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VIABILITY OF COMMERCIAL BANK BRANCHES IN RURAL COMMUNITIES IN NAMIBIA

by

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The paper attempts to identify the potential rural areas where commercial banks could operate viably. It reviews the current structure of banking sector in terms of banking facilities such as branches, agencies and automatic teller machines (ATMs) and bank branch density at constituency and regional level. The results of both surveys conducted with the headquarters of the commercial banks in Windhoek and to the Ohangwena, Omusati and Kavango regions are also discussed in this paper. Lastly, it suggests strategies and incentives that would be of great importance to commercial banks in establishing themselves in the proposed regions.

EXECUTIVE SUMMARY

1. The Namibian financial system is relatively well developed in terms of institutions and instruments. Like most developing countries, the financial system is made up of formal and informal sectors. The formal sector consists of a central bank, commercial banks, development financial institutions, a savings bank and insurance companies and a stock exchange, while the latter comprises mainly of the micro lenders.

2. The Namibian banking sector comprises of four commercial banks with a total of 101 branches as at the end of August 2003. The distribution of these branches is, however, heavily skewed in favour of urban centres, with only a few branches located in rural areas. In this study, the banking density ratio is used to measure the number of people to a bank. With a population to bank density of 456,704 Namibia ranks second among a number of SADC countries, after Botswana which comes first with a density of 322, 000 while South Africa comes in last with a density ratio of 903,478.

3. However, when we consider also the ratio of population per bank branch the picture changes. Namibia with a population per bank branch ratio of 20,074 is ranked among the countries with the lowest banking density ratio in the region. This compares well with 11,326 people per bank branch in South Africa, the number one country in SADC judged by this criterion. The population to bank branch ratio varies largely from region to region within Namibia. Some regions have a population to branch ratio well below the national ratio of 20,074, while other regions exceed the national ratio by far. The regions that score relatively well with the population to bank branch ratio that is well below the national average, include the Karas, the Erongo, the Otjozondjupa, the Kunene and the Khomas regions. Out of this group, the Karas region has the lowest ratio of only 4,355, while the region with the highest ratio is the Kunene with a ratio of 17,056. It may be noted that the Khomas region, which is the economically most powerful region in the country, has a ratio of 13,174.

4. The regions with population to bank branch ratio that is above but close to the national level are the Oshana, Oshikoto, Caprivi and Omaheke regions. It may be noted that the ratio of the Oshana region stand at 20,247 which is actually above the national average, but at the same time is far from the worse performers. The regions that are worse off within this sub-cluster are the Oshikoto region, with a bank branch density ratio of 40,187, followed by Omaheke and Caprivi regions, with ratios of 33,748 and 26,617, respectively. Regions that are neglected in terms of the presence of bank branches include the Omusati, the Ohangwena and the Kavango regions. Of these three regions it may be argued that the Omusati region is most severely affected region since there is no branch at all for a population of over 228 thousand. In terms of population size the Omusati region is second only to the Khomas region, which has a population of 250 thousand. This shows the disparity of distribution of bank branches within the Namibian context.

5. When we consider the presence of other banking facilities, the situation does not change much. The regions identified as neglected in terms of bank branches essentially still remain the same (see section 3).

This is so, because the presence of ATM s generally goes together with the presence of a bank branches or/and agency, i.e. wherever there is a bank branch or agency there is likely to be ATM/s.

6. Furthermore, at the constituency level the analysis of the bank branch density ratio shows that even within a region the distribution of bank branches and other banking facilities are unevenly distributed. For instance, in Karas, the region with the lowest branch density ratio, most of the branches are located in the Keetmans Urban, Luderitz and Oranjemund constituencies. On the other hand, the Karasburg constituency has two branches while the Berseba constituency does not have a branch at all. In the Khomas region, Windhoek East constituency has a population to branch density of only 1,040, the lowest among all the constituencies in Namibia, while the Hakahana constituency with a population of 59,546 does not have a single branch. The Windhoek East constituency alone has 16 bank branches. All bank branches in the Oshikoto region are located in the Tsumeb constituency.

7. The survey revealed that there are sufficient economic activities that would enable bank branches to operate viably in the regions visited. For instance, in the Kavango region, we established that the Nkurenkuru town is the potential centre for a bank branch because of its high level of income, employment and economic activities. The centre also has good electrical, telecommunication and postal services. However, there is lack of physical infrastructures such as buildings and the road from Rundu to Nkurenkuru needs to be upgraded to a tarred road.

8. The regional capital of the Omusati region, Outapi is only served by two agencies while the other constituencies do not have any banking facilities. It is also found that this town has at least adequate infrastructure, a high level of economic activities and employment. Thus, the study recommends the current agencies to be upgraded into a fully fledged bank branches. The survey also found that Eenhana constituency which is the regional capital of the Ohangwena region is served by a mobile agency which comes only on Tuesdays and Thursdays. This centre is one of the most populated constituencies and has many government offices and small and micro enterprises. The income of the constituency is relatively high which lead to a high level of business activities. Hence, the paper recommends the agency to be developed into a fully fledged bank branch which provides all the services of a commercial bank. Nevertheless, like other rural towns Eenhana does not have good physical infrastructure especially building and well structured town planning.

9. In order to address some of the obstacles cited above the study suggests the following strategies and incentives. The central government, especially the Ministries of Education should promote entrepreneurship and business training at school and tertiary levels. Ministries of Home Affairs and Defence should play a leading role by improving the security condition for commercial banks in rural areas. The Ministry of Works, Transport and Communications in conjunction with the Local and Regional Councils should speed up the process of rolling out infrastructure in rural constituencies. Local and regional governments should consider making serviced business plots available to commercial banks. Local and regional governments should also consider donating buildings from which commercial banks can operate. In this regard, it is pleasing to note that the regional council at Eenhana has donated a building to First National Bank.

10. The Bank of Namibia should consider amending section 14 of the Banking Institutions Act that regulates the closing of bank branches. In this regard the Bank should aim to make it easier for commercial banks to close loss-making branches in over banked areas. This should be done on the condition that commercial banks should open a new branch in an unbanked rural area upon closure of a loss-making branch in an over banked urbanised area. In addition to amending section 14 of the Banking Institutions Act, the Bank of Namibia should introduce a new regulation that will tie the opening of new bank branches in urbanised centres to the corresponding opening of a new bank branch in an unbanked rural area. For instance, if a bank

wants to open an additional branch in Windhoek, it should be allowed to do so only if it simultaneously opens a new bank branch in one of the identified unbanked rural areas that show potential for sustaining a bank branch. It is recognised, however, that such a one to one scenario , may be difficult to achieve, therefore, the study recommends that the opening of a new bank branch in an over banked urbanised centre be conditional upon meeting a minimum quota of bank branches in unbanked rural areas. Another measure the Bank could employ to extend bank branches to rural areas would be to entice credit unions/credit cooperatives to operate as community banks.

11. The study strongly encourages a type of a smart partnership between public enterprises and the commercial banks. In this regard the Bank of Namibia could also play a role by promoting a forum where these institutions could meet to discuss how they could share for example existing infrastructures. Commercial banks should consider establishing a training fund separate from their internal training efforts that could be utilised for training as many Namibians as possible in banking studies. Preference should be given to Namibians living in rural communities.

12. Finally, commercial banks should incorporate the extension of bank branches into their social responsibility programmes.

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1. INTRODUCTION

The financial system in Namibia is relatively well developed in terms of institutions and instruments. Like most developing countries, the financial system is made up of formal and informal sectors. The formal sector consists of a central bank, commercial banks, development financial institutions, a savings bank and insurance companies and a stock exchange. The informal sector comprises mainly of the micro lenders.

The commercial banks have been regarded as important intermediaries in mobilising savings that is required for a sustainable growth. A more efficient and diversified financial system assists in increasing the level of domestic savings as well as promoting foreign capital inflows. It also assists businesses and government in better managing risk. Commercial banks continue to form the core of the financial sector in most developing countries. They are the best at monitoring projects and enforcing contracts when public information is limited and the legal and financial infrastructure is immature. It is well recognised that banks lending to the private sector strongly influences investment, productivity and growth in developing countries.

It is generally acknowledged in banking circles, that for a developing country, Namibia has a surprisingly sophisticated banking system. The country is at the cutting edge of electronic banking, the use of smart cards and point of sale devices and most importantly, effective banking supervision. The banking industry plays a dominant role in the Namibian financial system and the economy. It uses a high level of information technology. The sub-sector has strong links to the South African financial system that allows it to benefit from technology advancements at relatively lower costs. There are no formal barriers to entry to the banking sector though high initial capital layout required to compete with infrastructure and services offered by existing commercial banks might serve as barrier to entry.

Commercial banks in Namibia provide intermediary services such as keeping cash deposits and giving short-term advances for commerce and other businesses requiring short-term credit. They also deal in securities and other bills of exchange. Currently there are only four commercial banks. The industry is dominated by two banks accounting for more than 60 percent of the total assets. These two banks have in most cases acted as price leaders in the banking sector, determining the trend in interest rates. Collusive behaviour is covert, as banks tend to follow the pattern dictated by the two main banks.

While the wealthy segment of Namibia's population has at its disposal a world class banking system, a large section of the population has little or no access to banking services. This is evidenced by the distribution of commercial bank branches between the urban and rural centres in Namibia. It is also widely accepted that the extension of banking services to all sections of the population is both a social and an economic imperative. Given the number of economic activities that are taking place and the number of the population living in the villages, there is a need to encourage commercial banks to extend their branches to rural areas. The present distribution of banks' branches naturally discourages the customers to make use of the banking facilities and this has implication for the mobilisation of savings, investment and consequently economic development.

The Bank of Namibia has at various occasions expressed its concern with the lopsided branch development in favour of urban areas. The dominance of the banking branch network and the concentration of such branches in few regional capitals is indeed a cause of concern to the Namibian economy. It is felt that access to banking facilities was being denied to a disproportionate percentage of the population engaged in such occupations as agriculture, rural handicrafts and other basic small-scale enterprises. Commercial banks have a vital role to play in the economic development of these rural areas, by promoting savings, investment and extending credit to various households would undoubtedly raise the standard of living of these people which can not easily be done by other financial institutions, such as pension funds, unit trust and development financial institutions.

VIABILITY OF COMMERCIAL BANK BRANCHES IN RURAL COMMUNITIES IN NAMIBIA

The purpose of this study is therefore to identify the centres in rural areas where commercial bank branches could operate viably and suggest strategies and incentives for encouraging banks to open branches in identified centres. The remainder of the study is outlined as follows: Section two covers the theoretical and empirical literature review on the relationship between bank branches, access to financial services and economic development. Section three looks at the structure of the financial sector with emphasis on the banking sub-sector in Namibia. Section four covers the analysis and presentation of the field survey. Section five highlights the possible incentives and strategies that would encourage commercial banks to locate more branches in the rural areas. Section six contains conclusions.

2. LITERATURE REVIEW

In this section a review of the literature is done with a view to identifying the relationship between bank branches network and economic development. The role of commercial banks in economic development is well recognised in the economic literature. These institutions perform an important intermediation function between savers and those in need of credit. It has been also accepted that a wide spread network of financial institutions and a diversified array of financial instruments will have a beneficial effect on the saving-investment process and hence on growth.

The increase in the number of bank branches is also expected to bring about convenience and improve accessibility to financial services. It is also argued that an efficient financial sector that makes financial assets available to household and firms will help to mobilise real domestic savings. This can be done by extending branch network to rural areas so as to increase accessibility and hence convenience, remove interest rate controls and introduces financial instruments so as to expand the range of interest bearing instruments and increase yield. On the part of the consumer, branching is an incentive for saving, while on the part of the banks will undoubtedly create a convenience in providing banking services and enhances efficiency. A number of studies have focused on this issue.

Lanzillotti and Saving (1969) and Savage and Humphrey (1979) argued that firms tend to supply facilities as long as they contribute to profitability. Hence, viability seen from this perspective tends to be in conflict with the role of banking in the development context. Banks as commercial concerns have placed significant emphasis on branch profitability. They also play a vital role in implementing government credit and monetary policies. Thus, they may develop a conflict between a genuine sense of public duty and the desirability of profitable operations. The main issue here is that profitability per se should not be the sole criterion in branch network planning (Ezile, 1982). There may be situations where a loss, sustained from one rural branch can be more than compensated by profits recorded from an urban branch in which case subsuming branch location wholly in technical efficiency issues like viability will tend to undermine the social objective of commercial banking in a developing economy.

On the empirical front, a group of researchers have tried to identify the relationship between bank branches, accessibility to financial services and economic development. This issue has generated controversy in the literature. Gilbert and Longbrake (1973) found that branching allows for extension of banking facilities, and hence a positive relationship with economic growth. While Savage and Humphrey (1979) and others found a weak relationship.

Benston et al (1982) introduced variables reflecting the number of branches in the bank cost function, in addition to total bank output. They found positive coefficients on the branching variables implying that branching is costly. However, Nelson (1985) findings are contrary and showed that the number of branches has no effect on average bank cost thus supporting the existence of economies of scale in branching. He did not find evidence supporting rising average cost above some level of branch output.

The study by Longbrake and Halsem (1975) also showed that the number of branches has no effect on average bank cost thus supporting the existence of economies of scale in branching. The authors did not find evidence supporting rising average cost above some level of branch output.

In his study on branch networks and economies of scale Ogungbenro (1996) found that cost structure of the three leading banks in Nigeria that has been dominating the oligopolistic banking market for over a century exhibit average operating costs that are still downward sloping. This result support the finding that increased bank branches contributes to economies of scale and lowers the risks of failure through diversification. There

is also a higher benefit in the form of lowering operating costs since there would be no need for extra board of directors, legal and some other key employees of some departments, duplication of certain documentation and technology processes for the affiliates. McAllister and McManus (1993) provided explanation for the existence of economies of scale in branching by large banks. They noted that large banks realise a substantial cost advantage over small ones by virtue of being able to function with much less financial capital. This financial returns to scale effect, according to them, counteracts the measured diseconomies of scale in pure operating costs at large banks, suggesting that they may need to use more operating inputs to manage their large and diversified portfolios, but the resulting financial returns to scale make the expenditure of these resources worthwhile .

Some researchers in Africa have also tried to show the relationship between branch network and the branch cost function. Soyode and Oyejide (1975) provide support for existence of economies of scale in commercial banking in Nigeria. The study confirms that the average cost of a branch bank declines with expanding output. In his work on five countries in Africa, Ikhide (1996) found that the coefficient of population per bank branch variable is strongly correlated with the saving rate. His results show that a ten percent reduction in the population per bank would lead to close to 7.7 percent increase in domestic savings rate. This had much stronger effect on savings than other regressors such as real income and exchange rate.

In summing up, the empirical evidence show that the increase in a number of bank branches has led to existence of economies of scale in branching. This led to a reduction in the average cost of a branch as output is expanding. It is also found that extension of branch networks increased the savings rate, which promotes economic activities in the country. However, there are studies that found weak relationships between branching and economic development and this could be attributed to flaw in data.

3. THE STRUCTURE OF THE NAMIBIAN BANKING SECTOR

The aim of this chapter is to briefly review the structure of the Namibian banking sector with a special emphasis on the distribution and density of its branch network. In addition, the chapter will also consider the presence and distribution of other banking facilities, such as agencies and automated teller machines. The Namibian banking sector comprises of four commercial banks with a total of 101 branches as at the end of August 2003. The distribution of these branches is, however, heavily skewed in favour of urban centres, with only a few branches located in rural areas. The subsequent paragraphs will elaborate in more detail about where exactly these branches are located and provide possible reasons why they are located in these areas.

3.1 BANK BRANCH DENSITY AT REGIONAL LEVEL

The banking density ratio measures the number of people to a bank. With a bank to population density of 456,704 Namibia ranks second among a number of SADC countries². Botswana comes in first with 322,000 people per bank, while South Africa comes in last at 903,478 people per bank. However, the situation changes somewhat when one considers the ratio of population per bank branch. With a population per bank branch of 20,074 Namibia ranks among the countries with the lowest banking density ratio in the region. This compares with 11,326 people per bank branch in South Africa, the number one country in SADC judged by this criterion. Ikhide (2001) further expounded this issue by asserting that the population to bank branch ratio for Namibia may be deceptive when the distribution of bank branches is taken into consideration. He correctly argues that the distribution of bank branches in Namibia is heavily biased towards urban areas with a large segment of the population in the rural areas denied access to banking facilities. Table 3.1 below shows some helpful indicators about banking density in Namibia as at the end of August 2003.

Table 3.1 Bank Branch Density Ratio per Region

| Name of Region | Population | Per Capita Income (N\$) | Population/Branch |
|----------------|------------|-------------------------|-------------------|
| Caprivi | 79,852 | 1,338 | 26,617 |
| Erongo | 107,629 | 4,701 | 8,279 |
| Hardap | 67,998 | 5,153 | 13,600 |
| Karas | 69,677 | 5,751 | 4,355 |
| Kavango | 201,093 | 1,459 | 67,031 |
| Khomas | 250,305 | 9,995 | 13,174 |
| Kunene | 68,224 | 1,864 | 17,056 |
| Ohangwena | 227,728 | 863 | 113,864 |
| Omaheke | 67,496 | 3,341 | 33,748 |
| Omusati | 228,364 | 1,204 | 0 |
| Oshana | 161,977 | 1,577 | 20,247 |
| Oshikoto | 160,748 | 1,406 | 40,187 |
| Otjozondjupa | 135,723 | 3,126 | 12,338 |
| Total/Average | 1,826,814 | | 20,074 |

Source: National Planning Commission, 2001 Population and Housing Census and Commercial Banks. Bank of Namibia 2003.

² With the recent merger between the First National Bank of Namibia and SWABOU Bank the bank to population density increases to about 465,704. It may be noted that when calculating this ratio the authors made use of the results of the 2001 housing and population census, which estimated the Namibian population at 1,826,814 in 2001.

From table 3.1 it may be seen that the population to bank branch ratio varies largely from region to region within Namibia. Some regions have a population to branch ratio well below the national ratio of 20,074, while other regions exceed the national ratio by far. The regions may be divided into three clusters, namely; (a) those regions that score relatively well in terms of number of population per bank branch, are called front runners ; (b) those regions that are above, but close to the national average neglected regions ; and (c) those regions that are far away from the national average severely neglected regions .

The front runners include the Karas, the Erongo, the Otjozondjupa, the Kunene and the Khomas regions. These regions all have a population to bank branch ratio that is well below the national average, with the Karas region having the lowest ratio of only 4,355. The region with the highest ratio amongst the front runner regions is the Kunene region with a ratio of 17,056. It may be noted that the Khomas region, which is the economically most powerful region in the country, has a ratio of 13,174.

Regions that fall into the cluster neglected regions include the Oshikoto, the Omaheke and the Caprivi and Oshana. The region that is worse off within this sub-cluster is the Oshikoto region, with a bank branch density ratio of 40,187, followed by the Omaheke and Caprivi regions, with ratios of 33,748 and 26,617 respectively. It may be noted that the ratio of the Oshana region at 20,247 is actually above the national average, but at the same time is far of from the worse performer in the front-runner group.

The cluster of regions that are severely neglected in terms of the presence of bank branches or more correctly the lack of bank branches; include the Omusati, the Ohangwena and the Kavango regions. Of these three regions it may be argued that the Omusati region is most severely affected region since there is no branch at all for a population of over 228 thousand. In terms of population size the Omusati region is second only to the Khomas region, which has a population of 250 thousand. In terms of population size there is a difference of only 22 thousand people between the Omusati and the Khomas regions. Yet the Khomas region has a population bank branch ratio of only 13,174 compared to 228 thousand people in the Omusati region, which is served by no bank branch. This example highlights most clearly the disparity of distribution of bank branches within the Namibian context. One may argue that this situation is justified, because the Khomas region is economically the most powerful region in Namibia and that there are very little economic activities happening in the Omusati region. This argument, however, does not hold if one compares the per capita income of the Omusati region with that of the Ohangwena region.

The Ohangwena region has a lower per capita income than the Omusati region, but is served by two bank branches. Further, the per capita income of the Omusati region is very close to those regions within the cluster neglected regions . This suggests that there must be factors other than per capita income influencing the presence of bank branches. In addition, it may be argued that economic activities in some of the regions in Namibia, especially in those rural regions like Omusati is under stated. Only two bank branches serve the Ohangwena region, while only three bank branches serve the Kavango region. Yet these two regions have the third and fourth largest populations. As a result, the branch density ratios for these two regions are extremely high at 113,864 and 67,031, respectively. This is about five times higher than the national average and about 26 times higher than the region with the lowest density ratio.

In summing up, when all regions are divided into three clusters, the following observations may be made. First, the population is more or less evenly distributed among the three identified clusters. The combined populations of the cluster front runners account for 38 percent of the Namibian population. This is followed by the clusters neglected and the severely neglected, which account for 36 percent and 26 percent of the total population, respectively. The combined population of the neglected and severely neglected clusters in turn accounts for about 62 percent of the Namibian population. This confirms the results of a study by Finmark (2002), which estimated that about 60 percent of Namibians do not have access to banking facilities.

3.2 BANKING FACILITY RATIOS FROM REGIONAL PERSPECTIVE

If one considers the presence of other banking facilities, the situation does not change much. The regions identified as neglected in terms of bank branches essentially still remain the same (table 2). This is so, because the presence of ATM s generally goes together with the presence of a bank branches or and agency, i.e. wherever there is a bank branch or agency there is likely to be ATM/s. It is also important to note that agencies and ATM s do not provide the same scope of banking services as a fully fledged bank. Typical functions of agencies are deposit taking and withdrawal. They are not allowed to extend credit and they also operate within limited hours. ATMs essentially serve the same function as the agency. One may, therefore conclude that the presence of these facilities enhances the level of access to banking services.

Table 3.2 Banking Facility Density Ratios

| Name of Region | Population | Population Branch | Population Agency | Population ATM Banking Facilities | Population Total |
|----------------|------------------|-------------------|-------------------|-----------------------------------|------------------|
| Caprivi | 79,852 | 39,926 | 0 | 19,963 | 13,309 |
| Erongo | 107,629 | 8,279 | 53,815 | 3,844 | 2,503 |
| Hardap | 67,998 | 13,600 | 33,999 | 11,333 | 5,231 |
| Karas | 69,677 | 4,355 | 34,839 | 3,318 | 1,787 |
| Kavango | 201,093 | 100,547 | 0 | 40,219 | 28,728 |
| Khomas | 250,305 | 13,174 | 25,031 | 2,911 | 2,177 |
| Kunene | 68,224 | 17,056 | 68,224 | 22,741 | 8,528 |
| Ohangwena | 227,728 | 113,864 | 113,864 | 227,728 | 45,546 |
| Omaheke | 67,496 | 33,748 | 67,496 | 22,499 | 11,249 |
| Omusati | 228,364 | 0 | 114,182 | 228,364 | 114,182 |
| Oshana | 161,977 | 20,247 | 32,395 | 5,225 | 3,681 |
| Oshikoto | 160,748 | 40,187 | 0 | 40,187 | 20,094 |
| Otjozondjupa | 135,723 | 12,338 | 135,723 | 10,440 | 5,429 |
| Total | 1,826,814 | 20,759 | 67,660 | 8,868 | 5,691 |

Source: Bank of Namibia and Central Bureau of Statistics, 2003

3.3 BANK BRANCH DENSITY AT CONSTITUENCY LEVEL

An analysis of the bank branch density ratio at a constituency level shows that even within a region the distribution of bank branches and other banking facilities are unevenly distributed. Even among the so-called front-runners, identified in section 3.1 bank branches are unevenly distributed. For instance, in the Karas region, the region with the lowest branch density ratio, most of the branches are located in the Keetmans Urban, the Luderitz and the Oranjemund constituencies. On the other hand, the Karasburg constituency has two branches, while the Berseba constituency does not have a branch at all. Even, in the Khomas region, the distribution of branches is highly uneven. The Windhoek East constituency has 16 branches with a population to branch density ratio of only 1,040, the lowest among all the constituencies in Namibia. While the Hakahana constituency with a population of 59,546 does not have a single branch.

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When one considers the constituencies that fall within the regions of the neglected and severely neglected clusters, the situation is even worse. For instance, all the branches in the Oshikoto region are located within the Tsumeb constituency, all other constituencies do not have any branches. The worse region is Omusati, where not even the regional capital has a bank branch. (See appendix A for detailed table on bank branch density at a constituency level).

4. PRESENTATION AND ANALYSIS OF THE FIELD SURVEY

This chapter discusses the perceived obstacles in the distribution of bank branches to the rural areas in Namibia. It presents the results of the field surveys to the Ohangwena, Omusati and Kavango regions. The visits to the above-mentioned regions took place during the period 2nd —13th June 2003. The main purpose of the field survey was to assess whether the constituencies visited in these regions are potential centres for extending the commercial bank branches to these rural areas. In doing this, the research teams have looked at the number of activities and facilities that would enable the bank to operate efficiently in these areas. These included, the level of economic activities such as the number of businesses, tourism and agricultural activities; level of employment in various sectors which is considered as a proxy for income; and the presence of essential infrastructures such as supply of electricity, police station, telecommunications services, filing station and others.

4.1 PERCEIVED OBSTACLES IN THE DISTRIBUTION OF BANK BRANCHES TO THE RURAL AREAS

A number of obstacles have been identified on why commercial banks do not extent branches to rural communities. One obstacle often cited is the lack of commercial activities in the rural areas. The argument is that the commercial activities are not sufficient for commercial banks to operate viably in rural areas. This in turn would result in few transactions that would be expected to take place. However, the interview with the headquarters of the commercial banks in Windhoek has produced the opposite results. Most of the commercial banks interviewed opposed the suggestion that the lack of commercial activities discourages them from opening branches in rural communities. In fact representatives of commercial banks were of the opinion that there were probably enough commercial activities in rural communities that could warrant the extension of bank branches in such areas. Furthermore, the field survey conducted by the research staff of the Bank of Namibia, to the Ohangwena, Omusati and Kavango regions confirmed that there are enough commercial activities in these regions to be able to sustain the establishment of bank branches. The reasons provided by representatives of commercial banks on why they are reluctant to open branches in rural areas include among others the issue of profitability, competitions, lack of physical infrastructure and buildings, lack of security, lack of trained staff, etc. These are elaborated in more detail below.

4.1.1 Profitability

Commercial banks like other private companies are driven by the profit motive. It is argued that to establish a new fully-fledged bank branch is very expensive and may take long time before the new branch may break even or make profit. Thus, commercial banks perceive rural areas of not being profitable to the banks. One of the supporting argument or reason is the type and the number of transactions that are likely to take place in rural areas whether they would be able to sustain the branch to make profit or break even. This argument, however, may not hold water when viewed from the overall position of the bank. Yes, a bank branch on its own may not be able to operate profitable, but that does not mean the overall commercial bank may not be profitable anymore. A quick analysis of the profitability ratio s shows that commercial banks in Namibia are highly profitable compared to the banks in the SADC region, and in particular to related banks in South Africa. Further, the latest international business practices show that profitability should not be the sole or utmost objective of business enterprises anymore. While in the short-run, shareholders may be satisfied with the high ownership rent; there could be some negative consequences in the long run. Therefore, modern firms should not look blindly at the profitability of the branch, but they should also consider other objectives, such

³ An interesting Case Studies of Nigeria and Kenya on rural banking programmes can be found in the appendix.

as the long-term development and sustainability of the enterprises, social responsibility, market presence and market share. As a result such enterprises are willing to compromise the profit objective, in order to survive in the long run.

4.1.2 Competition

When opening a new bank branch, commercial banks normally consider the presence of other banks. Due to small population it is difficult to attract good clients. Typically commercial banks operate on the 80:20 percent principle, which states that 80 percent of the meaningful transactions are conducted by only 20 percent of the clientele. In a free market enterprise it is believed that competition is not good only for the customers, but also for the commercial banks. Competition will only bring the best out of banks to the fore. In any case if competition was really that fierce, than it should have been reflected in the books of the commercial banks as well as in the interest margin. The interest margin among all the commercial banks in Namibia without exception is extremely high when compared with international norms and with their counterparts in South Africa. This suggest that there is still scope for commercial banks in Namibia, to penetrate areas where banks are already present and be able to operate viably. Related to this is also the issue of the type of clientele and instruments that commercial banks target. It could be that some market segments in some regions are already saturated, but some other market segments are not saturated.

Data collected by the Bank of Namibia on access to banking services suggest that there is still a big segment in the market for financial services that is not being serviced yet. Rather than focussing on competition, the commercial banks should try find out ways how they can operate efficiently and make profit in the competitive world.

4.1.3 Cost of Physical Infrastructure and Buildings

An argument pursued by most of the commercial bank representatives, about why they are not represented in rural communities has been the costs of establishing fully-fledged bank branches in these areas. The costs for establishing a bank branch in rural areas according to commercial banks are much higher than in urbanised areas due to the following reason. When opening a bank branch, commercial banks have to decide whether to construct a building or to rent. The opinion expressed by the commercial banks is that when opening a new branch, it is often cheaper and safer to rent initially. It takes about three years for a commercial banks branch to break even and to become profitable. In the beginning there are lots of uncertainties. One can move out quickly if the branch is not viable, in the case of renting. In the case of putting up a building it becomes more costly to dispose off the building should the branch turn out to be not viable. On the other hand, if the branch becomes profitable within the targeted time frame, the bank could stop renting and build its own premises. However, there is a lack of appropriate physical buildings in rural areas to rent. This leaves the banks with the option of having to erect a building.

4.1.4 Cost of Staffing and Training

It is further indicated that the cost of staffing is higher in rural areas; due to the fact that there is a lack of skills especially in banking. In order to attract qualified staff, the banks are compelled to give special allowances to entice people to move/stay in rural areas. In addition, the commercial banks have to provide accommodation to these employees, which in some cases may result in setting up additional buildings. Commercial banks also indicated that the costs of medical care could be higher than in urban areas, due to the fact that personnel may need to be airlifted in case of medical emergencies that could not be treated in the regions. For these reasons it is very difficult to retain qualified staff in remote rural areas.

4.1.5 Cost of Security

The costs of security have been cited as one of the major factors hindering commercial banks from opening branches in rural areas. The costs of security relates to the transporting of money from and to the branch, the costs of insuring the transported money and the security around the bank. It was also mentioned that is very expensive to hire the security companies to carry out the work on behalf of the banks.

4.1.6 Lack of Support Services

There is a lack of support services, especially information and technology and communications related services in rural areas. Maintenance and operational costs also tend to be higher in rural areas than in urban areas. Should an ATM break down in some rural areas, somebody has to be flown in from more urbanised centres — in extreme cases from Windhoek - to fix the problem. While this is a valid problem, it is also believed that once commercial bank s move into rural areas, commercial activities will increase and as a result supporting servicing entities will open up branches in rural areas.

4.1.7 Language

Commercial banks argued that language also acts as a deterrent to opening branches in certain constituency. This is so because the local population does not have the necessary skills to conduct banking business. This argument appears not to hold water, since most clients would prefer to be serviced by someone who would speak their language. Instead of focussing on language as a barrier to enter some rural areas, commercial banks should be positive in their approach. They could do this by recruiting personnel from rural communities. Apart from being able to speak the language, such personnel would also have the benefit of knowing their customers, which would to a certain extent reduce the risk of adverse selection in extending credit to bank clients.

4.1.8 Financial Services versus Banking Services

Because of the above, some commercial banks investigate alternative cheaper forms of bringing financial services to the poor. These range from the promotion of high tech solutions to community based joint ventures. High tech solutions for example, would include electronic banking (i.e. internet banking) and point of sale transactions.

Nevertheless the interviews revealed that all commercial banks with the exception of one have started to explore the possibility of opening branches in rural areas. Most banks have already identified focus areas and they are in different stages of moving into rural areas. Some banks already conducted their own feasibility studies years ago. Other banks already opened branches in rural areas during the time of interview. However, a lack of economic information at a regional and constituency level prevent them from moving faster in setting up bank branches in rural areas. Commercial banks do not know the exact number of the economically active population in rural communities, the level of income, etc. These are crucial information when it comes to making economic decisions.

4.2 KAVANGO REGION

The Kavango region is one of the most populated regions in the country, with a population of more than 220 000 people. It consists of 9 constituencies. The regional capital is Rundu which is in the centre of the region. The region is served by three bank branches, namely Standard Bank, First national Bank and Bank Windhoek which was the only bank in the region before the opening of the other two branches this year.

The survey was conducted in two main constituencies namely, Mukwe and Mpungu. The findings of the survey are discussed below.

4.2.1 Mukwe/Divundu Constituency

The main centre in this constituency is Divundu, which is recently proclaimed as a town. It lies 200km east of the regional capital Rundu on the Trans Caprivi Highway. At the time of our visit the town did not have institutions such as municipality and council s office. The lack of these institutions has to some extent constrained the development of the town. The security situation is back to normal and this has promoted commercial activities in the last 15 months and led to the reopening of many schools in the area. The population of the constituency for the year 2002 is estimated to be 26,779 people with a population density of about 3 persons per km². In addition to this catchment population of the area, there are many visitors from Angola, Botswana and others in transit through the district or Divundu.

4.2.1.1 Infrastructure

As cited-above the town is on the Trans Caprivi Highway, it has a tarred main road, which runs, throughout the town. The government rural electrification and communications programmes are taking place in the constituency. The fibre optic cable has been laid down and more people and businesses have access to reliable telephone and postal services. However, there is no telecom office at Divundu. The police station is 30km from the town centre and this to some extent hampers the security level in the town and the surrounding villages. The town is also served by two filling stations. Nevertheless, infrastructures in terms of the buildings are lacking in Divundu, which leaves the new institutions that is coming to the town with the option of erecting a new building. There is a high presence of government ministries, in the constituency. These include the following ministries, Health and Social Services, Defence, Prisons and Correctional Services, Basic Education, Sport and Culture, Finance and Home Affairs. The number of schools has reached a high level of 40 schools, which employ many teachers and cleaners.

4.2.1.2 Economic Activities and Income

Divundu has relatively a high level of commercial activities, which ranges from retailers to small and micro enterprises (SMEs). Currently there are 2 supermarkets, 4 small shops and a number of cuca shops. The return of the relative peace to the region has led to the reopening of the lodges and the inflow of tourists to these lodges is now in full swing. The lodges are one of the major employers of labour in the area. The estimated labour force employed by the lodges is between 100 and 150. Given the high influx of tourists in the constituency, this sector is expected to contribute to the employment level and per capita income of the district.

Table 4.1 Level of Employment

| Institution | Number of People | Income — N\$ |
|--|------------------|--------------------------|
| Ministry of Health and Social Services (excluding staff members at the clinics) | 95 | N\$517 750.00 |
| Ministry of Defence | 300 | N\$615 000.00 |
| Ministry of Prisons and Correctional Services | 134 275* | N\$274 700.00 |
| Ministry of Agriculture, Water and Rural Development (includes only the Mukwe village). | 6 | N\$32 700.00 |
| Ministry of Basic Education, Sport and Culture | 261 | N\$1 167 975.00 |
| Ministry of Home Affairs (exclude officers at various border posts in the area) | 16 | N\$32 800.00 |
| Shadikongoro Irrigation Project | 40 | = = = = |
| Lodges | 124 | = = = = |
| Small and micro enterprises | 32 | = = = = |
| Supermarkets | 28 | = = = = |
| Total | 1311 | N\$2 640 925.00** |

Source: Field survey, June 2003. *Prisoners involved in the rehabilitation projects. **Estimates of Gross Salary of Civil servants adjusted for income tax.

Agricultural activities are taking place, in most part of the area. The activities range from livestock rearing to crop production. In addition, there is a building project, which is coordinated by the Ministry of Prisons and Correctional Services and Shadikongoro irrigation project, which produces cotton, maize etc. An estimated number of 1311 people are employed by various institutions as it can be seen from table 4.1 in the district. The public sector is the largest employer, as indicated by the labour force in the Ministries of Defence, Prisons and Correctional Services and Basic Education, Sport and Culture. The estimated income of the civil servants in the area is based on the monthly gross salary, and it indicates that an amount of N\$2.6 million is in circulation. In addition, to this income there is a substantial income of the non-civil servants employees.

4.2.2 Mpungu/Nkurenkuru

The Mpungu constituency is located in the west of the Kavango region sharing border with the Ohangwena region. The estimated population of the area is about 22330 people. Nkurenkuru town is the largest town along the Kavango river in the Mpungu constituency and is on the main gravel road towards the north of Namibia. It is a proclaimed town with its own town council.

4.2.2.1 Infrastructure

Like in other small towns in the country, the government rural electrification and communication programmes have taken place in the town. The fibre optic cable has been laid down and many people and businesses have access to reliable telephone and postal services. There is also an MTC office and mobile phones are working in the area. There is a high presence of ministries in the constituency, Ministry of Health and Social Services, Basic Education, Sport and Culture, Agriculture, Water and Rural Development, Finance and Defence.

4.2.2.2 Economic Activities and Income

There are many activities taking place in the constituency. These include retailers, fishing projects, export processing zone (EPZ) programme, and small and micro enterprises. As a result of peace that has been witnessed in the region over the last 15 months, many tourists are visiting the area and many Angolan nationals are coming to the constituency for shopping and other business activities.

Table 4.2 Level of Employment in Mpungu/Nkurenkuru

| Institution | Number of People | Income — N\$ |
|--|------------------|------------------------|
| Ministry of Health and Social Services (excluding staff members at the clinics) | 229 | N\$1 248 050.00 |
| Ministry of Defence | 500 | N\$1 025 000.00 |
| Ministry of Agriculture, Water and Rural Development (includes only the Mukwe village). | 11 | N\$59 950.00 |
| Basic Education, Sport and Culture | 302 | N\$1 351 450.00 |
| Ministry of Home Affairs (exclude officers at various border posts in the area) | 15 | N\$30 750.00 |
| Others (exclude self employed people) | 86 | = = = = |
| Total | 1143 | N\$3 715 200.00 |

Source: Field survey, June 2003.

Agricultural activities mainly livestock and crops production, continue to play a major role in the economy of the constituency. The number of people employed in the constituency is estimated to be 1143. The public sector is also the largest employer. A significant number of employed people do not have access to banking services like in other rural areas in the country. The estimated income of the constituency is about N\$3.7 million per month. This shows that there would be sufficient transactions expected to take place at the end of every month in addition to the daily transactions resulting from commercial and agricultural activities.

4.3 OHANGWENA

The region consist of 11 constituencies with a total population of 227 728 people. The Ohangwena region is served by satellite branches of Standard Bank and Swabou in Oshikango as well as First National Bank of Namibia and Bank Windhoek in Ohangwena. In Eenhana the regional administrative capital, mobile banking services are provided from Monday to Friday between 10h00 - 13h00. The services provided by these branches are limited in nature, it is just savings account withdrawals and deposits making. No cheque transactions and other services are offered, because of the level of authority (non-decision making staff) provided by the satellite branch staff. The nearest fully fledged bank branches are located at Ondangwa in the Oshana Region.

4.3.1 Eenhana Constituency

This is the main administrative centre and is centrally located in the region. It lies 300km from Kavango region, 200km from Outapi and 12km from Angola and 50km from Ondangwa. The population of the constituency is estimated at around 24 193 people.

4.3.1.1 Infrastructure

The town enjoys a considerable presence of various well functioning institutions such as a town council office and a number of government offices. These include Ministries of Agriculture, Water and Rural Development, Basic Education, Sport and Culture, Health and Social Services, Defence, Home Affairs and Tourism and Environment. In terms of the road infrastructure, it has a tarred road and the electricity supply is continuous. Telecommunication facilities are available, supported by the presence of a Nampost office. However, the nearest Telecom Office is situated in Ondangwa.

4.3.1.2 Economic Activities and Income

Eenhana has a relatively high level of commercial activities, which include retailing and SME's. There are also agricultural activities, present, mostly mahangu plantations and cattle marketing. It can be seen from table 4.3 that 2960 people are employed by various institutions.

Table 4.3 Level of Employment and Income

| Institution | Number of Employees | Income |
|--|----------------------------|------------------------|
| 1. Regional Councillor Office | 86 | == == |
| 2. MAWRD | 15 | N\$ 81 750.00 |
| 3. SME's registered with Town Council | 10 | == == |
| 4. Ministry of Health (nursing + general work) | 201 | N\$1 095 450.00 |
| 5. Ministry of Education | 567 | N\$2 537 325.00 |
| 6. Ministry of Home affairs (Dept of Police) | 155 | N\$ 317 750.00 |
| 7. Directorate of Forestry | 45 | == == |
| 8. Town Council | 39 | == == |
| 9. Ministry of Women Affairs | 7 | == == |
| 10. Ministry of Defence | 250 | N\$512 500.00 |
| 11. Others | 1500 | == == |
| 12. Total | 2875 | N\$4 544 775.00 |

Source: Field Survey, June 2003.

The number of employed people is estimated to be 2875 people. This shows that a big number of people employed in the Eenhana constituency have to travel to Ondangwa or Oshakati to do their banking services. Like in other rural parts of Namibia, the government is the largest employer. In addition, to the high level of employment, table 4.3 indicates that there is also sufficient estimated income of N\$4.5 million from the civil servants.

4.3.2 Okongo Constituency

With total population of about 22 497 people, Okongo is one of the most populated centres in the Ohangwena region. The Okongo constituency is situated 190 km north east of Ondangwa. Okongo is a proclaimed settlement, and thus does not have a municipality or town council of its own. The lack of these institutions has to some extent hampered the development of the settlement.

4.3.2.1 Infrastructure

The absence of a good road makes it difficult to have access to the village. However, electricity supply is continuous, telecommunications facilities are available and are strengthened by the presence of Nampost office. However, the nearest Telecom of Namibia Office is situated in Ondangwa. Like in other developing settlement there is a high presence of ministries. These are Ministries of Agriculture, Water and Rural Development, Health and Social Services, Basic Education, Sport and Culture, Home Affairs and Women Affairs and Child Welfare.

4.3.2.2 Level of Economic Activities and Income

Okongo is developing in terms of commercial and agricultural activities, which ranges from retailing to SME's and Quarantine camps for cattle auction purposes. There are also numerous cuca shops and informal selling going on in Okongo. Bordering with Angola the potential for business activities is enormous. The community is involved in an irrigation project called Epabala, which produces agricultural produce such as maize, beans and mahangu. In addition, there are lot of chicken and cattle rearing activities that are taking place.

Table 4.4: Employment Level and Income

| Institution | Number of Employees | Income |
|--|----------------------------|------------------------|
| 1. Regional Councilor Office | 5 | == == |
| 2. MAWRD | 2 | N\$10 900.00 |
| 3. SME's registered with Town Council | 6 | == == |
| 4. Ministry of Health (nursing + general work) | 120 | N\$654 00.00 |
| 5. Ministry of Education | 325 | N\$1 454 375.00 |
| 6. Ministry of Home affairs (Dept of Police) | 80 | N\$164 000.00 |
| 7. Literacy Programme | 60 | == == |
| 8. NDF | 20 | N\$41 000.00 |
| 9. Ministry of Women Affairs | 9 | == == |
| 10. Total | 627 | N\$2 324 275.00 |

Source: Field Survey, June 2003.

The employment level in the constituency is not significantly different from other rural areas in the country. As it can be seen from table 4.4, an estimated number of people employed are 627. This indicates that there is sufficient level of income that would promote the banking activities. The absence of the banking institutions in the area lowers the level of savings and investment in the region and the country at large.

4.4 Omusati

The Omusati region is the second largest populated region after the Khomas region according to the latest census. The region consists of 11 constituencies with a total population of 228 364 people. Satellite branches of Standard Bank and First National Bank of Namibia, which were opened March/ April 2003 in Outapi, serve the whole of the Omusati region. The services provided by these branches are of limited in nature especially, savings account withdrawal and deposits only. Cheque transactions and other services are only available in Oshakati, Oshana Region.

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The research team visited the following centres; Outapi, Oshikuku, Ruacana, Tsandi, Okahao and Okalongo in the Omusati Region. In terms of the infrastructures, all centres are accessible by tarred road with an exception of Okalongo and Tsandi. These two centers have well maintained gravel roads. The government rural electrification provided by Nored is reliable. Businesses and most people have access to reliable telephone and postal services. All the centers have their own police stations, various government ministries and filling stations, supermarkets and shops, some do have Nampost offices to mention key infrastructures.

4.4.1 Outapi Constituency

Centrally located, Outapi is the administrative and the regional capital of the Omusati Region with a population of about 30313 people. It is a commercial town and the population immigrates towards Outapi in search of work and business opportunities. Outapi is 75 km located from Oshakati with a growing population of 220 thousand. Outapi is a proclaimed town with a well functioning town council and most of the erven in the town are serviced and surveyed. Apart from being the regional capital, Outapi is strategically located with respect to serving 2 provinces of Angola. With the return of peace to Angola since April last year, business activities have been booming.

4.4.1.1 Infrastructure

The town of Outapi has a tarred road. The government rural electrification programme does provide electricity to the town. There are Telecom and Nampost offices and a police station in town. The town is served by a filling station and several shops and supermarkets. There is above average presence of government offices in the constituency. These offices include the following ministries; Health and Social Services, Agriculture, Water and Rural Development, Regional and Local Government and Housing and Basic Education, Sport and Culture. There are a number of schools in the constituency.

4.4.1.2 Economic Activities and Income

Outapi has a high level of commercial activities, ranging from retailing activities to informal selling and SMEs. Retailing activities include supermarkets, shops and a lot of cuca shops. There is also a high prevalence of self-employment activities.

Table 4.5: Level of Employment and Income

| Institution | Number of Employees | Income |
|--|---------------------|-----------------|
| 1. Regional Councillor Office | 5 | = = = = |
| 2. MAWRD | 20 | N\$109 000.00 |
| 3. SME's registered with Town Council | 100 | = = = = |
| 4. Ministry of Health (nursing + general work) | 187 | N\$1 019 150.00 |
| 5. Ministry of Education | 325 | N\$2 787 525.00 |
| 6. Ministry of Home affairs (Dept of Police) | 80 | N\$164 000.00 |
| 7. Literacy Programme | 60 | = = = = |
| 8. NDF | 20 | N\$41 000.00 |
| 9. Ministry of Women Affairs | 9 | = = = = |
| 10. Total | 819* | N\$2 787 525.00 |

Source: Field Survey, June 2003. *This figure includes only employed labour force at Utapi Town.

The tourism industry is also on the rising side and with the decentralisation policy of the Government; the development in the town of Outapi is inevitable. Agricultural activities mainly cattle rearing and crop production are taking place. Other project activities include a brick making project which is a community based project, a sugar packaging plant, mattress manufacturing and a bicycle assembly plant. The number of people employed formally in the area is around 819. Table 4.5 indicates the estimated income of N\$2.7 million per month is circulating in the constituency.

4.4.1.3 Current state of affairs in terms of commercial banks in Outapi

Currently, in Outapi there are satellite branches of Standard Bank Namibia and First National Bank of Namibia. Not all services in terms of banking are provided due to the level of authority of the staff. For more services people are required to travel to Oshakati. The working hours of the satellite branches remains another constraint, as they have to close earlier to enable them to get to Oshakati before the main branches close for the day.

In this regard, people who are travelling from other constituencies such as Okahao and Tsandi can not reach the bank in time because the working hours are quite short, operating between 10h00 and 12h00 during the week days. These business hours and days are not best suited to civil servants and other employees who work from 8h00 to 17h00 during the week days.

4.4.2 Oshikuku Constituency

Oshikuku is a constituency with a population of about 8 089 people and lies 30 km west of Oshakati and 45 km east of Outapi. Oshikuku is a proclaimed settlement with erven still to be surveyed for commercial purposes, although the erven for residential purposes are surveyed.

4.4.2.1 Infrastructure

Various infrastructures such as police station, electricity supply, filling station, telephone lines and Nampost just to name a few are noticeable. A couple of Government ministry representative offices are also present. These are Ministry of Agriculture, Water and Rural development, Ministry of Health and Social Services; Ministry of Basic Education, Sport and Culture and Ministry of Home Affairs, the department of Police. The Ministry of Women Affairs and Child Welfare and the Department of Forestry are also represented in Oshikuku.

4.4.2.2 Economic Activities and Income

Oshikuku is having development potential and the level of the economic activities can be described to be medium in nature. It is highly dominated by the presence of SME's and a few agricultural projects such as Omahangu and others.

Table 4.6: Employment Level and Income

| Institution | Number of Employees | Income |
|--|---------------------|------------------------|
| 1. Regional Councillor Office | 10 | = = = = |
| 2. MAWRD | 4 | N\$21 800.00 |
| 3. SME's registered with Town Council | 35 | = = = = |
| 4. Ministry of Health (nursing + general work) | 238 | N\$1 297 100.00 |
| 5. Ministry of Education | 213 | N\$953 175.00 |
| 6. Ministry of Home affairs (Dept of Police) | 10 | N\$20 500.00 |
| Total | 510 | N\$2 292 575.00 |

Source: Field Survey, June 2003.

Other commercial activities include supermarkets and cuca shops and also informal selling. The government efforts in promoting development in the Oshikuku area, is noticeable in the number of houses erected by build together housing project. Estimated employment level in the constituency is around 1275 people. Table 4.6 shows that there is a big number of people employed in the Oshikuku constituency who travel to Oshakati to do their banking services. There are about 4 people employed by the Ministry of Agriculture, Water and Rural Development as agricultural extension officers, amongst others. The largest employer in the area is the government sector, with an estimated income of N\$2.2 million per month.

4.4.3 Ruacana Constituency

Ruacana is 190 km west of Oshakati and 115 km from Outapi. Bordering Angola and the Kunene region makes it an ideal gateway for various activities in the area of businesses and tourism industry. With a population of 10 722 people, Ruacana is a proclaimed settlement with surveyed erven although not developed.

4.4.3.1 Infrastructure

As cited above the settlement of Ruacana is a gateway to Angola. It has a tarred road which connects to Outapi/Oshakati. The government rural electrification programme does provide electricity to the town. There is no Telecom office in Oshifo settlement, but the presence of the fibre optic cable makes it possible for people and businesses to have access to telephone services. Ruacana is served by the Outapi telecom office. There is Nampost office and a police station (6 sub stations in the constituency) in town. The town is served by a filling station and a number of shops and supermarkets are also present. The presence of the government offices can be described to be medium in nature in the Ruacana constituency. These include the following ministries, Agriculture, Defence, Health, Basic Education, Sport and Culture, Home Affairs, Environment and Tourism, Works and Transport and Communications and Women Affairs. Currently the Ruacana constituency is accommodating 17 schools. Few parastatals such as Nampower and Namwater as well as institutions such as the chamber of commerce NCCI are found in the constituency and employ a significant number of people.

4.4.3.2 Economic Activities and Income

Ruacana constituency is a vast area with economic multi-potentials ranging from agriculture, tourism and businesses opportunities. The presence of peace in Angola improved the potential for the lodges in and around Ruacana and there is an influx of tourists. The tourism sector is expected to contribute to the employment level and the per capita income of the district.

Table 4.7: Level of Employment and Income

| Institution | Number of Employees | Income |
|--|----------------------------|------------------------|
| 1. Regional Councillor Office | 17 | == == |
| 2. MAWRD | 4 | N\$21 800.00 |
| 3. SME's registered with Town Council | 15 | == == |
| 4. Ministry of Health (nursing + general work) | 13 | N\$70 850.00 |
| 5. Ministry of Education | 200 | N\$895 000.00 |
| 6. Ministry of Home affairs (Dept of Police) | 170 | N\$348 500.00 |
| 7. NCCI | 7 | == == |
| 8. Ministry of Tourism | 16 | N\$87 200.00 |
| 9. Ministry of Works and Transport | 60 | N\$123 000.00 |
| 10. Nampower | 80 | == == |
| 11. Namwater | 15 | == == |
| 12. Ministry of Women Affairs | 2 | == == |
| 13. Ministry of Defence | 150* | N\$307 500.00 |
| 14. Others (Ruacana Town) | 1751 | == == |
| 15. Total | 2500 | N\$1 853 850.00 |

Source: Field survey, June 2003. * Estimates

The above mentioned activities form the much-needed economic backbone of the area. Important projects include Etunda irrigation project, which produces agricultural products such as vegetables and maize. The presence of the Omakange conservancy, cattle/ livestock quarantine contributes to the economic activities of the area. The hydro-electricity project is also one of the most important investments in the area in terms of employment. There is relatively high employment level estimated at 2500 people in the district. This formal employment accounts for an estimated income of N\$1.8 million per month.

4.4.4 Okahao Constituency

Okahao constituency with a total population of 26 000 is 75km located from Oshakati and 55 km from Outapi. Okahao is a proclaimed settlement with surveyed commercial erven although not developed.

4.4.4.1 Infrastructure

Various infrastructures such as police station, electricity supply, filling station, telephone lines and Nampost just to name a few are noticeable. The town of Okahao has a tarred road which connects the town to

Oshakati. The government rural electrification programme provides electricity to the town. Though there is no telecom offices in Okahao settlement, the presence of the fibre optic cable makes it possible for people and businesses to have access to telephone services. Couple of Government ministry representative offices is also present. These are the ministries of Agriculture, Water and Rural Development, Health and Social Services, Women Affairs and Child Welfare, Basic Education, Sport and Culture and Home Affairs. The number of schools in the Okahao constituency has reached a level of 47 schools.

4.4.4.2 Economic Activities and Income

Okahao is having development potential and the level of the economic activities can be described to be medium in nature. It is highly dominated by the presence of SME's, agricultural activities and informal selling. Important projects which involve the community are the bricks making, tailoring and sewing projects. There is also an agricultural project, which produces agricultural products such as vegetables and maize.

Table 4.8: Level of Employment

| Institution | Number of Employees | Income |
|--|----------------------------|------------------------|
| 1. Regional Councillor Office | 3 | = = = = |
| 2. MAWRD | 4 | N\$21 800.00 |
| 3. SME's registered with Town Council | 8-10 | = = = = |
| 4. Ministry of Health (nursing + general work) | 168 | N\$915 600.00 |
| 5. Ministry of Education | 545 | N\$2 438 875.00 |
| 6. Ministry of Home Affairs | 152 | N\$311 600.00 |
| Total | 1672 | N\$3 687 875.00 |

Source: Field Survey, June 2003.

Cattle marketing and poultry farming is also one of the big activities that community is involved in. Most activities in the Okahao constituency are supported by the residents of the Tsandi constituency which is few kilometres away from Okahao. The estimated level of employment is around 1672 people in the Okahao constituency. The constituency has a relatively high income of N\$3.7 million per month, resulting from high public sector employment.

4.4.5 Okalongo Constituency

Okalongo constituency with a total population of 28 657 is 60 km located from Oshakati and 95 km from Outapi. With peace, returning to Angola and being 10 km away from Omuvelo wakasamane border post, it is expected that this conducive environment would boost the tourism and business activities.

4.4.5.1 Infrastructure

Various infrastructures such as a health centre, police station, electricity supply, filling station, supermarkets and depots and telephone lines are also present. There is currently no tarred road to and from or running through Okalongo, however, there is a good gravel road which starts from Oshikuku, running through Okalongo. The government rural electrification programme is also taking place in the district. There is no

telecom offices in Okalongo settlement, but the presence of the fibre optic cable make it possible for people and businesses to have access to telephone services. The Nampost office has started with its operation since March 2003. There are a number of government offices such as Ministry of Agriculture, Water and Rural Development, Ministry of Health and Social Services, Ministry of Basic Education, Sport and Culture and Ministry of Home Affairs. The number of schools in the Okalongo constituency has reached a high level of 47 schools.

4.4.5.2 Economic Activities and Income

The community is also involved in projects such as brick making, fruit tree planting and also a bakery. The presence of churches (7 congregations) is also worth noting, since these churches keep money on their premises and risk of theft is also there. At times the community keeps its money with some key organisations for the purposes of saving and this is also a big risk.

Table 4.9: Level of Employment

| Institution | Number of Employees | Income |
|--|---------------------|-----------------|
| 1. Regional Councillor Office | 3 | == == |
| 2. MAWRD | 4 | N\$21 800.00 |
| 3. SME's registered with Town Council | 20 | |
| 4. Ministry of Health (nursing + general work) | 40 | N\$218 000.00 |
| 5. Ministry of Education | 609 | N\$2 725 275.00 |
| 6. Ministry of Home affairs (Dept of Police) | 134 | N\$274 700.00 |
| 7. Traditional Authority | 12 | == == |
| Total | 822 | N\$3 239 775.00 |

Source: File Survey, June 2003.

There is relatively high employment level in this constituency. The estimated employment level in various sectors of the constituency is around 2402 people. The Ministry of Basic Education, Sport and Culture is the largest employer.

4.4.6 Tsandi Constituency

Tsandi constituency consists of 92 villages with a total population of 24 873. Tsandi is 125km located from Oshakati and 30km from Outapi. Bordering the Kunene region, the area has potential in terms of good grazing area and booming business activities.

4.4.6.1 Infrastructure

As mentioned above the settlement of Tsandi is bordering the Kunene region. There is currently no tarred road to and from or running through Tsandi, however, there is a good gravel road which starts from Okahao, running through Tsandi. The government rural electrification programme does provide electricity to the town. There is no telecom offices in Tsandi settlement, but the presence of the fibre optic cable makes it possible for people and businesses to have access to telephone services. There is a Nampost office and a police sub

station in the settlement. The town is served by a filling station, shops and supermarkets. Like in other settlements there is a presence of ministries. There are Health and Social Services; Home Affairs; Basic Education, Sport and Culture and Agriculture, Water and Rural Development.

4.4.6.2 Economic Activities and Income

There is a number of big supermarkets, depots and plus minus 75 registered business. Thus, the economic activities in Tsandi can never be underestimated. The presence of a Hotel providing bed and breakfast services, bakery as well as various government offices boost the economic and income levels in this area. There are also agricultural activities present, mostly omahangu plantations and cattle marketing. There is relatively high employment level in this constituency. The table below gives the estimated employment level in various sectors of the constituency.

Table 4.10: Level of Employment

| Institution | Number of Employees | Income |
|--|---------------------|-----------------|
| 1. Regional Councillor Office | 10 | == == |
| 2. MAWRD | 4 | N\$21 800.00 |
| 3. SME's registered with Town Council | 15 | == == |
| 4. Ministry of Health (nursing + general work) | 175 | N\$953 750.00 |
| 5. Ministry of Education | 385 | N\$1 722 875.00 |
| 6. Ministry of Home affairs (Dept of Police) | 50 | N\$102 500.00 |
| 7. Retail (Eland General Dealer) | 43 | == == |
| Total | 682 | N\$2 800 925 |

Source: Field Survey, June 2003.

Table 4.10 shows that there is a big number of people employed in the Tsandi constituency. The district hospital at the Tsandi settlement employs 175 nursing and institutional workers, whereas the Ministry of Education employs 385 personnel. Ministry of Home Affairs is served by 50 police officers. Eland General Dealer which is the largest retail group employs 43 people. The income for the constituency is estimated to be around N\$2.8 million per month.

SUMMARY

This chapter has attempted to assess the potential in the three regions visited by two research teams. Based on the indicators used to carry out the analysis, the results revealed that there are sufficient economic activities that would enable bank branches to operate viably in some of the centres visited. In the Kavango region, we established that the Nkurenkuru town is the potential centre because of its high level of income, employment and economic activities. In addition, the centre also has good infrastructures such as electrical, telecommunication and postal services. However, there is lack of physical infrastructures such building and the road from Rundu to Nkurenkuru which can be a constraint to the extension of commercial bank branches.

The regional capital of the Omusati region, Outapi is only served by two agencies while the other constituencies do not have any banking facilities. It is also found that this town has at least adequate infrastructure, high level of economic activities and employment. Given the high level of economic activities and level of income in Outapi, the study suggests that the agencies should be upgraded into a fully-fledged bank branches. The survey also found that Eenhana constituency which is regional capital of the Ohangwena region is served by a mobile agency which comes only on Tuesdays and Thursdays. This centre is one of the most populated constituencies and has many government offices and small and micro enterprises. The income of the constituency is very high which lead to a high level of business activities. Hence, the paper recommends the agency to be developed into a fully fledged bank branch which provides all the services of a commercial bank. Nevertheless, like other rural towns Eenhana does not have good physical Infrastructure especially building and well structured town planning. There is also a need to improve the level of securities in these constituencies.

5. INCENTIVES AND STRATEGIES

This chapter considers incentives and strategies that will encourage the commercial banks to extend their branches to the rural areas in Namibia. From the onset it must be noted that the challenge of bringing financial services closer to the people is not the responsibility of commercial banks alone. It is, rather, the collective responsibility of the Central Government, Local and Regional Governments, the Bank of Namibia, Commercial Banks, Other Public Enterprises and other private sector stakeholders. This is because, the extension of banking services to the poor will have many positive spin off effects, which are in the interest of sustainable long-term economic growth and poverty reduction. This is probably the best way through which government can achieve one of its major objectives, namely, improving the living standard of all the Namibians. It has been proven that where there is finance, economic development follows. And where, there is economic development, there will be less poverty and hence the standard of living will improve. The incentive and strategies in this chapter, consider what the Central Government could do to encourage commercial banks to extend branches into rural areas. What could the Local and Regional Governments do? What should be the role of the Central Bank and Other Public Entities? Is there anything commercial banks individually or jointly could do to improve the bank branch network in Namibia?

The chapter considers both incentives i.e., pull factors that would make it easier or attractive for commercial banks to move into rural areas. It should be noted that the proposed incentives discussed below should not in any way jeopardise the soundness of the Namibia s banking system. In the case of Namibia, commercial banks are quite sound even by international measurements, such as capital adequacy and profitability ratios and therefore expansion of the branch networks would not adversely affect the soundness of the banking sector.

5.1 THE ROLE OF THE CENTRAL GOVERNMENT

The role of the central government in promoting the extension of commercial bank branches should essentially be to provide a conducive environment for conducting business transactions. In this regard, it may be mentioned that the Government of Namibia is doing extremely well. Government does not interfere in the business practices of commercial banks. The legal and regulatory framework, that protects creditor rights are on par with the best practices in the world. Furthermore, if more towns are being proclaimed, it will become safer for commercial banks to extend credit facilities to rural communities, as there is now the necessary collateral, in the form of land rights and other forms of property rights. In addition, to the above observations the central government could play a meaningful role in the following areas:

(A) Entrepreneurial and Business Training

Apart from providing a conducive environment, the Central Government, especially the two Ministries of Education should promote entrepreneurial and business training at school and tertiary levels. This will assist in reducing the problem of shortage of skills in the banking sector.

(B) Improved Security

The Central Government, through the Ministries of Home Affairs and Defence should play a leading role by improving the security condition for commercial banks in rural areas. Police stations should be brought closer to the business centres and commercial banks should be escorted either by the police or the defence force when transporting money free of charge.

(C) Further Extension and Improvement of Infrastructure

Finally, the Ministry of Works and Transport in conjunction with the Local and Regional Councils should speed up the process of rolling out infrastructure in rural constituencies. Most of the rural constituencies have tarred roads through the town centre, but nothing beyond the town centre. Beyond town centres there are only gravel roads of which some are not in good condition. These institutions should also aim to maintain the existing infrastructure.

5.2 The Role of Local and Regional Governments

The role of local and regional government in attracting commercial bank branches to rural areas should be to roll out the necessary infrastructure that is essential for any business enterprise to operate efficiently. This could be done in conjunction with the central government. It may be mentioned that the infrastructure has improved quite dramatically in almost all the regions in Namibia since independence.

During the headquarters interview, commercial banks also cited the lack of serviced land and building in rural areas. Local and regional governments should consider making available serviced business plots free of charge to commercial banks. This will greatly reduce the costs of constructing premises of commercial banks in rural regions. Local and regional governments should also consider donating/leasing buildings from which commercial banks can operate. In this regard, it is pleasing to note that the regional council at Eenhana has donated a building to First National Bank.

5.3 The Bank of Namibia

In order to promote the extension of commercial bank branches into unbanked rural areas, the Bank of Namibia should implement the following measures:

(A) Amendment of Section 14 of the Banking Institutions Act

The Bank of Namibia should consider amending section 14 of the Banking Institutions Act that regulates the closing of bank branches. In this regard the Bank should aim to make it easier for commercial banks to close loss-making branches in over banked areas. This could be done on the condition that commercial banks should open a new branch in an unbanked rural area upon closure of a loss-making branch in an over banked urbanised area. However, the Bank should monitor closely the situation, so that commercial banks would not use such an amendment as a pretext to close loss-making branches without opening branches in unbanked rural areas.

(B) Tie opening of new branches in over banked urbanised areas to opening of branches in under banked rural communities

In addition to amending section 14 of the Banking Institutions Act, the Bank of Namibia should introduce a new regulation that will tie the opening of new bank branches in urbanised centres to the corresponding opening of a new bank branch in an unbanked rural area. For instance, if a bank wants to open an additional branch in Windhoek, it should be allowed to do so only if it simultaneously opens a new bank branch in one of the identified unbanked rural areas that show potential for sustaining a bank branch. It is recognised, however, that such a one to one scenario, may be difficult to achieve, therefore, the study recommends that the opening of a new bank branch in an over banked urbanised centre should be conditional upon meeting a minimum quota of bank branches in unbanked rural areas. For instance, a bank should be allowed to open a new branch in an over banked urbanised area only if it already has a certain number of branches in under

banked rural areas. The Bank of Namibia should also consider to exempt the commercial bank branches in rural areas from paying licence fees.

(C) Promote Community/Rural Banking

Another measure the Bank could employ to extend bank branches to rural areas would be to entice credit unions/credit cooperatives to operate as community banks. There is already a law governing the operations of credit cooperatives in Namibia. Perhaps the Bank should join hands together with the Directorate of Cooperatives in the Ministry of Agriculture to see how best credit cooperatives could be assisted to operate sustainably. International evidence shows that credit cooperatives can greatly lower transactions costs related to financial intermediation. Moreover, due to the community effect it also reduces the danger of moral hazard when it comes to credit extension.

5.4 The Role of Other Public Entities - Parastatals

This section is considering the role that other publicly owned enterprises can play in extending the branch network of commercial banks. In particular, it looks at the role of Nampower, Telecom Namibia, and the Post Office Savings Bank. The study strongly encourages a type of a smart partnership between public enterprises and the commercial banks. In this regard the Bank of Namibia could also play a role by promoting a forum where these institutions could meet to discuss how they could share for example existing infrastructure. Most of the parastatals already have some type of presence in unbanked rural areas. Most notably, Nampost Savings Bank has already an extended branch network in many rural constituencies. In this regard the Bank of Namibia should encourage commercial banks and the Nampost Savings Bank to investigate together how the facilities of Nampost could be used to cater for the extension of banking facilities in rural communities.

5.5 The Role of Commercial Banks

In the final analysis the onus rests upon commercial banks to extend their branch networks into rural communities. In this regard commercial banks should join hands in trying to meet these challenges. On its own commercial banks may not be able to achieve much. However, if they put hands together, they could be creating some synergies and it could become more affordable to open branches in rural areas. In particular, in the field of providing training in banking related studies, there is room for cooperation. Specific measures that commercial banks could institute to promote the extension of bank branches in rural areas are:

(A) Banking training fund

Commercial banks should consider establishing a training fund separate from their internal training efforts that could be utilised for training as many Namibians as possible in banking studies. Preference should be given to Namibians living in rural communities.

(B) Extension of bank branches to be part of social responsibility programme

Commercial banks mobilise deposits from all segments of society. In fact, it is an open secret that there is a lot of capital flight from unbanked rural areas to urbanised areas. One can, thus, argue that deposits mobilised in these areas do not go back in the form of credit extension into rural areas. This situation also contributes to the lack of development in rural areas. Commercial banks thus have a social ethical responsibility to channel some of the funds they mobilise in rural communities back to rural communities. Hence, it would be advisable for commercial banks to consider the extension of bank branches into social responsibility programmes.

Table 5.1 The Role of Various Entities in Expanding Namibia's Bank Branch Network

| Institution | Role |
|--------------------------------|---|
| Central Government | Conducive Political and Macroeconomic Environment |
| Ministries of Education | More entrepreneurial and banking training |
| Ministry of Home Affairs | Provision of Police Station |
| Ministry of Defence | Provision of Security |
| Ministry of Works/RCC | Rolling out of road infrastructure |
| Regional and Local Governments | Provision of Services Plots and Buildings |
| Bank of Namibia | Amend Section 14 of Banking Institutions Act |
| Nampower | Subsidised electricity |
| Telecom | Subsidised telecommunications |
| Nampost Savings Banks | Sharing of existing infrastructure |
| Commercial Banks | Training fund |

6. CONCLUSIONS

The purpose of this study was to assess the potential of the centres for the extension of commercial bank branches. To be able to do this, the study looked at the number of economic activities such as the number of businesses, tourism and agricultural activities, level of employment in various sectors and the estimated income. It also considered the infrastructures that would enable the bank operate efficiently in these rural areas. These are electricity, water, police stations, buildings, roads, etc.

The research team has also visited the headquarters of the commercial bank branches in Windhoek. A number of obstacles have been identified on why commercial banks do not extent branches to rural communities in Namibia. One of the obstacles mentioned is the lack of economic activities. Profitability was also cited as one of the main challenges in the provision of banking services. However, it should be noted that the profit motive should not be singled out as the only objective of the banking institution. It is widely argued that firms should also consider other objectives such as long-term development and the sustainability of the enterprise, social responsibility, market presence and market share. As a result, such enterprises are willing to compromise the profit objective in order to survive in the long run. Other obstacles mentioned during the survey as elaborated in chapter four are competition, cost of physical infrastructure and buildings, costs of staffing and training, cost of security, lack of support services, language, cost of security, etc.

Our survey found that there are sufficient economic activities that will enable the banks to operate viably in some of the centres visited. In addition, there is a high level of employment and appropriate infrastructures such as roads, electricity, police stations and others. However, there is a lack of physical infrastructures, especially buildings. The research team visited Mukwe/Divundu and Mpungu/Nkurenkuru constituencies in the Kavango region. These constituencies have similar level of employment and infrastructures but in terms of economic activities and the security level Nkurenkuru town seems to outweigh Divundu town. It has also a high level of income estimated to be more than N\$3 million per month. In other words despite the lack of physical infrastructure at Nkurenkuru, the town seems to be suitable for a bank branches. This is not based on the present situation of the town alone but also on the futures development plans that are in place.

The centres visited by our team in the Ohangwena region are Eenhana, Okongo, Ohangwena and Oshikango, but a detailed survey was conducted only in Ohangwena and Okongo constituency. It is sad to note that Eenhana which is the regional capital of the Ohangwena is only served by an agency which comes only twice in a week. Furthermore, we found a high level of economic activities and sufficient infrastructure at Eenhana. With the relative peace that has returned to Angola, Eenhana will continue to be seen as stable and developing town. It is also expected that the influx of tourists in to the region would boost te economic activities of the region. Based on these and future development plans of the town councils the pper recommends that the current monetary agency at Eenhana to be upgraded into a full fledged bank branch. This bank branch will also service the residents of the Okongo constituency and other neighbouring towns.

The survey was also conducted in Omusati region and the following constituencies were visited. These include, Outapi, Oshikuku, Ruacana, Okahao, Tsandi and Okalongo. The results of the survey show that the regional capital Outapi is only served by two agencies while the other constituencies do not have any bank services. In terms of infrastructures and the level of economic activities, the Outapi constituency seems to be relatively developed. Thus, the paper recommends that the agencies should be upgraded into a fully fledged bank branch. These bank branches will also help the residents of Ruacana, Okalongo and Tsandi constituencies. Furthermore, the study suggests that the Okahao constituency should be considered for banking facilities such as ATMs and agencies.

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In order to address some of the obstacles cited above the study suggests the following strategies and incentives. The central government, especially the Ministries of Education should promote entrepreneur and business training at school and tertiary levels. Ministries of Home Affairs and Defence should play a leading role by improving the security condition for commercial banks in rural areas. Ministry of Works and Transport in conjunction with the Local and Regional Councils should speed up the process of rolling out infrastructure in rural constituencies. Local and regional governments should consider making available serviced business plots free of charge to commercial banks. Local and regional governments should also consider donating/leasing buildings from which commercial banks can operate.

The Bank of Namibia should consider amending section 14 of the banking institutions act that regulates the closing of bank branches. In addition, the Bank could also consider reducing or exempting banks on the licence fees as one of the incentives for rural branches networks.

The study strongly encourages a type of a smart partnership between public enterprises and the commercial banks. In this regard the Bank of Namibia could also play a role by promoting a forum where these institutions could meet to discuss how they could share for example existing infrastructure. Finally, commercial banks should incorporate the extension of bank branches into their social responsibility programmes.

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APPENDIX A: BANK BRANCH DENSITY AT A CONSTITUENCY LEVEL

| Name of Region | Population/ Branch | Population/ Agency | Population/ ATM | Population/ Total Banking Facilities |
|-----------------------|-------------------------------|-------------------------------|----------------------------|---|
| Caprivi | 26,617 | | 19,963 | 13,309 |
| Kabe | | | | |
| Katima Rural | | | | |
| Katime Urban | 7,180 | | 3,590 | 2,393 |
| Kongola | | | | |
| Linyanti | | | | |
| Sibinda | | | | |
| Erongo | 8,279 | 53,815 | 3,844 | 2,503 |
| Arandis | | 7,477 | | 7,477 |
| Daures | | | | |
| Karibib | 11,784 | | 11,784 | 5,892 |
| Omaruru | 3,396 | | 3,396 | 1,698 |
| Swakopmund | 5,088 | | 2,313 | 1,590 |
| Walvis Urban | 5,476 | 27,379 | 2,282 | 1,521 |
| Walvis Rural | | 0 | 7,047 | 7,047 |
| Hardap | 13,600 | 33,999 | 11,333 | 5,231 |
| Gibeon | | | | |
| Mariental Rural | 13,596 | | 13,596 | 6,798 |
| Mariental Urban | 5,989 | | 5,989 | 2,994 |
| Rehoboth Rural | 7,365 | | 7,365 | 3,683 |
| Rehoboth Urban East | 12,581 | | 6,291 | 4,194 |
| Maltahohe | | 0 | | 0 |
| Bethanie | | 0 | | 0 |
| Rehoboth Urban West | | | | |
| Karas | 4,355 | 34,839 | 3,318 | 1,787 |
| Berseba | | | | |
| Karasburg | 14,693 | | 7,347 | 4,898 |
| Keetmans Rural | | | | |
| Keetmans Urban | 2,989 | | 4,982 | 1,868 |
| Luderitz | 4,425 | | 3,319 | 1,897 |
| Oranjemund | 1,817 | 2,726 | 1,363 | 606 |
| Kavango | 67,031 | | 40,219 | 28,728 |
| Kahenge | | | | |
| Kapako | | | | |
| Mashare | | | | |
| Mpungu | | | | |
| Mukwe | | | | |
| Ndiyona | | | | |
| Rundu Rural | | | | |
| Rundu Urban | 9,799 | | 3,919 | 2,800 |
| Khomas | 13,174 | 25,031 | 2,911 | 2,177 |
| Hakahana | | | | |
| Katutura Central | 6,996 | | 2,099 | 1,614 |

APPENDIX A: BANK BRANCH DENSITY AT A CONSTITUENCY LEVEL (CONT)

| Name of Region | Population/ Branch | Population/ Agency | Population/ ATM | Population/ Total Banking Facilities |
|-----------------------|---------------------------|---------------------------|------------------------|---|
| Katutura East | | | | |
| Khomasdal North | | 13,311 | 5,324 | 3,803 |
| Soweto | | | | |
| Wanaheda | | | | |
| Windhoek East | 1,040 | 2,080 | 234 | 175 |
| Windhoek Rural | | | | |
| Windhoek West | | | | |
| Kunene | 17,056 | 68,224 | 22,741 | 8,528 |
| Epupa | | | | |
| Kamanjab | | | | |
| Khorixas | | 10,906 | 10,906 | 5,453 |
| Opuwo | | | | |
| Outjo | 2,982 | | 4,474 | 1,789 |
| Sesfontein | | | | |
| Omaruru | 0 | | | 0 |
| Ohangwena | 113,864 | 113,864 | 227,728 | 45,546 |
| Eenhana | | 24,193 | | 24,193 |
| Endola | | | | |
| Engela | | | | |
| Epembe | | | | |
| Ohangwena | 17,539 | 17,539 | | 8,770 |
| Okongo | | | | |
| Omundaungilo | | | | |
| Ondobe | | | | |
| Ongenga | | | | |
| Oshikango | 27,599 | | 27,599 | 13,800 |
| Omaheke | 33,748 | 67,496 | 22,499 | 11,249 |
| Aminius | | | | |
| Gobabis | 7,139 | 14,278 | 4,759 | 2,380 |
| Kalahari | | | | |
| Otjinene | | | | |
| Otjombinde | | | | |
| Steinhausen | | | | |
| Omusati | 0 | 228,364 | 228,364 | 114,182 |
| Anamulenge | | | | |
| Elim | | | | |
| Etayi | | | | |
| Ogongo | | | | |
| Okahao | | | | |
| Okalongo | | | | |
| Onesi | | | | |

**VIABILITY OF COMMERCIAL BANK BRANCHES
IN RURAL COMMUNITIES IN NAMIBIA**

APPENDIX A: BANK BRANCH DENSITY AT A CONSTITUENCY LEVEL (CONT)

| Name of Region | Population/ Branch | Population/ Agency | Population/ ATM | Population/ Total Banking Facilities |
|-----------------------|-------------------------------|-------------------------------|----------------------------|---|
| Oshikuku | | | | |
| Outapi | | 30,313 | 30,313 | 15,157 |
| Ruacana | | | | |
| Tsandi | | | | |
| Oshana | 20,247 | 32,395 | 5,225 | 3,681 |
| Okaku | | | | |
| Okatana | | | | |
| Okatjali | | | | |
| Ompundja | | | | |
| Ondangwa | 9,928 | 14,892 | 2,978 | 1,986 |
| Ongwediva | | | 27,396 | 27,396 |
| Oshakati East | 22,634 | 7,545 | 3,233 | 2,058 |
| Oshakati West | 5,004 | | 1,540 | 1,177 |
| Uukwiyu | | | | |
| Uuvudhiya | | | | |
| Oshikoto | 40,187 | | 40,187 | 20,094 |
| Eengodi | | | | |
| Guinas | | | | |
| Okankolo | | | | |
| Olukonda | | | | |
| Omuntele | | | | |
| Omuthiyagwiipundi | | | | |
| Onayena | | | | |
| Oniipa | | | | |
| Onyaanya | | | | |
| Tsumeb | 3,528 | | 3,528 | 1,764 |
| Otjozondjupa | 12,338 | 135,723 | 10,440 | 5,429 |
| Grootfontein | 10,798 | | 7,198 | 4,319 |
| Okahandja | 4,539 | | 6,052 | 2,594 |
| Okakarara | | | | |
| Omatako | | | | |
| Otavi | 11,620 | 11,620 | 5,810 | 2,905 |
| Otjiwarongo | 5,654 | | 4,523 | 2,513 |
| Tsumkwe | | | | |
| Total | 20,074 | 67,660 | 8,868 | 5,691 |

APPENDIX B: RANKING OF POSSIBLE CENTRES

Under this item, the research team considered the following. The supply of electricity, the availability of postal services, police station, telecommunication services, the presence of filling stations, and government office, which include schools, hospitals and clinics, central and local government. It is argued that these are the minimum infrastructure necessary for commercial banks to operate viably in identified centres. In addition, the levels of commercial activities, level of employment as well as the level of income⁴ were considered. In other words, the presence of these infrastructures would serve as positive factors for the establishment of commercial bank branches in rural areas. Conversely, a lack of these infrastructures will deter commercial banks from opening branches in these areas. Based on the above the following centres within the three regions scored the highest marks. These are Outapi, Okahao and Ruacana in the Omusati region; Eenhana in Ohangwena; and Nkurenkuru/ Mpungu in the Kavango region.

Table B1: Ratings Indicators

| | | | | Employment level | Income |
|--------|---|-----------|---|------------------|----------------------|
| High | 3 | Excellent | 3 | 1500 & above | 3.6 millions & above |
| Medium | 2 | Fair | 2 | 1000 -1500 | 2.6 - 3.5 millions |
| Low | 1 | Bad | 1 | 0-1000 | 0- 2.5 millions |

Table B2: Omusati Region: Possible Centres: Per capita Income⁵: N\$1204 millions

| Availability of infrastructures and level of income | Outapi | Oshikuku | Ruacana | Okahao | Tsandi | Okalongo |
|---|--------|----------|---------|--------|--------|----------|
| 1. Electricity, Telecom services, Postal services | 3 | 2 | 2 | 2 | 2 | 2 |
| 2. Police station | 3 | 2 | 2 | 3 | 2 | 2 |
| 3. Roads | 3 | 3 | 3 | 3 | 2 | 2 |
| 4. Employment level | | 1 | 3 | 3 | 1 | 1 |
| 5. Monthly Income* | 2 | 1 | 1 | 3 | 2 | 2 |
| 6.No. of Businesses** | 3 | 1 | 2 | 2 | 2 | 2 |
| Total: out of 18 | | 10 | 13 | 16 | 11 | 11 |
| Ranking order | 1 | 5 | 3 | 2 | 4 | 4 |

* Estimate of Monthly income of Government Employees

** Includes Supermarkets, Micro enterprises, Projects, Lodges and Hotels

⁴ The government employees' remuneration is used as proxy for income.

⁵ Per Capita income obtained from 1993/94 Namibia Household Income and Expenditure Survey

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Table B3: Ohangwena Region: Possible Centres: Per Capita Income: N\$ 863 millions

| Availability of infrastructures and level of income | Eenhana | Okongo |
|---|---------|--------|
| 1. Electricity, Telecom services, Postal services | 3 | 2 |
| 2. Police station | 3 | 2 |
| 3. Roads | 3 | 1 |
| 4. Employment level | 3 | 1 |
| 5. Monthly Income** | 3 | 1 |
| 6. No. of Businesses** | 3 | 2 |
| Total: out of 18 | 18 | 9 |
| Ranking order | 1 | 2 |

* Estimate of Monthly income of Government Employees

** Includes Supermarkets, Micro enterprises, Projects, Lodges and Hotels

Table B4: Kavango Region: Possible Centres: Per Capita Income: N\$ 1459 millions

| Availability of infrastructures and level of income | Mukwe/ Divundu | Mpungu/Nkurenkuru |
|---|----------------|-------------------|
| 1. Electricity, Telecom services, Postal services | 2 | 3 |
| 2. Police station | 1 | 2 |
| 3. Roads | 3 | 2 |
| 4. Employment level | 2 | 2 |
| 5. Income* | 2 | 3 |
| 6. Level of Commercial activities** | 3 | 3 |
| Total: out of 18 | 13 | 15 |
| Ranking order | 2 | 1 |

* Estimate of Monthly income of Government Employees

** Includes Supermarkets, Micro enterprises, Projects, Lodges and Hotels

The most important variable in these tables is the level of income. The number of government employees multiplied by average income earned in that specific ministry was used to determine income available in that constituency on a monthly basis. In addition to that estimate, commercial activities income should also be considered. Due to its complicated nature, the level of commercial activities can perhaps indicate the income in that area. Key ministries considered with their calculations;

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(A) MINISTRY OF EDUCATION

- College Graduate: N\$ 60 000 N\$ 70 000 per annum
 - Degree Graduate: N\$ 70 000 N\$ 84 000 per annum
 - Honor's Graduate: N\$ 84 00 N\$ 95 000 per annum
 - Average used: N\$ 5400 per month or N\$ 65 000 per annum:
- Adjusted for tax: N\$ 3600+30% per annum N\$ 4475**

(B) MINISTRY OF HEALTH AND SOCIAL SERVICES

- Qualified Nurses (4 years of training) N\$ 72 000 -84 000 per annum
- Doctors N\$ 164 136 - 175 635 per annum
- Average: N\$ 6500 per month or N\$ 78 000 per annum
- **Adjusted for tax: N\$ 3600 +30 % per annum N\$ 5450 per month**

(C) MINISTRY OF DEFENSE

- Entry level for 1st Rank Officer : N\$ 30 000 Per Annum
- **Average: N\$ 2 500 adjusted for tax: 18% per annum : N\$2050**

(D) MINISTRY OF HOME AFFAIRS

- Entry level for 1st Rank Officer : N\$ 30 000 Per Annum
- **Average: N\$ 2 500 adjusted for tax: 18% per annum : N\$2050**

(E) MINISTRY OF AGRICULTURE

- Laborer N\$ 11 406 N\$ 15018
- Operating Driver N\$ 18 474 N\$ 236 58
- Clerical Assistance N\$ 21930 N\$ 27 969
- Senior Clerical Ass. N\$ 24522 N\$ 32 565
- Clerk N\$ 27 969 N\$ 34 998
- Senior Agr.Ext Tech N\$72711 N\$ 83295
- Senior Agr.Ext.Officer N\$105 537 N\$ 118 293
- Chief AET N\$ 89067
- Chief AEO N\$ 164 136 N\$ 175 638

**VIABILITY OF COMMERCIAL BANK BRANCHES
IN RURAL COMMUNITIES IN NAMIBIA**

Average: Senior Agr.Ext Tech

N\$72711

N\$ 83295: N\$ 78 003

N\$ 6500 per month: **Adjusted for tax: N\$ 3600 +30 % per annum N\$ 5450 per month**

(F) MINISTRY OF ENVIRONMENT

Use the average for Ministry of Agriculture as proxy:

Average: Senior Agr.Ext Tech

N\$72711

N\$ 83295:

N\$ 78 003

N\$ 6500 per month: **Adjusted for tax: N\$ 3600 +30 % per annum N\$ 5450 per month**

(G) MINISTRY OF WORKS AND TRANSPORT

Use the average for Ministry of Agriculture as proxy:

Average: Senior Agr.Ext Tech

N\$72711

N\$ 83295:

N\$ 78 003

N\$ 6500 per month: **Adjusted for tax: N\$ 3600 +30 % per annum N\$ 5450 per month**

APPENDIX C: THE CASE STUDY OF NIGERIA⁶

INTRODUCTION

At the beginning of 1959 there were eight commercial banks with a total of only 160 branches in Nigeria. In 1977, before the commencement of the rural banking programme the situation had barely improved. The number of banks had risen to 19 with 477 branches. As at 1987, the number of commercial banks was 33 with a total branch network of 1,366 branches. Of these 797 were in the urban areas with the vast rural areas sharing the remaining 569 branches. It is worth mentioning that by 1987, over 40 percent of the branches of the three largest banks, i.e. the First Bank, Union Bank and the United Bank for Africa were located in rural areas. How did this happen? How did Nigeria manage to increase the number of bank branches in rural areas so dramatically? Are there any lessons that Namibia could learn from the Nigerian experience? A brief answer to the first two questions is that Nigeria managed to increase the number of bank branches in rural areas rapidly, mainly because of the rural banking programme. The main features of the rural banking programme are outlined in the remainder of this article.

The Rural Banking Programme

The Central Bank of Nigeria (CBN) launched the Rural-banking programme in 1977. It had the following objectives:

- (a) To mobilise savings from the rural dwellers and use them for the development of rural areas;
- (b) To cultivate the banking habit among the rural people;
- (c) To make loans available for agricultural and small scale industries in the rural areas and
- (d) To check rural-urban migration.

The scheme was scheduled in three phases. Phase one began in July 1977 and ended in 1980. Under this phase it was anticipated that every local government headquarter and every semi-urban area with a population of over 30,000 was to be provided with a bank branch. In allocating branches to the latter, the CBN took into consideration the population, level of economic activities and the number of established institutions (schools, hospitals, government institutions, etc) within the designated areas. In addition, the major commercial banks, which had concentrated their branches in urban area, were allocated more rural branches. A total of 200 centres was identified and allocated among the 18 licensed commercial banks in the country out of which the three largest banks had allocations of 40, 27 and 27, respectively. At the end of phase one, all the banks had opened the branches allocated to them.

The second phase of the programme covered the period July 1980 to July 1985. Out of a total of 265 branches allocated, 229 were opened by the end of the period, representing a success rate of about 86.1 percent. The third phase of the programme began in August 1985 and was to run until July 1989. A total of 300 branches were planned for this phase. Altogether, as at end-June 1992, 765 out of 766 branches planned in the rural banking programme had become fully functional (Central Bank of Nigeria, Annual Report, 1997).

⁶ This case study is largely a summary of the work done by Ikhide on the structure of commercial banks in Nigeria by Ikhide S I (1990): "Commercial Banking Structure in Nigeria-the Rural- urban dichotomy". *Ife Social Sciences Review*, Vol.11 no 2 pp98-112

Incentives offered under the rural banking programme

To encourage the banks to open the allocated branches, the CBN offered some incentives to commercial banks. These included a waiver of the requirement for feasibility report as a pre-requisite for the establishment of a rural branch allowing the banks the monopoly of providing banking services in the allocated centres for a period of three years starting from the date of opening. It also included a 45 percent allowance on a bank's capital cost granted against income of the bank in the year in which such expenditure is incurred and the exclusion of loans and advances granted in the first two years of existence in the computation of growth rates in loans and advances. However, the banks were required to grant a minimum of 40 percent of deposits taken from rural centres as loans to those centres⁷.

The performance of the rural banking programme

The number of branches opened in rural areas during the implementation period, suggest that the programme has been relatively successful. For instance, at the end of 1985, out of the 1,295 commercial bank branches in the country, 450 or 36 percent were opened under the rural banking programme. Overall, the bank-persons ratio was reduced from 1:116,709 in 1977 to 1:73,362 in 1987. It is also recorded that commercial banks have attempted to make loans available to the rural areas from the deposits collected from such areas. However, there were also some problems, mainly related to inefficiency in service delivery. Interaction with farmers in the settlements where these banks are located showed that they were not very enthusiastic about patronizing them, because the banks were replete with poor services, time wasting processes and requirement that are not tailored to the way of life of rural dwellers. For example, it took about an average of 2-3 hours to lodge a deposit or to make a withdrawal from banks. This was complemented by the carefree attitude of the bank staff, who could not properly respond to simple enquiries, not to talk of providing adequate explanation to farmers on investment opportunities.

The rural banking programme in Kenya

Like most other developing countries, the central bank of Kenya undertook a program to encourage existing commercial banks and new banks to open branches in the rural areas in the early 1980 s. To encourage the banks to open rural branches, the Central bank of Kenya offered the license fees in favour of a bank that wants to extend or establish branch networks in the rural areas. The licence fees were reduced drastically to make it cheaper to operate a branch in the rural areas than in municipal towns. In some far remote areas, the license fees were completely eliminated and the banks were exempted. These incentives seem to have impacted positively on the extension of branch networks in the rural areas. The total number of branches witnessed a rapid expansion between 1991 and 1997 rising from 484 to 695. (This comprises, full fledged branches, sub-branches and agencies). However, by 1998, the situation had reversed as the number of branches started to decline (See Table). The decline in the number of branches is attributable to a number of factors. These include, the depression in the financial system which led to the rationalization and mergers of many banks (the number of commercial banks in Kenya grew from 28 in 1990 to about 34 in 1997 and thereafter started to fall), the closure of unprofitable branches, and the lack of infrastructures in many of the rural areas where these branches were located. The lack of infrastructures meant that banks could not upgrade their technology in line with the rapid expansion of branches. In addition, there was no appropriate micro-finance legislation to support the banking programme.

⁷ This was later increased to 60 percent

Table 1: Commercial Banks Branches in Kenya

| Year | Total No. of Branches |
|-------------|------------------------------|
| 1991 | 490 |
| 1993 | 581 |
| 1997 | 695 |
| 1998 | 692 |
| 1999 | 530 |
| 2000 | 465 |
| 2001 | 494 |

Source: Central Bank of Kenya

The lessons to be learnt from the Nigerian and Kenyan experience are many. There is no doubt that a policy of extending bank branches to hitherto unbanked areas has a number of benefits such as improved access to a large number of people, improvement of the banking habit, increased savings mobilisation, and subsequently a rapid rate of economic development where a substantial portion of such savings are invested in the communities from which they are mobilised. Enhancing access will also help to reduce poverty and bridge the income inequality gap. However, such an exercise must be pursued with caution. An efficient branch network must not be equated with an unbridled proliferation of commercial bank branches. Too rapid increase in the number of branches will affect the profitability of banks negatively and create unhealthy competition among banks. The consequence might be a rapid decline in the quality of assets of financial institutions which might generate bank failures thus putting into question, the stability of the financial system. Moreover, adequate infrastructure such as water, electricity, and security must be in place for effective running of the branches. Where it is feasible, particularly in low population density areas, attempts should be made to build a micro-finance scheme into the banking network scheme. By so doing, the micro-finance scheme will be able to mobilise rural savings from small depositors and encourage group borrowing from the commercial bank branch. Also, adequate supervision must be put in place before the expansion in branch network is commenced. Finally, incentive for commercial banks must be measured and effective. It must not encourage the taking of unnecessary risks.

APPENDIX D: LIST OF PEOPLE INTERVIEWED

| Name | Institution | Position |
|-----------------------------|---|-----------------------------|
| Steve Coetzee | National Service Manager: Marketing Division First National Bank | First National Bank |
| Birgit Hoffmann | Senior Manager: Communications & Marketing | Commercial Bank of Namibia |
| Fannie du Plessis | Managing Director | Commercial Bank of Namibia |
| Wayne Wild | Senior Manager: Retail Banking Division | Standard Bank Namibia |
| Collin Gibb | Head: Retail Banking | Standard Bank Namibia |
| Gidha Sikanda | Senior Manager: Marketing | Bank Windhoek |
| Walter Don | Senior Manager: Human Resources | Bank Windhoek |
| Ngoma Frans Sapekama | Principal | Simanya Combined School |
| Mr. G.P. Museke | Principal | Tuguva Combined School |
| Mr. Leevi Sirono Ndara | Transport Officer | LMM-Nkurenkuru Hospital |
| Mr. Rameka Paulus | Teacher | Nkurenkuru Jnr Prim. School |
| Mr. Edmund Nairenge | Teacher/Farmer | MBEC |
| Mr. Jacob Daniel | Labourer | Nkurenkuru Health Centre |
| Mr. Hipulua Hamutenya | Teacher | Nkurenkuru JSS |
| Pastor Karuyeva EN | Pastor | ELCIN |
| Mr. Musongo Katjaka | Teacher | Nkurenkuru Jnr Prim. School |
| Mr. Siteketa Gideon Sinombe | Teacher | Basic Education |
| Mr. Martin Marcellus | Manager | Nkurenkuru Supermarket |
| GS Siwombe | Teacher | Nkure Nkuru Comb. School |
| Isala Josef | Teacher | Simanya Combined School |
| Kangumbe Selma | Cooker | Nkurenkuru Health Centre |
| Martha Kandjimi | Nurse | Nkurenkuru Health Centre |
| Mathilde Kazunga | Teacher | Nkurenkuru |
| Marco Kadubaki | Cleaner | LMM-Nkurenkuru Hospital |
| Max Mathamu | Teacher | Nkurenkuru Jnr Prim. School |
| Makanga Roide | Hostel Mother | Nkurenkuru Hostel |
| Sivera Peter M | Teacher | Nkurenkuru Jnr Prim. School |
| Kaundu Martha | Cleaner | LMM-Nkurenkuru Hospital |
| Theopolina Mununga | Secretary | ELCIN |
| Kandjimi Kasius | Clerk | Lutherin Medical Service |
| Fransina Tyinuiza | Dressmaker | Nukurenkuru Hospital |

APPENDIX D: LIST OF PEOPLE INTERVIEWED (CONT)

| Name | Institution | Position |
|-----------------------|--------------------------------|--------------------------------|
| Kaholongo BN | Nurse | MOHSS |
| Namukwata Adolphine S | Teacher | Nkurenkuru Jnr Prim. School |
| Marita Muronga | Cleaner | MOHSS |
| Martha Ausiku | Teacher | Nkurenkuru Jnr Prim. School |
| Christine Kasova | Security Force | Nkurenkuru Hospital |
| Hellin Sientu | General Assistant | Nkurenkuru Hospital |
| Mogotsi Joseph | Chief Supt. | Prison & Correction Service |
| Matjaji | Postmaster | Nampost |
| Mbereshu | Agri & ext. tech. | MAWRD |
| Erwin Mbambo Munika | Fumu | Mbukushu Traditional Authority |
| SA Kambungo | Clerk | Office of the Inspector(MBEC) |
| Hausiku A | Warrant Officer | NAMPOL |
| Mukata G.M | Head of Department | Max Makushe Sr. Sec. School |
| Sebastian Karupu | Regional Governor | Kavango Regional Council |
| Kandoundou AFK | Captain | Ministry of Defense |
| Nekundi Heinrich | Chief Clerk | Andara Hospital |
| Sacky Kanyone | Governor I | Regional Council |
| Billy Mwaningange | Governor | Regional Council |
| I. Kapenambili | Councilor | Regional Council |
| L. Kornelius | Councilor | Regional Council |
| P. Endjambi | Councilor | Regional Council |
| P. Mwahanyekange | Councilor | Regional Council |
| Ipinge | On behalf of Councilor: Tsandi | Principal |
| Angula | On behalf of Councilor: Tsandi | Teachers Resource Centre |
| H. Ipinge | Matron | Okahao State Hospital |
| R. Shikwambi | Matron | Tsandi State Hospital |
| B. Negumbo | Matron | Oshikuku State Hospital |
| H. Munenguni | Matron | Eenhana State Hospital |
| Shikongo | Station Commander | Okahao Police |
| Mushongo | Station Commander | Oshikuku Police |
| Oswin Namakalu | Town Clerk | Outapi Town Council |
| King J. Taapopi | King | Uukwaludhi tribal Authority |

APPENDIX D: LIST OF PEOPLE INTERVIEWED (CONT)

| Name | Institution | Position |
|-----------------|--------------------------------------|------------------------------|
| Matias Walaula | | District Headman |
| I. Nakamwe | MBEC — Okongo | Inspector of Education |
| R. Ndamanomhata | MBEC — Okalongo | Principal |
| A. Autanga | Snr. Agricultural Extension Officers | MAWRD |
| E. Weyulu | Snr. Agricultural Extension Officers | MAWRD |
| Christof Malulu | Secretary | Ruacana Chamber of Commerce |
| H. Kalimbo | Adviser | Oshikuku Chamber of Commerce |
| J. Hanghuwo | | Pastor |