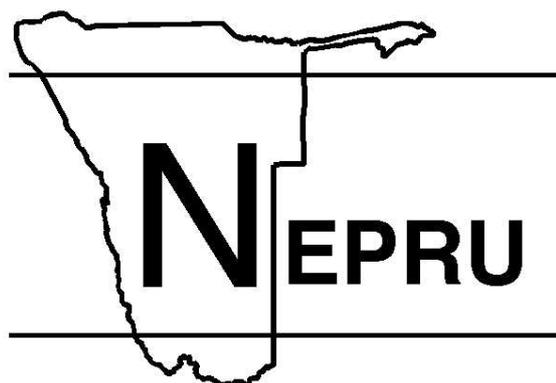


# **THE NAMIBIAN STOCK EXCHANGE AND DOMESTIC ASSET REQUIREMENTS: OPTIONS FOR THE FUTURE**



NEPRU Research Report No. 26, March 2004

In co-operation with the Institute for Public Policy Research





# The Namibian Stock Exchange and Domestic Asset Requirements: Options for the Future

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by Robin Sherbourne and Dr. Christoph Stork\*

\*Robin Sherbourne is director of the Institute for Public Policy Research (IPPR) and Dr. Christoph Stork is a senior researcher at the Namibian Economic Policy Research Unit (NEPRU).

# FOREWORD BY THE NSX

The NSX co-funded a study conducted by IPPR and NEPRU during 2002 to produce a document, which would serve as the basis for a discussion, by all stakeholders, in order to define the future strategy of the Stock Exchange. The findings and recommendations of the study would be those of its authors and were not to be interpreted as being that of the NSX.

A meeting of all major role players in the Namibian financial sector, including the General Manager of the JSE, was called for the 22nd of July 2003 in Windhoek, to discuss the study with the authors. At this meeting it was clear that differences of opinion existed between the authors and those persons having a direct interest and involvement in the Namibian financial sector. In fact, the broker community gave a presentation at the conference, which seriously challenged the validity of certain assumptions and findings in the study.

The big issue confronting the financial community and the Government of Namibia centres on the debate over the advantages and desirability of having dual-listed (mainly South African) stocks listed on the local stock exchange. The NSX has consistently taken the position that dual-listed shares benefit Namibian investors by providing greater choice, as well as benefiting the NSX by providing bigger volumes of business. They also represent an alternative listing method to foreign companies active in Namibia seeking to raise capital and should not be seen as a stumbling block to local listings. Investment in dual-listed shares has proved to have been more beneficial to investors than investment in primary listings.

The study devotes considerable attention to Regulation 28, which requires Namibian pension funds to invest 35% of their funds locally. The authors of the study conclude that the existence of this regulation has cost Namibian pensioners dearly and that they would have been better off without the regulation being in force. The NSX does not agree with the authors' view that non-participation in potentially higher returns of foreign markets represent financial loss to local pensioners, nor with the monetary estimates put forward to quantify this so-called loss.

In the light of the above the NSX refrains from either supporting or rejecting the study, but rather sees it as an attempt to open responsible discussion of complex matters which, in the long run, could assist in the formulation of financial policy, both for the NSX and for the Government of the Republic of Namibia.

# EXECUTIVE SUMMARY

This study examines the performance of the Namibian Stock Exchange (NSX) since its creation in 1992. It finds that the development of the NSX received a major boost after government imposed regulations on pension funds and life insurance companies requiring them to invest in Namibian assets, which included shares listed on the NSX.

However, the Namibian asset requirement did not achieve its main objective of sustainably diverting Namibian savings from South Africa and channelling them into productive investments in Namibia to promote economic growth and employment.

- A relatively small proportion of Namibian savings were diverted from South Africa to Namibia investments. Currently, approximately 5% of the 35% Namibian asset requirement are invested in Namibian primary listings or Namibian private equity. The rest is invested in cash, government bonds and dual-listed stocks.
- The NSX is an artificial stock market trading mostly in dual-listed shares. These dual-listed shares are mostly traded on the JSE and are only booked through the system of the NSX to comply with the Namibian asset requirement. This exercise has no economic value for Namibia.
- Neither investment in cash nor government bonds are contributing to higher growth and employment in Namibia. Excess funds for commercial banks cannot lead to lower interest rates, since Namibia's interest rates cannot deviate much from other members of the Common Monetary Area (CMA).

Furthermore, the NSX does not fulfil its economic role of channelling capital between investors and companies in need of capital. Namibian primary listings hardly ever trade and the market for primary listings is highly illiquid. The price discovery for primary listings does not function and the NSX raises very little capital for investments compared to loans granted by commercial banks.

At the same time, regulations have had the effect of raising costs and limiting the choices of Namibian asset managers. Regulations thereby lowered the return on the portfolios of Namibian contractual savers. Several approaches were chosen to estimate the costs of being restricted for 35% of contractual savers' portfolios. The estimates range from N\$235 million to N\$1 billion for the period 1997 to 2001 for Namibian pension funds only. The expected costs for all contractual savers are in the range of N\$90 to N\$360 million a year on an asset base of N\$22 billion. This will increase as the asset base increases over time.

Prudential requirements might have played a role in the introduction of the Namibian asset requirement. South Africa had its first democratic election in 1994 and the stability of the South African Economy was not secured. Now, however, South Africa is no less politically stable than Namibia, and there is no exchange rate risk. Furthermore, the economies of both countries are strongly integrated through the Southern African Customs Union and the CMA and are likely to integrate even further in the future. Investments within the CMA area can therefore be seen as domestic investments from a prudential point of view.

However, in principle, we see the NSX as a development tool that can provide an important range of financial services to Namibian firms:

- Equity finance allows the raising of capital without being forced to pay interest in bad times.
- The NSX could function as an exit mechanism for a venture capital fund.
- The NSX would be an ideal vehicle for privatisations.
- The NSX can provide equity finance for companies with capital requirements that are too small for a listing on the JSE.
- The NSX could facilitate the migration of smaller companies to stock exchanges around the world once they have reached critical mass.

Changes are required to enable the NSX to fulfil its economic role. This study presents several options to achieve this. The study also presents a pragmatic way forward which involves:

- Phasing in a new regulation consisting of a more targeted definition of what constitutes a Namibian asset and phasing out the Namibian asset status of dual-listed shares. The new “real” asset requirement would be phased in at reasonable levels (around 2% in the beginning) to limit the costs to contractual savers. The “real” Namibian asset requirement would aim to promote growth and employment and is unlikely to produce sufficient turnover to enable the NSX to exist independently from external funding.
- Designing a new mechanism to finance the NSX. One way would be to finance the NSX through levies that are raised by NAMFISA.
- Reinforcing the Namibian service provider regulation to maintain a Namibian asset management and broking industry. A Namibian asset management industry would be required for prudential requirements. An active Namibian broking industry helps identify profitable Namibian investments that would be overlooked by international investors.

There is little certainty that such an approach could succeed in creating an active stock exchange. Much will depend on the success of initiatives such as the new Development Bank and venture capital fund and especially the overall economic policies of the government which lie beyond the direct control of the NSX and its surrounding industry.



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# 1 INTRODUCTION



The Namibian Stock Exchange (NSX) was established in 1992. In 1994 the government brought in regulations forcing pension and life insurance funds to invest 35% of their assets in so-called Namibian assets which included shares listed on the NSX. These domestic asset requirements gave a considerable boost to the NSX and for a while the NSX grew rapidly. However, towards the end of the decade this growth began to tail off. New Namibian listings failed to materialise, local share prices fell and liquidity in local shares dried up.

Early in 2002, following extensive consultation with a range of stakeholders in the industry, the NSX approached the Institute for Public Policy Research (IPPR) and the Namibian Economic Policy Research Unit (NEPRU) to carry out a study on its behalf. The study was to have two main aims: to identify the main causes of the problems faced by the NSX and to lay out options to overcome these problems. Commendably, no limitations were placed on the options the study could consider (no “holy cows”). Furthermore, the study was to be a public document financed through voluntary contributions from stakeholders and the two research institutes themselves.

Work on the study, including data collection and analysis as well as in-depth interviews with stakeholders, was carried out between June and August 2002. The first draft was completed and presented to the NSX in September 2002. Following a stakeholders’ conference organised by the NSX to discuss the draft report in July 2003, the final report was published in October 2003.

The study starts with an analysis of the NSX and its surrounding industry. It goes on to examine the costs and benefits of the domestic asset requirement. The experience of stock exchanges around the world are then analysed with particular emphasis on exchanges in small economies. Fifteen conclusions are drawn from these three sections which we believe are important in weighing up the options which are presented in the following section. We have attempted to include as many options as possible. These emerged from discussions with stakeholders as well as from our own thinking. We then group these options into three distinct strategies, each of which is based on a consistent guiding philosophy. During

the process of consultation and discussion leading up to the final report, we expressly held back from expressing our preferences for particular options or strategies since we did not wish to confine discussions at too early a stage. However, in this final report we do put forward a recommendation based on what we believe to be a blend of economic thinking and pragmatic realism.

We hope this study will contribute to a better understanding of the problems inherent in developing a stock exchange under the very special conditions that prevail in Namibia. Namibia is a small economy closely linked to a much larger one with an already well-developed stock exchange. Namibia's largest companies are generally either state-owned or foreign multinationals while government accounts for a large proportion of overall value added and investment. Furthermore, economic policy has not yet succeeded in fostering start-ups and small business growth which could do so much to make the NSX a useful source of capital.

## 2 BACKGROUND

Namibia has a very high level of contractual savings

The Namibian economy generates significant savings through individuals and employers paying regular contributions into pension and life insurance policies; so-called contractual savings. Namibia's ratio of pension assets to GDP in 2001 was an estimated 60% (approximately N\$16 billion compared to a GDP of N\$27 billion). As Figure 1 shows, this is high by international standards. A further N\$6 billion of life insurance, short-term insurance, unit trusts and other funds is thought to be under management. This amounts to some 80% of GDP.

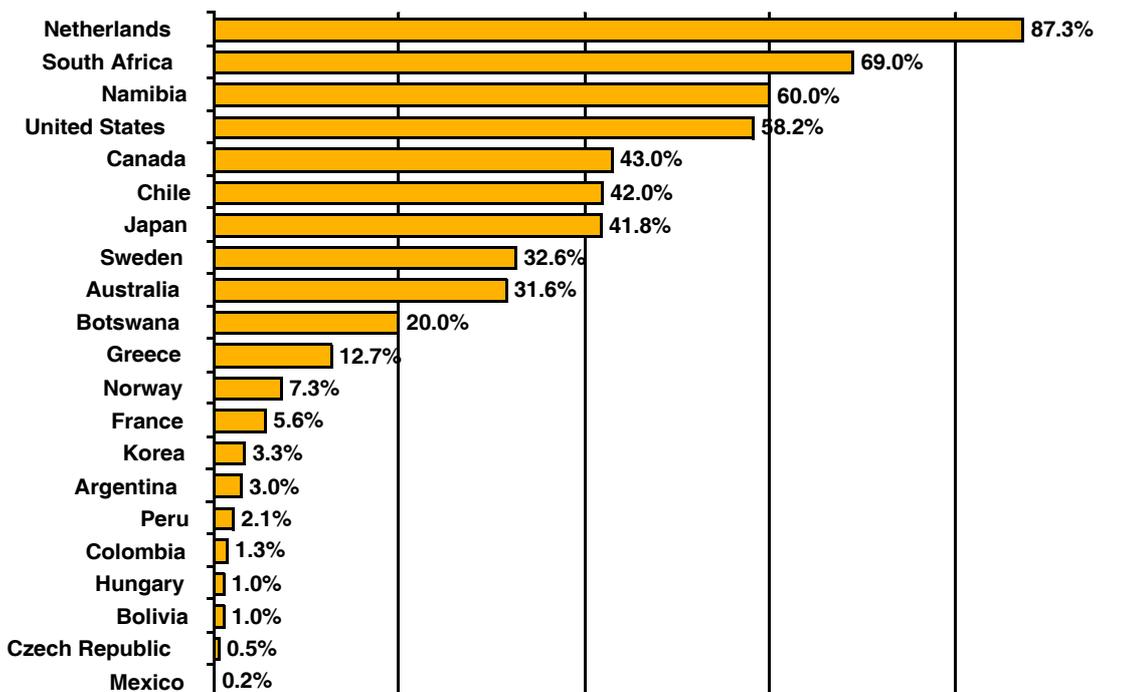
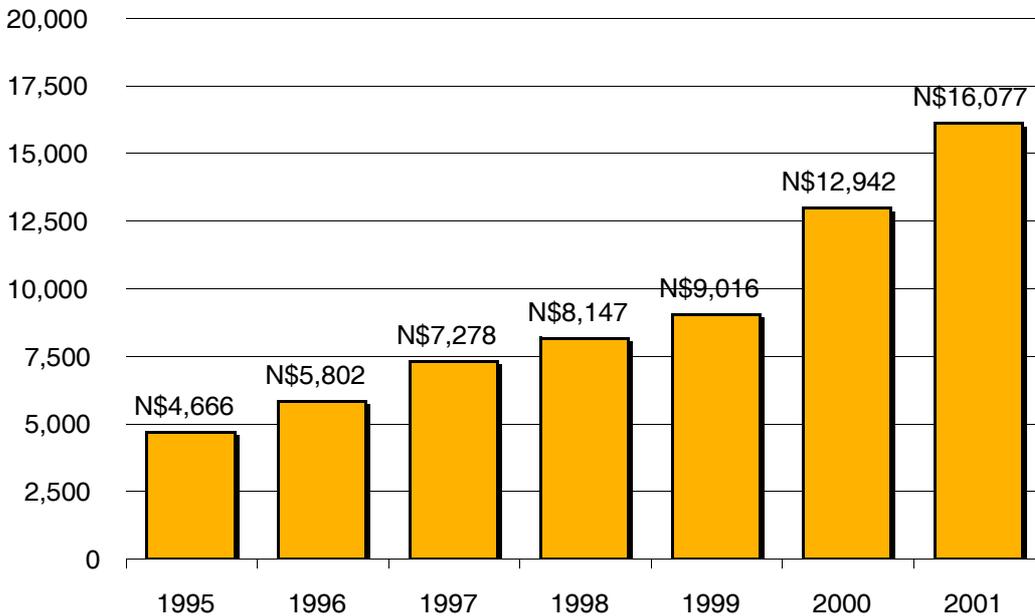


Figure 1 Pension assets as % of GDP (Sources: World Bank 2000, Ministry of Finance and Development Planning in Botswana, South African Reserve Bank and authors' estimates)

These savings used to be managed and invested in South Africa

Prior to 1994 Namibia's contractual savings were managed by asset management companies in South Africa. These savings were invested in shares listed on the Johannesburg Stock Exchange, South African government and corporate bonds, property, bank deposits in South Africa and a very limited number of assets outside South Africa. These investments produced returns which flowed

back to Namibian pensioners and life insurance policy holders and gave rise to considerable domestic demand for goods and services.



**Figure 2 Namibian pension assets in N\$million (Source: NAMFISA and Alexander Forbes, 1998 interpolated)**

**Government introduced regulations to force more of these savings into the Namibian economy**

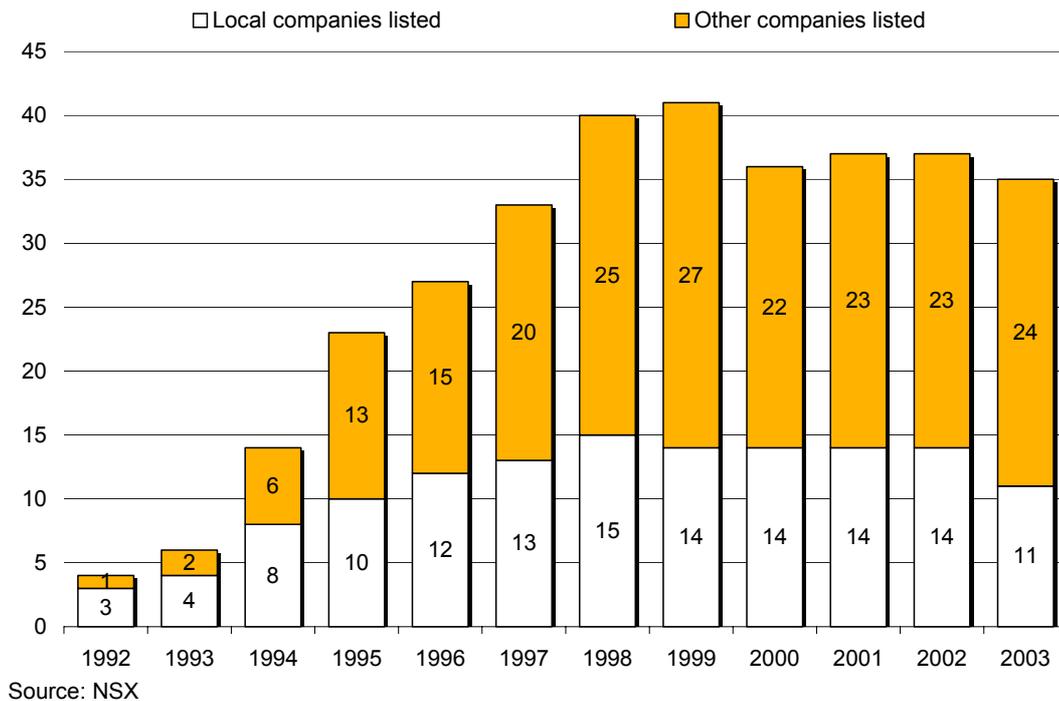
In 1994 the Government of Namibia brought in regulations under the Pension Funds Act of 1956, the aim of which was to channel some of these contractual savings into investments in Namibia. The amended Regulation 28 of the Pension Funds Act of 1956 obliged these funds to increase the proportion of the Namibian assets they invested in from 10% on 30 June 1994 to 35% by 30 June 1995.<sup>1</sup> These domestic asset requirements also stipulated that shares listed on the Namibian Stock Exchange (NSX), including those of companies incorporated outside Namibia, could be regarded as Namibian assets if they were acquired on the NSX. The NSX had already been established in 1992 with the passing of the Namibian Stock Exchange Act (Act No. 26 of 1992). By the time domestic asset requirements were phased in, a total of four Namibian companies had listed. Two South African companies had also dual-listed their shares on the nascent NSX.

**These regulations stimulated growth in the NSX**

The introduction of domestic asset requirements greatly accelerated the development of the NSX, as shown in Figures 3 and 4. Significant increases took place in the number of local companies

1. Other legislation, such as the Long-term and Short-term Insurance Acts and the Unit Trust Act, also contain provisions for regulations to limit investments outside Namibia.

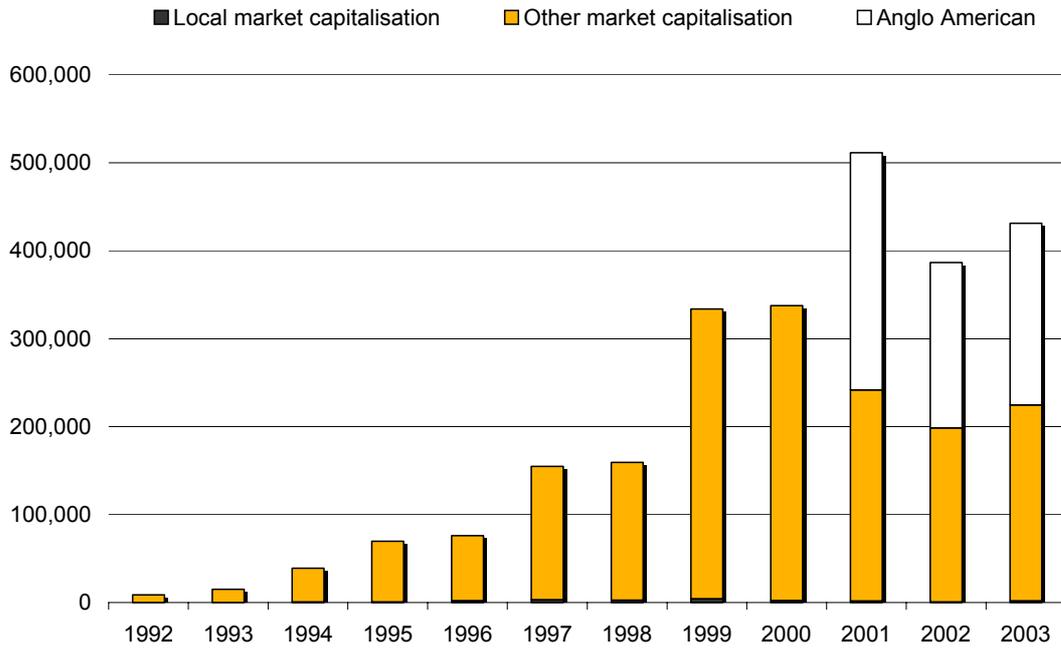
listed, the number of South African companies dual-listed, the total market capitalisation, the number of deals and the volume and value of trade. Government bonds and a limited number of corporate bonds are also now listed on the NSX. The value of capital raised through the issuing of shares and bonds listed on the NSX has been significant.



**Figure 3 Number of listed companies on the NSX (Source: NSX). Two local companies presently being suspended.**

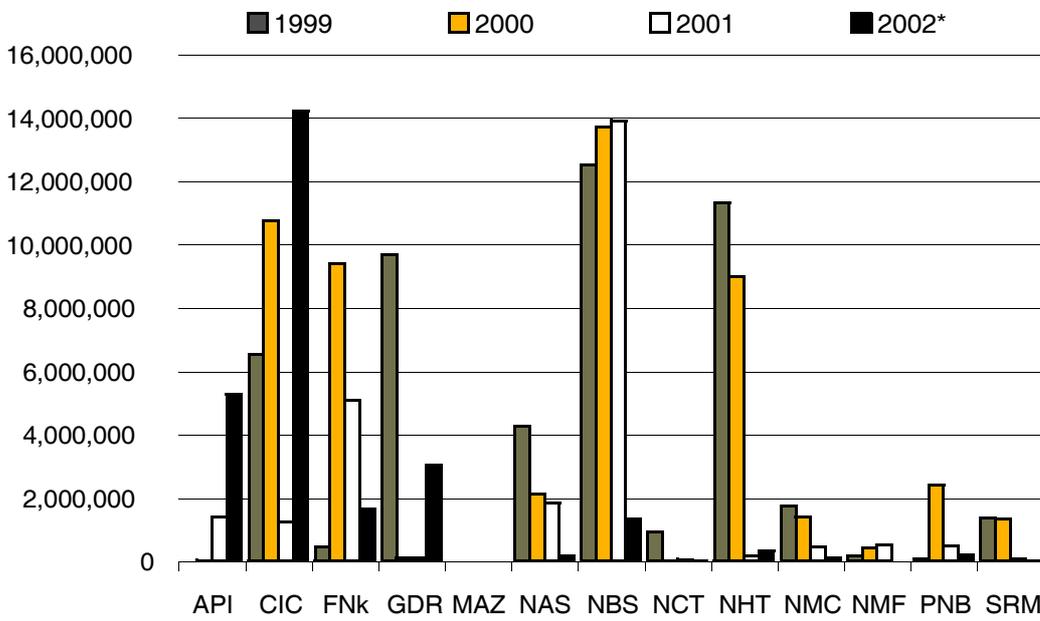
**This growth has tailed off and problems are becoming apparent**

However, problems have become apparent during recent years. Namibian companies are not listing on the NSX, despite a relaxation of listing requirements and the introduction in 1998 of a “development board” for companies without a profit history. Oryx Properties has been the only new local listing since Gendor in November 1998, although four companies (Namsalt, Diamond Fields International, Afhold, and Aussenkehr Grape Farm) have received ‘in principle’ approval for listing since. Although some listed companies have raised capital by issuing more shares on the NSX, the magnitude of capital-raising through new share issues has declined.

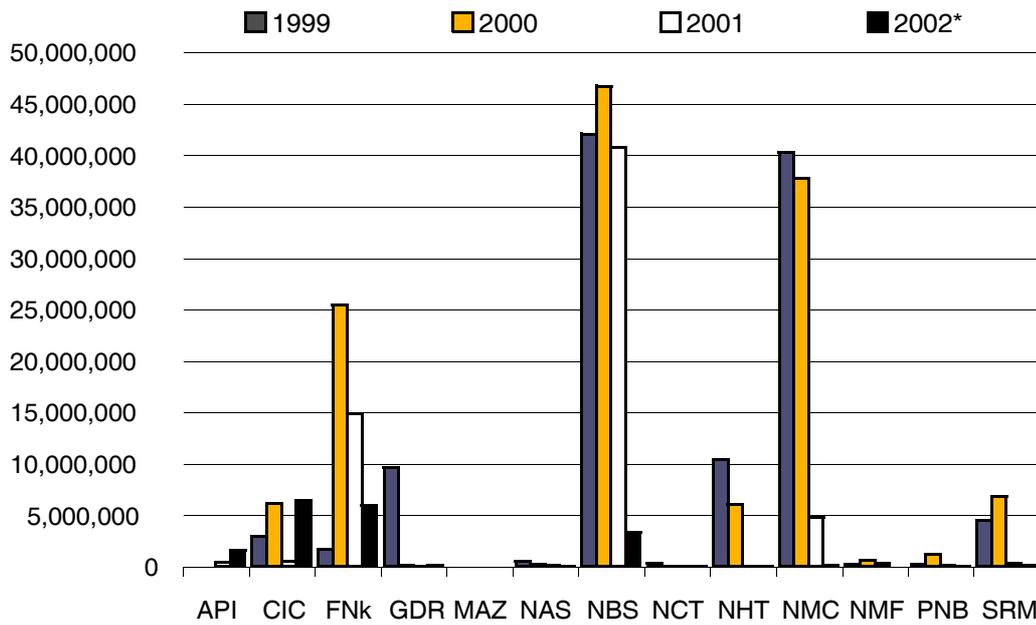


Source: NSX

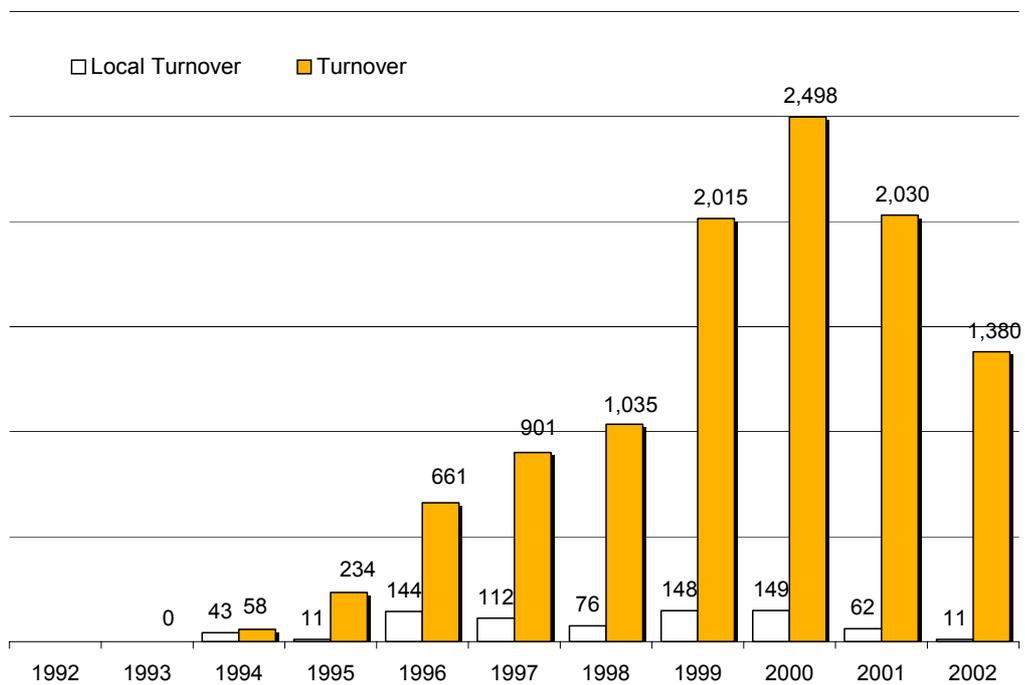
**Figure 4 Year end market capitalisation of local and other companies in N\$million (2003 using value of October 2003)**



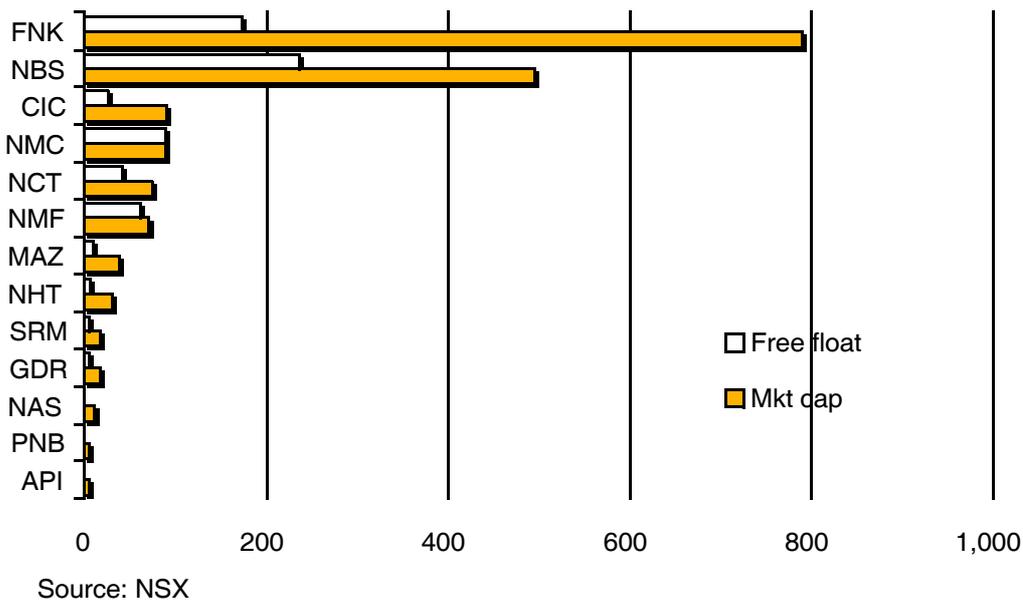
**Figure 5 Volume traded of local stocks (source: NSX, \*figures for 2002 are anualized)**



**Figure 6 Traded Value in N\$ of local stocks (source: NSX\*, figures for 2002 are annualized)**



**Figure 7 NSX turnover in N\$million**



**Figure 8 Market capitalisation and free float in N\$million on 24 June 2002**

**Listings of local subsidiaries and black empowerment companies have been limited**

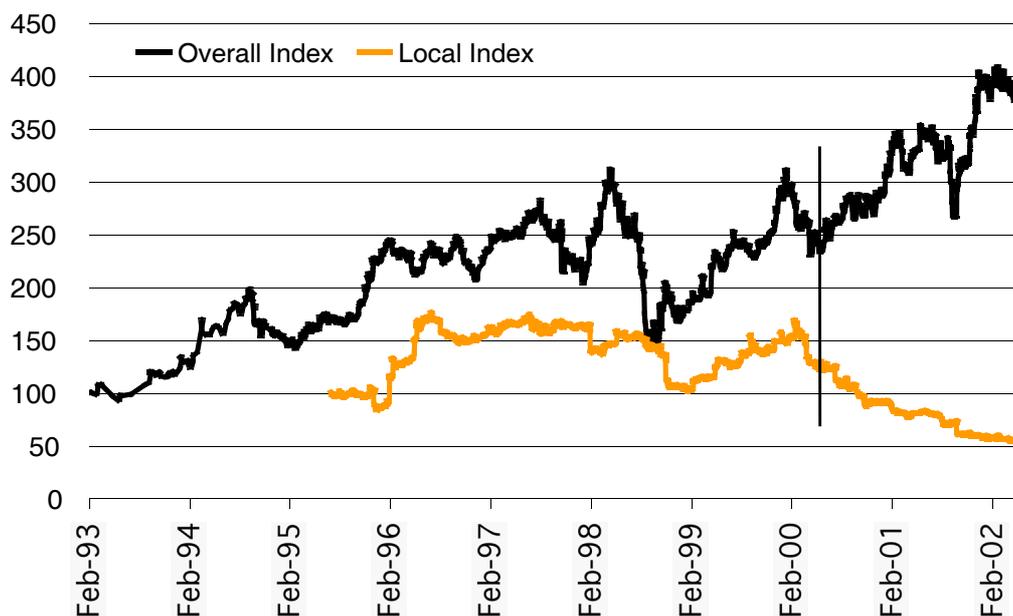
Only two South African companies have chosen to list their Namibian operations separately – First National Bank of Namibia (78% of which is held by the FirstRand group) and Goldfields Namibia (part of Goldfields South Africa). However, the latter de-listed in 1999 following the closure of the TCL mines. Only one black empowerment company has listed on the NSX. Namibian Harvest is partly owned by African Harvest of South Africa. It raised N\$200 million in 1998 to invest in smaller ventures but handed back two-thirds of this money in 2001 for lack of investment opportunities.

**The choice of real local investments on the NSX is extremely limited**

The free float of local companies is generally small when compared to dual-listed companies and investible assets. Gendor and Sentra and Metje & Ziegler have de-listed, whilst Namco and API have been suspended, further reducing the number of local companies on the NSX. In practice the overwhelming view of asset managers is that only two local companies (Namibia Breweries and FNB Namibia) can be considered as sufficiently large and liquid enough to merit attention as serious investments.

**The performance of most local listed companies has been poor**

With certain notable exceptions, the performance of local companies has generally been poor, as is shown in Table 23 in the Appendix. At least seven local company shares have declined in price to below where they listed. Local company p/e ratios have fallen to all-time lows, further discouraging the entry of new companies.<sup>2</sup>



**Figure 9 NSX Overall and Local Index**

The NSX local index de-linked from the JSE and other market developments in 2000.

The NSX Overall Index has mirrored the JSE ALSI because 90% of the total market capitalisation of the NSX is made up of six dual-listed companies: Anglo American (which makes up over 50%), and five financial companies (FirstRand, Investec, Standard Bank, Old Mutual and Sanlam) a further 40%. These companies are important blue-chip companies on the JSE where they make up approximately 22% of the total market capitalisation. However, Figure 9 shows that the NSX Local Index, which tracks the prices of local companies, has declined steadily since 2000. Figure 10 shows how liquidity in local shares has declined since 2000 and all but dried up in 2002.

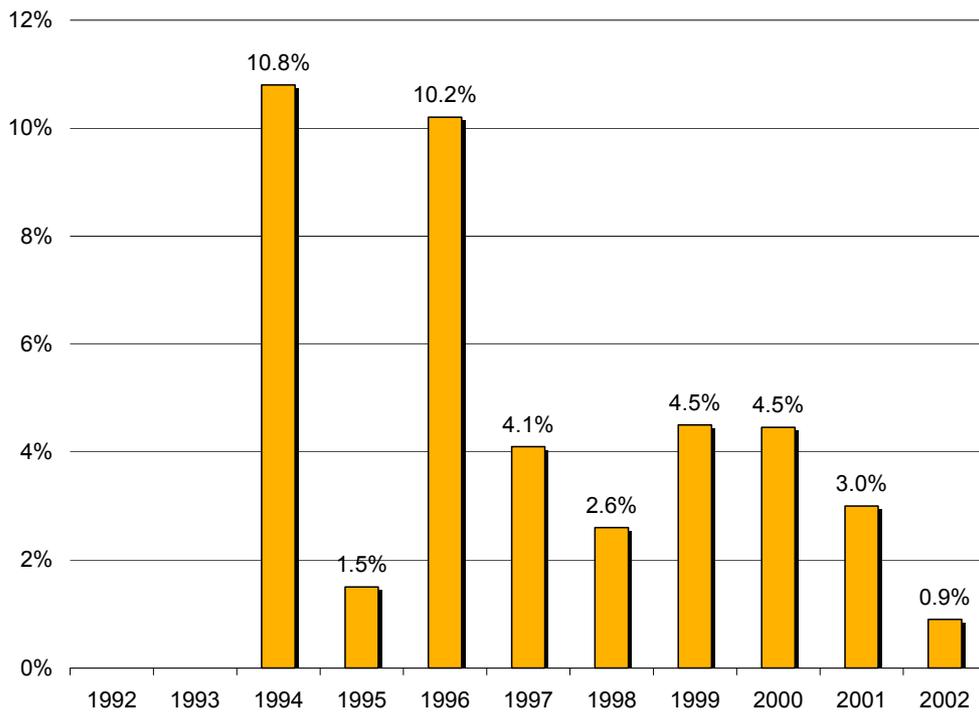
Bonds are becoming more important

Government and corporate bonds are also listed on the NSX. Figure 11 shows that trading in bonds has been limited but has picked up in 2002.

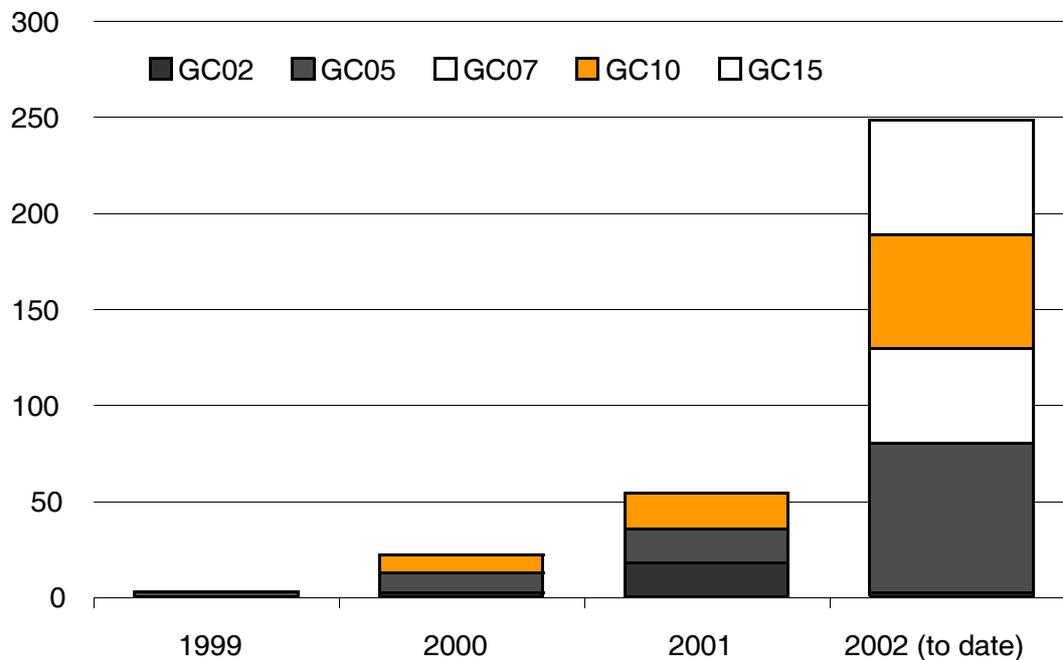
Individuals prefer to trade directly on the JSE rather than on the NSX

Although individuals continue to hold local company shares, they are only responsible for a small fraction of the trading volume in local shares. Individuals in Namibia can invest online directly on the JSE and do not have to buy dual-listed companies via the NSX. Anecdotal evidence from our interviews suggests that there are several hundred individuals in Namibia who regularly trade shares on the JSE.

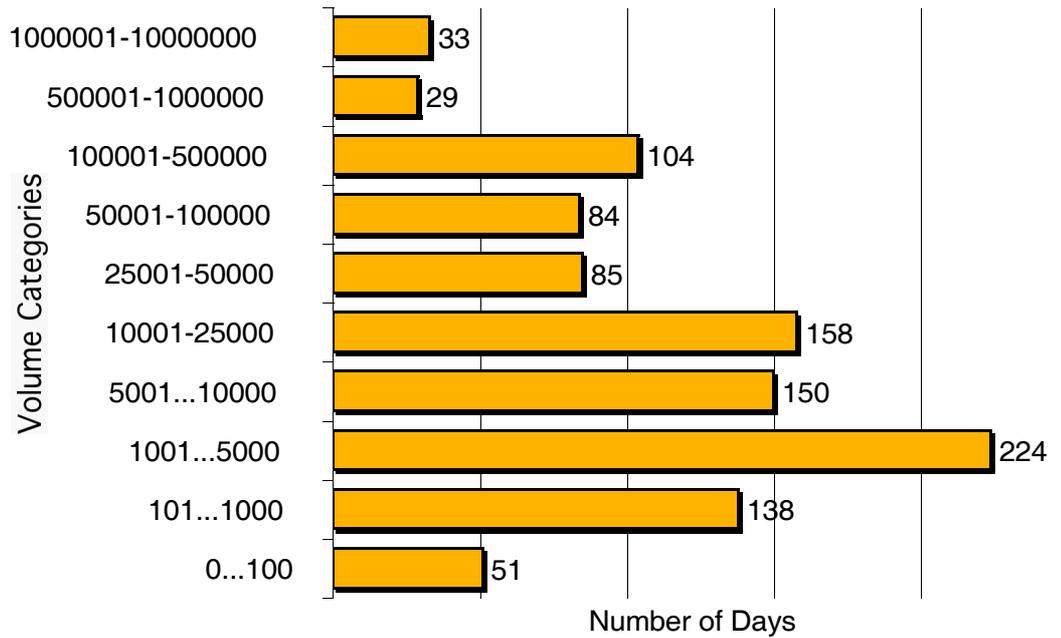
2. More details are provided in the appendix in the section “Local Companies on the NSX” on page -130.



**Figure 10 NSX, local turnover ratios in % (2002 own calculation)**



**Figure 11 Trading in bonds reported to the NSX in N\$ million (Source: IJG)**



**Figure 12 Days with deals for local stocks in the period 01/01/1999 to 31/05/2002**

**The asset management industry has grown**

Regulations (Circular No.5 of the Stock Exchanges Control Act 1985) also led to the creation of an asset management industry in Namibia, since Namibian pension and life insurance funds are obliged to use Namibian registered asset management companies to manage their assets. These are regulated by the newly-created Namibia Financial Institutions Supervisory Authority (NAMFISA - previously the Directorate of Financial Institutions Supervision in the Ministry of Finance). There are presently 20 asset management companies in Namibia registered in terms of Section 4 (1) of the Stock Exchanges Control Act of 1985. All these asset management companies are completely or partly owned by larger foreign asset management companies, mainly from South Africa. The prime motive for establishing an operation in Namibia is to manage assets from the Government Institutions Pension Fund (GIPF), which is by

far the largest single source of pension assets in Namibia (see Figure 13).

**Table 1 Registered asset management companies in Namibia**

Asset Management Companies (in 2002 managing GIPF assets)
Old Mutual Asset Management Namibia*
Sanlam Investment Management Namibia*
Allan Gray Namibia*
Prudential Portfolio Managers Namibia*
Metropolitan Life Namibia
Namibia Asset Management*
NIB Namibia
Standard Corporate and Merchant Bank (Namibia)*
Investec Asset Management Namibia*
Fedsure Asset Management Namibia
Fleming Asset Management Namibia
Alliance Capital Management (Namibia)
Namlife Asset Management
Sovereign Asset Management*
Namibian Harvest Development Funds Management
FFO Securities Namibia
MacArthur & Baker International
Bank Windhoek
Investment Solutions (Namibia)

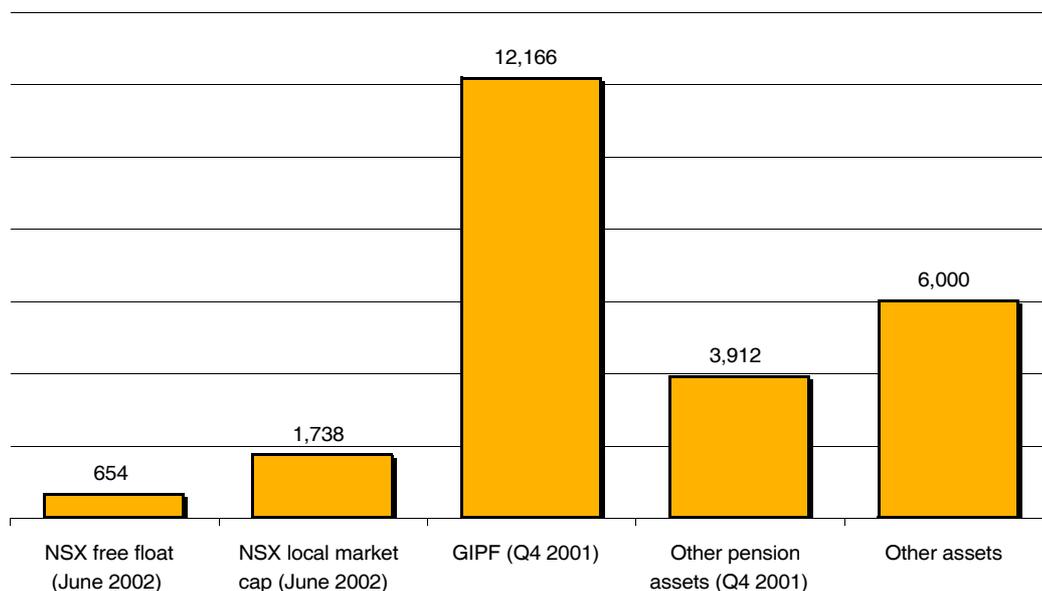
Asset management companies in Namibia differ in their approach to Namibianisation. Our interviews show that some believe it is best to carry out as much of their asset management operations in Namibia as possible. Others believe it is better to carry out as much as possible elsewhere. Although Namibia Asset Management and Alliance have offices in Windhoek, their Namibian asset managers are based in Cape Town, home of the South African asset management industry.

Regulations are being fully adhered to

For regulatory purposes asset managers are obliged to divide their pension and life insurance portfolios into a Namibian portfolio (35%) and a non-Namibian portfolio (65%, of which up to 15% can be invested outside the CMA). At present the limit on the amount asset managers can invest outside the CMA is 15%. The portfolios of Namibian asset managers suggest that the 35% restriction is being adhered to in terms of the assets held (see Figure 15 on page -18). However, currently less than 5% of the 35% Namibian portfolios consist of primary listings or private equity.

Asset managers rarely trade local stock

Asset managers, rather than individuals, are responsible for most of the trade on the NSX. However, they rarely trade local stock. We understand from our interviews that large trades in local stock tend



**Figure 13 Assets compared in N\$million (source: NSX, Alexander Forbes, authors' estimates)**

to take place when assets are transferred between asset managers rather than asset managers trading their portfolios.

### There is now a Namibian stock broking industry

The development of the NSX and the asset management industry has led to the growth of a Namibian stock broking industry from just one broker in 1992 to the present five. Each broker is either part of or has links with a larger international company. One broker has a profit sharing arrangement with four large foreign broking firms.

The development of the Namibian broking industry has been underpinned by a ministerial directive (Circular No.5 of the Stock Exchanges Control Act 1985). Namibian asset managers are obliged to buy and sell all the shares in their portfolios through Namibian registered stockbrokers. The broking fees charged by Namibian brokers for buying and selling shares listed on the NSX follow a sliding scale determined by the NSX shown in Table 3. The broking fees charged for trading shares on the JSE are subject to negotiation between the asset manager and whichever South African broker is being used. Trade on the JSE by Namibian asset managers generates income for Namibian brokers according to individual agreements negotiated between Namibian brokers and their South African counterparts. Brokers derive an important part of their income from the broking fees they charge on trading shares. The estimated

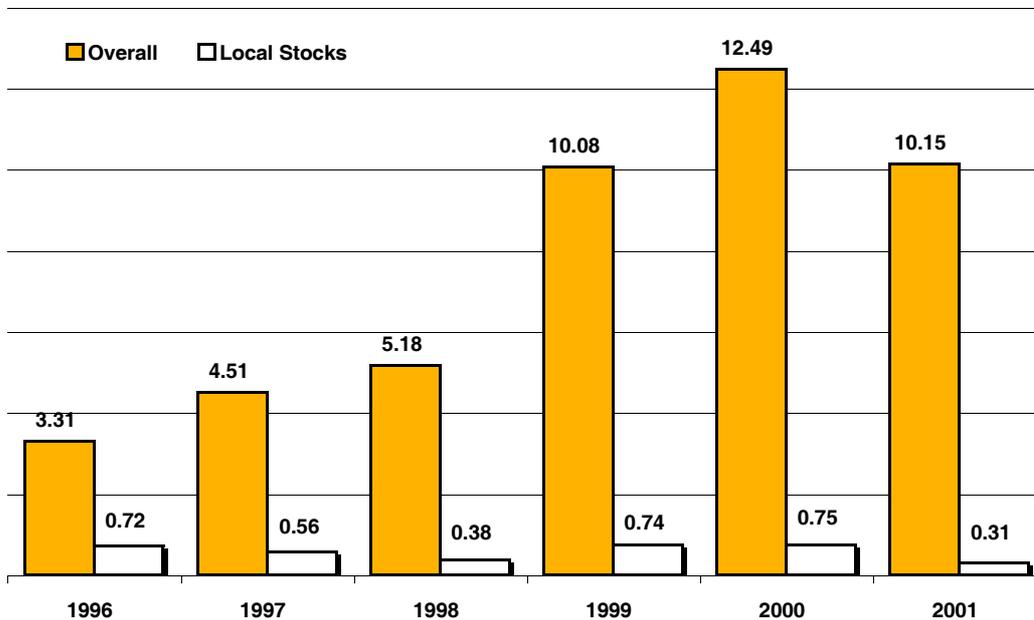
income from broking fees was around N\$10 million in 2001 (see Figure 14).

**Table 2 Namibian stock brokers**

Broker	Activities	Status
HSBC	Broking, Money market	Part of HSBC South Africa
Investment House Namibia	Broking, Retail Broking, Money market	Independent with profit sharing agreement with PSG
IJG	Broking, Retail Broking, Money market, Private equity	Independent with profit sharing agreement with Deutsche Bank in South Africa
Simonis Storm/Lexus	Broking, Money market	Independent with profit sharing agreements with four brokers in South Africa
Namibia Equity Brokers	Broking, Money market	Independent with links to Nedcor/BOE South Africa

**Table 3 Broking fees on the NSX**

Shares		Bonds		Listings	
<N\$10,000	1.00%	<N\$100,000	0.07%	Main Board Listing	N\$15,000
<N\$20,000	0.85%	N\$100,000-1,000,000	0.05%	Dual Listing	N\$7,500
<N\$100,000	0.65%	>N\$1,000,000	0.03%	Loan Stock Listing	N\$500
<N\$500,000	0.55%			Corporate Bond Listing	N\$1,000
<N\$5,000,000	0.40%				
>N\$5,000,000	0.35%				



**Figure 14 Estimated broking income in N\$million based on 0.5% commission**

**Broking services to individuals are limited**

Following the sale of HSBC's private client book to Investment House Namibia, only one Namibian broker now provides a full service to private individuals while the rest service the asset management industry. IJG and BoE provide a limited private client

service. Brokers supplement this with income derived from acting as sponsoring brokers to companies listing on the NSX and increasingly from other activities they undertake such as money market operations and private equity funds.

It is difficult to assess whether brokers are being rewarded for good performance

In theory asset managers are supposed to reward brokers for good service by placing orders through them. However, some asset managers have a policy of trying to use all brokers. Performance is measured by the research brokers produce on Namibian companies, the quality of their back offices, and their ability to broker favourable deals. In practice, it is difficult for outsiders to judge whether performance is actually being effectively monitored. It is clear, however, that not all local brokers produce regular high quality research on local companies, local investment opportunities or the local economy.

The cost of trading on the NSX is high relative to the price and quantities of shares traded and the number of individuals able to buy and sell shares. One broker estimated that the minimum cost of a trade is now over N\$200.

Namibia now has an industry which it did not have before

In summary, government regulations have helped create a Namibian stock exchange and a surrounding industry of brokers and asset managers where there was nothing before. This was accomplished on the assumption that Namibian contractual savings could usefully be channelled into productive investments in Namibia via a stock exchange. Domestic asset requirements helped give the push needed to encourage local companies to list on the NSX.

This industry has not yet succeeded in boosting growth

Giving dual-listed companies Namibian asset status increased the amount of trade on the exchange allowing it to sustain and develop both itself and the Namibian broking industry. However, at the same time broadening Namibian asset status reduced the pressure on asset managers to invest in local companies. As the performance of many local companies faltered, the goodwill and excitement of the early years disappeared. The Namibian portions of the portfolios of Namibian asset managers now consist overwhelmingly of dual-listed shares, Namibian government bonds and cash. Little of Namibia's contractual savings is being channelled into private companies and thus the main aim of the Namibian asset requirement has not been achieved. The question is whether this can be rectified without far-reaching reforms.



## 3 COSTS AND BENEFITS

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This chapter deals with the costs and benefits of the Namibian asset requirement. The impact on the flow of contractual savings, money raised on the NSX, returns on contractual savings and costs of capital are analysed. First, attention will be given to the asset allocation of Namibian pension funds. Then, capital raised on the NSX is discussed. Potential benefits are looked into by analysing whether the Namibian asset requirement led to more investments and economic growth through reducing the cost of capital. The last section attempts to estimate the costs the Namibian asset requirement had for contractual savers.

### PORTFOLIO ALLOCATION

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This section looks into the asset allocation of pension fund portfolios. Data from Alexander Forbes concerning the asset allocation for the combined discretionary mandates suggest that the 35% restriction is being adhered to in terms of the assets held (see Figure 15). However, large quantities of dual-listed shares are purchased on the JSE rather than the NSX and simply “booked over” onto the NSX. It is not clear what proportion of dual-listed shares are purchased in this way. However, what is clear is that asset managers do not choose to exceed the regulatory threshold. Figure 16 shows that only around 10% of pension fund assets can be classified as true Namibian assets if dual-listed shares and cash placed on deposit at Namibian banks are excluded from these portfolios (approximately 25% government bonds and 5% primary listings out of the 35% Namibian asset requirement<sup>3</sup>). Currently less than 5% of the 35% Namibian portfolios consist of local company equity.

Namibian pension fund managers have not yet included unlisted equity in their portfolios even though Regulation 28 allows them to invest up to 5% of their assets in unlisted companies.

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3. i.e. approximately 30% of 35% or 10.5%.

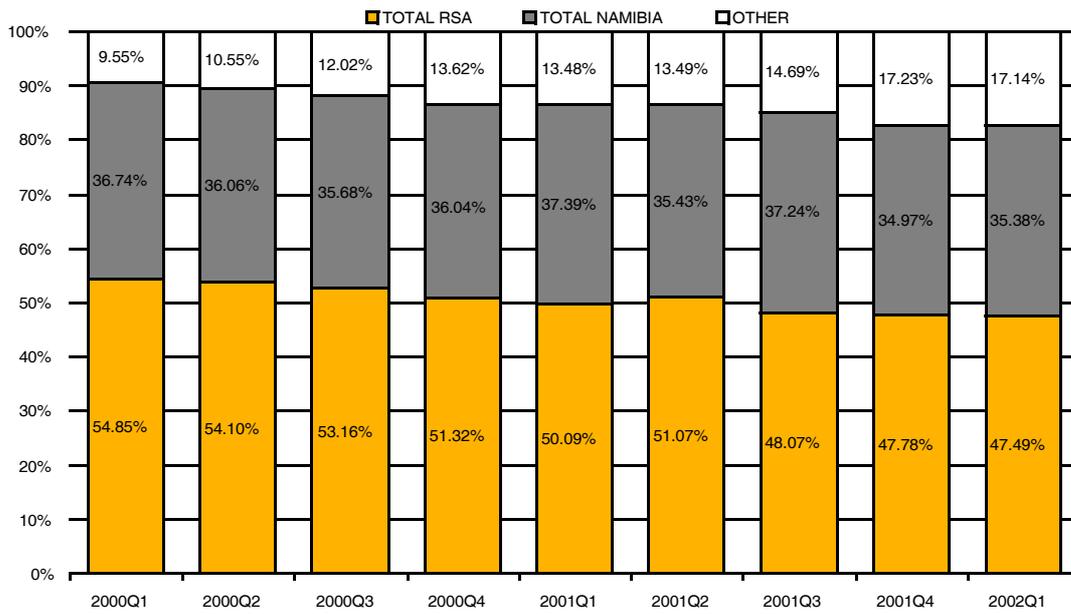


Figure 15 Average asset allocation of Namibian fund managers in % (Source: Alexander Forbes)

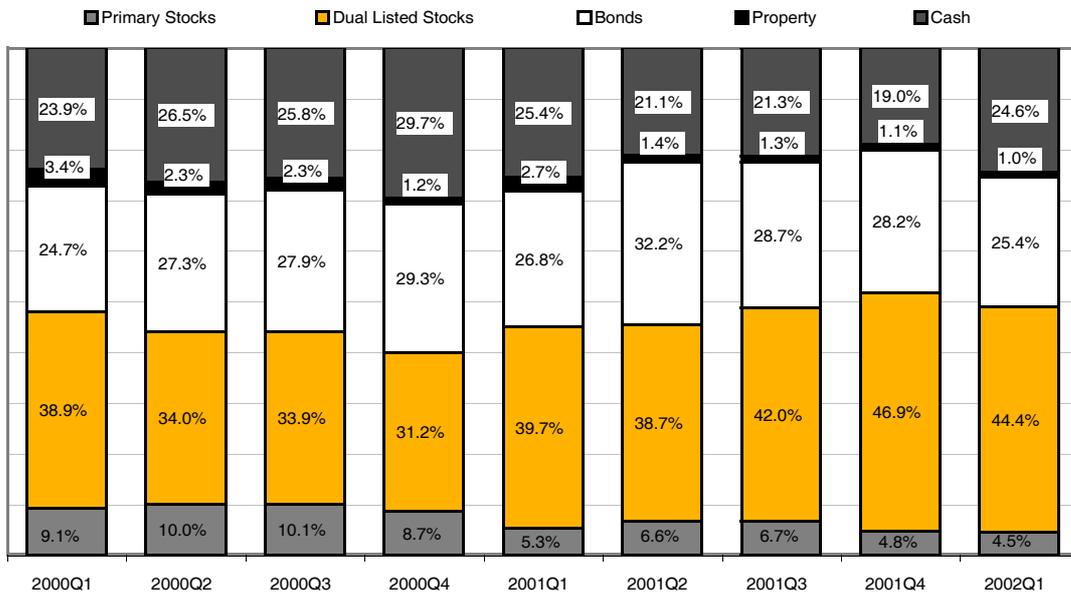


Figure 16 Average asset allocation of the Namibian portfolio of Namibian fund managers from Q1 2000 to Q1 2002 (Source: Alexander Forbes)



**Figure 17 Share of (economic) growth relevant Namibian assets of Namibian pension funds (Source Alexander Forbes)**

**The Namibian asset requirement has failed to channel savings in productive investments.**

Looking at the type of investment that would help to achieve the objectives of the Namibian asset requirement paints a bleak picture. Only investments in primary listing or property contribute directly to economic growth and more employment.<sup>4</sup> Figure 17 shows that for the first quarter of 2002 only about 2% of Namibian pension fund assets were invested in primary listings or property.

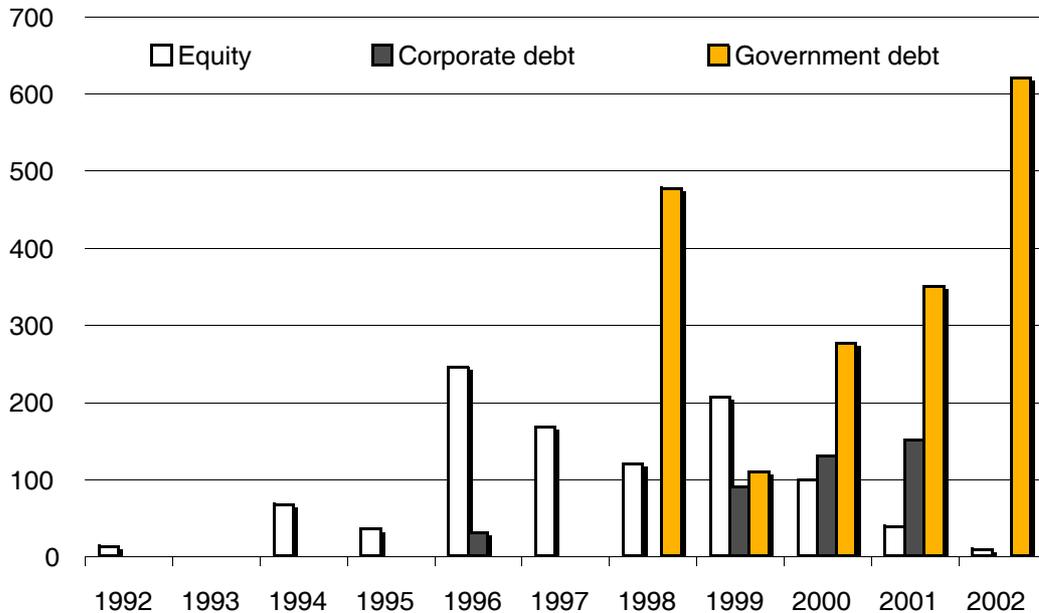
The Namibian asset requirement has thus failed to channel contractual savings in productive Namibian investments.

## CAPITAL RAISED ON THE NSX

The amount of capital raised for primary listings in Figure 18 indicates a significant boost through the Namibian asset requirement. However the chart also shows a decline of capital raised since 1999. One argument that could explain the decline is the international bear market since 2002. A bear market shifts generally the focus of investors, and therefore also of companies that seek to raise funds, from stock to bond markets. However, looking at the

4. Cash deposits cannot lower interest rates as seen in the previous section and government bonds only indirectly lead to higher growth and only under certain conditions.

percentage of money raised at the NSX for primary listings relative to credits extended to business by financial intermediaries displays a different picture. Figure 19 clearly demonstrates the declining significance of the NSX with respect to financing investment in Namibia.



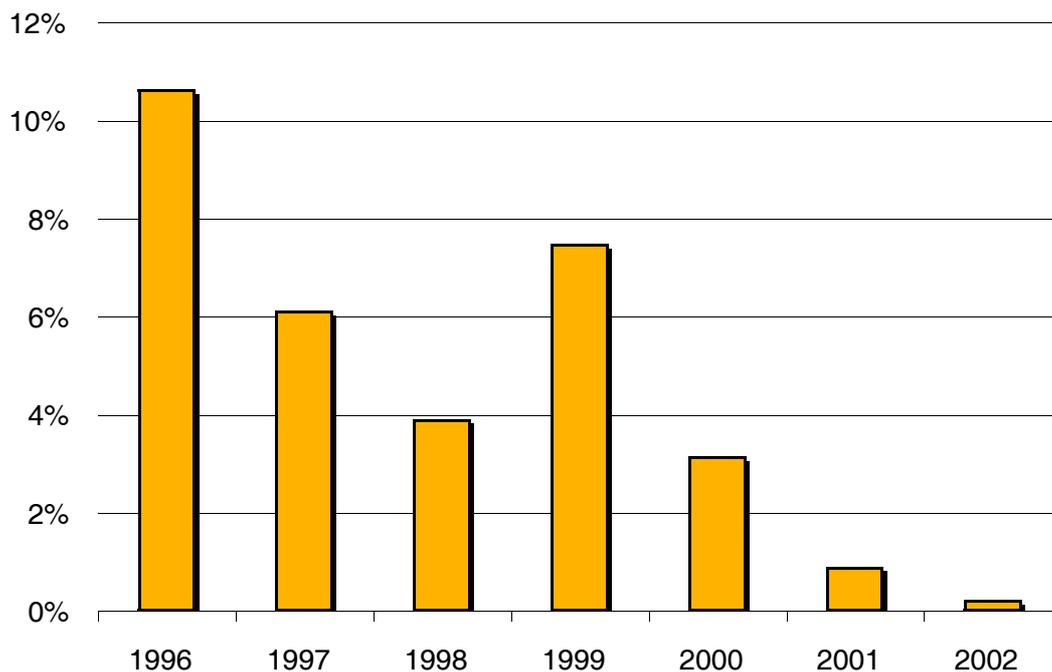
**Figure 18 Equity and debt raised on the NSX in N\$million**

The NSX lost significance with respect to financing investments in Namibia. Only about 2% of Namibian pension fund assets were invested in primary listings or property, i.e. investments that directly contribute to economic growth and employment.

## COST OF CAPITAL

The main aim of the Namibian asset requirement was to promote investment and growth in Namibia by keeping Namibian savings in the country. An increase in private investment could have been brought about by reducing the cost of capital.<sup>5</sup> Principally, there are two different sources of finance: equity finance and capital finance. Equity finance refers to money raised by issuing shares on a stock exchange. Capital finance refers to raising money through financial intermediaries such as commercial banks.

5. i.e. in a situation of political and economical stability such as in Namibia.



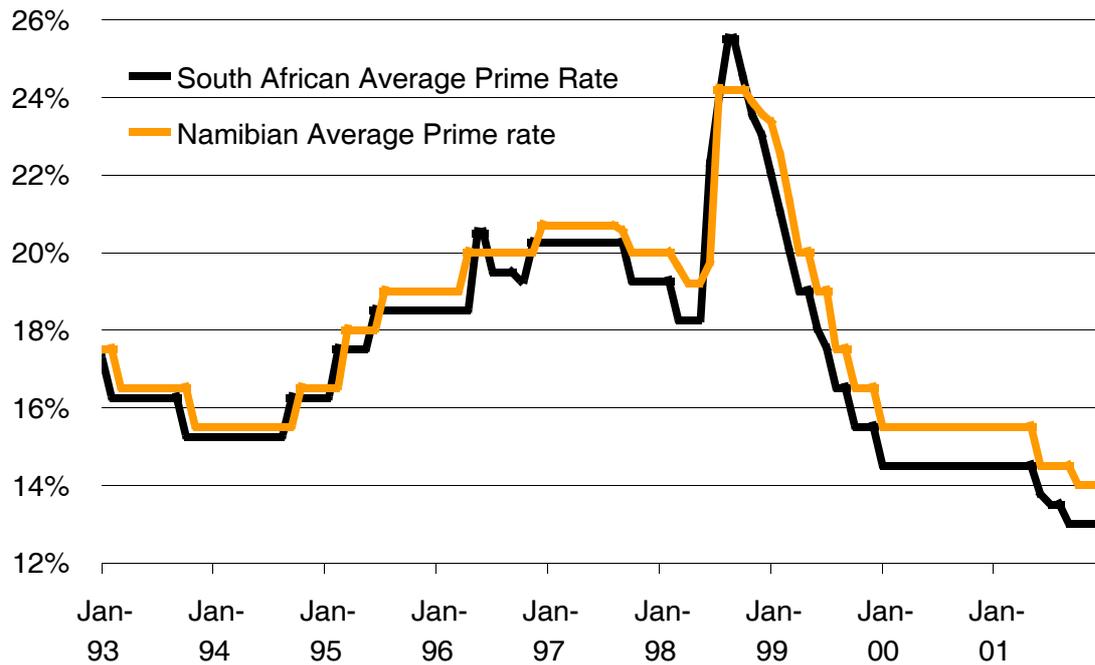
**Figure 19 Capital raised by primary listed companies divided by credits extended to businesses (Sources: NSX and Bank of Namibia)**

### Capital Finance

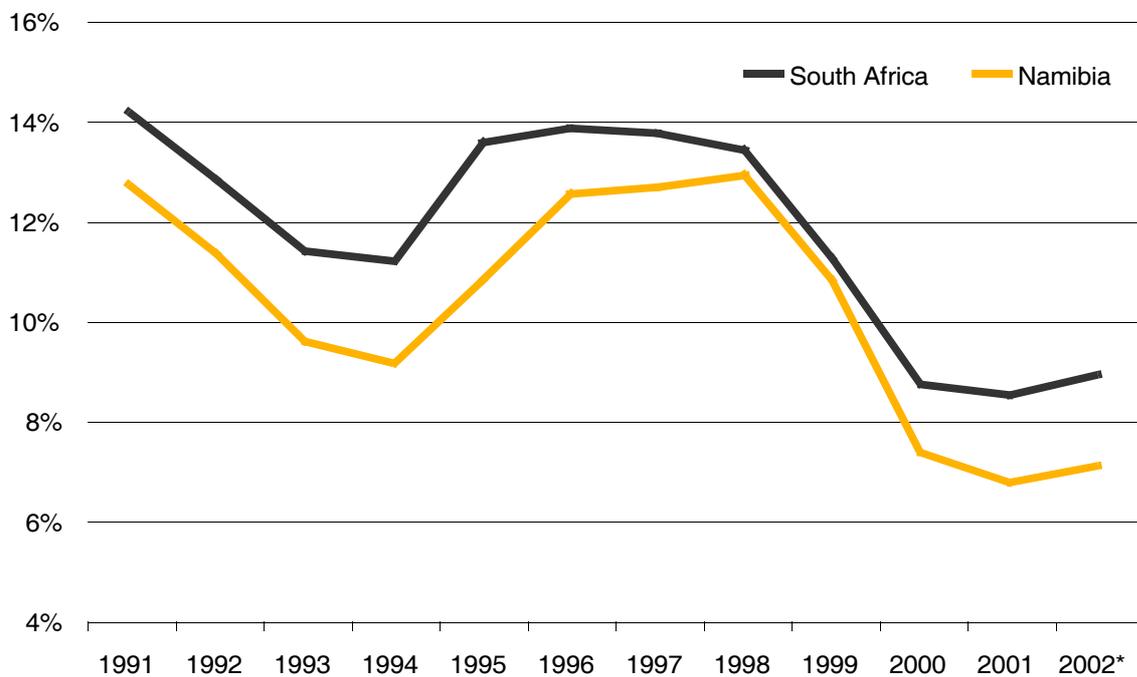
Regarding capital finance, keeping contractual savings in Namibia could, in theory, lead to lower costs of capital and more investment. The excess capital kept in the country would lower lending rates for businesses and hence promote investment and growth.

However, this was not the case for Namibia. Namibia is in a monetary union with South Africa, Lesotho and Swasiland (CMA= Common Monetary Area) and its interest rates can therefore not deviate significantly from the rates in the other CMA countries. Figure 20 shows that the average Namibian prime rate follows the average South African prime rate closely. Furthermore, it shows that the Namibian average prime rate has been consistently higher than the South African one, even after the introduction of domestic asset requirements. It can be seen that the average prime rate increased from 1995 to 1997 following the South African rate.

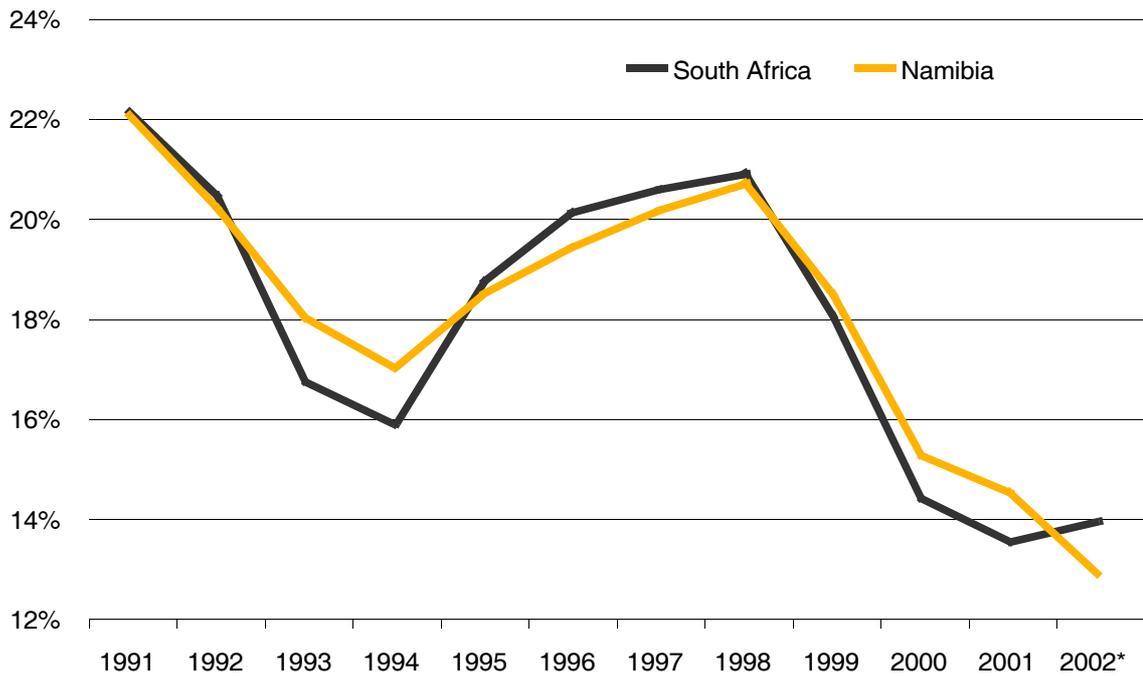
Figure 21 and Figure 22 show the average annual deposit and lending rates for Namibia and South Africa. Figure 23 shows the spread between the average lending and average deposit rates for Namibia and South Africa. It can clearly be seen that Namibia's interest rates closely follow those of South Africa. There is no major change noticeable at the time of the introduction of the Namibian



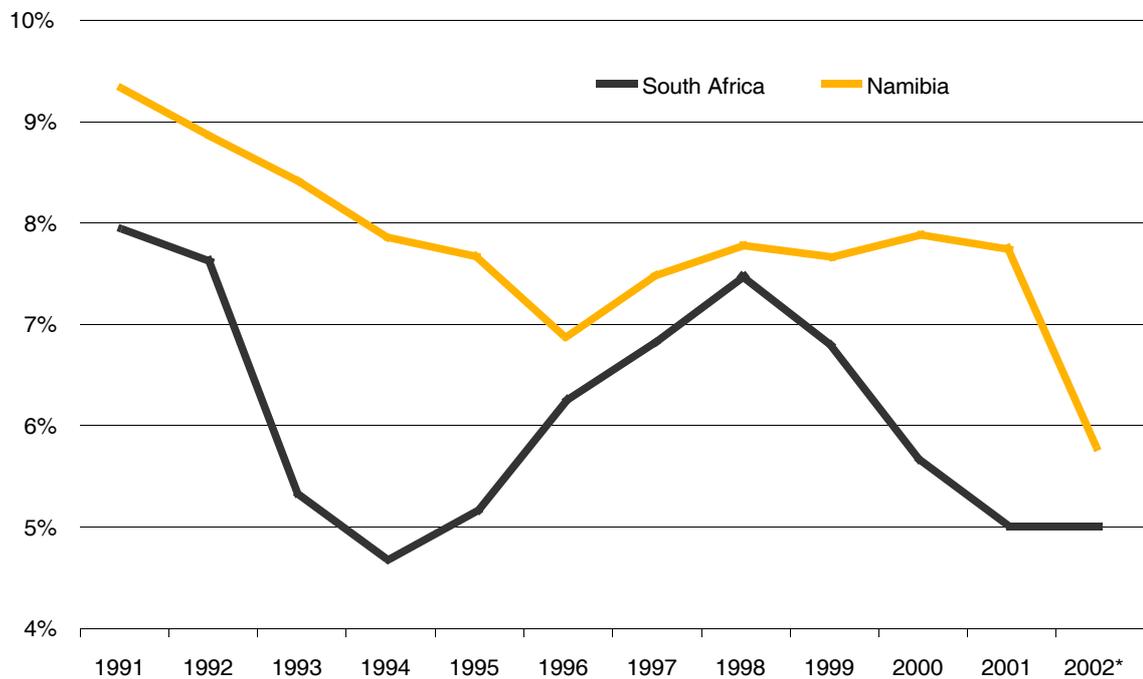
**Figure 20 Namibian and South African average prime rates compared (Sources: South African Reserve Bank and Bank of Namibia)**



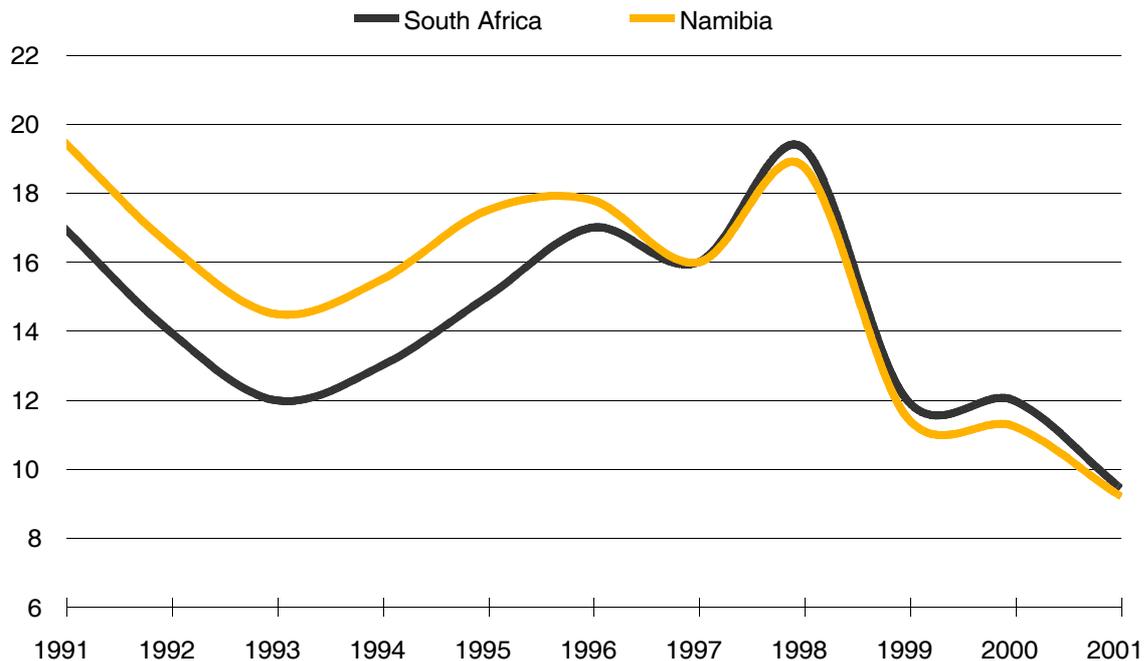
**Figure 21 Average annual deposit rates (Sources: South African Reserve Bank and Bank of Namibia)**



**Figure 22 Average annual lending rates (Sources: South African Reserve Bank and Bank of Namibia)**



**Figure 23 Average spread between lending and deposit rates (Sources: South African Reserve Bank and Bank of Namibia)**



**Figure 24 Bank rates (in %) 1991 -2001**

asset requirement. The higher Namibian spread indicates that South African banks work in a more competitive environment. The higher South African deposit rates imply higher average returns for savers. Figure 24 shows the bank rates of South Africa and Namibia. Here too it can clearly be seen that Namibian interest rates were not affected by the Namibian asset requirement.

**Namibian asset requirement did not lead to lower interest rates.**

Hence, the Namibian asset requirement did not lead to lower interest rates. The cost of capital could not be reduced in Namibia through the Namibian asset requirement since Namibia is part of the CMA and can therefore not have significantly different interest rates from those of South Africa.

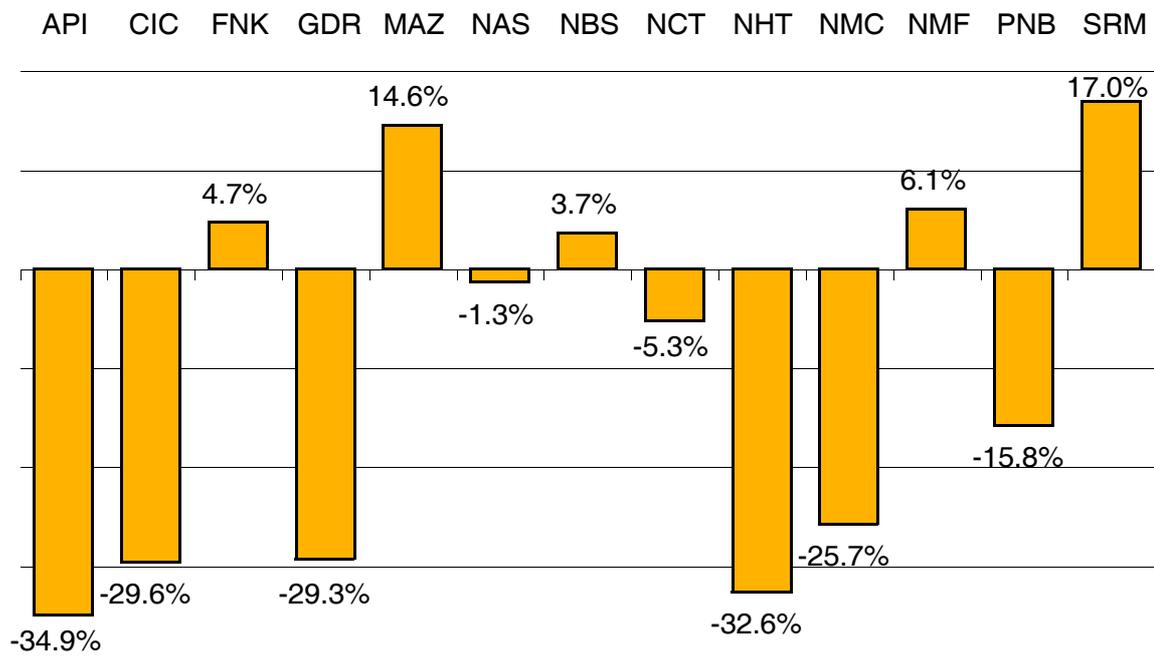
## Equity Finance

Regarding equity finance, the costs were considerably reduced by the Namibian asset requirement, at least initially. The Namibian asset requirement led initially to a situation that allowed companies to list at too high IPO (Initial Public Offering) prices. Most local companies could buy today their shares back for the same or a lower price than that at which they issued the shares. Table 4 indicates the dividends per share divided by the listing price for local companies since listing. It shows that dividend yields were, with very few exceptions, below the average prime rate. Only Sentra has average dividends relative to listing price which are higher than the average

deposit rates paid by commercial banks (see average column of Table 4).

**Table 4 Dividends per share divided by listing price**

Primary Listings	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Average
API			0.0%	1.8%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%
CIC					0.0%	0.0%	0.0%	0.0%	0.0%	0.8%	0.0%	0.1%
FNK						2.4%	3.6%	3.1%	5.3%	8.7%	11.0%	3.8%
GDR							11.1%	0.0%	8.1%	0.0%	0.0%	3.8%
MAZ		0.0%	6.9%	11.4%	0.0%	0.0%	0.0%	0.0%	11.4%	0.0%	0.0%	3.3%
NAS	0.0%	0.0%	27.9%	34.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.0%
NBS					2.2%	2.8%	3.7%	4.7%	5.0%	5.2%	4.8%	4.0%
NCT	0.0%	0.0%	0.0%	3.3%	1.7%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%
NHT							0.0%	4.0%	0.0%	0.0%	0.0%	0.8%
NMC			0.0%	0.0%	0.0%	0.0%	0.0%					0.0%
NMF	0.0%	0.0%	23.1%	9.2%	0.0%	0.0%	0.0%	12.3%	8.0%	0.0%	0.0%	5.8%
PNB			2.6%	3.1%	4.0%	10.9%	4.0%	0.0%	0.0%	0.0%	0.0%	2.7%
SRM				4.0%	9.6%	14.0%	11.2%	16.0%	24.0%	24.0%	0.0%	12.9%
<b>Average</b>	<b>0.0%</b>	<b>0.0%</b>	<b>8.6%</b>	<b>8.5%</b>	<b>1.8%</b>	<b>2.8%</b>	<b>2.6%</b>	<b>3.3%</b>	<b>5.1%</b>	<b>3.2%</b>	<b>0.4%</b>	



**Figure 25 Annual compound returns for the period from initial listing until 31 Dec. 2001.**

The average annual dividend yields for local companies together never exceeded Namibia’s rate of inflation, implying a negative average cost of capital for raising capital on the NSX (see average row of Table 4).

Figure 25 shows the annual compound returns for primary listings on the NSX for the period starting from the initial public offering of the individual stocks until the 31st December 2001. The assumption is that all dividends paid are kept in cash and do not earn interest. Only two companies, M&Z and Sentra, had a higher annual compound return rate than the average deposit rate of commercial banks for that period.

Only M&Z and Sentra had annual compound returns higher than those of an average savings account.

Returns on equities are required to be higher than returns on cash deposits, since equity investments bear a higher risk than cash deposits. The cost of equity finance has been so cheap that investors lost interest in investing, since the cost of equity capital to companies is equal to the profit to investors. This imbalance is not economically sustainable and has led to the situation the NSX finds itself in today.

### Conclusion

The Namibian asset requirement has failed to generate more investment through cheaper capital or equity finance.

## RETURNS ON CONTRACTUAL SAVINGS

Basic economic principles suggest that imposing restrictions on the investment choices made by asset managers and raising the costs of investment should lead to lower returns. This section investigates whether the Namibian asset requirement has indeed led to lower returns for contractual savers in Namibia. First, restriction in choice is discussed. Then follows two different approaches to estimate the impact of the Namibian asset requirement on contractual savings. The first approach is based on portfolio comparisons and the second on asset class comparisons.

### Restriction in Choice

For 35% of their portfolio, asset managers can choose either local or dual-listed stocks. Not all stocks traded on the JSE are dual-listed on the NSX and hence there is a restriction of choice. We have set up a database with daily trading figures from the NSX for the period 1<sup>st</sup> January 1999 to 31<sup>st</sup> May 2002 to evaluate the economic cost of this restriction. The daily data entails traded volumes and traded value figures for all stocks traded on the NSX. We looked at how an

unrestricted portfolio would have developed compared to the actual investments made on the NSX. If unrestricted, asset managers would at least have the choice of all the stocks traded on the JSE. To compare the restricted with an unrestricted case we created an artificial portfolio. Whenever stocks were bought on the NSX we bought a share of the All Share Index for exactly the same amount at exactly the same date. We further assumed that once bought on the NSX, the stocks were held until the 31<sup>st</sup> May 2002.

We calculated the quantity to be bought of the All Share Index by dividing the traded value for a particular share for a particular day by the value of the All Share index. This is then multiplied by the value of the JSE All Share index on 31<sup>st</sup> May 2002. Subtracting from this the initial traded value gives the return of that investment. The sum of all these returns we called JSEROI.

$$JSEROI + \sum_{i=1, j=1}^{n, m} \left( \left( \frac{\text{tradevalue}_{ij}}{\text{AllShareIndex}_i} \right) \times \text{AllShareIndex}_n - \text{tradevalue}_{ij} \right)$$

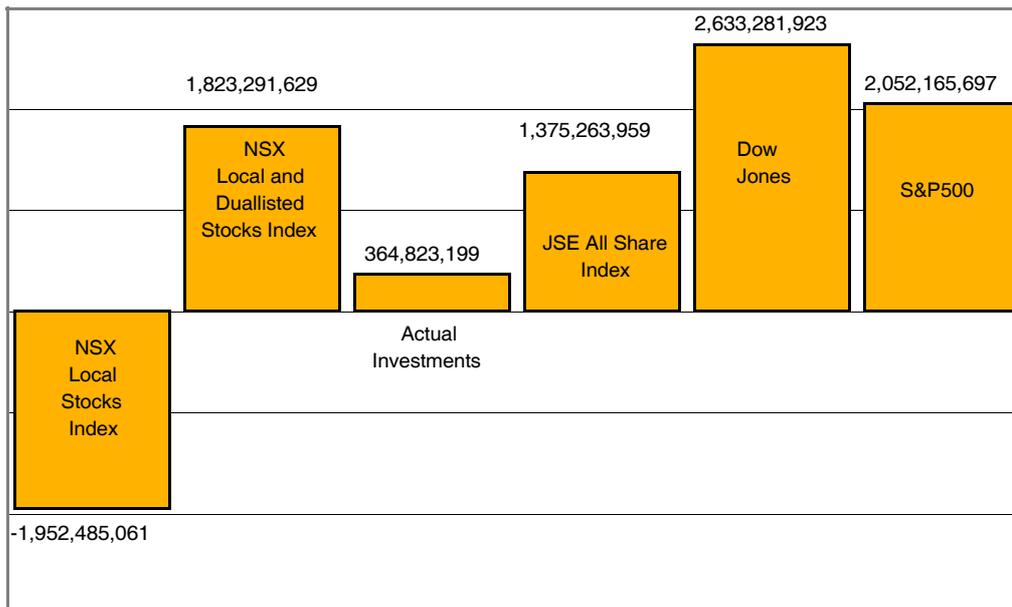
with  $i$  denoting the date, starting with  $i=6$ th January 1999 and ending with  $n=31$ <sup>st</sup> May 2002 and  $j$  denoting particular stocks.

In a similar way we calculated the returns for all investments made on the NSX assuming that they would be held until the 31<sup>st</sup> May 2002.

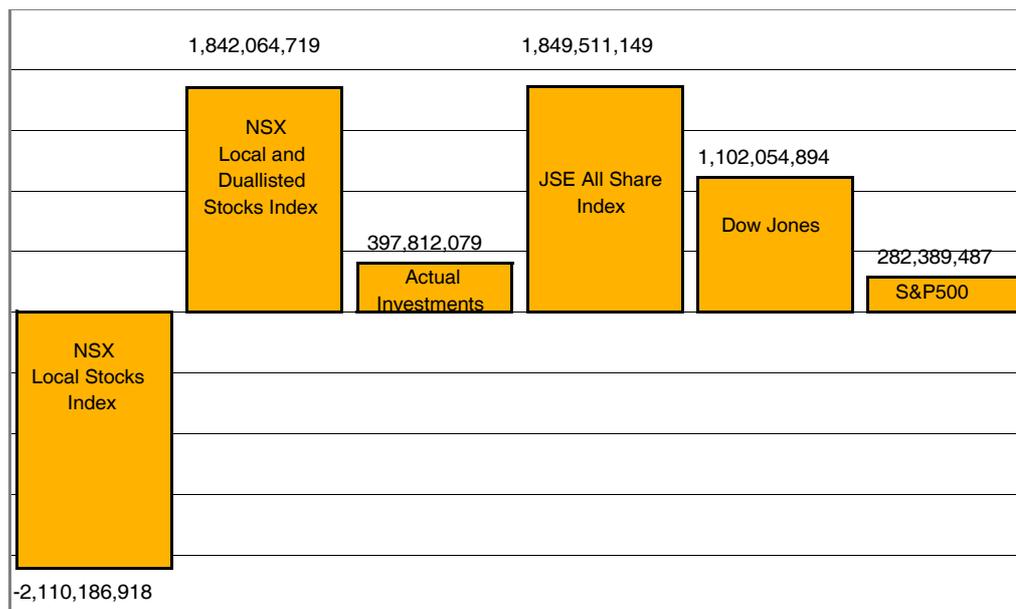
$$NSXROI + \sum_{i=1, j=1}^{n, m} \text{tradedvolume}_{i, j} \times \text{stockprice}_{n, j} - \text{tradevalue}_{ij}$$

Comparing the returns on all the investments made on the NSX with those that could have been made on the JSE during the given period puzzled us initially. Figure 26 and Figure 27 compare these calculations for the NSX overall index, the NSX local Index, the JSE All Share Index, the Dow Jones and the S&P 500 for two different periods.

The three year period from January 1999 to December 2001 would have produced the Dow Jones as a clear winner, with the S&P 500



**Figure 26 Comparison of returns made on actual investments with theoretical index investments 01/01/1999 -31/12/2001 in N\$**



**Figure 27 Comparison of Actual Investments Made with Theoretical Index Investments 01/01/1999 -31/05/2002 in N\$**

coming second, and the NSX third. Extending the period under consideration up to May 2002 changes the picture altogether.

It has to be mentioned that these are only theoretical considerations. First of all, there is no NSX overall Index, or NSX Local Index instrument that can be bought. The sum invested could also not have been invested in local stocks. Neither would Investments in NSX-listed stocks (including dual-listed companies) have been possible,

since De Beers or Anglo make up for around 50% of NSX market capitalisation, and contractual investors are limited to the amount they can invest in a single stock (10% generally and 15% for large companies). However, these considerations reveal a couple of things clearly:

- If restricted, one has to live with what ever the market delivers;
- Being unrestricted would enable investors to utilise different market movements in stock exchanges and derivative markets.

### Return on Investment: Portfolio Approach

Several different portfolio comparisons were used to estimate the cost the Namibian asset requirement had for Namibian pension funds. These estimates are based on the assumption that a restriction in choice generally limits the returns of portfolios. Being unrestricted does not automatically lead to higher returns. All it does is provide the potential for higher returns.

**Table 5 Pros and cons of the various estimation procedures used**

Estimation Procedure	Pros	Cons
<b>Average performance of Namibian asset managers minus Average performance of South African asset managers</b>	It compares the average performance of Namibian with South African asset managers. Both are restricted to 15% investment outside CMA but only Namibian asset managers need to invest 35% of their assets in Namibian assets.	Performance difference could be due to asset picking. South African asset managers may, due to their size, have better information and better trading conditions. However, even for Namibian asset managers most decisions are taken in South Africa.
<b>Namibian portfolio performance of Namibian asset managers minus Overall portfolio performance of Namibian asset managers</b>	It reflects the return difference of Namibian asset managers of the Namibian and the overall portfolio. The overall portfolio performance includes the investments in Namibian assets, which tends to understate the costs.	The overall Portfolio performance includes investments outside the CMA, which tend to over state the costs. The Namibian asset performance is skewed due to different asset classes in the Namibian portfolio compared to the South African portfolio.
<b>Returns of Namibian assets of Namibian asset managers minus Returns of RSA assets of RSA asset managers</b>	This compares returns for South African only assets with the returns of Namibian only assets.	The Namibian asset performance is skewed due to different asset classes in the Namibian portfolio compared to the South African portfolio.
<b>GIPF's returns on Namibian assets minus GIPF's returns on South African assets</b>	The returns of the Namibian portfolio does not include the Development Capital Portfolio	This estimate is effected by the investment decision of only one pension fund institution (even though this institutions accounts for approx. 2/3 of Namibian pension assets).

If unrestricted, asset managers have more assets to choose from and can implement their optimal strategy depending on expected returns and actual liquidity of assets. Alexander Forbes data was used for the following three estimates:

- Performance of the Namibian portfolio compared to the overall portfolio of Namibian asset managers;
- Average performance of Namibian asset managers compared to South African asset managers;<sup>6</sup>
- Average returns on Namibian assets of Namibian asset managers compared to average returns of South African assets of South African asset managers.

We estimated the annual costs to pension funds, through being restricted by the Namibian asset requirement, by multiplying the performance differences with the 35% of the corresponding pension

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6. The average returns of the 10 biggest South African asset managers were used for this. The composition of this group has changed over time. For 2001 it consisted of Allan Gray, BoE, Coronation, Franklin Templeton NIB, Investec Asset Management, LIBAM, OMAM, RMBAM, SCMB, SIM Unique.

assets. These three estimates exclude the returns of the Development Capital portfolio of the GIPF.

**Table 6 Estimation for costs of Namibian asset requirement for 1997 to 2001 (Source: Alexander Forbes)**

	1997	1998	1999	2000	2001	
Namibian Pension Assets	7,278	8,147	9,016	12,942	16,077	
35% of Namibian Pension Assets	2,547.46	2,851.46	3,155.46	4,529.67	5,626.95	
Estimation Procedure	1997	1998	1999	2000	2001	Average
Average performance of Namibian asset managers minus Average performance of South African asset managers	-0.25%	0.48%	-4.64%	-0.73%	-1.13%	-1.25%
Namibian portfolio performance of Namibian asset managers minus Overall portfolio performance of Namibian asset managers	1.25%	-3.85%	-8.82%	-3.65%	-8.32%	-4.68%
Returns of Namibian assets of Namibian asset managers minus Returns of RSA assets of RSA asset managers	4.60%	-0.46%	-8.97%	-0.72%	-6.01%	-2.31%
Estimation Procedure in N\$million	1997	1998	1999	2000	2001	Total
Average Performance of Namibian Asset Managers minus Average performance of South African asset managers	-6.45	13.67	-146.52	-33.00	-63.37	-235.67
Namibian portfolio performance of Namibian asset managers minus Overall portfolio performance of Namibian asset managers	31.86	-109.68	-278.39	-165.27	-468.02	-989.51
Returns of Namibian assets of Namibian asset managers minus Returns of RSA assets of RSA asset managers	117.07	-13.07	-282.95	-32.41	-338.42	-549.77

A fourth estimate is based on the average returns of the GIPF. We calculated the annual cost to the GIPF fund by multiplying 35% of Namibian assets of the GIPF for the corresponding years with the performance difference between the Namibian and the South African portfolio. The figures again exclude the Development Capital Portfolio of the GIPF. We also used the performance difference of the Namibian and the South African portfolio of the GIPF to derive an estimate for all pension funds.

Table 5 summarizes the pros and cons of the different estimation procedures. Table 6 and Table 7 show the performance differences

and the estimated annual costs to pension funds based on the four estimation procedures.

It should be mentioned that the estimate based on the performance difference of the Namibian portfolio versus the overall portfolio of Namibian asset managers is the least accurate. The performance of the overall portfolio is not exactly the same as the performance that can be expected from an unrestricted portfolio. The overall portfolio consists roughly of 35% Namibian portfolio, 50% South African portfolio and 15% International portfolio. On the one hand, the overall portfolio would have performed even better from 1998 to 2001 without the 35% Namibian portfolio. On the other hand, the over performance of the overall portfolio is partly due to the 15% international portfolio which would not be increased by dropping the Namibian asset requirement. The estimates derived in this

**Table 7 Assets and returns of the GIPF (Source: GIPF)**

<b>p</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>Total / Average</b>
<b>Namibian Assets '000 N\$</b>	2,145,075	2,778,310	2,743,028	3,325,404	3,640,239	4,080,667	p
<b>RSA Assets '000 N\$</b>	2,423,805	3,008,357	3,179,506	4,211,970	4,793,943	5,918,094	p
<b>Offshore Assets '000 N\$</b>	596,101	767,615	905,743	1,145,068	1,176,966	1,672,890	p
<b>Return RSA Assets</b>	12.50%	13.40%	-0.10%	27.20%	12.30%	25.00%	15.05%
<b>Return Namibian Assets</b>	14.80%	24.90%	-9.20%	16.10%	8.00%	10.00%	10.77%
<b>Return Offshore Assets</b>	6.60%	31.50%	29.60%	23.10%	-4.60%	42.10%	21.38%
<b>Difference: Namibian Returns minus South African returns</b>	2.30%	11.50%	-9.10%	-11.10%	-4.30%	-15.00%	-4.28%
<b>Difference times Namibian Assets of GIPF '000 N\$</b>	<b>49,337</b>	<b>319,506</b>	<b>-249,616</b>	<b>-369,120</b>	<b>-156,530</b>	<b>-612,100</b>	<b>-1,018,523</b>
<b>Difference times 35% of Namibian Pension Assets '000 N\$ for period 1997-2001</b>	<b>58.588</b>	<b>327.917</b>	<b>-287.16</b>	<b>-502.80</b>	<b>-242</b>		<b>-645.41</b>

chapter are average performance differences. The estimates are hence too low since they average the performance differences when Namibian assets outperformed South African assets with those where South African assets outperformed Namibian assets. If asset managers would have been unrestricted they could have chosen to invest in Namibian assets in times where returns were higher than

those of South African assets. However, they could also have invested differently when this was not the case.

### Return of Investment: Asset Class Approach

An argument often aired about why the Namibian asset requirement isn't so bad in the end, is that Namibian assets have partly outperformed South African assets. In fact, the NSX Overall Index and Namibian bonds have partly outperformed South African equivalents over the last 10 years. This does not mean that the Namibian asset requirement was a blessing in disguise. Not being restricted would have allowed aiming consistently for the highest returns, whether through Namibian or South African assets. Moreover, Namibian assets did not at all times outperform South African assets.

The comparison of asset classes to estimate the cost to contractual savers has several disadvantages. Firstly, portfolio returns depend not only on asset returns but also on liquidity. Simply comparing returns of asset classes would distort the picture. This can best be demonstrated with a hypothetical example.

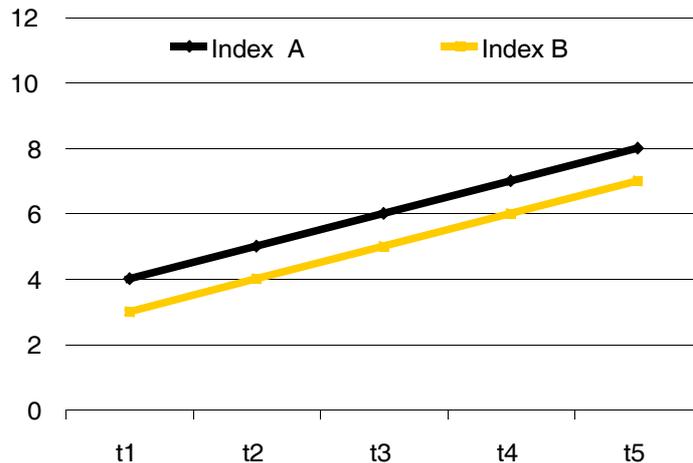
**Table 8 Hypothetical Comparison**

	Average Return of Namibian Government Bond	Average Return of South African Government Bond	Return on Stock A	Return on portfolio that switches between RSA government bond and stock A
1998	15%	10%	0%	10%
1999	15%	10%	5%	10%
2000	15%	10%	25%	25%
2001	15%	10%	30%	30%
2002	15%	10%	5%	10%
<b>Average</b>	<b>15%</b>	<b>10%</b>	<b>13%</b>	<b>17%</b>

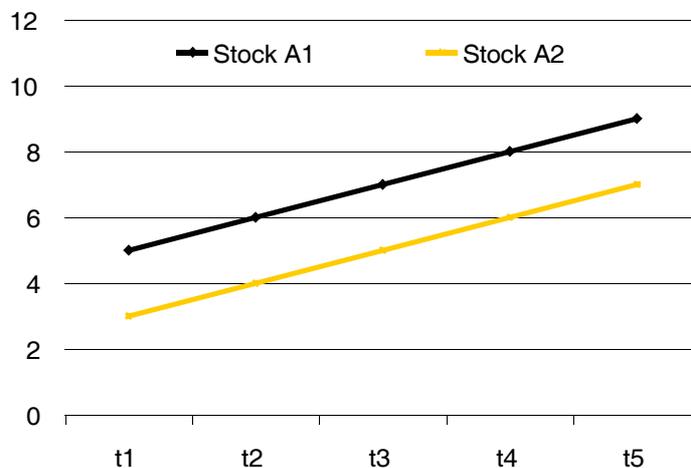
Table 8 shows a numerical example where Namibian government bonds yield higher returns over a five year period compared to South African government bonds or stock A. The example assumes that the South African government bond is liquid and asset managers are able to sell and buy the bond as they choose, while the Namibian government bond is illiquid and cannot be sold once bought. The example demonstrates that the combination of two liquid assets can outperform an illiquid asset even though the illiquid asset has higher returns on average than the two liquid assets.

Secondly, index performances do not reflect the true universe of investment opportunities. Comparing the NSX Overall Index with the JSE ALSI Index shows that the NSX Overall Index partly outperforms the JSE ALSI. Two things need to be kept in mind

when looking at the performance difference. Most of the companies that make up the NSX Overall Index are also part of the JSE ALSI Index. Moreover, The JSE ALSI Index has more companies included than the NSX Overall Index. Whether an index is made up of only a few or many companies makes a huge difference. This is best demonstrated using another example.

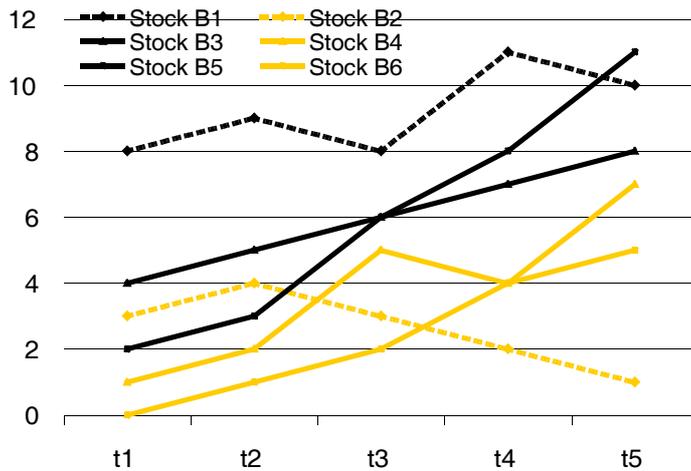


**Figure 28 Example of two indices**



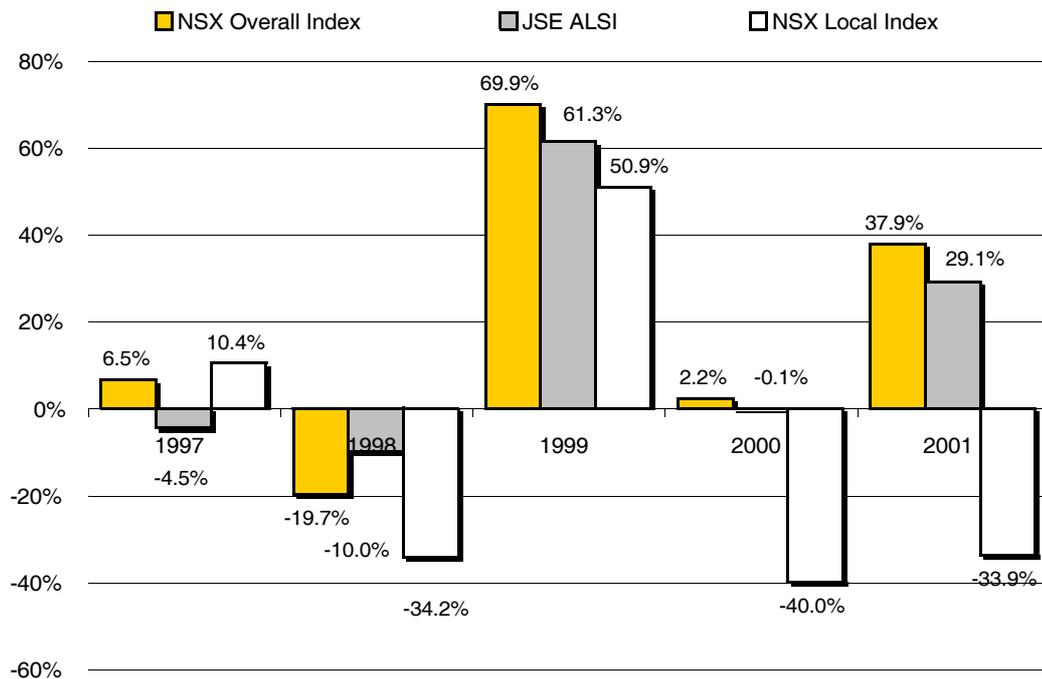
**Figure 29 Index A consists of two stocks**

Figure 28 shows an example of two indices, Index A and Index B. The performance of Index A is consistently higher than the performance of Index B. Figure 29 and Figure 30 show the performance of stocks that make up the indices. Index A consists of two stocks, while Index B consists of six stocks. It can clearly be seen that much higher returns can be yielded with the stocks of Index B even though the average performance of stock A1 and A2 is



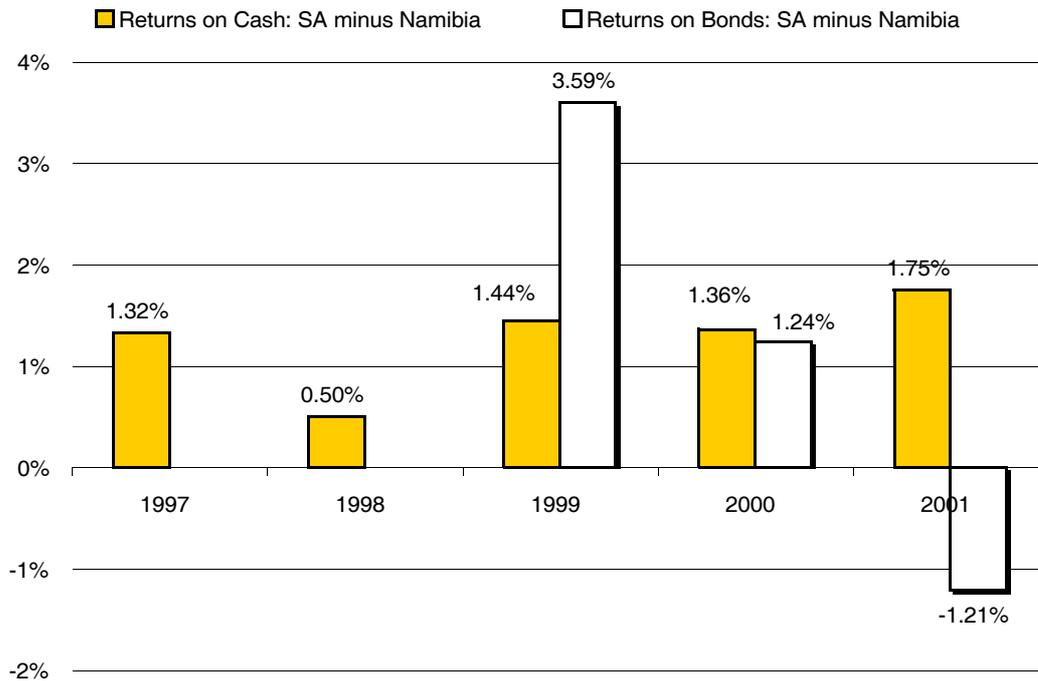
**Figure 30 Index B consists of six stocks**

higher than the average performance of stocks B1, B2, B3, B4, B5 and B6.



**Figure 31 Equities rolling 12 months [%]**

Figure 31 shows the returns for the NSX Overall, the NSX Local and the JSE ALSI Indices. The NSX Overall Index outperformed the JSE ALSI in 1997, 1999, 2000 and 2001 on an annual basis. This does not mean that asset managers would have lost out if they would have been unrestricted, since they could still choose any of the NSX



**Figure 32 Average deposit rates and bond rates compared (source IJG, Bank of Namibia, Bank of South Africa)**

Overall Index stocks. Neither does it mean that unrestricted asset managers could not have outperformed the restricted ones since the index represents only an average performance and there are many more stocks being traded at the JSE than there are stocks dual-listed at the NSX.

Thus we based the estimates not on 35% of the portfolio but on the share that is made up of primary listings, cash held in Namibia and Namibian government bonds. The part of the 35% that is invested in dual listed stocks is excluded from the estimations.

Figure 32 indicates the difference in returns of average deposit rates and bonds between South Africa and Namibia. Between 1997 and 2001, South Africa had always higher annual average deposit rates. Bond return differences are only displayed for 1999, 2000, and 2001 since reliable figures for rolling 12 months bond returns are not available prior to 1999.

We were only able to obtain detailed asset allocation information for 2000 and 2001 from Alexander Forbes. Table 9 indicates the amounts of the Namibian portfolio invested in primary listings, cash and Namibian bonds and the corresponding annual average returns. Based on that, the cost of being restricted in asset choice for these two years only would have been N\$411 million, which results from the following equation:

$$\text{Cost} = \sum_{t=2000}^{2001} (R_{\text{unrestricted}}^t - R_{\text{Namibia}}^t)$$

**with**

$$R_{\text{Namibia}}^t = (R_{\text{local}}^t \times A_{\text{primary}}^t) + (R_{\text{NaBond}}^t \times A_{\text{bond}}^t) + (R_{\text{NaCash}}^t \times A_{\text{cash}}^t)$$

**and**

$$R_{\text{unrestricted}}^t = (R_{\text{jse}}^t \times A_{\text{primary}}^t) + (R_{\text{SABond}}^t \times A_{\text{bond}}^t) + (R_{\text{SACash}}^t \times A_{\text{cash}}^t)$$

The variables are described in Table 9.

Taking the estimation procedure and expanding this to the five year period considered in the portfolio approach would require additional assumptions:

- The average asset allocation varies from quarter to quarter. Due to a lack of information on the detailed asset allocation prior to 2000 we needed to make assumptions about the respective share invested in primary listings, cash and Namibian bonds. We assume this share to be the average for 2000Q1 to 2002Q2 for the entire period, i.e. 1997-2001.
- The average performance difference between South African and Namibian government bonds for the years 1999, 2000 and 2001 was used for the years 1998 and 1997.

**Table 9 : Asset Class Comparison in % or N\$millions**

<b>p</b>	<b>2000</b>	<b>2001</b>	<b>Total</b>
Annual returns JSE ALSI $R_{jse}^t$	-0.10%	29.10%	
Annual returns NSX Local Index $R_{local}^t$	-39.97%	-33.87%	
Annual returns Namibian Bonds $R_{NaBond}^t$	18.06%	19.05%	
Annual returns SA Bonds $R_{SABond}^t$	19.29%	17.84%	
Annual average deposit rates in Namibia $R_{NaCash}^t$	7.39%	6.79%	
Annual average deposits rates in SA $R_{SACash}^t$	8.75%	8.54%	
Amount of primary listed stocks of Namibian portfolio $A_{primary}^t$	429.19	329.18	
Amount of bonds of Namibian portfolio $A_{bond}^t$	1236.61	1630.41	
Amount of cash deposits of Namibian portfolio $A_{cash}^t$	1199.24	1221.05	
Returns of Namibian Portfolio $R_{Namibia}^t$	140.37	281.98	422.35
Unrestricted equivalent $R_{unrestricted}^t$	343.10	490.88	833.98
<b>Difference</b> $R_{unrestricted}^t - R_{Namibia}^t$	202.73	208.90	411.63

Table 10 shows the results for the period 1997 to 2001. The cost equation is therefore modified to:

$$\text{Cost} = \sum_{t=1997}^{2001} (R_{unrestricted}^t - R_{Namibia}^t)$$

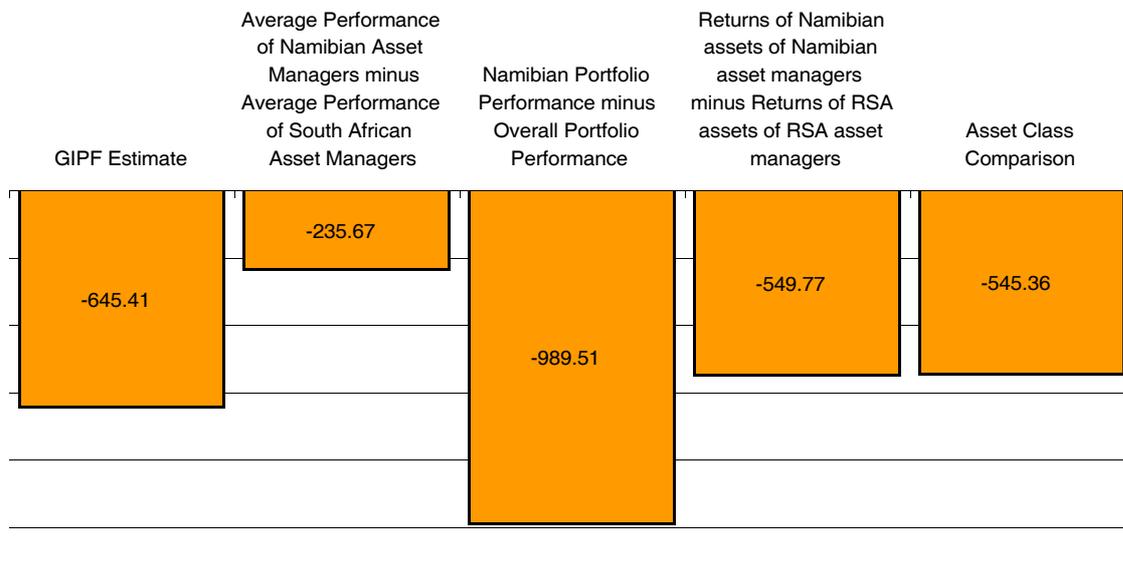
**Table 10 Cost estimation based on asset class comparison for 1997-2001**

<b>p</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>Total</b>
Annual returns JSE ALSI $R_{jse}^t$	-4.50%	-10.00%	61.30%	-0.10%	29.10%	
Annual returns NSX Local Index $R_{local}^t$	10.38%	-34.22%	50.88%	-39.97%	-33.87%	
Annual returns Namibian Bonds $R_{NaBond}^t$	20.96%*	20.96%*	25.78%	18.06%	19.05%	
Annual returns SA Bonds $R_{SABond}^t$	22.17%*	22.17%*	29.37%	19.29%	17.84%	
Annual average deposit rates in Namibia $R_{NaCash}^t$	12.56%	12.94%	10.82%	7.39%	6.79%	
Annual average deposits rates in SA $R_{SACash}^t$	13.88%	13.44%	12.26%	8.75%	8.54%	
Amount of primary listed stocks of Namibian portfolio $A_{primary}^t$	186.24	208.47	230.71	331.17	411.39	
Amount of bonds of Namibian portfolio $A_{bond}^t$	709.00	793.65	878.31	1260.76	1566.17	
Amount of cash deposits of Namibian portfolio $A_{cash}^t$	614.92	688.34	761.76	1093.47	1358.35	
Returns of Namibian Portfolio $R_{Namibia}^t$	245.19	184.10	426.27	176.09	251.22	1282.87
Unrestricted equivalent $R_{unrestricted}^t$	234.14	247.61	492.81	338.60	515.07	1828.23
<b>Difference</b>						
$R_{unrestricted}^t - R_{Namibia}^t$	<b>-11.05</b>	<b>63.50</b>	<b>66.55</b>	<b>162.51</b>	<b>263.85</b>	<b>545.36</b>

## Conclusion

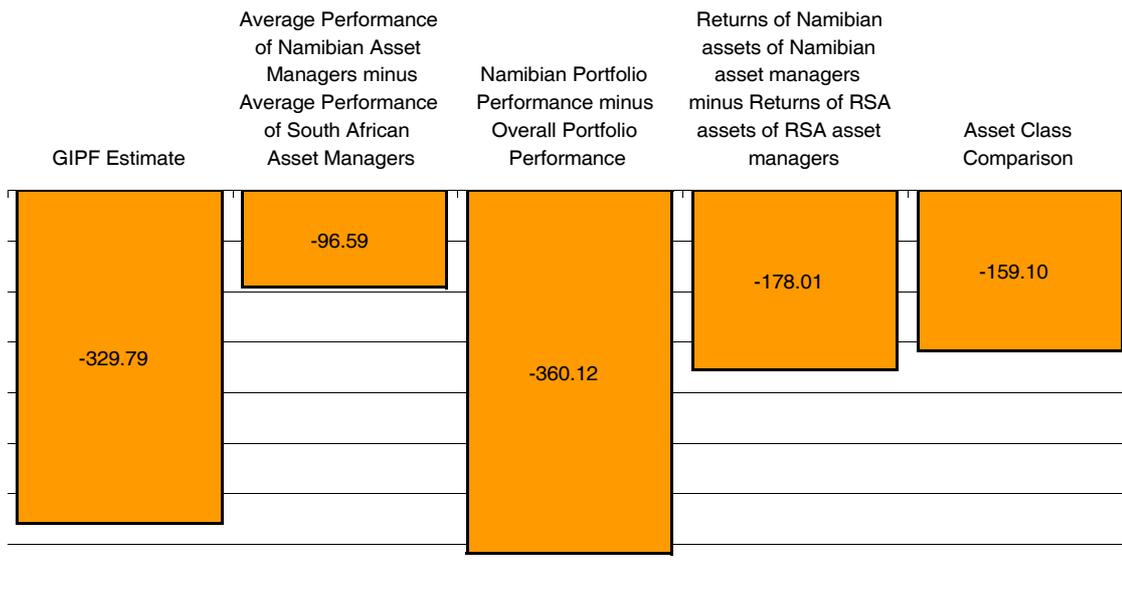
Between N\$235 and N\$990 million costs for pension funds through Namibian Asset requirement for 1997 to 2001 period.

Figure 33 compares the five estimation procedures for the period 1997 to 2001. The estimated cost of the domestic asset requirements for Namibian pension funds ranges from N\$235 million to N\$990 million for the period 1997 to 2001 based on the portfolio estimations. The estimated cost does not include effects caused by exchange controls. Figure 34 displays the estimated annual costs for all contractual savings (i.e. pension funds and other, approx. N\$22 billion in 2002). The calculation were performed by multiplying 35% of the 22 billion with the average performance differences for the five estimation approaches. The estimated costs for all contractual savings for 2002 vary from N\$96 million to N\$360 million depending on which estimation method is used.



**Figure 33 : Estimated costs in N\$million for Namibian pension funds between 1997 and 2001 through Namibian asset requirement based on 35% of pension fund assets**

It needs to be emphasized again that these estimated costs are differences of actual performances and the most likely performances if asset managers were not restricted by the Namibian Asset requirement. The different estimation procedures try to give a best estimate of what could be expected in an unrestricted scenario. Whether Namibian asset managers could have yielded similar results to their South African colleagues is probable, but not certain. The estimated costs only indicate the loss in opportunity through the Namibian asset requirement. Namibian asset managers could still have done worse, but also better than their South African colleagues.



**Figure 34 : Estimated annual costs through Namibian asset requirement in N\$million for Namibian contractual savings (35% of 22 billion) based on average returns for 1997 to 2001**

The costs inflicted by the Namibian asset requirement every year are substantial for contractual savers. Lower returns for the 35% that has to be invested in Namibian assets is limiting the opportunities for asset managers to deliver high returns for their customers. These lower returns stem from being restricted in assets they can purchase, from higher trading costs, and from being unable to switch in and out of position in illiquid assets such as Namibian Government bonds.

## CONCLUSION

From the analysis of this chapter the following conclusions can be drawn:

- The costs inflicted by the Namibian asset requirement are substantial for contractual savers. The annual estimated costs for contractual savers will be N\$100 million, or more, on average for an asset base of N\$22 billion.
- The Namibian asset requirement has failed to channel contractual saving in productive Namibian investments, as only a small share of the 35% Namibian assets flows into productive Namibian investments.

A 0.5% levy on all contractual savings could pay a salary of N\$110 million for 100 people a year.

- The Namibian asset requirement has failed to generate more investment through cheaper capital or equity finance.

We believe the industry has yet to prove it can add value to the economy because the cost of regulation to savers vastly outweighs the benefits to Namibia of the small number of jobs created, the limited skills transferred, and the benefits of being listed on the NSX to Namibian companies. A very small levy on pension funds could have paid higher salaries to those who have found jobs in the industry and would have harmed savers less. Furthermore, instead of becoming less dependent on regulation, the industry has become more reliant on it for its existence.

**Table 11 NAMFISA Levy on Contractual Savers**

Asset base (N\$m)	Levy (%)	Yield (N\$m)	Number of people employed	Average salary (N\$)
5,000	0.5%	25	100	250,000
10,000	0.5%	50	100	500,000
22,000	0.5%	110	100	1,100,000

## 4 INTERNATIONAL EVIDENCE

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This chapter puts the performance of the NSX in an international perspective. It tries to find answers to the following questions:

- Does Namibia need to have its own stock exchange to achieve higher rates of economic growth?
- How well has the NSX performed compared to other stock exchanges?
- How much better can the NSX realistically be expected to perform?
- What international trends exist which any future strategy for the NSX should take into account?

This analysis is based on findings from the international economic research literature plus our own analysis of Standard & Poor's Emerging Markets Database.

### BANK VERSUS MARKET BASED FINANCE

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**Banks and stock markets are complementary institutions and are both important for growth**

There is an important academic debate on the merits of “bank-based” versus “market based” systems. What consensus exists appears to be that banks and stock markets provide different services and their development goes hand in hand. Equity finance, for example, provides finance without the need for collateral or the payment of fixed returns. The importance of stock markets for development and long-term economic growth is demonstrated by Levine (1996) and Levine and Zervos (1996) while evidence for the importance of both banks and stock markets is found in a study by Levine and Zervos (1998). They find that stock market liquidity and bank development are positively related to current and future economic growth, capital accumulation and productivity. Beck and Levine (2001) find that both turnover ratios and bank credits enter significantly and positively into various growth regressions, indicating the independent positive effect of both.

Far more corporate finance is raised from banks than securities markets

Patterns of financing corporations differ across countries but one common characteristic exists. Historically, raising capital through listings on stock exchanges has contributed only a small proportion to total capital raised. Studies of the major developed economies show that businesses usually obtain funds indirectly from financial intermediaries and not directly from the issuing of equity and bonds in securities markets (Mishkin 1995). Even in the US and Canada, which have the most developed securities markets in the world, loans from financial intermediaries are far more important for corporate finance than securities markets.

Germany and Japan have relied far more on banks for corporate finance

The industrialised countries which have made the least use of securities markets are Germany and Japan where financing from financial intermediaries has been almost ten times greater than from securities markets (see Mishkin 1995). Black and Gilson (1997) point out that this can be explained through differences in financial market structure. The US has many banks that are small relative to large corporations and a well-developed stock market. By contrast, Germany and Japan have fewer relatively large banks.

Stock markets have had a far smaller impact on long-term growth than banks

In a paper analysing five developed countries (Germany, US, Japan, UK and France) Arestis et al. (2001) concluded that both stock markets and banks had promoted long-term growth but that the impact of stock markets on long-term growth had been small compared to the banking system. Also their results varied widely for the five countries analysed. This points to the importance of complementing cross-country growth regressions with time series analysis to identify the main determinants of growth and determine causality.

The relative importance of bonds and equity varies greatly from country to country

While the dominance of financial intermediaries over securities markets is clear everywhere, the relative importance of bond versus stock markets differs widely. Thus, for example, while the amount of capital raised through bonds in the US is on average ten times higher than the capital raised from stocks, in Italy and France stocks are more important than bonds in raising capital (Mishkin 1995).

## CONTRACTUAL SAVINGS AND STOCK MARKETS

Several studies indicate that contractual savings play an important role in the development of financial markets. Impavido and Musalem (2000) find that contractual savings institutions are very effective at developing stock markets. They point out that contractual saving portfolios are generally skewed towards stocks and long term bonds. This way they help developing capital markets

by reducing the cost of capital for both equity and debt finance. Catalan et al. (2000) analyse Granger causality between contractual savings and both market capitalisation and traded value in stock markets. They find that growth of contractual savings causes the development of capital markets. Vittas (1998) points out that institutional investors can act as a countervailing force to the dominant position of commercial banks, stimulate financial innovation, modernize capital markets, enhance transparency and information disclosure, and strengthen corporate governance. Impavido et al. (2001a) show that the development of contractual savings institutions is associated with increased efficiency of the banking system and greater resilience to credit and liquidity risks. Impavido et al. (2001b) find that the impact of contractual savings on developing financial markets goes through several channels. In market-based economies the main effects seem to go through the stock market and equity finance and in bank-based economies through supply of loans.

## ECONOMIC SIZE AND STOCK EXCHANGES

Two-thirds of all countries have their own stock exchange

Most countries in the world with populations greater than 1 million now have their own stock exchange. World Development Indicators 2002 (World Bank 2002) provides data on 152 countries with populations greater than 1 million. A limited amount of additional data is provided for small economies with populations between 30,000 and 1 million and smaller economies if they are members of the World Bank. Of these 152 countries, 99 (approximately two-thirds) had their own stock exchange in 2001 (see World Development Indicators 2001).

Many stock exchanges probably exist because of government regulations

We have not succeeded in obtaining information which would tell us how many of these stock exchanges came into being purely as a result of demand for their services or as a result of government regulation. We suspect it is likely to be a complex mixture of both. Like Namibia, most developing economies have some form of exchange controls or domestic asset requirements which limit the outflow of capital, both of which would support the existence of a local stock exchange. Also, like Namibia, we suspect that in many instances stock exchanges were created as a result of an explicit political decision.

The World Bank places countries in four income categories depending on income per capita: low income (GNI per capita less than US\$755), lower middle income (GNI per capita between US\$756 and US\$2,995), upper middle income (GNI per capita

between US\$2,996 and US\$9,265), and high income (GNI per capita over US\$9,266). With a GNI per capita of US\$2,030, Namibia falls into the lower middle income bracket. Out of the 53 countries that did not have their own exchanges, all were either low income countries or lower middle income countries with three exceptions: Gabon, Libya, and Puerto Rico. Gabon has a population of 1 million and is an upper middle income country. Libya has a population of 5 million and no GNI statistics but is estimated to be an upper middle income country. Puerto Rico has a population of 4 million, also no GNI statistics but is also estimated to be in the upper middle income bracket. Table 8 shows that countries with higher GNI per capita are more likely to have their own stock exchange.

**Table 12 Countries with or without own stock exchange**

	Low income	Lower middle income	Upper middle income	High income
<b>With</b>	21	27	24	27
<b>Without</b>	40	10	3	0
<b>Total</b>	61	37	27	27

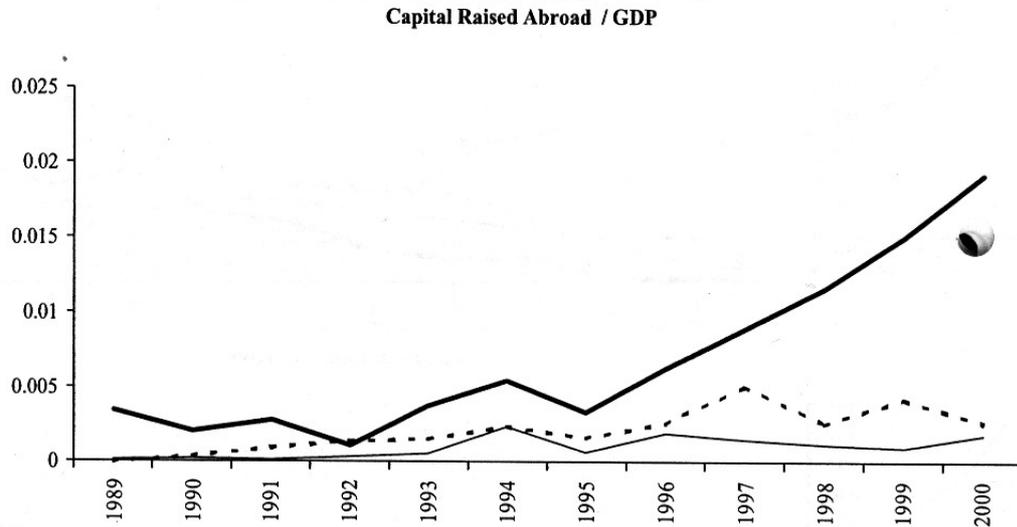
Commercial banks dominate the financial systems of poorer countries

This is a manifestation of the fact that financial market development is closely related to an economy's overall development. At low levels of economic development (low income per capita), commercial banks tend to dominate the financial system. As economies grow and become richer, specialised financial intermediaries and equity markets develop (see World Development Report 2001)

Worldwide national stock markets are increasing cooperation and even merging

Stock exchanges benefit from economies of scale. That is to say, they function better if there are more shares listed on them and more buyers and sellers of those shares. Thus, most countries tend to have just one stock exchange. Some countries such as the US, Germany, Spain, Canada, India and China have more than one stock exchange. These countries are all large economies and stock exchanges often exist for specialised trade in derivatives or commodities. The US has the New York Stock Exchange (NYSE) and the NASDAQ. NASDAQ started life in the 1970s primarily because listing requirements for the NYSE were too stringent for many firms wanting to raise money by issuing equity. NASDAQ has flourished by securing a niche in nurturing technology companies. The economic logic that applies within individual countries increasingly applies internationally. As barriers to investment and information come down, national stock exchanges are coming together to reap the benefits of scale. The most vivid examples of this trend is within the European Union with talk of mergers between combinations of the London Stock Exchange (LSE), Deutsche Börse, Euronext (which runs the Amsterdam, Brussels, Paris and Lisbon stock exchanges) and others. Links are being established between Europe

and the US too with NASDAQ also involved in merger talks, the ultimate prize being a truly global share market. In Southern Africa the JSE has established close links with the LSE to the extent that it now shares a common trading system.



**Figure 35 Migration of capital (Claessens et al. 2002)**

Fully-fledged stock exchanges are becoming less necessary and migration can leave too little domestic activity to sustain a local exchange

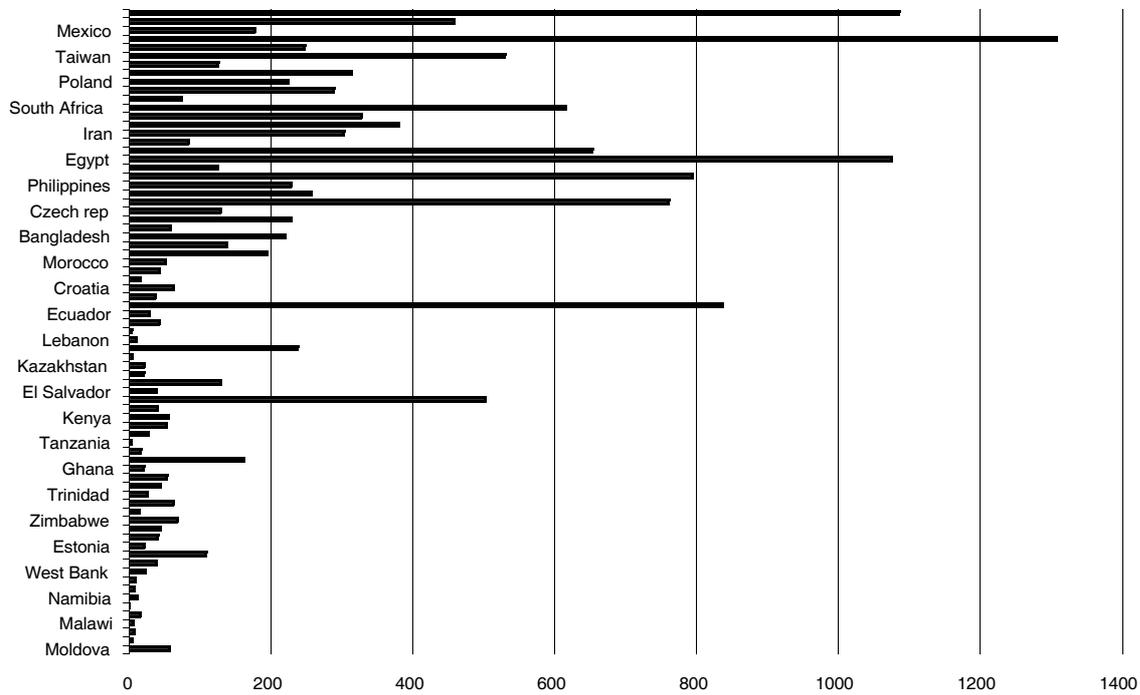
Several large South African companies such as Old Mutual, Investec and Anglo American are now primary listed on the NYSE or LSE. This is a Southern African manifestation of a wider trend. Companies from developing countries are migrating from developing country stock markets towards the larger more liquid markets of the industrialised countries with more efficient legal systems, better shareholder protection and more open financial markets. This is well documented in a recent paper presented to the World Institute for Development Economics Research (Claessens et al. 2002) a highlight of which is presented in Figure 35. This paper concluded that the extent of migration was such that fully-fledged local stock exchanges are becoming less necessary for many economies, and also that migration can leave too little domestic activity behind to sustain a local exchange.

## NSX COMPARED INTERNATIONALLY

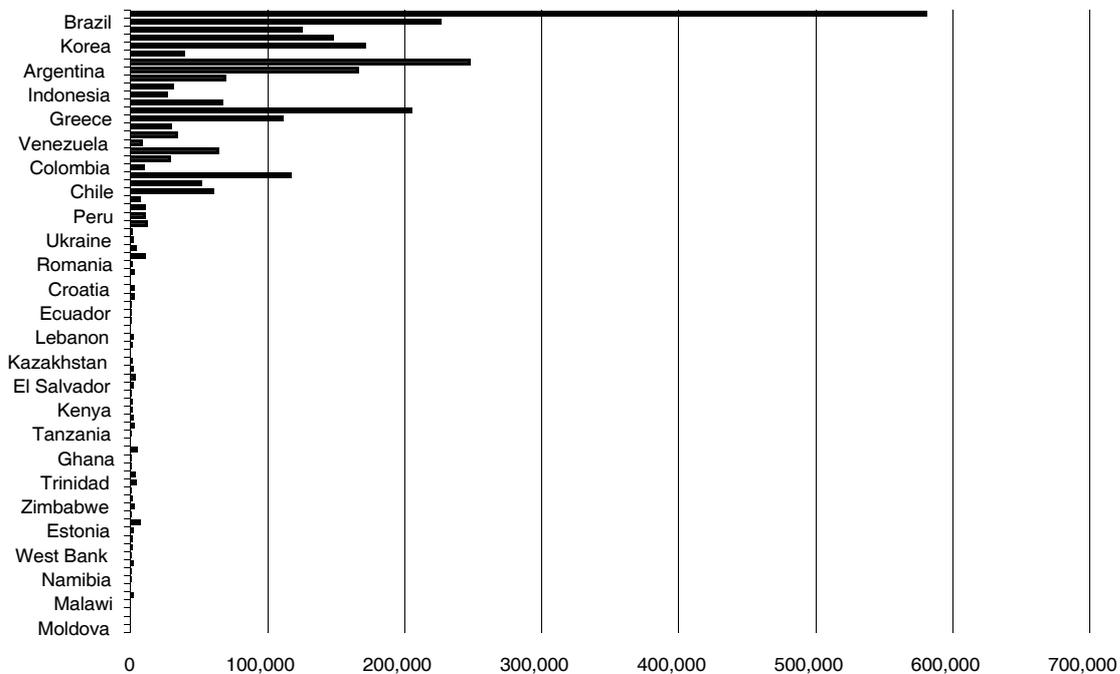
Asset managers are moving away from small cap firms

In our interviews with asset managers, we were told that they are increasingly moving away from 'small cap' companies. Asset managers tell us that the minimum size of company considered by South African asset managers on the JSE now is approximately R1

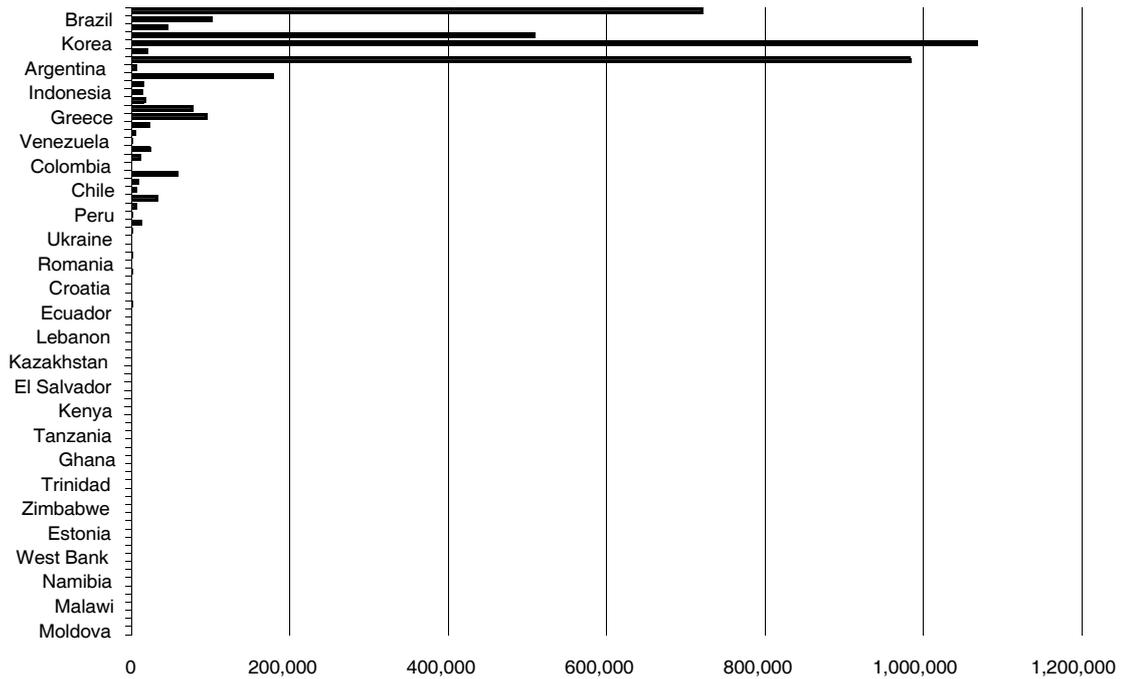
billion in market capitalisation. This is twice the size of the entire free float of local companies on the NSX.



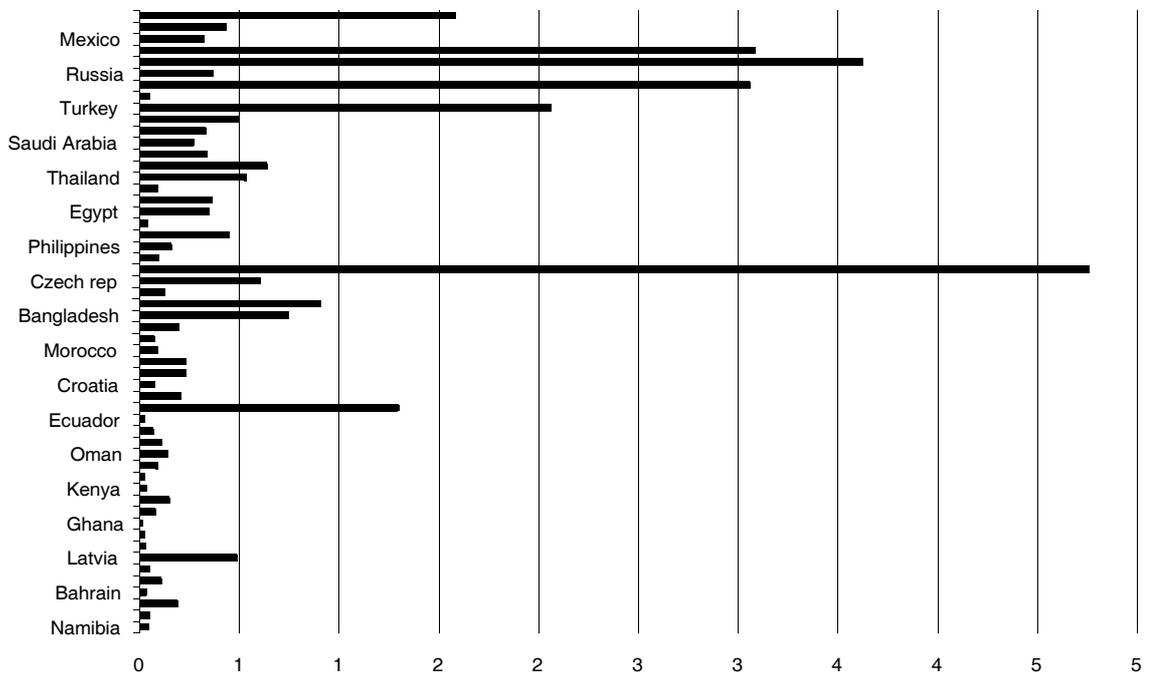
**Figure 36 Number of listed companies (all emerging markets)**



**Figure 37 Market capitalisation (US\$ million all emerging markets)**



**Figure 38 Traded value (US\$million all emerging markets)**



**Figure 39 Turnover ratio (% all emerging markets)**

The performance of a stock exchange depends greatly on the size of its host economy but considerable differences exist

Standard & Poor's Emerging Stock Markets Factbook contains data on 79 emerging markets and 30 developed markets. Figure 36, Figure 37, Figure 38 and Figure 39 present data on the number of companies listed, the market capitalisation, the value traded and turnover ratio by country in 2000. Countries are ranked on the vertical axis according to GDP from smallest (at the bottom) to largest (at the top). Two points are worth making which confirm what is perhaps intuitively obvious. The first is that the economic size of the host country (measured by GDP) appears to be an important determinant of how large and active a stock exchange is. By and large countries with smaller economies have a smaller number of firms listed, smaller market capitalisations, lower values traded and lower turnover ratios. The second point is that, within this general rule, considerable differences exist.

A comparison between Namibia and transition economies is not useful

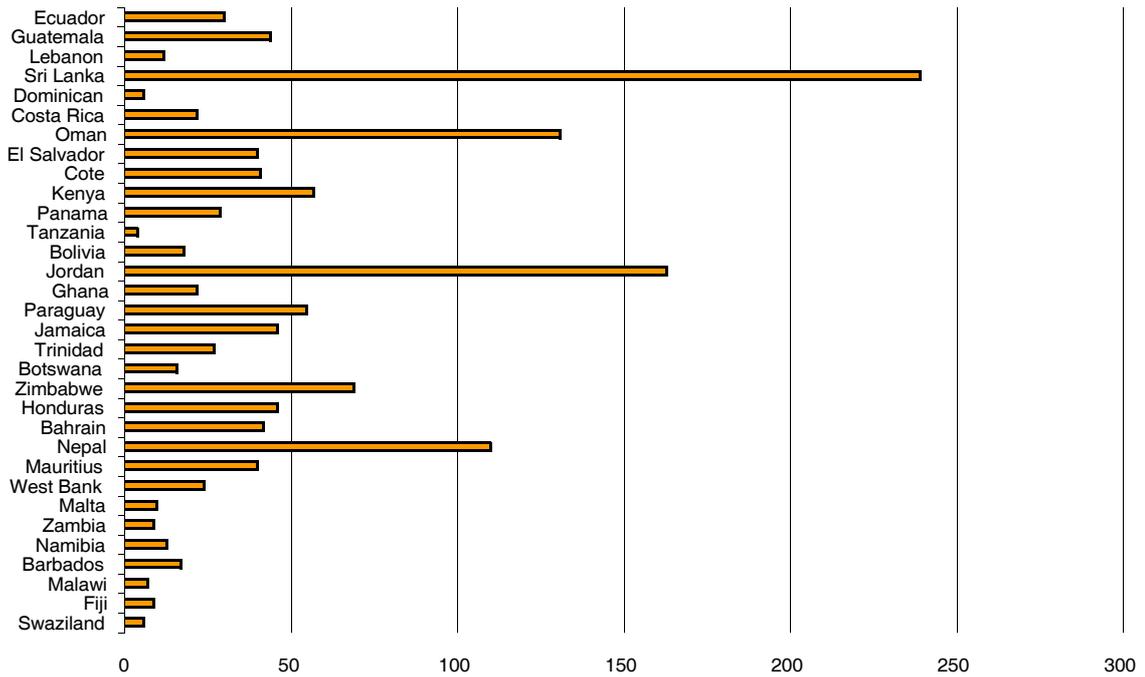
A few exceptional small economies have extremely active stock exchanges, partly because they have been used as a quick way of privatising state-owned enterprises in former communist economies. A comparison between the NSX and stock markets in these countries would not be useful since this sort of forced programme of stock exchange listings is not an option in Namibia. We have therefore excluded these economies from the analysis that follows.

Taking GDP into account, the NSX is smaller than the average emerging market because local companies listed on it are small

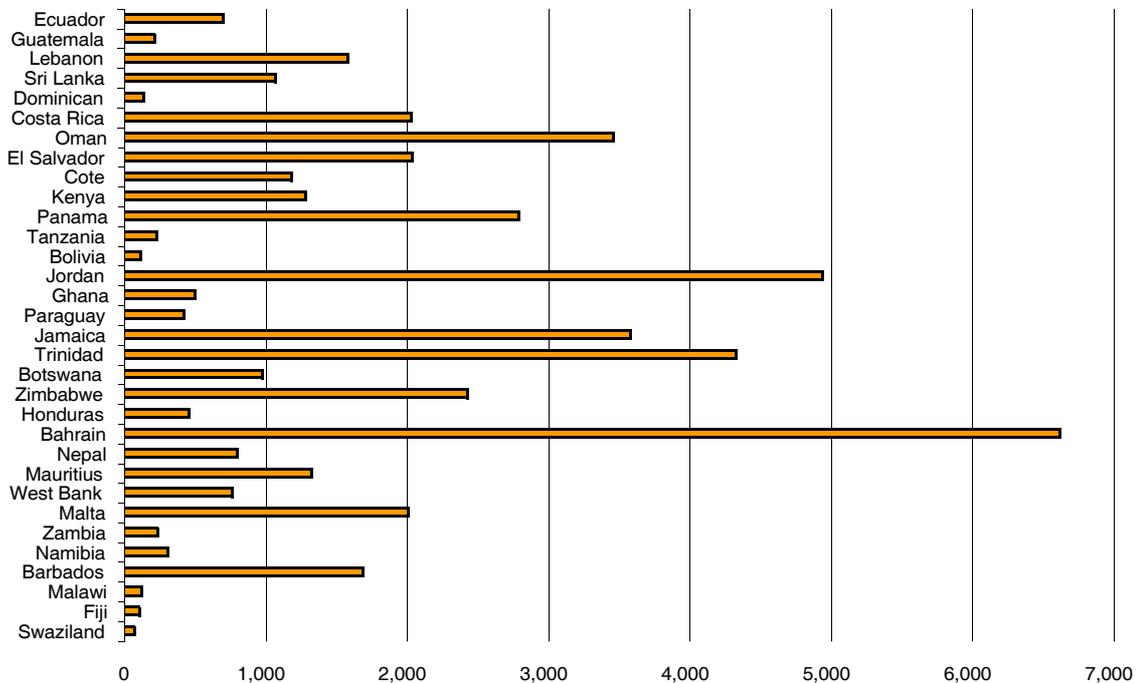
To take account of the enormous differences in size between emerging market economies, the number of firms listed can be divided by GDP and expressed per unit of GDP. Compared in this way Namibia, with 13 local companies listed and a GDP of US\$3,075 million had 4.2 companies per US\$1 billion of GDP in 2000, well below the emerging market average of 5.0. In a similar way market capitalisation can be expressed as a percentage of GDP. The NSX had a market capitalisation of US\$311 million in 2000 or 10.1% of GDP. This compares to the average of 32.7% for all non-former communist emerging markets. Value traded on the NSX was US\$22 million or 0.7% of GDP compared to the emerging market average of 21.4% of GDP. If Namibia were an average emerging market, the NSX would have 15 listed local companies, a local market capitalisation of US\$1,006 million, and trade valued at US\$658 million.

Taking GDP into account, the NSX is smaller than the average small emerging market exchange

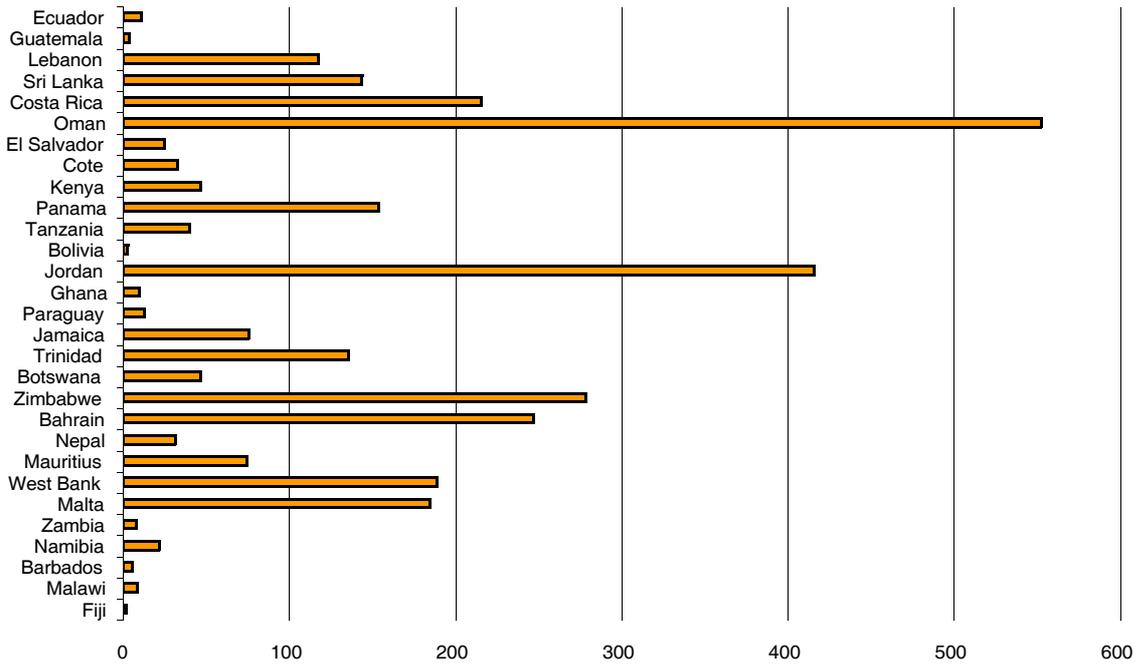
It is possible that the relationship between stock exchange development and GDP is non-linear; that is, the size of a stock exchange measured by number of companies listed, market capitalisation, value traded and turnover ratio, increases by more than one-for-one as GDP increases. It is therefore worth making a further comparison between Namibia and other small economies. Figure 40, Figure 41, Figure 42 and Figure 43 present the same data as Figure 36 to Figure 39 for all emerging market economies with a



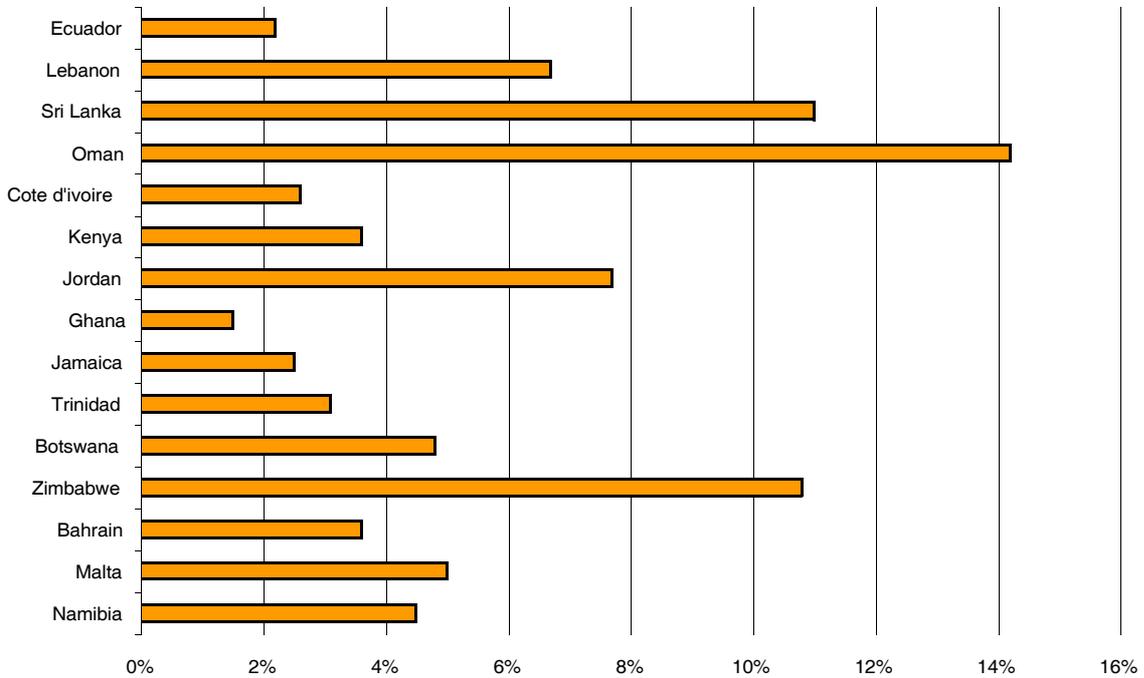
**Figure 40** Number of listed companies in small emerging market (GDP < US\$20 billion excluding former communist economies)



**Figure 41** Market capitalisation in small emerging markets (GDP < US\$20 billion excluding former communist economies)



**Figure 42 Traded value in small emerging markets (GDP < US\$20 billion excluding former communist economies)**



**Figure 43 Turnover ratios in small emerging markets (GDP < US\$20 billion excluding former communist economies)**

GDP of less than US\$20 billion in 1999. In this comparison, the average number of firms listed per US\$1 billion is 5.8 while the average market capitalisation is 23.1% of GDP and the average value traded 1.3% of GDP. If Namibia were an average small emerging market, the NSX would have 18 listed companies, a market capitalisation of US\$710 million and trade valued at US\$40 million.

Small stock exchanges are generally illiquid and the NSX is no exception

Very few small economy stock exchanges enjoy high levels of liquidity. Of the 20 emerging markets with a GDP of less than US\$20 billion documented by Standard & Poor’s emerging market database for which there was data in 2000, only 2 had turnover ratios above 20%. If former communist economies are excluded (they appear exceptional by all measures), only one market out of 15 had a turnover ratio above 14%. Ten had a turnover ratio below 5%. The local turnover ratio of the NSX in 2001 was 3%. It has already been pointed out that, although GDP is important in determining the size of a stock exchange, there are significant differences in experience. This also applied within Africa where our analysis excludes South Africa. Zimbabwe and Mauritius appear to have a particularly large number of companies listed on their stock exchanges as well as high turnover ratios (11% and 9% respectively) whilst Tanzania has very few listed companies (no data on turnover ratios is available).

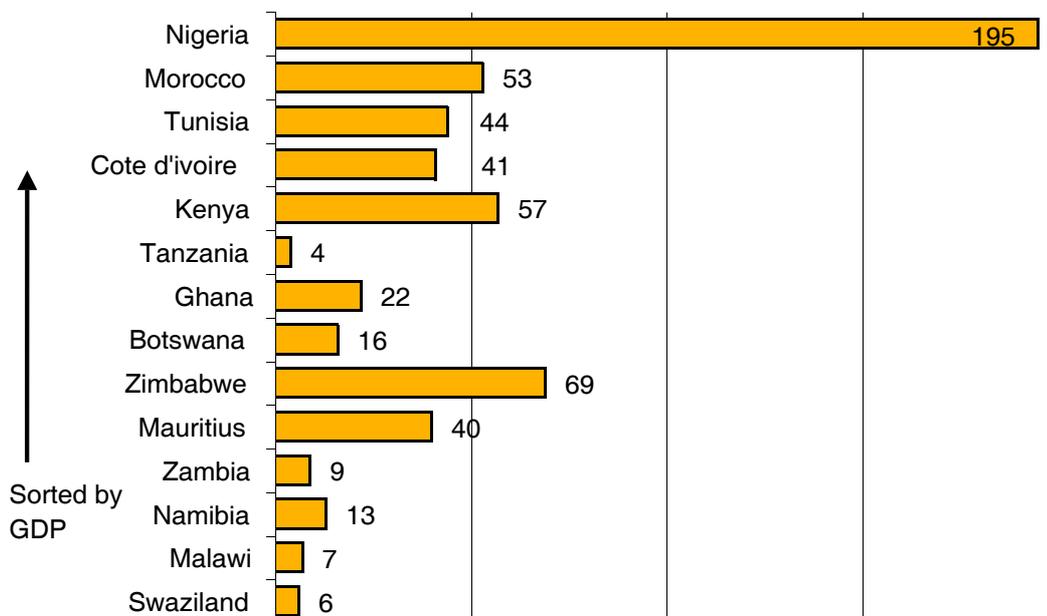
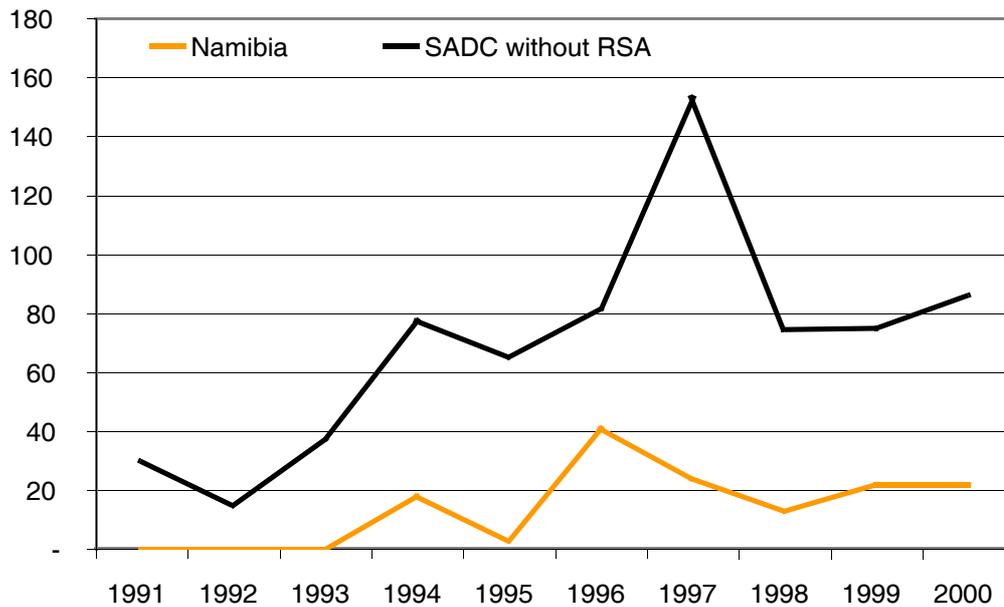
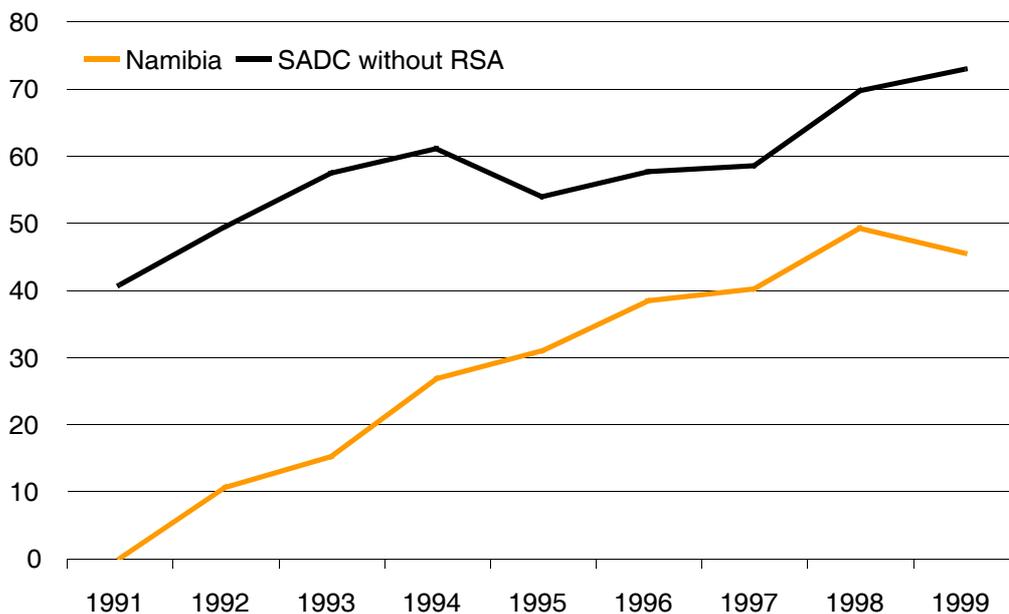


Figure 44 Number of local companies listed on African stock exchanges sorted by GDP.



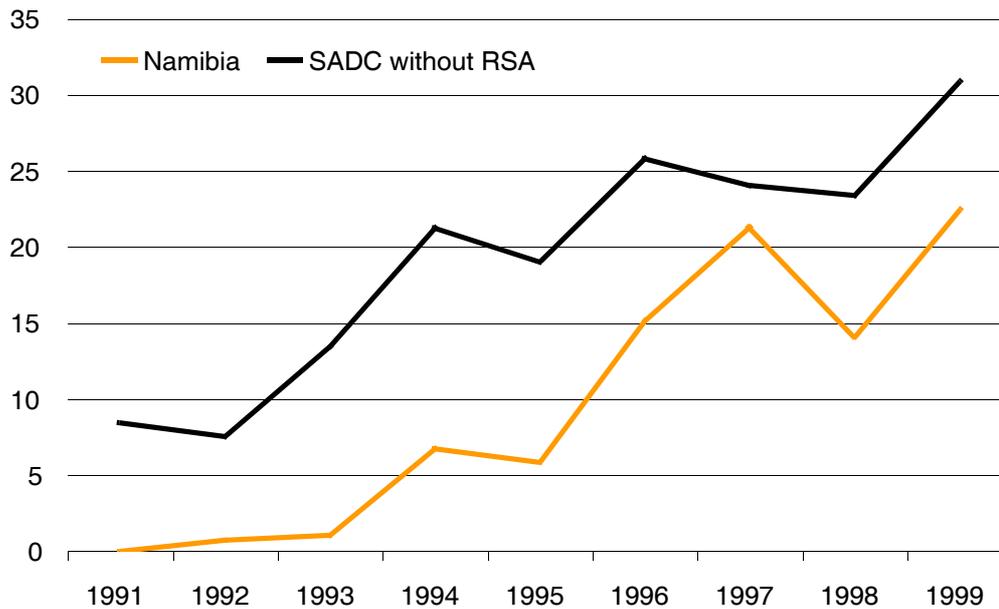
**Figure 45 Traded value in US\$million (excludes dual-listed companies)**



**Figure 46 Number of listed companies divided by GDP times 10,000 (excludes dual-listed companies)**

By several measures the NSX is lagging behind other SADC stock exchanges

Comparing the NSX to other stock exchanges within the Southern African Development Community (SADC) shows that Namibia is lagging behind in terms of number of listed companies, market capitalisation, and traded value. Figure 46 and Figure 47 display the number of listed companies and market capitalisation divided by the



**Figure 47 Market capitalisation divided by GDP times 100 (excludes dual-listed companies)**

annual GDP. Dividing by annual GDP allows a better comparison by taking into account the different sizes of the economies. The SADC countries included in the figures are Botswana, Mauritius, Namibia, Swaziland, Zambia and Zimbabwe. Only primary listed companies are included.

**The stock exchange of Mauritius performs better than the NSX**

Arguably the most successful SADC stock market outside of South Africa is the Stock Exchange of Mauritius (SEM). Mauritius is an upper middle income economy with a population of 1 million. At the time of this study, 39 local companies were listed on the SEM. The total trade to average market capitalisation (turnover ratio) was 9.4% in 2001. There were eleven broking firms which are members of the SEM and all transactions through the SEM were charged a fixed brokerage fee of 1.25%. Although listing rules allow for dual listing, no dual-listed companies are presently listed on the exchange. The minimum float is 25%. The government has a 51% controlling share in one company on the SEM. At the outset, companies had tax incentives to list on the SEM. Companies benefited from a 25% tax rate instead of 35% if they were listed on the SEM. This has now changed. All companies now pay 25% tax apart from certain manufacturing companies which pay 15%. There is a 30% domestic asset requirement.

This better performance can be explained largely by differences in economic performance and structure

We believe that the success of the SEM can be attributed largely to the success of the country's overall economic policies and economic structure rather than particular characteristics of the SEM itself. According to the World Bank, the Mauritian economy grew on average by 6.2% a year between 1980 and 1990 and by 5.3% between 1990 and 2000 (compared to 1.3% and 4.1% for Namibia respectively). In 1999 private fixed investment made up 78.7% of gross domestic fixed investment in Mauritius compared to just 55.4% for Namibia. Higher growth and higher private investment means that the demand for a stock exchange where capital can be raised is also likely to be higher. Pension assets are worth approximately 20% of GDP compared to 80% in Namibia. Mauritius has its own currency, the Mauritian Rupee which is not linked to the Rand or any other currency. Smaller investible funds and monetary independence mean that the outflow of funds abroad is likely to be lower.

Botswana is in many ways more similar to Namibia

Botswana is more similar to Namibia in many ways. It is an upper middle income country with a population of under 2 million. Its economy is based on diamonds and natural resources and it has a very large government sector. Like Mauritius, Botswana has enjoyed faster growth than Namibia (10.3% between 1980 and 1990 and 4.7% between 1990 and 2000) but this has been largely due to diamonds in which the government has a significant direct stake. Botswana is not a member of the Common Monetary Area (CMA) and abolished exchange controls in February 1999. Like Namibia many of its largest companies are either foreign-owned multinationals or state-owned enterprises. The domestic asset requirement is 30% but this excludes dual-listed shares. A fully-funded government pension scheme has only recently been introduced in 2001 and pension assets are 20% of GDP (an estimated P7.5 billion out of a GDP of P37.3 billion in 2002).

The Botswana Stock Exchange suffers from similar problems

The Botswana Stock Exchange (BSE) suffers from very similar problems to the NSX: a small number of listed companies (16 in 2002), a small market capitalisation (16% of GDP in 2000) and low liquidity (a turnover ratio of 4.8% in 2000).

The NSX is unusual in being part of the CMA and relying on dual-listed shares. We have not found a single example of any stock exchange that relies primarily on dual-listed shares for its existence.

## CONCLUSION

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Namibia may not need its own stock exchange to promote economic growth

Although the majority of middle income countries have their own stock exchanges, most of these have developed in a situation where access to stock exchanges outside their borders was limited either by regulation or exchange rate risk, or both. Some high income countries have succeeded without active stock exchanges. Globalisation is making it easier for companies to raise funds internationally, and is reducing the need for domestic stock exchanges. The key point is that local institutions may not be needed if local companies have access to the range of financial services they require, be they banking services or stock exchange services. The need for Namibia to have its own stock exchange in order to promote economic growth is, therefore, not as strong as might be expected and is likely to diminish over time.

The NSX under performs but this is due to wider economic factors beyond its control

Compared to other emerging markets, the NSX generally under performs. This is also true in comparison to other small markets, even if former communist economies are excluded from the comparison. However, this under-performance is more likely to be associated with differences in economic structure and performance and institutional factors than with particular characteristics of the NSX.

The NSX could be made to perform better but liquidity is likely to remain low

Other emerging markets show that, with a concerted effort at changing the structural and institutional environment, the NSX could be made to perform better. Liquidity however is likely to remain low. Even if liquidity on the NSX were to reach the level of the best Southern African performers, say Zimbabwe or Mauritius, there would still be insufficient revenue from trade in local stock to sustain the exchange in its present form.

Any future NSX strategy should respond positively to globalisation and migration rather than seek to stop it

Globalisation and the migration of companies from smaller developing country exchanges to larger developed country exchanges is an important phenomenon which any future NSX strategy should accept and respond positively to. This suggests the NSX should position itself as a step on the graduation path for small cap local companies to a listing on the JSE and beyond.



# 5 CONCLUSIONS

Our analysis of the available data and the results of our in-depth interviews with industry stakeholders lead us to draw the following twenty conclusions. We believe these conclusions form an important basis for consensus in the industry and the first step in deciding how best to move forward.

**Table 13 : Summary of Conclusions**

Summary of Conclusions	
Conclusion 1	The NSX and its surrounding industry have been developed from almost nothing at independence
Conclusion 2	It is hard to assess what the demand for a stock exchange is in Namibia
Conclusion 3	The development of the NSX and associated activities has taken place largely because of government regulations and has been at the considerable expense of Namibian contractual savers
Conclusion 4	Exchange controls have imposed even higher costs on contractual savers than domestic asset requirements
Conclusion 5	Domestic asset requirements did not sustainably lower the cost of capital
Conclusion 6	It is difficult to argue that fixed investment in Namibia has been boosted to any significant extent by the development of the NSX
Conclusion 7	Domestic asset requirements do not appear to have stemmed the outflow of contractual savings from Namibia
Conclusion 8	The presence of dual-listed companies helps finance the NSX, helps raise its profile and increases skills
Conclusion 9	Dual-listed companies provide a disincentive to invest in local stock
Conclusion 10	Some local companies were either overpriced at listing or should never have listed
Conclusion 11	The failure to invest in Namibian shares is not because asset managers are not “Namibian” enough but because there is no choice of quality Namibian companies and no liquidity
Conclusion 12	Namibianisation may have to involve more than copying South Africa
Conclusion 13	Domestic asset requirements has lowered the cost of government borrowing
Conclusion 14	Namibian banks have profited from domestic asset requirements
Conclusion 15	The NSX has become too expensive and too inaccessible for individual investors
Conclusion 16	The problems of the NSX are structural rather than cyclical
Conclusion 17	The future of the NSX depends mostly on overall economic policies achieving higher rates of growth
Conclusion 18	The need for a Namibian stock exchange may increase over time
Conclusion 19	There are limits to what can realistically be expected from a stock exchange in a small economy like Namibia’s
Conclusion 20	The international trend is towards economic integration of equity markets, not separate development

### **Conclusion 1: The NSX and its surrounding industry have been developed from almost nothing at independence**

Within the space of just over ten years, Namibia has gone from having no Namibian stock exchange, Namibian stockbrokers or Namibian asset managers, to having a stock exchange with 13 local and 27 dual-listed companies, five stockbroking companies and 20 registered asset managers. This has provided a considerable boost to the level of skills in Namibia's financial sector. For such a small economy, the NSX attracts considerable interest from the outside world and has succeeded in establishing a reputation as an institution of integrity. The presence of world-class companies on the NSX testifies to this fact. The critical question is whether this industry is now ready to contribute to the future development of the economy.

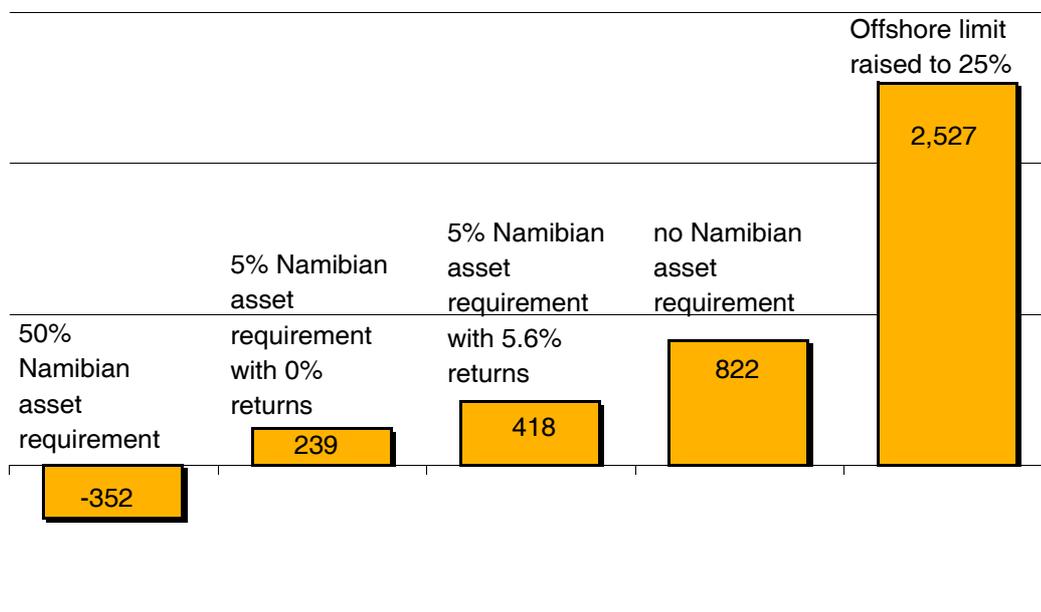
### **Conclusion 2: The development of the NSX and associated activities has taken place largely because of government regulations and has been at the considerable expense of Namibian contractual savers**

Domestic asset requirements have undoubtedly helped develop a stock exchange as well as a broking and asset management industry in Namibia. However, this industry has been developed at considerable cost to Namibian contractual savers – pensioners and life insurance policy holders. We believe this cost to have been in the order of N\$235 million to N\$990 million in lower returns between 1997 and 2001. This is because domestic asset requirements restrict the choice of assets available to asset managers and thereby lower returns. In theory any binding restriction in asset choice will reduce returns. Table 14 shows the difference in available assets between the NSX and the JSE. By restricting asset choice in 35% of asset portfolios to a small sub-set of what is available on the JSE plus a small number of local Namibian shares, returns to Namibian savers have been reduced.

**Table 14 Comparison between NSX and JSE in 2000 (Source: Standard & Poor's Emerging Markets Database 2001)**

	NSX	JSE
Number of listed companies	13	616
Market capitalisation (US\$m)	311	204,952
Value of trade (US\$m)	22	77,494
Turnover ratio (%)	4.5	33.9

These costs are best quantified by comparing the average annual returns from the Namibian portion of asset portfolios to those of the South African portion. The GIPF estimates that between 1995 and 2001 the average annual return on the Namibian portion of its portfolio has been 11.1% compared to 12.8% for the South African portfolio and 23.7% for the offshore portfolio. This closely corresponds with evidence gained from interviews with asset managers. If these historic returns were applied to a portfolio of N\$5 billion over a period of five and ten years, pension assets would be N\$234 million and N\$822 million lower respectively than they would have been without the domestic asset requirement.<sup>7</sup>



**Figure 48 Cost to N\$5 billion pension fund of restricting asset choice after 10 years under different asset requirements in N\$million**

**Conclusion 3: It is hard to assess what the unregulated demand for a stock exchange is in Namibia**

For the first two years of its life, the NSX succeeded in achieving four local listings and two dual-listings unaided by domestic asset requirements. Since 1994 the development of the exchange has been accelerated through government regulation. It is difficult to say how the NSX would have developed in the absence of regulation. It is therefore difficult to say what the demand for the services of a stock exchange are in Namibia if the market had been left to itself. After

7. The actual level of contractual savings is more than 4 times bigger than that, at around N\$22 billion.

slightly more than ten years, a total of nine local companies are listed on the NSX. In South Africa, an economy some forty times larger than Namibia's, the JSE has some 400 listed companies - about the same ratio of listed companies to GDP as Namibia. The evidence suggests that, once pressure is applied on asset managers there is only an erratic trickle of companies interested in listing. The international evidence suggests this is a normal state of affairs.

**Conclusion 4: Exchange controls have imposed even higher costs on contractual savers than domestic asset requirements**

The same logic applies to the restriction on offshore investments to 15%. If exchange controls were lifted and historic returns continued to apply, then an initial portfolio of N\$5 billion would be more than N\$22 billion higher after a period of ten years. Pensioners could enjoy a pension twice as high as they otherwise would.

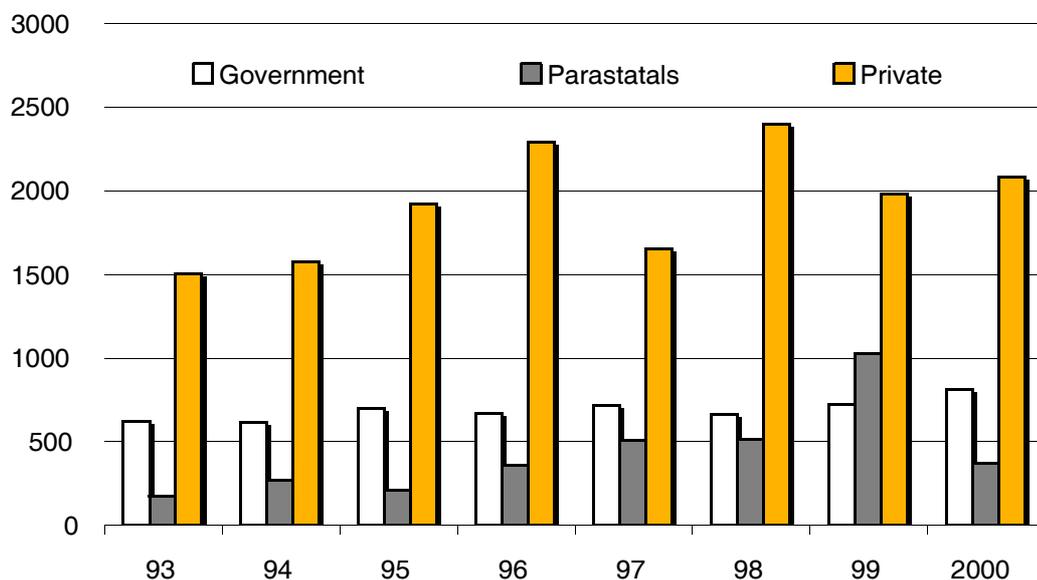
**Conclusion 5: Domestic asset requirements did not sustainably lower the cost of capital**

The initial aim of the Namibian asset requirement was to promote investment and growth in Namibia by keeping Namibian savings in Namibia. However, the cost of capital in terms of interest rates could not be reduced in Namibia through the Namibian asset requirement since Namibia is part of the CMA and cannot therefore have significantly different interest rates from South Africa (see "Cost of Capital" on page -20). The cost of equity finance has been so cheap that investors have lost interest in investing, since the cost of equity capital to companies is equal to the profit to investors. Most local companies could buy their shares back today for the same or a lower price than that at which they issued the shares. Also, only for Sentra has the average of dividends paid relative to listing price been higher than average deposit rates paid by commercial banks (see Table 4).

**Conclusion 6: It is difficult to argue that fixed investment in Namibia has been boosted to any significant extent by the development of the NSX**

A stock exchange is more than simply a means of raising capital, though raising capital for investment is one of its most important functions. A proper assessment of whether the development of the NSX has resulted in more investment than would otherwise have taken place would require a much more detailed analysis of the

options available to those firms that chose to list on the NSX to raise capital. What can be stated with certainty is that the capital raised from the issuing of equity and bonds listed on the NSX has amounted to a significant proportion of the value of private and government fixed investment. However, from our analysis and interviews, most of the money raised was not used to finance new investment. Private and government fixed investment has not risen appreciably since 1995. Building plans passed, which provides another useful measure of fixed investment, did show a marked increase in 1995, though this quickly subsided, as shown in Figure 50.

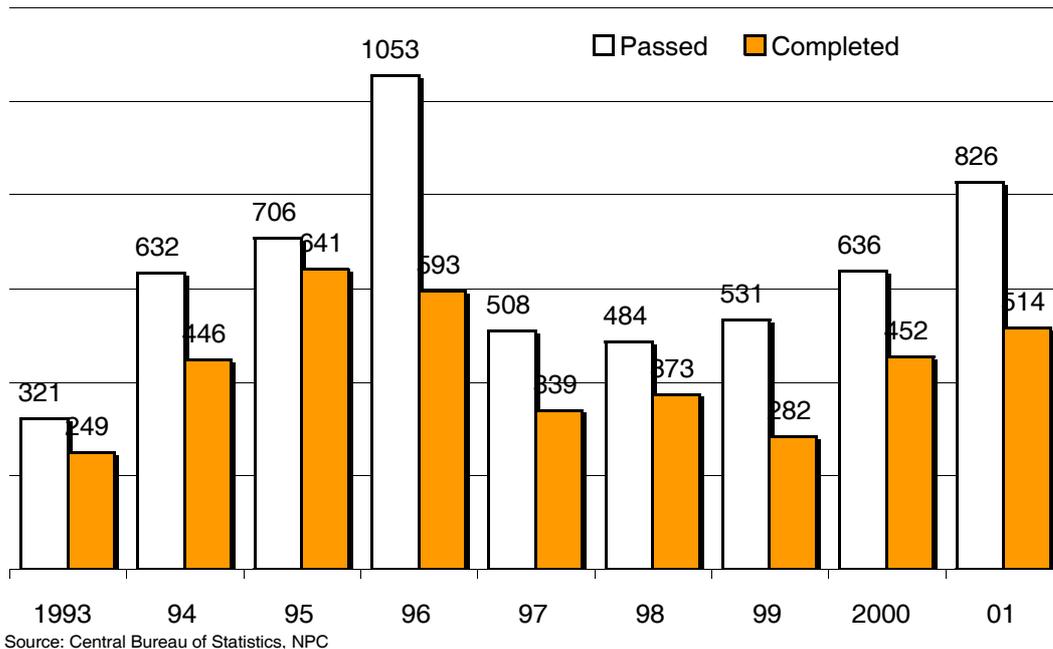


Source: National Accounts 1993-2000, CBS

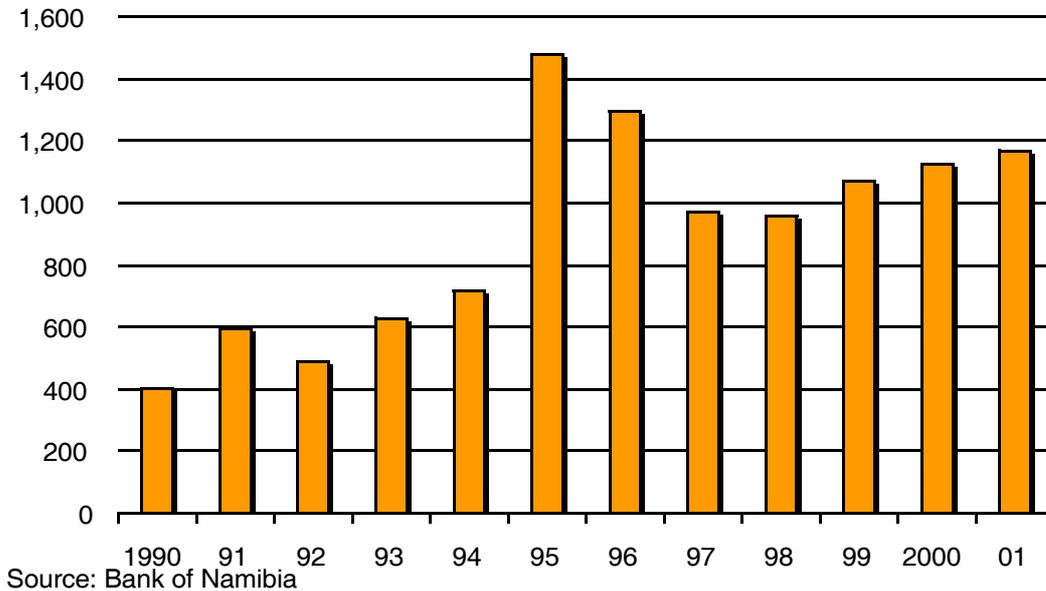
**Figure 49 Gross Fixed Capital Formation in N\$million in constant 1995 prices**

### **Conclusion 7: Domestic asset requirements do not appear to have stemmed the outflow of contractual savings from Namibia**

Stemming the outflow of capital from the economy has little economic value unless it can be put to good use by investors for the benefit of the national economy. This having been said, if one of the aims of regulation was to slow the outflow of capital from Namibia, it does not appear to have been achieved. Figure 52 and Figure 51 below show long-term investment from the capital account of Namibia's balance of payments. These consist primarily of contractual savings. The figures suggest that the outflow continues at approximately the same level as prior to the introduction of the regulations. The corollary of this is that inflows of income from

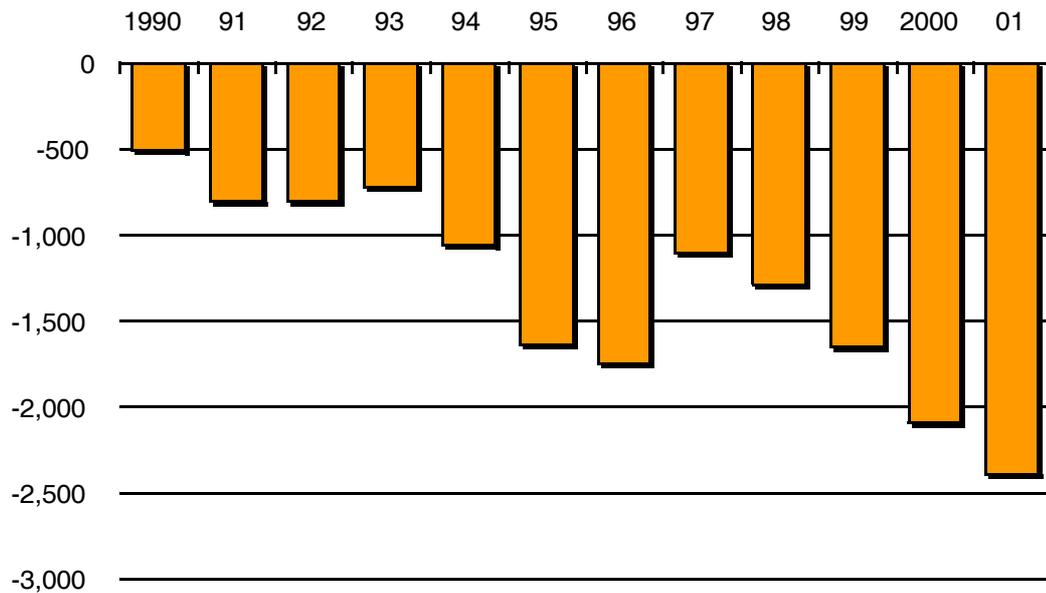


**Figure 50 Building plans passed and completed in current N\$million**



**Figure 51 Inflows of investment income in N\$million**

investments continue to be an important item on the current account of the balance of payments.



Source: Bank of Namibia annual reports 1991-2001

**Figure 52 Outflows of pension and life insurance funds in N\$million**

### **Conclusion 8: The presence of dual-listed companies helps finance the NSX, helps raise its profile and increases skills**

From the beginning, foreign companies have been encouraged to dual-list on the NSX if their operations in Namibia were sufficient to justify a separate listing. This has provided the basic rationale for the presence of dual-listed companies on the NSX. Of course, prior to the introduction of regulations, Namibian investors were able to benefit from investing freely in dual-listed shares if they were listed on the JSE. This freedom has since been curtailed somewhat by regulations.

Trade in dual-listed shares has provided Namibian brokers and the NSX with a steady income stream and thus ensured their continued existence. Trade in local shares in 2001 amounted to N\$62.3 million which under present arrangements would have provided a maximum of N\$623,000 in broking commission (at a maximum commission of 1%) and only N\$62,300 in income for the NSX (10% of N\$623,000). If the liquidity of local counters were to triple (to about the level of Mauritius of 9.35%) income would still fall far short of the current levels. The presence of dual-listed shares ensured broking commission of N\$10 million in 2001 and an income for the NSX of just over N\$1 million.

Dual-listed shares undoubtedly help raise the profile of the NSX, increase the exposure of the shares in question, and helps increase the level of skills in the Namibian industry by increasing the number of listings.

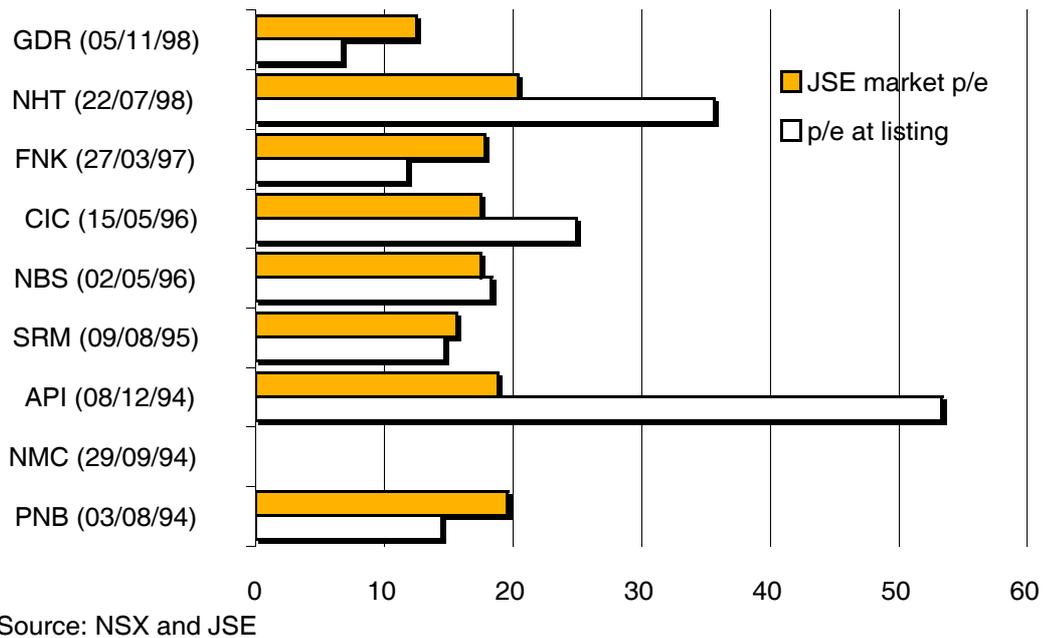
### **Conclusion 9: Dual-listed companies provide a disincentive to invest in local stock**

The presence of dual-listed companies, however, presents the NSX with an acute dilemma. On the one hand they have allowed asset managers to meet their domestic asset requirements without artificially inflating local share prices above their fundamental value. On the other hand, however, the presence of dual-listed shares has reduced the incentive to invest in local stocks. Asset managers can meet their regulatory requirements by investing in the liquid stock of large South African companies rather than small illiquid local stock. While there might have been some pressure to invest in local stock in the years immediately following the introduction of domestic asset requirements, the number and size of dual-listed counters on the NSX means that there is certainly no pressure now. We know of no other successful stock exchange that relies to this extent on dual-listed shares.

### **Conclusion 10: Some local companies were either overpriced at listing or should never have listed**

Figure 53 below compares the p/e ratios of local companies which raised capital at listing with the equivalent p/e ratio on the JSE at the same time. Three companies – API, CIC and Namibian Harvest - were listed at ratings that were substantially higher than the JSE market equivalent. All three companies have performed poorly since listing (see Table 13 in Appendix 1). The other companies were listed nearer the market equivalent. Gendor and Pep Namibia have also performed poorly but FNB Namibia, Namibia Breweries and Sentra have performed relatively well. The consensus among brokers and asset managers alike is that some local companies were overpriced at listing and some should never have listed. Clearly the cost of capital to companies that listed on the NSX in the years following the introduction of domestic asset requirements was extremely low.

As a result of this poor performance and low levels of liquidity, local investors have not gained by investing in local companies. The feeling in the market which emerged strongly in our interviews is that no one wants bad or illiquid stock at any price, especially when



**Figure 53 Local company p/e ratios at listing compared with JSE market averages**

they can buy quality dual-listed stock. Lack of liquidity is exacerbated by asset managers preferring to hold on to good local stock, since it is so scarce and dividend yields are often so good. This behaviour may be reinforced by the fear that at some stage, domestic asset requirements will be tightened up forcing asset managers into “real” local stock rather than dual-listed companies. Although asset managers claim they will view any new local listing on its merits, the days of “irrational exuberance” or “irrational goodwill” have been replaced by a much harder-nosed attitude that only quality listings will dispel.

**Conclusion 11: The failure to invest in Namibian shares is not because asset managers are not “Namibian” enough, but because there is no choice of quality Namibian companies and no liquidity**

The consensus among Namibian asset managers, the track record presented in Table 23, and the low levels of liquidity presented in Figure 5 strongly support the perception among asset managers that, after 10 years of development, there are only two local companies on the NSX worth investing in. This perception is unlikely to change if Namibia’s asset management industry is further Namibianised. Namibian asset managers will only take an interest in Namibian companies if more quality companies list on the NSX or if they are

encouraged or pressurised into taking more of an interest in unlisted ventures.

### **Conclusion 12: Namibianisation may have to involve more than copying South Africa**

The Namibian asset management industry is intimately tied to the industry in South Africa. In this initial phase of development, there has been little sign of Namibian asset managers learning to anything other than what their counterparts in South Africa do, namely manage portfolios consisting of large liquid stock, benchmarked government bonds, and cash. There may be a need for them to develop different skills that are more applicable to the Namibian economy – specialist knowledge of small cap and unlisted equity for example. This is unlikely to take place given that, by their own admission in the interviews we conducted, little of this takes place in South Africa either.

### **Conclusion 13: Domestic asset requirements has lowered the cost of government borrowing**

The intention of domestic asset requirements was to spur private investment. Our investigations suggest that it may have helped government borrow more cheaply. The lack of alternative investments is likely to have led asset managers to buy more government bonds than they otherwise would. Demand for bonds has therefore been higher than it would have been in the absence of regulation. We have not been able to measure this price difference.

### **Conclusion 14: Namibian banks have profited from domestic asset requirements**

Prior to the introduction of domestic asset requirements, Namibian contractual savings were transferred to asset managers in South Africa. Since then Namibian asset managers have constructed portfolios consisting of significant holdings of cash in Namibia (see Figure 15). Money has therefore been deposited with Namibian banks which previously went straight to South Africa. Cash placed on deposit with Namibian banks by asset managers adds to the liquidity of the banks. If the demand for loans is insufficient to use this cash, banks will lend it out to other banks through the money market. Namibian banks should therefore have profited from domestic asset requirements. A further question arises if banks have the ability to access the South African money market. If the

Namibian money market is cash flush, banks can move the money to South African banks. However, they are limited in the extent to which they can do this by the Determinations on Minimum Local Assets under the Banking Institutions Act of 1998 (see Government Gazette No. 1899 of 29 June 1998). This regulation stipulates that 100% of all foreign assets must be backed by a Namibian asset of equal value.

While Namibia's banks have benefited from domestic asset requirements because of additional deposits, it does not appear that the NSX has presented the banking sector with competition to any significant extent. This may be because banks and stock markets do not compete in the same market but provide different services as discussed above. But it means that the NSX has not put the Namibian banking sector under competitive pressure.

### **Conclusion 15: The NSX has become too expensive and too inaccessible for individual investors**

The 1993/94 Household Income and Expenditure Survey estimated that the richest 1% of households making up just 0.5% of the population (about 7,000 people) had an average household income of N\$270,236. The richest 5% made up 2.5% of the population (about 35,000 people) and had an average household income of N\$91,864. This makes Namibia a very small market for individual shareholders. With trading costs as high as they are and share prices as low, there is little incentive for individual investors to enter the market, especially if brokers are not interested in providing such services.

### **Conclusion 16: The problems of the NSX are structural rather than cyclical**

There is a danger that conducting a study during a bear market encourages people to overlook structural problems because everywhere prices are falling and liquidity is drying up. Despite this, we firmly believe the problems of the NSX are primarily structural rather than cyclical. The NSX local index started falling in 2000 as Namco ran into problems. Since then it has fallen steadily to a point where no market information makes itself felt. Liquidity in primary shares during 2002 has all but dried up. Prices fail to move even when good results are declared by companies such as FNB Namibia. The NSX is failing to act as a mechanism for price discovery – one of the key functions of a stock exchange even when firms are not raising capital.

Structural problems lie at the bottom of this situation – the small number of buyers and sellers in the market, the small number of local companies and the size of their floats, the presence of dual-listed companies, and a lack of speculators. If things carry on as they are the performance of the NSX will decline and it will become steadily less able to perform a useful economic function. Namibia will continue to impose significant costs on contractual savers without seeing benefits in terms of higher economic growth.

**Conclusion 17: The future of the NSX depends mostly on overall economic policies achieving higher rates of growth**

It has been pointed out to us several times that part of the explanation for the lack of listings may lie elsewhere, further up the graduation path, such as a lack of savers and institutions to assist start-ups, the failure to promote small business through an appropriate competition policy, and the disincentives to going public. Creating a thriving small business environment and encouraging savers to take risks involves the successful implementation of a whole host of policy measures, most of which lie outside the control or influence of the NSX and its surrounding industry.

**Conclusion 18: The need for a Namibian stock exchange may increase over time**

The listing requirements for the NSX are based on those of the JSE and are therefore very much in line with international standards. The main difference is one of size - smaller companies can list on the NSX than the JSE. This reflects the fact that the South African economy is some 35 times larger than the Namibian economy and that Namibian companies are generally likely to be smaller than South African ones. Just from the point of view of profitability, only 4 local companies currently listed on the NSX would be eligible for listing on the JSE.

It is likely that there is a size below which a company is just too small to list on a stock exchange. We have found no international evidence of what this size might be. Neither have we made an estimate of what this size might be in Namibia. Anecdotal evidence from one of the companies listed on the NSX puts the additional cost of being listed at N\$250,000 per year. Clearly paying such costs only makes sense for companies above a certain level of profitability. One broker suggested that the minimum market

capitalisation worth listing on the NSX is N\$20 million. Because of the limits on size, listing on the JSE is likely to exclude many Namibian companies.

**Table 15 Candidates for listing on NSX**

State owned enterprises	Private firms
Nampower	Olthaver and List
Telecom Namibia	Hartlief
MTC	AST Namibia
Namport	Namib Mills
Namibian Airports Company	Ongopolo
Air Namibia	DFI
TransNamib	PE Minerals
Development Bank of Namibia	Transworld Cargo
Namdeb	Namibian Grape Company
Namgem	Bank Windhoek
	Standard Bank Namibia
	Commercial Bank of Namibia
	Sanlam Namibia
	Old Mutual Namibia

Furthermore, the listing requirements of the JSE are becoming more stringent in order to conform to international standards and foster confidence in the South African capital market as shown in Table 12. Size and the stringency of listing requirements may mean that the JSE is not an option for Namibian companies wishing to raise capital through listing. Without a Namibian Stock Exchange or special provisions on the JSE, there is a danger that Namibian companies wishing to list will be prevented from doing so.

At least two other initiatives may provide further demand for the services of a Namibian Stock Exchange. The new Development Bank of Namibia and the proposed venture capital fund may lead to further demand for a Namibian stock exchange as an exit mechanism or as part of a graduation path for start-ups from being privately held to listing on the JSE. The widening gap between the needs of Namibia's corporate sector and the JSE combined with the growth in company start-ups which may be accelerated by new

Namibian initiatives may mean that the need for a Namibian Stock Exchange will grow in future.

**Table 16 Summary of NSX and JSE listing requirements**

JSE (main board)	JSE (main board)
<ul style="list-style-type: none"> <li>•Share capital of N\$1 million</li> <li>•At least 1,000,000 shares in issue</li> <li>•Profitable trading record for three years</li> <li>•Current audited profit of at least N\$500,000</li> <li>•A minimum of 20% of shares must be held by the public</li> <li>•A minimum of 150 shareholders</li> <li>•Auditor's reports for the previous 3 years</li> <li>•An acceptable record of business practice and management integrity</li> </ul>	<ul style="list-style-type: none"> <li>•Share capital of R25 million</li> <li>•At least 25,000,000 shares in issue</li> <li>•Profitable trading record for three years</li> <li>•Current audited profit of at least R8,000,000 before taxation</li> <li>•A minimum of 20% of shares must be held by the public</li> <li>•A minimum of 500 shareholders</li> <li>•Auditor's reports for the previous 3 years</li> <li>•An acceptable record of business practice and management integrity</li> </ul>

**Conclusion 19: There are limits to what can realistically be expected from a stock exchange in a small economy like Namibia's**

The international evidence available to us strongly suggests that there are limits to what can realistically be expected from a stock exchange in an economy as small as Namibia's (just over US\$3 billion) in terms of the number of companies listed on the exchange, the market capitalisation of those companies, the value of shares traded and the turnover ratio. Although within this general rule particular stock markets stand out (for example the Stock Exchange of Mauritius or stock markets in the former communist economies of Europe), we believe this more likely to be a result of wider economic policy choices (such as the wide-scale privatisation of state enterprises in former communist economies or the smaller role of government in directly promoting fixed investment) rather than features peculiar to the stock markets themselves.

Namibia is unusual by international standards in that it is a very small slow-growing economy with a large government sector generating a high level of contractual savings in the same monetary area as a much larger economy with an already well-developed stock exchange. Before independence in 1990 Namibia was fully integrated in the economy of South Africa. Furthermore, government and parastatal investment is large compared to private investment which is dominated by multinationals. We have not succeeded in finding a country with these characteristics anywhere in the world. These characteristics make it particularly difficult to develop a thriving independent stock exchange.

**Conclusion 20: The international trend is towards economic integration of equity markets not separate development**

We have documented elsewhere the marked trend towards greater integration and harmonisation of stock exchanges around the world. The fundamental economic force driving this process is that stock exchanges possess significant economies of scale. Liquidity is driven by the numbers of buyers and sellers, variety of stock and ease of trade.



## 6 OPTIONS

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This chapter lays out the options that stakeholders in the financial services industry, including the NSX, Namibian stock brokers, Namibian asset managers, NAMFISA, the GIPF, the Bank of Namibia, the companies listed on the NSX, and the commercial banks, have put forward to make the NSX a more effective institution in promoting the growth of the Namibian economy. These options were derived from a series of in-depth interviews conducted between June and August 2002. The list of interviewees can be found in the appendix.

We have sought to make this list of options as comprehensive as possible. Each option is described and briefly examined for its advantages and disadvantages. The options are grouped into three categories: market options, regulatory options and other options.

It is important to keep in mind that certain options cannot be evaluated on their own but need to be combined with other options to make them effective. We therefore first list options and then combine them into internally consistent strategies in the chapter “Development Strategies” on page -89.

Finally, it is important to understand that national economic performance depends on a wide range of economic policies which also have a bearing on the NSX. It was not possible to examine the entire range of economic policy options available to boost economic growth.

### MARKET OPTIONS

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#### **Option 1: Encourage or oblige brokers to offer retail services and become market makers in local stocks**

One way of increasing liquidity in local stock would involve market making. A market maker stands ready to buy or sell at any time. The market maker makes money by selling high and buying low. The bid-ask spread must be sufficient to cover the risks of not being able to find a buyer at any price and carrying inventories. The best placed agents to offer market making in Namibia are the brokers. In theory

they can already offer this service since they are now allowed to buy and sell shares on their own account. However no broker currently acts as a market maker, suggesting either that it is not a profitable activity, or that profits can be made more easily from other activities. The NSX itself could offer incentives to brokers to perform this function, perhaps by waiving the 10% commission it charges brokers, since it is in its own interest that this take place.

**Our view:** The risks of market making in such a small illiquid market are considerable. It may therefore be better to start only with selected shares and require the minimum amount of stocks that market makers would have to quote for to be small. Such an initiative would probably have to wait until the local market turned. Introducing market making to the NSX would also not solve many of the other problems that the NSX currently faces. However, at a later stage market making could add valuable liquidity.

### **Option 2: Introduce negotiated commission for Namibian brokers**

At present trading in the non-Namibian portion of asset managers' portfolios is subject to negotiated commission; that is to say, asset managers negotiate with brokers for the best deal on the shares they trade. Trade on the NSX through Namibian brokers is fixed by the NSX. This was brought in at a time when there was just one broker and prices had to be regulated since there was no competition. One way of lowering the cost of trading may be to introduce negotiated commission on the NSX. In theory this would foster greater competition among brokers for business, put pressure on them to improve their service and the quality of their research, and further encourage them to look for other sources of business such as bringing companies to market. An alternative to pure negotiated commission would be either to change the present sliding scale or to set a band based on JSE commissions within which brokers could charge.

**Our view:** In principle negotiated commission as a market-based price mechanism should be superior to regulated prices. Buyers and sellers of broking services can strike their own price-quality trade-off. However, given that asset managers hardly trade local counters anyway, there may be a reluctance to pay for the additional cost of research on local companies and brokers offering this service may be hit. At present five brokers compete under fixed prices for the business of at most ten major active buyers and sellers of shares. This ratio of brokers to buyers and sellers is high. The degree of real competition that can be created in such a small market is likely to be limited. Increased competition may lead to a reduction in the

number of brokers. Botswana has just two broking firms on its exchange for a larger selection of local stock, while Mauritius has eleven. If only a single broker were to survive, a monopoly situation would result, requiring the reintroduction of regulated prices. It should also be borne in mind that the costs of trading are only partly determined by broking commissions. It is unlikely that negotiated commission would result in more trade in local stock by asset managers since they are not trading in local stock because of the cost of trading.

**Table 17 Estimates of total broking and commission income for the NSX (based on local turnover)**

NSX turnover (N\$million)	Average commission rate (basis points)	Total broking income (N\$'000)	Total commission income for NSX (N\$'000)
62.3	50	311.5	31.15
62.3	40	249.2	24.92
62.3	30	186.9	18.69
62.3	20	124.6	12.46

Table 17 and Table 18 present our estimates for total broking commission and commission income from the transaction levy for the NSX under different assumptions of turnover and commission rates. It is based on the turnover of the NSX in 2001 and the existing transaction levy imposed by the NSX of 10%. We estimate that the average commission rate on the NSX was 53 basis points in 2001.

Other charges that clients face on the JSE when buying or selling shares are STRATE settlement costs which are charged an ad valorem 0.005% of the consideration of the deal with a minimum of R10,00 and a maximum of R50.00. There is also an Insider Trading Levy which is 0.0007% of the consideration of the deal. Marketable Securities Tax is only charged on purchases and is 0.25% of the consideration amount.

Negotiated commission was introduced on the JSE in January 1990. The average commission rate on the JSE is now approximately 25 basis points, half that of the NSX. If commission rates fall on the NSX to the same extent as in South Africa, total broking income and the commission income of the NSX will fall significantly. Given the cost structure of running a Namibian broking house, the number of brokers is likely to decline.

However, this is not necessarily the case if the Namibian service provider requirement is reinforced and pension funds are obliged to use Namibian registered asset managers and Namibian registered asset managers are obliged to use Namibian brokers.

**Table 18 Estimates of total brokerage and commission income for the NSX (based on total turnover)**

NSX turnover (N\$ billion)	Average commission rate (basis points)	Total broking income (N\$m)	Total commission income for NSX (N\$m)
2.5	50	12.5	1.25
2.5	40	10.0	1.00
2.5	30	7.5	0.75
2.5	20	5.0	0.50
2.0	50	10.0	1.00
2.0	40	8.0	0.80
2.0	30	6.0	0.60
2.0	20	4.0	0.40

### Option 3: Move to a lower cost trading and settlement system

The NSX has used the JSE's STRATE settlement system since August 2001 and the SETS trading system of the London Stock Exchange since May 2002. Asset managers often avoid placing orders directly into the system, preferring instead to phone round the brokers. These deals are then exposed to the market for the mandatory five minutes before they are executed. On average the number of days with offers to sell have outnumbered days with bids to buy by about two to one over the last three and a half years reflecting the general reluctance to put buy orders into the system. Trading in local company stock could just as easily take place by phone or by regular meetings around a table.

**Our view:** For the amount of trade taking place in local stocks and the number of buyers and sellers in the market, the NSX trading system is a high-cost system. With six important asset managers and five brokers it takes little more than half an hour on the phone to assess the market. From this point of view, moving to a less sophisticated and lower cost system may be beneficial. However, such an alternative would fly against efforts to integrate the NSX more closely into the JSE.

Alternatively, different classes of assets could be traded on different trading systems. Bonds and stocks on the development board could be traded on a lower-cost trading system. This approach would make sense when combined with different broking licenses. The broking license for trading bonds and development board stocks could be made considerably cheaper than a full broking license. This

JSE's STRATE  
settlement system  
at the NSX  
facilitates  
migration

could encourage commercial banks to become brokers for their clients.

On the other hand, introducing the settlement procedures and trading systems of a larger regional stock exchange supports the migration of stock companies to financial centres. Migration to more liquid markets is desirable from an economic perspective since it lowers the cost of capital for local companies.

#### Option 4: Introduce new products

A greater variety of products could be listed on the NSX. Trading on the NSX can take place in shares, government and corporate bonds. Government has issued four bonds (GC05, GC07, GC10 and GC15) which are benchmarked to their South African equivalents such as R156. There is a small secondary market in government bonds. The Bank of Namibia considered and rejected the idea that it should act as market maker for these bonds. Four corporate bonds have been listed on the NSX (Agribank, Air Namibia, Standard Bank and the Roads Fund Administration) but these have rarely traded. Parastatal bonds are all guaranteed by government. All these bonds could just as easily have been listed on the JSE.

**Our view:** The selection of listed products on the NSX appears limited. However, as things stand there is little to hold back the listing of more corporate bonds, property funds, private equity funds or project bonds. The NSX was deliberately designed to handle as broad a range of products as possible. Parastatals continue to have access to highly concessional finance and probably do not need to sell bonds. There is, therefore, little more the NSX can do to encourage a greater diversity of products.

#### Option 5: Relax listing requirements

Some argue that firms are not listing on the NSX because listing requirements are too stringent. However, the NSX created a special "development board" in 1998 where the requirement of a three-year profit history was dropped. Namco, a diamond mining company with no profit history, had already listed in 1994. Historically, the listing committee of the NSX has only ever rejected one company's listing application. At least four companies received approval and then decided not to go ahead.

**Our view:** Unless risk-taking individuals can be lured back to the NSX, it is unlikely that the NSX could become a high-risk "wild west" kind of exchange. Namibian asset managers, like their counterparts in South Africa and elsewhere, want to invest in the

low-risk liquid stock of large companies. Local asset managers have burnt their fingers with all but three local companies, many of which in hindsight were not suitable for listing. They are unlikely to invest in high-risk companies without coercion. No companies have listed on the development board since its inception.

### **Option 6: Merge with the JSE**

The NSX is already highly integrated with the much larger and more liquid JSE. It shares a trading and settlement system and its brokers have links to brokers on the JSE. The NSX could take advantage of the close links and merge with the JSE. This could be done through establishing a Namibian board on the JSE.

**Our view:** There is a worldwide trend towards fewer larger stock markets because of the benefits of economics of scale. As the largest stock exchange by far in Southern Africa, the JSE is likely to become a regional stock exchange at some time in the future linked, perhaps to a number of satellite exchanges in other countries. The NSX should encourage the migration of local stocks to the JSE and beyond. Becoming a Namibian Board on the JSE or creating a Pan-African Board on the JSE would be ways of achieving this.

## **REGULATORY OPTIONS**

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### **Option 7: Scrapping domestic asset requirements and trying something else**

If it is accepted that the value to the economy of the existing NSX, broking and asset management industry in no way justifies the costs imposed on contractual savers, then it is worth considering scrapping domestic asset requirements altogether. In this view it is unacceptable to force savers to accept lower returns for the sake of creating an industry for which there is no clear demand. Pensioners saving for their old age so that they do not become a burden on the state must be encouraged as much as possible rather than penalised with lower returns.

**Our view:** Scrapping domestic asset requirements and the Namibian asset status of dual-listed companies would kill the NSX in its existing form unless other measures were taken. The end of the NSX would not cause problems for dual-listed companies but may be problematic for several local companies. They may decide to de-list or to move to the JSE. Without the NSX, the Namibian service

provider requirement might also be scrapped and the asset management industry might move back to South Africa. The broking industry would lose its principal clients. It is difficult to judge whether any would continue to exist through other operations. While this option would have immense benefits for savers, Namibia might also lose a broking industry which at least has the potential to survive without regulation at some time in the future.

This option would therefore have to be combined with other measures if the full range of financial services were to continue to be available to Namibian companies. The NSX could, for example, receive income through the levy placed by NAMFISA on brokers. NAMFISA would either transfer the broker levy to the NSX or the NSX would collect this levy instead of NAMFISA. This would make sense since the NSX regulates the stock broking industry. Claessens et al. (2002) and Steil (2001) are very clear about restrictions that require portfolio investments in local instruments stating that these must be avoided to avoid domestic institutional investors being held captive to an increasingly illiquid and untransparent local market. Also Impavido et al. (2002) argue that contractual savings should not be used as a developmental tool.

### **Option 8: Increasing the 35% limit still further**

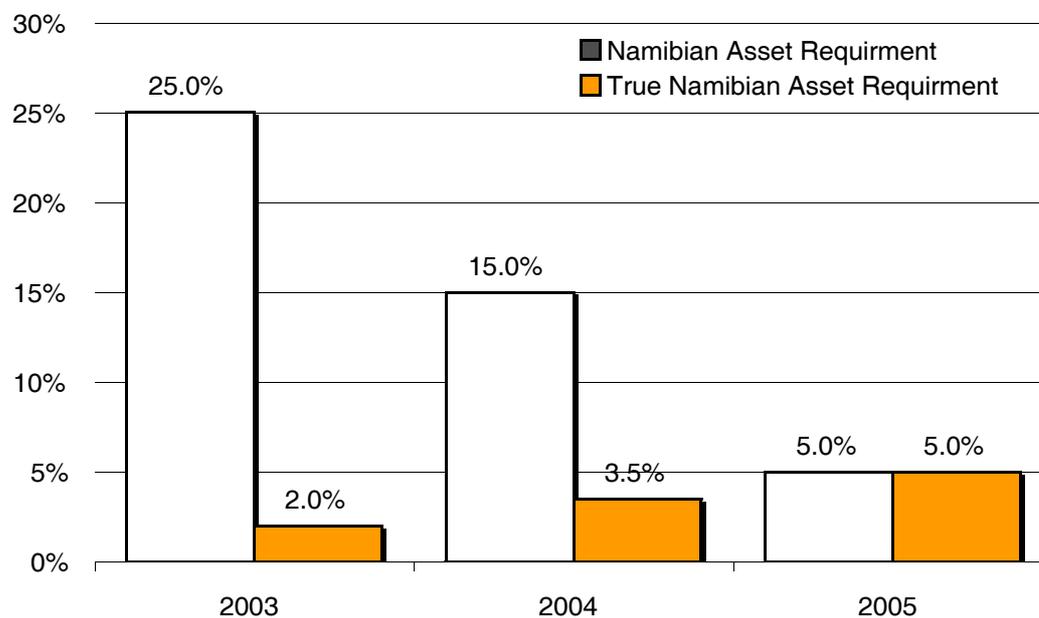
In stark contrast to Option 7, others argue that the 35% limit does not go far enough. By raising the limit to 50% or 75%, asset managers will be forced to invest money in real Namibian assets rather than dual-listed shares. Proponents of this argument compare Namibia to South Africa and claim that this would simply bring Namibia into line with the South African requirement of 85%.

**Our view:** We believe the “blunt” approach to domestic asset requirements has not brought about the hoped for benefits in terms of new investments and more jobs. Unless dual-listed shares were to be excluded from Namibian asset status there would be nothing to stop asset managers investing still more in dual-listed stock. We do not believe this option would lead to higher investment in Namibia but would rather put an even higher burden on Namibian contractual savers in terms of lower returns.

### **Option 9: Phasing in “real” domestic asset requirements**

The intention of domestic asset requirements was to channel Namibian savings into new investments in Namibia. However, since dual-listed shares and cash are classified as Namibian assets, only a

very small portion of Namibian portfolios are invested in what can be considered real Namibian assets. One way of changing this would be to add a further requirement which obliged asset managers to invest a smaller proportion than 35% in “real” Namibian assets. These would be defined to include any class of asset deemed appropriate: local company stock and bonds, unlisted ventures, equity in the new Development Bank, Namibian government bonds. The new requirement would be introduced at a starting point of, say, 2% and gradually increased over time as ongoing monitoring demonstrated the costs to savers were minimal. At the same time the 35% limit would be phased down and eventually eliminated altogether.



**Figure 54 Hypothetical future Namibian asset requirement**

**Our view:** The ultimate aim of domestic asset requirements must be to foster investment and growth in the economy. A more focused approach based on “real” Namibian assets holds out the best hope of reducing the cost of capital to companies and inducing them to list. We do not know how cheap capital has to become before quality companies decide to list. The danger is that, as before, poorer companies come to market. The inclusion of corporate bonds as “real” assets may lead to real competition with commercial banks. We believe that this strategy should best be combined with improvements in other areas of policy, and perhaps measures to encourage Namibian asset managers to develop greater expertise in unlisted investments. A “real” asset requirement should be introduced gradually and monitored. There may be a danger that the

discretionary element associated with monitoring may introduce uncertainty in the asset allocations of asset managers and this would not encourage beneficial long-term behaviour. The real local asset requirement could be enforced by making compliance with it part of the annual audit of pension funds and life insurance companies.

### **Option 10: Transfer the regulation of brokers to NAMFISA**

The NSX is responsible for regulating the broking industry. The levy to be raised by NAMFISA from brokers could instead be transferred to the NSX. This income would make up for less income through trading in dual-listed companies if the 35% Namibian asset requirement were to be phased out.

**Our view:** A levy placed on an industry to pay for its own regulation should be received by the institution regulating it. In the case of the broking industry this is the NSX. Alternatively, the regulatory function could be taken over by NAMFISA and the NSX scaled down accordingly.

### **Option 11: Regulation of qualifications**

While the NSX imposes criteria on the qualifications of people working as stock brokers, traders and settlement officers, many people working in the industry appear to have no professional qualifications. While Namibia is certainly more advanced than many other African countries, standards could be raised further. Certificates could be made compulsory for brokers, asset managers, analysts and others based on international standards.

**Our view:** This measure could generally improve the effectiveness of the capital markets in Namibia and could help to develop particular skills such as private equity or venture capital funding in Namibia.

### **Option 12: Enforcement of the Namibian service providers provision**

Circular No.5 of the Stock Exchanges Control Act 1985 stipulates that Namibian pension and life insurance funds are obliged to use Namibian registered asset management companies to manage their assets. It further requires Namibian registered asset managers to deal through Namibian brokers. The requirement could easily be reinforced by NAMFISA through periodic audits. The annual audit of pension funds could include checks on compliance with the

requirement of using Namibian asset managers and compliance with the real Namibian asset requirement. The annual audit of asset managers could deliver the same for the Namibian broker requirement.

**Our view:** Namibia has been independent from South Africa for twelve years. Economically it is still closely tied to South Africa. Namibian service provider regulations are an effective measure to promote and maintain an own stock broking and asset management industry, whether the NSX becomes a Namibian board on the JSE or remains a separate entity. However, to have an own asset management and stock broking industry is more a political than an economic decision. It is likely to raise costs to savers. In the long run such a regulation should be scrapped.

### **Option 13: Changing South African regulations**

At present, investment regulations in South Africa prohibit South African pension funds and unit trusts from investing in NSX-listed companies. Changing this situation could introduce a new pool of investors to the NSX and increase liquidity.

**Our view:** This is an obvious area where talk of regional cooperation and integration should make a meaningful difference. However, it is unlikely to provide a major stimulus to trade on the NSX since neither the past performance of primary listings on the NSX nor their liquidity is attractive to South African investors. It is an option that might be helpful in conjunction with other measures but may require Namibia to seek an investment grade sovereign rating.

## **OTHER OPTIONS**

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### **Option 14: Relax exchange controls for contractual savings**

Pensioners and other savers and investors would undoubtedly profit from a relaxation of exchange controls since that would give asset managers far greater access to a wider choice of assets.

**Our view:** This option would undoubtedly bring massive benefits to savers and boost the inflow of investment income into the country. Namibia might be able to negotiate a separate arrangement for its contractual savings within the CMA. This would require intervention at the highest political level. Even an increase in the

offshore limit to 25% of funds outside the CMA would already have a significant impact on the portfolio returns of institutional savers. Levine and Zervos (1996) analyse the link between capital controls and stock market development. They find that stock markets become larger, more liquid, more integrated internationally, and more volatile after controls on capital and dividend flows are liberalised.

### **Option 15: Consolidation of GIPF portfolio**

The GIPF has outsourced its asset management functions to ten asset management companies. This has been used as a way of encouraging the creation of a Namibian asset management industry. There may be scope for reducing costs by limiting the number of asset managers used and using asset managers with differing investment strategies. However, this is entirely up to the GIPF.

**Our view:** Many of these companies have similar investment strategies and produce similar returns. The degree of risk spreading may therefore be limited. The Namibian asset management industry depends greatly on the GIPF. Consolidation is likely to lead to fewer asset management companies in Namibia. There may be a greater incentive for those that remain to further develop their Namibian capacity.

### **Option 16: Provide tax incentives for companies to list**

A lower rate of corporate tax could be offered to local companies or to local operations of multinationals which decide to list on the NSX. There are two possible rationales for such incentives. If it is believed that listed companies perform better than unlisted ones then the benefits to the economy from listing may outweigh the costs of forgone revenue to the fiscus. Alternatively, it may be that listed companies provide better disclosure of profits and thus pay more tax. Any tax incentive would have to be designed to more than outweigh the additional costs imposed on the company by listing.

**Our view:** There would be no economic justification for offering tax incentives simply to save the NSX. If one believes that listed companies perform better or pay more tax, there would be economic grounds for offering such incentives. However, experience to date on the NSX lends little support to such a view. The international evidence here is also hazy. Even if listed companies were found to perform better, it may be that better companies tend to list in the first place. This option would depend on total government commitment

to developing a thriving stock exchange since the Ministry of Finance would be reluctant to forgo revenue at a time when the fiscus is under considerable pressure. Experience in Namibia with tax incentives has so far been patchy at best. The advantage of this proposal is that tax incentives would not be discretionary and therefore the danger of bureaucratic delays would be minimised.

Within Southern Africa at least two countries have experimented with tax incentives for listing and abandoned them. Botswana experimented with time-bound tax incentives for listing but dropped them. Mauritius also began by offering a 10% reduction in the corporate rate of tax for listed companies from 35% to 25% but this reduction was abandoned in favour of a lower overall rate of 25% and 15% for certain manufacturing companies.

### **Option 17: Provide other tax incentives**

In other countries such as Canada, taxpayers are allowed to fully deduct certain investments from their taxable income up to a prescribed limit. The idea is to give individuals direct incentives to put their money into higher risk investments such as venture capital funds and new companies.

**Our view:** This option would directly incentivise individuals to put their money into higher risk investments. However, it would have to be simple and easy to administer and monitor by the tax authorities. Also, this measure equals handing out money in cash for certain investments. This could also be done directly if desired.

### **Option 18: Privatisise state-owned enterprises**

The largest Namibian-owned companies are mostly owned by the state. One option for increasing the number of large companies on the NSX would be to privatise these companies through the NSX.

**Our view:** Privatisation has the potential to reduce government's debt, improve the performance of state-owned enterprises and boost economic growth. However, any privatisation in Namibia is likely to be a drawn-out and highly politicised process. Given that many companies are natural monopolies, privatised companies would have to be carefully regulated to avoid monopoly pricing. Government would probably want to continue as a major shareholder and require some sort of service agreement to guarantee service provision to the wider population. Government would probably also want to limit the control exercised by foreign shareholders, especially South African shareholders.

## Option 19: Oblige multinationals to list

Large companies in Namibia which would be good candidates for listing but that are not state-owned are multinationals. For a company to dual-list on the NSX, the listing committee requires that it has operations in Namibia sufficient to justify a separate listing. Only one company – FNB Namibia - has so far listed its Namibian operations separately. If tax incentives do not serve to entice companies to list, regulatory coercion might. Thus a precondition for a banking or a mining licence would be a listing on the NSX. Ironically, multinationals may be prevented from listing locally by other local regulations. The EPZ Act, for example, requires firms to bring in their own money rather than raise it locally.

**Our view:** Multinationals do not list their Namibian operations separately because they see no advantage in doing so. Rather, listing implies increased business costs – in money and management time. Namibian investors can already buy shares in most if not all of these multinationals and enjoy the profits they make by buying their shares on the JSE. It could be popular in terms of “decolonising” the economy and promoting black empowerment and would certainly be preferable to nationalisation. However, such an approach would undoubtedly discourage foreign direct investment and run counter to WTO requirements.

## Option 20: Ensure information on public companies is readily available

At present it is difficult to gain access to information about Namibian companies. Pty companies are obliged to lodge their financial statements with the Registrar of Companies in the Ministry of Trade and Industry, but in the absence of a public computerised database this information is difficult to access.

**Our view:** Assisting the Registrar of Companies to become more effective would promote accountability and transparency and help open up the economy. Brokers could gain better access to company information and approach suitable candidates about listing on the NSX. This needs to be addressed independently of the development of the NSX since accountability and transparency of companies is important for the public.



## 7 DEVELOPMENT STRATEGIES

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This chapter combines the options of the previous chapter into three internally consistent strategies. First we sketch out what type of stock exchange Namibia requires. We then discuss economic principles relevant to design strategies for the NSX and then explore three basic strategies. We conclude this chapter with a recommendation.

### WHAT TYPE OF STOCK EXCHANGE DOES NAMIBIA NEED?

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The analysis of Classens et al. (2002) suggests that the process of developing a local stock exchange also increases domestic firms' the access to international exchanges. They also find that while better fundamentals lead to increases in capital raising, listing and trading at the local exchange, more and more of these activities will occur on exchanges abroad. Classens et al. (2002) further find that migrations has been beneficial in making it easier for firms to attract funds at lower costs and better terms. However, migration also makes it more difficult for smaller countries to sustain a fully-fledged local stock exchange. Accepting that migration is beneficial for Namibian companies, the NSX could act as a facilitator, supporting migration rather than battling for market share.

Classens et al. (2002) also recommend that countries with small markets should encourage foreign trading and clearing systems and settlement operators to provide services locally, whether in collaboration with local institutions or on their own. The NSX has already embarked on this route by adapting the trading system of the JSE.

The development of an independent financial sector in Namibia is still an ongoing process with several gaps in the provision of financial services. Table 19 displays a matrix of financial mediation in Namibia. The gaps that can be addressed by a further-developed NSX are highlighted in grey. Apart from a further-developed NSX, a development bank and a venture capital fund are also required to fill the gaps in financial intermediation in Namibia. A stock exchange is required to allow small companies nurtured by the development bank to raise larger capital that gives them more

security in times of crisis. Also a venture capital fund - to close the gap for financing projects where collateral is not sufficient and/or risks are too high, would need a stock exchange as one possible exit strategy.

**Table 19 Financial Intermediation in Namibia**

Capital Requirements	Micro	Small	Medium	Large	Extra Large
Fully collateralised Low Risk	•Micro Finance Institutions	•Commercial Banks	•Commercial Banks	•Commercial Banks	•International Stock Exchanges
Fully collateralised High Risk	•Micro Finance Institutions	•Development Bank	•Development Bank •Venture Capital Fund •Development Board at NSX	•Development Bank •Venture Capital Fund •NSX	•International Venture Capital Funds •International Stock Exchanges
Partly collateralised Low risk	•Micro Finance Institutions	•Development Bank	•Development Bank •Development Board at NSX	•Development Bank •NSX	•International Stock Exchanges
Partly collateralised High risk	•Non-formal financial activities	•Non-formal financial activities	•Venture Capital Fund •Development Board at NSX	•Venture Capital Fund •NSX	•International Venture Capital Funds

Namibia needs the services of a development bank, a venture capital fund and a stock exchange. The ideal stock exchange would cater for all kinds of financial asset trading and support the migration from a development bank or venture capital fund to the local stock exchange and then further to larger more liquid markets

## ECONOMIC PRINCIPLES FOR DEVELOPMENT OF THE NSX

Many people remain unconvinced that a rational and pragmatic economic approach involving the careful weighing-up of likely costs and benefits is the best way of developing an economy. Economic nationalists will continue to insist that Namibia requires certain institutions or industries regardless of the costs and benefits to Namibia simply because they exist elsewhere. Well-organised interest groups may prevail over more diffuse and less well-organised groups such as contractual savers. Those whose own money is not at stake may happily ignore short-term costs, claiming that they are justified by the long-term benefits. Of course it is easy to make such claims when one's own future is not at stake and when the long-term never arrives. We do not intend here to convince such non-believers of the validity of economic arguments. We do however want to address two issues of importance in the debate on the future of the NSX.

## **Is Namibian money better than foreign money?**

The first issue is whether it is economically important for Namibian savings to be used to finance Namibian investment. Leaving aside practical obstacles such as the existence of exchange controls which most developing countries have (see above), in theory Namibian institutions (and therefore Namibian savings) have an advantage over foreign savings in financing investments in Namibia. The cost of gathering information about investments and the cost of monitoring those investments are lower for Namibian institutions than other institutions. The existence of local knowledge and trust lowers these costs further. If profitable investment opportunities exist Namibian savers should be able to take advantage of them. In this case the market will work to channel Namibian savings to Namibian investments. This explains why even in countries with no capital controls, domestic savings end up financing a large part of domestic investment.

There is an issue related to size. If capital controls did not exist, large multinational companies could invest in profitable opportunities anywhere in the world including Namibia. For this to be worth their while, the project would have to be above a certain size and yield a certain return. Does it matter to Namibia if, for example, Anglo American Plc develops the Skorpion zinc mine with money raised outside Namibia rather than Namibian savings? If Namibians cannot finance the project they cannot derive the profits from it. In every other aspect it does not matter. This disadvantage is eliminated if Namibian savers can purchase Anglo American shares. If this is the case, Namibian savers benefit from the profits derived from the entire portfolio of Anglo American's entire operations rather than just one project in Namibia. Unless the profitability of this project is above average, Namibian savers will benefit more from an average return at lower risk.

However, Namibian savings may have an advantage over foreign savings in certain cases. Multinationals have greater choice as to where to invest their money. These choices are based on relative returns. There may exist in Namibia investments which yield a good return, but if they are not as good as other investments elsewhere they will not be implemented. Thus, turning round the former mines at TCL may in theory have been a profitable option for Goldfields, but this required too much costly management time and effort compared to returns elsewhere. It was therefore more profitable to close the mines. For a smaller Namibian company such as Ongopolo the return was still worthwhile.

It is possible that the needs of Namibian savers (for low-risk investments such as shares in large liquid companies) are mismatched with the needs of Namibian investments (smaller but higher risk). In such cases economists would generally argue that trade with the rest of the world allows Namibian savers to take advantage of the investment opportunities that best suit their requirements and the Namibian economy to take advantage of foreign higher-risk savings. If foreign higher-risk savings are not flowing into Namibia for profitable projects, policy-makers must ask why. We believe that the assertion that foreign high-risk investment is not materialising in the case of profitable investment opportunities is at best unproven.

### **Who should bear the cost of development?**

The second issue is whether we should encourage Namibian savings to finance investments in Namibia even if returns are lower. This may be required if the corresponding inflow of high-risk savings does not materialise. Namibian savers are unlikely to voluntarily sacrifice higher returns for the longer-term benefit of the country. Government may decide to impose this sacrifice on them in the belief that the public benefits of such investments outweigh the lower private returns. This is a dangerous game which could end up hurting savers without commensurate long-term gains for the economy.

Pension funds are not well-suited to high-risk investments. Their task is to invest in relatively secure investments for their clients. The portfolio they choose depends on the age of their clients. The more clients there are that will retire in due course, the less risky (variation in portfolio value) the portfolio must be.

### **It is better to give incentives than to force through regulations.**

The role of a government in today's market economies is to create an enabling environment for investments and hence economic growth. The reasoning behind this is that individual profit-maximising behaviour is the best allocation mechanism. The role of the state is only to create an environment where such activities can strive subject to other considerations such as social fairness. This framework consists of such features as a legal system, and adequate infrastructure (roads, street lighting and hospitals).

Forcing money to stay in the country can foster investment in that excess capital would make it cheaper for companies to borrow

money. Lower interest rates make some investment projects profitable that would not have been profitable at higher rates. However the Namibian interest rates are less influenced by the capital available in Namibia than South African interest rates.

In general Namibian money is not any “better” than foreign money. There is an argument that local money is more committed than foreign capital. This can be explained through transaction costs and through information asymmetries. A multinational firm has the choice of many investment opportunities. It is relatively easy for such a company to take their investments from one country to another to maximise profits. This can best be illustrated with an example. An international investor buys a cement factory in Namibia that gives an annual return of 20% on the initial investment. The international investor also owns a cement factory in Zambia that gives a 20% return. Now market conditions change (exchange rate, new competitor in the Namibian market....) and the Namibian annual return drops to 10%. If the international investor believes that the change conditions and decreased profitability will prevail it would de-invest and rather expand its operations in Zambia. A Namibian investor might not have the same means as the international investor and might stick with the Namibian cement factory and potentially made a greater effort to make it more profitable. Now a company de-investing in Namibia is not necessarily bad news if it can sell the company to someone that can make it profitable. This depends to a large extent on the costs of finance for that individual.

### **What is the role of a stock exchange?**

Equity finance  
does not require  
fixed interest to be  
paid

The role of a stock exchange is to raise capital for particular capital needs. One advantage of raising capital through a stock exchange compared to bank loans is that no fixed interest payments have to be paid. Dividends need not be paid whereas loans have to be serviced. This gives the company more freedom in difficult times.

Listed companies are subject to greater scrutiny by the public. This can have positive as well as negative effects. In theory, separate ownership and management means that shareholders can influence management decisions and even replace management if they so wish. While public companies are required to make their financial statements available to the public, it does not pay outsiders to analyse their performance. For listed companies, analysts earn their money through trading in the shares of listed companies. There is therefore an incentive for the performance of these companies to be monitored and their share price will generally reflect their performance.

## GUIDING PRINCIPLES

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### **Principle 1: Create institutions that the economy needs, develop local industry when it can add value to the local economy, and market test demand**

If an industry depends on a market for its survival it will cease to exist when the market ceases to exist. Creating an industry through regulation brings with it the problem that it is never clear if demand really exists. After ten years of existence and seven years of domestic asset requirements, only a handful of companies in Namibia have chosen to list. To fully establish whether there is real demand for the services of the NSX, regulations would have to be relaxed. The question is, at what stage should this be done if economies of scale mean that a certain size has to be reached before the NSX becomes independent of regulation.

### **Principle 2: Set measurable targets and monitor them**

Domestic asset requirements in Namibia were implemented without clear and measurable aims. In order to gauge whether further initiatives are successful or not, measurable targets should be set and monitored on an ongoing basis. Without this no one will know whether the measures have been successful or not.

### **Principle 3: Provide incentives and choice where possible**

There are two ways of encouraging change: offer incentives, or force through regulation. In certain cases regulation is unavoidable, but in others incentives may prove more effective. Regulation should not simply be adopted as the default approach.

### **Principle 4: Reward genuine enterprise and risk-taking**

The market economy innovates and creates new wealth because the highest rewards go to those who produce new products in new ways at lower prices. To create a truly productive financial sector, rewards should go to those who genuinely innovate and add value to the economy. Incentives in the financial system should be such that genuine enterprise and risk-taking is rewarded.

### **Principle 5: Allow risk to be taken by those best able to do so**

Domestic asset requirements in Namibia were introduced without a clear view on whether contractual savers were best-suited to bear the risks associated with developing capital markets in Namibia. There is no convincing reason why pensioners should be asked to pay for long-term development from which they are unlikely to benefit. Development in the national interest is generally best borne by the widest representative group of citizens - usually the taxpayer. In Namibia it could be argued that pensioners represent a privileged group in society that is better able to bear risk than poorer groups who do not have private pensions.

### **Principle 6: Make maximum use of the best available financial expertise**

In Namibia financial skills are scarce, yet it is impossible to develop a stock exchange and associated industry without them. Foreign expertise has been used to a large extent in building up the industry in Namibia.

### **Principle 7: Make subsidies and costs clear**

Economists often argue in favour of explicit subsidies and taxes rather than regulation because the costs of regulation are generally less clear. This view is often not shared by politicians and business people for the same reason. Without some sort of cost-benefit analysis however, it is impossible to say with any certainty whether a policy measure brings net benefits to the country.

## **DEVELOPMENT STRATEGIES**

We have set out as many options as possible for developing the NSX. Because some of these options are mutually exclusive and others are mutually reinforcing, we believe these options can be usefully combined into three distinct development strategies: the Economic Nationalist Strategy, the Separate Development Strategy, and the Globalisation Strategy.

**Table 20 Core elements of the different approaches to reform**

	<b>Strategy 1: Economic Nationalist Strategy</b>	<b>Strategy 2: Separate Development Strategy</b>	<b>Strategy 3: Globalisation Strategy- JSE Model</b>
<b>Market options</b>	<ul style="list-style-type: none"> <li>•The NSX remains more or less as it is</li> </ul>	<ul style="list-style-type: none"> <li>•Introduce low cost trading system for bonds at the NSX</li> <li>•Develop NSX further to facilitate migration of stocks to international centres</li> </ul>	<ul style="list-style-type: none"> <li>•Use JSE trading and settlement system</li> </ul>
<b>Regulatory options</b>	<ul style="list-style-type: none"> <li>•Raise the 35% to 85%</li> <li>•Asset managers must be Namibian</li> <li>•Asset managers must use NSX brokers</li> </ul>	<ul style="list-style-type: none"> <li>•Phase down the 35% but phase in “real” asset requirement</li> <li>•Asset managers must be Namibian</li> <li>•Asset managers must use NSX brokers</li> </ul>	<ul style="list-style-type: none"> <li>•Regulation 28 would be reformulated to reflect purely prudential requirements</li> </ul>
<b>Other options</b>	<ul style="list-style-type: none"> <li>•Force multinationals to list on NSX</li> </ul>		

## STRATEGY 1: ECONOMIC NATIONALIST STRATEGY

The Economic Nationalist Strategy believes Namibian savings should be used as much as possible to finance investment in Namibia even if this produces lower returns for savers. The NSX remains as it is but the outflow of capital is limited to the same extent as it is in South Africa while multinational companies operating in Namibia are forced to list their local operations separately on the NSX.

## STRATEGY 2: SEPARATE DEVELOPMENT STRATEGY

The Separate Development Strategy is a less extreme version of the economic nationalist strategy in that it recognises the potential harm that can be inflicted on Namibian savers if too much money is forced onto the market too quickly. It is based on the belief that it is important for Namibian companies to have access to a stock exchange which caters to their specific requirements. Furthermore, this stock exchange and the surrounding industry should be located in Namibia. However, if the largest companies in Namibia cannot be forced to list on the NSX they must be encouraged to do so by phasing in a “real” Namibian asset requirement which applies a mild pressure on asset managers and brokers to look for Namibian investment opportunities which are not dual-listed companies and effectively lowers the cost of capital available on the NSX. The

existing Namibian asset requirement would gradually be phased out as the NSX becomes more able to sustain itself through trade in local stock.

The NSX would become more of a development institution than it is at present. It would be the link between development bank and venture capital funds and larger stock exchanges such as the JSE. The Namibian asset requirement would slowly be phased out and a real Namibia asset requirement would be phased in. The loss in income to the NSX would either be substituted through a levy raised by NAMFISA or through agreements with the JSE that would pay the NSX a “kick-back” for all transactions coming from Namibia. Alternatively NAMFISA could take on the regulatory role of the NSX and the NSX could accordingly be downsized. The Separate Development Strategy would entail:

- Reinforcing the Namibian service provider regulation;
- Introducing negotiated commission for Namibian stockbrokers;
- Facilitating bond trading and the development board by introducing an additional broking license that is substantially cheaper than the full license;
- Phasing out the existing Namibian asset requirement;
- Phasing in a “real” Namibian asset requirement at a much lower level;
- Designing a new mechanism to finance the NSX.

Additional measures such as privatisation and creating an effective development bank and venture capital fund would aid this development considerably.

The success of the strategy would be monitored annually and compared to targets set. The eventual aim would be to phase out domestic asset requirements altogether as the NSX achieved sufficient scale to operate without regulations.

The selected set of measures in of this strategy aims to cater for several objectives.

## **Reducing Negative Impact on Contractual Savers**

The aim is to reduce the negative impact on contractual savers by phasing out the existing Namibian asset requirement. A zero return on 5% of pension assets would still lead to higher overall returns than the present situation given historic returns.

## Stimulating Investment

A new attempt would be made to stimulate investment by introducing a “real” Namibian asset requirement. Constant monitoring and annual reviews would be required to check whether the phased in “real” Namibian” asset requirement leads to more investments. The prime aim of the “real” Namibian asset requirement would not be to keep the NSX alive but to promote investment. We believe it should be scrapped if it fails to achieve this.

## NSX as a Development Institution

The NSX would be seen more as a development institution than before. Its tasks would be to close gaps in financial intermediation in Namibia by working together with venture capital funds and the new development bank. It would provide options for equity finance for companies that are too small to raise capital on the JSE. It would further assist local companies to migrate to larger stock exchanges. Another function would be to facilitate bond trading. It cannot be expected that a such transformed NSX would be a profitable entity. New ways therefore need be found to finance the NSX. Four options seem to be viable:

- NSX receives a levy from NAMFISA: Since the NSX is currently regulating the broking industry it would also be reasonable that it receives part of the levy raised by NAMFISA from brokers.
- NSX receives a commission from brokers for all trades: Brokers would have to pay 10% of the commissions they charge to the NSX regardless of whether the trade is done on the NSX or elsewhere. Brokers would transfer this commission monthly based on estimates, and the final payment would be calculated at year’s end following the annual audit.
- Down-scaling of the NSX: The NSX would pass its regulatory role to NAMFISA and subsequently reduce its staff. However, additional measures might be required to finance the NSX since commissions from local trading might not be sufficient to maintain it.
- NSX receives payments from the JSE: The JSE has already agreed to look for an arrangement whereby the NSX receives payment from the JSE for trade that originates in Namibia. However, the same cannot be expected from other exchanges around the world. Also, it would make things more difficult for

brokers. If a South African broker wants to buy 10,000,000 Anglos at the JSE and gets an order from his Namibian partner broker for an additional 500,000 Anglos, he would need then to place two orders to indicate to the JSE that one originated in Namibia. This might lead to less favourable trading costs and extra work.

## **Generating a Financial Sector that Caters for Namibian Needs**

Reinforcing the Namibian service provider regulation aims to maintain and further develop an own financial industry. The obligation to use Namibian service providers protects users since these service providers are regulated by Namibian authorities and are accountable to Namibian laws. The measures follow the view that Namibian asset managers and Namibian brokers are better suited to spot investment opportunities in Namibia, to develop new products that cater for Namibian needs (private equity funds, commodity derivatives, etc.) and to scrutinize listed company performances.

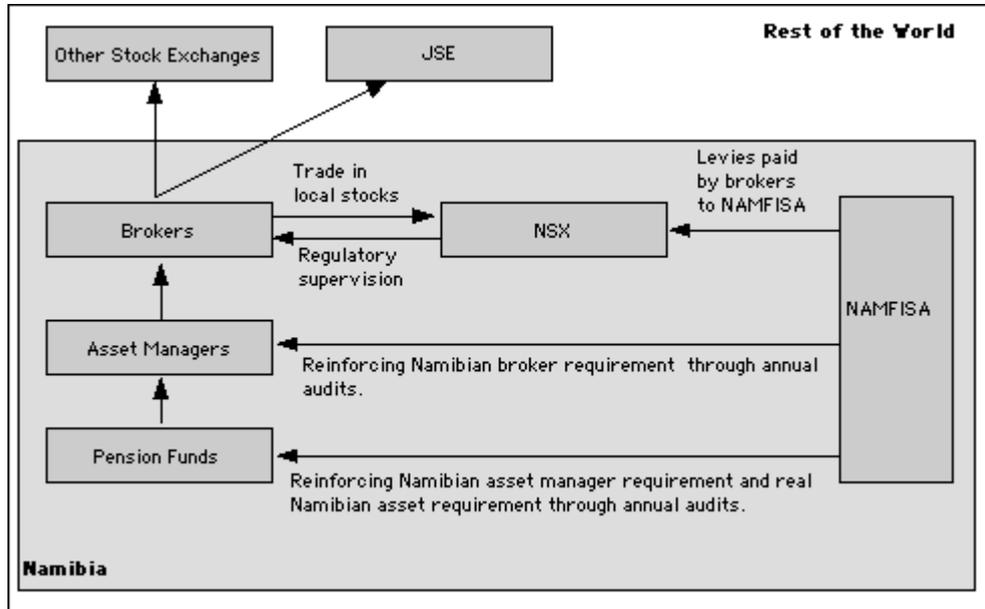
## **Maintaining the Balance**

Negotiated commission would need to be introduced to maintain the balance between the negotiating powers of Namibian asset managers and brokers. Reinforcing the Namibian service provider regulation would mean that all dealings of Namibian asset managers would need to be done using Namibian brokers. At the given commission level it is likely to increase the costs for Namibian asset managers considerably. Negotiated competition would stimulate competition in the broking industry and reduce the costs of trading in stocks. Further mechanisms would need to be designed to combat excessive prices. The regulatory institution for brokers (NSX or NAMFISA) should be able to give permission to asset managers to deal through non-Namibian brokers for specific transactions, if the asset manager can prove that the Namibian brokers are unreasonably more expensive.

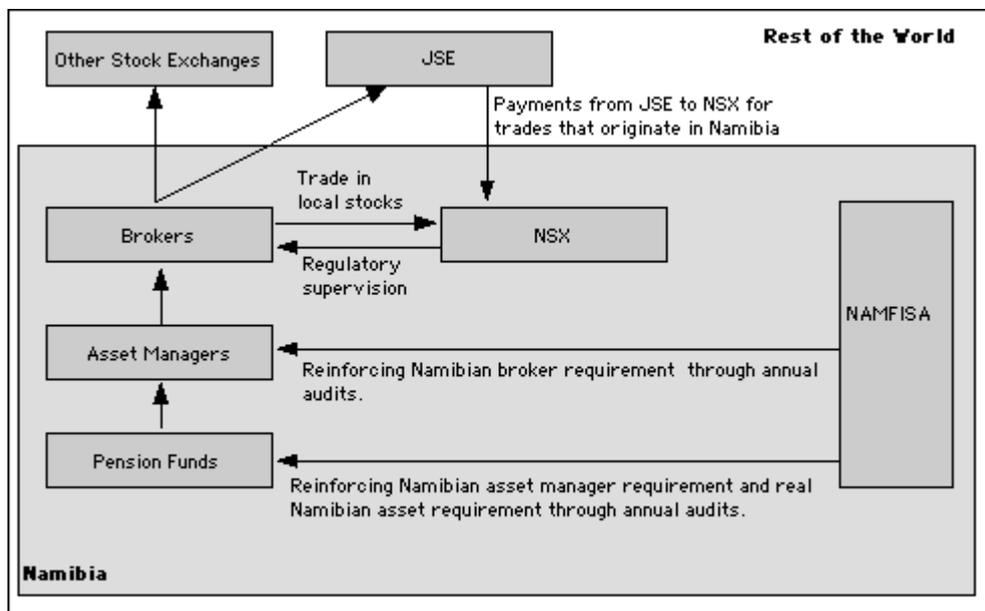
## **Implementation**

The Figure 55, Figure 56, Figure 57 and Figure 58 show alternative approaches for the regulation of pension funds, asset managers and brokers, and the financing of the NSX. The reinforcing of the real Namibian asset requirement, the Namibian service provider requirement and, possibly, the commissions to be paid from brokers

to the NSX for all trades (including international trades), can all be implemented using annual audits carried out by chartered accountants.

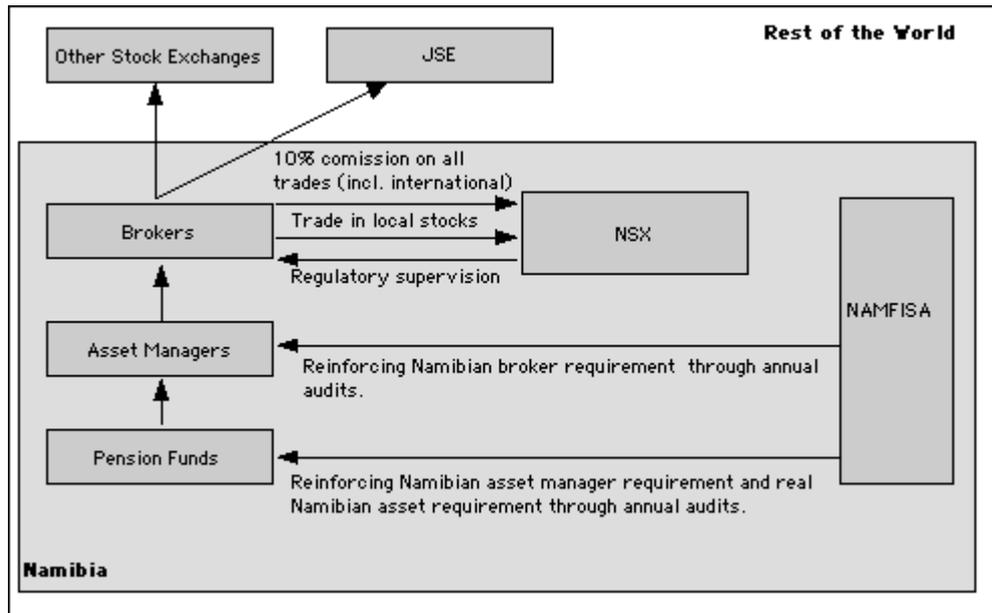


**Figure 55 NSX financed by NAMFISA**

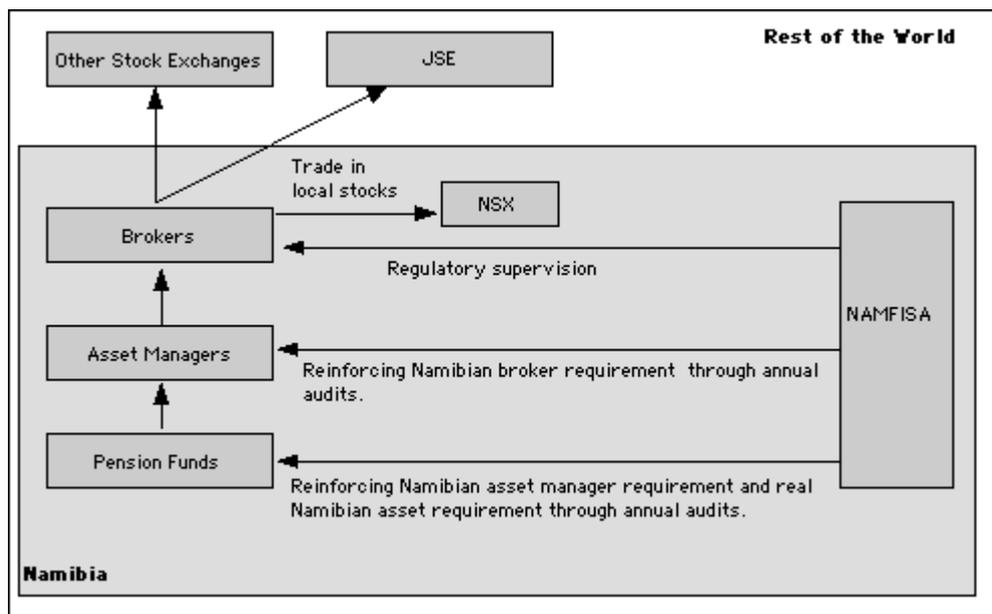


**Figure 56 NSX financed by commission from JSE**

The phasing-out of the existing asset requirement enables the financial sector to adapt to the new situation. The phasing-in of the “real” Namibian asset requirement enables the monitoring of



**Figure 57 NSX financed by commissions of Namibian brokers**



**Figure 58 Downsized NSX**

whether this measure is leading to more investments and ensuring that negative side effects are not out-weighting benefits.

The 2% entry level for the “real” Namibian Asset requirement was based on the portfolio allocation of Namibian asset managers over the last two years (see Figure 15). Currently roughly 5% of the 35% Namibian assets are held in local stocks. This equals 1,75% of the total portfolio. Including private equity, corporate bonds and

unlisted equity would generate some pressure on asset managers and brokers to look for new investment opportunities and new products in the second year of phasing-in at the 3% entry level.

Indicators need to be established and data regularly collected to be able to monitor the effects of the “real” Namibian asset requirement. The indicator should measure among other things:

- Capital raised through equity and bonds;
- Effectiveness of the price discovery process of the NSX;
- Market capitalisation and turnover ratios of local stocks;
- Property and corporate bond prices;
- Asset allocation; and
- Portfolio returns

The phasing-in time schedule should be stated as given to provide some level of certainty among players in the financial market. Any alteration to the schedule should only be made after consultation with stakeholders. An annual stake holder meeting could be staged where advancements in the sector are discussed and recommendations given. This would not only apply to the phasing in of an “real” Namibian asset requirement, but also for other regulations, such as the Namibian service provider requirement.

However, world markets and financial markets in particular are becoming increasingly integrated. Globalisation brings new challenges and threats: opportunities for sustainable development and the threat of being left behind. It should therefore be kept in mind that regulatory decisions must be made with the aim of sustainable development. This implies for Namibia that the “real” asset requirement needs to be phased out eventually and that the Namibian service provider requirement will need to be dropped sooner or later.

### STRATEGY 3: GLOBALISATION STRATEGY-JSE MODEL

The Globalisation Strategy is based on the belief that Namibian companies require access to the services of a stock exchange but that this is best provided by the JSE where all the infrastructure already exists. Around the globe, exchanges are merging to create bigger and more liquid markets. The JSE could be the centre of such a development for Africa and provide access to other markets.

The JSE tabled a proposal to ASEA<sup>8</sup> to facilitate the development of African exchanges, in line with the initiatives of the SADC Committee of Stock Exchanges, in Dar Es Salaam in 2002. It further proposed a model for the integration of African stock exchanges at the 2nd Quarter of 2003 meeting of the Committee of SADC Stock Exchanges (COSSE)<sup>9</sup>.

### **JSE Model**

The essence of the JSE proposed model is that African Exchanges commonly list their counters on a new market and allow their existing members to trade, clear and settle on this new market (i.e. a Namibian member can transact with a Zambian member on a Zimbabwean counter). This proposed model allows for the autonomy of the Exchanges to be upheld and allows for a central access point into financial markets within Africa, while eliminating duplication of systems and infrastructure; providing a liquidity centre and allowing the appropriate focus on the markets within Africa – all of which are critical for the development of markets within Africa.

The new market could be divided into different sectors to cater for the diverse issuers and instruments that are currently listed on the various Exchanges. Initially the counters listed on the JSE would be excluded from the new market to ensure that the appropriate focus is given to the new market. The investors would be able to trade any of the counters listed on the new market via the members of the Exchanges.

The members of the Exchanges would transact with each other using a front-end trading system to submit orders and receive notification of trades and public data. The JSE proposes that this front-end be connected to the JSE via the Internet or a direct connection to the JSE – these facilities are already provided by the JSE to its market.

Clearing and Settlement would be facilitated by Settlement Agents that each member or Exchange would need to appoint in their respective countries. These Settlement Agents would have access to the relevant systems at the JSE or the Exchanges to ensure that they

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8. THE AFRICAN STOCK EXCHANGES ASSOCIATION(ASEA) ASEA was incorporated in 1993 in the Republic of Kenya. The aim is to provide a formal framework for the mutual co-operation of stock exchanges in the African region through various processes, encompassing the exchange of information and assistance in the development of member exchanges.

9. THE SADC COMMITTEE OF STOCK EXCHANGES (COSSE). COSSE was formed in January 1997 as a private initiative within the Southern African Development Community (SADC) framework. The aim is that by the year 2006 COSSE Exchanges will be an integrated real time network of national securities markets within the SADC community.

receive adequate information to clear, risk manage and ensure settlement of all trades that take place in counters of the specific Exchange.

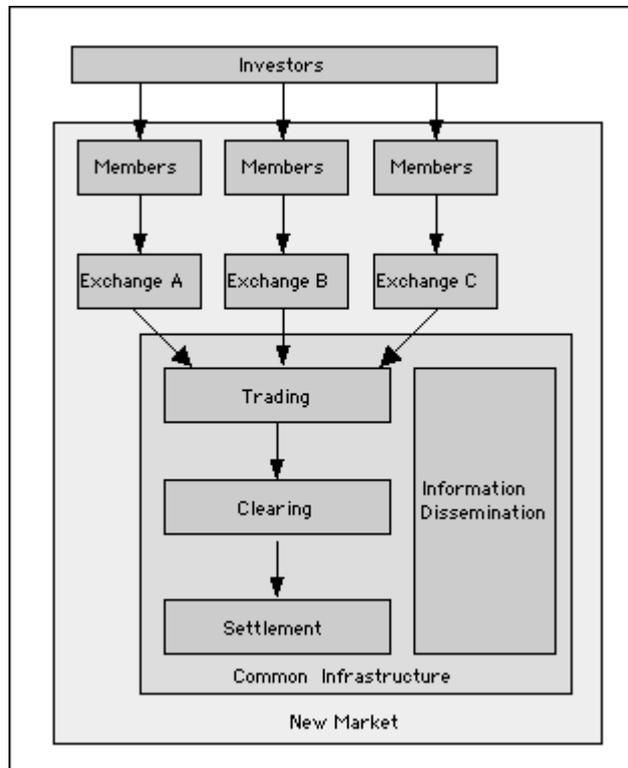
The JSE would be responsible for the central tracking and analysis of trading and issuer activity, and would alert the Exchange or Regulator (by means of exception reports) if any irregular activity is noticed - the Exchange would then perform investigations, and would take the required disciplinary actions.

The proposed model requires that a harmonised set of Listings Requirements for the new market be developed. The Exchanges or Regulators would be responsible for the enforcement of these requirements and bringing issuers to the new market. Formal partnerships would be forged to enforce the compliance with the agreed listing requirements, to ensure credibility of the listings, maintain discipline and the dissemination of price sensitive information etc. The JSE Model would include the following:

- A new market will be created - qualifying companies would be listed on this new market;
- Relationships with sponsor partners or Exchanges / Regulators are required to enforce compliance to the agreed listings requirements;
- The Home Exchange / Regulator would be responsible for regulation of their own Members and Issuers, and for imposing the necessary sanctions, in accordance with the agreed rules;
- Members must be approved and regulated by the Home Exchange / Regulator;
- Each market participant would be required to have a Settlement Agent who settles trades on their behalf;
- The new market would be flexible enough to take into consideration the differing needs of the various Exchanges (as well as their individual internal capacities and capabilities), by allowing for the modularised utilisation of the functional offerings. Participating Exchanges will be able to choose between combinations of the Trading and Settlement services introduced by the model.

To facilitate the refinement of the model, the JSE proposes that COSSE initiate the formation of Market Development Forums to refine and confirm various baseline principles presented, and to investigate the manner of implementation for each of the interested SADC Exchanges. The Market Development Forums would consist of participants from the COSSE group, and would look at establishing consistency in the operations and integrity of the new

market. These forums would be responsible for the establishment of the agreed Listings, Market Access and Market Operations criteria applicable to the new market, while the ongoing maintenance and review of the agreed criteria could be delegated to sub-forums.



**Figure 59 JSE Model**

The benefits of the proposed model are:

- The new market will facilitate the creation of a centralised point for the inflow of foreign capital into the continent, encouraging the growth of African markets through the provision of a single access point to capital and liquidity across multiple markets;
- The proposed model ensures that the autonomy of the various Exchanges is retained (i.e. the various Exchanges will still be responsible for regulation and sanctions, in accordance with agreed rules and regulations of their members and issuers, and will be able to retain their existing business models);
- The proposed model will allow Exchanges the ability to potentially take advantage of future strategic developments that other exchanges may embark on (Straight Through Processing (STP) and Integrated Clearing as examples);

- The proposed model will facilitate knowledge sharing and building between Exchanges and markets;
- The proposed model will allow for the credibility of the Exchanges to be increased due to conformance to best practice listings requirements, internationally accepted trading, clearing and settlement methodologies, state-of-the-art systems and processes;
- The proposed model will provide a facility for Exchanges to raise funds for development of markets within Africa and the ability to leverage economies of scale; and
- The proposed model encourages a common competitive market that is fair, efficient and transparent with proper Price Discovery and Best Execution.

The proposed model would have several consequences for Namibia. Dual listing of South African companies on the new market would not make sense, and neither would the Namibian Asset Requirement. Instead the Regulation 28 could be reformulated to reflect purely prudential requirements. These prudential requirements could include the following:

- A certain percentage of assets must be invested within the CMA to reduce currency risks;
- Minimum amounts of cash, bonds and stock in the portfolio. Bonds and stocks could be classified according to risk and compulsory portfolio compositions based on that (e.g. 70% AAA assets, which could be bonds or stocks);
- A maximum amount of private equity.

Other measures such as enforcing the Namibian Service provider guideline would not contradict the JSE model and could additionally be implemented.

## RECOMMENDATIONS

We recognise that the decision to develop a full range of financial institutions located in Namibia and run by Namibians is widely accepted and is unlikely to change in the near future. Equally, there appears to be little debate on the merits of requiring contractual savers to bear the cost of developing such an industry. This may be because these costs have so far remained hidden. Under these circumstances a pragmatic approach to reform would follow the

Separate Development Strategy. It could be seen as a migration path for the NSX rather than alternative approaches.

However, world markets and financial markets in particular are becoming increasingly integrated. Globalisation brings new challenges and threats. SACU countries and Namibia in particular as well as other African countries would greatly benefit from a common trading platform for stocks and bonds. Global trends and dominant economic mechanisms such as economies of scale point very strongly towards the model proposed by the JSE. Starting with CMA countries would enable a quick start for the new market. Dealing with the capital flow restrictions inside and outside the CMA at a later stage would enable other countries to join as well.



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## 9 APPENDIX

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Most of the tables and figures have been placed in the appendix to make the document easier to read, as well as topics that needed more detailed discussions.

### THE EXPERIENCE OF BOTSWANA

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Botswana is a middle income country similar to Namibia adjacent to South Africa and the JSE. The Botswana share market was established in 1989 and became the Botswana Stock Exchange in 1995 with the passing of the Botswana Stock Exchange Act.

Botswana brought in domestic asset requirements for pension funds only in 1996. According to these requirements, pension funds must invest 30% of their assets in local assets. These include government bonds and local company shares on the Botswana Stock Exchange (BSE), but exclude foreign companies which are dual-listed on the BSE. Furthermore, listed companies with a float greater than 20% enjoyed a 5% lower corporate tax rate for the first 5 years of listing, though this was abolished in 1995. This led to a rash of new listings between 1996 and 1999 at p/e ratios of 11x earnings. No new listings have taken place since 1999 and liquidity is a problem. Most companies on the BSE have performed well. Three have performed poorly. The BSE is an association not for gain. There are now 2 stock broking members of the BSE. Botswana Stockbrokers is the oldest firm. It offers services to retail and institutional investors. Their commissions are fixed by the BSE. There is no move towards negotiated commission. Most trade on the BSE is in pension funds, notably the Botswana Public Officers Pension Fund which was established in 2001. The fund is worth approximately P5-8 billion. It hires 3 asset managers on a competitive tendering basis to manage its funds for a 3 year contract. Foreign investment on the BSE is in decline but individuals are playing a greater role. There is a perceived lack of viable investments in Botswana. The loan books of commercial banks are around 50% of deposits. Money for start-ups is readily available from sources other than the BSE such as the Citizens Empowerment Development Agency (CEDA) which lends at low rates of interest (7%) with long grace periods (7 years). The

Bank of Botswana offers attractive returns on its Bank of Botswana certificates to mop up the excess liquidity in the economy.

**Table 21 Namibia, Botswana and Mauritius compared**

	Namibia	Botswana	Mauritius
GNP in 1998 (US\$ bn)	3.2	4.8	4.3
GNP per capita in 1998 (US\$)	1,940	3,070	3,730
Number of listed companies	36	24	31
Number of local listed companies	13	16	31
Market cap of local companies (US\$m)	150.5	977.6	973.0
Value traded (US\$m)	5.2		108.8
New listings in 2001	0	0	0
New capital (US\$m)	12.9		1.5
Source: International Federation of Stock Exchanges (based on conversation with Martinus Seboni of Botswana Stockbrokers and Tebogo Matome of the BSE)			

## CONFERENCE RESPONSE OF OMAM(SA)

1. Robin Sherbourne and Dr. Christoph Stork are to be complimented on their very comprehensive study of the issues facing the Namibian Stock Exchange and for their groundwork regarding the development of viable strategies for the development of the Namibian capital markets and the NSX. I would like to thank the NSX for giving us this opportunity to comment on the study and its findings and to participate in this workshop.

2. While our own comments and observations may not be comprehensively researched or motivated as those of the two gentlemen mentioned, they do represent our considered view. We hope that this input will be received as constructive suggestions from the perspective of a Namibian asset management practitioner with close relationships to a South African sister company within a broad financial services group that:

- a. Outsources one or more of research, trade execution, and administration support services to our counterpart in South Africa and hence have comparable experience in both countries that helps to highlight the shortcomings of the present Namibian situation, and
- b. Secondly that provides input to its SA counterpart who would consider investing in Namibian companies through the NSX as part of the offshore investment allowance available to SA institutions were present research, liquidity, cost, and market pricing efficiency hurdles to be overcome.

3. We are in agreement with the broad conclusions reached by this study, particularly the following:

a. Namibia has achieved success in developing a domestic exchange, asset management companies and stockbroker businesses, but this has come at the cost of lower returns to Namibian savers.

b. Domestic capital available for domestic fixed investment has exceeded sustainable demand. The capacity of the NSX to raise new investment capital is therefore not being fully utilized. Hence institutional assets have continued to flow to other larger markets. Dual-listings facilitate compliance with Namibian regulatory requirements but do not change the underlying trends.

c. The problems facing the NSX and its associated institutions are structural rather than cyclical:

- "too few domestic companies have primary listings on the NSX, making it impossible for institutional investors to achieve a sufficiently risk-diverse portfolio structure from among this universe.
- "liquidity is poor, impacting on both the financial viability and professionalism of the broker community and on efficient price discovery,
- "market capitalization is low relative to the size of the institutional savings market in Namibia."

Other Southern African countries experience similar problems to varying degrees.

4. No one is benefiting from the current set-up: brokers are battling, asset managers are not, clients experience reduced returns, and the fiscus and NSX are not earning sufficient revenue. Effective solutions will require a broad focus, and involve changes to economic policy rather than just a few regulatory changes. Commitment to these new strategies will need to be maintained over time.

5. At the level of specific issues we believe that the following issues need to be addressed in any broader strategies going forward:

a. Brokerage levels should be permitted to be determined through competition and should be consistent with those in other southern African markets: i.e. commissions should be negotiated, rather than determined through a regulated scale.

b. The price discovery process for dual-listed shares should be more closely tied to that in the primary listing market for these shares to avoid the current close-of-market pricing inaccuracies.

c. The quality of research coverage of domestic companies must be improved. A number of alternatives are available to achieve this.

6. Strategy suggestion for the short-term:

In our view the trading operations of the NSX should be more closely integrated with those of the JSE, probably through the formation of a Namibian Board on the JSE. The current domestic asset requirements should be substituted over time with the requirement to invest in "real" domestic assets (broadly defined to include listed and unlisted equity, property, bonds and money market instruments) at a sustainable level. This suggests that the Namibian Board on the JSE will, over time, comprise of Namibian domestic listed assets, and that the current dual-listing arrangements will fall away. Reciprocal arrangements should be sought from SA regulators to permit SA domestic investors to invest in Namibian assets (or the broader CMA) as part of their domestic investments.

Access to these listed assets by Namibian investors should continue to be through Namibian regulated and approved asset managers and stockbrokers. The introduction of negotiated commissions will maintain the economic balance between these parties and stimulate competition.

This is essentially "Strategy 3" proposed by messrs. Sherbourne and Stork.

7. Longer-term strategy suggestion:

The implementation of "real" domestic asset requirements must be accompanied by the implementation of a range of economic policies that promote and stimulate Namibian growth and development. The effectiveness of these policies should be measured in the extent to which they stimulate demand for new risk and loan capital by Namibian enterprise. Privatisation of State-owned enterprises should continue to receive serious consideration as part of this strategy.

Failure to stimulate the demand for capital will make it difficult to implement "real" domestic investment requirements without pricing and value distortion. The consequence will be that the costs of "Namibiasation" continue to be borne by contractual savers.

Success of this policy may, over time, make it viable to reestablish the NSX in its present format. However, it is our belief that the development of a integrated Southern Africa regional stock exchange, consolidating the capital raising and allocation functions across the whole of the southern segment of the African continent holds the potential for significant broader regional benefit. Especially for the smaller economies with surplus capital, such as

Namibia. These benefits clearly stretch beyond the realms of exchange efficiency and reduced costs and include higher prospects of returns for savers. The various alternatives should therefore be carefully considered before the longer term future of the NSX is determined.

This suggestion would appear to be consistent with "Strategy 2" as proposed by messrs. Sherbourne and Stork, but perhaps have a slightly broader scope.

8. The detail surrounding the implementation of these suggestions needs to be more fully explored.

9. In conclusion, we are of the view that the development of the Namibian financial services sector alongside those of other Southern African communities is in the best long term interests of the region as a whole. We believe that there is sufficient stability economically and politically in the region to make the cooperation between the JSE and NSX effective, and to believe that this cooperation will be extended to those government levels necessary to achieve an effective implementation. Speaking for our own group we are committed to Southern Africa and its development and look forward to continuing to play a constructive role in the development of the NSX, the financial services sector and in the Namibian economy as a whole.

21 July 2003

**BROKERS' CONFERENCE PRESENTATION**

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# **The NSX, Contractual Savings and Economic Growth**

## **Brokers' Presentation**

Brokers' Presentation

1

## **Overall Assessment**

- **Overall the report contains much useful information**
- **Marred by flawed methodologies used in return calculations**
- **Leading to seriously misleading and flawed conclusions**

Brokers' Presentation

2

## Issues

- **Return Calculations**
- **Capital raising, cycles and the relative cost of debt and equity**
- **Transactions costs**
- **Benefits of R28**
- **Benefits of dual listings**
- **Opportunities**
- **Conclusion**

Brokers' Presentation

3

## Return Calculations

- **Study compares returns on SA portfolio's with Namibian portfolio's**
- **SA portfolio's (65%) contain approximately 15% off-shore assets and a relatively high equity weighting**
- **Namibian portfolio's (35%) contain a relatively high cash and bond weighting (55%) (Figure 22, pg 21)**
- **Different asset classes yield different risks and returns**
- **Direct comparison of returns from very different asset classes is seriously flawed**

Brokers' Presentation

4

## Return Calculations...

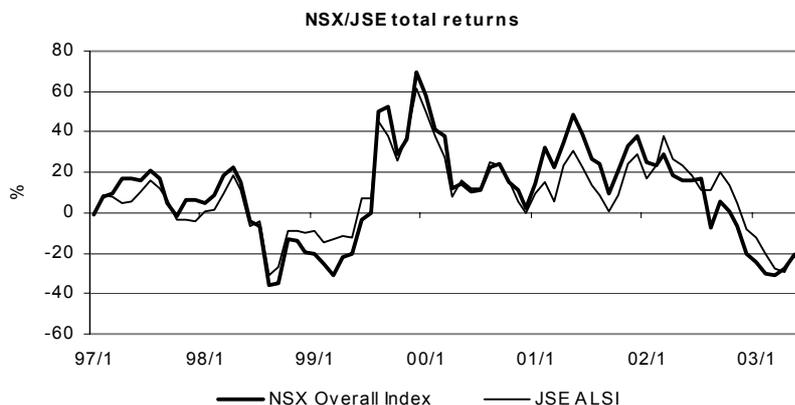
- Report attributes relative “underperformance” of Nam portfolio’s to R28 and lack of choice
- Performance is better explained by performance of different underlying asset classes
- Fund managers would in any case have held bonds and cash - R28 simply encouraged them to hold these assets in Nam portfolio’s and indeed holding Namibian bonds in preference to SA bonds is a rational investment decision due to the consistent premiums and SA tax on interest
- N.B. Indices measure performance of markets!

Brokers' Presentation

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## NSX/JSE Total Returns

(Rolling 12 month returns)

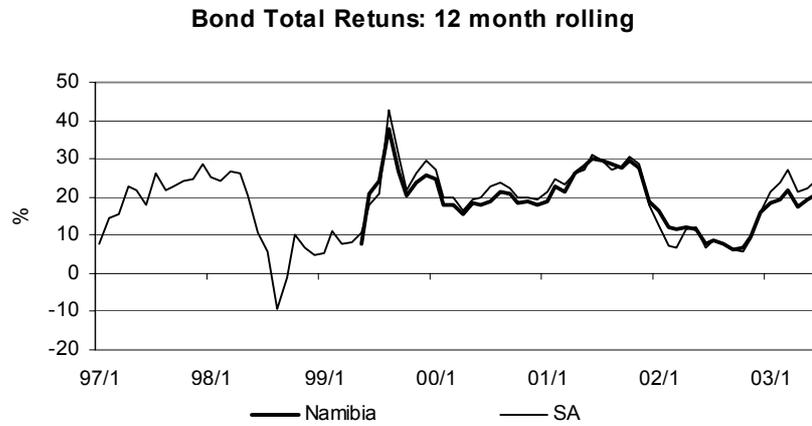


Source IJG, Deutsche Securities

Brokers' Presentation

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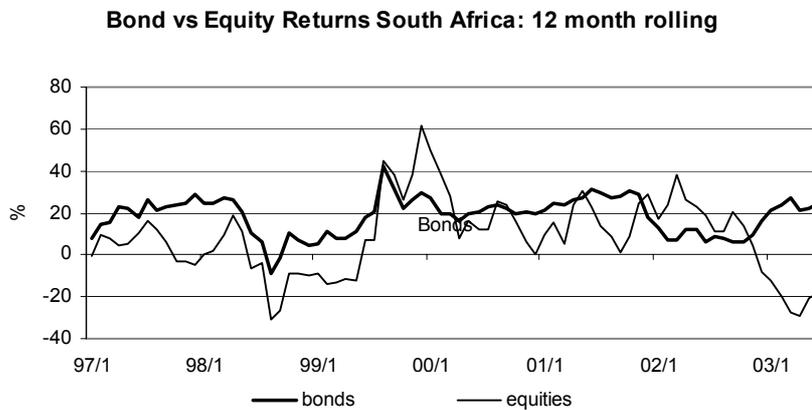
## Namibian v SA Bond Returns



Brokers' Presentation

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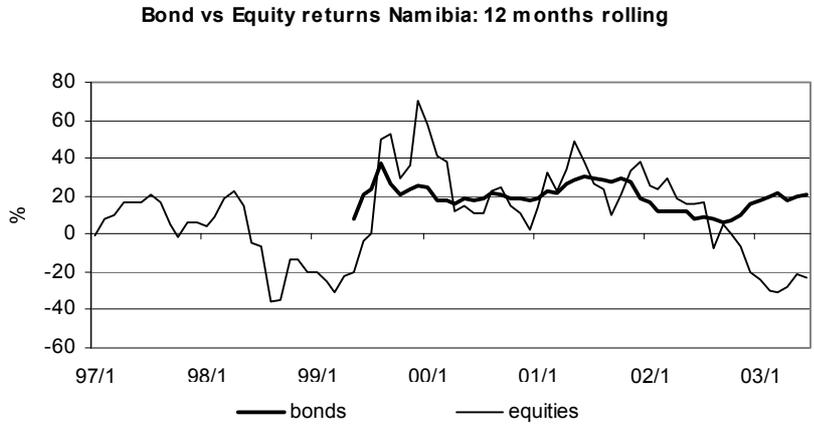
## Bond v Equity Returns SA



Brokers' Presentation

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## Bond v Equity Returns Namibia



Source: IJG

Brokers' Presentation

9

## NSX in a Global Context



Source: I-Net

Brokers' Presentation

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## The currency effect



Source: I-Net

Brokers' Presentation

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## Latest GIPF Returns

Refer to Table 7, page 29 for 1997-2002 returns

Year Ended 31 March	2002	2003
<b>TOTAL RETURNS</b>	<b>20.30%</b>	<b>-6.70%</b>
RSA Assets	25.00%	-8.50%
Namibian Assets	10.00%	-3.30%
Offshore Assets	42.1%	-11.80%

Source: GIPF

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## Return Calculations

- **1997/8 Nam portfolios outperform driven by bond/cash returns and weak equity performance due to Asian crisis**
- **1999-2001/2 SA portfolios outperform driven by solid returns from JSE with strong tailwind from off-shore investments and currency depreciation**
- **2002/3 off-shore markets tank and currency turns around to bite while bonds perform well leading to a period of Nam portfolio outperformance again**
- **Nam portfolio outperformance likely to continue as long as local bonds and currency remain strong and equity markets struggle to gain traction**
- **Dangerous to jump to conclusions based on performance from 4 out of 7 years. Even more so when period coincides with significant volatility driven by the end of one of the greatest bull markets in history and possibly the beginning of one of the great bear markets.**

Brokers' Presentation

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## Capital Raising and the Relative Cost of Debt and Equity

- **Collapse in equity valuations is a global phenomenon**
- **Cost of equity is relatively high, while cost of debt has fallen to 40+ year lows**
- **Encouraged the issue of debt**
- **Discouraged the issue of equity and encouraged de-listings**

Brokers' Presentation

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## NSX Relative Performance



Source: I-Net

Brokers' Presentation

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## Relative Cost of Debt and Equity

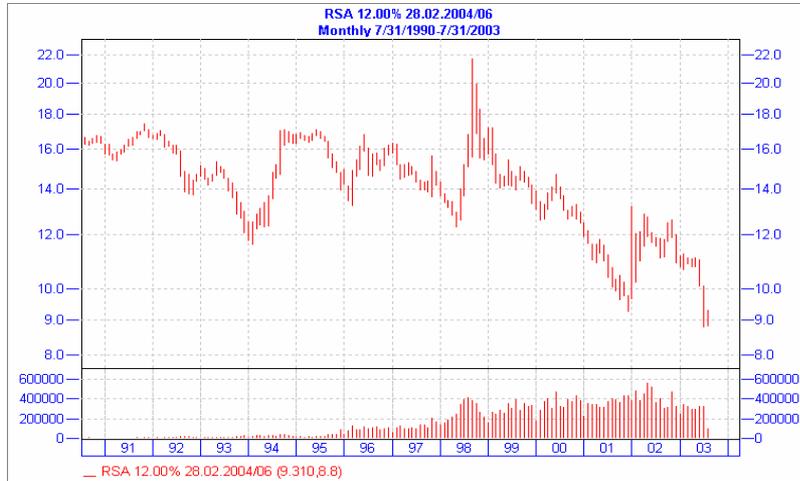


Source: I-Net

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## Cost of Debt



Source: I-Net

Brokers' Presentation

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## ALSI P/E

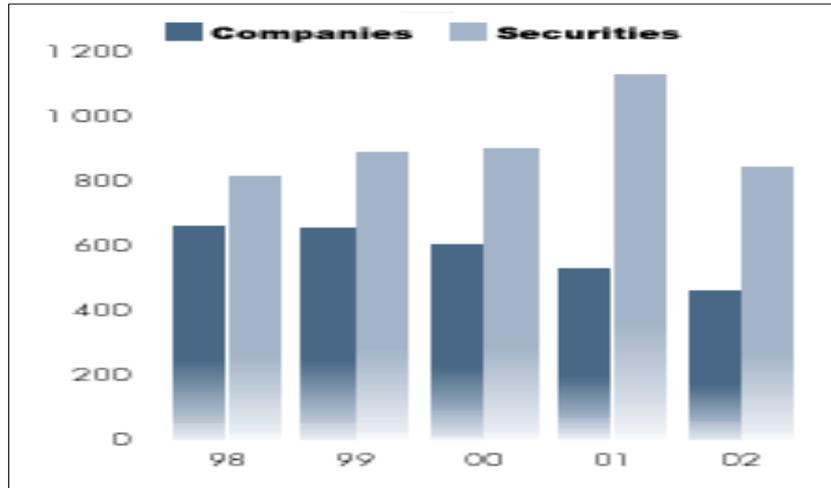


Source: I-Net

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## Number of JSE Listed Companies



Source: JSE  
Brokers' Presentation

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## Capital Raising and Cycles

- **Collapse in equity valuations has discouraged new equity issues and encouraged de-listings and buy-outs**
- **Cost of debt has fallen to 40+ year lows**
- **More capital than ever was raised on the NSX in 2002 but most of it was GRN debt (Refer to Fig. 24, pg 23)**
- **Note sizeable corporate debt issues in 1999, 2000 and 2001**
- **On a positive note, NSX equity valuations are driven by JSE valuations and NSX cycle will turn when JSE/global equity valuations start to recover**
- **Recovery in valuations will stimulate new equity issues and liquidity in existing issues**

Brokers' Presentation

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## Transactions Costs

- Refer to Option 2, pg 62
- Brokerage is only one part of total transactions costs
- Report is ambivalent on introduction of negotiated brokerage but then recommends introduction anyway
- If negotiated commissions are to be introduced all transactions costs and other aspects of "big bang" such as principal trading need to be addressed
- "There is little international evidence that trading fees are a major determinant of liquidity." (pg 63)
- Two SADC success stories (SEM and BSE) have considerably higher brokerage (1.25% and 1-3%, respectively)

Brokers' Presentation

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## Transactions costs....

- NSX brokers are already exposed to negotiated brokerage on SA portfolio's (65%)
- Large percentage of Nam portfolio's in bonds and cash (55%) leaves only around 15% of total portfolio's subject to fixed commissions
- Retail clients, who we need to encourage to create liquidity, are the big losers with negotiated brokerage

Brokers' Presentation

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## Transactions Costs

- **Brokerage (JSE +/-0.25%; NSX +/-0.45%)**
- **NSX transaction levy (10% of brokerage)\***
- **Namfisa levy (0.04% of consideration)\***
- **STRATE (0.005% of consideration max R50)\*\***
- **ITL (0.0007% of consideration)\*\***
- **MST (0.25% of consideration - purchases only)\*\***
- **\*NSX, \*\*JSE/Dual listed stocks**

Brokers' Presentation

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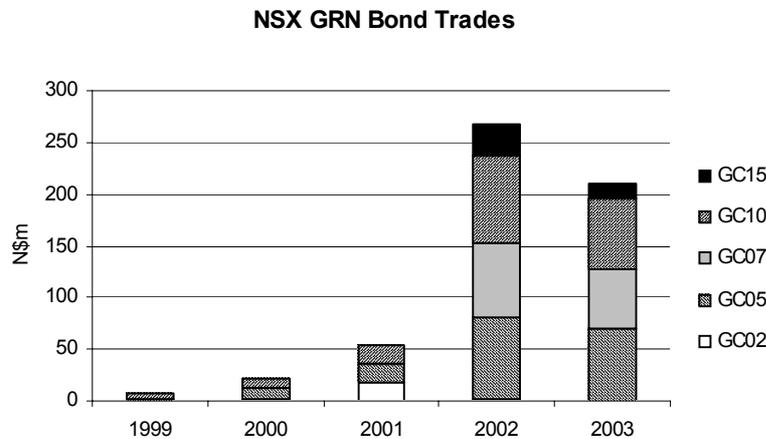
## Benefits of R28

- **Creation of an industry (NSX, brokers, asset managers, safe custody, benefit consultants etc)**
- **Considerable local skills development**
- **A catalyst for the development of venture capital and private equity initiatives**
- **Facilitated considerable capital raising in the past and provides a platform for the future**
- **Stimulated the bond and money markets**
- **A platform to facilitate and support privatisation initiatives**

Brokers' Presentation

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## NSX Bond Turnover



Source: IJG

Brokers' Presentation

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## Benefits of Dual Listings

- **An elegant source of funding for the NSX and the industry**
- **Market development through exposure to considerably more corporate action and activity than would have been the case without dual listings**
- **Has been partly responsible for the development of the relationship with the JSE and the adoption of international best practice through listings requirements, SETS, STRATE and so on**
- **Credibility issues for the NSX and Namibia**

Brokers' Presentation

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## Opportunities

- **Investor- and SME-friendly macro policies (SEM and BSE)**
- **Tax driven incentives (mining exploration and BEE)?**
- **Venture capital, private equity and BEE**
- **Benchmarks to encourage local investment including “local” and private equity weightings**
- **Development Bank**
- **Speedier treatment of applications under competition legislation?**
- **Privatisation?**

Brokers' Presentation

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## Conclusions

- **Considerable benefits from R28 and dual listings**
- **Costs, if any, attached to R28 are considerably less than the figures suggested in the report and R28 may actually have enhanced overall portfolio returns**
- **Returns on Namibian portfolios explained much better by returns of different asset classes than a lack of investment choice**
- **Nam portfolios outperform due to defensive nature when equity markets are weak**
- **Fund managers would in any case hold the assets in Nam portfolios. R28, combined with attractive returns from Namibian bonds and more favourable tax treatment of interest income in Namibia, has simply encouraged fund managers to gain this exposure through Nam portfolios leaving total returns unaffected or possibly even enhanced.**

Brokers' Presentation

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## LOCAL COMPANIES ON THE NSX

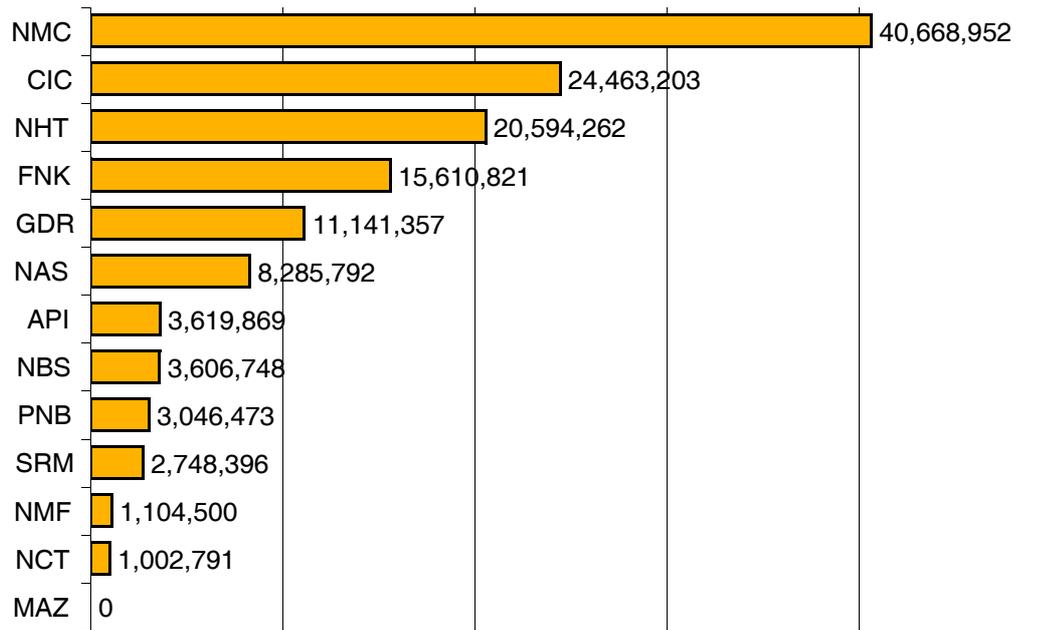
There are presently 13 companies listed on the NSX categorised as “local companies”. This means they are companies incorporated in Namibia and which conduct their main operations in Namibia. Goldfields Namibia and Ocean Diamond Mining have in the past been classified as local companies but these delisted in 1999 and 2000 respectively.

**Table 22 Share Codes**

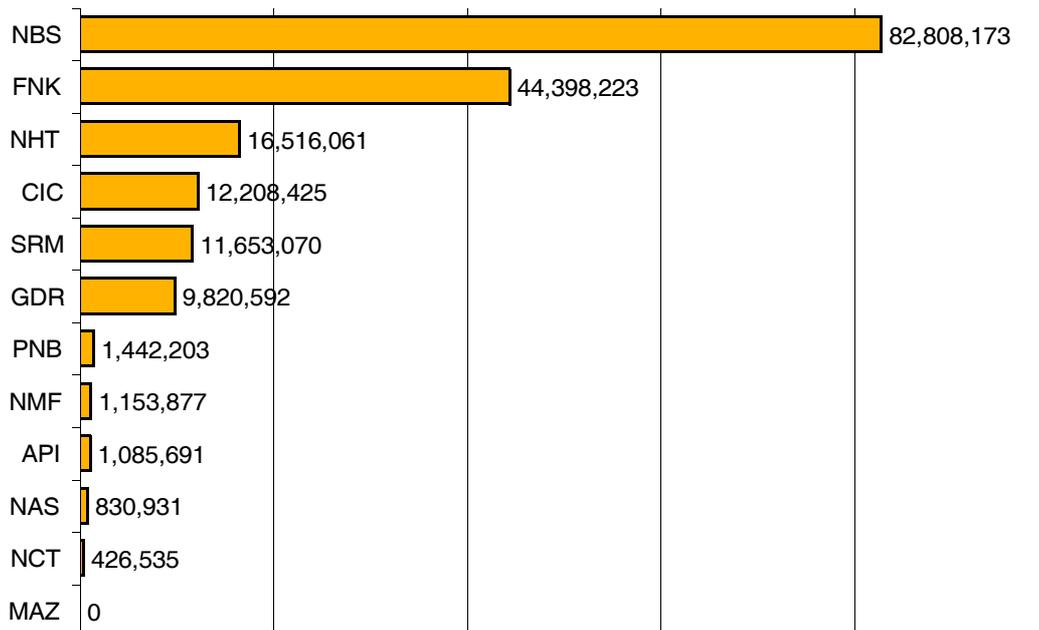
Company Name	Share Code
African Portland Industries	API
CIC	CIC
First National Bank of Namibia	FNK
Gendor	GDR
M+Z	MAZ
Namsea	NAS
Namibia Breweries	NBS
Nictus	NCT
Namibian Harvest	NHT
Namibian Minerals Corporation	NMC
Namibian Fishing Industries	NMF
Pep Namibia	PNB
Sentra	SRM

The performance of local companies on the NSX has been mixed. Of 13 companies, only 5 have been consistently profitable since listing and only FNB, Nambrew and Sentra can be considered reliable performers. Of these three only Sentra has seen an appreciable rise in share price since listing but Sentra is small and lightly traded. Most other local share prices have declined, some quite dramatically. As a result the local index has fallen. Local companies are trading on far lower p/e ratios than a few years ago. The total market capitalisation of local companies is now approximately N\$1.7 billion. However, most local companies on the NSX have significant shareholdings which are tightly held and therefore unlikely to be traded in the market. If this is taken into account, the local market capitalisation on the NSX falls to around N\$700 million. FNB and Nambrew are by far the largest local companies on the NSX with market capitalisations of N\$790 million and N\$496 million respectively. The rest of the local market consists of small companies with a total market capitalisation of N\$452 million, or N\$276 million in free float. If Nambrew or FNB were to migrate to the JSE there would be little left on the NSX.

Free float of local companies is small when compared to dual-listed companies and investible assets. The free float of local companies is



**Figure 60 Volume of local stocks traded 01/01/1999-31/05/2002**



**Figure 61 Value of local stocks traded in N\$ 01/01/1999-31/05/2002**

considerably smaller than their total market capitalisation. Local company p/e ratios have fallen to all-time lows, further discouraging the entry of new companies. Poorest performing companies were listed at the highest p/e ratios.

## First National Bank

FNB Namibia is Namibia's largest commercial bank and part of the FirstRand group of South Africa. FNB Namibia listed on the NSX on 27 March 1997 by selling 22% of its shares. The joint sponsoring brokers were HSBC Simpson McKie and Fleming Martin. Its listing price was N\$3.80 and by the end of 1997 it was trading on a p/e of 13.3x earnings. In 1998 FNB Namibia's share price peaked at N\$5.50 before falling to below list price for most of 2000 due to the difficult year of 1999. However, 2000 and 2001 eps grew to 52c and 66.2c respectively boosting the share price considerably. FNB Namibia is currently trading at around N\$4.00 and a p/e of 5.9x earnings. FNB Namibia's market capitalisation is now N\$790 million compared to N\$990 million at the end of its year of listing.

## Namibian Harvest

Namibian Harvest is an empowerment company specialising in investments in financial services. NamHarvest listed on the NSX on 22 July 1998 at a price of N\$1.00. The joint sponsoring brokers were HSBC Simpson McKie and Huysamer Stals. Since listing NamHarvest has returned cash to shareholders. It bought 64.7% in the loss-making bank City Savings and Investment which has since merged with SWABOU. NamHarvest's eps rose from 4.3c in 1998 to 9.4c in 1999 but fell to 0.81c in 2001. Its price has fallen from N\$0.90 at the end of the year of listing to N\$0.15 in June 2002. As a result, market capitalisation has fallen from N\$180 million in 1998 to N\$30 million in June 2002. JSE-listed African Harvest and a group of Namibian empowerment companies together hold 75.75% of NamHarvest.

## Gendor

Gendor is a fishing company specialising in catching, processing and marketing orange ronghy. Gendor listed on the NSX on 5 November 1998 at N\$1.00 selling 18% of its shares to the public and Namibian institutions. The sponsoring broker was Fleming Martin. Following a brief period of profitability during which time it went back to the NSX twice issuing new shares at N\$1.00, a shortage of orange ronghy and the loss of fishing rights for hake lead to losses in 2001. Gendor decided to take a principled stand against the reallocation of fishing rights and took the government to court. In December 2001 NovaNam acquired a substantial share holding in Gendor which resulted in a new board of directors. Year-end market capitalisation has fallen from a high of N\$263 million in 1999 to

N\$17.5 million by June 2002 as the share price fell to N\$0.06. Insider interest in Gendor is now 88%. In July 2002 Gendor announced its intention to delist from the NSX. In July 2002 Gendor management announced that it would recommend to shareholders that it delist from the NSX.

## **Namfish**

Namibian Fishing Industries is a fishing company operating from Walvis Bay specialising mainly in hake. Namfish listed on the NSX on 9 November 1992 but was already listed on the JSE. The sponsoring broker was Simonis Storm. JSE-listed Sea Harvest is the controlling shareholder of Namfish holding a 34.5% stake since. Namfish eps and share price have fluctuated according to fish catches. Namfish is currently trading at 65c and a p/e of 10.9 x earnings. Insider interest in Namfish is about 69%.

## **Namsea**

Namsea was a sister company of Namfish engaged primarily in pelagic fish. Namsea listed on the NSX on but was already listed on the JSE. The sponsoring broker was Simonis Storm. Namsea was badly hit by the downturn of the pelagic fisheries sector. Its share price at the end of 1995 was N\$1.40 but it now trades at around N\$0.10. Namsea has issued new shares on the NSX twice since listing, in 1995 and 1996 before its share price collapsed. Namsea's market capitalisation has fallen from N\$153 million at the end of 1995 to under N\$13 million in 2001. By the end of FY 2001 insider interest in Namsea stood at 71.8%.

## **African Portland Industries**

African Portland Industries is a logistics and bulk handling company with operations in Namibia, Mozambique and South Africa. API listed on the NSX as MacPhail Namibia Holdings Ltd on 8 December 1994 at N\$5.50. The sponsoring broker was HSBC Simpson McKie. By the end of 1995 its share price had risen to N\$6.00 giving it a market capitalisation of N\$85.8 million and it was trading on a p/e of 23.9 x earnings. Since 1995 API has made a profit in only one year (1998) when it issued a further 3.2 million shares at N\$2.30. For the past few months its share price has languished at a new low of N\$0.28. Its market capitalisation has fallen from a high of N\$85.8 million at the end of the year of listing to just N\$4.9 million in June 2002. API now has a free float of approximately 78.31%.

## CIC

CIC acts as a warehousing, sales and distribution intermediary for fast-moving consumer goods on behalf of South African and overseas producers with operations in Botswana, South Africa and Namibia. CIC listed on the NSX on 15 May 1996 at a price of N\$2.55. The sponsoring broker was HSBC Simpson McKie. By the end of the year it was trading on a p/e of 14.4x earnings. In 1998 and 1999 the company incurred heavy losses resulting partly from new activities in South Africa. CIC returned to profitability in 2000. It is now trading at N\$0.45 on a p/e of 3.9x earnings. CIC's eps has never returned to that achieved in its year of listing. Its market capitalisation peaked in 1997 at N\$360 million and is now around N\$91 million.

## Namibian Breweries

Namibia Breweries produces premium beer according to German tradition. Nambrew listed on the NSX on 2 May 1996 at a price of N\$2.40. The joint sponsoring brokers were HSBC Simpson McKie and Fleming Martin. It has not issued more shares since listing. As beer sales to South Africa grew, Nambrew's eps rose steadily from 13.07c in 1996 to a peak of 61.30c in 2001 but fell back this year to 29.50c. Nambrew is the most heavily traded local stock on the NSX. Its share price peaked in February 2000 at N\$4.10 but it is now trading at just above its listing price of N\$2.50 giving it a p/e ratio of 8.1x earnings compared to 19.9x earnings at the end of its year of listing. Since listing Nambrew's free float has steadily increased from 30% to 49.9%. Nambrew's market capitalisation is now N\$496 million compared to N\$537 million at the end of 1996.

## Namco

Namibian Minerals Corporation mines diamonds from under the ocean using sea-bed crawlers operated from surface vessels. Following a primary listing on the Vancouver Stock Exchange, Namco listed 3.25 million shares on the NSX on 29 September 1994 at N\$9.25 raising just over N\$30 million. This was completed in the face of opposition by the Reserve Bank of South Africa. The sponsoring broker was HSBC Simpson McKie. Namco listed on NASDAQ and the Toronto Stock Exchange in 1998 but did not succeed in listing on the JSE. Following a period of exploration and development Namco returned to the NSX in 1999, 2000 and 2001 after production had commenced. Namco bought 97.7% of Ocean Diamond Mining in 1999 and its share price climbed to a peak of

N\$45.00 in February 2000. The Prime Minister's wife Loine Geingos became a director of Namco in 1999. Namco was suspended from the NSX between 26 February and 30 March 2001 as a result of problems with its sea-bed crawler which led to nine of its subsidiary companies being placed into provisional liquidation. Namco was saved following a US\$15 million investment by the Leviev Group in March 2001 which became its largest shareholder and marketer. The Government of Namibia holds 8% of Namco shares. Namco is currently trading at around N\$0.90, its market capitalisation having declined from N\$200 million at listing to just N\$89 million in June 2002.

### **Nictus**

Nictus is a furniture and motor retailer with operations in South Africa and Namibia. Nictus was already listed on the JSE when it became the first Namibian company to list on the NSX on 19 October 1992. The sponsoring broker was Simpson McKie. The listing share price was N\$1.80 raising N\$12.8 million. Nictus returned to the NSX in 1996 raising N\$1.8 million. Nictus struggled with losses between 1997 and 1999 but now seems to be emerging as a profitable company. For a long period its share price languished below N\$1.00 but it now trades around N\$1.00 on a p/e ratio of 1.9x earnings. Year-end market capitalisation in June 2002 was about N\$8.2 million. In 2001 about 26% of Nictus shares were held by the public.

### **Metje and Ziegler**

Metje and Ziegler is a retailer involved in motor cars, hardware and property. M+Z listed on the NSX but was already listed on the JSE. The sponsoring broker was HSBC Simpson McKie. At listing its share price was N\$2.50. It peaked at N\$7.50 in 1995 before a difficult period of losses. Interest payments have regularly turned operating profits into losses but these have been reversed through exceptional items, mainly asset sales. M+Z has historically been lightly traded the last M+Z trade being at N\$4.00. M+Z's free float was 26% in 2001.

### **Pep Namibia**

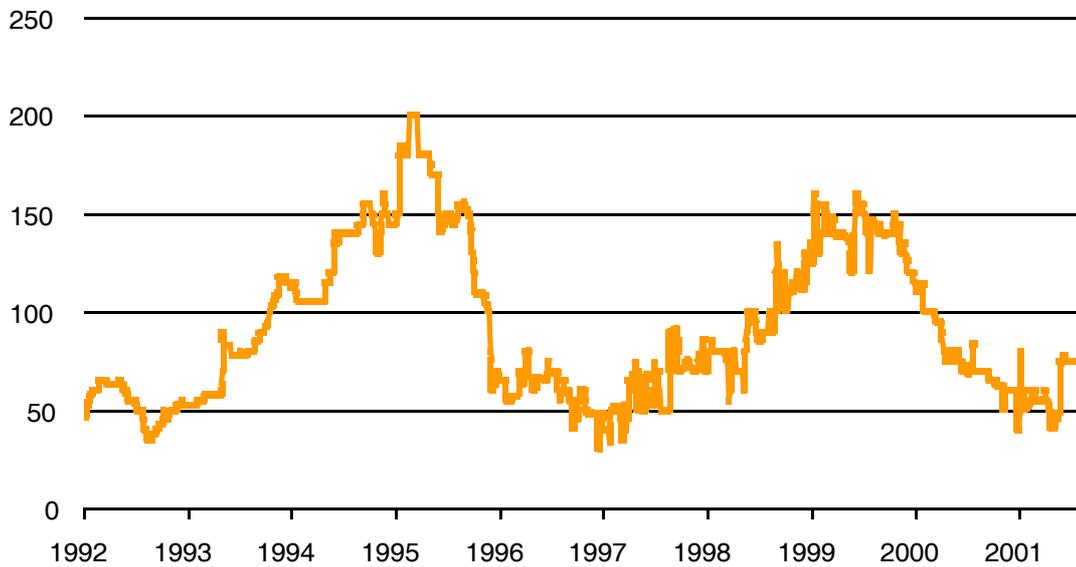
Pep Namibia operates 56 (2001) low-price stores around Namibia selling clothing, footwear, blankets and household textiles. Pep Retail (Pty) Limited of South Africa holds 78.06% (2001) of Pep Namibia's ordinary shares. Pep listed on the NSX on 3 August 1994

at a price of N\$2.75 when it raised N\$19.6 million. The sponsoring broker was George Huysamer & Partners. It has not issued any more shares since listing. Although Pep has never actually made a loss, its eps has dropped from a peak of 24.55c in 1997 to 0.36c in 2001 as profits have slumped. As a result its share price has fallen from a high of N\$4.80 in November 1997 to just N\$0.17 in June 2002. At the end of the calendar year of listing it was trading at 22.8 x earnings while it is now trading on 48.5x earnings. Pep Namibia's year-end market capitalisation has fallen from N\$143 million in the year of listing to just N\$5.5 million in June 2002.

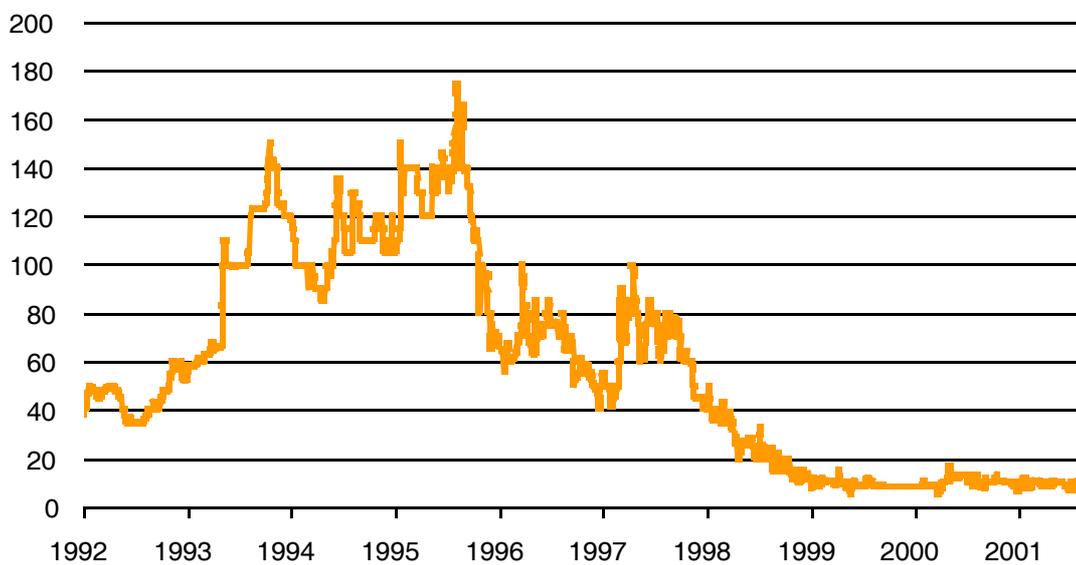
### **Sentra**

Sentra Namibia acts as a central purchasing organisation for "member" retailers and wholesalers in Namibia. Sentra Namibia listed on the NSX on 9 August 1995 at a price of N\$2.50 with a float of 53%. The sponsoring broker was Simpson McKie. It has not issued any more shares since then but its main shareholder Shoprite of South Africa increased its stake to 70% in 2000. Sentra has been consistently profitable since listing, with eps rising from 32c in 1995 to 117c in 2000. During 1997 its share price reached N\$6.00 but has remained at N\$4.95 since the end of 2001. At the end of the calendar year of listing Sentra was trading on a p/e ratio of 11.7 x earnings. By the end of 2001 this had fallen to 4.4 x earnings. Sentra Namibia's year-end market capitalisation has risen from N\$14 million in the year of listing to N\$18.5 million in June 2002. In August 2002 Sentra announced its intention to delist from the NSX.

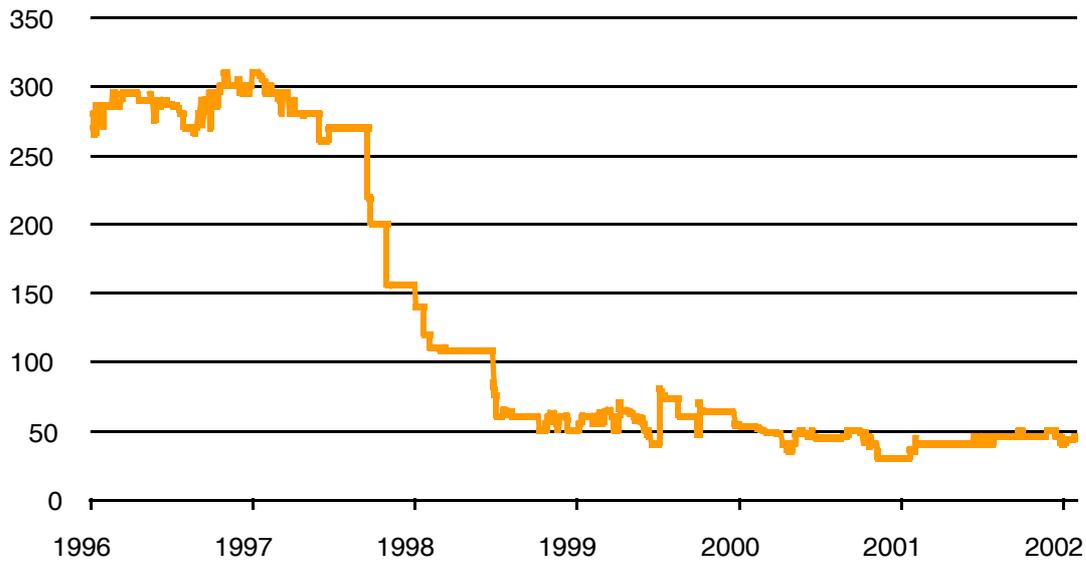
## LOCAL COMPANY SHARE PRICES



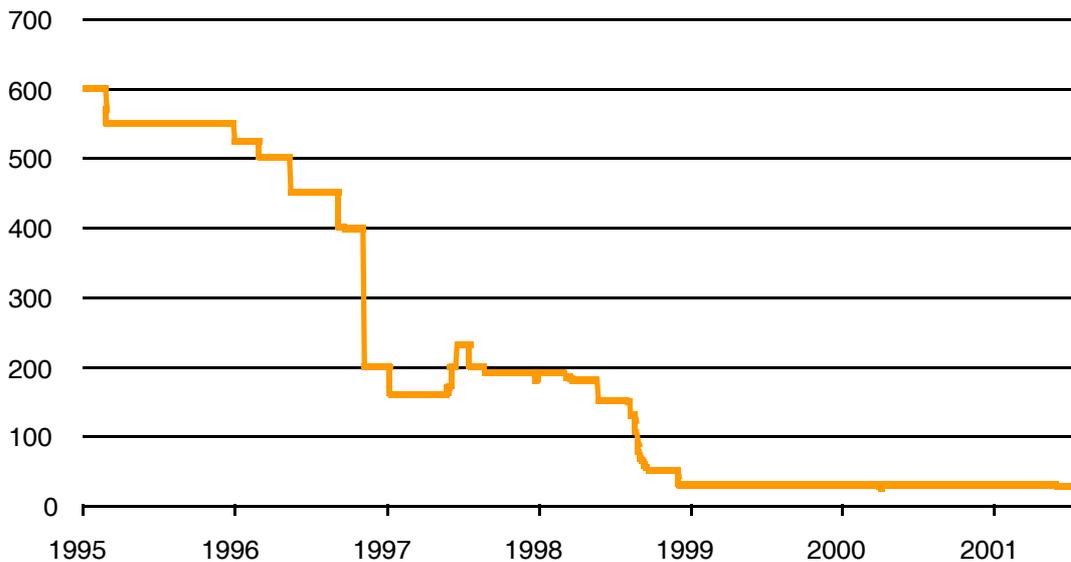
**Figure 62 Namfish share price daily closing price in N\$cents**



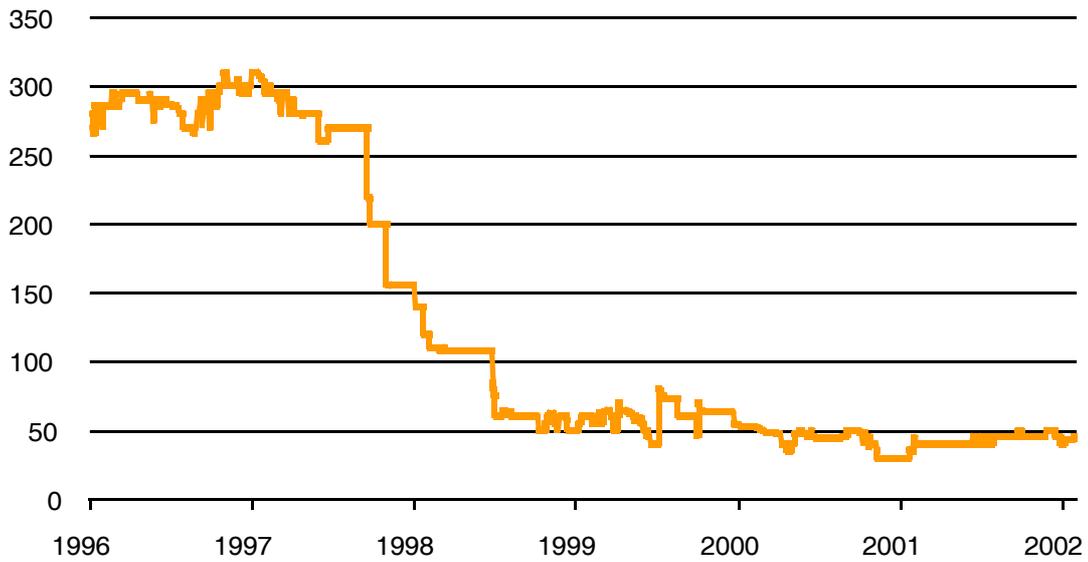
**Figure 63 Namsea share price daily closing price in N\$cents**



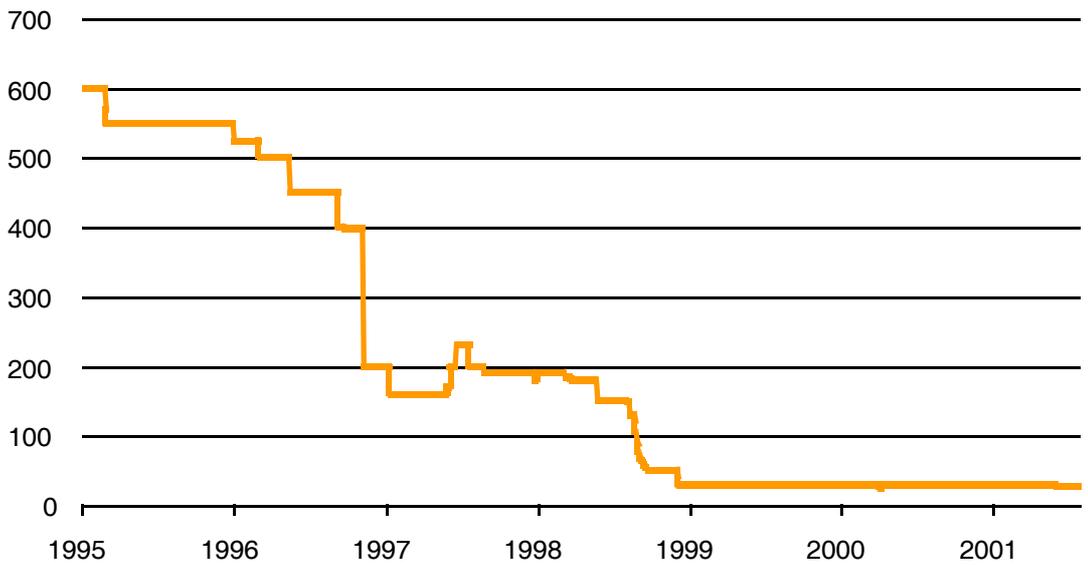
**Figure 64 CIC Namibia share price daily closing price in N\$cents**



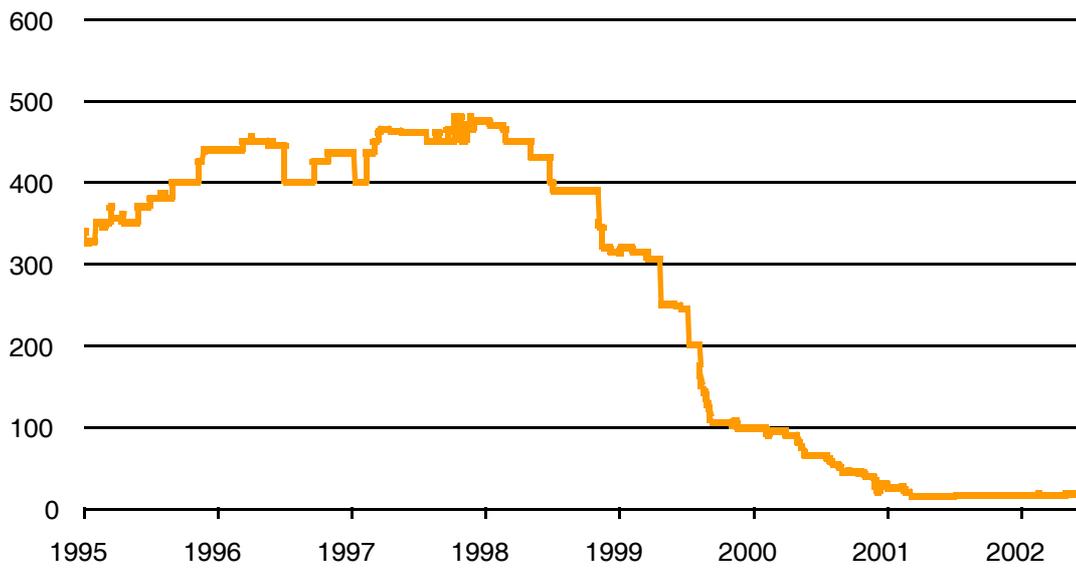
**Figure 65 African Portland Industries share price daily closing price in N\$cents**



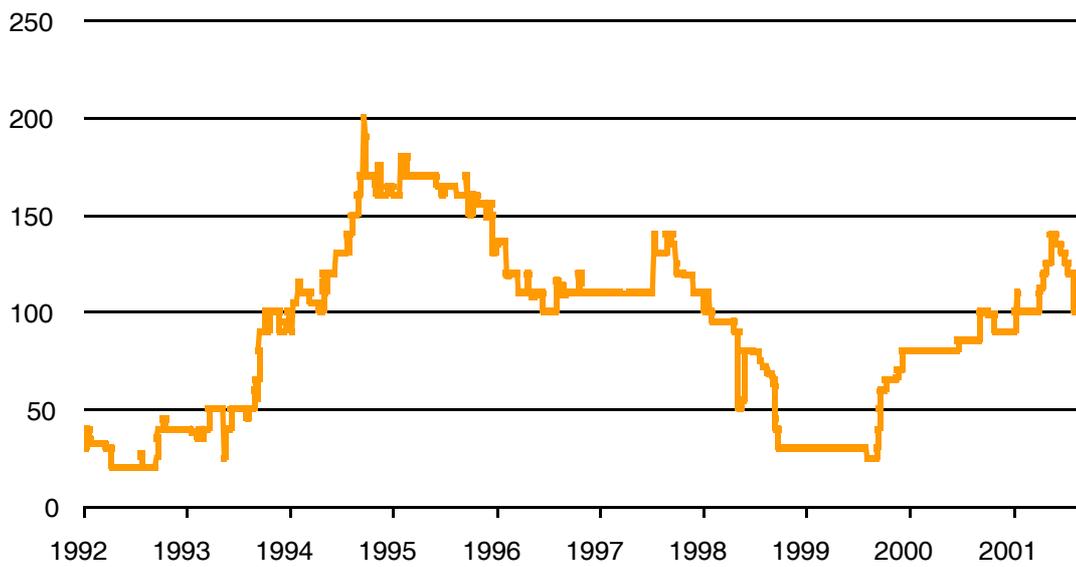
**Figure 64 CIC Namibia share price daily closing price in N\$cents**



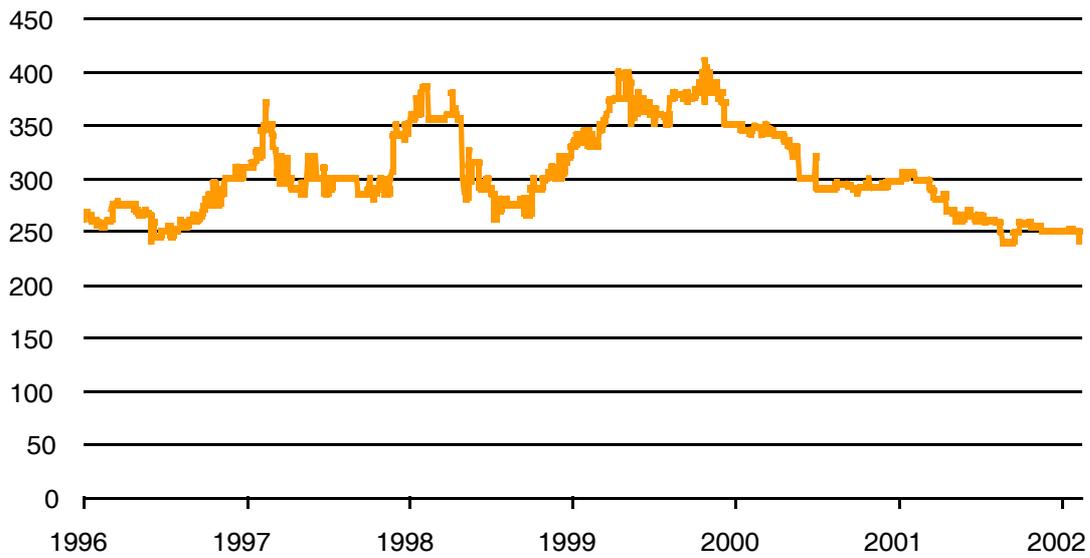
**Figure 65 African Portland Industries share price daily closing price in N\$cents**



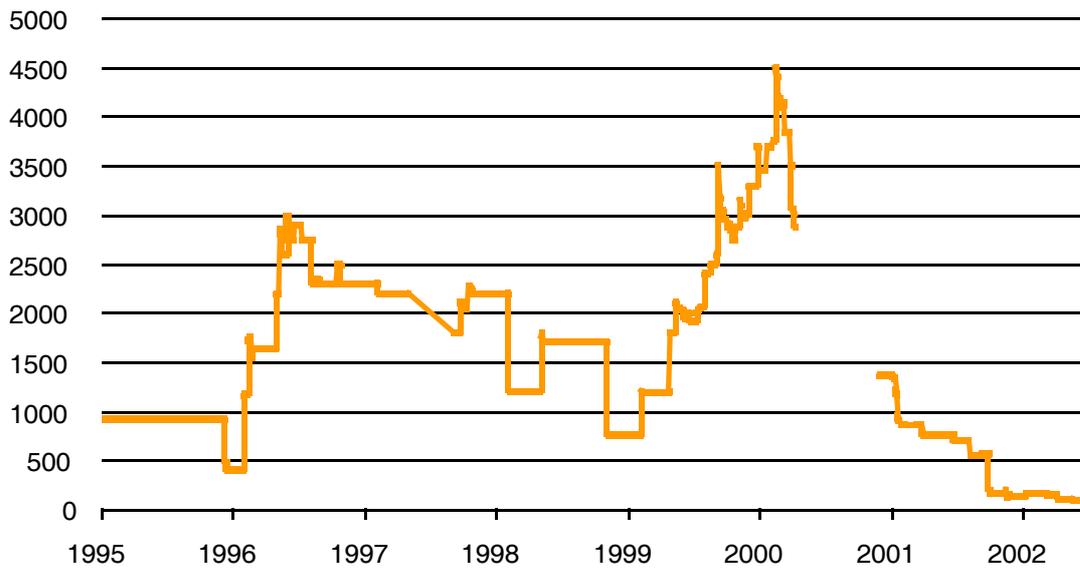
**Figure 66 PEP Namibia share price daily closing price in N\$cents**



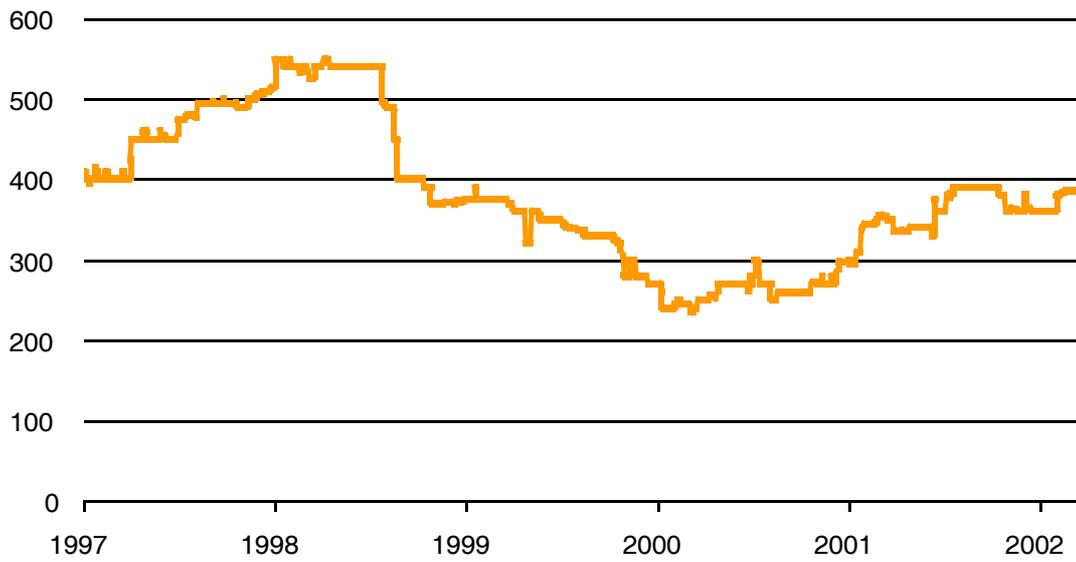
**Figure 67 NICTUS Namibia share price daily closing price in N\$cents**



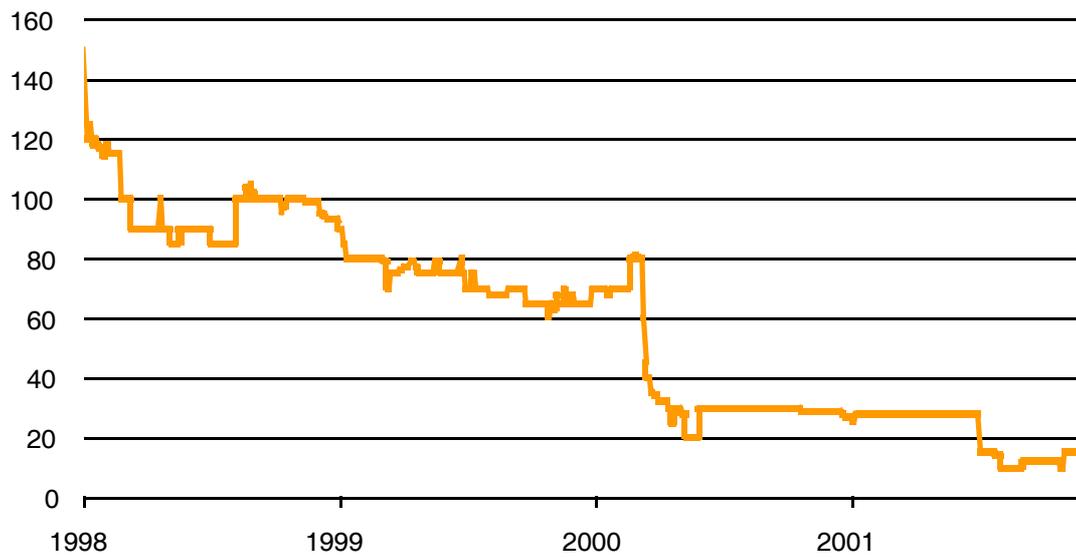
**Figure 68 Namibian Breweries share price daily closing price in N\$cents**



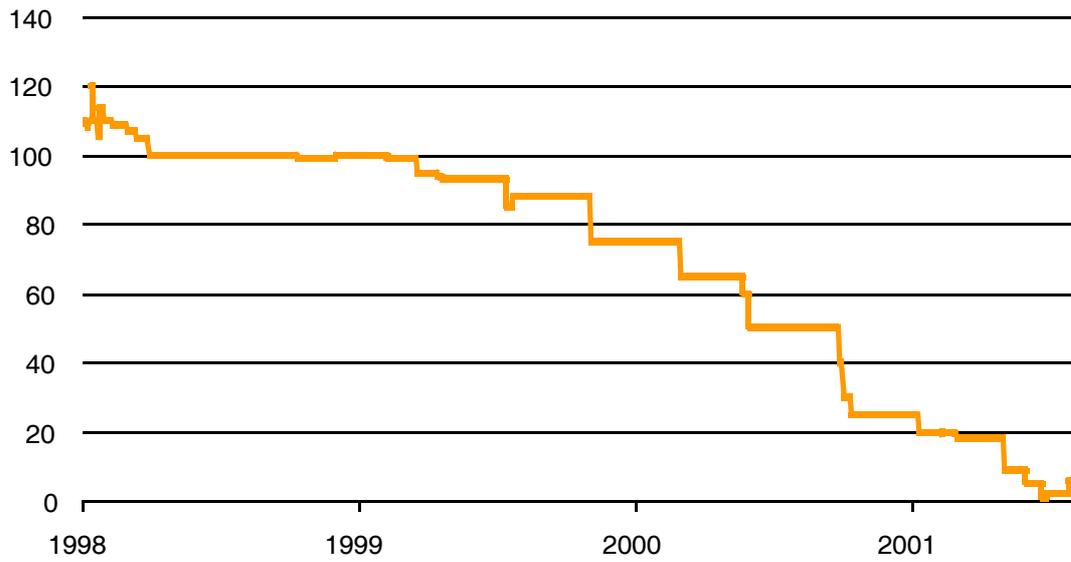
**Figure 69 NAMCO Namibia share price daily closing price in N\$cents**



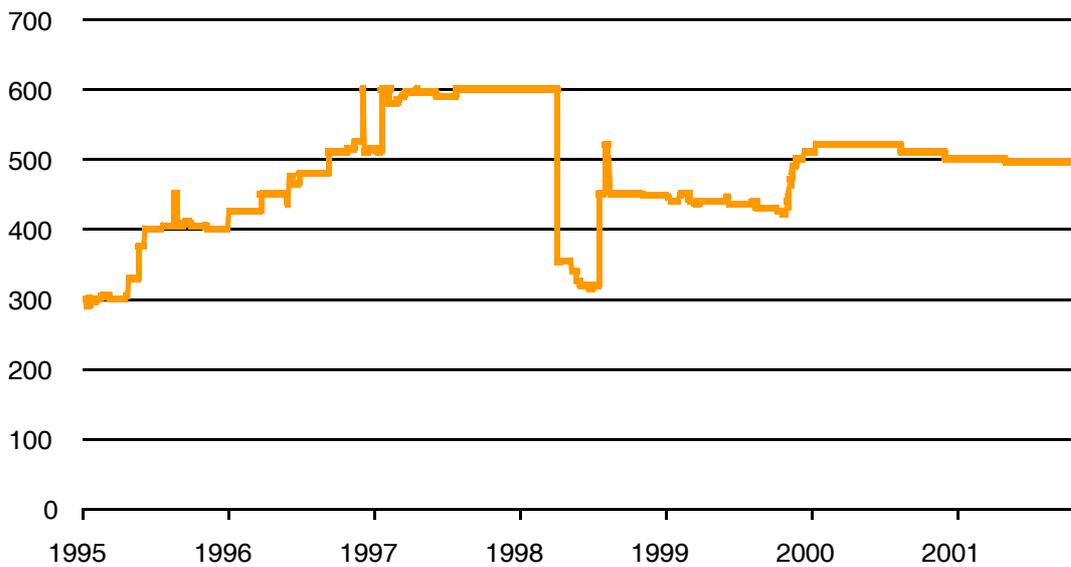
**Figure 70 FNB Namibia share price daily closing price in N\$cents**



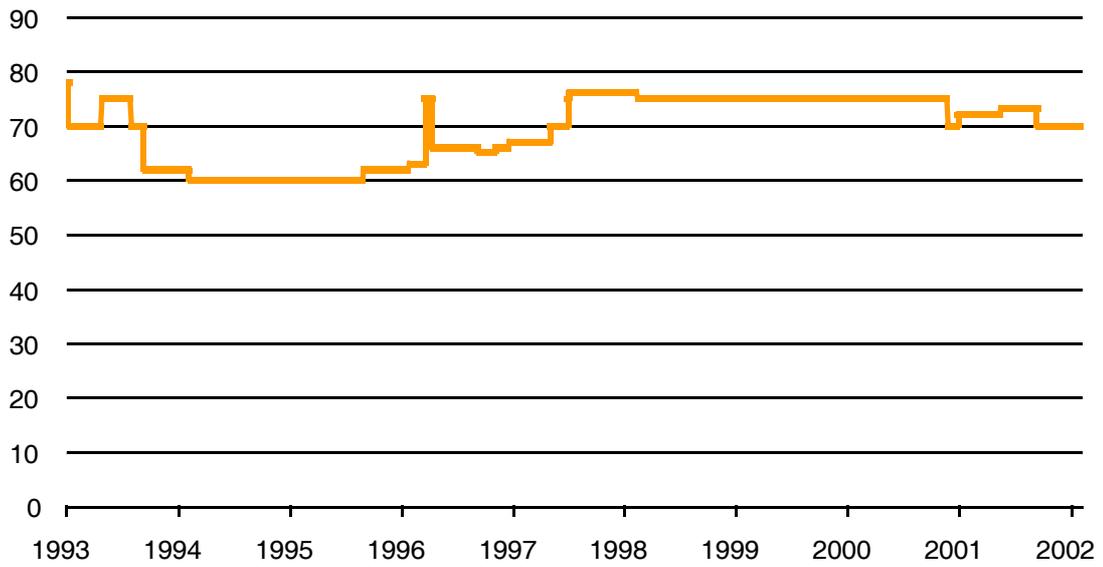
**Figure 71 Namibian Harvest share price daily closing price in N\$cents**



**Figure 72 Gendor share price daily closing price in N\$cents**

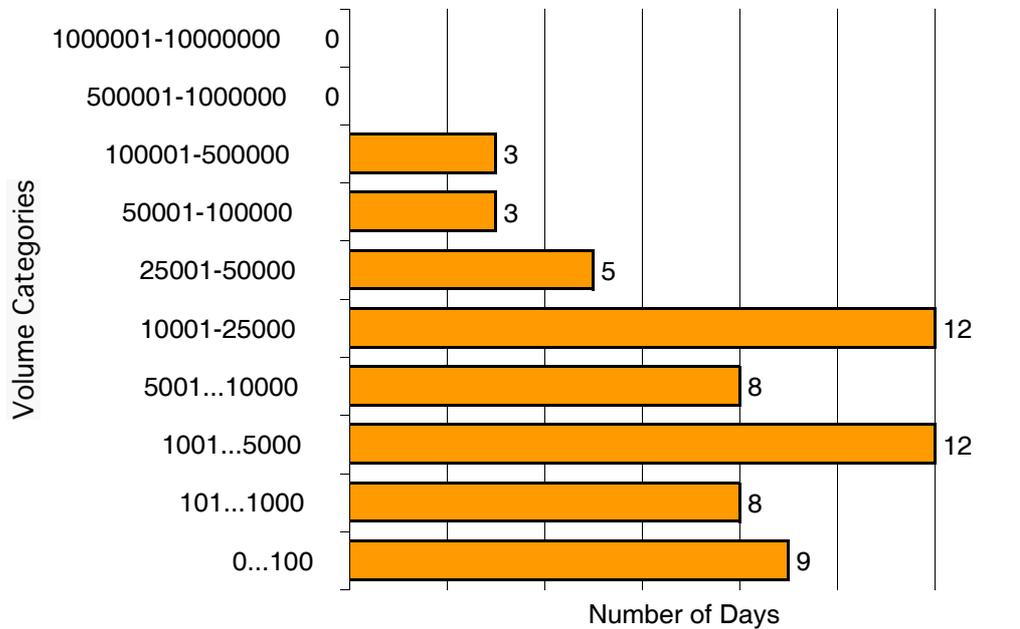


**Figure 73 SENTRA Namibia share price daily closing price in N\$cents**

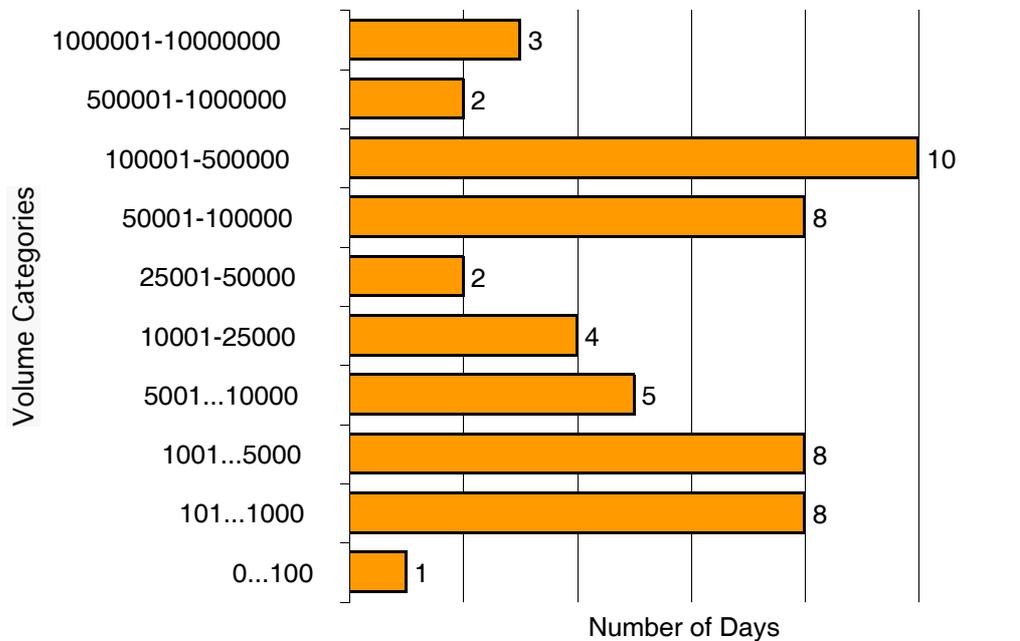


**Figure 74 M&Z Namibia share price daily closing price in N\$cents**

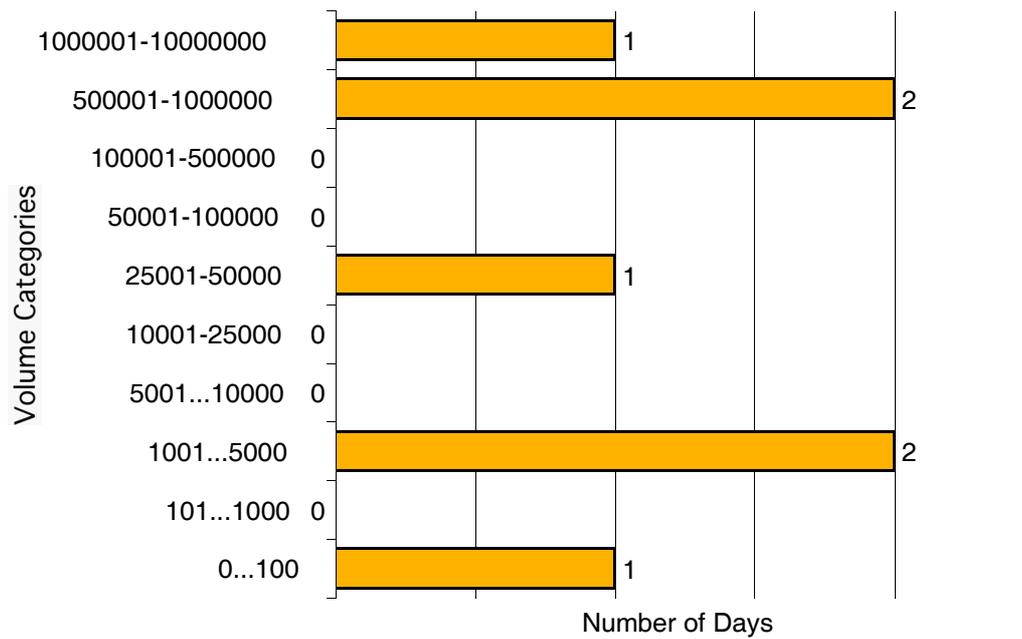
## LOCAL COMPANY DEALS



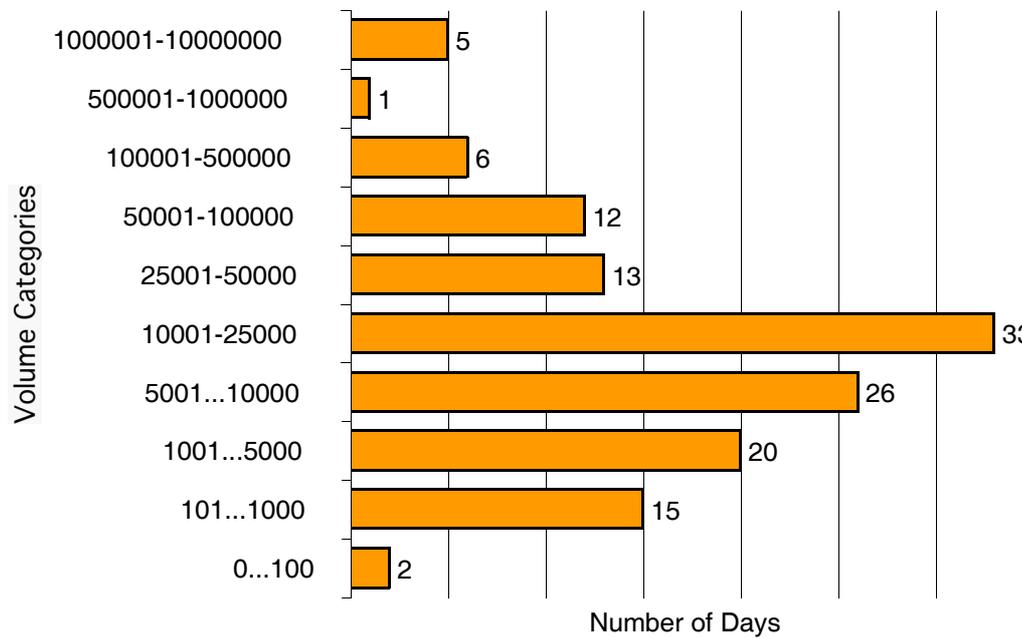
**Figure 75 Days with deals in the period 01/01/1999 to 31/05/2002 for Namfish**



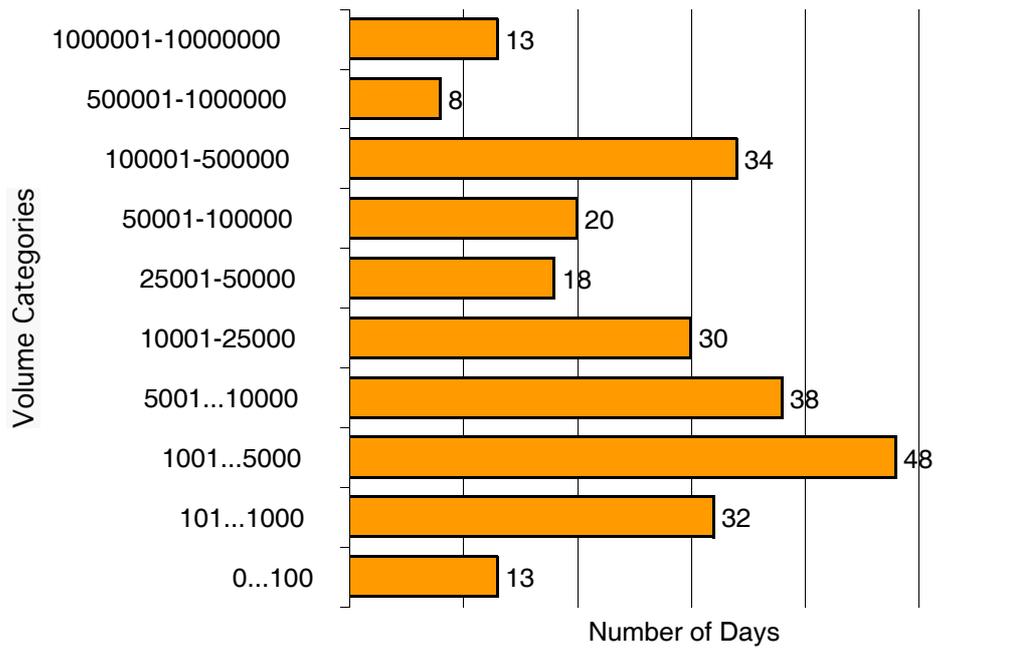
**Figure 76 Days with deals in the period 01/01/1999 to 31/05/2002 for Namsea**



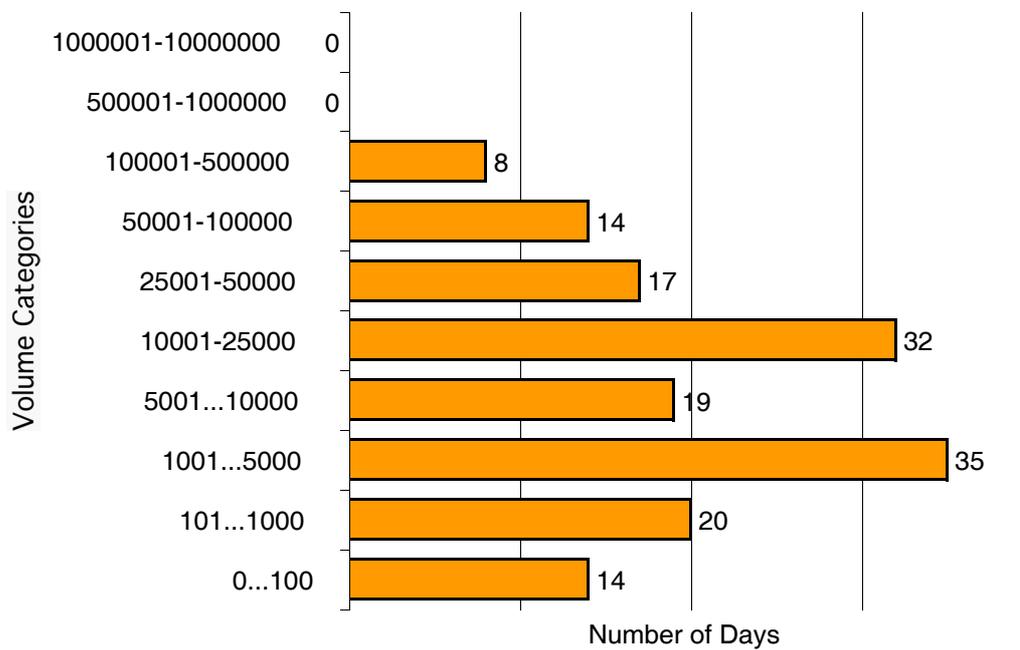
**Figure 77 Days with deals in the period 01/01/1999 to 31/05/2002 for African Portland Industries**



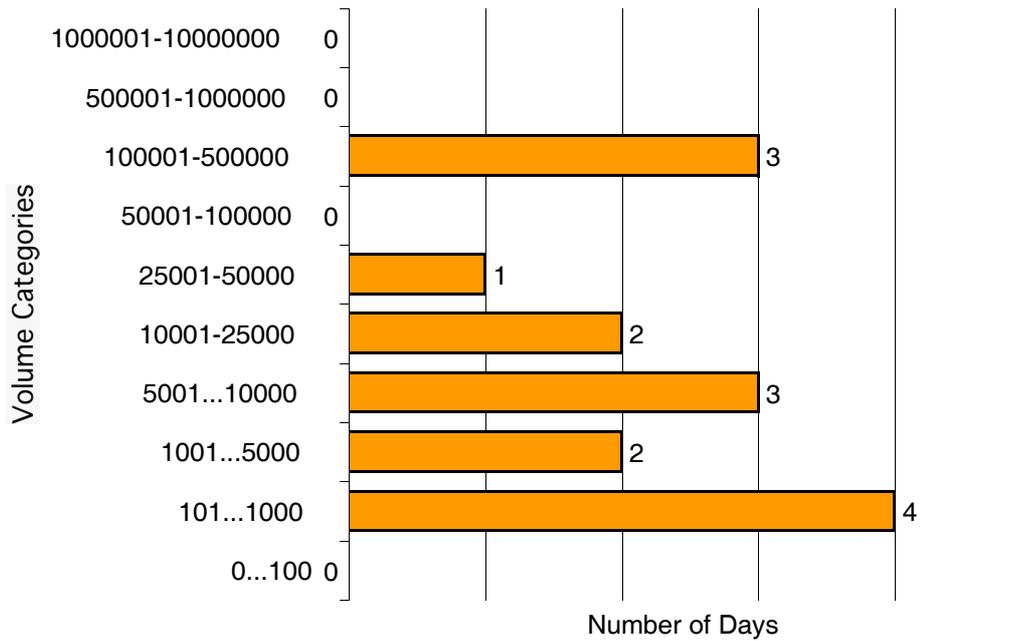
**Figure 78 Days with deals in the period 01/01/1999 to 31/05/2002 for CIC**



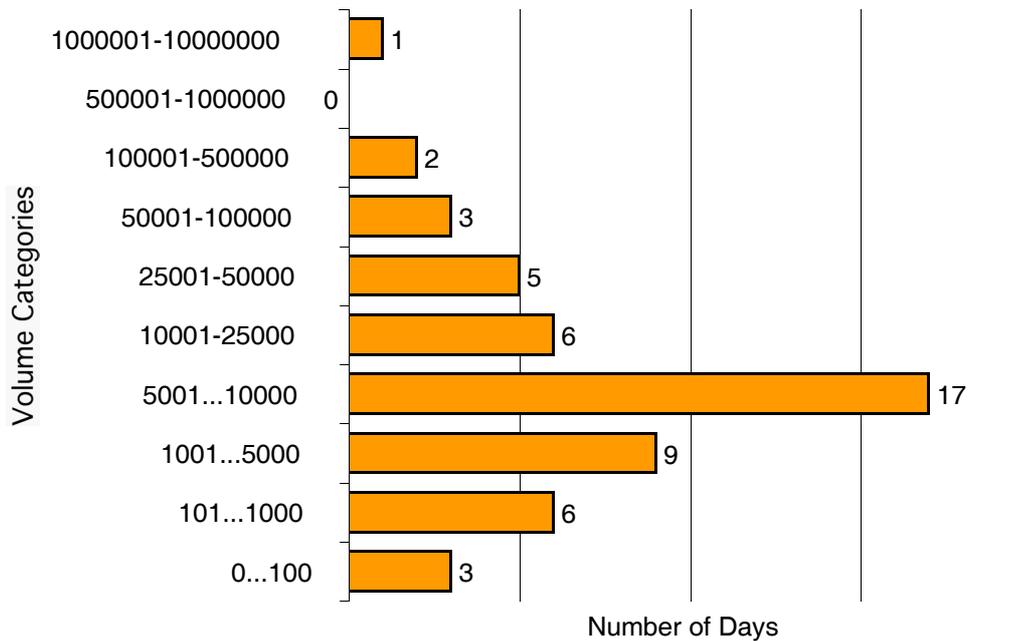
**Figure 79 Days with deals in the period 01/01/1999 to 31/05/2002 for Namibian Breweries**



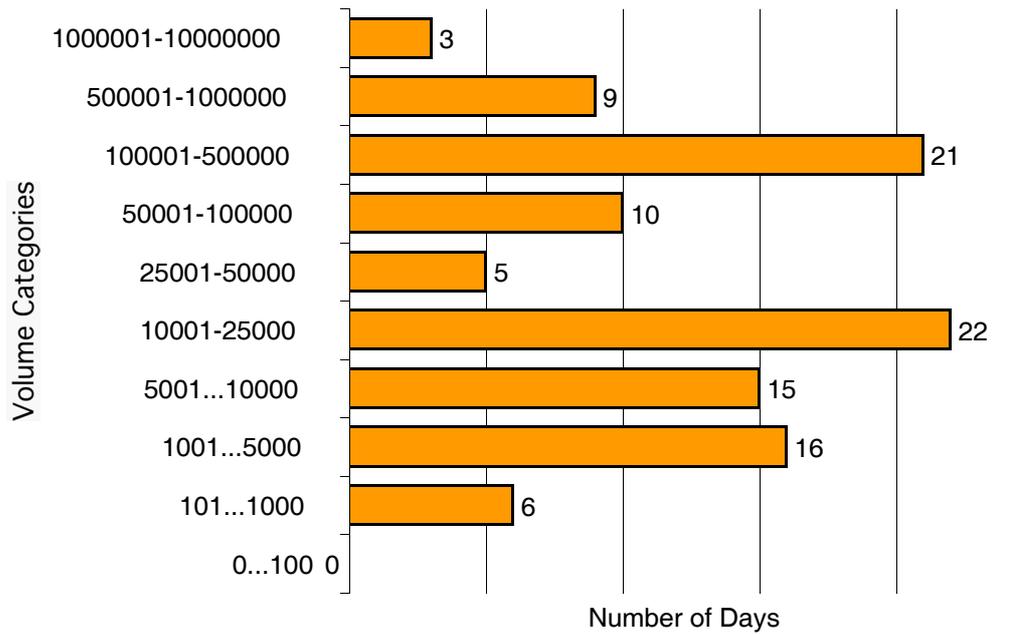
**Figure 80 Days with deals in the period 01/01/1999 to 31/05/2002 for NAMCO**



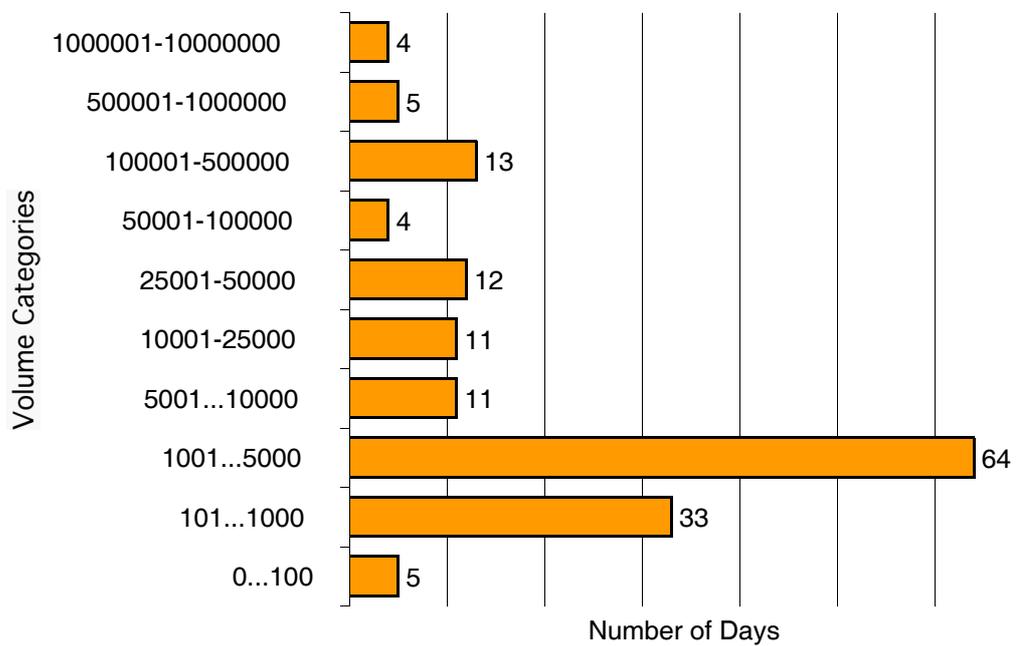
**Figure 81 Days with deals in the period 01/01/1999 to 31/05/2002 for NICTUS**



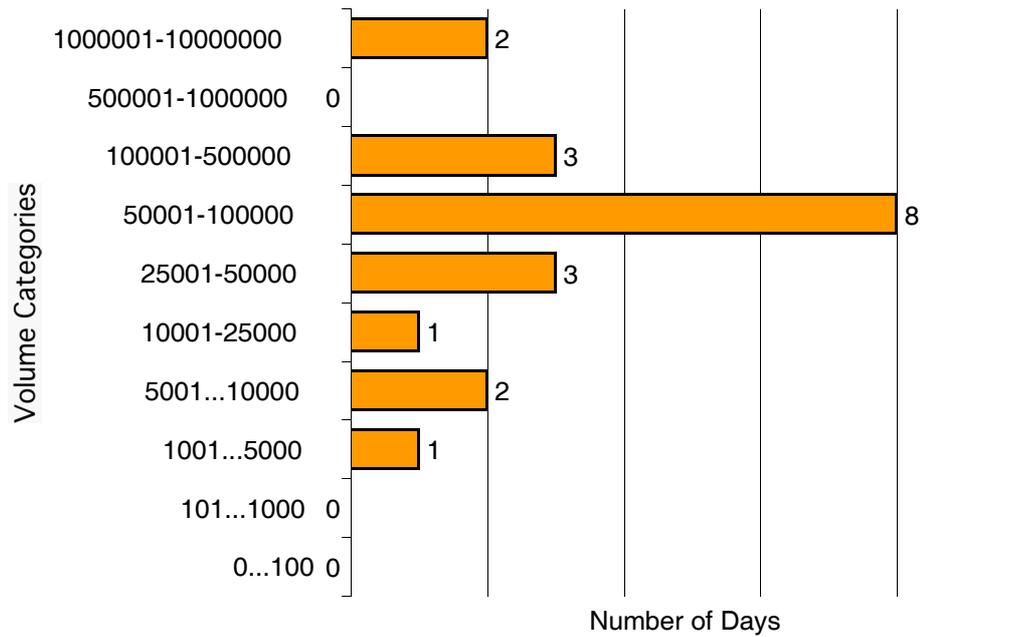
**Figure 82 Days with deals in the period 01/01/1999 to 31/05/2002 for PEP Namibia**



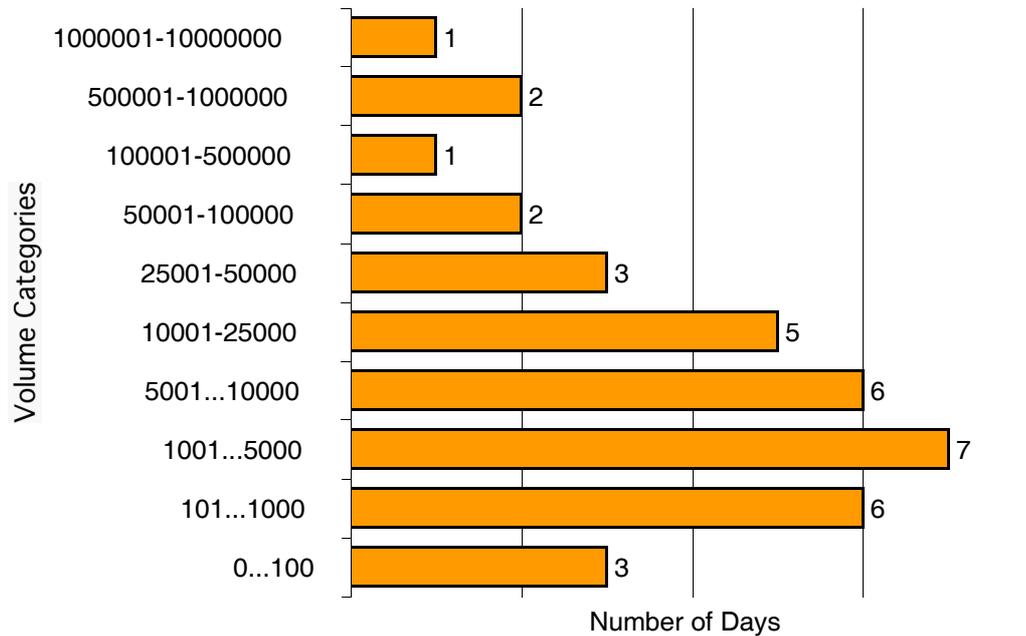
**Figure 83 Days with deals in the period 01/01/1999 to 31/05/2002 for Namibian Harvest**



**Figure 84 Days with deals in the period 01/01/1999 to 31/05/2002 for FNB**



**Figure 85 Days with deals in the period 01/01/1999 to 31/05/2002 for Gendor**



**Figure 86 Days with deals in the period 01/01/1999 to 31/05/2002 for SENTRA**

## LOCAL COMPANY OVERVIEW

Minorities are to be bought out at a premium by its majority shareholder Shoprite Checkers which will then dual-list on the NSX.

- There is no point having a Namibian stock exchange unless it is serving the needs of Namibian companies and the Namibian economy.
- The NSX serves Namibian companies primarily by helping them to raise capital and trade their shares.

**Table 23 Local Company Information since Listing**

	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01
<b>Nictus (NCT) listed at 180c on 19/10/1992 (primary listed on JSE)</b>										
Pre-tax profit	N/a	N/a	N/a	1.61	0.80	-0.05	-4.51	-5.78	0.60	1.44
Eps	N/a	N/a	N/a	18.9	12.5	0.5	-52.9	-70.0	7.3	53.3
Dps	N/a	N/a	N/a	6.0	3.0	1.0	0.0	0.0	0.0	0.0
Share price	32	40	110	170	120	110	95	30	80	100
P/e	N/a	N/a	N/a	N/a	9.6	215.7	-1.8	-0.4	11.0	1.9
<b>Namfish (NMF) listed at 65c on 09/11/1992</b>										
Pre-tax profit	N/a	N/a	7.9	2.9	-12.72	-11.33	31.97	11.00	12.37	
Eps	N/a	N/a	17.7	1.8	-32.1	-34.2	96.7	15.1	9.2	
Dps	N/a	N/a	15.0	6.0	0.0	0.0	0.0	8.0	5.2	
Share price	62	55	105	200	57	52	80	154	100	60
P/e	N/a	N/a	5.9	111.1			0.8	10.2	10.9	
<b>Namsea (NMS) listed at 43c on 09/11/1992 (primary listed on JSE)</b>										
Pre-tax profit	N/a	N/a	18.07	24.36	-11.16	-5.34	-4.80	-31.72	1.68	0.72
Eps	N/a	N/a	15.8	18.1	-8.0	-1.2	-3.2	-25.5	1.4	0.6
Dps	N/a	N/a	12.0	15.0	0.0	0.0	0.0	0.0	0.0	0.0
Share price	45	60	100	140	62	60	40	10	9	11
P/e	N/a	N/a	6.3	7.7					6.4	18.3
<b>M+Z (MAZ) listed at 175c on 12/03/1993 (primary listed on JSE)</b>										
Pre-tax profit		0.21	2.45	4.21	-5.45	2.64	1.34	0.20	6.52	-7.94
Eps		3.8	69.8	92.1	-136.9	76.0	36.2	4.3	70.3	-99.7
Dps		0.0	12.0	20.0	0.0	0.0	0.0	0.0	20.0	0.0
Share price		300	550	650	500	650	540	550	600	400
P/e		78.9	7.9	7.1		8.6	14.9	127.9	8.5	
<b>Pep Namibia (PNB) listed at 275c on 03/08/1994</b>										
Pre-tax profit			9.00	10.52	13.63	12.45	6.10	0.48	1.86	0.21
Eps			16.2	19.3	28.0	24.6	10.0	0.9	5.8	0.3
Dps			7.2	8.5	11.0	30.0	11.0	0.00	0.00	0.00
Share price				440	435	475	315	99	30	16
P/e				22.8	15.6	19.3	31.4	113.8	5.2	48.5
<b>Namco (NMC) listed at 925c on 29/09/1994 (primary listed on TSE)</b>										
Pre-tax profit								17.15	1.46	-41.26
Eps								0.4	0.0	-0.7
Dps								0.02	0.03	0.00

**Table 23 Local Company Information since Listing**

Share price										
P/e										
<b>API (API) listed at 550c on 08/12/1994</b>										
Pre-tax profit				3.44	-3.74	-0.31	2.35	-13.93	-13.97	-9.43
Eps				25.1	-42.7	13.3	-20.4	-107.4	-104.8	-46.0
Dps				10.0	5.0	0.0	0.0	0.0	0.0	0.0
Share price				600	525	160	190	30	30	30
P/e				23.9		12.0				
<b>Sentra (SRM) listed at 250c on 09/08/1995</b>										
Pre-tax profit				1.36	2.53	4.24	3.42	4.94	6.68	6.51
Eps				32.0	44.0	74.6	56.1	82.9	117.0	112.0
Dps				10.0	24.0	35.0	28.0	40.0	60.0	60.0
Share price				375	450	595	340	440	520	495
P/e				11.7	10.2	8.0	6.1	5.3	4.4	4.4
<b>Nambrew (NBS) listed at 240c on 02/05/1996</b>										
Pre-tax profit					26.99	34.68	46.98	78.68	71.31	67.91
Eps					13.1	16.8	21.7	27.9	29.8	61.3
Dps					5.2	6.7	8.8	11.2	12.0	12.4
Share price					260	300	275	379	294	240
P/e					19.9	17.9	12.7	13.6	9.9	3.9
<b>CIC (CIC) listed at 255c on 15/05/1996</b>										
Pre-tax profit					21.74	31.39	-56.92	-44.09	30.76	22.07
Eps					18.8	17.2	-42.8	-33.6	13.9	11.6
Dividend yield					0.0	0.0	0.0	0.0	0.0	2.0
Share price					270	270	60	73	44	45
P/e					14.4	15.7			3.2	3.9
<b>FNB Namibia (FNK) listed at 380c on 27/03/1997 (9 months result for 1999)</b>										
Pre-tax profit						112.34	130.01	98.89	154.80	198.00
Eps						37.1	41.1	35.1	52.0	66.2
Dps						9.3	13.7	11.7	20.0	33.0
Share price						495	400	330	260	390
P/e						13.3	9.7	9.4	5.0	5.9
<b>NamHarvest (NHT) listed at 100c on 22/07/1998</b>										
Pre-tax profit							10.55	26.70	19.34	4.11
Eps							4.3	9.4	6.5	0.8
Dps							0.0	4.0	0.0	0.0
Share price							90	75	30	28
P/e							20.9	8.0	4.6	34.6
<b>Gendor (GDR) listed at 100c on 05/11/98</b>										
Pre-tax profit							52.20	N/a	32.20	-20.22
Eps							15.1	N/a	13.8	-8.7
Dps							11.1	N/a	8.1	0.0
Share price							109	99	75	20
P/e							7.2	N/a	5.5	
* Pre-tax profits in N\$m (Namco in US\$m), eps and dps in N\$ cents (Namco in US\$ cents), share price and p/e ratios at calendar year end, negative p/e ratios not shown										
Source: NSX and company reports										

## LIST OF INTERVIEWEES

Table 24 Interviewees

Company	Contact	Telephone
NSX	Heiko Niedermeier	227647
<b>Asset managers</b>		
Sanlam Investment Management	Blackie Swart Cassandra	274100
Old Mutual Asset Managers	Johannes Gawaxab	299-3526
Namibian Asset Management	Marie Taylor	275722
Metropolitan Namibia	Jason Nandago	297-3001
Investec Asset Management	Alfred Kamupingene Marietjie van Zyl	249626
SCMB	Martin Mwinga	294-2607
NIB	Tom Minney	277950
Prudential	Maria Nakale	256166
Allan Gray	Renee Tubbesing	221103
Fedsure		
Alliance Capital	James Hatuikulipi	248787
Investment Solutions	Vivienne Craig Reagon Graig	225370
<b>Brokers</b>		
IJG	Jolyon Irwin/Dietrich Bödecker	238899
Simonis Storm Securities	Hendrik Lombard Floris Berg Andrew Jansen	238823
BOE Securities	Wilfried Moroff	256666/7/8/9
Investment House Namibia	Brian van Rensburg Albi Basson	237477
HSBC	Korbus Visser	273200
<b>Investment Banks</b>		
Mettle	Herbert Maier	234078
NIB	Steve Galloway	227950
<b>Retail Banks</b>		
Bank Windhoek	Abri Nel	299-1484
FNB Namibia	Stewart	
Commercial Bank	Vatjie Juergens	
Standard Bank	James Hill	294-9111
SWABOU Bank	Nama Goabab	
<b>Pension funds</b>		
GIPF	Primus Hango Ganton Cloete	205-1111
Alexander Forbes	Morne Olivier	223524
<b>Regulators</b>		

**Table 24 Interviewees**

NAMFISA	Frans van Rensburg	241429/290-5000
NAMFISA	Bob Meiring	236259
Bank of Namibia (BoP)	Paul Hartmann Wendli Shiimi	283-5169
<b>Listed companies</b>		
FNB Namibia	Stuart Moir	299-2222
Namibia Breweries	Bernd Masche	320-4999
CIC	Fanie Smit	219670
Namibian Harvest	Gordon Young	275700
Gendor		
Namfish		
Namsea		
Namco	Kombadayedu Kapwanga	231353
API		
M+Z	Dave Oram	
Sentra	Paul Malan	223008
Pep Namibia		
Nictus	Nico Tromp	228010
<b>Other stock exchanges</b>		
Botswana Stock Exchange	Martinus Seboni Tebogo Matome Brian Yates	+267 357900 +267 350337
Stock Exchange of Mauritius	Tafwick Udhin	+230 212-9541
JSE	Julian Amorim	+27 11 520-7777