

**THE PAYMENT SYSTEM IN
NAMIBIA**

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OVERVIEW OF THE NATIONAL PAYMENT SYSTEM IN NAMIBIA

Background information

Over the last few years increased attention has been given to the issue of the payment and settlement systems. Many developing nations and the countries of Eastern Europe and the former Soviet Union have been redesigning their payment systems to support market economies which those countries have embraced.

The current Namibian payment system has undergone a few changes since Namibia's independence on 21st March 1990. The system provides a wide range of payment facilities (under various payment stream options) for domestic as well as international payments. The participants in the payment system comprise five commercial banks, one building society, the Post Savings Bank and the Bank of Namibia (the central bank).

The Bank of Namibia has the responsibility to ensure the overall soundness and efficiency of the payment system. The Bank is the controller of the clearing house and provides accommodation accounts to all clearing banks to facilitate settlement.

Namibia has a well-established financial system which is controlled by legislation and state agencies working through the Bank of Namibia.

Present state of payment system

Payment systems in Namibia compare favourably with those in developed countries as far as customer services are concerned. Although the rural areas are densely populated (up to 65% of total population) cash is utilised as a means to pay low value transactions whilst a wide range of payment instruments and services are offered by the banking sector.

Cash, cheques, paper based credit transfers, credit-, debit- and prepaid cards, trade bills, electronic funds transfer services, S.W.I.F.T. transfers and Automated Teller Machines (ATMs) are all widely used. Even cross-border payments through the Automated Clearing Bureau (ACB) in South Africa are an accepted means of payment. There is noticeable public interest in electronic banking since the introduction of the Internet as more people are demanding home banking facilities.

Presently local interbank and settlement payments are facilitated through a manual clearing system, with physical delivery and exchange of payment instruments taking place at an agreed venue.

New developments and projects being undertaken

Pursuant to the launching of the SADC initiative on payment systems, Namibia embarked upon a visionary approach by drawing up a strategic plan in order to steer the current payments system to meet the demands of the Vision 2005 of free trade in the SADC region.

During 19th-21st August 1997 Namibia held a sensitisation workshop, where all or most of the stakeholders were invited and participated. It was resolved to establish a country project committee to manage the payment systems project. This committee is to spearhead the National Payment Systems strategy.

1. INSTITUTIONAL ASPECTS

1.1 General legal aspects

The legal framework governing the payment system in Namibia follows the pattern of many countries in the sense that it is fragmented and the laws are outdated. There is currently no law that directly governs the payment system in Namibia. The payment system has been established and is operated and regulated in terms of either common law or by certain selected provisions contained in various statutes. Common law (e.g. Law of Voluntary Association; Law of Contract) governs mainly the structures within the payment system and the various membership and other agreements. Provisions within the following legislation are applicable to the payments system in Namibia:

- Bank of Namibia Act, 1997 (Act. No. 15 of 1997);
- Banking Institutions Act No. 2 of 1998;
- Building Societies Act (Act. No. 2 of 1986 (under revision));
- Post and Telecommunication Act (Act No. 19 of 1992);
- National Housing Enterprise Act (Act. No. 5 of 1993);
- Companies Act (Act. No. 61 of 1973);
- Insolvency Act (Act. No. 24 of 1936 (as amended));
- Usury Act (Act. No. 73 of 1968);
- Bills of Exchange Act (Act No.34 of 1964);
- Credit Agreements Act (credit card).

1.2 Role of financial intermediaries that provide payment services

The banking sector in Namibia is controlled by legislation and by state agencies working through the Bank of Namibia.

General banking facilities are available and most of the commercial banks are capable of providing specialised merchant banking facilities to their customers. Branches of banks can be found in most towns in Namibia with agencies in the smaller centres. International services are also available through interbank arrangements, whilst electronic banking services are available in all major towns.

Categories of financial intermediaries are as follows:

Category	Number
Commercial Banks	5
Building Societies	1
Post Office Banks	1

1.2.1 Commercial banks

There are five commercial banks with 78 branches spread over the country. This figure includes banks with local and foreign ownership. The banks offer a wide range of services to their customers, including payment facilities, loans and mortgages, foreign exchange, and travel services. The banks operate in both the retail and the wholesale market.

1.2.2 Building societies

Currently, building societies are registered under the Building Societies Act. Until 1996, there were two building societies, but one of them merged with a commercial bank. The remaining building society has branches throughout the country and provides retail banking services, in the form of investments, savings and mortgage loans.

1.2.3 Nampost

The Post Office Savings Bank (Nampost), is a savings and money transfer institution and is registered under the Post and Telecommunications Act no. 19 of 1992, and is therefore not registered as a bank under the Banks Act.

Other services provided include the sale of revenue stamps (as Government agent), collection of general sales tax and additional sales duty, payment of social welfare pensions, collection of telephone account payments and selling of new telephone cards on behalf of Telecom Namibia. Postal services available include, business reply services, cash on delivery (COD) and insured, registered and express delivery.

Nampost is limited in its investment operations, and hence lending to third party organisations is not permitted.

1.2.4 Credit card companies

Credit cards are issued under an agreement between the issuer (bank) and the user (the customer). This agreement has to comply with the provisions of the Credit Agreements Act of 1975. Interest rates are charged to the user and are subject to the Usury Act of 1968.

Currently, most cards are issued by the card divisions of South African parent banks, on behalf of Namibian banks' customers.

"Non-Residents" need prior approval from the Bank of Namibia's Exchange Control Division before they will be issued with a credit card.

Virtually all conditions and regulations under which credit cards are issued are the same as those applied in South Africa.

1.2.5 Other non-banking entities

Apart from the entities already mentioned, there are certain non-bank institutions which are involved in payment services:

- Cash Paymaster Services for pension pay-outs;
- mobile agencies of companies in payments;
- some retail stores as agents, where banks are not represented;
- micro lenders;
- insurance companies;
- the Post Office;
- Namibian Development Corporation;
- National Housing Enterprise;
- club cards issued by American Express and Diners Club.

1.3 Role of the central bank

The functions of the Bank of Namibia include:

- the issuing of bank notes and coin;
- acting as banker to the government;
- acting as banker to other banks;
- providing facilities for the clearing and settlement of claims between banks;
- acting as lender of last resort;
- engaging in public debt management and open-market operations;
- supervising banks and building societies;
- collecting, processing and interpreting economic statistics;
- formulating and implementing monetary policies;
- administering exchange control under delegation of authority by the Minister of Finance. In terms of the Exchange Control Regulations, the legal basis for exchange control, the Minister bears ultimate responsibility for foreign exchange and therefore, for exchange-control policy, on which he is advised by the Governor of Bank of Namibia;
- overseeing the safety and soundness of the national payment system.

Some of the listed functions need to be considered in more detail:

Banking supervision¹

The function of banking supervision is delegated by the Minister of Finance to the Bank of Namibia. Presently, all regulations pertaining to the Act are issued by the Minister on recommendation by the Bank although the Bank is responsible for administration of the Act. The Minister may in terms of current legislation (i.e. the Banking Institutions Acts) make any regulations consistent with the Act.

Under the newly promulgated legislation, i.e. the Banking Institutions Act of 1998, the Bank will have greater powers to ensure independent licensing procedures, maintain effective prudent supervision and be better equipped to intervene in crises situations or deal effectively with non-compliance. The proposed legal framework will allow the Bank to respond more effectively to changes facing the industry by being empowered to issue circulars, directives or notices on any issue related to banking business without following the process of being approved by the Minister of Finance and compliance only becoming effective after publication in the Gazette.

Issuing of currency

The Bank of Namibia is the sole issuer of notes and coins to the commercial banks, and limited quantities to Government and the public. The printing and minting of bank notes and coins respectively are awarded to note and coin printing companies through a tender process. The first issue of notes was printed by Tumba Bruk of Sweden (1993) while Thomas de la Rue of UK (1996), printed the second issue. Mint of Finland was awarded the tender to mint the coins.

¹ Registrar of Banks.

Administration of accounts for banks and individuals

Bank of Namibia provides banking services to banks but very limited services to the public. Presently the Bank maintains accounts for the Government and the commercial banks. The administration of these accounts is governed by the Bank of Namibia Act.

The commercial banks are currently eligible to have a current account, reserves account, call account and an overdraft facility. The present settlement balances, as well as cash deposits/withdrawals are reflected on the current accounts, daily.

Payment services for the Government

Although the Government makes direct transfer of salaries to the commercial banks and the building society, the Bank of Namibia offers cashier services for civil servants, who are paid by cheque.

The Bank of Namibia is not involved in retail banking activities, but handles, as an agent for the Government, the receipts and expenses for the Treasury as well as the administration and accounting of Government securities.

Execution of monetary policy

Due to its membership in the CMA (Common Monetary Area), the Bank of Namibia is restricted in determining and implementing monetary policy.

Cash reserve requirements are utilised mainly for the execution of monetary policy. The banks are obliged to maintain a minimum cash reserve of:

- 5% of their short-term liabilities to the public (other than liabilities under acceptances);
- 2% of their medium-term liabilities to the public (other than liabilities under acceptances).

Banks are also obliged to maintain liquid assets in Namibia consisting of:

- 20% of short-term liabilities of which cash contributes 5%;
- 15% of medium-term liabilities of which cash contributes 2%; and
- 5% of long-term liabilities.

1.4 The role of other private and public sector bodies

The following bodies are involved in the payment system:

The Bankers Association. This is the council of the Namibian banks and has structures such as the Technical Committee, the Joint Security Committee and the Clearing House Committee. The Association is the *de facto* collective body for the banking sector in Namibia.

Common Monetary Area Commission. This grouping, consisting of Lesotho, Namibia, South Africa and Swaziland, is responsible for the policies on exchange control and trade related issues within CMA countries or externally.

S.W.I.F.T. Membership as a S.W.I.F.T. user is available to banks that operate within the S.W.I.F.T. network which facilitates the exchange of payment and other financial messages between financial institutions throughout the world. The S.W.I.F.T. users group of Namibia represents the interest of banks and participants who belong to the S.W.I.F.T. network.

ESAF Banking Supervisors. This body is responsible for the harmonisation of banking supervision standards in the region.

Automated Clearing Bureau of South Africa. The ACB is a regionally based organisation which also facilitates cross-border clearances. All Namibian banks, except one, are represented by South African member banks of the ACB. Through this relationship clearing and settlement is facilitated in South Africa and access to the ACB is ensured for the Namibian banks.

2. SUMMARY INFORMATION ON PAYMENT MEDIA USED BY NON-BANKS

2.1 Cash payments

The Bank of Namibia has the sole right and responsibility to issue and circulate banknotes and coins. The currency is known as Namibia Dollar (N\$).

However, as a transitional arrangement, Namibia has both South African Rand and Namibia Dollar as legal tender in Namibia, until the Ministry of Finance gives notice in the Government Gazette regarding the termination of legal tender status of the Rand.

The following denominations of the Namibian notes and coins are in circulation:

Notes	Coin
N\$ 10	5 cent
N\$ 20	10 cent
N\$ 50	50 cent
N\$ 100	100 cent
N\$ 200	500 cent

The notes and coins are issued under provisions of the Bank of Namibia Act.

The value of total notes and coins in circulation (issued by Bank of Namibia) amounted to N\$529 million at the end of 1997.

The proportion of notes to the value of total cash in circulation amounted to 94 per cent.

The proportion of cash to M1:² N\$452 million/N\$2707 million = 16.70% (December 1996).

The proportion of cash to M2:³ N\$452 million/N\$6676 million = 6.78% (December 1996).

The annual number of cash transactions is not known precisely. The population in rural areas mostly trades with cash.

The banks and other institutions provide services where customers can withdraw and deposit money from and to their accounts through their branch networks. Customers can use cards at ATMs or can issue cheques or even withdraw from bank tellers in order to acquire cash.

Annual growth of the current volume of cash in circulation is not expected to vary substantially in the foreseeable future but is estimated at following level of growth (1997 16.54%, 1998 14.78% and 1999 12.88%).

² M1 (narrow money) – currency in circulation and demand deposits.

³ M2 (broad money) – M1 and quasi-money (savings and deposits).

The major trend forecasted is the growth in ATMs and cash dispensers installed, which are likely to bolster the use of banknotes. The development of electronic banking or prepaid cards is likely to curtail the use of cash.

2.2 Non-cash payments

Cashless payments are effected by means of credit transfers, cheques, direct debits, payment cards and, recently, electronic banking (also known as home banking) products.

2.2.1 Credit transfers

Credit transfers are nowadays not as popular as they used to be a few years ago, because of the emergence of other methods, particularly direct debits. The facilities available can be categorised as same day credit clearing mail transfers, telegraphic transfers and S.W.I.F.T. transfers.

For paper based transfers, instructions are given by the customer, which are manually captured onto the bank's computer system and electronically transmitted to the beneficiary account. Such funds can be processed in real time or are processed in batches after close of business on the day of deposit.

The availability of the funds is always dependent on the nature of the contra to the deposit. The customer receives the benefit of the funds being credited to the account on the same day although they may not be available for withdrawal and, in case of batch processing, the deposit will not be evident until the following day. Where the contra to the credit clearing consists of cheques drawn on other banks the customer receives the benefit of immediate credit while bank carries the debit until settlement is made.

2.2.2 Cheques

The commercial banks are entitled to issue cheques to customers, both private individuals and other legal entities. As Namibia forms part of the Common Monetary Area all Namibian cheques comply with the standards laid down by the South African Cheque Standards Committee, which adopted the British Association for Payment Clearing Services (APACS) paper specifications (known as CBS1) as the cheque paper standard for the Common Monetary Area. All cheques are printed according to Magnetic Ink Character Recognition (MICR) specifications as defined by banks within the common monetary area. Cheques issued are only printed by approved printers. Customers may have their own cheques printed, but only once the banks sanction that they meet the strict standards set by the industry, to avoid the risk of forgery and penalty charges imposed as a result of non-compliance to MICR standards. As a member of the ACB all Namibian banks' (except one) cheques are MICR encoded and can be processed there. The acceptance of the cheque as a form of payment is dependent on the merchants' or payees' willingness to accept this form of payment. The fact that the cheques must be physically examined by the drawee bank for technical genuineness has proved a serious disadvantage as far as acquiring same day value for deposit.

2.2.3 Direct debits

Banks in Namibia use bulk direct debits for large volume low-value corporate receipts. This method is generally used for insurance premiums, medical aid premiums, home loan repayments, etc.

2.2.4 Payment cards

Banks in Namibia do not provide such services at present.

2.2.5 Other payment instruments

The banks also provide various electronic banking products, where a customer is linked via a modem to a bank's computer (all transactions are therefore "same day soonest value").

These products are provided by almost all the major banks in Namibia and include various home-banking facilities and other payment services, *inter alia*, corporate access management for clients to transfer funds between the various types of accounts held in the books of their bank and payment and collection systems for clients to make bulk salary payments.

3. PRESENT INTERBANK EXCHANGE AND SETTLEMENTS CIRCUITS

3.1 General overview

Namibia's interbank payments are processed and settled primarily through the mechanisms of:

- manual clearing and final settlement at Bank of Namibia in Windhoek;
- manual clearing and settlement at country banks represented;
- cheque clearing by the ACB in South Africa;
- ATM transaction clearing service by SASWITCH (South Africa);
- direct debit through correspondent banks in South Africa;
- EFT clearing by ACB and S.W.I.F.T.;
- Stock Exchange clearing through banks.

All clearing banks subscribe to the Clearing House rules drawn up and agreed by the Namibian Banks Technical Committee, in line with South African clearing rules.

Interbank Clearing. Interbank clearing takes place between the banks on a daily basis. The banks in Windhoek meet at the Bank of Namibia at set times, where cheques and other credit items are exchanged. These amounts are then also relayed to the banks' treasury departments. In the outlying branches settlement also takes place where the banks meet daily at set times to exchange items. These clearance figures are then also relayed to the bank's treasury departments via telex or facsimile. All these figures are then accumulated and settlement then takes place between various bank's treasuries. The commercial banks are party to an agreement reached by the local banks, whereby interest is paid at the Namibian Interbank Rate on large items not cleared in time. Transfers (i.e. authorities to debit their account) are physically sent to the Bank of Namibia who then effect the relevant entries in each bank's current account held at the Bank. The system is, however, still largely manual and therefore time consuming and cumbersome. Float times for uncleared effects vary from bank to bank within Namibia and cross-border between 7 days and 21 days.

Automated Clearing Bureau (ACB). The ACB operates in South Africa and only facilitates Namibian banks through their correspondent banks. To facilitate the clearance of cheques or transfers intended for non-Namibian banks in the Common Monetary Area, certain South African banks have facilities for such non-Namibian banks in neighbouring countries. Likewise the Namibian Banks clear the cheques of South African banks not represented in Namibia, through agency arrangements.

3.2 Structure, operation and administration

3.2.1 Major legislation, regulations and policies

The Namibian clearing house is governed by the agency agreement between the Namibian clearing banks. The general provisions are outlined and have been approved by the Namibian Banks Technical Committee. Any provisions which relate to liability for losses within the banking industry do not extend to bank customers or other third parties.

For items cleared through the ACB in Johannesburg the rules governing clearing activities within the Common Monetary Area, drawn up by the South Africa Banks Technical Committee, on behalf of the Payment Association of South Africa (PASA), apply.

There is no specific legislation for payment system issues.

3.2.2 Participants in the system

As far as the local manual clearing and settlement system is concerned, all five commercial banks participate in the system. The membership is only open to the clearing banks, on application. The arrangement is by virtue of mutual agreement between the commercial banks and the Bank of Namibia, ratified by Bankers Association and approved by the Bank of Namibia. The Bank of Namibia provides clearing facilities from Mondays to Fridays whilst on Saturdays one clearing only takes place among the commercial banks, hosted at Bank Windhoek.

With regard to the ACB in South Africa and the clearance of cheques or transfers intended for non-South African banks in the Common Monetary Area, certain South African banks provide facilities for such non-South African banks in neighbouring countries (including Namibia). Therefore all items drawn on/in favour of any of the corresponding banks should be cleared/remitted to branches of the correspondent bank which will care for the onward transmission and settlement thereof.

3.2.3 Types of transactions handled

The following instruments are cleared through the interbank clearing systems:

- cheques;
- credit transfers;
- debit/credit card transactions;
- ATM transactions;
- EFT (POS) transactions.

3.2.4 Operation of the transfer systems

Clearing. The current clearing and settlement is done manually as follows:

- Monday to Friday 11 a.m. all eligible items;
- 3.30 p.m. only debit items at the premises of Bank of Namibia;
- Saturdays 9 a.m. All eligible items at the premises of a selected commercial bank and also at country branches among themselves at agreed times.

Procedures. At agreed times each member clearing bank must be represented even if only to receive the clearances presented. Physical exchange of eligible items take place and each representative must summarise and arrive at a total for all clearances delivered and received. At the

end of final clearance the banks calculate the difference, to arrive at the settlement due to or by that bank. The controller of the clearing house will then prepare the final settlement statement. When it balances he/she will declare the house to be "In Balance". The final settlement is effected by the Bank of Namibia at 9 a.m. on the following day backdated to the previous day.

3.2.5 Settlement procedures

The settlement statement is to be signed by the controller of the clearing house and the applicable bank representative. The host bank's bank stamp is to be impressed. Settlement for all clearances for the day will take place each day at the last clearing. The member bank completes a signed request that its account in the books of Bank of Namibia is either debited or credited with the final net amount. Once the instructions are received from the member banks the settlement is final and irrevocable. The matter of unwinding or/and failure of a participant will be addressed when the legal framework is discussed.

3.2.6 Pricing policies

Currently each bank bears its own telegraphic costs in case of a telegraphic settlement, especially settlements outside Windhoek.

3.2.7 Credit and liquidity risks

The Banking Supervision department is analysing financial statements as well as monthly statutory returns in order to establish reserve requirements to reduce liquidity risks.

Each bank has been granted a secured overdraft facility on the current account in the case of overdrawing the accounts as a result of settlement or other claims against it.

4. SPECIAL USE OF INTERBANK TRANSFER SYSTEMS FOR INTERNATIONAL AND DOMESTIC FINANCIAL TRANSACTIONS

4.1 Exchange and settlement systems for international transactions

Most banks in Namibia effect all their international telegraphic payments using S.W.I.F.T. On an occasional basis funds can be transferred via telex, but only once the message received has been authenticated and the test confirmed accordingly.

Through established relationships with international correspondents and travel agents some banks provide their own traveller's cheques in USD, GBP and DEM. The Bank of Namibia provides Citibank, New York, Travellers cheques in USD to their staff members.

Most banks maintain nostro accounts in all the currencies that they operate in, with major banking institutions in the respective countries. The treasury functions of the banks are active market-makers through the use of a screen-based electronic dealing systems in various currencies, namely:

US dollar, British pound, Austrian schilling, Australian dollar, Belgian franc, Botswana pula, Canadian dollar, Swiss franc, German Deutsche Mark, Danish krone, Spanish peseta, Finnish markka, French franc, Hong Kong dollar, Irish punt, Italian lira, Japanese yen, Kenyan shilling, Lesotho maloti, Mauritius rupee, Malawi kwacha, Dutch guilder, Norwegian krone, New Zealand dollar, Portuguese escudo, Swedish krona, Singapore dollar, Swaziland lilageni, European Currency Unit, South African rand, Zambian kwacha and the Zimbabwe dollar.

The commercial banks actively market foreign exchange to private customers, corporate clients and government institutions through the use of the following products; cash, drafts, traveller's cheques, credit cards, S.W.I.F.T. transfers, letters of credit, forward exchange contracts, Euro loans (off shore finance) and the purchase of cheques drawn on foreign banks, while most banks are linked to VISA and Mastercard.

The amount of foreign currency provided to the public, corporate clients, etc., is subject to exchange controls as determined by the Bank of Namibia.

Non-banking companies classified as Authorised Dealers with Limited Authority (ADLA) have recently been licensed to conduct bureau de change activities involving buying and selling of foreign bank notes and travellers cheques.

4.2 Exchange and settlement systems for securities transactions

Major banks in Namibia are active in holding and trading securities such as shares and government securities at present.

All security transactions are confirmed by the custodian and the customer. If the customer is another bank, with whom there is a custodial agreement, the confirmation is done via S.W.I.F.T., or if it is a general customer by means of a written confirmation.

All shares that are traded are also cleared via the Namibian Stock Exchange, NSE, Trustees.

Security transactions are settled when the custodian delivers or collects the relevant script and at the same time makes payment or collects payment. Settlement is made by cheque. All share certificates are collected at the NSE and all Government securities at the Bank of Namibia.

Brokers and custodians (local banks) settle through the NSE Trustees, who oversee all transactions. All transactions must be settled through the NSE Trustees bank account, while settlement for Government securities takes place by cheque at the Bank of Namibia.

5. THE ROLE OF THE CENTRAL BANK IN INTERBANK SETTLEMENT SYSTEMS

5.1 General responsibilities

5.1.1 Statutory responsibilities

The Bank of Namibia provides both clearing and settlement facilities.

The Bank shall, by virtue of Bank of Namibia Act, in conjunction with the financial institutions, organise facilities for the clearing of cheques and other instruments for effecting payments and establish such procedures and rules relating thereto as may be appropriate.

Furthermore the Bank of Namibia has the responsibility of:

- overseeing the creation of national standards and that the payment system standards are in keeping with international standards;
- guiding the payment system review project;
- ensuring the smooth functioning and conclusion of the settlement process;

- defining the nature of adequate collateral and the extent of collateral to be held by banks in support of the settlement arrangements;
- ensuring that roles within the payment system are defined unambiguously and that responsibilities are properly delegated to appropriate organisations;
- facilitating the handling of systemic crises and promoting the resolution of disputes, without prejudicing the ability of the payment system to continue functioning; and
- enforcing the agreed payment system principles, policies and practices.

Presently the Bank of Namibia does not have specific legislation that sets out provisions as to how to regulate and supervise the payment system. Since the soundness and effectiveness of the payment system is however of great importance to the Bank of Namibia as lender of last resort it does generally oversee the payment system.

5.1.2 Establishment of common rules

As a result of mutual agreement between the banks, the Bank of Namibia manages the clearing and settlement system.

Being a member of the Common Monetary Area Namibian banks have to abide to the prescribed standards of MICR cheque clearing and transfer of funds via ACB clearing.

5.2 Monetary policy and payment systems⁴

Namibia's monetary policy objective has been to support the fixed exchange rate between the Namibia Dollar and the South African Rand. This policy has been effective in attaining the ultimate monetary policy objective of price stability, as reflected in single digit inflation recorded in Namibia over the year. Low inflation achieved in Namibia is a reflection of the restrictive monetary policy pursued by the South African Reserve Bank (SARB) to achieve price stability, which is transmitted to Namibia via the fixed exchange rate.

Namibia's membership of the Common Monetary Area (CMA), which has on the whole proved beneficial to the country, necessitates a monetary policy that supports the fixed exchange rate between the Namibia Dollar and the South African Rand. This relationship between the two countries has helped Namibia to achieve inflation rates that are low by regional standards, contributing to the Government's long-term objective of growth in a stable macroeconomic environment.

While the basic objective of monetary policy in Namibia has been to support the fixed exchange rate arrangement, there is nevertheless some room for the use of certain monetary policy instruments to achieve greater macroeconomic stability. While inflation is low by regional standards, it is still high at close to 10 per cent. Monetary aggregates have risen too rapidly in the past, although there was some moderation in 1996. There is a need to keep monetary expansion under control. The adoption of monetary policy measures for this purpose, within the basic constraints imposed by the exchange rate arrangement, is being examined by the monetary authorities.

In the past, the Bank of Namibia followed the SARB's monetary policy, especially with respect to interest rates. In 1996 the Bank of Namibia diverged from this practice for the first time when, on two occasions, it did not adopt changes implemented by the SARB. This was basically due to the need to rectify some misalignment of interest rates between the two countries.

⁴ BON Annual Report 1996.

5.3 Risk reduction measures

A bank must be an account holder with the Bank of Namibia before being granted a credit facility and should also hold those assets that qualify as collateral for a credit facility at the Bank.

- (a) With regard to credit risk management, banks have their own credit risk management policies which address the following areas:
 - screening of applications; collateral; disbursement of loans; exposure to single or related customers; etc.
 - classification of loans according to their performance; provisioning; etc.

A standardised guideline on loan classification, etc. will be issued in 1998.

- (b) Liquidity risk: Banks are required to comply with the minimum liquid assets and reserve balance requirements in terms of the Banking Institutions Act. Banks are also expected to have internal policies and procedures relating to liquidity risk management.

6. RECENT DEVELOPMENTS IN THE PAYMENT SYSTEM

6.1 The establishment of the National Payment System Committee

A country strategic team has been established with their inaugural meeting on 10th November 1997. This team will be responsible for the national payments system strategy and comprises representatives from all the commercial banks and from the Bank of Namibia.

6.2 Legal framework for the new National Payment System

The need for the legal process to effect the promulgation of the NPS Act has been identified and the legal practitioners will be entrusted with the drafting of the Bill.

7. INFRASTRUCTURE

7.1 Telecommunications infrastructure⁵

Currently Telecom Namibia Ltd. is a fully state-owned commercial company and operates one of the most highly developed telecommunications systems in Africa.

Approximately 75,000 Namibians have telephones, which represents roughly 4% of the population. Telecom expects to double this figure before the year 2000 by having eight telephone lines per 100 inhabitants.

One of Telecom's major investment projects was to set up Namibia's first international telecommunications links by mid-1995 including two Intelsatellite earth stations and an international switch. This project has now been completed.

Data transfer services are also available and the vision 2000 strategy seems to be on course.

⁵ Business Guide to Namibia 96/97.

7.2 Availability of electricity¹⁰

Nampower is responsible for Namibia's electricity network while its water supply activities have been discontinued. The company is primarily a bulk supplier to municipalities and mines. Namibia is connected to both the South African and the Zambian grid and is a net importer of electricity at times of local shortages mainly caused by insufficient water flow through the Ruacana hydro-electric scheme. Presently there are feasibility studies under way to develop power schemes to make Namibia self sufficient and a net electricity exporter.

7.3 Road and rail transport

The provision, development and maintenance of the transport infrastructure is clearly stated in the Government's policy guidelines.

As part of expansion Namibia has now been linked by tarred highways to Botswana (Trans Kalahari) and Zambia (Trans Caprivi highway).

The current road network is well maintained and of the highest standards in the region.

¹⁰ Business guide to Namibia 96/97.

Table 1
Basic statistical data

	1992	1993	1994	1995	1996
Population (millions) ¹	1.42	1.46	1.50	1.54	1.59 (est)
GDP (N\$ billions) (at market prices) ²	8.20	8.80	10.90	12.20	13.80
GDP per capita (1990 constant N\$)	5,774	6,027	7,266	7,922	8,679
Exchange rate (domestic vis-à-vis USD) ³					
<i>year-end</i>	<i>3.05300</i>	<i>3.39750</i>	<i>3.54350</i>	<i>3.64750</i>	<i>4.68250</i>
<i>average</i>	<i>2.85201</i>	<i>3.26774</i>	<i>3.55080</i>	<i>3.62709</i>	<i>4.29935</i>

¹ International financial statistics (IMF) October 1997. ² National Accounts Central Statistics Bureau. ³ IMF financial statistics October 1997.

Table 2
Settlement media used by non-banks
(in N\$ billions at year-end, not seasonally adjusted)

	1992	1993	1994	1995	1996
Notes and coin	-	-	279.81	320.68	385.08
Transferable deposits	1.06	1.40	1.55	1.64	2.62
<i>Corporate sector</i>	<i>0.44</i>	<i>0.69</i>	<i>0.62</i>	<i>0.71</i>	<i>1.18</i>
<i>Household</i>	<i>0.47</i>	<i>0.49</i>	<i>0.65</i>	<i>0.65</i>	<i>0.91</i>
<i>Other</i>	<i>0.15</i>	<i>0.22</i>	<i>0.28</i>	<i>0.28</i>	<i>0.53</i>
Narrow money supply (M1) ¹	0.86	1.32	1.57	1.65	2.70
Broad money supply (M2) ²	2.76	3.36	4.35	5.37	6.68

¹ Narrow money supply currency in circulation and demand deposits. ² M1 plus quasi-money (savings and time deposits with banking institutions).

Table 3
Settlement media used by banks
(in N\$ billions)

	1992	1993	1994	1995	1996
Reserve balances held at central bank (average annual)*	0.12	0.25	0.35	0.21	0.44

* These balances are not available for settlement purposes.

Table 4
Banknotes and coin
 (at end-1996)

	1992	1993	1994	1995	1996
Total banknotes and coin outstanding (millions)	-	-	332.71	380.18	451.78
Denominations of banknotes:					
200 notes	-	-	-	-	23.8
100 notes	-	-	158.4	168.8	187.6
50 notes	-	-	106.7	129.3	137.1
20 notes	-	-	-	-	8.8
10 notes	-	-	52.9	59.5	66.7
Denominations of coin:					
500 cents	-	-	7.5	9.1	9.4
100 cents	-	-	4.5	8.5	11.5
50 cents	-	-	1.5	2.4	3.2
10 cents	-	-	0.87	1.9	2.7
5 cents	-	-	0.34	0.68	0.98
Banknotes and coin held by credit institutions	-	-	-	-	-
Total banknotes and coin outside credit institutions	-	-	-	-	-
Banknotes held in overseas territories	-	-	-	-	-

Table 5
Institutional framework
 (at end-1996)

Categories	Number of institutions	Number of branches	Number of accounts (thousands)	Value of accounts (N\$ millions)
Central bank	1	1	0.5	2,013
Commercial banks*	5	78	650	6,408
Savings banks	-	-	-	-
Building societies*	1	11	-	-
Public credit institutions*	-	-	-	-
Post Office*	1	80	102	140

* Estimates.

Table 6
Cash dispensers, ATMs and EFTPOS terminals
 (estimates)

	1992	1993	1994	1995	1996
Cash dispensers and ATMs:					
Number of networks	-	-	-	5	5
Number of machines	45	60	99	119	124
Volume of transactions (in millions)	0.70	1.29	1.83	4.86	6.06
Value of transactions (in N\$ billions)	0.66	1.60	2.29	3.09	3.55
EFTPOS:					
Number of networks	-	-	-	-	-
Number of machines	-	-	-	-	-
Volume of transactions (in millions)	-	-	-	-	-
Value of transactions (in N\$ billions)	-	-	-	-	-

Table 7
Number of payment cards in circulation
 (estimates, in thousands)

	1992	1993	1994	1995	1996
Cards with a cash function.....	85.5	98.6	112.8	124.1	136.3
Cards with a debit function	60.6	71.7	87.1	99.3	124.2
Cards with a credit function	12.5	14.7	16.0	19.9	22.6
Cards with a cheque guarantee function	4.0	5.9	7.0	8.3	9.8

Table 8
**Payment instructions handled by selected payment systems:
 value of transactions**
 (estimates, in N\$ billions)

	1992	1993	1994	1995	1996
Clearing House:					
Cheques	21.70	24.56	21.88	23.94	30.48
Securities clearing balances ...	-	-	-	-	-
Postal drafts	-	-	-	-	-
FX transactions	-	-	-	-	-
Debits	-	-	-	-	-
Ordinary credits	9.07	10.82	12.30	13.62	14.77
Bilaterally exchanged credits..	-	-	-	-	-
ATM and POS	-	-	-	-	-
Others	-	-	-	-	-
Large-value system					
Direct debits (CVs) in\out	0.12	0.11	0.12	0.19	0.44
Truncated cheques	-	-	-	-	-
ATM and POS	-	-	-	-	-
Credit transfers (CVs) out	-	-	-	-	-
Large-value transfers	-	-	-	-	-

Table 9
**Transfer instructions handled by securities settlement systems:
 volume of transactions**
 (thousands)

	1992	1993	1994	1995	1996
Treasury certificates	263	1,778	2,174	2,960	7,520
Government securities	33	55	35	32	33
Shares	-	-	-	-	-
Bonds	-	-	-	-	-
Futures	-	-	-	-	-
Options	-	-	-	-	-
Other	-	-	-	-	-

Table 10

**Transfer instructions handled by securities settlement systems:
value of transactions**
(in N\$ billions)

	1992	1993	1994	1995	1996
Treasury certificates	0.23	0.73	0.84	1.20	2.77
Government securities	0.10	0.32	0.23	0.43	0.40
Shares	-	-	-	-	-
Bonds	-	-	-	-	-
Futures	-	-	-	-	-
Options	-	-	-	-	-
Other	-	-	-	-	-

Table 11

**Indicators of various cashless payment instruments:
volume of transactions**
(estimates, in millions)

Instruments	1992	1993	1994	1995	1996
Cheques issued	10.09	10.23	10.59	11.56	12.43
Payments by debit and credit cards	-	-	-	-	-
Paper-based credit transfers	1.10	1.12	1.45	1.87	2.40
Paperless credit transfers: customer initiated interbank/large-value direct credits	0.08	0.08	0.08	0.08	0.11
Direct debits	1.1	1.2	1.3	1.4	1.5
Other	-	-	-	-	-
Total	12.37	12.63	13.42	14.92	16.44

Table 12
**Indicators of use of various cashless payment instruments:
 value of transactions**
 (estimates, in N\$ billions)

Instruments	1992	1993	1994	1995	1996
Cheques issued	25.60	32.60	32.80	32.20	35.80
Payments by debit and credit cards	-	-	-	-	-
Paper-based credit transfers	8.70	10.86	13.75	14.90	16.20
Paperless credit transfers: customer initiated interbank/large-value direct credits	36.20	47.00	44.40	59.20	66.90
Direct debits	n.a.	n.a.	n.a.	n.a.	n.a.
Other	-	-	-	-	-
Total	70.50	90.46	90.95	106.30	118.90

Table 13
Participation in S.W.I.F.T. by domestic institutions

	1992	1993	1994	1995	1996
Members					
<i>of which: live</i>	4	4	4	4	5
Sub-members					
<i>of which: live</i>	1	1	1	1	-
Participants					
<i>of which: live</i>	-	-	-	-	-
Total users					
<i>of which: live</i>	5	5	5	5	5

Table 14
S.W.I.F.T. message flow to/from domestic users

	1992	1993	1994	1995	1996
Total messages sent	37,881	42,025	51,819	65,819	73,335
<i>of which:</i>					
<i>category I</i>	-	-	-	-	-
<i>category II</i>	-	-	-	-	-
<i>sent to domestic users</i>					
Total messages received	48,904	54,872	66,813	76,554	88,957
<i>of which:</i>					
<i>category I</i>	-	-	-	-	-
<i>category II</i>	-	-	-	-	-
<i>received from domestic users</i>					

Category I = customer (funds) transfer; Category II = bank (funds) transfer.