“Namibia Financial Sector Strategy: 2011-2021”

Towards Achieving Vision 2030

Developed | Competitive | Effective | Resilient

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ACRONYMS AND ABBREVIATIONS

ATM	Automated Teller Machine
BON	Bank of Namibia
BES	Book Entry System
CMA	Common Monetary Area
EFT	Electronic Funds Transfer
GDP	Gross Domestic Product
GIPF	Government Institutions Pension Fund
NAMFISA	Namibia Financial Institutions Supervisory Authority
NDP	National Development Plan
NEEEF	New Equitable Economic Empowerment Framework
NFLWG	National Financial Literacy Working Group
NFSC	Namibian Financial Sector Charter
NFSS	Namibian Financial Sector Strategy
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 Namibian Financial Sector Strategy is a long-term development strategy for the Namibian financial sector. It is expected that the strategy will guide the achievement of the financial sector objectives as set out in the various national development plans (NDPs and Vision 2030); through consolidating them; especially those relating to capital and financial markets development, ownership of financial institutions, access to finance, consumer protection and financial literacy. Ultimately the Strategy should contribute to fostering economic growth and poverty alleviation as well as reducing income 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 global developments such as those witnessed during the recent global financial crisis.

The successful implementation of the identified strategic initiatives and the outcome of the Strategy will offer significant benefits for Namibia; however this will only be possible with the support and timely interventions from all stakeholders. There 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 Ministry of Finance, Bank of Namibia and NAMFISA. I would like to extend my sincere gratitude 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. Where 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.

The financial sector plays an important role in the economy

A review of Namibia's financial system shows that although the system is sound and well-functioning, there are structural weaknesses that need to be addressed 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; low financial literacy and lack of consumer protection; lack of consumer activism, limited skills; and low participation by Namibians and thus dominance of foreign ownership.

Weaknesses have been identified in the financial system

A ten year strategy has been developed to address the weaknesses in the Namibian financial system, covering the period 2011-2021, 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*.

Weaknesses necessitated the development of the Strategy

The overall objective of the Namibian Financial Sector Strategy (NFSS) is therefore to develop a more resilient, competitive and dynamic financial system with best practices in order for the sector to realise its full potential in respect of its contribution to the growth of the economy and the achievements of socio-economic objectives of poverty reduction and wealth creation., Further, the strategy envisions the emergence of 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, diversified and sophisticated domestic economy.

Implementation of the Strategy will result in the sector realizing its full potential

Thus, the development of the Namibian Financial Sector Strategy is a national response to address the structural weaknesses in the sector in order to achieve the above-stated national and sector-specific objectives. The Strategy constitutes 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). In particular, it provides the strategic policy guidance for the achievement of goals, including the NFSC initiatives, within the context of overall national development policies, i.e. the NFSC is in actual fact part of the Strategy. In this regard, the Strategy consolidates and articulates the strategic initiatives contemplated in the sector development and transformation policies. Once fully implemented, the initiatives shall result in a developed and modern financial system for Namibia. To this end, the Strategy entails an Action Plan to implement, monitor and evaluate progress towards the achievement of the outcomes.

Strategy aims to guide the development of the financial sector

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. In fact, the recent global financial crisis was mainly attributed to these risky products.

The Strategy focuses on reforms in the following key areas:

- Financial markets deepening and development
- Financial safety net
- Financial inclusion:
  - Consumer financial literacy and protection
  - Access to financial services and products
- Localisation of the Namibian financial sector
- Skills development in the financial sector

Strategy has identified five (5) reform areas

VISION AT A GLANCE

By the end of year 2021, the following should have been achieved:

- a deepened, an efficient and developed financial system;
- respected, world class and effective regulators;
- a stable, well regulated and competitive financial sector;
- significant 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 2021.

INTRODUCTION

1. The Namibian economy has recorded satisfactory and sustained growth since independence. Growth has averaged 3 percent while inflation 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 4.3 percent in 2010. In the next ten years, the financial sector is expected to play a pronounced role in supporting economic growth through an expanded intermediation role.

There has been Increased financial sector contribution to the economy since independence while the sector is expected to even enhance its role further

2. The Namibian financial system remained stable during the global financial crisis started in 2007 and intensified in 2008. 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 which was made possible by existing exchange control regime. The 2009 World Economic Forum (WEF) report also appraised the banking sector of Namibia as being sound, ranking in the 7^{th} 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 playing its important role in the economy and to continue being strong and resilient in facing possible future challenges.

Namibia's financial system has been stable but the future is unpredictable

3. An assessment of the current status of Namibia's financial system shows that although the system is sound and well-functioning, there are weaknesses that need addressing to enable the financial sector to contribute more meaningfully to the overall performance of the country's economy. *Key weaknesses identified* include: a shallow

A review of the Namibian financial system revealed key weaknesses financial market; limited competition**,** limited financial safety nets, under-developed capital market; inadequate and less effective regulation; limited access to financial services; low financial literacy and lack of consumer protection; absence of effective consumer activism, limited financial management skills; and low participation by Namibians and thus dominance of foreign ownership of financial institutions.

4. To address the weaknesses in the Namibian financial system, a ten-year Strategy covering the period 2011-2021 has been developed which will enable the country's financial sector to transform and contribute more meaningfully to the socio-economic objectives of, amongst others, poverty reduction and wealth creation as contained in the various development plans (NDPs and Vision 2030). The purpose of the Strategy is to provide a road map 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 Namibian Financial Sector Strategy (NFSS) 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.

A ten-year Strategy is being developed to address the weaknesses

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 development of the Namibian Financial Sector Strategy is a national response to address the structural weaknesses in the sector in order to achieve the above-stated national and sector-specific objectives. As such,

The Strategy will serve as a single reference document for financial sector development in Namibia the Strategy constitutes a single reference document that guides the development of the country's financial sector, and the voluntary NFSC should be viewed as part of the Strategy. In the absence of a consolidated strategy and strategic initiatives, sector development impediments and deficiencies might persist.

THE NAMIBIAN ECONOMY IN 2021 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. At the same time the demand for auxiliary financial services such as insurance will increase. 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.

Vision 2030 expects the economy to grow and hence an increase in the demand for finance

7. The Namibian financial system will have the 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 financial system will be more resilient, competitive and dynamic with best practices, which support and contribute 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

Namibia will have a more resilient, competitive and dynamic financial system to support sustainable economic growth 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 key to determining performance and relevance of the financial sector. *The Namibia Financial Sector Strategy*, therefore, will ensure a financial system that is best suited to the 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 overall goal of the Strategy is therefore for Namibia to have a well developed and diversified financial sector which will be characterised by *efficiency*, *effectiveness and stability.*

Efficiency

11. Efficiency will manifest in the form of a range of financial products and services that should be offered at the lowest possible 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, 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. Regulatory and supervisory 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.

Prudential regulations

14. 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.

Robust financial institutions

15. 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 and efficient regulatory institutions.

Infrastructure

16. 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.

17. Against the above objectives, the Strategy identifies outcomes for the financial sector to progressively develop to achieve the broad national objectives and to adapting and adjusting to the forces of change in the domestic and international environment.

CURRENT STATUS OF THE NAMIBIAN FINANCIAL SYSTEM

18. The Namibian financial system comprises the Bank of Namibia as the central bank, five commercial banks, 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. 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 2010, total bank assets, deposits and loans increased from the level recorded in 2009 (see table below).

	Total Assets		**Total Deposits**		**Total Loans**	
	2009	2010	2009	2010	2009	2010
INDUSTRY (N$m)	47,669,192	52,501,025	41,200,832	44,583,831	35,418,820	38,725,170

(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

19. 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.

20. 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 2010, as was the case in 2009. Broad money supply (M2) as a percentage of GDP was 41 percent in 2010, compared to 40.0 percent in 2009.

21. Although the depth of the Namibian financial system is relatively higher (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 2010, total industry assets[1] were recorded at N$205,217 million, an increase from N$172,296 million in 2008, and N$191,451 million in 2009.

[1] The assets of insurance, pension funds and medical aid funds are included in the assets managed by investment managers and management companies. In addition, a portion of assets managed by management companies are also managed by investment managers. There is, therefore, considerable double counting of assets.

Insurance

22. At the end of 2010, there were 18 long-term insurance companies and one reinsurance company in Namibia. The industry's assets were N$25.2 billion, accounting for 29.6 percent of GDP[2] in 2010. During 2010 there were 14 short-term insurers, including one re-insurer, as well as 121 insurance brokers and 395 insurance agents. The industry's assets were N$2.4 billion, accounting for 2.8 percent of Namibia's GDP in 2010. 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

23. Namibia has a high number of registered pension funds. In 2010, there were 167 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$63.9 billion in 2010, accounting for 75.1 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 so as to curb capital outflow and ensure effective utilization of funds in the local economy.

Investment managers

24. The total registered investment managers or asset management companies in Namibia were 38 in 2010, while the total funds under management was recorded at N$86.1 billion as at the end of 2010. Investment managers mainly invest the

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[2] Estimated GDP figure by BoN used, given the absence of final data.

resources from pension funds, long term insurers and unit trust schemes. In 2010, investment managers invested about 55.3 percent of total assets from pension funds and 14.1 percent from long-term insurers.

Unit trusts

25. The unit trust industry in Namibia has shown tremendous growth over the past few years. There were 10 registered unit trust management companies at the end of 2010. The total funds under management increased from N$13.9 billion in 2007 to N$25.9 billion in 2010, with most of the inflow and growth recorded in the money market funds.

Microfinance institutions

26. Micro finance institutions have the potential to provide financial services to many people that the banks are not able to serve. The number of micro lending institutions increased from 186 in 2006 to 347 in 2010. Total loans granted by the registered micro lenders amounted to N$682million during 2008. This represents an increase of 27 percent from N$538 million granted in 2007. For 2010, loans amounting to N$1,080 million were issued by micro lenders, an increase of 28 percent, when compared to the 2009 figure. 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 only cater for a certain segment of the population, i.e. salaried individuals, thus there is a need for more microfinance institutions that will cater for the excluded segment of the population who are mainly the poor and also for small-scale entrepreneurs.

Stock exchange

27. 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	2010
Local market (N$ million)									
Market capitalisation	1 728	2 054	2 492	2 630	3 820	4 781	5 720	7 126	7 782
Listed securities	12	11	9	9	9	7	7	7	7
Liquidity (%)	1.96	1.86	10.6	2.62	7.00	6.20	5.15	2.58	1.72
Overall market (N$ million)									
Market capitalisation	386 617	460 315	573 878	769 585	1112 542	1186 365	736 456	1 047 527	1178 257
Listed securities	35	35	32	28	28	27	29	33	33
Liquidity (%)	0.45	047	7.16	6.75	8.76	11.24	12.72	0.83	0.64

Source: NSX

28. 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. The reason for holding on to trading instruments has been often cited to be the need to comply with local investment requirements. There is, however, definitely a case for improving the liquidity on the local exchange.

Stockbrokers

29. There are 4 registered stockbrokers in Namibia, who act as intermediaries between investors and the stock exchange.

30. From the above, it is clear that the Namibian financial sector is relatively developed, sound and well-functioning. However, there is room for improvement especially in addressing the identified weaknesses. Therefore, the next section gives details of the identified weaknesses and proposes outcomes, which would result in a developed and modern financial system for Namibia.

REFORM AREAS AND OUTCOMES[3]

The outcome of the proposed reform areas, together with the undertaking by the voluntary Financial Sector Charter, should result in a developed and modern financial system for Namibia.

[3] Due to a lack of baseline data/information, some outcomes have not been quantified as well as timelines for some strategies have not been indicated due to the nature of the strategies. This should however be done once information becomes available.

FINANCIAL MARKETS DEEPENING AND DEVELOPMENT

31. 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.

A deepened financial system stimulates economic growth and lowers the cost of financial intermediation

Current situation assessment and challenges

32. The Namibian financial system is not considered deep enough, but relatively well developed compared to most financial systems in African countries. However, although the system is sound and well-functioning, there are structural weaknesses that need to be addressed to enable the financial sector to contribute meaningfully to the overall performance of the country's economy. These include a shallow financial market which this chapter aims to address. The shallow financial markets have been manifested in the outlined below.

The Namibian financial system well developed and sound but is shallow

33. Though well developed, the available instruments in the money market falls short of expectation. The bonds market on the other hand is Government dominated with only a few public and private institutions, which poses a serious challenge to the development of the primary bonds market as the issuers' base is not well diversified. Furthermore, the secondary market is relatively illiquid, with trading having been by and large constrained by the relatively lower issuance of bonds and this has created 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 the limited number of

The insufficient instruments in the money market, bonds market is Government dominated while the secondary market is relatively illiquid issuers in the local capital market and domination of institutional investors as largest holders of debt securities also contributes to the situation somewhat. The NSX has also been faced with a challenge of a lack of liquidity as not much trading has been taking place. There is also only a limited number of local listed companies, and hence the dominance of dual listed companies on the NSX.

There is not much trading at the NSX

34. Moreover, the banking system is characterized by high concentration and a lack of competition. Attracting new foreign financial institutions could provide a competitive stimulus and help spur innovation in products and practices, and 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.

The Banking industry is highly concentrated and lacks competition

35. There is good local financial services infrastructure, though, 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) facilitates settlement of Namibian interbank transactions, while a payment clearing house (NAMCLEAR) is also in place. The local switch (NAMSWITCH) enables all Namibian inter-bank Automated Teller Machine (ATM) card transactions to be switched locally and settled as well as Point-of-Sale terminals card transactions to be switched locally and settled in NISS. In addition, the Bank of Namibia and the banking industry has recently launched the revised Vision for the Namibian National Payment System which sets strategic objectives for the National Payment System until 2015

Namibia has good financial infrastructure

36. Other identified issues that are considered as important aspects in the process of striving for the deepening and development of the financial markets in Namibia relates to regulation. This is

Financial regulation in Namibia is

because financial regulation can have 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. The Namibian financial sector regulation is generally sound; however, there has been an existence of certain archaic pieces of legislation. Further, as new standards are set globally; Namibia must also follow these trends and update its regulatory structure accordingly.

sound, but archaic laws need to be reformed

37. The country has thus in recent years embarked upon reforming certain laws, passed new laws and adopted standards similar to the ones adopted globally. Amongst others, recent pieces of legislation that relates to the financial sector include the introduction of the Financial Intelligence Act and the Prevention of Organised Crime Act and the Combating of the Financing of Terrorism Bill, the implementation of Basel II and the enactment of the Bank of Namibia amendments to the Banking Institutions Act in 2010. These amendments provide for amongst others, consolidated supervision, outlawing pyramid schemes and money laundering, licensing, governance and various financial and operational requirements of banks.

Legislation reform is in process, new laws have been enacted, amendments to some others have been effected

38. In view of the above identified weaknesses, reform is needed so that the ideal situation as suggested by the below outcome is achieved.

Outcome 1: Namibia to have an active capital market (securities market) characterised by higher turnover, liquidity and immediacy. In this regard, the NSX local market capitalisation is expected to reach 75% of GDP by 2021.

Strategies to achieve the outcome

To achieve the above outcome, the following will be undertaken:

i. **Determine through a Cost and Benefits Analysis Study (in 2013) the possibility of demutualizing the NSX to enable it to be listed on the exchange to segregate its trading rights from its ownership and to enhance its regulatory functions.**

ii. **The Primary Dealership system for the government bond market will be implemented as well as the secondary market repurchase agreements (repos) operationalized,** i.e. there will be lending through repo market among commercial banks and among third parties to improve liquidity in the interbank market and the bond market. As such, the insolvency law will have to be amended to facilitate repo market transactions.

iii. **New instruments such as exchange traded funds, securitized securities and derivatives in general, may be developed to facilitate the process of deepening the market.**

iv. **To lessen the burden on the State, that usually manifest itself in the form of government subsidies and/or guarantees extended to state agencies, certain state agencies (including local authorities) with good balance sheets will be encouraged to issue more corporate papers (both short- and long-term) as an alternative to bank financing**. This will increase the number and size of debt instruments available in the Namibian capital market.

v. **The Government shall consider working with the private sector to leverage on public private partnerships.** This will increase investment opportunities, efficiency and growth.

vi. **All Namibian incorporated financial institutions, with an embedded valuation in excess of or upon reaching a certain amount (which is still to be determined), as well as their foreign holding company, if any, will be encouraged to list on the NSX.** With regards to banking institutions, there is envisaged to be a regulation that would prescribe mandatory listing.

vii. **The infrastructure needed for efficient operation of the stock exchange will be supported. These include amongst others a Central Securities Depository (CSD). Thus, the feasibility and viability of having a sustainable CSD shall be investigated so as to design and implement a CSD which will enable electronic trading of Namibian government securities and other securities; achieve international standards and best practices, and facilitate the deepening of the financial market in Namibia.** This is so because the existence of the CSD (as opposed to the current Book Entry System (BES) environment) will have the capability to serve the entire securities market in Namibia. It will also be able to be integrated within the Namibia Inter-bank Settlement System (NISS) in order to achieve Delivery versus Payments (DvP) for securities transactions as envisaged in the National Payment System Vision 2015.

viii. **By virtue of it being a major player in the economy, there shall be a national strategy to enhance the role that the long-term national funds, such as those administered by the Government Institution Pension Fund (GIPF), should play in the development of the market, without compromising the funds' returns or being detrimental to the rest of the market.** In this regard, a study on which the strategy is to be formulated should be carried out by an independent consultant by 2012.

ix. **The amended regulations 15 and 28, which stipulate domestic asset requirements of long-term insurance companies and pension funds, respectively, shall be reviewed and effectively implemented.** Amongst others, the amendments will require mandatory investment in "unlisted investments" as well as a requirement that these institutions should invest a minimum of 35% in Namibia. This will ensure that there are funds available for local economic development.

x. **In view of the importance to have an enabling regulatory environment that facilitates financial markets deepening and development, the following shall be undertaken:**

Creating enabling regulatory environment is important for financial sector deepening and development

(a) **The Financial Institutions and Markets (FIM) Bill, which aims to be a flexible, potent and responsive piece of legislation shall be promulgated and implemented by 2012**. This will replace the existing legislations and be able to address the dynamics of the modern financial sector.

(b) **The regulatory regime of Namibia shall be harmonised and collaboration amongst regulators strengthened/enhanced**. Collaboration and coordination is especially important since financial groups are often regulated and/or supervised by more than one regulator; and in which case effective consultation needs to take place.

(c) **Before any regulation or new law is enacted there shall always be a consultative policy paper (comprehensive regulatory impact assessment) with the aim to improve the quality of regulations in the country and make them cost-effective, compatible with economic growth objectives, job creation and competitiveness.** This exercise will also aim to achieve greater regulatory alignment between government policies so as to avoid possible inconsistencies and enhance trade and investment that the country is striving to achieve.

(d) **There will be continuous review and improvement in prudential standards**. This will require that the regulators are up to date with latest international standards such as Basel II and those set by the International Association of Industry Supervisors; and adapt them to Namibia. The application of international best practices and standards is necessary to help ensure a stable integrated financial system, although it has to be ensured that international best practices must be adapted to local circumstances and conditions.

(e) For purposes of ensuring the provision of a more conducive climate to investors to start and operate local businesses, **financial regulators shall strive to harmonise the regulations as well as be consistent in their approach on aspects that are under their mandate**. This is envisaged to improve the ease of doing business in Namibia.

FINANCIAL SAFETY NET

39. The recent financial crisis is not the first one to affect the global financial system. There have been many before this episode 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.

Financial safety net is important to limit the costs of crises when they occur

40. 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

41. At present the Bank of Namibia has 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. NAMFISA has made provision for a compensation scheme in the FIM Bill to cater for cases where regulated entities are unable to meet their obligations. 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.

There is limited financial safety net for the banking sector

42. The challenge facing the Namibian financial system with regard to financial safety nets is to develop a comprehensive and modern safety net regime that includes all elements that allows for early detection and limiting the impact of failing institutions. As such, below is the envisaged outcome.

Namibia needs a comprehensive and modern safety net regime

Outcome 2: Appropriate safety nets shall be put in place to protect depositors and to ensure and maintain financial stability.

Strategies to achieve the outcome

There following shall be undertaken in an effort to achieve the outcome:

i. **The feasibility and format of an appropriate deposit insurance and resolution scheme for Namibia shall be investigated and determined by 2013.** The aim is to protect depositors in case of a bank experiencing financial distress such that the impact of bank failures on its depositors as well as the contagious impact of bank failures is minimised. Deposit insurance in the event of bank closures has the objective of ensuring that the reimbursements of depositors are carried out in an efficient, transparent, and speedy manner, in order to contain the risk of a bank run. This is considered to be relevant as its existence will provide confidence in the system and reduce the risk of a financial system crisis occurring. A resolution scheme will ensure that Systemically Important Financial Institutions should be required to make contributions that is based on the risk profile of such entities and that will serve towards the cost of resolution of such entities in the event of failure.

FINANCIAL INCLUSION

43. The level of financial exclusion in Namibia is very high. The 2007 FinScope Survey indicates that more than half of the Namibian bankable population is unbanked. SMEs have also experienced difficulties in obtaining financing from formal financial institutions as evidenced by the Namibia Chamber of Commerce and Industry (NCCI) Survey of 2009. Given the negative impact that financial exclusion can have on the economy, Namibia will strive to reduce the exclusion rate through various means. As such, financial inclusion is defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections (i.e. micro- and small enterprises) and low income groups, at an affordable cost.

Financial inclusion is important due to its link to economic growth and stability of a country

44. In addition to the establishment of an inter-ministerial Financial Inclusion Council that will provide policy direction and monitor the implementation of strategies to enhance financial inclusion in Namibia, below are other strategies, specific to each individual element of financial inclusion.

CONSUMER FINANCIAL LITERACY AND PROTECTION

45. 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

Consumer protection and financial literacy is important for the economy 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

46. A review of the current status in as far as consumer protection is concerned shows 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 consumer protection, 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 caters for the protection of consumers to a certain degree, while the Ministry of Trade and Industry has also established a Consumer Protection Unit, though the consumer protection law is not yet in place.

There has not been a fully functional consumer protection law in Namibia, while the level of financial literacy has also been low

47. 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 through the media. These initiatives include activities undertaken by NAMFISA, BoN, while there are also consumer education and protection undertakings by financial institutions through 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

Effective protection of consumers requires financially literate consumers effectiveness of these efforts is thus yet to be determined. An inter-agency working group, namely the Financial Literacy Initiative (FLI) consisting of stakeholder institutions led by the Ministry of Finance and assisted by GIZ has been set up with the objective to look at broader issues of consumer literacy. The FLI has since been in the process of developing a framework to that effect.

48. The FLI 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.

49. The Strategy has identified the below to be the ideal outcome, for the consumer financial literacy and protection components of financial inclusion, after implementing relevant initiatives which are also outlined below.

Outcome 3(a): Namibia shall have and implement a consumer protection legal framework in the financial sector, which will ensure transparency and disclosure as well as consumer complaints and redress mechanisms.

Strategies to achieve the outcome

To ensure a solution for consumer protection, the following will be embarked upon:

i. **Market conduct principles and oversight will be developed by 2012 and benchmarked to international best practices to ensure consumer protection**. To that effect, the Bank of Namibia will develop a code of good banking practice in 2012, while NAMFISA also envisages setting up market conduct standards for the non-banking financial institutions. This is necessitated by the inherent information imbalance between financial service providers and consumers. Once in place, they will not only preserve confidence in the financial system but also encourage responsible dealings on the side of financial service providers. Consumers on the other hand are expected to play their part by making use of available information to choose wisely. Such market conduct codes and standards shall therefore aim to ensure transparency (such that customers know what they are getting into), fair treatment of customers and effective recourse for customer complaints.

ii. **In line with the undertaking by the voluntary Financial Sector Charter, a financial services complaints adjudicator shall be established in 2012** where consumers of financial products and services would be able to launch complaints that cannot be settled by customers and their financial institutions and the adjudication for such can take place.

iii. **Consumers will be educated on their rights and obligations** as well as the redress provisions, so as to ensure consumer activism in the market. Consumer education should thus also involve debt counseling for consumers of financial products so as to provide advisory services where needed and rehabilitate people who are over-indebted.

Outcome 3(b): The national financial literacy rate shall be increased by 2020 from the baseline to be determined by FinScope 2011.

Strategies to achieve the outcome

The following will be put in place to increase the level of financial literacy in Namibians:

i. **A clear policy framework for the coordination of financial literacy initiatives will be developed**. This will outline the type of financial literacy programmes to be put in place as well as the necessary institutional arrangements to implement financial literacy programmes. As such, encompassing financial literacy guidelines shall be developed, with various sub-programmes catering for specific target audiences and levels (in terms of the life cycle) of the different groups of the population. It is necessary to have targeted programmes in order to ensure maximum impact on the target groups.

ii. **A national baseline data on financial literacy shall be developed in 2011 and updated regularly**. This will assist in measuring progress made by the country in the area of financial literacy.

iii. **Financial education shall increasingly be incorporated into the school curriculum** so as to empower the would-be financial services consumers. It is a widely accepted view that empowering people with skills and knowledge while they are still young will lead to inculcating in them a sense of being responsible adults in future.

iv. **The pledge by the industry voluntary Charter for financial institutions to invest 0.2 percent of after tax operating profits in consumer education, shall be one of the sources of funds for purposes of financial literacy**. Other sources of funds for this purpose will have to be explored.

v. **Mechanisms to monitor and evaluate the effectiveness of the financial literacy programmes will be put in place by 2012**. Monitoring and evaluation is necessary so that corrective measures are implemented if programmes are found not to make the intended impact.

ACCESS TO FINANCIAL SERVICES AND PRODUCTS

50. Access[4] to financial products and services plays an important role in economic growth and development of countries as it contributes to, among others, 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. Some non-governmental organisations as well as

[4] 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.

saving and credit cooperatives have been trying to improve access to finance by rural people by running programmes especially in the microfinance field.

Current situation assessment and challenges

There is a high level of financial exclusion in Namibia

51. Limited 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 five-year national development plans (NDPs) and the Financial Sector Charter. According to the FinMark survey (2007), 51.7 percent of the Namibian population is financially excluded. The majority of financially excluded are in the rural areas. 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.

The SME sector is important for economic growth and employment creation and needs to be supported

52. Apart from individuals, small and medium enterprises also face serious access problems. The predicaments faced by the SMEs[5] 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.

53. Financial service providers (banks in particular) have initiated efforts in order to address the lack of access to finance. The Development Bank of Namibia has been channelling funds for SME development through commercial banks. Moreover, commercial banks have established specialised branches dedicated to SME lending and have also initiated mentoring programmes in order to assist SMEs. Furthermore, the NFSC also addresses access issues and has defined principles related to products and contains commitments by financial institutions in respect of access.

[5] SMEs, in the Namibian context, shall be defined to include all micro-entrepreneurs as well, while it would be ideal to review the existing definitions and determine the exact levels.

54. 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.

55. The below has been identified as the ideal situation going forward.

Outcome 4(a): Improved access to financial services and products by eligible Namibians by reducing lack of access from the current baseline of 51.7 percent to 26 percent.

Strategies to achieve the outcome

The below strategies shall be embarked upon to enhance access to financial services and products to the underserved and vulnerable segments of the society. The implementation of these, together with the access principles outlined in the voluntary sector Charter should be able to increase the level of financial inclusion in Namibia.

i. **The level of exclusion of economic active Namibians from the use of financial services and products shall be determined by FinScope 2011 so as to have an updated indication and assess whether or not there had been an improvement after the 2007 FinScope survey indicated an exclusion rate of 51.7 percent.** To enable implementation of appropriate and targeted policies, such an assessment will have to be detailed such that it provides information on all indicators that measure access, such as those suggested by relevant international bodies like the Alliance for Financial Inclusion (AFI) and Consultative Group to Assist the Poor (CGAP).

ii. **The Credit Agreements Act (which is viewed to be out-dated as it is almost 30 years old) shall be revised** so as to capture newer financing instruments;

modernize collateral laws and enhance the balance between both debtor's and creditor's rights. The revised legislation will encompass all facets of access, including stronger implementation guidelines.

iii. **The determination of usury rate thresholds that differentiate between the loans provided by commercial banks and those by microfinance institutions shall be reviewed and aligned with international best practices by 2012.** In this regard, a policy paper shall be produced with appropriate recommendations.

iv. **The regulation on electronic money (e-money) shall be issued in 2011 in an effort to enhance access to financial services.** The regulation will provide clear guidance to those wanting to provide such services while protecting the funds of the Namibian citizens who would use these services.

v. **The action plans under the National Payment System (NPS) Vision 2015 that aims to set clear standards for fees and charges as well as other activities resulting from the outcome of the Study on fees and user charges, will be implemented (starting in 2012)** to achieve financial inclusion, efficiency and cost-effectiveness in the provision of low cost financial services. This will address the issue of high fees and charges that has characterised the Namibian financial system and has to some extent led to financial exclusion of some Namibians not being able to take up financial products and services offered by the sector.

vi. **In recognition of the need to overcome barriers to financial access, such as collateral requirements, ways and methods that have proven successful elsewhere will be explored in 2013**. For example, the possibility of registering movable collateral as done in countries such as China as well as the successful financial support for SMEs in India and Bangladesh would be investigated. Furthermore, the current land tenure system that renders land in communal areas not to qualify as collateral security (mainly due to insecure land rights) could be reviewed with a view to enhance access to credit.

vii. **The Banking Institutions Act shall be amended in 2012 to make specific provision for microfinance deposit-taking institutions whose mission will be**

to serve the poor and low income communities as well as microenterprises that are currently not having access to formal financial services.

viii. **A national venture capital fund (risk facility) would be considered in 2013** to help increase the financing options for start-up projects in the economy, including feasibility studies. Once established, this fund would also take advantage of the regulations 15 and 28 that intends making funds available for unlisted investments.

ix. **Efforts shall be directed to ensuring the availability of micro-insurance products in the country**. This is necessary because due to their low asset bases, low-income people are particularly vulnerable to risk and negative external shocks (e.g. natural disaster, illness and/or death of main breadwinner, etc.). The existence of micro-insurance products will reduce such vulnerability and mitigate the negative effects associated with external shocks on poor households.

x. **The inherent conflict between financial integrity and financial access shall be guarded to ensure a good balance**. Access to financial services could be affected by the Anti Money Laundering (AML) legislation and thus consideration should be given to reduce access requirements to low risk customers (who in most cases are low income customers), so that access is made possible without compromising the stability of the financial system.

Outcome 4(b): Namibia shall have effective institutions in place that will provide sufficient support to SMEs and offer adequate products, services and knowledge to increase access to finance.

Strategies to achieve the outcome

The following shall be put in place to ensure SMEs get the necessary support and access financing:

i. **There shall be consideration given to whether there is a need to revise the 1997 SME Development Policy in 2012; so as to strengthen implementation and enforcement and to ensure improvement in SMEs access to finance.** A revision to the policy might also be necessary to ensure that it is in line with the new thinking encompassing all facets of SME enterprise development, i.e.to be in line with the new paradigm with respect to SMEs financing and business support. As such, the revised policy could for instance, cover among others:

- the creation of a one-stop unit for SME support that would spur the development of SMEs by providing advisory services, and other support programmes; and thus fill the existing gap with respect to the necessary business support for SMEs in terms of skills required to run a successful business. This unit would therefore serve as a "one-stop shop" for information and advisory services for all SMEs in Namibia.

ii. **A study will be undertaken in 2012 to determine the viability of a Credit Guarantee Scheme** in Namibia as there may be a need for such to guarantee loans and improve access to finance for SMEs as well as shield the credit providing entities against the perceived/inherent default risk associated with SMEs.

iii. **There shall be a legislation created in 2013 to enable the establishment of a credit bureau**. **The creation of the law will be preceded by a study in 2012 that will look at how such a credit bureau can be organized.** The credit bureau will be an avenue for information about both positive and negative credit track records of individuals and SMEs and will thus allow a platform for information sharing among all entities supporting SMEs. As such, financiers and other credit grantors shall be able to retrieve credit information and ratings for credit evaluation which will lead to the reduction of the credit risk of lenders and prevent over-indebtedness on the side of borrowers. The Bureau could also incorporate an Invoice Clearing function to enable a platform for validating invoices flowing into the Namibian economy. Entrepreneurs, especially SMEs that engage in tender based activities, will stand to benefit from invoice clearing as it will enhance and facilitate easy access to working capital.

iv. **A specialised SME bank shall be created to cater for the financial needs of viable SME projects/businesses.**

v. **It will be investigated in 2012 how best the existing various initiatives (such as the existence of funds/programmes, which are housed under several ministries, aimed at vulnerable groups of the society including micro, small and medium enterprises (MSMEs) in different sectors), can be coordinated so as to yield optimum results and continue to serve the poor and low income people better.**

vi. **The mandate of the Namibia Post Savings Bank (NAMPOST Bank) could be reviewed to incorporate a lending aspect so as to play a role of a specialised microfinance banking institution that serves the low income segment of the population**. It is envisaged that this arrangement will enable the NAMPOST Bank to extend the required services, given its already established extensive branch network country wide.

vii. **All credit providing entities such as DBN and commercial banks, as well as other financial institutions shall be encouraged to provide SME advisory services** and/or make use of other bodies that provide such services and lend to priority sectors.

LOCALISATION OF THE NAMIBIAN FINANCIAL SECTOR

56. 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

57. 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.

There is low participation by Namibians in ownership, control and management of local financial institutions, a situation that needs to be addressed.

58. 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 deficit, there is a need to implement human resource development programmes so as to ensure that there is a strong pool of Namibians with the requisite skills to work in the financial sector.

59. 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 adopted 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.

60. As per the agenda set out in the National Development Plans and the Government's New Equitable Economic Empowerment Framework (NEEEF) and in line with the transformation agenda of the Financial Sector Charter, it is important that the NFSS, being the main guiding document on the development of the financial sector, leads to genuine transformation of the sector. Identified under outcome 5(a) and (b) below is the ideal situation for Namibia.

Outcome 5(a): There shall be increased Namibian ownership of financial institutions.

Strategies to achieve the outcome:

In line with and in addition to the provisions under NEEEF and the undertaking by the voluntary Namibia Financial Sector Charter (NFSC) to improve and/or reduce the inequitable distribution of ownership and control of financial institutions through transformation, the strategies below aim to consider a much wider scope of ensuring increased ownership of financial institutions by Namibians with the emphasis on institutional ownership.

i. **Regulators will recommend to the Minister of Finance to issue the appropriate level of Namibian ownership of financial institutions** under their respective jurisdictions. This could be achieved through a relevant regulatory framework.

Outcome 5(b): There shall be significant representation of Namibians at Board and management level of financial institutions.

Strategies to achieve the outcome

In order to ensure the attainment of this outcome, the following will be implemented.

i. **Regulations aimed at ensuring Namibians have increased and meaningful control and representation in financial institutions will be introduced and**

implemented. The regulations will also put targets on Namibians in board and executive committees.

ii. **Efforts shall be geared towards complementing the commitment by the industry voluntary Charter to create an environment in which current and future Namibian leadership incumbents may be equipped with appropriate knowledge and capacity to enable them to play a central part in driving the transformation of the sector.** To that effect, deserving Namibians (exhibiting potential) shall be trained and developed to be able to take up positions at board and management levels in financial institutions. As such, relevant programmes such as leadership and mentoring programmes shall be designed and implemented.

iii. Regulators will monitor the implementation of the provisions under various initiatives, such as the NEEEF, NFSS as well as the sector voluntary Charter and advise the Minister of Finance accordingly.

SKILLS DEVELOPMENT IN THE FINANCIAL SECTOR

Skilled human resources important for financial sector development

61. A well-functioning financial sector is essential for economic development. Importantly, a robust financial sector, however, depends not only on the effective institutional infrastructure, but also on the capability of its human resources. Human capital plays a critical role in the growth and development of the financial sector. Investments in human capital is instrumental in shaping the improvements to the financial services industry where knowledge, skill, competencies and capabilities have become key strategic drivers of productivity, competitiveness and growth.

62. With globalisation and integrated financial markets, the need for capacity development in any countries' financial sectors becomes even more important to ensure that professionals within the sector will be able to keep up with the dynamism and expectations of the new developments. In the next decade, there are likely to be many changes in the type of skills needed by the financial services industry. New roles will be created and existing roles modified or expanded. As such, it is crucial that the financial services sector constantly improve the quality of its workforce and ensure an adequate supply of qualified human capital. This is because employees working at all levels in financial services organisations will need relevant skills in the new and changing environment. Examples of such skills that will be needed are: *risk management and compliance skills*, which will be driven by greater regulation of financial services companies and demand for transparency among stakeholders; *product knowledge and advice skills* so as for financial institutions to be able to assist and provide advice on the 'new generation products' to the less affluent clients; and *cultural and language skills* which will become more important as financial services are extended more and more to the previously excluded and less fortune segments of the population, and as the client base becomes more diverse and sophisticated and which will raise the need to engage in specialized financial transactions.

Current situation assessment and challenges

63. One area of concern in the Namibian economy cited by many players in the financial sector is the lack of appropriate skills and this has restrained to a great extent innovations and aggressive entrepreneurship. It has further resulted in a lack of meaningful representation of Namibians on the board and executive management structures of financial institutions.

There is a lack of appropriate skills in the Namibian financial sector

64. This has been the case despite tertiary institutions having produced graduates since independence, i.e. despite courses offered by existing tertiary institutions, many still lack skills needed to work in the financial sector. This might be a reflection of the general lack of skills to the requirements of the job market experienced by the country as was found by surveys carried out by the Ministry of Labour in 2006, followed by that of NEF/IPPR in 2010, both of which revealed the existence of vacancies hard to fill due to skills and qualification shortages. It was clear from the surveys that Namibia is experiencing a shortage of skilled workers. Also while Namibia has managed to maintain a middling position over the last few years on the global Competitiveness' Index of the World Economic Forum, the country is ranked very low in terms of innovation and the availability of specialised skills.

65. All of the above calls for both the government and the private sector to make concerted efforts to enhance the country's human resource development with the view to improve skills, especially in the areas of finance and entrepreneurship.

There is a need to develop the current and future skills required by the sector

<u>Outcome 6</u>: Skills needed by the financial sector shall be identified and developed.

<u>Strategies to achieve the outcome:</u>

In line with, and in addition to the provisions under the Government's education and training sector improvement programme (ETSIP) as well as the undertaking by the Namibia Financial Sector Charter to build and develop skills needed by the financial sector, the following strategies will be implemented:

i. **A sector Skills and Training Plan, proposed to be called the Financial Sector Skills Enrichment Programme, shall be designed in 2013** which will have the objective to address the shortage of skills in the financial services industry and produce highly trained industry professionals. The programme will be funded by the financial industry players and regulators, while other sources of funds, including initiatives such as the newly introduced skills levy will be explored.

ii. **To match up with changes and new developments in the financial sector, existing courses offered by tertiary institutions such as the Polytechnic of Namibia and University of Namibia will be reviewed to determine their relevance and adequacy**, and if found not to meet the requirements of the sector, relevant courses and/or modules will be developed in conjunction with those institutions. The courses so developed will also address the strategic skills demand of stakeholders in the financial sector.

iii. **Various professional qualification institutes, including the Institute of Bankers (IOB) in Namibia shall be strengthened from 2012 onwards to build up the skills of financial sector professionals** (bankers, insurers, securities brokers and issuers, and accountants and auditors, among others); while also building up the capacity of financial sector professional associations. This will help develop the infrastructure, institutions, systems and processes required to support expanding financial markets. Partnering with institutions of high learning should also be considered.

iv. **There shall be continuous training and development for regulatory officials** so as to keep pace with international developments and best practices, improve the enforcement capacity and ensure effective implementation of the regulatory mandates.

v. **As a short-term solution, the financial sector will engage relevant authorities in 2012, such as the Ministry of Home Affairs, on putting in place a strategy pertaining to the acquisition of work permits for foreign employees with critical skills.** The strategy will aim to allow the import of skilled persons where needed, as has happened in other developing countries, as well as to ensure that skills so imported result in skills transfer to Namibians. The long-term solution, which should be a top priority of the industry, however, is to train more people and have the needed local skills.

INSTITUTIONAL ARRANGEMENT, MONITORING AND EVALUATION OF THE NFSS

66. The Strategy shall be owned by the Government of the Republic of Namibia, under the custody of the Ministry of Finance.

67. Monitoring and evaluation will be vital to ensure the successful implementation of the Strategy. As such, an Implementing Committee consisting of the Permanent Secretary of the Ministry of Finance, the Governor of the Bank of Namibia and Chief Executive Officer of NAMFISA shall be set up to ensure the implementation of the NFSS.

Monitoring and evaluation is key for successful implementation of the Strategy

68. To facilitate a smooth implementation process, Working Groups shall be created where relevant, identifying lead agencies and other stakeholders to be involved in the implementation of a strategy/specific action plan.

69. Given the special nature of the reform areas relating to financial inclusion as set out in this NFSS, there shall be established a Financial Inclusion Council, which will be responsible for the implementation of the financial inclusion agenda. The Council will be chaired by the Prime Minister of the Republic of Namibia, with Ministers/Heads of the following Ministries/Institutions as members:

a. Ministry of Finance
b. Ministry of Trade and Industry
c. National Planning Commission
d. Ministry of Education
e. Ministry of Agriculture, Water and Forestry
f. Ministry of Youth and Sport
g. Ministry of Labour and Social Welfare
h. Ministry of Gender Equality and Child Welfare, and
i. Ministry of Information, Communication and Technology

70. An Advisory Body to the Council shall be formed, composing of relevant institutions, agencies and/or bodies, members of which shall be allowed to attend meetings of the Council. The Head of the following institutions will form the Advisory Body:

a. Bank of Namibia
b. NAMFISA
c. Development Bank of Namibia
d. Agricultural Bank of Namibia
e. Namibia Post Ltd (NAMPOST)
f. Social Security Commission
g. Namibia Competition Commission
h. Bankers Association of Namibia
i. Non-banking industry Representative:
    - Association of Asset Managers
    - Association of retirement funds
    - Association of Long-term Insurers
    - Association of Short-term Insurers
j. Namibia Consumer Trust
k. Namibia Chamber of Commerce and Industry
l. Joint Consultative Council
m. Namibia Business Innovation Centre
n. Institute of Bankers in Namibia

71. The Implementing Committee referred to in paragraph 67 above shall report to the Minister of Finance and to the Prime Minister in the case of financial inclusion matters, on a half yearly basis, who in turn will report the progress of implementation to Cabinet.