



TALKING POINTS

BY

MR. JOHANNES !GAWAXAB

GOVERNOR OF BANK OF NAMIBIA

FIRSTRAND NAMIBIA: LEADERSHIP WORKSHOP

12 OCTOBER 2023

1. **I am truly honoured to be here today, attending your leadership conference. It is always a great pleasure to engage with the banking industry, recognizing the pivotal role you play in bolstering economic opportunities within our communities.** This afternoon, I am going to share with you my views on Namibia's global competitiveness from a banking standpoint, the Bank of Namibia's vision for the financial system, and finally, the banking industry's responsibility towards the Namibian economy.

Ladies and Gentlemen,

2. **A new economic landscape is emerging, driven by a confluence of technological advancements, climate imperatives, changing demographics, and the potential influence of Namibia's oil and gas, green hydrogen, and critical mineral sectors.** This evolving economy will necessitate a new approach to finance, one that caters to the digital, blue, and brown economies - delivering more cost-effective, tailored, and inclusive financial products and services. A new approach to finance that will underpin the transition to a sustainable economy, particularly in the realm of renewables, while striking a balance between resilience and innovation. This new financial era calls for a reimagined approach from the Bank of Namibia within the bounds of its statutory mandate.
3. **As John Maynard Keynes, once famously said, "*At the core of any economy, whether old or new, lies the ability to adapt, innovate, and create an environment that fosters growth and prosperity*".** At present, the monetary system stands at the precipice of a significant transformation. Following dematerialization and digitalization, the next evolution is tokenization – the digital representation of claims on a programmable platform. This can be seen as the next logical step in digitized record-keeping and asset transfer.
4. **The Bank of Namibia's strategic focus is on enabling innovation and fostering competition, all while safeguarding monetary and financial stability.** Trust and stability are paramount in this transition. The digital economy, being inherently inclusive, offers more cost-effective routes to markets for both businesses and individuals. The realm of big data is opening new avenues for competitive, platform-based finance, particularly for small and medium-sized enterprises (SMEs). The advent of artificial intelligence (AI) and machine learning (ML) is already having a

profound impact, and it's crucial to ensure that these benefits extend to rural and informal areas in Namibia.

5. **Namibia finds itself in an advantageous position, with a promising economic future.** The nation is uniquely poised to meet the global energy demand through the development of its green hydrogen and oil and gas industries. Namibia's aspiration is to produce hydrogen and its derivatives at highly competitive costs, nurturing a green fuels industry that will serve markets in Europe, China, Japan, South Korea, and other parts of the world. At scale, the hydrogen industry could significantly boost Namibia's economy, contributing as much as US\$4.1 billion to GDP by 2030 and creating an estimated 18,000 jobs.
6. **In a similar vein, Namibia celebrated its third substantial light oil discovery in April 2023, marking yet another achievement in a series of discoveries in the Orange Basin over the past year.** Remarkably, three of Namibia's oil discoveries rank among the world's top 30 largest deepwater oil discoveries since 2015. Once commercial viability is established, production is slated to commence within the next four to six years.
7. **With abundant natural resources, strong institutions, and political stability, Namibia is poised for growth.** The nation is akin to a plane on the tarmac, engines roaring, and ready for take-off. However, the success of nations is a complex equation, extending beyond resource endowments. It hinges on a country's ability to adapt, innovate, and foster a favourable environment for entrepreneurship and business growth.
8. **The Bank of Namibia is attuned to these sweeping changes and is reengineering its supervisory approach to anticipate the forthcoming transformations.** Our focus is on building a monetary system that can accommodate and support secure and sound innovation by the private sector. Collaboration between the public and private sectors is pivotal on this journey.
9. **The vision of the Bank of Namibia is to contribute to a prosperous Namibia.** FirstRand Namibia Group aspires to aid in creating a competitive banking industry. Together, our two institutions can help drive the transformation of the Namibian economy, ensuring the resilience of the financial system. In such a transformed

financial landscape, entities like FirstRand Namibia Group can thrive, creating value for their shareholders.

10. As an institution, First Rand Group has delivered exceptional shareholder value by leveraging technology. You have been an early adopter in the true sense of the word, and no one can fault you for how you have embraced digital transformation. In fact, Namibia's financial sector is considered one of the more modernised and sophisticated on the continent, thanks in part, to your digital strategy.

11. However, we have unfinished business and cannot rest on our laurels as an institution and industry. Namibia faces challenges of inequality, poverty, and unemployment, which cannot be ignored. If not addressed, these issues may lead to social unrest, as we have seen globally. Today's society demands accountability and action from all institutions, whether public or private.

12. As financial intermediaries, banks should continue to fulfil the social contract. King and Levine posit that *"financial intermediaries determine which economic organisations will survive and which will perish, which entrepreneurs will control organisation and which ones will not, which types of investments can be made, and which ones cannot, and which new economic products can be introduced by firms, and which cannot."* With such an important responsibility in the allocation of capital in the economy, banks should play their part in the fulfilment of national economic goals while ensuring their own sustainability. Otherwise, the social contract will not hold.

13. On our part, as a central bank, we have read the room. In this regard, we shaped a new vision to be a leading central bank committed to a prosperous Namibia. Through effective monetary policy and an inclusive, modernised, and stable financial system, our mission is to support sustainable economic development for the benefit of all Namibian people. This mission reflects our commitment to support socio-economic progress and sustainable economic development in Namibia. Our vision for the Bank is to transform the central bank and make it relevant in discharging its core mandate, modernising the financial system and restoring economic growth during the three years of the execution of our Strategy (2022-2024).

14. The investment climate in Namibia is generally positive. However, despite the positive developments in the real economy, credit extension to the private sector remains subdued, albeit increasing slowly, having increased by 2.2 percent year on

year in August 2023. This is largely due to rising interest rates and elevated inflation, with higher interest rates increasing borrowing costs for households and businesses. The Bank continues to support initiatives, especially in the SME sector, to drive credit growth. Under the SME Business Recovery Scheme, the Ministry of Finance and Public Enterprises and the Bank of Namibia availed a total of N\$500 million to support the SME Sector. A total of N\$313 million (63 percent) has been disbursed to a total of 303 qualifying businesses across the country. Despite the outstanding success, the benefiting businesses are concentrated in the urban areas, particularly, the Erongo and Khomas regions. More deliberate efforts need to be made to provide access to business in the periphery and rural areas of the country. This will enable them to access factors of production and allow them to participate in economic activity and uplift rural economies.

15. **Let me turn to the legislative reforms that you are already aware of that could shape the financial system in the coming years.** The Bank of Namibia has taken great strides toward a more efficient and modern banking sector with the implementation of changes to both the Banking Institutions Act, 2023, and the Payment System Management Act, 2023. These laws were not only introduced to enhance the Namibian financial system to a world-class regulatory and supervisory system but also to ensure that international best practices are embedded. At the same time, the Bank of Namibia wants to demonstrate the country's commitment to delivering responsive and transformed banking services. These new laws represent a watershed moment for the industry as it transforms into a future-fit operating model in line with the aspirations of a financial system that works for the Namibian people.
16. **For instance, the laws require Namibian banking institutions to have independent and autonomous Boards.** These autonomous board members are expected to oversee effective governance, transparency, and accountability, which is essential for a stable and sound financial system. Effective board succession plans should prioritize term and age limits to prevent board members from overstaying while ensuring proper oversight in line with the fiduciary function of Boards.
17. **Some of the other key changes brought into the new Act relate to local ownership and local decision-making.** It is important to avoid constantly referring every decision to the group. Specifically, credit decisions and approvals that need to

be made at the local level should be handled by individuals who have been authorised and deemed appropriate by the Bank of Namibia. This is something that we will not compromise on. That's what the law provides. Compliance is not a choice but a must. I have stated before and repeat today that should the banking sector not be responsive to the needs of society and be transformed in such ways as to serve the domestic economy, it is setting itself on a collision course with society.

18. **The Payment Systems Management Act has also been revised in its entirety to be future-focused and responsive to a dynamic payments' ecosystem.** The new Act incorporates and addresses a number of definitional challenges previously experienced as well as modernisation aspects of the National Payment System. Notably, the Bank will now be the sole regulator of all payment service providers, inclusive of the service providers previously overseen by the Payments Association of Namibia as a delegated function. In anticipation of future open banking initiatives, the new law provides the Bank with powers to determine standards for data sharing. The new Act, furthermore, provides a Schedule that will enable the Bank to be agile and future-focused in drafting regulations when new payment services, instruments, and digital means of payment changes occur in our payments' ecosystem.
19. **It must be kept in mind that the operating models that achieved success in the past may not do so in the future.** I believe this new regulatory and supervisory framework, the Bank, as regulator and supervisor, and the entire industry shall work in tandem to bring about a responsive and dynamic financial ecosystem that maximizes shareholder value while serving the national interest. I count on all stakeholders to support us in this worthwhile endeavour.
20. **I applaud, FirstRand on the progress made in ensuring increased local ownership, skills development, and decision-making.** it remains imperative that FirstRand continues to enhance its blend of local skills and ownership to increase the participation of Namibian citizens in the control and management structures of the institutions, i.e., the board of directors, executive management, and other decision-making structures.
21. **In relation to the financial system, it should be efficient and modern while promoting financial inclusion.** Through our Strategic Plan, the Bank has committed to drive greater digital and financial inclusion in Namibia. Specifically, one of the Bank's strategic objectives is to maintain a stable, inclusive and modern financial system,

which entails ensuring that financial services are provided in a safe and competitive environment as well as accessible and affordable by every Namibian. In conjunction with the industry players, the Bank has positioned itself to act as a catalyst to help leapfrog towards a cash-lite society, as depicted in the National Payment Vision for 2025.

22. **The digital divide is a poverty divide, hence the need to include rural Namibia and the informal economy.** We are committed to ensuring an enabling regulatory landscape that allows the industry to provide innovative and transformative digital payment solutions that will enhance the consumer experience, drive greater financial inclusion, and avail multiple payment channel options/access points to end users at affordable rates across the country. While ensuring a financial sector at the cutting edge of the technological revolution, we should not be oblivious to perceptions (perceived or real) of high banking charges and fees. To do otherwise may bring the banking sector on a collision path with society.

23. **With these few words, the Bank of Namibia is looking forward to working with FirstRand Namibia** in modernizing the financial system whilst ensuring its stability and integrity.

Thank you!