

## **Ipumbu Shiimi: Financial inclusion – an imperative towards Vision 2030**

Speech by Mr Ipumbu Shiimi, Governor of the Bank of Namibia, at the Governor's Annual Address, Windhoek, 28 October 2010.

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*Honourable Speaker of the National Assembly, Dr Theo-Ben Gurirab and Madam Guriras  
Honourable Ministers  
Honourable Members of Parliament  
Captains of Industries  
Board Members of the Bank of Namibia  
Members of the Media  
Distinguished invited Guests  
Ladies and Gentlemen*

Good evening and welcome to this year's annual address

I stand here this evening inspired by the opportunities for economic development before us and grateful for your presence, which is a demonstration of your commitment to engage in discussions that are aimed at making Namibia a better place.

At last year's Annual Address, we told you that Namibia is an envy of many countries because of our laudable achievements since independence. One year has passed since then, and with every tick of the clock, we are getting nearer to the year 2030. That should be our solemn reminder to do the right things with more vigour and urgency with a view to address the daunting, yet insurmountable challenges facing us.

Ladies and Gentlemen, this evening, I will not repeat our successes and challenges presented to you last year. Instead, I chose to talk about financial inclusion as one of the key strategies that will help us to address our challenges and ultimately realise Vision 2030. More specifically, I would like to put forward some ideas on extending financial services to the so called "the bottom of the pyramid" segment of our nation and may I add that it is a very large bottom of the pyramid. I am fully convinced that full financial inclusion is vital in achieving our ideals portrayed in Vision 2030.

What is this animal we call financial inclusion?

Financial inclusion, also referred to by some as access to financial services, has various interpretations. The term "financial inclusion" gained importance since the early 2000s and is a result of findings that financial exclusion has a direct impact on poverty alleviation. Financial inclusion is now a common objective for many central banks among developing countries and even among developed nations.

In our case, Director of Ceremonies, financial inclusion means an inclusive financial system in which all persons who can use financial services have access to a range of quality financial services, provided at affordable prices, with dignity to clients. Inclusive financial services, therefore, go beyond banking products. An inclusive financial system should ensure that the excluded people in our country currently estimated at over 50 per cent of the economically active population have access to affordable financial services. Such services include credit, reliable access to an efficient payment system, insurance services, among others. An informed understanding of how financial markets work, in other words be financially literate is another important element of financial inclusion. An inclusive financial system will ensure that our SMEs have access to the much-needed finance, business support, and relevant financial information required for the SME sector to thrive. Ultimately, financial inclusion nurtures consumer empowerment through financial awareness and consumer education.

It is, therefore, on this premise that financial inclusion, particularly SME financing, will serve as an engine for inclusive growth. The role that SMEs play within an economy cannot be over-emphasised. This is because SMEs have the potential to create employment and contribute to economic growth of a country. India, for example, has registered economic growth close to double digits, even at the height of the current financial and economic crisis. It is reported that India's SME sector contributes about 50 percent to India's total exports. As one of the ways towards achieving the ideals of our National Vision, Namibia aspires to have a flourishing SME sector by the year 2030. The case for financial inclusion is, therefore, not only based on principle of equity – but access to affordable banking and other financial services is also required for inclusive growth with stability.

Ladies and Gentlemen, over the past 20 years, financial institutions in Namibia have been fulfilling the intermediation function to a certain extent, and thereby have contributed to economic development. Our banking institutions, in particular, have played this role without compromising the stability of the financial system. In fact, at the height of the financial and economic crisis in 2008, the World Economic Forum rated Namibia's banking system seventh in the world, just after Switzerland. This is indeed a good achievement that we can be proud of and a good foundation we can build on.

Director of Ceremonies, the Bank of Namibia has also made a humble contribution in the quest to promote financial inclusion. As part of our developmental role, the Bank of Namibia availed some human and financial resources to set up the Development Bank of Namibia. The financial assistance, has, in a small measure, facilitated the process of financial inclusion, especially towards the development of potential businesses and SMEs. In the area of access to payment services, we have embarked upon the national payment system reforms by ensuring the localisation of the payment, clearing and settlement systems.

Notably the private sector has also initiated activities which will undoubtedly increase access to financial services. To this effect, the first mobile payment service provider was licensed to allow the transfer of money using mobile phones. In the same spirit of extending banking services to the unbanked, we approved a banking license to the first Micro Finance Bank in Namibia – that is built on the Grameen Bank concept.

Ladies and Gentlemen, while these achievements are praiseworthy, it is important to note that more needs to be done. Certain segments of our economy are still not benefiting from access to finance. In particular, small and medium-sized enterprises (SMEs), rural communities and the poor are still experiencing difficulties in accessing the services offered by the financial sector. According to the latest Fin Scope Survey, more than 51 percent of the economic active Namibians are unbanked or do not have access to financial services. The picture does not get any better with SMEs. The NCCI Namibian Business Climate Survey of 2009 indicates that about 55 percent of informal business could not access credit, and 37.1 percent of those that had access to credit, obtained this from friends and relatives.

Director of Ceremonies, this trend is disheartening, especially for a country that exports national savings to other countries on a daily basis. Last year alone, Namibia recorded a net outflow of capital to South Africa to the tune of N\$7.7 billion. Year to date, the net outflows are already standing at N\$8.9 billion. Imagine, what the impact would have been, had we retained just a fraction of that money for investment within the domestic economy. This trend is not sustainable for a country that aspires to be a developed nation by 2030.

Ladies and Gentlemen, we cannot and should not continue with this status quo. We should, therefore, take tough decisions to reverse these trends, with the aim of further increasing access to financial services. Our financial sector must become an important pillar of strength to our economy through financial inclusion. Every economic activity, geographical region and segment of society must have access to financial services to ensure a more balanced economic growth and development.

Director of Ceremonies, increasingly, world leaders have realised the importance of financial inclusion, as a critical ingredient for a stable economic growth and poverty reduction.

Therefore, financial inclusion is one of the issues to feature prominently on the agenda of G20 Summit in Seoul this November. A number of emerging economies, such as India, Malaysia and Mexico, have developed and adopted coordinated policies on financial inclusion, as key strategies to enhance economic growth and alleviate poverty. Malaysia, in particular, has gone an extra mile in this journey with its financial inclusion agenda. Its success speaks for itself. Today, Malaysia's unemployment rate is below 3.4 percent, and its poverty rate stands at 3.6 percent. Thirty-seven years ago, the poverty rate in Malaysia was 50 percent, and in 1987, the poverty rate stood at 20 percent. This is one of the countries, I believe, against which we should benchmark ourselves.

It is imperative that financial inclusion becomes a high priority in our national agenda. We cannot afford to ignore the major role of financial inclusion in facilitating our efforts, policies, and strategies of achieving the ideals of Vision 2030. In this regard, the Bank of Namibia has identified financial inclusion to be an important thrust in the Bank's developmental role. We have, therefore, made financial inclusion as one of our key strategic objectives for 2011 and beyond.

As a Bank, we want to pledge our support and efforts towards this very important objective of having an inclusive financial system. Our pledge is therefore set out in a four-point agenda:

- ***First, regulation and regulatory intervention***

Financial inclusion cannot be realised without appropriate financial regulation and regulatory interventions. Regulation ensures that the financial system remains stable. Only with a stable financial system would it be possible to pursue the financial inclusion agenda. In this regard, the Bank of Namibia will ensure that appropriate regulations are in place and that we coordinate our regulatory efforts with other regulators, such as NAMFISA and the Competition Commission, to safeguard financial stability.

Financial inclusion requires financial institutions to pursue innovative and alternative business models. Innovation is, therefore, central in this process. The Bank of Namibia pledges its support from the regulatory perspective to encourage innovation. This will be done within the overall regulatory framework to ensure a system of incentives and disincentives that will further financial inclusion objectives, without compromising financial stability. In this connection, the Bank is fully aware that over-regulation may stifle the upspring of innovative financial products aimed at closing the financial inclusion gap and we will factor this in our actions.

- ***Second, consumer literacy and protection***

Our second objective is to ensure consumer literacy and protection. Financial illiteracy and lack of consumer protection are major impediments to access financial services. The area of consumer protection ranges from excessive pricing, limited access to financial information and financial redress. In this regard, the Bank of Namibia will put in place various avenues for consumers to seek financial redress and deal with consumer-related issues. Further, to assist consumers in making informed decisions suitable to their needs and capacity, various efforts will be introduced, aimed at improving consumer literacy through a comprehensive consumer education programme. Our efforts will complement the efforts by other stakeholders, such as Namfisa.

- ***Third, access to financial services and payment services***

At the heart of the financial inclusion agenda, is the issue of access by the hard to reach, still-neglected members of our society. The Bank of Namibia will hasten the process of finalising the Tier II Banking Legislation. This legislation is currently in the draft form. We hope that once this Law is enacted, it will encourage entrants into this market segment with a view to further enhancing access to financial services. The

banking fees and charges have often been identified as one of the key supply side barriers to financial services. To this effect, we have put requirements in place for the banking institutions to disclose and make available information on fees, charges, and commissions imposed on products and services. This will allow for customers to make comparative analyses on pricing and make informed choices. The recent amendments to the Payment System Management Act also give the Bank of Namibia power to act if the market fails to ensure that fees and charges are transparent, competitive and commensurate with input costs.

Another related issue is access by viable SMEs to financial services, in particular SME financing. The time has come for the financial sector as a whole to prioritise access to finance for SMEs. To this effect, the Bank of Namibia, in conjunction with other government bodies, will establish comprehensive mechanisms to ensure that viable SMEs have continued and sustainable access to financing, and other support services.

- ***Fourth, local ownership of commercial banks***

Financial inclusion should not be viewed from the receivers (i.e. customers) perspective, but also from the side of the suppliers and owners of resources. We cannot therefore talk of financial inclusion, without addressing the issue of ownership, management and control of the financial sector. The recently amended Banking Institutions Act gives the Minister of Finance the power to facilitate the transformation of the Namibian banking industry, in a quest to diversify the shareholding structure of banking institutions, and to reduce concentrated ownership and control. Local ownership and management control is a necessary factor in enhancing credit extension as local persons know the domestic conditions. Therefore, they can lend without solely relying on hard information. Going forward, we will use a consultative approach between all players in determining an acceptable blend between local and foreign ownership. This quest for domestic ownership and management control should, therefore, be viewed as one of the strategies for a more inclusive financial system without compromising financial stability and market-based systems.

Director of Ceremonies, you maybe asking yourself, why are we here this evening when the Bank of Namibia has figured it all out already?

Financial inclusion is not a one-person show. Its success will depend on the presence of an institutional environment with clear lines of accountability and coordination between Government, regulators, financial institutions, and other key stakeholders. It will be a fruitless exercise if regulators' efforts to make relevant and enabling regulations are not matched by the corresponding responses from the financial institutions. I believe that the time has come for more concerted efforts by all stakeholders to tackle the challenge of financial inclusion as we navigate our way towards the ideals of Vision 2030. This calls for financial institutions to come up with alternative and sustainable business models. It further calls for regulators to provide an enabling environment, which does not compromise financial stability. It calls for Government to play a supporting role. In this regard, our Government should work towards making property rights in communal areas fully tradable, like in the rest of the country. This will go a long way in facilitating access to finance for our people. It is my wish that in five years time, property rights in rural areas will have same status as those in Windhoek. All in all these need a coherent coordination framework at the National level.

Ladies and Gentlemen, it is my hope that each relevant institution represented here this evening will start internal conversations on financial inclusion. I trust that the conversation will result in financial inclusion strategies and relevant actions. The Bank of Namibia will in the coming year communicate its concrete plans as guided by our four-point agenda on financial inclusion. We will also put forward ideas on how best to improve coordination of the financial inclusion strategy.

Let me conclude by quoting the former UN Secretary-General, Kofi Annan, who in 2003 said the following: “The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives.”

Director of Ceremonies, the financial inclusion strategy requires change and we know that change is never easy. However, I believe that the challenges before us are greater than the uneasiness that accompanies the change. The goals, we have set for ourselves should be our guiding and encouraging armour. Let our action going forward make every tick of the clock matter for tomorrow. Let our children look back 20 years from now, and say, indeed, our parents’ generation chose the road less travelled to ensure economic emancipation for Namibia.

The challenge is indeed great, but “the journey of a thousand miles starts with a single step” so goes the old Chinese adage. The goal is ambitious, but it is within the realm of the possible, if we but, take the necessary steps.

Thank you for your attention and please enjoy the rest of the evening.