

## **Caleb M Fundanga: Small-scale cross-border trade and payment services in southern Africa**

Official opening remarks by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at a roundtable symposium on small-scale cross-border trade and payment services in southern Africa, Lusaka, 21 March 2011.

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### ***Distinguished Invited Guests***

Let me begin by welcoming you to this ***Roundtable Symposium on Small-Scale Cross-Border Trade and Payment Services in Southern Africa***. May I also warmly welcome our colleagues from neighbouring countries who have come to join us in this important event. It is my sincere hope that you shall enjoy your stay in Zambia and that you shall find this roundtable symposium fruitful.

***Distinguished Ladies and Gentlemen***, cross-border trade plays an important role in supporting livelihoods, especially those of border communities, thereby buttressing prosperity in the region. Furthermore, by strengthening commercial ties, promoting cultural understanding, and deepening community relationships, cross-border trade helps to nurture harmonious relations amongst countries in the region.

The unique feature of small-scale cross-border trade lies in geographical proximity which minimises transportation costs, thereby allowing traders to take advantage of differences in the supply, demand, and prices of various goods and services available on either side of the border. It is worth noting that most cross-border trade activities are not reported in foreign trade statistics. However, surveys conducted on the subject show that cross-border trade is carried out by individuals or small traders and their families. The volumes traded are small both in value and quantity, with agricultural products and consumer goods being the main traded goods. The traders' mode of transport in conducting their business is on foot, using bicycles, taking a minibus or a taxi to and from the other side of the border.

***Ladies and Gentlemen***, cross-border trade not only benefits traders' lives through incomes but also strengthens local production, and fosters service provision. It also benefits the people involved in activities associated with trading. This entails that cross-border trade is a significant driver of employment and income generation for households that would otherwise have lived in poverty, especially in remote areas where employment is scarce.

Furthermore, ***Ladies and Gentlemen***, cross-border trade lowers import prices and widens the range of choice of goods available to consumers, as well as enables exporters to benefit from higher value-addition. Finally, cross border trade has a gender dimension with women being more actively involved.

From the foregoing, ***Distinguished Ladies and Gentlemen***, it is very clear that small-scale cross-border trade plays a very vital role in our economies, particularly in generating income, creating employment and alleviating poverty.

However, ***Ladies and Gentlemen***, the small-scale cross-border trade faces a lot of barriers and impediments, including lack of access to financial and payment services such as currency exchange and transmission facilities. Traders from both sides of the border are forced to carry cash and must first convert funds into United States Dollars from their respective countries and then into the domestic currency of the country they are purchasing goods or services from. By so doing, cross-border traders face many risks including theft, exchange losses and other conversion costs.

***Ladies and Gentlemen***, although there have been some bilateral efforts towards formalising and facilitating small-scale cross-border trade in Southern Africa, these have not been

enough. For instance, Zimbabwe signed a memorandum of understanding with Malawi to facilitate informal trade, especially between small and medium-sized enterprises. Mozambique and Zambia also signed a memorandum of understanding to facilitate the repatriation of currencies of the two countries that are accumulated by traders located along the common border areas. It is expected that this memorandum of understanding will be expanded to include Malawi.

The lack of financial and payment services has not only hindered small-scale cross border trade but also led to the establishment and entrenchment of parallel currency markets at the borders. Needless to say, these are associated with vices such as counterfeiting, facilitating illegal trade, as well as enhancing cross-border money laundering activities. Moreover, to us monetary authorities, illegal cross-border local currency circulation creates the potential for complicating the conduct of monetary policy, especially if a significant amount of a country's domestic currency is being used outside its jurisdiction. The volumes of goods and services traded and amount of currency handled by individual traders may seem small. However, they are collectively significant and have implications for the conduct of monetary policy. For instance, the World Bank estimates small-scale border trade in Southern Africa to be around \$17.6 billion. Other studies have estimated that small-scale cross-border trading accounts for about 42% of GDP in Sub-Saharan Africa.

**Ladies and gentlemen**, it is for this reason that this roundtable symposium has been convened with the following objectives:

1. To stimulate broader interest in the topic of small scale cross border trade;
2. To initiate an inquiry into the design of a World Bank project aimed at fostering small scale trade and innovative cross-border payment services in Southern Africa; and
3. To look at the opportunities for providing cross-border money transmission services that benefit both small-scale trade and remittance transfers.

It is anticipated that this roundtable symposium shall come up with a refined design of the World Bank project to be launched later in 2011 focusing on five countries in Southern Africa, namely: Angola, Malawi, Mozambique, South Africa, and Zambia. A draft copy of the project design has been circulated to you all. The project will aim at enhancing trade through lower transaction costs for trade payments and improved access to financial services for small-scale traders. The goal is to increase small value trade payments through formal channels and transition payments away from cash by improving competition and innovation in the market for trade related payment services. It is also expected that the forum will result in attaining better alignment of project scope with stakeholder needs, and in particular buy-in from both private and public sector stakeholders in each country covered.

**Ladies and Gentlemen**, this roundtable forum brings together some decision and policy makers, from both the private and public sectors of the countries covered by the project, to a single regional event representing government and central bank officials, trade and payment system experts, international development community, mobile network operators, international money operators, payment service providers, academics and researchers involved in the topics of small-scale cross-border trade and payment services. I am very positive that the symposium shall achieve the stated objectives and wish to encourage you to actively and freely participate in the deliberations.

With these few words, **Ladies and Gentlemen**, I declare this roundtable symposium open.

Thank you!