of Finance) to consult the African Development Bank about supporting a comprehensive study with proposals for reimagining SACU (Annex 1: Official Request Letter).

1.1.7. It is against this background that this project has been prepared, and the Bank, subsequently made a commitment of UA500,00 from the MIC-TAF to support the operation.

[1] Which will depend on political commitment and the technical, structural changes required to achieve this vision – hence the study.

1.2 Project Objectives

1.2.1 The project aims to conduct a comprehensive study to reimagine SACU to transform the customs union from a common revenue pool into a key driver of industrialization, and deeper economic integration. The project will identify key challenges and opportunities to reform and reorient SACU into a key driver of industrialization, and economic integration. Between 2021 and 2024 SACU revenue sharing has been characterized by a significant, albeit temporary, surge in payments to member states (Botswana, Eswatini, Lesotho, Namibia, and South Africa), followed by projected declines for the 2022-26. The volatility of SACU revenue is attributed to SACU's GDP growth, which slowed to 0.5 percent in 2024, extending the region's downward trajectory from the strong post-pandemic rebound in 2021 to progressively weaker growth.

1.2.2 **Theory of Change**: SACU faces structural issues that limit integration. This project aims to resolve them with an analytical study on Re-imaged SACU, providing evidence-based recommendations and presenting findings to Finance Ministers. Key outcomes include: (i) an improved regional integration model for movement of people; (ii) transparent tariff setting with better governance; (iii) efficient management of the Common Revenue Pool; (iv) implementation of a Regional Innovative Funding mechanism; and (v) development of cross-border special economic zones. The long-term goals are deeper regional integration, greater transparency and inclusivity, improved institutional effectiveness, faster industrialisation through RVCs, and increased access to resources for industrial projects (Annex 6).

1.2.3 As the project nears completion, member states are expected to adopt the report and its key recommendations. This adoption is a crucial step toward implementing the proposals and advancing regional integration.

1.2.4 The main requirements for change are: (i) SACU Member States adopt proposals and prioritise regionally owned, funded projects; (ii) strong political commitment; and (iii) effective revenue sharing and innovative industrial project financing.

1.3 Sector/Regional Department/Country Office responsible for preparing the Request

1.3.1 The request was prepared by the South African government (through the National Treasury) in collaboration with the Regional Integration Coordination Office (RDRI) and the Southern Africa Regional Development and Business Delivery Office (RDGS).

1.4 Request Form cleared by RDVP (Y/N) with date:

1.4.1 The Request Form was cleared by RDVP on 26 March 2026.

1.5 Justification for the use of resources:

1.5.1 The justification for supporting the Study on "Reimagining the Southern African Customs Union". using MIC-TAF resources is twofold. Firstly, this support will enable the South African Government on behalf of the SACU Council of Ministers to undertake the much-needed study, which will assess challenges and opportunities to transition SACU from a revenue pool to a driver of regional economic integration and proposes reforms required to address these challenges. The study will deliver evidence-based proposals to: (i) explore an optimal model of

regional integration; (ii) propose strategies for transparent and equitable tariff setting; (iii) develop actionable recommendations for efficient and inclusive management of common revenue pool; (iv) formulate proposals for a regional innovative funding mechanism (Fund of Fund); (v) recommended policies/strategies to facilitate the movement of people for greater regional integration; and (vi) propose frameworks for establishing of cross-border special economic zones.

1.5.2 Secondly, the support to SACU study is linked to the Bank's envisaged support to the South African Development of the Bokamoso Ba Rona Agri-Industrial Park Project, and study on Alternative Fiscal Framework for Botswana, Lesotho, Namibia and Eswatini, in the context of the SACU. The Bank will use a similar project experience for the SACU project.

1.5.3 The proposed project supports the SACU Strategic Plan 2022-2027, targeting industrialisation, regional value chains (agro-processing, textiles, pharmaceuticals), and economic diversification. It aligns with the Bank Group's Ten-Year Strategy (2024-2033) priorities: developing industry value chains, expanding infrastructure, promoting cross-border trade and investment, and advancing Africa's financial integration. The project also contributes to two of the Four Cardinal Points, specifically Financial Sovereignty (CP.2) and Resilient Infrastructure (CP.4), and matches key strategies like the Regional Integration Strategy Framework (2018-2025)—including trade liberalisation, removal of non-tariff barriers, and productive enterprise development—and the Private Sector Development Strategy 2021-2025. Additionally, it fits the pillars of the Bank's Southern Africa Regional Integration Ppaper 2020-2026, and Country Strategy Papers for SACU Member States: Botswana, Lesotho, South Africa, Namibia, and Eswatini.

1.5.4 The project is designed to complement several other Bank-funded initiatives, including: (i) Fund for African Private Sector Assistance (FAPA) South Africa's support for the Development of the Bokamoso Ba Rona Agri-Industrial Park; (ii) FAPA Botswana's assistance for the Economic Diversification TA Project; (iii) the feasibility studies for the Mkondvo-Ngwavuma Augmentation Scheme; and (iv) the Africa Energy Sector Technical Assistance Program (AESTAP) Mission 300 program aimed at enhancing energy infrastructure and increasing electricity access, and (v) Programme Based Operation (PBOs) for SACU countries such as Botswana, Eswatini, and South Africa, focusing on economic diversification, infrastructure governance and improved economic performance. Each of these projects supports activities that are expected to drive industrialisation and foster regional integration.

1.6 Analytical work underpinnings

The design of the project is informed by a series of reports and diagnostic works produced by the Bank and other development partners. These include: (i) Country Diagnostic Notes for SACU member countries (Lesotho, 2024, South Africa, 2023, Eswatini MTR, 2018); (ii) Towards alternative fiscal framework for Botswana, Lesotho, Namibia and Eswatini, in the context of the SACU, 2021; (iii) SACU Strategic Plan (2022-2027); and (iv) Report of the 2nd SACU Commission Retreat on re-imagined SACU (June 2025), Southern Africa RDN (2026), national industrial policies for SACU countries, and IMF Article IV reports for SACU countries.

1.7 Lessons learned

The project design leverages lessons from prior Bank-funded operations, such as a study on alternative fiscal framework for Botswana, Lesotho, Namibia and Eswatini, in the context of the SACU (2021). Lessons also from the South African Mid-Term Review of the Country Strategy Paper 2018-2022 and Country Portfolio Performance Review 2021 speaks to the need to tailor the design and modalities of Bank support to the dynamic needs of South Africa as an upper MIC with peculiar development challenges, and ensuring effective implementation through a strong project implementation team at the National Treasury. The lessons also include: (i) the need to improve quality-at-entry and minimize start up delays. This is addressed by utilizing an existing implementation arrangements which will help to minimize start-up delays; (ii) need to enhance the results framework and strengthen indicator linkage and measurability. This is addressed by ensuring that all targets are realistically set and measurable indicators identified for performance measurement; and (iii) need to strengthen policy dialogue by focusing on relevant themes. This is addressed by focusing on study with clear recommendation on issues affecting South Africa and SACU bloc.

2. PROJECT DESCRIPTION

2.1 Description of project components

2.1.1 The project is based on the recommendation of the SACU Council of Ministers at their meeting of December 4, 2025 to engage the African Development Bank to request for assistance to conduct a comprehensive study to inform the re-imagination process.

2.1.2 An Independent Consultancy Firm will conduct the study and provide evidence-based recommendations to:

- Identify an optimal regional integration model for SACU, factoring in geopolitical and regional considerations;
- Suggest transparent and fair tariff strategies, including setting up national tariff bodies;
- Offer actionable advice for efficient, inclusive management of the Common Revenue Pool;
- Propose a Regional Innovative Funding mechanism (Fund of Funds) to finance industrial projects, building a pipeline for regional impact and utilizing AfCFTA, modern funds, and partnerships with Development Finance Institutions for infrastructure and supply chains;
- Recommend policies to ease cross-border movement for deeper integration;
- Develop frameworks for special economic zones to boost industrial collaboration and enhance SACU's export potential.

2.1.3. The project consists of two main components:

- Component 1: Hiring a consultancy firm to condcut a study to reimagine SACU.
- Component 2: Project management and coordination.

Component 1: Consultancy Firm Recruitment (UA 460,000) : This component will finance hiringh a consultancy firm to conduct a study and deliver actionable proposals for transforming SACU into a dynamic economic community focused on regional economic integration. The study

will address: (i) an optimal integration model for SACU, including movement of people; (ii) transparent tariff setting with governance linking national and regional bodies; (iii) effective management of the Common Revenue Pool; (iv) operationalizing the SACU Regional Innovative Funding mechanism; and (v) developing cross-border special economic zones.

Component 2: Project Management and coordination (UA 118,235) : This component will support recruitment of an audit firm to audit the project and workshops to validate the study.

2.2 Description of the anticipated outcomes and their connections to the targeted project

2.2.1 The expected output of the project will include:

(i) A study report with evidence-based proposals,

(ii) Validation workshop for the study; and

(iii)SACU members formally adopt the study report

2.2.2 These outputs are intended to guide the recommendations and proposals that will be reviewed by the SACU Council of Ministers during the 7th SACU Ministerial Retreat, which is planned for June 2026 and organized by the SACU Secretariat.

2.3 Climate Change and Green Growth, Environmental and Social Safeguards, and Gender

2.3.1. **Climate Change:** Under the African Development Bank Climate Safeguards System, this project is classified as Category 3 because it is an analytical and institutional technical assistance that will not produce significant greenhouse gas emissions or face major physical climate risks.

2.3.2 This operation presents a significant opportunity to integrate climate change and green growth considerations into SACU's re-imagining process. The study is designed to facilitate alignment of SACU's regional integration, tariffs, financing, and industrialisation frameworks with member states' Nationally Determined Contributions (NDCs) and long-term strategies for low-emission, climate-resilient development. Specifically, it will support the formulation of climate-sensitive tariff and industrial policies, enhance the administration of the Common Revenue Pool, and assist in developing a regional innovative financing mechanism (Fund of Funds) to mobilise resources for climate-resilient infrastructure, green industrialisation, renewable energy value chains, and sustainable regional supply chains. Additionally, the project establishes pathways for advancing green and climate-resilient cross-border special economic zones, resource-efficient industrial development, and low-carbon regional value chains, in alignment with the AfCFTA. Further information is available in Technical Annex 8, which addresses climate change and green growth.

2.3.3 Although the project does not have a direct climate impact, it supports the Paris Agreement by enhancing SACU Member States' policy, institutional, and investment frameworks for low-carbon, climate-resilient development and improved NDC implementation.

2.3.4 Environmental and Social Safeguards:

2.3.4.1 *E&S Risk Categorization*: The project is classified as Category 3 (Low Risk), validated in ISTS and confirmed in SAP on 30 March 2026. This status complies with relevant national regulations - Botswana's Environmental Assessment ACT, 2011, the associated Environmental Assessment Regulations, 2012 (Schedule 1 Activities that require a Statement) and the Environmental Assessment (AMENDMENT) ACT, 2020; South Africa's National Environmental Management Act 107 of 1998 (NEMA) with associated EIA Regulations (2014, amended; Namibia's Environmental Management Act, 2007 (No. 7 of 2007); Eswatini's Environment Management Act 2002 (Act No. 5 of 2002), Lesotho's Environment Act 2008 (No. 10 of 2008). It also complies with the Bank's Integrated Safeguards System (ISS). The classification is based on two factors: (i) no environmental or social assessment is required; (ii) the operation involves technical assistance only and does not fund infrastructure feasibility studies or physical activities.

2.3.4.2 *Required E&S safeguards Documents*: Based on the validated E&S risk category of the project, no E&S safeguard instrument is applicable to its implementation.

2,3,4,3 *Involuntary Resettlement*: The project does not pose any risk of resettlement (nor degradation of property, nor restriction of access to resources).

2.3.4.4 *E&S Compliance*: The project is compliant and ready to be submitted for approval, as evidenced by the Environment and Social Compliance Note (ESCON) in Annex 7.

2.3.5 Gender: The restructuring of SACU presents an opportunity to strengthen women's involvement in regional integration. Women are heavily engaged in informal cross-border trade but face barriers such as non-tariff obstacles, harassment, and limited policy recognition. To address this, the study will use a gender-responsive diagnostic to assess women's participation, highlight specific challenges, and examine their roles in regional value chains. It will also recommend policies for formalising women traders, improving border management, and supporting women-led businesses. This aims to promote inclusive growth and economic empowerment. The project is classified as Category III on the Bank's Gender Marker System.

2.3.6 **Vulnerability and resilience analysis**: Vulnerability and resilience analysis for SACU reveals a region deeply interconnected through trade and revenue sharing, yet exposed to significant economic and environmental shocks. The bloc faces high vulnerability due to reliance on a single, dominant economy (South Africa) and a shared, volatile revenue pool, while regional resilience is being built through policy harmonization and industrial diversification initiatives.

2.4 Cost Estimates of the project (in UA)

2.4.1 Detailed cost estimates (broken down into foreign and local costs)

2.4.2 The estimated total project cost is UA 588,235, of which the Bank will provide UA 500,000 to be funded under the Middle-Income Countries Technical Assistance Fund (MIC-TAF). The MIC TAF grant will finance a consulting firm to undertake activities under Component 1, and project audit under Component 2. Resources (about UA 10,000) will be set aside for price contingencies. The Government of South Africa will contribute USD 121,302.83 (equivalent to UA 88,235) in-kind. This will finance project management and coordination expenses, and facilities for validation workshops.

2.5 Project Cost and Financing Arrangements

2.5.1 The project is targeted at 5 SACU member countries, which include Botswana, Eswatine, Lesotho, Namibia, and South Africa. And the outputs of the project will be available to all member countries of the ACU bloc for use.

The Project

3. IMPLEMENTATION ARRANGEMENTS

3.1.1 The Republic of South Africa (RSA) is the recipient of the MIC TAF Grant. The National Treasury of the RSA will serve as the Executing Agency (EA) for the project, responsible for overall coordination and reporting obligations to the Bank. The Economic Policy and International Cooperation Division of the National Treasury will implement the project using its existing staff and organisational structures. To facilitate effective day-to-day management of the project, the National Treasury will, immediately after signing the finance agreement, establish a Project Implementation Team (PIT) by selecting from its staff: (i) a project coordinator, (ii) a procurement expert with qualifications and experience acceptable to the Bank, (iii) a project accountant with qualifications and experience acceptable to the Bank, and (iv) a technical focal person appointed by the SACU Secretariat, each with qualifications and terms of reference acceptable to the Bank. The PIT will be funded by the Government of South Africa as part of its in-kind counterpart contribution to project costs. The PIT shall be responsible for undertaking, *among other duties*, the following tasks: (i) overseeing the day-to-day implementation of the project, including preparing and submitting progress reports, financial reports, audit reports, and other technical reports on project activities and results to the Bank; (ii) managing all project-related monitoring and evaluation activities, ensuring compliance with the Bank's procurement, financial management, and control requirements, as well as supervising and monitoring consultants; (iii) overseeing all project-related procurement activities, including quality assurance, disbursement, financial management, monitoring and evaluation, and environmental and social safeguards management; (iv) engaging with SACU Member States, stakeholders, and partner organisations regarding project implementation; (v) facilitating collaboration between the Bank, stakeholders, and the Recipient; and (vi) maintaining overall day-to-day communication with the Bank on all matters relating to project implementation, including seeking no objections in accordance with the Bank's rules and procedures, and acting as the operational link to the Bank for matters related to implementing the project.

3.1.2 The SACU Commission consisting of Senior Officials at the level of Permanent Secretary, Director-General, Principal Secretary, Executive Directors or equivalent rank, will provide overall policy guidance and strategic direction for the project. The Commision will also ensure engagement, commitment, synergy, and harmonisation in project implementation amongst SACU Member States and participating stakeholders, and review and approve annual work plans (Annex 2) and budgets throughout the project implementation period. The Commission will meet at least twice a year, either in person or virtually. Subject to the aforesaid, the Commission shall also oversee implementation of the activities of the project, including with regard to meeting procedures, adjournment processes, and determining the form and notice period for meetings (or proxy appointments), the means of giving that notice, and quorum requirements for meetings.

3.1.3 The RSA shall undertake the following:

(i) Within three months of signing the Letter of Agreement, call for a meeting of the Commission.

(ii) Ensure that both the PIT and Commission continue to exist and operate throughout the project implementation period, with their form, and composition to promote timely, smooth, and effective project execution.

(iii) Establish and sustain collaborative arrangements throughout the life of the project, ensuring these arrangements meet the Bank's requirements for composition and operation, in order to facilitate coordinated and efficient implementation.

(iv) Provide, or make all reasonable efforts to have beneficiaries provide, the necessary funds, facilities, services, and resources promptly for project implementation, or as needed to achieve the Project's goals and fulfill the purpose of the Grant.

3.2 Procurement Arrangements

3.2.1 **Applicable Procurement Framework and Procedures**. All procurements for the acquisition of services to be financed by the Bank under the project will be conducted in accordance with the Procurement Policy for the Bank Group funded Operations dated October 2015 (the "Procurement Framework") using relevant standard bidding documents as shall be deemed appropriate and the provisions outlined in the detailed Procurement Plan (Annex 4).

3.2.2 The acquisition of consulting services for the "Re-imagining of the Southern African Customs Union (SACU)" study and audit will strictly follow the Bank Procurement Methods and Procedures (BPMPs). This decision results from a thorough preliminary assessment comparing the RSA's existing legal and regulatory procurement framework against the Bank's standards. It was determined that the BPMPs provide the **"best fit-for-purpose"** approach to ensure the necessary efficiency and transparency for this specific assignment.

3.2.3 **Expedited Procurement Modalities.** To reduce risks linked to the shortened implementation timeline and to ensure the best use of allocated funds within the agreed project period, an **expedited procurement process** has been established. This streamlined approach aims to enable swift processing while maintaining essential fiduciary oversight. The Terms of Reference (TORs) were finalised and agreed upon during the appraisal stage (Annex 3). As a result, procurement procedures are set to begin immediately. The process will commence with the issuance of a Request for Proposals (RFP) sent to a pre-approved shortlist of qualified consultants, with shorter submission deadlines to support a competitive yet efficient selection. The specific procurement activities and detailed arrangements are outlined in Annex 6.

3.2.4 The capacity for procurement implementation is considered sufficient, as the project activities will be integrated into the existing institutional frameworks within the National Treasury. To fully support and oversee procurement implementation, the National Treasury will appoint a designated procurement expert with qualifications and experience satisfactory to the Bank to monitor all procurement proceedings and ensure full compliance with the Bank's procurement procedures, while providing procurement and contract supervision throughout the project cycle.

3.3 Financial Management, Disbursement and Audit Arrangements

3.3.1 Financial Management

3.3.1.1 An assessment of the Executing Agency's Financial Management (FM) system found that the overall fiduciary risk is Moderate. The National Treasury will act as the Executing Agency for the Project and will oversee all financial management functions. The National Treasury has experience in managing donor-funded projects and will collaborate closely with the SACU Secretariat in the daily implementation of project activities (Annex 3).

3.3.1.2 The project's financial management arrangements will be integrated into the National Treasury's existing institutional framework. The Accountant General will appoint a Project Accountant with qualifications and experience satisfactory to the Bank to oversee the project's day-to-day financial management[2]. The project will produce quarterly progress reports, including Interim Financial Reports (IFRs), to provide the Bank with sufficient information on financial performance and implementation progress. The IFRs will be submitted to the Bank within 45 days after the end of each quarter.

3.3.2 Disbursement

Project disbursements will primarily be made using the Reimbursement and Direct Payment methods, in accordance with the Bank's Disbursement Handbook.

3.3.3 Audit

The Project Financial Statements (PFS), covering the entire implementation period, will be audited by the Auditor General (AGSA). Use of a private firm will only be considered if the AGSA explicitly expresses a desire to engage an independent external auditor (private firm), in which case, the audit costs will be financed from the project's MIC-TAF resources. The audit will be conducted in accordance with the terms of reference acceptable to the Bank. The audited financial statements, along with the Management Letter, will be submitted to the Bank within six months after the project's closing date.

3.4 Monitoring & Evaluation Arrangements & Project Schedule

3.4.1 The EA will prepare and submit a monitoring and evaluation plan to the Bank (Annex 5). The results framework in this report shall serve as the basis for a "results-based assessment" of the project's outputs and outcomes during implementation and after completion. The Bank will undertake one monitoring and supervision mission, and a mid-term review at the mid-term of the project implementation period. The EA will also submit quarterly progress reports (which will include implementation progress on the project activities (Annex 3), the status of procurement, financial, disbursement, and audit activities, and any challenges facing the project, including mitigation measures) and a Project Completion Report within six months after the project completion date. The Report will draw lessons for follow-up actions. The regional office (RDGS) will play an active role in project monitoring and evaluation by providing guidance on issues such

[2] The project account will be a member of the project implementation team

as procurement and by following up on the project's status during its regular dialogues with the RSA.

3.4.2 Timeline of the Project - The implementation timeframe is 18 months, from June 2026 to December 2027.

4. POTENTIAL RISKS AND MITIGATION MEASURES

4.1 The following are the major potential risks and their corresponding mitigating measures.

Table 5: Potential Risks and Mitigation Measures

Risk category	Risk Description	Rating	Mitigation measures	Risk owner
Dialogue	Consensus building process maybe protracted.	M	Project will identify the champion to facilitate consensus.	GoSA & SACU
Political	Limited political will to implement recommendations of the study	M	Strengthen dialogue among SACU Member States	GoSA & SACU
Delays in executing the operation	Slow procurement processes	M	Stregthen procurement process using advance procurement process	AfDB

5. LEGAL INSTRUMENTS AND AUTHORITY

5.1 Legal Instrument

The legal instrument to be used for the financing of this project will be a Letter of Agreement (the "Agreement") between the African Development Bank (the "Bank"), acting as administrator of the Middle-Income Country Technical Assistance Fund (MIC TAF) and the Republic of South Africa (the "Recipient").

5.2 Conditions associated with the Bank's Intervention

5.2.1 ***Entry into Force****:* The Letter of Agreement shall come into effect on the date it is signed by the Bank and the Recipient.

5.2.2 ***Conditions Precedent to First Disbursement of the Grant****:* In addition to entry into force of the Agreement as stated above, the obligation of the Bank to make the first disbursement of the Grant shall be subject to the satisfaction of the following conditions by the Recipient:

a) Submit a letter from the National Treasury confirming the establishment of a Project Implementation Team (PIT) and designation from among its staff of; (i) a project coordinator, (ii) a procurement expert, and (iii) a project accountant, and (iv) a technical focal person designated by the SACU Secretariat, each with qualifications and terms of reference acceptable to the Bank, indicating names, roles/positions, curriculum vitae and designation/assignment letters/terms of reference of the staff assigned to serve on the PIT for

the Project.

5.3 Undertakings

The Recipient shall: (i) within three (3) months after the signing of the Letter of Agreement, establish and maintain the existence and functioning of the Project Steering Committee (PSC) composed of Director level representatives from the SACU Secretariat, the ministry responsible for SACU of each SACU Member State – South Africa, Botswana, Eswatini, Lesotho, and Namibia, and participating stakeholders, chaired by South Africa, (ii) maintain or cause to be maintained, the existence and functioning of the PIT and PSC, each in a form and with a composition and Terms of Reference acceptable to the Bank, throughout the duration of the Project implementation period, to ensure timely, smooth and effective implementation of the Project, (iii) establish collaboration arrangements and maintain their existence and functioning in a form and with a composition acceptable to the Bank, throughout the Project lifecycle, to ensure timely, well-coordinated, and effective implementation of the Project, and (iv) provide, and/or use its reasonable endeavors to cause beneficiaries to provide, as promptly as needed, funds, facilities, services and other resources required for implementation of the Project, and/or necessary or appropriate to ensure that the goals of the Project and the purpose of the Grant are accomplished.

6. COMPLIANCE WITH BANK GROUP POLICIES

☒ This project complies with all applicable Bank Group policies.
☐ There are exceptions to Bank Group policies.

7. AFDB GROUP INDEPENDENT RECOURSE MECHANISM

Communities and individuals who believe that they are adversely affected by an African Development Bank Group (AfDB) supported project may submit complaints to existing project-level grievance redress mechanisms or the AfDB's Independent Recourse Mechanism (IRM). The IRM ensures that project-affected communities and individuals may submit their complaints to the AfDB's Independent Recourse Mechanism, which determines whether harm occurred or could occur as a result of AfDB non-compliance with its policies and procedures. To submit a complaint or request further information, please contact: IRM@afdb.org or visit the IRM website www.irm.afdb.org. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention, and the Bank Management has been given an opportunity to respond before reaching out to the IRM.

8. CONCLUSION AND RECOMMENDATION

8.1 Conclusion

The project is expected to enhance the capacity of SACU Member States to mobilise resources, accelerate the implementation of industrial projects through the development of Cross-Border Special Economic Zones, and boost regional integration, alongside initiatives of value addition

and trade among SACU Member States. This initiative will be complemented by the Regional Innovative Funding Mechanism, Tariff setting and effective management of the common revenue pool.

8.2 Recommendation

Management recommends that the Director General, RDGS, approve the award of the proposed grant of five hundred thousand units of account (UA 500,000) from MIC-TAF resources to the Republic of South Africa, to finance the implementation of the project under the terms and conditions stipulated in this report.

ANNEXES

Annex 1: Official Request Letter

MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA

Private Bag X115, Pretoria, 0001 Tel: +27 12 323 8911 Fax: +27 12 323 3262
P O Box 29, Cape Town 8000 Tel: +27 21 464 6100 Fax: +27 21 461 2934
Website: www.treasury.gov.za, email: minreg@treasury.gov.za

Dr. Sidi Ould Tah
Avenue Joseph Anoma
01 BP 1387
Abidjan 01
Côte d'Ivoire

Dear Dr. Tah,

Request for Support in a Study for Reimagining the Southern African Customs Union

I am writing to you, on an urgency basis, in my capacity as current chair of Southern African Customs Union (SACU) and mandated by the SACU Council in their meeting of 4th December 2025, to engage the African Development Bank regarding support for a comprehensive study with proposals on reimagining SACU.

In June 2023, the SACU Ministers of Finance and Trade of Botswana, Eswatini, Lesotho, Namibia and South Africa have embarked on a process to reform the SACU region recognizing the evolving global and regional economic landscape. This renewed focus necessitates a clear value proposition to build a developmental economic community that fosters economic growth, promotes infrastructure development, and advances regional integration.

Recently, at a meeting held on 05 December 2025 in South Africa, the SACU Council of Ministers agreed that the African Development Bank is best positioned to assist with a comprehensive study to inform the re-imagination process. The ambition is that the study will deliver evidence-based proposals to:

(i) explore an optimal model of regional integration for SACU, considering geopolitical and regional dynamics;
(ii) propose strategies for transparent and equitable tariff setting, including the establishment of national tariff bodies;
(iii) develop actionable recommendations for efficient and inclusive management of the Common Revenue Pool;
(iv) formulate proposals for a Regional Innovative Funding mechanism (Fund of Funds) to support bankable industrialisation projects (including pipeline of bankable industrialisation projects for regional impact, including the right to supply/buy,) leveraging the AfCFTA; existing modern funds and partnerships with Development Finance Institutions for infrastructure investment and regional supply chains;
(v) recommend policies/strategies to facilitate the movement of people for greater regional

integration; and

(vi) propose frameworks for the establishment of cross-border special economic zones to drive industrial and economic collaboration and to enhance SACU's export capabilities.

The specific outputs expected from this study are detailed in the **Terms of Reference**, which is appended as **Annexure A** of this letter. Due to the urgency of the envisaged study, it is expected that it will be conducted and concluded within a period three months. The first draft is to be presented no later than 15 May 2025.

The AfDB remains a trusted partner for all members of SACU, and we believe that your assistance at this critical point in the Union's evolution would set a solid foundation for the Southern African region's integration.

I look forward to receiving your guidance on how the Bank can support us in advancing this initiative.

Yours sincerely,



ENOCH GODONGWANA, MP
MINISTER OF FINANCE AND
CHAIRPERSON OF SACU COUNCIL OF MINISTERS

REPUBLIC OF SOUTH AFRICA

DATE: 11/12/2025

CC: **Honourable N. N. Gaolathe**
Vice President and Minister of Finance
Gaborone, BOTSWANA
obatsetswe@gov.bw /graditanka@gov.bw

Dr. Kennedy K. Mbekeani
Director General Southern Africa Region
K.Mbekeani@afdb.org

Nomfundo Ngwenya
Executive Director
African Development Bank
N.X.NGWENYA@AFDB.ORG

Annex 2: Work Program

Task Name	2026			2027			
	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4
Project Approval, Signature and fulfilment of conditions							
Project launch/preliminary activities							
Project implementation							
Annual Financial Audit							
Annual Procurement Audit							
Bank: Supervision Missions							
Bank: Mid-term Review (MTR) Mission							
Bank: Project Completion Review (PCR) Mission							

Annex 3: Detailed project activities and cost estimates

Component Name	Associated Activities
Component 1: Recruitment of a Consultancy Firm:	*UA 460,000. 78%* • Recruitment of the consultancy firm to undertake a comprehensive study on Reimagining the Southern African Customs Union.
Component 2: Project Management	*UA 118,235. 20%* • Recruitment of an auditor firm to audit the project (MIC-TAF resources) • Workshop to validate the outputs of the study (Partly financed with MIC-TAF resources and Counterpart fubding).

Annex 4: Procurement Plan

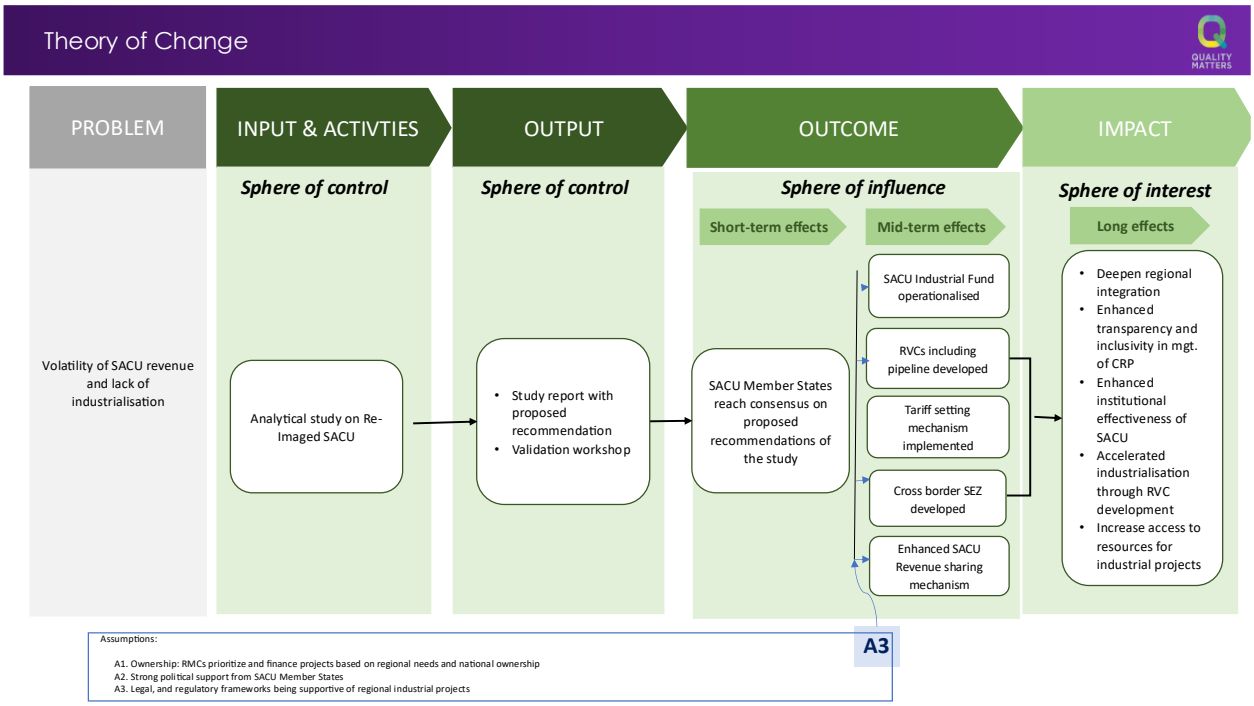
Description	Selection Method	Lump sum or Time-Based	Estimated Amount in UA	Prior/Post Review	EOI Publication Date	Contract Start Date
Consulting firm to undertake a study on reimagining the Southern African Customs Union	QCBS	Lump sum	460,000	Prior	15.05.2026	15.06.2026
Procurement of Audit firm	LCB	Time-Based	10,000	Prior	01.10.2026	15.01.2027

Annex 5: Monitoring and Evaluation Arrangements

A. Impact/Alignment indicators			
Indicator name	Definition/ description	Source	Baseline and targets (where possible)
Intra-Africa trade as a proportion of total goods' trade (%)	An integration score is a metric used to evaluate how well different components, systems, or data sets work together	The Africa Regional Integration Index (ARII)	Baseline: 0.37 (2025) Target: 0.39 (2027)

B. Outcome and output indicators *(performance indicators)*						
Indicator name	Definition/ description	Methodology for collection	Responsibility for collection	Frequency of reporting	Results planning	
					May 2026	December 2027
OUTCOME INDICATORS						
1. Study report adopted by members of the Southern African Customs Union	Report presented to the SACU Council of Ministers at the 7th SACU Ministerial Retreat, and its recommendations and action plan approved.	Study	Consultancy Firm	One-off	Yes	Yes
OUTPUT INDICATORS						
1.1 Validated study report	Final Draft of the study with recommendations and roadmap	Review of proposals and recommendations prepared by the consultant	GoSA, SACU and AfDB	One-off	Yes	-
1.2 Validation workshop	Meeting of key stakeholders, experts, and practitioners to review draft findings of the study report.	Review of study report and its recommendations	GoSA, SACU and AfDB	One-off	Yes	-

Annex 6: Theory of Change



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Annex 7: Environmental and Social Compliance Note

ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)

AFRICAN DEVELOPMENT BANK GROUP
2023 ISS Update v01

A. Basic Information[3]			
Project Title: STUDY ON REIMAGINING SACU			**Project SAP or TFMS Code:** P-ZA-K00-013
Region: RDGS	**Country:** South Africa		
Project Sector Unit: Multi Sector		**Lending Instrument:** Technical Assistance	
Appraisal dates: 5-Mar-26 **to** 6-Mar-26		**Estimated Approval Date:** 17-Apr-26	
Task Team Leader: BANDA, LUFEYO		**Alternate Task Team Leader:** KOMA, BABOUCARR	
Environmental Safeguards Officer(s): xxx	Hamidou ABDOURHAMANE		
Social Safeguards Officer(s): xxx	xxx		
E&S Category: Category 3 (Low Risk)	**Operation Type:** Sovereign Operation / Public Sector Operation		**Financial Intermediary:** No
Categorization Date: 30-Mar-26	**Categorization Date in ISTS:** 30-Mar-26	**Categorization Date in SAP:** 30-Mar-26	
Is this project processed under rapid responses to crises and emergencies?			No
Is this project processed under a waiver to ISS requirement(s) requested by the Borrower/Client and granted by the Board?			No
B. Disclosure and Compliance Monitoring **B.1 Mandatory disclosure**[4]			
Environmental and Social Assessment/Audit/System/Others: **Not applicable.**			
Was/Were the document (s) disclosed ***prior to appraisal?***			**Not Applicable**
Date of "in-country" disclosure by the borrower/client			
Date of receipt, by the Bank, of the authorization to disclose			
Date of disclosure by the Bank			
Resettlement Action Plan (RAP)[5]**:** *Not Applicable*			
Was/Were the document (s) disclosed ***prior to appraisal?***			**Not Applicable**
Date of "in-country" disclosure by the borrower/client			
Date of receipt, by the Bank, of the authorization to disclose			
Date of disclosure by the Bank			
Stakeholder Engagement Plan (SEP)[6]**:** *Not Applicable*			
Was/Were the document (s) disclosed ***prior to appraisal?***			Not Applicable
Date of "in-country" disclosure by the borrower/client			
Date of receipt, by the Bank, of the authorization to disclose			

[3] ***Note****: This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.*
[4] *For multiple disclosure dates of the same type of document/instrument (ESIAs, RAPs, etc), please indicate the date of the last disclosure that meets the 50%+1 disclosure requirement.*
[5] *Including Livelihood Restoration Plan (LRP)*
[6] *Including Grievance Redress Mechanism (GRM)*

Date of disclosure by the Bank	
Pest or Vector Management Plan (PMP/VMP): *Not Applicable*	
Was/Were the document (s) disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	
Date of receipt, by the Bank, of the authorization to disclose	
Date of disclosure by the Bank	
Vulnerable Peoples Plan (VPP): *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	
Date of receipt, by the Bank, of the authorization to disclose	
Date of disclosure by the Bank	
Biodiversity Management Plan (BMP)[7]: *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	
Date of receipt, by the Bank, of the authorization to disclose	
Date of disclosure by the Bank	
Livelihood Restoration Plan (LRP)[8]: *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	
Date of receipt, by the Bank, of the authorization to disclose	
Date of disclosure by the Bank	
Riparian Communities Participation Plan (RCPP): *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	
Date of receipt, by the Bank, of the authorization to disclose	
Date of disclosure by the Bank	
Emergency Preparedness & Response Plan (EPRP): *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	
Date of receipt, by the Bank, of the authorization to disclose	
Date of disclosure by the Bank	
Hazardous/Medical Waste Management Plan (HWMP): *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	
Date of receipt, by the Bank, of the authorization to disclose	
Date of disclosure by the Bank	
Riparian Notification (RN): *Not Applicable*	

[7] Refer to footnote 212 of the ISS: Depending on the nature and the scale of the risks and impacts of the project, the Biodiversity Management Plan (BMP) may be a stand-alone document, or it may be included as part of the ESMP prepared under OS1. Select this if a standalone BMP is required.

[8] Refer to footnote 190 of the ISS: The Livelihood Restoration Plan (LRP) is normally part of the Resettlement Action Plan (RAP). However, for complex livelihood restoration, a stand-alone LRP can be prepared as part of the ESMP. Select this if a standalone LRP is required.

Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	
Date of receipt, by the Bank, of the authorization to disclose	
Date of disclosure by the Bank	
Environmental and Social Management Plan of the Financing Agreement (FA-ESMP) [9]	
Was the document disclosed ***prior to appraisal?***	*Not Applicable*
Date of "in-country" disclosure by the borrower/client	
Date of receipt, by the Bank, of the authorization to disclose	
Date of disclosure by the Bank	

Is in-country disclosure of any of the above required documents not allowed as per the country's legislation or not expected because of crises/emergencies: Not Applicable
If applicable, please explain below:

Not applicable.

B.2. Compliance monitoring indicators

Has satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	**Not Applicable**
Has costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?	**Not Applicable**
Is the total amount for the full implementation for the Resettlement of affected people, as integrated in the project costs, effectively mobilized, and secured?[10]	**Not Applicable**
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	**Not Applicable**
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	**Not Applicable**

C. Clearance

Is the project compliant with the Bank's environmental and social safeguards requirements, and can be submitted to Approval?			**Yes**
Prepared by	***Name***	***Signature***	***Date***
Environmental Safeguards Officer(s):	**xxx** | **Hamidou ABDOURHAMANE**		30-Mar-26
Social Safeguards Officer(s):	**xxx** | **xxx**		
Task Team Leader:	**BANDA, LUFEYO**		30-Mar-26
Submitted by			
Sector Director:	**Joy Kategekwa**		8-Apr-26
Cleared by			
Director SNSC:	**Maman-Sani ISSA**		8-Apr-26

[9] *As referred to in section III.2.3 of the Bank's Environmental and Social Policy (ESP)*
[10] *In case a Resettlement Action Plan (RAP) is/are not required although the Environmental and Social Impact Assessment (ESIA) is/are disclosed, attached the image/picture/photo of the area/site/landscape to evidence that it is free of any encumbrance (simple statement or letter from the borrower does not suffice), in addition to the statement by the Borrower that it is a public-owned land.*

Annex 8: Climate Change and Green Growth.

In line with the **African Development Bank Climate Safeguards System (CSS)**, the proposed technical assistance is classified as a **Category 3 operation**. The project consists primarily of analytical work, institutional strengthening, and policy design and therefore **is not directly exposed to significant physical climate risks** and **will not generate material greenhouse-gas (GHG) emissions** during implementation. However, it has strong **upstream potential** to integrate climate resilience and low-carbon development considerations into the re-imagination of the Southern African Customs Union (SACU), comprising Botswana, Eswatini, Lesotho, Namibia, and South Africa.

SACU member states are located within the **Southern Africa climatic domain**, a region characterised by semi-arid to arid conditions, high rainfall variability, recurrent droughts, and increasing temperature extremes. This domain is recognised by the Intergovernmental Panel on Climate Change (IPCC) as one of the most climate-vulnerable regions globally due to its high exposure and relatively low adaptive capacity in key sectors such as water, agriculture, and infrastructure (IPCC[11], 2023). Southern Africa has already warmed by about **1.5–2°C** above pre-industrial levels and is projected to experience warming of **2–4°C by 2050**, with more frequent droughts and heatwaves affecting productivity and economic stability (IPCC, 2023; World Bank[12], 2021).

Droughts occur roughly every **5–7 years** in the region and the 2015–2016 El Niño drought affected over **40 million people**, significantly reducing agricultural output and hydropower generation (FAO[13], 2022; World Bank, 2021). Water scarcity is a structural constraint, with Botswana, Namibia, and South Africa among the most water-stressed countries globally and renewable water availability below **1,000 m³ per capita per year** in several basins (UNEP[14], 2022). Meanwhile, extreme rainfall and flooding events in South Africa and Eswatini have caused infrastructure damages exceeding **USD 1–2 billion** in recent years, affecting transport corridors, logistics systems, and border infrastructure critical for regional trade (World Bank[15], 2022). These climate shocks can disrupt cross-border trade flows and affect customs revenues, thereby influencing the stability of the **Common Revenue Pool**, a central component of SACU's fiscal framework.

From a mitigation perspective, SACU economies—particularly South Africa—are relatively carbon-intensive. While the SACU region contributes less than **2% of global emissions**, South Africa alone accounts for about **1.2–1.4% of global GHG emissions**, with the energy sector representing approximately **70–75%** of national emissions due to reliance on coal (IEA[16], 2023; EDGAR[17], 2023). As global markets move toward low-carbon production standards and carbon border adjustment measures, SACU exports could face competitiveness pressures if production

[11] IPCC (2023) *Sixth Assessment Report: Synthesis Report*. Intergovernmental Panel on Climate Change, Geneva.
[12] World Bank (2021) *Climate Risk Country Profiles: Botswana, Eswatini, Lesotho, Namibia and South Africa*. Washington, DC: World Bank.
[13] FAO (2022) *The Impact of Disasters and Crises on Agriculture and Food Security*. Food and Agriculture Organization, Rome.
[14] UNEP (2022) *Africa Adaptation Gap Report*. United Nations Environment Programme, Nairobi.
[15] World Bank. 2021. A Regional Analysis of Weather, Climate, Water and Early Warning Services in Southern Africa: Status Quo and Proposed Actions. Washington, DC: World Bank.
[16] IEA (2023) *South Africa Energy Profile and Emissions Data*. International Energy Agency, Paris.
[17] EDGAR (2023) *Global Greenhouse Gas Emissions Database*. European Commission Joint Research Centre.

systems are not progressively decarbonised (OECD[18], 2023). At the same time, the region has significant renewable energy potential, particularly solar and wind—which provides opportunities for green industrialisation and resilient regional value chains (IRENA[19], 2022).

Although the present technical assistance has no direct emissions or physical footprints, it offers a strategic entry point to integrate climate and green growth considerations into SACU's future institutional framework. The study can inform climate-sensitive tariff structures, support the design of regional financing mechanisms for climate-resilient infrastructure and low-carbon industries, and promote green and climate-resilient cross-border special economic zones aligned with member states' Nationally Determined Contributions (NDCs) and long-term development strategies.

Paris alignment: The project is considered **Paris-aligned (BB2 – supportive of low-emission and climate-resilient development)** as it strengthens upstream policy, institutional, and regional integration frameworks that will enable SACU member states to pursue climate-resilient and low-carbon development pathways consistent with the objectives of the Paris Agreement and their respective NDC commitments.

Overall, while classified as a **Category 3 operation with negligible direct climate footprint**, the project has **high strategic relevance** for supporting SACU member states—located in the climate-vulnerable Southern Africa climatic domain—to address climate risks and transition toward resilient, low-carbon, and competitive regional development pathways.

[18] OECD (2023) *Carbon Pricing and Trade: Implications for Developing Economies*. Organisation for Economic Co-operation and Development, Paris.
[19] IRENA (2022) *Renewable Energy Market Analysis: Africa and its Regions*. International Renewable Energy Agency, Abu Dhabi.

Annex 9: Map of SACU

