Expanding access to credit

Namibia’s experience with microlending and payroll deductions

Suta Kavari

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List of Acronyms

APS	Avril Payment Solution (Pty) Ltd
BCB	Banco Central do Brasil
BoN	Bank of Namibia
EAO	Emolument Attachment Orders
GDP	Gross Domestic Product
INSS	Brazilian Social Security Institute (Instituto Nacional do Seguro Social)
MoF	Ministry of Finance
NAMFISA	Namibia Financial Institutions Supervisory Authority
NBFI	Non-Banking Financial Institutions
NCA	National Credit Act
NFIS	Namibia Financial Inclusion Survey
NSA	Namibia Statistics Agency
OECD	Organisation for Economic Co-operation and Development
P.A.Y.E	Pay As You Earn
PAN	Payment Association of Namibia
PDMS	Payroll Deduction Management System
PSCE	Private Sector Credit Extension
PSD-7	Payment System Determination Seven
SARB	South African Reserve Bank

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1. Executive Summary

1.1 Introduction

Namibia's financial system has consistently been described as sound and well-functioning and amongst the most developed on the continent, given the close links to South Africa's deep and liquid financial markets through Namibia's membership to the Common Monetary Area. Despite the soundness of the financial system, the financial sector is besieged by structural weaknesses that have hindered the sector from contributing to socio-economic advancement. Some of the major financial imperfections that need addressing include, though not limited to, low levels of financial literacy, lack of consumer protection and access to financial services and products. These being some of the major constraints to the financial inclusion in Namibia according to the 2011/2021 Namibia Financial Sector Strategy.

Expanding access to financial services, with focus placed on improving financial literacy and access to credit has been key determinants of Namibia's financial sector development strategies aimed at financial inclusion. Access to credit has been viewed as an empowering tool that can assist in improving the welfare of households by increasing the levels of consumption and mitigating against risks. The argument for increased access to credit can also be understood within the context of a) a history of financial exclusions and b) the role credit plays as a consumption smoothing tool in times of economic stress.

Analysing the policy and regulatory considerations for financial inclusion, this study establishes a causal link between the rise in access to credit and the increase in demand for credit. Furthermore, the finds that increased access to credit contributed to an increase in the demand for and credit extended to households. A situation that contributed to the deepening of Namibia's credit market. In analysing the improved nature of access to credit in Namibia, this study posits towards an argument that considers the significant role microlending and payroll deductions have played in expanding the levels of financial inclusion in Namibia. Specifically, consideration is paid to how these financial instruments have contributed to improved access to credit and led to a deepening of the credit market in Namibia.

1.2 Key Observations

1.1.1. Increase in availability to credit has contributed to the rise in household indebtedness

The increase in the availability of credit has been one of the contributing factors to the rise in in household indebtedness, in addition to the supply-side factors such as demographic shifts, increases in cost of living, especially in urban areas, and risk factors.

1.1.2. Microlending has been significant in expanding access to credit

Microlending has played a significant role in expanding access to credit and has contributed to the expansion in the provision of financial services, aiding the increasing levels of financial inclusion in the country, especially amongst the low-income segment.

1.1.3. Microlending Act of 2018 curtailed predatory lending practices

The Microlending Act of 2018 introduced tighter regulations and standards for market conduct and compliance for microlenders, that were accused of unscrupulous lending practices by some microlenders. These practices included the signing of blank or incomplete documents and prohibits collection method that retains "any bank cards or personal information such as pin codes or original identification documents".

1.1.4. Collateralisation of future earnings increases access to credit

Payroll lending, through the collateralisation of future earnings has had a strong positive aggregate impact on credit deepening. Consequently, the strengthening of collateral through payroll lending also increases the ability of lenders to underwrite loans and by extension improve access to credit (Coelho, et al., 2010).

1.2.5. Payroll deductions contribute to the process of capital accumulation

The stability, or predictability of future earning provides a valuable collateral against potential involuntary default, serving as a guarantee for borrowings and opens up new credit markets for consumers who have limited to no access to credit from commercial banks.

1.2.6. Payroll deductions as a personal financial management tool

The predictability of deductions coming off the payroll provides users with the assurance that financial obligations and commitment will be timeously met, guarding against potential arrears.

1.3 Conclusion and policy considerations

This study assesses aspects of the socio- and macro-economic dynamics of household indebtedness and provides an analysis of the role microlending and payroll deductions play in either smoothing or exacerbating indebtedness. The study found that microlending plays a significant role in expanding access to credit and unlocking the productive capacity of people who had little access to financial services. Moreover, the study also found that the payroll deductions strengthens the collateral base of borrowers, which has a major impact on credit deepening. But while these two financial instruments improved institutional environment that engendered financial deepening in Namibia, there exists a need to improve compliance standard to ensure that consumers are protected and not put at risk of unscrupulous and predatory lending practises.

1.4 Methodology

Given the paucity of empirical data – especially with regards to a breakdown of household indebtedness datasets; microfinance activity and; payroll data – this study's research methodology was diverse in nature. The first leg of the research involved desktop research. A focus group research was conducted at A.I. Steenkamp Primary School in Katutura, Windhoek, with teachers, secretaries and cleaning staff – key users of payroll deductions and microfinance activities – using semi-structured interview guide. Insights from the focus group was followed up by a thematic analysis. In addition, stakeholder interviews were conducted, most notably with policymakers, regulators, microfinance institutions, banks and other financial service providers. The final leg of the research involved two independent reviews of the information obtained and analysed. While this study does not provide a quantitative assessment of the longer-term impact of payroll lending on credit deepening and the impact on economic growth, it provides a conceptual input into the process of developing appropriate frameworks on policies relating to access to credit.

2. Introduction

It is widely accepted that financial sector development is crucial in ensuring economic development, and that inclusive financial systems are central for inclusive development to take hold (Levine, 1997; Park & Mercado, 2015). One of the key components of financial sector development is financial inclusion through increased access to financial services. As a result, expanding access to financial services has been a crucial consideration in the development strategies of many developing and emerging economies. Access to financial services is viewed as a broad step towards financial inclusion and the facilitation of poverty reduction. This notion is supported by evidence from the World Bank, which estimates that financial inclusion in developing countries greatly contributes to instances of economic growth and inclusive development (World Bank, 2018).

While the financial sector development strategies in Namibia have been informed by similar principles of inclusive development, they are also aimed at addressing the financial imperfections inherent to Namibia's financial market. The financial imperfections have necessitated policy frameworks aimed at expanding access to financial services, with focus placed on improving financial literacy and access to credit. Access to credit has been viewed as an empowering tool that can assist in improving the welfare of households by increasing the levels of consumption and mitigating against risks. Given Namibia's history financial exclusion, the argument for increased access to credit is understood within the context of the role credit plays as a consumption smoothing tool in times of economic stress, particularly in cases such as job loss, illness and other emergencies (Mutsonziwa & Fanta, 2019).

In addition to providing insights into the expansion of financial inclusion, analysing Namibia's credit market also provides critical insights into the dynamics of household debt and the rapid increase in household indebtedness. While it can be argued that the increase in the availability of credit has been a contributing factor to the rapid rise in in household indebtedness, this study also finds that consumer behaviour plays an equally contributory role. This study establishes a causal link between the rise in access to credit and increase demand for credit and finds that increased access to credit contributed to an increase in the demand for and credit extended to households. A situation that contributed to the deepening of Namibia's credit market. In analysing the improved nature of access to credit in Namibia, this study posits towards an argument that considers the significant role microlending and payroll deductions have played in expanding the levels of financial inclusion in Namibia. Specifically, consideration is paid to how these financial instruments have contributed to improved access to credit and led to a deepening of the credit market in Namibia.

A comparative analysis is made between Namibia and Brazil's credit market. In other words, the study considers the context of the evolution of Brazil's credit market, looking specifically at how payroll lending contributed to the deepening Brazil's credit market. The aim is to explore the similarities between the Brazilian experiment and Namibia's experience with payroll deductions, highlighting the experiences with credit deepening and improved access to credit in both countries.

In highlighting the ductility in the conceptual understanding of microlending practices in Namibia and payroll deductions, this study aims to provide a conceptual frame from which to understand the multipolar nature of these two financial products. The role they play in personal financial management and their contribution to improving the institutional environment that engendered financial deepening in Namibia. Finally, this paper concludes by ascertaining that from a policy and regulatory perspective, microlending and payroll deductions are relevant tools for financial market development.

3. Financial Inclusion

The expansion of access to financial services has been at the centre of many development strategies and is seen as a broader step towards financial inclusion and the facilitation of poverty reduction, particularly in emerging and developing economies. It is widely acknowledged that financial sector development is crucial in ensuring economic development, and that inclusive financial systems are central for inclusive development to take hold (Levine, 1997; Park & Mercado, 2015). This notion is supported by evidence from developing economies where financial inclusion greatly contributes to poverty reduction, economic growth, and inclusive development (World Bank, 2018).

The World Bank estimates that inclusive financial systems provide the benefit of insuring “poor people” against socio-economic vulnerabilities. Findings by Beck, Demirgüç-Kunt & Levine (2007:27) emphasised how financial development, through inclusive financial systems “affect the poor through aggregate growth and changes in the distribution of income”. By the same token, policy complementarities in the finance-growth nexus have “facilitated the provision of financial services to the poor in a relatively cheap and reliable manner” Otchere, Senbet & Simbanegavi (2007:5). In other words, an economy’s level of financial development has a direct bearing on its ability to grow. While access to financial systems represents a very broad concept and can mean a wide variety of things, it is used to relate specifically to access to credit in this paper.

From a financial market development perspective, financial inclusion through increased access to credit is also a critical component of macro-economic stability and ensuring a fair distribution of financial assets. Financial inclusion refers to the percentage coverage of adults with access, either through formal or informal financial mechanisms, to financial services for their livelihoods (NSA, 2017). Financial inclusion in Namibia has largely focused on increasing access to credit, given the inaccessibility of credit to large swaths of the population due to a lack of creditworthiness. It is important to note from the onset that one of the major concerns with access to credit has been the inaccessibility of credit to the lower income segment due to a lack of creditworthiness, including the lack of collateral. It is also important to note from the onset that access to credit is a double-edged sword – providing access to increased livelihood opportunities on the one hand, but also creating increased vulnerability on the other.

When defining financial inclusion, it is important to take into account the dynamic nature of consumers and markets. Ultimately, financial inclusion in the Namibian context aims to "enhance access to banking and financial services for the previously excluded members of our society"[1]. As depicted in Figure 1, the definitional analysis of financial inclusion assesses both formal and informal product usage[2].

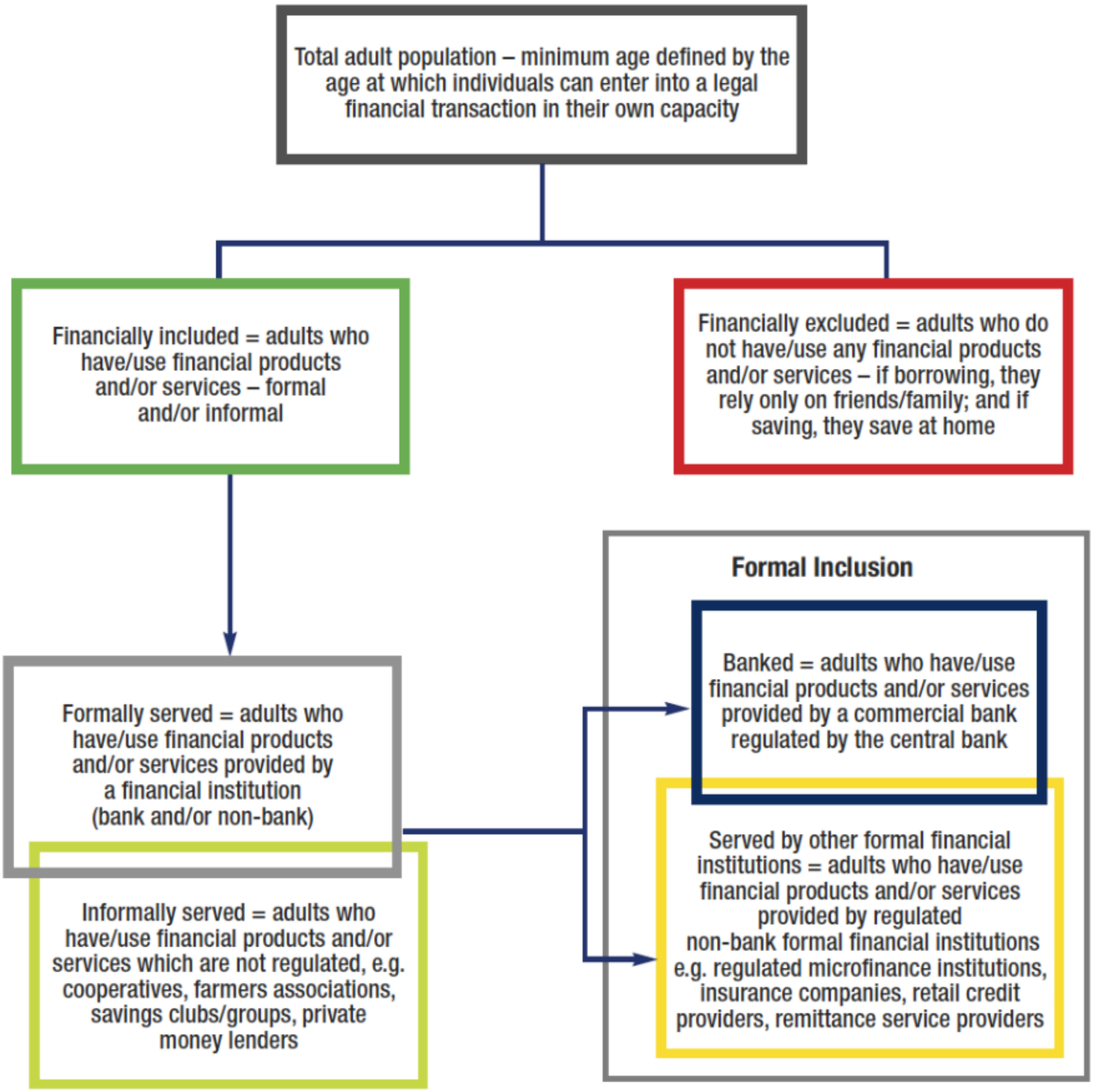
Total adult population – minimum age defined by the age at which individuals can enter into a legal financial transaction in their own capacity
Financially included = adults who have/use financial products and/or services – formal and/or informal
Financially excluded = adults who do not have/use any financial products and/or services – if borrowing, they rely only on friends/family; and if saving, they save at home
Formal Inclusion
Banked = adults who have/use financial products and/or services provided by a commercial bank regulated by the central bank
Formally served = adults who have/use financial products and/or services provided by a financial institution (bank and/or non-bank)
Served by other formal financial institutions = adults who have/use financial products and/or services provided by regulated non-bank formal financial institutions e.g. regulated microfinance institutions, insurance companies, retail credit providers, remittance service providers
Informally served = adults who have/use financial products and/or services which are not regulated, e.g. cooperatives, farmers associations, savings clubs/groups, private money lenders

Figure 1: Analytical framework of financial inclusion (source: NSA, 2018:60)

Economists have long argued that financial development not only enhances prospects of economic growth, but also contributes to a reduction in poverty over the long run.

[1] Taken from speech delivered Ipumbu Shiimi, Governor of the Bank of Namibia at the Letshego Bank Launch event in Windhoek, 25 July 2017.

[2] The 2017 Namibia Financial Inclusion Survey (NSA, 2017) defines formal usage as "usage through commercially recognised banks and other financial institutions such as insurance companies and retail providers and informal usage such as savings clubs, burial societies".

This argument is premised on the understanding that “financial imperfections, especially with regards to transaction costs, can be restrictive for the “poor” with little to no collateral and/or credit histories” Beck, Demirgüç-Kunt & Levine (2007:33). Theoretically then, the loosening of credit restrictions would “disproportionately benefit the poor”, thus reducing income inequality. This perspective provides sufficient evidence to support the notion that by improving the efficiency of capital allocation, financial development does indeed benefit the poor. However, other economists such as Popov (2017) and Galor & Moav (2004) qualify this assertion by highlighting the nonlinearity between “financial development, income inequality, and economic development”, especially in many developing economies.

What really matters for this discussion on financial inclusion is that increased access to credit cannot be understood in a vacuum. Credit as a financial instrument can be beneficial from a developmental perspective – i.e. as a means of starting a business or building an asset base – or it can also have a negative influence, such as the loaning money for gambling purposes or leveraging bad investments which can perform poorly.

Therefore, it is of utmost importance that increased access to credit is accompanied by the implementation of controls aimed at mitigating potential deleterious impact on consumers. It is also important to note from the onset that access to credit is a double-edged sword – providing access to increased livelihood opportunities on the one hand, but also creating increased vulnerability on the other. The question then becomes how does one provide ‘good’ access to credit and mitigate instances of bad? One means of providing a higher degree of ‘credit-worthiness’ and thus increasing access to good credit is through secure payroll deductions – i.e. leveraging secure collateral through future earnings/salary. In highlighting these tensions, this study attempts to posit an understanding of the linkages between access to credit and financial inclusion, as it relates to policy implications and future policy-oriented research on ways to enhance financial market development.

3.1 Financial inclusion in Namibia

With close links to South Africa’s deep and liquid financial markets, Namibia’s financial system has consistently been described as sound and well-functioning and amongst the most developed on the continent. Although Namibia enjoys a sound and well-functioning financial sector, structural weaknesses have hindered the sector from contributing to socio-economic advancement (BoN, 2011). The financial market development policy frameworks, such the 2011/2021 Namibia Financial Sector Strategy, have aimed to address the financial imperfections inherent in the market by expanding access to financial services, which is seen as a key contributor to reducing poverty and inequality. According to the 2011/2021 Namibia Financial Sector Strategy, some of the major financial imperfections that need addressing include the shallowness of the financial market and the “limited competition” and “financial safety nets”, coupled with “inadequate and less effective regulatory capacity”. In addition, the strategy document also lists “low financial literacy”, “lack of consumer protection and access to financial services and products” as some of the major constraints to the financial inclusion in Namibia.

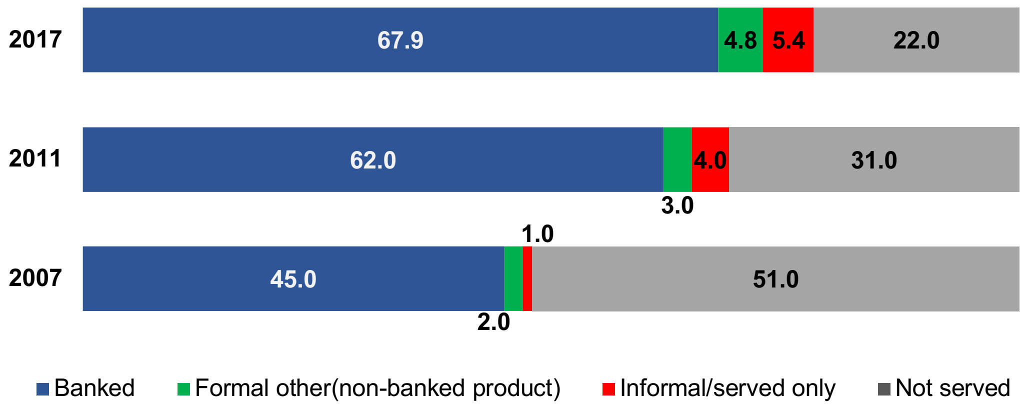

Table 1: Access to financial services (source: NSA (2018:64)

When measured through financial inclusion, access to financial services has improved considerably over the last decade as shown in Table 1, with the proportion of financially excluded population falling to 22% in 2017 from 51% in 2007 (NSA, 2018). The 2017 Financial Inclusion Survey found that access to finance remains relatively low due to poor financial literacy; "lack of collateral and limited effective demand for financial services due to low income as a result of high poverty and unemployment" (Brouwers et al., 2014).

It is important to note that there is a distinction to be made between the 'use of' and 'access to' financial services. While the **use of** financial services can easily be observed empirically, there is little uniformity in capturing the constructs of **access to** financial services. An individual might have **'access to'** but choose not to **'use'** some financial services, for example - people who prefer to deal in cash. Similarly, someone might have indirect 'access to' financial services through the use of someone else's bank account (World Bank, 2018).

3.2. Case study: Credit deepening in Brazil through payroll loans

In late 2003 the Brazilian government intervened in the credit market in a bid to ease credit lending restrictions and popularise credit, particularly for the financially excluded low-income segment. The credit reforms were initiated with the view of expanding access to credit to stimulate consumption and boost economic growth (Schuh, Coronel, & Bender, 2017; Carvalho, Pasca, Souza & Zilberman, 2014). This involved the granting of payroll loans. According to the legislated definition, payroll lending was defined as "personal loans for which the principal and interest payments are directly deducted from the borrower's" salary Coelho, et al. (2010:2). In this instance, future earnings become the basis of collateral. The argument advanced was that loans advanced though the payroll system stood out as a developmental tool "in relation to the other modalities of credit" Schuh, Coronel, & Bender (2017:150), given its beneficial impact on the low-income and underserviced population.

The introduction of the credit reforms were also founded on the premise that credit, as a financial transformer, plays a crucial role in the "process of capital accumulation" for households, especially those on the low-income segment (Coelho, et al., 2010; Costa & Manolescu, 2004). These institutional reforms led to a marked expansion in all measures of credit use in the economy, Figure 1. Consequently, domestic credit-to-GDP started increasing and the country's credit portfolio rose to 54.5% in 2015 from 27% in 2004, which were on the decline until 2002, reflecting a deepening of the credit market (Banco Central do Brasil (BCB), 2015).

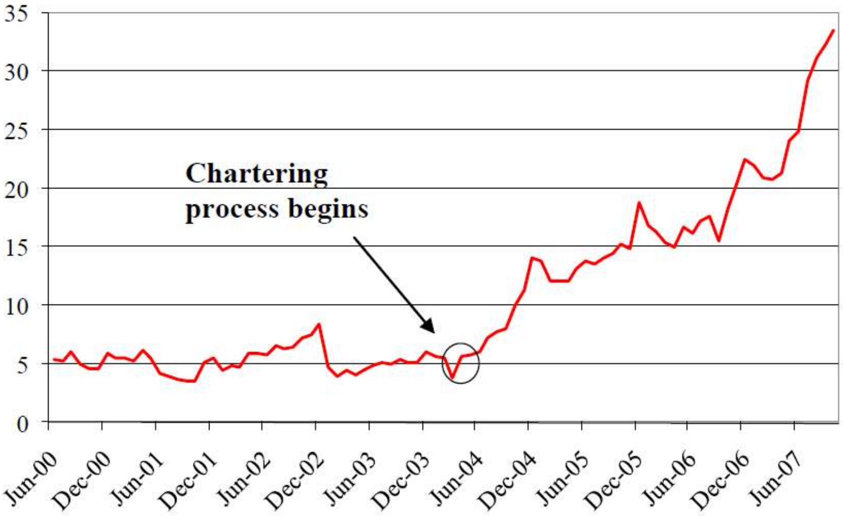

Figure 2: Stock of Brazilian Personal Loans, including both payroll and non-payroll personal loans (R$ billions) (source: BCB (2007:20)

Although the expansion in Brazil's credit market, and subsequent growth in personal credit (Figure 2, BCB), was attributed to the introduction of payroll lending since, other reforms also contributed to the deepening of the credit market. These reforms included the 'Real Plan', which led to a stabilisation of the Brazilian currency, which subsequently led a decrease in inflation during the period. As Soares (2002) explains, prior to the introduction of credit reforms and Real Plan, banks relied on inflationary revenues, and the increase in the extension of credit followed the combination of stimulus that sparred on consumption.

Analysing the evolution of payroll lending in Brazil provides a useful conceptual understanding of the how the supply of credit shifts through various channels, which holds potential lessons for the Namibian context (Coelho, et al., 2010). As the theory goes, the stability, or predictability of future earning for public sector works provides a valuable collateral against potential involuntary default. In other words, future earnings serve as guarantor for borrowings. This not only removes any incentive for potential default or overborrowing, it also opens up new credit markets for consumers who have limited to no access to credit from commercial banks, or do not meet their stringent lending requirements. In addition, and with the elimination of potential involuntary defaults, risks for lenders are reduced somewhat and what remains is idiosyncratic risk, easily diversifiable or mitigated through credit insurance policy.

While the law prescribes several regulations, for the sake of this study's comparative analysis, focus will be mandated around the process for affordability assessments. In Namibia deduction codes are extended to micro- and term lenders and, commercial banks' lending to public sector workers. In Brazil payroll lending is open to both public and private sector workers registered for social security benefits (Coelho, et al., 2010). In addition, and comparable to the Namibian context, the borrowers' salary including other commitments on their payroll determines the loan amount. In Brazil, any loan advanced cannot be greater than 30% or approximately one third of the borrower's income, with the requirement that loans have a fixed "payment during the amortization period". In Namibia, for government employees, the total voluntary deductions cannot exceed a minimum take-home pay of the higher of N$750 or 35% of basic salary, plus recurring allowances (MoF, 2003).While for non-government employees, the total voluntary deductions are limited to one third of the employee's remuneration, as stipulated in Section 12 of the Labour Act (Republic of Namibia, 2007). And in terms of affordability assessments, the Brazil experiment places obligations regarding credit information and the sharing of that information on the employers. In Namibia, the Payroll Deduction Management System (PDMS) serves as the affordability assessment tool which pre-checks prospective deductions before they are made to ensure compliance with rules set out by Ministry of Finance (MoF), in order to ensure that employees are left with sufficient take-home pay after all deductions (Anon, 2007). One of the problems prior to the introduction of the PDMS was zero or negative take-home pay for employees.

3.3. Policy considerations

In considering the context of growth in credit extension in Brazil, specifically payroll loans, this study aims to comparatively explore the similarities between the Brazilian experiment and Namibia's experience with payroll deductions and its relationship with financial inclusion, credit deepening and economic expansion. Although much of the literature on payroll deductions remains largely nascent, focusing largely on consumer behaviour (Schuh et al., 2017), this study aims to contribute to the understanding of how the emergence of payroll deductions have played a significant role in the macroeconomic context. Specifically, as it relates to enhancing financial inclusion and credit deepening.

The analysis suggests that the collateralisation of future earnings contributed to an increase in personal credit in Brazil. In this regard, it is not implausible to speculate that payroll lending has a strong positive aggregate impact on credit deepening. This suggests that any regulations around payroll lending strengthens the collateral base of borrowers, which has a major impact on credit deepening. Consequently, the strengthening of collateral through payroll lending also increases the ability of lenders to underwrite loans and by extension improve access to credit (Coelho, et al., 2010). Thus, from a policy and regulatory perspective, payroll lending is a relevant tool for financial market development.

Given the paucity of empirical evidence available, this study does not provide a quantitative assessment of the longer-term impact of payroll lending on credit deepening and the impact on economic growth. However, the evidence presented does provide an overview of the contribution payroll lending has had on the creation of a strong domestic credit market in Brazil. This also holds true for the Namibian market when thinking about payroll deductions. For future research, there exists a need to estimate the impact and consequences of payroll lending policies on broader economic dynamics, especially in relation to demographic and geographical trends.

4. Increasing household indebtedness in Namibia

The increase in the access to financial services has also led to an increase in access to regulated/formal credit. Access to credit is seen as an empowering tool that can assist in improving the welfare of households by increasing the levels of consumption and mitigating risks. Credit has also been used a consumption smoothing tool in times of economic stress, particularly in cases such as job losses, illness and other emergencies (Mutsonziwa & Fanta, 2019).

The rise in access to credit has led to an increase in the demand for credit and credit extended to households and business, which has fuelled a rapid increase in household consumption. This rapid growth in debt consumption was viewed as a one of the stimulating growth factors that helped sustain economic growth between 2012 and 2015.

4.1 Growth in credit

Credit extension is influenced by changes to interest rates and consequently affects aggregate demand for goods and services and ultimately the rate of inflation. In other words, fluctuations in interest rates have a direct material bearing on credit extended to households. As a result, greater access to credit increases household consumption and stimulates consumer spending. As Prinsloo (2002) explains, “the use of consumer debt is mainly related to consumers’ eagerness to consume now rather than later.” Household debt is primarily categorised into consumer credit and mortgage loans. Consumer credit is in turn sub-categorised into overdrafts, instalment credit, personal loans at banks and non-banking financial institutions, and lease transactions.

4.2. Structural developments in household credit

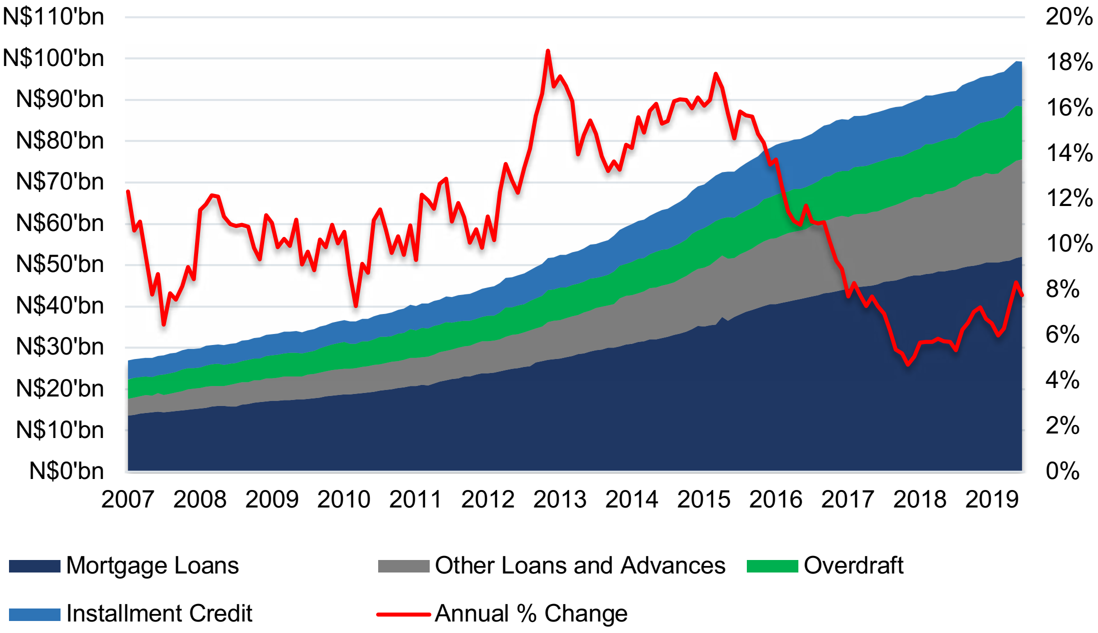

Figure 3: Private Sector Credit Extension (PSCE) (source: BoN; First National Bank (FNB))

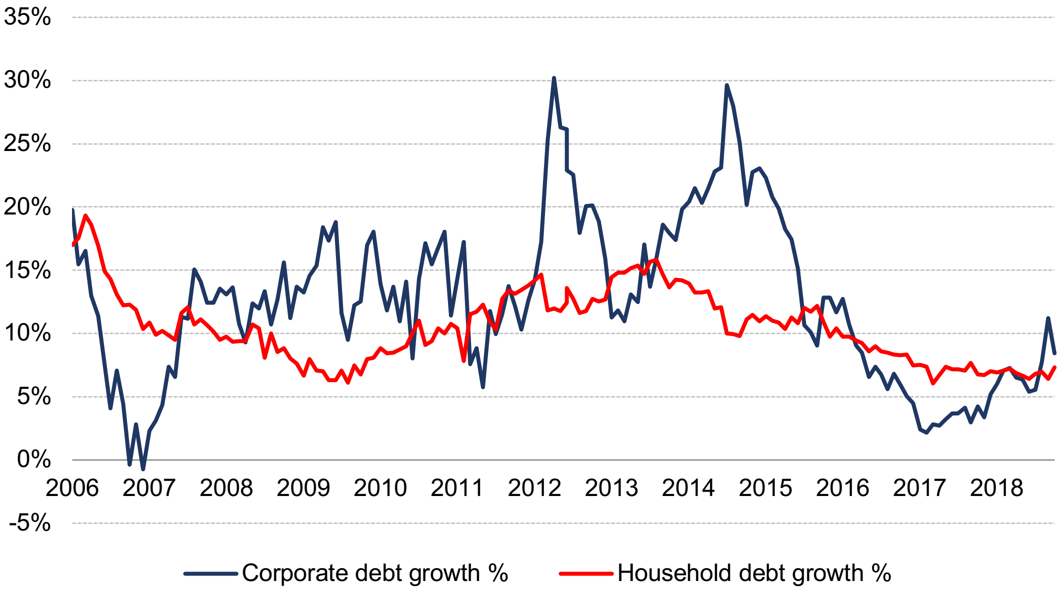

Figure 4: Claims on the Private Sector (source: BoN; FNB)

Although growth in credit extended to the private sector (PSCE) has increased substantially since the 1990s, the pace of growth steadily decreased between early 2015 and mid-2018, as shown in Figure 3, coinciding with the period of marked economic slowdown in Namibia. The year-on-year increase in total household debt accelerated from an average of around 10.9% in 1999 to a staggering year-on-year growth of 21.8% during 2005 before moderating to average 4% in 2010. From 2010 onwards growth in household indebtedness accelerated to peak at 15,8% in April

2014, moderating to average 6.6% in 2019. The tightening monetary stance, rising interest rates, by BoN between June 2014 and July 2017 when interest rates rose accumulatively by 1.5%, discouraged the uptake of credit by households as shown in Figure 4. As a result, credit extended to households started to decline, reinforcing the centrality of interest rates in influencing borrowing behaviour, Figure 5.

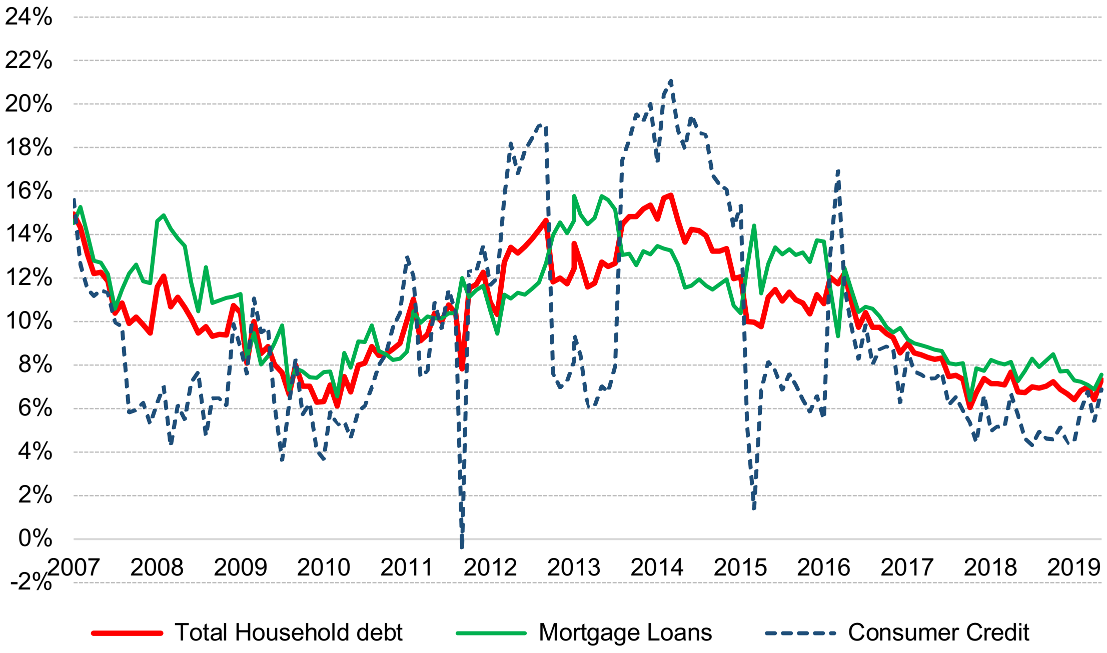

Figure 5: Household debt year on year growth (source: BoN; FNB)

In analysing household debt, a distinction is made between its different components, namely consumer credit and mortgage loans, Figure 5, and how these different components aggregate in relation to “total credit extended to the private sector by banks” and non-banking financial institutions (Prinsloo, 2002). Credit extended to households has consistently outpaced credit extended to corporates. Credit uptake for households began to increase when banks started expanding their lending activities during the late 1990s and early 2000s, a situation that aided in broadening financial inclusion. Household credit as a percentage of credit extended to the private sector averaged 72% in the 1990s, moderating to average to 66% in the 2000s. This ratio stabilised to average 60% between 2010 and 2016, aided in great part by an accommodative monetary policy stance, a reduction in personal income tax rates and a booming economy.

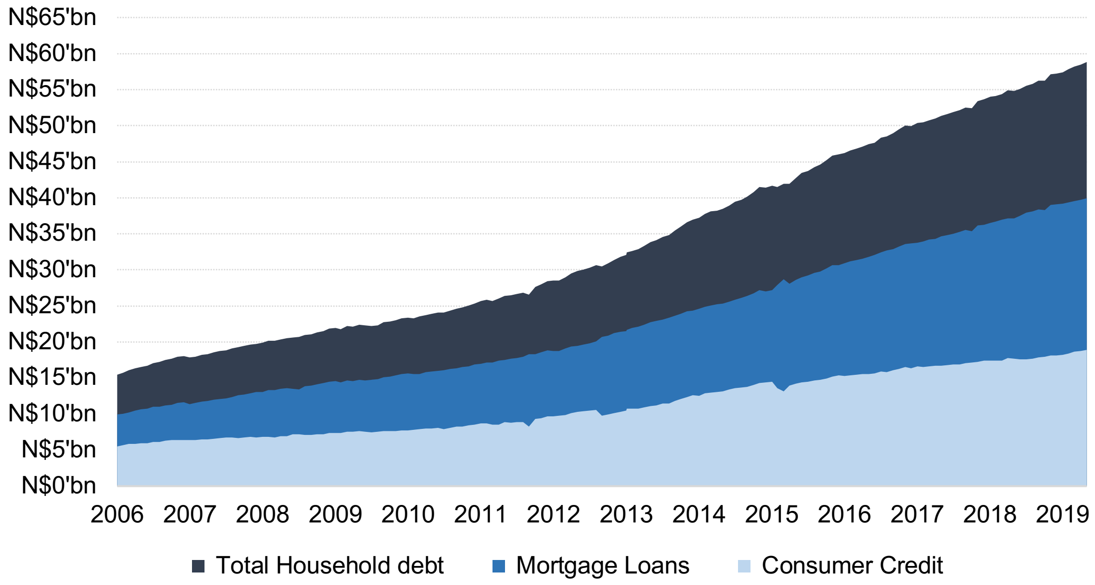

Figure 6: Household debt (source: BoN; FNB)

4.3. Definitional analysis of household debt

Household debt, or debt in general, is any liability or obligation that require payments of interest and/or principal to creditor at fixed intervals in the future. Calculated as the total sum of loan obligations (including mortgage loans and consumer credit) and other accounts payable (Organisation for Economic Co-operation and Development (OECD), 2019). The main determinant of debts is the demand for loans, or credit, and the capacity of banking institutions, and other institutions, to extend them. As an indicator, household debt is measured as a percentage of disposable income.

With regards to over-indebtedness, the working definition in most developing countries is based on inability to meet debt obligations, current or approaching, founded on observable criteria. South Africa uses a quantitative assessment outlined in the National Credit Act (NCA) to define over-indebtedness. Under the NCA definition, over-indebtedness is assessed on available information about a consumer's financial means and declared if indications point to a consumer's inability to meet obligations, or prospects, in a timely fashion. The sustained increase in household borrowing has raised concerns over household over-indebtedness. This study relies on a definition of household over-indebtedness that fulfils the following criteria:

(1) borrows to pay off other debt;
(2) borrowing capacity is constraint due to too much outstanding debt;
(3) has had loan applications rejected due to too much debt;
(4) has had debt restructuring or consolidation;
(5) has defaulted on loan obligations; and
(6) has or has had a garnishee or emolument order or have been garnisheed.

4.4. Drivers of over-indebtedness

Increasing cost of living, backgrounded against an increase in access to credit, has meant that households are increasingly supplementing their consumption expenditure with debt. The increase in household debt burdens have raised fears that an increasing number of households are at risk of financial fragility and more prone to taking out more credit to service debt obligations when due.

The increase in the availability of credit has been one of the contributing factors to the rise in in household indebtedness, in addition to the supply-side factors such as demographic shifts, increases in property prices, especially in urban areas, and risk factors. Another factor that contributed to the rise in household indebtedness is the deepening of credit markets to socioeconomic levels, meaning that credit became readily available to borrowers with “weaker financial profiles and repayment capacity” Dobos (2012:50).

All these factors have contributed to an increase in household indebtedness, which have also been sustained by a combination of supportive economic conditions, low interest rates experienced during 2004-2011 and a steady increase in household income which inflated expectations of future earnings. Moreover, the relatively lax lending requirements of microlenders, compared to commercial banks, expose already over-stretched consumers to more debt (see James, 2012). Comparatively, microfinance consumers tend to go through less strenuous affordability assessments compared to those of banks, which results in the non-disclosure of crucial credit information.

Although external markets factors play a role in the levels of household indebtedness, consumer behaviour is the biggest contributor to indebtedness. They are varying reasons why consumers, either knowingly or unwittingly, find themselves overburdened by debt obligations, and at times unable to service debts. As Ssebagala (2016:5) explains, such behaviour stems from in some instances an overestimation of “the immediate benefits of the credit or undervaluing the cost of the debt repayment”, “a lack of self-control or a low level of knowledge about financial matters”.

While the increased access to credit played a significant role in improving household welfare in many emerging and developing economies, the increase in the availability of credit has led to significant increases in debt burdens and over-indebtedness in households. The rise in indebtedness has made households more susceptible to shocks to asset prices through highly leveraged balance sheets. This rise has exposed households to risks emanating from changes in income and interest rates as a result of debt repayment obligations relative to income (Dynan & Kohn, 2007).

	2014	2015	2016	2017	2018
Disposable Income (N$ million)	53,070	58,466	65,766	68,538	71,347
Credit to Disposable Income (%)	76,7	78,4	76,1	77,9	76,9
Credit to Individuals/Households (N$ million)	40,698	45,810	50,054	53,420	57,170
Adjusted Credit* to Households (N$ million)	45,378	51,078	55,811	59,563	63,745
Adjusted Credit** % of Disposable Income	95,3	97,3	94,5	96,8	95,5

Table 2: Household debt-to-disposable income (source: BoN, 2019:19)

Empirically, the importance of household indebtedness ratios lies in their usefulness as analytical tools in assessing the financial health of households and forecasting consumption expenditure. It is widely accepted that any changes in household consumption patterns have a bearing on economic output (Prinsloo, 2002.). Between 2014 and 2018, household indebtedness levels in Namibia rose by 31% on the back of an increase in demand for short-term credit facilities, Table 2. During this period, credit to households rose from N$45, 4 billion in 2014 to N$ 63, 7 billion. Much of the increase in demand for short-term credit can be attributed to a rise in the stock of loans extended by microlending institutions. Between 2017 and 2018 growth in credit extended by banking institutions increased by 6,2%, while growth in credit extended by microlenders increased by 29,3% (Namfisa,2018). It is worth noting that the limitations on data on household consumption do not allow for forecasting future trends in household consumption expenditure, allowing for an accurate analysis of household's immediate financial stress.

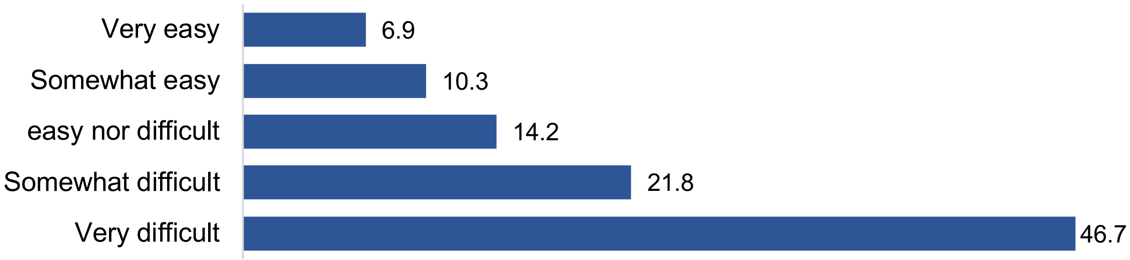

Figure 7: Ease of keeping up with financial commitments (source: NSA, 2018:51).

Moreover, the Namibia Financial Inclusion Survey (NFIS) 2017 found that the average Namibian household has difficulty meeting financial commitments, as illustrated in Figure 7. As the NFIS illustrates, this declining ease of keeping up with financial commitments has meant that the vast majority of average households never make their monthly income last until the of the month, Figure 8. The NFIS survey found that much of the financial difficulties can be ascribed to low financial literacy levels.

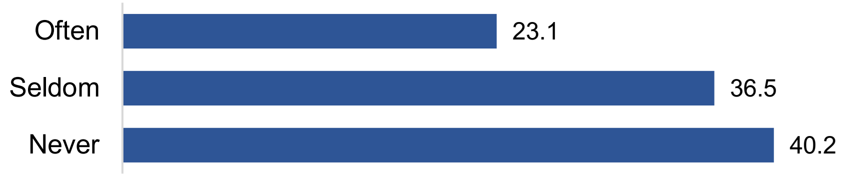

Figure 8: Making income last till next salary payment (source: NSA, 2018:51).

4.5. Findings and policy implications

Rising indebtedness is a concerning indicator given the wider impact it has both at a household and macro-level. Rising household indebtedness increases household vulnerability to various shocks in the economy. A policy consequence of rising levels of household indebtedness, flagged consistently by regulators is the link between increased indebtedness and macroeconomic stability. The concern is premised on the notion that indebtedness hampers consumption over economic cycles, potentially amplifying recessionary pressures over the long term.

Regulators have also long raised concerns about the role predatory lending practices play in exacerbating indebtedness. This is especially true when examining the microfinance sector, were unscrupulous microlending practices in some instances have created a worrying cycle of household over-indebtedness, especially among the low-income segment. The view is that credit extended by microlenders has aggravated household financial vulnerability, given the higher interest rates charged by micro-lender compared to commercial banking institutions.

The regulatory concerns around rising levels of household indebtedness is supported by empirical research that suggests that households in Namibia and the greater Southern African region are becoming increasingly sensitive to shocks to their income (Ssebagala, 2016; Gathergood, 2012). While this is true, it is also important to not generalise, given the different types of households and their ability to respond to shock. This is an important distinction to make, given that debt profiles or the extent of indebtedness varies and can be measured against a variety of factors such as gender, material and social needs, marital status, standard of living, education levels, existing indebtedness and disposable income, as well as ability to respond to risk events.

5. Microfinance sector

Microfinance has played a significant role in expanding access to credit and unlocking the productive capacity of people who had little access to financial services. This growth in microfinance was partially underpinned by economic perspectives and linked to “productive inefficiencies to credit market failure”. More broadly, microfinance is seen a new mode of development intervention, especially for financial market development in developing economies. As a developmental tool, proponents of microfinance argue that its social impact lies in its linkage to poverty alleviation, particularly the ability to provide access to financial services to poor and low-income households, who ordinarily might not have access to credit from commercial banks. It is important to note that microfinance is context dependent. In other words, it may provide invaluable opportunities for low-income households in certain circumstances but create debt traps in others.

Despite evidence on the usefulness of microfinance as a financial service easily accessible by poor people, according to (Cull & Morduch, 2017; Mossman, 2015) there is an overwhelming consensus arguing that the industry cannot be viewed as a transformative social and economic intervention. Most quantitative studies into microfinance have provided little evidence to support the notion that microfinance has done much to significantly reduce poverty[3]. Others argue that the microfinance industry is increasingly exploiting consumers and over-indebting poor and financial illiterate consumers in their drive for profit. While others argue for guarded optimism, based on the broader understanding of the role microfinance plays in notions like financial inclusion and credit market deepening, and in the provision of financial services to under-served communities. Simply put, this takes the view that microfinance is not exclusively concerned with fuelling household consumption or welfare. Instead, microfinance is seen as enhancing the financial liquidity of households. Here, access to microfinance is seen as a smoothing tool during times of economic stress. From a customer's perspective, microfinance can be viewed as a lifeline for basic household finance, which otherwise wouldn't be possible from commercial banks.

This study considers the arguments advanced on microfinance, looking at both the socio-economic impact on households and the complexities inherent in the drive for profitability from institutions that serve low-income households. Exploring the heterogeneity of both impact and profit of microfinance institutions is appealing, given the context of microfinance institutions operating in spaces were households remain under-served from a financial inclusion and financial literacy perspective. A distinction is made in this study that microfinance is akin to consumer finance (e.g., Cull & Morduch, 2017), as such "access to microfinance is not always benign". The saturation in the microfinance industry has seen an increase in borrowing to fund liquidity needs. Through this prism it becomes easy to understand the rise in debt problems amid sustained demand for credit[4].

5.1 Overview of the Microlending industry in Namibia

The growth of the microlending sector in Namibia has played a significant role in expanding the provision of financial services, aiding the increasing levels of financial inclusion in the country. Although vastly improved, the challenges experienced in terms of expanding the levels of financial inclusion in Namibia can be partially understood in light of the country's low population density. The sparse population poses challenges

[3] Banarjee et al. (2015) have illustrated that the evidentiary base for supporting the notion that microfinance helps in poverty alleviation is quite thin. They go on to add that when applying various theories to empirical evidence, especially theories on poverty traps, credit market competition and behavioural decision making, suggests that access to credit, or the expansion of access to credit to poor people is not necessarily all positive. Most studies, they argue, have not disentangle causation from correlation.

[4] In highlighting the causes of over-indebtedness, the role played by microlenders and external influences, Schick (2013) provides a framework of challenging many of the misconceptions in the microfinance industry. These include "the undesirability of consumption loans, as well as the benefits of competition" etc. Schick (2013) also posits towards an analysis that recognised the hand that borrowers have in their own over-indebtedness.

in terms of the provision of financial services in a cost-effective manner to marginal consumers outside of the main urban centres. Given the concentration of financial services in mostly urban centres, there was/is a marked gap in the delivery of those services to sparsely populated rural areas. The Microfinance industry has been able to plug this gap and provide financial services in a cost-effective manner to both rural and urban centres. As such the activities of microlenders and the services and products they offer have a bearing on household welfare and the regulatory environment.

Microfinance is described as any type of financial intermediation service provided predominately to low-income households and enterprises. Financial intermediation services can include loans, credit fund transfers, insurance etc. For this study, focus will be on the provision of loans by microfinance institutions to households, or what is termed microlending.

Microfinance in Namibia is mostly characterised by consumer lending and is widely known as microlending. Microfinance in most economies, and economic literature, refers to lending of a developmental nature, while in Namibia microfinance is confined to the consumer micro-credit market, due to the lack of diversification in the micro-credit products offered. In terms of registration, Namibia Financial Institutions Supervisory Authority (NAMFISA) also does not distinguish between "consumer lending and micro-lending for developmental purposes such as education, housing, agriculture or microenterprise" (FinMark, 2011).

The Microlending Act of 2018 defines microlending as the "loans to borrowers in terms of microlending transactions", that's to say loans not exceeding the amount of N$100 000, with the repayment period of the principal debt, together with the finance charges, whether in instalments or otherwise, not exceeding 60 months. Although the Act sets the thresholds for loan amount and repayment period at N$100,000 and 60 months respectively, Section 1(2) affords the Minister of Finance power to amend, "by notice in the Gazette", "the maximum loan amount and maximum repayment period which a loan transaction may not exceed in order to qualify as a microlending transaction" Republic of Namibia (2018).

In Namibia, like in most economies, regulations and supervision are crucial to the stability and functioning of a financial system, impacting on the development and growth of financial services and products. However, the impact of these regulations and supervision differs across institutional types. Namibia differentiates between the regulation and the supervision of banking sector and non-banking financial institutions. Banking sector is supervised and regulated by the Bank of Namibia (BoN), while the regulation and supervision of non-banking financial institutions, including micro-lenders, fall under the auspices of NAMFISA. In terms of supervision and regulation, both BoN and NAMFISA distinguish between prudential and non-prudential regulation or supervision. Prudential regulation or supervision, as the BoN explains "governs the financial soundness of licensed financial intermediaries, in order to prevent financial-system instability and losses to small, unsophisticated depositors"[5]. Prudential

[5] Remarks attributed to Ipumbu Shiimi, Governor of the Bank of Namibia at the official opening of FIDES

supervision and regulations are in place to protect the stability of the financial system.

Prior to the introduction of the Microlending Act of 2018, which came into effect on 18 October 2018, there were no specific regulatory frameworks regulating microfinance activities in Namibia. The Microfinance activities, specifically microlending, were regulated through the provisions of the Usury Act of 1968 and the Exemption Notices issued thereunder, Notices Nos. 189 and 196 of 25 August 2004. Under Section 15(a) of the Usury Act, provision was made for Exemption Notices to be issued by the Minister of Finance, detailing the duties and obligations of microlenders. These exemptions, which could be revoked or amended as the Minister saw fit, exempted "certain categories of money lending transactions, credit transactions or leasing transactions from any or all of the provisions of the Usury Act" Republic of Namibia (1968). In addition, there was no legal obligation for micro-lenders to register with NAMFISA and thus be subject to the limits set out in the Usury Act. In the absence of legal obligation and a regulatory framework, many microlenders who operated outside the limit were usually the same lenders with predatory and unscrupulous lending practices, leaving consumers with little to no legal recourse for complaints.

The absence of significant regulatory frameworks governing the activities of microlenders ensured that the establishment of standards and the enforcing of compliance provisions were hindered, undermining the sustainability of the industry. Importantly, the lack of regulatory standards that protected customers put borrowers at risk of unscrupulous and predatory lending practises, exposing borrowers to over-indebtedness.

Given the nature of microlending in Namibia, it is likely that most microlending consumers tend to be the financially vulnerable, and in some instances with low levels of financially literacy. Some microlenders have been accused of exploiting this vulnerability by retaining their bank cards and PIN codes[6]. Although many microlenders, in particular payday lenders, maintained that bank cards were retained solely for the purpose of recovering loan repayment, this practice posed significant risks for consumers – that their bank cards might be used for nefarious purposes. In addition, consumers were also obliged by some microlenders to sign blank or incomplete documents, including the acknowledgments of debt, consents to judgment, waivers of borrowers' legal rights and agreements to consent to the attachment of borrowers' property without a court order. These perceptions have been central in the debates around tighter regulations for microlenders.

The fundamental shortcomings in regulations resulted in the formation of perceptions of unscrupulous lending practices by microlenders, which have persisted despite the regulatory reforms initiated.

Bank's Katutura branch, Windhoek, 24 October 2013 (source: Brouwers, et al, 2014).

[6] The Microlending Act, 2018 (Act No. 7 of 2018, which came into effect in October 2018, was intended to prevent malpractices by microlenders, prohibiting practices such as the "retention of the bank cards and PINs of borrowers, signing of blank or incomplete documents (inclusive of acknowledgments of debt, consents to judgment, waivers of borrowers' legal rights and agreements to consent to the attachment of borrowers' property without a court order)", remarks attributed to Victoria Muranda, NAMFISA's Manager for Corporate Communication.

In introducing tighter regulations and standards of market conduct and compliance for microlenders, the Microlending Act focusses on the protection of consumers from predatory lending practises by curtailing the unscrupulous practices persistent in the microlending industry, and the impact on borrowers. The Microlending Act prescribes obligations on microlenders prohibiting practices that are detrimental to borrowers, while also promoting responsible borrowing and fostering financial inclusion. Specifically, Section 23(1) prohibits microlenders from signing blank or incomplete documents, as well as prohibiting any collection method that retains "any bank cards or personal information such as pin codes or original identification documents". The Act also outlines mechanisms designed to promote responsible lending and borrowing, by stipulating that no loans can be extend without an affordability assessment of the loan application clearly demonstrating the ability of the loan applicant to service the loan having regard to all his or her existing obligation.

Under the Microlending Act, microlenders are now legally obligated to register with NAMFISA and comply with the provisions set out in the Act. In addition, registration as a microlender with NAMFISA is also subject to annual renewal, providing NAMFISA with powers to enforce compliance. With the authority to regulate and supervise market conduct, the Act also provides NAMFISA the authority to cancel the registration of any microlender found to be non-compliant.

5.2. Namibia's microfinance market

Due to the limited level of diversification in the microfinance industry in Namibia and restriction on taking deposits, the industry consists mostly of consumer microlending and largely serve the formally employed (Brouwers, et al, 2014). The micro-loan products offered in the micro-credit market can be classified into two standard offering by lenders registered with NAMFISA, namely:

- Payday loans: are 30 day or short-term loans secured through future earnings (collateral) extended to salaried individuals as a type of bridging facility between salary payments and due at the next salary payment, i.e. the next pay day.
- Term loans: are loans of up to N$100,000 with a maximum repayment period of 60 months, also extended to salaried individuals for general use and repaid largely through payroll deductions.

Micro-credit lenders consist primarily of payday and term loans, solidarity group lending and micro-enterprise loans lending products (prevalent in the northern regions) also make up a share of the micro-credit market, although they make up an insignificant portion of the total market.

In terms of perceptions about predatory lending practices, it is important to make a distinction between payday and term lenders. While most term lenders have a deductions code from the Ministry of Finance (MoF) to facilitate lending to government employees with payment through payroll, many payday lenders do not. It is important to note that the granting of deduction codes is open to all financial service providers who comply with requirements outlined by MoF in the MoF Guidelines. The regulations around restricting the retention and use of card and pin as repayment method that were introduced in the Microlending Act was an attempt to stem unscrupulous lending practises by some payday lenders. It is these and other perceptions of unscrupulous lending practices associated with some lenders in the microlending market that have led to call for the creation of a dedicated association of term lenders to distance term lenders from these perceptions.

6. Understanding payroll deductions

Despite the widespread application of payroll deductions in Namibia, the concept of payroll deductions is one that is still laced with much definitional ambiguity. The readily accepted definition of payroll deduction is “any amount withheld by an employer from an employees’ salary” South African Reserve Bank (SARB) (2019:6), with deductions being either mandatory or voluntary. Mandatory deductions are deductions authorised through “statute, court order, collective agreement, or arbitration award”, and typically include income tax deductions, social security contributions, judicial debt collections; or collective agreements. Voluntary deductions are any discretionary deductions other than those prescribed through statute, collective agreement deduction or court order. The most common are contributions towards pensions and benefit funds, union and association fees or levies, and may also include “insurance contributions, authorised wage assignments”, “unsecured loans, housing loan repayments and other savings deductions” SARB (2019:7). Table 3 provides a definitional outline of the types of payroll deductions.

Type of deduction	Description
Mandatory deductions	Deductions authorised through “statute, court order, collective agreement, or arbitration award”, which include: a) Income tax payment or ‘Pay As You Earn’ (P.A.Y.E), as stipulated in the Income Tax Act 24 of 1981 and amended by the Income Tax Amendment Act 4 of 2013; b) Contributions to Social Security as determined by the Labour Act 11 of 2007; c) Court ordered judicial debt collection, including “garnishee order and administration orders” otherwise commonly known as emolument attachment orders (EAOs); and d) Written agreements pertaining to terms and conditions laid out in employment contracts or any “other matter of mutual interest concluded by one or more registered trade union; or one or more employer; or one or more registered employers’ organisation”, also known as a collective agreement;

	e) Deductions payments in terms of any arbitration awards awarded under the Labour Act 11 of 2007. f) Section 12(4) of the Labour Act prohibits employers' from deducting any amounts from employees' salaries unless those deductions are "specified in the law, court order, arbitration award or agreement".
Voluntary deductions	"Any discretionary deductions other than those prescribed through statute, collective agreement deduction or court order", most typical of these deductions are: a) Deductions relating to "pension or provident fund contributions, medical aid premiums, trade union subscriptions or levies, unsecured loans, housing loan repayments and other savings deductions"; b) Section 12(2)(ii) of the Labour Act specifically prohibits employers' from deducting any amounts from employees' salaries unless those deductions are agreed upon "in writing and concerns a payment contemplated" "in respect of a debt specified in the agreement".

Table 3: Types of payroll deductions (Source: SARB; Labour Act)

6.1 Policy and regulatory frameworks

The legal provisions for payroll deductions are outlined in Section 12 of the Labour Act of 2007 and the provisions for deductions from government payroll is stipulated in the MoF draft guidelines on payroll deduction codes and regulated in terms of the State Finance Act 31 of 1991 and Treasury Instructions. Additionally, Section 12 of the Labour Act 11 of 2007 also sets out the condition that need to be in place for payroll deductions to take hold. Payroll deductions can only be made if there is "a written agreement with the employee, legislation or a court" Republic of Namibia (2007:x). Put differently, deductions can be made from employees' payroll only if agreed upon in writing, or through collective agreement, or "if the employer is legally obliged to do so" (Albertyn, 2016).

Section 12(3) of the Labour Act goes on to lists the legal deductions that can be made from an employee's salary, namely:

- Income tax deducted and paid over to the Receiver of Revenue.
- Subscription fees or levies for union membership signed by employee and paid over to registered union;
- If stipulated in employment contract, medical aid and retirement fund contributions, paid over to the respective fund;
- Deductions agreed upon in a written agreement with the employee to repay debt, e.g. a loan advanced by the employer; goods sold by the employer etc.;
- rent in respect of accommodation supplied by the employer;

In addition, deductions from the payroll can also be made in terms of any garnishee orders against an employee. While the Labour Act does not explicitly stipulate it, Section 12(2) provides the mechanism for deductions in terms of any garnishee orders, however, deductions made cannot exceed a third of an employee's salary/ remuneration at a time.

While Section 12 of the Labour Act ***deals*** with the legal conditions for payroll deductions, the draft MoF Guidelines on Payroll Deductions Codes, though not formally approved "set the terms and conditions applicable to participants to the payroll deduction system; set limits to payroll deductions; and determines the procedures for application" for government employees (Republic of Namibia, 2015).

Additionally, the draft MoF's guidelines also ***stipulate*** the order of priority before any discretionary deduction may be processed. According to section 8.2 discretionary deductions can only be processed once the following mandatory deductions are processed:

(a) state deductions;
(b) statutory deductions; and
(c) collective agreement deductions.

Discretionary deductions can only be considered "provided that the payroll deduction limit is not exceeded". The 2015 draft MoF guidelines on Payroll Deductions Codes sets the limit as the greater of 35% of basic salary or the minimum post deduction salary "shall not be less than N$ 1,200 per month. However, these guidelines have not been formally adopted and the 2003 affordability rules are still effective, which prescribes "a minimum take-home pay per employee, which will be the higher of N$750.00 or (35% of (Basic Salary + Recurring Allowances))". The Guidelines also provide the Permanent Secretary discretion in reviewing this limit.

6.2. Payroll Deductions in Namibia

In Namibia, the Ministry of Finance is responsible for the granting of stop order deduction facilities to third party institutions for discretionary payroll deductions for government employees. These third-party institutions are awarded 'deductions codes' for a particular financial product, authorising access through a deduction line item within the government's payroll system. Simply put, a deduction code is a payroll deduction with a payment system arrangement similar to that of medical aid payments that are made via a payroll deduction.

Discretionary deductions via deduction codes are administered through the Payroll Deduction Management System (PDMS). The PDMS was implemented in 2003 and administered by APS as a real time system with the view of enhancing the efficiency of government's payroll and serving as a control measure on non-statutory or voluntary deductions. In other words, the PDMS facilitates certain discretionary third-party deductions from the salaries of government employees in Namibia. In addition, the PDMS also creates a centralised control function for government payroll and ensuring sufficient take-home salaries for government employees.

6.3. Payroll Deductions Management System

In practice the PDMS works as follows; MoF prepares the monthly payroll for all government employees and once completed, the payroll data is sent to APS, who, through the PDMS, maintains the central database of all monthly third-party voluntary deductions. On receipt of payroll data from MoF, APS processes the monthly discretionary deductions for all employees included in the pay-run. The deductions processed include:

- Insurance products (including long-term (life) insurance; short-term insurance; funeral cover; medical insurance; group life insurance; legal protection policies; etc.)
- Micro-lending products
- Educational loans
- Home loans (issued as part of the MoF Home Owners Scheme For Staff Members)
- Union subscription fees

Once processing through the PDMS is complete the output files (list of deductions and list of new net salaries) are sent to MoF. The list of deductions is imported into the payroll system and the new net salaries are then checked against the net salaries provided by APS.

Prior to the introduction of the PDMS, MoF was responsible for granting and processing third-party deductions, as stipulated in the State Finance Act and Treasury Instructions, on a processing system developed in the late 1970s. The outdated system lacked control measures to detect deductions that could result in over-commitments that ultimately led to zero salaries in some instances. The lack of control measures also meant that no affordability checks were conducted which would limit the number of transactions that would result in zero take-home salaries. Additionally, the rise in micro-lending increased demands on MoF to extend deduction facilities to a greater number of financial service providers. The limitations on the system proved unsustainable and necessitated the introduction of a new real time system to effectively handle deduction on the payroll (Anon, 2003). In addition to addressing specific issues around inefficiencies in the processing system, the PDMS also sought to improve control of the sources of deductions and detect possible exploitation of workers.

The uniqueness of the PDMS lies in its ability to provide, in real time, an automated and electronic interface between the government payroll and finance service providers, administering all discretionary deductions of government employees. In other words, the PDMS processes all applications for financial services of government employees by validating the serviceability of those services against existing net salary of the employees. This is an important feature of the PDMS, because it provides an embedded affordability assessment tool which pre-checks deduction before they are made to ensure compliance with rules set out by MoF, in order to ensure employees are left with sufficient take-home pay after all deductions. This also eliminates the zero or negative salary payments that were experienced in the past (Anon, 2007).

The centralised control feature of the PDMS also serves as an affordability check that guards against over-indebtedness. The affordability check can be performed live on the PDMS before any policy or loan is granted. Before a micro-loan or policy is approved, the employee's staff number and instalment amount are entered into the system, which them prompts the system to calculate whether the proposed new instalment is within the limitations set by the MoF. The affordability criteria follows the limits to payroll deduction outlined in the MoF's Guideline Document for Payroll Deduction Code, which states that the minimum post deduction salary at the end of the month should be the greater of 35% of basic salary or an amount of N$ 750 per month (MoF, 2003). If the post deduction take-home salary is less than this limitation the loan or policy and accompanying instalment cannot be loaded onto the PDMS.

The PDMS also has an embedded reservation functionality which allows for the reservation of proposed instalment payments due to insurance companies or microlenders after approval of a specific policy or loan. The reservation functionality reserves funds allocated to potential instalment deduction for a period of 45 calendar days for loans and 60 calendar days for other deductions. This reservation allows time for the institution to review and approve the financial product in question and should this period lapse the financial service provider is required to reapply for the deduction. The reservation functionality therefore provides a guarantee of instalment payment to financial services providers during the review and approval process.

6.4. Benefits of payroll deductions

Similar to the Brazilian experiment with payroll lending, the analysis suggests that the collateralisation of future earnings contributes to an increase in credit extension. In this regard, it is not implausible to speculate that payroll deductions have a strong positive aggregate impact on credit deepening. Suggesting that any regulations around payroll deductions should strengthens the collateral base of borrowers, which has a major impact on credit deepening. Consequently, the strengthening of collateral through payroll deductions also increases the ability of lenders to underwrite loans and by extension improve access to credit (Coelho, et al., 2010). Thus, from a policy and regulatory perspective, payroll lending is a relevant tool for financial market development.

6.5. Concerns pertaining to discretionary or voluntary payroll deductions

Given the ambiguity in the broad application of payroll deductions, there has unsurprisingly been contestation around appropriate regulatory frameworks. In their consultation paper on regulatory proposals on payroll deductions, the South African Reserve Bank (SARB) argued that the malleability in regulations relating to payroll deductions runs the risk of creating a 'closed-loop payment system' where 'preferential treatment' is given to 'payment instructions' deducted from the payroll system (SARB, 2018).

Although the SARB's concerns around preferential treatment of payment instructions on the payment is similar to sentiments held by BoN and the Payment Association of

Namibia (PAN), it is important to note that the Payment System Management Act 18 of 2003 allows for these types of payments **‘if’** prescribed by law. In other words, statutory and discretionary deductions, as prescribed by the Labour Act, which can be viewed as “payment arrangement”, are exempt from the rule against preferential treatment and thus not in contradiction of paragraph 8.1.1.0 of the Payment System Determination (PSD-7) under the Payment System Management Act.

This is an important distinction to make given the lack of clear regulatory frameworks for payroll deductions, apart from provisions under Section 12 of the Labour Act and the MoF Guidelines. This lack of regulatory guidance needs to be addressed in order to ensure the efficiency and integrity of payroll deduction systems and also ensure that the National Payment System is not compromised.

7. Observations

7.1 Increase in availability to credit has contributed to the rise in household indebtedness

The increase in the availability of credit has been one of the contributing factors to the rise in in household indebtedness, in addition to the supply-side factors such as demographic shifts, increases in property prices, especially in urban areas, and risk factors. Increasing cost of living, backgrounded against an increase in access to credit, has meant that households are increasingly supplementing their consumption expenditure with debt. However, while externalities have contributed to the rising levels of household indebtedness, consumer behaviour is the biggest contributor to indebtedness.

7.2. Microlending has been significant in expanding access to credit

Microlending has played a significant role in expanding access to credit and unlocking the productive capacity of people who had little access to financial services. The growth of the microlending sector in Namibia significantly contributed to the expansion in the provision of financial services, aiding the increasing levels of financial inclusion in the country.

7.3. Microlending Act of 2018 curtailed predatory lending practices

The fundamental shortcomings in regulations prior to the introduction of the Microlending Act of 2018 resulted in unscrupulous lending practices by many microlenders. In introducing tighter regulations and standards of market conduct and compliance for microlenders, the Microlending Act protects consumers from predatory lending practises by curtailing the unscrupulous practices persistent in the microlending industry. Specifically, the Microlending Act prohibits practices that are detrimental to borrowers, such as the signing of blank or incomplete documents, and prohibits collection method that retains “any bank cards or personal information such as pin codes or original identification documents”. It also outlines mechanisms designed to promote responsible lending and borrowing, by stipulating that no loans can be extend without an affordability assessment of the loan application clearly demonstrating the ability of the loan applicant to service the loan having regard to all his or her existing obligations. A function which is performed in addition to the payroll deduction limitations imposed by the MoF and the Labour Act.

7.4. Collateralisation of future earnings increases access to credit

The analysis suggests that the collateralisation of future earnings contributed to an increase in personal credit in Brazil. In this regard, it is not implausible to speculate that payroll lending has a strong positive aggregate impact on credit deepening. Suggesting that any regulations around payroll lending strengthens the collateral base of borrowers, which has a major impact on credit deepening. Consequently, the strengthening of collateral through payroll lending also increases the ability of lenders to underwrite loans and by extension improve access to credit (Coelho, et al., 2010).

7.5. Payroll deductions contribute to the process of capital accumulation

The stability, or predictability of future earning provides a valuable collateral against potential involuntary default. In other words, future earnings serve as guarantor for borrowings. This not only removes any incentive for potential default or overborrowing, but also opens up new credit markets for consumers who have limited to no access to credit from commercial banks, or do not meet their stringent lending requirements, a process that aids in the accumulation of capital.

7.6. Payroll deductions as a personal financial management tool

The predictability of deductions coming off the payroll provides users with the assurance that financial obligations and commitments will be timeously met, guarding against potential arrears. In addition, payroll deductions are a credible collateral instrument, particularly valuable in providing access to credit for those with limited to no access to credit otherwise.

7.7. Implication for future research

Although this study does not provide a quantitative analysis of the of the longer-term impact of payroll deductions on credit deepening and economic growth, given the paucity of empirical data, it provides the contextual scope for future research into the dynamics of payroll deductions in Namibia. There exists a need to quantify the impact of payroll deductions in Namibia on broader economic dynamics, especially in relation to demographic and geographical trends, which can be achieved through more rigorous analysis of more extended household datasets, particularly panel data.

8. Conclusion

Understanding the socio- and macro-economic stresses that Namibian households are facing as a result of access to credit, and their temporal dynamics is important in ensuring that policy intervention and recourse adequately and equitably contribute to the easing of those pressures. This study assessed these dynamics and provided an analysis of the role microlending and payroll deductions play in either smoothing or exacerbating household indebtedness. This study found that microlending plays a significant role in expanding access to credit and unlocking the productive capacity of people who had little access to financial services.

Moreover, the study also found that payroll deductions strengthens the collateral base of borrowers, which has a major impact on credit deepening. But while these two financial instruments improved the institutional environment that engendered financial deepening in Namibia, there exists a need to improve compliance standard to ensure that consumers are protected and not put at risk of unscrupulous and predatory lending practises. Although this study does not provide a quantitative analysis of the of the longer-term impact of payroll lending on credit deepening and the impact on economic growth, given the paucity of empirical data, the evidence presented does provide an overview of the contribution payroll deductions has had on the creation of a strong domestic credit market.

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List of interviewees

Name of interviewee	Institution	Date of interview
Saima Herman	Payments Association of Namibia (PAN)	19 June 2019; 19 September 2019
Gida Sekandi	Capricorn Group	19 June 2019
T.E. Afrikaner*	Ministry of Education	23 June 2019
L.L. Umati*		
I.S. Beukes*		
A Udigeng*		
E.E. Goagoses*		
Sean Penderis	Avril Payment Solution (Pty) Ltd	28 June 2019; 6 September 2019
Ryan Penderis		
Stephanie Quarmby	FirstRand Namibia	6 August 2019
Hilka Alberto	Namibia Financial Institutions Supervisory Authority (NAMFISA)	08 August 2019
Marvin Pendapala Daniels		
Andreas Ileka	Ministry of Finance	13 August 2019
Daniel Kavishe	First National Bank	13 August 2019
Leeba Fouche	Entrepo Finance	15 August 2019
Leonard Louw		
Candy Ngula	Bank of Namibia (BoN)	22 August 2019
Moudi Hangula		
Immanuel Elifas		

* Participated in focus group interview at A.I. Steenkamp Primary School, Katutura, Windhoek, Namibia.