

https://dspace.org/

# Transaction costs in foreign exchange markets as an impediment to intra-SADC trading

**Manyadu, Sithembele**

**2011-11-10**
http://hdl.handle.net/10539/10760

Downloaded from a DSpace repository. https://dspace.org/

# Transaction Costs in Foreign Exchange Markets as an Impediment to Intra-SADC Trading

***by***

***Sithembele Manyadu***

***Student number: 500728***

Thesis submitted in fulfilment of the requirements for the degree of

Master of Management in Finance & Investments

FACULTY OF COMMERCE LAW AND MANAGEMENT

WITS BUSINESS SCHOOL

at the

UNIVERSITY OF THE WITWATERSRAND

***Supervisor: Professor. Eric Schaling***

# DECLARATION

I, Sithembele Mazotshwandile Manyadu, declare that this research report is my own work, except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of MM in Finance at the University of the Witwatersrand, Johannesburg. This report has not been submitted before, for any degree or examination in this or any other university.

_____

Sithembele M. Manyadu

Signed at _____

On the _____day of _____ 2011

# ABSTRACT

The main goal of this research is to investigate whether foreign exchange transacting costs are an impediment to intra-regional trading within the Southern African Development Community SADC region. The research question posed has been whether foreign exchange trading costs affect the amount of intra-regional trading within the SADC region. Once the impediments relating to regional trading have been broken down and the cost effect on Small, Medium and Micro Enterprises SMMEs is established, then possible solutions are proposed.

The research discovers that the cost of foreign exchange has an impact on intra-regional trading, but it is not the main hindrance to intra-regional trading in the SADC. It also discovers that the settlement risk of a foreign exchange transaction in the region has not yet been addressed to the same or similar extent as in the developed world.

The extent of trading partners' currency volatility is a function of the amount of trade between those trading partners. The SADC countries' currency pairs volatility can be reduced by increased trade. Having said that, businesses need to plan and high levels of volatility tend to be disruptive.

This is now the area where it is suggested that central banks within the region should actively participate in foreign exchange markets. Central banks should be the facilitator or price-maker of last resort in cases of lack of liquidity of local or foreign currencies. The research suggests that they should play a role in ensuring or reducing the amount of rapid currency spikes that lead to disorderly markets.

The research also discovers that SMMEs are a core part of the economies of developing countries, and therefore a serious look at this sector of the economy is suggested.

Mobile communication networks, like cell phones, are the current accessible and preferred communications tool among the geographical regions and areas that are hard to reach. Cell phones have also doubled as a form of payment among rural, African countries. The research suggests leeching on the current cell phone

banking platforms to enable better foreign exchange reach to SMMEs and the general public. It suggests interlinking relationships between banks and cell phone networks, where the cell phone companies facilitate the accessibility and the banks' liquidity. The report takes cognisance of the fact that, inasmuch as the countries in SADC are geographically close to each other, their political, economic and social dynamics can be wildly different. This would therefore mean that the proposed solutions are not necessarily a one-size-fits-all, but could be adjusted and tweaked to suit individual country dynamics.

# DEDICATION

I dedicate this research to my mother who has been the pillar in our family and a never-ending source of encouragement.

# ACKNOWLEDGEMENTS

I would like to acknowledge and thank the following people for their assistance in the completion of this research report:

- My supervisor, Professor. Eric Schaling, for your guidance, encouragement, professionalism and passion for African development. Thank you for making time to provide your wise counsel even though at times it never suited your busy schedule. .

- Q Mokulubete for being there to help and assist whenever it was needed. Thank you for all the kind words of encouragement and motivation when the load seemed too heavy to handle.

# TABLE OF CONTENTS


**DECLARATION ..... II**

**ABSTRACT ..... III**

**DEDICATION ..... V**

**ACKNOWLEDGEMENTS ..... VI**

**LIST OF ABBREVIATIONS AND ACRONYMS ..... IX**

**1. INTRODUCTION ..... 11**

1.1 PURPOSE OF THE STUDY ..... 11
1.2 CONTEXT OF THE STUDY ..... 14
1.3 PROBLEM STATEMENT ..... 15
1.3.1. MAIN PROBLEM ..... 15
1.3.1 SUB-PROBLEMS ..... 16
1.4 SIGNIFICANCE OF THE STUDY ..... 17
1.5 DELIMITATIONS OF THE STUDY ..... 18
1.6 DEFINITION OF TERMS ..... 18

**2 LITERATURE REVIEW ..... 21**

2.1 INTRODUCTION ..... 21
2.2 REGIONAL CHALLENGES ..... 21
2.3 LESOTHO ..... 24
2.3.1 BACKGROUND ..... 24
2.3.2 MACRO-ECONOMIC PICTURE AND LINKS WITHIN THE SADC ..... 25
2.3.3 FX TRADING AND SUPPORT SYSTEM ..... 26
2.4 SOUTH AFRICA ..... 27
2.4.1 BACKGROUND ..... 27
2.4.2 MACRO-ECONOMIC PICTURE AND LINKS WITHIN THE SADC ..... 28
2.4.3 FX TRADING AND THEIR SUPPORT SYSTEMS ..... 29
2.5 BOTSWANA ..... 34
2.5.1 BACKGROUND ..... 34
2.5.2 MACRO-ECONOMIC PICTURE AND LINKS WITHIN SADC ..... 34
2.5.3 FX TRADING AND SUPPORT SYSTEM ..... 35
2.6 NAMIBIA ..... 37
2.6.1 BACKGROUND ..... 37
2.6.2 MACRO-ECONOMIC PICTURE AND LINKS WITHIN THE SADC ..... 38
2.6.3 FX TRADING AND SUPPORT SYSTEM ..... 40
2.7 MOZAMBIQUE ..... 42
2.7.1 BACKGROUND ..... 42
2.7.2 MACRO-ECONOMIC PICTURE AND LINKS WITHIN THE SADC ..... 43

2.7.3 FX TRADING AND SUPPORT SYSTEM ..... 44
2.8 MAURITIUS ..... 46
2.8.1 BACKGROUND ..... 46
2.8.2 MACRO-ECONOMIC PICTURE AND LINKS WITHIN THE SADC ..... 47
2.8.3 FX TRADING AND SUPPORT SYSTEM ..... 48
2.9 TANZANIA ..... 50
2.9.1 BACKGROUND ..... 50
2.9.2 MACRO-ECONOMIC PICTURE AND LINKS WITHIN THE SADC ..... 51
2.9.3 FX TRADING AND SUPPORT SYSTEM ..... 51
2.10 ZAMBIA ..... 53
2.10.1 BACKGROUND ..... 53
2.10.2 MACRO-ECONOMIC PICTURE AND LINKS WITHIN THE SADC ..... 54
2.10.3 FX TRADING AND SUPPORT SYSTEM ..... 54
2.11 CONCLUSION ..... 55

**3 RESEARCH METHODOLOGY ..... 57**

3.1 RESEARCH METHODOLOGY / PARADIGM ..... 57
3.2 RESEARCH DESIGN ..... 58
3.3 PROCEDURE FOR DATA COLLECTION ..... 59
3.4 DATA ANALYSIS AND INTERPRETATION ..... 59
3.5 LIMITATIONS OF THE STUDY ..... 60
3.6 VALIDITY AND RELIABILITY ..... 60
3.6.1 EXTERNAL VALIDITY ..... 61
3.6.2 INTERNAL VALIDITY ..... 61
3.6.3 RELIABILITY ..... 61

**4 RESEARCH FINDINGS ..... 62**

4.1 INTRODUCTION ..... 62
4.2 COMMONALITIES WITHIN THE SADC REGION ..... 63
4.2.1 THE COMMON MONETARY AREA (CMA) AND ITS RELATION TO THE SOUTHERN AFRICAN CUSTOMS UNION (SACU) ..... 63

**5 DISCUSSION OF RESULTS ..... 65**

5.1 COMPARISON BETWEEN SADC AND OTHER MONETARY UNIONS ..... 65

**6 CONCLUSIONS AND RECOMMENDATIONS ..... 67**

6.1 CONCLUSIONS ..... 67
6.2 RECOMMENDATIONS ..... 76

**REFERENCES ..... 80**

# LIST OF ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| ACP | African, Caribbean and Pacific countries with preferences in the EU Issues: Agricultural preferences |
| African Group | African members of the WTO |
| ASCCI | Association of SADC Chambers of Commerce and Industry |
| ATM | Automatic Teller Machine |
| BEE | Black Economic Empowerment |
| BSE | Botswana Stock Exchange |
| CLS | Continuous Linked Settlement |
| COMESA | Common Market for Eastern and Southern Africa |
| CMA | Common Monetary Area (South African economic zone) |
| CBL | Central Bank of Lesotho |
| ERP | Economic Rehabilitation Program |
| FDI | Foreign Direct Investment |
| FOREX | Foreign Exchange |
| FX | Foreign Exchange |
| GNI | Gross National Income |
| G33 | A group of developing countries that coordinates on trade and economic issues. |
| G-90 | An alliance between the poorest and smallest developing countries that are part of the World Trade Organization (WTO) |
| IMF | International Monetary Fund |

| | |
|---|---|
| Mercosur | Mercado Común del Sur/Southern Common Market |
| NBFIRA | Financial Institutions Regulatory Authority |
| NISS | Namibia Inter-bank Settlement System |
| NPS | National Payment System |
| OECD | Organisation for Economic Co-operation and Development |
| UK | United Kingdom |
| SA | South Africa |
| SACU | Southern African Customs Union - comprised of Namibia, Botswana, Lesotho, South Africa and Swaziland |
| SADC | Southern African Development Region |
| SAMOS | South African Multiple Option Settlement system |
| SARB | South African Reserve Bank |
| SME | Small and Medium Enterprise |
| SMME | Small, Medium and Micro Enterprises |
| WTO | World Trade Organisation |

# 1. INTRODUCTION

## 1.1 Purpose of the study

The Southern African Development Community (SADC) was formed in 1992 in Namibia, replacing the old Southern African Development Co-ordination Conference (SADC) that originated in 1980. The SADC has 14 member states, namely, Zimbabwe, Zambia, Tanzania, Swaziland, South Africa, Seychelles, Namibia, Mozambique, Mauritius, Malawi, Lesotho, the Democratic Republic of Congo, Botswana and Angola. According to the SADC website, the most important goals of the SADC are to promote regional economic integration, environmental sustainability, peace and security.

According to Trade and Industrial Policy Strategies (TIPS, 2007), in 2005, the SADC had a population of approximately 237 million people and a total GDP of US$ 369-billion. They also state that the SADC trading bloc is very weak compared to other trading blocs beyond Africa. Average Gross National Income (GNI) per capita for 2005 was US$1.808, which is lower than the African average of US$2 934 for 2004. That average is dominated by the three richest of the SADC nations, namely: South Africa, Botswana and Mauritius (Trade and Industrial Policy Strategies 2007). The table 1 shows the concentration of trade (exports and imports) within the region and obviously all the big numbers are reflected on South Africa against other countries.

During the period of June and July 2004, the Association of the SADC Chambers of Commerce and Industry (ASCCI) conducted a pilot survey that focused on the manufacturing sector in the SADC region.

## TABLE.1. Intra-SADC Trade Imports and Exports for 2005 ~ (US$)

| | Reporter | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Partner** | Botswana | Madagascar | Malawi | Mauritius | Mozambique | Namibia | South Africa | Swaziland | Tanzania | Zambia | Zimbabwe |
| Angola | 0 | - | 0 | 0 | 1 | 179 | 544 | 5 | 1 | 1 | 1 |
| Botswana | - | - | 2 | 0 | 0 | 11 | - | 0 | 4 | 3 | 29 |
| DRC | 1 | 1 | 0 | - | - | 12 | 276 | - | 13 | 97 | 7 |
| Lesotho | 0 | - | 0 | 1 | 0 | 0 | - | 1 | - | 1 | 0 |
| Madagascar | 0 | - | - | 114 | - | 0 | 85 | 8 | 1 | 0 | 0 |
| Malawi | 0 | - | - | 0 | 49 | 0 | 255 | 3 | 8 | 62 | 26 |
| Mauritius | 3 | 15 | 0 | - | 0 | 0 | 337 | 5 | 0 | 1 | 1 |
| Mozambique | 0 | 0 | 17 | 1 | - | 18 | 991 | 76 | 7 | 1 | 39 |
| Namibia | 12 | - | - | 0 | 0 | - | - | 2 | 0 | 9 | 12 |
| South Africa | 374 | 5 | 91 | 26 | 178 | 748 | 0 | 1,135 | 292 | 333 | 577 |
| Swaziland | 0 | - | 0 | 0 | 4 | 1 | - | - | 1 | 1 | 0 |
| Tanzania | 1 | 0 | 4 | 3 | 0 | 1 | 418 | 20 | - | 93 | 3 |
| Zambia | 12 | 0 | 7 | 1 | 1 | 13 | 848 | 3 | 9 | - | 77 |
| Zimbabwe | 182 | 0 | 11 | 2 | 12 | 5 | 1,158 | 5 | 2 | 74 | - |
| Rest of World | 3,821 | 738 | 359 | 1,843 | 423 | 1,491 | 41,480 | 259 | 1,167 | 1,083 | 611 |
| World | 4,408 | 759 | 493 | 1,990 | 669 | 2,479 | 46,391 | 1,522 | 1,506 | 1,758 | 1,384 |

| | Reporter | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Partner** | Botswana | Madagascar | Malawi | Mauritius | Mozambique | Namibia | South Africa | Swaziland | Tanzania | Zambia | Zimbabwe |
| Angola | 0 | - | 0 | - | 0 | 3 | 297 | - | 0 | 0 | 0 |
| Botswana | - | 0 | 1 | 0 | 2 | 5 | 303 | 0 | 1 | 11 | 104 |
| DRC | 1 | 0 | 0 | 0 | - | 0 | 4 | - | 1 | 22 | 77 |
| Lesotho | 0 | 4 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | - |
| Madagascar | - | - | - | 15 | 0 | 0 | 2 | 0 | 0 | 0 | 0 |
| Malawi | 1 | 2 | 0 | - | 29 | 0 | 69 | 0 | 4 | 14 | 3 |
| Mauritius | 6 | 84 | 1 | 0 | 6 | 0 | 25 | 0 | 5 | 2 | 5 |
| Mozambique | 1 | 3 | 148 | 16 | - | 0 | 26 | 13 | 2 | 10 | 204 |
| Namibia | 9 | - | 0 | 0 | 22 | - | 128 | 0 | 1 | 6 | 12 |
| South Africa | 2,267 | 99 | 380 | 270 | 700 | 2,079 | - | 1,269 | 403 | 1,182 | 309 |
| Swaziland | 0 | 10 | 5 | 7 | 16 | 3 | 0 | - | 24 | 4 | 1 |
| Tanzania | 1 | 2 | 32 | 3 | 4 | 0 | 39 | 0 | - | 65 | 6 |
| Zambia | 4 | - | 62 | 9 | 3 | 1 | 202 | 1 | 4 | - | 845 |
| Zimbabwe | 46 | 0 | 90 | 3 | 17 | 20 | 483 | 0 | 2 | 109 | - |
| Rest of World | 349 | 1,432 | 436 | 2,833 | 798 | 386 | 48,203 | 153 | 2,799 | 1,023 | 510 |
| World | 2,686 | 1,637 | 1,155 | 3,156 | 1,597 | 2,499 | 50,071 | 1,436 | 3,244 | 2,447 | 2,064 |

**Source:** *Trade and Industrial Policy Strategies* (2007*).*

This regional survey highlighted the following as main impediments to intra-regional trading:

- crime, theft and corruption;
- customs regulations, procedures and bureaucracy;
- exchange rate fluctuations;
- lack of market information, inadequate enforcement of contractual and property rights
- inadequate transport infrastructure;
- uncertainty linked to economic policy; and
- lack of transparency of rules and regulations

Of the highlighted impediments, this research will endeavour to delve deeper into the main causes and effects of exchange rate fluctuations and the lack of market information, which ultimately contribute to higher Foreign Exchange (FX) transacting costs. The exchange rate fluctuations mentioned above hinder normal daily business planning and forecasting. In developed or semi-developed countries, forecasting is aided by the existence of hedging instruments. Hedging instruments assist in ascertaining a future value of an instrument or as set, thereby eliminating volatility and allowing companies to focus on their core business, rather than trying to forecast exchange rates in this case.

The purpose of this research is to explore how FX markets in the region can be improved and how new markets can be created to better facilitate intra-regional trading. The focus will be on informal and Small and Medium Enterprises (SMEs) in intra-regional trading of goods and services, and how it is affected by the lack of FX markets and like institutions. Schneider (2006) estimates that during the period 2002 and 2003, informal trading in Africa represented about 43% of official GDP. This is very close to half the formal sector. The table 2 below is a summary of informal sector trading as a percentage of GDP in different regions.

**TABLE.2. Average size of informal sector as a percentage of GDP**

| | Africa | Central and South America | Asia | Central and Eastern Europe and former Soviet Union | OECD |
|---|---|---|---|---|---|
| 1999/2000 | 41.3% | 41.1% | 28.5% | 38.1% | 16.8% |
| 2001/2002 | 42.3% | 42.2% | 29.5% | 39.1% | 16.7% |
| 2002/2003 | 43.2% | 43.4% | 30.4 % | 40.1% | 16.3% |

Source: Schneider, 2006
Note: The data pertains to 37 African countries, 28 Asian countries, 21 Central and South American countries, 25 Central and Eastern European Countries and former Soviet Union countries, and 21 OECD countries.

According to Macomb (2010), informal cross-border trade in the SADC accounts for between 30-40% of intra-SADC trade. This significantly high proportion of the informal sector looks as if it does not have the appropriate support structures and therefore FX exchange support. This is because most of them are not registered as businesses due to infrastructure issues, such as lack of working premises and poorly developed physical markets. It is further also due to institutional issues, such as lack of schooling, formal training, and information, as well as economic issues like excessive registration costs and lack of access to technology. The informal sector goes without many forms of governmental support and also goes unmonitored by the relevant government authorities. As a consequence, the sector will struggle or be unable to reach its full potential (Floodman& Becker 2004).

A large, informal sector could easily deprive governments of much needed tax revenue and regulatory influence. This tax revenue deprivation in turn leads to poor or lack of investment by government in the necessary infrastructure that facilitates growth. (Lesser &Moisé-Leeman 2009)

## 1.2 Context of the study

According to Standard Bank Global Markets (2009), the Foreign Exchange spot market is the financial market in which currencies are bought and sold. This is where a transaction is entered into and an amount of currency is exchanged for another amount of currency. They state that the need for the Foreign Exchange Market was developed to facilitate international trade where currencies were required to be settled from the country of both the importer and the exporter. It therefore plays an

extremely important role in facilitating cross-border trade, financial transactions and investment. More recently, because of developments in global financial markets, it supports borrowers who wish to have access to international capital markets in order to meet their financing needs in the currency that is most conducive to their requirements. The borrowers in international markets would first go to the international capital markets and borrow, then exchange the foreign currency to their local currency where they conduct their business operations. This exchange is normally done through a financial intermediary, like a bank or merchant bank.

There is a lot of work that has been done on the facilitation of intra-regional trading in final goods, commodities and services, but one notices that most of the advances and research in this area have mainly been government-sponsored, leading to a top-down view of the problem case and similar solutions. The top-down view in this case refers to the bigger macro view that is usually taken when looking at the challenges facing the region's intra-trading initiatives. This research will examine the added cost of trading from FX transactions. We call this an added cost because it is not core to the normal trading of goods and services. This is a cost that comes from the attempt to trade goods and services with international counterparties.

## 1.3 Problem statement

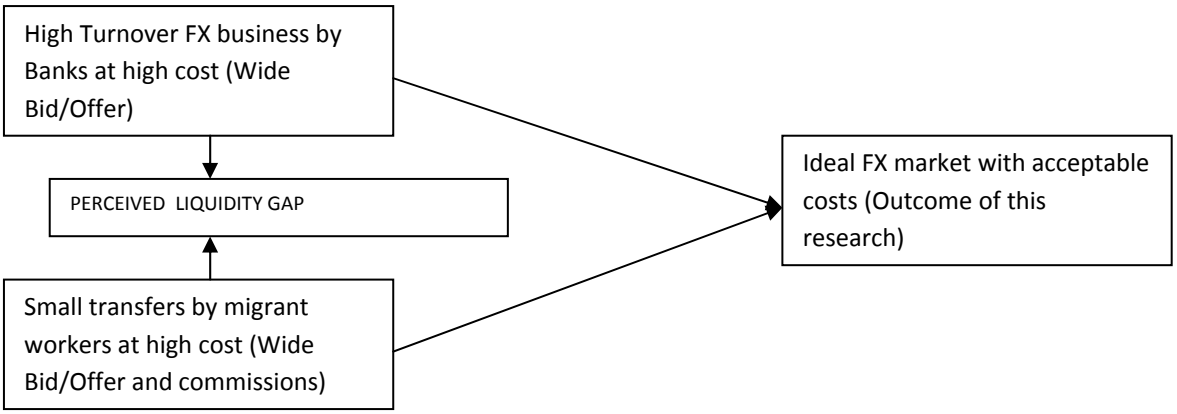
### *1.3.1. Main problem*

Inasmuch as the top-down view addresses the macro picture and lays the foundations for efficient working regional goods and financial markets, there are still commonplace problems that informal SME businesses face in doing business in the SADC region. Some of the problems that SMMEs face in undertaking business in the SADC are detailed in the study on *Informal Cross Border Trade and Trade Facilitation Reform in Sub-Saharan Africa by Lesser &Moisé-Leeman (2009)*. Our focus therefore will be on what these authors call supplementary support services in their report, but the research will sharpen the focus towards FX.

Most major banks in the region will facilitate FX transactions of a certain size, but will avoid small amounts because the profits are not worthwhile. For example, a migrant

worker in South Africa can transfer cash to his family back home in Malawi without any major problems. The example above aids in illustrating the gap in FX markets within the SADC region. Figure 1 below further serves to illustrate the perceived vacuum in FX liquidity that seems to exist.

**Figure 1: Liquidity Gap**




This research is taking a different approach to the widely available literature by looking at the problem from a bottom-up perspective. It will be based on a survey of the usage of the current existing tools of FX transacting by major corporations and one's regular man on the street taking into account all the countries that form part of this research and looking at ways of effectively streamlining and making them easily available and accessible to SMEs and informal traders, where possible.

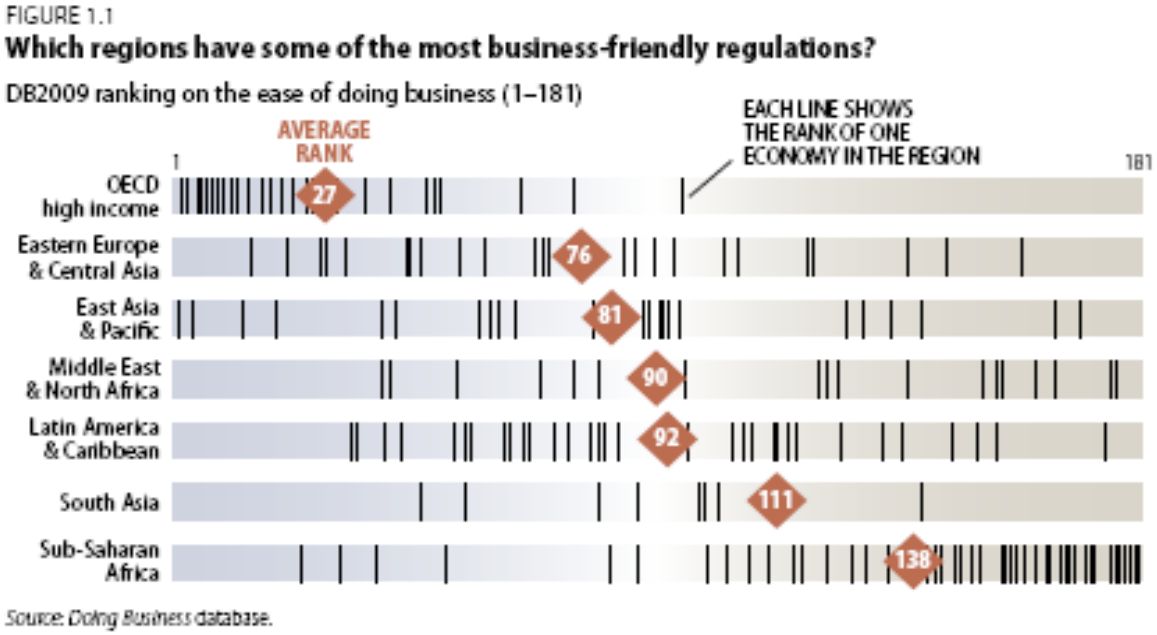
### 1.3.1 *Sub-problems*

The lack or inaccessibility of formal FX markets in the SADC region creates very unattractive business transactions as it is generally very expensive. This is because most of FX trading in certain currency pairs is done indirectly via a third currency, which is the US Dollar, at very wide bid/offer spreads. The only regional partners that have managed to avoid this problem are the ones with fairly liquid financial markets, especially FX markets, like South Africa and Mauritius and those that are either part of the common monetary area or pegged to the South African Rand such as

Swaziland, Lesotho, Namibia and Botswana (basket of currencies and the Rand has the highest weighting).

The majority of the SADC member countries are ranked above 100 for their overall ease of doing business. The only exceptions are Mauritius (24), South Africa (32), Botswana (38) and Namibia (51) (World Bank 2009). These rankings, among other things, highlight the inefficiencies in the way trading is done and supported in the region and how the world perceives the region. Chart 1 showing a serious lag, as compared to other regions and countries.

**CHART.1. Ranking on the ease of doing business**




## 1.4 Significance of the study

This research is to take a different approach from the existing macro approach by looking at the problem from a bottom-up perspective and focusing specifically on the costs of trading FX. Other research, like that conducted by Lesser and Moisé-Leeman (2009) looks at the majority of trading impediments faced by small and medium-sized traders and organisations. The focus will be on the easing and facilitation of daily trading of goods and services and investing in the SADC region by informal traders and SMEs. The study will look at how existing structures and foreign

exchange and banking institutions can be better utilised to provide liquidity of FX markets at reasonable costand where institutions don't exist, suggest ways and means of facilitating FX markets trading. In examining reasonable costs, the costs incurred on normal, daily trading of currencies of developed world countries will be compared to establish a reasonable costs level.

## 1.5 Delimitations of the study

Inasmuch as doing business in the SADC and generally in Africa as a whole is marred with problems mentioned in the introduction, this research will not cover all such issues, but will focus on improving FX markets liquidity and reducing the costs thereof. The SADC has 14 member states, but the focus of this research will be on half the SADC member states namely: South Africa, Botswana; Namibia, Mozambique, Mauritius, Tanzania and Zambia. Due to the limited resources, the research will only focus on half the number of countries. It is envisioned that the applicability of the solution, once found, can be applied across all 14 member states provided they are facing the same challenges. This application of the solution across a wide network of countries in the region would depend highly on homogeneity of the specific country's economic, social or political framework.

## 1.6 Definition of terms

**Informal Sector** :It is those activities that are unrecognised, unrecorded, unprotected or unregulated by public authorities and not confined to marginal activities, but also includes profitable enterprises **(**Becker 2004).

**Micro Enterprise** : These are enterprises that are comprised of less than five to 10 employees or jobs, and are not registered **(**Becker 2004).

**SME** : According to the Oxford Online Dictionary, this is a small to medium-sized enterprise; a company with no more than 500 employees. For the purpose of this research, SME or SMME will also refer to enterprises that fall under Informal Sector and Micro Enterprises, as defined above.

**FX Exchange Support** : For the purposes of this research, this will refer to all the formal support structures that are normally found in well-developed countries with well-developed financial systems and regulations.

**Bottom-up Approach** : This refers to a process whereby the problem is viewed from the ultimate end user. According to the Oxford Online Dictionary, it proceeds from the bottom or beginning of a hierarchy or process and proceeds upwards to the top.

**Top-down Approach** : According to the Oxford Online Dictionary, this is a system of government or management in which actions and policies are initiated at the highest level, and is thus hierarchical.

**Transaction** : According to the Oxford Online Dictionary, a transaction is an instance of buying or selling something. In this case, we will mainly be referring to buying and selling of foreign currency for local and vice versa. The study will focus on the transactions within the countries under study.

**Size** : According to the Oxford Online Dictionary, size is the relative extent of something, a things overall dimensions or magnitude, how big something is. In this case, we will use the term to refer mainly to the amount exchanged in the FX market. Standard transactions in the developed FX markets are $10 million dollars or “10 dollars.”

**Bid** : According to MorganStanley SmithBarney (2007), the bid is the price a market maker or broker is willing to pay for a security, such as a stock or bond, at a particular time. In this case, it will refer mainly to the price the buyer is willing to pay for a currency in exchange for another.

**Offer or Ask** : MorganStanley SmithBarney (2007) state that Offer or Ask is the price at which a market maker or broker offers to sell a security or commodity. Offer or Ask is an abbreviated form of the, ‘asked price.’ In this case, it will refer mainly to the price the seller is willing to receive for a currency in exchange for another.

**Bid and Offer Spread** : This is the difference between the bid price and the offer price. It is an indication of the depth and liquidity of a market. The narrower the spread, the more liquid that particular market is and the wider the spread, the more illiquid the market is. It should be noted that spreads in mature FX markets tend to be quite thin.

**Broker** : According to MorganStanley SmithBarney (2007), a broker is someone who works for a broking firm, and acts as an agent, handles client orders to buy or sell stocks, bonds, commodities and options in return for a commission. In this case, a broker will mainly refer to someone handling the buy and sell orders of foreign exchange.

**Price maker or Market maker** : This is a dealer who works for a financial institution and is responsible for showing both the bid and offer price to a client on request. In this case, it will refer mainly to the dealer in foreign exchange.

**Liquidity** : MorganStanley SmithBarney (2007) describesliquidity as the ease of quickly converting an investment into cash, with little or no loss of value. In this case, it will refer to the ease of converting one's currency holdings from one currency to another. The ease of conversion is usually reflected in the spread between bid and offer, which is the ultimate cost of doing the conversion.

**Liquidity Gap** : The Oxford Dictionary describes a gap as a break or hole in an object or between two objects. A liquidity gap will therefore refer to the sector of the market or gap in the market from being under-serviced from an FX perspective, thereby leading to wide bid and offer spreads or even non-existence of FX markets.

**Informal Trader** : In South Africa, informal traders are defined as, "those businesses which are not registered by VAT and are also not subject to other formal regulation or taxation, especially in retail and hawking" (StreetNet 2003).

# 2 LITERATURE REVIEW

## 2.1 Introduction

This literature review is intended to first highlight the general and then the broad dynamics faced by each of the countries being researched. The aim of this literature review is to thoroughly analyse each country, region and the fundamentals behind their decision-making and how it impacts the financial system, particularly the foreign markets.

## 2.2 Regional Challenges

The SADC has most of its stripes from South America's trading bloc, namely Mercosur (Mercado Común del Sur), meaning Southern Common Market, which is a customs union of four Southern American countries, namely Argentina, Brazil, Paraguay and Uruguay. Bolivia and Chile also joined the union in 1996, but only as associate members. The union allows a duty free inter-Mercosur trade, and levies a common, external tariff of 0 to 20 percent on non-member countries. The Mercosur region has proven that inter-regional trade can generate phenomenal gains. Clayton (cited in Mills &Mutchler 1999) looks at the performance of Mercosur within the period 1990 to 1997 and states that there was a significant increase in intra-regional trade from US$4.2billion in 1990 to US$20billion in 1997. This phenomenal change was mainly due to tariff policy change, albeit off a low base. This example is a perfect illustration of how facilitation can help improve intra-regional trade, and thereby create growth. Chart 2 and 3 show the improvement in intra-regional trading before and after trade liberalisation.

**CHART.2. Trends in Intra-Mercosur Trade**

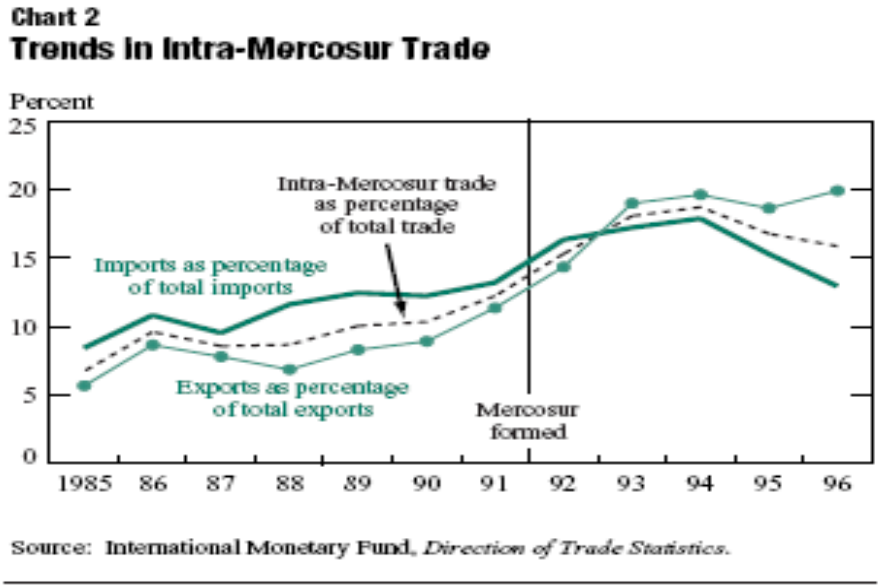
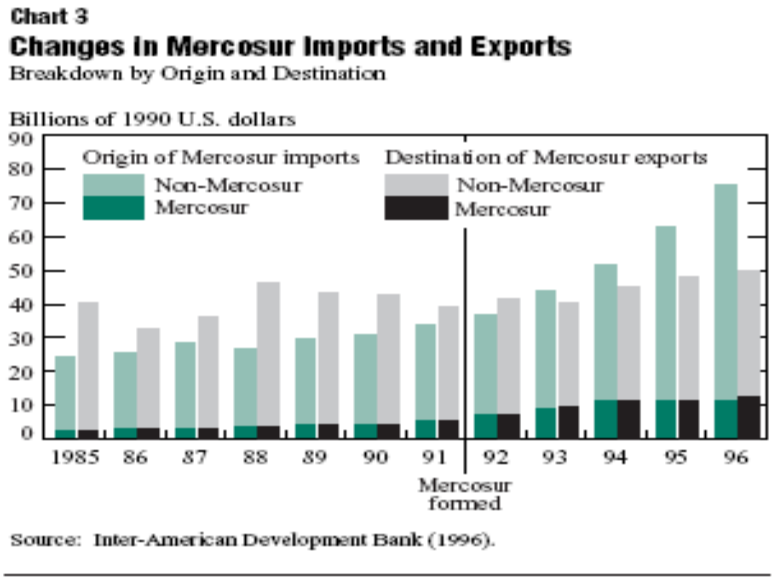



**CHART.3. Changes in Mercosur Imports and Exports**




Kronberger (2001) uses an example that was used in the European Union to elucidate the benefits of one common currency. The example is of a EU citizen travelling all over Europe. If the traveller exchanged his cash every time he crossed a border of a EU country, he would be left with 46.75% of his initial cash without having consumed anything.

The same costs can be mind boggling and limiting if one is a small business with small margins. As an example, if a South African resident goes to Mauritius with R100.00 and concludes the four FX transactions as per Table 1. The four transactions are to demonstrate the extra costs one incurs if there is no direct quote between two currencies. This means the currency is quoted via a third currency, which in this case is the US Dollar. When one returns to South Africa, one would have lost about 4% of one's starting cash. This cost excludes commissions that are normally charged by the currency exchange houses, which can be exorbitant at times.

Also, the spread gets wider as you start transacting in less liquid currencies, making the costs even more prohibitive. Less liquid as currencies with wider bid-ask spreads. This table tries to illustrate the extra costs of using a third currency to pair off local currency. Pairing off, in this example, refers to the fact that both the South African Rand and the Mauritian Rupee are quoted against the dollar, therefore one gets an indirect quote for Rand against Rupee through the two quotes,, namely Rand/Dollar and Dollar/Rupee.

**TABLE.3. Market rates**

***EXCHANGE RATES***

As of Date Sun, 11 Jul 2010 06:43:33 AM According to the time of Port Louis

| **Rand/Dollar** | | | **Dollar/Rupee** | |
|---|---|---|---|---|
| ***Bid:*** | 7.584 | | ***Bid:*** | 31.15 |
| ***Ask:*** | 7.589 | | ***Ask:*** | 32.4 |

| **No of Transaction** | **Stating amount** | | **End amount** | **Transaction Type** |
|---|---|---|---|---|
| 1 | 100 | | 13.177 | Sell rand and Buy Dollars |
| 2 | 13.17697 | | 410.463 | Sell dollars and Buy Rupee |
| 3 | 410.4625 | | 12.6686 | Sell Rupees for dollars |
| 4 | 12.6686 | | **96.0786** | Sell dollars for Rands |

Content from the 150Currency.com website

## 2.3 Lesotho

### 2.3.1 *Background*

Lesotho is a small country that is completely surrounded by South Africa. The country was a British Colony and only gained its independence in 1966. It has a per capita income of US$ 1854 and an adult literacy rate of 83 percent according to Foulo (2003*)*. Lesotho has always had strong trade and labour market links with South Africa, even way before the country gained its independence. The Rand's circulation in Lesotho, after independence, was just a continuation of an existing trend. The trading arrangement between the two countries was formalised in 1974 when the Trilateral Monetary Area Agreement was signed. Under the agreement, the Rand continued being a legal tender in Lesotho, although the country could and had the right to issue its own national currency. Under the agreement, there would be free flow of capital between the two countries and both countries would adopt a common currency exchange control regime with third countries and currencies (Foulo 2003).)

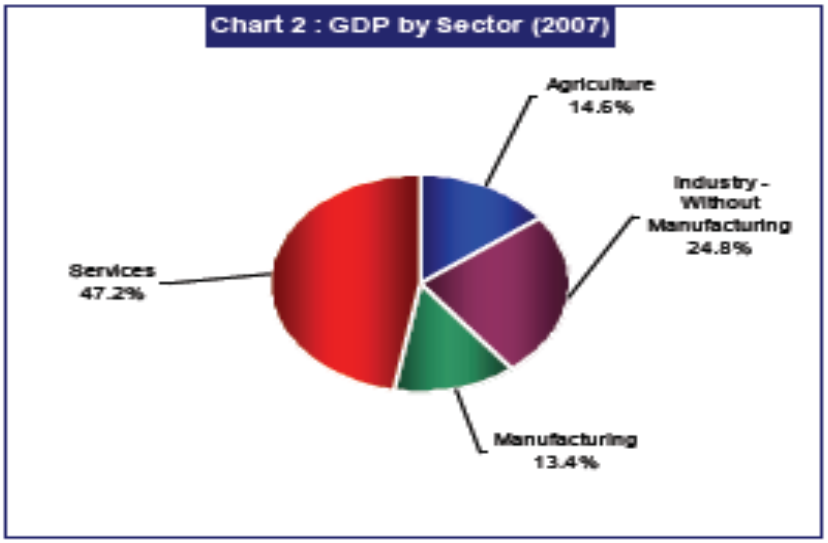
Lesotho proceeded to form its own Monetary Authority in January of 1980 and issued its own currency, namely Maloti. During the period 1966 until 1980, the South African Rand was the sole currency in Lesotho and the South African Reserve Bank was said to be the sole implementers of Monetary Policy for and between the two countries. When the Maloti were issued in 1980, the agreement was that of a fixed exchange rate at one South African Rand per Lesotho Maloti, which is still the case to date.

There are varying views on why Lesotho decided to issue their own currency after 14 years of solely using the South African Rand. Some attribute it to politics, such as when the South African government was facing international pressure and sanctions during the 1976 Soweto uprising. Lesotho had to be seen as politically independent of South Africa. This speculation was supported by the fact that all the elements of the original Trilateral Monetary Area were being preserved, even though Lesotho decided to issue its own currency (Foulo 2003).

### 2.3.2 *Macro-economic Picture and Links within the SADC*

Lesotho is fully surrounded by South Africa, making it the most geographically viable trade partner. The country is the biggest beneficiary of the fixed exchange rate between it and South Africa, since 80 percent of its imports come from South Africa. It thus makes sense for Lesotho to have a fixed exchange rate and de-facto the Rand as its currency. No meaningful case can be made for an independent currency that should be trading against the Rand with low transactions cost. The price would be one-to-one nonetheless. The South African Rand has been the anchor for the country's other foreign country imports of about 20 percent(Foulo 2003). According to Olanrewaju et al (2008), the country is said to be in a growth trajectory, with 5.3 percent forecasted for the period 2008 to 2012In 2006, real GDP growth was at 7.2 percent in 4.09 percent for the year 2007. The chart below depicts the country's GDP sectorial split.

**CHART.4. GDP by sector**




Source: AfDB Statistics Department, African Economic Outlook, 2008

These numbers are attributable to prudent macroeconomic management and focus on expanding the diamond mining activities. The country registered surplus current account and fiscal balance, which was mainly attributable to high transitory transfer receipts from the Southern African Customs Unit (SACU). E Standards Forum (2010) states that the country is heavily dependent on the SACU receipts, which accounted

for 59.3% of all receipts in the first half of 2009/10. This implies that SACU subsidises Lesotho and by implication, South Africa is the main subsidiser.

The African Development Bank (2009) estimates 2008 GDP growth at 4.2 percent and forecasts a further drop to 3.8 percent in 2009 due to the global economic crisis. It will then further increase to 5.3 in 2010

The country's current account balance as a percentage of GDP has been in a surplus in recent years, sitting at 15.2% of GDP in 2007/08 and it was expected to fall to 14.5% for the year 2008/09. The balance of payments looked healthy with a surplus in 2008, which is reflective of the increase in exports, current transfers, as well as net inflows into the capital and financial accounts (The African Development Bank2009). Even though the country is a mainly an importing nation, these surpluses are a reflection of prudent fiscal management by its authorities.

### 2.3.3 *FX trading and support system*

Lesotho forms part of the Common Monetary Area (CMA) and its currency, Loti (LSL –Lesotho Lotis) is pegged to the South African Rand at parity. Due to the peg and close trading links, the two countries' monetary systems are highly correlated, with Lesotho heavily reliant on South Africa economically, especially for its imports (about 80%) and exports. The peg ties the country to South Africa and its monetary policy system and requires the Central Bank of Lesotho (CBL) to maintain an adequate level of reserves to support the peg. This entails, among other actions, an active control of liquidity in the domestic banking system by usage of open market sweeping operations. This means that most of the excess foreign currency, mainly US Dollars, is bought by the central bank. In 2008, the CBL had a minimum target of 500million US Dollars as its adequate reserves, and during the same period, it was holding about 1bilion way above the required six months of exports minimum. A possible loosening of trade barriers and regulation within the region will help reduce this requirement (African Development Bank 2009).

With only four banks, the banking system is relatively small. Three of them are South African based and one, Postbank, is government-owned. Their combined assets equal to 46 percent of 2008 of GDP in 2008.

The interlinks between the two countries' financial systems make them interdependent, meaning a financial system crisis in Lesotho can negatively, through mainly negative sentiment, impact on SA's banking system. Likewise, a financial crisis in South Africa would have a direct impact on Lesotho's financial system because of its control on local banks and general, regional sentiment. A typical example of an accident that nearly occurred is when an illegitimate deposit taker took about 3.3 percent of Lesotho's GDP worth of deposits and a possible misappropriation of those funds. This money was supposedly invested by unsuspecting investors into a pyramid scheme and the biggest scheme had liabilities to its depositors equating to 3.3 % of Lesotho's GDP.

The possible bankruptcy of these schemes is a potential threat to the financial system of that country (African Development Bank 2009). Such an incident would have spill-over effects, since most of the pain would be felt by the balance sheets of the South African-owned banks in that country.

**TABLE.4. List of banks in Lesotho as at March 2008**

**LIST OF BANKS IN LESOTHO AS AT MARCH 2008**

| Name of Institution | Branch Network | Ownership |
|---|---|---|
| Standard Lesotho Bank Ltd | 15 | Foreign |
| Nedbank (Lesotho) Ltd | 3 | Foreign |
| FNB Branch in Lesotho | 1 | Foreign |
| Lesotho Post Bank | 15 | Local |

**Source**: CBL Website 09 November 2010.

## 2.4 South Africa

### 2.4.1 *Background*

South Africa is geographically placed on the southern tip of the African continent. It has the largest economy in Africa, which is characterised by relatively strong manufacturing and financial sectors. It is a middle-income country, with abundant natural resources, and is a leading exporter of minerals. It has well-developed and

established financial, legal, communication, energy and transport systems. Its stock exchange is the biggest in the continent (Trade and Industrial Policy Strategies 2007). The country once was run by a minority of white people, who used the system of apartheid up until 1994 to deprive the majority of the black people equal opportunities, both socially and economically. A democratic system was established in 1994 and since then, opportunities were equally opened to all the citizens of that nation. The country has made significant economic progress since then, in terms of economic management and structural reforms. For example, according to the Economic Assessment of South Africa report in 2008, the budget deficit exceeded 7% of GDP in 1993/94 and was progressively reduced through both revenue measures and expenditure restraint. They reported a surplus during the mid-2000. During the same period from 1994, the country experienced higher growth, lower inflation, but still suffered from high unemployment and poverty (Trade and Industrial Policy Strategies 2007).

According to Data Monitor's publication in December 2008, South Africa fares well on governance indicators when compared to other countries in the continent. The Global Competitiveness Report 2009-10 also puts South Africa on improved position 45 in the Global Competitiveness Index, with positive highlights coming from the country's financial markets, accountability of private institutions and others. It was ranked at 74.9 percentile for government effectiveness, then 68.8 percentile for accountability and 65.5 percentile for regulatory quality in 2007. The other African sizeable economies, for example Egypt and Nigeria, rate much lower than South Africa, however in global terms, there is still a huge scope for development (Data Monitor 2008).

### 2.4.2 *Macro-Economic picture and Links within the SADC*

According to Faulkner and Loewald (2008), the sound macro-economic policies that were implemented since 1994, contributed to a strong economic performance. The table below illustrates the growth trajectory since 1971 and the results suggest a structural shift in South Africa's sources of economic growth. The table shows technological progress increasing, while capital and labour as factor inputs seemingly diminish in importance.

**TABLE.5. Decomposition of Real GDP Growth into the Contribution of Factor Inputs and TFP (percent)**

Table 3: Decomposition of Real GDP Growth into the Contribution of Factor Inputs and TFP (percent)

| | | Of which: | | |
|---|---|---|---|---|
| | Real GDP growth | Capital | Labor | TFP |
| 1971–84 | 3.01 | 2.23 | 1.45 | –0.67 |
| 1985–94 | 0.85 | 0.44 | 0.77 | –0.36 |
| 1995–2000 | 2.85 | 0.59 | 0.47 | 1.78 |
| 2001–07 | 4.27 | 1.11 | 0.93 | 2.23 |

*Notes:* The contribution of the growth in factor inputs to real GDP growth are calculated by multiplying their growth rate (i.e. capital stock and employment growth) by their respective shares of factor income. As in the Solow model, TFP growth is calculated as the residual.

**Source:** Faulkner and Loewald (2008).

According to Country Watch, South African Review 2007, annual GDP growth averaged 5 percent since 2004, compared with 3.1% in 2003. Growth was mainly driven by strong domestic demand, increased private consumption and investment spending, which were supported by robust and positive sentiment from consumers and business, as well as lower interest rates. The domestic consumption was partly financed by borrowing. This theory is supported by the decline in gross domestic savings from an average of 20% over the period 1985-94 to 14.1% between 2004 and 2007.The gap generated by spending and investment had to be plugged by foreign savings, leading to an increase in current account deficit (Faulkner and Loewald 2008).

The economic growth had its positives, such as affecting the high unemployment rate, pushing it lower from 26.7 in 2005 to 25.5 percent in 2006. As the bearer of responsibility for monetary policy, the South African Reserve Bank has a policy of inflation targeting, which is supposed to keep inflation within a target band of between three and six percent.

### 2.4.3 *FX trading and their support systems*

In the African continent and in the SADC region, South Africa has the most advanced and developed FX markets and supporting institutions. The Global Competitiveness Report 2009-2011 by the World Economic Forum ranks South Africa at position 45

out of 133 countries in terms of its Global competitiveness. One area that came out shining is the number five ranking of the local financial markets. This is a huge move from 24, especially at a time when countries and their financial systems are currently being viewed with suspicion and a great lack of trust.

According to Mr T. Mboweni, former Governor of the South African Reserve Bank (2004), there are 38 registered banks in South Africa. Fifteen of them are locally controlled, while six are non-resident controlled subsidiaries. There are 15 local branches of international banks and only two mutual funds, which are professionally managed pooled investment schemes) International banks also have representative offices amounting to 44 banks, who, however, are not allowed to take deposits. The banking sector is dominated by the five major local banks, namely ABSA Group, Standard Bank, FirstRand Bank Group, Investec and Nedcor Bank.

According to the South African Reserve Bank (2008), the South African financial system has the National Payments System (NPS) as its anchor. This is a complex, all-inclusive system, from mechanisms agreements, institutions, rules and laws, and procedures that take effect from when the client or end user interacts with a financial institution. The governing of the NPS has been made law in SA, giving the South African Reserve Bank certain powers. The law governing the NPS is the South African Reserve Bank Act, No 90 of 1989, Section 10(1)(C)(i). This Act empowers the South African Reserve Bank (SARB) to, “perform such functions, implement such rules and procedures and, in general take such steps as may be necessary to establish, conduct, monitor, regulate and supervise the payment, clearing and/or settlement systems.” According to the South African National Payments System Framework and Strategy Document (1995), clearing is defined as, “the physical exchange of payment instructions between the payer’s bank and the payee’s bank (or their agents).”

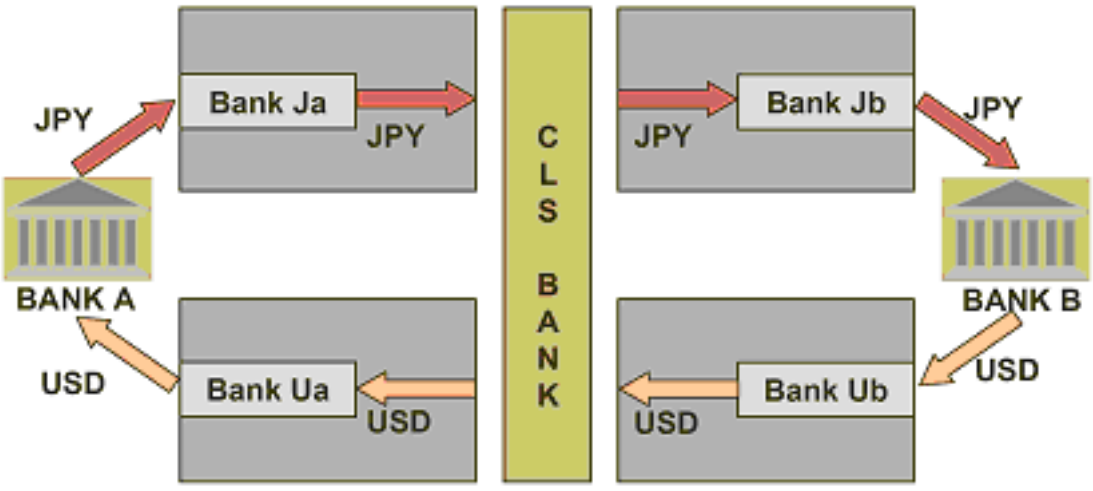
The payment system is constituted of interlinking networks that enable and facilitate the generation, transfer, verification and processing of a payment instruction (South African Reserve Bank 2008).

The backbone of the NPS is called the South African Multiple Option Settlement System (SAMOS), which settles transactions stemming from the retail environment,

and is owned and operated by SARB. This system enables banks to settle their obligations with one another on a real time basis, while proving final and irrevocable settlement. Information on the underlying transactions is kept by banks and the participating institutions, and does not go through to SAMOS. Approved participating banks and institutions all have an account where all payments and settlements take place. To support smooth functioning and to facilitate liquidity, the participants need to lodge collateral with the SARB, as prescribed by the SARB. In July of 2008, SAMOS processed settlements amounting to a record 6.8 trillion South African Rands.

The SAMOS system is linked to the global Continuous Linked Settlement (CLS) network. The CLS network is used for settling foreign exchange transaction between countries, thereby eliminating the risk from FX settlements. CLS is a system whereby counterparty risk is eliminated from the trade. Below is a simplified example of how the system works, using the Japanese Yen and the US Dollar as examples. According to CLS, for example bank A will not receive USD from CLS if they have not paid JPY to CLS, thereby eliminating the risk of them receiving money and not being able to deliver on the Yen payment.

**CHART.5. How CLS works**

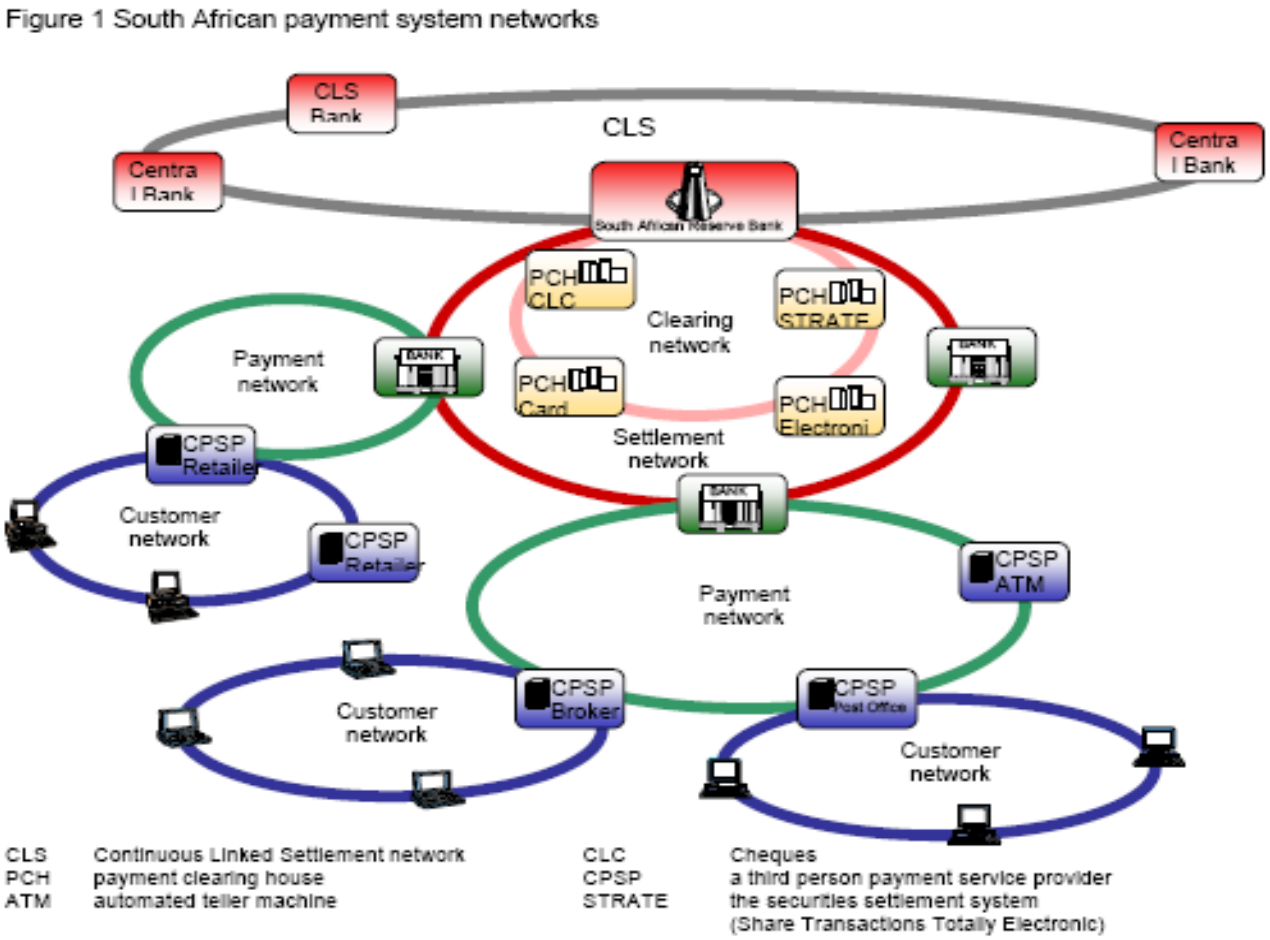



The settlement of transactions against the SA Rand takes place via CLS, whereby CLS settles both legs of a foreign exchange transaction simultaneously. South Africa is currently the only African country participating in the CLS settlement system, since

joining in 2004. The major banks in South Africa, namely ABSA, FirstRand Bank and Standard Bank provide SA Rand liquidity for settlement on CLS via SAMOS, with Standard Bank being the only direct member (Bank of International Settlements 1998).

The figure below serves to illustrate the multi-links between various counterparties and the settlement of the transaction.

**FIGURE.2. South African payment system networks**




**Source**: Bank of International Settlements (1998).

According to the SARB information paper entitled, *South Africa's Participation in the CLS* (2007), the SA Rand should be a member for the following reasons:

- CLS is an important development in terms of FOREX settlement risk. If the South African Rand becomes a CLS currency, it would be extremely advantageous to South Africa as an emerging economy.

- Other emerging economies have joined CLS. If South Africa is not aligned with international practices and on par with other competing emerging economies, foreign direct investment could be negatively affected.

- If the Rand is not included, and if the South African banking industry does not participate directly in CLS, domestic banks could incur additional transaction costs, and there could be limited foreign exchange market acceptance. This means if banks incur additional costs in settling FX transactions, they might be reluctant to service that market, especially if the extra costs are eroding the bank's margins.

- The inclusion of the Rand in CLS would not only reduce foreign exchange settlement risk, but would also provide valuable real-time settlement information that could improve the management of settlements. The Bank of International Settlements defines settlement risk in FX as the credit and liquidity risk you face whenever you trade foreign currency. It's the risk that the other party cannot make payment of the currency it sold conditional upon its final receipt of the currency it bought, thereby facing the possibility of losing the full amount of the currency purchased, which might eventually lead to liquidity problems for the purchaser.

South Africa, and therefore the Rand, is a member of CLS and from the above points one can tell it is leading the other SADC countries by example in the implementation of world-class settlement systems that facilitate better banking and trading. I am of the opinion that it is from its leadership in the area of settlements and progressive banking systems in the SADC that South Africa was chosen and approved by the SADC Finance and Investment Sector project to be responsible for launching a SADC payment system project (South African Reserve Bank 2008).

## 2.5 Botswana

### 2.5.1 *Background*

Botswana is a country in the SADC region, just above South Africa and right in the centre of what is called Southern Africa. Apart from South Africa, the other countries that share its borders are Namibia and Zambia. This country was once one of the British Colonies up until 1966 when it gained its independence. According to the 2001 Census, the country had a population of about 1.7million people, which is ethnically homogeneous and relatively sparse. Due to favourable soil and climatic conditions, over 80% of the population is concentrated in the south-eastern part of the country. The country covers a geographical area of 582 000 square kilometres, but only 5% of that land is arable, and most of it lies within the Kalahari Desert (Akinkugbe et al 2006).

Botswana is also a member of SACU (the Southern African Customs Union), which is comprised of Namibia, Lesotho, South Africa and Swaziland

### 2.5.2 *Macro-economic picture and links within SADC*

The economy of Botswana has received many accolades, both as an emerging market economy, and an African State (Maipose 2008). It is said that for the period 1960 to 2005, real GDP average growth has been almost 9 percent per annum, while real GDP per capita growth has been over 10 percent per annum. This kind of performance has been described as uncontested, economic performance of any country in the world and is far above the sub-Saharan Africa average (Maipose 2008).

According to Stephen Kapunda, Lecturer at the Department of Economics at the University of Botswana, the economy of Botswana has been driven mainly by the primary agriculture, and recently the mining sector. At independence, the agriculture sector contributed 40 percent to GDP and now only 4%, with the mining sector currently contributing about 35 percent. The country is also known for its huge reserves of mineral wealth, especially diamonds, which are the main engine of

economic development. The country is not only the world's biggest diamond supplier. It is also looking to consolidate its leading diamond supplier position by entering the beneficiation as well as trading of its diamonds (Maipose 2008).

According to the Ease of Doing Business Report for 2009, the country has been progressing well in terms of ease of doing business, moving from position 52 for 2008 to 38 for 2009. As compared to other countries in Africa, Botswana came third after Mauritius at 24 and South Africa at 32.

Since the country is a member of SACU, it has duty-free access to all members of SACU and has a free-trade agreement with Zimbabwe. It earns most of its foreign exchange from diamonds and that accounted for 75 percent of total annual exports between the periods 1997 to 2007. Government is said to receive 63 percent of Tax Revenues from minerals, and 95 percent of that is from diamonds. The country is also a member of the following negotiating bodies: ACP, African Group, G-90, G-33, W52 sponsors.

### 2.5.3 *FX trading and support system*

The financial sector of Botswana is divided into the banking and the non-banking financial sector. The banking sector is highly regulated by the Bank of Botswana (Central Bank), with the non-financial sector being regulated by the Non-Bank Financial Institutions Regulatory Authority (NBFIRA). The banking system used to be dominated by mainly Standard Chartered and Barclays, but things have drastically changed since 1982.

Botswana saw a significant change is its financial sector structure in the past decade, with the main changes being the decline in the importance of the government-owned financial institutions. The government-owned financing institutions had their share of total assets in the financial banking sector dropping from 29 percent to 2 percent in 2008 (Jefferis 2009).

**TABLE.6. Banks in Botswana**

***The banking sector is now as per the table below:***

| ***BANKS IN BOTSWANA*** | | | | |
|---|---|---|---|---|
| **Listed on BSE** | **Unlisted** | **Merchant Bank** | **Offshore Bank** | **Statutory Banks Building Societies** |
| Barclays Bank of Botswana | Stanbic Bank | African Banking Corporation | Kingdom Bank Africa Ltd | Botswana Savings Bank |
| Standard Chartered Bank Botswana | Bank Gaborone | | | Botswana Building Society |
| First National Bank Botswana | Bank of Baroda | | | National Development Bank |
| | Capital Bank | | | Public Debt Service Fund |

***Source:*** *E-consult ((2009).*

The Financial Sector Assessment programme (SecM2008-0347) of Botswana by the World Bank for the year 2008, found that the SMME sector in that country played a major role, accounting for 40 percent of employment and 20 percent of GDP with 56,300 enterprises. Commercial banks in Botswana are now recognising the importance of this sector and are slowly moving away from the saturated corporate market and expanding into the SMME and individual client market. Most of the banks above have some experience in the SMME sector from other countries they have operated in and should not struggle much replicating their proven business models.

The big three banks are talking about increasing accessibility of banking services by permanent and semi-permanent branches and also Automatic Teller Machines (ATM), thereby bringing access to financial services closer to both individual clients and SMMEs. Cell phone banking is also being touted as one of the outreach mechanisms to rural and peri-urban areas. Banks are working on and investigating cost effective forms of cell phone and card-based technologies that can be used to transfer money without depending on cash (World Bank 2008).

The currency of Botswana was pegged to the dollar until 1980. From 1980 to 1991, in order to cushion the effects of exchange rate volatility, they introduced a basket of currencies as a peg for the Pula. The basket's composition was adjusted in 1991 and

lastly in 2005 after publicly devaluing the Pula. The basket is now comprised of the trade-weighted basket of currencies, guided by trade patterns and the vehicle currencies used in international trade and payments. For Botswana, the bulk of these currencies were the US Dollar and the Sterling that it has used to price its main mineral exports of diamonds, copper, soda ash, nickel and beef. The Rand has a bigger weighting in the basket due to the fact that most firms in Botswana have a significant Rand-denominated component. The World Bank (2005) puts the imports from South Africa at 75% of total imports. The table below shows the estimated weights of the Botswana Pula Peg.

**TABLE.7. Trade weights**

| ADJUSTED OVERALL TRADE WEIGHTS (APPROXIMATE, %) | |
|---|---|
| South Africa | 62 |
| Europe | 15 |
| Asia | 10 |
| US & RoW | 13 |

**Source**: World Bank (2005).

As a result, in the middle of 2000, the Pula's movements reflected the high Rand weight in the basket and tendered to be unstable against major currencies, but relatively stable against the Rand in nominal terms. (Masalila and Motshidisi 2003).

## 2.6 Namibia

### 2.6.1 *Background*

Namibia was a colonised by the Germans until 21 March 1990 when it became independent. The country is famous for its Bushmen inhabitants, who are believed to be its earliest inhabitants. It is placed on the South Western part of Africa and shares borders with Angola, Zambia, Zimbabwe, South Africa and Botswana. Namibian population is made up of about 2 million people and eleven ethnic groups. The country is densely populated, with 6.5 inhabitants per square kilometre, and when compared to Mongolia, it is the least densely populated country in the world with 2.5

people per square kilometre. The country is mainly sandy dessert, comprised of the Kalahari Desert, the Namib Desert, the Central Plateau, the Escarpment and the Bushel. The country has big mining and fishing industries. Their currency, the Namibian dollar, is pegged to the South African Rand and the country is currently implementing a policy of BEE to address previous imbalances that were caused by the colonial system preferring white people. It has wide income disparities, which also point to its history. The white minority, along with an emerging black elite (BEE), have an average annual per capita income of N$100 000 (Namibian Dollars), while the black people, who are employed as blue collar workers in the modern sector, receive only N$4 500. The other significant part of the population has an annual per capita income of N$500. The income gaps are also reflected in consumption patterns, with the richest one percent of households consuming the same amount as the poorest 50 percent (Gaomab II 2005).

The economy is slowly moving from natural resources to a more diversified economy, increasing the processing of natural resources and other beneficiation activities. Tourism and freshwater-fish farming are quickly becoming one of Namibia's income earners (PricewaterhouseCoopers 2010).

### 2.6.2 *Macro-economic Picture and Links within the SADC*

Since its independence in 1990, Namibia's overall macro-economic performance has been described in a broad sense as satisfactory. The present government has ensured a stable and improving economic outlook, focusing on macro-economic policies such as fiscal, monetary and trade policies. These policies are the ones that will ensure future sustainable economic growth. The country recorded economic growth around 1 percent in the decade preceding independence, on average per annum, which is low. During the period 1991 to 1995, the country recorded economic growth averaging 5% and that dropped to around 3.5 percent during the period 1996 to 2003, despite the growth-oriented stable environment (Gaomab II 2005).

Namibia trades with the UK, Spain, Japan and Germany. Its main trading partner is South Africa, accounting for 25 percent of their entire exports and 85 percent of their imports. The country is also a member of SACU, thereby also benefiting from intra-

SACU trading. Namibia imports from South Africa, amongst others, mainly machinery, vehicles, aircrafts and vessels, prepared foodstuffs and tobacco, and chemical products. It exports to SA mainly vegetable products, textile products, metal products and mineral products. Below is a table showing Namibia's imports from different countries.

**TABLE.8. Imports and destinations for export: 2004**

Table 4: Top 10 sources of imports and destinations for exports: 2004

| | Imports | | | Exports | | |
|---|---|---|---|---|---|---|
| | Country | Value (N$m) | Share of total (%) | Country | Value (N$m) | Share of total (%) |
| 1 | South Africa | 13,192.36 | 85.0 | South Africa | 4,055.46 | 25.8 |
| 2 | United Kingdom | 399.16 | 2.6 | UK | 3,407.27 | 21.7 |
| 3 | Germany | 281.44 | 1.8 | France | 1,561.62 | 9.9 |
| 4 | China | 182.11 | 1.2 | Angola | 1,523.35 | 9.7 |
| 5 | India | 137.02 | 0.9 | US | 1,258.83 | 8.0 |
| 6 | Zimbabwe | 120.63 | 0.8 | Spain | 1,061.47 | 6.8 |
| 7 | Italy | 120.49 | 0.8 | US minor outlying islands | 434.51 | 2.8 |
| 8 | US | 114.83 | 0.7 | Canada | 346.43 | 2.2 |
| 9 | Spain | 102.08 | 0.7 | Italy | 266.03 | 1.7 |
| 10 | Brazil | 86.04 | 0.6 | Germany | 230.30 | 1.5 |

**Source:** Trade and Industrial Policy Strategies (2006).

Mihe Gaomab II, in his 2005 paper entitled *Private Sector Investment and Socio-Economic Transformation and Development,* attributes this to one-to-one parity between the Namibian Dollar and the South African Rand, which eliminates exchange rate uncertainty and promotes flows and trade investment between the two countries. This is an example of a successful exchange rate peg and where a separate currency, which floats independently, would add no value, hence no need to be quoted and traded.

The country has also tried to integrate itself with and into the world financial markets. This process started when they abolished the Financial Rand system in the CMA in 1995. The Financial Rand system was a system that was developed to curb capital outflow in South Africa when the global players instituted sanctions on South Africa during the apartheid days. This system provided for two exchange rates for the Rand

and related currencies, namely for capital account transactions for non-residents and current account transactions. Investments made in Namibia by non-residents could only be sold for financial Rand and there were limitations on convertibility of financial Rand to foreign currency. The exchange control relaxation, according to the IMF's Article of Agreement, allow for free repatriation of capital and dividends.

Even after the relaxation of exchange controls on non-residents and also on residents, the country's balance of payments yielded surpluses for most of the years during 1990s, showing strong current account surpluses that outweighed net capital outflows. The country also maintained a healthy current account balance of payments of around 2 percent during the 1990. The South African Customs Union revenue sharing formula was responsible for the good performance of primary exports to the tune of around 44 percent of Namibian annual reserves (PricewaterhouseCoopers 2010).

### 2.6.3 *FX trading and support system*

The Namibian economy, especially its financial sector, gains significant benefits from its ties with South Africa (Baumgartner et al 2007). Inasmuch as there are risks, the benefits of being linked to reputable South African institutions with well-developed systems helps eliminate some of the risks from the domestic environment. One of the disadvantages of the close relationship and the peg is the capital outflows to the neighbouring South Africa from investors looking for investment and diversification opportunities. This has put pressure on the capital account and reserve levels (Baumgartner et al 2007).

According to IMF Country Report– Namibia (2007), Namibia has one of the most sophisticated and highly developed financial systems in Africa. The financial system is comprised of a stock exchange, four commercial banks, 30 insurance companies, asset and unit trust management companies, specialised lending and micro lending institutions, which mostly have strong links to South Africa.

The Bank of Namibia is charged with the responsibility of providing a real-time interbank settlement service to the banking institutions. Their main system used for the facilitation of settlements is the Namibia Inter-bank Settlement System (NISS),

which handles interbank transactions above 5million Namibian Dollars. In 2008, the NISS system only handled electronic transfers and cheques, excluding card transactions which were earmarked for later inclusion. Most transactions that the domestic systems could not clear, were cleared in South Africa, for example Bankserv, the SA clearing house was clearing most Namibian Dollar Electronic Funds Transfer (EFT) transactions. The country is working on centralising its clearing facilities, starting with cheque facilities. The Payments Association of Namibia (PAN) is the body that is legally charged with the responsibility of and management of the National Payment System and the Clearing systems. PAN is currently not very effective due to lack of human resources and proper budgets.

The country, relative to its South African counterpart, is still a few years behind in terms of ease of transacting without using paper money. Only in October 2006, the country started using electronic money, which was loaded onto a smart card. This innovation was done through Namibia Post Limited (NamPost). This was followed by Bank Windhoek and First National Bank of Namibia launching mobile banking services in late 2006 to early 2007. The mobile services included transferring money between accounts, making third party payments, paying accounts, and buying prepaid cell phone airtime. These transactions are being cleared via Namclear and settled via NISS (Southern African Development Community 2008).

The IMF Country Report – Namibia (2007) also highlights costs as a possible impediment to providing access to financial services to the wider Namibian population due to the fact that they are widely dispersed. Also highlighted in the report is the limited access of financial services to SMME due to banks' preference for collateral. The high costs of transacting also contribute to the local financial institutions using regional financial markets, mainly South Africa for money and foreign exchange transactions because of their liquidity (Baumgartner et al 2007). For example, the spreads between bid and offer presented by Namibian banks for money market Negotiable Certificate of Deposit (NDC), makes it expensive for investors to invest in NCD, especially having to sell their investments, which adds to transaction costs.

## 2.7 Mozambique

### 2.7.1 *Background*

Mozambique is geographically placed along the Indian Ocean, occupying about 800 000 square kilometres on the south eastern part of Africa, just above the Republic of South Africa and bordering Malawi, Zambia, Swaziland and Tanzania. Apart from its indigenous languages, the country is mainly Portuguese speaking due to its colonial history with Portugal. It won its independence in 1975, but soon after that its economy declined rapidly when they adopted a policy of central planning, which also led to an exodus of Portuguese settlers and the Asian traders, who were domiciled in the country. This phase was a precursor to civil war that lasted about 16 years, and was mainly between the two biggest political opponents FRELIMO (Frente de Libertacao de Mocambique) and RENAMO (Resistencia Nacional de Mocambique). The civil war displaced over a third of the population of Mozambique, an estimated 12 million people in 1980, and led to an economic collapse, destroyed infrastructure and production, and built up a pile of foreign debt.

Things started moving in the right direction in 1984 when central planning was dropped and the country joined the World Bank, the International Monetary Fund (IMF) and the Lome' Convention. It was not long afterwards in 1987 that the country started adopting pro-market economic policies as part of their Economic Rehabilitation Program (ERP). These policies included privatisation, market determination of prices and exchange rates and rationalisation of fiscal balances and public expenditure. The country, with about 18.5million inhabitants, relies mainly on agriculture, fishing, natural gas, hydro-electricity, minerals and tourism for its economic growth (Endean 2004).

According to United States Agency for International Development (2004), Mozambique is now one of the world's most rapidly growing economies over a five-year period. Its GDP increased by a respectable 6.2 percent in real terms in 2005, supported mainly by mining, electricity and service industries. Although industry is growing sharply, from 16% in 1996 to 26% in 2005, fishing and agriculture still accounted for about 20 percent of GDP. Even though the number is impressive,

poverty still reigns in Mozambique according to the Diagnostic Trade Integration Study, Volume 2, with per capita income of under 240 US Dollars in 2003, which is very low (United States Agency for International Development 2004).

### 2.7.2 *Macro-economic picture and links within the SADC*

The country is a member state of the SADC. Flatters & Stern (2005) points to the SADC's Trade Protocol for some fatal weaknesses that make it a less value-adding institution/organisation when it comes to regional integration and member development. According to them, transparent and low tariffs have been replaced by less transparent and more burdensome rules. The country's major trading partners are the European Union (EU), to which Mozambique exports 100 percent of its Mozal aluminium, followed by South Africa, Zimbabwe and Malawi.

Most of the country's imports are from South Africa, the Netherlands, Portugal, India and the United States. Castel-Branco (2002) states that the dominant exports are from South Africa and are mainly mineral products, mostly oil and other fuels, prepared foodstuffs, such as beverages and cereals, chemical products, base metals, energy and vehicles, equipment and parts. According to him, the country's main exports to South Africa include energy, prawns, cotton, construction equipment and food industry residues.

The country imports mainly inputs for its mega projects, for example, for the building of the toll road connecting Mozambique to South Africa and in return, exports, mainly base metal from the Mozambique Aluminium smelter project and agricultural, textile and fishing products. The smelter is the largest earner of foreign exchange.

In 2005, its current account deficit rose to 10.8 percent of GDP from 8.6%. To assist in facilitating trade and in response to currency volatility from large oil imports, the authorities have introduced an exchange rate band, but still continue to show commitment to a flexible exchange rate. Large oil imports have a negative (local currency depreciation) impact on the metical because importers would sell the metical and buy dollars so they could pay for their oil imports. This is another disadvantage of having an independent, but thinly traded currency; big potential price spikes driven by a few transactions in an illiquid market. In order to smooth out

currency volatility from thin currency exchange market, the monetary authorities introduced a foreign exchange auction system that is also supported by the introduction of the exchange rate band in inter- bank foreign exchange market (African Development Bank 2007). During the auction, the central bank of Mozambique would inject liquidity into the market by auctioning a defined amount of dollars in a given day, with local banks being the ones to bid.

Despite all these developments, the country still ranks in the bottom 30 of international business environments in 2009, with its ranking standing at 135 out of 183 countries in the Ease of Doing Business Index. On the measure of trade facilitation, the country also does not rank too well with its 2.29 on the Logistics Performance Index (LPI) (World Bank Institute 2009).

### 2.7.3 *FX trading and support system*

According to Christie (2009), banking in Mozambique is dominated by seven main banks. Banking in that country has grown significantly, mirroring the high economic growth rate the country has experienced. The part of the financial sector that has been ailing is the Mozambican Stock Exchange, named Bolsa de Valores de Mozambique, with only two listed companies since its inception in April 2009. The listed entities are either government-owned or run. This failure of the stock exchange to launch is attributed to the unstable private sector in that country. Table 9 on the next page is a summarised list of Banks in that country and their main activities.

**TABLE.9. Mozambican banks and their areas of specialisation**

| BANKS IN MOZAMBIQUE | | | | | *Areas of specialisation* | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Bank Name | Market Share | Branches | Number of ATMs | Points of Sale | Retail Banking | Commercial Banking | Corporate & Investment Banking | SMME | Agriculture | Trade Finance |
| Banco Internacinal de Mocambique (BIM) | 40% | 89 | 200 | 2300 | Yes | Yes | Yes | Yes | Yes | Yes |
| Banco Comercial e de Investimentos (BCI) | | | | | | | | Yes | Yes | |
| Mozo Banco | | | | | Yes | Yes | Yes | | | |
| Standard Bank | | | | | Yes | Yes | Yes | Yes | Yes | Yes |
| Barclays Bank | | 52 | | | | Yes | | | | |
| Mauritius Commercial Bank (MCB): | | | | | | | Yes | Yes | | |
| Banco Internacional de Comercio (BIC) | | | | | | | | | | Yes |
| Banco Terra | | | | | Yes | | | | Yes | |
| Banco Mercantil e de Investimento (BMI) | | | | | | | Yes | | | |
| African Banking Corporation (ABC) | | | | | | | Yes | | | Yes |

**Source**: Tyler Christie (2009).

The central bank of Mozambique plays a big role in determining the value of the currency. Their objective is to guarantee the value of Metical, their national currency, by limiting its volatility on a day-to-day basis. Their interventions are mainly through the maintenance of foreign currency reserves and they also set the exchange rate by dictating the higher and lower trading bands on a daily basis, and interest rates to manage inflation, thereby indirectly the value of the Metical. The US Dollar auction system, mentioned above, is also used to manage liquidity, and therefore the value of the Metical against the Dollar.

The currency is said to be free-floating since 13 April 2009 and is mainly quoted against the US Dollar, Euro and the South African Rand. (Tyler Christie 2009). The country also has unregistered players in the currency market. These unregistered currency dealers are individuals who trade currencies by buying and selling US Dollars and South African Rand against the Metical. They are found along the country's borders where there is a lot of informal trading of goods and services. According to Macamo (1999), these informal trades are done on a cash basis and are not recorded anywhere. The currencies being used in these trades are the ones of neighbouring countries, such as South Africa. The source of the currency is the travellers, drivers, immigrants, their relatives and mainly the informal importers of goods. Inasmuch as it is risky exchanging cash from informal border foreign

exchange traders, the goods importers and exporters still do it because they do not have to go through rigid timetables, legal limits and even more so, the paperwork. (Macamo 1999).

The value of the Metical at the border fluctuates based on trading volumes on the day, which are also based on the availability of goods in the bordering towns. For example, when goods are in excess supply and informal imports slows down, the informal market l value of the Metical will depreciate and the demand for foreign currency will decrease (Macamo 1999).

## 2.8 Mauritius

### 2.8.1 *Background*

The island of Mauritius was a British colony and only gained independence in 1968. It only acceded to the status of republic in 1992, resulting in the replacing of the Queen of England as the head of state to a president. The country is 2040 square kilometres in size and has an estimated 1.3 million inhabitants. The country has received many accolades for its superior economic performance in the SADC region and is referred to as the tiger of Africa. It was ranked number 1 for the Ease of Doing Business in Africa and 27$^{th}$ in the world by the World Bank Ease of Doing Business report of 2008. In 2010, it is rated at number 17.

The economy has mostly been supported by sugar, textile and tourism industries and the country has been seen increasing its activity in provision of financial services as means of diversifying its income streams. The country is viewed as one of the richest economies in Africa with a GDP per capita of $US 6100 in 2007. It had preferential trading agreements with most of its trading partners, which allowed it to have an average growth rate above 5 percent since 2002. It has one of the lowest corporate tax rates in the world, at a flat rate of 15 percent (Trade and Industrial Policy Strategies 2007).

### 2.8.2 *Macro-economic picture and links within the SADC*

The country abolished exchange rate controls in 1994, resulting in a managed floating exchange rate to the US Dollar as the benchmark currency. The primary objective of the Bank of Mauritius as per their act is to maintain price stability. This is also reflected in their GDP numbers, even after the latest 2007 banking sector-induced crash. Their GDP still increased by a respectable 2.2 percent in current world standards. AXYS Stock broking, in their July 2010 research report, expect the Mauritian current account deficit to widen due to decreasing export revenue and re-emergence of inflation. The country has previously depreciated their currency to support the export sector, but that has proven itself unsustainable as it in itself leads to inflation.

The country's internet and banking connectivity is linked to the South Africa Far East (SAFE) network. This is a technologically advanced under-sea cable offering a faster and more efficient trading channel, which enables transfer of huge chunks of data very easily and cost effectively.

Below is table 6 depicting regional imports and exports with Mauritius for the year 2005.

**TABLE.6. Mauritius exports and imports by region: 2005**

| Region | Exports | | Imports | |
|---|---|---|---|---|
| | Value (US$ '000) | Region's share % | Value (US$'000) | Region's share % |
| EU25 | 1,316,709 | 65.69 | 971,091 | 30.73 |
| NAFTA | 197,290 | 9.84 | 72,889 | 2.31 |
| SSA (excl. SADC) | 181,674 | 9.06 | 353,130 | 11.17 |
| SADC | 148,939 | 7.43 | 323,416 | 10.23 |
| Other | 119,575 | 5.97 | 663,359 | 20.99 |
| SEAsia | 17,240 | 0.86 | 291,123 | 9.21 |
| South Asia | 13,977 | 0.70 | 256,551 | 8.12 |
| Oceania | 7,249 | 0.36 | 121,625 | 3.85 |
| South America | 1,084 | 0.05 | 54,768 | 1.73 |
| Mercosur | 616 | 0.03 | 52,165 | 1.65 |

Source: TIPS/AusAID Southern African Trade Database

On the trading front, South Africa is Mauritius' biggest trading partner in the SADC region. The exports to South Africa were mainly made up of apparels and clothing accessories and not mounted/set industrial diamonds. Imports from South Africa

were steel and iron ore, petroleum and related materials and products. In 2006, as a ratio of its imports from the SADC, it imported 85 percent of its total imports from South Africa. This excludes oil, which the country, through its State Trading Corporation (STC), has signed a deal with India for the import of oil for three years until 2010. Of their exports to the SADC region, 35% is clothing and about 16 percent is sugar.

Interestingly enough, its imports from the SADC still far outweigh its exports to the SADC, in value terms. If one looks at the imports alone, Mauritian trading patterns are influenced by the comparative advantages between it and its trading partners. After South Africa, as a ratio of its trading within the SADC region, its main trading partner is Madagascar, as it exports accounted about 65 percent to that country and only 29 percent to South Africa. When looking at the same period, the EU was the main Mauritian trading partner, taking 66 percent of its exports and importing 48 percent of its imports from the EU. In terms of regional trading, its main regional trading partners are Asia, the EU and the SADC (Trade and Industrial Policy Strategies 2007).

### 2.8.3 *FX trading and support system*

According to Gokool and Moraby (2009), the banking landscape in Mauritius has 19 operators and it has changed since 2004 when they introduced new legislation splitting banking regimes into two: Offshore and onshore. After the change and a rigorous selection process, only 10 offshore banking units were admitted back into the country. In 2008, amendments were made allowing the provision of Islamic Banking Services by Mauritian banks.

The Mauritian banking system also has an advantage in that it can trade with both the US and Asia during the same time zone, making same- day trades possible (Gokool & Moraby 2009). To top that, the banking regulatory framework is very practical, non-bureaucratic and effective, making it easy to operate within. Most of the banks in the country offer the following services:

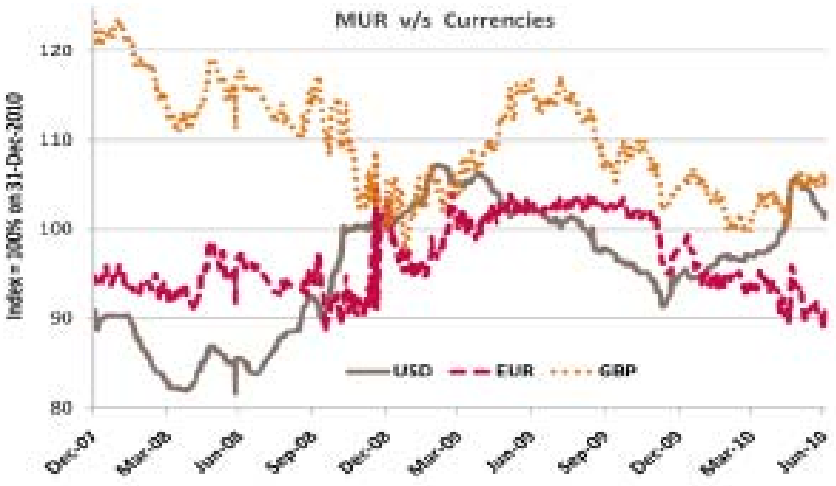
- Deposits – current and term deposits;

- Loan advances – short and long-term loans, and also multi-currency lending;
- Foreign exchange and cash management – competitive FX and treasury services for both personal and institutional clients;
- Trade finance – credit letters, import letters and letters of guarantee;
- Investment management and custody – professional money management and safekeeping of securities for both individuals and institutions; and
- Wealth management and private banking – financial, wealth and estate planning and solutions.

The country has a floating exchange rate policy that allows free play of market forces to determine the exchange rate. The Bank of Mauritius would intervene in the domestic interbank market to smooth out volatility in the Rupee exchange rate and to improve the functioning of the market not to target a specific exchange rate (Bheenick 2008).

The Rupee is managed and traded using the US Dollar as the benchmark currency. Chart 6 below shows the Rupee's movement against major currencies since December 2007 until June 2010.

**CHART.6. Rupee versus major currencies: December 2007 – June 2010**



The Rupee has, on average, depreciated by an average of 3.5% yearly. The exchange gains from the depreciating currency have assisted in partially paying or subsidising increasing wages from export oriented industries (Desai and Tulsisidas 2010).

## 2.9 Tanzania

### 2.9.1 *Background*

Tanzania is geographically placed in the central east of Africa along the Indian Ocean. It is bordered by Kenya and Uganda on the North side, Burundi, Rwanda and the Democratic Republic of Congo to the west and to the south, Zambia, Malawi and Mozambique (Dagne 2010).

In the context of Africa and its civil wars, Tanzania is a stable, but socially diverse country with about 125 ethnic groups. The United Republic of Tanganyika and Zanzibar were formed as a union of the mainland and many sub- lands in 1964, namely Tanganyika and the islands of Pemba, Zanzibar and other several smaller islands surrounding the mainland. The union was later in the same year and named the United Republic of Tanzania. The islands and the mainland are populated by people of mixed religious and population groups, namely African, Arab and Muslim. The islands still remain semi-autonomous with their own presidents and parliaments (Dagne 2010). The highest and deepest points on the entire African continent lie within its borders. In the North of the country, we find the, "roof of Africa," the majestic Mount Kilimanjaro, 5,895 meters high. In the far West lies the, "floor of Africa," Lake Tanganyika, more than 1,400 meters deep. Tanzania is also the, "picture-book of Africa," per se (Nüesch 2009).

According to the CIA World Factbook 2010, the country covers an area of about 945 000 square kilometres and has about 41million inhabitants. It had a GDP per capita of 1400 US Dollars in 2009. Its major contributors to GDP are gold, agricultural products, such as coffee, cashews, cotton and cloves, tourism and manufactured products. The country generally relies heavily on hydro-power for its electricity, which can be a risk when looking at Africa’s climatic conditions.

### 2.9.2 *Macro-economic picture and links within the SADC*

The country has, at the turn of the century, managed to pull itself out of high deficits, high inflation and severe economic difficulties. It now boasts an average GDP growth of around 7 percent and a low unemployment rate of 7 percent, which is one of the lowest in the continent. These growth numbers are being led by the agricultural sector, contributing about 44 percent. The current, strong tourism sector, including manufacturing and services, are being touted as the next biggest growth areas (Nüesch 2009).

Between 2000 and 2005, the country's imports were mainly capital goods, such as transport equipment, building and construction and machinery, (39.9%). 28.1 percent were intermediate goods, such as oil, industrial raw materials and fertilizers and the rest of the 28.1 percent were consumer goods, like foodstuffs. These numbers were recorded during a drought period, but still reflective of the trend and domineering sectors (Trade and Industrial Policy Strategies 2007).

During the same period, the country exported more than 50 percent of its non-traditional exports, such as gold, tanzanite, diamonds and rubies to South Africa, making it one of its largest export partners, followed by Switzerland, the UK and China. The mining of precious stones was the largest earners of foreign currency at 37.9 percent during the same period. During 2000 to 2005, the country's main import partners were led by oil-producing Bahrain (15.5 percent), South Africa (12.3 percent), China (6.8 percent) and Japan (6.4 percent). The main imports from South Africa were mineral products and machinery. The other SADC countries, namely Swaziland, Zambia, Mauritius, Mozambique and Zimbabwe had a combined share of less than 1 percent (Trade and Industrial Policy Strategies 2007). These numbers suggests intra-SADC trade can, in fact, be very small.

### 2.9.3 *FX trading and support system*

Since 1994, Tanzania has been operating under a free-floating exchange rate system, meaning the value of the local currency, the Shilling, is determined by market forces, such as demand and supply. The central bank also gets involved only to advance orderly FX trading and liquidity management without targeting any

specific rate. The country has a stock exchange, namely the Dar es Salaam Stock Exchange, with few companies listed for the period 2006/7 and five listed corporate bonds (Mpangile 2008). Below is a table depicting this stock exchange.

**TABLE.11. The Dar es Salaam Stock Exchange**

| Indicators | 2005 | 2006 | 2007 |
|---|---|---|---|
| Total Value Traded (USD million) | 0.48 | 1.32 | 1.42 |
| Total Volume Traded (million) | 0.87 | 1.45 | 1.94 |
| Total Number of Transactions | 176,483 | 598,301 | 973,548 |
| Number of Listed Companies | 48 | 52 | 54 |
| Number of Traded Companies | 47 | 48 | 50 |
| Market Capitalization End of Year (USD billion) | 6.14 | 11.41 | 13.61 |
| Market Capitalization as % of GDP | 31.63 | 69.39 | NA |
| Turnover Ratio (%) | 7.90 | 11.54 | 10.41 |
| P/E ratio | 17.00 | 22.00 | 20.00 |
| DY (%) | 2.56 | 1.74 | 2.62 |

**Source:** Demisse et al (2008).

The country has two broad categories of financial intermediaries in the banking system, namely non-bank and commercial banks. In August 1997, there were 14 commercial banks with six locally owned, eight foreign owned and 13 non-financial institutions, 11 of which were locally owned and two foreign owned ones. According to the Bank of International Settlements (2003), the country currently has a total of 19 banks, with a total of 172 branches. Of the 19 banks, only three have regional reach, with most of the smaller banks concentrated in Dar es Salaam.

International funds transfer of large amounts is done through correspondent banking relationships, without any exchange controls. These correspondent banking relationships are based on agreements whereby the big banks offer services to the small banks. The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is used as the main channel for sending telex messages abroad, where a local bank may instruct a bank abroad to make a payment on its behalf. Commercial banks with no corresponded relationships can go through the central bank to convert

their excess regional currency holdings into local currency. The major currencies traded are South African Rands, Ugandan Shillings, Kenyan Shillings, US Dollars and Pound Sterling, which reflects the country's main trading partner currencies (Bank of International Settlements 1997). The main instruments used for retail FX transactions are affected via foreign currency, international money orders, banker's draft and travellers cheques. The cheques are issued in US Dollars, Euros and British Pounds. Banks and Bureaux de Change, mainly Western Union and MoneyGram, cater for the retail market mainly made up of individuals and businesses (Bank of Tanzania 2003).

## 2.10 Zambia

### 2.10.1 *Background*

Zambia is geographically placed in south central Africa and is surrounded by Angola, Zaire, Tanzania, Malawi, Mozambique, Zimbabwe, Botswana and Namibia. The Zambians inherited their country from the British colonialists during the 1964 independence. The current population of about 10million people presided over the period to the currently deteriorated economy. The county moved from being prosperous to being a pleading nation, supported by IMF and the World Bank from 1992 through their structural adjustment and economic reform programme (Ministry of Finance and Economic Development 2001).

The country moved from a system of social economic policies that led to the economic collapse, whereby government had interests in virtually all the country's economic activities. It is around 1990 that the government embarked on liberalisation of money and foreign exchange markets. The country had a windfall in 2005 when it had a 6.5billion US Dollar debt write off. The write off and the rise in the price of its major GDP earner, copper, helped achieve growth rates averaging 5 percent over a seven-year period. The country's economy is mainly dependent on its mineral resources, which is chiefly copper. The fiscal discipline led to the country attracting significant capital inflows generally into their treasuries (Muhanga & Soteli 2009).

### 2.10.2 *Macro-economic picture and links within the SADC*

During the trade liberalisation from 1991, the country also reduced import duties and repealed import and export licences. It also opened its currency value to be determined by market forces. Zambia is a signatory to the SADC Protocol and the Common Market for Eastern and Southern Africa (COMESA) agreement. Both the SADC and COMESA have the same objective of creating a free trade area and eventually a customs union.

During the period 2000-2005, Zambia remained a net importer, leading to an increase in trade deficit from 11million to 726 million US Dollars. During the same period, exports to the SADC countries increased by a significant 24.1 percent, as compared to imports that grew at 19.8 percent. As with most other SADC countries, South Africa was the leading trade partner with exports to South Africa growing at 15.5 percent and imports at 20.5 percent. The SADC region was the main destination of Zambia's exports at 39.7 percent in 2005, dominated by the following countries: South Africa, Democratic Republic of Congo and Zimbabwe. Europe was second in line with 28.7 percent of all exports followed by the EU at 24 percent (Trade and Industrial Policy Strategies 2007).

South Africa once again featured as the main trading partner on the import side in the SADC region, taking a bigger share (47.6percent), of more than half the country's imports from the SADC. Imports from the EU accounted for 22.4 percent, followed by Asia at 14 percent. Zambia capitalised on the SADC Protocol and had growth rates of 22%, 76%, 34% and 32& for the DRC, Tanzania, Zimbabwe and Malawi during the period to 2005 (Trade and Industrial Policy Strategies 2007).

### 2.10.3 *FX trading and support system*

According to the Ministry of Finance and National Planning 2004, Zambia's financial sector is characterised by low financial intermediation, with limited access for the rural population and the low to middle class to financial services. High costs of funds and underdeveloped markets are highlighted as the main impediments to development.

The banking and financial sector in Zambia is made up of the Central Bank (Bank of Zambia), 22 registered commercial banks, three building societies, one Savings Bank, a Cooperative bank and six specialised non-banking financial institutions, and the Post Office. The rural areas are mainly served by the non-financial institutions by providing money transmission, credit provision and savings mobilisation.

International transactions are settled via correspondent banking relationships and arrangements. SWIFT is the main communication and messaging service. In order to transact, travellers cheques are widely accepted instruments, with major currencies traded being the South African Rand, the US Dollar and the British Pound (Bank of International Settlements 1997).

During the year 2003, the central bank tried to establish a broader FX interbank market to facilitate wholesale and commercial transactions and to encourage two-way pricing in the FX market, but the plan never took off. Of major concern to the central bank is the Dollarization of the Zambian economy that is currently taking root, clipping its wings to control monetary policy (Ministry of Finance and National Planning 2004).

## 2.11 Conclusion

The research discovered both similarities and differences in respect to the following attributes:

- Historical Background;
- Banking and other Financial Services Sector;
- Regulatory Environment;
- Small to Medium Business Support;
- Foreign Exchange Centre and Support;
- Payment Systems; and
- Trade, including Regional Trade.

I have observed that some of the countries are more advanced in certain areas that relate to foreign exchange trading that were interrogated or researched, and others are still playing catch up with others, lagging behind by a huge margin. What has been encouraging has been the gradual improvement and improvement plans in those countries that seen to be lagging behind. The dialogue between the countries within the SADC region, coming to term with the challenges facing them as a region is another encouraging sign.

Some countries seemingly have more challenges than others, but there is thinking around the tackling of individual country problems. What I find disturbing is the lack of political will to create all-encompassing regional solutions. It seems like countries are given universal targets and are left to fend for themselves.

# 3 RESEARCH METHODOLOGY

This chapter describes and presents the methodology that is followed to address the research question posed. It discusses the theoretical assumptions underpinning this research report. These assumptions are included in the research paradigm and research design discussions. The data collection procedure, analysis and interpretation, in relation to the study, are discussed. Also included in the study is the discussion on the validity and reliability of this study. The discussion includes the strengths and weakness associated with the selected research method and technique.

## 3.1 Research methodology / paradigm

Presently, there are two very well-known and recognised research approaches, namely the qualitative and the quantitative paradigm (De Vos et al 2002). The qualitative paradigm was chosen for the purposes of this study. According to De Vos et al (2002), this paradigm comes from an antiposivistic, interpretative approach, is idiographic and thus holistic in nature, and aims mainly to understand social life and the meaning that people attach to everyday life. Leedy and Ormrod (2010) further add that all qualitative approaches have two things in common:

- Firstly, the focus on the phenomena that occur in natural settings. That is, in the “real world,” and

- Secondly, they involved studying those phenomena in all their complexity.

The descriptive, explanatory and evaluative nature of the qualitative paradigm make it an appropriate approach for this study. It is understood that generally, qualitative studies do not allow the researcher to identify cause-and-effect relationships (Leedy and Ormrod 2010), which is not the intention of this study. Quantitative research, on the other hand, allows the researcher to answer the, “what caused what to happen,” question. Creswell (2003), also states that in a qualitative research approach, the researcher collects open-ended, emerging data with the intent of developing themes

from the collected data. A blend of both quantitative and qualitative approach is best suited for this study.

## 3.2 Research Design

As stated, this research is mainly qualitative. Most of the information available is mainly in the form of a macro overview sourced from different academic research and other international institutions and does not focus on the finer details of the problem. The focus will be on content analysis of the existing literature and work that has been done to decipher what exactly the existing problems are and propose solutions from a bottom-up perspective.

The data for this research will or has been be collected from two different sources:

1. Review of literature and study of written records:

    - Information was sourced from research papers; institutions who have taken interest in trading in the SADC. Institutions like IMF, World Bank and others have done a lot of research on the SADC and Africa as a whole.

2. Case studies:

    - There have been plenty of case studies by different research consulting firms and universities on general goods and commodities trading in Africa and the SADC region. Their content will be studied to decipher what challenges related to foreign exchange trading remain and how people deal with those on a daily basis.

3. Quantitative trading costs review:

    - Indication market rate quotations and spreads were obtained from leading South African financial institutions to help determine the extent of the high foreign exchange trading costs between the countries being researched.

The reason behind using multiple sources of data is for triangulation evidence, because according to Perry (2001), this gives the researcher a way of converging data from different sources. The benefits of this is that each of the sources are

complementary, thus resulting in a robust research design with more reliable and valid findings.

## 3.3 Procedure for Data Collection

*Review of literature and study of written records*

During this approach, the data was collected through a very detailed literature review and a thorough study of written records on the related subject. Economic and financial databases from both academic and institutional resources were used. These were reviewed, compared and summarised to procure findings.

*Case studies*

A great deal of research cases have been conducted by different research consulting firms and universities on general goods and commodities trading in Africa and the SADC region. These where analysed to find the links and relations to foreign exchange trading and its cost implications in the SADC region.

*Quantitative trading costs review*

Leading South African financial institutions were approached for indication on bid/offer rates or spreads. This data was reviewed to get an indication of the costs pertaining to trading foreign exchange between the countries being studied. In addition, the costs of trading with major currencies were reviewed and this was compared to the intra SADC foreign exchange trading.

## 3.4 Data Analysis and Interpretation

The way in which data is analysed is very important for any study. Yin (1994) states that every study should start with a general analytical strategy. In this report, the first stage was data reduction of the literature reviews and the case studies. This was done by means of summarising and paraphrasing existing literature. This helped to sharpen, sort, focus, discard, and organise the data in a way that allows for final conclusions to be drawn and verified. The process that Yin (1994) recommends for data to be reduced and transformed is through means such as selection, summary,

paraphrasing, or through being subsumed into a large pattern. In this report, the data was summarised and some of the readings paraphrased to meet the overall research objectives and attempt to clarify the research question and answer it.

The reduced data was then organised and compressed in a way that allowed for conclusions to be easily drawn. The final stage was for the researcher to decide what the organised findings mean. This was done by noting regularities, patterns, similarities and differences, explanations, possible configurations, causal flows, and propositions. Most important was for the researcher to hold these conclusions lightly, while maintaining both openness and a degree of scepticism. In this report, conclusions and drawing of meaning from the data involved comparing and contrasting the data, and in addition patterns and trends were noted. In seeking verification of these conclusions, triangulation with alternative data sources, such as literature review, case studies, and quantitative trading costs review, was used.

## 3.5 Limitations of the study

- The fact that information on FX and trading in Africa as a whole and especially in the SADC region in general is very scantily available makes the research quite challenging and leaves room for speculation and assumptions;
- The language barrier with Mozambique. Since they conduct business mainly in Portuguese, it may prove to be a challenge; and
- The ability to generalise data is limited.

## 3.6 Validity and Reliability

Validity of a research instrument refers to the extent to which it measures what it is supposed to measure (Leedy & Ormond 2005). Leedy and Ormond (2005) further state that reliability on the other hand refers to the accuracy with which the research instrument produces consistent results. They continue to state that validity errors reflect biases of researchers themselves and are a relatively constant source of error. In contrast, reliability errors occur during the process of research and can vary unpredictability from one occasion to the next.

### 3.6.1 *External validity*

According to Bineham (2006), external validity in qualitative research refers to transferability to another context or environment. The outcomes from this research report can be transferred to other countries within the SADC region; to other countries in Africa as a whole and to other emerging markets facing the same challenges. It can be said that if the challenges are identical, identical solutions should fit. The research should assist countries in forming a platform for direct policy influence, without it being used as a blanket, and in the frame of mind that one size fits.

### 3.6.2 *Internal validity*

Bineham (2006) states that internal validity in qualitative research refers to the credibility of the research, and it involve the process of finding out whether the results are credible or believable. During this study, the researcher used multiple sources of data and used the triangulation method to confirm emerging findings and to support the theory.

It has been imperative for the researcher to not let his worldviews, biases assumptions, and relationships to the study affect the investigation process and the eventual outcome.

### 3.6.3 *Reliability*

As mentioned, reliability refers to the accuracy with which the research instrument produces consistent results. Bineham (2006) adds that it is the measure by which the research instrument used is neutral in its effect and would measure the same effect on future occasions to ensure consistency.

For the purposes of this report, the way the data has been collected is detailed, and explained in a way that it can be repeated. That being said, it is important to note that the research is subject to interpretation by the researcher, and an alternative researcher might not produce the same results.

# 4 RESEARCH FINDINGS

## 4.1 Introduction

This is to summarise the findings from the literature review of the eight countries in this research. Despite the vast differences in general economic conditions, all the countries in the SADC seemingly share the same historical background of a colonial past. The challenges posed on each of the countries have been mainly on the management of the political transformation process from a colonial past to independence.

It seems that those who have managed that process better have been better off in terms of their economic stability and therefore growth. Russo and Ugolini (2008) advance this view and break it down further to Africa's historical colonial financial and banking system. He first acknowledges that Africa is a vast continent with different dynamics and at different stages of their financial development. Historically, in Sub-Saharan Africa, banks were established to provide services to colonial enterprises engaged in mining and manufacturing. This explains the collapse or economic fractures soon after independence in most countries.

It does seem that organisations like the SADC driven by South Africa are coming to the realisation that one cannot separate politics, country stability and the economy. That alone makes a sound of a, "penny dropping," for future development. Africa as a whole has a lot of organisations with some sort of colonial background or influence that are supposed to encourage or assist in regional development. It does seem necessary that we examine some of these organisations to understand the bigger pieces of the puzzle that are still missing or are not designed to complete the puzzle of regional economic integration. This means that it might be necessary for the SADC countries to look into the current structures of the vehicles, like regional unions of trade, being used to foster economic integration within the region to see if they are suitable for the responsibility.

## 4.2 Commonalities within the SADC Region

### 4.2.1 *The Common Monetary Area (CMA) and its relation to the Southern African Customs Union (SACU)*

The Common Monetary Area (CMA) is a union of select countries in the SADC region that was formed on the 1st April 1986, replacing the Rand Monetary Area (RMA) with the objective of forming a framework for exchange rate and monetary policy. The union was comprised of South Africa, Lesotho and Swaziland. The broad objective is that, “the monetary arrangements should provide for the sustained economic development of the CMA as a whole,” with the whole objectives set out in the preamble of the trilateral agreement. Over time, there were changes in the CMA, with Namibia joining in 1992 and South Africa abolishing the policy of Apartheid.

The agreements were also for the advancement of the less developed member states, namely Lesotho and Swaziland. All the other member countries issued their own currencies, which were all pegged to the Rand at par since inception. They were all responsible for their monetary policies, albeit to a limited degree, with the bilateral agreements governing their access to the foreign exchange markets in South Africa. During 2004, the CMA had a combined GDP of 224billion US Dollars, which is about 43 percent of the Sub-Saharan African GDP.

Under the bilateral agreements with South Africa, Lesotho and Namibia were required to hold and maintain reserves equivalent to the total amount of local currencies they issue with the South African Reserve Bank (SARB). As per the CMA Agreement, there were no restrictions on the transfer of funds, whether for capital or current account transactions between the CMA member countries. The smaller member states felt that funds tended to flow to the more developed capital markets, in this case, South Africa. When compared with other monetary unions, the CMA also has a dominant partner, South Africa, and accounts for 90 percent of the GDP of CMA. (Wang et al 2007).

The Southern African Customs Union (SACU) was formed in 1969 with the objective of maintaining a free interchange of goods between the member countries, namely South Africa, Botswana, Lesotho and Swaziland. SACU abandoned most restrictions

on agricultural products and manufactured foodstuffs from within the region and also agreed to have the same tariffs and regulations for imports into the SACU member countries. SACU, like most organisations established during historical colonial times, does not equally benefit all the members. South Africa still determines the laws relating to customs, excise and sales duties and all the revenue collected goes to a Consolidated Revenue Fund. The revenue split model is not transparent, which leaves member countries feeling a bit distrustful. There is now discourse of renegotiating the terms of the union (Hyman 1999).

It was only in 2006 that terms of this agreement were being revisited and renegotiated. According to Flatters and Stern (2005), amongst other challenges facing the union is the accounting for informal trading, which generally forms a significant portion of trading in Africa. According to Schneider (2006), such trading is about 43% of Africa's GDP.

In the SADC, structures that should drive the next phase of economic growth already exist, but the structural formation of those organisations is seemingly still not geared for the overall attainment of goals.

# 5 DISCUSSION OF RESULTS

## 5.1 Comparison between SADC and other Monetary Unions

According to Glick and Rose (2001), countries that joined currency unions experienced near doubling of bilateral trade, and those that left currency unions experienced near halving of bilateral trade. Their study included over 200 countries from 1948 to 1997 to estimate the time series effect of a currency union on trade. The results of this study alone justifies interrogation of merits for intra-SADC regional trade and working on

According to Khyanyile (2003), the Mercosur was formed based on the following justifications:

- Military Developmentalism Doctrine – the countries were mainly run by military rulers who later realised that they needed economic growth to advance and acquire superior military equipment. This therefore meant that as long as they can get superior military equipment, they can stay in power. This thinking led to co-opting with the civilian part of the population to assist in designing economic policies that can keep them in power.

- Proliferation of Regional Organisations – the trend was started in Western Europe in the early 1950s when it was agreed to have both steel and coal from Belgium, France, Germany, Italy, Luxembourg and the Netherlands under one umbrella, namely the European Coal and Steel Community (ECSC). The main aim was to use their resources as means of leverage against other countries. Another objective was to encourage social, economic and cultural co-operation amongst members.

- Conflict Potential – the existence of military rulers had its advantages as the temptation to take over the entire region was always there. The possible economic benefits and power from ruling a larger region led to a certain level of distrust amongst military-run governments. Through a

regional union, complex issues, including security issues, could be addressed under the union.

- Democratisation Process – South American countries realised earlier than Africa that there is a link between peace, stability and economic growth (Khyanyile 2003).

Historically, the SADC in general has most of the attributes above and more than foster and support regional trade integration. The benefits as stated in the report by Chauvin and Gaulier (2002) far outweigh the risks. The issue that now needs to be addressed, or the question whose answer must be provided, is the possibility of eliminating all the barriers. Elimination of barriers in this case refers to the hurdle to intra-regional trading, whose origin is the high cost of FX trading. As stated, this research is to try and find the impact of FX trading costs on intra-regional trading.

Chauvin and Gaulier (2002) further attest that South Africa, as the biggest party in the SADC region, is not in a position to play the leadership role like the European Union does for Maghreb countries. South Africa cannot be at the downstream of labour division at a regional level due to the fact that the country's manufacturing is still at an early state of industrialisation if one looks at its comparative advantages in the SADC region.

Comparative advantage is the ability of a country to produce a particular good or service at a lower opportunity cost than the other country. What this means, in this case, is that South Africa, inasmuch as it is relatively ahead of its peers in Africa, does not or cannot produce goods way cheaper in relation to its SADC counterparts for it to focus on the products it has a comparative advantage (cheaper labour production costs) over. This makes big brother South Africa a difficult partner for exports, which are mainly minerals and agricultural products.

# 6 CONCLUSIONS AND RECOMMENDATIONS

## 6.1 Conclusions

### Summary

In this conclusion, the research is going to determine the summary of the observations from the above literature review. Once that has been done, common themes will be determined. It is from those themes that we will attempt to establish the entire challenges that emanate from the costs of foreign exchange trading facing the SADC. .

A major stumbling block in fully accessing the financial systems, especially in the field of foreign exchange trading, has been the lack of data. The research therefore takes cognisance of the fact that each economy under review has different structural characteristics that often contribute to the non-existence or lack of a fluid foreign exchange market.

From the literature of the eight countries being researched, one can tell that countries in Africa, even though they are in the same continent, are vastly different in their backgrounds, therefore their varying characteristics. There are certain common themes amongst all the countries, for example their colonial past.

## TABLE.12. Trade in the SADC

***Exports***

| Partner | South Africa | %of Total Trade | Botswana | %of Total Trade | Namibia | %of Total Trade | Mozambique | %of Total Trade | Mauritius | %of Total Trade | Tanzania | %of Total Trade | Zambia | %of Total Trade |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Lesotho** | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | 1 | 0.05% | - | 0.00% | 1 | 0.06% |
| **South Africa** | - | 0.00% | 374 | 8.48% | 748 | 30.17% | 178 | 26.61% | 26 | 1.31% | 292 | 19.39% | 333 | 18.94% |
| **Botswana** | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | 4 | 0.27% | 3 | 0.17% |
| **Namibia** | - | 0.00% | 12 | 0.27% | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | 9 | 0.51% |
| **Mozambique** | 991 | 2.14% | - | 0.00% | 18 | 0.73% | - | 0.00% | 1 | 0.05% | 7 | 0.46% | 1 | 0.06% |
| **Mauritius** | 337 | 0.73% | 3 | 0.07% | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | 1 | 0.06% |
| **Tanzania** | 418 | 0.90% | 1 | 0.02% | 1 | 0.04% | - | 0.00% | 3 | 0.15% | - | 0.00% | 93 | 5.29% |
| **Zambia** | 848 | 1.83% | 12 | 0.27% | 13 | 0.52% | 1 | 0.15% | 1 | 0.05% | 9 | 0.60% | - | 0.00% |
| **Rest of the World** | 41,480 | 89.41% | 3,821 | 86.68% | 1,491 | 60.15% | 423 | 63.23% | 1,843 | 92.61% | 1,167 | 77.49% | 1,083 | 61.60% |
| **World** | **46,391** | | **4,408** | | **2,479** | | **669** | | **1,990** | | **1,506** | | **1,758** | |
| **SADC Exports** | | 10.59% | | 13.32% | | 39.85% | | 36.77% | | 7.39% | | 22.51% | | 38.40% |

***Imports***

| Partner | South Africa | %of Total Trade | Botswana | %of Total Trade | Namibia | %of Total Trade | Mozambique | %of Total Trade | Mauritius | %of Total Trade | Tanzania | %of Total Trade | Zambia | %of Total Trade |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Lesotho** | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | 1 | 0.03% | - | 0.00% | - | 0.00% |
| **South Africa** | - | 0.00% | 2,267 | 84.40% | 2,079 | 83.19% | 700 | 43.83% | 270 | 8.56% | 403 | 12.42% | 1,182 | 48.30% |
| **Botswana** | 303 | 0.61% | - | 0.00% | 5 | 0.20% | 2 | 0.13% | - | 0.00% | 1 | 0.03% | 11 | 0.45% |
| **Namibia** | 128 | 0.26% | 9 | 0.34% | - | 0.00% | 22 | 1.38% | - | 0.00% | 1 | 0.03% | 6 | 0.25% |
| **Mozambique** | 26 | 0.05% | 1 | 0.04% | - | 0.00% | - | 0.00% | 16 | 0.51% | 2 | 0.06% | 10 | 0.41% |
| **Mauritius** | 25 | 0.05% | 6 | 0.22% | - | 0.00% | 6 | 0.38% | - | 0.00% | 5 | 0.15% | 2 | 0.08% |
| **Tanzania** | 39 | 0.08% | 1 | 0.04% | - | 0.00% | 4 | 0.25% | 3 | 0.10% | - | 0.00% | 65 | 2.66% |
| **Zambia** | 202 | 0.40% | 4 | 0.15% | 1 | 0.04% | 3 | 0.19% | 9 | 0.29% | 4 | 0.12% | - | 0.00% |
| **Rest of the World** | 48,203 | 96.27% | 349 | 12.99% | 386 | 15.45% | 798 | 49.97% | 2,833 | 89.77% | 2,799 | 86.28% | 1,023 | 41.81% |
| **World** | **50,071** | | **2,686** | | **2,499** | | **1,597** | | **3,156** | | **3,244** | | **2,447** | |
| **SADC Imports** | | 3.73% | | 87.01% | | 84.55% | | 50.03% | | 10.23% | | 13.72% | | 58.19% |

**Source:** Trade and Industrial Policy Strategies (2007).

The above is a summary of trade, both exports and imports between the countries being researched. As evident from the summary of both the SADC exports and imports, South Africa is a major trade partner of all the SADC countries being researched and it forms a big portion of the surrounding countries' imports, for example Botswana and Namibia.

As per the data above, the countries whose currencies are pegged to the South African Rand are the ones that are seemingly very dependent on South Africa for their imports at over 80 percent of total imports. According to the African Development Bank (2009), Lesotho also relies on South Africa for about 80% of its

imports and is pegged at par with the Rand. After the pegged currencies, Zambia is leading in terms of imports, followed by Mozambique.

The individual countries' trade with South Africa is weighing very heavily on the trade numbers within the SADC and one should be careful taking the summarised numbers at face value, as serious distortions of the actual lack of trade in the region can easily be covered. Table 13 below shows an average of the trade numbers between the SADC and looks at South Africa's contribution to those trade numbers.

**TABLE.13. Average trade within the SADC**

| AVERAGE TRADE WITHN SADC | |
|---|---|
| Average Export | 24.12% |
| Average Export to SA | 14.99% |
| SA's ration of Exports | **62.14%** |

| | |
|---|---|
| Average Imports | 43.92% |
| Average Imports from SA | 40.10% |
| SA's ratio of imports | **91.30%** |

**Source:** Trade and Industrial Policy Strategies (2007).

South Africa, as an importer from other SADC countries, is a significant 62% of the countries being researched. The imports from South Africa make up about 91%. These numbers are very high whichever way one looks at them. They are a clear indication of the sheer lack of trading within the SADC countries.

**Market Prices**

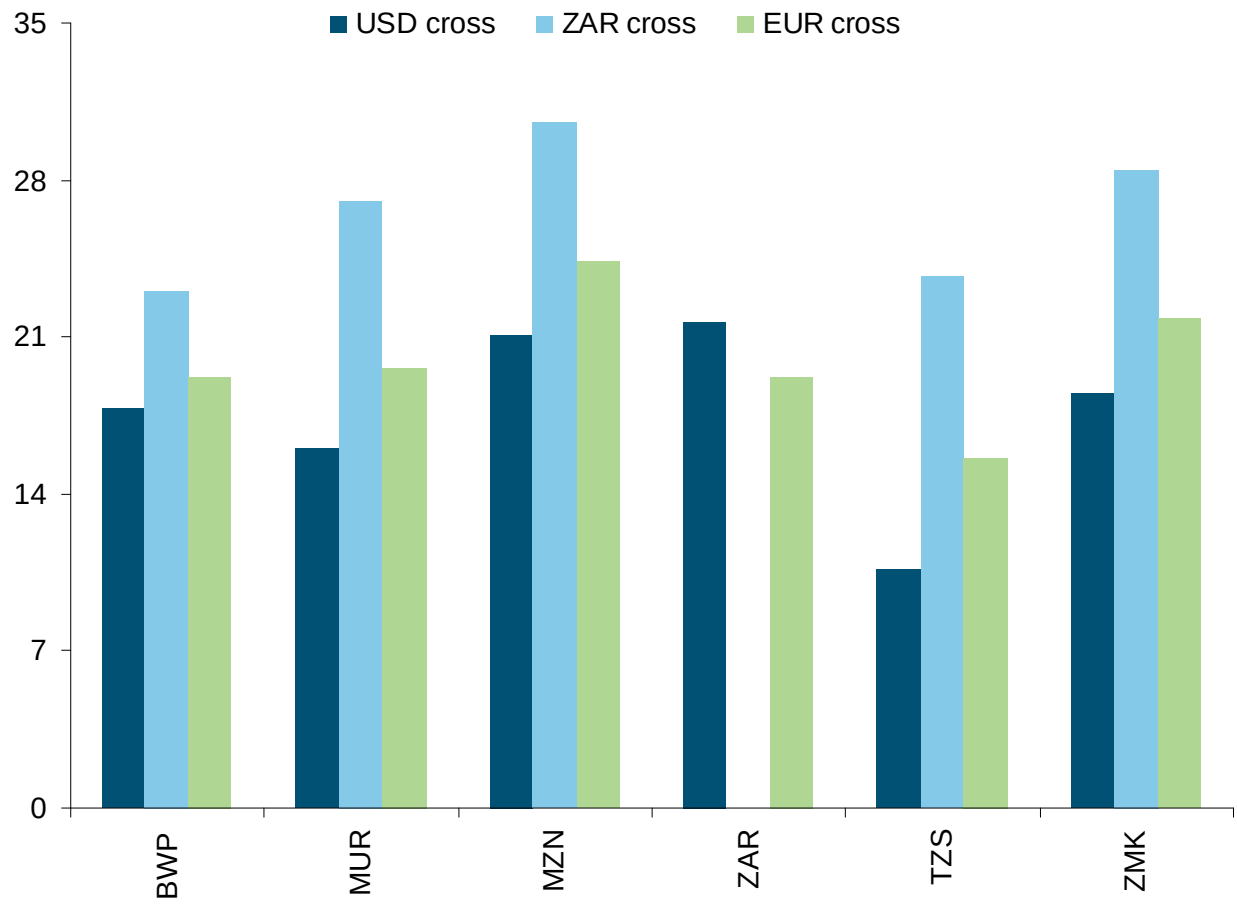
In our attempt to ascertain foreign exchange spreads between different countries, we obtained quotes from three major South African banks. Only one of the three banks had readily available a two-way price on currencies between the SADC countries. The other two quotes were the particular country's currency against a major currency, such as the US Dollars.

The lack of market prices between the SADC countries is an indication of the lack of liquidity between SADC countries' currencies. The lack of liquidity is also an indication or a symptom of the amount of trade between the countries. According to

Broda and Romalis (2003), volatility is dampened by deeper bilateral trade relations. Having said this, this paper also finds that trade of differentiated goods becomes depressed by currency volatility between countries, but by a small margin of around two percent. The paper indicates that, for developing countries, exports may be greatly affected by currency volatility because of their sensitivity to volatility. The higher the trade between countries, the lesser the currency volatility is, and therefore the greater the chances of a currency union (Broda and Romalis 2003).

Below is a chart depicting volatility of the countries being researched against major currencies and the South African Rand:

**CHART.7. Volatility of the SADC**




**Source:** Bloomberg (2011)

From the chart, it is easy to see that the US Dollar could easily be the preferred currency of trade, since its less volatile, followed by the Euro and then the South African Rand.

**Settlement**

Looking at most of the countries under research, only South Africa has world standard working settlement systems. This has proven to be a hindrance to trade, since one always needs an efficient way to exchange cash from buyer to seller.

The settlement issues faced by most of the countries under study are similar to the exception of South Africa, followed by Botswana, and then Namibia.

The country's challenges can be summarised as follows:

- Lack of banking infra-structure to cater for individuals and SMMEs;
- High costs of bringing banking to the masses, who are widely dispersed over a wide rural landscape;
- Lack of technological infra-structure to support card payment systems; and
- Banks' systems are localised and rely on their agreements with big international partners that have an agreement with them for foreign currency settlements.

The positives include, among others, the following:

- Availability of cell phones among the rural communities and small business players.

The countries whose currencies are pegged to the South African Rand, namely Lesotho, Namibia and Botswana, have functional payments systems. This is attributable mainly to the strong links of their banks with South African Banks. Other countries whose banking arena is dominated by local banks have correspondent banking relationships that they use for the facilitation of FX exchange transaction.

**Central Bank Intervention in FX markets**

Bank of International Settlements (2005), in their paper entitled *Foreign Exchange Market Intervention in Emerging Markets: Motives, Techniques and Implications,* found that it is sometimes deemed necessary for countries in emerging markets to get their central banks to intervene in FX trading. The table below is a summary of some of the intervention reasons.

**TABLE.14. FX MARKET INTERVENTION**

Table 1

**Taxonomy of foreign exchange market intervention**

| | Macroeconomic objectives | | |
|---|---|---|---|
| | Control inflation and internal balance | External balance, growth, efficient resource allocation | Maintain financial stability (Prevent disorderly markets or crises) |
| **Specific intervention objectives** | | | |
| **A. Influence the exchange rate level** (pegs, bands, crawls, announced or unannounced) | X | X | X |
| **B. Dampen volatility under floating** | X | X | X |
| i. Respond to volatility symmetrically | | | X |
| ii. Prevent excessive movements or overshooting (no fixed target) | X | X | X |
| iii. Resist too rapid movements | X | X | X |
| iv. Maintain liquidity in foreign exchange markets | | | X |
| **C. Influence the amount of foreign reserves** | | | X |

**Source:** Bank of International Settlements (2005).

Most central banks intervene in the FX markets to facilitate liquidity, especially in periods when there is large influx of foreign cash, or big shortages of foreign cash. This is done to control or dampen potential spikes and possible effects from

excessive exchange rate movements. Such periods of excessive exchange rate movements can leave price markers' price discovery capabilities severely impaired, making trade execution difficult and even impossible. This is when central banks are crucial in preventing those excessive moves by maintaining convertibility (converting from one currency to the other) of currencies in periods of thin liquidity. This process is normally referred to as serving as market-makers of last resort (Bank of International Settlements 2005).

**SMMEs**

This is the area that seems less researched in the continent as a whole, making information and data remote. Lesser and Moisé-Leeman (2009) attribute about 43 percent of official GDP in Africa to informal trade.

According to Becker (2004), the poorer a country, the more informal trading there is, therefore the existence of SMMEs. These SMMEs rarely comply with all the regulation that apply to their field of trade, especially on factors such as tax, proper registration of businesses and operating licences. They are mostly owner-financed and operated, and rarely incur liabilities. It is also very hard to actually measure this sector of the economy for its contributions to GDP (Becker 2004).

The growth and decline of this sector of the economy is linked to the formal economy. The higher the economic growth, the smaller the sector's contribution and vice versa, but the prevalence of this trend is less pronounced when growth is accompanied by employment (Becker 2004). Table 15 below shows the contribution of the informal economy to GDP in different developing countries. Sub-Saharan Africa, where most of the SADC counties are based, is sitting on the top side of the range. That alone justifies a serious look at ensuring that the sector not only survives, but continues to grow (Becker 2004).

**TABLE.15. The contribution of informal economy of GDP in different developing countries**

| Contribution of the informal sector[40] to the GDP in selected developing countries | |
|---|---|
| **Country (year)** | **Informal sector GDP as percentage of non-agricultural GDP** |
| Northern Africa | 27 |
| Sub-Saharan Africa | 41 |
| Benin (1993) | 43 |
| Cameroon (1995–96) | 42 |
| Kenya (1999) | 25 |
| Mozambique (1994) | 39 |
| Tanzania (1991) | 43 |
| Latin America | 29 |
| Colombia | 25 |
| Mexico (1998) | 13 |
| Peru (1979) | 49 |
| Asia | 31 |
| India (1990–91) | 45 |
| Indonesia (1998) | 31 |
| Philippines (1995) | 17 |

Source: ILO, Women and men in the informal economy – a statistical picture 2002

There are numerous challenges faced by SMMEs in the region, but we will focus on the ones that are linked to foreign exchange. Becker (2004) lists the following:

- Limited access to formal finance and banking institutions;
- Lack of information on prices;
- Access to formal education and training;
- Limited access to technology;
- Lack or limited funding; and

- Costs of doing formal business.

The cost of going the formal route and expanding makes it more beneficial staying in a small business and not going through complex regulating institutions (Becker 2004).

**Bid to offer Spreads**

Table 16 below shows the spread between bid and offer that is offered by three major banks in South Africa. The difference in spreads between the more liquid currencies and the spreads between the SADC countries is quite sizeable.

**TABLE.16. Average Bid Offer Spread Between SADC Countries**

| ***Average Bid Offer Spread Between SADC Countries*** | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Bid Offer % Spread** | | | | | | | | | |
| | **USD** | **ZAR** | **NAD** | **MZN** | **MUR** | **TZS** | **ZMK** | **LSL** | **BWP** | **EUR** |
| **USD** | 0,00% | 0,10% | 0,10% | 4,53% | 3,67% | 0,98% | 1,53% | 0,10% | 0,72% | 0,05% |
| **ZAR** | 0,10% | 0,00% | 0,15% | 4,59% | 6,65% | 1,11% | 1,61% | 0,15% | 0,82% | 0,15% |
| **NAD** | 0,10% | 0,15% | 0,00% | 4,59% | 6,65% | 1,11% | 1,61% | 0,15% | 0,82% | 0,15% |
| **MZN** | 4,43% | 4,56% | 4,56% | 0,00% | 8,91% | 4,73% | 4,60% | 4,56% | 4,75% | 4,47% |
| **MUR** | 6,54% | 6,67% | 6,67% | 8,16% | 0,00% | 6,85% | 6,72% | 6,67% | 6,86% | 6,59% |
| **TZS** | 1,04% | 1,15% | 1,15% | 4,88% | 7,69% | 0,00% | 1,23% | 1,15% | 1,37% | 1,08% |
| **ZMK** | 1,49% | 1,60% | 1,60% | 4,73% | 7,53% | 1,82% | 0,00% | 1,60% | 1,82% | 1,53% |
| **LSL** | 0,10% | 0,15% | 0,15% | 4,59% | 6,65% | 1,11% | 1,61% | 0,00% | 0,86% | 0,15% |
| **BWP** | 0,72% | 0,37% | 0,37% | 4,82% | 7,63% | 1,34% | 1,77% | 0,37% | 0,20% | 0,76% |
| **EUR** | 0,05% | 0,15% | 0,15% | 4,52% | 6,60% | 1,07% | 1,68% | 0,15% | 0,77% | 0,00% |
| *** These averages are computed from Bid Offer spreads obtained from 3 big South African Bank. Two of the averages are computed from working out a third currency pair from the US $ Quote** | | | | | | | | | | |

The yellow columns and rows show the percentage spread between the currencies of SADC countries being researched. The only countries that seem to show reasonably lower spread percentages are the ones linked/pegged to the South African Rand. The rest of the country's currencies whose value is quoted against the major currency (US $) to get to a direct SADC country currency quote, shows big spreads relative to more liquid currencies, for example EUR/$ (Euro against Dollar) As one can see, this is a clear reflection of the actual cost of trading from bid offer spread. The higher the volatility of a currency, the higher the spread, thereby the cost. This

again ties to the point above on central banks' intervention to attempt to limit or control sudden spikes in currency moves.

## 6.2 Recommendations

After having looked at the dynamics, as well as challenges facing the African continent and the SADC in particular, the following recommendations can be made to try and change the status quo, thereby increasing trade in the SADC region. These recommendations are made bearing in mind that the SADC countries' dynamics are different, and that the solution is not going to suit them all. The focus will mainly be on lower hanging fruits that can show results in the short to medium term. Below is the list of recommendations:

**Foreign Exchange Settlement**

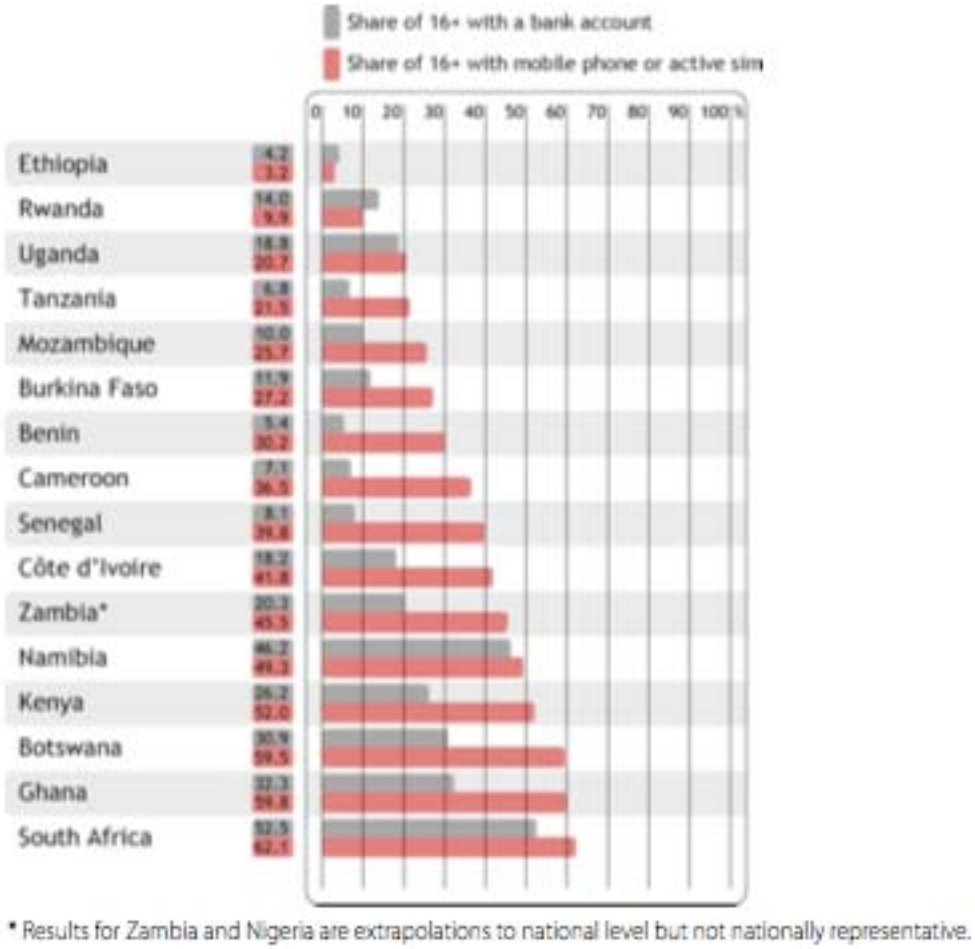
The settlement of FX transactions, as one of the challenges, can be addressed in the short run by the correspondent banking relationship that happens to have access to the global settlement systems. This solution is feasible when we are addressing transfers and settlements of large amounts of money.

Money transfer houses like MoneyGram and Western Union use their own systems to record and pay amounts, as transacted by clients.

**Cell phone banking and settlement**

Cell phone companies currently have accounts for their clients where clients can transact, but only for airtime purchases. The same platform can be upgraded and used to further accommodate FX transaction where the facilities do not exist. According to a survey by RIA for the year 2007/8 e-Access & Usage Household Survey, cell phones are mostly used ICT in Africa. The survey further points out that 83.3% of businesses that were surveyed owned a cell phone and they highly rate it among other tools they use to trade. The chart below illustrates cell phone versus banking account penetration levels.

**CHART.8. Cell phone versus banking account penetration levels**

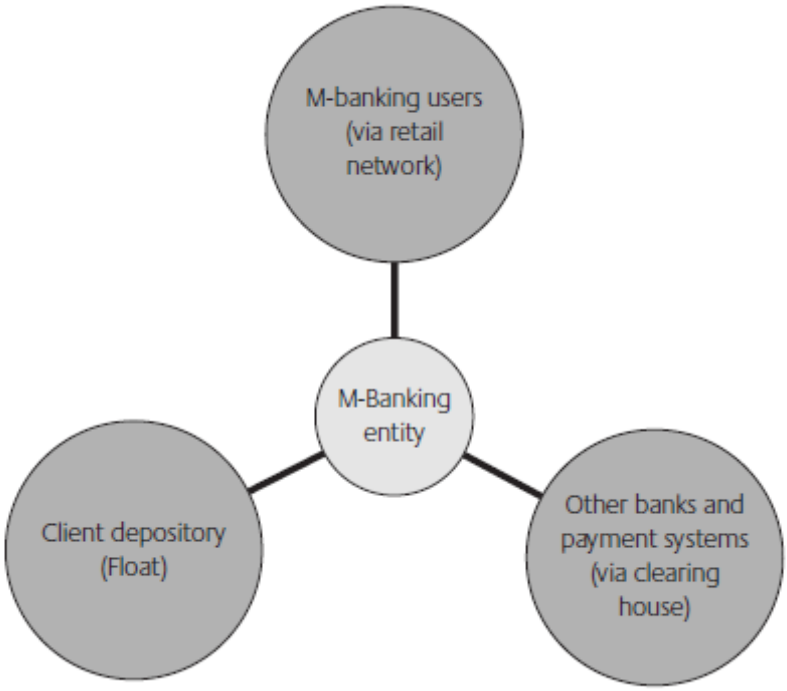



* Results for Zambia and Nigeria are extrapolations to national level but not nationally representative.

Apart from South Africa and Namibia in the SADC region, all other regional states have banking penetration below 50% on average compared to cell phone access, thus making cell phones a readily-available channel of both communication and banking.

According to Bangens and Soderberg (2008), mobile banking, dubbed M-Banking, is the answer to bypassing the bureaucracy involved in becoming a banking client and accessing their services, which also include FX. Below is a typical structure of how the M-Banking model works, or integrates itself with the banking model.

**CHART.9. M-Banking**




**Source**: Bangens and Soderberg (2008).

This is the model recommended by the research for SADC countries, as it is a two-edged sword relative to other models of M-Banking. This model integrates banking with mobile phone banking. This model is advantageous in that it would continue to work well for SMMEs as their businesses grow, and facilitation of bigger amounts becomes crucial. This model also allows for interaction with branch network, as branches expand, in this case, into rural areas.

**Central Bank Intervention**

From the above information, it becomes clear that central banks' intervention in foreign exchange markets is the cornerstone of a robust and liquid market in emerging and developing markets. This therefore makes for a compelling argument for the SADC central banks to start making the liquidity support, and other forms of support, as per the table above, as their core priorities, if the FX markets are to continue to develop. This intervention will assist in reducing or controlling the amount of their currency volatility and therefore, their bid to offer spreads.

### Currency Union or Common Monetary Area

According to Broda and Romalis (2003), currency unions enhance trade by 10 to 25 percent. If one just looks at the trade numbers and the proven potential benefits by Broda and Romalis (2003), the researcher might be tempted to opt for that solution. As can be seen from the different countries' backgrounds, the politics behind economic decisions are different for each individual country. This recommendation sounds great and it goes into the heart of the question this study is looking to address, which is intra-regional trading, but focusing on SMMEs. The potential problem with this would be the implementation, since it would take a long time to implement

# REFERENCES

African Development Bank (2009), *African Economic Outlook 2009*, Development Centre of the Organisation for Economic Co-operation and Development, African Development Bank: France.

African Development Bank (2007), *African Economic Outlook 2007*, Development Centre of the Organisation for Economic Co-operation and Development, African Development Bank: France.

Akinkugbe, O, Motlaleng, GR, and Makepe, P. (2006) *Botswana and the Multilateral Trading System: The Impact of WTO Agreements, Negotiations and Implementation*. Ministry of Trade and Industry: Botswana and UNCTAD, Botswana.

Association of SADC Chambers of Commerce and Industry (2004).*Regional Business Climate Survey for SADC Countries:* Johannesburg.

Bangens, L. and Soderberg B. (2008) *Mobile Banking - Financial Services for the Unbanked?* The Swedish Program for ICT in Developing Regions: Sweden.

Bank of International Settlements (1997) *The Payment System In Tanzania,* Bank of International Settlements Press and Communications, Monetary and Economic Department: Switzerland.

Bank of International Settlements (1997) *The Payment System In Zambia,* Bank of International Settlements Press and Communications, Monetary and Economic Department: Switzerland.

Bank of International Settlements (1998) *Financial Stability Review-Overview of the South African National Payment System,* Bank of International Settlements Press and Communications, Monetary and Economic Department: Switzerland.

Bank of International Settlements (2003) *Payment Systems in the Southern African Development Community – TanzaniaChapter*, Directorate of National Payment System: Switzerland.

Bank of International Settlements Press and Communications, Monetary and Economic Department: Switzerland.

Bank of International Settlements (2005) *Foreign Exchange Market Intervention in Emerging Markets: Motives, Techniques and Implications,* Bank of International Settlements Press and Communications, Monetary and Economic Department: Switzerland.

Barnard, G. (2008) *Economic Assessment of South Africa, 2008,* Policy Brief, Organisation for Economic Co-Operation and Development: South Africa.

Baumgartner, A. and Abdoulaye, B. (2007) *Namibia Financial System Stability Assessment*, International Monetary Fund: Namibia

Beileh, A. andHonde, G. (2008) *2008-2012 Country Strategy Paper*, African Development Bank, Regional Department, South Region A: Lesotho.

Becker, A. F. (2004) *The Informal Economy, Fact Finding Study*, Department for Infrastructure and Economic Co-Operation, Swedish International Development Cooperation Agency (SIDA): Sweden.

Bheenick, R. (2008) *How does a small open economy faced with unprecedented capital flows conduct monetary policy?* Governor of the Bank of Mauritius, Bank of International Settlements Review: Mumbai.

Bineham, G. (2006) *Qualitative Research*, Education Center, Information Sheet 15: Hillingdon.

Broda, C. and RomalisJ. (2003) *Identifying the Relationship Between Trade and Exchange Rate Volatility*: Chicago.

Castel-Branco, C.N. (2002) *Economic Linkages between South Africa and Mozambique,* Faculty of Economics, University Eduardo Mondlane: Maputo.

Central Intelligence Agency (2010) *CIA World Factbook 2010*, CIA Publications: United States of America.

Connolly, M. and Gunther, J. (1999) *Mercosur: Implications for Growth in Member Countries, Current Issues in Economic and Finance*, Volume 5, Number 7, Federal Reserve Bank of New York: New York.

Creswell, J.W. (2003) *Research Design Qualitative, Quantitative, and Mixed MethodsApproaches*, Second Edition. Sage Publications: California,

Chauvin, S. and Gaulier, G. (2002) Regional *Trade Integration in Southern Africa*, Working Paper No 2002-12, CEPII: Paris.

Dagne, T. (2010) *Tanzania: Background and Current Conditions, Congressional Research Services*, Tanzania.

Data monitor (2008) *South Africa In-depth PESTLE Insights*, Country Analysis Report: Johannesburg.

Demisse, M.et al (2008) *Africa and Emerging Financial Markets.*

Desai, B. and Tulsisidas, V. (2010) *The Mauritian Economy.* AXYS Stockbroking Ltd: Port Louis.

De Vos, A.S. et al (2002) *Research atGrasroots: for social sciences and human services professions*, Second Edition. Van Schaik: Pretoria.

Endean, E. (2004)*Removing Obstacles to Economic Growth in Mozambique, a Diagnostic Trade Integration Study*, Volume IIMain Report. United States Agency for International Development: Mozambique.

E Standards Forum (2010) *Country Brief – Lesotho*: New York.

Faulkner, D. and Loewald, C. (2008) *Policy Change and Economic Growth: A case Study of South Africa, Commission on Growth and Development*, Working Paper No 41, The International Bank for Reconstruction and Development/ The World Bank: Washington.

Flatters, F. and Stern, M. (2005) *Implementing the SACU Revenue-Sharing Formula: Customs Revenues*, South African National Treasury, Trade Policy Development Project: Pretoria.

Floodman Becker, K. (2004) *The Informal Economy,* Fact Finding Study, Department for Infrastructure and Economic Co-operation, Swedish International Development Co-operation Agency: Sweden.

Foulo, T. (2003*) Regional currency areas and the use of foreign currencies: Lesotho's experience*, Bank of International Settlements Press and Communications, Papers No 17. Monetary and Economic Department: Switzerland.

Gaomab II, M. (2005) *Private Sector Investment and Socio-Economic Transformation and Development*, Namibia Economic Society: Namibia.

Genesis Analytics (2003) *Access to Financial Services in Botswana,* FinMark TrustResearch Paper, No 1: Botswana.

Gokool.Y. and Moraby, A. (2009) *Banking in Mauritius – the Global Perspective*, Afrasia Bank Different: Mauritius.

Glick, E. and Rose, A.K. (2001) *Does a Currency Union affect Trade?* The Time Series Evidence.

Hyman, D. (1999) The SACU Agreement, Namibia Chamber of Commerce and Industry, Economic Affairs: Namibia.

International Monetary Fund (2007) *Namibia: Financial System Stability Assessment*, IMF Country Report No. 07/83, Report on the Observance of Standards and Codes on Banking Supervision.

Jefferis, K. (2009) *Overview of the Botswana Banking Sector*, AECOM International Development, Southern Africa Global Competitiveness Hub.

Khyanyile, M.B. (ed) (2003) *The Historical Development and Structure of Mercosur.*University of Pretoria: Pretoria

Kronberger, R. (2001) *Do the MERCOSUR Countries Form an Optimum Currency Area*. University of Innsbruck: Innsbruck.

Leedy, P.D. and Ormrod, J.E. (2010) *Practical Research Planning and Design*, Ninth Edition, Pearson Education, Inc: Merrill, Upper Saddle River, New Jersey.

Lewis, D.J. et al. (2002) *Free Trade Agreements and the SADC Economies*, World Bank: Geneva.

Lesser, C. and Moisé-Leeman, E. (2009) *Informal Cross Border Trade and Facilitation Reform in Sub-Saharan Africa Final Report,* Trade Policy Working Paper No 86: Paris.

Macamo, J.L. (1999) *Estimates of Unrecorded Cross-Trade between Mozambique and Her Neighbours*, World Vision International, Technical Paper No. 88: Mozambique.

Maipose, G.S. (2008) *Policy and Institutional Dynamics of Sustained Growth in Botswana*. University of Botswana: Botswana.

Macomb, P.F. (2010) *Informal Cross Border Trade and SADC*, Open Society Initiative for Southern Africa: South Africa.

Masalila, K and Motshidisi, O. (2003) *Botswana's exchange rate policy*, Bank of International Settlements Press and Communications, Papers No 17. Monetary and Economic Department: Switzerland.

Massachusetts Institute of Technology (2001) *A Monthly payment cardsystem Payment system for low income urban communities in Lusaka, Zambia,* MIT Case Study: Massachusetts.

Mboweni, T.T. (2004) *The South African Banking Sector – An Overview of the Past 10 years*. South African Reserve Bank: Johannesburg.

Mills, G. and Mutschler, C. (1999) *Exploring South-South Dialogue: Mercosur in Latin America and SADC in Southern Africa:* Johannesburg.

Ministry of Finance and National Planning (2004) *Financial Sector Development Plan forZambia2004 – 2009*: Zambia.

Ministry of Finance and Economic Development (2001) *Action Programme for the Development of Zambia 2001 – 2010,* Ministry of Finance and Economic Development,Country Presentation by the Government of Zambia, A/CONF.191/CP/9: Brussels.

Mitchell, D.C. (2007) *South Africa's Participation in the CLS*, SARB, Information Paper: NPS 04 National Payment System Department: Pretoria.

Mpangile, M. (2008) *Tanzania*.Keio University: Graduate Student.

Muhanga, I. andSoteli, K. (2009) *Foreign Portfolio Investors in Africa: The Case of Zambia,* Financial Markets Department. Bank of Zambia: Zambia.

Nüesch, B. (2009) *Tanzania – A Rising Star of Africa*, Beat Nüesch Investment Services and Products: Tanzania.

Olanrewaju, S. et al (2008) *Kingdom of Lesotho,* County Strategy Paper, African Development Bank/African Development Fund: Lesotho.

Perry, C. (2001) *Case Research in Marketing*, The Marketing Review, Volume 1, p303 – 323.

PricewaterhouseCoopers (2010) *Namibia - 2010 and Beyond*, PricewaterhouseCoopers: Namibia.

Russo, M. and Ugolini, P. (2008) Financial Sector Challenges in Africa's Emerging Markets, Emerging Market Forum. Washington: USA.

Small Enterprise Development Agency, (2008) Informal/Street Trading Policy Framework for Metropolitan and Local Municipalities, Small Enterprise Development Agency, Department of Trade and Industry: Pretoria.

Schneider, F. (2006) *Shadow Economies and Corruption All over the World: What Do We Really Know?*,Discussion Paper No. 2315, Institute for the Study of Labour (IZA): Bonn.

Southern African Development Community (2008) *Payment System Project*, Namibia Progress Report April-2007-to-March-2008

South African Reserve Bank (2008) *Overview of the South African national payment system*,Financial Stability Review September 2008: Pretoria.

Trade and Industrial Policy Strategies (2006*) Intra–SADC Trade Performance Review,* Australian Agency for International Development: Pretoria.

Trade and Industrial Policy Strategies (2007*) Intra–SADC Trade Performance Review,* Australian Agency for International Development: Pretoria.

United States Agency for International Development (2004) *Removing Obstacles to Economic Growth in Mozambique, A diagnostic Trade Integration Study*, Volume 2, Main Report. United States Agency for International Development: USA.

Wang, J. et al (2007) *The Common Monetary Area in Southern Africa: Shocks, Adjustment, and Policy Challenges*, Paper WP/07/158, African Department, International Monetary Fund.

World Bank (2005)*Exchange Rates and Export Competitiveness, Study on Export Diversification in Botswana:* Botswana.

World Bank (2008) *Financial Sector Assessment*, International Bank for Reconstruction and Development/The World Bank, SecM2008-0347: Botswana.

World Bank (2009) *Doing Business 2009 – Comparing Regulation in 181 Economies*, World Bank Doing Business Review: Geneva.

World Bank Institute (2009) World *Trade Indicators 2009/10 –User Guide to Trade Data*, World Bank Institute. The World Bank: Geneva.

World Economic Forum (2009) *The Global Competitiveness*, Report 2009-2010. World Economic Forum: South Africa.

Yin, R.K. (1994) *Case Study Research, Design and Methods*. Sage Publications: California

**Online references**

https://www.morganstanleyindividual.com/customerservice/dictionary/default.asp

http://www.oxforddictionaries.com/search?searchType=dictionary&isWritersAndEditors=true&searchUri=All&q=bid&contentVersion=WORLD

http://www.led.co.za/content/informal-economy

https://emagazine.creditsuisse.com/app/article/index.cfm?fuseaction=OpenArticle&aoid=263347&lang=EN

http://www.centralbank.org.ls/

http://oxforddictionaries.com