

**CONSIDERATIONS FOR THE CREATION OF A SADC RESERVE BANK**

**A Namibian Perspective**

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**DECLARATION**

This research has not been submitted previously for any degree in any university. I, hereby, declare that this dissertation is a product of my own work and any other people's work used is duly acknowledged.

Signature: *M. K. S. H. S.*

Date: *15 June 2006*

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## **EXECUTIVE SUMMARY**

This study is concerned with the feasibility and problems associated with the timely establishment of the SADC monetary union and central bank. During this study an in-depth literature review was done to analyse / establish the historical background for the establishment of the monetary union for SADC, to look at the reason for a central bank's existence and the functions performed by the central banks in the region. The study looks at the benchmark used for the establishment of this monetary union, this being the European Union. It looks at the establishment of the monetary union from a political, central banking, commercial banking and business perspective and also how these entities will be affected by the establishment.

The study aims at looking at the problems that might prevent the SADC region from reaching the expected implementation date of 2016 and to make some recommendations to assist the different parties to best prepare for the successful implementation of this monetary union for SADC.

## TABLE OF CONTENT

<b>Declaration</b>	<b>ii</b>
<b>Acknowledgement</b>	<b>iii</b>
<b>Executive summary</b>	<b>iv</b>
<b>Table of Content</b>	<b>v</b>
<b>List of Appendixes</b>	<b>ix</b>
<b>List of Abbreviations</b>	<b>x</b>
<b>1. Chapter One - Introduction</b>	
1.1 Introduction	12
1.2 Background to the study	13
1.3 Research problem	15
1.4 Motivation for the study	17
1.5 Value of the study	17
1.6 Objective of the study	18
1.7 Methodology	18
1.8 Structure of the study	19
<b>2. Chapter Two – Literature Survey</b>	
2.1 Introduction	21
2.2 Central Banking	21
2.2.1 Exchange Control	21
2.2.1.1 Historical Background	21
2.2.1.2 Exchange Rate Regimes	23
2.2.1.3 Objectives of Exchange Control	26
2.2.1.4 Statutory and Regularity Underpinnings	27
2.2.1.5 Exchange Control Authorities	28

2.2.1.6	Corporations and Exchange Rates	29
2.2.2	Role of the central bank	29
2.2.3	Monetary Policy	31
2.2.3.1	Reasons for forming monetary unions	36
2.2.3.2	Monetary unions in Africa	36
2.2.4	Inflation rates	38
2.2.5	Interest rates	39
2.2.6	Currency issues	39
2.2.7	Banking Supervision	41
2.3	Sovereignty	42
2.4	Central Banking in Europe	42
2.4.1	Introduction	42
2.4.2	Reasons for the Introduction of the Euro	43
2.4.3	How the Euro was created	45
2.4.4	The Euro's effect on the German Market	45
2.4.5	The European Central Bank (ECB)	46
2.5	Committee of Central Bank Governors SADC	46
2.6	Historical Background for the establishment of SADC	48
2.7	Namibian history and political commitment	50
2.8	Commercial Banking	53
2.9	The CMA Agreement	54
2.10	Progress made in SADC towards the establishment of the Central Bank	55
2.10.1	Liberalisation of exchange controls in SADC	55
2.10.2	Banking Supervision	55
2.10.3	Interbank Markets	56
2.11	Recent Economic Development for the SADC Region	56
2.11.1	Growth Performance	57

2.11.2	Money Supply Growth	58
2.11.3	Annual Inflation Rate	59
2.11.4	Fiscal Deficit as a Percentage of GDP	60
2.12	The Powers and Functions of the SADC Central Bank	61
2.13	Recent News Clips on the SADC Central Bank	61
2.13.1	Afrol News (Africa News); 11/03/2005	61
2.13.2	The Namibian, Wednesday, April 26, 2006	62
2.13.3	African News Dimension, April 23, 2006	62
2.13.4	All Africa.com; Zimbabwe Standard (Harare) News	63
2.10.5	The Namibian, Monday, May 15, 2006	64
2.13.6	New Era, (Windhoek) May, 12, 2006	64
2.14	Conclusion	64
<b>3.</b>	<b>Chapter Three – Research Methodology</b>	
3.1	Introduction	66
3.2	Research approach	67
3.3	Research design	68
3.4	Ethical considerations	71
3.5	Data collection	72
3.5.1	Documentary analysis	72
3.5.2	Interviews	72
3.6	Data analysis	73
3.7	Conclusion	74
<b>4.</b>	<b>Chapter Four – Presentation of Data</b>	
4.1	Presentation of Research Findings	76
4.1.1	Government perspective	76
4.1.2	Central banking perspective	80

4.1.3.	Commercial Banking perspective	87
4.1.4	Namibian Business Perspective	93
4.2	Conclusion	98
<b>5. Chapter Five - Analysis, Recommendations, Limitations and Conclusions</b>		
5.1	Introduction	100
5.2	Critical discussion	100
5.3	Recommendations	113
5.4	Limitations of the study	117
5.5	Future research opened	118
5.6	Conclusion	118
<b>Bibliography</b>		<b>120</b>



**List of Abbreviations**

AACB	Association of African Central Banks
ACB	African Central Bank
AU	African Union
BoN	Bank of Namibia
BSA	Bank Supervision Application
BSD	Banking Supervision Department
CCBG	Committee of Central Bank Governors
CFAF	West African Monetary Union Currency
CMA	Common Monetary Area
COMESA	Common Market for Eastern and Southern Africa
CPIX	Consumer Price Index Excluding Mortgage Loans
ECB	European Central Bank
EEC	European Economic Community
EMS	European Monetary System
EMU	European Economic and Monetary Union
ESAF	East and Southern Africa Banking Supervisors Group
EU	European Union
Euro	Currency for the Euro Zone Area
FED	Federal Reserve of the United States
GATT	General Agreement on Trade Tariffs
GDP	Gross Domestic Product
IMF	International Monetary Fund
MMA	Multi- lateral Monetary Agreement
MoF	Ministry of Finance
MoU	Memorandum of Understanding
M2	Broad Money Supply

NCB	National Central Banks
NSX	Namibia Stock Exchange
OAU	Organisation of African Unity
OMO	Open Market Operations
RSA	Republic of South Africa
RTGS	Real Time Gross Settlement
SACU	Southern African Customs Union
SADC	Southern Africa Development Community
SCBS	Sub-committee of Bank Supervisors
ZAR	South African Rand

## **CHAPTER ONE**

### **Introduction to the topic**

#### **1.1 INTRODUCTION**

This paper is about the establishment of a Monetary Union, Central Bank and Currency for the entire SADC (Southern Africa Development Community) region.

The SADC region consists of 14 African countries namely; Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe. Country sovereignty and autonomy plays a very crucial role in the development of the monetary union for SADC. In March 2006, at a summit of the Southern African Development Community Secretariat, the Seychelles withdrew from SADC, while at the same time Madagascar was admitted to become a member of SADC. Looking at these member countries, two are Portuguese and two are French speaking (Francophone) countries, while the rest are English speaking (Anglophone) countries.

The quest of this research is to explain what is expected from countries that form part of a monetary union, then to establish whether the group of countries in the SADC region are able to meet such expectations to ensure that the establishment does take place as set out to be. To make sense of why this desire for a monetary union is required, the question why SADC was established in the first place should be answered and then how the establishment of a monetary union developed as an outflow of that establishment. It is also the intention to determine what benefits the region may derive from the establishment of the Central Bank and a common currency and at the same time also try to establish some drawbacks for the region.

The establishment of SADC was initiated in a quest to improve on trade and to develop a free trade area; through this development these countries commenced talks regarding a monetary union.

This paper is addressed to explain what the establishment of such a Central Bank entails and how the countries' political and economic sectors are affected by such an establishment.

In the same process it will also serve to evaluate the progress and to compare it with the same process done by the European countries.

Research will be conducted in an attempt to assist all the parties that will be affected by the establishment of this monetary union, be it Government, the Central Banks, the commercial banking sector and the business community.

Any decision taken at any level in a country or region about literally anything has a ripple effect and requires different kinds of decisions at different levels in the society, which require an array of actions to be taken at various levels in society. Hence the importance of communicating decisions properly to allow the decision makers of the adjacent activities to take decisions and actions at their level of activity to allow the success of the one at its level. If possible the study will also look at such decisions and actions to determine whether the responsible decision makers have been notified of the development in terms of the monetary union and whether this prompted them to take the appropriate action to allow this union to be implemented successfully and in time.

A deadline is set for the establishment of the central bank for SADC, being 2016. (SADC; Regional Indicative Strategic Development Plan)

## 1.2 BACKGROUND OF THE STUDY

The SADC region consists of 14 countries from Southern Africa, with different political and economic systems. Each has its own Central Bank headed by the Governor and Deputy Governor. In all cases these are political appointees, which is a clear indication that there are very strong ties with the political system in the country. Political influences on the operations of the Central Bank also indicate the economic stability of a country. A case where the Central Bank has enough autonomy shows of political and in most cases economic stability.

The establishment of the SADC central bank is mainly initiated at the political level. At the Bank of Namibia's Annual Governor's address held in Windhoek on 18 November 2004 the Governor, Tom Alweendo made a presentation with the title "Prospects for a monetary union in SADC." In his address he indicated that the issue of monetary integration is addressed at two levels.

1. Continental wide, where the continent shall establish a common monetary policy under the African Union and therefore a common central bank.  
The Association of African Central Banks (AACB) has been tasked by the African Union (AU) to prepare the establishment of the African Central Bank. The AACB Committee then suggested a tentative work program that will see the African Central Bank established by the year 2021.
2. Alongside these initiatives, discussions at a regional level began where all 5 (five) African regions are expected to work on regional monetary integration. The SADC region's target for the establishment of the common central bank is 2016 and 2018 for common currency.

Currently Namibia forms part of the CMA (Common Monetary Area) and here discussions have already started regarding the establishment of the common central bank for SADC. The situation with the CMA is that all the member

countries form part of the SADC region. Another burning issue is the fact that all monetary decisions are dominated by one powerful member only (South Africa). According to Mr. Alweendo this is a situation that requires considerable transformation to allow equal decision making power distribution. (Alweendo: 2004).

The reason for this monetary integration is closely attributed to globalisation, specifically financial globalisation. These initiatives for free trade areas, customs unions and common markets are designed as strategies of promoting a region within the global economy.

According to the Governor of the Bank of Namibia (Alweendo: 2004) the main considerations for the establishment of a common monetary union in the SADC region are:

1. The establishment of a monetary union in combination with free trade agreements is mainly seen as being part of a strategic push to integrate the region.
2. The formation of a monetary union is the desire to counteract perceived economic and political weakness which date back to the period of colonial rules by putting in place regional institutions, of which monetary union and common currency would be strong symbols. He (Alweendo: 2004) stated that it would also appear that the launching of the European Monetary Union has influenced this process.

In Namibia there are four commercial banks, namely First National Bank, Standard Bank, Bank Windhoek and Nedbank. All of these banks have strong South African links. They basically engage in similar business operations, which include the managing of deposits, loans and the supply of banking services. Not much investment banking activities take place in these banks apart from trading in

Treasury Bills and the fact that they hold government securities. Banks are supervised by the Bank of Namibia, the Central Bank. The commercial banks are required to retain a certain portion of their deposits as reserves.

From the Central Banks' side the research has to determine what impact the establishment of the common central bank would have for the current operations. What autonomy would remain in the central banks and what influence would the establishment have on the region's economy? The Central Banks' inputs in terms of the viability of this establishment of the SADC Central Bank and the region's readiness for the implementation are crucial to substantiate the claim as stated. The Bank of Namibia's position regarding the Balance of Payment position, the impact on the inflation rate, the impact on exchange control, the use of a common currency, the effect on the financial markets and the impact on banking supervision would give an indication on the amount of work that still needs to be done before the common Central Bank can be established. It would also assist in the determination whether the date set for this bank is objective or not.

The banking sector in Namibia would definitely be affected by the establishment of the SADC Central Bank. The research intends to determine what preparations need to be done by the commercial banks and what resource implications the establishment would have on them.

A comparison with a similar exercise by the European Union (EU) will also be done to determine whether SADC will be able to learn from their experience and improve on the process.

#### **1.4 MOTIVATION FOR THE STUDY**

The motivation for the study is to look at the different scenarios from a political, economic and business perspective and to discuss the degree of success the common central bank will enjoy and the problems facing the establishment of a Central Bank for SADC. A further motivation is to look at the proposed establishment date and which monetary and fiscal policies will be affected by such action.



The Commercial Banks and the Financial / Business sector in Namibia will also be canvassed regarding the establishment of the Central Bank for SADC and will also be asked how such action would influence their operations and the Namibian economy.

## **1.5 VALUE OF THE STUDY**

The value of the study is to;

- 1.5.1 Address issues governments have to consider
- 1.5.2 Address the particular issues the central banks have to consider
- 1.5.3 Address the issues the commercial banks have to consider
- 1.5.4 Address issues of economic importance as seen by the business sector.
- 1.5.5 Collate the Namibian position and hence make its standpoint better known
- 1.5.6 Encourage similar studies in other SADC countries
- 1.5.7 Take the debate beyond the ranks of SADC political leaders and bankers offering ground breaking academic work

## **1.6 OBJECTIVE OF THE STUDY**

### **1.6.1 Contribution to the body of knowledge**

Through the research the idea is to offer good understanding of how the decisions were taken to establish the Central Bank for SADC. The study will demonstrate how the African scenario differs from the European scenario and also give an indication on how Africa can improve, if possible, by the example set by the EU (European Union). The study will also give a background on how the Euro was created and whether the creation of a common currency in SADC would become a reality.

The study will look at the CMA situation and establish how the existence of the CMA can influence or affect the establishment of the SADC Monetary Union.

The business sector will be consulted to get their views on the establishment and to give government the opportunity to hear from them and to get direction on the road ahead.

The study also aims to offer an insight into the different elements of the monetary policy and how it would be affected by the creation of this Central Bank for SADC. It will also address some of the relevant fiscal policies that might be seriously affected by the Central Bank's establishment.

## **1.7 METHODOLOGY**

The research will be done by making use of primary data and some secondary data including literature.

The research will take a qualitative approach where open discussions will be conducted with the key stakeholders in the process, i.e. The Namibian Deputy Minister of Finance, the Governor of the Bank of Namibia, Chief Executive Officers of the commercial banks in Namibia (at least two of the four) and various CEOs from a number of financial institutions and business sectors in Namibia.

The Deputy Minister and the Governor will be compulsory and a random sampling will be done to establish the companies to be included in the interviews. The schedule of the institutions invited for the interviews are attached. See Annexure 1, with their full details and if they did not participated in the project, the *reasons* why not.

The interviews are unstructured with the objective to get as much information as possible from the interviewees and also to capture their opinions on certain issues that may be relevant to the topic. Different interview questions were designed for

the four main sectors, i.e. Government, Central Bank, Commercial Banks and the Business Sector.

Personal interviews were be conducted to get the necessary information.

The sampling technique that will be used is the purposive sampling, which lends itself very well for the collection of qualitative data. (Saunders *et al.*: 2003).

The Harvard system of referencing will be used throughout the document.

To substantiate this claim the inputs from political, central bank, commercial banks and the business community is required to determine the ease at which such an institution could be established.

## **1.8 STRUCTURE OF THE STUDY**

The study follows a clear trend. Chapter one explains what the objectives of the study entails. Chapter two includes the literature review which aims to give explanations on the different monetary and fiscal components and explains the purpose and duties of a central bank. It also looks at previous research done on the CMA, EU, West African Union and SADC establishments. Chapter three will give an outline of the research methodology applied in the study.

The information gathered from the different interviewees will be presented under the headings, government, central bank, commercial banks and business sector in chapter four.

The final chapter, chapter five, will then give an analysis of the study, with the recommendations, limitations of the study, areas for further research and the conclusion and then followed by the Bibliography.

## **CHAPTER TWO**

### **Literature survey**

#### **2.1 INTRODUCTION**

In the quest to justify the feasibility of establishing a Central Bank for the SADC region and to assess if this will be achieved by 2016 as initially predicted, it is important to look at literature on issues regarding exchange controls and monetary policy.

It explains why monetary unions were formed in Africa. Economic issues such as inflation, interest rates, currency issues and banking supervision are also explained for further reference. The study also provides a definition for sovereignty. The fact that the monetary union is based on the concept started by the European Union, a background on the establishment of the EU is also included in this chapter.

In an attempt to give some historical insight into the SADC monetary union, some historical data about the Common Monetary Area (CMA) arrangement is included. This chapter also include some statistical data on the progress made by the member countries. It also includes some extracts from the newspapers which demonstrate the debates on the establishment of the common Central Bank.

Each case will be discussed under different headings as set below:

## 2.2 CENTRAL BANKING

### 2.2.1 Exchange Control

#### 2.2.1.1 Historical Background

To understand the significance of exchange control and what the effects would be with the establishment of a common central bank for SADC, one has to understand the historical background. According to Potgieter W J *et al.* (1991:120); “Exchange control should not be viewed as being a modern concept. In 1299 the Statute of Stepney prohibited the export of coins from England. An English statute of 1340 required wool exporters to provide surety to the Sovereign’s customs officials that they would bring back two silver marks for each bag of wool exported. A 1390 statute compelled foreign merchants selling goods in England to buy English products with the proceeds of their sales. In 1439 the English parliament decreed that a foreign merchant should deal through an English agent, who had to keep a record of all his transactions. The Statute of Stepney was partially repealed for bullion not obtained from melting coin in 1663, and in 1819 it was fully repealed. The rise of the United Kingdom as a major commercial power and the emergence of sterling as an international reserve currency in the 19<sup>th</sup> century led to the eventual suspension of all exchange control measures. In the late 18<sup>th</sup> century exchange control measures were applied in the Cape, which was then experiencing an acute shortage of hard currency. The exporting of gold and silver for trading purposes was prohibited and the Fiscal authorities had to give permission for the exporting of Spanish *realen van achten* (pieces of eight) for the purposes of the slave trade. As British Crown Colonies and later as parts of the British Empire, the Cape and Natal colonies became part of the British monetary system, and the need for exchange control effectively disappeared.

After the establishment of the Union of South Africa in 1910 the situation remained very much the same. Of particular interest to the subject of exchange control is section eight of the 1920 Currency and Banking Act, which empowered the Governor-General to ‘make regulations prescribing the conditions under which gold coin and bullion deposited under his Chapter (i.e. this Act) may be exported under the control of the South African Reserve Bank’”.

A number of other developments took place, but due to limited space the study focuses on the later developments regarding the exchange control issues which are indicated next.

“Government Notices No R1111 and R1112 of 1 December 1961 instituted a comprehensive system of exchange control. Government, however, refused to acknowledge the blocked rand system as a dual exchange rate system and to formalise this system. A Reserve Bank circular issued at the beginning of February 1976 redesignated blocked rands ‘securities rands’, and transfers between different securities rands accounts were permitted” (Potgieter W J *et al.* 1991:122).

“Politically induced capital outflows forced the reinstatement of exchange controls over non-residents on 28 August 1985 and the financial rand system was revived. Since 1960 exchange control over the transactions of residents has been maintained uninterruptedly. Over the years South Africa gained considerable experience of the problems and affects of exchange control. As such, the exchange control measures developed into an all-pervasive system and at the end of the 1980s several official spokesmen admitted that it would not be easy at all to dispense with exchange control” (Potgieter W J *et al.* 1991:122).

It is important to note that the success of monetary policy depends on the state of the Balance of Payment and the exchange rate system in use. Black Phillip *et al.* (1995: 265) stated that “the choice of an exchange rate system is fundamental to the conduct of macro-economic policy. Simply put, when exchange rates are fixed, there is no domestic autonomy in the conduct of monetary policy. Under these circumstances, monetary policy in a small open economy is dictated by the actions of the world’s major central banks. Under a more flexible exchange rate regime, countries do retain a degree of control over their domestic monetary policy.”

They indicate that there are three possible exchange rate systems that can be adopted by politicians. The definitions of these regimes are outlined below and also their implications on policy:

“A Flexible exchange rate system is one where the value of the currency is allowed to respond to market forces without any interference by central banks or other authorities.

A fixed exchange rate system is one in which member countries agree to fix the relative values of their currencies and to make changes only under certain specified conditions. Today the only fixed rate system in operation is the European Monetary System (EMS). The great virtue of fixed rate systems is that they remove the uncertainty from international trade and encourage long term investments in such trades. Under a fixed rate system the government is forced to defend the value of its currency should it threaten to move away from the fixed rate.

Managed floating is an exchange rate system in which the currency is allowed to fluctuate as the market changes, but where the central bank intervenes to smooth out short term fluctuations in the exchange rate. If the central bank believes that depreciation will last for some time, it will allow the currency to depreciate gradually in the hope of boosting exports and net capital inflows and curbing imports” (Black, Phillip *et al.* 1995: 265).

There is a tendency for developing countries to move towards a more flexible exchange rate arrangement and liberalisation of exchange controls in the context of macro-economic adjustment programs supported by the IMF (Flickenchild *et al.* 1992: 2). According to the authors, the currency of a country maintaining a (normal) policy of exchange rate flexibility can display stability in terms of another currency or a group of currencies.

Namibia, South Africa, Lesotho and Swaziland form part of the Common Monetary Area (CMA) which is a single exchange control territory. 'By definition, members of currency unions peg their currencies to each other at par. The seven countries comprising the West African Monetary Union maintained peg arrangements with the common currency, the CFA franc, which is fixed in terms of the French franc at the rate of CFAF 50=f1. A single currency peg has been the exchange arrangement most frequently used by developing countries, of which over one third currently have such an arrangement' (Flickenchild *et al.* 1992).

#### 2.2.1.3 Objectives of exchange control

"The ultimate objective of exchange control is to create a favourable impact on the balance of payment flows and consequently to reinforce the foreign reserve position. This is the case irrespective of whether a country has a fixed or flexible (floating) exchange rate system or an exchange rate system falling between these two extremes. The imposition of strictly defined limitations on across-the-border financial transactions or on the exchange of the national currency into foreign currency can be regarded as the intermediate or operational objective. In its very essence, exchange control can be viewed as standing more or less midway between unrestricted convertibility of the national currency into foreign currency and a total ban on such convertibility. Exchange control is further necessarily discretionary, and consequently it is difficult to discern underlying general principles. Exchange control measures would therefore be of diverse origin." (Potgieter W J *et al.* 1991: 122).



“On a more practical level, and also from an accounting perspective, exchange control measures can be regarded as having dual objectives. Firstly, the measures can aim at regulating the size of current flows, i.e. the size of transactions on the current account of the balance of payments. Secondly, the measures can aim at regulating the size of the capital flows, i.e. the size of transactions on the capital account of the balance of payments. While the General Agreement on Trade and Tariffs (GATT) is specifically aimed at the reduction of barriers to trade, article 1 of the 1944 Statute of the International Monetary Fund (IMF) sets it as a specific goal that limitations on the free convertibility of currencies be reduced” (Potgieter W J *et al.* 1991: 122).

“With the drive to create a monetary union in Europe through the European Monetary System (EMS), all capital restrictions between member countries had to be removed. Despite all the aforementioned efforts, exchange control measures are still most viable in the case of the so-called invisible transactions, i.e. in the case of the transactions falling entirely within the financial field. Therefore there is considerable scope for the application of exchange control measures where the financial flows can be successfully separated from the underlying commercial transaction” (Potgieter W J *et al.*, 1991: 122).

“The foreign exchange market is the generic term for the worldwide institutions that exist to exchange or trade different countries’ currencies. Most of the approximately 200 countries in the world use a unique currency or monetary unit, from Afghanistan’s afghani to Zimbabwe’s dollar; so international trade requires some mechanism for exchanging them. With so many different currencies, there are literally thousands of exchange rates, because each currency has a relative price in terms of every other” (Yarbrough and Yarbrough 2000: 472).

“The primary participants in foreign exchange markets include banks (who execute almost 90% of foreign exchange market transactions), firms, foreign exchange brokers, and central banks and other official government agencies. Most transactions are made by telephone, cable, or electronic transfer and involve the exchange of large bank deposits denominated in different currencies” (Yarbrough and Yarbrough 2000: 473).

#### 2.2.1.4 Statutory and Regularity underpinnings

According to Potgieter W J *et al.* (1991) “it is evident that exchange control should have a statutory basis. In South Africa a system is employed whereby regulations can be made in terms of powers provided for in an enabling Act of Parliament. Government notice R1111 provided for several measures to be enforced by the Treasury, with the Treasury being defined by the Minister of Finance, and in respect of any power or function assigned to the Treasury in terms of the regulations, the term included any person authorised by the said Minister to exercise such power or function. Provision was further made for the Treasury to designate a certain person(s) as authorised dealer(s) in gold and foreign exchange. The specific measures are particularly wide ranging. The purchase, sale, and lending of foreign currency and gold by any person other than an authorised dealer was prohibited and the Treasury could also prohibit such transactions by such dealer.”

“In terms of Government Notice No 1111 certain orders or rules were issued in Government Notice No 1112. Certain specified banks were appointed as authorised dealers, and the Minister of Finance authorised such banks to order any person to divulge such information as was necessary for the application of the regulations. The Minister appointed the Reserve Bank to carry out some of the regulations contained in Government Notice R1111 and authorised the Bank to order any person to divulge such information as it needed for the application of the regulations. In the final instance, government notice R1112 prescribed the

formats of the declaration of foreign exchange proceeds of exports and of the declaration of foreign assets and liabilities.

Government Notice No R157 of 1 September 1985 effectively reinstated the regulations of Government Notice No R1111 of 1 December 1961, but amended the earlier regulations in respect of certain payments of a current and capital nature, also supplementing the regulations in respect of payments into the special restricted foreign currency account held with the Public Investment Commissioners and in respect of the purchase and sale of financial rand.”

#### 2.2.1.5. Exchange Control Authorities

“The exchange control authorities, consisting of the Head of State, The Minister of Finance and the Treasury (by virtue of the powers bestowed on them), as well as the exchange control department of the South African Reserve Bank (by virtue of the powers delegated to it), may impose provisions that can influence some or all of the parties concerned as well as any of the transactions involving foreign exchange such parties wish to conduct.

The exchange control authorities may impose, maintain, extend or terminate a debt moratorium affecting the repayment of commitments arising from all instruments of debts. The exchange control authorities will further have to conduct themselves in accordance with the terms of the applicable interim debt repayment arrangement” (Potgieter W J et al. 1991:133).

#### 2.2.1.6 Corporations and exchange rates

“A key aspect of corporate pricing strategy is forecasting future exchange rates. Aside from using banks to help them do this, the internal models corporations use are typically one or more of the following kinds:

- Political event analysis
- Fundamental
- Technical” (Henderson 2002: 155).

“Over the years South Africa has resorted to exchange control measures to protect its balance of payments and foreign reserve position. The measures applied have become extremely complex and very sophisticated. The aim is to impose restrictions on the convertibility of South African currency into foreign currency. Although it is seen as a matter of practical necessity, doubts have been expressed about the effectiveness of exchange control from time to time” (Potgieter W J *et al.* 1991: 135).

### **2.2.2 Role of the Central Bank**

“ Six basic goals are continually mentioned by personnel at Federal Reserve Bank and other central banks when they discuss the objectives of monetary policy:

1. high employment,
2. economic growth,
3. price stability,
4. interest rate stability,
5. stability of financial markets, and
6. stability in foreign exchange markets” (Mishkin 2001: 454).

The South Africa Reserve Bank is one of the central banks operating in the SADC region. Its five main functions are listed below these also apply to all the central banks in the region. They are:

- “issuing bank coins and notes
- Acting as banker for other banks
- Acting as banker for the government
- Acting as custodian of the country’s gold and other foreign reserves
- Formulating and implementing monetary policy” (Mohr, Fourie & Associates, 2004: 361).

Central banks in the region also have the responsibility of supervising the commercial banks in an attempt to protect the interest of the depositors. In the case of South Africa, the supervisory role is performed by the Registrar of Banks. Apart from the fact that commercial banks must keep a portion of their liabilities as a cash reserve, which is kept with the reserve bank, banking institutions must also adhere to various requirements in respect of their capital and liquid asset holding. Although the latter could also exert a substantial influence on the credit creating abilities of banks, these requirements are more of a prudential (supervisory) nature and does not form part of the normal monetary policy arsenal of the Reserve/Central bank (Mohr, Fourie & Associates, 2004: 377).

“The central bank’s problem is that it wishes to achieve certain goals, such as price stability with high employment, but it does not directly influence the goals. It has a set of tools to employ (open market operations, changes in discount rates, and changes in reserve requirements) that can affect the goals indirectly after a period of time (typically more than a year). If the central bank wants to see what the price level and employment will be one year later, it will be too late to make any corrections to its policy – mistakes will be irreversible.

All central banks consequently pursue a different strategy for conducting monetary policy by aiming at variables that lie between its tools and the achievements of its goals. The strategy is as follows: after deciding on its goals for employment and the price level, the central bank chooses a set of variables to aim for, called intermediate targets, such as monetary aggregates (M1, M2, or M3) (see statement definition in the next paragraph) or interest rates (short- and long term), which have a direct effect on employment and the price level. However, even these intermediate targets are not directly affected by the central bank’s policy tools. Therefore, it chooses another set of variables to aim for, called operating targets, or alternatively called instruments, such as reserve aggregates (reserves, non-borrowed reserves, monetary base, or non-borrowed

base) or interest rates (federal funds rate or treasury bill rate), which are more responsive to its policy tools” (Mishkin 2001:458).

According to Mohr, Fourie & Associates (2004: 357), M1 is defined solely on the basis of the function of money as a medium of exchange. According to this measure, the quantity of money includes all articles generally available as a medium of exchange (or means of payment). M1 includes coins and notes (in circulation outside the monetary sector) as well as all demand deposits (including cheque and transmission deposits) of the domestic private sector with monetary institutions. M2 is equal to M1 plus all other short-term and medium-term deposits of the domestic private sector with monetary institutions. M3 is equal to M2 plus all long-term deposits of the domestic private sector with monetary institutions.

### **2.2.3 Monetary Policy**

To develop a clear understanding about the motives for the initiative to create a Central Bank for the SADC region it would be advisable to gain more insight into the study.

Mohr, Fourie and associates (2004: 372) stated that monetary policy can be defined as the measures taken by the monetary authorities to influence the quantity of money or the rate of interest with the view to achieving stable prices, full employment and economic growth. Monetary policy is normally formulated by the central bank of a country.

“Monetary policy is primarily aimed at stabilising the economy. Unlike fiscal policy, changes in monetary policy can be instituted more rapidly and in smaller increments. Monetary policy consists of attempts by the central bank to control such monetary aggregates as the money supply, as measured by M1, M2, and M3, and short-term interest rates.

These aggregates are an important means of influencing aggregate expenditure, employment, the inflation rate and exchange rates.

It is important to make a distinction between the availability and use of the various monetary policy instruments under different types of monetary regimes. Central banks which attempt to control money supply directly use different instruments and follow different procedures to those which attempt to control money supply indirectly through the use of interest rates” (Black *et al.* 1995: 259).

Jenson *et al.* (Jenson 2000: 1) explains it well in the next extract. “It’s important to note at the onset that the Federal Reserve at the Central Bank of the United States conducts monetary policy to achieve three primary goals: price stability, a high stable rate of employment and sustainable and ‘acceptable’ growth in economic output. A fortunate and natural by product of the Fed’s pursuit of these primary goals is the stabilization of interest rates, which the Fed also wants to achieve.

Unfortunately achieving all these goals can be a difficult balancing act because the actions taken to reach one goal can actually work against the attainment of another goal (e.g. monetary stimulus to promote economic growth can become inflationary).

An additional difficulty that faced the Fed is that its action taken in the conduct of monetary policy can have only two direct consequences – either an increase or decrease in the banking system’s level of ‘reserves’.

The US operates under a fractional reserve banking system, meaning that depository institutions must maintain idle deposits, called required reserves, at the Fed (a smaller amount is also allowed as vault cash).

In general, a bank's level of required reserves is equal to some fraction (called the required reserve ratio) of its deposit liabilities. Banks will often hold balances in excess of the required level, but these balances tend to be minimised because the Fed does not pay interest on them. Total reserves in the system equal required reserves plus excess reserves.

Several monetary aggregates exist, each provides a unique measure of the money supply. The money supply is defined quite loosely, and the term is often used to refer to any one of the monetary aggregates. The primary monetary aggregate is the monetary base, which equals currency and coins held by the public plus the total bank reserves. Because bank reserves dominate the monetary base, the Fed has the greatest direct control over this aggregate.

How do banking reserves link to the monetary aggregates? The answer to this question relies on understanding the monetary multiplier and the monetary expansion process. In their role as lenders, banks play the most important part in the monetary expansion process. The assets on a typical bank's balance sheet consist mostly of loans, with smaller balances in reserves, vault cash, securities, and property and equipment. If a bank's reserve balances somehow increase so that it holds excess reserves it can use these balances to create new loans. As loan customers spend the proceeds of their loans (e.g. pay for a new car) they create new deposits in the second bank (the car dealership deposit the cheque). The second bank will then hold a fraction of the new deposit as reserves and attempt to lend the remaining amount. The process continues as banks further down the line lend a portion of the smaller deposits.

If the relationships between banking reserves and monetary aggregates were constant, the Fed could easily expand M1 by a precise amount. The Fed would simply determine a target growth rate for the monetary aggregate and take action to increase reserves by the appropriate fraction of the aggregate (given the reserve requirement ratio).



- *Open market operations (OMO)*. Open market operations refer to the buying and selling of government bonds by the central bank as a means of influencing the money base and therefore the money supply.
- *Changes in the discount rate*. There are times when commercial banks are forced to borrow from the central bank. The most likely reason for this is the withdrawal of cash from a bank which is fully loaned up. As this cash forms a reserve against other deposits the bank will now find itself in an illegal position where its reserves do not meet the legal reserve requirement. If the commercial bank cannot find funds anywhere in the market it must either call in loans – a very unpopular option - or approach the central bank for the necessary funds. Here the central bank is acting as the ‘the lender of last resort’. The interest rate which the central bank charges on these funds is known as the bank rate or discount rate.
- *Direct controls*. Direct controls consist of direct legislative attempts to control the money creation ability of the banks. In South Africa the most common one has been the institution of credit ceilings. Credit ceilings are an attempt to limit directly the ability of commercial banks to create money by restricting the quantity of loans which they can issue, irrespective of their reserves. The central bank may also force banks to hold certain liquid assets against their deposits. These assets usually include government bonds of differing maturity.
- *Moral ‘suasion’*. Moral ‘suasion, or moral persuasion, refers to the practice by which the governors of the central banks put pressure on bank managers to conduct their business in some particular way” (Black *et al*: 1995: 259).

It is important to note that the success of the monetary policy depends on the state of the Balance of Payment and the exchange rate system in place. Black *et al*. (1995: 265) states that the choice of an exchange rate system is fundamental to the conduct of macro-economic policy, simply put, when exchange rates are fixed, there is no domestic autonomy in the conduct of the monetary policy.

Under these circumstances monetary policy in a small open economy is dictated by the actions of the world's major central banks. Under a more flexible rate regime countries do retain a degree of control over domestic monetary policy.

#### 2.2.3.1. Reasons for forming monetary unions

The formation of monetary unions has been reinforced by the increased pace of globalisation and freer trade.

#### 2.2.3.2. Monetary Unions in Africa

The need for a common currency and monetary union is an initiative from the Organisation of African Unity (OAU) and its successor the African Union (AU).

The 1991 Abuja Treaty establishing the African Economic Community outlines six stages for achieving a single monetary zone for Africa that were set to be completed by 2021. In the early stages, regional co-operation and integration within Africa would be strengthened by the establishment of regional monetary unions such as SADC. The final stage involves the establishment of the African Central Bank (ACB) and launching of a single African currency and an African Economic and Monetary Union.

The case for a monetary union and subsequently a single currency for the African continent are dictated by the imperative to harmonise financial and payment policies to boost intra-community trade in goods and services, to further the attainment of the objectives of the community and to enhance monetary and financial co-operation among members. (Abuja Treaty, Article 44)

In attempts to achieve this overall goal, progress has been made by the different regions, i.e. West African Monetary zone, the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) to establish a monetary union at regional level.

So far the SADC countries have made progress in the area of macro-economic convergence, harmonisation of the national payment systems, and the strengthening of banking supervision. A model central bank act has been approved to guide the central bank legislation.

In the case of a monetary union, all countries included in the union have a say in the monetary policy of the region. The benefits that member countries will receive from such a monetary union are a reduction in the cost of transactions and the facilitation of intra-trade. The monetary union could increase trade volumes further due to the elimination of different currencies. The savings could be substantial. In the case of the EU, it has been estimated that these savings amounts to approximately 0.5% of the EU GDP (European Economy, 1990).

More benefits can be received by the stronger credibility benefits of the common Central Bank.

According to Bank of Namibia (Alweendo: 2004) it is expected that the common currency will boost intra SADC/CMA trade. It will also boost trade with non-union members if you look at the example of the CFA zone.

A reason to create a monetary union is to improve macro-economic stability through the establishment of monetary policy credibility. This is important to attract investment and economic growth.

A common currency could ensure policy credibility by “locking” it in an unbreakable link to some external restraint, in which the government cannot use its policy discretion.

It is suggested that member countries may be able to gain monetary credibility when they enter into a monetary union, which would be able to reduce the inflationary expectation and pressures and hence price stability. (Bank of Namibia, 2003; Hamuvinda, 2002)

### **2.2.5 Interest Rates**

“The real interest rate is defined as the nominal interest rate minus the expected rate of inflation. It is a better measure of the incentives to borrow and lend than the nominal interest rate, and it is a more accurate indicator of the tightness of credit market conditions than the nominal interest rate” (Mishkin 2001: 90).

“Interest rate control is the monetary policy regime currently used in many countries, including South Africa. When a central bank chooses to set interest rates the objective is still to control money supply, but indirectly through changes in the cost of borrowing rather than directly through controls over the actual amount of money existence. Under these circumstances there is only one effective monetary instrument available – changes in the discount rate” (Black *et al.* 1995: 261).

“Interest rate spread is the difference between the average lending and the average deposit rate, and is a measure of bank efficiency and competitiveness”.

### **2.2.6 Currency Issues**

Each SADC country has its own central bank and currency at the moment. Its performance is very different in the market. The country with the best performance in the region is Botswana, which actually set a very good example. It is however the SA Rand that is the more powerful currency in the region as it is available as legal tender in most of the member countries. According to Lambertus van Zyl (BIS papers no 17), there is no evidence that foreign currency is being used in any meaningful way inside South Africa.

The author indicates that there is close monetary co-operation between South Africa, Lesotho, Namibia and Swaziland based on the Multilateral Monetary Agreement (MMA) which created a common monetary area between these countries. This agreement has had a historical background which started even before the Union of South Africa was formed in 1910.

Through the arrangement of the MMA each of the contracting countries is responsible for its own monetary policy and the control of their financial institutions. Many benefits stem from this arrangement such as the stability of exchange rates, and high level of trade between the countries. The CMA is to a large extent dominated by SA owing to the size of its sophisticated financial system.

SADC was formed in 1992 and aimed to achieve harmonising and coordinating of the economic policies of member states and by creating appropriate regional institutions. The Committee of Central Bank Governors were established in 1995 to deal with the development of well managed financial institutions and markets, cooperation regarding the international and regional financial relations, and monetary, investment and foreign exchange policies.

The economic convergence in SADC needs a far way to go. Looking at one indicator of stability, namely inflation, it should suffice to show that the prospect of a regional currency area encompassing all countries in the SADC in the next few years is remote. SA is very dominant in the economy of SADC as it accounts for 65% of the GDP of SADC.

According to Henderson (Henderson, 2002:137), the management of currency risk by corporations has come a long way in the last three decades. Before the break-up of Bretton Woods, currency risk was not a major consideration for corporate executives, nor did it have to be. Exchange rates were allowed to fluctuate, but only within reasonable tight bands, while the US Dollar itself was pegged to the most solid of commodities, gold. The responsibility for managing currency risk, or rather maintaining currency stability, was largely that of the governments. Needless to say, that burden, that responsibility has now passed from the public to the private sector.

The author indicated that many leading multi-nationals have set up oversight or risk committees to oversee the Treasury strategy in managing currency and interest risk. He explains further that currency risk is the impact that unexpected exchange rates have on the value of the corporation. Currency risk is very important to a corporation as it can have a major impact on its cash flows, assets and liabilities, net profits and ultimately its stock market value. He identified three types of currency risks that need to be managed by corporations, namely;

- Transaction risk (receivables, dividends, etc)
- Translation risk (balance sheet)
- Economic risk (present value of future operating cash flows).

### **2.2.7 Banking Supervision**

According to the Supervision Department – General Affairs (1996), banking supervision is the method by which banks (or credit institutions) are prevented from running unacceptable risks that could jeopardise the interests of their creditors (customers) and the stability of the financial system. For that reason banks could be classified as the ‘life blood’ of any economy. This means banks occupy a crucial place in the economy of every country mainly because they:

- Promote and maintain internal and external monetary stability, and efficient payments mechanism, and the liquidity, solvency, and proper function of a sound based monetary, credit and financial system (Bank of Namibia Act, 1990);
- Foster monetary, credit and financial conditions conducive to sustainable economic development;
- Assist in the attainment of national economic goals; and
- Help to create a strong financial system which is pre-requisite for inward investment opportunities.

Porter (1993) believes that one of the main objectives of a bank supervision system is to protect depositor's funds. Depositors need this kind of protection because they do not have the information that can enable them to assess the extent of the risks to which they are exposed. In addition bank regulation and supervision is also concerned with the status of the banking system as a whole so as to prevent individual bank failures that could threaten the safety and soundness of the banking sector (Mugaviri, 2000)

### **2.3 SOVEREIGNTY**

A few definitions of sovereignty according to the Black's Law Dictionary (1951: 1568); The supreme, absolute, and uncontrollable power by which any independent state is governed; supreme political authority; paramount control of the constitution and frame of government and its administration; self sufficient source of political power, from which all specific political powers are derived; the international independence of a state, combined with the right and power of regulating its internal affairs without foreign dictation; also a political society, or state, which is sovereign and independent.

According to Bouvier John (1856) sovereignty is the union and exercise of all human power possessed in a state; it is a combination of all power; it is the power to do everything in a state without accountability; to make laws, to execute and to apply them: to impose and collect taxes, and, levy, contributions; to make war or peace; to form treaties of alliances or of commerce with foreign nations, and the like.

## **2.4 CENTRAL BANKING IN EUROPE**

### **2.4.1 Introduction**

“Since the introduction of the European System of Central Banks (ESCB) there has been a common monetary policy and a common monetary market in Europe. The most significant money markets segments are the unsecured deposit market, the short term repo market and the swap market. All three differ in their conditions for providing short term finance: in the unsecured deposit market, banks exchange short-term liquidity without the guarantee of collateral. Bank’s able to offer collateral may turn to the market for short term repurchase agreements, or repos. In the swap market, participants take advantage of individual differences in the conditions they get exchanging fixed for floating interest rate payments. In 1999, unsecured deposits accounted for 53% of the money market in the Euro area, foreign currency swaps for 23% and repos for 24%” (Reszat 2005: 28).

### **2.4.2 Reasons for the introduction of the Euro**

According to Paul Temperton from the Independent Economic Research Company (TIER), the establishment of the Euro has both a political and an economic dimension. He stated that “The most basic political impetus has been the desire to maintain peace in Europe and it is significant that the foundation of the present arrangements were laid shortly after World War Two. The economic reasons for the euros’ introduction are seated in the problems of the European economy in the 1970s and 1980s – in particular, slow growth and high unemployment. The combination of the single market and the single currency will go a long way towards improving the growth rate of the European Union.”



“The formation of the European Economic Community (EEC) with six members (Germany, France, Italy, and the Benelux countries) was agreed with the Treaty of Rome in 1957 and came into existence in 1958. It was, however, some ten years later before Europe took a significant step towards the free movement of goods: on 1 July 1968, all customs duties were abolished between the six countries.

Spain and Portugal joined the European Community in 1986, making a total of twelve countries (Denmark, the UK and Ireland joined in 1973 and Greece in 1981), just shortly before a single European Act was signed. Austria, Sweden and Finland joined in 1995, making a total of fifteen countries, shortly after the Maastricht Treaty had been ratified.

The economic impetus behind the Euro project can be found in the relatively poor performance of the European economies over the last twenty years or more. Europe has for a long time suffered from relatively weak economic growth.

The term ‘Euro sclerosis’ was first coined in the 1970s, but became even more pertinent in describing the performance of the European economy in the 1980s.

Economic growth trailed behind that in North America and Asia; productivity gains were weak; unemployment remained persistently high; and many European countries suffered from persistently high wage and price inflation.

In order to help correct these problems, the emphasis of European policy making in the last fifteen years has been to launch two significant projects.

Firstly the single European market with free movement of goods, labour, services and capital. This project was launched with the Single European Act of 1987 and should have resulted in such freedom of movement by the end of 1992. In reality, however, some barriers still persist.

Secondly, the Euro project – or more correctly, the plan for European Economic and Monetary Union (EMU) – was launched the late 1980s.

Only a few months after the heads of state signed the Maastricht Treaty (in February 1992), Europe entered a period of exchange rate turbulence. Once exchange rate volatility receded Europe was hit by another wave of turbulence – this time in the bond markets, with bond rates rising sharply as budget deficits and stocks of outstanding debt rose sharply as a result of the recession in the early 1990s.

It was not until 1995 that some stability returned to European financial markets and the plan for a single currency once again started to be taken seriously.

The completion of a single market and the introduction of the Euro are both estimated to boost Europe's GDP significantly: by 4.5 per cent and 5.5 per cent, over ten years, respectively.”

#### **2.4.3 How the Euro was created**

“The Euro was born on 1 January 1999. Legally, the Euro becomes the national currency of the eleven countries participating in EMU on that date. The Euro came into existence in two ways. First, one Eco becomes one Euro. Second, fixed conversion rates for each of the eleven national currencies to the Euro come into force. From then on, these rates must be used for conversion either way between the Euro and the national currency units. Conversion between national currency units must be done via Euro using the conversion rates instead of the traditional bilateral rates. Three years later, at the beginning of 2002, the national currencies will cease to exist and only the Euro will remain.”

#### **2.4.4 The euros' effects on the German Market**

“The main costs in the run-up to the introduction of the Euro were that:

- Fiscal policy had to be tightened, not only in Germany, but also in other European countries; and that
- Short- and long-term interest rates in Germany and core Europe were higher as a result of an EMU risk premium.

There were two benefits to economic growth:

- The ‘risk premium’ also led to a weaker value of the Deutschemark against the US Dollar and the yen, helping to improve competitiveness and bring a boost to German exports; and
- The euros’ introduction also required additional investment spending on the part of business to gear up for the Euro.

The benefits only provided a minor offset to the substantial costs and that German economic growth was substantially reduced as a result of the preparations for the euros’ introduction. In aggregate, German growth may have been reduced by up to one per cent in 1997, the year in which the costs were most evident.

Once the Euro is introduced, however, economic growth will be boosted by three factors:

- The elimination of foreign currency transactions costs between Euro area countries
- The elimination of exchange rate risk in the Euro area
- Additional supply-side effects brought about by continued fiscal discipline, lower wage growth and structural improvements in capital markets.” (Edited by Paul Temperton 1998).

#### **2.4.5 The European Central Bank (ECB)**

- According to Williams and Reid (Edited by Paul Temperton, 1998) “the European Central Bank will assume control of European monetary policy in 1999. On paper it is a strong replacement for the Bundesbank. The ECB has been given an even stronger mandate than the Bundesbank:
- According to the Maastricht Treaty, the main responsibility of the ECB ‘shall be to maintain price stability’. This is more explicit than the Bundesbank Act, which states that the main function of the central bank is ‘safeguarding the currency’
- The Maastricht treaty forbids the ECB from granting ‘overdrafts or any other credit facility’ to EU or national government bodies.

To pursue the goals of monetary and financial integration in SADC and to learn from one another's experiences, the Governors of Central Banks in SADC held a meeting with the European Central Bank (ECB) during February 2005 in an effort to familiarise themselves with the challenge to be encountered during the process of establishing a common monetary zone in SADC.

Similar meetings between the ECB and CCBG would be held as the need arose, to continue the exchange of views on the process leading towards monetary integration. (Bank of Namibia, Annual Report, 2005)

In the years ahead, the CCBG would continue to lead the process of monetary and financial integration in the region, spurred by the desire to modernise and harmonise the SADC systems. This was done with intent of moving towards a macro-economic convergence and the achievement of a monetary union by the year 2016, as outlined in the Regional Indicative Strategic Plan. According to this plan, efforts are underway to define macro-economic targets and indicators which would serve as future benchmarks for member countries. (Bank of Namibia, Annual Report, 2005).

## **2.6 HISTORICAL BACKGROUND FOR THE ESTABLISHMENT OF SADC**

The establishment started as an initiative from the frontline states being Angola, Botswana, Mozambique, Tanzania and Zambia. The initiative was directed initially towards the political liberation of the region. This movement was formally constituted in 1975 as the Southern African Development Co-ordination Conference, (SADCC). The SADCC was created in 1980 by the nine majority ruled states of Southern Africa. The aims of SADCC were to reduce economic dependence particularly, but not only, from South Africa; to forge links to create genuine and equitable regional integration; to mobilise resources for implementing national and interstate policies; and to take concerted action to secure international co-operation within the framework of the strategy of economic liberation.

It has also been established that immigration restrictions, language and cultural differences limit the movements of labour in the CMA, hence limiting the success of the monetary union. Such restrictions would not be impossible to overcome if there is a strong political will.

The current situation with the CMA monetary union is the fact that decision making is dominated by one powerful member only, South Africa. This is a situation that requires considerable transformation to allow equal decision making power distribution.

## **2.10 PROGRESS MADE IN SADC TOWARDS THE ESTABLISHMENT OF THE CENTRAL BANK**

### **2.10.1 Liberalisation of Exchange Controls In SADC**

The following member countries have abolished exchange controls:

Botswana	-	1999
Mauritius	-	1994
Zambia	-	1994

The following countries reported no changes on their exchange control policies for the period 1 January 2005 to 31 December 2005; Angola, Democratic Republic of Congo, Lesotho, Malawi, Namibia, and Swaziland.

Madagascar, Mozambique, South Africa, Tanzania and Zimbabwe reported some changes in their exchange control policies for the period indicated above. All these countries are at different levels of liberalisation (Internet 3).

### **2.10.2 Banking Supervision**

Country situations in terms of banking supervision are different despite the IMF / Worldbank's attempts to put guidelines together to create uniformity. It is not necessarily practically implementable.

It does have an impact on the creation of a common central bank for SADC, where one section is required to supervise the banking sector of 14 member countries to create stability in the banking sector.

The nine SADC countries that participated in the Bank Supervision Application (BSA) project are now effectively using the BSA solution (Internet 3).

### **2.10.3 Interbank Markets**

Interbank markets are not limited to Namibia only, but they are extended to the CMA. This means commercial banks can borrow from their parent banks in the CMA and are not restricted to borrow from each other in Namibia. The establishment of the central bank for SADC may allow commercial banks to borrow from counterparts in the SADC region and not necessarily from the central bank (Internet 3).

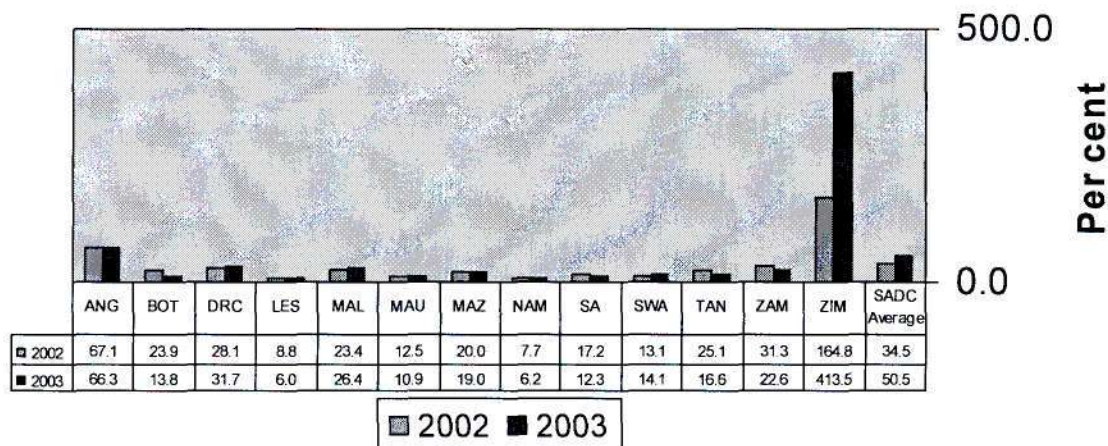
Building reserves are restricted by the requirements under the CMA. The free flow of capital structure is putting a hamper on reserves development in Namibia and might even increase more by the SADC central bank monetary issues (Internet 3).

## **2.11 RECENT ECONOMIC DEVELOPMENT FOR THE SADC REGION**

The information below is obtained from the SADC webpage containing economic performance indicators for the member countries for the period 2002 and 2003. Some countries updated the information up to 2005, but most did not do these updates as were agreed by the SADC secretariat to have the information each year by November. The latest information for all SADC countries is up to 2003 and it excludes Madagascar which was not a member at the time, SADC (April 2004) (Internet 3).

## 2.11.2 Money Supply Growth

### MONEY SUPPLY GROWTH

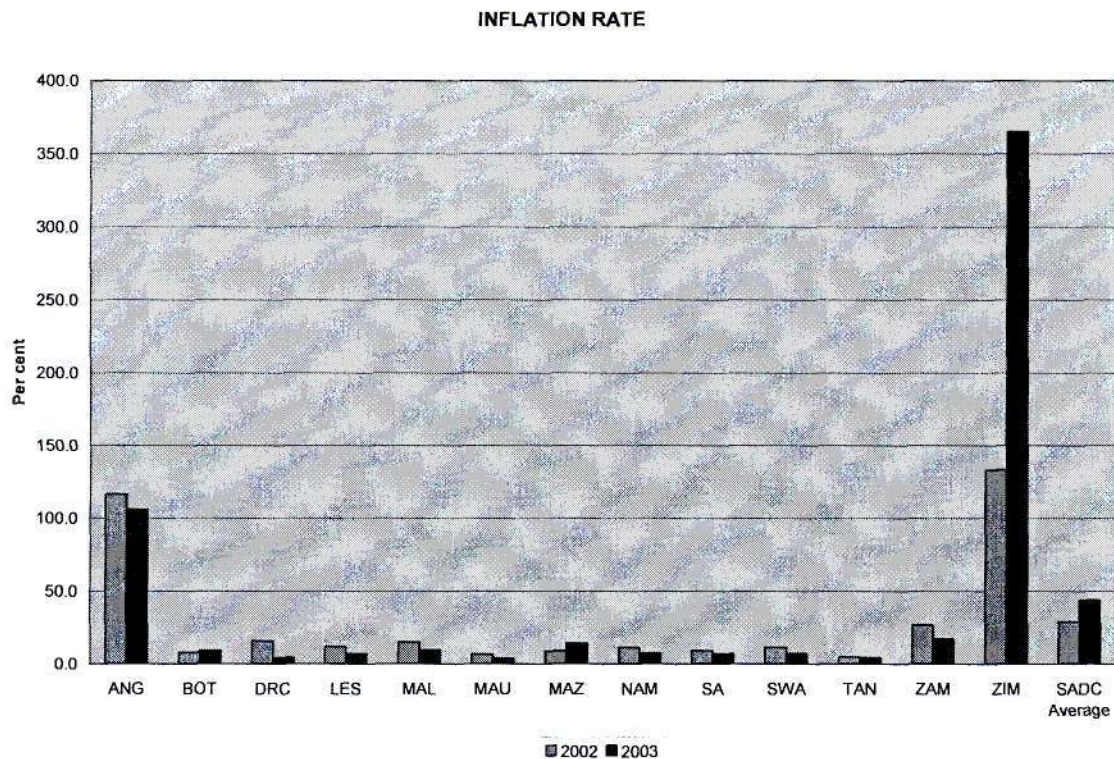


(<http://www.sadcbankers.org/stats/select.asp?s=stats>, 15/03/2006: SADC statistics)

An average expansion of 34.5 % in 2002 was reported compared to a growth of 50% in 2003. One should take into consideration that these figures include Zimbabwe which distorts the whole situation in SADC with a registered high money supply growth of 164,8 % and 413.5 % in 2002 and 2003 respectively. This is due to domestic credit expansion caused by increased lending to both private sector and Government. Excluding Zimbabwe, expansion of broad money supply in the region fell from 23.6 % in 2002 to 20.2% in 2003.

Except for Zimbabwe and Angola (which recorded an expansion of 66.3% in 2003) money supply growth in the remaining SADC Member States appears to be within controllable levels.

### 2.11.3 Annual Inflation Rate



(<http://www.sadcbankers.org/stats/select.asp?s=stats>, 15/03/2006: SADC statistics)

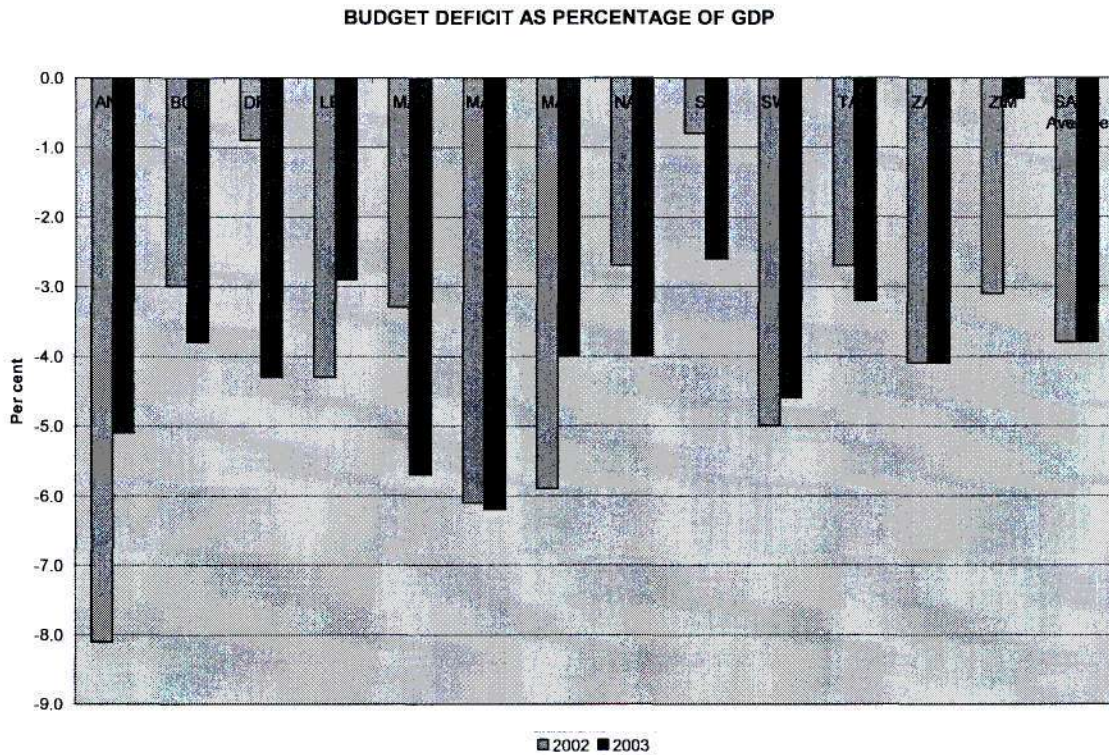
The average inflation for the SADC region drastically increased from 28.8% in 2002 to 43.6% in 2003. These figures are completely skewed by the inclusion of countries like Angola and Zimbabwe, with very high inflation rates. The annual inflation rate of Angola declined from 116.1% in 2002 to 105.6% in 2003. Angola is definitely moving in the right direction with the decline of the inflation rate to 22.18% in 2004 and 21.98% in 2005.

With the exclusion of Zimbabwe, the average inflation for the remaining SADC member countries fell from 20.1% in 2002 to 16.8% in 2003. With the further exclusion of Angola, the average rate of inflation for the region improved from 11.3% to 8.7% over the same period. These nine countries, Botswana, DRC, Lesotho, Malawi, Mauritius, Namibia, South Africa, Swaziland and Tanzania posted annual inflation rates of less than 10% in 2003.



This augurs well with the objective of attaining the target of single a digit inflation rate as proposed by SADC macroeconomic convergence programme for the period 2004 – 2008.

#### 2.11.4 Fiscal Deficit As A Percentage Of GDP



(<http://www.sadcbankers.org/stats/select.asp?s=stats>, 15/03/2006: SADC statistics)

The SADC macroeconomic convergence programme proposes a fiscal deficit to GDP ratio target of less than 3.0 per cent to be obtained between 2004 and 2008. All the countries in SADC registered a budget deficit in 2003. It, however, came down from 4 per cent in 2002 to 3.7 per cent in 2003. This could be seen as a positive step toward the achievement of this target (Internet3).

## **2.12 THE POWERS AND FUNCTIONS OF THE SADC CENTRAL BANK**

### Continued existence of the Bank

The Central or Reserve Bank of the country shall continue to exist and shall conduct the business of a central bank in accordance with the provisions of the constitution and of this Act. (Draft model central bank legislation, 2005)

## **2.13 RECENT NEWS CLIPS ON THE SADC CENTRAL BANK**

### 2.13.1 Afrol News (Africa News) – Article published 11 March 2005

The article stated that “SADC may introduce a single Southern African currency by 2016; to be managed by a single Central Bank. This has been revealed by the Central Bank Governor of South Africa and Lesotho. The 13-member community further plans to introduce a free trade area by 2008, abolishing all tariffs and non-tariff barriers.

The Governor of Lesotho indicated that a common Southern African market - following the European Union model- is to be established by 2016.

The plan for a single market calls for the abolition of tariffs and non-tariff barriers by 2008; a SADC wide customs union by 2010; a common market, including free movement of labour capital, by 2015; and a single currency and Central Bank by 2016, said the government of Lesotho.

South African Reserve Bank Governor Tito Mboweni was said to have released this plan one week ago. Any of the SADC states that have not achieved the targets for inclusion will be left behind, Mr. Mboweni said in an interview with South Africa’s ‘Business Times’. The SADC scheme follows a road map already implemented by the EU in the creation of a European single market.

Once inside the integrated monetary union, there would be no way out for countries battling to keep within the agreed parameters, according to the scheme. As in the EU, disputes and non-compliance would be matters for a regional court with hefty fines for governments who fail to adhere.

According to the government of Lesotho, member states could continue to print their own notes and coins under a monetary union even if there was only one Central Bank, but it would be far better to have a single currency for the region. Protocol had already been signed and others in the works would bind future governments of 13 current SADC states and their central banks to follow through the program, the Southern African Central Bank Director said in a recent interview with the national newspaper ‘Sunday Times’. National committees to advance preparations for this economic integration were already being established.

#### 2.13.2 The Namibian, Wednesday, April 26, 2006

“Zimbabwe’s central bank raised its key accommodation rate to 800% from 750% effectively the day before as it battles to curb surging inflation, a source at the central bank said. The country’s annual inflation rate vaulted to a record 913,6% in March from 782% in February. Zimbabwe has the highest inflation rate in the world and it’s once thriving economy is in its eighth year of recession. Prime lending rates are officially around 600% – below the bank rate – due to what dealers said were political pressures. Soaring inflation has dashed hopes of revival for the economy mired in escalating poverty and shortages of foreign currency and fuel. The Central Bank, tasked with turning around the economy’s fortunes, has previously forecasted that inflation would peak at between 700 and 800% before falling to between 220 and 230% by the end of the year. Critics blame President Robert Mugabe’s government for the economic meltdown. But the government attributes the country’s woes to sabotage by the West, led by former colonial power Britain in retaliation for its controversial seizures of land from white commercial farmers.” – *Nampa-Reuters*

#### 2.13.3 African News Dimension, April 23, 2006

“The Southern African Development Community (SADC) has set 2008 as the year by which member countries must have single digit inflation figures as the regional block advances its vision of common monetary union officials have

revealed. South African Reserve Bank head of international relations, Mr. Mshiyeni Belle, said South Africa is proposing that its rand be used as the common currency for SADC member states as the region common own currency. He told business journalists from SADC member states that the SADC Committee of Central Bank Governors (CCBG) was presently working hard to harmonise their systems toward meeting this vision although the process is still at its elementary stages and rather slow. Most countries in the region are using the rand for their transactions and they do not see the reason why it should be a major problem to use it as a common currency. They felt the only major challenge they might have is with Botswana, whether it will be prepared to use the rand instead of the pula since their currency is stronger than the rand. Mr. Belle said the rand is an internationally recognised currency considered legal in countries worldwide.”-

*Sunday News*

2.13.4 All Africa.com; Common currency for Southern Africa – more hurdles emerge; Zimbabwe Standard (Harare), News

The news that Southern Africa prepares for a common monetary area by 2018 have stirred more debate than progress. According to the article writer the requirement for a single digit inflation by 2008, doubts over which currency to use and political will to allow central banks to operate autonomously could prove costly to the talks. While the central banks of SADC have said the use of a common currency is a must and pencilled its debut for 2018 they are worried about the hurdles they face. An official adding that a Memorandum of Understanding has already been signed by regional central banks, said: “The Model Act presses against the involvement of civil servants from the central banks. Talks are still at rudimentary stages and are running slow because of doubts over which currency to take. The other question is: are politicians ready to let go of central banks because talks have raised debate on issues of sovereignty.” South Africa’s suggestion for the use of the Rand has not helped ease the debate either. Zimbabwe’s National Chamber of Commerce president, Luxon Zembe, said: “That is being bullish and South Africa is behaving like a big brother.”

#### 2.13.5 The Namibian, Monday, May 15, 2006

Zimbabwe's annual inflation stormed to a record 1042,9% in April. The CSO said that the consumer price index leapt by 21.1% from 19.8% in March as prices increased on an almost daily basis. The central bank raised its key interest rate to 800% to put brakes on spiralling inflation. Analysts say the government would have to borrow or print money to finance a 300% salary hike awarded to civil servants and soldiers ahead of the planed opposition protests.

#### 2.13.6 New Era (Windhoek), May 12, 2006 posted on the web by All Africa.com on May 12, 2006

On a common monetary system in the SADC region, Botswana's High Commissioner to Namibia, Norman S. Moleboge said "it is a question of treading carefully" as member states have already been talking about a common monetary system.

### **2.14 CONCLUSION**

Exchange control was implemented as early as 1299 and forms an integral part of the development of economic development and banking. At different stages exchange controls were changed to suit the economic conditions prevailing and each country decided on the exchange rate regime it wanted to adopt.

Central banks in SADC are responsible for the monetary policy in the country and are also responsible for the supervision of the commercial banks, except in the Republic of South Africa where supervision is outsourced to the Registrar of Banks. The formation of monetary unions has been reinforced by the increased pace of globalisation and freer trade.

Currency risk became an issue after the breaking up of Bretton Woods and no longer remains a matter for the government; it is now a matter for the private sector to address.

The Committee of Central Bank Governors (CCBG) is responsible to spearhead the regional agenda of economic integration in the financial and monetary area in SADC, and is currently basing their efforts on the example set by the European Union.

The progress of the 14 member countries is recorded and measured against the goals set for the SADC Monetary Union, together with newspaper articles reporting on the development of it.

Very little research has been done so far regarding the establishment a Central Bank for SADC; the closest to it was the study on the central bank for the CMA, which was done by the Bank of Namibia and a study done by LSE CREFSA, 1996.

The next chapter discusses the methodology applied in the study.

## CHAPTER THREE – Research methodology

### 3.1 INTRODUCTION

The purpose of this paper is to determine what affects the establishment of a SADC central bank will have on the way commercial banks are operating and also how it will influence the Namibian economy.

This chapter will thus determine the research approach to this topic. Before describing what is in this chapter it would be good to give some definitions from some authors of what research methodology entails.

Welman and Kruger (2004: 2) describe research as “the process in which scientific methods are used to expand knowledge in a particular field or study.”

According to Saunders *et al.* (2003: 3), “research is something people undertake in order to find out things in a systematic way, thereby increasing their knowledge.”

Research is not just a once-off collection of data, but involves a complete process which would include matters like:

- “Formulation of the research topic
- The critical reviewing of the relevant literature
- How to choose the research approach and strategy
- Negotiate access and address ethical issues
- Plan the data collection method
- Analysis of the data
- Writing of the research project” (Saunders et al. 2003: 7).

De Poy and Gitlin (1994) view research as multiple, systematic strategies to generate knowledge about human behaviour, experience and environment in which the thought and action process of the researcher are clearly specified (methodology) so that they are logical, understandable, conformable and useful (validity and reliable). Research methodology is essential in that it directs the researcher as to where critical decisions are made and helps to organise and plan the whole project.

Researching a topic is never easy and straightforward and is thus explained in more detail below. It is important to discuss the need for a clear research approach and the importance of this for the credibility of the research data, findings and conclusions.

This chapter presents an account of how the research was decided upon and then carried out. It describes the sampling, data collection, analysis and processing.

It is, however, important to mention that the preferred language used in this paper is UK English. This is selected due to the fact that most of the reading and literature are selected from the United Kingdom with a few cases from the United States of America. The quotations from US literature will be exactly as taken from the literature and the English used will be condoned, which will result in a difference in spelling for the same word in some instances.

## **3.2 RESEARCH APPROACH**

The research will take a qualitative approach, where the information gathered would be critically analysed against the initial objectives for the establishment of the Central Bank for SADC and the theoretical literature gathered. Through the use of qualitative methods the study is putting emphasis on the understanding of the topic. The study is focussing on understanding from the respondents (interviewees) point of view.



The study takes a subjective 'insider view' and considers a closeness to the data gathered. The study is done from a holistic perspective.

The paper could be seen as an evaluation study or a comparative study.

This project has a historical as well as a current and futuristic component. This would require the researcher to make use of preferably primary resources for the collection of data.

In as far as the project is concerned some of the key persons in the negotiations for the SADC Central Bank on the Namibian side will be interviewed and documents directly from these discussions, like minutes, reports, newspaper clippings will be examined. The research approach fits well with the research design in that personal interviews will be conducted to gather information. The interviews formed the approach of an informal discussion where a few basic questions were formulated, but the interviewees were prompted to elaborate on statements made during the discussions to obtain clarity or to get more information where possible.

### **3.3 RESEARCH DESIGN**

“A research design is the plan according to which we obtain research participants (subjects) and collect information from them. In it we describe what we are going to do with the participants, with a view to reaching conclusions about the research problem” (Welman and Kruger, 2004: 46).

There are two methods of sampling, namely, probability and non-probability sampling. According to Saunders, Lewis and Thornhill (2003) probability sampling can be divided into four stages, namely:

- Identification of a suitable frame in accordance with the researcher’s study objective.
- Deciding on a suitable sample size.
- Selecting the most appropriate sampling technique and sample, and checking that the sample is representative of the population.

“In a non-probability or purposive selection, the sample is the result of a process of selection that is intentional or non-random” (Groenewald, 1989).

In this research four groups of people will be interviewed to obtain data. They are from Government, The Bank of Namibia, Commercial Banks in Namibia and the Business sector in Namibia. From each sector the following individuals were interviewed:

<b>Government</b>	Deputy Minister of Finance	Hon Tjikera Tweya
<b>Bank of Namibia</b>	Governor	Mr. Tom Alweendo
	International Affairs manager	Mr. Abed Iyambo
	Senior Manager Banking Supervision	Mr. Wendley Shiimi
<b>Banking Sector</b>		
Bank Windhoek	CEO (not the same Hill as the one used in the literature review)	Mr. James Hill
First National Bank	Treasury Manager	Mr. Festus Hangula
<b>Business Sector</b>		
OLD MUTUAL	CEO	Mr. Johannes Gawaxab
Mutual and Federal	CEO	Mr. Gerson Katjimune
Namibian Stock Exchange	CEO	Mr. John Mandy
Barlow World Namibia	MD	Mr Deena Chetty
Investment Solutions Namibia	CEO	Mrs Vivian Craig-McClaren

The sampling technique used for this study is purposive sampling, which lends itself very well for the collection of qualitative data.

The reason for this is that the validity and the understanding gained from the data are more to do with the collection of data and the analysis skills, than with the size of the sample. The selection of the purposive or judgemental sampling technique allows the researcher to their own judgement to select cases that will best enable them to answer the research questions and to meet the research objectives (Saunders *et al.* 2003: 175).

It is decided to talk to four homogenous groups for the reasons as indicated.

1. **Government** – to get a view from the government why they have decided to support the initiative to establish a monetary union and subsequently the SADC Central Bank.
2. **Bank of Namibia** – to test the Governor’s view on the establishment of the common Central Bank and how it would influence the current establishment and whether the target date is achievable.
3. **The Commercial Banking sector** – to establish what impact the establishment of a monetary union would have on the banking sector in Namibia and what benefits they may reap from such establishment. The study also wants to determine whether the banks are ready for the establishment of the Central Bank and what resource requirements are expected from them.
4. **The Namibian Business Sector** – to determine how the business sector would be influenced by the establishment of a monetary union and the common Central Bank and whether they believe the intended implementation target is achievable.

Each person selected was called for an open discussion on the topic addressing their area of concentration. A number of questions were developed to form the basis for the discussion and these were specifically formulated for the different sectors seeing that each sector focussed on different aspects of the study. The questions were designed for each of the sectors. No questions were forwarded to any of the interviewees.

Each one was interviewed face-to-face and a free flow discussion took place. The questions served as a guideline to ensure the discussions remained focussed on the topic, although the sequence of the questions differed from interviewee to interviewee.

The possibility exists to use triangulation in the approach, but for the purpose of this study, the approach would only be qualitative of nature.

### **3.4 ETHICAL CONSIDERATIONS**

When conducting research it is very important that consideration be given to the ethics of the research. The definition of ethics is according to Churchill (1995) ‘moral principles and values that govern the way an individual or group conducts its activities.’

It is important to note that most business research deals with people and they have certain requirements when dealing with the information they entrust to you. That means that the researcher always has to comply with the ethical requirements.

For ease of doing research, the following ethical considerations helped when carrying out the work:

- People were only interviewed with their consent and knowledge. Participants were given enough information about the research in advance to make an informed decision to participate or not.
- No one was coerced to participate in the research
- No information regarding the nature of the research was withheld from anyone who participated.
- No participant was deceived in the attempt to get information from them.
- No one was induced to do something which might have destroyed their self confidence.
- In all cases the participant’s right to privacy was respected.

- All people who participated in the research project were treated the same, with consideration and respect.
- It is understood that all people who have participated in the research have a right to receive a copy of the study. This will be respected and a copy will be made available on request.

This is done according to guidelines provided by Dissertation by Business People. Thomson Publishers (White).

### **3.5 DATA COLLECTION**

#### **3.5.1 Documentary Analysis**

This research lends itself to a lot of primary and secondary data. In Namibia some research has already been done by the Bank of Namibia and LSE CREFSA on the establishment of the Central Bank for the CMA and SADC and some analysis has already been done which would be used in this study. The documents are recorded in the bibliography.

The minutes of the meetings regarding the establishment of the SADC central bank and other relevant information by both the government and Bank of Namibia would be used as data for this project.

#### **3.5.2 Interviews**

The interviews took the form of open discussions, more like an unstructured interview. This allowed the interviewer to probe the interviewee with the view of clearing up vague responses and also allowed the interviewer to ask the interviewee to elaborate on some of the responses.

The reason for this method was because the topic is currently still of a sensitive nature and the fact that the groups from which these interviewees were selected are quite diverse and require some elaboration on some matters to get clarity.

Semi-structured interviews allowed for some versatility in the way the data was collected. The questions prepared were all open ended questions where possible to allow the interviewees to elaborate as much as possible about the topic.

While the interviews took place the discussions were taped and transcripts were produced for record purposes and to state that the information disclosed was indeed legitimate and legal. Copies of such transcripts are attached to this document for verification

The interviewees were informed that all information received from them would be published and no confidential clause would be added to this document. Permission was requested to publish the information as received. Care has, however, been taken seeing that it is still a sensitive matter and no personal opinions mentioned by the interviewees were published unless permission was granted.

### **3.6 DATA ANALYSIS**

Qualitative data cannot be gathered in a standardised way, like that of quantitative data. According to Saunders *et al.* (2003: 379) there is no standardised approach to the analysis of qualitative data.

To make sense of all the data it was disaggregated into different categories. This allowed for systematic analysis of the data.

Adopting this approach essentially means that the nature of the data could be transformed which allowed the researcher to:

- Comprehend and manage the data
- Integrate related data drawn from different transcripts and notes
- Identify key themes or patterns from them for further exploration
- Develop and / or test hypothesis based on these apparent patterns or relationships
- Draw and verify conclusions (Saunders *et al.* 2003: 380).

The process was to categorise the data meaningfully related to the data – and they must then be meaningful in relation to the other categories. The initial categories especially where an inductive approach was used is likely to be descriptive.

Units of data were attached to each appropriate category. A computer was used to process the data. These units of data were collected from the transcripts, notes, reports, and minutes gathered during the research.

According to Saunders *et al.*(2003: 381) understanding this stage of the analysis process means that you are engaging in a selective process, guided by the purpose of your research, which has the effect of reducing and rearranging your data into a manageable and comprehensible form.

As the interviews progressed the related pieces were categorised in an attempt to maintain consistency. The related data was continuously tested against the hypothesis in order to test it.

“The interactive nature of data collection and analysis allows you to recognise important themes, patterns and relationships as you collect data” (Saunders *et al.* 2003: 385).

The analytical aids applied in this study are summaries of the transcripts, minutes, office documents, planning documents, briefings and self memos. The analysis of the research data took mainly a deductive approach where the existing theory was used to shape the analysis.

### **3.7 CONCLUSION**

The chapter gave some theoretical definitions from authors to explain the research process. The research was done through an evaluation or a comparative study. Non-probability or purposive sampling was applied and a number of interviewees from the following sectors were selected: Government, the Central Bank, Commercial Banks and the Business sector in Namibia. Due consideration was given to the ethical aspects associated with research. The data collection was done through the collection of primary and secondary data and interviews. The analysis was done through a selective process, which was guided by the purpose of the research and where the data was tested against the hypothesis.

A summary of the interviews are outlined next.



## **CHAPTER FOUR – Presentation of Data**

### **4.1 PRESENTATION OF RESEARCH FINDINGS**

#### **4.1.1 Governmental Perspective**

In an interview with the Deputy Minister of Finance in Namibia, Hon. Tjekero Tweya (Tweya, 2006), he stated that the decision to form a monetary union for SADC goes back to the whole issue of unity in Africa, in that Africa would now be liberated from the colonial regimes. They are now moving past the political struggle to overcome the economical struggle. They are now looking at uniting the reserve banks and to form a monetary union. To start this in initiative at an Africa level is too much, hence to form regions and to start forming monetary unions at regional level first before combining it to form an Africa Monetary Union.

The formation of a monetary union is mainly to encourage and improve trade amongst the member countries. Looking at the Common Monetary Area (CMA) it is noticeable that they do not have stringent rules regarding the movement of money specifically to integrate trade in the CMA member countries.

Tweya (Tweya, 2006) indicated that it would be good if the countries could take the experiences gathered in the CMA block to the bigger block, being SADC to assist with the establishment of the Central Bank for SADC.

The Deputy Minister confirmed that the political will does exist, in Namibia and some other member countries, to form the monetary union in SADC. There is, however, the issue of sovereignty and as much as the member countries want to have the establishment of the SADC Central Bank successfully achieved, as much do they want to cling to their sovereignty. There is also the issue where some of the member countries have stronger currencies as the others and they are very hesitant to give that up for other countries with less impressive currencies. As long as there was this big discrepancy, the progress would be slow.

This is what happened in Europe, hence the reason that Britain is still not part of the EU. Another issue that may pose restrictions to the establishment is the issue of employment threats for the countries employees. This is the area where economic issues become more political and politicians have a role to fulfill in terms of employment creation. The aim of this initiative does not necessarily aim to create employment for Namibians, but to create opportunities to work in other countries to build capacity and to equally participate in the other member countries' job markets.

What government expects as a benefit from this establishment is unity within this regional block. Namibia's vision 2030 states that it wants its citizens to have a full life compared to their counterparts in the developed world. The country cannot grow; neither can they get closer to that goal if it does not grow with the other countries that will enhance their capacity to grow to that stage.

Tweya (Tweya, 2006) sees the drawbacks for this establishment as the commitment of all players; not only the politicians but also business people that are involved. The region needs the buy-in of the business community as they also have to play a crucial role in the establishment and success of the monetary union for SADC and eventually Africa. To get their buy-in a platform needs to be created where these stakeholders can raise their concerns. You would also find situations where some economies will benefit more than others and some could suffer more. As politicians they are still responsible for their electorates. A country like Botswana will have to have good reasons why they want to join with other countries that have weaker economies than they have. There could be drawbacks in terms of trust. It could also be that some politicians do not want to be associated with other politicians who do not manage their economies well.

According to Tweya (Tweya, 2006), it is unknown as to whether government or the central bank has already engaged in a process to inform the other stakeholders.

Government, together with the input from the business community is now busy formulating the financial charter for Namibia, to at least ensure at a national level they are ready for this monetary union. The deadline for the completion is June 2006 and they hope to have it promulgated by the end of 2006.

From a governance point of view the country has a lot to gain from this monetary union, because the member countries can do better trading, they can negotiate better trading deals and they are in a bigger market. Another problem that might arise is the issue of who would become the Governor of such a central bank. Each country would like to protect its own interests and would like to be the head of that institution.

The logistics as far as the establishment of the SADC Central Bank is concerned would most probably be done the same as the tribunal, the SADC parliament and the SADC head office, which is having a host country and everything related to cross border activities would then be handled by that body, while the local business is still handled by the local body. The member countries would decide on a host country and also how the member countries would interact with the head office. The head office may set up policies and then allow member countries to implement the policies with minor adjustments specific to a particular country, depending on the local need.

Although the structure and the functions of this Central Bank is not clear at the moment it make sense to anticipate that some nationals will have to work at the head office as staff members. Quotas could be determined per country and staff could then be seconded to work at the head quarters for a specific period. These are, however administrative issues that can be dealt with at a later stage by the Committee of Central Bank Governors (CCBG).

Governments have to consider some sensitive matters regarding the staffing of this bank, e.g. the possibility of staff reduction. This is why they are reluctant to force the initiative though. It is clear that someone has to take the lead with the establishment of this bank, but who should drive it is not very clear. The question is whether it should be driven from a political level or by the governors of the different central banks.

From the Namibian government's perspective (Tweya 2006), they would prefer to see an African model being used as an example for the establishment for SADC central bank. The only African region that already formed a monetary union is West Africa and preference would be to look at their example for this bank.

In terms of exchange control Namibia is still working on the laws of 1954. They are slow to amend it because of Namibia's commitment to the CMA. Although there is a need to amend this law, the country does not want to send out signals which might endanger the current relationships. For this reason the Bank of Namibia is there to monitor suspicious transactions regarding exchange controls.

The deputy minister is of the opinion that it is possible for the region to have one interest rate provided one currency is used. There is however some technical issues that needs to be addressed at country level.

The currency is not something that he has thought of yet, but a specific procedure will be followed where people will be invited to make proposals and a committee will be established to make the decision about the currency.

At this stage there is also no clarity as to which country will host the Central Bank for SADC.

As the Ministry of Finance, they will still define the tax reforms for the country. The country still has its capital obligations and it is still the national government's responsibility to see that all capital developments required for the country take place.

To ensure that the deadline is reached, the process must commence; whether the deadline of 2016 will be achieved depends on the commitment of the various stakeholders in the process.

The biggest obstacle in the process will be the acceptance of the different economies and how long it will take for the politicians to accept these differences.

Tweya (Tweya, 2006) indicated that South Africa considers themselves the bigger brother in the SADC region due to the fact that their economy is so enormous. Botswana on the other hand is sitting with the biggest reserves in the region, which makes it a very rich country. It is understandable that there would be some resistance from the other member countries towards SA due to colonial times. Botswana on the other hand is considered a true African success story and the SADC monetary union initiative might expect some resistance from that angle. According to Tweya (Tweya, 2006) the main purpose of this monetary union is to create union in the region and subsequently in Africa, through the AU.

#### **4.1.2 Central Banking Perspective**

According to Tom Alweendo, the Governor of the Bank of Namibia (Alweendo: 2006) the establishment of the SADC monetary union is a stated target where the Heads of States of SADC decided to have economic integration, this usually means to trade amongst each other without, *inter alia*, having to realise taxes into duties. They are going to have a long term objective of having a monetary union which is much stronger than having an economic union. This basically means that they will have one currency and one Central Bank and that will actually mean one economy. This is what it means to have a monetary union.

Alweendo expects that the individual countries' economies would be affected positively in the sense that if there is something produced in Namibia there would be a bigger market in which the products could be sold without restrictions. There would be no currency restrictions, which would make it much easier to produce and to sell to Angola, Mozambique and wherever there is a willing buyer. Alweendo (Alweendo: 2006) stated that if, however, there is no production, it will mean that the country, Namibia, would probably end up only receiving and simply being a market for what others are producing. If a country in a monetary union is not able to produce something that they can market in the region, they would end up being the dumping place for what everyone else is producing because they are providing a market for their produce. The hope is that it will not happen in Namibia, that they can still produce something that can be sold to everyone else in the region. The region will not have many exchange rate risks due to the fact that they will have one currency with which they can do more.

Tom Alweendo (Alweendo: 2006) further stated that if the economies are integrated in such a way that they are similar in many ways the factors which actually producing inflation are the same, they are, therefore, likely to have the same inflation in the region. The region will then be able to have one interest rate chain as it will then be possible to rate inflation in the whole region. Alweendo (Alweendo: 2006) also mentioned that there is a process with seven criteria which each economy must first achieve before the region can even think about a monetary union. The region must first achieve the convergence criteria; inflation and the budget deficit, to succeed with this monetary union. To just form a monetary union would not work due to Zimbabwe's inflation rate of 912% and Angola's of 40%. There is a requirement set which prescribes that the region must be at a certain level of development before they would be ready to form a monetary union for the SADC region. There is no way the region can achieve this, as you cannot regulate all the economies with one interest rate and it is very different in many respects.

The central banks' role, not only the Bank of Namibia, role would probably be one of the convergence criteria with the inflation. Tom Alweendo (Alweendo: 2006) stated that the SADC criteria requires that if the region wanted to have this union, then they must have single digit inflation rates. It is normally the role of the central bank to ensure that the country achieves the single digit inflation, to manage inflation. The direct responsibility of the central bank would be to ensure the inflation rate is a single digit. Fortunately Namibia and all the CMA (Common Monetary Area) countries, already have single digit inflation rates. The CMA can already form a central bank, because they already meet all the criteria. If you look at Lesotho, Namibia, South Africa and Swaziland, they have already met all the criteria set to form a monetary union. The sentiment is to start the monetary union with those four countries and invite the SADC countries who meet the requirements to join one by one as and when they reach the criteria. According to Alweendo (Alweendo: 2006) that is how the European Union has done it. Alweendo (Alweendo: 2006) is of the opinion that Mozambique and Zambia will quickly catch up with the CMA countries. Alweendo (Alweendo: 2006) however stated that again, that it would be a political decision and that it would be for the Heads of State to say what they will do.

The concern with this monetary, union according to Alweendo (Alweendo: 2006), is that the politicians are not seen to be serious about the matter. Every year they have a SADC summit with Heads of State, but there is never any feedback on what they think about where the central banks are with this development. There is not really much of urgency, even with the smaller CMA countries. The idea of starting a Central Bank comes more from the central banks than from the politicians. It could be that politicians cannot see why they must drive the process, but the fact remains that are it is them that must initiate it. The final result could most probably be that SADC will not have a monetary union.

According to Alweendo (Alweendo, 2006), joining a monetary union would mean that countries will lose some autonomy and politically for some people that is unacceptable. They always want to feel that they have their own currency, have their own monetary policy and feel they are in charge. This is what is happening regardless of what people think of what would give you more goal and maybe tacit security on delivery. For countries like South Africa, having a monetary union would not give them much more autonomy, or that might mean that they have to share their power with other people. Currently they are in a position to dictate interest rates for example in the CMA. So for them they might not be in such a hurry. Overall, Alweendo (Alweendo: 2006) does not see progress being made in the short term. This is the same thing almost as with the African Union, the larger one. There is also a program to have an African monetary union, but this will depend on how the regions progress. Each of the four regions must first form their own monetary union, and then the four could come together and eventually form the continental monetary union. However, this depends on what happens to the regional unions.

The decision on where the Central Bank head office should be situated is, according to Alweendo, most probably one of the most difficult decisions to take and probably a sensitive one as well. The same applies to which currency the region is going to use. Is it going to be the Rand or would it be that of the biggest economy? He is of the opinion that the South Africans would most probably prefer to use the Rand, because it is already well known in the region. The smaller countries would say, since they are giving up their currency, South Africa should give up theirs too and start a new one. It is very unlikely that anyone would want to be known as using a particular country's currency. Those will probably vary in the debate. Alweendo (Alweendo: 2006) suggests the best way would be to use a new currency which everyone must embrace otherwise someone might feel cheated out by using another country's currency.



In terms of the location, Tom Alweendo (Alweendo: 2006) is of the opinion that the best would be to come up with some criteria for the location of the Central Bank for example it should be in a country which has a specific kind of infrastructure? This would be much easier. It cannot simply be said that must be Namibia or it must be South Africa. The best would be to select the country that has the kind of infrastructure that would support a central bank.

Alweendo (Alweendo: 2006) mentioned that the European Union has been used as a benchmark for the establishment of the monetary union for SADC.

According to the Governor of Namibia, the biggest obstacle for the success of this establishment would be the political commitment in the region. They are the drivers, and one can only drive something if you are convinced that is a good thing. Politicians are not likely to be seen as doing something which they think their people would not like. But so far no one has really tested the public's view to determine whether it is a good thing or not.

On the question of whether the central banks in the region are ready for implementation, Alweendo (Alweendo, 2006) indicated that the establishment of the monetary union, common Central Bank and common currency is actually an easy process. It is managing the political process which is the hardest part. The Central Bank part is very simple to implement and Alweendo (Alweendo: 2006) does not see a problem with that.

The International Affairs Manager of the Bank of Namibia, Abed Iyambo (Iyambo: 2006) stated that to fulfil the attempt to form a monetary union, a number of things are required before a country can qualify to form part of the monetary union. The main Macro economic indicators for SADC are not achieved yet. The SADC Secretariat wants a single digit inflation rate and the budget deficit should be less than 5% of GDP, which forms part of the convergence criteria that need to be achieved.

Iyambo (Iyambo: 2006) stated that there are primary and secondary indicators that need to be achieved before the monetary union could be established. Namibia does not have a problem with it; in fact Namibia already meets all requirements in terms of almost all the indicators. Only a few countries meet the requirements like Botswana, South Africa, Lesotho and Swaziland – the CMA countries. The other African countries do not meet the requirements yet and they struggling so far. The Angolan inflation rate is 31% and if they want to come to a single digit inflation rate, they really have to do a lot. Countries like Angola will have to cut on their fiscal policy, but the secretariat has to be mindful that Angola is coming out of a war and has to spend a lot of money to repair the country. There is no way that Angola would be able to bring down inflation right away. Zimbabwe's inflation rate is close to 2000%, Zambia is 17%. The average inflation rate for SADC is 37%, which is frighteningly close to 40%.

Iyambo (Iyambo: 2006) also stated that the guaranteed debt should be less than 60% of the Gross Domestic Product (GDP), but Zambia's is 152%, Malawi is at 151% and DRC 162%. Namibia is at 33%, which indicates that they are already there. There are countries that are ready, but there are those that are not ready. With the conflict that is taking place in countries such as the DRC it is not conducive for the establishment of a monetary union. It does not make sense to go into a monetary union with such countries.

Iyambo (Iyambo; 2006) said the best way to go ahead with the establishment of a Central Bank for SADC, would be to start with the CMA first and set up an established monetary union which can serve as an example. Then criteria could be set to ensure the countries meet the requirements for a monetary union. According to Iyambo (Iyambo; 2006) that would be the best option. The only thing that can be done is to set the criteria and determine that if a country does not meet the economic indicators by 2016, they can be left out. The region can then go ahead with the countries that are ready.

The problem with this inclusion is that there is no certainty that the countries will stick to those criteria. They can actually fall back, but once they are part of the monetary union, there is not much that can be done about it. The problem is that they can be allowed to withdraw, but once they withdraw, it will weaken the currency due to the fact that it will create a picture of instability that has a great effect on the value of a currency.

According to Iyambo (Iyambo; 2006) the main benefit that Namibia will gain from forming part of the monetary union is that there will be no need to exchange the currency to another whenever someone visits any of the SADC countries. The next benefit is the elimination of the exchange risks. As the lender of last resort, the Central Bank could draw funds from a larger pool of resources. The other benefit is the reserves, if Namibia is out of the monetary union they will have to keep enough reserves to cater for three months worth of imports. Becoming a part of the monetary union means all these reserves are pulled together and there will be enough funds to cover for imports. Iyambo also stated that Namibia will benefit from intra-trade through one currency.

Iyambo (Iyambo; 2006) indicated that one of the drawbacks of becoming a member of a monetary union would be the loss of the country's monetary policy as Namibia will not have an independent monetary policy anymore. In cases where the market (financial markets) is not well developed the country is likely to have some capital outflows and the country would have no control over it. According to him all money will go to South Africa where there are a lot of instruments to invest in. In a monetary union it would be difficult to enforce those restrictions that are currently in place. Countries will have no power to keep the money in their country of origin. In the monetary union they will have to give up some of their limitations. With the fiscal policy there will be some restrictions.

Iyambo (Iyambo: 2006) considers politics as the number one stumbling block followed by convergence.

As far as the deadline for the implementation of the Central Bank for SADC, Iyambo (Iyambo; 2006) stated that 2016 is not too far, it is just around the corner and politicians are different people. If they agree everything is possible politically. From this point of view everything will just come around. The establishment of a monetary union for SADC is a political decision, it is not really economics.

Iyambo (Iyambo; 2006) stated that the banking sectors were the ones that would be affected directly by this monetary union as they would have to establish the payment systems in the region and as financial institutions, they would have to be inter-connected.

Iyambo (Iyambo; 2006) also stated that to a larger extent there are already some connections between the different banks in the CMA. The countries that are not in the CMA are trying to strengthen their correspondent banking. The inter-connection between the banks is already there, what the region has to do is to strengthen it.

Wendley Ipumbu Shiimi current Senior Manager Banking Supervision and also the Chief Economist of the Bank of Namibia (Shiimi; 2006) stated, “To enable SADC to form a monetary union the economic structures in the region should be the same. Trading should be developed and the infrastructure should be established to make it work. This means that the region should have one currency and one common body that would be responsible for setting the policy and determine the interest rate for the region. The participating countries will have to do away with their individual central banks. The common Central Bank will be responsible for determining the economic indicators for the region.

Shiimi (Shiimi; 2006) also indicated that “the political will is the key determinant to integration. For Namibia it makes sense to integrate. Namibia is a small country with a small economy.

The more the country opens up, the more investment opportunities it will create. In the process Namibia will have to give up some autonomy and the way they are setting their budgets. The fact that Namibia forms part of the monetary union, would give the country additional political power at a much wider level in the region. The integration could only work if every member country agrees to give up some of their power at a country level. They will have to jointly agree on common budgetary issues and the appointments of the Governor, among others. Giving up autonomy is the most important aspect in the development of the monetary union.

#### **4.1.3 Commercial Banking Perspective**

On the onset of this research, it was clear that some of the commercial banks are not aware of the ongoing process to establish a monetary union and the subsequent common central bank and currency. However, they view it as a very positive development. James Hill (Hill, interviewed, 2006) CEO of Bank Windhoek stated the idea of a monetary union and regionalisation has become quite an important factor and that it would have significant positive effects on the economies of the region as well as for business efficiencies. For banking specifically it would make their life a lot simpler. The fact that the region would have unity of regulation, would lead to consistency and the free flow of currency and perhaps the free flow of money between countries. In terms of efficiency in banking, it would increase the bargaining power in the region. Hill is of the opinion that in terms of the greater vision of unity in Africa, it would be a strong building block for that as well.

The commercial banks foresee cost implications for the banking sector in preparation for this development, but they are all of the opinion that the benefits will outweigh the cost, because one would imagine that the region would have a universal set of powerful processes. They expect that the tricky part would be the integration with the legal environment and the political environment.

According to the Treasury Manager of First National Bank of Namibia, Festus Hangula (Hangula, 2006) the establishment of a Central Bank for SADC would have some policy implications and the private sector needs to be consulted in time. He indicated that a huge amount would be invested in the different systems and procedures that need to be updated so that it could be in line with the requirements set by the SADC Central Bank.

Hangula (Hangula, 2006) is of the opinion that the SADC members should be in agreement by this time in terms of the SADC Central Bank, which means that they will have to start communicating to the stakeholders to ensure that they have the buy-in from them. The more the commercial banks know about the development of this bank, the better.

Hill (Hill, interviewed, 2006) is of the opinion that the target of 2016 for the establishment of the common central bank is a reasonable target provided that consensus is reached quite early on what the purpose and the vision of the bank is. He also feels that the political and economical will exists to do it, because a lot of work will have to be done; considering changing laws, harmonising procedures, harmonising legal arrangements and taking fundamental economic decisions. Trading with a single SADC currency would mean a lot of political decisions and economic decisions will have to be taken on what the conversions would be.

It is clear that the expectation exists that the central banks should communicate about the progress made seeing that they have the technical capabilities to answer the questions regarding the establishment of the Central Bank for SADC. The central bank must decide, like in Europe, who would be the benchmark. As Germany was the benchmark for Europe, South Africa would most probably be the benchmark for SADC. According to Hangula (Hangula, 2006) if the economies of Italy and France are put together, they would easily equal the economy of Germany. In the SADC region it is different, if all the economies in SADC are combined; they would still not come close to that of SA.

He also indicated that there would be a few governments that would not like SA to be the benchmark.

According to Hill (Hill, interviewed, 2006), the establishment of a monetary union would simplify the payment systems in the region very much. At the moment there is exchange control inside SADC, although the CMA does not have exchange control. This factor definitely makes it more difficult for banks to operate efficiently. A centralised payment mechanism would greatly increase efficiencies of scale. It will underpin a lot of things that are based on efficient payments, like trade flows, and stock exchanges and the integration of stock exchanges and other markets. Market efficiencies will increase as well.

Hangula (Hangula, 2006) indicated that through this monetary union, exchange controls in SADC countries will fall away. Transactions would become local and parties that are currently making money out of exchange controls will suffer. For the normal consumer there will be the benefit that money transfers will become cheaper as it will be the same currency.

Hill (Hill, interviewed, 2006) is of the opinion that inflation targets would be manageable in this environment. The uniqueness about the SADC region is the dominance of South Africa in the economy. Whatever happens in South Africa would be the driving force in terms of SADC. The moment it becomes African the balance will be different because it will be the big economies of South Africa, Egypt and Nigeria that will be driving the processes. He further stated that the SADC region is in any event economically dependent on South Africa to a degree and that trade flow is heavily biased toward South Africa. In the natural course, these countries are subject to South African economic forces. What happens at the moment is, the relative size of the smaller economies makes it more difficult for them (SADC) to manage policy. For example, Namibia can never have an interest rate that is significantly different from that of South Africa, perhaps half a percent, but it cannot be two percent.

The reality of it all is that it will not be feasible to have significantly different monetary policies in the different countries as it stands right now.

Hangula (Hangula, 2006) stated that the common central bank should have the ability to set a monetary policy that impacts all member countries. Some countries will have to decrease their interest rates like Zambia, while a country like Botswana will have to increase the interest rate.

In terms of the financial markets the monetary union would benefit the markets greatly; it will drive integration of markets. According to Hill (Hill, interviewed, 2006) if a monetary union is achieved, market efficiencies must automatically improve. It involves a flow of information and a flow of funds, which is not easy. It is now possible to convert currencies so that the flow of information is a lot more *immediate*. Parity is improved in the sense that the region can now make true economic assessments. Hill is also of the opinion that a monetary union will open up the markets more efficiently, because at the moment the markets are still isolated, subjected to and hindered by a lot of regulations. For example when looking inside SADC it is not particularly easy to move money for goods from Namibia to Zambia because of a lot of other administrative burdens. This would be a part of the process of releasing trade barriers, because effectively financial barriers amount to trade barriers as well. In his view this will benefit the process and remove barriers.

From a commercial banking perspective, the first benefit that the region is going to derive is interest rates. For example like Bank Windhoek, who are investing in Bank Gaborone, may be investing elsewhere in Africa. A challenge at the moment is the currency differences. For example the pula at the moment may be depreciating. As an investor that makes life very difficult, one currency for the region will make currency and investment decisions a lot easier. If it is known that there would be a free flow of funds; it would make it a lot easier for Namibian investment in SADC.



It will benefit Namibian banks as potential investors into other African countries, be it in SADC or South Africa. In terms of competition; it is a given that it will increase competition between banks.

Looking at the economy as a whole, the fact that Namibia forms part of a bigger regional unit, the banks are of the opinion that from a global investor perspective it will also increase comfort. Hill (Hill, interviewed, 2006) is of the opinion that anything in the region where there is stability will improve the economic stability of the region, because now, and it is seen in Europe- where it is in the interest of a country to do something – the fact they are now part of a bigger decision making process, means they have to think a little more carefully now about how they position themselves in the region. It may also lead to a more pragmatic behaviour by the individual countries themselves in terms of the micro economic policy. The banks are very supportive of the idea of a monetary union for SADC. The one big drawback is that a political decision may not be effectively implemented economically, because a political decision and a lot of politics revolve around economics. The monetary side of the political decision cannot be implemented but the physical side may be. The problem is that the physical side may only be a portion of what is necessary to deal with the economic solution and you may not be able to deal with the full solution, because there is now constraint on the other side.

On this issue Hangula (Hangula, 2006) was of the opinion that economically Namibia would have a problem due to the fact that if they do not have effective processes to provide products to the market, they will be overtaken by a number of countries. Another problem that might occur within SADC is that people will flock from one end of the region to another. The biggest concern is that most will end up in South Africa. The question would be whether SA would be willing to take the risk. With the establishment of the common monetary union there would be no incentive for people to stay in their own country due to the differentials that prevail in the SADC region.

In Europe, due to the fact that the differentials were so small, there were no incentives for people to move from one country to another. According to Hangula (Hangula, 2006) it is clear that more research needs to be conducted to look at the comparability of the countries in the region in terms of their economic development.

If Namibia had a bigger pool of funds that is accessible to everybody it, would actually stabilise the liquidity risks on banks according to Hill (Hill, interviewed, 2006). One of the situations in Namibia is that although there is a free flow of funds between Namibia and South Africa, the situation is that in real terms there is a significant amount of investment that is not in Namibia, but actually in South Africa. Because of this the volatility of flows between Namibia and SA is very high. The idea would be that a single monetary union and a single currency would mean that that issue actually becomes irrelevant, because it would no longer be Namibian money that sits in SA. It is now the regions money that remains in the region. This also comes at a price of the perception of political independence, now suddenly it will not be the country's own currency and there would not be a central bank local that will take local decisions. According to Hill (Hill, interviewed, 2006) the biggest challenge would not be with the banking side or the economic side, but more on the political side where the real challenges will take place. Globally there are four main currencies today; US Dollar, Euro, Yen and the Pound. Compared to those currencies, the single currency of a regional country such as Namibia would be insignificant. Even an African currency will be significantly stronger than what we have today and it would probably be one of the top ten currencies in the world, but it is a long shot away from the real leading currencies mentioned, although it is also a long step away from the small currencies of this small economies.

On the question whether SADC should use the European model or an African example when establishing the monetary union, Hangula (Hangula, 2006) stated that the only African example is West Africa who pegged themselves to the Franc. He indicated that the CCBG should also look at the real reasons why Norway and the UK did not join the EU although both of them qualified. Hangula (Hangula, 2006) is of the opinion that there are some underlying economical reasons, although people are made to believe the reason was political of nature.

Hangula (Hangula, 2006) is of the opinion that SA is the driving force behind this monetary union. Hangula (Hangula, 2006) is also of the opinion that there are a few SADC countries that are not ready for this monetary union yet, while some others might not be interested at all at this stage. Hangula (Hangula, 2006) is also of the opinion that if the region wants this union to work, they must take the four CMA countries plus Botswana who are already meeting the requirements and start the process with them. The other countries should then be invited to join as they meet the requirements.

Hangula (Hangula, 2006) is clear on the fact that SADC should not only be looking at the monetary requirements, but also the fiscal requirements and see if the country's debt ratio per capita is reaching the level of 5% of GDP. Government spending needs to be controlled to ensure that targets are met. Hangula (Hangula, 2006) stated that to achieve these targets, it should form part of the governors' performance agreements and they should be held accountable for achieving it.

The type of changes expected by the commercial banks is in the area of banking supervision. If the current developments where the banks have to prepare for Basel II be implemented it would be acceptable, but if they change to a different method, the convergence would be cumbersome.

#### **4.1.4 Namibian Business Perspective**

The Managing Directors who agreed to participate in these discussions heard about this development very informally or through their involvement with the Central Bank of Namibia.

According to Johannes Gawachab (Gawachab: 2006) it is important that Africa starts looking at harmonising their monetary policy to enable a competitive advantage in the world. Eventually the world will be dominated by three to five prominent currencies, like the one currency that is being used more and more in the world and that is currently dominating the world economies; the US Dollar. The next one after the US Dollar would most probably be the Euro. He expects the next strong currency will come from Southeast Asia; China, Japan and India – such a currency will be very strong. Unless Africa starts thinking about a monetary union it would place itself at a very competitive disadvantage. It would be more beneficial for Africa if trading could take place using one currency, instead of many different currencies. Global trading would be much easier if one currency is used. He indicated that one of the main reasons a country has a central bank is to enhance economic growth for the country, which then means that having a central bank would initially enhance economic growth for the region and ultimately for the continent.

Another participant John Mandy, CEO of the Namibian Stock Exchange (Mandy: 2006) expressed concern on how the region would make one central bank work if they have different laws, different exchange rates and different currencies. The region should first have one currency before they can have one central bank.

Gawachab (Gawachab, 2006) stated that it is quite easy for Namibia to trade in the CMA seeing that their monetary instruments are basically the same, although all CMA member countries have their own central bank and currency. Should political issues been taken away, the South Africa Reserve Bank could be considered the central bank for the CMA.

The monetary union for SADC would provide to investors in Namibia a bigger universe to invest in. Having bigger instruments to invest in, it is expected that the efficiency of the markets would be much better and the price discovery would be much better than it is currently.

Gawachab (Gawachab, 2006), Mandy (Mandy: 2006), Chetty (Chetty: 2006) and Katjimune (Katjimune: 2006) stated that Namibia would greatly benefit from such a monetary Union in the sense that the market will expand tremendously, provided the country has the products to offer at the right pricing structures. Mandy (Mandy: 2006) is also of the opinion that with the convertibility of currency happening real time, business will be more secure and settle faster. The current process where an application must be made to the central bank to secure funds for international deals, results in deals been lost due to the time it takes to secure these funds. The benefits of having a monetary union for SADC will create less volatility in terms of exchange rates and where price issues are concerned. According to Deena Chetty, Group CEO of Barloworld Namibia (Chetty: 2006) the SADC region would be seen as an attractive destination for foreign direct investment. There would be lots of savings in terms of currency design, printing of money, and distribution of money. The monetary union would lead to more labour mobility for a country like Namibia where there is a shortage of managerial, executive and technical skills. He considers the biggest drawback to be the fact that politicians do not publicly announce their support for the establishment of the monetary union for SADC, even if they do support it privately. Gerson Katjimune, MD of Mutual and Federal Namibia (Katjimune: 2006) stated that the benefits a country will gain from the SADC monetary union would be the fact that, although the countries will still have borders, barriers will fall which will allow for free movements of goods and the capacity in the region of skills will be enhanced where people move around in the region much more easily. He sees the fact that Zimbabwe is not conforming to the SADC protocol and the fact that none of the other member countries say anything about their behaviour as a drawback to the development of the SADC Central Bank.

He further stated that the fact that the member countries are at different levels of development may be a hamper in the development of the common central bank and monetary union.

On the question of whether the CMA would be a good basis for the establishment of the SADC monetary union, Gawachab (Gawachab: 2006) was of the opinion that the different levels of development of the SADC countries makes it difficult to go for a “big bang” approach. It would be better to take something that is working like the CMA, evaluate the political situation and develop the SADC monetary union from there. Notice should be taken from the European Union and the role the three dominant economies, Germany, France and Italy are playing and try to reduce the same type of sentiments and gradually move towards a common monetary union. To take a “big bang” approach would definitely take the region years back in terms of development. According to Mandy, (Mandy: 2006) if the CMA should serve as the starting point for the establishment of the SADC monetary union, they have to first get their own single currency and not use different currencies as is currently the case. Chetty, (Chetty: 2006) believes a gradual integration would be the more appropriate approach, seeing that not all member countries would be ready at the same time. He is of the opinion that a “big bang” approach has a better chance of failure than gradual integration.

Gawachab (Gawachab: 2006) is of the opinion that the structures for the SADC monetary union must be set up in such a way that they prevent strong economies from dominating the establishment. They could look at the European model to set up a workable model in Southern Africa which is acceptable to all member countries. There is a possibility that South Africa could dominate the economy; they cannot be blamed for the desire to protect their economy and their currency.

On the question of whether the political will exists to make this SADC monetary union a reality, Gawachab (Gawachab: 2006) indicated that that must be considered the biggest challenge in setting up a SADC Central Bank.

The political will to let go of a country's monetary policy and own currency, is a difficult decision and might be something that will delay the process. Mandy (Mandy: 2006) is of the opinion that the SADC Secretariat is not geared to ensure the success of the SADC initiatives. What he sees happening is that instead of the targets to form the SADC being enforced, the member countries are imposing more and more restrictions. Chetty, (Chetty: 2006) is of the opinion that the political will does exist to make this establishment a reality. He thinks the political will has pockets of commitment like South Africa, with their view of the African renaissance, is committed. Zimbabwe, on the other hand, is questionable as to whether this would suit their political engulf. On the Namibian front Chetty is not clear what their sentiments are as he has not hear anything from the political side about this establishment, although he has heard what the governor of the Bank of Namibia said about the establishment. Katjimune (Katjimune: 2006) is concerned about politicians that are not committed to issues that they have agreed upon initially. He specifically refers to Namibia's reluctance to sign or ratify the earlier agreement in terms of the peer review for the SADC member countries. The same could easily happen in the region where all member countries agreed upon the monetary union, but come implementation time, they would be reluctant to perform. Katjimune further states that the political will might exist but it is underlined by certain laws and if the region's laws are not common, there would be reservations to subscribe to the protocol.

Gawachab (Gawachab, 2006), Mandy (Mandy: 2006), Chetty (Chetty: 2006) and Katjimune (Katjimune: 2006) stated that for this initiative to work, either government or the central bank should start communicating to the market to enable them to prepare for any changes that might influence their business, like some long term investments that might be required. They are of the opinion that the communication element in such a development should never be underestimated as it is important for a number of reasons;

Long term decisions such as technology and systems and from a buy-in point of view. Craig-McClaren (Craig-McClaren, 2006) stated that there would be an immediately delay in financial transactions. It is already evident in the Namibian environment. The transfer of money from one account to another takes quite some to be cleared and might deteriorate with the establishment of the common Central Bank.

According to Mandy (Mandy: 2006) he attended a CCBG meeting where the issues were debated at length and all agreed to the concept and they have everything in place for the common central bank, such as the fact that the Governor will only have two terms, corporate governance is in place and a model bill is developed for the central banks. There is progress; however, he is concerned with the amount of information that is communicated to the community regarding this establishment.

On the target to reach a single digit inflation rate within the next two years, Gawachab (Gawachab: 2006) indicated that the region might not achieve this within the next two to three years, but the region will definitely reach this target between five to ten years. He stated that it is crucial that the member countries be given a deadline by which they have to reach the targets set by the SADC Secretariat, before they can become members of this monetary union as it was done by the European Union. Mandy (Mandy: 2006) is very confident that the region could reach that target at the date set, only Zimbabwe is a matter of concern as the other member countries are very close to the target. His concern is more on whether the countries are using the same methodology to determine the inflation rate.

Gawachab (Gawachab: 2006) suggested that either a purely African flower or animal should be used to name the currency; he further suggested that the currency be called the Madiba. He also suggested that the SADC Central Bank be hosted in Botswana because the country has a strong currency,



a stable economy and shows economic growth. South Africa would also be a good choice, due to the country's high economic development and the good infrastructure. According to Mandy (Mandy: 2006) the SADC Central Bank should be hosted by a member country that has a stable environment, good infrastructure and something that is the centre of the universe, and if it is in South Africa, it should be put in Johannesburg. On the currency issue he stated that a different currency should be used, which is not associated with any of the currencies of any of the member countries at the moment. This is important to allow all member countries to buy into it. Chetty (Chetty: 2006) on the other hand, suggested rotating head quarters with satellite branches in every member country. He agrees with the other participants that a different currency should be created for SADC.

## 4.2 CONCLUSIONS

A short discussion is provided regarding Namibia's commitment to the establishment of the monetary union for SADC. The interviews conducted by the different participants are summarised under the headings Government perspective, Central Bank perspective, Commercial banking perspective and Namibian business perspective.

In the next chapter a critical evaluation will be given on the findings, with some recommendations, limitations of the study and suggestions for further research.

## **CHAPTER FIVE – Analysis, Recommendations, Limitations and Conclusions**

### **5.1 INTRODUCTION**

This chapter will provide a critical discussion and evaluation of the information gathered through the literature survey and the interviews conducted. The researcher will discuss the problems associated with the establishment of the SADC monetary union and then evaluate the feasibility of the establishment of a central bank for the region.

The chapter will also include some recommendations that might assist the participants in SADC in achieving this goal. It will then include a number of suggestions for further research that could be conducted on this topic.

### **5.2 CRITICAL DISCUSSIONS**

Considering the fact that the SADC region has to deal with 14 different currencies it would be advisable to endeavour to get one currency for the region. This will definitely address the difficulty that is currently encountered with the exchange control issues. It is expected that problems will arise when the monetary unit to be used, is determined. It will almost seem that the countries with the strongest political power will eventually be the deciding factor in the establishment of the monetary union. Considering the situation today, it is easy to expect that South Africa, which is the dominating economy in the region at the moment, will also play an overwhelming role in setting the trend and standard in this establishment. It is, however, not to say that South Africa will necessarily get the overall power due to its size in the economy. One of the biggest problems that might be expected could come from Zimbabwe, which is the country with the largest population and Botswana with the strongest currency in the region, who both form part of SADC.

The possibility exists that they will oppose SA strongly due to the fact they may not want to subject their economic activity and decisions to that of a combined regional decision that might be dominated by South Africa.

The establishment of a central bank for SADC sounds like a wonderful idea. Although good collaboration exists in SADC, it is known that African governments are power driven and have forever had territorial in-fighting, even if they have sworn solidarity against the colonial oppression that took place in the past. A country's sovereignty is measured by the fact that it has its own currency and central bank. The fact that one central bank has to make monetary decisions on their behalf could be a problem as it will rob the member countries of their sovereignty. As stated by Mishkin (2001) the different central banks, although they follow the same principles, have different considerations regarding the monetary policy they engage in.

The commitment of the Namibian Government to the Economic and Monetary integration agenda is purely a political issue. To form a monetary union is a major foreign policy decision, and is thus considered a matter for elected politicians. In this case the Central Bank cannot express an opinion apart from providing the politicians with advice on the matter. The purpose of the Central Bank is to execute the monetary policy decided upon at political level.

On the question as to why Namibia should engage in the formation of a monetary union, the resolution would be that (1) monetary union is seen as a way of reinforcing regional cohesion and (2) demonstrating a commitment to regional solidarity. This is further stimulated by the successful launch of the Euro.

The review of the study about the establishment of a monetary union and ultimately a common central bank and common currency for SADC is already at an advanced level of development. The monetary union is an initiative of the SADC Heads of State in an attempt to harmonise financial and payment policies,

to boost intra-community trade in goods and services, to further the attainment of the objectives of the community and to enhance monetary and financial co-operation among members. It is important when establishing the monetary union that the agreement amongst the members should be a matter of full participation and decision making to prevent one or two members from dominating the processes. Monetary union in the region will allow all member countries to have a say in the monetary policy of the region.

The SADC Secretariat decided to form a monetary union for a number of reasons; one is primarily aimed at stabilising the economy. Monetary policy consists of attempts by the Central Bank to control such monetary aggregates such as money supply and short-term interest rates. The need for a common currency and monetary union is an initiative of the OAU and now, the AU. The formation of monetary unions has been reinforced by the increased pace of globalisation and freer trade. The monetary union is seen as a way of reinforcing regional cohesion and demonstrating a commitment to regional solidarity, which is also the main political reason for agreeing to the monetary union in SADC. The creation of a monetary union is to improve macro-economic stability through the establishment of monetary policy credibility. This is important to attract investment and improve economic growth. From the SADC perspective the formation of a monetary union is mainly to encourage and improve trade amongst the member countries. Countries resort to exchange control to protect their balance of payment position and foreign reserve position. The Government of Namibia demonstrates commitment to regional and monetary integration through their membership on the CMA, SADC, SACU and the AU. The Deputy Minister of Finance of Namibia also confirmed Namibia's commitment to the progress during the interview. There is, however, the issue of sovereignty and as much as the member countries would like to see the regional and monetary integration, just as much they would like to cling to their sovereignty, which is best demonstrated by having an own central bank and own currency.

Monetary integration must be viewed in light of the economic development of the countries involved. A monetary union would be difficult to form with countries that do not meet a pre-determined set of standards required to make such union acceptable at a global level. The development objectives set by the SADC Secretariat is a good basis to direct the economic development of the region to ensure a smooth economic integration. To achieve the development objectives described in chapter four, a number of reform programs need to be undertaken by the member countries, depending on their level of economic development. It is, however, important to emphasize that the countries require the political will to make sure these reforms are followed through and are going to work. Each of these countries has different exchange rate regimes that need to be converged into one regime to form a monetary union. With the exception of Zimbabwe all member countries achieved a positive growth rate for the period 2002 -2003, which is in line with the requirement set by the SADC Secretariat. The money supply growth averaged an expansion of 34.5% in 2002 and 50% in 2003. Again it was Zimbabwe that distorted the figures with money supply growth of 164.8% and 413.5% in 2002 and 2003 respectively. Excluding Zimbabwe, expansion of broad money supply in the region fell from 23.6% in 2002 to 20.2% in 2003. Apart from Zimbabwe and Angola, money supply growth in the remaining SADC member countries appears to be within controllable levels. The average inflation of the SADC region drastically increased from 28.8% in 2002 to 43.6% in 2003. These figures are completely skewed with the inclusion of Zimbabwe and Angola. Angola showed great improvement with inflation that came down from 116.1% in 2002 to the latest average of 21.98% in 2005. With the exclusion of Zimbabwe and Angola the average rate of inflation for the region improved from 11.3% to 8.7% for the period 2002 -2003. Nine countries posted an annual inflation rate of less than 10% in 2003, which is well in line with the target set for 2008. A fiscal deficit of less than 3% of GDP needs to be obtained up to 2008. All countries in SADC registered a deficit in 2003. However, it came down from an average of 4% in 2002 to 3.7% in 2003, which could be seen as a positive step towards the achievement of this goal. The economic indicators mentioned are a clear

indication that the member countries are serious about ensuring that their reform programs show positive results. It is only Zimbabwe that deteriorated since they started with these programs (newspaper articles five and six).

It is a fact that the potential benefits will only be realised over a long period of time, but the costs associated with this establishment are immediate. The costs and benefits would be determined by the form or degree of monetary integration selected. SADC opted for a full monetary union, which is a currency area with a single currency issued and which is managed by a single central bank. It is also expected that the monetary union will record great savings in terms of currency design, printing and distribution and international reserves.

The expected benefits of the monetary union for SADC are as follows: It will eliminate the cost of foreign currency transactions and the facilitation of intra-trade. Exchange rate risks will be eliminated in the region as a result of the common currency. The region will experience economic integration, to trade amongst each other, without having to realize taxes and duties. Individual countries' economies will be affected positively as there would be a bigger market to trade in. Trade in the region would be enhanced by the fact that there would be no currency restrictions. The exchange controls in the region will fall away, which means that transactions will become local. The benefit that government expects from this establishment is unity within the regional block. The fact that the region would have unity of regulation, would lead to consistency and free flow of currency and money between the countries. In terms of efficiency in banking it would increase the bargaining power in the region. The establishment of a monetary union in the region would simplify the payment systems in the region. A simplified payment system would increase efficiencies of scale. It will underpin a lot of things that are based on efficient payments, like trade flows, and stock exchanges and the integration with stock exchanges and other markets. Market efficiencies will also increase.

The normal customers or nationals will greatly benefit in the sense that money transfers will become much cheaper, seeing that it will be one currency. Inflation target would be manageable in this environment and it greatly benefits commercial banks and businesses when they would like to invest in member countries. The currency differences that currently create problems in terms of investments will now be eliminated. Liquidity risks for banks will be stabilised due to the bigger pool of funds in the region. The monetary union could increase trade volumes further due to the elimination of different currencies. More benefits can be received by the stronger credibility of the common central bank and savings could be substantial.

It is impossible to discuss the benefits of this monetary union initiative without considering the possible drawbacks the region might encounter as a result of the establishment of the central bank for SADC. Fiscal policy will require tightening, which would have an adverse effect on the capital expenditure that is required in the member countries. Being at best a developing country means that substantial capital developments, such as road construction and building of dams for example, are still required and putting restrictions on fiscal policies which results in these capital projects might hamper development. The lack of political commitment may prolong the process, also commitment from other role players, not only government. This commitment could be ascribed to the fact that with election of office bearers, promises are made to the population to ensure the appointment of politicians. Each one of them would prefer to serve more than one term if possible. The establishment of a monetary union might mean that certain of these promises will not be realized, hence the reluctance of politicians to completely conform to the requirements to finalise the monetary union implementation. The initial cost toward moving to a common currency environment will be very high and may not be recovered soon enough. The biggest obstacle in the process from government perspective would be acceptance of the different economies and how long it would take politicians to accept the differences in the development levels of the member countries.



The establishment of the common central bank would have some policy implications for the private sector that need to be implemented in time. The business sector will be expected to prepare themselves for a much bigger market, but also considering the fact that the playing field will have to be shared with much bigger companies. Expert employment will be required to ensure bigger demands are met, but also have the downside that the expertise will be shared on a regional level and not nationally anymore. Parties that are making money out of exchange control will suffer since it will fall away. People might flock from one part of the region to another as there would be no incentives for people to remain in their countries. It is expected that South Africa will receive most of these people and it is debatable that they would accept the influx of people easily. The biggest drawback is the fact that politicians do not publicly announce their support for the establishment of the monetary union for SADC, even if they do support it privately, which causes a lot of doubt about their commitment to the process. Zimbabwe is not performing and the fact that the member countries do nothing to address the issue on a political level is a serious drawback for the establishment of the monetary union for SADC.

The biggest cost of monetary integration is the loss of sovereignty to pursue an independent monetary and fiscal policy. This is one of the things that put restraint on the development of the monetary union and might lead to the extension of the process. It is believed that as much as politicians are willing to pursue the establishment of a monetary union, as much would they like to retain their sovereignty. It is also well known that a country's sovereignty is measured against the fact that it has its own central bank and its own currency. It is also perceived that countries' association with their currency has a strong historical link and it seemed difficult for people to associate with the currency of another country due to this. This could be best explained by the fact that in most countries' historical figures and personalities are printed on their local currencies. There is also the sentiment that it would be very difficult for the SADC member countries to accept the South African Rand due to the connotation it has with the colonial era.

The SARB recently suggested (newspaper article three) the use of the Rand as the common currency for SADC, which already stirred some comments from the member countries indicating that it is very bullish of SA to make such a suggestion and trying to behave like a big brother. It is evident through the literature research and interviews conducted that the successful establishment of a monetary union is completely dependant on the political commitment of the member states. The Central Banks can have all the technical matters in place and ready for implementation, but unless the governments approve the continuation of the process, the implementation cannot happen. It is thus crucial that governments express themselves regarding their commitment to make this union a reality. It is, however, important to note that the Namibian Deputy Minister of Finance confirmed the commitment of Namibia to ensure the formation of the SADC monetary union is successful. Each of the member countries are governed by their own laws for example trade laws, exchange controls, customs and the act governing the central bank to mention a few. The establishment of a common monetary area will require the harmonising of these laws, which is something that will take time to agree on and the harmonising process is also a very long one. Any change to laws will require that these be tabled in cabinet and having to do that for the 14 member countries will take a number of years, even if it is done concurrently. The process of having laws approved is a very time consuming process and the time factor varies from country to country.

All participants interviewed agreed that the biggest challenge for the successful implementation of the monetary union, common central bank and common currency is with the political will. The CCBG could have put all the bills and instruments in place and have all the technical matters sorted out, but if the politicians do not support the initiative and give the go ahead nothing will happen. It is possible for the region to reach the deadline provided the politicians agree.

To determine the impact that the commercial banks would have on the establishment of the SADC monetary union, it is important to look at what is expected from them to make this happen. They are and would be responsible for the payment systems and for trade to flow freely within the SADC region. They must ensure the transactions are handled smoothly throughout the region. If they want to be successful in their role they must have adequate resources to fulfil that duty, which means they might expand on the systems, employees and financial resources required. Commercial banks are also supervised by the Central Bank and the method of supervision applied must be in line with the method determined by the common Central Bank. If the current updated Basel II (Risk based banking supervision system) is going to be used, the banks will not have to incur more expenses that are currently expected; making use of a different system might require substantial expenses. It might require the banking sector to update their systems, depending on the sophistication of systems that will be put in place.

It would be easy for the business to trade in the region as the monetary instruments will become more or less the same, as it is currently the case with the CMA. The business community has their own expectations regarding the establishment of this monetary union development. They would like to see the common Central Bank enhancing economic growth in the region and would like to see one currency working, before the Central Bank is established. This is, however, an unreasonable request, in the sense that you need the central bank first which would then ensure that all currency and economic issues are addressed. The monetary union in SADC would give Namibian investors a bigger universe to invest in. Having bigger instruments to invest in, it is expected that the efficiency of the market would be much better and the price discovery would be much better than it is currently. If convertibility of currency can take place real time, business will be more secure and settled faster. The region would be seen as an attractive destination for foreign direct investment. The monetary union would lead to more labour mobility in the region, specifically in areas where there is a shortage of skills.

These expected outcomes might require the business community to ensure their systems are geared for the expanded business. They might be required to incur substantial capital investment for the long term, unless they are already linked with an international institution which could make the connectivity possible. They would, however, have good savings due to the fact that the information systems can now be designed uniformly and would not have to cater for different currencies and rules. To ensure they do the necessary and correct provisions, the business community expects either government or the Central Bank to start communicating to them about the establishment of the monetary union to enable them to prepare for any changes that influence their business, which is a very fair request to ensure the success of this process. The business community is very willing to give their full co-operation where required, provided the issues regarding the monetary union are communicated to them well in advance to enable them to make informed long term investment decisions.

To ensure that the monetary union comes to its full right, it would require establishing a common central bank for the region and subsequently a common currency. This common central bank is expected to maintain price stability in the region and to safeguard the common currency. The Central Bank will not grant credit to any of the member countries. The Central Bank should have the ability in setting monetary policy that impacts all member countries. These monetary policies will automatically impact certain fiscal policies, e.g. budget deficit. It will subsequently require the countries Central Banks to remain in tact with limited functions, but still fulfil the normal central bank functions on a country level. It thus requires that some autonomy be bestowed to the local central banks to enable them to operate in a country within the ambit of the common central bank. The laws governing current central banks will change. The structure of the central banks will change where there would be one main central bank with satellite branches in every country.

The autonomy that will be retained by the country central banks is determined by the Act and until such time that the Act is in place, it would be difficult to judge the impact of the common central bank on the current situation. It is expected that there would be some staffing and financial implications to be aware off.

Europe initially decided at the end of the Second World War to form a union to improve the performance of the European economies, which was very poor at the time of establishing the monetary union. It also had an objective to create peace between the European countries. The formation of a monetary union in Europe started in 1957 and finally came into being in 1995. The Euro was born in 1999. It took Europe 38 years to finalise the formation of the monetary union plus another four years to decide on a currency. The monetary integration had objectives such as free trade, free flow of currency and free labour movement in the area. The expectation of the integration in SADC is basically the same and progress towards this achievement is slow, but it is moving in the right direction. It is expected that the labour movement would be more in the general direction of South Africa, which is the most dominant economy in the region. In SADC there would be no incentives for people to stay in their countries which might have an impact on the loss of human capacity, while in Europe there is no incentive to the people to move from one country to another because the differentials are very small. The initiative to create a monetary union for SADC comes from the AU to have a monetary union for Africa. The continent was then divided into regions to each come up with a monetary union to smooth the transformation process. Europe started with one group and gradually integrated the qualifying countries into the monetary union. Europe had to invent the process of integration from scratch and it took them many years to sort out the problems. SADC has the European example to use as a benchmark and should try to avoid the mistakes made by them and so reduce the implementation time. The SADC politicians must simply show their commitment to the process and give the Central Bank Governors the support they need to make this establishment a success and ultimately achieve the target date if possible.

The Maastricht treaty (Edited by Paul Temperton, 1998) ruled that the central bank should not be allowed to lend money to the country government. This would most probably be applied in the SADC scenario seeing that the EU model is used as a benchmark for the establishment of the SADC central bank. If this is the case the chances that this initiative will become a reality by 2016 are very optimistic. This is due to the fact that many of the countries in the SADC are rebuilding their infrastructure that was destroyed either through war or under development over the past years. Their fiscal policies will suffer as a result. Politicians will be forced to decide what would be more beneficial for the country before they can finally take a decision to join the monetary union.

Through the interviews it is established from the different stakeholders that a platform needs to be created to inform and to get the buy-in of the different role players. It was established that the Bank of Namibia, on various occasions, addressed the business community regarding the establishment of a common central bank for SADC. This is proven by the fact that the Governor of the Central Bank addressed the business people already in 2004 (Alweendo: 2004) at a conference and also the recent feedback in the Bank of Namibia Annual Report, 2005. The Ministry of Trade and Industry also established a Trade Forum, which should serve as a platform from where the business community is updated about the progress made with the monetary union. From the interviews with the business community this intention is not fulfilled in that the communication did not take place as expected.

Lesotho, Namibia, South Africa, and Swaziland are members of the Common Monetary Area (CMA). This agreement provides for the reconciliation of monetary and foreign exchange policies through the CMA commission. The currencies of the member countries are pegged to the Rand, the currency used by South Africa. Decision making in the CMA is not equally distributed among the member countries, but is dominated by the RSA. The CMA agreement does not allow for the equal division of powers.

The CMA can already form a central bank as they already meet the convergence criteria for the establishment of the SADC Central Bank. Although decision making is not equally distributed in the CMA, it still forms a very stable monetary arrangement which could easily be converted into a monetary union, where powers are equally distributed amongst the member countries, with a common central bank and common currency. These countries also form part of the customs union, SACU, which also improves the chances for a common central bank. The reason why the CMA is an issue in this research is the fact that the different levels of development in the SADC region make it difficult for a “big bang” approach when it comes to the establishment of the SADC monetary union; it would be better to take something like the CMA that is working, sort out the politics around it and develop the monetary union from there. All the other SADC member countries that meet the convergence criteria could then be invited to join the union when they are ready. An important aspect to take into consideration with this monetary union is the fact that countries cannot withdraw once they have been admitted to the monetary union. It would thus be wiser to allow them to join gradually and not all at the same time. This will assist the region to have the monetary union started with the countries that are willing and committed, while not leaving the countries that are not ready out of the equation completely.

The proposed date for the establishment of the SADC central bank is determined at 2016. It is crucial that realities be considered to determine whether the establishment of a central bank for SADC is feasible and worth the time and money spend on its establishment. A comparison of the same exercise in Europe and the SADC initiative it is important to note that it took Europe 38 years from the time that they started with the process in 1957 to a monetary union establishment and it still was not ideally the way they would have preferred it to be. The UK is still not sharing the Euro and it is not clear if they would ever form part of the European Central Bank (ECB). The main problems encountered during these 38 years were more on a political level (Edited by Paul Temperton, 1998), which would not be much different in Africa.

It is felt that at a political level in Namibia, if the region wants to succeed with the establishment, they just have to start with the process and stop looking for reasons not to. The business community is of the opinion that the deadline is too optimistic and might not be reached if politicians do not show commitment to the establishment of the monetary and consequently the central bank for SADC. The Committee of Central Bank Governors (CCBG) is showing commitment to achieve the requirements set for the central banks, but note should be taken of the fact that the establishment of this monetary union is not only dependant on the central banks for its success. To enable SADC to form a monetary union the economic structures in the region should be the same. Trading should be developed and the infrastructure should be established to make it work. The integration could only work if every member country agrees to give up some of their power at a country level. They will have to jointly agree on common budgetary issues and the appointment of the Governor, amongst others. Giving up autonomy is the most important aspect in the development of the monetary union. As stated before, even if the political will is there, people do not appreciate all that must be done to get this monetary union established. The region must first have a customs union which would allow for the free flow of goods in the region and also the free flow of money before the monetary integration could happen (Shiimi: 2006). The legal framework for the central bank must be created; the same applies to the trade and customs to allow for the free flow of products and currency. It is a very time consuming exercise to change legislation in one country alone and to have these legislation approved in all 14 countries might take much longer. It is, however, important to consider all the legal, economic and infrastructure requirements for the establishment of the monetary union before it could be successfully implemented.



### 5.3 RECOMMENDATIONS

In this study regarding the feasibility of a central bank and common currency for SADC it is evident that, although the process has started, a number of things could be considered to make this establishment a success. A number of recommendations are listed which are addressed to the relevant stakeholders in the entire process and to make sure Namibia and the region reap the expected benefits from the efforts.

The limitations or challenges for the politicians of the countries are to come up with an exchange rate regime that would enhance economic stability in all 14 member countries. It is apparent that the SADC member countries use different exchange rate regimes which need to be merged if they intend to form a monetary union.

The establishment of the central bank and monetary union for SADC depends on a number of stakeholders of which the most important is the elected politicians and the Central Bank Governors. Nothing could, however, be done without the commitment of the politicians. It is thus recommended that the Namibian politicians pronounce their commitment publicly and endeavour to challenge their SADC counterparts to do the same.

The Namibian government should take a position to urge their SADC counterparts to come up with concrete measures to achieve the convergence criteria.

In the process to determine where to host the SADC central bank it is recommended to that the host country be rotated every two terms of five years to give all member countries the opportunity to host the SADC central bank. To determine which currency to use, it would be advisable to call out a competition where the general public come up with a name and design for the currency.

The recommendation is to select a theme that is unique and common to the region for example a lion for the currency and then to build a theme to promote it to the SADC countries. It is also recommended that the currency be called a SADC dollar to ensure that no country specific connotation is linked to it.

The Central Bank Governors are ultimately responsible to see that the technical aspects regarding the establishment of the central bank are dealt with. To ensure that they continue to drive this initiative the progress should form part of their key performance areas to ensure due attention is given to the matter.

The government should start looking at all the legislation that requires amendment to enhance the development of the monetary union and to start work on requesting cabinet approval for them to improve the progress of the SADC monetary union.

The Central Bank Governors are currently busy with preparations for the establishment of the SADC Central Bank. It is expected that through their work in progress they will determine areas where amendments are required, that do not form part of the central bank's responsibilities; it is recommended that they identify those specific shortcomings and advise governments as soon as possible to ensure the shortcomings are resolved in time.

The Central Bank Governors are also urged to look at the European model and try to improve on their methodology so that Africa can go through the process much faster than they did.

Considering the information gathered through this study it is clear that the development of the monetary union and common central bank is at a very advanced stage already and it is therefore important that either the government or the central bank should take up their responsibility and communicate the intention and progress to the Namibian business community and the banking sector to allow

them to do proper long term planning to ensure the convergence will happen successfully. This is important to ensure the commercial banks and the business sector prepare themselves timely and effectively for the free market that will be created as a result and the free flow of funds and products.

Through the study it is established that the CMA countries, Botswana, Lesotho, Namibia, South Africa and Swaziland already meet the convergence criteria to form a monetary union. It is therefore, recommended that these countries form a monetary union and then invites the other SADC countries to join once they meet the convergence criteria. This will allow for gradual integration into the monetary union for SADC and this move will allow countries to prepare for the monetary union at their own pace, without being forced to get ready to reach a certain deadline, which they may not meet. They will then also not prohibit the rest of the member countries to join the monetary union once they are ready.

The commercial banks have a very important role to play to ensure free trade is conducted successfully. They need to determine what is required from them, to make this happen and to start the preparations in that direction to ensure the flow of the events and not be caught by surprise when the other arrangements for a monetary union are in place.

The business sector is recommended to take up their responsibility as concerned citizens and start questioning the initiatives to create awareness by all. Different trade forums can be used for this debate.

The business community is also urged to start preparing for the monetary union to ensure that they are producing sufficient and good quality products efficiently enough so that they can have a competitive advantage when the markets are opened for free trade to enable them to not only survive the influx of products from the region, but that they are also able to export products to a bigger market

for better returns. It is expected from the Namibian business cadre to capitalise on the envisaged benefits that might be reaped from this initiative.

The position of this research is that the establishment of the Central Bank for SADC will take an additional ten years at least before it will become a reality. This could be ascribed to the absence of political commitment and the fact that many of the processes are unknown to all the stakeholders and the impact of what needs to be done is not fully understood by all. Even when all members are committed, the technical and practical implication and extent of work that is to be done is not appreciated by all and can also not be envisaged by all decision makers. It is a fact that almost every member interviewed recognise the benefits that will be created by the establishment of a monetary union for SADC. It is, however, not feasible to have this central bank in the near future. To make such action feasible for SADC requires total commitment at political level and not just lip service. Politicians must take a conscious decision to give up some of their sovereignty to make this central bank possible. Failure to do so will result in the complete failure of this establishment.

#### **5.4 LIMITATIONS OF THE STUDY**

Because of the nature of the Bank of Namibia and its direct involvement in the process of establishing the Central Bank for SADC, some of the sensitive information cannot be disclosed. Information gathered from the stakeholders is diluted due to the fact that they consider the process to be of a very sensitive stage of development, such as the central bank draft bill, to comment too much in their personal capacity.

The expected limitation for this research was the availability of some key interviewees as they maintain very busy schedules as heads of the institutions selected.

Another limitation is the fact that not all entities were aware of the establishment of the Central Bank for SADC and could thus not express themselves very well on the topic and they could not factually address the research questions. A number of invitees declined the request for interviews due to the fact that the topic is unknown to them.

Through interviews with some prominent business people it was discovered that there was no formal information provided to the business sector regarding the establishment of the monetary union for SADC. This was evident from the fact that a number of business executives declined the request to be interviewed due to a lack of knowledge about the topic.

More than 40 candidates were invited for interviews, but there was difficulty getting interviews with business people this time of the year.

## **5.5 FURTHER RESEARCH OPENED**

A number of further research topics were identified through the research conducted. They are as indicated below:

More research needs to be conducted to look at the comparability of the countries in the region in terms of economic development (Hangula, 2006).

Identify the direct impact that the establishment of a monetary union would have on the business community in the SADC countries.

It would be advisable to do a study on how to conduct the staffing requirements of the central bank once it is decided where the head quarters would be and how the branches would operate.

Determine the impact of the expected labour mobility after the monetary union for SADC is established.

To ensure the comments and recommendations are current, it would be advisable that a similar study be conducted after a period of time. It could be every 3 to 5 years until such time that the Central Bank is established.

This work needs to be taken up by other scholars of different institutions to continuously monitor the progress made regarding this establishment. They should also look at the impact that delays would have on the member countries.

A study should be done to look at the impact and the influence the Central Bank could have regarding the establishment of the monetary union for SADC.

## **5.6 CONCLUSIONS**

In this chapter the study gives a critical discussion on all the relevant factors that impact the establishment of the monetary union for SADC. The discussion points are done in such a way to address all the questions asked throughout the paper and to ensure it is clearly understood as to how the recommendations were determined.

The study examined the establishment of the Central Bank/monetary union for SADC and concluded that at the rate at which convergence is taking place, and even deteriorating over the past three years, it is unlikely that SADC will reach the deadline of 2016. It is, however, determined that the success of this process is not purely an economic function, but is completely dependent on the political will in every member country. Unless the politicians get to an agreement to commit themselves to the establishment of this monetary union, it will not become a reality before 2016 as initially projected.

It is not completely ruled out that the politicians may have a change of heart and the monetary union and the Central Bank may be established in time.

The study, however, concluded that 2016 is too soon for SADC and the monetary union will not happen by then.

The study also examined the impact this monetary union would have on the Namibian economy and it was found, that due to its size and population, Namibia will greatly benefit from such a monetary union arrangement. It is determined that Namibia meets almost all the convergence criteria requirements and is economically and politically committed and ready for such an establishment.

The different stakeholders were assessed for their contribution in the establishment and a number of recommendations were made to each of them to ensure that they contribute positively to the success of the establishment of the monetary union, common central bank and common currency. One can with confidence say that it would be feasible for SADC to venture into a monetary union with a common central bank and a single currency.

Through research a number of research topics were identified and are also included for interested readers.



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23 AUGUST 2007

MRS. M V C KROHNE (204508012)  
GRADUATE SCHOOL OF BUSINESS

Dear Mrs. Krohne

ETHICAL CLEARANCE APPROVAL NUMBER: HSS/0480/07M

I wish to confirm that ethical clearance has been granted for the following project:

"Considerations for the creation of a SADC Reserve Bank"

PLEASE NOTE: Research data should be securely stored in the school/department for a period of 5 years

Yours faithfully

  
.....  
MS. PHUMELELE XIMBA  
RESEARCH OFFICE

cc. Post-Graduate Office (Christel Haddon)  
cc. Supervisor (Mr. R M Challenor)