DM/83/6

INTERNATIONAL MONETARY FUND

African Department

The Rand Monetary Area

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February 17, 1983

This paper outlines the structure and operations of the Rand Monetary Area (RMA) comprising South Africa, Lesotho, and Swaziland, with particular reference to its economic and financial consequences for the latter two countries. The background and events leading up to the signing of the RMA Agreement in December 1974 have been described in DM/76/66 ("The Rand Monetary Area and the Monetary Systems of Botswana, Lesotho, and Swaziland"). 2/ The present paper summarizes and updates that material and also indicates some comparisons with other monetary union and currency-sharing arrangements in existence today. For convenience, the text of the RMA Agreement, which has remained unamended until the present time, is reproduced as Appendix I to this paper.

I. Background

The RMA is a formal monetary union based on a negotiated treaty between the three partner countries, one of which is greatly larger and more developed than the other two. The Agreement provides for circulation of a single currency, the South African rand, throughout the entire area, but also allows for the issue of parallel national currencies by the two smaller members for circulation within their own territories. South Africa pays compensation to Lesotho and Swaziland for their use of its currency, based on estimates of what they would have earned if the rand in circulation in their territories had been invested in income-earning assets. There is unrestricted transfer of funds within the monetary area and a substantially uniform exchange control régime vis-à-vis the rest of the world, although the smaller countries are responsible for approving all external transfers pertaining to their territories and there are minor differences in their national exchange control regulations to suit local circumstances. The determination of the exchange rate for the rand and management of the

1/ The author is indebted to Mr. E. Martey, now Fund Representative in Uganda, who prepared an earlier and more extended draft of this paper, and to Messrs. Bell, Dell'Anno, Gibson, Oyama, and Reichardt who provided useful comments.

2/ A modified version of DM/76/66 was published by F. d'A. Collings in Journal of Modern African Studies, 16, 1, (1978), pp. 97-121.

pooled foreign reserves are controlled by South Africa, which is, however, under formal obligation to consult with its partners on these matters when changes are imminent, as well as regularly on general economic and financial developments affecting the whole area. South Africa also undertakes to provide the governments of the two smaller countries with official access to its capital markets, and under certain conditions to act as a lender of last resort to their monetary authorities.

Several of these features of the RMA arrangements represent little more than a codification of the de facto monetary union that existed between its signatories for most of this century. Since the establishment of the South African Reserve Bank in 1921, the South African currency (initially the pound, since 1960 the rand) was effectively the only currency and legal tender in all three countries. 1/ There were no internal restrictions on movements of funds within the area and virtually all external transactions were effected through banks in South Africa and subjected to South African exchange controls. When Lesotho and Swaziland, formerly British protectorates, became independent in the late 1960s, this situation was continued without, for the moment, any formal agreement between the parties. The three countries, together with Botswana, also constituted a free trade area which was initially formalized in the Customs Agreement of 1910 and subsequently replaced with the new Customs Union Agreement of 1969. The smaller member of the Customs Union continue to derive a large part of their budgetary revenues from its revenue-sharing provisions. There were, and still are, numerous other close institutional links between these countries, including the traditional access of nationals of the smaller countries to certain forms of employment in South Africa and the largely integrated transport and agricultural marketing systems.

The initiative to modify and formalize the pre-existing monetary arrangements came mainly from the newly-independent smaller countries. For some time they had debated and studied the pros and cons of continuing to use the rand. Eventually they decided to negotiate with South Africa to find out if their interests could not be best served by staying inside a modified rand area. Their alternative, as they saw it, was to proceed with establishing wholly independent currency systems, as indeed Botswana later decided to do. South Africa, for its part, also had an interest in clarifying the monetary relationships with its neighbors in several areas, particularly regarding regulation of possible loopholes in the exchange controls of the area and of new banks seeking to establish themselves in the smaller countries.

1/ Botswana also shared the informal monetary union arrangements and participated in the negotiations with South Africa for the RMA: however, it did not sign the RMA Agreement and subsequently (in 1976) established a separate monetary and exchange control area and issued its own currency, the pula.

The monetary negotiations began in 1972 and were concluded in 1974. The discussions covered not only the use of currency, but also questions of compensation, exchange controls, banking regulations, access to capital and money markets, and consultation. The RMA Agreement was signed and came into effect on December 5, 1974. Its main provisions are described in the following chapter.

II. The RMA Agreement

The basic document of the Rand Monetary Area, entitled "Monetary Agreement between the Governments of Lesotho, South Africa and Swaziland" (see Appendix I), begins with a preamble which acknowledges the advantages of maintaining a common monetary area among the parties and declares that the arrangements are intended to provide for sustained economic development of the area as a whole, with particular emphasis on encouraging the advancement of the less-developed members.

1. Currency arrangements

The South African rand is declared to be legal tender throughout the RMA (Article 2). It is also specified that Lesotho and Swaziland have the right to issue national notes and coins, as well as commemorative coins, provided these constitute legal tender only within their respective territories and the South African Government has agreed to the issue.

In fact, the arrangements between the two smaller countries and South Africa on the issuance of their national currencies are embodied in separate and essentially similar bilateral arrangements which spell out the details of how the dual currency system is to operate. The text of the bilateral agreement between South Africa and Swaziland is given in Appendix II to this paper. These agreements require that the local currency--the maloti in Lesotho, the lilangeni (plural emalangeni) in Swaziland--shall have the same value as the South African rand, and that 100 per cent of the amounts issued shall be backed by rand currency held by the local monetary authority or in a special deposit with the SARB. The SARB pays interest on the latter deposit at a rate 2 percentage points below the South African rate for long-term government securities. Both the South African and local currencies are legal tender and may be freely interchanged without commission within the territories of Lesotho and Swaziland. However, only the rand is legal tender in South Africa, and South African banks may charge a commission for exchanges of emalangeni or maloti into rand (although in practice they rarely do so). The notes and coins issued by Lesotho and Swaziland are required to be different from the rand in appearance and size, so as to prevent their use in South African automated machines. The smaller countries are permitted to take (unspecified) administrative measures to encourage use of their own currencies within their territories.

The currency agreement between Swaziland and South Africa was signed in March 1974, thus preceeding the conclusion of the RMA agreement itself, and Swaziland issued it first emalangeni in September 1975. Lesotho continued for some years to use the rand as its sole currency, but in 1978 signed a similar currency agreement with South Africa and in January 1980 issued its maloti.

2. Movements of funds within the RMA

The agreement stipulates that the contracting parties shall not apply any restrictions on the transfer of funds within the RMA, except those resulting from investment or liquidity requirements prescribed for banks and financial institutions (Article 3). Lesotho and Swaziland now both have legislation requiring investment of certain funds by local financial institutions in local securities or credits--in effect, a minimum local assets ratio, similar to that in effect for many years in South Africa--and the exception could allow them to introduce exchange controls restricting capital outflows to other parts of the RMA to reinforce these requirements. However, they have not in fact availed themselves of this provision, and transfers within the RMA are not subject to any restrictions.

3. Access to South African capital and money markets

The Agreement acknowledges in general terms the right of the Governments of Lesotho and Swaziland, and their public bodies, financial institutions and enterprises, to have access to South Africa's capital and money markets (Article 4). Private borrowers resident in Lesotho and Swaziland are treated no differently from South African residents. With regard to public borrowing by the smaller countries on the South African capital markets, the terms and timing of issues are subject to prior consultation and agreement with the South African Government, as is standard practice for all public sector borrowers in South Africa. Public securities issued by Lesotho or Swaziland qualify as "prescribed investments" and "approved securities" for purposes of South African legislation regulating the assets that may be held by South African financial institutions, which gives them a status similar in practice to bond issues of major South African municipalities, but there is a ceiling of 1.5 per cent of the prescribed minimum requirements for each South African financial institution that may be held in Lesotho or Swaziland securities. Regarding the shorter-term money market, there is no provision for the taking up in South Africa of Treasury bills issued by the smaller countries. However, it is specified that in special circumstances Lesotho and Swaziland may enter into bilateral negotiations with South Africa to obtain temporary credit from the SARB.

4. Foreign exchange transactions and exchange controls

The Agreement (Article 5) provides that each party "shall be the sole authority responsible for authorizing gold and foreign exchange transactions relating to its area and for appointing authorized dealers therein." It is also specified that the Government of South Africa "shall cause the South African Reserve Bank to make available foreign exchange for transactions that are duly authorized". Lesotho and Swaziland agree, however, to exercise their exchange control authority in accordance with the policies adopted for the management of external reserves of the RMA as a whole, and to implement exchange controls "in all material aspects" similar to those in effect in South Africa. This does not require identical treatment of all transactions. In fact, the three countries each have separate exchange control regulations, and there are some differences in the smaller coun tries' practices, e.g., in the treatment of outward capital transfers and the retention abroad of earnings of expatriates. Normally, Lesotho and Swaziland are expected to adopt any changes in exchange control regulations introduced by South Africa. The Agreement specifically provides that they may decline to do this, subject to agreement with the other parties, if South Africa introduces changes which they feel would materially and adversely affect their national interest; however, this provision has never been formally used.

The normal surrender requirements of the RMA apply to residents of Lesotho and Swaziland, but it is not specified that the Governments or monetary authorities of these countries must hold their official foreign exchange reserves exclusively in rand. This in practice has allowed them the flexibility to keep a part of their reserves outside the area.

5. Compensatory payments

Article 6 of the Agreement provides a formula for determining the annual payment to be made by South Africa to Lesotho and Swaziland as compensation for their use of the rand currency. Essentially, this gives those countries a return equal to 2/3 of what they would have earned if the counterpart of the entire estimated rand currency in circulation in their territories had been invested in long-term South African government securities. The two thirds was agreed to on the assumption that it would approximate a weighted average of earnings on an appropriate mix of long- and short-term reserve assets. Since it is impossible in practice to know precisely how much rand is circulating in any one part of the RMA at a given time, the base for the calculation had to be estimated. Estimates for the rand in circulation were eventually agreed for the base date of December 31, 1973 (R 12.5 million for Lesotho, R 15.5 million for Swaziland), and the agreement assumes that changes thereafter would be related to changes in the amount of rand circulating in the whole RMA (i.e., currency outside banks as recorded by the SARB) in the ratios of 6:5 for an increase or 4:5 for a decrease. The asymetry in this formulation was intended to reflect a faster rate of monetization in the less-developed economies. It was subsequently further agreed that the amounts of local currency issued by Lesotho and Swaziland would be subtracted from the estimates of their total currency circulations, as determined by the formula, so as to arrive at a residual figure for the rand circulating in their territories. In practice, the estimates thus produced have recently been subject to some mutually-agreed modification before being used as the basis for the annual compensatory payments.

6. Other provisions

The Agreement created a "Rand Monetary Area Commission" to provide a formalized framework for consultations between the parties on the "formulation, modification, and implementation of the monetary and foreign exchange policies for the Rand Monetary Area" (Article 8). The Commission, comprising representatives from the three countries, has met annually (as required by the Agreement) since the Agreement came into effect, as well as occasionally on an ad hoc basis to discuss changes in policies affecting the monetary area, and quarterly meetings of the exchange controllers of the three countries have also regularly been held.

In case a major dispute should arise between any two of the contracting parties concerning interpretation or application, the Agreement includes provision for the establishment of an Arbitral Tribunal (Article 9), to consist of three arbitrators, one representing each of the disputing parties and the third (who will be head of the Tribunal) to be appointed by agreement of both parties. In case they fail to agree on the third member of the Tribunal, on request from either of the parties, the Managing Director of the International Monetary Fund, or, failing him, the President of the Bank for International Settlements, shall be asked to appoint the third person. The arbitration provisions have never in fact been used.

The provisions for entry into force, accession, termination, and withdrawal are contained in Article 10. A party which wishes to withdraw from the RMA can do so by giving 12 months' notice, unless a shorter period is mutually agreed on. On withdrawal of one of the parties or termination of the Agreement, there is provision for the exchange of rand currency held by the country at the withdrawal date into "acceptable" rand assets and "acceptable" convertible foreign currencies, in a ratio equivalent to that of the total amount of domestic assets to the total amount of gold, SDRs, and foreign exchange held by the South African Reserve Bank. 1/ The Agreement provides that other states may join the RMA, subject to acceptance by the existing signatories.

III. Some Implications of RMA Membership for Lesotho and Swaziland

As noted earlier, the coming into force of the RMA Agreement in December 1974 did not involve any really fundamental changes in the monetary and financial arrangements already in existence between the parties; however, the clarifications and new formality then introduced did allow the Governments of Lesotho and Swaziland to proceed with development of their own

1/ This formula was in fact applied to the conversion by Botswana of rand withdrawn from circulation when the pula was issued in 1976.

financial and monetary systems on a basis of more certainty. In this section, some consequences of membership in the RMA for Lesotho and Swaziland will be discussed.

The most visible result of the new RMA Agreement was the issuance of local currencies in the two smaller countries. Swaziland went first in this regard, issuing the emalengeni on September 6, 1974--its National Independence anniversary. There were initial concerns that the new currency would not prove as generally acceptable as the rand, with which it had to be freely interchangeable on a one-to-one basis. To encourage its circulation the Swazi authorities instructed commercial banks to retain or surrender South African notes and coins coming over their counters while making cash disbursements in emalangeni unless requested otherwise. In the event further administrative measures of this nature proved unnecessary and there turned out to be little problem in gaining public acceptance for the new currency. The amount of emalangeni in circulation increased rapidly to about E 5 million by the end of 1974, and thereafter rose fairly regularly each year, reaching E 20 million by the middle of 1982. Lesotho followed later with a similar experience, issuing the first maloti on January 19, 1980 and achieving a circulation of M 18 million by September 1982. There is no way of knowing exactly what proportion of the total currency circulation in Lesotho and Swaziland these figures represent since the amount of rand actually in circulation in their territories at any time is unknown.

The establishment of the RMA had an immediately favorable effect on the incomes of the two countries, which for the first time began to receive compensation for the use of South Africa's currency in their territories. The amounts thus transferred by South Africa, especially at the outset when they included a substantial retroactive element, have been significant in relation to the size of budgetary operations in Lesotho and Swaziland. 1/ The compensation payments were, of course, reduced as a consequence of the issuance of local currencies in the two countries, but this was largely offset by earnings on the deposits with the SARB held against the new currency issues as provided for under the RMA Agreement. The net financial benefit was, of course, also reduced by the costs of running a central monetary institution and of printing or minting local notes and coin.

At the time of their independence, neither Lesotho or Swaziland had any central monetary institutions, and their banking systems consisted only of the local branches of two British banks headquartered in Johannesburg. For monetary purposes, these countries were effectively parts of South Africa. Under the RMA system, however, this situation began to change. In connection with the issues of local currency both countries established Monetary Authorities: in Swaziland this institution was reconstituted and renamed the Central Bank of Swaziland in 1979, and Lesotho made a similar

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1/ The amounts of the compensation payments are considered confidential by the parties, and therefore cannot be mentioned here.

move in 1982. Aside from the currency issuance, these institutions also were made responsible for management of part of the countries official reserves (i.e., that part not held directly by government), regulation of banks and financial institutions, provision of interbank clearing facilities, as well as administration of exchange controls, monitoring economic and financial developments in the RMA and elsewhere and providing financial advisory services to their governments. The operation of the Government's accounts is handled by the Central Bank in Swaziland but has remained with a commercial bank in Lesotho until the present time. The banking system of each country has broadened since independence with the addition of public development banks and other banking and financial institutions, and the two long-established foreign commercial banks either incorporated locally (as in Swaziland) or became separate branches of their London parents (as in Lesotho).

Thus, with some degree of institutional separation from the South African monetary and banking structure established, the question arose as to how much control the local monetary authorities could exert over local monetary conditions under the RMA system. The classic instruments of monetary policy and credit control obviously have limited effect when there is entirely free transfer of funds between the smaller components of a monetary area and the center. Borrowers and depositors in Lesotho and Swaziland continue to do much of their banking business over the border, and to this extent are directly affected by South African monetary measures. The reverse is also true: South Africans can bank in Lesotho or Swaziland if they find it to their advantage. Thus, the conditions for borrowing and lending cannot diverge very much in the smaller countries without provoking relatively massive movements of funds which could overwhelm the smaller banking systems.

This ensures, for example, that interest rates, which in theory are determined locally, remain comparable with those in South Africa and move more or less pari passu. The fact that deposit rates tend to be slightly lower in Lesotho and Swaziland than in South Africa, perhaps reflecting higher costs of banking in the smaller centers, is sustainable because of locational and other reasons which cause individuals and enterprises to use their local banks; but the spread is self-limiting under the RMA system since too large a divergence would lead customers to transfer their deposits over the border. Experience has shown that a differential of more than about two percentage points in deposit rates below those in South Africa will begin to cause substantial outflows of deposits, and any significant difference in lending rates similarly induces borrowers to shift their business elsewhere in the RMA.

Both Lesotho and Swaziland established minimum liquidity ratios and local asset requirements for the banks operating in their territories. However, since banks in these countries generally collected more deposits than they lent locally (between 1974 and 1980 the ratio of bank credit to deposit liabilities was on average 50 per cent in Lesotho and 84 per cent in Swaziland), the banks were easily able to maintain liquid reserves well in excess of the required minima. Furthermore, in order to provide appropriate local assets for the banks to hold, the Governments were obliged to issue treasury bills expressly for the purpose. When, as was usually the case, the proceeds were not needed for budgetary financing, they were redeposited by the Governments with the banks, thus swelling bank liquidity again. Under these conditions, these conventional monetary measures proved to have little effect over the banks' overall credit policies. The principal objective of the authorities' credit policies during most of the period was in fact to encourage the banking system to lend more locally. This had to be addressed mainly by establishing specialized public- or quasi-public credit institutions to provide for neglected sectors of the economy such as small business and agriculture, and by giving the commercial banks quantitative guidelines regarding the desired distribution of credit. Also, in Swaziland local legislation was passed to make certain movable assets such as cattle eligible for use as collateral for bank loans (the so-called hypothecation laws).

The RMA system effectively rules out for Lesotho and Swaziland the possibility of "printing money" to finance budgetary deficits, since under the 100 per cent reserve cover requirement for the currency issue, a fiduciary issue is simply not possible. The Governments may of course borrow from the banking system, like any other customer, for temporary periods, but the normal central bank's power to create credit against increases in the money supply does not exist in this situation.

Finally, under the RMA Agreement, Lesotho and Swaziland have no control over the exchange rate for their currencies, which is determined by South Africa in the light of the requirements of the area as a whole. rate for the rand (and consequently for the maloti and lilangeni) has been changed a number of times in recent years. This has had little direct effect upon the cost of imports into Lesotho and Swaziland, over 90 per cent of which in both countries comes from South Africa. In the case of Lesotho, whose exports of goods are very small (the main source of external receipts is the remittances sent home from South Africa by migrant workers), changes in the rand exchange rate also have little effect on the earnings side of the external current account. Swaziland, with its more diversified exports destined mainly outside the RMA (sugar, woodpulp, and manufactured goods), is more closely affected by the rand's exchange rate. For example, the profitability of the export industries was adversely affected during 1979 and 1980 when the rand appreciated against the dollar, but this was alleviated by the subsequent depreciation. Both Lesotho and Swaziland are concerned with the effect of exchange rate changes on their capital inflows, of which a higher proportion than in South Africa is in the form of foreign aid demonimated in international currencies. However, in view of the overwhelming preponderance of transactions with South Africa, it is clear that, if these countries did have full control over their exchange rates, their decisions in this matter would still have to be largely influenced by the exchange rate for the rand. 1/

IV. The RMA Compared

The RMA is one among several monetary and currency union arrangements between sovereign countries existing in the world today. Like the others, it's form and operations are greatly influenced by the special economic circumstances of its members.

Historically, the RMA came about because of a desire among the parties concerned to formalize and define pre-existing arrangements which amounted to virtually complete monetary integration. In this sense, the signing of the RMA Agreement represented a distancing of the partners rather than a coming together, and offered the smaller countries an alternative to establishing seperate monetary systems of their own. The evolution in this respect was similar to that which took place in the 1950s when the overseas French franc area in Africa was converted into a less centralized grouping of two regional currency unions (the West African Monetary Union (WAMU) and the Central African Monetary Area (CAMA)) together with some associated individual members (e.g., Madagascar). Similarly also, the process involved at least one of the former partners opting out in favor of more independent alternative currency arrangements (e.g., Guinea from the franc area, Botswana from the RMA). By contrast, the dissolution of the British Currency Board arrangements in West Africa and elsewhere was a progressive process as one by one the newly-independent member states dropped out and established their own separate monetary arrangements. The Eastern Caribbean Currency Authority (ECCA), as established in 1965, represented a reverse development in which some parts of a hitherto unified monetary area which was breaking up came together again in a reformed currency union.

These various examples of monetary unions differ also in the relative economic weights of the partners and the relationships with the dominant monetary center. The RMA links the monetary systems of two relatively tiny developing countries with that of a much larger neighbor. (Lesotho's and Swaziland's GDP together totals no more than 2 per cent of South Africa's.) It is in this respect more comparable to the informal arrangements under which Liberia and Panama continue to use the U.S. dollar as their currencies. The WAMU and CAMA arrangements involve a large measure of integration of the monetary systems of several countries of relatively equal economic weight within each group, with separately institutionalized links to the outside monetary centre (France).

1/ Botswana, which like Swaziland sells a substantial part of its exports outside the RMA but gets most of its imports from South Africa, pegs the value of the pula to a basket in which the rand and the SDR have weights of approximately 50 per cent each.

In terms of the degree of monetary autonomy that can be exercised by each of the smaller participants under these various currency union arrangements, the RMA system imposes strict constraints similar to those experienced by the dollar-users. However, the formality of the RMA arrangements provides more definition to the smaller countries of what the limits are, and also confers certain advantages not shared by Liberia and Panama, e.g., the compensation for use of the shared currency. The WAMU and CAMA members have similarly-restricted scope for independent monetary policies at the individual country level, but have more flexibility as a group to operate independently vis-à-vis the policies followed by the monetary center. The other side of the same coin is the degree of assurance provided to the smaller participants in a monetary union that the currency used will retain its international purchasing power and external convertibility. This, of course, depends to a large extent on the policies of the central monetary authority and the situation of the central currency itself. The RMA system provides assurance that the currencies of Lesotho and Swaziland will remain at least as usable as that of South Africa. In this respect the assurance is similar to that under the Liberia/Panama system of actually using an international currency domestically.

These are some of the considerations which must be traded off one against the other when judging the suitability of a particular type of monetary union for the particular set of circumstances concerned. There is evidently no ideal compromise, and no attempt is made here to judge whether Lesotho and Swaziland are in an arrangement which is optimal from their point of view. Both countries officially take the view that, for the present, they are satisfied that the RMA arrangements are on balance advantageous to them.

MONETARY AGREEMENT BETWEEN THE GOVERNMENTS OF LESOTHO, SOUTH AFRICA AND SWAZILAND

The Governments of the Kingdom of Lesotho, the Republic of South Africa and the Kingdom of Swaziland—

Acknowledging the advantages of maintaining a common monetary area;

Desirous of formalising the monetary arrangements in the Rand Monetary Area in an agreement;

Considering that the monetary arrangements should provide for the sustained economic development of the Rand Monetary Area as a whole;

Desirous of ensuring, in particular, that the arrangements should encourage the advancement of the less developed members of the Rand Monetary Area and should afford to all parties equitable benefits arising from the maintenance and development of the Rand Monetary Area as a whole;

Recognising that each of the contracting parties is responsible for its monetary policy and the control of its financial institutions; and

Recognising that the South African authorities are responsible for the management of Rand currency and the gold reserves and foreign exchange reserves of the Rand Monetary Area;

Have agreed as follows:

ARTICLE 1

DEFINITIONS

In this Agreement, unless the context otherwise indicates:

"authorised dealer" means a person authorised by a contracting party to deal in gold and foreign exchange in terms of that contracting party's exchange control provisions;

"exchange control provisions" means the exchange control laws, regulations and Manuals of Exchange Control Rulings of the contracting parties;

"financial institution" means a bank (other than the South African Reserve Bank), building society, insurer, pension fund or any corporate body or institution which accepts money from the public and which on account thereof is subject to legislative or any other form of governmental control or supervision;

"foreign exchange" means any currency other than Rand currency or currency issued in terms of Article 2.2;

"foreign exchange assets" means assets denominated in foreign exchange;

"foreign exchange transactions" means any transaction involving foreign exchange or foreign exchange assets;

"Lesotho" means the Kingdom of Lesotho;

"Rand currency" means the notes issued by the South African Reserve Bank and coin issued by the South African Mint;

"Rand Monetary Area" means the area in which Rand currency is legal tender;

"South Africa" means the Republic of South Africa;

"South African Reserve Bank" means the central bank of South Africa operating in terms of the South African Reserve Bank Act, No. 29 of 1944, as amended;

"Swaziland" means the Kingdom of Swaziland;

and cognate expressions shall be construed accordingly.

ARTICLE 2

LEGAL TENDER

1. No currency other than Rand currency and currency referred to in paragraph 2 shall be legal tender in the Rand Monetary Area.

2. The Governments of Lesotho and Swaziland shall each have the right to issue currency in the form of—

(a) national notes and coin, and

(b) commemorative coin, in nominal amounts,

but such currency shall constitute legal tender only in its respective area:

Provided that any arrangements in respect of any national note and coin issue governed by this Agreement shall be subject to prior agreement between the Government of South Africa and the issuing Government.

ARTICLE 3

TRANSFER OF FUNDS WITHIN THE RAND MONETARY AREA

A contracting party shall not apply any restrictions on the transfer of funds, whether for current or for capital transactions, to or from the area of any other contracting party, save that a contracting party may apply restrictions resulting from investment or liquidity requirements which may from time to time be prescribed by it for its financial institutions:

Provided that the Governments of Lesotho and Swaziland may introduce measures, including measures relating to the investment of funds or portions of funds in domestic securities, for the mobilisation of domestic resources in the interest of the development of their respective areas:

Provided further that, whenever a contracting party has reason to believe that the effect of an inward or outward transfer of funds may be, is or has been to evade any such requirements prescribed or measures introduced by any other contracting party, it shall consult such other contracting party with a view to rectifying the matter.

ARTICLE 4

ACCESS TO THE SOUTH AFRICAN CAPITAL AND MONEY MARKETS AND RELATED MATTERS

1. The Governments of Lesotho and Swaziland, corporations and statutory bodies owned or controlled by either such Government, and local authorities, public utilities, financial institutions and business enterprises in the area of either such Government shall, subject to the relevant financial laws and policies applicable to their counterparts in South Africa, have a right of access to the South African capital and money markets.

2. Stocks, bonds, notes, bills and other securities (hereinafter in this Article collectively referred to as "public securities") which may be issued or converted in respect of borrowings in such markets by either Government or any local authority referred to in paragraph 1, shall qualify as prescribed investments or approved securities in which South African financial institutions may invest in terms of the applicable legal requirements; and such public securities so issued or converted by any corporation, statutory body or public utility referred to in paragraph 1, shall likewise so qualify if the securities of a comparable class of South African issuer would so qualify:

Provided that such public securities held by any South African financial institution shall so qualify only to an amount not exceeding one and one half per cent of the minimum amount which such institution is required to hold in prescribed investments or approved securities;

Provided further that such public securities shall not qualify for purposes of the legal requirements applicable to South African financial institutions for compulsory investment in stock of the Government of South Africa and in liquid assets.

3. In order to promote the orderly management of the South African capital and money markets, the Government concerned shall, in respect of the issue or conversion of public securities by a Government, corporation, statutory body, local authority or public utility referred to in paragraph 1. reach agreement with the Government of South Africa on the timing, amounts and other relevant terms of such issue or conversion and the South African Government shall not withhold its agreement without reasonable cause.

4. With due regard to the need for the contracting parties to co-operate in preserving monetary stability in the Rand Monetary Area, each of the Governments of Lesotho and Swaziland shall have the right to enter into bilateral arrangements with the Government of South Africa whereby the latter shall in special circumstances cause the South African Reserve Bank in its capacity as lender of last resort to make available to either such Government temporary central banking credit facilities in such forms and amounts and on such terms as may be agreed upon at the time.

ARTICLE 5

GOLD AND FOREIGN EXCHANGE TRANSACTIONS

1. Each contracting party shall be the sole authority responsible for authorising gold and foreign exchange transactions relating to its area and for appointing authorised dealers therein.

2. The Governments of Lesotho and Swaziland shall exercise their authority in respect of gold and foreign exchange transactions in accordance with the policies from time to time adopted for the management of the gold reserves and foreign exchange reserves of the Rand Monetary Area.

3. The exchange control provisions of the Governments of Lesotho and Swaziland shall in all material aspects be substantially in accord with the exchange control provisions in force in South Africa as amended from time to time;

Provided that should either such Government consider that its national interest would be materially and adversely affected by any subsequent amendment introduced by the Government of South Africa, it shall not, unless so determined under Article 9, be obliged to incorporate such amendment into its exchange control provisions and if it does not so incorporate such amendment, it shall notify the other contracting parties accordingly.

4. Each contracting party shall require that the gold and foreign exchange accruing to its residents, other than nationals of countries outside the Rand Monetary Area, temporarily working in Lesotho and Swaziland, shall, subject to its exchange control provisions, be sold to an authorised dealer appointed by it.

5. The Government of South Africa shall cause the South African Reserve Bank to make available to the Governments of Lesotho and Swaziland or to their authorised dealers the foreign exchange required for any foreign exchange transaction which is authorised by either such Government or by its authorised dealers.

6. The contracting parties shall at the request of any of them engage in immediate consultations should it appear that any foreign exchange application, transaction or balance may be, is being or has been, made, entered into or held, with the intent or effect of evading the exchange control provisions of another contracting party.

7. In the event of any amendment to this Article, any prior written undertaking provided to a third party or any transaction already authorised in writing by the responsible authorities of Lesotho or Swaziland pursuant to this Article, shall remain of full force and effect irrespective of such amendment.

ARTICLE 6

COMPENSATORY PAYMENTS

1. (a) The Government of South Africa shall, subject to the remaining provisions of this Article, make compensatory payments to the other contracting parties, which payments shall represent a return on the Rand currency circulating in their respective areas.

(b) (i) The first such payments shall be made within three months of the date of entry into force of this Agreement and shall amount to One million five hundred and thirteen thousand Rand (R1 513 000) in the case of compensation to the Government of Lesotho and to One million eight hundred and seventy-four thousand Rand (R1 874 000) in the case of compensation to the Government of Swaziland and shall in each case be in respect of the period 1 January 1972 to 30 June 1974.

(ii) Subsequent payments shall be made annually on the last business day of February of each succeeding year, shall be payable in respect of the twelve month period ending on the 30th day of June of that year, and shall be calculated in accordance with the provisions of sub-paragraph (e).

(c) Such payments shall be made in Rand and the amounts thereof shall be calculated in accordance with the formula: two thirds of X per cent of Y, where X represents the annual yield to redemption at which the most recent issue of long-term domestic South African Government stock was offered prior to the 31st day of December immediately preceding the annual payment date and Y represents the relevant agreed amount set out in sub-paragraph (d) or the relevant amount calculated in terms of sub-paragraph (e), as the case may be.

(d) The amounts of Rand currency calculated and agreed to have been in circulation in the respective areas of the contracting parties concerned as at the 31st day of December 1973 shall for purposes of this Agreement be as follows:

In Lesotho: Twelve million five hundred thousand Rand (R12 500 000).

In Swaziland: Fifteen million five hundred thousand Rand (R15 500 000).

(e) The amounts referred to in sub-paragraph (d) shall be annually increased or decreased, as the case may be, rounded to the nearest one hundred thousand Rand, in accordance with the following provisions—

(i) where the combined average month-end sum of the notes in circulation of the South African Reserve Bank and the coin liability of the South African Treasury for the calendar year preceding the date of payment exceeds the corresponding sum for the previous year, such amounts shall be increased by a percentage, equal to the percentage increase in such average month-end sum, multiplied by one and one-fifth;

(ii) where such average month-end sum is less than such corresponding sum, such amounts shall be decreased by a percentage, equal to the percentage decrease in such average month-end sum, multiplied by four-fifths;

(iii) for the purposes of this sub-paragraph, "notes in circulation" means the notes in circulation outside the South African Reserve Bank, as published in the weekly Statement of Assets and Liabilities of the South African Reserve Bank, and "coin liability" means coin held by the banking sector plus coin in circulation, as published in the Quarterly Bulletin of the South African Reserve Bank.

2. After the expiry of a period of two years from the date of entry into force of this Agreement, the amounts referred to in paragraph 1 (d) and the provisions of paragraph 1 (e) shall at the request of any contracting party concerned be reviewed in the light of information then available.

3. Should the Governments of Lesotho or Swaziland decide to issue currency referred to in Article 2.2 (a), the compensatory payments in terms of this Article shall accrue to either such Government on a *pro rata* basis up to the date of such issue and the making of any compensatory payments in respect of any period subsequent to such date shall be subject to negotiation between the Government of South Africa and the other Government concerned.

4. Should this Agreement terminate or a contracting party withdraw from it, the compensatory payments in terms of this Article shall accrue to the Governments of Lesotho and Swaziland in the case of termination, and to the contracting party withdrawing in the case of withdrawal, to the date upon which such termination or withdrawal, as the case may be, becomes effective, and shall be payable by the Government of South Africa *pro rata* to such date and within three months thereof.

ARTICLE 7

COLLECTION AND EXCHANGE OF MONETARY STATISTICS

The contracting parties shall co-operate with one another in the collection and prompt exchange of such statistical and other data as shall be required for the efficient administration of this Agreement and for the formulation and implementation of monetary and exchange control policies.

ARTICLE 8

CONSULTATIONS AND THE RAND MONETARY AREA COMMISSION

1. In order to facilitate the implementation of this Agreement, the contracting parties shall hold regular consultations with a view to reconciling their respective interests in the formulation, modification and implementation of the monetary and foreign exchange policies for the Rand Monetary Area and in regard to any other matter arising under this Agreement and shall for these purposes establish a Rand Monetary Area Commission (hereinafter referred to as "the Commission").

2. Each contracting party shall be represented on the Commission by one representative and such advisers as it may appoint and decisions of the Commission shall be by consensus of the appointed representatives.

3. The Commission shall—

(a) for the fulfilment of its functions, convene in regular session at least once in every year and, if so requested by any contracting party, at any other time as soon as possible after receipt of such request;

(b) expedite as far as possible any business referred to it;

(c) use its best endeavours to find a solution satisfactory to all the contracting parties in regard to any matter referred to it and make recommendations to such parties accordingly; and

(d) determine its own procedures, including the establishment of such committees as may be necessary.

4. A contracting party shall respond promptly to any recommendation made to it by the Commission and, should it decide to implement such recommendation, shall do so promptly.

5. In order to enable the other contracting parties to take such action as may be necessary to implement their obligations and protect their interests under this Agreement, the Government of South Africa shall, in circumstances where the urgency of the matter precludes prior consultation with such parties through the Commission, notify them as long as possible in advance of any change in its monetary or foreign exchange policies or in the administration thereof, including any amendments of the exchange control provisions, which could affect the interests of such other parties; or, should notification in advance have been impossible because of the nature of the matter, shall notify them immediately after such change.

6. Should a contracting party wish to consult another contracting party on any major issue arising under this Agreement but not directly affecting all the contracting parties, it may consult with such other contracting party but shall in advance notify the remaining contracting party of its intention to do so and shall as soon as possible thereafter furnish it with a report on the results of the consultations and such report shall also be laid before the Commission at its following meeting.

ARTICLE 9

SETTLEMENT OF DISPUTES

1. Should any dispute arise between any of the contracting parties concerning the interpretation or application of this Agreement, they shall make every effort to settle the dispute amicably and in good faith and any dispute which cannot be so settled shall be submitted to an Arbitral Tribunal as hereinafter provided.

2. The Arbitral Tribunal shall consist of three arbitrators: one to be appointed by each of the parties to the dispute and the third, who shall be President of the Tribunal, to be appointed by agreement of the parties to the dispute.

3. (a) Any contracting party may institute arbitration proceedings by giving written notice thereof to the other party to the dispute and such notice shall set forth the nature of the dispute, the nature of the relief sought and the name of the arbitrator appointed by such contracting party.

(b) The other party to the dispute shall within 30 days of such notice appoint its arbitrator and advise the first party of the name of such arbitrator and, should it fail so to appoint an arbitrator within the time specified for such appointment, such arbitrator shall be appointed by the President of the Tribunal.

(c) Should the parties to the dispute fail to agree on the appointment of the President of the Tribunal within 60 days of the notice referred to in sub-paragraph (b), then, at the request of either party, the Managing Director of the International Monetary Fund or, failing him, the President of the Bank for International Settlements, shall appoint a person as President who shall, however, not be a national or former national of any contracting party or a resident or former resident in any part of the Rand Monetary Area.

(d) Any vacancy occurring in the Tribunal, whether before or after its proceedings have begun, on account of an arbitrator's death, resignation or incapacity to act, shall *mutatis mutandis* be filled in accordance with the procedure prescribed for the original appointment.

4. (a) The Tribunal shall convene at a time and place to be fixed by the President and shall then determine where and when it shall thereafter sit.

(b) Subject to the provisions of this Article and except as the parties to the dispute may otherwise agree, the Tribunal shall determine all questions relating to its competence and procedure.

(c) All decisions of the Tribunal shall be by a majority vote of the members but in the event of there being no majority vote, the President shall have a casting vote in addition to a deliberative vote.

(d) The Tribunal shall afford both parties to the dispute a fair hearing and may render an award by default.

(e) The deliberations of the Tribunal shall remain secret, unless the parties to the dispute otherwise agree.

5. (a) The award of the Tribunal shall be in writing and signed by the members who voted for it and shall constitute the award of the Tribunal, and a signed counterpart of such award shall be transmitted to each party to the dispute.

(b) The award of the Tribunal shall be definitive and binding on the parties to the dispute and shall be duly and expeditiously carried out by them.

(c) During a period of 30 days after the award has been communicated to the parties to the dispute, the Tribunal may, either of its own accord or at the request of either party, rectify any clerical, typographical or arithmetical error in the award, or any obvious error of a similar nature and shall forthwith communicate any such rectification to both parties.

(d) Any dispute between the parties as to the meaning and scope of the award shall at the request of either party and within 60 days of the rendering of the award be referred for decision to the Tribunal which rendered the award.

6. (a) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as shall be required for the conduct of the arbitration proceedings and should the parties not agree on such amount before the Tribunal convenes, the latter shall fix such amount as may be reasonable.

(b) Each party to the dispute shall bear its own costs in connection with any arbitration proceedings and the costs of the Tribunal shall be borne by them in equal shares;

Provided that in the event of disagreement between the parties as to the amount or division or the procedures for the payment of any costs, the Tribunal shall at the request of either party to the dispute decide the matter on an equitable basis.

ARTICLE 10

ENTRY INTO FORCE, ACCESSION, TERMINATION AND WITHDRAWAL

1. The Agreement shall enter into force upon the date of its signature by all the contracting parties.

2. Any other State may with the agreement of all the contracting parties accede to this Agreement.

3. This Agreement shall terminate if and when the contracting parties shall so agree or it ceases to apply to the Government of South Africa.

4. Should a contracting party wish to withdraw from this Agreement, it shall give written notice of its intention to the other contracting parties and, unless the contracting parties shall otherwise agree, the Agreement shall, except in so far as is provided in paragraph 6, cease to apply to that party with effect from a date twelve months after the date of such notice.

5. Subject to the provisions of paragraph 6, and unless the contracting parties concerned otherwise agree, termination of this Agreement or withdrawal from it shall, until the date on which such termination or withdrawal, as the case may be, becomes effective, be without prejudice and subject to the performance of any rights or obligations already accrued or incurred in terms of this Agreement prior to such date.

6. Upon termination of this Agreement or upon withdrawal from it, the Government of South Africa shall at the request of another contracting party in the case of termination, or at the request of the party withdrawing in the case of withdrawal, exchange any Rand currency which at the relevant date is in circulation in the area of such contracting party or is held by it on deposit in South Africa and is presented by it for exchange within twenty-four months of such date, for acceptable Rand assets and acceptable convertible foreign currencies in a ratio equivalent to the ratio of the total amount of the domestic assets of the South African Reserve Bank to the total amount of gold, special drawing rights and foreign exchange of the South African Reserve Bank as set out in its weekly statement published immediately prior to the relevant date;

Provided that the Government of South Africa shall not be obliged so to exchange any acceptable Rand assets received in terms of this paragraph.

7. For the purpose of this Article—

(a) "acceptable convertible foreign currencies" means currencies which at the time of payment are convertible in terms of the Articles of Agreement of the International Monetary Fund and acceptable to a contracting party requesting an exchange in terms of paragraph 6;

(b) "acceptable Rand assets" means any deposit with the South African Reserve Bank and/or any South African Government securities acceptable to a contracting party requesting an exchange in terms of paragraph 6;

(c) "relevant date" means the date on which termination or withdrawal, as the case may be, shall become effective, or such other date as may be agreed upon between the Government of South Africa and another contracting party requesting an exchange in terms of paragraph 6;

(d) in making any payments—

(i) the value of acceptable Rand assets shall be their market value on the date of exchange; and

(ii) the value of one currency in terms of another shall be determined on the basis of the preferential rate of exchange applicable to transactions of the Government of South Africa on the date of exchange.

ARTICLE 11

NOTICES AND REQUESTS

1. Any notice, advice or request required or permitted to be given or made under this Agreement shall be in writing and such notice, advice or request shall be deemed to have been duly given or made to the contracting party to which it is required or permitted to be given or made at such contracting party's address set out below, or at such other address as such party shall have designated by notice to the contracting party giving such notice or advice, or making such request—

(a) if posted by first class mail, on the sixth day after the date of posting thereof;

(b) if communicated by telegram, cable or radiogram, on the day following the date of dispatch thereof: and

(c) if delivered by hand, at the time and date of such delivery.

2. The address of each contracting party shall, until otherwise designated by it, be as follows—

Lesotho:

The Permanent Secretary, Ministry of Finance
P.O. Box 395, Maseru, Lesotho
Cable Address: Finmin, Maseru
Telex Number: 5453-330

South Africa:

The Secretary for Finance
Private Bag X115
Pretoria
0001
Cable Address: Findep, Pretoria
Telex Number: 3-618

Swaziland:

The Permanent Secretary
Ministry of Finance and Economic Planning
P.O. Box 443
Mbabane
Swaziland
Cable Address: Minfin, Mbabane
Telex Number: SAX 36

IN WITNESS WHEREOF the undersigned, being duly authorised thereunto by their respective Governments, have signed this Agreement.

Done at .... this ....5th.................... day

of ....December.................. 19.74.. in triplicate.

For the Government of the Kingdom of Lesotho ....

For the Government of the Republic of South Africa ....

For the Government of the Kingdom of Swaziland ....

Agreement Between the Government of the Republic of South Africa and the Government of the Kingdom of Swaziland on the Issuing of Notes and Coin

Article 1

Definitions

"Convertible currencies" has the meaning assigned to it by the Articles of Agreement of the International Monetary Fund;

"Foreign exchange" means currencies other than Rand Currency and other than notes and coin issued by the Government of Swaziland;

"Rand currency" means the notes issued by the South African Reserve Bank and the coin issued by the South African Mint;

"Rand Monetary Area" means the area in which Rand currency is legal tender.

Article 2

Issuing of Notes and Coin

The Contracting Parties agree that Rand currency shall be legal tender in their respective areas:

Provided that the Government of Swaziland shall have the right to issue national notes and coin which shall be legal tender in Swaziland;

Provided further that the Government of Swaziland may introduce administrative measures, not inconsistent with this Agreement, to further the circulation of its own notes and coin within its borders;

Provided further that such notes and coin shall be clearly distinguishable in size and appearance from notes issued by the South African Reserve Bank and coin issued by the South African Mint;

Provided further that the Government of the Republic of South Africa will authorise commercial banks operating within its territory to convert notes issued by the Monetary Authority of Swaziland at par without restriction into notes issued by the South African Reserve Bank subject to a normal handling charge;

Provided further that notes and coin issued by the Monetary Authority of Swaziland shall be backed one hundred per cent by the sum of -

(a) Rand currency held by the Monetary Authority of Swaziland, and

(b) a special Rand deposit with the South African Reserve Bank; and

Provided further that the Monetary Authority of Swaziland will receive, from the South African Government, on the special Rand deposit with the South African Reserve Bank backing its issue of notes and coin, quarterly payments in Rand in arrear, payable within one month after the end of every calendar quarter, calculated on the daily average of such special Rand deposit, at an annual rate two per cent below the yield to redemption at which the most recent long-term domestic South African Government Stock before the end of the quarter concerned was offered. The above-mentioned rate will be subject to review one year after the commencement of the issue of Swazi notes and coin or at such other time as the Parties may agree.

Article 3

Monetary Stability

In order to aid the Government of Swaziland under special circumstances to safeguard monetary stability, the Government of South Africa undertakes to consider making available, through the South African Reserve Bank to the Government of Swaziland, temporary credit facilities in such forms and amounts and on such terms as shall be agreed upon at the time.

Article 4

Entry into Force, Transitional Provisions and Termination of Agreement

1. This Agreement shall enter into force on the date of signing.

2. The Government of the Republic of South Africa undertakes to have established, on the date the issue of Swazi notes and coin begins, a Special Reserve Deposit Account in the books of the South African Reserve Bank in the name of, and controlled by, the Monetary Authority of Swaziland, as provided for in Article 2 above. The Government of Swaziland shall ensure that the balance in this Account shall, together, with the amount of Rand currency held by the Monetary Authority of Swaziland, at all times be at least equal to the average amount of Swazi notes and coin in issue during the previous fourteen days.

3. The terms of this Agreement may be renegotiated or amended by agreement between the Contracting Parties.

4. The Agreement can be terminated by either Contracting Party by giving six months' notice and it will be considered as terminated on expiration of this period or at such earlier or later date as the Contracting Parties may agree.

5. In the event of termination the Government of the Republic of South Africa undertakes, at the request of the Monetary Authority of Swaziland, to convert into convertible currencies a proportion of -

(a) its holdings of Rand in the Special Reserve Deposit Account with the South African Reserve Bank, and

(b) Rand notes repatriated by that Authority within twenty-four months thereafter up to a maximum amount of twenty-five per cent of the balance in the Special Reserve Deposit Account on the date of termination.

6. The proportion of Rand deposits notes repatriated to be converted in accordance with the provisions of paragraph 5 above, shall be equal to the percentage which the gold, Special Drawing Rights and foreign exchange of the South African Reserve Bank represents of its total assets, as published in the latest weekly Statement of Assets and Liabilities of the South African Reserve Bank issued immediately prior to the date of the termination of the Agreement.

7. The rates of exchange applicable to the conversions referred to in paragraphs 5 and 6 above shall be the preferential rates of exchange applicable to transactions of the Government of the Republic of South Africa at the date of conversion.

Article 5

Settlement of Disputes

1. Disputes concerning the interpretation or application of the present Agreement should, if at all possible, be settled by the Contracting Parties themselves.

2. If a dispute cannot thus be settled within a reasonable time, it shall, upon the request of either Contracting Party, be submitted to an arbitral tribunal.

3. Such arbitral tribunal shall be constituted for each individual case as follows: Each Contracting Party shall appoint one member, and these two members shall agree upon a national of a third State as their chairman to be appointed by the Governments of the two Contracting Parties. Such members shall be appointed within two months, and such chairman within three months, from the date on which either Contracting Party indicates that it wishes to submit the dispute to an arbitral tribunal in accordance with paragraph 2 above.

4. If a chairman has not been appointed within the period specified in paragraph 3 above, either Contracting Party may, unless otherwise agreed, invite the Managing Director of the International Monetary Fund to make the necessary appointment.

5. The arbitral tribunal shall reach its decisions by a majority of votes. Such decisions shall be binding. Each Contracting Party shall bear the costs of its own member and of its counsel in the arbitral proceedings. The cost of the chairman and the remaining costs shall be borne in equal parts by both Contracting Parties provided that the arbitral tribunal may make a different regulation concerning the cost of the chairman and the remaining costs. In all other respects, the arbitral tribunal shall determine its own procedures.

IN WITNESS WHEREOF the undersigned, being duly authorised thereunto by their respective Governments, have signed this Agreement.

Done at......Pretoria.............................this ...20th....day of........March...............1974, in duplicate, in the English language.

For the Government of the Republic of South Africa........................

For the Government of the Kingdom of Swaziland............................