“Namibia Financial Sector Strategy: 2010-2020”

Towards Achieving Vision 2030

Developed

Competitive

Effective

Resilient

Inclusive

TABLE OF CONTENTS

ACRONYMS AND ABBREVIATIONS

ATM	Automated Teller Machine
BON	Bank of Namibia
CMA	Common Monetary Area
EFT	Electronic Funds Transfer
FSS	Financial Sector Strategy
GDP	Gross Domestic Product
GIPF	Government Institutions Pension Fund
Namfisa	Namibia Financial Institutions Authority
NDP	National Development Plan
NFLWG	National Financial Literacy Working Group
NFSC	Namibian Financial Sector Charter
NISS	Namibia Interbank Settlement System
NPS	National Payment System
NSX	Namibian Stock Exchange
Repo	Repurchase Agreement
SADC	Southern African Development Community
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
WEF	World Economic Forum

FOREWORD

The Namibia Financial Sector Strategy is a long-term development strategy for the entire financial sector of Namibia. It is expected that the strategy will help in the achievement of the financial sector objectives as set out in the various national development plans (NDPs and Vision 2030) and Financial Sector Charter; through consolidating them; especially those relating to capital and financial markets development, ownership, access, consumer protection and literacy. Ultimately the strategy should contribute to fostering economic growth and poverty alleviation as well as reducing inequality. Furthermore, the Strategy takes cognisance of on-going regional initiatives with regard to financial sector development, as well as global initiatives in response to the recent global financial crisis as well as anticipated possible future problems.

The successful implementation and the outcome of the Strategy will offer significant benefits for Namibia; however this will only be possible with the support and constant follow-up from all stakeholders. This should be a continuation of a process that led to the development of this Strategy, which involved a wide-spectrum of industry stakeholders in addition to the working group consisting of officials from the Bank of Namibia, Namfisa and Ministry of Finance. My sincere thanks to all of you who gave contributions and supported the formulation of the Strategy.

Saara Kuugongelwa- Amadhila
Minister of Finance

EXECUTIVE SUMMARY

The importance of the financial sector to the general economic growth of a country is well documented, especially through the intermediation channel. When financial services are supplied broadly and efficiently, they accelerate economic growth, increase the efficiency of resource allocation and improve the distribution of wealth. This, in essence, is what Namibia needs taking the aspirations of the country's Vision 2030 into consideration. Achieving a more efficient, competitive and resilient financial system will be vital for securing the prospects for sustainable economic growth and development.

A review of Namibia's financial system shows that although the system is sound and well-functioning, there are inherent weaknesses that need addressing to enable the financial sector to contribute meaningfully to the overall performance of the country's economy. *Key weaknesses identified* include: a shallow financial market; limited competition**,** limited financial safety nets, under-developed capital market; inadequate and less effective regulation; limited access to financial services; consumer illiteracy and lack of consumer protection; limited skills; and low participation by Namibians and thus dominance of foreign ownership.

A ten year strategy has been developed to address the inherent weaknesses in the Namibian financial system, covering the period 2010-2020, which will enable the country's financial sector to transform and contribute meaningfully to the developmental objectives of the country. The purpose of the Strategy is to chart the future direction of the financial system over the next 10 years that will ensure its *effectiveness, competitiveness* and *resilience*.

The objective of the Financial Sector Strategy (FSS) is therefore to develop a more resilient, competitive and dynamic financial system with best practices, that support and contributes positively to the growth of the economy, and has strong and innovative domestic financial institutions that are more technology driven and ready to face the challenges of globalisation. Threats of the global marketplace are becoming more intensive, as global players and technological advancement are having an unprecedented impact on the business approach of financial institutions.

Against this background, it is vital for the financial sector, to prepare and ensure that it remains effective and responsive in the face of a more globalised, liberalised and a more complex domestic economy.

The development of the Namibian Financial Sector Strategy has further been prompted by the lack of a single reference document that guides the development of the country's financial sector despite existing national policy documents (e.g., Vision 2030, NDP3 and the NFSC). The Strategy proposes a series of outcomes, which if achieved, should result in a developed and modern financial system for Namibia, and has developed an accompanying Action Plan to monitor the outcomes.

The development of the Strategy has become more urgent in view of threats posed by advances in technology that enables financial institutions to develop products that are inherently more risky and can destabilise the financial system. As evidence, the recent global financial crisis was mainly attributed to these risky products.

The Strategy focuses on reforms in the following key areas:

- Financial system deepening and development
- Financial safety net
- Financial sector regulation
- Consumer financial literacy and protection
- Access to financial services and products
- Localisation of the Namibian financial sector

VISION AT A GLANCE

By the end of year 2020, the following should have been achieved:

- a deepened, an efficient and developed financial system;
- a stable, well regulated and competitive financial sector;
- increased local ownership of financial institutions;
- an inclusive financial sector; and
- financially literate and protected consumers of financial services and products.

By having these in place, Namibia would have an effective, efficient, stable, competitive, resilient and inclusive financial system by 2020.

INTRODUCTION

1. The Namibian economy has recorded satisfactory and sustained growth since independence. Growth has averaged 3 percent while inflation also has remained low at single digits, on average, during the period. The sector has experienced a phase of dynamic growth. Financial intermediation's contribution to GDP grew from 2.0 percent in 1990 to 3.6 percent in 2000 and further to 4.0 percent in 2008. In the next ten years, the financial sector is expected to play a pronounced role in supporting economic growth.

2. During the recent global financial crisis that started in 2007 and intensified in 2008, the stability of Namibia's financial system was witnessed. The overall direct impact of the crisis on the domestic financial system has been relatively low, thanks in part to limited exposure to sub-prime-related investments by financial intermediaries. The 2009 World Economic Forum (WEF) report also appraised the banking sector of Namibia as being sound, ranking in the 7th position in Africa; and thus evidencing the stability of the system. While there has been stability so far, the future is unpredictable and the opportunity is now taken to be forward looking so as to build the necessary foundation that will enable the financial sector to continue to play its important role in the economy and to continue to be strong and resilient in facing possible future challenges.

3. An assessment of the current status of Namibia's financial system shows that although the system is sound and well-functioning, there are inherent weaknesses that need addressing to enable the financial sector to contribute meaningfully to the overall performance of the country's economy. *Key weaknesses identified* include: a shallow financial market; limited competition**,** limited financial safety nets, under-developed capital market; inadequate and less effective regulation; limited access to financial services; consumer illiteracy and lack of consumer protection; limited financial management skills; and low participation by Namibians and thus dominance of foreign ownership in financial service provision.

4. To address the inherent weaknesses in the Namibian financial system, a ten-year strategy covering the period 2010-2020 has been developed which will enable the country's financial sector to transform and contribute meaningfully to the developmental objectives of the country as contained in the various development plans (NDPs and Vision 2030). The purpose of the Strategy is to chart the future direction of the financial system over the next 10 years that will ensure its *effectiveness, competitiveness* and *resilience*. This future landscape has been developed against the backdrop of an increasingly global and integrated economic environment and financial markets as well as the socioeconomic objectives of the country. The objective of the Financial Sector Strategy (FSS) is therefore to develop a more resilient, competitive and dynamic financial system with best practices, that support and contributes positively to the growth of the economy, and has strong and innovative domestic financial institutions that are more technology driven and ready to face the challenges of globalisation.

5. While it is acknowledged that there are plans and targets already set in various documents (e.g., NDP3 and NFSC) directed towards the development of the financial sector, the need for the development of the Namibian Financial Sector Strategy has been caused by the lack of a single reference document that guides the development of the country's financial sector; and which might lead to impediments and development deficiencies.

THE NAMIBIAN ECONOMY IN 2020 AND THE ROLE OF THE FINANCIAL SECTOR: VISION UNPACKED

6. According to the Vision 2030, the Namibian economy is expected to grow on average by 6.2 percent. The financial sector is expected to play an important role towards the achievement of the projected growth, with financial intermediation expected to grow on average by 6.3 percent over the next 10 years. As the economy grows, there will be increased demand for finance from companies that are expanding. This demand for financing will be met not only by banks, but increasingly by the capital market as well as venture capital and private equity. To underpin this, the financial sector will continue to be developed and deepened, through the introduction of new and specialised products that respond to the needs of sophisticated consumers that are increasingly literate.

7. The future of the financial system lies in its ability to create a dynamic set of financial players, which are able to provide support to the domestic economy, and more importantly, which are increasingly more efficient, competitive, and able to facilitate the economic transformation process.

8. The objective of the Financial Sector Strategy (FSS) is therefore to develop a more resilient, competitive and dynamic financial system with best practices, that support and contributes positively to the growth of the economy, and has strong and innovative domestic financial institutions that are more technology driven and ready to face the challenges of globalisation. Threats of the global marketplace are becoming more intensive, as global players and technological advancement are having an unprecedented impact on the business approach of financial institutions. Against this background, it is vital for the financial sector, to prepare and ensure that it remains effective and responsive in the face of a more globalised, liberalised and a more complex domestic economy.

9. Going forward, the ability of the financial institutions to deliver products and services in the most efficient and effective manner will be the key to

determining performance and relevance. *The Financial Sector Strategy*, therefore, proposes a financial system that is best suited to the unique Namibian economy, given the challenges posed by the environment in which Namibia as a small open economy operates. In this regard, achieving a more efficient, competitive and resilient financial system will be vital for securing the prospects for sustainable economic growth and development.

10. In summary, the Vision of the strategy is therefore for Namibia to have a well developed and diversified financial sector in the region which will be characterised by *efficiency*, *effectiveness and stability.*

Efficiency

11. Efficiency will manifest itself in the form of a range of financial products and services that should be offered at the lowest cost to both institutional and individual consumers, namely borrowers, investors, depositors, risk managers, etc. In this regard, improvement in productivity and higher returns on assets for the financial institutions will need to be realised through greater penetration of efficient and low cost delivery channels, access to scale advantages in processing, procurement and other back-office functions, and leveraging on world-class skills. This operational efficiency can be achieved through greater investment in technology and skills enhancement.

Effectiveness

12. An effective financial system will require financial institutions to be innovative in coming up with a range of highly differentiated products, services and delivery channels, tailored to meet specific demands of the consumers and the corporate sector.

Stability

13. Efforts will be geared towards the maintenance of the stability of the financial system. In this regard, robust financial institutions, infrastructure and

prudential regulation will be an important necessity. This will be to ensure that the system is able to withstand sudden adverse economic and financial shocks that emanate from within and outside the system without significantly disrupting the intermediary function and the functioning of the economy.

Robust financial institutions

Financial institutions will have to be robust, backed by strong prudential regulations and supervision. The robustness of institutions will be demonstrated in having strong risk management capabilities and credit skills in place as well as sound corporate governance. In this regard, the use and application of, among others, financial models and comprehensive risk, liquidity, and credit management frameworks will be necessary, so as the quality and accountability of the board of directors and management of financial institutions.

Prudential regulations

Amidst the need to provide an environment which is conducive to the development of an efficient and innovative financial system, strong and effective prudential regulations and supervision is necessary as these are the foundation of a strong financial system.

Infrastructure

Strong infrastructure will have to be available to ensure overall stability of the financial system. This will be achieved through institutional development and capacity building, increasing the competitive environment, the continuous improvement in the existing payments and financial markets infrastructure, and instituting a more market-driven consumer protection framework.

14. Against the above objectives and Vision, the Strategy identify outcomes for the financial sector to progressively develop to achieve the objectives in

meeting the requirements of Namibia and to adapting and adjusting to the forces of change in the domestic and international environment.

BOX A: THE FINANCIAL SECTOR LANDSCAPE IN 2020

Since the objective of having the Strategy in place is to determine the future landscape of the Namibian financial sector, an effort has been made to project the future of the financial sector come year 2020. It is acknowledged that it is not possible to project accurately how the financial sector will be structured in 10 years' time. However, taking into account the forces at work and how the challenges facing the industry are being met currently, the future financial landscape can be expected to be characterised by the following:

- An increasingly more diversified financial sector meeting the requirements of a more diversified and sophisticated economic structure;

- The competitive environment in the banking sector to result in institutions with differentiated strategies based on their strengths and market niches.

- The successful institutions will be those who will continue to leverage on the advancements in technology;

- Employing and retaining highly skilled workers and the re-skilling of existing work forces and promoting a culture of continuous learning will be continuously pursued as human factor becomes a defining characteristic of a successful financial institution;

- Specialist providers will emerge, some dominating certain customer niches;

- New service providers will emerge with the advent of new technologies and increased popularity of the internet and other means of telecommunication.

- The insurance industry will be more dynamic and increase in size as the advanced economy will provide incentives to the industry to become more competitive with increasing demands for general insurance protection in various sectors.

- Competition will be greater among the domestic and foreign insurance companies, bringing down costs and premium, and sizeable increases in business volume;

- The professionalism of the industry, particularly the agents and the financial advisors, will be enhanced through competition as a result of increasingly complex demands of the consumers and the need to continue to conform with the industry rules and regulations derived from international best practices;

- Development finance institutions and SMEs will be strengthened by having strategic business focus ;

- The payments infrastructure will be redefined as a result of significant innovation in technologies. An efficient and stable payments system will be developed through the adoption of a flexible, proactive and effective regulatory framework;

- Regulators will work closely to keep abreast with the convergence between the financial service providers. The focus will now be more on preserving system stability and market integrity through a coordinated supervision given that the pace of innovation will be far too rapid for more interventionist approach. To that end, Namibia will investigate the viability of adopting a single regulatory regime;

- Financial institutions will be majority-owned by locals;

- Namibia will be a member of the SADC Monetary Union.

CURRENT ASSESSMENT OF THE NAMIBIAN FINANCIAL SYSTEM

15. The Namibian financial system comprises the Bank of Namibia as the central bank, four commercial banks (although there is a need for increased competition in the banking sector), a number of other banking institutions, a range of non-bank financial institutions such as insurance companies and pension funds, smaller financial intermediaries in the form of stockbrokers and money market funds, and the Namibian Stock Exchange, which was established in 1992. The financial institutions operating in Namibia are the following:

(a) <u>Commercial Banks</u>

- First National Bank of Namibia (Ltd.)
- Standard Bank of Namibia (Ltd.)
- Nedbank Namibia (Ltd.)
- Bank Windhoek (Ltd.)
- FIDES Bank (Ltd.)

At the end of 2009, total bank assets, deposits and loans increased from the level recorded in 2008 (see table below).

	Total Assets		**Total Deposits**		**Total Loans**	
	2008	2009	2008	2009	2008	2009
INDUSTRY (N$m)	41,562,708	47,669,192	36,087,249	41,200,832	31,975,546	35,418,820

(b) <u>Other specialised finance institutions</u>

- Namibia Post Office Savings Bank a division of NamPost Ltd
- Agricultural Bank of Namibia Ltd
- National Housing Enterprise Ltd
- Development Bank of Namibia Ltd

Financial depth

16. The importance of the financial sector to the general economic growth of a country is well documented, especially through the intermediation channel. When financial services are supplied broadly and efficiently, they accelerate economic growth, increase the efficiency of resource allocation and improve the distribution of wealth.

17. Financial depth is measured as deposit resources mobilised and credit extended by the financial system (banking) relative to GDP. In Namibia, domestic credit to the private sector as a percentage of GDP was recorded at 46 percent in 2009 compared to 45 percent in 2008. M2 as a percentage of GDP remained unchanged at 40 percent in 2009, as in 2008.

18. Although the depth of the Namibian financial system is sufficient (compared to other countries in the region), there is still room for growth and expansion in order to reach a higher level comparable to the developed nations. This would require growth of the financial sector by reaching those segments of the population currently not served by it.

(c) Non-bank financial institutions

Non-bank financial institutions comprise of insurance, pension funds, investment managers, unit trusts, microfinance institutions, a stock exchange and stock brokers. At the end of 2008, total industry assets were recorded at N$ 172,296 million.

Insurance

19. At the end of 2009, there were 18 long-term insurance companies and one reinsurance company in Namibia. The industry's assets were N$22.5 billion, accounting for 29.6 percent of GDP in 2008. During 2009 there were 14 short-term insurers, including one re-insurer, as well as 97 insurance brokers and 359 insurance agents. The industry's assets were N$1.9 billion, accounting for

2.5 percent of Namibia's GDP in 2009. Access to especially short-term insurance services remains very low for the greater portion of the population. According to the 2007 Finscope survey, less than 10 percent of the population have access to these services.

Pension Funds

20. Namibia has a high number of registered pension funds. In 2009, there were 169 active registered pension funds (excluding foreign funds), which covered about 161 478 members. There is a need to expand the pension coverage in Namibia, since the existing pension funds do not extend to all Namibians. Therefore, there are efforts underway to establish a National Pension Scheme that will cover all Namibians. The GIPF accounts for the bulk of pension funds assets (around 70%). The assets of the pension funds were N$47 billion in 2008, accounting for 64.2 percent of GDP. Namibia has one of the highest rates of pension assets as a percentage of GDP in the world, the bulk of which is mainly invested outside the country. Local investment requirements compel pension funds and long-term insurers to invest a minimum of 35 percent of their assets in Namibia.

Investment managers

21. The total registered investment managers or asset management companies in Namibia were 38 in 2009, while the total funds under management was recorded at N$ 83.8 billion as at the end of 2009. Investment managers invest the resources from pension funds and long term insurers. In 2009, investment managers invested about 55.9 percent of total assets from pension funds and 15.1 percent from long-term insurers.

Unit trusts

22. The unit trust industry in Namibia has shown tremendous growth over the past few years. There were ten registered unit trust management companies at the end of 2009. The total funds under management increased from N$13.9 billion in 2007 to N$23.5 billion in 2008, with most of the inflow and growth recorded in the money market funds.

Microfinance institutions

23. Micro finance institutions have the potential to provide financial services to many people that the banks are not willing or able to serve. The number of micro lending institutions increased from 186 in 2006 to 340 in 2009. Total loans granted by the registered micro lenders amounted to N$1,252 million during 2008. This represents a slight increase from N$ 1,125 million granted in 2007. This increase can be attributed to the growth in the number of micro lenders during that period. Microfinance institutions' rates are, however, exorbitant compared to other conventional lenders. Existing microfinance institutions cater for a certain segment of the population, especially employed people, thus there is a need for more microfinance institutions that will cater for the excluded segment of the population who are mainly the poorest of the poor.

Stock exchange

24. The Namibian Stock Exchange (NSX) is the only licensed stock exchange in Namibia in terms of the Stock Exchanges Control Act (No.1 of 1985). Securities listed on the NSX consist of primarily dual-listed South African companies and primary-listed Namibian companies.

Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Local market (N$ million)								
Market capitalisation	1 728	2 054	2 492	2 630	3 820	4 781	5 720	7 126
Listed securities	12	11	9	9	9	7	7	7
Liquidity (%)	1.96	1.86	10.6	2.62	7.00	6.20	5.15	0.05
Overall market (N$ million)								
Market capitalisation	386 617	460 315	573 878	769 585	1 112 542	1 186 365	736 456	1 024 124
Listed securities	35	35	32	28	28	27	29	33
Liquidity (%)	0.45	047	7.16	6.75	8.76	11.24	12.72	13.63

Source: NSX

25. As can be seen from the above table, the NSX is characterised by low levels of liquidity. This can be ascribed to the buy-and-hold strategy adopted by most investors in Namibia, partly due to a lack of sufficient instruments and

partly due their compliance with local investment requirements. There is definitely a case for improving the liquidity on the local exchange.

Stockbrokers

26. There are four registered stockbrokers in Namibia, who act as intermediaries between investors and the stock exchange.

27. As evident from the above, the Namibian financial sector is relatively developed, sound and well-functioning. However, there is room for improvement especially in addressing the inherent weaknesses identified. Therefore, next section gives details of the identified weaknesses and proposes outcomes, which, if achieved, should result in a developed and modern financial system for Namibia.

REFORM AREAS AND OUTCOMES

The proposed outcomes, if achieved, should result in a developed and modern financial system for Namibia.

FINANCIAL SYSTEM DEEPENING AND DEVELOPMENT

28. A deepened financial system stimulates economic growth and lowers the cost of financial intermediation by increasing both the range and variety of financial instruments available to savers and investors. It can also mobilize and channel savings more effectively to productive investments. Such a financial system enjoys increased stability and resilience and can adjust to better absorb internal and external shocks. A fully developed financial system is able to link the domestic and international financial markets and thereby enhance international capital flows and portfolio diversification. The Namibian financial system is not considered deep enough, but relatively well developed compared to most financial systems in African countries.

Current situation assessment and challenges

29. The Namibian non-banking financial sector is charaterised by a large number of institutions and is competitive. In contrast, the Namibian banking system is characterized by *high concentration and a lack of competition*. Presently, there are five commercial banks and a venture capital operating in the market. It is often argued that in relatively small markets such as Namibia's, economies of scale limit the number of financial institutions that can be efficiently supported. In line with that, there has been views in Namibia that the Namibian market is small and not able to support too many banking institutions and different types of non-bank financial intermediaries (NBFIs), offering a range of products and services, competing directly or indirectly with, or complementing, those traditionally provided by banks. However, due to the high profitability levels of existing banks, the market is still attracting interests from institutions wanting to operate in Namibia. During 2009, the Bank of Namibia granted two provisional licenses, of which one was converted into a full banking license, while the other was subsequently withdrawn.

30. Namibia has established a Competition Commission whose role is to enforce competition laws and ensure that there are no competition distortions to all firms operating in the market as well as to potential firms wanting to enter the market.

31. Attracting new foreign financial institutions could provide a competitive stimulus and help spur innovation in products and practices. For example, a study by the Bank of Namibia (2000)[1] indicated that commercial banks in Namibia have unexploited economies of scale due to lack of competition.

32. The Namibian money market is well developed and the instruments are also liquid relative to the bond market. The market is characterized by diversity of instruments, such as treasury bills, negotiable certificates of deposit, commercial papers, repos, etc. The diversity of instruments, sophistication and volume traded in the Namibia money market still fall short of the expectations of authorities. There are also some structural issues which are inhibiting the rapid development of this market.

33. With regards to the bond market, the primary market in terms of issuance of bonds is currently dominated by Government bonds and is complemented by few public and private institutions. This poses a serious challenge to the development of primary bonds market as the issuers' base is not well diversified. In a view of limited issuers, the market is characterized by fewer issuances of bonds. This is due to the fact that the Government, the biggest player in the market, experienced favourable fiscal position in recent years, which diminished its appetite for more borrowing. As a way of increasing bond issuance in the market, there is a need to encourage more public and private institutions to source funds by way of issuing bonds in the domestic bond market. It is worth noting that there is an insatiable demand for bonds in the market given record high savings generated by the country every year as well as to contribute to the reduction in outflows and cater for new demand emanating from the amendments to regulation 28.

[1] Efficiency of Commercial Banks in Namibia, Bank of Namibia Occasional Paper 01/2000.

34. Secondary market in government debt securities in Namibia is relatively illiquid at this stage. The money market instruments are quite deep and liquid, while the Namibian secondary market for bonds is still illiquid. It is noteworthy to acknowledge the improvement in the trading of bonds since 1992. The trading is, nevertheless, not at the level the authorities would like to have in order to enhance price discovery in the bond market. The trading in the secondary market has been by and large constrained by the relatively lower issuance of bonds. Limited supply of debt securities creates a situation whereby holders of these instruments are unwilling to trade in fear of the struggle faced when trying to replace an instrument which is sold. Other factors such as limited number of issuers in the local capital market and domination of institutional investors as largest holders of these debt securities also contributes to the situation somewhat.

35. One of the indicators used to measure the level of liquidity in the secondary market, the volume traded, indicated that only N$1.6 billion worth of government bonds traded in the secondary market during 2008, much lower than amount outstanding of N$6.0 billion.

36. In 1992 the NSX was established, which is mandated to facilitate, develop and deepen the capital market in Namibia, through providing an avenue where equity finance could be raised. As can be seen from the below, the performance of the NSX was moderate in recent years.

	Value traded Billion	Volume traded Millions (N$)	Number of trades	Overall Index	Local Index
2005	N$3.4	120.8	2576	582	71.7
2006	N$6.7	234.6	2800	828	91.1
2007	N$10.9	242.6	2344	929	133.1
2008	N$9.1	271.8	2547	556	158.0
2009	N$8.7	343.0	3016	772	154.8

At the end of 2009, NSX overall market capitalisation was N$1.0 trillion, while the overall free float market capitalisation stood at N$985.4 billion. The challenges facing the NSX are the fact that not much trading is taking place and hence the lack of liquidity while there is only a limited number of local listed companies; thus the dominance of dual listed companies on the NSX.

37. There is a good local financial services infrastructure, with National Payment System as a backbone. With the reform of the National Payment System, the Namibian banking industry managed to establish local payment infrastructure for the clearing and settlement of domestic transactions. The Namibia Inter-bank Settlement System (NISS) was implemented in 2002 for settlement of Namibian interbank transactions. During the 2003, the four commercial banks, in conjunction with the Bank of Namibia, established the payment clearing house called NAMCLEAR. The Electronic Funds Transfer System (EFT) was implemented in 2004 for clearing of all domestic EFT transactions; while the cheque processing system rolled out in 2005 for clearing of domestic cheque transactions. The local switch, NAMSWITCH, was established in 2008. NAMSWITCH enabled all Namibian inter-bank Automated Teller Machine (ATM) card transactions to have been switched locally and settled in NISS from April 2008 and Point-of-Sale terminals card transactions to have also been switched locally and settled in NISS from November 2008.

38. In addition, banking institutions in Namibia have localised or are busy localising their core banking systems. The localization of core banking system will not only facilitate access by the Bank to financial records, but will also contribute to efficiency and safety of the National Payment System, support effective payment system oversight and banking supervision. The Bank of Namibia and the banking industry is currently reviewing the vision for the Namibian National Payment System with the aim of setting strategic objectives for National Payment System until 2015.

39. Currently, one major shortcoming of the Namibian financial system is its inability to turn long term savings into longer- term investment. Namibia has been experiencing a position of excess savings over investment. These excess savings, which is equivalent to the surpluses on the external current account, has led to capital outflow to mainly neighbouring South Africa. For this reason, regulations 15 and 28 were amended recently to curb capital outflow, though the implementation is kept on hold. The perception among local investors is that there is lack of investment opportunities in Namibia.

40. At present, the existing pension funds in Namibia only caters for their members, i.e., those who are employed; therefore there is a need to introduce a national pension scheme that will cater for all Namibians. The absence of a national pension scheme is a key shortcoming, though efforts by the Social Security Commission aimed at instituting a national pension system has started in 2009. The Social Security Act of 1994 mandated the Social Security Commission to administer the pension fund for Namibia. The elderly receive a monthly grant (of approximately N$500) that is not means-tested but paid to all who qualify on age and is funded from general tax revenue. The GIPF is the largest pension fund in Namibia, accounting for almost 70 percent of total pension assets. As a defined benefit scheme, members do not directly share in the upside performance when the fund grows or perform well, though indirectly they share through improved security of benefits and the potential for benefit improvements in future. The GIPF is complemented by a number of other privately-managed pension schemes and a range of individual products suited to saving for retirement. There are currently efforts undertaken by the Social Security Commission to establish a National Pension Scheme.

Outcome 1: Namibia to have an active capital market (securities market) characterised by higher turnover, liquidity and immediacy.

FINANCIAL SAFETY NET

41. The current financial crisis is not the first one to affect the global financial system. There have been many before this one and there is no guarantee that the current one will be the last one. Historically financial crises have been precipitated by bank failures, which spread and result in systemic failure of the financial system.

42. To make financial system breakdowns less likely and to limit their costs if they occur, countries have financial safety nets in place. These nets are amalgams of policies including early warning systems, explicit or implicit deposit insurance, the central bank's lending of last resort, bank insolvency resolution procedures, and bank regulation and supervision.

Current situation assessment and challenges

43. At present both the Bank of Namibia and Namfisa have in place early warning systems, but these can still be enhanced to make them more robust in order to respond to the ever-evolving technological innovations in the financial system. Further, the Bank of Namibia has a lender of last resort policy in place aimed at lending support to needy banks, if and when such banks request assistance from the central bank. However it should be noted that the efficacy of the current financial safety net regime has not been robustly tested, as there have been no problem institutions in Namibia in recent years.

44. The challenge facing Namibia the financial system with regard to financial safety nets is to develop a comprehensive and modern safety net regime that include all elements that allows for early detection and limiting the impact of failing institutions.

Outcome 2: Namibia will have a deposit insurance scheme in place by 2020, if found to be feasible.

FINANCIAL SECTOR REGULATION

45. Due to the importance of the financial sector to the economy and its fragility, authorities have developed regulation as a way of safeguarding the interests of all stakeholders. Financial sector regulation amongst others aims to secure systemic stability in the economy, ensure institutional safety and soundness, protect consumers and correct market failures. Furthermore, financial regulation has an impact on the structure, size and efficiency of the financial system, operations of the financial institutions and markets as well as the level of competition in the financial system. Therefore it is of utmost importance that the regulatory regime be strong and contributes to the development of the financial sector.

Current situation assessment and challenges

46. The Namibian financial sector regulation is generally sound, however, as new standards are set globally; Namibia must also follow these trends and update its regulatory structure accordingly. Namibia's financial regulatory regime tracks global standards and the country has in recent years passed laws and adopted standards similar to the ones adopted globally. Amongst others, recent pieces of legislation that relates to the financial sector include the Financial Intelligence Act, the Prevention of Organised Crime Act and the Combating the Financing of Terrorism Bill.

47. In order to address the shortcomings in the existing law governing non-bank financial institutions, Namfisa has embarked upon a process of reforming the existing law. To that end, Namfisa has drafted a completely new bill that will cover all aspects of the non-bank financial institutions. The Financial Institutions and Markets Bill seek to repeal the current Namfisa Act.

48. Furthermore, the Bank of Namibia has sought amendments to the Banking Institutions Act. These amendments seek to provide for amongst others, consolidated supervision, outlawing pyramid schemes and money laundering, licensing, governance and various financial and operational requirements of

banks. It is hoped that once these amendments are enacted, it will strengthen the regulatory regime of banks. In addition, the Bank of Namibia has implemented Basel II.

49. The recent global financial crisis has challenged the efficacy of the various regulatory regimes and current debate is on whether single- or multiple regulatory regime is more effective. Namibia at present has a multiple regulatory regime, however this poses a challenge in terms of coordinating the supervision of existing and potential systemically important financial institutions. Going forward, Namibia will investigate the viability of adopting a single regulatory regime.

50. Despite the above progress, the slow legal process has been identified as a challenge in Namibia. The legal process to enact the proposed amendments and introduce new laws is painstakingly slow and that hampers the reform process.

Outcome 3: The Namibian financial sector regulatory regime shall be modern and aligned with international best practice.

CONSUMER FINANCIAL LITERACY AND PROTECTION

51. The importance of consumer protection and financial education stems from the fact that consumers all over the globe are facing greater financial insecurity, given the dynamism of the financial sector. This has also been evidenced by the recent global economic crisis that originated from problems in the financial sector. Low consumer knowledge regarding rights, financial products and services; deficient protection mechanism and poor personal finance management can lead to adverse impacts on the national economy and its citizens. It is therefore important that the necessary infrastructure is put in place to protect consumers from unfair practices. Education and awareness are essential to ensure that the level of information and guidance to the public is enhanced.

Current situation assessment and challenges

52. A review of the current status in as far as consumer protection is concerned points towards the fact that there has not been a fully functional consumer protection law and or policy in existence in Namibia. The current Bank of Namibia Act does not have a provision on that, though the Bank is in the process of developing recourse mechanisms, especially for the banking sector. NAMFISA has included provisions on consumer protection in its new Bill (the Financial Institutions and Markets Bill) which is yet to be promulgated. Further, the Competition Commission which could somehow cater for the protection of consumers is not yet fully functional while the Consumer Protection Unit of the Ministry of Trade and Industry has only been recently established, though the consumer protection law has not yet been drafted.

53. In order for consumer protection to be effective, it should be accompanied by consumer literacy on financial matters. In Namibia, the level of consumer and financial literacy among citizens, both old and young is insufficient. Being clearly aware of the need to improve financial literacy in the country, various institutions have been offering public education pieces through the media. These initiatives include activities undertaken by Namfisa, BoN and the

consumer education and protection undertakings contemplated in the Namibian Financial Sector Charter (NFSC). The consumer literacy initiatives are thus largely fragmented, often brand-related and suffer from duplication, showing a lack of coordination and inefficient utilisation of resources on a country level. The effectiveness of these efforts is thus yet to be determined. An inter-agency working group, namely the Namibian Financial Literacy Working Group (NFLWG), consisting of various institutions and assisted by GTZ has been set up with the objective to look at broader issues of consumer literacy and protection. The NFLWG is made up of representatives from the Ministry of Education, Ministry of Trade and Industry, Ministry of Finance, Ministry of Justice, Bank of Namibia, Namfisa and the Development Bank of Namibia.

54. The NFLWG has identified the lack of up-to-date national baseline data that hinders assessment of progress achieved through various consumer education efforts; the non-existence of a clear policy framework that hampers the effectiveness and enforcement of efforts aimed at consumer literacy; as well as the non-inclusion of financial literacy in the Namibian formal education curriculum which does not enable learners to become financial literate during early stages of their lives, as some of the challenges in terms of consumer literacy efforts in Namibia.

Outcome 4: Namibia to have a comprehensive consumer protection legal framework, financial literacy policy in place and implemented programmes by 2020.

ACCESS TO FINANCIAL SERVICES AND PRODUCTS

55. Access[2] to financial products and services plays an important role in the growth and development of countries as it contributes to the reduction of poverty and inequality. However, many people worldwide still do not have access to financial services and products. This lack of access to financial services and products has potential to retard growth and development if not addressed and corrected.

Current situation assessment and challenges

56. Lack of access to financial products and services in Namibia is well documented and has been recognised as one of the priority areas to be addressed in the NDP3 and the financial sector charter. According to the FinMark survey (2007), 51.7 percent of the Namibian population is financially excluded. Individuals, especially those in the rural areas, are the majority who are financially excluded. Some non-governmental organisations as well as saving and credit cooperatives have been trying to improve access to finance by rural people by running programmes especially in the microfinance field.

57. Apart from individuals, small and medium enterprises also face serious access problems. The predicaments faced by the SMEs are two fold: they are considered too small for lending by the commercial banks, in the sense of their ability to repay back the money borrowed and too large for lending by micro-lenders, in the sense that the amount required often exceeds the available credit limits.

58. Financial service providers (banks) have initiated efforts in order to address the lack of access to finance. Banks have established specialised branches dedicated to SME lending and have also initiated mentoring programmes in order to assist SMEs. Furthermore, the Namibian financial industry has signed

[2] Access to finance is hereby defined to refer to access to financial services and products as well access to financial service infrastructure which enables consumers to gain access to financial services and products.

a voluntary charter which also addresses access issues and has defined principles related to products and contains commitments by financial institutions in respect of access.

59. However, there are challenges that hamper access to financial services especially relating to rural people and SMEs. These include, but not limited to: high transaction/information costs; unmitigated risks, e.g., risk of default by borrowers; lack of appropriate collaterals; regulation, e.g., laws that do not allow financial institutions to offer certain products; oligopolistic bank market structure that inhibits innovation due to limited competitive pressure; and land tenure system that does not recognise assets such as houses in rural areas as collateral.

Outcome 5: Improved access to financial services and products by eligible Namibians by reducing lack of access to 26 percent from current baseline.

LOCALISATION OF THE NAMIBIAN FINANCIAL SECTOR

Financial intermediation plays an important role in economic development, therefore, it is essential that financial institutions are owned and controlled by locals as locals are better suited to respond to the needs of the country.

Current situation assessment and challenges

60. The Namibian financial services sector has been historically characterised by dominance of foreign ownership. Most of the financial service providers operating in the country are majority owned by South African parent companies, with no or very little local ownership. There is a need to have a mix of locally owned and foreign owned institutions so as to ensure the developmental needs of the country are addressed. Usually local institutions would be familiar with the needs of the country and would be attracted to making a contribution to its developmental needs.

61. The sector is further characterised by low numbers of indigenous/previously disadvantaged Namibians in management positions. This phenomenon has been in the past attributed to low skill levels among previously disadvantaged Namibians. In order to address this, human resource development programmes must be implemented in order to ensure that there is strong pool of Namibians with the requisite skills to work in the financial sector.

62. The government has constantly urged the financial sector to transform in order to become more inclusive. The financial sector has heeded government’s call and drafted a voluntary Charter for the sector which spells out the sector’s transformation agenda. It is expected that the industry will carry out the commitments as given in the Charter in order to achieve transformation.

63. However, although the Charter contains specific provisions and targets aimed at transformation, some of the targets set out in the Charter are not sufficient to truly lead to transformation. In order to achieve true transformation, by the end of the ten-year period, local ownership of financial institutions should at least be 49 percent.

Outcome 6 (a): Local financial institutions shall be at least 49 percent owned by Namibians.

Outcome 6 (b): Board and management of local financial institutions shall be made up of at least 80 percent Namibians within the next ten years.

MONITORING AND EVALUATION OF THE NFSS

64. Monitoring and evaluation will be vital to ensure the successful implementation of the Financial Sector Strategy.

65. The Strategy shall be owned by the Government of the Republic of Namibia; and as such, the Ministry of Finance will be the custodian of the Strategy and will be responsible for the monitoring and implementation of the Strategy.

66. It is expected that the Ministry of Finance shall put in place mechanisms and procedures regarding how the implementation and monitoring will be conducted. Ideally, the Ministry of Finance would appoint the regulators of the respective financial institutions to carry out these tasks; alternatively it can set up an independent body to do so.

67. The monitoring body (ies) will report to the Minister of Finance on a half yearly basis, who in turn will report the progress of implementation to Cabinet.

ACTION PLAN

“Namibia Financial Sector Strategy 2010-2020: Action Plan”

1. Financial system deepening and development	**Target: 2020**	
	Outcome	**Responsible Agency (ies)**
	Namibia to have an active capital market (securities market) characterised by higher turnover, liquidity and immediacy. .	Ministry of Finance Bank of Namibia NFSC signatories Namfisa
2. **Financial safety net**	**Target: 2020**	
	Outcome	**Responsible Agency (ies)**
	Namibia will have a deposit insurance scheme in place by 2020, if found to be feasible.	Bank of Namibia Namfisa Ministry of Finance

3. **Financial sector regulation**	**Target: 2020**	
	Outcome	**Responsible Agency (ies)**
	The Namibian financial sector regulatory regime shall be modern and aligned with international best practice.	Bank of Namibia Namfisa Ministry of Finance
4. Consumer financial literacy and protection	**Target: 2020**	
	Outcome	**Responsible Agency (ies)**
	Namibia to have a comprehensive consumer protection legal framework, financial literacy policy in place and implemented programmes by 2020.	Ministry of Trade and Industry NFLWG NFSC signatories

5. Access to financial services and produts	**Target: 2020**	
	Outcome	**Responsible Agency (ies)**
	Improved access to financial services and products by eligible Namibians by reducing lack of access to 26 percent from current baseline.	NFSC signatories NFLWG Fides Bank
6. **Localisation of financial sector**	**Target: 2020**	
	Outcome	**Responsible Agency (ies)**
	a) Local financial institutions shall be at least 49 percent owned by Namibians.	NFSC signatories Bank of Namibia Namfisa
	b) Board and management of local financial institutions shall be made up of at least 80 percent Namibians within the next ten years.	NFSC signatories Bank of Namibia Namfisa
