

IPPR Interview No. 5, October 2001

## Lazarus Ipangelwa, Deputy Governor of the Bank of Namibia, on the proposed development bank

Robin Sherbourne



**“The Development Bank of Namibia will be an autonomous professional institution.”**

**IPPR:** Why do we need a development bank in Namibia?

**Ipangelwa:** The main reason we need a development bank is because of the finance gap that exists in the economy. We strongly believe that we lack an institution that provides medium and long-term project finance both to the private sector and the public sector, that is to say the municipalities and parastatals. The development bank will help us achieve a higher level of fixed investment in the economy.

**IPPR:** But why isn't the private sector involved in that sort of lending and if not why not?

**Ipangelwa:** I think the private sector is doing a good job and playing its part but there are institutional limitations which can only be addressed by a lending institution of the magnitude proposed here. For example, commercial banks by the nature of the structure of their assets and liabilities will inevitably prefer to grant short-term credit. They will only venture into long-term lending where they have already developed long-term relationships with their clients. Given our past, many projects may remain unfunded not necessarily because they are too risky but simply because banks cannot be sure of potential borrowers since they have limited information on them. Banks may discriminate on this basis and not even the profit motive is sufficient to prevent such discrimination. So, what the development bank will be doing is more to supplement the efforts of the private sector.

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**IPPR:** So you're saying structurally there is a certain type of lending that the private sector cannot do?

**Ipangelwa:** Yes, that's where we point to the long-term and medium-term lending which are the primary areas not being catered for at the moment. The main issue here is the existence of market failure defined in this context to mean the absence of medium and long-term credit to

finance industrial projects. Empirical evidence in finance and economics has shown that such term credit is important for economic growth and development but is scarce in Namibia. This is disappointing in an economy with relatively plentiful savings yet high unemployment. We need to

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find out why term finance is scarce. We believe the structure of the current financial system has contributed to the lending gap in the economy and this is the issue we are trying to resolve. Currently projects are not being funded due to lack of lending facilities.

**IPPR:** Can you give people a more specific idea of what you have in mind?

**Ipangelwa:** The whole idea for the municipalities is to look at the project finance they have in place for the projects they want to fund, a water purification plant for example. When we talk about lending money to parastatals it does not mean lending money for them to improve their cash flow. The whole idea is to lend to them for projects. For example if Namwater has a project, we would have to look at the project and see if it is viable and whether it contributes to the company's bottom line. If it is we can fund it.

**IPPR:** Where are these organisations going at the moment to get funds?

**Ipangelwa:** Primarily from outside although some manage to raise funds from Namibian sources of finance all with government guarantees, for example from the Development Bank of Southern Africa, from the African Development Bank, from the European Investment Bank. All that borrowing, even municipality borrowing, is 100% guaranteed by central government. Often these sources of borrowing are very expensive.

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**IPPR:** You believe a Namibian development bank could offer a better deal?

**Ipangelwa:** Yes, definitely, if we could have one institution that can coordinate the borrowing of government offshore, I think we would be in a better position to negotiate good terms and conditions. The Development Bank of Namibia (DBN) will mobilise

resources from within but, in addition to that, it will look at the concessional funding that is available internationally and that money can be on-lent within the economy to municipalities, parastatals and other players in the economy.

**IPPR:** We've had several attempts since Independence to try and encourage the private sector to do more medium and long-term lending – the domestic asset requirements for pension and life insurance funds, the Namibian Stock Exchange. Have these worked and why do we need something else?

**Ipangelwa:** Whether the domestic asset requirements have worked or not worked is something we need to look at properly. But what we know for sure is that a number of stockbroking firms have been established as a result and that trade takes place on the NSX so there have been a number of positive developments. Whether most of the activity has been in dual-listed shares or not is another question. But perhaps we need to ask whether we are really seeing money being channelled to industries on the ground as a result. That's what we are trying to do with the development bank. But let me say this, we need to encourage non-bank financial institutions such as pension funds and long-term life insurance companies to invest more money than the minimum prescribed by the authorities. One of the areas where we can look is to increase the maximum exposure of pension

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**“One of the areas where we can look is to increase the maximum exposure of pension funds to non-listed securities to 15% or 20%.”**

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funds to non-listed securities. The current limit is currently 5% of their total portfolio. We probably need to increase this to 15% or 20%. This is important given the structure of our economy in terms of companies listed on the NSX and the size of the NSX.

**IPPR:** So you don't see the development bank competing with existing institutions?

**Ipangelwa:** If anything it is going to be positive competition in the sense that if it is something that has to be done but is not being done properly by them then the DBN will come in. But as I said before, the idea is for the DBN to supplement the effort of the private sector.

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**“The idea of the development bank is to supplement the effort of the private sector.”**

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**IPPR:** Won't the DBN present unfair competition to other commercial sources of finance such as the NSX?

**Ipangelwa:** I certainly don't see the DBN presenting competition to the NSX. A company that is seeking funds has two main options, to issue debt – by taking out loans - or to ask shareholders to put money in – raising equity. The DBN will help with companies' requirements for debt by providing long-term credit. No company can be run profitably on 100% equity. Again for a company to be listed, that company will need a good track record. The DBN will fund new companies before they approach the public through listing.

**IPPR:** Let's look at Namibia's record in development finance so far. We've had a number of institutions the Namibia Development Corporation, the Development Fund of Namibia, to name just two. What are the lessons we've learnt from those experiences in the last eleven years?

**Ipangelwa:** The lessons have been good and bad. I am particularly disappointed by the performance of the DFN and the NDC. They are not really doing what we expected them to do, primarily for the following reasons: lack of capital, lack of proper management, lack of skills and lack of focus. We must recognise that capital is king in this game. You need sufficient capital but equally important you need good management. We also had the problem of too many cooks spoiling the broth and this should be avoided in future. We've structured the NDB is such a way that it is autonomous, transparent and accountable to shareholders and other stakeholders.

**IPPR:** Can you explain how you have managed to do this?

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**“We've had the problem of too many cooks spoiling the broth and this should be avoided in future.”**

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**Ipangelwa:** The main thing is to ensure you have proper structures in place. The second is capitalisation. We are saying that we need not less than N\$600 million to start working but we are aiming at N\$1.5 billion. We believe capital is king in this game. The other is to ensure there is good corporate governance in place – there must be clear lines of demarcation between the board, the shareholders and the management. So those are the main issues we have addressed to ensure the bank is properly run. In addition to that we thought that from the beginning it is important to get the right expertise in place. Therefore what we are trying to do now is to get an internationally experienced consultant to come in and help us to set up a strong foundation from the beginning. If we mess up the foundations the bank will be doomed to failure.

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**IPPR:** Can you then reassure the public that the NDB will be a professional autonomous institution?

**Ipangelwa:** It is difficult to say more than what I have outlined at this stage. The bank will be managed in line



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with international standards and best practice. What matters most are the individuals who are going to run the bank. What also matters are the views and ideas of policy makers and other stakeholders contributing to the process. So it's difficult for me to say, once we have done this everything will be alright but there are those issues that are important such as the autonomy of the institution and that is being guaranteed. I mention policy-makers because the performance of the DBN will be affected by the overall macroeconomic policy. You will not see a development bank doing well if the overall economic policies are not prudent.

We have made provision to ensure the DBN diversifies its sources of funding and reduces dependence on the fiscus. It must diversify its operations to include activities of a non-lending nature. This will help the DBN to increase its income from off-balance sheet items. It must be able to operate as a merchant bank as well as a venture capital financial institution. But more importantly, it must ensure that credit decisions are sound and based on commercial principles. This will ensure a sustainable and profitable institution that creates value for the economy. All these can only be done if the institution is autonomous and managed on a professional basis.

**IPPR:** Are the stakeholders clear that this is what needs to be done?

**Ipangelwa:** I'm very happy with the commitment that the government has made, for them to say that it should be run on a professional basis, that the government will not appoint the majority of directors, they will just appoint three out of seven, and also that government will provide sufficient capital as well to ensure that the bank is independent.

**IPPR:** How much is government providing?

**Ipangelwa:** Government is providing in excess of N\$350 million.

**IPPR:** But you're looking for N\$600 million. Where will the remainder come from?

**Ipangelwa:** The remainder will come from other stakeholders. We are in touch with other institutions, the pension funds in the country, the insurance companies, and also with the Bank of Namibia and the Social Security Commission. In addition, we will be approaching international agencies to take up equity.

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**"We will be approaching international agencies to take up equity."**

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**IPPR:** Will the DBN focus on specific sectors of the economy, for example fishing, agriculture or manufacturing?

**Ipangelwa:** The priority will be on infrastructural development but it will get involved in most sectors apart from real estate and small agricultural projects. It will obviously not have the resources to fund really big mining projects but I don't see any reason why the development bank should not help fund smaller mining projects.

**IPPR:** Will it assist exclusively Namibian companies or foreign companies too?

**Ipangelwa:** What is important to me here is not so much about foreigners and Namibians. We have to look at the impact the DBN should have on the economy. If the project is taking place here, whether it is 100% owned by foreigners, the DBN should get involved. It should not really be confined to Namibians provided it helps the economy and helps us create jobs. It will not matter where the share certificates are. If the share certificates are somewhere in a safe in Germany and the jobs are created here so be it.

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**IPPR:** Will the DBN have a specific black empowerment role?

**Ipangelwa:** That's a good one. Our society is made up of two nations, the rich and the poor one. The rich is rich because of what has happened in the past. They are rich in education, in the management of money, and rich in terms of access to capital. The other is poor, because they do not have access to education. They are poor because they're the first generation to have access to ownership of property for example. No one can say they inherited a property or factory from my father or forefathers. So any institution that is a true national institution ought to have specific programmes for black empowerment. The DBN will not be an exception. This nation cannot move forward when the majority is poor in everything because of the past. But we must also remember that the best way to help the poor, especially the black people, is to provide them with a stable macroeconomic environment, high investment that creates jobs and wealth will automatically follow. So to answer the question, yes we have made provision for black empowerment programmes. Though that will not be the major focus of the DBN, it will be an important area of interest.

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**IPPR:** What form will that take? Will it be, for example, mainly on SME development or joint ventures with foreign fishing companies? Can you give us an idea?

**Ipangelwa:** We need to look into the issue of collateral as well as own contributions as they affect black businesspeople. We need to assist them in joint ventures with foreign companies. The DBN can then fund their equity

participation in such joint ventures. The assistance will be across the board. The actual programme is yet to be developed after consultation with all stakeholders.

**IPPR:** So you do see the DBN helping to develop new green field businesses run by black business people?

**Ipangelwa:** Yes but we are not saying that simply because you're black you will be assisted. We're really looking at potential winners who are serious about running a business properly.

**IPPR:** What has been the reaction of the private sector to the DBN?

**Ipangelwa:** I think it's too early to say but from the information I have the reaction seems to be positive. A number of companies have got in touch with us. They want to find out when we are going to start and what mechanisms are in place for us to work with the commercial banks and other private sector entities.

**IPPR:** Have you had any firm commitments to provide capital?

**Ipangelwa:** We have commitments in principle but not in terms of the amount of equity that is going to be taken up by individual institutions. We hope this will be finalised before the end of October 2001.

**IPPR:** How will DBN management be selected? We have had experience in Namibia of even going abroad for by Namibian standards very expensive CEOs who still haven't managed to run the business successfully.

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**Ipangelwa:** I don't think we need to look at whether a person comes from outside or from within or whether they're expensive or not. The most important thing is whether the person is capable of doing the job. If the person can do the job at that level and that is the price to be paid, we just have to pay the price. In terms of procedures, we have made a provision for shareholders to appoint the directors and for the directors to appoint the CEO. We do expect the directors to be involved in appointing senior management.

**IPPR:** And it will be up to shareholders to decide whether directors stay or go?

**Ipangelwa:** What we have recommended is that the directors will be appointed for a period of not less than four years unless there is misconduct or incompetence. If they are competent and doing their jobs there is no way they can be dismissed during that period.

**IPPR:** How will we know when the DBN has performed well or not? What performance measures have been established – is it profitability, or the number of jobs created, the amount of money lent?

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**Ipangelwa:** Performance will be judged according to the objectives of the DBN, basically to help grow the economy and to help improve investment activities. That will be reflected on the lending side in terms of the size of the loan portfolio and also in terms of the quality which is very important. If the projects are good the return for the DBN will also be good. One can look at the sustainability of the projects funded by the DBN, the employment

creation, component and the most important one is the overall sustainable value addition to the economy.

**IPPR:** So we expect the DBN to be a profit-making institution?

**Ipangelwa:** Yes, otherwise we shouldn't create it. Profitability does not necessarily mean high profitability. It may not be as profitable as a commercial bank but it will not be a drain on the fiscus.

**IPPR:** Thank you for this interview.

This is the transcript from an electronically recorded interview between Lazarus Ipangelwa, the Deputy Governor of the Bank of Namibia, and the IPPR conducted on Thursday 27 September 2001. It has been shortened in parts and some language changes have been made.