

**TALKING POINTS BY THE GOVERNOR OF THE BANK OF NAMIBIA MR. JOHANNES IGAWAXAB, AT THE WORLD OF DIGITAL STRATEGY (HOSTED BY ONIX AND HEWLETT PACKARD) ON THURSDAY, 28 OCTOBER 2021, WINDHOEK.**

**“The Role of the Central Bank in the Digital Economy and the requirements needed to ensure the inclusion of Low-Medium Income groups in the Digital Economy”**

Masters of Ceremonies,  
Mr Junias Kandjeke, the Auditor General,  
Executive Directors,  
CEO's,  
Representatives of Hewlett Packard,  
Our hosts Onyx Business Solutions,  
Ladies and gentlemen, good afternoon.

1. Thank you for inviting me to speak on this important topic that affects us all. I'm happy to see representation from numerous stakeholders from the public and private sectors, as this is a journey that cannot be travelled alone. I will speak on matters concerning a digital economy, critical considerations for Namibia along this journey, the role that the Bank of Namibia can play and finally, some conclusions and recommendations.

GLOBAL / REGIONAL / NATIONAL ADVANCES IN DIGITAL ECONOMIES

2. **What is a digital economy? How does it differ from a traditional economy? What is happening around the world, and what can Namibia do to prepare for it?** These are pertinent questions that require our collective attention and a measured and strategic response for Namibia to be relevant and competitive. There are many ways one might define a digital economy. Today, I'd like to offer the following definition and understanding by Professor Brian Armstrong of Wits Business School: A digital economy he states, might be an economy that drives the general production and consumption of goods and services through digital platforms. Such an economy is formed by facilitating online connections between people, processes, data, services, businesses, and the Government.
3. **Big Tech, or large global technology companies with vast amounts of influence, such as PayPal, Apple, Alibaba, Tencent, Samsung and Google, have made**

**considerable strides to democratise payments through digital platforms.** These platforms have disrupted the way we work, the way we communicate, the way we live, socialise and make payments. We can communicate across the planet, make accommodation reservations via an app through a company that doesn't own real estate. Today, people can get transport through companies that do not possess vehicles, and they can get groceries from the comfort of their own homes through a few clicks and taps of their fingers. Much of this is be done without handling cash. What technology does, is that it raises productivity in the economy, it cuts down travel time and can offer scale to many businesses and industries in this evolving and changing world.

4. **In fact, while the Namibian economy contracted by 8,5% in 2002, not surprisingly the information and communication grew by more than 16%.** This year, the sector is forecast to continue the same trajectory. In part due to Covid-19 that accelerated the adoption of technology in more ways than one. Working from home and virtual learning at universities and schools is now commonplace.
5. **Ladies and gentlemen, as mentioned, many of you in the audience already know that this new digital economy is not a distant aspiration.** It is happening today, right now and right here at home. No sector is spared, from Government to all industries of our economy. New business models are created every day, recent advances in technology continue to change our landscape, and new operating models establish themselves in almost every sector. This has disrupted old ways to a certain extent and those unwilling to embrace this reality will be the laggards of today. People want to leverage these advancements to make things more convenient for their stakeholders in an environment that is fast, efficient, and, most importantly, safe for everyone concerned.

#### ROLE OF THE CENTRAL BANK

6. **Let me move on to address the role of the central bank in this rapid changing environment.** Well, we see the role of Bank as essential and catalyst role in the advancement of a digital economy. The Bank can help speed up an environment where modern advances are possible, particularly in the financial sector. Our policies need to ensure the safety, efficiency, and stability of the financial system, and each stakeholder within the system. Before I expand on this 'catalytic role', allow me to briefly touch on the mandate of the central bank:

- Our core mandate is monetary and financial stability for sustainable economic development.
  - The Bank has the sole authority to produce and circulate, secure currency or cash in the form of the Namibia Dollar.
  - It is the Bank's responsibility to ensure an efficient and effective Payment System.
  - The Bank serves as the Banker to the Government and manages Namibia's foreign reserves.
  - Finally, the Bank strives to help support Namibia's economy through good economic research to advise the Government.
7. These responsibilities are necessary whether we are dealing with a traditional or a digital economy, and they continue to form the basis of a thriving and inclusive economy. It is the bedrock of financial intermediation in Namibia that is hailed as world class.
8. **Ladies and gentlemen, as my talk alludes to, Financial Inclusion is high amongst the Bank's shared roles and priorities in advancing the financial sector, combating poverty, and contributing to inclusive growth of the economy.** Banking the unbanked is essential for the economy. Our journey started years ago, with statistics showing progressive change over the years. According to the Namibia Financial Inclusion Survey of 2017, the proportion of the financially excluded population was 22 per cent in 2017. This was a decrease from 31 per cent in 2011 and as much as 51 per cent in 2007, a figure that has more than halved over 20 years but with room to improve.
9. **The continuous innovations in the payments' ecosystem bolstered these improvements in our financial inclusion footprint.** This is evident from the exponential growth in Electronic Money, commonly known as E-money (wallet services as part of the payment services offerings by both banks and non-banks); urbanisation, the introduction of the Basic Bank Account, a regulated product that require all commercial banks to offer a low-cost product to the public; as well as other digital financial services. We cannot sit on our laurels and expect this trajectory to continue along this path without efforts to reduce that remaining 22 per cent. The Bank of Namibia has a role to play, but it cannot do so alone.

- 10. Enhancing financial inclusion is a challenge that requires a multi-faceted strategy from numerous stakeholders in the public and private sectors.** One key sector that has not fully been included financially is the SME sector and the informal economy. As part of the Bank's role to assist in the attainment of national economic goals we are spearheading an advocate of SME development. Small and Medium Enterprises play a significant role contributing to economic growth and development. Government prioritized SME development over the last 2 decades, due to its potential to contribute to job creation and poverty alleviation. However, access to finance has been identified as a major challenge for SME development in Namibia.
- 11. In this regard, the Namibia Financial Sector Strategy thus recommends consideration for the establishment of a National Risk Facility to bridge the financing gap that is experienced by SMEs in Namibia.** This work culminated in what we now refer to as "the SME Financing Strategy" with three interlinked facilities aimed at addressing the multiple challenges facing SMEs. These facilities are the Credit Guarantee Scheme, the Venture Capital Fund as well as the Mentoring and Coaching Programme. The Strategy is being implemented by the Development Bank of Namibia as per Cabinet direction.
- 12. Ladies and gentlemen, the Bank of Namibia is taking a strategic approach to digital transformation.** A Digital Transformation and Innovation Committee, is now in place, designed to spearhead, and facilitate such initiatives in the Bank, with a long-term view to facilitating the same ambitions in the Financial Sector at large. One of the first orders of business for this Committee is to explore the establishment of a Central Bank Digital Currency (CDBC). While this may be a long-term initiative, no time can be spared to start early to gain a thorough understanding of the legal, technical, technological, and social impact it may have on the Namibian economy. Without these advancements, the risk Namibia could find itself left out of the rapid advances brought about by the fourth industrial revolution.
- 13. The Bank is also forming a view on crypto assets while continuing to monitor the impact of this technology.** We agree that blockchain technology, the underlying technology that enables crypto assets is an innovation that can be deployed. Additionally, advances in Fintech are also increasing in the country, and a strategy is necessary to accommodate these emerging players in the market. We can do so by creating an oversight platform, alongside other regulators, to test new products and services in a controlled environment. These controlled environments are referred to as Regulatory Sandboxes, where Fintech innovations can be tested in a controlled live

environment with the Bank's approval and cooperation between regulator and innovator. This is likely to transform the domestic digital landscape.

- 14. The Bank is also investigating instant payment models in countries such as Brazil, India for affordable payment infrastructure that can further advance and facilitate financial inclusion.** We can learn from our sister Central Banks through close benchmarking initiatives. Cooperation within the SADC community on Regional Payment Systems Integration has grown substantially with the implementation of the SADC RTGS to facilitate trade within the SADC region. This mechanism enables real time large value payments to be effected. Low value payments through the Transactions cleared on an immediate basis scheme equally went live this year, enabling instant cross-border remittance payments in a cost-effective manner. This is an interoperable payments mechanism that allows for immediate access to funds and has a strong financial inclusion focus. Under the auspices of the Association of African Central Banks, the Bank is participating in projects aimed at linking continental payment systems which will bolster the African Continental Free Trade Agreement, further facilitate intra-regional payments, and remove the cost associated with having to settle such payments.

KEY CONSIDERATIONS (E.G. CYBER SECURITY, LEGISLATION, ACCESSIBILITY, ETC.)

- 15. Ladies and gentlemen, success in the digital age will not come without challenges and obstacles.** Namibia is faced with a vast landscape and a sparse population. A considerable amount of people lives in rural areas. While advances are likely to continue in urban areas, it is equally important not to lose sight of bringing all citizens on this journey, no matter where they live. Access and inclusion to the information and communication technologies require national infrastructure that spans across the whole country. Namibia already enjoys over 98% access to telecommunication services using mobile phone networks. However, it is critical now more than ever to have Broadband access for all citizens across all regions and communities as outlined in the Harambee Prosperity Plan as well as Namibia's National Broadband Policy. The Broadband Policy aims to cover 95% of the population with internet speeds of at least two megabits per second by 2024. With a population of fewer than three million people, Namibia is one of the countries where such a Goal isn't only achievable, but it may become a necessity if all our people are to benefit and participate productively in the economy while also bridging the digital divide.

16. **Another challenge we face in such a digitally advancing economy is people's privacy and safety in a world where cyber threats are on a rapid increase.** While plans are underway to modernise, we must think of building our digital infrastructure with security in mind. Stakeholders should continue to focus on completing the drafting, consultation process and eventual enactments of the Cyber Crime and Data Protection Bills by their intended timelines. I have noticed the excellent progress that has taken place in both these areas, with good participation from stakeholders. These Bills will give Namibia the necessary legal framework to take full advantage of the digital economy. All stakeholders should therefore operate within a sound and healthy system with rules that allow for growth, but also with legal recourse when bad actors do not operate within these rules.

17. **As mentioned, it is gratifying to see that Namibia has prioritised digital efforts through the establishment of a Fourth Industrial Revolution Task Force.** The commitments in the second Harambee Prosperity Plan which outlines plans to expand and build on connectivity and to enforce legislation that protects data and enhance security for Namibia are noteworthy. In our role as a policy advisor to government, our flagship event - the Bank of Namibia Annual Symposium for this year is focussing on the topics up for discussion today. The Symposium will take place under the theme *Namibia Beyond Covid: Digital Transformation for Sustainable Economic Development*. We are hoping through this dialogue to highlight and focus on these issues with the hope of supporting an enabling and supportive environment for the digital economy to thrive. The event is taking place on the 4<sup>th</sup> of November.

#### CONCLUSIONS & RECOMMENDATIONS (KEY TAKE-AWAYS)

18. **To conclude, ladies and gentlemen, the digital economy holds excellent opportunities for Namibia.** But it does not come without risk, investments in national infrastructure, a sound regulatory framework and access to a safe and secure means of transferring value. The Bank must promote interoperability, support competition and innovation, and promote easily accessible, low-cost, and high-quality payment services. Central banks are as critical in the digital era and need to innovate and transform themselves to meet the same global demands. On this journey of transformation, the Bank must continue to focus on the following areas:

- Regulation and Supervision of the Banking industry
- Security/Safety and efficiency of the payment system

- Cyber resilience and Systemic Risk Management of the financial sector
- Financial literacy and awareness of current and possibly new financial products, inclusive of payments and lending products
- Incubating and encouraging new market players

The road ahead is long and exciting, there are challenges ahead, but the opportunities are plentiful. Our collective focus must be on execution and delivering on our respective mandates for Namibians. We must work together in all sectors and through all stakeholders to make the Namibian dream a reality. Let us leverage technology to help us exit the COVID-19 pandemic, mitigate the negative consequences of disrupted and lost schooling and teaching, and raise productivity in our economy.

I thank you,