

POLYTECHNIC OF NAMIBIA

HAROLD PUPKEWITZ GRADUATE SCHOOL OF BUSINESS

The economic costs of exchange and capital controls on businesses in
Namibia – A focus on institutional investors and exporting companies

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**Mini-thesis presented in partial fulfillment of the requirements for the degree of
Master of International Business in the Harold Pupkewitz Graduate School of Business
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Declaration

I Timoteus Karamata hereby declare that the work contained in the mini-thesis, entitled “The Economic Costs of Exchange and Capital Controls on Businesses in Namibia” is my own original work and that I have not previously in its entirety or in part submitted it at any University or other higher education for the award of a degree.

Signature.....**Date**.....

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Key Words

Advanced economies

Big-bang approach

Capital controls

Capital flows

Capital transactions

Common Monetary Area (CMA)

Currency and Exchanges Act

Efficiency losses

Emerging economies

Exchange controls

Exchange control liberalization

Foreign exchange transactions

Global economic crisis

IMF AREAR

Portfolio management

Risk-return

Welfare benefits

Welfare costs

ABSTRACT

The process of globalization has permeated every sphere of human activity, most notably in the arena of economic globalization. Economic globalization encompasses the integration of national economies into the international economy through trade, foreign direct investment, capital flows and migration. The benefits of globalization are numerous such as foreign direct investments and portfolio flows that engender accelerated economic growth both in the advanced and the emerging economies and creation of employment opportunities and poverty alleviation. Capital exporting countries earn higher returns on investments.

However, large capital flows emanating from the global financial markets could have disruptive effects on the global economic system. These pervasive effects of capital flows are often more pronounced in the developing and emerging countries, which often lack sufficient institutional capacity to mitigate such large capital flows.

Based on the economic logic that capital allocation is more efficient in the absence of exchange control and barriers to competition in financial markets, standard economic theories postulate the view that free movement of capital across international borders carries profound and widespread benefits. However, the recent global economic crises have led opinion makers to advocate for the use of capital controls especially for emerging and developing economies. Leading economists and policy makers world-wide are now recalibrating their views on the benefits of free capital flows, advocating for the

use of exchange controls, in certain circumstances as a way to reduce a country's vulnerability to international financial crises.

This research paper found that existing exchange and capital controls in Namibia impose economic costs as they tend to misalign companies' decisions resulting in less optimal risk diversification options and exchange rate losses. Other costs on business manifest in the form of opportunity costs, administrative burdens and inefficiency losses.

Chapter 1: Background to the Research

1.1 Introduction

This paper has examined the costs of exchange and capital controls in Namibia. Its findings are based on surveys, questionnaires and interviews with key players in the foreign exchange market in Namibia. Inputs were obtained from big companies that are involved in export and import businesses and institutional investors to assess the costs they incur in compliance with exchange control laws and regulations. Additionally, the study made use of secondary sources to investigate the scope of legislative requirements of exchange controls and to assess the transactional and administrative costs they impose on the costs of doing business in Namibia. Interviews were conducted with representatives of the Commercial Banks and Bureau De Changes to find out about their costs components as a result of having to administer exchange control laws and regulations in terms of the Currency and Exchanges Act (Act. 9 of 1933).

The recent global economic crisis of 2008-10 has ignited renewed debate on the costs and benefits of exchange and capital controls. Based on the economic logic that capital allocation is more efficient in the absence of exchange control and barriers to competition in financial markets, standard economic theories postulate the view that free movement of capital across international borders carries profound and widespread benefits. Recent global economic crises have, however, sparked a reassessment of the desirability of exchange controls, especially for emerging and developing economies. Leading economists and policy makers world-wide are now recalibrating their views on the benefits of free capital flows, advocating for the use of exchange controls, in certain

circumstances as a way to reduce a country's vulnerability to international financial crises. Studies that have investigated the costs and benefits of exchange controls present mixed evidence and are inconclusive on whether exchange controls result in welfare gain or loss. What emerged from the studies that were reviewed is that exchange controls can have both costs and benefits hence evaluating their desirability and aggregate impact is very much an empirical question, (Eichengreen, 2003).

The lessons learnt in the aftermath of global financial crisis coupled with the pivotal role that capital flows play in the modern global economy are being synthesized to craft regulatory architectures that curtail the excesses of the market forces without stifling business innovation and competitiveness.

Anecdotally, the interplay between capital flows and exchange and capital controls regulation is said to compose of the following characteristic features. FSA Board Report (2011), Mbeki (2011).

- An important part of the world economy consists of an interconnected global financial system dominated by a few players; most of whom are the so-called “too big to fail”.

- There is a continuous process of the concentration and centralization of capital, which takes place through mergers and acquisition and other activities resulting in the expansion of market share, and which create financial behemoths.

- Financial capital plays an increasingly dominant role in the functioning of the economy within individual economies and with regard to the global economy, even as it gets further detached from the real economy;

- Imminently, the global operations of this financial capital can and will destabilize the real global economy, producing a disequilibrium that would lead to economic instability, recession and possible depression;

- To guard against this, it is important that both individual nations and the international community as a whole should regulate the operations of financial capital;

- Experience has confirmed that extant regulatory regimes, certainly prior to the 2008 crisis, have proved too weak in this regard and therefore need to be strengthened;

- At the same time it is important to take into account that the financial sector will continuously demonstrate greater agility than any regulatory regime and will therefore objectively undermine any regime put in place to regulate it;

- In responding to this challenge, it is important that any regulatory regime should not work in a manner which kills the ability and the will of the financial sector to provide the finance (credit) that oils the economic wheels; and,

- It is necessary to put in place a global regulatory system, given the reality of the global functioning of financial capital;

- Technological innovations and faster information flows aided by a sharp increase in total savings being channeled into financial instruments across borders have fostered the dramatic globalization of capital flows.

As the graph below shows global capital flows-based financing – including debt, portfolio equity, and direct investment – topped \$6 trillion in 2005.

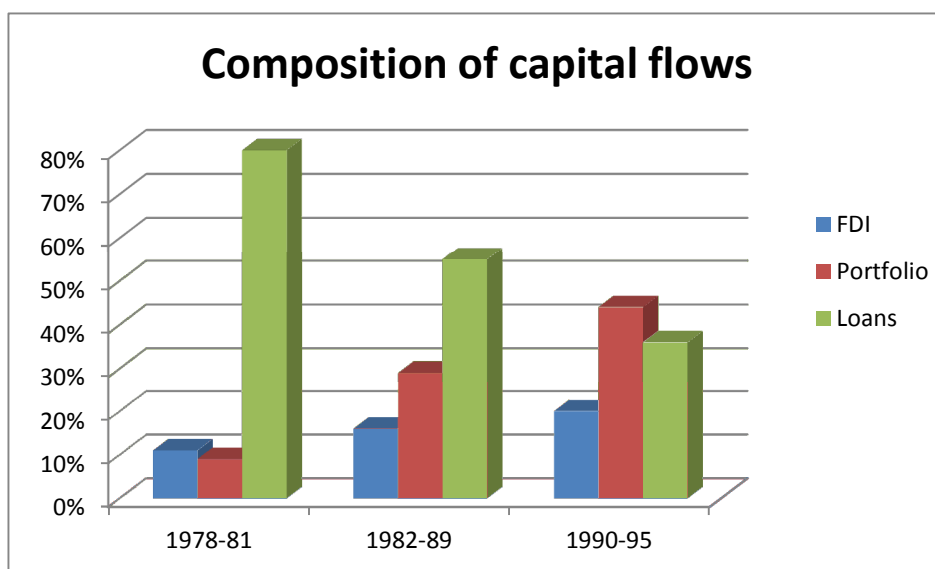


Figure 1: Composition of capital flows

Source: Baceworth and Collins, 1999

Trade in capital is treated the same way as trade in goods and services, hence the conventional theories of international trade apply with equal force to capital movements as in movements of goods and services across international borders.

Schuknecht, (1998) posits that when studying capital flow the same theoretical underpinnings in trade in goods and services apply with equal force to capital movements. Capital is tradable in the same way as many goods and services are: it can be imported or exported at a price which reflects international demand and supply conditions.

Furthermore, Schuknecht (1998) argues that free trade is typically the best trade policy no matter whether trade in goods, services or capital. However, if behaviors of the investors and the prevailing policy environment are not conducive to immediate free trade, the choice of instrument for controlling capital flows becomes important.

1.2 Background to the study

As a corollary to the recent global economic crisis, divergent opinions have emerged questioning the effectiveness of the market forces as the panacea of the world's economic growth and development. The waves of liberalization policies of the last decades have been recalibrated because unfettered large capital flows across international boundaries have been found) to harm the economies of the developing and emerging countries, which often lack sufficient macro-economic fundamentals and well developed financial markets to absorb such large flows. Stiglitz, 2003).

After decades of extensive integration of national economies into the international economy through trade, FDI, capital flows and migration and falling away of government-imposed barriers to international flows of goods, services and capital, there has now been renewed call for regulatory oversight on the activities of the markets players. Exchange and capital controls have been proffered in the academic and policy circles as policy instruments to shelter the domestic economies from the vagaries and turbulences in the international financial markets.

1.2.1 Is there a need for this research?

Namibia maintains a string of exchange and capital controls within the framework of the Common Monetary Area on the strength of an old South African legislation, the Currency and Exchanges Act. 9 of 1933, yet from the literature reviewed virtually nothing has been written on this subject in Namibia. Surveying the literature landscape in Namibia one finds no empirical studies to inform exchange and capital controls

policy design and implementation. This research paper aims to fill this gap in knowledge. Namibia being a small open economy is naturally vulnerable to shocks in international financial markets.

The recent global turndown has had adverse effects on virtually all the countries of the world. The economies of the developed countries took a dent most of which recorded negative growth rates at the peak of the crisis in 2009 (Bank of Namibia, 2010), and similarly, the emerging economies were severely affected owing to the low international commodity prices that took a serious knock as illustrated in the Appendix 3 (Bank of Namibia, 2010). As a consequence of the economic global crisis, governments have been responding to the economic crisis with a series of financial supervision and regulation, including exchange and capital controls to contain what is perceived as the short-sightedness and excessive leverage of the financial institutions. According to Summers (2009) the financial system has failed to perform its basic function as a reducer and distributor of risk and instead magnified risks that predicated the economic contraction not seen since the Great Depression of the 1930s.

This paper has examined the costs of exchange and capital control on the Namibian economy as a way to assist decision-makers to take policy positions based on empirical findings. The fundamental question is whether the imposition of Exchange and Capital controls result in welfare cost or welfare benefit to the domestic economy as a whole. Limited studies have been conducted on this crucial subject matter but their findings are ambiguous and inconclusive on both ends of these arguments.

Exchange and capital controls as policy instruments have always been fraught with disagreements in terms of their welfare benefits versus welfare costs to the overall economy. Rogoth (1997) recognized that earlier positions may have overstated the benefits of free capital movements and not adequately highlighted the dangers involved in abolishing exchange and capital controls. Forbes (2005, p. 3) posits that although capital controls do yield limited benefits in certain circumstances they also have substantial and often unexpected costs and remarked that exchange controls “are no free lunch”.

Standard economic theory states that exchange and capital controls inhibit the free flow of capital to where it could earn the highest returns, which not only curtail efficient allocation of resources but also potentially impose welfare costs on a country.

1.2.2 The nature of exchange and capital controls

Exchange Controls are legal policy instruments imposed by the country’s authorities on the purchase and sale of foreign currencies by residents and the purchase and sale of the local currency by non-residents. Capital controls are government imposed restrictions on the movement of capital in and out of the country.

Measuring exchange and capital controls, most studies use the IMF’s AREAR database that compiles up to 192 indicators for exchange and capital controls imposed by individual member countries. Forbes (2005, p.3-5) used the IMF’s AREAR indicators to construct three broad indicators namely:

Controls on proceeds from exports and payments for imports. These cover 35 controls that explicitly target transactions related to international trade, including requirements for a foreign exchange budget for imports and documentation and financing requirements for import payments and export proceeds.

Controls on capital transactions. These cover 86 controls on transactions of capital and money market instruments, derivatives, FDI, credit operations, real estate and personal finance and the operations of institutional investors and commercial banks.

Controls on FX transactions and other items that are not exclusively trade or capital transactions. They include exchange taxes and subsidies, ban on currency derivative trading, controls on bank accounts, currency requirement for pricing and settles, current transfers and invisible transactions, and trade in gold and bank notes.

Following Forbes' construct, this paper has examined the costs of exchange and capital controls on the Namibian economy by focusing on the existing

(i) Exchange controls on the proceeds of exports and;

(ii) Capital controls on the operations of institutional investors. By law, Exchange Control Regulation 6 states all export proceeds must be repatriated to Namibia and may be kept in a foreign currency account locally for a maximum period of 180 days after which period companies are obliged to convert the export proceeds into the local currency. Institutional investors are allowed to invest up to 35% of their total assets in the offshore markets – outside the Common Monetary Area.

These two categories of export proceeds and offshore investments by institutional investors were chosen by the researcher as they were deemed suitable mirror images to study the costs of exchange and capital controls on the Namibian economy. They constitute the major categories of transactions that are currently subjected to restrictions in terms of the Currency and Exchanges Act (Act. 9 of 1933). Additionally, exchange control restrictions of currency conversion as is the case in Namibia that compels all exporters to convert the foreign currency earnings to Namibia Dollars within 180 days from the date of accrual can potentially limit the companies' ability to protect themselves against exchange rate volatility.

The same logic applies to institutional investors who, in the absence of the current limit of 35% of total assets permissible for offshore investments, would have sufficient latitude for better hedging of the exchange rate risks and to diversify their portfolios optimally.

Arguably, therefore, the presence of exchange and capital controls may impose some costs on the regulated populace in the Namibian market in the form of inefficiency and sclerosis in business innovation. This study aims to gain insight from these key market players on the impact that exchange and capital controls have on the business operations.

1.2.3 Definition of Exchange and Capital Controls

The costs of exchange and controls cut across a wide range of transactions and sectors in the economy hence they are studied both at macro and micro levels.

At the macro-economic level the imposition of exchange and capital controls inhibits international trade in assets and produces less optimal output for the global economy. Moreover, capital controls curtail the benefits of capital flows such as risk sharing, diversification, growth and technological transfers. Countries that have comparative advantage in capital see lower return on their savings while capital importing countries receive less investment and are likely to experience slower economic growth with capital controls. Exchange controls affect micro-economic units through increased costs of transactions, bureaucratic red tape, delayed payments and administrative inefficiency, which filter through the profit margins.

Krugman (1998) cautioned that when capital controls are used to defend inconsistent government policies they would do more harm than good. In some studies that were done it was found that exchange controls breed corruption and impose substantial administrative and inefficiency losses.

Exchange and Capital controls policies are designed to limit and redirect capital account transactions seemingly to preserve domestic savings for domestic usage but they raise the perception of risk, increasing the risk premium or deterring future investment.

1.2.4 The supposed benefits of exchange and capital controls Exchange

Controls are used to insulate the country's financial system against the shocks in international markets induced by capital inflows or flight. In many countries, capital controls have been used as policy instruments to limit or redirect capital account transactions to preserve domestic savings for domestic use (Neely, 1999).

1.2.5 Liberalization paradigms

What is exchange and capital control liberalization? Exchange control and capital liberalization is a decision by a country's government to move from a closed current and capital accounts regime, where restrictions are placed on buying and selling of foreign currency and capital may not move freely in and out of the country, to an open current and capital accounts system in which capital enters and leaves the country at will and free trade is the norm, (Henry 2007).

The literature review suggests that countries economic growth rates improve in the face of exchange and capital control liberalization. Capital account liberalization allows for more efficient global allocation of capital from the capital rich industrial countries to capital poor developing countries. Capital account liberalization may also mean that the country is committed to sound economic policy management.

An important angle to the debate about capital controls liberalization is whether a country may choose to take in liberalizations of its capital controls. Proponents of capital account liberalization reckon that before relaxing capital accounts, countries especially the emerging ones must take a deep look at their institutional infrastructure and economic fundamentals in order to assess whether they are strong enough to absorb the vagaries of international exposure, in the event of international economic turbulence as the one experienced since 2008 due to US sub-prime lending rates.

Furthermore, they posit that the lessons learnt from the Asian crisis of 1990, which inflicted large human and financial costs, must serve as a guide for emerging countries as they navigate their policy positions on capital controls. Flowing from these arguments is

a clear rallying cry that cautions countries against a big-bang approach to capital account liberalization. Warns against the big-bang approach of eliminating capital controls because it may lead to problems in adjustment and the balance of payments. Rather, Prasad and Rajan (2005) advocate for a pragmatic, phased out and opportunistic policy architecture that takes into account individual country's circumstances.

Edison, Klein, Ricci and Sloek (2002) quote from the Managing Director of IMF saying, “ *In a number of discussions in recent years on issues related to capital account issues, the Executive Board has emphasized the substantial benefits of capital account liberalization, but stressed the need to carefully manage and sequence liberalization in order to minimize risks.*”

1.3 Problem statement

Exchange and capital controls impose economic costs on businesses in Namibia.

1.4 Research objectives

The purpose of this study is to investigate the economic costs that exchange and capital controls impose on businesses in Namibia. In the light of the recent global economic crisis, exchange and capital controls have once again been placed on the radar screen in academic and policy circles hence the need to gain empirical insights that would contribute to a body of knowledge on this subject in Namibia. It is hoped that the findings of this paper will contribute to policy formulation on exchange and capital control reform trajectory.

1.5 Main research question

What are the economic costs of exchange and capital controls on businesses in Namibia?

Sub-questions:

What are exchange and capital controls and how are they used?

What are the objectives of exchange and capital controls?

What are the most popular theories of exchange and capital controls?

1.6 Thesis framework

The work below delineates the layout of this thesis.

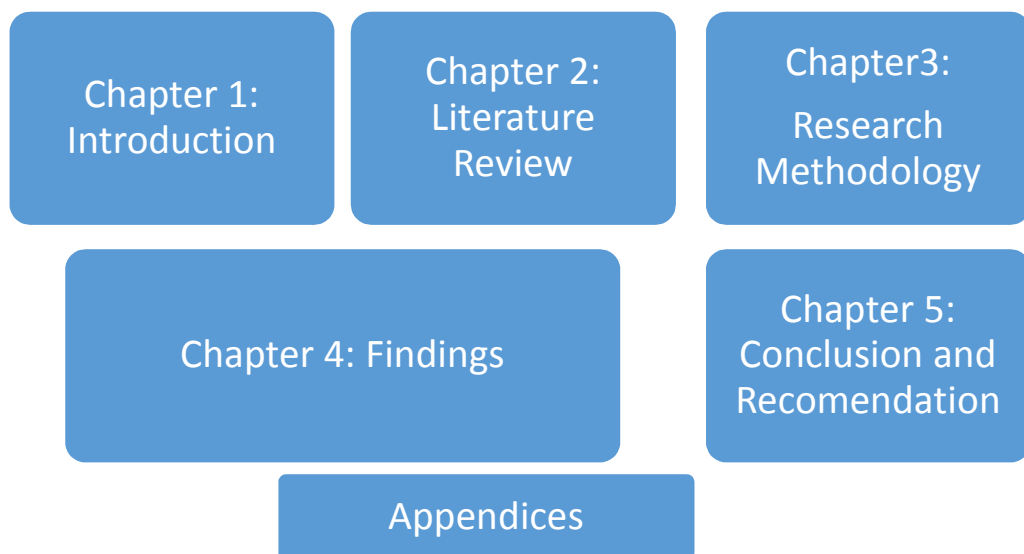


Figure 2: Thesis Framework

Outline of the study

Chapter 1:

This is an introductory chapter that provides insightful analysis of the topic and explains the reason for the research undertaking namely to investigate the economic costs of exchange and capital controls on businesses in Namibia. The chapter furnishes the reader with a brief background to the research problem as well as the aims and objectives of the research.

Chapter 2:

The pertinent literature review is discussed in this chapter. A vast pool of literature reviewed covering a wide range of findings on exchange and capital controls such as the macro and micro economic costs of exchange and capital controls as well as the question of whether they constitute a barrier to international trade are discussed in this chapter.

Chapter 3:

In this chapter the research methodology, study design, sample and strategies, data collection process, data analysis procedures and validity of the study are discussed.

Chapter 4:

The data analysis, presentation of the findings and an interpretation of the results are presented.

Chapter 5:

A summary of findings, conclusions and recommendations is presented in this chapter. This chapter relates the recommendations of the study to the gaps in the research findings.

Chapter 2: Literature Review

2.1 Introduction

The literature review shows that capital flows play an increasingly dominant role in the global economy of which the most critical transmission mechanism is through international trade i.e. FDI, Portfolio flows and Loans remittances. Timarisa,(1999, p.31-76) stated that exchange and capital controls could affect trade through multiple channels, including domestic price of imports, transactions costs, the volatility of exchange rates, inter-temporal trade and portfolio diversification. The overall effects of exchange and capital controls critically depend on their structure and effectiveness and their interaction with other distortions in the economy.

Evidence from literature showed that exchange controls are typically applied across a range of categories and sectors depending on the specific objectives that a country wishes to achieve. They can be quantity-based and price-based, or focus on the movement of capital into or out of the country. These measures can also be directed at different types of capital flows e.g. loans, FDI, or Portfolio Investments or at different types of actors of the economy such as companies, banks, Governments Departments or individuals

Many developed countries started to gradually remove exchange and capital controls in the early 1960s so that by the 1980s most had few controls in place. In the early 1990s many emerging and developing countries began to lift exchange controls. According to Forbes (2007), the impact on their economies appeared positive as capital

flowed into countries, investment and growth increased and asset prices rose. In mid-1997 a series of financial crises started in Asia and spread across the world. Several studies showed that emerging markets that had just liberalized their capital accounts were disproportionately affected by the Asian crisis. In view of these series of crises there was reassessment of the desirability of capital controls particularly for the emerging economies and developing economies. From 2002 to 2005, several emerging market economies implemented controls on capital inflows as a measure to reduce the appreciations of their currencies and to insulate their economies from the effects in the international markets.

Exchange and capital controls as policy instruments have always been fraught with disagreements in terms of their welfare benefits versus welfare costs to the overall economy. Rogoth (1998) recognized that earlier positions may have overstated the benefits of free capital movements and not adequately highlighted the dangers involved in abolishing capital controls. According to Forbes (2005) capital controls do yield limited benefits in certain circumstances but they also have substantial and often unexpected economic costs and remarked that capital controls “are no free lunch”.

This paper examines and documents the costs of exchange controls in Namibia aiming to illuminate the debate on whether, within the context of these negative global economic developments in recent years, existing exchange controls are beneficial to the economy or just too costly and not worth having. The fundamental question in this debate is whether exchange controls misalign investment decisions and thus result in welfare loss to the economy.

2.2 Macroeconomics and exchange and capital controls

Against the backdrop of the recurrent financial crises, world opinion is now converging on the need for countries, *to some degree*, include exchange controls particularly on capital account transactions in their regulatory architecture to cushion them in the event of exigencies in the international financial markets. In fact, the IMF, which has been the foremost proponent of financial and capital account liberalization, has in recent years changed its tone on this subject matter. Writing in the Press Release No. 09/375, 2009, the Board of the IMF stated, “*Capital Controls remain an essential feature of the monetary policy framework, given the scale of potential capital outflows.*” Additionally, conventional wisdom has emerged that cautions particularly the emerging countries to be alert to adverse effects on open capital accounts as they could have significant domestic and multilateral effects. Emerging economies are low-income, rapid growth countries. They fall into two groups: developing countries in Asia, Latin America, Africa and the Middle East and transition economies in the former Soviet Union and China.

Following this conventional wisdom policy-makers in many emerging and developing economies have recalibrated their thinking on the desirability of free flow of capital hence they are reluctant to open up their current and capital accounts prematurely, arguing that such a move could potentially result in free fall of their exchange rates and depletion of international reserves (Fischer S. 1998). The International Monetary Fund (IMF, 2012) recommends that countries reach certain thresholds in terms of sound

macroeconomic management and financial stability before opening up their capital account.

Conventionally, exchange and capital controls have been used to achieve the following ends:

- Prevent capital flight from the domestic economy;
- To keep the nation's savings inside the country for domestic investment, and to avoid excessive use of foreign borrowing;
- To allocate scarce foreign exchange to priority uses;
- To use exchange control rules to limit the local borrowing of non-resident controlled companies with the view to reserve local credit for locally-owned businesses and to encourage foreign companies to bring in more capital, as they would have done if they were permitted to borrow locally, without conditions.

Countries have at different times and in varying degrees maintained exchange and capital control regimes in their macro-economic management models to countervail negative runs on their balance of payment positions (BOP). Following the Bretton Woods conference most developed countries gradually removed their exchange controls so that by 1980 most had virtually no controls in place. To date, many emerging and developing countries still maintain a range of exchange controls arguing that their countries lack stable macroeconomic and financial stability that their developed counterparts had attained.

2.3 Do Exchange and Capital Controls inhibit international trade?

Conventional trade theories applicable to trade in goods and services apply with equal force to capital movements. The same way that the theories of **comparative advantage** and **absolute advantage** are applied to international trade in goods and services, free movement of capital across international borders is viewed as bringing the most optimal outcomes. Capital is tradable in the same way as many goods and services. Capital can be imported or exported at a price, which reflects international demand and supply conditions. According to Schuknecht (1998), capital flows constitute inter-temporal exchange, which have a price like any other good or service e.g. the interest rate on a loan or bond.

He furthermore, posits that the principle of arbitrage applies equally to trade in capital where price differential induces traders to move capital to the markets with the highest return. Schuknecht (1998) emphatically states that free trade is the best policy no matter whether it is trade in goods, services or capital.

In the literature, the same theoretical strands that apply to international trade in goods and services underpin the study of capital flows. Capital is tradable on the same economic principles as goods and services. Capital is imported or exported at a price, which reflects international demand and supply conditions. These price differentials induce trades to move capital to the markets with the highest returns, which enhance better risk diversification, increase market discipline leading to efficient allocation of resources and high growth rates. Significantly though, capital flows (unlike goods and

services) are highly volatile as they can be imported and exported almost instantaneously. This volatility in capital flows necessitates that Government-built fire walls around their economies in the form of exchange controls to insulate them from the destabilizing impact of global financial crises. Overall, exchange controls carry some profound economic and administrative costs hence their purported benefits must be subjected to empirical cost-benefit analysis to determine the appropriate levels of their applications. In some instances, exchange controls constitute outright impediment to international trade through bureaucratic red tape and administrative bottlenecks.

How do exchange controls effect international trade? Tamarisa (1999), states that the basic economic theory that applies to quantitative restrictions on imports of goods and services, applies to the study of exchange controls in their impact on capital flows across international boundaries. Essentially, exchange controls are considered a tax on the economy. By taxing costs of foreign money required to purchase foreign goods and services, exchange controls cut the quantity imported or raise the relative domestic price of imports. Very often Governments design exchange controls according to non-competitive rules, which result in situations whereby low-valued uses often get approved instead of higher- valued uses and priorities, thus decreasing trade further.

Exchange controls raise transaction and other trade related costs, which lead to reduction in trade. As costs associated with international transactions increase so also uncertainty because exchange controls tend to stifle the development of liquidity and efficient foreign exchange markets and modern payment instruments. Moreover,

Tamarisa (1999) argues that very often exchange controls encourage evasion and rent-seeking, which impose unproductive costs on firms.

Additionally, exchange controls impact Foreign Direct Investments (FDI). Exchange controls can reduce trade by limiting the transfer of technology, managerial expertise, and skills through FDI. If Government imposes exchange controls on the repatriation of profits, and dividends and surrender requirements it tends to negatively impact the much-needed FDI flows. International investors are keen to know how business friendly host Governments are to investors. In an environment where exchange controls are applied they tend to discourage FDI flows thus limit the dissemination of technological and managerial knowledge and the host of other benefits associated with FDI, e.g. employment creation and higher growth rates. Empirical evidence abounds to show that FDI tends to increase the host countries' exports and imports with concomitant multiplier effects on the rest of the economy.

Exchange controls often stifle business ingenuity and opportunities for hedging foreign exchange risks and financing trade. This reduces trade further. Where exchange controls are applied financial intermediation is less efficient and savings are not allocated to the most efficient uses. The intermediation margin is often high and local financial institutions enjoy substantial market power. The range of available financial products and services tends to be narrow. As a consequence, opportunities for hedging foreign exchange risks and financing trade are either unavailable or costly and trade is likely to fall.

Additionally, exchange controls affect trade by decreasing inter-temporal trade and portfolio diversification. The impact on trade in goods depends on whether this intra-

temporal trade substitutes for or complements inter-temporal trade and portfolio diversification. If trade in goods and trade in factors are substitutes (as postulated in Heckscher-Ohlin Model) the volume of trade in goods is likely to fall. Conversely, if trade in goods and trade in factors are complementary the volume of trade in goods increases.

2.4 The impact of exchange and capital controls on microeconomic units

Studies done on the impact of exchange and capital controls, point to significant costs that small firms and individuals incur in the process of adhering to the requirements of the law. Forbes (2005) found substantial microeconomic evidence that exchange controls have pervasive effect and often generate unexpected costs on small firms and individuals.

Several key themes emerged from the studies conducted by Forbes (2005).

Firstly, it was found that exchange controls hurt firms, especially the small ones that do not have access to international capital markets, as they tend to reduce the supply of capital and raise the costs of financing and increase financial constraints. Second, exchange controls can reduce market discipline in financial markets, which leads to a more efficient allocation of capital and resources. Also, exchange controls significantly distort decision-making by firms and individuals as they attempt to minimize the costs of the controls or even evade them outright. Fourth, exchange controls can be difficult and costly to enforce even in countries with sound institutions and low levels of corruption.

Even in countries where exchange control proved to carry significant benefits such as Chile, there were costs incurred especially by small firms. Forbes (2003) examines how the exchange controls in Chile affected investment and financial constraints for different publicly-traded firms in Chile. It was found that investment growth was higher for smaller, publicly traded firms than larger firms, both before the exchange controls were instituted in Chile. During the period that the exchange controls were in place, however, investment growth plummeted for smaller companies and was generally lower than for larger companies. Other studies on the Chilean experience, Galago and Hernandez (2003) corroborated these findings. Exchange controls significantly increased the costs of external funding for Chilean firms, although the average effect was small in magnitude.

According to Ayiroshi et al., (2000), exchange controls entail substantial administrative costs for effective implementation by authorities particularly when the measures have to be broadened to close potential loopholes for circumvention. They further argued that there is a risk that shielding the domestic financial markets by exchange controls may postpone necessary adjustment in policies and impede private-sector adaptation to changing international circumstances. Control may also give rise to negative market perceptions, which may in turn make it costlier and more difficult for the country to access foreign funds.

Other studies showed that exchange controls impose other direct and indirect costs. The direct costs entail administering the system by the central banks and by the Commercial banks to ensure compliance. Additionally, the private sector incurs costs

involved in obtaining approval by the Central bank in certain categories of transactions. The major direct cost of the controls based on the report by is the erosion of productivity of the country's investment resources. This happens by depressing the domestic price of capital below the international competitive rate, by the monetary authorities. Under perfect capital mobility, global savings are allocated to the most productive investments, this ideal is hampered in the presence of exchange control thus reducing investment and growth (Abbas, 2002)..

2.5 Free movement of capital ideal

The free movement of capital across borders can have widespread benefits. Capital inflows can provide financing for high-return investment, thereby raising growth rates. Capital inflows, especially in the form of foreign direct investment often bring improved technology, management techniques and skills, and access to international networks all of which raise further productivity and growth. Capital inflows also can allow domestic citizens and companies to earn higher returns and better diversify risk, thereby reducing volatility in consumption and income. Capital inflows and outflows can increase market discipline, thereby leading to a more efficient allocation of resources and higher productivity and growth. Further, exchange controls may help limit short-term capital flows and hence exchange rate volatility. Feldstein (2000) noted that there are other several advantages of unrestricted capital flows. First, international flows of capital reduce the risk faced by owners of capital by allowing them to diversify their lending and investments. Second, the global integration of capital markets can contribute to the spread

of best practices in corporate governance, accounting rules, and legal traditions. Third, the global mobility of capital limits the ability of governments to pursue bad policies.

Furthermore, Feldstein (2000) et al attached particular importance on capital flows in the form of FDI. They opined that FDI inflows have more advantages compared to portfolio and loan flows. The chart below supports these views, as inflows have shifted away from bank loans toward FDI and Portfolio Investment.

2.6 Are exchange and capital controls beneficial?

Literature review shows that the main rationale justifying the use of exchange controls is that they could potentially reduce the country's vulnerability to financial crises. This view has gained currency in recent years following the debilitating effects of the recent financial crisis on the global economy. Liberalization of the global economy - removal of government interference in financial markets, capital markets and of barriers to trade - has overarching dimensions, some of which are harmful to the small emerging economies. Thus, world opinion on the desirability free movement of capital has recalibrated sharply in recent years.

There are widespread views among leading economists that the proponents of the "borderless" world including the IMF have pushed their neoliberal agenda too far without due consideration to the small emerging economies. Stiglitz (2002) posits that liberalization of the financial and capital markets contributed to the global financial crisis of the 1990s and can wreak havoc on the global economy. He further opined that the advanced industrial countries use their political and economic clout to out-manoeuvre the

emerging and developing countries in order to protect their special interests without concomitant benefits for the lesser developed countries.

Informed by the lessons learned from the current crisis, world opinion is now converging on the need for countries, *to some degree*, to include exchange controls particularly on capital account transactions in their regulatory architecture to cushion them in the event of exigencies in the international financial markets. In fact, the IMF, which has been the foremost proponent of financial and capital account liberalization has in recent years changed its tone on this subject matter. Writing in the Press Release No. 09/375, 2009, the Board of the IMF stated, “*Capital Controls remain an essential feature of the monetary policy framework, given the scale of potential capital outflows.*” Additionally, conventional wisdom has emerged that cautions particularly the developing countries to be alert to adverse effects on open capital accounts as they could have significant domestic and multilateral effects.

Historically, exchange controls have been used by Governments for a variety of reasons, inter alia:

- Prevent capital flight from the domestic economy;
- To keep the nation’s savings inside the country for domestic investment, and to avoid excessive use of foreign borrowing;
- To allocate scarce foreign exchange to priority uses;
- To use exchange control rules to limit the local borrowing of non-resident controlled companies, reserving local credit for locally-owned businesses and to

encourage foreign companies to bring in more capital, as they would have done if they were allowed to borrow locally, without conditions.

2.7 Exchange and capital controls liberalization - which is the best, big-bang or gradual?

Since the emerging markets crisis of the 1990s, a new conventional wisdom has emerged that developing countries such as Namibia must be alert to the adverse effects of premature exchange and capital controls liberalization (Rodrik 1998; Stiglitz 2002). What is capital control liberalization? It is a decision by a country's government to move from a closed capital account regime, where capital may move freely in and out of the country, to an open capital account system in which capital enters and leaves the country at will.

The advocates of the cautious approach to exchange control liberalization argue that a hastily executed process of exchange control liberalization may backfire, as it stands to jeopardize the country's exchange rate and monetary stability. Moreover, the economic and political costs would be too high if a country is forced, by circumstances beyond its control, to reintroduce them.

The debate on the impact of capital controls on trade has a long history. The fundamental question that researchers have been grappling with is whether exchange and capital controls inhibit free trade and if they do - to what extent do capital controls constitute barriers to international trade?

Answers to this question would, no doubt, carry profound policy implications. There are some schools of thought that view exchange and capital controls as beneficial

to the overall economy on the grounds that they help to insulate the country' financial system against external shock stemming from capital inflows or flight.

During the course of the 1980s, a general trend toward the liberalization of exchange controls emerged in the face of growing disillusionment regarding the effectiveness of capital controls. Interestingly, in eliminating exchange controls most advanced countries followed a cautious approach.

However, the findings of the various studies (limited though they are) that have considered the merits or de-merits of exchange controls have been mostly ambiguous and inconclusive on both ends of the arguments. Prominent economists such as Rogoth (2002), formerly with IMF, have recognized that earlier positions may have overstated the benefits of free capital movements and not adequately highlighted the dangers involved in capital controls liberalization. Others such as Eichengreen (2001)) have equally made similar pronouncements arguing for controls on capital inflows whereas Krugman (1998) has set out a case for controls on capital outflows in the aftermath of the emerging markets crisis of the 1990s.

These ambiguities and lack of conclusive evidence on the precise impact of capital controls on international trade do suggest that policy makers trusted with exchange and capital control liberalization in Namibia still have important decisions to make. On his part Forbes (2003) posits that although capital controls do yield limited benefits in certain circumstances they also have substantial and often unexpected economic costs. He concluded that exchange and capital controls "are no free lunch".

What is exchange control liberalization? Exchange control liberalization is a decision by a country's government to move from a closed capital account regime, where capital may not move freely in and out of the country, to an open capital account system in which capital enters and leaves the country at will (Henry, 2007).

It is clear from Henry's definition that capital controls have a direct bearing on a country's terms of trade. A closed capital account system implies a more closed economy whereas an open capital control system implies that a country trades more with the rest of the world. Most developed countries have liberalized their capital accounts. Literature holds that capital account liberalization has brought numerous benefits to those countries' economies. These benefits stem from the fact that, in the course of liberalizing their capital account the developed countries employed other appropriate policy reforms to run in tandem with capital account liberalization. Their successes were also aided by sound and sustainable macroeconomic fundamentals that were in place at the time capital account liberalization measures were instituted.

According to Ihsii and Habermeier (2002) capital account liberalization increases capital mobility across international boundaries, which in turn, bring about the following benefits:

- Improved international allocation of savings;
- Technology transfer due to increased FDI flows from more advanced countries to the developing and emerging economies;
- Efficiency and strength of the financial system;
- Liquidity and smoothing of cycles;

- Risk diversification and resilience to shocks;
- Greater market orientation,
- Higher domestic investment and higher growth.

2.7.1 Big-Bang Liberalization Approach

An important angle to the debate about capital controls liberalization is the approach that a country may choose to take in liberalizations of its capital controls. Proponents of capital account liberalization reckon that before relaxing capital accounts, countries especially the emerging ones, must take a deep look at their institutional infrastructure and economic fundamentals in order to assess whether they are strong enough to absorb the vagaries of international exposure, in the event of international economic turbulence as the one experienced since 2008 due to US sub-prime lending rates.

Furthermore, they argue that the lessons learnt from the Asian crisis of the 1990s, which inflicted large human and financial costs, must serve as a guide for emerging countries as they navigate their policy positions on capital controls. Flowing from these arguments is a clear rallying cry that cautions countries against a big-bang approach to capital account liberalization. Takacs (1990) warns against the big-bang approach of eliminating capital controls because it may lead to problems in adjustment and the balance of payments. Rather, Prasad and Rajan (2005) advocate for a pragmatic, phased out and opportunistic policy architecture that takes into account individual country's circumstances.

2.7.2 Gradual Approach Liberalization Approach

At the other end of the spectrum is the gradual approach to capital account liberalization. This is an approach that is favored by many regulatory bodies around the world such as the International Monetary Fund.

Edison, Klein, Ricci and Sloek (2002?) quote from the Managing Director of IMF saying, “ *In a number of discussions in recent years on issues related to capital account issues, the Executive Board has emphasized the substantial benefits of capital account liberalization, but stressed the need to carefully manage and sequence liberalization in order to minimize risks.*”

2.8 Other studies on the costs of exchange and capital control

Exchange and capital controls in Chile during the late 1980s and 1990s the so-called *encaje* is said to have been effective in achieving the following stated objectives:

- (i) prevent potentially volatile capital inflows to the Chilean economy;
- (ii) prevent the destabilizing effects of large inflows to the financial system;
- (iii) Prevent real appreciation of the currency. The Chilean capital controls

(Bhawati, 1998) played a crucial role to insulate the economy from the Asian crises of the late 1990s.

However, other researchers disagreed about the effectiveness of Chile's capital controls. Valdes and Soto (1996) found that they changed the composition but not the magnitude of the inflows. According to their finding, investors substituted from heavily taxed short-term flows to more lightly taxed long-term inflows. They equally found that

controls in Chile were ineffective in preventing a real appreciation of the exchange rate. On the other hand, Larrain B., Laban M., and Chumacero (1997) found that although there was considerable substitution in the short run, the controls did change the magnitude of the inflows in the long run. Edwards (1998) observes that Chilean capital controls did help in the short run to curtail large destabilizing inflows thus allowing time for structural reforms and effective financial regulation.

Malaysia introduced capital controls on September 1, 1998 to counter the effects of large capital outflows, fall in local equity prices and plunging of exchange rates. Findings on the effects of capital controls are mixed. Government economists and the business community in Malaysia claimed that they were pleased with the effects of the controls in increasing demand and returning stability to the economy. Similar to some of the findings in Chile, Barro (1998) states that capital controls in Malaysia were useful in buying time to implement fundamental reforms.

2.9 Synopsis of exchange and capital controls in Namibia

In terms of the Currency and Exchanges Act (Act 9 of 1933) the Minister of Finance is the custodian of exchange controls laws and administration in Namibia. The Common Monetary Area (CMA) consisting of Lesotho, Namibia, South Africa and Swaziland governed by the multilateral agreements. For all intents and purposes, the CMA countries apply uniform rules, regulations and policies in all exchange control-related matters. The Minister of Finance has in terms of Exchange Control regulation 19 delegated all administrative powers to the Bank of Namibia, which in turn has delegated more powers the commercial banks (Authorized Dealers) to administer foreign exchange

transactions on a day-to-day basis. No person legal or natural other than the Authorized Dealer is permitted to trade in foreign currency. The following are some of the existing exchange control stipulations:

- All export proceeds of exportation of commodities from Namibia must be repatriated back to Namibia and must be converted into the local currency within a period not exceeding 180 days from the date of accrual.
- Advance payments for importation of capital goods may not exceed N\$ 20 million per transaction.
- Only companies that are involved in import-export business are permitted to conduct foreign currency denominated accounts.
- Individuals may invest up to N\$4 million offshore per annum subject to them being tax-payers in good standing with the revenue authority.
- Namibians who immigrate to other countries are permitted to take up to N\$4 million per individual and N\$8 million per family unit. Any amount in excess of the aforesaid must be blocked in Namibia.
- Expatriates are permitted to send to their countries of origin amounts not exceeding 2/3 of the total earnings in Namibia.
- Institutional investors are, on application to the Bank of Namibia, allowed to invest up to 35% of their total assets offshore.
- Individuals are permitted a discretionary allowance of N\$1 million per annum to be spread among travel, gifts, maintenance and donations to designated beneficiaries abroad.

- All the transactions that have not been delegated have to be applied for to the Bank of Namibia, which based on the merits of each application and the overall benefits that accrue to the country, adjudicate to approve or decline such submissions.

2.10 Conceptual Framework

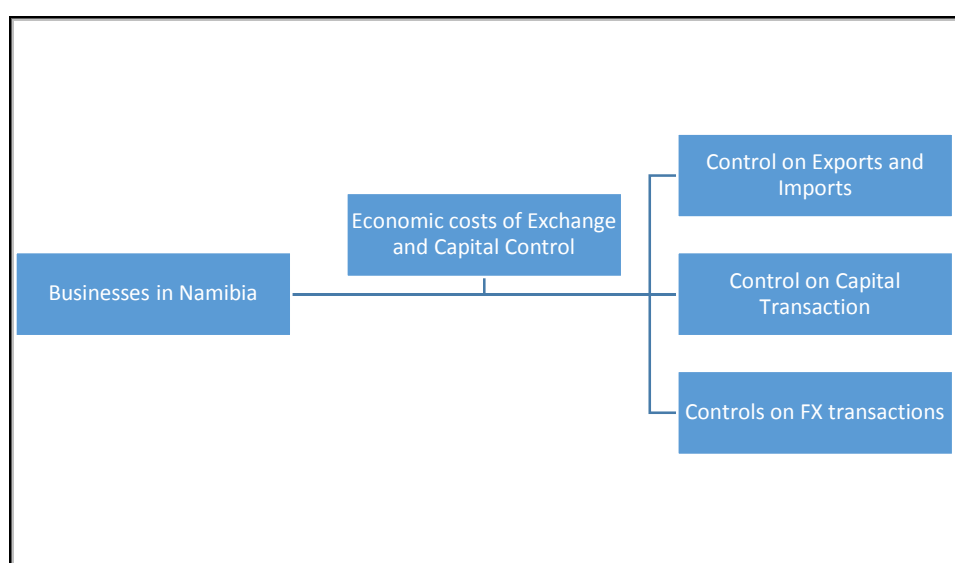


Figure 3: Conceptual Framework

Figure 3 depicts the conceptual framework that the researcher followed to design the questionnaires that were used to collect data relevant to the research question. Investigating the economic costs of exchange and capital controls on businesses in Namibia, data was collected based on exchange controls on export-import intensive industries and controls on capital flows as they affect institutional investors. Additionally, the researcher also collected data on controls on foreign exchange transactions in general, which actually cut across the two populations of the research focus.

2.11 Conclusions

Revisiting the research sub-questions, it was found that exchange and capital controls are primarily used as policy instruments to insulate domestic economies against shocks emanating from international financial markets by limiting the sale and purchase of foreign currencies and redirecting capital account transactions to preserve domestic savings for domestic use. The cost-benefit dichotomy of exchange and capital controls has been a subject of various studies although findings are inconclusive on both ends of the spectrum. Proponents of the efficient market ideal advocate for unfettered movements of capital across international borders as a way to obtain optimal risk-return outcomes leading to welfare benefits for both capital abundant and capital scarce countries.

However, in view of the re-current financial crises and global economic turndown, the view that countries particularly the developing and emerging ones, which often lack strong institutional capacity must include capital controls in their regulatory architecture, has now gained currency in academic and policy circles. This view is premised on some empirical cost-benefit analyses that found that exchange and capital controls carry some benefits that serve as buffers in times of dire capital volatility. Moreover, we found that in view of inconclusive evidence on the subject of exchange and capital controls, evaluating their effectiveness must be context-specific taking into account each individual country's peculiar circumstances. For instance, in the Chilean experience (Bhawati, 1998) capital controls were said to have been effective in achieving stated objectives, i.e.;

- Prevent potentially volatile capital inflows in the Chilean economy;
- Prevent the destabilizing effects of large inflows on the financial system;

- Prevent real appreciation of the currency.
- Exchange and capital controls hurt firms especially the small ones that do not have access to international capital markets, as they tend to reduce the supply of capital and raise the costs of financing and increase financial constraints.
- Second, exchange and capital controls can reduce market discipline in financial markets, which lead to a less efficient allocation of capital and resources.
- Also, exchange controls significantly distort decision making by firms and individuals as they attempt to minimize the costs of the controls or even evade them outright.
- Fourth, exchange controls can be difficult and costly to enforce even in countries with sound institutions and low levels of corruption.

Chapter 3: Research Methodology

3.1 Introduction

Research methodology is defined in many ways by different authors and academics but the underlying principle is the same namely a process of gathering and expanding knowledge. De Poy & Gitlin (1994) define research as multiple, systematic strategies to generate knowledge about human behavior, experience and environment in which the thought and action process of the researcher are clearly specified (methodology) so that they are logical, understandable, conformable and useful (validity and reliability). Research methodology is essential in that it directs the researcher as to where critical decisions are made, and helps to organize and plan the whole research undertaking. Leedy (1997) pinpoints two primary functions of research methodology:

- To control and dictate the acquisition of data, and
- To corral the data after acquisition and extraction of its meaningfulness.

This research explored the economic costs of exchange and capital controls on Namibian businesses. The researcher sampled two important sectors of the economy namely, entities that are involved in export and import of commodities within the Namibia economy as well as institutional investors in order to achieve the research objectives.

According to Neuman (1997), every researcher should endeavor to spell out a paradigm what he sees as basic orientation to theory of research. There are two methodological paradigms that are commonly used namely, qualitative and quantitative.

Accordingly, Bryman and Burgess (1999) characterize qualitative method, which the researcher followed, as consisting of three kinds of data collection:

In depth open-ended interviews: The researcher made use of structured questionnaires to gather the responses from the respondents. The responses were obtained in written and telephonic formats.

Direct observation: The researcher made use of direct observation by looking at the administration functions of the commercial banks in handling their clients' foreign exchange transactions.

Secondary sources: The researcher gleaned through numerous publications and correspondences of the Bank of Namibia with the commercial banks to complement and substantiate the findings in the questionnaires.

Data from interviews assisted the researcher to evaluate peoples' expectations, opinions, feelings and knowledge. Quantitative methods test hypothesis that involves measuring in terms of numerical data and analyses data using tables, statistical analysis and mathematical modeling.

This researcher has relied on qualitative research methods to investigate the costs that exchange and capital controls impose on business operations in Namibia by focusing on companies that are involved in exports and imports as well as asset management companies dealing with portfolio investments.

3.2 Research Design

Groenewald (1989:43) defines research design as the general form or system according to which the study is executed. The research made use of surveys, interviews, secondary data as well as serendipitous means that focused on samples drawn from significant entities in the import-export industry and institutional investors. Significant in the sense that these areas of business operations are highly exposed to the regulatory coverage by the Bank of Namibia in terms of the Currency and Exchanges Act (Act.9 of 1933). Also in terms of values, these entities are in the upper end of the scale, having foreign exchange transactions running into several billions. What are the costs (both economic and administrative) that exchange and capital controls impose on the Namibian economy? The following persons responded to the questionnaires:

Marketing Coordinator: Meatco Namibia (Pty) LTD

Manager: Export Logistics: Nambrew Ltd

Commercial Manager: Langer Heinrich Uranium (Pty) Ltd

Bulk Manager: Namib Mills (Pty) Ltd

Managing Director: Benquella (Pty) Ltd

Financial Manager: Namibia Smelters

Export Logistics Officer: Ohorongo Cement (Pty) Ltd

Marketing Manager: Namibia Beverages company (Pty) Ltd

Manager: International Business Centre: FNB Ltd

Manager: IBC: Standard Bank Namibia Ltd

Investment Manager: Government Institutions Pension Fund

Managing Director: Allan Gray (Pty) Ltd

Operations Manager: Investec Namibia

Team Leader: Investments: Old Mutual Namibia (Pty) Ltd

CEO: Momentum

Investment Manager: Sanlam Investment Company (Pty) Ltd

Manager: EAU Rough Investments (Pty) Ltd

Investment Officer: Capricorn.

3.3 Sampling

A sample is a portion or subset of a larger group called a population (Fink 1998). There are principally two methods of sampling, namely, probability and non-probability selection. According to Sanders, Lewis & Thornhill (1997) probability sampling can be divided into four stages. These are:

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

In a non-probability or purposive selection the sample is the result of a process of selection that is intentional or non-random (Groenewald, 1989). The table below depicts factors that impact on the choice of using non-probability sampling.

Because of the limited population size and the homogeneity of the sample that was investigated, a purposive sampling method was used since it targeted the persons directly involved with the field of study. The major advantage of purposive sampling in this case

is that it enabled the researcher to focus on a particular population in which the sample members are all familiar with the subject matter. Thus, this method enhanced the researcher's ability to carry out an in-depth study of the costs of exchange and capital controls on business decisions and operations in Namibia.

3.4 Measuring instruments

Researchers use different measuring instruments to quantify the variables and indicators when conducting research. Questionnaires and interviews are the most commonly used. Although Saunders, et al. (1997) consent that questionnaires can be used as the only method of data collection, it is better to link them with other approaches. Moreover, questionnaires' effectiveness differs according to how they are administered, particularly in terms of the level of contact the researcher has with the respondents.

There are two types of questionnaires, namely, self-administered and interview-administered. Research by Neuman (1997) shows some of the advantages and disadvantages of each system. The researcher used both the self-administered and interview questionnaire methods.

3.4.1 Self-administered questionnaires

Advantages

- It can cover a wide geographic area,
- Respondents are anonymous, as result, interview bias is avoided, and

- Can achieve high response rate if targeted population is educated and interested in the topic.

Disadvantages

- Low response rate if not properly administered,
- No follow-up questions as respondents' answers are incomplete,
- Another person other than the targeted respondent can complete the questionnaire and,
- The researcher cannot control the conditions under which the questionnaire is completed.

3.4.2 Interview-administered questionnaires

Advantages:

- Has the highest response rate and permits follow up questions for clarity;
- Researcher can observe non-verbal communication, and
- Allows the researcher to ask complex questions and also follow-up where necessary.

Disadvantages

- Very costly if the geographic coverage is large;
- Interviews can create attitudes and
- The questioning technique and wording may affect the respondent.

3.5 Data collection methods

Data collection methods are usually chosen on the basis of their suitability to answer the research problem. Therefore, no single method of data collection can inherently be regarded as better than other techniques. As a result, Fink (1998) is of the view that the deciding factor for the literature review when critically examining a study's data collection is not the method itself but more, importantly whether it provides reliable and valid information.

There are many methods used for data collection. These include data analysis, achievement tests, survey questions, face-to-face and telephone interviews. The researcher used self-administered questions and face-to-face interviews.

The success of data collection lies in the extent to which it can be relied upon and the validity of the results it provides. The results should be such that they can be easily generalized.

3.6 Reliability of the Research

Reliability refers to the extent to which the obtained scores may be generalized to different measuring occasions, measurements and test forms (Welman & Kruguer, 1999). Reliability is therefore concerned with whether different methods of data collection will generate the same information. According to Robsen in (Saunders et al., 1997) the lack of standardization in semi-structured and in-depth interviews may lead to reliability concerns.

According to Fink (1998) reliability can be divided into four categories:

Stability (Test-retest reliability) – a measure is stable if the correlation between scores from time to time is high, this also involves re-testing or re-administering the indicator to the same targeted population.

Equivalence (or alternate-form reliability) – refers to the extent to which two assessments measure the same concept at the same level of difficulty.

Homogeneity reliability- refers to the extent to which all items or questions assess the same skill, characteristics or quality.

Inter-rater reliability- refers to the extent to which two or more individuals agree on their measurement of an item.

In order to address the reliability question the researcher put the following measures into place.

Questions were clear and free from ambiguity. Respondents who preferred self-administered questionnaires are afforded the same opportunity to respond freely and had adequate time to do so. The same questions are posed to all respondents in order to ensure standardization, and

A homogeneous population was chosen:

- i) Export and Imports entities on the one hand and
- ii) Institutional investors on the other hand.

3.7 Validity of the Study

A research's validity refers to the degree to which a measure assesses what it purports to measure (Fink, 1998). Therefore, the mere fact that the researcher is reliable does not guarantee the validity of the measure. Since validity is concerned with the soundness and effectiveness of the measuring instruments, Leedy (1997) argues that in a standardized test, for instance, validity would raise such questions as "What does the test measure? Does it, in fact, measure what it is supposed to measure? How well does it measure it? How comprehensively does it measure it? And how accurately does it measure it?"

Further, Leedy (1997) list and describes six most common types validity:

Face Validity - which basically relies on the subjective judgment of the researcher.

Criterion validity - which is determined by relating performance on one measure to performance on another measure that is considered valid.

Content validity - that is something equated with face validity and is also described as the accuracy with which an instrument measures the factors or situations under the study.

Construct validity – a construct is any concept such as honesty that cannot be directly observed or isolated. Hence construct validity is concerned with the degree to which the construct itself is actually measured. For example a researcher which claims constructive validity for a measure of competent teaching, will have to prove in a scientific manner, that teachers who do well on the measure are more competent than teachers who do poorly (Fink 1998).

Internal Validity – Which refers to the freedom from bias in forming conclusions in view of the data.

External validity – refers to the generalization of the conclusions reached through observation of a sample to the universe or conclusions drawn from a sample and can be generalized to other cases.

Validity therefore relates to the end results of measurement. To this end, Leedy (1997) opined that in order to ensure the integrity of any researcher, the researchers should consider it mandatory to state clearly and definitely the specifications of the measuring instruments.

Although face and content validity approaches were used in the study, the demerits of the interview method that include interview response and behavior influence because of the interviewer's presence, may affect the outcome of the research. Given the diverse sample in terms of respondent's job hierarchies and functions and in some cases the differences in opinions between market players and regulators, it is fair to generalize that the data is free from bias.

3.8 The pilot Study

The researcher piloted the study in two phases. First, the pilot study examined the validity of the research topic. The purpose of this phase of the pilot study was to explore if the research topic was strong enough and to assess the type of appropriate questions suitable for the research objectives. Initially, the researcher wanted to conduct a cost-benefit analysis of exchange and capital controls in Namibia in general. During the pilot phase it was discovered the proposed topic then was too wide and might be time

consuming in gathering the relevant data. In view of this discovery, the decision was taken to narrow the focus of this paper to the economic costs that exchange and capital controls impose on businesses in Namibia.

Having settled for the research topic, the second phase of the pilot looked at the questionnaire i.e. the relevance, wording and the order of questions. In this regard, some of the questions were discarded reducing the number of questions from original +/- 20 to seven questions for the institutional investors and nine for export-import companies, respectively. Questions deemed irrelevant were discarded and those that were ambiguous were rephrased.

3.9 Content analysis

Once the data has been collected the remaining and most important task is to analyze and interpret it. Welman & Kruger (1999) have listed four steps in performing a content analysis.

- The phenomenon to be analyzed must be clearly defined.
- Appropriate interviewees must be selected and the sampling methods must be clear.
- The description of the way in which the units of analysis are coded must be given; and;
- Coders must be properly trained.

Qualitative analysis will be used in this study and focuses on the adequacy of information gathered so that reliability and validity can be achieved.

The study has used the methods discussed above and the analysis parameters will be guided by the objectives of the research. Both self-administered questionnaires and face-to-face interviews of the purposively sampled population were used.

Chapter 4: Research Findings

4.1 Introduction

This chapter presents, analyses and discusses the findings of the research that were obtained through surveys, questionnaire, interviews and by scrutinizing secondary data as described in chapter 3 in fulfillment of the research objective namely, to study the costs of exchange and capital controls on the Namibian economy.

This chapter is divided in four sections. The first section looks the profiles of the respondents and their significance to the study. The second section deals with the analysis and discussion of the information obtained from the research process. The third section provides an overview of the exchange and capital controls regime in Namibia. The last section assesses whether the exchange and capital controls did play a role in Namibia's decline in competitive ranking and the summary of the results.

4.2 Demographics - Profiles of the respondents

In this section, the profiles of the respondents are presented to show how significant they are to this research in relation to the research objectives. The sample of the study is made up of big corporate citizens in Namibia consisting of those directly involved in the export-import industry and institutional investors i.e. asset management companies, insurance companies and pension fund administrators. This information is important to the study as it helps the reader to understand the relevance of the chosen sample to the objectives of this study. Not only that the respondents constitute a significant strata of the major players in the Namibian economy, actually, their line of business activities are

highly exposed to exchange and capital controls regulation in terms of the Currency and Exchanges Act (Act. 9 of 1933). This data for the two sets of respondents will be presented in tabular format

Table 1:

Import-Export Companies - Respondents

Name of the respondents	Main Business Activities	Geographic Location
Meatco Namibia	Meat Processing	Khomas, Windhoek
Nambrew	Beverages (Alcoholic and Non-Alcoholic)	Khomas, Windhoek
Langer Heinrich Uranium	Exploration and Mining of Uranium	Erongo, Arandis
Rossing Uranium Ltd	Exploration and Mining of Uranium	Erongo, Swakopmund
Diamond Trading Company	Diamond Marketing	Khomas, Windhoek
Namib Mills (Pty) Ltd	Mills Production and Marketing	Khomas, Windhoek
Benguella (Pty) Ltd	Marketing and distribution of paint	Erongo, Walvis Bay
Namibia Smelters	Mining of copper	Oshikoto, Tsumeb
Namibia Beverages Company (Pty) Ltd	Manufacturing softdrinks	Khomas, Windhoek
Ohorongo Cement (Pty) Ltd	Manufacturing and export of cement	Otjozondjupa, Otavi

Areva Resources Namibia	Exploration and Mining in Uranium	Erongo, Swakopmund
Novanam Namibia	Fish processing and export	Karas, Luderitz

Table 2:

Institutional Investors

Names of Investors	Main Business	Geographi c
GIPF	Government Pension	Khomas, Windhoek
Allan Gray (Pty) Ltd	Asset Management Company	Khomas, Windhoek
Investec	Asset Management Co	Khomas, Windhoek
Namibia Asset Management Company	Asset Management Co	Khomas, Windhoek
Old Mutual	Pension Fund, and Life insurance	Khomas, Windhoek
Momentum	Asset Management Co	Khomas, Windhoek
EAU Rough Investment Manager (Pty) Ltd	Asset Management Co	Khomas, Windhoek
Sanlam Investments Company(Pty)	Asset Management Co	Khomas, Windhoek
Stanlib Namibia	Asset management company	Khomas, Windhoek
Capricorn	Asset Management company	Khomas, Windhoek

4.3 Analysis and Discussion of the Research Findings

This section focuses on the findings of the study in relation to the research objectives which aim at answering the main research question: What are the economic costs that exchange and capital controls impose on business operations in Namibia. Answers to the research question were obtained through surveys, interviews, secondary data as well as observation methods. Below is a summary of the findings:

Table 3:

Portfolio investments: capital controls

o.	Question	A summary of answer obtained from respondents
	In terms of Exchange Control Regulation only 35% of the fund's total assets may be invested outside the CMA. What is your view of this threshold - is it too restrictive or just fine?	It is fine as per the company's investment policy. It is fine as our company finds more value in the South African Market as opposed to offshore markets. It is too restrictive.
	If the 35% limit is too restrictive what is the preferred range of percentage you would, given the choice, like to invest in the offshore markets?	Between 40-45% Between 55-60%
	How long does it take to obtain response to your application from Exchange Control Division (Bank of Namibia)? How does this time lag affect your investment decisions?	3 days 7 days Longer than 7 days
	What administrative costs (or opportunity costs) does your company incur as	Exchange rate fluctuation Bank Charges

	a result of having to comply with the Exchange Control requirement of 35% of total assets offshore investments?	Time delays Inefficiency due to red type
	Do you consider Exchange Controls as constituting barriers portfolio diversification and optimal investment decisions? Kindly explain your answer Yes No	Yes, as the threshold does not allow sufficient latitude to get optimal returns in the offshore markets No, the domestic/offshore limits fit our company's preferred investment combinations.
	Can you quantify the losses your company suffers as a result of complying with the requirements of exchange controls?	Mostly loss of better investment opportunities; Lower returns Less profitability Distorts optimal risk management
	What are the risks faced by your company when investing offshore?	Counterparty risk Exchange rate Liquidity risk

Table 4:

Export – import companies: exchange controls

o.	Question	Answer
.	Does your company incur financial and other costs as result of having to comply with exchange controls?	Yes: 100%
.	As an estimate is the total costs component that your company incurs p.a. as a result of having to comply with exchange controls?	Less than N\$ 1000 Between N\$ 1000-5000 More than N\$ 5000

.	Does your company employ additional staff to administer exchange controls?	No: 100% Yes: 0%
.	How do you rate the paper work required in foreign exchange administration?	Cumbersome Just fine No problem at all
.	How much time does it take from initiating a forex transaction to the point the funds are transferred by your bank?	Less than 3 days 3 days Between 3-7 days More than 7 days
.	Foreign exchange earnings must be retained in foreign currency accounts for 180 days after which it must be converted to NAD. Does this requirement constitute a constraint to your business or is it just fine?	Yes No. Just fine
.	If yes, kindly explain more about such constraints	Sometimes our company would want to keep such funds in foreign currency for longer than 180 days to honor future commitments hence we incur foreign exchange losses.
.	In general, do exchange control rules and regulations negatively affect your business?	Yes - 25% No quite - 60% No at all -

		15%
.	If yes, kindly explain how exchange control regulations affect your business operations.	Time delays Bank Charges Exchange rate losses due to time delays Administrative bottlenecks

The study focused on samples drawn from significant entities in the import-export industry and institutional investors. Significant in the sense that these areas of business operations are highly exposed to the regulatory coverage by the Bank of Namibia in terms of the Currency and Exchanges Act (Act.9 of 1933). Also in terms of values, these entities are in the upper end of the scale, having foreign exchange transactions running into several billions.

This paper found that exchange and capital controls impose economic costs on business operations in Namibia although their effects are mediated through various factors, which result in the costs being felt differently by the different economic units. Notably the following factors were found as the drivers of how the costs of exchange and capital controls impact business operations in Namibia:

The extent of foreign exposure: We found that companies that are heavily reliant on foreign markets for their products were more averse to exchange and capital controls indicating that these restrictions inhibit their ability to manage exchange rates risks optimally and to diversify their portfolio holdings in a manner that yields the best possible outcomes.

The type of foreign exchange products preferred.

Parent company-subsidary relationships: We found that most of the institutional investors in Namibia are subsidiaries of South African-based parent companies, which determine investment policies for the local subsidiaries. Consequently, in most instances, such subsidiaries expressed comfort with the 35% threshold as it synchronizes with what their group's investment policy prescribes.

The size of each individual company - In one instance an executive of a big mining company said that:

“he did not consider bank fees and charges as constituting a significant cost component as compared to values of their foreign exchange transactions which run into several millions”.

He further stated that being a big corporate company their bank gives them “first-class” service hence they do not experience delays in handling of the transactions. Conversely smaller companies opined that:

“complying with exchange control regulations is riddled with inefficiency and ultimately erode their profitability that comes with paying fees and charges”.

Exchange and Interest rates considerations: Invariably the respondents mentioned exchange and interest rates are the critical drivers in their foreign exchange decisions. They were of the opinion that the labyrinthine of rules and regulations often result in delayed transactions which, in turn, lead to exchange rate losses.

4.3 Costs Implications for Institutional Investors

This study found that the existing capital control limitation of allowing a maximum of 35% offshore investment carries limited costs to the industry most of which are administrative in nature similar to those that export-import companies incur. Eighty percent (75%) of the respondents expressed satisfaction with the current 35% threshold. However, twenty (25%) percent of the respondents were of the opinion that the prescribed 35% offshore investment negatively impacts the investment decisions as it does not allow them the sufficient latitude to invest in a diverse pool of portfolio to optimize returns. According to them the offshore investment threshold control limits carry **opportunity costs** for this industry.

The applications for offshore investments are forwarded to the Bank of Namibia for approval. The information below depicts the requests that were received and approved by the Exchange Control Division for the period 2009-2011.

Table 5:

Offshore investments by Institutional Investors

Year	Total Amount Approved
2009	N\$ 1.3 billion
2010	N\$ 7.5 billion
2011	N\$ 5.3 billion

Source: Bank of Namibia (Exchange Control Division)

Consequently these respondents make up good representative samples of the regulated populace and therefore the findings can be credibly extrapolated to other sectors of the Namibian economy.

To answer the main research question, this section defines the costs of exchange and capital controls, the key transmission mechanisms, and the economic and administrative costs that exchange and capital controls impose on the costs of doing business in Namibia.

4.4 Exchange rate and interest rates as costs transmission mechanisms

The costs of exchange and capital controls is felt in the economy in that they curtail the benefits of capital flows such as risk sharing, diversification, and economic growth. Critically exchange and capital controls clog free market dynamics thus limiting the ability of the market participants to take advantage of the exchange rate differential that induce capital to move to countries, which have comparative advantage. Similarly, investors move capital to destinations in which interest rates are higher than in the home market, consequently capital exporting countries see a lower return on their savings while capital importing countries receive less investment and grow more slowly in the presence of exchange and capital controls.

On the question of how the quantitative limit of 35% affects their portfolio diversification and overall return on investment decisions of institutional investors in Namibia, this study found mixed outcomes: “AGN is of the opinion that a higher offshore

allocation than the current 35% would be beneficial in the portfolio management process.” On the other hand, “Momentum Namibia is comfortable with 35% threshold as we find more value in the South African market.”

Eighty percent (80%) of the respondents indicated that the 35% threshold does not affect their investment decisions as it is within the preferred range of the domestic/offshore investment mix. However, twenty percent of the respondents stated that they would like to see a higher offshore investment allocation than the present 35% threshold as increased allowance would improve their portfolio management strategies. Seventy percent (70%) of these respondents want to see the limit to increase to 40% whereas 25% want the limit to increase to sixty percent (60%). The offshore/domestic markets ideal is determined by investors’ risk appetite as well the conditions in the international markets. One crucial factor that determines the investment strategy is the value of the country’s exchange rate against those of its trading partners. For the period 2009-2013 the Namibia Dollar has depreciated significantly against the USD and the Euro between 70-80 percent and that has had direct consequence in the investment positions taken by Namibian investors: at times preferring to invest in the South African market where they get a natural hedge as the Namibia Dollar is pegged to the Rand on one-one parity thus no exchange risk come into play.

Evidence of the relationship between offshore investments and movements in the exchange rates was found from the available data (Table 5) 2009-2011 where we noted a positive correlation between offshore investments and exchange rates fluctuations. When the Namibia Dollar exchange rate appreciated against the US Dollar and Euro in 2010

there was a significant offshore investment outflows increasing from N\$ 1.3 Billion to N\$ 7.5 Billion. Conversely, when both the US Dollar and the Euro appreciated in 2011(graphs 2 &3) the corresponding investment outflows was much lesser than the previous year.

Further, the result of this paper does clearly suggest that, over time, the quantitative threshold of 35% offshore investment could inhibit the institutional investors' ability to access foreign capital markets and to take advantage of exchange rate differentials. As a result, expansion opportunities for portfolio diversification could be curtailed resulting in lesser risk-adjusted rates of returns for the domestic investors. Another issue that arises from these findings is the concern of the anchor country South African becoming a source of destabilizing (shocks which "could lead to local asset bubbles." "At times a volatile market that has a significant sold off can provide very attractive opportunities for our clients to acquire good assets at significant discounts to their intrinsic values due to short term volatility and negative sentiment."

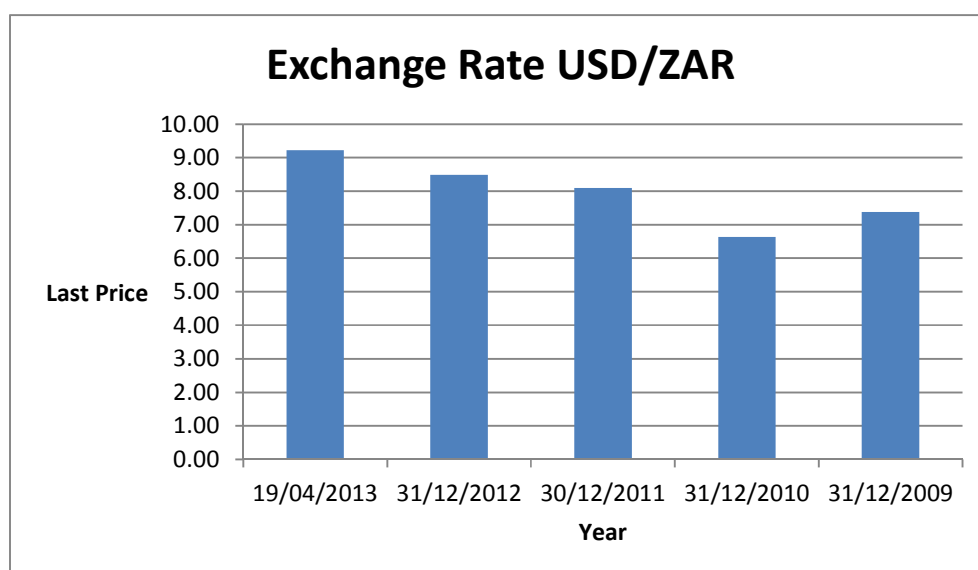


Figure 4: Exchange rate: USD/ZAR

Source: Bloomberg

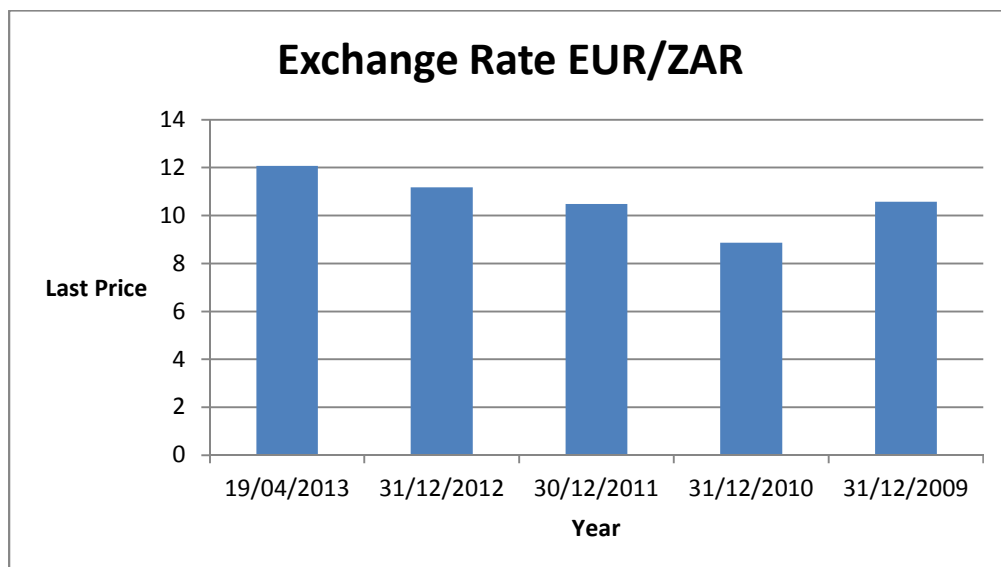


Figure 5: Exchange rate: EUR/ZAR

Source: Bloomberg

Based on comparative analysis that used the Harvard University Management Company typology, the study found similarities when it comes to portfolio mix of domestic versus offshore investment choices. The Harvard Management Company (HMC) (Table 6 below) applies an investment strategy, which is biased towards investing mostly in their domestic markets as opposed to the foreign market, a portfolio mix that 75% of the respondents in Namibia prefer.

Table 6:

HMC INVESTMENT PROFILE

Asset Classes	1995	2005	2013
---------------	------	------	------

Domestic Equities	38%	15%	11%
Foreign equities	15	10	11
Emerging markets	5	5	11
Private equities	12	13	16
Total Equities	70%	43%	49%
Real Estate	7%	10	10
Natural Resources	0	10	13
Public traded commodity	6	3	2
Total real assets	13	23	23
Domestic bonds	15	11	4
Foreign Bonds	5	5	2
High Yield	2	5	2
Inflation-indexed bonds	0	6	3
Total Fixed Income	22	27	11
Total	100%	100%	100%

Robert A Ettl (2013) of HMC states that their investment policy provides a fit between their risk profile and projections of long-term market returns, volatility and correlations. Table 7 below depicts the investment profile of the Namibian institutional investors clearly showing that a significant portion of Namibia's assets are invested in South Africa owing to that country's well developed financial markets and instruments.

The table below provides a breakdown of the geographic investment spread by the Namibian institutional investors, which show an average investment of 57.5% in Namibia and 20% in the other Common Monetary Area countries and 23% in the offshore markets. As the CMA is considered a domestic market in terms of the Currency and Exchanges Act (Act 9 of 1933), effectively this translates into 77% domestic investment compared to 23% offshore investment. This data corroborates our earlier findings in which 80% of the respondents said that they were comfortable with the 35% threshold based on the following reasons:

The 35% threshold is perfectly aligned with their company's investment policy and therefore that did not feel constrained by the legal requirement,

Some of the respondents said that the domestic market offers sufficient values for the investments and this they attributed to the well-developed money and capital markets in South Africa and the fact that there is not an exchange rate risk as the Namibia Dollar is pegged to the Rand on one-on-one value.

Table 7:

Asset Allocation in Namibia: Institutional investors

Asset allocation N\$ Million				
Total investments in: Namibia	Common Monetary Area(CMA)			
	2011 (%)	2011 (%)	2011 (%)	2011 (%)
Equities	38	30	30	32
Fixed interest	41	35	35	24
Property	66	32	32	2
Cash/Money market	74	18	18	4
Unlisted investments	51	1	1	49
Other	75	4	4	31

Source: Namfisa

4.5 The role of South Africa as an anchor country in the CMA

The eighty percent respondents who indicated that the 35% threshold is fine attributed this to the good return on investment they get from the South African money and capital markets. “Momentum is comfortable with the 35% threshold as we find more value in the South African market.” South Africa is the hegemonic economic anchor within the CMA with a Gross Domestic Product 33 times larger than Namibia’s USD 408.20: 12.51(World Bank, 2011).

The South African economy boasts the well-developed financial market that offers competitive returns comparable to the best in the emerging economies. Therefore Namibian institutional investors get competitive values in the South African money and capital markets as they are not exposed to the risk of exchange and interest rates differentials. The rand is a legal tender in Namibia and the Namibia Dollar is fixed at (1:1) parity with the Rand, thus providing a natural hedge to the Namibian investments in

South Africa. The strong linkage between Namibia and South African as set out in the CMA arrangements and carry some inherent benefits to Namibia- a small and open economy- in that they mitigate the effects of external shocks that buffet Namibia and secure competitive returns on investments. Moreover, the free flow of capital between Namibia and the rest of the CMA ensures that interest rates in Namibia are determined in the larger money and capital markets of South Africa, Tjirongo M.T. (1998) which renders the South African financial markets a preferred investment destination.

4.6 Parent Company - Subsidiary Relationships

This research found that the parent subsidiary relationship plays a decisive role in Namibia's company risk appetite and the geographic spread of their investment destinations. Most of the respondents are subsidiaries of South African based parent companies and as such there is a great deal of influence by their controlling shareholders in South Africa when it comes to the investment policies.

4.7 The effects of risk on investment choices

Some of the respondents were of the opinion that given the array of risks faced by institutional investors the existing of exchange control limitation of 35% offshore investments inhibit effective risk management and portfolio diversification. They opined that if the limit was abolished it would allow them the latitude to manage an optimal on-and-offshore portfolio mix. "Constraining capital flow could lead to the creation of local bubbles. Inherently assets bubbles normally end with a permanent loss of capital to investors which in this case would be predominantly be local pension funds."

One major institutional investor strongly opined that they incur opportunity costs as a result of the exchange control limitations hence authorities should consider increasing the current limit to 60% of total assets. From the discussions with the respondents the risk-return interaction it is summarized as consisting of the following dimensions:

- At times a volatile market that has significantly sold off can provide very attractive opportunities for local investors to acquire good offshore assets at significant discounts to their intrinsic values due to short term volatility and negative sentiment;

- Exchange control limitation essentially constrains free capital flow, which could lead to local asset bubbles. Inherently, asset bubbles normally end with a permanent loss of capital for investors, which in this case could be predominantly the local pension funds;

- Industry experts were of the opinion that capital mobility is a key to corporate finance. In view of the existing exchange control limitation, such free flow of capital is curtailed with dire consequences to the portfolio diversification process by the local investors.

- In situation where capital is forced to remain the domestic market due to legislative constraints, local businesses may not attach the correct cost of capital to certain projects thus could become less competitive versus global or even regional peers. Over time this would be detrimental to the country.

- Such scenario compromises one of the economic fundamental in portfolio management vis., that capital must be appropriately priced when considering the viability of projects.

Respondents expressed the view that contrary to the belief by the regulatory authorities, higher offshore allocation does not automatically translate into greater volatility in returns. They were of the opinion that the offshore service provider capability and track record are the critical factors when considering volatility.

The findings of this paper suggests that in the Namibian context, capital controls tend to affect the costs of capital by not only curtailing the supply of capital but also by limiting the investors' ability to expand their portfolio of assets holding to better diversify risk. As posited by Kristin (2005) the existence of capital controls inhibit international risk sharing as asset returns in an individual country are not perfectly correlated with global assets returns. Conventionally, capital mobility allows for greater diversification of risk, which in turn, reduces the volatility of expected portfolio returns, thereby reducing the cost of capital, a benefit which seems to be curtailed to the Namibian institutional investors in the light of the existing threshold of 35% of total asset eligible for offshore investment.

4.8 The type of risks faced by institutional investors

Portfolio investment was said to be a high-risk domain of which the following were mentioned by some key respondents such the MD of Allan Gray Namibia to be high premium risks that Namibia institutional investors face from time to time.

Counterparty risk: This risk arises when the local investor is dealing with a foreign entity of which they are not well familiar with or where they do not have the foreign entities' track record. Most the respondents mediate counterparty risk by making

use of their parent company either in South Africa or abroad to manage their offshore investments.

Foreign Exchange risk: Unpredictable currency movements pose a serious risk to institutional investors' offshore operations, which if not well managed can seriously affect their returns. Respondents stated that "it is often very difficult to predict or attach an intrinsic value to a currency, yet currency fluctuations could make up a substantial part of the returns from foreign investments."

Liquidity: "when investing in less developed markets they encounter liquidity problems that significantly constrain their ability to express investment strategy or view over a long period of time."

4.9 Administrative costs: Institutional Investors

Like all other respondents across the entire spectrum, institutional investors noted that the process of exchange control administration and compliance is cumbersome and time-consuming. The respondents stated that the process of obtaining approval from the Bank of Namibia takes anything between 3 days to 2 weeks. They expressed strong opinion that international markets can move substantially in a matter of hours and days, it was in the best interest of the investors if the Bank of Namibia can improve its turnaround time. Such delay may result in investors incurring substantial losses because of exchange rate fluctuation that can significantly affect the business of their clients.

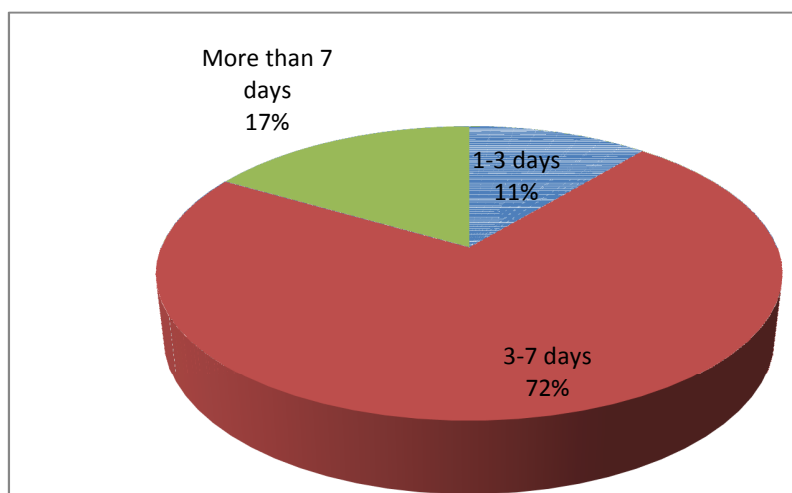


Figure 6: Time-lags – Processing of Foreign Exchange Transactions

4.10 Administration Costs: Export/Import Companies

The respondents were of the view that the costs of exchange controls in Namibia affect them in the form of “a wide range of financial and administrative costs” as a direct consequence of the exchange control requirements and policies. The respondents estimated that they incur financial costs in excess of N\$ 5 000 per annum in fees and administrative costs imposed on them in the process of complying with the requirement of the exchange control laws, rules and regulations.

An overwhelming majority of the respondents indicated that the monetary costs they incurred in exchange control administration are high - 95% of the respondents. Only 5% of those respondents said that the fees and charges are fair, these respondents were of the big companies that on average transact in multi-million dollar transactions.

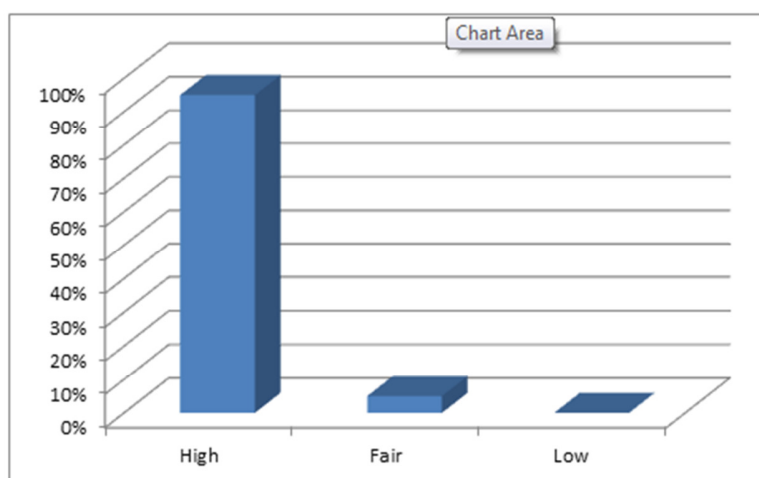


Figure 7: Respondents' views on Banks' charges

The private sector companies indicated that they incur additional costs from having to fill in forms and queue at the commercial banks to have their foreign exchange transactions effected. Customers spend time and money preparing the necessary information and documentation when applying to the Bank of Namibia in those transactions where prior approval has to be obtained from the Central Bank. There are certain complicated foreign exchange transactions which the Central Bank has not delegated to the Authorized Dealers which must by law be referred to the Bank of Namibia from adjudication process.

Table 8:

Fees and Charges

Staff involved in Exchange Control Administration	Transactions Costs
<u>Commercial Banks:</u> Average six staff employed to administer exchange controls	Application fee paid by applicants: N\$ 600-1200

<p><u>Bank of Namibia</u> six staff employed to administer exchange controls Costing: Median number 12 Median income N\$ 18000 (12 x18000=N\$ 216 000 p.m. (216000x12) =N\$ 2 592 000 per annum to administer exchange controls</p>	<p>Consultancy fees paid to lawyers and consultants N\$ 7000-1200 Remittance Fees: 2% of the transaction value.</p>
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In some cases, companies with complicated transactions have to hire specialized experts such as lawyers, accountants and auditors to prepare their exchange control applications and to negotiate on their behalf with the Bank of Namibia. This study found that consultancy fees paid to consultants range from N\$ 5000 to N\$ 12 000.

On top of these fees the commercial banks charge application fees in the range of N\$ 600 to N\$ 1200 per an application depending on the complexity of the transaction.

The referral process by the Bank of Namibia often leads to delays in remitting funds to their intended destinations hence resulting in interest charges and penalty fees. Overall these delays amount to opportunity costs, increased interest costs and reduced profits to the business fraternity. In some cases involving complicated transactions the Bank of Namibia has to refer the applications back to the customer, for more detailed information, via their commercial banks. The customers then have to re-submit the applications. In few cases involving prominent corporate entities, it was found that the final exchange control decisions by the Bank of Namibia were made between 3 - 6 months after the original applications were made.

Another hidden cost to business is when the Bank of Namibia prescribes to a local business person that his proposed way of conducting an international transaction is not

acceptable in terms of the exchange control rule or policy. One example often cited by the respondents is the exchange control requirement that all “hedging transactions must be supported by an underlying foreign commitment.” Businesses felt that there is need for the so-called dynamic hedging arrangements as this allows for a better management of exchange rate risks. Resulting from this requirement, applicants then either spend time and money trying to persuade the Bank of Namibia to accept the customers’ proposal or the customer has to re-arrange the proposed transaction to comply with the central bank’s requirements. Quite often such business propositions have been declined, which forces businesses to settle for second best option that would corrode their profit margins. One example was cited of a Uranium Mining company that applied to the Bank of Namibia to hedge their liabilities offshore through their parent company but whose request was unsuccessful.

The findings of this study corroborate with earlier findings of similar studies particularly those done on the Chilean capital controls. Forbes (2005) and Ayiroshi et al., (2005) found, separately, that at the micro level, capital controls in Chile had pervasive effect and generated unexpected costs on firms and individuals. Further, it is evident from the findings of this paper that exchange and capital controls hurt firms especially the small ones, as they tend to raise the costs of financing and increase financial constraints. Additionally, these findings show that exchange and capital controls distort decision-making by firms and institutional investors as they attempt to minimize the costs of controls or as they try to evade them outright.. “We have a problem with the N\$ 2000 we pay to obtain auditors’ report every time we want to make offshore investment”. Moreover, this study found that exchange and capital controls can reduce market

discipline in financial markets as one executive of Allan Gray Namibia stated “in a situation where capital is forced to be locally available due to legislative constraints, local businesses may not attach the correct costs of capital to certain projects and thus over time could become less competitive versus global or even regional peers.” Another important finding is that exchange controls are difficult and costly to enforce and give rise to negative perceptions, which could make Namibia less competitive to its regional peers in attracting foreign direct investment, all other things being equal, as well as making costlier and more difficult for the country to access foreign loan funds.

Table 9:

Asset Allocations –Institutional Investors

Asset allocation N\$ Million			
	Total investments in Namibia	Common Monetary Area (CMA)	Outside CMA
	2011	2011	2011
	%	%	%
Equities	38	30	32
Fixed interest	41	35	24
Property	66	32	2
Cash/Money market	74	18	4
Unlisted investments	51	1	49
Other	75	4	31

Source: Namfisa

4.11 Exchange and capital controls in Namibia

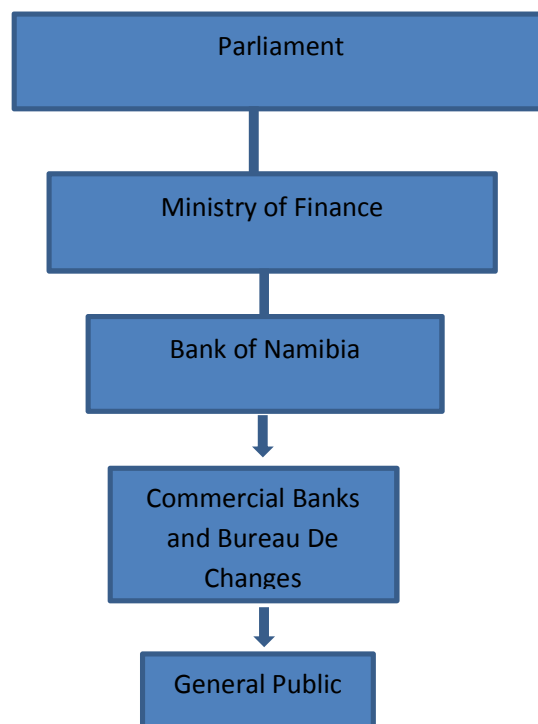
Based on secondary data, this paper found that the relationship between capital flows and exchange and capital controls has long occupied policy makers in the Common Monetary Area since the 1920s. In particular, outflows on the capital account in the 1950s resulted in tighter and more pervasive controls on initially residents but extended to non-residents after the political upheaval of Sharpsville in 1961. The controls on non-residents in turn resulted in a parallel exchange rate system namely, the commercial and financial Rand system, which was abolished in 1995. The advent of the democratic dispensation in South Africa in the 1990s coupled with the process of global integration of financial markets, the subject of exchange and capital control received renewed focus in policy and academic circles. Proponents of free market economy started to advocate that these economic-geopolitical developments presented to South Africa and by implication the rest of the CMA sub-region with a window of opportunity to liberalize exchange and capital controls hence unlock the economic potential after many years of apartheid induced sanctions against South Africa. On the other hand the gradualist school of thought argued that the political transition was a delicate phase and that it would take time for the region to put in place robust policies and institutions capable of mitigating financial shocks of a global scale and that exchange and capital controls were necessary safe guards.

In the context of the Common Monetary Area, exchange controls are applied for the following purposes:

- To ensure the timeous repatriation into the Namibian banking system of all foreign currency acquired by residents of Namibia, whether through transactions of a current or of capital nature;
- To prevent the loss of foreign currency resources through the transfer abroad of real or financial capital assets held in Namibia;
- To maintain Namibia's foreign exchange reserves, most of which are earned by means of export of goods and services abroad.
- To constitute an effective system of control over the movement into and out of Namibia of money and goods;

To that end, the authorities in Namibia maintain a string of exchange and capital controls presented in table 9 below.

The diagrammatic presentation of the institutional framework governing exchange controls in Namibia.



Exchange controls are regulated by an act of parliament, which grants the Ministry of Finance the primary custodial responsibility over all legal and administrative matters pertaining thereto. The Ministry of Finance has delegated all administrative powers to the Bank of Namibia, which regulates and supervises the Authorized Dealers responsible for the day-to-day transactions by the general public.

The diagram below depicts the legal framework governing exchange controls in Namibia.

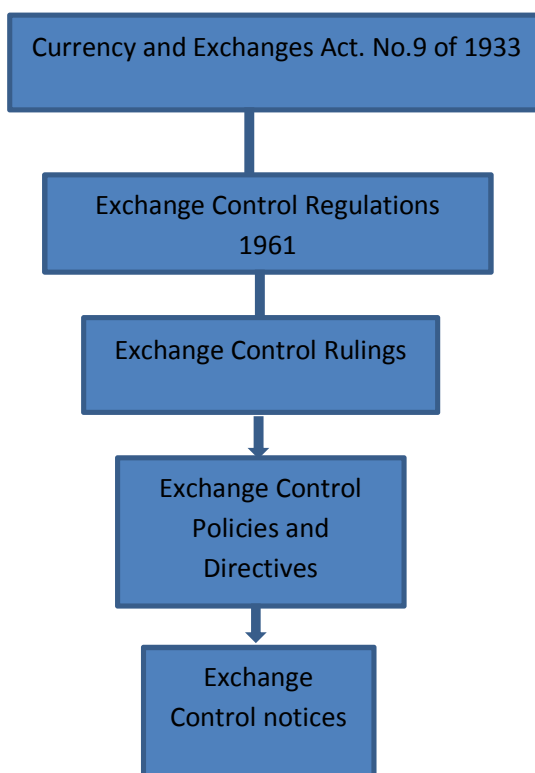


Table 10:

Existing exchange controls in Namibia

Category of Transaction	Exchange Control Measure(s)
Offshore Investments by Institutional Investors	35% of total assets under management Must obtain approval from the Bank of Namibia Must comply with other statutory requirement set by Namfisa
Offshore Investments by Individual residents	N\$ 4 million per annum Tax payer in good standing 18 years and above
FDI by Namibia corporate entities abroad	Demonstrate the benefits that would accrue to Namibia Pro Forma Balance Sheet reflecting the financial position Names, domicile of the shareholders of the applicant company The Manner in which the funds will be employed in the offshore entity
Sale proceeds of exports	All sale proceeds for exports of Namibian commodities must be repatriated to Namibia within 180 days of exportation; Export declaration Form must be completed.
Advance Payments for Imports	100% up to N\$ 20 million Prior Approval by the Bank of Namibia in excess of N\$ 20 million

	Pro-forma invoice so that the suppliers insist on advance payments.
Discretionary Allowances	N\$ 1 million per annum Tax Payer in Good standing
Local borrowing by non-residents	Ratio of 1:1 of own funds and local borrowing to purchase residential properties and financial instruments.
Offshore loans	Prior approval by the Bank of Namibia Interest Rate: Libor plus 2% for foreign denominated loans; Prime plus 3% for NAD loans. Repayment of capital requires prior approval by the Bank of Namibia
Shareholders loan by subsidiaries owned by foreign parent companies	Prior approval by the Bank of Namibia Ratio of 3:1 of loans funds and equity funds Interest rate: Libor plus 2% for foreign denominated loans; Prime plus 3% for NAD loans Repayment of capital requires prior approval by the Bank of Namibia.
Foreign Currency Denominated Accounts	Allowable for import/exports entities. Funds must be converted to NAD within 180 days.
Foreign Currency Payments between the CMA countries	Ordinarily not permissible Requires approval by the Bank of Namibia.
Hedging transactions	Must be supported by an underlying commitment; Must be valid for 12 months; No offshore hedging agreements are permissible.

The research found that the Namibian authorities together with the Common Monetary Area's partners have taken a cautious approach to easing the exchange control regime in the region, choosing the so-called gradual approach as opposed to the big bang approach. "The stated objective of government is to proceed with a gradual relaxation of exchange controls" Mboweni (2006). The table below provides the key highlights of the exchange controls relaxation measures undertaken in the CMA for period 1995-2012.

Table 11:

Summary of exchange control relaxations 1995-2012

Chronology of main exchange control relaxations 1995-2012	
995	Abolishing of the financial Rand.
996	Introduction of the EPZ exemptions from the Exchange Control requirements.

997	<p>Increasing the quantitative limit for FDI by Namibian corporates from N\$ 20 million to N\$ 30 million.</p> <p>Increasing the percentage of offshore investments by Institutional investors from 3% to 10% of net inflow of funds during 1996.</p> <p>Abolishing most of the quantitative limits on current account transactions.</p>
998	<p>Permission for private individuals to invest up to N\$ 350 000 offshore.</p>
999	<p>Increasing the limit on foreign investment by private individuals from N\$ 350 000 to N\$ 500 000.</p>
000	<p>Increasing the offshore FDI to N\$ 500 million.</p> <p>Increasing offshore investment by Institutional Investors to 15% of net total assets.</p>
001	<p>Increase the FDI by Namibian entities to N\$ 750 million.</p> <p>Increase the offshore investment to 20%.</p>
002	<p>Granted permission to non-resident owned businesses to borrow up to 100% of the own funds in the domestic market.</p>
003	<p>Granted permission for FDI by Namibian corporates of 10% in excess of the N\$750 million.</p> <p>Granted permission to emigrants to repatriate up to N\$ 1.5 million offshore.</p>
004	<p>Increased the local borrowing limit from 100% to 200% of own funds.</p>
005	<p>No major liberalization measure .</p>
006	<p>Abolished quantitative limit on FDI by Namibian corporates.</p> <p>Increased the limit of private individual investors from N\$ 750 000.00 to N\$ 2 million.</p>
007	<p>Permission was granted to oil and gas right holders to operate foreign currency accounts without in encumbrance.</p>
008	<p>Increased the limit for offshore investment by institutional investors from 20% to 30% of total assets.</p> <p>Increased discretionary allowance from N\$ 500 000 to N\$ 2 million per annum.</p>
009	<p>Granted special dispensation for residents to accept foreign currency in payment for goods sold or services rendered up to N\$ 50 000 per transaction.</p>
010	<p>Abolished the quantitative limit on advance payments for importation of non-capital goods.</p> <p>Increased the limit for private individual offshore investment to N\$ 4 million per annum.</p>
	<p>Increased the foreign exposure limit for institutional investors from 30% to 35% of total assets under management.</p>

011	
012	Increase the quantitative limit for advance payment for importation of capital goods to 100% of ex-factor cost up the value of N\$ 20 million.

4.12 Namibia's global competitiveness

Namibia's global competitiveness dropped from the 92nd out of 144 countries surveyed in 2012. The Global Competitive Report reviews the general competitiveness of economies in terms of the ease of doing business across a range of indicators in terms of the various roles that the Government and the private sectors play.

The report for last year commended Namibia for a relatively well functioning institutional environment, well protected property rights, an independent judiciary and strong transport infrastructures. The report also noted that the country's financial markets are developed by international standards and buttressed by strong confidence in financial institutions.

The report however, pointed to some abiding constraints that contributed to Namibia's slide on competitiveness rankings. These include Namibia's health and education sectors. The report noted that the country's health sector is riddled with problems such as high infant mortality and low life expectancy and in large part to the high rates of communicable diseases. In education, it was reported that the enrolment rates remain low and the quality of the educational system remains poor.

In literature there are a set of indicators that foreign investors look for before investing in a particular country i.e.

- The rules and regulations pertaining to the entry and operations of foreign investors;

- The standard treatment of foreign affiliates, compared to nationals in the host country;
- The functioning and efficiency of the local markets;
- Trade policy and privatization policy;
- The ease of repatriating dividends and capital, royalties, interest and other payments;
- Exchange rate stability;
- General macroeconomic stability;
- Political stability.

In spite of the administrative costs and inefficiency losses that stem from the exchange controls in Namibia, this study found no conclusive evidence that they contributed to the country's drop in global competitive ranking.

4.13 Summary of the research findings

The main thrust of this research study was to investigate the economic costs of exchange and capital controls on businesses in Namibia. The study followed a qualitative methodology and made use of structured questionnaires, observations and secondary data to gather information from the sampled respondents. Based on a construct extrapolated from IMF's AREAR by Kriston L (2003) the study focused on three types of transactional categories, which conventionally are used to measure the impact of exchange and capital controls on economic activities namely:

- Controls on proceeds from exports and payments for imports;
- Controls on capital transactions;

- Controls on FX transactions and other items that are not exclusively trade or capital transactions.

The findings of this investigation are grouped in there broad categories:

The economic costs of exchange and capital controls: The study found that institutional investors (25%) incur economic costs in the form of misaligned investment options as the 35% threshold offshore investment curtails investment horizons. Namibian investors are thus forced to settle for less optimal portfolio mix. Further, the economic costs of capital controls are transmitted through exchange rate losses. Bureaucratic bottlenecks were found to result in delayed transfers of monies, which meant that at the time the transfer is affected the exchange rate may have moved unfavorably against a particular investor. This phenomenon is of profound concern to Namibian investors during times of high exchange rates volatility. It was also found that the rules constrict business innovation and risk diversification. One mining company expressed frustration at the requirement that all foreign exchange hedging deals must be done in the domestic markets stating that such restriction significantly negatively affect their “ability to manage foreign exchange exposure effectively.”

Administrative costs: Across the board the study found that exchange and capital controls in Namibia inflict significant administrative costs in the form of banks fees and charges particularly on small companies, which erodes profitability. It was found that companies spend significant amount of time compiling paperwork and rigorous efforts to comply with rules. They opined that such time and effort could be spent in activities that directly contribute to profit making.

Inefficiency costs, although difficult to quantify the study found that the entire process of exchange and capital control compliance impose inefficiency losses on businesses.

Chapter 5: Conclusions and Recommendation

5.1 Introduction

In this chapter, the main findings with regard to the research questions are summarized and general conclusions based on the findings of the study presented in this thesis are described. Furthermore, the methodology and the research techniques that were used to gather the research data are summarised. Strengths and limitations of this thesis are considered and suggestions for further research into the subject of exchange and capital controls regime in Namibia are proffered. This chapter concludes with recommendations based on the research findings.

5.2 Methodologies

This research used the interpretative paradigm to investigate the economic costs of exchange and capital controls on businesses in Namibia. The researcher made use of interview-administered questionnaires, telephonic interviews, secondary data and observation methods to gather the information from a sample made up of major companies and institutional investors whose domains of business are subject to the existing exchange control regulations. This paper followed the qualitative research methodology and made of the following data collection methods:

In depth open-ended interviews: The researcher made use of structured questionnaires to gather the responses from the respondents. The responses were obtained in written and telephonic formats.

Direct observation: The researcher made use of direct observation by looking at the administration functions of the commercial banks in handling their clients' foreign exchange transactions.

Secondary sources: The researcher gleaned through numerous publications and correspondences with the Bank of Namibia and with commercial banks to complement and substantiate the findings from interviews.

5.3 The research question

The purpose of this research paper was to investigate the economic costs of exchange and capital control on businesses in Namibia. The debate on the costs-benefits welfare of exchange and capital controls has a long history and although numerous scholars have studied this subject matter over the years, their findings are inclusive and at times ambiguous.

The literature reviewed showed academics and policy makers converging on three major propositions on exchange and capital controls:

(i) That the welfare costs or benefits of exchange and capital controls differ from one country to another hence evaluating them must, necessarily, be context-specific taking into account each country's peculiar circumstances, notably, the level of development and sophistication of its financial systems and the prudence or otherwise of each country's macro-economic management policies.

(ii) That exchange and capital controls can be helpful in insulating a country's economy from large volumes of capital inflows or outflows in times of volatile foreign exchange markets.

(iii) That exchange and capital controls could lead to harmful long-run welfare effects, impose high administration costs, may be an invitation to corruption and no single exchange and capital control measure is universally effective.

Based on the main research question and informed by the research problem: "exchange and capital controls impose economic costs on businesses in Namibia" this paper has sought to gain empirical evidence from the perspective of costs implications from a representative sample drawn from large companies that are directly involved in exportation and importation of goods as well as institutional investors. It is hoped that future research endeavours would attempt to provide answers on the benefits of exchange and capital controls in Namibia.

5.4 The research findings

On the theoretical level, this paper found that the effectiveness of exchange and capital control policy measures depend on each country's economic characteristics, most notably, the strength of economic fundamentals, and soundness of the financial system as well as the prudence of macro-economic management in general. Because of such variation in the effectiveness of exchange controls, there is need that exchange and capital control policy formulation are based on empirical data as no one single policy is universally effective.

In relation to the research objectives namely, investigating the economic costs of exchange and capital controls on businesses in Namibia and how they are applied, the literature reviewed indicated that exchange and capital controls do impose significant economic costs on business in the sense that they tend to misalign resource allocation resulting in less economic growth rates for both capital abundant and capital scarce countries. In addition we found that exchange and capital controls impose administration costs on firms and individuals as they try to minimize the costs of compliance and in some instances have been found to breed corruption. Therefore, any purported benefits of exchange controls must be weighed against the costs to ensure that the country's policies are geared towards enhancing competitiveness and overall economic welfare for its citizens.

On the empirical front, this paper found that exchange and capital controls impose economic costs on business operations in Namibia although their effects are mediated through various factors such as size of a company e.g. it was found that smaller companies feel the administrative burden of exchange controls more than big companies who possess better financial leverage and often receive customized services from their banks. This, in turn, makes it less cumbersome for the big companies to adhere to the rules and regulations of the Currency and Exchanges Act 9 of 1933 when compared to smaller companies. Further, it was found that the extent to which the investment policies of the local subsidiaries are aligned with those of the parent companies most of which are domiciled in South Africa impact on the overall foreign exposure strategies of the Namibia institutional investors. For instance those institutional investors with closer ties

of their parent companies in South Africa expressed comfort with the 35% threshold as it was in tune with the inter-company investment posturing.

The research findings indicate that the economic costs of exchange and capital controls tend to occur as a result of exchange rate fluctuations which, consequently, pose losses to the businesses. By their nature the foreign exchange markets are very volatile hence time lags between when a foreign exchange transaction is initiated and when it get completed was found to be a decisive cost driver of exchange and capital control administration in Namibia.

Furthermore, the findings on the administrative component of exchange and capital controls shows that businesses in Namibia incur considerable financial costs with some of the respondents saying that such fees and charges affect their businesses' profitability. This study found that the provisions of the Currency and Exchanges Act 9 of 1933, prescribe layers of institutions and labyrinthine of rules and regulations in the foreign exchange administration – which the respondents felt were cumbersome and created undue bureaucratic red tape, not suitable in a cutting edge competitive global economy. Coupled with this the study found that most of the processes in the administration of exchange controls are not automated and a lot of hard copies move between places, institutions and people and that was found to weigh heavily on business processes.

As postulated in most of the literature reviewed, the findings show that exchange and capital controls in Namibia significantly distort decision-making by firms and institutional investors as they attempt to minimize the costs. For instance, export-

importing companies stated that the conversion rule of 180 days on export proceeds limits their ability of hedge their foreign liabilities resulting on exchange rate losses. Likewise, 25% of the institutional investors were of the opinion that the 35% threshold on offshore investment negatively affects their risk diversification options as they are forced to invest a maximum of 35 percent of their total assets.

5.5 Conclusions and Recommendations

This study set out to investigate the economic costs of exchange and capital controls on businesses in Namibia. One of the significant findings to emerge from this study is that exchange and capital controls impose economic and administrative costs on businesses but their severity depend on company specific characteristics such as the size and the level of foreign exchange exposure. The results of this study suggest that authorities in Namibia must, in the interest of cost efficiency and enhancing business innovation, gradually ease the foreign exchange markets in Namibia.

However, an important limitation of this study lies in the fact that it did not consider the benefits of exchange and capital controls in Namibia. As such, further work need to be done to establish whether there are any significant benefits attributable to the existing exchange and capital controls policies in Namibia which could be weighed against their costs, to determine the appropriate policy position that would insulate Namibia's economy against exogenous shocks and at the same time enhance Namibia's businesses global competitiveness and cost efficiency.

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Appendices

Appendix 1 Portfolio investment questionnaire: capital controls

o.	Question	Answers obtained from the respondents
.	In terms of Exchange Control Regulation only 35% of the fund's total assets may be invested outside the CMA. What is your view of this threshold- is it too restrictive or just fine?	<p>It is fine as per the company's investment policy.</p> <p>It is fine as our company find more value in the South African Market as opposed to offshore markets.</p> <p>It is too restrictive.</p>
.	If the 35% limit is too restrictive what is the preferred range of percentage you would, given the choice, like to invest in the offshore markets?	<p>Between 40-45%</p> <p>Between 55-60%</p>
.	How long does it take to obtain response to your application from Exchange Control Division (Bank of Namibia)? How does this time lag affect	<p>3 days</p> <p>7 days</p> <p>Longer than 7 days</p>

	your investment decisions?	
.	What administrative costs (or opportunity costs) does your company incur as a result of having to comply with the Exchange Control requirement viz. 35% of total assets offshore investments?	<p>Exchange rate fluctuation</p> <p>Bank Charges</p> <p>Time delays</p> <p>Inefficiency due to red type</p>
.	<p>Do you consider Exchange Controls as constituting barriers portfolio diversification and optimal investment decisions? Kindly explain on your answer</p> <p>Yes</p> <p>No</p>	<p>Yes, as the threshold does not allow sufficient latitude to get optimal returns in the offshore markets</p> <p>No, the domestic/offshore limits fit our company's preferred investment combinations.</p>
.	Can you quantify the losses your company suffers as a result of complying with the requirements of exchange controls?	<p>Mostly loss of better investment opportunities;</p> <p>Lower returns</p> <p>Less profitability</p> <p>Distorts optimal risk management</p>

.	What are the risks faced by your company when investing offshore?	<p>Counterparty risk</p> <p>Exchange rate</p> <p>Liquidity risk</p>
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Appendix 2: Export-Imports questionnaire: exchange controls

o.	Question	Answer
.	Does your company incur financial and other costs as result of having to comply with exchange controls?	Yes- 100%
.	As an estimate is the total costs component that your company incur p.a. as result of having to comply with exchange controls?	Less than N\$ 1000 Between N\$ 1000-5000 More than N\$ 5000
.	Does your company employ additional staff to administer exchange controls?	No. 100% Yes. 0%
.	How do you rate the paper work require in foreign exchange administration?	Cumbersome Just fine No problem at all
.	What time does it take from initiating a forex transaction to the point the funds are transferred by your bank?	Less than 3 days 3 days Between 3-7 days

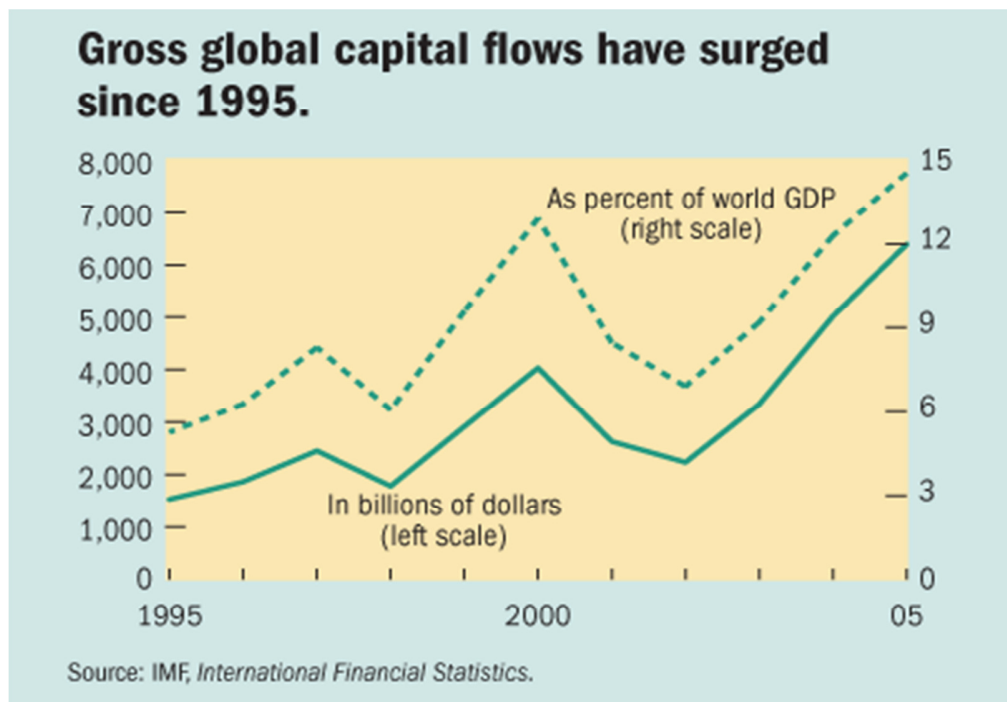
		More than 7 days
.	Foreign exchange earnings must be retained in foreign currency account for 180 days after which it must be converted to NAD. Does this requirement constitute a constraint to your business or it's just fine?	Yes No. Just fine
.	If yes, kindly explain more about such constraints	Sometimes our company would want to keep funds such funds in foreign currency for longer than 180 to honor future commitments hence we incur foreign exchange losses.
.	In general sense do exchange control rules and regulations negatively affect your business.	Yes- 25% No quite - 60% No at all- 15%
.	If yes, kindly explain the type of such effects on your business operations.	Time delays Bank Charges Exchange rate losses due to time delays Administrative bottlenecks

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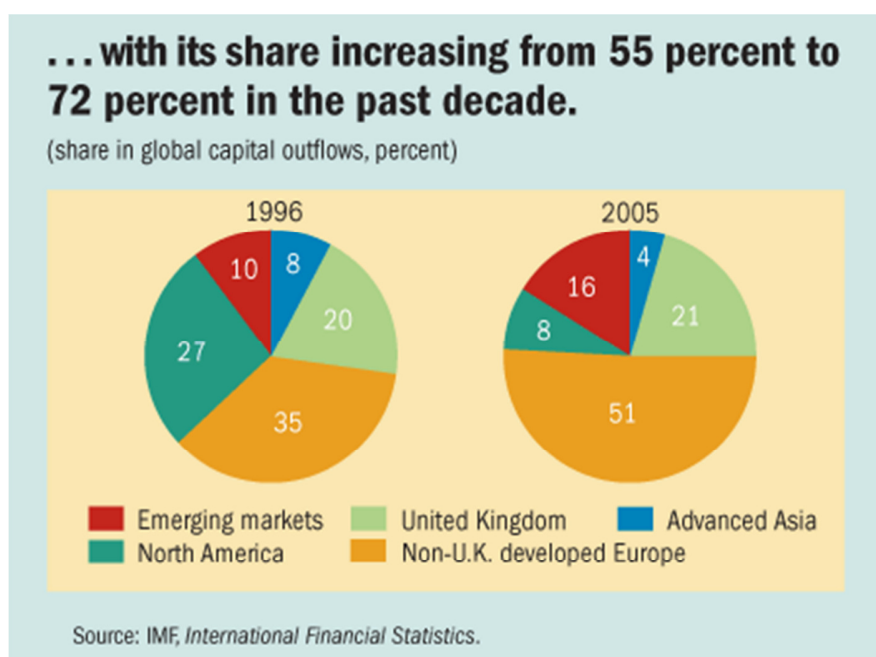
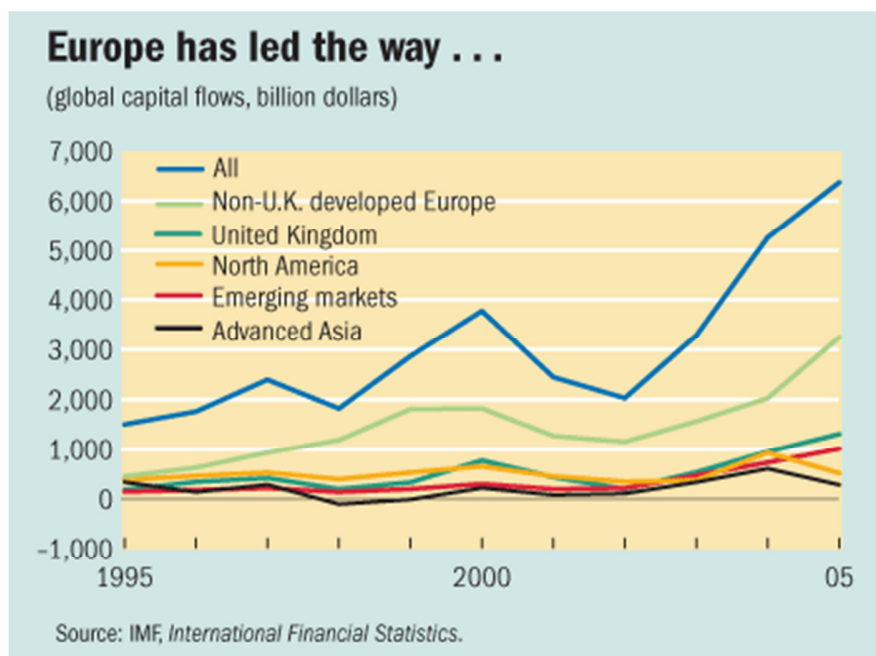
Appendix 3: Annualized quarterly real GDP growth for selected economies

	2009				2010				2011				2012	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
USA	-4.2	-4.6	-3.3	-0.1	1.9	2.5	2.8	2.4	1.8	1.9	1.6	2	2.4	2.1
UK	-6.1	-5.4	-3.3	-0.8	1.3	2.1	2.3	1.5	1.4	0.7	0.7	0.7	-0.1	-0.5
Euro Area	-5.4	-5.3	-4.4	-2.3	1	2.3	2.3	2.3	2.4	1.6	1.3	0.6	0	-0.5
Japan	-9.3	-6.6	-5.6	-0.5	4.8	4.5	5.6	3.2	0	-1.8	-0.6	-0.7	2.9	3.2
BRICS														
Brazil	-2.7	-2.4	-1.5	5.3	9.3	8.8	6.9	5.3	4.2	3.3	2.1	1.4	0.8	0.5
Russia	-9.2	-11	-8.6	-2.6	3.8	4.9	3.8	4.9	4	3.4	5	4.8	4.9	4
India	3.5	5.7	9	7.5	11.2	8.5	7.6	8.2	9.2	8	6.7	6.1	5.3	5.5
China	6.2	7.9	9.1	10.7	11.9	10.3	9.6	9.8	9.7	9.5	9.1	8.9	8.1	7.6
South Africa	-1.4	-2.6	-2.1	-0.6	2.2	3.2	3.1	3	3.4	3.3	3	2.9	2.1	3

Appendix 4: Gross global capital flows



Appendix 5: Geographic spread of global capital flows

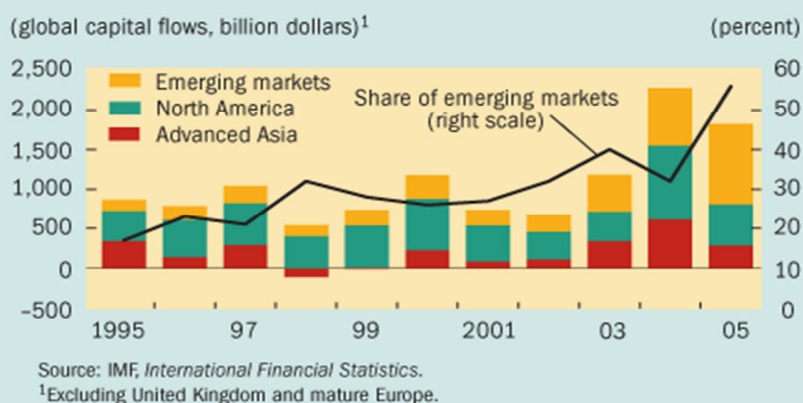


Countries have been shifting toward issuance of local currency debt, reflecting better fundamentals, greater foreign investor appetite, and a growing domestic institutional investor base. A favorable global environment has allowed them to lock in longer-term funding and improve debt structures.

Emerging market countries, though still a small share of overall capital flows, have seen their share grow significantly, thanks to the large current account surpluses of Asia and, more recently, of oil exporters.

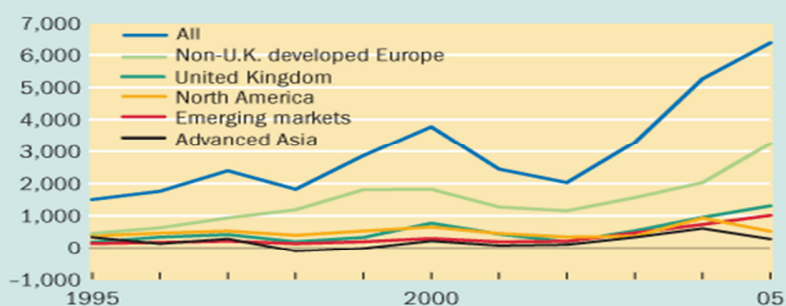
Appendix 6: Capital flows: emerging markets contribution

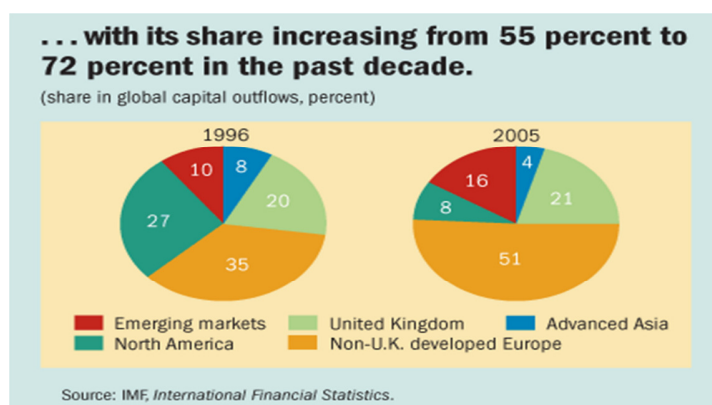
Paradoxically, emerging market countries are a key provider of capital to mature markets.



Europe has led the way . . .

(global capital flows, billion dollars)





Countries have been shifting toward issuance of local currency debt, reflecting better fundamentals, greater foreign investor appetite, and a growing domestic institutional investor base. A favorable global environment has allowed them to lock in longer-term funding and improve debt structures. Emerging market countries, though still only have a small share of overall capital flows, but have seen their share grow significantly, thanks to the large current account surpluses of Asia and, more recently, of oil exporters.

Capital flows from emerging market countries to mature markets have been dominated by central bank reserves and sovereign wealth funds, mainly from emerging Asia and oil exporters.

Global imbalances have risen in recent years, with a growing current account deficit in the United States and surpluses elsewhere. The attractiveness of U.S. financial markets has supported inflows (including from emerging markets) that financed the current account

deficit.

Despite high current account deficits and strong capital inflows, U.S. net foreign liabilities have remained stable in recent years as U.S. foreign assets have appreciated with a weaker dollar and strong stock markets abroad. But, with continued high current account deficits, they are likely to rise sharply.

Appendix 7: IMF AREAR: exchange and capital controls

NAMIBIA		
<i>(Position as of December 31, 2012)</i>		
I. Status Under IMF Articles of Agreement		
A. Date of membership	es	September 25, 1990.
1. Article VIII	es	Date of acceptance: September 20, 1996.
2. Article XIV		
II. Exchange Measures		
A. Restrictions and/or multiple currency practices	o	No restrictions as reported in the latest IMF staff report as of December 31, 2012.
B. Exchange measures imposed for security reasons	es	
1. In accordance with IMF Executive Board Decision No. 144-(52/51)	o	
2. Other security restrictions	es	In accordance with UNSC resolutions, the Bank of Namibia (BON) prohibits financial transactions with Al-Qaida and the Taliban.
C. References to legal instruments and hyperlinks	es	Currency and Exchanges Act of 1933.
III. Exchange Arrangement		
A. Currency	es	The currency of Namibia is the Namibia Dollar.

1. Other legal tender	es	The South African Rand is also legal tender.
B. Exchange rate structure		
1. Unitary	es	
2. Dual		
3. Multiple		
C. Classification		
1. No separate legal tender		
2. Currency board		
3. Conventional peg	es	<p>The de jure exchange rate arrangement is a conventional pegged arrangement vis-à-vis the rand.</p> <p>The document that establishes the fixed exchange rate arrangement is the CMA agreement.</p>
4. Stabilized arrangement		
5. Crawling peg		
6. Crawl-like arrangement		
7. Pegged exchange rate within horizontal bands		
8. Other managed arrangement		
9. Floating		
10. Free floating		
D. Official exchange rate	es	<p>The Namibia Dollar is pegged to the South African Rand at par. The exchange rate of the Namibia Dollar vis-à-vis other currencies is determined on the basis of cross-rates in international markets of the Rand vis-à-vis the currencies concerned.</p> <p>The official exchange rate is used for accounting and valuation purposes.</p> <p>The BON is authorized to make changes to the exchange</p>

		rate arrangement.
E. Monetary policy framework		
1. Exchange rate anchor	es	The monetary policy framework is an exchange rate anchor vis-à-vis the Rand.
2. Monetary aggregate target		
3. Inflation-targeting framework		
4. Other monetary framework		
F. Exchange tax	o	
G. Exchange subsidy	o	
H. Foreign exchange market	es	The exchange market in Namibia has developed as an extension of the exchange market in South Africa.
1. Spot exchange market	es	Foreign exchange bureaus are allowed to operate in the spot foreign exchange market and are subject to licensing by the CB. As of March 2012, there were six foreign exchange bureaus in Namibia. Foreign exchange bureaus may engage only in travel-related transactions and may not transact directly with the CB. They may not maintain accounts abroad, and their operations are limited to the purchase and sale of banknotes.
<i>a. Operated by the central bank</i>	es	
1. Foreign exchange standing facility	es	The BON stands ready to buy and sell Namibia Dollars for Rand at par with no commission. The BON deals only with ADs and the government.
2. Allocation	o	The BON does not verify the validity of transactions when dealing with banks.
3. Auction	o	
4. Fixing		

	o	
<i>b. Interbank market</i>	o	Banks do not trade among themselves in foreign currency.
1. Over the counter	o	
2. Brokerage	o	
3. Market making	o	
2. Forward exchange market	es	ADs are permitted to conduct forward exchange operations, including providing forward cover, with residents in any foreign currency with respect to authorized trade and nontrade transactions. Forward exchange contracts may cover the entire period of the outstanding commitments and accruals. Forward cover is also provided to nonresidents, subject to certain conditions. Gold mining companies and houses may sell forward anticipated receipts of their future gold sales. Forward cover is provided in U.S. dollars only and is available to ADs for maturities not exceeding 12 months at a time in the form of swap transactions involving Namibia Dollars (Rand) and U.S. Dollars, with a margin based on the interest rate differential between the two currencies.
<i>a. Official cover of forward operations</i>	es	Special forward cover at preferential rates is provided for import financing.
I. References to legal instruments and hyperlinks	.a.	
IV. Arrangements for Payments and Receipts		
A. Prescription of currency		All countries outside the CMA constitute the nonresident

requirements	es	area. The Rand is legal tender in Namibia. Settlements by or to residents of the CMA within the nonresident area may be made in Rand to and from a nonresident account or in any foreign currency.
1. Controls on the use of domestic currency	es	
<i>a. For current transactions and payments</i>	es	Settlement by or to residents of the CMA within the nonresident area may be made in Rand to and from a nonresident account or in any foreign currency.
<i>b. For capital transactions</i>	es	Namibia Dollars may not be used to settle interest and principal payments.
1. Transactions in capital and money market instruments	es	Namibia Dollars may not be used to settle interest and principal payments.
2. Transactions in derivatives and other instruments	o	
3. Credit operations	es	Namibia Dollars may not be used to settle interest and principal payments.
2. Use of foreign exchange among residents	es	In accordance with CMA arrangements, residents are not allowed to transact business in foreign currencies. Transactions may be invoiced in foreign currencies, but payments must be made in local currency.
B. Payments arrangements	es	
1. Bilateral payments arrangements	o	
<i>a. Operative</i>	o	
<i>b. Inoperative</i>	o	
2. Regional arrangements		Namibia is part of the CMA, and no restrictions are

	es	applied to payments within the CMA.
3. Clearing agreements	o	
4. Barter agreements and open accounts	o	
C. Administration of control	es	The BON has delegated some powers to ADs that assist the BON in administering exchange controls. If an AD is not authorized to approve a transaction under the terms of the Exchange Control Regulations (ECR), an application is filed with the BON. The norms applied by the BON in scrutinizing applications are subject to CMA policy guidelines.
D. Payments arrears	o	
1. Official	o	
2. Private	o	
E. Controls on trade in gold (coins and/or bullion)	es	The ECR prohibit the purchase and sale, both domestically and abroad, of unworked gold by Namibian residents without the specific authorization of the BON. All such requests are considered on their merits.
1. On domestic ownership and/or trade	es	Residents are permitted to purchase, hold, and sell gold coins within the CMA for numismatic and investment purposes only.
2. On external trade	es	All exports and imports of gold require approval of the monetary authority.
F. Controls on exports and imports of banknotes	es	
1. On exports	es	

<i>a. Domestic currency</i>	es	An individual may export up to N\$10,000 in BON banknotes in addition to the basic travel allowance.
<i>b. Foreign currency</i>	es	Residents and contract workers departing from Namibia to destinations outside the CMA may take out their travel allowance in foreign banknotes. Foreign visitors leaving Namibia may take with them the unspent portion of the proceeds of foreign currency imported and exchanged in Namibia.
2. On imports	es	
<i>a. Domestic currency</i>	es	On entry from countries outside the CMA, residents and nonresidents may bring in a total of N\$10,000 in Namibian banknotes or R 10,000 in South African banknotes. There are no limitations on the importation of domestic currency from Lesotho and Swaziland.
<i>b. Foreign currency</i>	es	Importation of foreign currency by nonresidents of the CMA is unrestricted. However, Namibian residents are allowed to import into Namibia only the residual balance of foreign currency initially exported.
G. References to legal instruments and hyperlinks	es	Bank of Namibia Circular No. BON. 11/02 of March 15, 2011.
V. Resident Accounts		
A. Foreign exchange accounts permitted	es	
1. Held domestically	es	Resident private individuals are allowed to hold foreign exchange accounts with local ADs, subject to approval. Exporters may retain export proceeds for 90 days after receipt in foreign exchange accounts with ADs. Up to the equivalent of N\$4 million a year may be held in a domestic foreign exchange

		account.
<i>a. Approval required</i>	es	
2. Held abroad	es	Approval is required and is granted on the merit of the application to resident private individuals. No approval is required for investments up to the equivalent of N\$4 million a year and to retain abroad income earned overseas.
<i>a. Approval required</i>	es	Foreign bank accounts for investment up to the equivalent of N\$4 million a year do not require approval.
B. Accounts in domestic currency held abroad	o	
C. Accounts in domestic currency convertible into foreign currency	es	Payments in foreign currency may be effected from resident accounts, provided the transaction is covered under the ECR, or with approval.
D. References to legal instruments and hyperlinks	es	Bank of Namibia Exchange Control Regulations.
VI. Nonresident Accounts		
A. Foreign exchange accounts permitted	es	ADs are required to open separate accounts on behalf of nonresident clients in order to distinguish between normal clearing accounts and foreign exchange trading accounts. This requirement does not affect the transferability of funds.
1. Approval required	o	Nonresidents may open foreign exchange accounts, and funds in these accounts are freely transferable.
B. Domestic currency accounts	es	These accounts may be credited with all authorized payments by residents, with the proceeds of sales of foreign currency to ADs, and with payments from nonresidents' accounts. They may be debited for payments to CMA residents for any purpose (other than loans), payments to nonresidents for

		any purpose, transfer to a local nonresident account or remittance to any country outside the CMA, purchases of any foreign currency, and payments to account holders residing in Namibia for short periods.
1. Convertible into foreign currency	es	These accounts may be converted, and no approval is required.
2. Approval required	o	
C. Blocked accounts	es	Residents who emigrated from Namibia on or before February 28, 2002, may transfer their blocked funds abroad freely through an authorized bank. The assets of residents who emigrated after that date are subject to normal emigration procedures. Emigrants may transfer up to the equivalent of N\$8 million a family or N\$4 million an individual, inclusive of any assets previously transferred abroad. Transfers in excess of these limits are subject to a transfer tax of 10% of the amount in excess of the limit. Emigrants may subsequently transfer annual income from their remaining blocked assets, but may not dispose of the assets through sale to Namibian residents.
D. References to legal instruments and hyperlinks	es	Bank of Namibia Exchange Control Regulations.
VII. Imports and Import Payments		
A. Foreign exchange budget	o	
B. Financing requirements for imports	es	
1. Minimum financing requirements	o	

2. Advance payment requirements	es	Effective December 28, 2012, foreign exchange may be provided for advance payments up to 100 % of the ex-factory cost of capital goods to be imported not exceeding a total value of N\$ 20 million. Payment for the importation of capital goods in excess of N\$ 20 Million may only be provided up to 50 per cent of the ex-factory cost of the goods to be imported. Authorized Dealers should, however, be satisfied that the order would otherwise be refused and that such payment is normal in the trade concerned. The limits on advance payments for noncapital goods have been abolished.
3. Advance import deposits	o	
C. Documentation requirements for release of foreign exchange for imports	es	Documentation confirming receipt of the imported articles into Namibia (e.g., a bill of entry or local mail receipts) is required.
1. Domiciliation requirements	o	
2. Pre shipment inspection	o	
3. Letters of credit	es	LCs may be established locally by ADs.
4. Import licenses used as exchange licenses	o	
5. Other	o	
D. Import licenses and other nontariff measures	es	There are no restrictions on imports originating in any country of the SACU. Imports from countries outside the SACU are usually licensed in conformity with South Africa's import regulations. These permits are valid for one year for imports and are expressed in terms of value. At present, about 90% of

		imports require a permit.
1. Positive list	o	
2. Negative list	es	Namibia has the right to restrict certain imports (through customs duties or quantitative restrictions) from countries outside the SACU and, under certain conditions, from countries within the SACU.
3. Open general licenses	o	
4. Licenses with quotas	o	
5. Other nontariff measures	o	There are no other nontariff measures on imports.
E. Import taxes and/or tariffs	es	
1. Taxes collected through the exchange system	es	A general sales tax of 10% is levied on all imports in addition to a sales duty between zero and 15%, depending on the type of commodity.
F. State import monopoly	o	
G. References to legal instruments and hyperlinks	es	Bank of Namibia Exchange Control Regulations.
VIII. Exports and Export Proceeds		
A. Repatriation requirements	es	Export proceeds must generally be repatriated within 90 days of receipt.
1. Surrender requirements	es	
<i>a. Surrender to the central bank</i>		

	o	
<i>b. Surrender to authorized dealers</i>	es	Exporters may retain export proceeds for 90 days after receipt in a customer foreign exchange account with an AD.
B. Financing requirements	o	
C. Documentation requirements	es	All exports from Namibia over the amount of N\$50,000 must be accompanied by an export declaration, and the inflow of foreign currency must be declared on receipt of export proceeds locally.
1. Letters of credit	es	
2. Guarantees	es	
3. Domiciliation	o	
4. Pre shipment inspection	o	
5. Other	o	
D. Export licenses	es	All exports, except to SACU member countries, require a license.
1. Without quotas	es	Permits are required for exports of goods in short supply to non-SACU countries.
2. With quotas	o	
E. Export taxes	o	
1. Collected through the exchange system	o	
2. Other export taxes		

	o	
F. References to legal instruments and hyperlinks	es	Bank of Namibia Exchange Control Regulations and BON Circular No. 04/04.
IX. Payments for Invisible Transactions and Current Transfers		
A. Controls on these transfers	es	ADs may approve trade-related invisible payments without limitation and other invisible payments up to established limits. Larger amounts may be approved on presentation of documentary proof of need.
1. Trade-related payments	es	
<i>a. Prior approval</i>	o	
<i>b. Quantitative limits</i>	o	
<i>c. Indicative limits/bona fide test</i>	es	Trade-related payments are allowed on presentation of documentary evidence confirming the amount involved. ADs may transfer license fees, demurrage and survey fees, and payment for samples sent for analysis outside the CMA with documentary evidence confirming the amount involved.
2. Investment-related payments	es	
<i>a. Prior approval</i>	es	BON approval is required for loans contracted by local companies with local sources.
<i>b. Quantitative limits</i>	o	
<i>c. Indicative limits/bona fide test</i>	o	Remittance of profits and dividends is permitted, provided the funds were not obtained through excessive use of local borrowing facilities.

3. Payments for travel	es	Payments for travel allowances do not require passports to be endorsed.
<i>a. Prior approval</i>	o	
<i>b. Quantitative limits</i>	es	A single discretionary allowance for private individuals of N\$1 million a person a calendar year may be used for donations to missionaries, maintenance transfers, monetary gifts, loans, and travel expenses. Residents (natural persons) who are 18 years old or older may obtain a single discretionary allowance for private individuals of up to the equivalent of N\$1 million a person a calendar year. However, residents (natural persons) who are under the age of 18 years are not eligible for the single discretionary allowance for private individuals, but may be accorded up to N\$200,000 a calendar year for travel expenses.
<i>c. Indicative limits/bona fide test</i>	es	Amounts in excess of the indicative limits are approved if the applicant provides documents in support of a genuine request.
4. Personal payments	es	
<i>a. Prior approval</i>	o	
<i>b. Quantitative limits</i>	es	There are no restrictions on payments for medical costs. Remittances for alimony (subject to presentation of a court order) are permitted up to the equivalent of N\$9,000 a month. The annual allowance for study abroad for a single student is set at the equivalent of N\$1 million and for a student accompanied by a nonstudent spouse, N\$2 million.
<i>c. Indicative limits/bona fide test</i>	es	Amounts in excess of the indicative limits for payment for study abroad are approved if applicants provide documents in support of the request.

5. Foreign workers' wages	es	
<i>a. Prior approval</i>	es	
<i>b. Quantitative limits</i>	o	
<i>c. Indicative limits/bona fide test</i>	es	Contract workers may transfer two-thirds of their monthly salary. Larger amounts are allowed, provided the requested amount is a part of accumulated earnings.
6. Credit card use abroad	es	
<i>a. Prior approval</i>	o	No approval is required for travel expenses.
<i>b. Quantitative limits</i>	es	Limits must be in accordance with prescribed travel allowances.
<i>c. Indicative limits/bona fide test</i>	es	ADs may permit up to the equivalent of N\$20,000 a transaction for permissible imports.
7. Other payments	o	
<i>a. Prior approval</i>	o	ADs may allow transfers of demurrage and survey fees, payment for samples sent for analysis outside the CMA, and the transfer of license fees, with documentary evidence confirming the amount involved. Royalty payments may be permitted by an AD, if approved by the Ministry of Trade and Industry.
<i>b. Quantitative limits</i>	o	
<i>c. Indicative limits/bona fide test</i>	o	
B. References to legal instruments and hyperlinks	es	Bank of Namibia Exchange Control Regulations.

X. Proceeds from Invisible Transactions and Current Transfers		
A. Repatriation requirements	es	Namibians may retain income earned abroad from any source other than merchandise exports.
1. Surrender requirements	es	
<i>a. Surrender to the central bank</i>	o	
<i>b. Surrender to authorized dealers</i>	es	Proceeds from invisible transactions must be surrendered within 30 days of the date of receipt, unless an exemption is authorized.
B. Restrictions on use of funds	es	BON approval must be obtained to use such funds outside the CMA.
C. References to legal instruments and hyperlinks	es	Bank of Namibia Exchange Control Regulations of 1961 and Exchange Control Regulations.
XI. Capital Transactions		
A. Controls on capital transactions	es	The investment limit for private residents abroad is the equivalent of N\$4 million a year. Proceeds from the sale of quoted or unquoted CMA securities, real estate, and other equity investments by nonresidents are freely transferable.
1. Repatriation requirements	o	Proceeds from capital transactions may be retained abroad.
<i>a. Surrender requirements</i>	es	
1. Surrender to the central bank	o	
2. Surrender to authorized dealers		Proceeds must be surrendered to authorized dealers when

	es	transferred to Namibia.
2. Controls on capital and money market instruments	es	Securities issued by nonresidents may not exceed 65% of the total assets of insurance companies. With BON approval, qualifying institutions (i.e., insurance companies, pension funds, fund managers) may invest up to 30% of total assets under management by fund managers and unit trust management companies in portfolios held abroad.
<i>a. On capital market securities</i>	es	
1. Shares or other securities of a participating nature	es	Inward transfers of capital from non-CMA countries for equity investment are freely permitted. Namibian corporations are allowed to invest substantial amounts in SADC member countries, and dual listing of companies on both the Namibian Stock Exchange (NSX) and other SADC stock exchanges is permitted.
i. Purchase locally by nonresidents	o	
ii. Sale or issue locally by nonresidents	o	Securities issued by foreign entities may be listed on the NSX.
iii. Purchase abroad by residents	es	These transactions are permitted up to the N\$4 million yearly foreign investment limit for resident individuals.
iv. Sale or issue abroad by residents	es	These transactions require approval and must be serviced from abroad if the funds are used abroad and from local sources if the funds are transferred to Namibia.
2. Bonds or other debt securities	es	
i. Purchase locally by nonresidents	o	
ii. Sale or issue locally by nonresidents	o	

iii. Purchase abroad by residents	es	Residents are allowed to invest in foreign instruments listed on the NSX. They may also invest in securities up to the N\$4 million yearly foreign investment limit for resident individuals.
iv. Sale or issue abroad by residents	es	These transactions require approval and must be serviced from abroad if the funds are used abroad and from local sources if the funds are transferred to Namibia.
<i>b. On money market instruments</i>	es	The controls governing shares or other securities of a participating nature apply.
1. Purchase locally by nonresidents	o	
2. Sale or issue locally by nonresidents	es	Exchange control approval is required.
3. Purchase abroad by residents	es	Residents are allowed to invest in foreign instruments listed on the NSX. They may also invest in instruments up to the N\$4 million yearly foreign investment limit for resident individuals.
4. Sale or issue abroad by residents	es	These transactions require approval and must be serviced from abroad if the funds are used abroad and from local sources if the funds are transferred to Namibia.
<i>c. On collective investment securities</i>	es	
1. Purchase locally by nonresidents	o	
2. Sale or issue locally by nonresidents	o	
3. Purchase abroad by residents	es	These transactions are allowed within the N\$4 million yearly foreign capital allowance limit.
4. Sale or issue abroad by residents	es	There is a limit of N\$4 million a calendar year.

3. Controls on derivatives and other instruments	o	
<i>a. Purchase locally by nonresidents</i>	o	
<i>b. Sale or issue locally by nonresidents</i>	o	
<i>c. Purchase abroad by residents</i>	o	
<i>d. Sale or issue abroad by residents</i>	o	
4. Controls on credit operations	es	Interest rates on foreign-currency-denominated loans must not exceed LIBOR plus 2%; those on local-currency-denominated loans must not exceed the prime overdraft rate plus 3%. ADs may allow the transfer of loans up to N\$1 million an applicant a year. Residents require approval to extend larger loans to nonresidents.
<i>a. Commercial credits</i>	es	
1. By residents to nonresidents	es	These transactions are subject to BON approval.
2. To residents from nonresidents	es	Credit operations outside the CMA are subject to BON approval, which is generally given for borrowing abroad with a maturity of at least six months by domestic entrepreneurs, except for speculative borrowing or consumer credit. ADs are generally permitted to raise funds abroad in their own name for Namibia's foreign trade financing and for other approved purposes.
<i>b. Financial credits</i>	es	
1. By residents to nonresidents	es	Only companies that are 75% or more foreign owned are subject to exchange controls.

2. To residents from nonresidents	es	Foreign loans to Namibian residents require approval, which is usually granted if the repayment and servicing do not disrupt the balance of payments and the interest rate is reasonable in terms of prevailing international rates.
<i>c. Guarantees, sureties, and financial backup facilities</i>	es	
1. By residents to nonresidents	es	Approval is required for guarantees with respect to financial loans but not for trade transactions.
2. To residents from nonresidents	es	BON approval required. There is also a limit of N\$1 million.
5. Controls on direct investment	es	
<i>a. Outward direct investment</i>	es	Applications by residents to retain funds in, or transfer them to, countries outside the CMA for bona fide long-term investment in specific development projects or for the expansion of existing projects owned or controlled by residents are considered on their merits. There is no limit on such investments. Consideration is given to foreign borrowing to finance direct investment with recourse to or guarantee from Namibia, implying that a local corporation's balance sheet may be used in negotiating such a facility. Approved foreign subsidiaries may expand activities abroad without approval, provided such expansion is financed by foreign borrowing or by profits earned by the foreign subsidiary. Namibians over 18 years old may invest abroad in any form or place in a domestic foreign exchange account up to the equivalent of N\$4 million a year on presentation of a tax clearance certificate from Namibia Inland Revenue. Income earned abroad and capital introduced into Namibia on or after July 1, 1997, by individuals resident in Namibia may be transferred abroad, provided the income and/or

		capital had previously been converted into Namibia dollars. The BON is now considering applications by private individuals to invest in fixed property (e.g., vacation homes and farms) in SADC member countries.
<i>b. Inward direct investment</i>	o	Inward transfers of capital from non-CMA countries for equity investment may be affected freely.
6. Controls on liquidation of direct investment	o	
7. Controls on real estate transactions	es	
<i>a. Purchase abroad by residents</i>	es	Real estate purchases are permitted up to the foreign investment limit of N\$4 million a year. Other purchases are subject to exchange control approval.
<i>b. Purchase locally by nonresidents</i>	o	
<i>c. Sale locally by nonresidents</i>	o	
8. Controls on personal capital transactions	es	
<i>a. Loans</i>	es	
1. By residents to nonresidents	es	ADs may allow the transfer of loans up to N\$1 million an applicant a year. Residents require approval to extend larger loans to nonresidents.
2. To residents from nonresidents	es	Foreign loans to residents are subject to approval to ensure that the level of the interest paid is reasonable in terms of prevailing international rates and that repayment does not disrupt the balance of payments.
<i>b. Gifts, endowments, inheritances, and legacies</i>	es	

1. By residents to nonresidents	es	Cash bequests and the cash proceeds of legacies and distributions from estates to nonresidents may be remitted abroad.
2. To residents from nonresidents	es	Residents must declare funds obtained and repatriate them to Namibia. An exemption may be obtained from the BON for the retention of such funds abroad. Transfers by ADs of monetary gifts of up to N\$1 million an applicant are allowed annually.
<i>c. Settlement of debts abroad by immigrants</i>	es	If immigrants have formally declared their assets and liabilities and have no cash resources available with which to pay a debt, the BON may consider requests for exemption.
<i>d. Transfer of assets</i>	es	
1. Transfer abroad by emigrants	es	The regulations that apply to the transfer of assets abroad in South Africa also apply in Namibia. Emigrants are allowed to export household and personal effects for a family or single person up to an overall limit of N\$8 million or N\$4 million, respectively. Emigrants are allowed to transfer abroad funds in excess of the aforementioned limits, subject to a transfer tax of 10% of the amount in excess of the limits.
2. Transfer into the country by immigrants	es	Immigrants are required to furnish the exchange control authorities with a complete account of their foreign assets and liabilities at the time of their arrival. Any foreign assets they transfer to Namibia may, through the same channel, be retransferred abroad.
<i>e. Transfer of gambling and prize earnings</i>	es	Namibians are discouraged from participating in international lotteries; therefore, most requests are denied.
B. References to legal instruments and hyperlinks	es	Bank of Namibia Exchange Control Regulations.

XII. Provisions Specific to the Financial Sector		
A. Provisions specific to commercial banks and other credit institutions	es	
1. Borrowing abroad	o	ADs are generally permitted to raise funds abroad in their own name for the financing of Namibia's foreign trade and for other approved purposes.
2. Maintenance of accounts abroad	o	
3. Lending to nonresidents (financial or commercial credits)	es	Approval is required for lending not related to trade. Only companies that are 75% or more foreign owned are subject to exchange controls, and local financial assistance may be granted to nonresident-owned companies against a nonresident's guarantee..
4. Lending locally in foreign exchange	es	ADs may lend money locally in Namibia dollars. However, lending locally in foreign currency is not allowed.
5. Purchase of locally issued securities denominated in foreign exchange	es	These transactions are not allowed.
6. Differential treatment of deposit accounts in foreign exchange	o	If these deposits are liabilities to the public arising from operations in Namibia, they are included in the calculation of the minimum liquid assets and reserve requirements.
<i>a. Reserve requirements</i>	o	
<i>b. Liquid asset requirements</i>	o	
<i>c. Interest rate controls</i>	o	
<i>d. Credit controls</i>	o	The limit on credit facilities to any person or group of related persons is 30% of a banking institution's capital funds. In addition to the above limit, credit facilities of more than 10% of

		capital funds may not exceed, in aggregate, 800% of the total capital funds of the banking institution in Namibia. These limits apply to all customers, regardless of their citizenship.
7. Differential treatment of deposit accounts held by nonresidents	o	If these deposits are liabilities to the public arising from operations in Namibia, they are included in the calculation of the minimum liquid assets and reserve requirements.
<i>a. Reserve requirements</i>	o	
<i>b. Liquid asset requirements</i>	o	
<i>c. Interest rate controls</i>	o	
<i>d. Credit controls</i>	o	The regulations governing deposit accounts in foreign exchange apply.
8. Investment regulations	es	
<i>a. Abroad by banks</i>	es	Banking institutions are at all times required to maintain minimum local assets in Namibia of an aggregate value of not less than 100% of the amount of their liabilities payable in Namibia Dollars (excluding capital funds), minus any debit balances denominated in Rand, in the clearing account held with their associate banks in South Africa.
<i>b. In banks by nonresidents</i>	o	
9. Open foreign exchange position limits	es	There is no distinction between residents and nonresidents. The net open position limit is 15% of a bank's share capital and unimpaired reserves.
<i>a. On resident assets and liabilities</i>	es	
<i>b. On nonresident assets and</i>		

<i>liabilities</i>	es	
B. Provisions specific to institutional investors	es	
1. Insurance companies	es	
a. Limits (max.) on securities issued by nonresidents	es	The maximum is 65% of the total assets of insurance companies.
b. Limits (max.) on investment portfolio held abroad	es	Effective April 5, 2012, with BON approval, qualifying institutions (i.e., insurance companies, pension funds, and fund managers) may invest up to 35% (previously, 30%) of total assets under management by fund managers and unit trust management companies.
c. Limits (min.) on investment portfolio held locally	es	The minimum is 35% of the total assets of insurance companies.
d. Currency-matching regulations on assets/liabilities composition	o	
2. Pension funds	es	
a. Limits (max.) on securities issued by nonresidents	es	The maximum is 65% of the total assets of pension funds.
b. Limits (max.) on investment portfolio held abroad	es	Effective April 5, 2012, with BON approval, qualifying institutions (i.e., insurance companies, pension funds, and fund managers) may invest up to 35% (previously, 30%) of total assets under management by fund managers and unit trust management companies.
c. Limits (min.) on investment portfolio held locally	es	The minimum is 35% of the total assets of the pension fund.
d. Currency-matching regulations on assets/liabilities composition	o	
3. Investment firms and collective		

investment funds	es	
<i>a. Limits (max.) on securities issued by nonresidents</i>	o	
<i>b. Limits (max.) on investment portfolio held abroad</i>	es	Effective April 5, 2012, with BON approval, qualifying institutions (i.e., insurance companies, pension funds, and fund managers) may invest up to 35% (previously, 30%) of total assets under management by fund managers and unit trust management companies.
<i>c. Limits (min.) on investment portfolio held locally</i>	o	
<i>d. Currency-matching regulations on assets/liabilities composition</i>	o	
C. References to legal instruments and hyperlinks	es	Bank of Namibia Exchange Control Regulations and BON Circular No. 11/03.

Changes during 2012		
I. Status under IMF Articles of Agreement		
II. Exchange measures		
III. Exchange arrangement		
IV. Arrangements for payments and receipts		
V. Resident accounts		
VI. Nonresident accounts		
VII. Imports and import payments	12/28/2012	Foreign exchange may be provided for advance payments up to 100 % of the ex-factory cost of capital goods to be imported not exceeding a total value of N\$ 20 million. Payment for the importation of capital goods in excess of N\$ 20

		million may only be provided up to 50 per cent of the ex-factory cost of the goods to be imported. Authorized Dealers should, however, be satisfied that the order would otherwise be refused and that such payment is normal in the trade concerned.
VIII. Exports and export proceeds		
IX. Payments for invisible transactions and current transfers		
X. Proceeds from invisible transactions and current transfers		
XI. Capital transactions		
<i>1. Repatriation and surrender requirements</i>		
<i>2. Controls on capital and money market instruments</i>		
<i>3. Controls on derivatives and other instruments</i>		
<i>4. Controls on credit operations</i>		
<i>5. Controls on direct investment</i>		
<i>6. Controls on liquidation of direct investment</i>		
<i>7. Controls on real estate transactions</i>		
<i>8. Controls on personal capital transactions</i>		
XII. Provisions specific to the financial sector		
A. Provisions specific to commercial banks and other credit institutions		

B. Provisions specific to institutional investors	04/05/20 12	With BON approval, qualifying institutions (i.e., insurance companies, pension funds, and fund managers) may invest up to 35% (previously, 30%) of total assets under management by fund managers and unit trust management companies.
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Changes during 2013		
I. Status under IMF Articles of Agreement		
II. Exchange measures		
III. Exchange arrangement		
IV. Arrangements for payments and receipts		
V. Resident accounts		
VI. Nonresident accounts		
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<i>1. Repatriation and surrender requirements</i>		
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<i>4. Controls on credit operations</i>		

5. Controls on direct investment		
6. Controls on liquidation of direct investment		
7. Controls on real estate transactions		
8. Controls on personal capital transactions		
XII. Provisions specific to the financial sector		
A. Provisions specific to commercial banks and other credit institutions		
B. Provisions specific to institutional investors		