Research Journal of Finance and Accounting www.iiste.org
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.5, No.23, 2014

Understanding the State of Financial Inclusion in Namibia

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Abstract
This study investigates the state of financial inclusion in Namibia using access and usage indicators over selected time periods during which data is available. Financial inclusion is defined as the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society. It also implies enabling access to financial resources and services for economic agents, especially, those on the lower wrung of the income ladder at an affordable cost. All access and usage indicators show an increasing trend meaning that banking institutions played a significant role in ensuring that the majoring of Namibians use financial services that are available.
Keywords: Financial Inclusion, Namibia, Access Indicators, Usage Indicators

1. Introduction

In their study, Kunt and Klapper (2012: 2) observed that less than a quarter of adults in Africa have an account with formal financial institution and many adults in Africa use informal methods to save and borrow. They also say that many small and medium size enterprises in Africa cite access to finance as a major obstacle. The Minister of Finance in Namibia, Honorable Saara Kuugongelwa-Amadhila, encouraged banks to continue growing their national footprint so as to broaden their network and also extend services to small-scale-borrowers (Mare, 2014: 7).

This study therefore investigates the state of financial inclusion in Namibia using access and usage indicators over selected time periods during which data is available. All access and usage indicators show an increasing trend meaning that banking institutions played a significant role in ensuring that the majoring of Namibians use financial services that are available.

Financial inclusion is defined as the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society. It also implies enabling access to financial resources and services for economic agents, especially, those on the lower wrung of the income ladder at an affordable cost. The aim of financial inclusion strategies is to increase the number of people with accounts in banks and pursues the promotion of the use of formal payment media, including cheques, ATM cards, internet payments, mobile payments and others by the populace.

The study is arranged as follows. Apart from the introduction, section 2 deals with the literature review. Section 3 covers financial inclusion in Namibia. Concluding remarks and policy implication are provided in the last section. The remainder of the paper follows below.

2. Literature Review

Financial inclusion is a widely debated topic at this particular point of time in the financial industry. What is financial inclusion? How does it arise and why is it important? Is financial inclusion a public good? What are the initiatives aimed at promoting financial inclusion in other countries? How is the extent of financial inclusion measured? The following paragraphs provide answers to these questions.

Divya (2013: 85) defines financial inclusion as the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society. On their part, Mbutor and Uba (2003: 318) are of the view that financial inclusion implies enabling access to financial resources and services for economic agents, especially, those on the lower wrung of the income ladder at an affordable cost. The authors pointed out that financial inclusion strategies aim at increasing the number of people with accounts in banks and pursues the promotion of the use of formal payment media, including cheques, ATM cards, internet payments, mobile payments and others by the populace. In addition to the abovementioned, the researchers indicated that although credit is the most significant component of financial services, financial inclusion covers various other services such as savings, insurance, payments and remittance facilities issued by formal financial institutions to those perceived to be financially excluded.

Shankar (2013: 61) provides a good summary on impact of financial exclusion, benefits of financial inclusion and barriers to financial inclusion. The author provides five results of financial exclusion. First, an inability to access financial services could lead financially excluded entities to deal mostly in cash, with its attendant problems of safe-keeping. Second, the lack of access to safe and formal savings avenues could reduce their incentives to save. Third, the lack of credit products means inability to make investments and significantly improve their livelihoods. Fourth, the lack of remittance products leads to money transfers being cumbersome and high risk. Fifth, the lack of insurance products means lack of opportunities for risk management and wealth smoothening.

In terms of benefits of financial inclusion, the author mentions that the economy as a whole benefits in four ways. First, it could be an important tool to reduce income inequality in the economy. Second, more financial resources become available for efficient intermediation and allocation. Third, greater financial stability may be expected if financial activity moves from unregulated to regulated institutions. Fourth, access to finance promotes more start-up enterprises, who often contribute to risk taking, employment and processes of creative destruction.

On barriers to financial inclusion, the author classifies these into two. Supply side factors include lack of appropriate financial products; physical barriers stemming from distance to bank branch and automated teller machine (ATM) and inability to provide documentation such as indentify proof required by formal financial institutions. Demand factors include financial literacy and financial capability. While financial literacy refers to the basic understanding of financial concepts, financial capability refers to the ability and motivation to plan financials, seek out information and advice and apply these to personal circumstances. Kunt and Klapper (2012: 7) add to the barriers cited above by indicating that the most cited reasons for not having a formal account in both Sub-Saharan Africa and North-Africa. These reasons are lack of enough money to use one; insufficient documentation; distance from a bank for adults living in rural areas; and fixed fees and high costs of opening and maintaining accounts.

There is a debate in the literature whether financial inclusion is a public good. It should be pointed out that for a good to be classified as public good it must meet two important conditions, that is, non-rival and non-exclusive. Kelkar (2010: 58) says that increasingly, in developing countries, access to finance is positioned as a public good, which is important and basic as access to safe water or primary education. The author goes further to say that there is little doubt that financial inclusion meets the above two criteria to a large measure, to that extent, it is a quasi-public good.

Several reforms were initiated in other countries with the view to promote financial inclusion. Evidence shows that these reforms were initiated by central banks requiring commercial banks to implement measures aimed at enhancing financial inclusion. Kelkar (2010: 60) shows initiatives by the Reserve Bank of India (RBI) in this field. According to the author, in its Annual Policy Statement for 2005-06 the RBI asked banks to make available a basic (no-frills) banking account with either nil or very minimal balances or charges to vast sections of the population. In addition, banks were encouraged to provide general-purpose credit card facility up to Rs. 25,000 at their rural and semi-urban branches to cardholders to meet financial requirements. In 2007-08, two funds, that is, Financial Inclusion Fund for promotional interventions and Financial Inclusion Technology Fund for meeting the cost of technology, were established. Khatri (2014: 12) provides an overview of these two funds.

One of the objectives of the Central Bank of Nigeria is to promote a sound financial system in Nigeria (Mbutor and Uba, 2013: 320). It is believed that financial inclusion will lead to development of a stable financial system funded by non-volatile savings which are robust and provide cushion against external shocks. The Government of Nigeria, with the instrumentality of the Central Bank of Nigeria, has set specific targets with accompanying actionable plans to advance financial inclusion in the country. Targets for financial inclusion are spread over 2010, 2015 and 2020.

Various indicators have been used to measure the extent of financial inclusion. Drawing from the work of Mbutor and Uba (2003: 321), these indicators cover indicators of financial access and indicators of financial usage. Access indicators are number of commercial bank branches per 100,000 adults and number of automated teller machines (ATMs) and point-of-sale devices (POS) per 100,000 adults. Usage indicators are outstanding loans from commercial banks as percentage of GDP and outstanding deposits with commercial banks as percentage of GDP. The Alliance for Financial Inclusion (2013: 4) provides the indicators for access and gives easy to use formulas on how to calculate the indicators. One of the indicators is the number of access points per 10,000 adults and per administrative unit. Access points include bank branches, ATMs and POS devices. Administrative unit is a country or region.

The above literature is important for two main reasons. First, it enables easier comparison on policy initiates to promote financial inclusion in other countries and Namibia. Second, the literature review provides an idea on the type of data that should be collected to properly analyze the extent of financial inclusion in Namibia. The following section discusses the extent by which financial inclusion has been promoted in Namibia.

3. Financial Inclusion in Namibia

Financial inclusion is currently enjoying attention of regulatory authorities in Namibia. This is because a significant number of Namibians still does not have access to financial services 24 years after Namibia got independence in 1990. After independence, the Government of the Republic of Namibia resolved to craft policies to minimize inequities experienced in the past. This section focuses on 3 areas, that is, policy environment, initiatives by banking institutions, and initiatives by non-banks. The entire section is outlined as follows.

3.1 Policy Environment

Policy development is a responsibility of Government or a regulatory authority. Shiimi (2013: 1) shows that the 10 year Namibia Financial Sector Strategy (NFSS) was launched in August 2012 by the Honorable Minister of Finance. The aim of the strategy is to reform Namibia's financial sector to ensure that Namibia has an effective, stable, competitive, resilience and inclusive financial sector by 2021. In this regard, one of the critical components of the strategy is to create an inclusive financial sector, accessible to the majority of the people of Namibia. According to Shiimi, this will be achieved through targeted products and services as well as having effective institutions in place will provide sufficient support to users of financial services.

In 2010, the Government of the Republic of Namibia amended the Payment System Management Act to empower the Bank of Namibia to determine standards for user fees and charges for service delivery. According to the Payment System Management Act 2010. s.2 (d), this is to ensure that the fees or charges payable by a user are in line with public interest, promote competition, efficiency and cost-effectiveness in the National Payment System. Administrative penalties are imposed on an entity that does not comply with regulatory requirements.

The year 2014 saw the Government of the Republic of Namibia issuing a Determination on the Standards for a Basic Bank Account and Cash Deposit Fee within the National Payment System, which is effective by 31 March 2015. Three key requirements of the regulation are worth mentioning according to the Determination on the Standards for a Basic Bank Account and Cash Deposit Fee 2014. s.5. First, each banking institution should provide at least one bank account that conforms to the standards for a basic bank account. Second, all banking institutions are to provide zero-rated cash deposit fees for all cash deposits on all individual accounts held at the banking institution; and third, all banking institutions are to provide zero-rated cash deposit fees on all business accounts for businesses with an annual turnover of NAD1,000,000 or less.

The above few paragraphs outlined 3 main policy instruments that were implemented in Namibia aimed at promoting access to financial services either at an individual level or at the level of small and medium enterprises. There are benefits for doing this in Namibia given that financial inclusion has been classified as quasi public good as mentioned in the literature review.

3.2 Initiatives by Banking Institutions

Namibia has about 6 commercial banks at present consisting of Bank Windhoek, First National Bank, Nedbank, Standard Bank, SME Bank and EBank. First National Bank, Nedbank and Standard Bank have their headquarters in South Africa while the remaining three are of Namibian origin. While EBank and SME Bank received authorization from the central bank, Bank of Namibia, in 2014 and 2012 respectively to conduct banking business, other banks have been in operation for a long time now. With a population of over 2.1 million people (Namibia Statistics Agency, 2011: 6) and 6 banks, it appears that each bank has a capacity to have over 350,000 clients.

Banking institutions in Namibia have ensured that they reach the financially excluded population overtime. The analysis below uses access points per 10,000 adults in line with the methodology of the Alliance for Financial Inclusion. Relevant age composition is the Namibian adults of 15 years and above and this constitutes 64 percent of the total population. Total population of Namibia as per the Namibia Statistics Agency 2011 Population Census is 2,113,077. Imposing annual population growth rate of 1.4 percent during 2012 and 2013, projected population in 2012 and 2013 is 2,143,660 and 2,172,657. In this regard, 64 percent of the adult population becomes 1,371,942 and 1,390,500 in 2012 and 2013 respectively. The table below gives a summary of access indicators.

Table 1: Access Points in Namibia

Year	Bank branches	Indicators per 10,000 adults	ATMs	Indicators per 10,000 adults	POS	Indicators per 10,000 adults
2012	101	0.74	782	5.70	4966	36.20
2013	105	0.76	826	5.94	6092	43.81

Source: Bank of Namibia

The above table shows interesting statistics. Access is more pronounced via POS devices and then ATM machines followed by bank branches. This is true because POS and ATMs are less expensive to deploy compared to bank branches. About 10,000 adults were serviced by 1 branch during the period under review. In terms of ATMs, close to 6 access points serviced 10,000 adults. With respect to POS devices, 10,000 adults received payment services through 36 machines in 2012 and 44 machines in 2013.

In terms of financial usage, banking institutions have promoted the use of financial services over the years. Indicators of relevance here are those that featured in the work of Mbutor and Uba (2003: 321). These usage indicators as outlined above are outstanding loans from commercial banks as percentage of GDP and outstanding deposits with commercial banks as percentage of GDP. The table below provides a summary of usage indicators.

Table 2: Financial Usage in Namibia [N$mil.]

Year	Total Deposits [TD]	GDP	TD/GDP	Loans and Advances [LA]	GDP	LA/GDP
2009	38,882	50,482	77	35,419	50,482	70
2010	41,171	53,649	77	38,725	53,649	72
2011	49,468	56,694	87	43,138	56,694	76
2012	53,809	59,538	90	50,551	59,538	85

Source: Bank of Namibia

The above table shows an increasing trend of financial usage during the period under review from liabilities and assets perspectives. For example, total deposits as percent of GDP grew from 77 percent in 2009 to 90 percent in 2012. The trend was 70 percent and 85 percent during the same period as far as loans and advances as percent of GDP is concerned.

More interesting developments have occurred in the recent past. First National Bank introduced a service called eWallet. With this service, a banked payer is able to send money to an unbanked recipient who accesses funds at the nearest First National Bank ATM. In addition, EBank is rolling its services through branchless agency network consisting of fuel stations and other networks.

3.3 Initiatives by Non-Banks

Non-banks in Namibia have been instrumental in the provision of payment services as well with the view to contributing towards financial inclusion. These non-banks include a post office savings bank; solution providers, and mobile network operators. Matongela (2012: 9) gives an overview of the schemes, that is, smart card scheme and MobiPay scheme. The smart card scheme was launched in 2006 and allows a customer to withdraw cash at merchant outlets; load funds; do money transfer; purchase goods and services at POS; carry out third party payments; purchase fuel; and employers use it for pension payments. In terms of the MobiPay scheme, this can be traced to 2010 and allows customers to carry out certain transactions such as person-to-person; utility payments and POS via mobile phone.

MTC money is another payment solution that was introduced in February 2014 by Mobile Telecommunications Limited (MTC) in association with MobiPay (Mobile Telecommunications Limited, 2014: 1). The service allows customers to use their cellphones to transfer/withdraw/deposit money; buy airtime and electricity; pay bills; and make POS payments at any MTC mobile home, MobiPay, agents and merchants. This service is available on all types of mobile phones.

4. Concluding Remarks and Policy Implication

The purpose of this paper was to understand the state of financial inclusion in Namibia. The study provided details in terms of what banking institutions have done to reach out to their customers in the provision of banking and payment services. Various indicators from access and usage perspectives were shown to demonstrate how the quest for financial inclusion was done. Non-banks have also played a critical role in the provision of payment services. All access and usage indicators show an increasing trend meaning that banking institutions played a significant role in ensuring that the majoring of Namibians use financial services that are available.

Looking ahead, several measures can be implemented to encourage financial inclusion in Namibia. These actions include:

- There should be a comprehensive financial inclusion strategy in place just like what Nigeria has done. The strategy to make clear on various targets that should be achieved each year for the duration of the strategy.
- Establishment of financial inclusion funds can be looked into in line with what India has done. The funds can be used for promotional interventions and be able to meet the cost of technology.
- Barriers to financial inclusion, as mentioned in this paper, need to be addressed looking from both demand and supply perspectives. How can financial institutions be encouraged to set up access points in rural areas considering financial risks involved? One of the ways could be through incentivizing them.

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