



Research Trends in Accounting, Finance and Economics for Africa's Development



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FACTORS CONTRIBUTING TO BANK SELECTION CHOICES: A GENERATION THEORY PERSPECTIVE

Pumela Msweli and Pieter Naude

ABSTRACT

In South Africa retail banking has become a highly competitive industry with 14 locally controlled banks, six foreign controlled banks, and 13 branches of foreign banks and numerous representative offices of foreign and mutual banks. To attract the target market and operate in this competitive environment, banks would profit from a sharp understanding of the bank selection criteria that clients consider valuable when selecting a bank. The fulfilment of customer wishes requires that companies understand which aspects of their product and services are most valued by the customer. Literature has already revealed that value will remain the benchmark against which financial service providers are measured. What constitutes value for customers is the question at stake in this work. It is equally important to understand how customers from different generation backgrounds select a particular bank in order to design an effective segmentation strategy. It is against this background that this work poses the following questions: What are the factors that influence bank selection? How are these factors different for customers from different generation backgrounds?

This paper compares bank selection criteria of baby boomers, generation X and Generation Y bank clients across the globe.

FINANCIAL VALUATION OF INVESTMENTS INTO NEW MARKET SEGMENTS AND DECISIONS ON SEGMENT DEVELOPMENT

Heinz Eckart Klingelhöfer

ABSTRACT

The paper offers an approach for the (financial) valuation of segment specific marketing activities and the market development as well as for ventures into new segments under the conditions of imperfect markets and uncertainty. By applying methods of investment appraisal, the model follows a two-steps approach, each of which delivering information useful within the scope of marketing planning and controlling: the first step is suited to determining the optimal level of an enterprise's market activities in all established market segments. In order to do so, the interdependencies between market segments, production, and investments are taken into account. On this basis, the model's second step allows for supporting investment decisions on expansions into new market segments by calculating the price ceiling for such a venture. Applying duality theory of linear programming allows to identify the determinants of the income (1st step) and of the price ceiling (2nd step), and to derive formulas for a correct valuation with (corrected) net present values. Under certain conditions, they can also be used to easily evaluate and financially interpret the effects of parameter changes. Using sensitivity analysis supports these findings and allows for getting more information on the effects of these determinants.

CONVERGENCE OF GROWTH RATES IN THE WEST AFRICAN MONETARY ZONE (WAMZ)

Paul Alagidede and George Tweneboah

ABSTRACT

The numerous failed attempts to launch a common currency, the *eco*, in the WAMZ have raised a number of questions about the sustainability of the proposed second monetary union within the Economic Community of West African States (ECOWAS). This paper examines economic integration in Africa by establishing the extent of convergence and synchronisation of business cycles within the WAMZ. Both univariate and multivariate unobserved components models are employed to decompose the annual real GDP series of five countries into their cyclical and permanent components from 1970 to 2011. The results based on the correlation of cyclical movements suggest dissimilarities in business cycles within the sub-region. This lack of evidence on synchronisation signifies that WAMZ countries advance different business cycle paths, which casts doubts on the equality of welfare distribution in the context of common monetary policies with a single currency. In support of some earlier findings, we argue that the substantial divergence in the economic characteristics of member countries would result in significant costs associated with co-ordination of policies and stabilization of macroeconomic activity.

REMITTANCES, INSTITUTIONS AND BANKING SECTOR GROWTH IN AFRICA

Esman Morekwa Nyamongo

ABSTRACT

The objective of this study is to investigate the role of remittances and institutions on banking sector development in a panel of 48 countries in Africa over the period 1980-2010. The main findings of the study are as follows: (1) Remittances are important in explaining growth of the banking sector in Africa (2) macroeconomic instability and political instability negatively impact growth of the banking sector (3) the quality of regulation is critical to banking sector development as well.

CAPITAL STRUCTURE POLICY OF THE EGYPTIAN BANKING SECTOR FIRMS

Sanjoy Bose and Sherine Farouk

ABSTRACT

This research examines the relationship between capital structures and three of the major variables which tend to affect it, the profitability, growth rate and the size for all the banks listed in kompass Egypt starting from year 1995 until year 2007. The study finds that the results of the research give both positive and negative relationships between the capital structure decision and the profitability, size and the growth rate. Some of the results support the findings of the literature review while other do not support, those that support the findings of the literature review exist mainly in the relationship between the capital structure and both the profitability ratios as well as the growth rate, while those that do not support exist in the relationship between capital structure and size as not all the findings were giving the same findings of the literature review. The two statistical tools which were applied by the researcher support the same results concerning the tested variables. These findings provide enormous opportunities for further research and are of great importance to financial analysts and other advanced and institutional investors.

FINANCIAL REGULATION AND FINANCIAL INSTABILITY IN SOUTH AFRICA BANKING

Foluso Akinsola and Sylvanus Ikhide

Financial Crises often lead to greater financial regulation as exemplified in the introduction and implementation of the Basel Accords. Specifically, each Basel Accord was introduced after an episode of financial crises. Increase in regulatory tightening could adversely affect bank lending. However, the literature is not clear on the exact nature of the relationship between these variables. Therefore, using data from South African Reserve Bank (SARB) and the World Bank database, this study will examine the link between financial crisis and financial regulation in South Africa within a variance auto-regression analysis framework.

The paper further accesses the implications of this effect on bank lending in South Africa. The paper concludes by generating an interesting debate on the implications of the current Basel III on South Africa banking system.

IS DOLLARISATION THE ANSWER TO CRISIS? A POST CRISIS ANALYSIS IN ZIMBABWE

Stein Masunda

ABSTRACT

This study seeks to establish the role of dollarization as a stabilisation policy in response to crises. Using an autoregressive distributed lag model, dollarization can be used as alternative monetary arrangement for economic stabilization. The results of the study indicate that the mean GDP per capita in the dollarized era is on a high side as compared to the non dollarized period.

SEMI-MARKOV CREDIT RISK MODELING FOR A PORTFOLIO OF CONSUMER LOANS IN THE KENYAN BANKING INDUSTRY

Anthony Wagacha and Ferdinand Othieno

ABSTRACT

Based on simulations of implied values for credit worthiness over a period of 5 years for 1000 consumers, we establish a case for the semi-markov models as a proxy for internal credit risk models for a portfolio of consumer loans. With ample calibration, we prove the robustness of the semi-markov models in forecasting probabilities of default and loss given default. With a view of credit risk as a reliability problem, we generate credit risk indicators as qualifications of adequacy of a loan portfolio. This informs prospective holding of capital based on forecast delinquencies as opposed to the current retrospective practice that relies on the trigger event of default. We use Monte-Carlo simulation techniques to generate consumer ratings and adopt this to the Merton model to derive the initial probability transition matrix. Initial consumer rating is in accordance with industry practice using a credit score sheet backed by the logit model. The banking credit function could espouse the study results to fulfill regulatory credit risk capital requirements for consumer loans in line with the Central Bank of Kenya Prudential Risk Guidelines or banks in other jurisdictions compliant with the Basel banking framework

BANK CONCENTRATION AND COMPETITION: IS IT GOOD?

Robert Mudida, Hazel Ndiho and John Olukuru

The matter of bank concentration and competition has become increasingly important globally. This is an exciting area for developing countries and Kenya in particular given the high interest spreads observed in commercial banks. In addition, the fact that the banking industry is dominated by six large banks which constitute 53.7% of the total market share, bank concentration and competition becomes an area of focus by researchers. This importance can be observed with the introduction of the Competition Act in 2010 and the creation of the Competition Authority to determine the nature and degree of competition in industries in Kenya.

Market concentration and competition affect the efficiency of commercial banks particularly with regards to their intermediation costs. The effects of market concentration and competition can be classified into two main schools; the structure-conduct-performance paradigm and the efficient market hypothesis, which states that a firm's efficiency increases as it becomes larger due to increased economies of scale.

First, the study aimed at obtaining the determinants of the interest revenue earned by commercial banks. This involved incorporating a measure of bank concentration, specifically the Herfindahl index, as one of the possible determinants in an effort to determine whether it is indeed significant in the banking industry. The study also sought to determine the degree of competition in the banking industry by incorporating the Panzar-Rosse H statistic as a measure of market competition. Considering data for the commercial banks in Kenya from the year 2007-2012, a panel data analysis was employed and a fixed effects model fitted to determine the significance of market concentration and the level of competition.

The results reveal that market concentration is not significant in determining the interest revenues earned by banks and that they have monopolistic competition. The results also indicate the presence of market fragmentation and niche markets in the banking industry.

COMPETITIVENESS IN COMMERCIAL BANKS AND ECONOMIC GROWTH IN AFRICA

Roland Banya

ABSTRACT

The degree and impact of competitiveness in the banking sector is of great importance as this has a great implication on the financial system which ultimately impacts on the wider economy. A question of interest here is, does competition in the commercial banking sector boost or hamper economic growth. This paper sets out to test the hypothesis that competitiveness in commercial banking is positively linked to economic growth.

We use the Boone indicator (2008) to estimate competitiveness in commercial banks in Africa. This model offers an alternative approach to measuring banking competitiveness by assessing the relationship between relative marginal costs and relative market share. Second, the paper will employ the GMM estimator, the dynamic OLS as well as Granger-causality models to investigate the relationship between commercial bank competitiveness and economic growth. The study will use bank level as well as macro-economic data from 12 frontier African market countries to investigate this relationship between banking competitiveness and economic growth.

ASYMMETRY AND LONG MEMORY PROPERTIES IN EQUITY MARKET RETURNS: PAKISTAN EXPERIENCE

Turkhan Ali Abdul Manap, Nasim Shah Shirazi and Mohd. Azmi Bin Omar

ABSTRACT

This paper examines the long memory and asymmetric property in the volatility of Islamic equity market returns, namely the Karachi Stock Exchange (KSE) for the period from July 2, 1997 to January 10, 2012. By adopting the Fractionally Integrated GARCH (FIGARCH) model and Fractionally Integrated Asymmetric Power ARCH (FIAPARCH), the study finds evidence of long memory property as well as asymmetric effects in the volatility of the KSE. The FIAPARCH specification outperforms the FIGARCH model by capturing both asymmetry effects and long memory in the conditional variance. The results of this study have practical implications for the investors intending to invest in the emerging markets such as Pakistan. Understanding volatility and developing the appropriate models are important since volatility can be a measure of risk which is highly relevant in forecasting the conditional volatility of returns for portfolio selection, asset pricing, and value at risk, option pricing and hedging strategies. This study contributes in providing the empirical evidence on the long memory property of equity returns and volatility of an Islamic emerging equity market with reliable estimation models, which is currently lacking, particularly for Islamic emerging markets.

THEORY OF MEAN REVERSION: NO REVERSION TO THE EXPECTED VALUE ANALYSIS

Robert W Vivian and Christo Auret

ABSTRACT

The theory of mean reversion is well-known in finance theory, especially the theory of investment. However, exactly, what mean reversion means is not clear. Conceptually it suggests that in any series of observations if the mean is recorded then a mean of any subseries will revert to the mean of the series as a whole. This paper demonstrates both theoretically and practically, mean reversion in this sense does not take place. There is no support for the idea that the mean of a series will revert to the expected value of the series

THE APPLICABILITY OF THE JSE TOP 40 AS AN INTERNATIONAL INVESTMENT OPTION: A RISK-ADJUSTED EVALUATION

Chris van Heerden and André Heymans

ABSTRACT

In response to the wealth destruction caused by the 2007/2008 global financial crisis, many developed economies have lowered their interest rates to improve their balance sheets (SARB, 2008-2012). However, in order for investors to sustain expected returns they will have to deviate from the traditional approach of investing in government bonds and consider investing in emerging markets, which are considered as potential drivers to global growth (Deloitte Consulting LLP, 2012). The goal of this study is to establish the importance of considering South Africa as an emerging market investment opportunity, but also to acknowledge its ability of outperforming several common emerging markets during the post-financial crisis period. The results from this study confirms this, illustrating that the performance of the JSE Top 40 will compensate for the additional political risk that emerging market investments possess (Anshuman, 2010).

ECONOMIC DEPENDENCIES AND THE INTER-TEMPORAL COMOVEMENT OF WORLD EQUITY RETURNS AFTER THE 1987 CRASH

Mark Suva

ABSTRACT

The preponderance of inefficient national stock markets is fast losing a following as investors brace for happy days ahead—those of globalized trading with the possibilities of reporting net positions of gain. With the current regime of the “Let money work for you” maxim, it is highly likely that upon the mere sight of a better profiteering opportunity, foreign investment will flow across continental frontiers because the investment world is now a global village. The investor’s homework then degenerates to determining whether in investing there is international diversification gain or they are better off close to home.

This study seeks to evaluate the investment diversification benefit across world stock markets, in terms of index risk and return characteristics and coupling with the treatment of economic development clustering.

The study uses the annual panel data from the World Federation of Exchanges (WFE) database on the sample period 1993-2012, and country regional categorization adopted from the same database. The index series are then first-differenced and the differences expressed as percentage changes over one lag. The aggregated indexes are then grouped on continental and economic development clusters, making up a sampling base of 48 series.

The descriptive analysis techniques involved include the simple and compounded arithmetic means, the coefficient of variation, Correlation ratio (η), and Pearson’s correlation coefficient. The study uses a 5% significance t- test on the data against the alternative hypothesis that economic development does not affect investment diversification on world stock exchanges after the 1987 crash.

MODELLING INSURANCE RISKS: A NEW PERSPECTIVE

John Muteba Mwamba

ABSTRACT

In Finance risk can be defined as the probability that the actual return of an investment will be lower than the expected returns. In this context, the word risk refers to financial risk and can be categorised into capital risk, default risk, interest rate risk, political risk, liquidity risk, sovereign risk, market risk, operation risk etc. With the effect of global warming upon us, there is a different type of risk that is not talked about in the news – risk due to climate change! Losses from inundations, storms, earthquakes can have a devastating impact on the economy of a country. Such losses are becoming more frequent (recent Katrina storm in USA, tsunami in Asia, etc.). According to Swiss Re one of the largest insurance company in the world; climate change could cost the world economy around 20% of global GDP by the end of this century. These risks not only result in huge financial losses but also and mostly in human lives. This paper proposes new perspectives in modelling environmental risks. The main focus is on climate change risk, and insurance risk. The paper makes use of non-expected utility theory to develop theoretical climate change and insurance risk models that take into account behavioural aspects such as moral hazard, hyperbolic discounting and probability weighing. We calibrate the moment generating function of claims due to catastrophic disasters as well as the human and financial value at risk.

MEASURING THE RELATIONSHIP BETWEEN INTRADAY RETURNS, VOLATILITY SPILL-OVERS AND MARKET BETA DURING FINANCIAL DISTRESS

André Heymans and Wayne Brewer

ABSTRACT

This study provides an additional measure to *market beta* in order to construct a more efficient investment portfolio. The additional measure analyses the volatility spill-over effects between stocks within the same portfolio. Using intraday stock returns from five top-40 listed stocks on the JSE between July 2008 and April 2010, volatility spill-over effects were estimated within a residual based test (aggregate shock [AS] model) framework. It was shown that when a particular stock attracts fewer spill-over effects from the other stocks in the portfolio, the overall portfolio volatility decreased as well. In most cases *market beta* showcased similar results. Therefore, in order to construct a more efficient portfolio, one requires both a portfolio that has a unit correlation with the market (*beta*-based), but also includes stocks with the least amount of volatility spill-over effects among each other. These results might assist portfolio managers to construct lower mean variance portfolios.

ON THE EFFICIENCY OF MALAYSIAN EQUITY MARKET: A NONLINEAR APPROACH

Turkhan Ali, Abdul Manap and Mohd Azmi Omar

ABSTRACT

This paper reexamines the efficient hypothesis using monthly Kuala Lumpur stock price data for the period January 1970 to August 2009, using the nonlinear unit root test procedure recently developed by Kapetanios et al. (2003) in addition to the linear unit root test with and without structural breaks. While the linear unit root tests could not reject the null of unit root at any conventional level of significance, the nonlinear unit root test rejects the null hypothesis of unit root, suggesting that Malaysian stock markets is not weak form efficient, which is contrary to the findings of other studies available in the literature. The estimated ESTAR models provide strong evidence that the Malaysian stock market is characterized by a slower speed of mean reversion process.

NON-LINEARITY BEHAVIOUR OF THE ALBI INDEX: A CASE OF JOHANNESBURG STOCK EXCHANGE IN SOUTH AFRICA

Priviledge Cheteni

ABSTRACT

Since the global financial crisis that crippled the world's financial markets in 2007, interest in nonlinear dynamics in form of deterministic chaos has increased. Hence, the main purpose of this study is to detect if whether stock returns exhibit nonlinear and chaotic tendencies. By using recent statistical tools to overcome some of the limitations faced in financial data. This study aims to detect low deterministic chaos in the Johannesburg Stock Market in South Africa. Using the powerful BDS test, LM test and Variance Ratio Test, the empirical results suggest that the ALBI index exhibit nonlinear tendencies and chaotic behaviour.

SHORT AND LONG -TIME DYNAMICS OF HERD BEHAVIOUR AT THE JOHANNESBURG STOCK EXCHANGE

Olivier Niyitegeka and D.D.Tewari

ABSTRACT

Herd behaviour occurs in stock markets when investors disregard their individual information and base their trading decision on the actions of others. Herd behaviour has attracted the attention of academic researchers because of its perceived association with stock price movements and its subsequent implications for assets pricing models.

This behaviour can be detected in stock markets by testing whether or not there is a negative and non-linear relationship between the dispersion of stock returns and the market return.

The current study uses the Autoregressive Distributed Lag (ARDL) approach to cointegration to examine short and long-term dynamics of investors' herd behaviour at the JSE.

The results from ARDL model suggest that herding exist at the JSE. The current study also noted that herd behaviour takes place in laps of time. However the unrestricted error correction results suggest that herd behaviour has a rather high speed of adjustment implying that herding is a short lived phenomenon.

RETURN VOLATILITY AND THE PRICING OF EQUITIES AT THE NAIROBI SECURITIES EXCHANGE

E. Theuri Chege , OdongoKodongo and Ferdinand Othieno

ABSTRACT

Using both monthly and weekly return series between 1999 and 2013 we find evidence that volatility is priced on the Nairobi Securities Exchange. The GARCH-M model yields positive and significant ARCH and GARCH parameters and the shocks of equity returns to conditional volatility are highly persistent. We find that the conditional variance is driven by the past conditional variance to a greater degree than by new disturbances. The E-GARCH model gives similar results with some marginal improvement indicating that asymmetry does not affect the relationship between risk and return. A possible explanation for these findings would be that if the future seems risky, investors may want to save more in the present thus not requiring a large risk premium. Portfolio managers may find the results of this study useful when carrying out a forward-looking valuation of a well-diversified portfolio of Kenyan stocks, as well as other similar stocks, based on market characteristics.

CAUSALITY RELATIONSHIP BETWEEN SOUTH AFRICAN STOCK MARKET AND STOCK MARKETS OF THE DEVELOPED AND BRIC NATIONS

Moatlhodi Sebabole

ABSTRACT

This paper provides an empirical evaluation of the cointegrating and causation relationship between the South African equity market and the developed equity markets of UK and US; and those of the emerging BRIC nations. We find a cointegrating relationship between South Africa and these six markets before and after the 2008 global financial crises, with some exceptions to China, Russia and UK at different economic periods. Using the Granger causality technique, we establish different patterns of bilateral, unilateral and no causation effect between South Africa and the six stock markets of UK, US, Brazil, Russia, India and China. We conclude that although there are traces of segmentation, the South African capital market is significantly integrated to the global economies.

FDI, REMITTANCES AND AND STOCK MARKET IN AFRICA

Roseline Misati and Kethi Ngoka

ABSTRACT

This study examines the linkages between capital flows and stock market development in Africa using panel data methodologies. It focuses on the relationship between foreign direct investment and remittances and stock market development. It finds a positive relationship between FDI and stock market development confirming the complementarity theory but the relationship between remittances and stock market development is largely negative, implying a dominance of consumption smoothing theory of remittances.

COST AND PROFIT EFFICIENCY IN INSURANCE MARKETS: EVIDENCE ON COMPETITION EFFECTS IN SOUTH AFRICA

Abdul Latif Alhassan and Nicholas Biekpe

ABSTRACT

Purpose: This paper examines competition-efficiency nexus in the short term insurance market in South Africa in a two-stage analysis framework.

Data/Methodology: We estimate both cost and profit efficiency using the stochastic frontier analysis (SFA) technique on 76 insurers from 2007 to 2012 in the first stage. Insurance market competition is measured using the Panzar-Rose H statistics. In the second stage analysis, we estimate a panel data model using fixed effects estimation to identify the effects of competition and other insurer specific characteristics on both cost and profit efficiency.

Findings: The results of the SFA indicates that short term insurers are more profit efficient than cost efficient. We find evidence to validate the existence of the Quiet-Life hypothesis that market concentration leads to declines in cost efficiency. We however find that competition leads to decline in profit efficiency. On the other correlates of efficiency, the significant factors identified include product line diversification, size, age, claims ratio and leverage.

Research Implications: The findings have implications for management and regulation of the insurance industry in developing economies.

Originality: As far as we are aware, this is the first study to examine profit efficiency of the insurance market in South Africa as well as the first attempt at providing insights into competition-efficiency relationship in an emerging insurance market.

**TIMING A HEDGE DECISION:
THE DEVELOPMENT OF A COMPOSITE TECHNICAL INDICATOR FOR
WHITE MAIZE**

Susari Geldenhuys, Frans Dreyer and Chris van Heerden

ABSTRACT

South African white maize is considered to be significantly more volatile than any other agricultural product traded on the South African Futures Exchange (SAFEX). This accentuates the need to effectively manage price risk, by means of hedging, to ensure a more profitable and sustainable maize production sector (Geysers, 2013:39; Jordaan et al., 2007:320). This paper attempts to address this challenge by making use of technical analysis, focusing on the development of a practical and applicable composite technical indicator with the purpose of improving the timing of price risk management decisions identified by individual technical indicators. This substantiated the compilation of a composite indicator that takes both leading and lagging indicators into account to more accurately identify hedging opportunities. The results validated the applicability of such a composite indicator, as the composite indicator outperformed the individual technical indicators in the white maize market over the period under investigation

THE ROLE OF FOREIGN DIRECT AND PORTFOLIO INVESTMENT IN AFRICA'S DEVELOPMENT

Pradeep Agrawal

ABSTRACT

Success in the achievement rapid growth and development in Africa would require increasing use of foreign capital, including overseas assistance, concessional borrowing, and private capital inflows such as foreign direct investment (FDI) and foreign portfolio investment (FPI). In this study we investigate whether FDI and FPI investment can play a significant role in increasing the economic growth in African countries. For FPI, in particular, we evaluate we try to evaluate whether they too contribute to growth or is the unstable and volatile nature of such inflows makes them inherently unsuitable and unreliable for the purpose of increasing investment and growth rates in developing countries?

In order to formulate correct policies towards foreign capital inflows, it is important that we better understand the economic role of FDI and FPI in African countries. In this study, we undertake a detailed analysis of the economic impact of foreign capital including foreign debt, FDI and FPI inflows using panel analysis of data from African countries. This simultaneous evaluation also allows us to examine the relative merits of FPI compared to FDI and foreign borrowing. At the macroeconomic level, some of the important issues of contention are as follows:

- (1) Do FDI and FPI increase economic growth by providing increased availability of investable funds or does it lower economic growth in the long run by taking excessive profits out of the developing countries or because of its volatility which sometimes create serious exchange rate volatility and other problems? How does its impact of FPI on GDP growth compare with that of FDI and foreign borrowing?
- (2) Does FDI encourages local investment through various backward and forward linkages or does it crowd out local investment? Does FPI help facilitate greater domestic capital formation by buoying the value of the domestic firms and help to modernize the management of domestic firms by creating incentives for them to adopt best international management practices (through their representatives on boards of firms in which foreign investors hold significant equity shares and by incentivizing other companies to adopt such practices in order to better attract foreign portfolio investment in their firms) or does it merely has impact on secondary equity markets without really leading to significant increase in domestic capital formation? How does its impact of FPI on domestic investment compare with that of FDI and foreign borrowing?
- (3) Do FDI and FPI help increase exports and/or ease balance of payment problems (common in developing countries) or do they worsen the balance of payment problems due to volatility (in case of FPI) by creating frequent currency crisis and other headaches for the developing countries? How does impact of FPI on exports and BOP compare with that of FDI and foreign borrowing?

These issues are analysed econometrically by estimating appropriate relations for GDP, investment, exports etc and estimating using time series cross section panel data from African countries. We believe that this research would provide an increased understanding of whether FDI and FPI are economically beneficial and whether or not it can play a significant role in achieving the development goals of African countries. It should also be useful to all developing countries in formulating appropriate policies relating to FDI and FPI.

SME FINANCE AND BUSINESS SUCCESS IN ZAMBIA- THE CASE OF ZAMBIA'S NATSAVE

Cephas C Chabu, Christian Chileshe and Justine Chanda

ABSTRACT

SME finance has been echoed by international organizations as well as private sector bodies as key to economic development and employment creation. Many growth theories and models perceive lack of access to finance as a critical factor responsible for persistent income inequality and poverty in Zambia. Studies show that Zambia is ranked 8th best country in the world for access to credit and highly ranked on the World Bank easy of doing business surveys. However, this study finds out that despite the presence of banks in rural areas and numerous tailor- made products offloaded by various financial institutions, there is generally limited access to, and low adoption for financial services and products among Zambian SMEs and segments such as women, old people and farmer population are the worst affected. The paper also finds that financial literacy is one of the key components contributing to the low financial product adoption rates. The paper concludes that sources of start up and operational capital can significantly contribute to the success of SMEs in Zambia. It also pointed out that enhanced measures of financial inclusion by participating financial institutions should be put in place and should target low income rural populations as the segments remain unattractive to the private sector players due to low returns and apparent high operational costs. The study also finds that financial literacy increase the interest in customer participation in financial SME finance in Zambia.

MICRO FINANCE: A PANACEA FOR THE SME FINANCIAL GAP CHALLENGES – THE CASE OF ZAMBIA

Margaret Siwale

ABSTRACT

It is a universally accepted notion that the key to the growth of the SMEs sector thrives on the availability of appropriate and affordable funds. This balance has been absent in most financial products and as such the SMEs remain un-serviced to a large extent. The SMEs do continue to experience a finance gap, which to a greater extent defines the prospects for its growth. They do not seem to find the much needed help from the established financial institutions such as Banks as they are looked at as risky business entities and thus the pricing of the loans if any is prohibitive. It is in the light of these hindrances that Micro Finance is perceived as an alternative source of easily accessible funds. It has been noted that SME finance remains minor in the loan portfolios of most micro-lenders even though these are potential drivers for the development of any economy. In Zambia, the Micro-lenders have turned to become the major lenders for the civil service and have basically employed the strategy of granting salary based loans. This totally excludes the SME's who are in dire need of the finance. The overly dominant role of banks and the existing financial services regulations and regulatory requirements in force poses a challenge on the non-bank competitors as they do not compete on an equal footing even though they are supervised under the same broad regulatory oversight. Further, the interest rate capping has further, alienated the possibility for the micro finance institutions to venture into SME lending as they prevent cost recovery on small loans and favors the large long term borrowings. In view of the complexities and challenges that the MFIS face it is apparent that their role in financing SMEs remains unattainable except if deliberate radical government interventions are made that will facilitate their operations and allow them to meet the needs of the SME sector. In Zambia MFIs remains an extremely small player in the financial system. The few that are operational are non-depositing taking and thus they depend on funds from the commercial banks and the donor community.

TRADITIONAL DIMENSIONS AND MODELS OF SAVINGS MOBILISATION IN TAMALE

Alhassan Iddrisu

ABSTRACT

Successive governments in Ghana have pursued policies, programmes, projects and strategies aimed at accelerating economic growth, raising the living standard and reducing poverty. These have achieved various degrees of success. Yet poverty in the country is deep and wide spread, especially, in the three northern regions of Ghana. Microfinance Institutions (MFIs) have also contributed their quota aimed at fighting poverty. Yet several years into their operations, they are seen as 'cannibalising' their target market. Consequently, individuals are venturing into initiatives to make themselves financially independent and to break the poverty cycle. They achieve this by forming groups known Adashe groups. This paper investigated how these Adashe groups work and explores ways by which they can be enhanced to mainstream their fiscal mobilisations into the formal financial institutions. To do this the history and status quo of some Adashe groups have been analysed as a means of identifying inefficiencies. Further, experience in using similar models such as the Rotating of savings and Credit associations (ROSCAs) in other parts of Africa was analyzed to adduce tenets for Adashes groups in Tamale. The major finding of this research was that Adashes are fast gaining grounds in Tamale. The high interest rates charged by financial institutions (FIs) coupled with their bureaucratic tendencies were cited as the downside of the FIs. It is recommended that FIs should identify and enter into strategic alliance with these groups. This calls for a relook at the Banking Act 2004, Act 673, to consider amendments for banks and MFIs to graft in Adashe groups, Susu collectors and also make arrangements to accommodate informal savings.

THE IMPACT OF CORPORATE GOVERNANCE ON FIRM COMPETITIVENESS AND PERFORMANCE OF SMES IN SOUTH AFRICA: A CASE OF SMES IN VANDERBIJLPARK

Progress Hove and Kin Sibanda

ABSTRACT

The contemporary global world is increasingly concerned with the application of corporate governance in Small and Medium Enterprises (SMEs), due to the crucial developmental roles fulfilled by these SMEs in most economies. SMEs, particularly in developing nations are perceived as the principal creators of new employment and the poverty alleviators. As such, the survival, development and sustained growth of SMEs in the developing nations is an important element of both political and public life. However, most of these SMEs, especially in South Africa, are reported to have a higher failure rate within the first two years of starting business. Most of these SME failures have been linked to their non adoption of or lack of good corporate governance. Evidence has shown that corporate governance can provide firms with benefits such as enhanced competitiveness, firm performance and sustained growth. Despite the importance of corporate governance impacts on SME competitiveness and performance, vast gaps still exist in this field. Little attention has been paid on the impact of corporate governance on SME competitiveness and performance especially in South Africa. In fact most attention has been placed on larger firms due to the misconception that corporate governance only applies to larger firms where there is an agency problem. However, corporate governance may be of greater importance even to those neglected SMEs owned by one owner or shareholder and serves as the manager. This paper therefore, seeks to determine the impact of corporate governance adoption on the firm performance of SMEs. More so, it seeks to examine the impact of corporate governance adoption on firm competitiveness of SMEs. The paper also seeks to establish the mediating impact of firm competitiveness on the relationship between corporate governance and SME performance in Vanderbijlpark, Gauteng Province, South Africa. A structural equation modeling technique using Smart PLS software to analyze the gathered quantitative data will be employed. A sample of 150 SME owner managers in the Vanderbijlpark town, Gauteng Province will be used. This paper anticipates that the adoption of corporate governance in SMEs significantly and positively impacts SME competitiveness and performance. The paper also anticipates that firm competitiveness has a positive mediating effect on the relationship between corporate governance and firm performance of SMEs.

WOMEN RIGHTS AND SOCIO-ECONOMIC DEVELOPMENT: THE CASE OF RURAL WOMEN IN SOUTH AFRICA

Courage Mlambo and Mhambi B

ABSTRACT

There is arguably a strong link between poverty and the life experiences of women, particularly those in African rural areas. This strong link is caused by gender inequalities and the social status of women in African rural communities. In African countries, women in rural areas are treated unequally and less value is placed on their them because of their gender. Rural women lack voice and decision-making ability in the household and in society; and, their economic opportunities remain very constrained. Rural women continue to face more difficulty than men in accessing public services, social protection, employment and markets, due to cultural norms. Ultimately, it is not just women who are held back, but also their families, their communities and local economies. The inequalities that exist between women and men make it difficult for women to fulfil their potential. This article deals with women's rights and economic development in the rural areas of South Africa. The paper argues that the role of women is vital to economic development. The paper also examines policy options to address the problem faced by rural women in South Africa.

**CREATING SOCIAL VALUE THROUGH INNOVATIVE APPROACHES TO
AGRICULTURAL FINANCING, A CASE OF MICROFINANCE INSTITUTIONS
(MFIS) IN UGANDA.**

Agnes Kasirye Nassuna and Waswa Balunywa

ABSTRACT

Over 75% of the developing countries' population especially in Africa depends on agriculture for their livelihood yet productivity is low. This is due to a number of factors notably the lack of finance. MFIs have been one of the financial institutions that have taken up the role of financing vulnerable communities including the poor in rural areas. Despite this, not much has been achieved in financing agriculture activities. This paper examines cases of selected MFIs in Uganda that have gone an extra mile to finance agriculture activities using innovative approaches. The study used a qualitative approach to examine three cases of MFIs that ventured into agricultural financing. The findings from the cases reveal that despite the challenges in agriculture financing, innovative approaches can facilitate financial intermediation for the farmers. In addition through social intermediation such MFIs are able to create social value through social capital, training and mentorship. In this way, the clients of these MFIs gain better skills in financial and agriculture management. They also gain more confidence, access to information, wider markets and ability to solve community challenges.

IMPACT OF ACCESS TO FINANCE ON FIRM PERFORMANCE AND EXPORTING BEHAVIOUR AT FIRM LEVEL. A CASE STUDY OF SMES IN THE MANUFACTURING SECTOR

Kin Sibanda and Progress Hove

ABSTRACT

The purpose of this paper is to assess the impact of access to finance on firm performance and export behaviour of SMES in Zimbabwe. A sample of 159 furniture manufacturing firms was used to collect data from furniture manufacturing SMEs in the Harare Metropolitan Province. The survey data was analyzed using smart PLS. The results of the study showed that there is a significant positive relationship between access to finance and SMEs exporting behaviour. However, the findings did not support the hypotheses that access to finance has a significant impact on firm performance and that firm performance has a significant impact on exporting behaviour. Finally, the paper concludes and discusses the implications of the findings for policy, practices, and research.

THE INFLUENCE OF CREDIT UNIONS ON COMMUNITY DEVELOPMENT: A STUDY OF THE BAFUT COMMUNITY IN CAMEROON

Stanley Enga Awaseh

ABSTRACT

Microfinance came into prominence as a result of the fact that poor people especially those in the rural areas did not have access to the conventional banks and could not access certain financial services. It is believed that an individual who has access to financial services can improve his livelihood positively. Microfinance has been used as a tool in some developing countries to address the poverty problem and in some cases this has been very successful as seen in the example of the Greemen Bank in Bangladesh. This was mostly targeted at women who constituted majority of the population. It was effective in helping to improve the lives of the people involved at both household and community levels as they acquired more skills and more jobs were created. Cameroon has known an increase in microfinance institutions from the late 1990s.

Despite the vast research on poverty reduction in developing countries and the importance of having access to financial services especially for rural areas, there is limited knowledge about the potential role of microfinance in aiding poverty reduction in sub Saharan Africa. There is a positive image that emerges from the literature on microfinance and the role it plays on poverty reduction as seen in the example of Bangladesh. The difference in ethos between providing for the economically active poor and those in abject poverty is sometime overlooked. Microfinance is no panacea but could be seen as an instrument to assist other developmental efforts in improving the livelihoods of the poor as seen in this study.

This paper aims to examine the role of microfinance in community development within the context of Cameroon. Despite the rise in the level of activity and transactions through microfinance institutions, poverty levels have not significantly reduced looking at the World Bank Development Reports. It is therefore important for us to examine whether the increase of microfinance in Cameroon is contributing to the improvement in the lives of the people (development). We shall look at the role played by the credit unions one as microfinance institutions in Cameroon towards assisting its members to improve on their living standards. The investigation will examine if there is a link between microfinance and community development. In order to achieve the stated aim, the researcher did employ a combination of quantitative and qualitative methods including secondary data analysis, observation, informal interviewing, as well as the administration of a structured questionnaire to various stakeholders. Based on the empirical results of this research, the study has provided a number of recommendations to enhance the impact of microfinance on community development, especially in poor communities.

A PUBLIC SECTOR MACRO-ECONOMETRIC MODEL OF THE NAMIBIAN ECONOMY

Joel Hinaunye Eita

ABSTRACT

The purpose of this paper is to develop a public sector macro-econometric model for the Namibian economy with the aim providing solution to public finance challenges experienced by the country. The model consists of four stochastic (behavioural) equations. These four stochastic equations are personal income tax, corporate income tax, and value added tax and interest payments on government debt. The behavioural equations are linked together by identities and definitions in order to ensure that model is fully dynamic. The estimated parameters from the long run equations of the model are used for policy simulations determine the tracking performance historical data and to investigate the impact of exogenous factors on key public sector economic variables. The macro-econometric model is estimated using time series data for the period 1980 to 2012. It is estimated by using the Engle Granger two steps estimation technique. This estimation technique covers both the long-run and short-run features of the economy. The model is subjected to various policy shocks (simulations) in order to evaluate various options available to the government to improve the fiscal position of the economy.

TRANSFER PRICING OBSTRUCTIONS TO SUSTAINABLE DEVELOPMENT

Collins C Ngwakwe

ABSTRACT

This paper discusses some obstructive tendencies of transfer pricing to sustainable development. This discussion is deemed pertinent as nations around the world are grappling with strategies and solutions for recovering from the economic downturn of the recent past which truncated the speed of development and deepened poverty. Whilst some literature eulogises the role of accounting in fostering development; this paper adopts a slightly different view in its discussion, and adopts a critical view of how the corporate accounting practice of transfer pricing obstructs development and exacerbates poverty. Using a review approach, the paper finds that developing countries generate a small proportion of their GDP from tax; reason being that complex transfer pricing rules is manipulated by multinational corporations to rob vulnerable host countries of tax revenues. Under this milieu, the mispricing of transfer pricing makes developing countries poorer and delays their pace of development. This ugly accounting shenanigan is becoming alarming as a greater percentage of global trade falls within the classification of within-company trading and the related abstruse pricing of goods and services are seemingly in defiance of the 'arm's length principle' – shifting profits to tax haven jurisdictions to reduce the tax obligation; and it is difficult to establish proof of arm's length in related party transactions as comparability is somewhat ambiguous and/or absent. Malfeasances in within-company trading, prices and taxes are also occurring amongst companies located in the same jurisdiction. The consolidated accounts of multinational entities have not helped matters as the accounts hide country-by-country transactions and activities. The nebulousness inherent in the regulation of the arm's length standard is seen as a major flaw. Accordingly recommendations generated from the review include *inter alia* the institution of a country-by-country accounting reporting standards and practice; governments may motivate corporations to pay taxation by lowering high corporate tax rates. A moral persuasion campaign may also be explored to woo corporate understanding of the poverty implication inherent in transfer pricing malpractices.

UNDERSTANDING THE EXCHANGE RATE RETURNS VOLATILITY IN KENYA

Anne Kamau, Maana, Ngugi and Tiriongo

ABSTRACT

This paper examines the structure of exchange rate returns volatility for five exchange rates including Kenya shilling to the US dollar, Sterling pound, Euro, Uganda Shilling and Tanzania Shilling. The analysis was carried out using daily returns for the period January 2000 to October 2013. The generalized autoregressive conditional heteroscedastic approach was used to capture the indicated volatility clustering effects. The results show presence of autoregressive conditional heteroscedasticity suggesting the daily returns do not conform to the random walk process. All the returns show evidence for leverage effect indicating that negative shocks have higher volatility compared to positive shocks. Only the USDR and UGSHSR have a significant day-of-week-effect while conditional volatility is significantly priced in the USDR, UGSHSR and TZSHSR models.

When additional explanatory variables are introduced in the conditional variance equation, the clustering and persistency effects are reduced. Volatility in the international foreign exchange market is associated with heightened volatility in the domestic market which has positive and significant permanent effects. Similarly, volatility in the stock market which sees significant short term capital flows is positively related to the volatility in the foreign exchange market with both temporary and permanent effects. Considering the monetary policy actions and regulatory rules introduced in the second half of 2011, we find lower volatility for all returns and significant permanent effect on USDR and UGSHSR. Participation of central bank in the domestic foreign exchange market has mixed results. Sales have negative effect on USDR and positive effect on GBPR and EUROR and insignificant for UGSHSR and TZSHSR. In the case of purchases the results show lower volatility for all except UGSHSR. Purchases have negative and significant permanent effect in all except the EUROR while sales have positive and significant temporary effects in all except TZSHSR. Finally, with the MPC in place volatility is lower and more importantly when there is loose monetary policy and central bank is in the market.

Thus, we can't ignore the role of monetary policy in stabilizing the market, and the influence of microstructure characteristics on investor behavior. Further, developments in the international foreign exchange market are critical given the exchange rate regime and growing integration in international market. More importantly, the timing in building foreign reserves from the domestic market is important to the movement in exchange rate

INFORMATION CONTENT OF THE TERM STRUCTURE OF INTEREST RATES IN KENYA: YIELD CURVE DYNAMICS, 2009-2013

Cappitus J. Chironga

ABSTRACT

I analyse the shape and behaviour of the yield curve in Kenya for the period 2009 (1) – 2013 (12) in relation to recent economic, policy and operational developments in the country. The results indicate that Kenya's Treasury security yields capture well the dynamics of the observed term structure of the interest rates in the light of policy and macroeconomic developments. The yield curve is upward sloping, volatile at the short end and stable at the upper end. The yield curve shift from the 2010 to 2011 mirrors fundamental changes in the market and subsequent realignments by market participants in search for safety and risk mitigation following endogenous and exogenous shocks. Monetary policy action successfully managed the short end of the term structure, but long term rates depended on the Inflation, economic activity and other factors in the market. Using the Principal Components Methodology in the Nelson Siegel Model, the yield curve was disaggregated into three latent factors; Level (long term), Curvature (medium term) and Slope (short-term). This was crucial in evaluating the information content of each segment of the curve. It also helped to understand how each of these factors reacts to developments in macroeconomic variables and policy actions. The estimated results using the OLS method confirm the behaviour and the shape of Kenya's yield curve is consistent with existing empirical literature on more developed markets. It therefore sufficiently signals information on developments in economic activity, policy actions and operational dynamics. The study forms a good basis for further empirical work in an area not yet extensively researched in Africa given the level of market development and data availability.

THE DETERMINANTS OF PRIVATE CAPITAL FLOW VOLATILITY IN SELECTED SUB-SAHARAN AFRICAN COUNTRIES

Pieter Opperman and Charles Adjasi

ABSTRACT

Because of the increasing development and openness of financial markets, concerns have arisen regarding the stability of capital flows to developing economies. Understanding capital flow volatility is important for although a host of countries have experienced capital inflow waves since the 1980s and 1990s, the last decade witnessed an increase in the volatility of capital flows that could have numerous economic consequences (Forbes & Warnock, 2011). Most empirical studies on capital flows focus on the determinants of capital flow levels with relatively few studies focussing on the sources of volatility of these flows (Broto et al., 2011; Mercado & Park, 2011) with none of the latter focussing exclusively on Sub-Saharan Africa. The paper proposes to fill this gap in the literature by using dynamic panel estimation techniques to examine the determinants of three private capital flow volatilities; FDI, foreign portfolio and other investment flows from 1990-2010 for selected Sub-Saharan African countries. Data are to be obtained primarily from the IMF's IFS, World Bank WDI and World Bank Global Financial Development database.

FINANCIAL STRUCTURE AND ECONOMIC DEVELOPMENT IN AFRICA

Nyasha Mahonye and Kalu Ojah

ABSTRACT

This paper explores the relationship between economic development and financial structure; that is, whether the degree to which the financial system structure (bank-based or market based finance) matters for economic development for our sample of 15 African countries. Empirical research on the comparative merits of bank-based and market based financial systems has centered on Germany and Japan as bank-based systems and the United States and United Kingdom as market based systems (Levine, 2002).

The paper utilizes the Fixed Effect Instrument variable technique for econometric estimation. To examine the relationship between financial development and economic development, and the paper uses the array of measures of relative size of banks and stock market and those that measure financial activities. The other key aspect of the paper looked at the relationship between financial structure and economic development and to test this we use the measures of financial structure-activity and financial structure-size which we constructed following the approach by Levine (2002).

None of the financial structure indicators enters any of the economic development regressions significantly at 10% level. The result is inconsistent with bank-based and market-based system view of financial system. Financial structure does not matter for economic development in selected African countries. Financial services quality is a significant determinant of economic development for our sample of 15 African countries. This means the level of financial development is important for economic development goals rather than the mode of the financing system.

MINING CAPITALISM: EXPLOITING LABOUR IN ZIMBABWEAN GOLD MINES

Tawanda Zingwe

ABSTRACT

Zimbabwe's mining sector plays a major role in Zimbabwe's export economy. However, Zimbabwe's mining sector, like many other mining sectors in the developing world, has workers' right issues, including the right to collective bargaining and occupational safety and health. Considerable attention has been given to health and safety conditions by the government of Zimbabwe but there are still serious health and safety conditions in Zimbabwe. Mining firms involved in extracting the mineral wealth of the country are benefiting at the expense of workers. They are operating with little regard for the well-being of its employees. In light of this, the present study highlights and synthesizes workers' rights issues in the Zimbabwe mining sector. The study also offers practical recommendations that could address the problems that mining workers are currently facing in Zimbabwe.

THE DETERMINANTS OF THE YIELD CURVE IN SOUTH AFRICA

Ngonyama Nomasomi, Makhetha-Kosi Palesa, and Mishi Syden

ABSTRACT

The yield curve has been the subject of many studies for some time, mainly in predicting recessions, economic growth and inflation. However, scant work is available on what drives the yield spread. Given this, the paper examines the determinants of the yield curve in South Africa by using time series econometric analysis over the period 2000-2012. Some key variables considered include inflation, economic growth, budget deficit, and monetary policy. To separate the long and short run effects, VECM was employed after ensuring stationarity of the series. Results have implications for policy and academic work.

THE DYNAMIC LINK BETWEEN SHORT TERM TRADE CREDIT AND INTERNATIONAL TRADE: A CASE STUDY OF SOUTH AFRICA

Sibanisezwe Khumalo, Mishi Syden and Asrat Tsegaye

ABSTRACT

The financial crisis has seen a downward trend in international trade, leading to the phrase “great trade collapse”. The decline in global trade relative to Global GDP has raised concerns. Economists have attributed the decline to two factors, the decline in Global demand and the tightening of trade credit. The availability and use of short term finance in international trade has a significant backing and the study will analyse the link between short term trade credit and international trade in South Africa. The study will establish the significance of the link within South Africa, and further explore the dynamic interactions pertaining to this link. The study covers the period 2000 to 2012, using time series econometric techniques. The results will have policy implications and will influence future debate within the academic sphere.

BUDGET DEFICITS AND FOREIGN AID IN SOUTH AFRICA; FRIENDS OR FOES TO ECONOMIC GROWTH: A VAR APPROACH

Elisha Mavodyo, I. Kaseeram and Terry Contogiannis

ABSTRACT

The persistent South African budget deficits have been at the center-stage of discussion by both economists and policy makers over its impacts on economic growth. As well, international foreign aid has ambiguous effects on the recipient economy. This paper looks at the impact of budget deficits and foreign aid on economic growth in South Africa. Using annual time series data from 1980 to 2012 and applying the VAR Approach, our results show that budget deficits have significant negative impacts on economic growth in South Africa. Our results again show that the direct growth effects of aid are insignificant in South Africa.

UNSETTLED ISSUES SURROUNDING THE FINANCIAL RATE OF RETURN IN HIGHER EDUCATION IN SOUTH AFRICA: A COMPARISON TO THE OECD COUNTRIES

Fisa Lembede

ABSTRACT

The demand for higher education in South Africa far outstrips the supply. The mismatch is costly for the country and leaves the performance far below the production possibility curve and the technological frontier. The National Development Plan supports further growth in higher education and stipulates that gross enrolment ratio be increased from the current 17% to 30% in the year 2030. On the other hand sceptics are pointing out that with the high rate of unemployment for graduates; students should look elsewhere for furthering their studies and not aspire to enter higher education. Questions of quality are also coming to the fore. These issues beg a question whether there is a positive return, private or social to higher education in South Africa.

With the support of the human capital theory of Becker, this paper investigates the issues surrounding the rate of return in higher education for South Africa. It deploys the highly celebrated empirical analysis of “the returns to education: A further update” by Psacharopoulos and Patrinos (2004) to compare the higher education trends on the rate of returns between South Africa and the Organisation for Economic Co-operation and Development (OECD), using an updated empirical analysis. In the main, high returns in South Africa warrant further investments in higher education to capture both the private rate of return and the social rate of return from the education investment. The paper offers some recommendations for policy regarding the course of direction if the country is to reap a higher return on higher education investment.

Women, Natural Resource Wealth and Economic Development: A case study of Zimbabwe

Courage Mlambo

ABSTRACT

Equitable participation of women in economic issues, politics and government is essential to building and sustaining economic development and democracy. However, women, particularly in developing countries, still face daunting social, economic and political challenges. Women remain largely excluded from benefiting from resource wealth or participating in decision making about resource management. Women are insufficiently targeted in natural resource programmes that aim to support natural resource-based livelihoods. When it comes to access to natural resource wealth, the role of women is not necessarily looked up to as a major issue. This report highlights the factors that prevent women from accessing the benefits of natural resources in Zimbabwe. It examines issues of women's equality and empowerment in relation to their status as full and equal citizens in Zimbabwe. The paper also examines policy options to address the problem faced by in accessing the benefits of natural resources.

THE IMPACT OF BRICS ALLIANCE ON SOUTH AFRICA'S ECONOMIC GROWTH - A VECM APPROACH.

Prince Zwelibanzi Ncube and Ronny Newadi

ABSTRACT

This paper examines first the impact of the BRICS alliance on South Africa's economy and secondly the impact that trade openness in the alliance has on South Africa's economy. The study uses series data from 1980 to 2012 and employs up to date econometric methodologies- unit root and vector error correction model estimates to achieve its aims. The empirical result reveals that international trade has contributed a lot to the high economic growth rates experienced by the BRICS economies during the recent decades. However, it is also found that international trade is not the only contributing factor. Human Capital formation, Gross domestic capital formation and real effective exchange rate appreciation are equally important contributors. Results of the study however reveal that South Africa's trade openness in the alliance has detrimental long run effects for the economy. The study also reveals that despite the growth experienced overall in the alliance, South Africa's economic participation is limited due to unfair trade practices amongst the members of the alliance. The findings provide an insight of the policies to be adopted to achieve higher growth rates in South Africa within BRICS alliance. Lessons for the rest of Africa can be derived from these findings.

THE EFFICACY OF CORPORATE GOVERNANCE IN REDUCING OPPORTUNISTIC ACCOUNTING EARNINGS MANIPULATIONS

Godfrey Akileng

ABSTRACT

This paper presents a review of evidence pertaining to whether effective corporate governance mitigates agency conflict and thus reduces opportunistic accounting earnings management. This study pursues the theoretical arguments, (agency theory), that the principal agent relationship provides an insight that effective corporate governance plays a significant role in reducing agency conflict and information asymmetry. This is on the premise that, it may not be possible to directly observe the managers opportunistic accounting choices, but investors (shareholders) have to take action to protect their interests; as a result firms may have to incur higher agency costs to mitigate managers' discretionary accounting choices. The findings in this study indicate that corporate governance monitoring is effective in mitigating managers' opportunistic discretionary accounting choices and reducing agency costs and thus improving the quality of reported accounting earnings.

AN INVESTIGATION INTO THE EFFECTIVENESS OF NON-MONETARY FACTORS ON STAFF RETENTION WITHIN A BUSINESS BANKING DEPARTMENT

Sandiso Ngcobo and V Naidoo

ABSTRACT

The recent global recession resulted in many job losses across the world with the financial industry being most severely impacted. Today the focus for many banks is to do more with less employees and to reduce the cost to income ratio on their balance sheets. It is therefore pertinent that they devise strategies that will enable them to retain talented employees. The tendency is usually to focus on monetary aspects. However, financial rewards alone might not be sufficient to make employees stay with an organisation. Some employees might find career growth opportunities, skills development, people orientated environment, recognition and praise for their work efforts more satisfying. The aim of this study is to investigate the effectiveness of non-monetary factors on staff retention within a business banking department of a South African bank, here anonymously referred to as YONGA BANK.

A quantitative approach was adopted in which a questionnaire was utilised as the instrument for data collection. The questionnaire was restricted to two categories, namely, non-monetary incentives and turnover intentions.

The findings revealed that non-financial rewards are an important factor in employee retention that cannot be ignored. Within the business banking department non-financial reward practices was evident, however inefficiencies were evident with the formal mentoring programmes and coaching practices. It is therefore suggested that banks and business organisations revisit their non-financial reward practices with the emphasis on formal mentoring programmes aligned to career development programmes, coaching workshops and immediate feedback for line managers.

FINANCING STRUCTURE AND INNOVATION IN AFRICA

Charles Adjasi and Mccpowell Fombang

ABSTRACT

This paper examines the nature of capital structure and its effect on firm innovation amongst selected African firms. Innovation within firms in Africa is negligible due to a number of factors but an increase in finance can contribute in driving up innovation. The capital structure of a firm may therefore play a significant role on firm's innovation. However the extant literature appears inconclusive on this. For instance, Acs and Isberg (1991:324) provide empirical evidence demonstrating that capital structure is an important determinant of technological change. Hall (2002) also noted that the capital structure of highly innovative enterprises often exhibit less leverage relative to those of other enterprises. However Stiglitz (1985) indicated that the structure of debt contracts is not well suited for highly innovative enterprises due to riskiness and volatile returns.

Despite the existing controversy, little empirical research has been conducted particularly in African enterprises to explore how different financing structure impacts the innovation among firms. Thus, the purpose of this paper is to critically examine the various financing options available to African enterprises and how its effects on firm innovation. Using the World Bank Enterprise Survey database, panel data analysis will be employed to examine the effect of financing structure on firm innovation. Firm level data for selected African countries (Cameroon; 363 firms 2006-2009, Rwanda; 241 firms 2006-2011, Senegal; 506 firms 2003-2007, South Africa; 937 2003-2007 and Zambia; 484 2002-2007) will be considered. The outcome of this study will add to the existing literature on enterprise innovation and finance. It will also offer insights to policy makers and management on the role of financing structure in increasing innovation for African enterprises.

IS GOVERNMENT AN EFFICIENT WAY TO CORRECT CREDIT MARKET FAILURE? LESSONS FROM GOVERNMENT CREDIT PROGRAMME IN SOUTH AFRICA

Christopher D. Fakudze and Charles L. Machethe

ABSTRACT

Despite government intervention for providing formal credit to smallholder farmers being considered theoretically inefficient in correcting market failure, no empirical evidence has been presented. This article demonstrates how the Government of South Africa, through MAFISA-NERPO programme is efficient in distributing formal credit for smallholder livestock farmers. The study applies an accounting efficiency analysis technique to estimate government efficiency, and also ascertain effectiveness of the programme. Results shows that Government, which operates through MAFISA-NERPO programme as intermediary institution is efficient (cost efficiency = 0.21) and effective, using estimated % calibration of (\surd = 21(68%) achievable objectives and failure in achieving objectives (\times = 10 (32%)), where the tick symbol (\surd) represents achieved targets whilst the cross (\times) represent unachieved targets. This result suggests that contrary to the monotone axiom, Government is an efficient way to correct failure or missing credit markets.

THE IMPACT OF THE NATIONAL CREDIT ACT ON HOUSEHOLDS' INDEBTEDNESS AND SAVINGS IN SOUTH AFRICA

Nathi Maphanga

ABSTRACT

The level of indebtedness of the household sector in South Africa continued to increase, in spite of the introduction of the National Credit Act. The National Credit Regulator (December 2010) reports that credit bureaus had approximately 18,51 million credit active consumers, of which 9, 90 million were classified as in good standing and 8,61million with impaired records. This translates to a decline in credit records of consumers in good standing to about 120 000 consumers quarter to quarter and a whopping 426 000 year on year (NCR 2010).

In 2010 the National Credit Act had been in existence for 3 years. Why was the National Credit Act introduced? Among other things, the Act was meant to encourage responsible borrowing and avoidance of over indebtedness and the fulfillment of the financial obligation by consumers. Thus, reckless credit granting by credit providers will be discouraged. Have the banks and other credit and lending institutions found a way to circumvent the Act? Democracy in South Africa brought with it an increase in the number of salaried employment, which consequently led to an increase in the number of households accessing credit. We also saw the increase in the Black middle class (Black Diamond). This class amassed wealth through tenders and other businesses. Some of these businesses would later collapse or tenders not forthcoming for various reasons.

The interest rates in South Africa have been reduced dramatically. Since June 2008 interest rates have declined from 12 per cent to 5, 5 per cent. Could this have contributed to the increase in debts? Unemployment levels plummeted to high levels.

Statistics South Africa reports that unemployment currently stands at 25, 2 per cent. Disney, Bridges and Gathergood (2008) found that the drivers of over-indebtedness are financial imprudence, household income shocks and macroeconomic shocks. The researcher wants to investigate the impact of the National Credit Act on the indebtedness of households in South Africa.

FDI AND POVERTY IN AFRICA

Teresia Kaulihowa and Charles Adjasi

ABSTRACT

FDI has been touted to play a pivotal role in addressing Africa developmental agendas. However, the efficacy of how FDI translates into social welfare functions and reduce poverty remains one of the new unresolved literature debates. Whilst Klein et al, 2001; Dollar and Kraay, 2000; Meyer and Sinani, 2009; Gohou and Soumare, 2011; and Lehnert et al, 2013 supports the poverty reduction hypothesis, Hymer, 1968; Blostrom and Kokko, 2003; Kampos and Kinoshita, 2002; Carkovic and Levine, 2002 and Kosac and Tobin (2006) reported that FDI may not necessarily reduce poverty due to its ability to generate market imperfections that are detrimental to the poor. Empirical literature on the impacts of FDI on poverty is very scanty in Africa and mainly biased toward income based poverty metric measure. This paper uses a more multidimensional approach in a dynamic panel methodology to quantitatively examine the impact of FDI on poverty reduction in Africa focusing on both unidirectional and multidimensional measures of poverty for the period 2000-2012. The use of this approach becomes even more relevant given the multidimensional nature of poverty. Data will mainly be sourced from World Bank and UNDP online databases

FACTORS INFLUENCING RETIREMENT SAVINGS INTENTION IN BOTSWANA

Thuto Mahlanza

ABSTRACT

There has been growing concern the world over about the low retirement savings of many individuals in both the developed and developing world. This situation has been compounded by the Global Financial Crisis (GFC) of 2008, which negatively affected investments made by pension funds, thus leaving retirement savings adequacy levels at their lowest points. At the same time many governments have begun shifting the risks and responsibilities of retirement savings investments into the hands of individuals, most of whom are ill-equipped to make these complicated financial decisions. This paper seeks to identify the factors that influence the retirement savings decisions in Botswana; a country that is influenced by both modern and traditional approaches to retirement. The Theory of Planned Behaviour (TPB) is employed as a framework to study the behavioural intention and possible policy interventions.

AN INVESTIGATIVE ANALYSIS OF THE EXISTENCE AND STABILITY OF A COMPETITIVE EQUILIBRIUM IN THE AGRICULTURAL COMMODITIES MARKET IN AFRICA: A CASE FOR SOUTH AFRICA

Innocent Sitima

ABSTRACT

The economic landscape in Africa and South Africa is not as much as homogenous as compared to developed and other emerging markets especially in Asia and the Americas particularly in the commodities market. Despite the widely accepted notion that all global markets are synchronized into one global market, the African markets still seem to show a different picture in terms of economic decision making and evaluation. This in turn shows clearly that a whole new set of rules seems to exist in the context African economies. Most commodities markets as well as the financial markets in Africa are by themselves, tend to be “incomplete markets”, this suggest that the social evaluation of the competitive equilibrium in the African agricultural commodities market, fail in terms of the equivalence of a competitive equilibria.

In this study, the study will take all these economic and structural digressions into account and try to analyze both mathematically and econometrically on the aspects of the concept of a competitive equilibrium in the commodities market. Using some complex mathematical analysis tools and concepts such as the theory of the core, nonlinear programming, tatonment process, separation theories, space of functions, calculus variations and the Frobenius theorems. The study will attempt to rigorously try to come up with a unique equilibrium for an Afro- centric competitive equilibrium point. The study will apply some the mathematical definitions of feasibility, Pareto optimality, local nonsaturating point and the competitive equilibrium of the private ownership economy (C.E.P.O.E).

This is a bid to ascertain whether the commodity market has a unique optimal state and to check if whether or not there exist a price vector that can support this competitive equilibrium point by allowing the model to be adjusted to permit redistribution of ownership of the economic resources and perfect competition in the model. This study will test econometrically whether this equilibrium can be explained in the real world using secondary economic data. The econometric technique that will be applied by the study is the stressed VECM to test both the stability and oscillation of the model developed in this study.

MACROECONOMIC POLICIES AND IMPLICATIONS FOR AGRICULTURAL OUTPUT IN NIGERIA: A VECM APPROACH

Barnabas Obasaju and David Obadiaru

ABSTRACT

This paper assesses the short- and long-run impacts of changes in macroeconomic policies on agricultural output in Nigeria between the first quarter of 1980 and the fourth quarter of 2012. It employs respectively, the Johansen Cointegration analysis and the Vector Error Correction Model (VECM) while making use of real agricultural output, money supply, interest rate, inflation rate and real exchange rate as endogenous variables. Gleaning from the Johansen Cointegration test, the long-run money neutrality hypothesis which opines that nominal money supply has no long-run effect on the level of real output was rejected. It also observed that real interest rate and real exchange rate both exact significant and negative influence on the real agricultural output and that the stability of the latter in the short run is closely linked to interest rate and money supply. The study recommends that possible innovation(s) to money supply and changes in the interest rate and exchange rate in Nigeria would need to be matched with appropriate macro monetary policy adjustments to safeguard agricultural output from being adversely affected both in the short -and the long- run.

DECLINING LABOUR SHARE OF INCOME IN SOUTH AFRICA USING THE KALMAN FILTER

Irrshad Kaseeram

ABSTRACT

Recent research has shown that in a large number of countries, both developed and emerging market economies, the labour share of national income has been exhibiting a declining trend since the 1980s. Many research papers have investigated the problem of high unemployment in the South African economy; and it can be inferred from these studies that due to past and current socio-political conditions, globalisation and institutional arrangements, there is likely to be a declining labour share of national income. However no published research, to date, has investigated this phenomenon in the South African context, thus this paper attempts to shed some light on the problem. The study employs the Kalman Filter methodology within the standard Cobb Douglas production function framework to investigate how labour and capital shares as well as total factor productivity have been behaving using yearly data from 1946 to 2012.

FINANCIAL LITERACY AND THE USE OF FINANCE IN POST-APARTHEID SOUTH AFRICA

Elizabeth Lwanga Nanziri

ABSTRACT

Access to and use of finance is a subject of concern especially to development economists owing to its posited role in the reduction of inequality, poverty alleviation and economic development. Researchers argue that besides the high costs associated with formal financial services, consumers might not demand financial services if they are not familiar or comfortable with them due to lack of financial knowledge to navigate the complex financial instruments. A growing body of literature is pointing to low financial literacy levels among consumers and hence sub-optimal financial decisions. To explore these assertions, we construct a composite financial literacy index using the principal component analysis, which allows for an investigation in the distribution of financial literacy and its determinants in South Africa. We then estimate a multinomial function to establish the probability that a consumer will chose to use a financial product from the formal/semiformal/informal sectors, given his financial literacy level. In some dimensions, our results are in line with empirical results from high income economies, with low levels of financial literacy among the young including students, the elderly, women, the less educated and the low income earners. However in other dimensions, the pattern seems to reflect the education, labour market and related inequalities characteristic of post-apartheid South Africa. Moreover the probability of choosing formal financial products increases with financial literacy, although this result seems to be more significant for credit, savings and investment products. The extent of use of financial products in the transaction and insurance categories is the same across financial literacy quartiles, with an inclination towards the use of informal financial products.