Contents	**Page**

Contents **Page**

Contents Page

NEW CARBON TAXES IN SOUTH AFRICA AND UNINTENDED CONSEQUENCES FOR INDIVIDUAL INVESTMENTS IN GREENHOUSE GAS MITIGATION TECHNOLOGIES AND THE RESULTING EMISSIONS

Heinz Eckart Klingelhöfer

Tshwane University of Technology
Department of Managerial Accounting and Finance
Private Bag X680
Pretoria 0001
South Africa
E-Mail: KlingelhoeferHE@tut.ac.za
Tel.: +27 (0) 12 382-0664
Fax: +27 (0) 12 703-4869

ABSTRACT

South Africa is planning to introduce a carbon tax as a Pigouvian measure to reduce greenhouse gas emissions from 2016, designed as a fuel input tax which will increase every year by 10%. In this form it is supposed to incentivise users to reduce and/or substitute fossil fuels, leading to a reduction of CO2 emissions. This paper examines how the willingness to invest in greenhouse gas mitigation technologies can be affected by such a carbon tax regime. By employing a two-step evaluation approach, it will be possible to identify the determinants of the price ceiling of such an investment under imperfect market conditions. This price ceiling depends on the (corrected) net present values of the payments and on the interdependencies arising from changes in the optimal investment and production programmes. Although the well-established results of environmental economics for a single investment can be confirmed, increasing carbon taxes may lead to sometimes contradictory and unexpected consequences for investments in greenhouse gas mitigation technologies and the resulting emissions. However, they can be interpreted in an economically comprehensible manner.

DEVELOPMENT FINANCE AS CATALYST FOR ECONOMIC GROWTH AND STABILITY: AN INDIAN EXPERIENCE[1]

Ravinder Rena
Professor of Economics
Monarch Business School,
Monarch University, Switzerland
Email: drravinderrena@gmail.com
dr.rena@monarch-university.ch

Anukrati Sharma
Associate Professor
Department of Commerce and Management
University of Kota
Kota, Rajasthan, India
Email: dr.anukratisharma@gmail.com

ABSTRACT

Finance is a life blood of any economy. Both empirical and theoretical research confirms that a sound and effective financial system is vital for economic growth and development. In this 21st century, 'Development Finance' has been gaining significant importance. As we know globally, finance flows and economic activity are consistently increased for the last 25 years. Consequently, we made a significant progress in mobilizing financial and technical resources of our country. In line with this we also made advances in science, technology and innovation areas that have indeed enhanced the potential to accomplish our development goals. In the recent past, many countries including Indian have implemented development policy frameworks that have contributed to mobilize domestic resources and also high levels of economic growth and social progress. It is important to note that the share of developing countries' has been increased steadily in the world trade and also the debt burdens have been also are reduced in many poor countries particularly in Asia and Africa. In fact, these positive changes have contributed to a sizeable reduction in extreme poverty and also some progress towards in the achievement of the Millennium Development Goals.

The recent global economic crises have been exposed to tremendous risks and vulnerabilities within the international economic and financial arena. The global economic growth rates are still below pre-crisis levels. It's not only the shocks from financial and economic crises, but also compounded by conflict, natural disasters and disease outbreaks that spread rapidly the world especially in developing countries.

Indian Economy, being one of the fastest growing and third largest economy in the world which has been experiencing greater challenges within the financial sector especially after post-reform period i.e.1990s. This paper examines impact financial sector on the economic growth and development of the country. This paper also seeks to establish the relationship between financial development and the source of growth for the last two and half decades.

Keywords: Development Finance, economic growth, Financial sector, Global financial crisis, Indian economic reforms

HOW INCLUSIVE IS AFRICA'S MDG-PROGRESS?

A.J. van Niekerk

ABSTRACT
Progress in terms of the targets set by the Millennium Development Goals (MDGs) in Africa is of utmost importance for the continent to ensure that development and quality of life gains traction, and that foreign investment are attracted. With 2015 being the year for target-attainment, many African economies are showing good signs of evolving into a next phase despite not fully achieving the MDG-targets. However, the real question, this paper suggests, is how inclusive this advancement is? This is because it will directly influence the sustainability of growth and development. Inclusive economics (IE) has emerged as a key yardstick for genuine economic progress. Although IE is still at an early stage, it cannot be ignored in terms of the facets of economic development that it emphasises. Economic inequality, in particular, has been pervasive in its exclusion of many from mainstream economic activity. In Africa this has reached epidemic proportions. Hence, the need for Africa to, by aligning its MDG-progress with IE-criteria, set explicit measures in place to combat economic exclusion. In an era of increased globalisation this is of paramount importance – also since it provides an ideal opportunity for Africa to utilise Ubuntu-principles found in IE to propel the continent on a path of genuine economic progress. Individual and collective well-being, and shared economic responsibility and care, are essential not only for African economies, but also for the global economy. Since the current economic framework shows more fractures with each global crisis, the successful pioneering of economic inclusivity by Africa are critical for achieving its development and investment aims.

CAPACITY FOR DOMESTIC RESOURCE MOBILIZATION: EVIDENCE FROM THE AFRICA CAPACITY REPORT 2015

Thomas C. Munthali, Robert Nantchouang & Barassou Diawara

ABSTRACT

Domestic resource mobilization (DRM) is at the heart of the Sustainable Development Goals (SDGs) which are guiding theglobal development community for the next 15 years, and the Agenda 2063 which is Africa‟s development blueprint for thenext 50 years. This paper exclusively draws on the findings of the Africa Capacity Report on „Capacity for Domestic Resource Mobilization‟ published by the African Capacity Building Foundation. Results of the quantitative analysis show that most countries are putting in place good policy environments and processes. However, countries are doing less well on achieving development results and least on capacity development outcomes. The country case studies show that all countries have implemented policies and reforms to mobilize more resources domestically. Capacity issues are related to tax administration and human resource, collect of tax in the agriculture and informal sectors, financial inclusiveness, and illicit financial flows. These challenges notwithstanding, DRM is doable in Africa as witnessed by successful country case studies; AIDS levy and toll gate fees are innovative cases that could be applied elsewhere. The Report recommends human and institutional capacity building at the country, regional and continental levels. Some of the recommendations include the modernization of tax administration, regional and international cooperation through the exchange of knowledge and experiences, financial inclusion, political will and mind-set change at all levels. Of particular importance is that taxes must be viewed as a *social contract* between the citizenry and the government and, as such, must be used for development finance and social spending in sectors such as health and education. Across the board, countries and development partners should work in enhancing the data collection capacity of the institutions and individuals as it has been a challenge to estimate capital flight, tax evasion and transfer pricing, among other things.

Keywords: African Capacity Building Foundation, Domestic Resource Mobilization, Capacity Building, Africa Capacity Report, Tax, Illicit Financial Flows

HOUSEHOLD SAVINGS DECISION IN KENYA

Aflonia Nyambura

ABSTRACT

Household's financial Savings form an integral part of a nation's savings level. For a society to develop and have sustainable development, most resources needed for investments need to be generated from within the country. The debt burden has continued to remain a challenge in many developing countries, Kenya included and this has reduced the amount resources that are ploughed back into the economy. This has led to low levels of investments, social development hence high poverty levels among the residents of a country. To finance the ever increasing government deficits, the debt burden has continued to rise and the trend needs to be reduced. Financial institutions mobilize the households' savings and allocate them to the most efficient investments. Studies conducted in developing countries, Kenya included, indicate that most households save in informal financial institutions. Low savings in formal financial institutions limit the amount of funds available for long term investments. This study sought to examine the underlying factors determining a household's choice of saving in formal, semi-formal and informal financial institutions using a separate bivariate logistic model for each of the institutions. Correlation between decision to save in formal, semi-formal and informal financial institutions was identified through pair wise correlations. Major hindrances to ownership of bank accounts were also identified. The study utilized secondary data collected from a sample of 6598 Kenyan households. In each of the three forms of financial institutions, the level of financial information held about the financial institution, credit availability in the financial institution and the level of a household income were the most significant variables in a household's decision to save in a particular financial institution. Positive correlations were found between savings in all the financial institutions although they were stronger between savings in formal and semi-formal financial institutions. Resource constraints in a household were the major hindrance to ownership of a bank account. The ministry of finance should collaborate with the banking sector to introduce financial education programmes to enlighten the public on the benefits of saving in formal and semi-formal financial institutions to enhance long-term finance. In addition, the government, through the relevant ministries, need to introduce measures to enhance incomes especially among households who derive most of their income from the informal sector. The increased incomes would not only increase the probability of households saving in formal and semi-formal financial institutions but would also increase the households' level of financial savings. The ministry of finance should encourage the growth of the microfinance industry which has strong positive correlations with the formal financial institutions. Informal financial institutions, especially women groups, should be encouraged to open bank accounts and join semi-formal financial institutions either individually or as groups. This would strengthen the linkage between savings in informal and semi-formal and formal financial institutions and boost overall household savings. This will in effect encourage higher levels of consumption, improve literacy levels, eliminate incidence of diseases and consequently lower poverty levels. The social and economic welfare would improve hence better social development.

Keywords: Household savings, Formal financial institutions, Informal financial institutions, Semi-formal financial institutions

MOBILE TECHNOLOGY, MOBILE MONEY AND FINANCIAL SERVICES IN EMERGING ECONOMIES

Bruno L. Yawe
School of Economics
Makerere University
E-mail: byawe@bams.mak.ac.ug
byawe@yahoo.com

Jaideep Prabhu
Judge Business School
University of Cambridge
E-mail: j.prabhu@jbs.cam.ac.uk
jcp31@hermes.cam.ac.uk

ABSTRACT

We use data collected by The Financial Inclusion Insights (FII) research and knowledge-sharing program which is managed by InterMedia to investigate the uptake of mobile technology, mobile money and financial services in: Bangladesh, India, Nigeria, Pakistan, Tanzania; and Uganda. We also investigated by country the predictors of use of the most popular mobile money product for: Bangladesh, India, Nigeria, Pakistan, Tanzania; and Uganda. It was not possible to undertake an econometric analysis for Kenya due to lack of data on the dependent variable and some predictors. For the pooled cross-sectional data for: Bangladesh; India; Nigeria and Pakistan, it can be inferred that: (i) possession of a job or income source; (ii) possessing a mobile phone; (iii) possessing a bank account; (iv) degree of trust in mobile money services; (v) degree of trust in mobile money agents; as well as (vi) basic literacy; are significant predictors of using mobile money.

Keywords: Financial Inclusion, Mobile Money, Financial Innovation, “Know-Do” Gap, Binomial Logistic Regression

OFFICIAL DEVELOPMENT ASSISTANCE AND HEALTH OUTCOMES: EVIDENCE FROM NAMIBIA

Teopolina Ndanyengwa Namandje
P.O. Box 4240 Windhoek, Namibia, 9000
Email:teonamandje@hotmail.com

Sylvanus Ikhide
Email: Sylvanus. Ikhide@usb.ac.za
P.O. Box 610, Bellville, 7535, South Africa
University of Stellenbosch Business School, Bellville, Cape Town, South Africa

ABSTRACT
The development finance literature recognises the fact that productive use of official/overseas development assistance (ODA) tend to have positive returns in the entire economy. The purpose of the study is to examine the extent to which health foreign aid affects health outcomes in Namibia. The significance of this study is that it is an empirical attempt that will help to fill a gap in the literature. This study assessed the relationship between official development assistance to the health sector and examined specific outcomes in relation to three health indicators of interest: infant mortality rate, under-five mortality rate and life expectancy. Variables such as government expenditure on health and general medical clinics and public health services that typically have impact on health outcomes are controlled for in the study. Using data from Namibia from 1990 to 2013, the study found that all health indicators improved with an increase in foreign aid directed to the heath sector, except that it is more impactful (statistically significant) in the case of infant mortality rate. The study gives a tentative conclusion that foreign health aid slightly improves health outcomes in Namibia even if they do not impact on economic growth.

Keywords: Official development assistance; Health outcomes; Life expectancy; Development Finance, Namibia

MODELLING THE STOCK INDICES OF THE CIVETS COUNTRIES USING UNIVARIATE CONDITIONAL VOLATILITY MODELS

Coenraad C.A. Labuschagne & Sven T. von Boetticher

Department of Finance & Investment Management
University of Johannesburg
PO Box 524
Auckland Park
2006
South Africa

Email: Coenraad.Labuschagne@gmail.com

ABSTRACT
The CIVETS countries consist of Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa. They are emerging market countries that are most likely to rise quickly in economic standing. In this paper GARCH (1,1), GJR-GARCH (1,1) and EGARCH (1,1) models are used to explore the daily closing values for selected CIVETS equity indices. Return volatility, the persistence thereof and the best fitting model for volatility forecasting is determined. The results obtained for the GARCH models indicated that the GJR-GARCH model was the best fitting model for the equity indices of Colombia and Egypt. The EGARCH model was the best fitting model for the equity indices for Indonesia, Turkey and South Africa, whilst the result obtained delivered no clear best fitting model for the Vietnamese VN-Index. In addition, there is evidence of the leverage effect for all the Indices included in this study with the exception of the Vietnamese VN-Index. The presence of leverage effects implies that a negative shock will lead to greater volatility.

A comparison is also made between the option prices produced by constructing the implied volatility skews of options generated by these models, both by inclusion of the Global Finance Crises (GFC) period and by exclusion of the period of the GFC.

Keywords: GARCH, CIVETS, equity indices; IGBC Index; JKSE Index, VN-Index; EGX 100, XU 100 Index, FTSE/JSE All Share Index

THE STATUS READINESS OF MICROFINANCE INSTITUTIONS IN SOUTH AFRICA TO ADOPT MOBILE TECHNOLOGY ENABLED MICROFINANCE SERVICE PROVISIONING

Nkaelang BT
Tshwane University of Technology
South Africa boitumelonkaelang@yahoo.com

Ojo SO
Tshwane University of Technology
South Africa
ojoso@tut.ac.za

Mbarika VW
Southern university
Baton Rouge, LA, United States
victor@mbarika.com

ABSTRACT
Microfinance institutions (MFIs) are seen as a vehicle to provide access to finance to small and micro enterprises in South Africa. Developing and growing these institutions is important to drive forward microenterprise development, alleviate poverty and inequality. However, microfinance institutions for enterprise development have not lived up to those expectations because overtime they fail. Success rate for microfinance institutions in South Africa is very low, majority of MFIs fail before they could reach sustainability. Contributing factors are the high costs involved in administering small loans and inefficiencies and scalability. Mobile technology is envisaged to have potential to provide alternative access to microenterprise loans and affordable mechanisms in ways that can be beneficial to all stakeholders in a value chain. This study investigates the status readiness of MFIs to adopt mobile technology to provide alternative access to microenterprise loans and affordable mechanisms in ways that can be beneficial to all stakeholders in a value chain.

EMPIRICAL ANALYSIS OF SAVINGS AND INVESTMENT IN SOUTH AFRICA, 1990 – 2014

AH Kasongo and MK Ocran

ABSTRACT
The relationship between savings and investment, following the seminal work of Feldstein and Horioka (1980), has attracted a lot of attention over the last three decades. Most studies have investigated the issue across different countries without accounting for heterogeneity. It is therefore imperative to consider country specific analysis. This paper is motivated by the current low and declining savings rates in South Africa. After a record high of nearly 34 per cent in 1980, the gross savings rate has continuously fallen through the 1990s to below 15 per cent of Gross Domestic Product in 2014. Saving is important to boost investment and also has implications for the current account balance. This paper investigates the relationship between saving and investment in South Africa using cointegration and Error Correction modelling based on the Johansen approach. The paper uses the data files of the South African Reserve Bank and International Monetary Fund's International Financial Statistics (IFS) database. The window of observation covers 1990 to 2014.

Keywords: Savings, Investment, Cointegration, ECM, causality, Capital mobility, Current account balance

FINANCIAL STRUCTURE IN NAMIBIA: WHAT ROLE FOR MICROFINANCE?

Emma Haiyambo
Corresponding Author
University of Stellenbosch Business School
University of Stellenbosch
Telephone: +264 (0) 61 2835171
Email: haiyamboe@iway.na

Sylvanus Ikhide
University of Stellenbosch Business School
University of Stellenbosch
Telephone +27 (0)21 918 4485
Email: Sylvanus.Ikhide@usb.ac.za

ABSTRACT
To the extent that they play their intermediation role effectively and efficiently, financial institutions are of crucial importance to the economy. This is because they allocate funds from savers to borrowers, a process that has the potential of increasing economic activities and growth. Traditional banks and other conventional financial institutions however serve only a small percentage of the population leaving the remaining majority of the population and small businesses unserved, especially in developing countries. The emergence of the microfinance industry since four decades ago has been considered as presenting an opportunity to extend financial services to the excluded majority. In particular, microfinance is increasingly seen as an important instrument in the efforts for alleviating poverty, while the provision of credit provided by microfinance institutions has also been viewed as a way to generate self-employment opportunities for the poor. This notwithstanding, there is currently a limited number of 'true' microfinance service providers in the Namibian market that can provide microenterprise lending, microsavings and other financial services targeted at the lower end of the market. This article investigates the scope for further development of the microfinance industry in Namibia. It does so through an analysis of the country's current financial sector landscape and the extent of available financial services for the low income people the poor and SMEs. It finds a gap in the financial system and concludes that there is scope for microfinance in Namibia.

Keywords: corporate social responsibility, corporate governance, corporate image, community involvement.

EXAMINING LABOUR PRODUCTIVITY AND CAPITAL ACCUMULATION – IMPACT OF REMITTANCES, THE CASE OF AFRICA

Gloria Clarissa O. Dzeha PhD Candidate Department of Finance,UGBS
Joshua Y Abor Department of Finance, UGBS
Ebo Turkson Department of Economics UoG
Eliklpimi Agbloyor Department of Finance, UGBS

ABSTRACT
African continent is the second largest recipient after Asia. However, the increasing benefits that amass from remittances that obviate economic difficulties seem to elude Africa. Remittance impact on labour productivity and capital accumulation to enhance Africa's growth and development has not been adequately studied. This study employs the random and fixed effect model to ascertain remittance impact on labour productivity and capital accumulation respectively and further determines if remittances have significant impact on labour productivity in countries with high life expectancy and are natural resource – rich. We employ a panel of 25 African countries for the period spanning from 1950 to 2013 and find remittance impact labour productivity positively and significantly but is not significant in capital accumulation, however the interaction between remittance and human capital impact capital accumulation positively and significantly. Whiles high life expectancy is positive and significant to labour productivity, labour productivity is impacted negatively by remittance although significant.

Keywords: International Migrant Remittance, labour Productivity, Capital Accumulation.

SUPPLY AND DEMAND MACRO-ECONOMETRIC MODEL OF THE NAMIBIAN ECONOMY

Joel Hinaunye Eita
Department of Economics, North-West University, South Africa;
Private Bag X2046, Mmabatho, South Africa, 2735
Tel: +27183892391; Fax: +27183892597
e-mail: hinaeita@yahoo.co.uk or hinaunye.eita@nwu.ac.za

ABSTRACT
This study develops a macroeconometric model for the Namibian economy for the period 1980 to 2013. This is a comprehensive macroeconometric model which models both the demand and supply sides of the Namibian economy. The supply side activation of the macroeconometric model tests whether there is supply side constraint which limits growth in the Namibian economy. The demand side activation tests whether there exists demand side constraints which inhibits growth in the Namibian economy. This model incorporates the price sector in order to serve as a link between the supply and demand sides of the economy. The model consists of behavioural equations. These behavioural equations were estimated and simulated individually. They were then combined or brought together to form a comprehensive or full macroeconometric model of the Namibian economy. The endogenous variables were linked by a number of identities and definitions in order to ensure that the macroeconometric model is fully dynamic. The full or comprehensive macroeconometric model was closed using two models. The first model activates the supply side and marginalises the demand side of the economy. The second model is demand side orientated. It activates the demand side and marginalises the supply side of the economy. These full macroeconometric models were simulated and the results indicate that the estimated values closely approximate the actual values. This suggests that the estimated macroeconometric model is a good fit. This macro-econometric model can be used to apply policy simulations in order to determine appropriate economic policies for Namibia.

Keywords: macro-econometric, supply-side, demand-side, cointegration, stationarity

INTERGRATED DEVELOPMENT FINANCE POLICY FRAMEWORK

Nkhangweleni Ramashia
Department Agriculture, Forestry and Fisheries

ABSTRACT
The provision of an efficient development finance system is a challenge in any developing country. The problems experienced in implementing development programmes in South Africa are not unique. The same issues experienced here are also challenges in the rest of the developing world. The answer lies in a number of areas such as a sound *integrated development finance policy*, innovative instruments, new public-private partnerships, and funding support mechanisms and pragmatic implementation methodologies. It is believed that, given the well-developed nature of the South African economy, the quality of the banking sector and the willingness of policy makers to develop new funding solutions, will result in a well-designed and implementable policy. It is important to look at the past and the current situation, at policies that worked and others that did not and be open to new opportunities to make a difference to the lives of smallholder farmers that want to grow and create a new future. We can find some unique solutions for our people here that may also have a positive spill-over effect on our continent.

There is a lack of a coherent and all-inclusive policy framework to facilitate the implementation of funding solutions to the smallholder-farming sector in South Africa. There is also limited coordination between stakeholders to ensure seamless implementation as well as the monitoring and evaluation of agricultural development initiatives and programmes. It is against this background that the need to develop an integrated development policy framework for the agriculture, forestry and fisheries sectors emerged.

The overarching objective of the Integrated Agriculture Development Finance Policy Framework (IADFPF) initiative is to create an enabling environment for a sustainable and viable development finance support system in the agricultural, forestry and fishery sectors. Specific policy objectives will be identified as: (i) Making financial services accessible to a large segment of the potentially productive population which otherwise would have little or no access; (ii) Promoting synergy and mainstreaming the internal sub-sector into national financial system; (iii) Enhancing service delivery by microfinance institutions to micro, small and medium producers.

The purpose of this policy framework is to facilitate the provision of an integrated development and comprehensive range of financial services for the commercial-oriented agribusiness, fisheries, and forestry entrepreneurs and their various enterprise value chain players. The overall goal of this policy framework is to integrate all types of agricultural finance for smallholder farmers offered by the Department of Agriculture, Forestry and Fisheries (DAFF). This framework that has been developed in this assignment will provide the context within which DAFF can develop a future development finance policy for the agriculture sector in South Africa.

AN ANALYSIS OF THE FINANCIAL NEEDS, CONSTRAINTS AND RISKS AFFECTING CASSAVA SECTOR STAKEHOLDERS' ACCESS TO FINANCE-A CASE OF ZAMBIA

Cephas C Chabu and Justine Chanda
NATSAVE

ABSTRACT

Cassava is generally grown in all the districts in Zambia and is the most important crop being grown and informally commercialized in Zambia, after maize. Currently more than 80% of the population in the Northern and Northwestern regions of Zambia entirely depend on cassava for food security. With the current weather-induced instabilities in maize production leading to intermittent food shortages, a commercialized cassava subsector is one undisputable way of ensuring sustainable food security, rural employment and household income in Zambia. However, despite its importance, the cassava subsector faces various challenges among them the inefficiencies in the marketing chain, low product prices, low return on industrial investments and lack of collateral leading to a serious lack of access to reasonably priced financial products. This study was undertaken to understand the financial needs and constraints that affect the cassava sub-sector stakeholders' access to finance in Zambia and to develop proposals on the most suitable value chain finance schemes appropriate to the identified specific needs of the cassava sector stakeholders. Using data collected in this survey, cassava production was found to be viable and profitable, and farmers in principle are able to repay their loans if given chance. It was further found that access to credit can help cassava farmers to drastically reduce their costs of production and could engineer economic viability in the cassava sector in Zambia. Given the farmer's capacity to pay and given that lack of collateral is a problem, the study found that tripartite finance agreements and guarantee funds arrangements might be the most superlative and appropriate value chain financial products for cassava sector stakeholders in Zambia.

DOES ACCESS TO FINANCIAL SERVICES REDUCE POVERTY?

Munacinga Simatele

ABSTRACT

Access to financial services within the broader context of inclusive development is often seen as key in alleviating poverty. Despite this, empirical evidence linking poverty and access to financial services is scanty, particularly in the African context. Using a national income household survey for South Africa, the paper examines the effect of access to various forms of financial services on income poverty. We control for the effect of household socio- demographic characteristics. We find that access to formal financial services is positively correlated with lower levels of poverty. Households that have access to formal financial services on the other hand are more likely to be poor. The results also suggest that access to credit has a greater effect on poverty reduction than access to savings and payment services. We propose a greater role for mainstream financial services in inclusive credit provision. Policy design should focus on the reduction of information, enforcement, and transactions costs which limit lending to the low income households. The results also indicate that access to financial services has a greater effect on female-headed households than male-headed households. These results support the finding in the literature which indicates that lending to women has a greater effect on household welfare.

Keywords: Poverty, access to finance, development, South Africa

AN ASSESSMENT OF CAPITAL BUDGET PLANNING AND MUNICIPAL BORROWING AS FUNDING SOURCE IN THE OVERSTRAND MUNICIPALITY IN THE WESTERN CAPE

Donovan Patrick Alexander
Western Cape Provincial Government: Provincial Treasury

ABSTRACT

The major challenges confronting municipalities in South Africa are poor governance, lack of effective performance, backlogs in service delivery, over- and in most cases under-spending on capital infrastructure, and poor audit outcomes, as well as service delivery backlogs. It is therefore very important for municipalities to deliver on the constitutional mandate as enshrined in the South African Constitution in terms of Section 153, namely, to build strong organisations. Municipalities need to structure and manage the organisation's budgeting, administration and planning processes effectively in terms of their strategic five-year Integrated Development Plan (IDP).

This master's research report examined the capital budget planning and expenditure in the Overstrand Municipality to determine whether the planning processes followed are in alignment with the IDP and in accordance with the relevant legislation. It also investigated whether the funding sources, in particular, external borrowing, only for the purpose of capital projects, are appropriate to ensure a credible, sustainable and responsive budget. In addressing the main research question, "To what extent do municipalities borrow to fund their capital budgets?", the study was realised by means of a literature review and empirical surveys. The in-depth interviews conducted were supported by semi-structured questionnaires based on open- and closed-ended questions.

The study found that the Overstrand Municipality complied with the funding of the capital budget year on year in accordance with its approved Budget and Borrowing Policies and all other relevant legislation and prescripts. The long-term capital infrastructure of the Municipality is supported by master plans, compiled by fully capacitated staff; however a comprehensive consolidated plan is still lacking. The study also revealed that despite the fact that the municipality's exposure to borrowing is well maintained, there could be scope to increase borrowing for the future, depending on a more informed consolidated infrastructure plan and credit rating assessment when considering the service delivery needs contained in the master plans over a 20-year period. A credit rating assessment is therefore important to ensure that the Municipality remains in a position to further increase its borrowing capacity and gearing ratio to meet the capital infrastructure plans over the long term.

THE IMPACT OF FINANCIAL VULNERABILITY ON THE FUNCTIONING OF NGOS: AN EMPIRICAL STUDY OF UGANDAN NGOS

Berta Silva and Ronelle Burger

ABSTRACT
The objective of nongovernmental organisations, particularly in the development sector are wide ranging and vary but most pursue long-term goals and seek to improve communities' well-being. Because NGOs are limited in their ability to raise capital and engage in profit-making activities, financial vulnerability may constrain the pursuit of long and medium term organizational commitments, resulting in decreased, interrupted or terminated programmes when funding dries up. This article takes an empirical approach and examines a selection of the existent literature on NGOs and financial vulnerability, using data from 295 NGOs in Uganda to understand the relationship between organizational characteristics and financial vulnerability. The study also contributes to the existing empirical literature on the topic, by identifying alternative proxies for non-profit sector financial distress including donor conditionalities, endowments and savings. This work is also of practical significance because it can support organisations that seek to mitigate the impact of financial vulnerability on program delivery.

Keywords: funding sources, financial vulnerability, NGO, organizational characteristics, Uganda

IS A SOVEREIGN DOWNGRADE FOR SOUTH AFRICA NECESSARILY A BAD THING? REVIEW OF EARLY INDICATIONS

Tabo Foulo

ABSTRACT
With Russia and Brazil having been recently downgraded to below investment-grade status, there are fears that other emerging market countries, including South Africa, could similarly be downgraded1. A number of authors including Adelino and Ferreira (2014), Almeida et al (2014), Alexandre et al (2014) and Borensztein et al (2007) have explored the negative effects of sovereign downgrades. According to these authors, downgrades have negative impacts on: bank solvency, private sector investments and real economic activity. A common theme running through these studies is that weak public debt management can generate negative externalities for the financial system and the real economy.

But, is a sovereign rating down-grade always a bad thing? Some authors, for example, Alexandre et al (2014), have found that when banks are transparent about their exposures to sovereign bonds, the negative impact of a sovereign downgrade can be small or even insignificant. This points to the importance of institutional and informational factors to the final outcome. Another possibility, which has up to now been unexplored in the literature, is the importance of a policy responses to an eminent sovereign downgrade. Policy makers may respond to an eminent downgrade by implementing economic reforms that could, in theory, be more beneficial to the economy in the long run. Thus, a policy response, to an eminent sovereign down-grade emerges is as an important factor in analysis of the final outcome.

This paper explores the likely effects of a possible sovereign downgrade in the specific case of South Africa. Using an institutional and informational approach to analyse the likely effects of a potential sovereign downgrade in South Africa, this paper argues that any negative effects are likely to be small. Further, it is argued that policy makers in South Africa are already responding to a possible downgrade with a raft of policy reforms aimed at improving the performance of the economy particularly in the area of infrastructure financing. These two considerations make it highly likely that the negative outcomes of a downgrade could be minimal or even be positive in the long run for the specific case of South Africa.

SOVEREIGN RATING CONTAGION IN THE COMMODITY BELT OF COUNTRIES

Leila Fourie

ABSTRACT

This study analysed the transmission of contagion between commodity-rich countries' sovereign ratings and demonstrated that this was highest in times of crisis. Evidence from cointegration, Granger and variance decomposition tests all indicated results that support the idea that sovereign rating contagion is present during windows of distress. Contagion was present between Argentina, Brazil, China, South Africa, Russia, Turkey and the Goldman Sachs Global Commodity Price Index. Crisis events were defined by major default events, namely the 1997 Asian crisis, the default of Argentina in 2001 and the 2007 credit crisis triggered by the sub-prime distress and the Lehman default.

CAPITAL STRUCTURE AND FIRMS' VALUE: A REVIEW OF RECENT EVIDENCE AROUND THE GLOBE

Yakubu Awudu Sare
Department of Finance
University of Ghana Business School,
University of Ghana, Legon

ABSTRACT
This paper examines capital structure and firm's value with recent evidence around the globe. The purpose is to know the conceptual issues, methodological gaps, issues and evidence that need attention. It applied mainly theoretical review of concepts, methods, issues, evidence and pointers for future research directions. The findings of this study indicates that a few papers apply theories such as the perking order theory, signaling theory, market timing theory to explain the capital structure phenomenon. In addition, this review revealed that most studies across the globe are interested in determinants of capital structure and firm's value but little attention is given to factors that could have an impact on the capital structure decisions such as the legal systems: tax laws, bankruptcy codes, market regulations, laws governing mergers and acquisitions. It also came out in this study that new issues are beginning to ignite the capital structure decision debate like social responsibility, managers' behavior, level of financial market development and macroeconomic variables such as: inflation, GDP, GNP, long-term interest rates, fluctuating oil prices, and exchange rate fluctuations. This investigation also observed that they are lacunas that further studies could consider like the environmental characteristics of the firms which could help explain the capital structure decision and firm's value and include: governance issues, cultural, political and differences between home country and host country for multinationals.

Keywords: Capital Structure, Firm's Value, Evidence, Globe

EXTENT AND DETERMINANTS OF ACCESS TO FINANCE AMONG UGANDAN SMES: THE EFFECTS OF DIFFERENT MEASUREMENT APPROACHES

Mary Nanyondo, Ven Tauringana, Andy Mullineux

Abstract
This paper investigates the extent and determinants of access to finance among Ugandan small and medium-sized enterprises (SMEs). Specifically, the paper examines whether measuring access to finance on the basis of 'received' and 'applied and received' approaches yield different results. The study is based on a sample of 206 Ugandan SMEs that responded to a questionnaire. The descriptive statistics results indicate that when access to finance is measured on the basis of 'received' approach, the extent of SMEs' access to bank loans is only 6% as opposed to 61% when the 'applied and received' approach is used. The binary logistics regression results show that effective lending rates, transaction costs and collateral security are significant determinants of access to finance irrespective of the approach used to measure access to finance. However, the results also show that firm size, financial transparency and location are also significant determinants of access to finance but only when access to finance is measured using the 'applied and received' approach. Firm age is found to be insignificant irrespective of the measurement approach. The results have important implication for both policy makers and future research on access to finance.

Keywords: SMEs, extent, determinants, access to finance, Uganda

TIME-VARYING IMPORTANCE OF COUNTRY AND INDUSTRY FACTORS IN EUROPEAN CORPORATE BONDS

Mary Pieterse-Bloem, Erasmus School of Economics, ERiM, APG Asset management
Zhaowen Qian_, Erasmus School of Economics, ERiM
Prof Willem F.C. Verschoor, VU University Amsterdam, Tinbergen Institute
Remco C.J. Zwinkels, VU University Amsterdam, Tinbergen Institute

ABSTRACT
In this paper we study the .nancial integration in Europe by looking at the time-varying relative importance of country versus industry factors in the European corporate bond market. Using a unique dataset that is representative for the universe of actively quoted corporate bonds, we.nd that although unconditionally the country factor dominates the industry factor, there is substantial time variation and no trend towards full integration. The variation corresponds with several important events in the European .nancial market integration, such as the introduction of the Euro and the sovereign debt crisis.

Keywords: market integration, corporate bond markets, factor decomposition, dynamic models

VALUING INVESTMENT IN THE CLEAN DEVELOPMENT MECHANISM (CDM). A COMPOUND REAL OPTION APPROACH

Danny Cassimon, P.J. Engelen, Linda Peters, Gert van Hecken

Abstract

The Clean Development Mechanism (CDM), which entered into force in 2005, is the main channel through which developing ('non-Annex I') countries have participated in climate change mitigation under the Kyoto Protocol (KP). This market-based offset mechanism allows developing countries to earn certified emission reduction (CER) credits, each equivalent to one ton of CO_2, by investing in voluntary emission reduction projects. These CERs can be traded and sold to industrialized (annex I) countries (as offsets to meet part of their emission reduction targets under the Kyoto Protocol) by these investors, providing an additional income stream. As such, the CDM should act as a 'carrot' to incentivize these developing countries to invest in climate mitigation projects. However, especially in recent years, major concerns have been raised on whether this carrot (still) has substantial value.

In our contribution, we show that exact valuation of this carrot ('investment in CDM') requires the application of compound real option techniques. Indeed, investment in CDM is to be characterized as a multi-staged investment project (involving different stages of project registration, verification and certification) involving a series of stage-specific investment costs, and two sets of specific risks, one related to the multi-staged and uncertain success rate of each of the stages (so-called *technical risks*) and the other one related to the unpredictable return of the CDM project, dependent on the CER price (so-called market risk), which is only received upon successful completion of all the stages. Cassimon et al (2011) developed such a closed-form N-fold compound option model that incorporated both technical as well as market risk. In this paper we apply this model to derive the value of investments in CDM. Using parameters from the global database of all registered CDM projects, we show that longer than projected lead times, higher than projected transaction costs and rates of failure considerably lower the value of investing in CDM. Moreover, this value of also crucially depends on CER prices, and their variability; especially in recent years, the considerable decrease in CER prices has drastically reduced the value of historic CDM investments, and has made CDM investments completely unattractive. As such, in a final section of the paper, we suggest ways to reform the current CDM in order to increase its attractiveness.

HOW DO CORPORATE GOVERNANCE STRUCTURES AFFECT THE FUNDING STRATEGIES OF BANKS IN AFRICA?

Elikplimi Komla Agbloyor, Agyapomaa Gyeke-Dako, Mohammed Amidu
and Joshua Yindenaba Abor

ABSTRACT

Using a large panel of banks over the years 2006-2013, we blend the literature of corporate governance with that of corporate finance and examine the type of funding strategy that is adopted by banks that are governed-well and those that are not. We focus on a bank's board level characteristics to infer on the state of its corporate governance. We utilize a robust random effects estimation to analyze the empirical relations. Our results generally indicate that well-governed banks use more of non-deposit funding compared to deposit funding. We interpret our results to mean that only well run banks can access funding from the non-deposit market and at an affordable cost. In the non-deposit markets, lenders are more sophisticated and therefore will examine the operations of a bank before making a lending decision. The results are consistent with both the agency and stewardship theories. Bad boards will prefer to use deposit funding, whereas as good boards will prefer to use more non-deposit funding. The results presented are significant since access to non-deposit funding helps a bank to reduce risk and diversify its funding sources.

QUIET-LIFE IN BANKING: EVIDENCE FROM 10 FRONTIER MARKETS IN AFRICA

Roland Banya
University of Cape Town Business School

ABSTRACT
The debate on banking competition, market power and the relationship with efficiency issues has raised great interest among academics, and policy-makers for a long time. The “quiet life hypothesis” of Hicks (1935) has informed research and public policy to focus on the social loss (higher prices and limited output) associated with the exercise of market power in concentrated markets. However, Berger and Hannan (1998) advance that, in addition to the social loss associated with the “quiet life”, the exercise of market power may also prompt higher social costs because it may reduce the effort by managers to operate efficiently. These issues are interrelated and, given the unique role played by banks in the economy, they deserve further study. The study of bank competition and its effect on the efficiency on a selection of Frontier African banking sectors is therefore of relevance.

This paper seeks to examine the empirical relationship between banking competition and efficiency using bank-level data for a selection of 10 Frontier African countries. We use the Lerner Index, which is a measure of market power and this is applied for estimation of bank competition. The Stochastic Frontier analysis (SFA) technique is applied to estimate cost and profit efficiency. We also apply the random effects test to examine the relationship between competition and efficiency. This study will shed a better understanding into the relationship between banking competition and efficiency as well as providing an alternative view to the Structure Conduct Performance (SCP) paradigm.

IMPLEMENTATION OF THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE: A RISK-BASED SOUTH AFRICAN PERSPECTIVE

J. Young
University of South Africa

ABSTRACT

Various countries instituted principles of good corporate governance which serves as a platform for a code of business conduct. In addition such a code should aim to set the scene in terms of the triple bottom line responsibilities, namely social, environmental and economic responsibilities. However, it is imperative that all role-players understand the concept of corporate governance to ensure the inherent benefits thereof for the country, corporate institutions and the public. Risk management also plays a crucial part in a country's wellbeing and is therefore an important part of good corporate governance. There are furthermore various risk-related principles which can be used to determine if a country and corporate organisations is adhering to the principles of good corporate governance. However, if these principles are neglected, it can have a negative influence on a country's corporate governance standard. This presentation aims to provide insight on research in progress regarding the principles of good corporate governance relating to the governance of risk and the corresponding influence on a country's continuous growth and development.

CRITERIA FOR ENERGY MANAGEMENT WITHIN HIGHER EDUCATION INSTITUTIONS

E Botha
University of South Africa

ABSTRACT
Energy management has become an important part of the Higher Education Institutions in South Africa in order to become more sustainable and decrease their carbon footprint and operational costs. The concepts relating to the energy problem in South Africa include energy conservation, energy efficiency and renewable energy. The energy management process should start with the conservation of the current energy sources. There after efficient energy practices needs to be included within organisations (consume in a responsible manner. Finally, renewable energy sources can be used in order to alleviate the energy problem. However, energy efficiency initiatives can be costly to implement, they sometimes have long return on investments and have inadequate incentives for organisations to consider implementation. If organisations however want to decrease their carbon emissions and operational costs, on the one hand and on the other increase their electricity cost savings and corporate social responsibility they need to develop a strong culture and awareness of energy management. Effective energy management is becoming a crucial aspect globally, and the potential use of alternative energy sources is becoming apparent in order to address the associated risk exposures. This presentation aims to provide insight on the current research in progress relating to the criteria for the implementation of effective energy management decisions within Higher Education Institutions in South Africa, which could also be applicable for other corporate organisations

KEY RISK SCENARIO BIASES

J. van Huyssteen & J. Young
University of South Africa

ABSTRACT

Scenario analysis involves the examination of significant and infrequent but plausible future events and considers the alternative possible outcomes of those events. These scenarios can provide an important link between the measurement and management of operational risk. Furthermore, it can be especially useful when organisations must commit to a reserve capital amount for operational risks, to ensure that the organisation can tolerate and absorb a catastrophic incident without being liquidated. However, human limitations in the ability to process data and information, can often lead to assessments that are poorly calibrated or internally inconsistent, which can be classified as scenario assessment biases. To eliminate the biasness of the risk scenarios, a number of techniques can be considered. The purpose of this research in progress is to explore these techniques to neutralise the biased assessments during scenario analysis. To ensure an unbiased and objective assessment of a future risk incident and potential loss forms a crucial part of operational risk management in the modern world of unexpected catastrophic incidents. These scenarios can make valuable contributions towards protecting organisations by ensuring proactive risk management decisions in terms of being prepared for these incidents should they occur.

FINANCING AND FINANCIAL SUSTAINABILITY OF SELECTED SADC MICRO FINANCE INSTITUTIONS (MFIs)

Innocent Bayai and Sylvanus Ikhide

ABSTRACT

This study seeks to uncover how MFI financing relate to financial sustainability of the same assuming selected SADC MFIs. Meager literature and evidence as well as non-existence of a similar study covering SADC noting the growing need to control poverty through sustainable MFIs validate this study. Logit and probit models adjusted for various robustness checks show that retained earnings, debt and donations are financing variables with a significant effect on financial sustainability. Other critical variables are portfolio at risk, cost per borrower and dummies for deposit attraction and that for new MFIs.

DO PENSION ASSETS CONTRIBUTE TO GROWTH: A STUDY IN THE SOUTH AFRICAN CONTEXT?

Nthabiseng Moleko and Sylvanus Ikhide
University of Stellenbosch Business School

ABSTRACT

The paper investigates whether there is an empirical relationship between pension assets and growth in the South African economy. It also differentiates between pension assets and the Public Investment Corporation (PIC) pension assets. This study uses a modified Cobb Douglas production function, with pension assets as a shift factor. The demographic transition is also captured in the model. In the first step we measure the impact pension assets exhibit on growth. The paper will also measure the impact of PIC pension assets on growth, and whether they are a robust driver of national growth. In the second step we estimate the impact of the South African demographic transition. This paper sample covers the period 1980- 2014 period.

DETERMINANTS OF FDI INFLOWS INTO DEVELOPING COUNTRIES: A REVIEW AND SYNTHESIS OF CURRENT LITERATURE AND FUTURE DIRECTIONS OF STUDY

Ebenezer Bugri Anarfo
GIMPA Business School

ABSTRACT

Foreign Direct Investment (FDI) remains an important source of growth for developing economies; the effect of FDI on growth and knowledge acquisition has been reaffirmed by studies that have investigated its impact on growth and human capital development. Similarly, the positive impact of growth has necessitated studies into which conditions are necessary to attract increasing FDI inflows into developing economies. Numerous empirical studies have been conducted to this effect in FDI literature with most of these studies focusing more on economic determinants of FDI. A few other studies have equally focused on political as well as social determinants. The importance of natural resources, energy use and aid in attracting FDI has also been considered by brief studies. This review has demonstrated the importance of FDI as a major area for research in academia as evident by the number of articles spread across a wide variety of journals with geographic diversification. Empirical literature has found some economic factors to be increasingly associated with attracting inward FDI such as market size and trade openness. However, it was observed that much needs to be done in the area of FDI research in terms of developing a single universal theory that encompasses all relevant determinants. It is suggested that studies at the 'Micro' and 'Meso' levels using qualitative – as opposed to the common quantitative – techniques in FDI studies should be undertaken to improve current understanding of FDI determinants dynamics and move towards an integrative theory of FDI.

THE VALUE RELEVANCE OF CARBON EMISSIONS REDUCTION IN SOUTH AFRICA

Thomas Adomah Worae
School of Accountancy, University of Limpopo
broyaw65@gmail.com

Collins C. Ngwakwe
Turfloop Graduate School Of Leadership, University Of Limpopo
collins.ngwakwe@ul.ac.za

Cosmas M Ambe
School of Accountancy, University of Limpopo
cosmas.ambe@ul.ac.za

ABSTRACT
It is claimed that equity markets are beginning to recognise the impact the transition to a low carbon global economy is having on companies' competitive positions and long-term valuations. This paper investigates the assertion by estimating how carbon emissions reduction is reflected in the market value of equity and equity returns of Johannesburg Stock Exchange's Socially Responsible Investment Index manufacturing and mining companies. We first cited shortcomings of previously applied methodologies by performing varied multivariate econometric analyses to show how carbon emissions reduction relates market value of equity and equity returns. Ultilising ordinary least squares regression on pooled data, the results show positive relationship between emissions intensity and market value of equity and a negative relationship between energy intensity and market value of equity. After we applied panel data set and controlled for time invariant omitted variable bias, fixed effect estimation showed statistically insignificant relationship between carbon intensity variables and market value of equity. Similarly after addressing possible orthogonality conditions ultilising Arellano-Bond dynamic panel data estimation the results were no different. Equity returns also showed insignificant relationship with carbon intensity variables on the application of OLS. When we controlled for firms' unobserved heterogeneity and potential orthogonality condition, fixed effect model and Arellano-Bond dynamic panel data estimation both showed statistically significant negative association between energy intensity and equity returns. The results suggest emissions intensity does not reflect Johannesburg Stock Exchange's Socially Responsible Investment Index manufacturing and mining companies' market value of equity and equity returns. Similarly energy intensity does not reflect market value of equity but however impounds equity returns.

Keywords: Value relevance, market value of equity, equity returns, emissions intensity, energy intensity, South Africa.

COPPER AND FINANCIAL VARIABLES IN ZAMBIA

Xolani Ndlovu

ABSTRACT
We investigate short run and long run association between copper prices and inter related financial variables in Zambia over a ten year period based on dynamic economic modelling techniques. Variables used in the model include the Zambian Kwacha, the Lusaka Stock Exchange Index and the 3 months Treasury bill rate. We find that all the variables are integrated of order I(1). We employ the Johansen cointegration methodology and specify a VEC model. We verify the model against various diagnostic statistical criteria. Our model confirms a long-run equilibrium relationship among variables with the burden of correction to the long-run path borne by the exchange rate and equity prices. In the short-run however, there is a weak relationship between the copper price and the exchange rate and dual causality between equity prices and copper price. Innovations in the copper prices have a persistent effect on the forecast errors of the financial variables. We conclude that the copper price is important in the determination of asset prices in Zambia, directly and indirectly. The economic diversification program should therefore be accelerated to protect the economy from the exogenous shocks in the international copper market. These findings are of interest to economic policy makers, portfolio managers and other economic agents participating on the Zambian financial markets.

Keywords: VECM, Cointegration Granger causality, Copper prices; financial variables

IMPACT OF THE NEW LEASE ACCOUNTING MODEL ON FINANCIAL RATIOS OF SOUTH AFRICAN PUBLIC ENTERPRISES

Jonathan Streng

Adelino Rodrigues

Laurie Colman; Daniella Goncalves; Claire Hutchinson; Ernst Koch

ABSTRACT

The public sector of South Africa has recently seen major infrastructural capital expenditure as a result of the long term National Development Plan (NDP) as presented by the finance minister of South Africa. This plan involves the acquisition of major assets, requiring major infrastructural capital expenditure in order to create value for South Africa's developing economy. Corporate finance theory indicates that capital investment can be acquired through outright purchase or alternatively financed by way of a leasing arrangements. This decision is dependent on *inter alia* the entities' financial risk profile, appetite for risk of ownership of the underlying asset, effective cost of the finance options available as well as the resulting impact of the decision on the statement of financial position of the entity. The IASB, in 2010, released an exposure draft proposing a new model for the accounting of operating leases so as to bring all leases, both finance and operating leases, onto the statement of financial position. This exposure draft has seen various amendments since the initial exposure draft, and is currently still at the exposure draft stage due to various refinements that have occurred since 2010. This study will comprise a literature review and an empirical study aimed at analysing the financial statements of South Africa's largest state owned enterprises in order to determine the impact of the proposed lease model on their financial statements as well as key financial ratios. It is expected that the findings will show the proposed lease model will have a significant impact on the financial statements and key ratio indicators identified. These findings will be of value to the public sector in understanding future capital requirements as well as financial gearing and capital adequacy going forward, as well as the possible impact on liquidity and solvency status.

Key words: IASB, Leases, Public Sector, Operating lease, gearing, Exposure Draft: Leases

INVESTIGATION OF THE FAIR PRICE OF CARBON CREDITS: AN ACCOUNT OF INCENTIVE PRICE OFFERS

Monica Mwangi and John Ocheche

ABSTRACT
In this paper, we reveal the nature of the relationship between carbon credit prices and incentive bids. We incorporate different carbon trading systems including the World Bank's incentive offer on Certified Emission Reduction units to examine the effect of incentive bids on credit pricing. We adopt a multivariate Geometric Brownian approach in modelling the price path of carbon credits. Based on the analysis of the opening and closing carbon credit prices during 2007 to 2014 from the Emission Reduction Trading System, we establish the significant correlation between carbon credit prices and incentive bids. We also establish the lack there of of independence in the prices of carbon credits in different trading systems. We provide the detailed policy implications of the above conclusions especially so for developing economies.

Keywords: Geometric Brownian motion, Carbon credits, Certified Emission Reduction units

ECONOMIC GROWTH AND ENVIRONMENTAL DEGRADATION: THE CASE STUDY OF NIGERIA

Emily Ikhide and Prof Charles Adjasi

ABSTRACT

Although, conventional energy consumption based on oil, coal, and natural gas has proven to be highly effective drivers of economic progress, it has also been viewed to have negative impact on the environment (Newman et.al., 1996). This relationship has formed the centre of intense public policy debates due to the recent developments of global warming and climate change.

Emerging literatures over the years have presented conflicting interest on the environmental–growth relationship. Some have argued that degradation of resource base places economic activities at high risk (Mishan, 1967 and Panayotou, 2003). Others have argued that the fastest road to environmental improvement is along the path of economic growth (Beckerman, 1992). Yet, others have hypothesized a significant depletion of natural resource and wastes accumulation with a quick increase of economic growth and industrialization (Grossman and Krueger, 1991) and (Shafik and Bandypadhyay, 1992). Besides, most studies have concentrated mainly on Asia and Latin America while few have considered Sub-Saharan African countries, particularly Nigeria, where fossil oil production is currently the main stay of the economy. Also, most studies on Sub-Saharan Africa have used majorly panel data analysis, which has the defect of not been well placed to provide detailed analysis of country-specific issues.

In fact, the scarcity of researches of economic growth-environment relationship in Nigeria constitutes an important gap that needs to be explored. This study therefore, intends to employ annual time series data, sourced from World Bank World development Indicators and Nigerian Bureau of Statistics from the period of 1971 to 2013, and an Autoregressive Distributed Lag (ARDL)-bounds testing approach by (Pesaran et al. 2001) to evaluate the impact of economic growth on the environment in Nigeria. Thus, the study expects to extend our knowledge in two main areas: it (1) expands our understanding on economic growth-environment relationship in Nigeria, and (2) creates the climate for effective policies on inclusive energy consumption and economic growth for environmental quality in the country.

Keywords: Air Pollution, Air Quality, Environment, Environmental Economics, Environmental Forecasting, Environmental Impact and Energy, Nigeria

FINANCIAL INTERMEDIARIES AND ECONOMIC GROWTH IN GHANA: AN EMPIRICAL INVESTIGATION

Dr. S. Nyasha and N. M. Odhiambo

ABSTRACT

This paper examines the impact of bank-based financial development on economic growth in Ghana during the period from 1970 to 2014. The study was motivated by the current debate on the role of bank-based financial development in the economic growth process. The debate centres on whether banking sector development impacts positively or negatively on economic growth. Despite the existence of a large global pool of empirical work on this subject, very few studies have been conducted on the impact of bank-based financial development on economic growth in Ghana. The majority of the studies on Ghana have focused mainly on the causality between bank-based financial development and economic growth, rather than on the impact of bank-based financial development on economic growth. Unlike some previous studies, the current study uses four proxies to measure bank-based financial development. These include: i) The ratio of quasi liquid liabilities to gross domestic product (GDP); ii) the ratio of domestic credit extension to private sector by banks to GDP; iii) the ratio of the claims of deposit money banks in the private sector to broad money; and iv) the ratio of deposit money banks' assets to GDP. In addition to these proxies, the study uses a composite index of bank-based financial development derived from these four proxies – using the method of means-removed average. Economic growth, on the other hand, has been proxied by the growth rate of real GDP.

Using the autoregressive distributed lag (ARDL) bounds testing approach, the empirical results of this study show that the impact of bank-based financial development on economic growth in Ghana is sensitive to the proxy used to measure bank-based financial development. The results also tend to vary over time. Overall, our results show that when the ratio of domestic credit extension to the private sector by banks to GDP, and the composite index are used as proxies, bank-based financial development has a positive impact on economic growth in Ghana. However, when the ratio of deposit money banks' assets to GDP is used as a proxy, bank-based financial development has a negative impact on economic growth. These results apply – irrespective of whether the estimation is done in the short run or in the long run. Other results_show that when the ratio of the claims of deposit money banks on the private sector to broad money is used as a proxy for bank-based financial development, bank-based financial development is found to have a negative impact on economic growth in the short run, but a positive impact in the long run. However, when the ratio of quasi liquid liabilities to GDP is used, the relationship tends to be positive in the short run, but negative in the long run.

Keywords: Ghana, Bank-Based Financial Development, Economic Growth

THE IMPACT OF FINANCIAL DEVELOPMENT ON INCOME EQUALITY IN SOUTH AFRICA

Chuma Stabile, Tsegaye Asrat and Makhetha-Kosi Palesa

ABSTRACT
Financial development plays a crucial role on curbing income inequality in a given economy. The study investigates the impact of financial development on income inequality in South Africa using time series quarterly data set for the period 1990 to 2011. A Gini coefficient was used as a measure of inequality; private credit and stock market capitalization were used as proxies for financial development. Johansen co-integration test and the Error Correction Model were employed to identify the long run and short run dynamics among the variables. The result of the study indicates that there is a negative relationship between financial development and income inequality and showed no existence of a two way relationship between financial development and income inequality.

Keywords: Financial development, Income Inequality, Vector Error Correction Model, South Africa

SMME FUNDING: THE DISCREPANCY BETWEEN SMME CHARACTERISTICS AND FINANCIAL INSTITUTIONS FUNDING REQUIREMENTS

Mzwanele Dlova and Munacinga Simatele

ABSTRACT

SMME access to finance is one of the cardinal constraints impacting on SMME growth and development in South Africa. The paper examines the discrepancy between SMME characteristics and financial institutions (FIs) funding requirements. A Survey was conducted amongst SMMEs and Financial institutions in the Eastern Cape Province. A comparative analysis of the funding requirement is done. The different technologies available for funding and accessed by SMMEs are discussed. The results indicate that the business plan, annual turnover, collateral and owners contribution are key lending criteria used by FIs in evaluating funding applications. In addition to the criteria, empirical findings reveal that the age of a business, the legal form of business and the industry in which a firm operates as important in the lending criteria of FIs. This shows that there is a disjuncture between the FIs lending criteria and the empirical findings. The study recommends that FIs must adjust their lending techniques to suit the SMME clientele to promote SMME access to finance.

BUSINESS PROCESS MANAGEMENT: DETERMINING FACTORS INFLUENCING GROWTH

Jonathan S. Ekambi
Daystar University

ABSTRACT
Business process management (BPM) as a systematic approach to making an organization's workflow more effective, more efficient and more capable of adapting to an ever-changing environment, can be used to measure organisational growth.

Increase in product complexity calls for globalization, stories towards Information Technology and virtualization, market forces and customer needs all wanting clear work flows for performance and ultimately growth.

This paper looks at BPM as a complex line and seeks to see how businesses and organisations are affected by its mention.

Desk study as a methodology was used seeking to examine factors influencing growth. The results were highlighted using graphs and charts.

Keywords: Business, Process, Management, BPM, Growth.

MAKING HOUSING SUBSIDIES WORK: THE CASE OF THE FINANCE LINKED INDIVIDUAL SUBSIDY PROGRAMME

Londeka Thanjekwayo

ABSTRACT

Affordability is a serious issue when it comes to extending access to credit for housing finance particularly within those households that fall into what is commonly referred to as the gap market. The Finance Linked Individual Subsidy Programme (FLISP) defines the gap market as comprising of households earning a household income between R3501-R15 000. These individuals earn too much to access a housing subsidy but too little to afford the current cheapest new house in the market. Though developers have started delivering houses in the region of R300 000 to R500 000 which caters for the top end of the market segment, it is restrained and there is much room for improvement. There is also the issue of the indebtedness profile of the market which is problematic.

Consequently, this particular market segment is desperate for innovative solutions which may include alternative housing and financing approaches. The FLISP policy is government's attempt of such a solution which responds to the financing aspect in an aim to facilitate access to sustainable, affordable housing. This paper examines the performance of the Finance Linked Individual Subsidy Programme and the extent to which it has been able to respond to the needs of the target market in Gauteng. The research approach encompasses both quantitative and qualitative methods. Interviews have been done with the four major banks in South Africa, public and private housing stakeholders and beneficiaries of the programme.

Though statistics show that the target market for FLISP is vast[1], the programme has not had the desired impact for a variety of reasons. FLISP is founded on a sound principle and has immense potential to activate opportunities in the housing market. The existing challenges which are hampering its effectiveness need to be resolved as a matter of urgency so that the programme can be taken to its full scale and be responsive to the needs of the targeted gap market.

[1] Stats SA, 2011; GCRO Quality of Life Survey, 2014

CONSUMER PRICES UNDER CONTROLLED AND DECONTROLLED REGIMES

Roseline Misati and Esther Kariuki

ABSTRACT
In the recent past, the international oil market recorded un-preceded oil price declines with similar expected effects on domestic oil prices, particularly for countries that are net importers of oil. However, domestic oil price responses have been slow igniting the debate of asymmetric price responses based on the theory of 'rockets and feathers '. The objective of this paper is to test the 'rockets and feathers' theory using Kenyan data. The study uses Error Correction Model, Phillips Curve, trend analysis and historical decomposition methods to establish the pass-through from international oil prices to disaggregated domestic oil prices and overall inflation. The results confirm the existence of asymmetric domestic price response to international oil prices. However, when we consider disaggregated components of oil, the results show that international oil pass-through is only empirically symmetric with kerosene prices but not with diesel and petrol prices. Deeper analysis of the differences in outcomes for the disaggregated components indicate that the symmetrical pass-through effect of international oil prices to kerosene is accounted for in the absence of taxes for this petroleum product. Based on this observation, there is a need to review the costs and benefits of various petroleum levies and taxes on petroleum products. In addition, the trend analysis of components of the oil market reveal that regime change from liberalized oil markets to controlled markets does not matter for international oil price pass through changes to the diesel market and petrol market while it matters for the kerosene market in which, instability and asymmetric response is exhibited during periods of control. This observation implies a need to re assess the impact of the Energy Regulation Commission on the pricing behaviour of domestic oil markets. Evidence of asymmetric price responses imply some consumer welfare loss, which should be quantified and if enormous be corrected by appropriate policies.

THE IMPACT OF MICROFINANCE ON HOUSEHOLD LIVELIHOODS: EVIDENCE FROM RURAL ERITREA

A. Habte, K. Visser, and Ocran, M.K.
University of Western Cape

ABSTRACT
Eritrea, a relatively young African nation, is one of the least developed counties in the world. Its economy is predominantly dependent on subsistence agriculture and the level and magnitude of poverty is more severe in rural areas. The formal financial sector is underdeveloped, state- owned, far from being competitive, and limited in terms of depth and breadth as measured by the relevant financial sector development indicators. To address the limitations of the formal banking sector and to help fill the financing gap, the government introduced a Saving and Microcredit Program (SMCP) in 1996 to exclusively target the lower income groups in rural and urban areas. The objective of this study was to estimate and analyse the impact of the SMCP on household livelihood outcomes. The study employed non-experimental cross-sectional survey design involving structured and semi-structured questionnaires administered to 500 treatment and comparison respondents. Logistic regression as well as propensity score matching models used. The findings suggest that borrowing from the SMCP has a significantly higher average treatment effect on the treated households. Profits generated from off-farm and small microenterprises, the values of livestock and non-livestock assets, food and non-food consumption expenditure and nutrition quality, were found to be on average higher for the treated households than for the controlled households. Consequently, it could be argued that the provision of micro financial resources has significant positive effect on household livelihood outcomes. The study has important social and economic policy implication regarding the role of finance in rural development.

Keywords: Eritrea, microfinance, livelihood, rural, logistic regression and propensity score matching.

THE IMPACT OF GOVERNMENT EXPENDITURE ON FINANCIAL DEVELOPMENT IN SOUTH AFRICA

Makhetha-Kosi Palesa, Ndlovu Nomsa, Mishi Syden and Ngonyama Nomasomi

ABSTRACT
Economic theory argues that the financial sector is the back bone of economic growth. The government plays a major role in policy making, its actions determines the financial development of an economy. Government spending has been rising in SA, it rose from about 26, 5% of GDP in 2009 to 29.2% of GDP in 2011 whilst government revenue was going down. This study intends to investigate the impact of government expenditure on the financial sector in South Africa from 1991 to 2014, with particular focus on aggregate analysis. The study will employ Phillips Pherron and Augmented Dickey Fuller to test for stationarity and further look at the short and long rung run effects using VECM.

Keywords: government expenditure, financial development, economic growth, South Africa

ECONOMIC AND POLITICAL DETERMINANTS OF BUDGET DEFICITS IN SOUTH AFRICA

Nomasomi Ngonyama, Phillip Ngonisa and Makhetha-Kosi Palesa

ABSTRACT
The budget deficit has been the subject of many studies for quite some time, which is not surprising because according to literature it has implications for public debt, inflation and the economic growth. The increase in government debt in South Africa remains a significant concern given that its international credit rating was revised lower in 2014. However, with all these challenges there is limited research on what drives the budget deficits in South Africa. Given this, this paper seeks to assess the key drivers of the budget deficits in the context of South Africa using the econometric analysis over the period from 1994 -2014. This study will employ stationarity test to avoid spurious results. In addition Vector Error Mechanism will be employed to separate the long and short run effects. The results of this paper will have implications for policy making and academic work.

Keywords: Budget deficit, GDP, Inflation, public debt, South Africa

FOREIGN DIRECT INVESTMENT AND FIRM PERFORMANCE: EVIDENCE FROM SUB-SAHARAN AFRICA

Joseph Dery Nyeadi and Charles Adjasi

ABSTRACT
This study investigates empirically the relationship between Foreign Direct Investment (FDI) and the performance of firms in Sub-Saharan Africa (SSA). The Question that has been answered in the study is whether or not firms that have FDI ownership in them perform better than firms without FDI ownership? To investigate this issue, the study pooled data from 97 listed firms from Ghana, Nigeria and South Africa for the period of 2008 to 2010. This data was sought from the various stock exchanges through McGregor BFA database. Using a fixed effects panel estimator and Panel Corrected Standard errors the study established the following: (1) FDI has no impact on firm values (2) On the country by country study, only South Africa shows an evidence of an impact of FDI on firm value. FDI is established to have significant negative relationship with firm values in South Africa. (3) Size and age are however found to have significant influence on firm values.

Keywords: FDI, Firm Performance, Firm Value, SSA, Ghana, Nigeria and South Africa

THE PREVALENCE AND CHARACTERISTICS OF OVER-INDEBTED HOUSEHOLDS IN SOUTH AFRICA

Lungile Ntsalanze and Sylvanus Ikhide

ABSTRACT

Household over-indebtedness has become a matter of concern across the world – in so far as its social implications are concerned. The paper a snapshot of the prevalence of over-indebtedness using various international indicators and the National Credit Regulator indicator; and describes which households are over-indebted. In terms of the National Credit Regulator indicator, 7.96% of households are over-indebted, and of those households 61.37% are found in the lowest income category (R0 – R2000) and spend more than 45% of their household income on debt repayments – which is beyond levels considered sustainable.

Government grants play a key role to ease financial pressure for households, majority of over-indebted households (71.72%), are those which do not receive government grants. Results also demonstrate that being employed is associated with over-indebtedness, 46.48% of households led by a working household head are over-indebted - more than double those that are not employed.

Keywords: Household, over-indebtedness, indicators, National Credit Regulator

MODELLING A BIVARIATE NON-STATIONARY TIME SERIES FINANCIAL COUNT DATA USING THE BINMA(1) PROCESS

N. Mamode Khan and Y. Sunecher

ABSTRACT

Often, the number of transactions at the stock exchange is inuenced by time-varying covariates such as local or international news, the time of trade, prices and among others. These covariates make the time series non-stationary. However, there is yet no proper bivariate time series model to analyze such responses. This paper develops a bivariate non-stationary moving average model (BINMA) under a exible parameterization to analyze such data anda semi-likelihood estimation approach is designed to estimate the parame-ters and draw inferential conclusions. This new model is tested on a set of simulated data and on a bivariate Financial count data.

Keywords: Bivariate, Moving Average, Time Series, Semi-likelihood.

TAX BUOYANCY IN DEVELOPING COUNTRIES: CASE OF AFRICA

Barrack Mandela and John Olukuru

ABSTRACT
One of the most important measures of efficiency of any tax system in public finance is tax buoyancy. Tax revenue in Africa have been relatively low on average as a percentage of GDP. Since buoyancy echoes the capacity of a tax structure to generate revenues during economic growth, in this paper, several buoyancies of corporate tax, value added tax, personal income tax, import tax, excise tax and total tax revenues are estimated using annual data from 1980 to 2010 in the largest economies in North, East and South Africa. The error correction model is applied to measure the short run and the long run estimate of tax buoyancy, in addition to the level of convergence between the short run estimate and the long run estimate. Interesting findings are noted on how buoyancy vary both in the short and long run from market to market despite the shared similarities.

Keywords: Error correction model, Tax buoyancy

THE IMPACT OF THE NATIONAL CREDIT ACT (NCA) ON RESIDENTIAL MORTGAGE LENDING IN SOUTH AFRICA

Ms Catherine Boonzaaier & Dr J Chisasa

ABSTRACT
Previously, the granting of credit by financial institutions to consumers was approved without proper investigating, whether the consumer can afford it or not. The National Credit Act (NCA) was promulgated and implemented on 1 June 2007 to address the situation. The purpose of this paper is to determine whether South African Banks are better or worse off since the implementation of the NCA and this paper seeks to address residential mortgage lending under the NCA.

Keywords: National Credit Act, mortgage lending, banks, markets

THE IMPACT OF TRANSPORT INFRASTRUCTURE INVESTMENT ON UNEMPLOYMENT IN SOUTH AFRICA

Mayekiso Siphokazi and Makhetha-Kosi Palesa

ABSTRACT

The transport infrastructure investment has been a subject of many studies for some time, mainly in improving and predicting the economic growth of the country and improving employment in South Africa. Given this, the study examines the impact of transport infrastructure investment on unemployment in South Africa by using time series econometric analysis over the period 1982-2012. Some key variables considered include unemployment, real GDP, real exchange rate, real interest rate, and trade openness total infrastructure investment exclude transport infrastructure investment. To separate the long and short run effect, VECM was employed after ensuring stationarity of the series. The study found that a long run relationship exist between the unemployment, transport infrastructure investment, real GDP, real exchange rate , real interest rate, trade openness and total infrastructure investment exclude transport infrastructure investment. The Results of this thesis have implications for policy and academic work.

Keywords: Transport Infrastructure investment; unemployment; South Africa

EMPOWERING WOMEN ECONOMICALLY
THE CASE OF KENYA'S WOMEN ENTERPRISE FUND (WEF)

Esther Nkatha M'ithiria & Rose Kathambi Mugiira

ABSTRACT
Empirical evidence suggests that gender equality and empowerment fuels thriving economies. Gender empowerment increases the spiritual, political, social and economic strength and level of participation of individuals and communities. It often involves the empowered developing confidence in their own capabilities as a result of the support they are accorded.

Economic empowerment for any population is the cornerstone for sustainable development, owing to its direct contribution to the economy's production systems. When women find decent jobs and acquire assets; they earn incomes and accumulate savings to help their households. The pool of human resources, talents, and economic contribution/participation expands, spurring productivity and growth. Feminized poverty declines.

This study sets to analyse various aspects of Kenya's national strategy to empower women economically namely, the Women Enterprise Fund (WEF). The fund has been identified as a flagship project under the social pillar in Kenya's Vision 2030, expected to play a catalyst role in mainstreaming women in financial services sector, in line with Millennium Development Goal 3 (now Sustainable Development Goal 5).

The study used a cross-sectional survey research design. The results show that WEF has impacted living standards of women in terms of improving their economic status by raising their personal disposable incomes; and as a result, spurring national productivity, income, employment and growth.

The WEF finances all types of women enterprises as long as the individual or group meets the loan requirements and guidelines. Although the WEF and Partner Financial Institutions offer other business support services to the women entrepreneurs, there is still room for improvement in this area so as to ensure business profitability and sustainability.

The study recommends diversification of the mode of WEF disbursement; to offer more business support service; create awareness on the Fund among women; government support through subsidies, tax rebates and licence fees; and monitoring of business performance and offer 'after loan' advice/services.

Keywords: women empowerment, living standards, women enterprises, business support services

“DILEMMAS IN DEVELOPING A DOMESTIC BOND MARKET”

Winnie Sze
University of Cape Town

ABSTRACT
There is extensive research on the role the domestic bond markets can play in economic development, but seemingly fewer papers on how the structure of the market can aid or impede development. Key structures include the relationship between the bank and bond markets, the types of debt instruments, the distribution network and regulation of investors. For instance, bond markets could be an alternative to the bank market, especially in times of banking sector stress; on the other hand, stronger borrowers may migrate out of the loan market leaving behind weaker borrowers which would undermine the banking sector. Government inflation-linked bonds may meet market demand for floating-rate investments, but may take away a key motivator for the development of interest rate swaps and other derivatives, instruments which can serve as risk management tools for the wider economy. Regulation may encourage domestic investment but risk creating a captive audience that could distort savings in the long-run.

The proposed conference paper looks at some of these dilemmas that must be negotiated in the building of a domestic bond market, with a focus on the experience of certain Latam and SE Asian countries as case studies. The paper would serve as the basis of the literature review for my thesis on the development of the South African domestic bond market.

Winnie Sze is a University of Cape Town Masters of Commerce (Development Finance) candidate. She was a former investment banker of 15+ years, originating debt financing and risk hedging strategies for global Fortune 1000 companies.

COMPETITION AND RISK-TAKING BEHAVIOUR IN THE NON-LIFE INSURANCE MARKET IN SOUTH AFRICA

Abdul Latif Alhassan and Nicholas Biekpe

ABSTRACT

This paper examines the non-linear effect of competition on risk-taking behaviour in an emerging insurance market. We employ annual firm level data on 79 non-life insurance firms from 2007 to 2012 to estimate the Lerner index as our proxy for competition while the z-score and underwriting risk are employed as the proxies for insurance risk. Using the seemingly unrelated regression, quantile regression and system GMM techniques, we find evidence to support the 'competition-fragility' hypothesis which suggests that competition has a negative effect on the solvency of non-life insurance firms. We also document evidence to suggest that the 'competition-fragility' effect is stronger for weaker and stronger insurers compared with moderately stronger insurers. Firm size, capitalization, reinsurance, business line diversification, and foreign-ownership were also identified as other significant predictors of solvency in the insurance market. Policy recommendations for improving industry stability are discussed.

Keywords: Risk; Z-score; Lerner Index; SUR; Quantile Regression; Insurance; South Africa.

HALF A DECADE OF CREDIT REFERENCE BUREAUS ACTIVITIES IN GHANA: A REFLECTION

Baah Aye Kusi, Elikplimi Komla Agbloyor, Vera Ogeh Fiador and Kofi Achampong Osei

ABSTRACT

Credit Referencing Bureaus (CRBs) have become one of the credit risk management tools employed by banks in recent times especially on the African continent. Credit Referencing Bureaus are institutions that collect financial data, process the data, store it and at the request of lenders and other financial institutions, they (CRBs) share or provide the credit worthiness status or report for lending decision by the requesting institution. Both theory (Information asymmetry and information sharing theories) and empirical studies (Luoto et al., 2007, Brown and Zehnder, 2007; Brown et al., 2009) project two main benefits of information sharing through CRBs namely: improving access to finance and reducing credit risk. Ghana appears to be one of the few West African countries to adopt Information sharing (World Bank, Doing Business Indicators, 2012). Ghana introduced CRBs in 2010 to enable banks share credit information. At the time, impaired loans, bank profitability and credit growth were deteriorating before the introduction of CRBs (BoG Financial Stability, 2013; 2014). For instance, impaired loans increased slightly from 6.1% in 2007 to 7.6% in 2008. However, there was a further sharp increase from 7.6% in 2008 to 13.2% in 2009. Impaired loans further rose again from 13.2% in 2009 to 18.1% in 2010. Also, bank credit growth and profitability saw similar worrying trends. These deteriorating trends make the study of CRBs of interest in Ghana as CRBs have been proven to be effective in reducing credit risk, improving bank credit growth and profitability. We further find the introduction of CRBs in Ghana interesting to be studied as Ghana like many other developing nations is characterized with poor street naming and addressing systems, making it difficult for banks to track borrowers to recover the loans and advances. However, the tracking of bank borrowers and recovery of loans and advances could improve in the presence of information sharing through CRBs by reducing adverse selection during the lending process and reducing moral hazard after the loans are advanced to borrowers (see Pagano and Jappelli, 1993;Brown and Zehnder (2007); Brown et al., 2009;Bennardo et al., 2009;Kallberg and Udell 2003). Again, given that Ghana is rated as a lower middle income country where majority of citizens are considered poor and lack the ability to provide collateral, this collateral constraints could hinder the extension of loans to majority of Ghanaians making it nearly impossible to attain a high income level status. Hence, in the presence of information sharing collateral constraints can be reduced or at best eliminated and credit extended to the poor (see, Love and Mylenko (2003), Berger, Frame and Miller (2005), Djankov et al. (2007), Brown, Jappelli and Pagano (2009), and Behr and Sonnekalb (2012) and help alleviate poverty. We therefore take advantage of the introduction of CRBs in Ghana and project how it has influenced bank performance (Credit risk and Profitability).

FORECASTING FOREIGN EXCHANGE RATES IN KENYA USING STOCHASTIC MODELS

Lucy Wainaina, Meleah Oleche and John Olukuru

ABSTRACT

The study examined the accuracy of the two stochastic models, Geometric Brownian motion and Merton-diffusion jump using Mean Absolute Percentage Error (MAPE).Using the historical foreign Exchange rates, the model parameters were calculated and used to simulate foreign Exchange rates. The accuracy of the simulated value, compared to the actual value, was determined using MAPE. This was done for each model and for different time horizons (one month, three months, six months, nine months and one year). A lower value for the MAPE indicated a better model because a smaller expected error between the forecasted (Simulated) and the actual rates was obtained. The shift from the fixed regime to the floating regime calls for the need of foreign exchange forecasting. This is especially because most countries have assumed huge positions in foreign exchange contracts hence it is prudent to forecast foreign exchange rates as risk management strategy against fluctuations. A model that provided an accurate estimation of currencies will be beneficial to current and potential investors in Foreign Exchange market especially in short time horizons as typically desired by investors.

Keywords: Foreign exchange, Currencies, Stochastic models, Mean Absolute Percentage Error

EXTERNAL FINANCE AND MARGINS OF TRADE IN SUB-SAHARAN AFRICA

Richard Kofi Akoto and Charles Adjasi

ABSTRACT

This paper examines the impact of access to various sources of external finance on the margins of trade of manufacturing firms in sub-Saharan Africa. First, the findings of the study show that access to external finance enhances firms' likelihood to export and further promotes their export share. These external sources of finance include the banks, supplier and customer credit, and borrowings from moneylenders, friends, and relatives. Second, the results indicate that larger firms, and foreign own firms are more likely to export. However, once the firms have entered the export market, increasing the firm's size becomes harmful to productivity and export share. Finally, the results of the study also point out that employing more educated number of employees does not increase firms' likelihood to export in sub-Saharan Africa. Policy interventions should be directed at increasing access and removing the challenges that prevent manufacturing firms from accessing bank credit. Furthermore, interventions should also be put in place to promote the development of other sources of external finance highlighted in the study.

Keywords: External finance, margins of trade, manufacturing firms, sub-Saharan Africa.