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# **STRATEGIES FOR A SOVEREIGN WEALTH FUND AND EMPOWERMENT FUND IN NAMIBIA**

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An Economic Study To Assess The Various Effective Mechanisms On How  
To Implement A Sovereign Wealth Fund And Empowerment Fund In Namibia

**HARVEST INVESTMENT – NAMIBIA**

DATE: 01 September 2021

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## GLOSSARY

GDP	–	Gross Domestic Product
NEEEB	–	National Equitable Economic Empowerment Bill
SWF	–	Sovereign Wealth Fund
HPP2	–	Harambee Prosperity Plan Two
PPP	–	Private Public Partnership
SME	–	Small and Micro Enterprises
AuM	–	Assets Under Management
UN	–	United Nations
BoN	–	Bank of Namibia
SDG	–	Sustainable Development Goals

### ***Acknowledgements***

*I would like to thank my dearest life-long partner and wife Vanessa for her patience, support me during all the challenges and good times in my life, you are a blessing in my life including my children Rodger, Elijah and Hannah.*

*I acknowledge my dear parents Dr. Ochurub and Ms. Erna Ochurus, brothers and sisters, nieces, cousins, uncles and aunts. I acknowledge your love and support, daily calls and eternal encouragement so I can be the best in anything I do, I love you all.*

*Most Importantly this is dedicated to my late mother Lisa and granny Lisa, I thank my heavenly father for you even though you departed, thank you for making me believe in prayer as a solace.*

*To all my Friends and their lovely families, I am very grateful.*

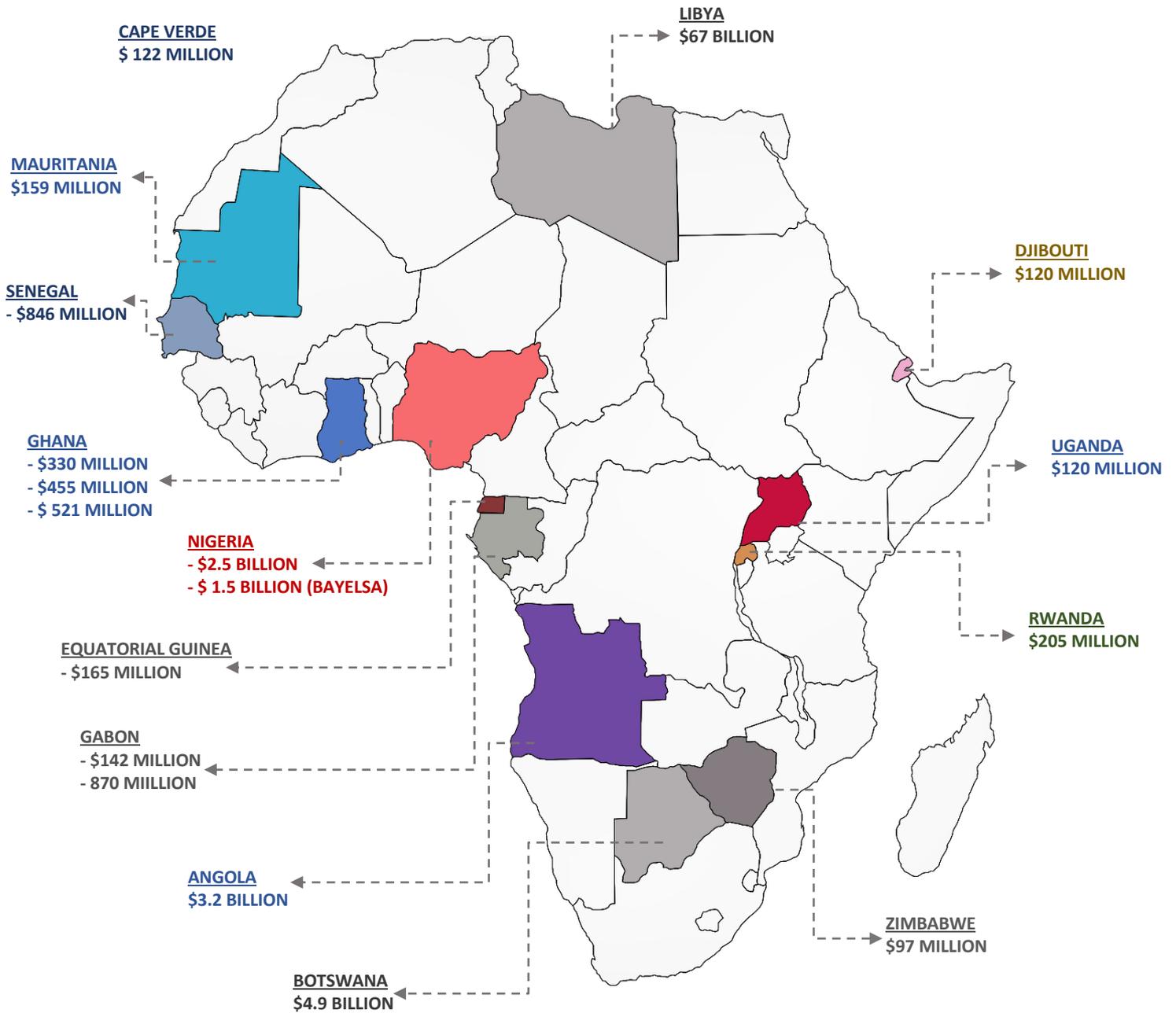
*I dedicate this research to the forefathers of the African soil, the tribal chiefs and elders that sustained our tribes throughout the ages and met their economic needs without greed or prejudice, yet having no economic credentials, only by obeying divine instructions.*

*God bless Namibia*

*“Anyone who believes exponential growth can go on forever in a finite world is either a madman or an economist”.*

*Kenneth Ewart Boulding*

# AFRICA



By: Rodney Dan-Ao !Hoacb

source of data: <https://www.swfinstitute.org/fund-rankings/>

## Executive Summary

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The Namibian economy challenged with stagnant growth with a repeating pattern of recessions, these growth constraints threaten the Gross Domestic Product (GDP) stability unless new alternative investment and empowerment measures are introduced. The global financial sector is evolving with the swift pace of innovation, which excludes many under-developed economies while setting the developed economies in a favorable position. Domestic financial stability plays a critical role in any countries development and has far-reaching benefits for its citizens and corporations. Any country should prioritize its domestic stability as a stepping stone to later export its services to its neighbors or regional, multilateral or international partners.

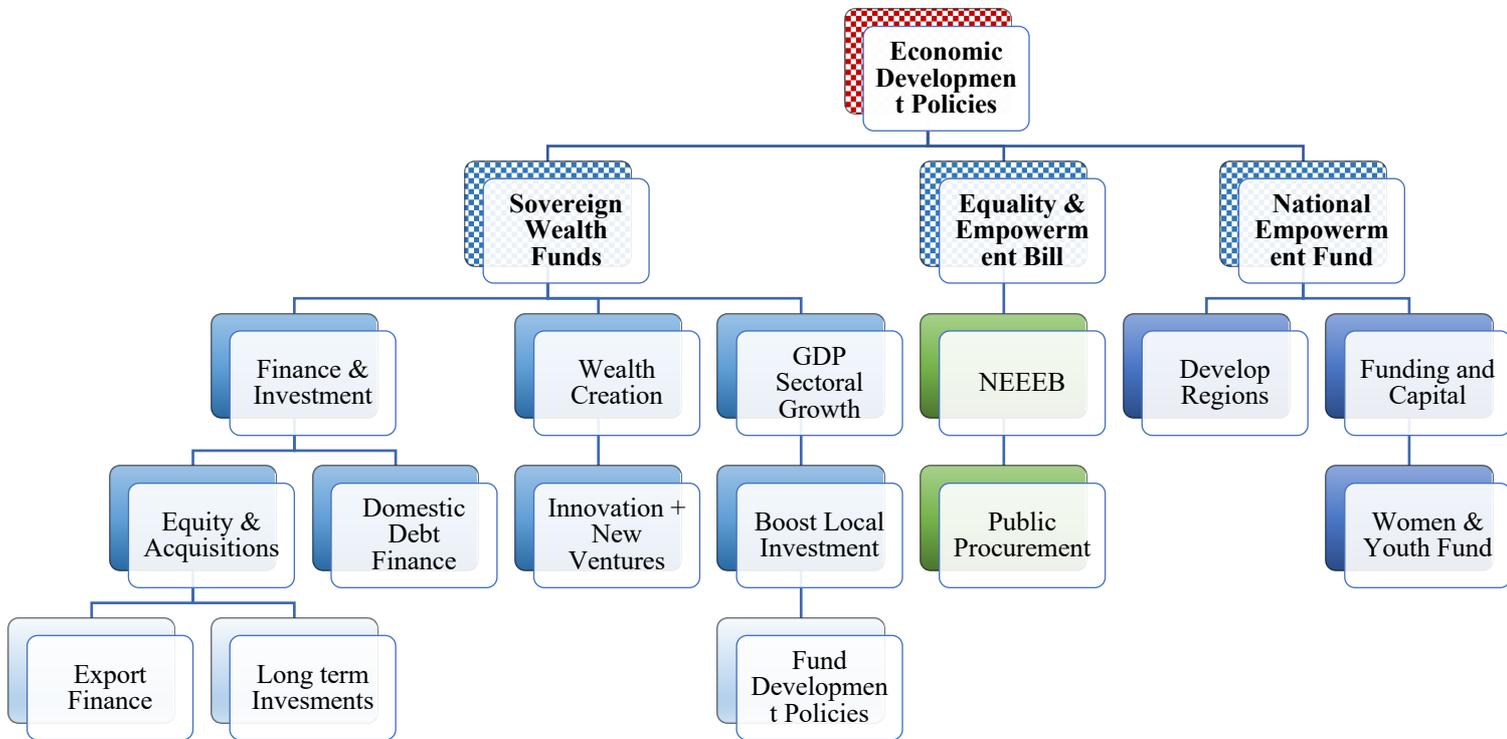
Well-tailored financial instruments can be linked to developing sectors within the economy to boost domestic production to sustain stronger industrial output and achieve export growth. One such instrument is the Sovereign Wealth Fund (SWF), as it ensures collective national commitment towards domestic economic and development objectives.

**Firstly**, the Sovereign Wealth Fund (SWF) fund ensures growth for the benefit of the country and also doesn't operate along the regulatory boundaries or limitations of commercial banks, unlisted investments, or stricter development bank regulations as it is in essence a fund that goes directly to the market and undertakes business under the guidance of the state. Uniquely, unlike other funding initiatives and grants, a sovereign wealth fund is instituted to generate revenue through equity.

**Secondly**, Namibia requires empowerment policies to solve inequality, however such policies should promote cooperation between business owners and enterprises without an unbiased legislative bottlenecks. It is very important to make clear definitions about how these policies and their intention, their implications and targeted development results. This requires economic or research-based evidence to make impact assessment to ensure where it is required or not, how effective it will be and what results will manifest. Such policies always carry the pressure of political weight can easily derail impactful economic goals, if not carefully defined and applied they will threaten economic confidence and lead to business closures. This research provides suggestions on how to achieve a healthy and lasting policy position.

**Thirdly,** National Empowerment Funds signifies targeted developed funding which is equitable and fairly disbursed among targeted an age groups, gender, veterans, orphans, women, etc. The purpose of an empowerment fund is to facilitate active economic participation for various potential role players in the economy that are excluded by stricter market and industry requirements. The government needs stronger initiatives to reach out to the informal segment and those that are excluded from the industry because of formality cliches.

Proposed SWF and Development Policy Implementation Strategy for Namibia



# 1. Introduction – Sovereign Wealth Fund

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## 1.1 Benefits and Challenges

A sovereign wealth fund is a state-owned investment fund comprised of the money generated by the government, often derived from a country's surplus reserves. (Investopedia)<sup>1</sup> It also provides financial stability for domestic investment and averts economic disasters.

### Benefits

- Operates on revenue creation unlike grants.
- Assists Government to have fallback funds during any disasters.
- Creates employment through innovation and other initiatives.
- Revenue should benefit the government and strengthen tax base, not individuals
- To curb corruption and self-enrichment by political parties, thus boosting investor confidence.
- Wealth creation and fair regionally and international market representation.
- Ability to Support PPP Policy Initiates.
- Ability to support Empowerment funds.
- Ability to boost the Harambee Prosperity Plan 2 Objectives.
- Money is a game changer to raise macro enterprises.
- Curbs the begging trend for social needs and grants, which leads to less interference over democratic decisions.
- Avert or manage financial catastrophes like recessions, stagflation or any crisis linked with global financial collapses.
- It can harness the development skills of local investors and venture capitalists in Namibia.
- Namibianization and local Beneficiation require finances to thrive, without money it is ambiguous to implement value chains.

### Challenges

- Political Intervention is possible if regulations and ethics are not imposed.
- Implementation issues such as funding, commitment.
- A structural adjustment will take time.
- It will take a while to find its niche and stable success.

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<sup>1</sup> [https://www.investopedia.com/terms/s/sovereign\\_wealth\\_fund.asp](https://www.investopedia.com/terms/s/sovereign_wealth_fund.asp)

## **1.2 Proposed Fund Structure (Summary)**

- 1) Regional Growth and Support – Cater for development cooperation by investing in regions.
- 2) Discover Targeted Sectors – The research provides how the fund can be streamlined to achieve growth and where funding shortfalls exist.
- 3) Domestic Debt Financing opportunities – The research discovers the potential of debt financing and how an SWF can capitalize in the financial sector and curb foreign dependence.
- 4) Equity and Acquisitions – There are various financial institutions and private companies that have suitable portfolios for local investment where the SWF can assist.
- 5) Boost Export Finance and logistics infrastructure such as trucks, warehousing, bonded warehouses, etc.
- 6) Encourage incentives and joint ventures such as guarantees, land, mineral rights, etc.
- 7) Propose reliable Regulations, Ethics and Standards for transparency and reliability.

## **1.3 Current Economic Challenges**

The concerns below require a new set of development policies that will address widespread economic growth challenges.

- 1) The currently adopted development policies lack credibility outcomes that demonstrate their effectiveness since their inception leading to a lack of trust as effective to alleviate poverty or to drive empowerment.
- 2) Private Sector companies are experiencing enormous economic growth challenges in the current environment of negative GDP growth. Other macroeconomic setbacks consist of investment red tapes, regulatory policy uncertainty and the market size.
- 3) The fiscal balance is drenched under immense debt and unable to fund new economic growth ventures or lack the capacity to propose novel monetary commitments.
- 4) There is high unemployment and investment can be a means for resolving this crisis, especially by strengthening small and medium industries.
- 5) The commodity prices are posing a higher risk to Namibia's monetary stability, such that when commodity prices drop the multiplier effects

reverberate throughout all sectors of the economy and suppressing revenue from levies, royalties and taxes. There is a need for creating financial safety nets to avert such challenges. This is one attribute of oil-rich countries to leverage on diversified income in cases when oil prices slump.

- 6) The current direct transfers towards Defense, Education, Health and other Social safety-nets do not generate many returns which creates a skewed revenue position. The costs of maintaining such expenses and the wage bill drag the government into further debt.
- 7) There is a need to create self-reliant government bodies that generate high streams of income.
- 8) Government Guarantees are limited in backing turnkey projects, thus making it impossible to plan and implement capital projects, often the government turns to other development banks and makes additional debt to implement projects.
- 9) The Public-Private Policy (PPP) requires money and guarantees to back a majority of such capital projects but investors have embedded requirements that relies on sureties or guarantees for their investments. The limited funds in Namibia will most certainly delay investment participation.
- 10) If the government is unable to partner in various investment ventures with capital-backed equity, the investors are left with no option but to fully privatize the ownership of various capital resources, reducing the economic gains intended for the country as a whole. As the cliché states “it takes money to make money”, or “nothing is for mahala”.

*“The possibilities offered by a sovereign wealth fund is broad and if well implemented has capability and responds effectively to a plethora of economic challenges in Namibia.”*

## **2. Empowerment Fund Policy Analysis**

---

### **2.1 Namibia Equitable Economic Empowerment Bill (NEEEB) Analysis**

In my opinion, the widest contradiction of Namibia Equitable Economic Empowerment Bill (NEEEB) is to enforce equitable business ownership for the black masses from the entities (Government of Namibia, 2015) that are dominantly white-owned. In reality, ownership or equity sharing is not as simplistic but very complex and erupts conflicts situations that destroy companies. Equitable ownership does not directly address cross-cutting problems of economic inequality or inclusive wealth distribution. There are various subjective principles that contribute towards stable ownership in a business such as leadership attributes, bolder affiliations, trust, and beneficial relationships. Enforced ownership sharing to score public procurement points or winning government tenders is an ineffective and risky strategy.

The government argues that it achieved little success to close the gap of inequality within the 30 years of independence, after years of apartheid segregation and racial inequality. The controversial NEEEB Bill was criticized as reverse-racism and that it stirs panic by financially exploiting white business owners.

In my suggestion, a more preferable pillar of NEEEB is the Management Control and Empowerment Equity pillar that requires equal sharing of management or executive roles within various organizations. This will promote fairness and sharing of fringe benefits, compensation, employment equity, and executive management roles for all. (GRN, 2015)

#### **a. Targeted Sectors for NEEEB**

If established, NEEEB can be focused on non-sensitive economic sectors to encourage equal sharing of economic resources without causing any harm to private sector.

##### **1. NEEEB in Government Procurement:**

The criteria for procurement are decided by the government for their sovereign objectives. No international protocol is violated as other countries adopt laws for the protection of national interest and their underprivileged citizens.

## **2. Financial Services Sector:**

The financial sector plays a major role as a central link to various business and industrial services. Currently, Namibia has a skewed ownership or control of financial services whereby the masses are excluded.

## **3. Sovereign Wealth Fund Subsidies for Primary, Secondary & Tertiary Sectors:**

The government and other financiers can provide subsidies to boost the GDP for companies in the Primary, Secondary and Tertiary Sectors. This will encourage economic participation for those that are previously disadvantaged and to encourage partnerships with companies that are already established. Subsidies will enhance skills and production capacity to boost production and output. Companies can take advantage of such funding to expand towards other African markets.

A strategic sector that requires subsidization is the construction and engineering sector.

Subsidies help local companies to grow and become more competitive against foreign companies which boosts local supply and reduced imports.

### **b. Fairness and Transparency of NEEEB**

The government should introduce measures to encourage businesses participation and partnerships among people from diverse backgrounds in the least controversial manner, considering its mandate to protect the welfare of all its citizens.

Additionally, NEEEB must be fair to all members of the black community without favoring only a few selected individuals through nepotism and corruption. The Government of Namibia was recently under public criticism about the unfair distribution of fishing rights and resettlement farms. This is a litmus test for the government to demonstrate its intentions for fairness and equality. The other point of public contention is the selection process for the board of directors of various state-owned enterprises (SOE's) and recruitment in those agencies which was perceived as biased and unfair.

The other constrains of NEEEB is the inability to raise capital that will fund the proposed ownership strategies. It is not viable for SWFs to provide equity for individuals as it will compromise transparency and trigger abuse and irregularities and corrupt practices and possibly nepotism.

Fair empowerment is best achieved through National Development Fund Initiatives. NEEEB will burden the government on implementation cost, trials and possible sector instabilities, but National Development Fund can generate its income and be self-reliant. NEEEB is not structured or qualifies to deal with diverse economic sectors, it lacks the prowess to provide full accountability and justification by fitting a targeted economic principle of equality. Race and origins in the long run, do not accelerate growth for everyone, but only some based on racial identity and not competence. When policies conflict with the free market system by promoting interference in the market it will severely frustrate the bona fide principles of those sectors.

In conclusion, a sovereign wealth fund is better equipped to be a custodian of primary resources, as NEEEB is not transparent enough and these resources will end up with those in the proximity of power and connections at the expense of the poor.

## **2.2 National Empowerment Fund**

Economic inequality, marginalization and poverty remains a core threat to the Namibian economy as there is a divide between the rich and the poor (as per Gini-Index). Development does not reach people in remote areas, which triggers mass urban migration as people seek greener pastures.

Structurally a national empowerment fund has the ability to tackle financial inclusivity and involvement of communities, businesses, youth, women and SME's into the mainstream economy.

It will serve to integrate smaller and micro enterprises into the formal enterprise and promote business confidence to those locked outside the perimeters of prosperity .

Transparency and ethical business practices however will remain a key checkpoint and to ensure that funds are allocated fairly and that such enterprises are monitored.

As mentioned earlier, an empowerment fund can be structured to deal with the financial interventions for participation in policies such as NEEEB, in a way to promote enforced accountability, standards and monitoring.

The fund can easily promote training and mentoring strategies to equip potential companies. International venture capital funds and mezzanine investments are always seeking communities they can collaborate with on a regional level to

carry out some business ventures, this can structurally blend with available resources, skills demonstrated by the participants of an empowerment fund. Most SMEs in Namibia survive through bootstrapping and operate only as briefcase companies. It is a one-sided judgment to argue that they are not competent enough to give compete with already established companies. The government must do its own introspection and assess whether enough support is given to SMEs and functionalize them as the “wheels of the economy.”

The agricultural sector requires empowerment funding to boost its seasonal production and setup structured funds to encourage women and youth participation.

### **2.3 NEEEB versus the National Empowerment Fund**

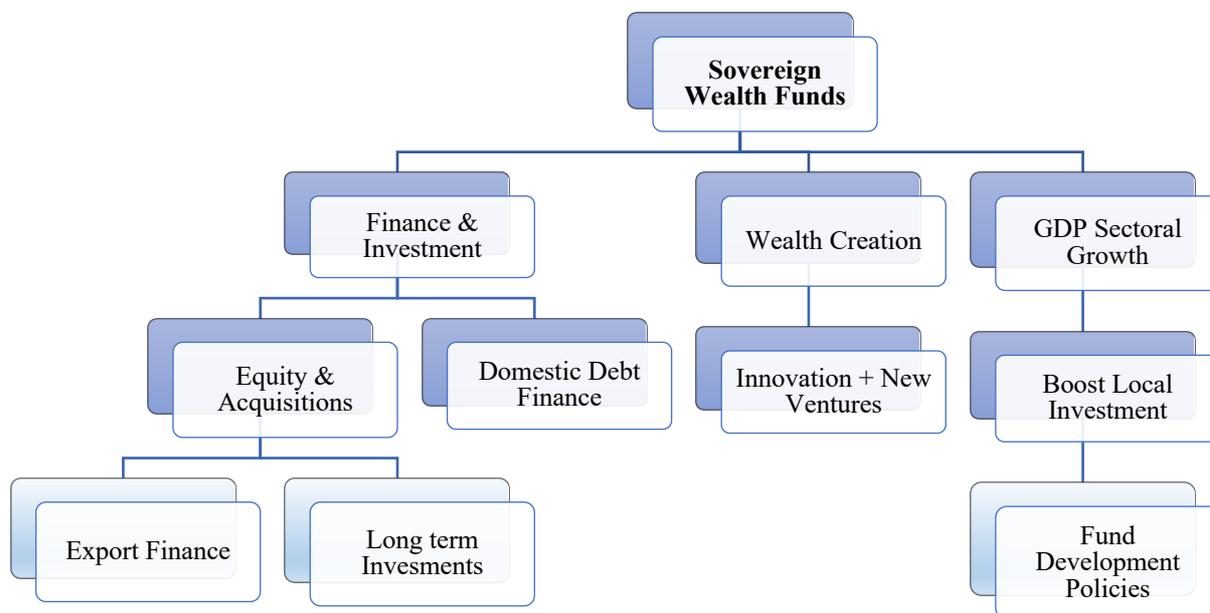
The government is strained by investing in development policies as it requires finances to implement and maintain. They need financial support from a proponent such as the SWF to fund the regulatory framework, planning, assessment and funding of various development policies.

- A National Empowerment Fund requires such funding to fund projects at the grassroot level and empower its target groups. The idea of having a National Empowerment Fund supersedes the functions of a policy such as NEEEB because empowerment maintains healthy and conducive private sectors without imposed conditions. Thus, if incumbents which to buy equity in private companies, it is done on merit with prospects of making revenue and competitiveness.
- NEEEB funding is a development policy that is ideal for public procurement, additionally it is not advisable for the government to fund private equity for individuals buying NEEEB related dividends in private companies, defeats the purpose of transparency and is susceptible to abuse.

### 3. Supporting Analysis for a Sovereign Wealth Fund and Empowerment Fund

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#### 3.1 Structure of a SWF



The analysis below highlights the various investment opportunities that exists for SWFs in the following sectors:

#### **a. Finance and Investment**

##### Equity & Acquisitions

To obtain equity on behalf of the nationals in strategic sectors such as mining, banking, services industry such as insurance companies, multimedia companies, communications, energy projects, warehouses and distribution centers, etc.

Namibians have a low representation in the financial sector, most companies are owned by multinational corporations, it becomes difficult to change or tune the game favorably, therefore many emerging companies are discouraged on the onset to compete with these companies and remain outside the periphery of growth. As mentioned, money is a game-changer, people need to dictate businesses and policies in the financial sector for the benefit of growth, not the other way around, exclusion is totally non-permissible.

## Export Finance

Namibia is strategically placed to dominate the logistics and supply chain within the SADC region, also with the implementation of the African Continental Free Trade Agreement (AFCFA). There is an assumption that you only export what you manufacture, however logistics is the back-bone of trade and it ensures that products move from point A to point B, benefits include financial services, warehousing, storage, spending in towns and support of local tourism in those towns. The concept of export financing is a robust step in countries that are building economic zones as they view themselves as intermediaries in the product supply chain, a sector area where Africa can discover more growth. Hence businesses require funds to buy stock for export or subsidies for intermediary goods to boost production.

The table below demonstrates Namibia's trade balance (Exports-Imports), demonstrating a high trade deficit on imports over exports. There is room for increasing domestic exports and curbing imports in order to retain a positive trade balance. The trade deficit was -53% in 2020 and therefore the local Namibia must manufacture more products locally to boost its manufactured exports. This will require financial support for various economic sectors and value addition in the secondary sector.

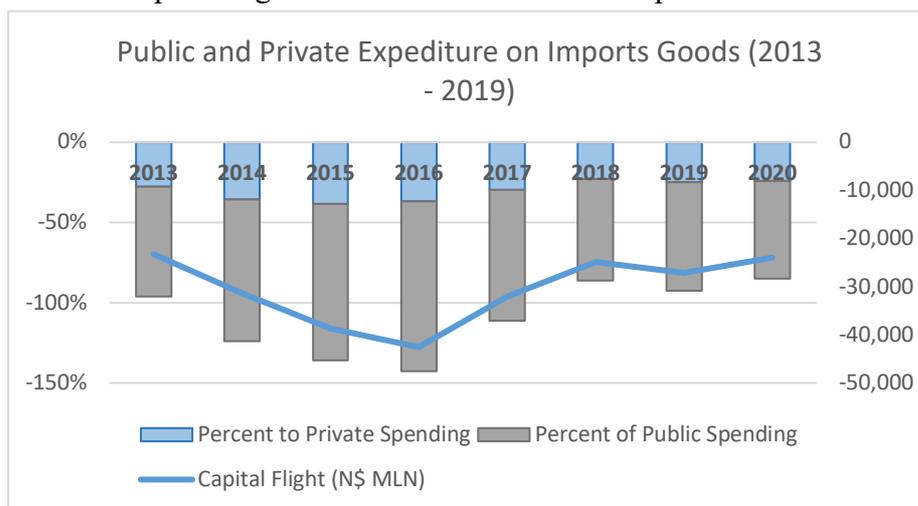
The trade balance has a direct bearing on the GDP of Namibia and remains imperative that domestic production must increase to observe GDP growth.

Table 1: Expenditure on GDP Constant 2015 prices - N\$ millions

	2014	2015	2016	2017	2018	2019	2020
Exports of goods & services	58,673	51,648	51,334	52,332	60,662	54,986	45,259
Imports of goods & services	90,000	90,339	93,894	84,410	85,484	82,111	69,224
<b>Trade Balance (%)</b>	<b>-53%</b>	<b>-75%</b>	<b>-83%</b>	<b>-61%</b>	<b>-41%</b>	<b>-49%</b>	<b>-53%</b>
Gross domestic product at market prices	140,047	146,019	146,068	144,568	146,169	145,283	133,685

The chart below compares government and private expenditure as a fraction of foreign expenditure (import). We can conclude from the chart that the government spend more on imports, compared to the private sector.

Chart 1: Capital Flight from Public and Private Expenditure



(Namibia Statistics Agency, 2021)

Eita, Mosikari, Senosi carried out a study in 2016, to investigate the impact of export and manufactured goods towards growth in the Southern African Development Community (SADC) region. It was found that total manufactured exports contribute about 5% to economic growth. (Teboho Jeremiah Mosikari M. C., 2016)

In another study conducted by Eita, Moskari (2020) it was discovered that a 1% increase in exports of manufactured goods leads to a 0.344% increase in economic growth in Namibia and that a 1% decrease in exports of manufactured goods will leads to a 0.080% decrease in economic growth for Namibia. A 1% decrease in imports of machinery and other hardware products leads to a 0.227% decrease in growth and a 1% increase of the same leads to a 0.104% increase in economic growth. (Teboho Jeremiah Mosikari J. H., 2020)

It is thus very important to encourage manufacturing and manufacturing value addition(MVA) in the economy to realise long term growth.

### Domestic Debt Finance

The Namibian government is accumulating annual debt at a higher trajectory, this yields in treasury bond subscriptions only favor an enclosed circuit of companies (with the inclusion of some local firms and the Government Institution Pension Fund-GIPF). However, if more local funds are generated the SWF can buy government debt at a cumulative rate and also boost its income. Domestic debt issuance safeguards the government from currency fluctuations and monetary outflows. It also helps the economy to become self-reliant. The

government is faced with a dilemma of an unjustifiable wage bill. Subsequently, government retrenchments will only breed more unemployment. The government requires more profit-generating entities to diversify its sources of revenue which is currently linear and not viable for an unforeseeable future.

## **b. Wealth Creation**

### Innovation and New Ventures

Explore innovative projects and discover new industries of business driven by innovation shifts and next-level ideas such as software development, smart cities, internet connectivity to rural areas, agricultural technology, research, food processing, etc. There is a gap in Namibia for investing in ideas as they require capital during startup, however most innovations solve critical everyday problems and have the capacity to expand internationally.

Innovation and tech are leading businesses in first world countries, it also attracts youth and motivates them to cultivate new ideas and develops, equips or challenges them to evolve towards global business trends.

## **c. GDP Sectoral Growth**

### Boost Domestic Investment

As alluded to earlier most businesses and SME's face liquidity constraints and they are unable to compete with global enterprises that invade and eliminate the local value chain in supply, distribution and manufacturing. With financial support, these companies will be able to manufacture at a competitive rate and also to consider export market expansion. If the business is under strain to be self-reliant, with financial capital investment, they will not be able to expand.

The GDP is divided into various sectors such as Primary (Mining, Agriculture or mostly extraction related industries), Secondary Sector (Construction, Production and Manufacturing), and Tertiary Sectors (Services, Transport, Finance, Retail, Wholesale, etc.) The GDP experiences severe setbacks if these sectors are not stimulating any growth. These sectors account for all private consumption. They also play a major role in employment creation. The trade balance is a key element that determines GDP growth and as a variable of measuring the GDP, a positive trade balance increases the GDP rate and depicts that exports exceed imports, thus also maintaining a positive current account (or balance of payment).

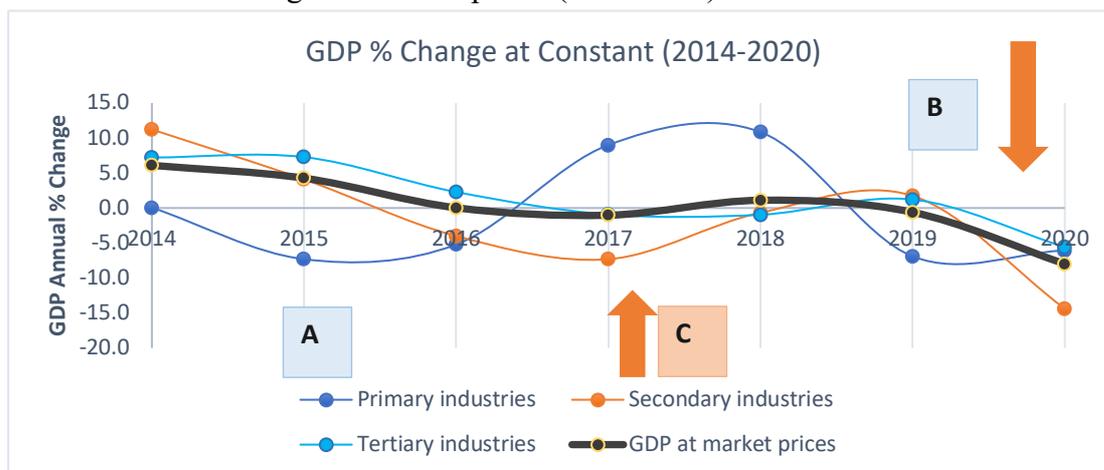
### 3.2 Current GPD Analysis (2014 – 2020)

The analysis below indicates a trend of the % GDP change at constant prices for the years 2014-2020, per sector.

- **Point A:** Repetitive cycle for Primary sector, this is predominantly because of a very volatile farming and mining outputs.
- **Point B:** Demonstrates exponential GDP growth potential for the Mining and Agricultural sector. The agricultural sector is susceptible to environmental shocks, and mining to commodity prices and extraction of ores.
- **Point C:** GDP indicates a very strong link to the Secondary and Tertiary sector, primarily because the tertiary sector makes up 60% of GDP, this can translate the potential that exists in this sector as well as the motivation to encourage ownership, empowerment, and competitiveness within the Tertiary sector.

The **NEEEB empowerment** pillar is useful for empowerment interventions within the tertiary sector.

Chart 2: GDP % change at constant prices (2014-2020)



## a. GDP Estimation after SWF Implementation in Namibia

The table below indicates the GDP of Namibia from the year 2020 as the base year, the current data for 2021 is not yet available, it then demonstrates the potential income if a 2% to GDP SWF fund is established, with a total of N\$ 3 billion initial start-up fee. The funds, in this case will be invested in all sectors of the GDP (primary, secondary and tertiary) where the fund can realize returns. The analysis is based on all things being equal and the best-case scenario. If the N\$ 3 billion dollar funding is recorded as government expenditure, it can reflect a similar shortfall in the state budget, however, if it is reflecting as an investment, it can still be deemed as an asset to the state and not a liability.

Table 2: An assessment of 2% Sovereign Wealth Fund on Namibian GDP

	2020	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
<b>FUND SIZE IN GDP (N\$ BILLION)</b>	0	3	4	6	7	9	11	14	17	21	25
<b>GDP (N\$ BILLION)</b>	134	137	141	146	154	163	174	188	205	226	251
<b>PERCENT TO GDP</b>	0	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%

Namibia applies the Harrod-Domar framework for its growth parameters to measure GDP growth applying the following formula:<sup>2</sup>

$$Y = f(K) \quad \text{Output/Gross Income is a function of Capital Stock.}$$

$$sY = S = I \quad \text{Savings rate and output/income equals Savings, and also equals investment.}$$

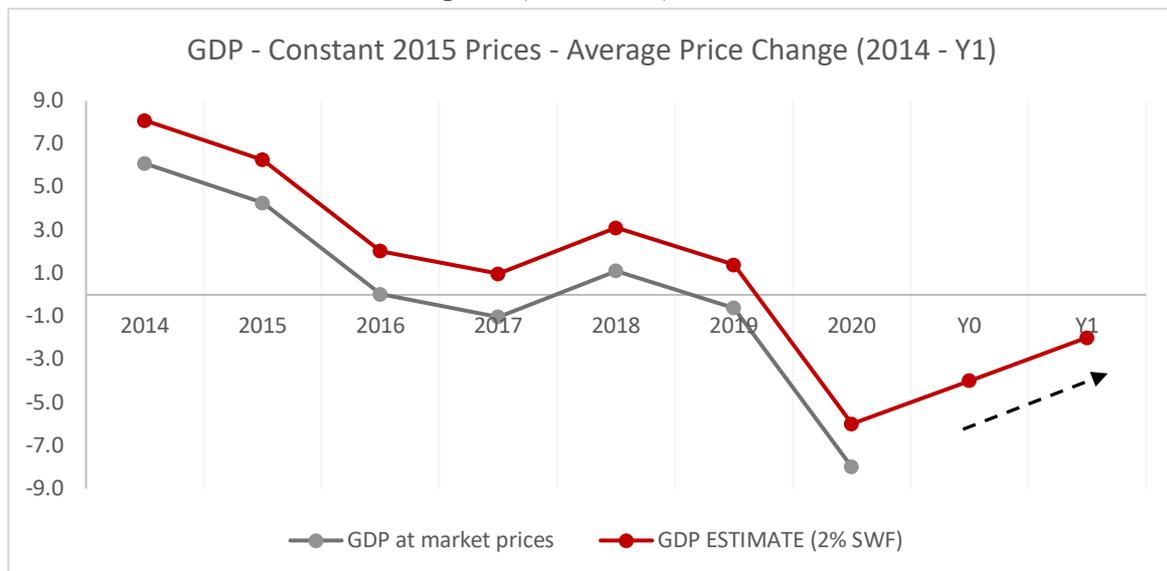
Thus, according to this model Investment has a direct relation to GDP growth. Increased savings and increase investments lead to higher capital and boosts economic growth.



<sup>2</sup> <https://www.tutor2u.net/economics/reference/economic-growth-harrod-domar-model>

The chart below indicates Namibia’s GDP growth from 2014 to 2020. The chart also indicates a GDP trend with a prediction if a SWF fund of 2% GDP was implemented in Namibia. GDP growth is not homogenous as there are various factors the impact growth. The analysis uses a constant target line to estimate potential outcomes if the startup funds are fixed on a certain amount and how this can encourage future GDP growth. The extreme situations however need further expansion and a direct sectoral approach as well as a risk assessment to measure operational and funding strategies to gain revenue. Considering the various options provided on growth policies, it is also important to unpack its feasibility, considering Namibia’s current economic variables. Since 2014, the country has been experiencing negative growth, with the exclusion of the year 2017.

Chart 3: GDP Growth at constant price (2014 – Y1)



Estimated SWF Adjustment (Only for Data)

### **3.3 Sectorial GDP analysis if a SWF is Implemented in Namibia**

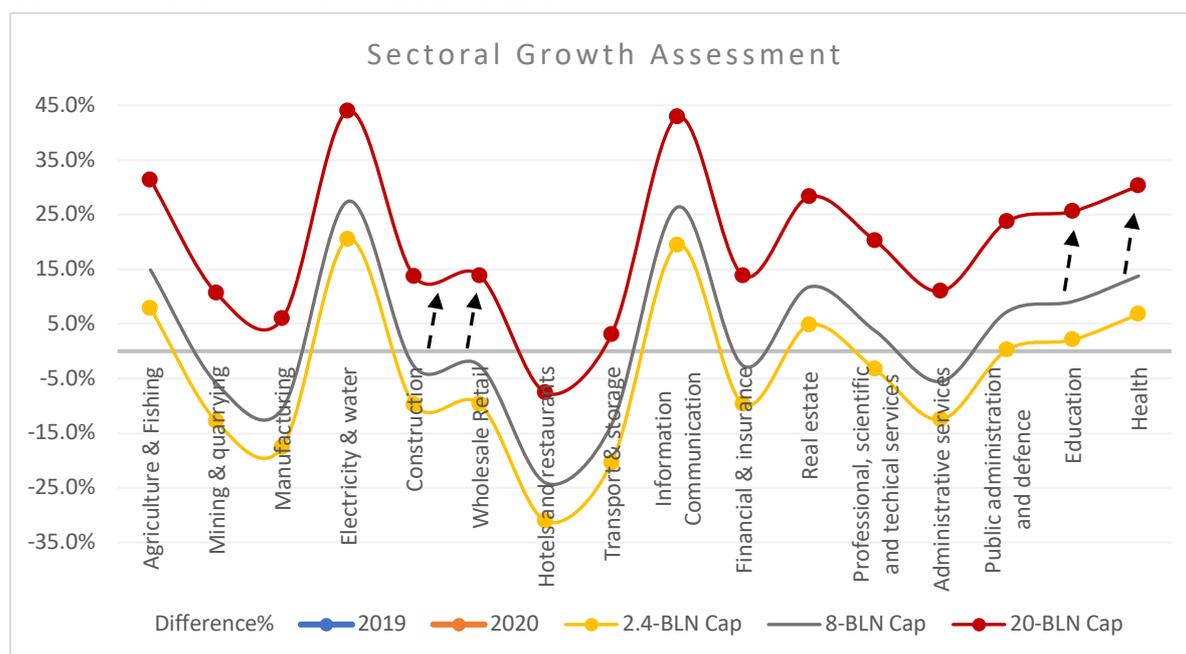
If an SWF is implemented in Namibia, the funds will proportionately be invested in the Primary, Secondary and Tertiary subsectors. As per table 2, the sectors are different in composition, for example, the primary sector is 17% of GDP while secondary is 15% and tertiary 60%. The percentage growth for the sectors between 2019 and 2020 is primary (-1%), secondary (-14%), and tertiary (-5.6%).

Table 3: An assessment of 2% Sovereign Wealth Fund on Namibian GDP

Industry	2019	2020	Difference % Growth	GDP Composition	2% SWF Subsidy	Y1 Expected Growth N\$ mill
Primary industries	24,178	22,714	-6.1%	17.0%	2%	454.27
Secondary industries	24,531	21,002	-14.4%	15.7%	2%	420.04
Tertiary industries	85,951	81,151	-5.6%	<b>60.7%</b>	2%	1623.02
<b>GDP at market prices</b>	<b>145,283</b>	<b>133,685</b>	<b>-8.0%</b>	<b>100.0%</b>	<b>2%</b>	<b>2497.34</b>

Hypothetically, not all economic sectors grow at the same rate in the event when with and with the support of the flat-rated financial stimulus. There is however a correlation between money economic productivity and sectoral boom. It is important to carry out an assessment or feasibility to measure if the funds will stimulate sustainable growth in the economy. Additionally, some sectors require expensive resources to manifest growth.

Chart 4: SWF Sectoral Growth Assessment



Trade balance as fraction of private sector expenditure and percentage of government spending.

### **3.4 Domestic Debt Analysis and the SWF**

#### **a. Yield estimations if SWF acquire TBs and IRs over Time**

The SWF can play a big role in domestic debt restructuring as an opportunity exists for investment in treasury bills (TB's) and internally registered stock (IRS). Currently, the space is dominated by various commercial banks and other private investors.

NB: As the government cannot buy its own TB's, this can be encouraged by only using revenue gains from SWF and not set up funds or government-invested accounts. Additionally, the SWF can establish a fund to accommodate locate private investors and provide them security to raise funds for buying more TB's locally. SWF can build the trust profile of the government to issue TB's, also it can establish a platform to seller TB's to various individuals, SMEs, etc. The objective is to attract more domestic investment.

#### **Current Treasury Bills and Internal Registered Stock**

The yields are encouraging more domestic investment, the estimated debt shortage estimates the money the government demand to fulfill its domestic debt. The current domestic debt government demand in 2020 is N\$ 21 billion. Thus, a N\$ 1 billion debt contribution from the proposed SWF can cover 5% of the domestic debt demand. The model is not straightforward as time is required for SWF to become self-sustainable and not depend on Government funding, as it cannot use government funding to acquire TB's.

Using local funds for the debt minimizes various debt shocks and the SWF can benefit from the high average yield of 5% to 7%. The gains are stable and also avoids Namibia's dependents on lenders that are likely to withdraw in situations when Namibia faces rating agency downgrades.

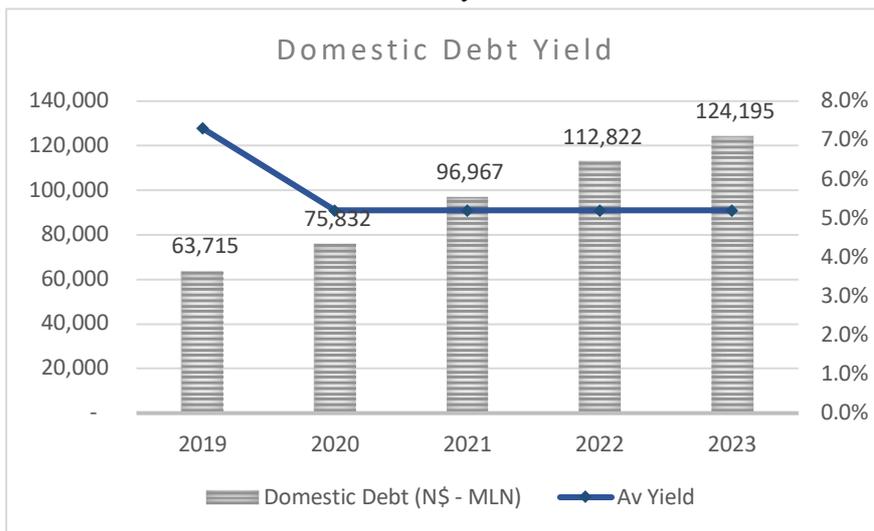
Table 4: Current TB's and average yield

<b>Year</b>	<b>Domestic Debt (N\$ million)</b>	<b>Current Average Yield %</b>	<b>Yield Amount (N\$ million)</b>	<b>Est.Debt Shortfal (N\$ Million)</b>	<b>%</b>	<b>Contribution (N\$ million)</b>	<b>%</b>	<b>Yield – Amount (N\$ million)</b>
<b>2019</b>	63,715	7.3%	4,651					
<b>2020</b>	75,832	5.2%	3,943					
<b>2021</b>	96,967	5.2%	5,042	21,135	22%	1,056	5%	54
<b>2022</b>	112,822	5.2%	5,866	15,855	14%	1,585	10%	82
<b>2023</b>	124,195	5.2%	6,458	11,373	9%	1,705	15%	88

(Bank of Namibia, 2021)

The average debt yield estimate promises very stable returns. It is key to retain such funds within the local economy and stimulate domestic economic growth and expand the financial sector. As per the chart, domestic debt will grow to approximately 124 billion Namibian dollars. The yield rate used below is kept constant at 5.2% as a minimum benchmark but is expected to yield more returns in future.

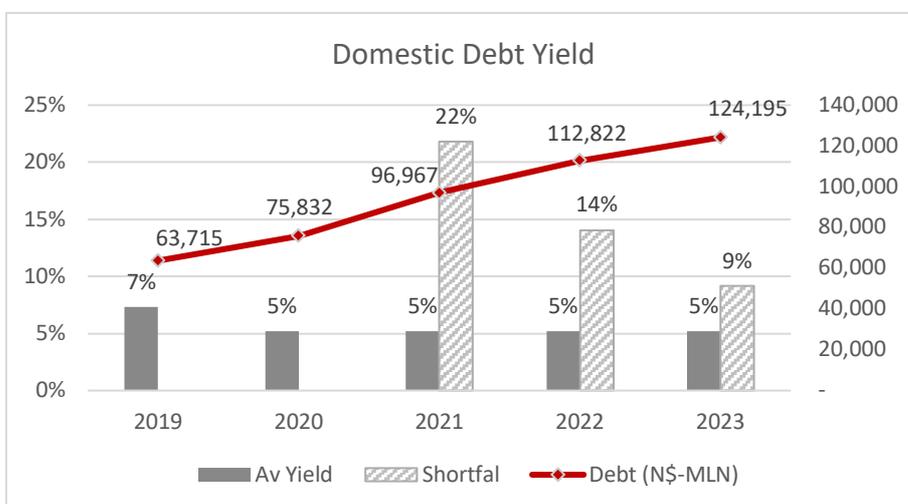
Chart 5: Domestic Debt Yield Analysis



(Namibia Statistics Agency, 2021)

The chart below depicts an increasing trend of domestic debt and the potential shortfall gap for domestic debt, thus there is more room for other financial sector players to participate in TB and IRS acquisition domestically. This amount is growing with a government demand for liquidity to fill budget deficits and expenditure gaps.

Chart 6: Domestic Debt Future Estimate and Shortfall



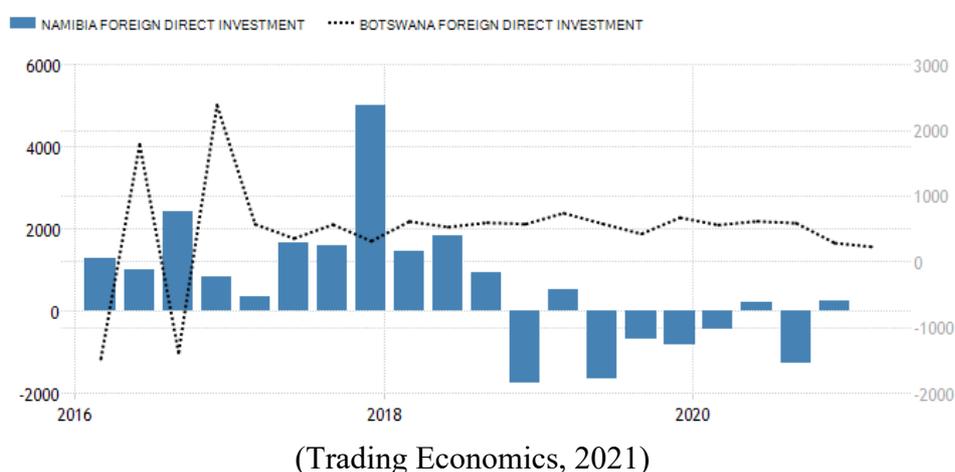
(Namibia Statistics Agency, 2021) (Bank of Namibia, 2021)

## 4. Namibia's Investment Position

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In this section, we analyze Namibia's investment assets and liabilities to identify possible investment opportunities for domestic and foreign assets. Various countries utilize SWFs to strengthen their domestic and foreign asset base for stability. This remains an important motivation to boost investment and asset growth through various interventions. Namibia does not attract a lot of Foreign Direct Investment (FDI) and needs to strengthen its position. As per the chart below Namibia's FDI position is trailing below that of Botswana as a regional benchmark.

Chart 7: Namibia versus Botswana Foreign Direct Investment



### Net Investment Income – Credit versus Debits

The chart below demonstrates Namibia's investment income from 2015 to 2020, obtained from Direct Investment, Portfolio Investment, other Investments and Reserve Assets.

According to (Investopedia, 2021), the balance of payment (BOP), are transactions recorded between two countries, a credit is when money enters a host country, a debit is when money leaves the host country.

According to IMF (BPM) Portfolio investment is defined as cross-border transactions and positions that involve debt or equity securities, other than those in direct investment or reserve assets. (Pg. 110)

Chart 8: Investment income

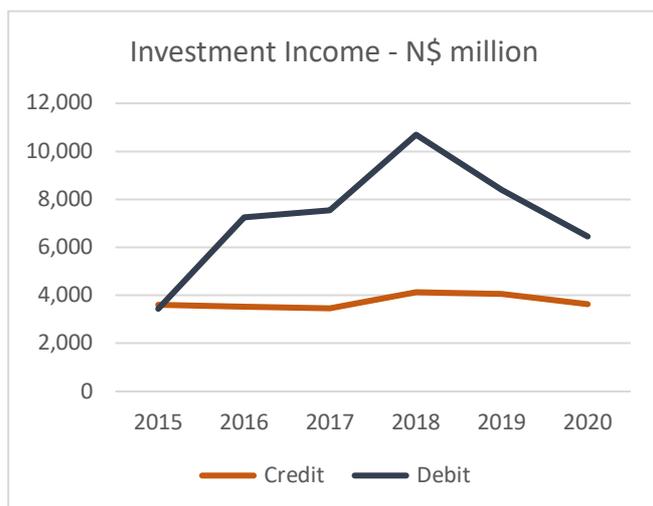


Chart 9: Portfolio Investments

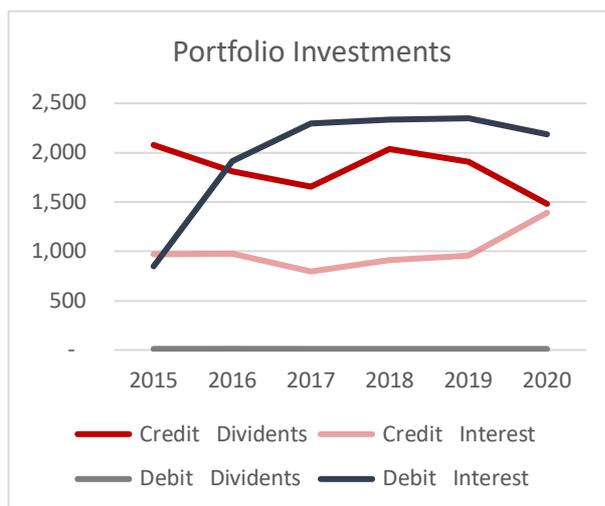
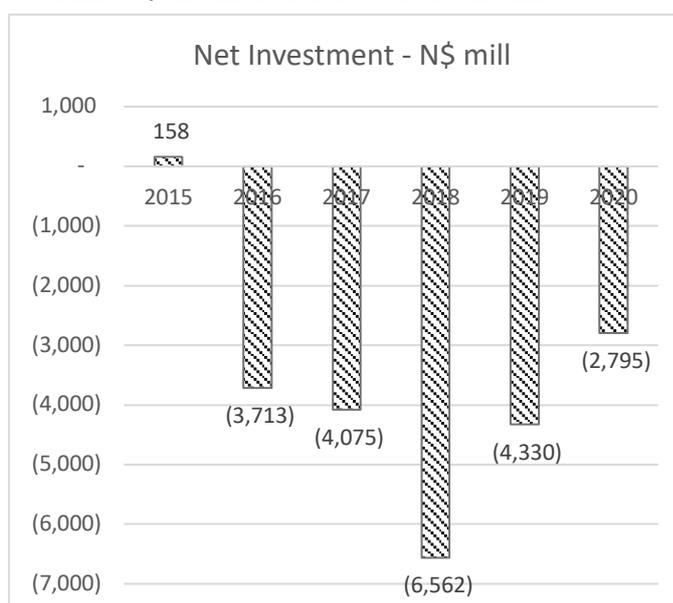


Chart 10: Domestic Debt Future Estimate



Namibia encountered a low credit position for direct, portfolio and other investments over the few years. This reflects a negative net investment (credit – debit) over the same period. The investment debit recorded in 2020 was N\$ 6.4 billion and credit of N\$ 3,6 billion respectively. The lowest net investment balance was N\$ 6.5 billion in 2018. The negative net investment situation is exacerbated largely by direct investment and portfolio investment where Namibia maintains a poor asset base in comparison to foreign investors. The debit value in 2020 for direct investment in dividends was N\$ 3,3 billion, compared to Namibia’s credit position of N\$ 6 million only. It is important for Namibia to strengthen its foreign investment income position and widen its foreign investment portfolio through various innovative mechanisms.

## Foreign Direct Investments – Assets and Liabilities

Chart 11: Direct Inv (Assets vs Liabilities)    Chart 12: Portfolio Inv. (Assets vs Liabilities)

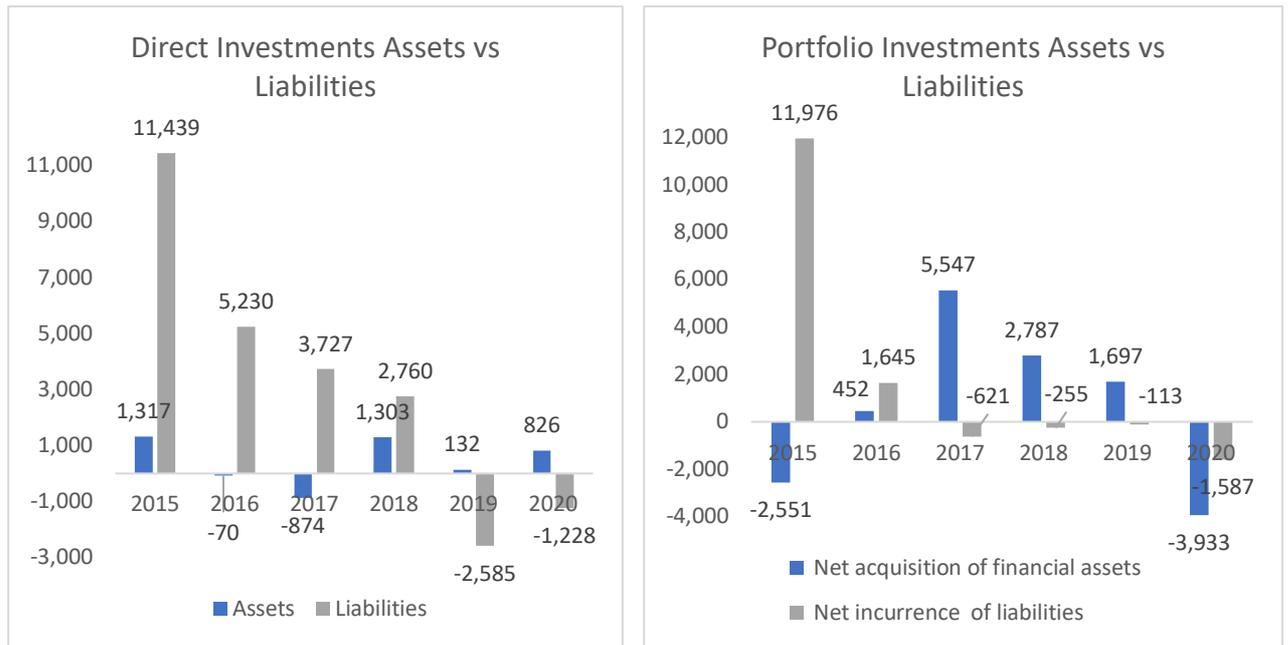
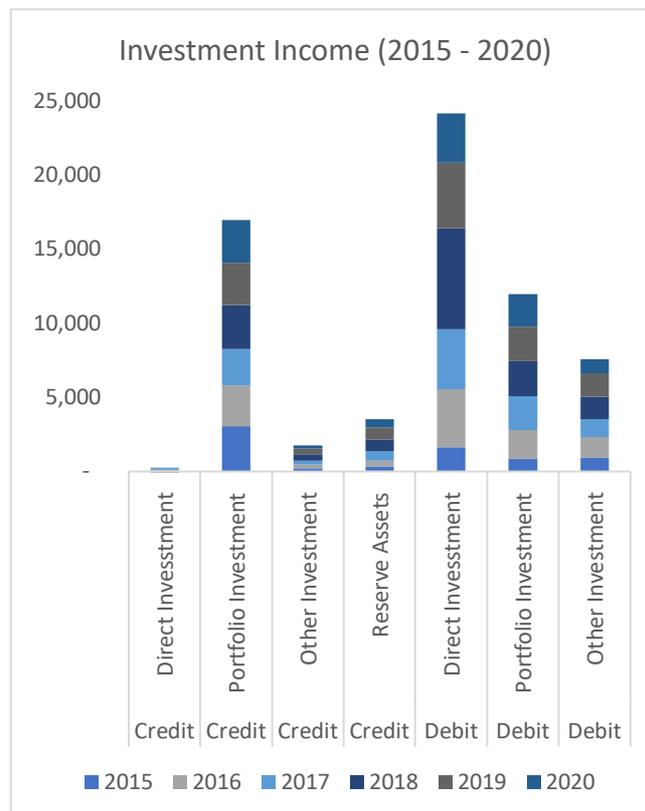


Chart 13: Investment Income



Direct Investments are transactions between governments while portfolio investments are transactions between banks.<sup>3</sup> Direct Investments are assets

<sup>3</sup> <https://www.docstity.com/en/answers/difference-between-direct-investment-portfolio-investment/155324/>

controlled by households or firms while Portfolio Investments are held by pension funds and other investment institutions. (IMF, 2009)

A direct investment relationship arises when an investor is resident in one economy and makes an investment that gives control or significant level of influence on the management of an enterprise that is based in another economy. (IMF, 2009) (Pg 101)

FDI was high in 2015 at N\$ 11,4 billion (chart11 & 12) by the issuance of debt instruments and the net incurrence of government liabilities obtained to cover for budget shortfalls. The lowest liabilities occurred in 2017, mainly due to lower equity and fund shares at N\$ -735 million, and debt instruments at N\$ -1,8 billion. Foreign Assets were N\$ 1,3 billion in 2015 and 2018 and the lowest of 132 million in 2019.

Namibia's Portfolio Investments slumped to N\$ -3,9 billion in 2020 because of a drop in equity investments and fund shares, as well as a reduction in short-term and long-term Debt securities.

Portfolio investment - The debit's interests reached a peak of 2,3 billion in 2018 and 2019 respectively, however, debit dividends remain very low.

Chart 14: Balance of Payment aggregates.

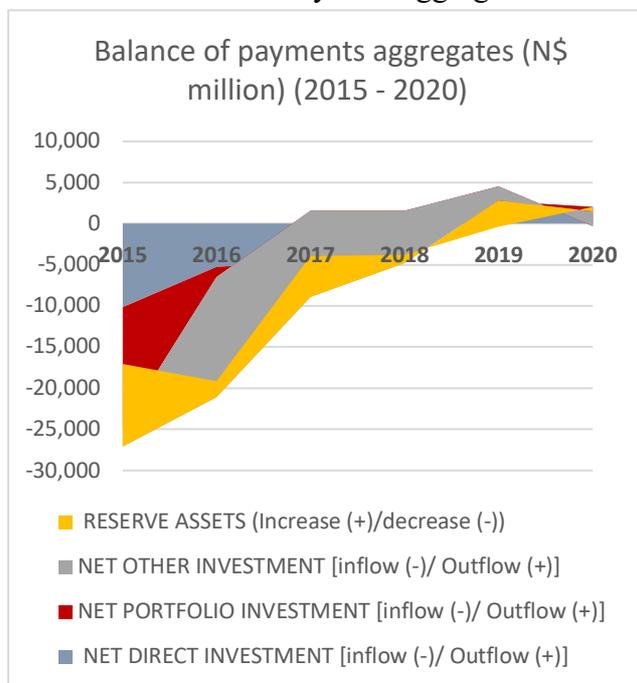
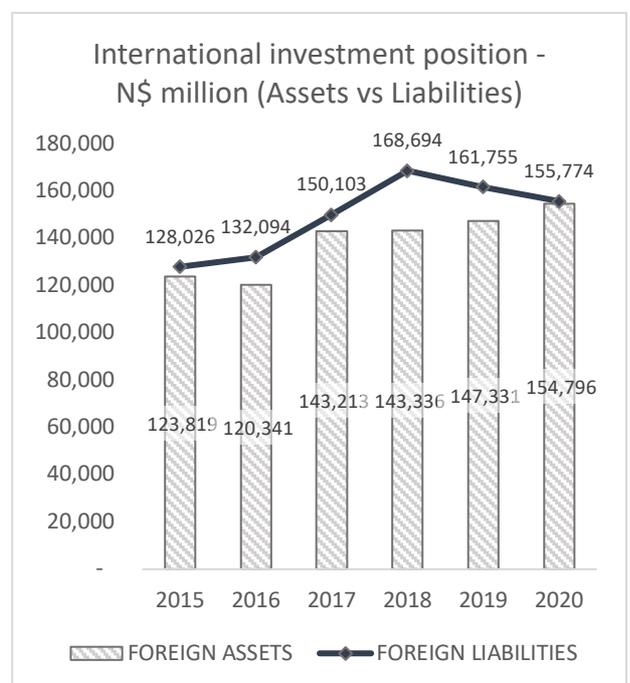


Chart 15: Domestic Debt Future Est.



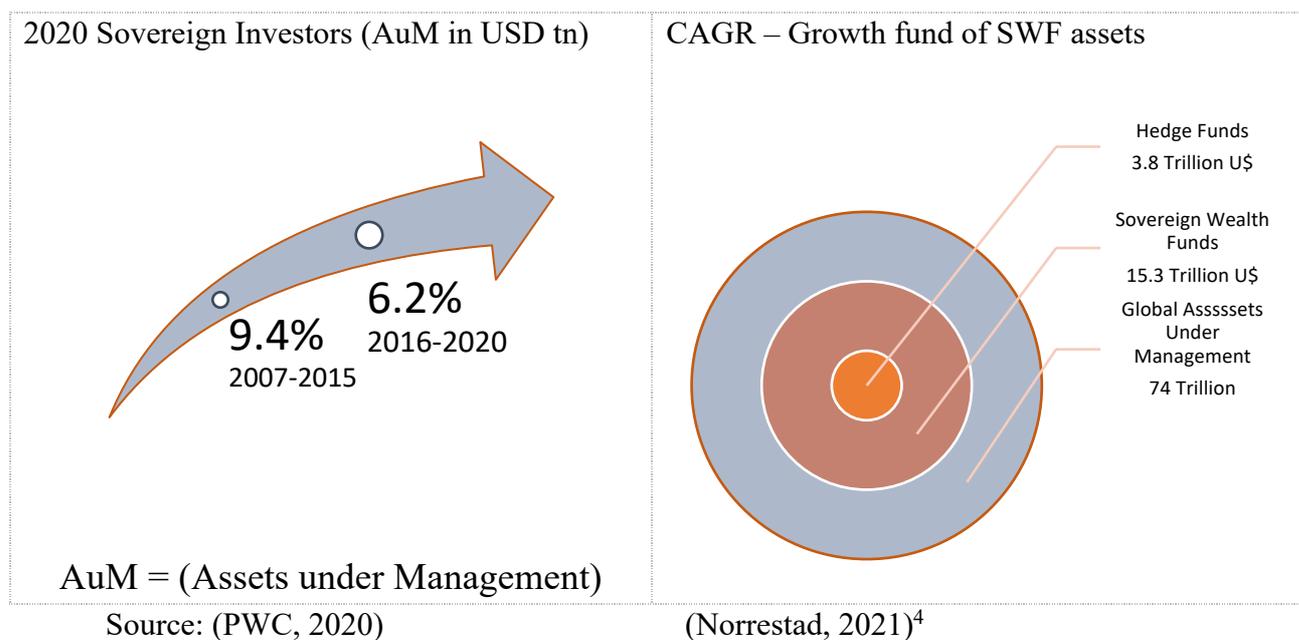
In 2015, there was a high inflow of net portfolio investments (N\$ -14 billion) and direct investments (N\$ -10 billion). The position shifted upwards in 2019 where outflows increased for both net portfolio investments (N\$1.8 billion) and direct investments (N\$2.7 billion) (Chart 14). In 2020 net portfolio investments

dropped to N\$ -2.3 billion, while direct investments remained at N\$ 2 billion. However, reserve assets were low at N\$-10 billion in 2015 and increased gradually towards 2020 at N\$ 521 million. Foreign assets were lower in 2015 accumulating N\$ 123 billion, with the highest value of N\$ 155 billion recorded in 2020. Foreign liabilities accumulated in 2018 to N\$ 168 billion.

By definition, reserve assets are external assets which are readily available and controlled by monetary authorities to meet a country's balance of payments financing needs. They are used for intervention in exchange markets to affect currency exchange rates, and other related purposes such as retaining confidence in the currency value of an economy, and serving as a leverage for foreign borrowing. (IMF, 2009)(Pg. 111)

## 5. Global Growth of Sovereign Wealth Fund Assets

Although there is no panacea for widespread poverty and inequality, SWFs are improving the financial position of various host countries. As per PWC's analysis, the SWF's in asset value was recorded to be growing at 9.4% percent between (2007-2015) and 6.2% (2016-2020).



SWF demonstrates a strong trend of growth within the global financial sector in comparison to hedge funds and it also forms a strong basis of investment for asset management.

Africa states need to strengthen its SWF assets to make the economies very competitive towards other developed economies and become self-sustainable and lastly curb inequality and poverty through domestic investment.

<sup>4</sup> <https://www.statista.com/statistics/323928/global-assets-under-management/>

## 6. SWF – an Enabler for Sustainable Development

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The sovereign wealth fund can be used as an enabler for implementing development projects. The 2019 UN Sustainable Development Report monitors the progress on the implementation of development goals in Namibia. There are very few references towards the requirement for funding, whilst funding is needed to kick-start such development projects.

The report further states that *“The main setback threatening other development areas is the overall economic situation in the country. After steady growth of 3 to 4 percent between 2010 and 2015, the country finds itself in an economic recession in the last two years. This general economic downturn is expected to trickle down to many other SDGs indicators of the Agenda 2030. Unfortunately, as many of these indicators don’t have updated measurements since 2015, the full extent of this expected impact cannot yet be assessed.”* (NSA, 2019) (pg 35)

In essence, if the economy is not growing, then there is no actual growth to back any claim or reports on welfare, various growth indicators within the SDG will solely rely on economic expansion.

Some selected SDG goals will only be determined by economic and financial stability within the given period, these goals are; poverty or hunger alleviation, improved healthcare, quality education, clean water and sanitation, clean energy, economic growth, industry growth, innovation and infrastructure, reduced inequality, production and partnerships.

The UN SDG goals are strongly dependent on the implementation of domestic development, infrastructure and other development initiatives.

In 2012, the Ministry of Industrialization, Trade and SME Development established the “Growth at Home Policy” to drive industrialization in Namibia, however, this can only gain traction with financial support or the injection of investment funds within the economy, otherwise it remains an industrialization white-paper.

The Public-Private Partnership ACT 2017 (PPP) was implemented to drive cooperation between the Government and the Private Sector, a segment of such project implementation requires financial partners and investments, without

local financial investment options the dominant global players are likely to take advantage of such situations for their sole interest. (GRN, 14 July 2017)

According to the Act, a proposal will be made for sourcing financial offers that don't pose a high risk toward public entities. In its definition, the Act (part 1(a)) states that the public institution's financial commitments will be budgeted for. Contingent liabilities or guarantees will be assessed by the government to assess if its feasibility.

The position of having highly bureaucratic processes over PPP projects will likely offset investor interest and prolong negotiations for new ventures, thus an SWF is in a better position to secure government equities and ownership. The budgetary reliance on the Government for each individual investment will drag projects even longer unless there is a reliable fund reserved under an independent body, established as a source for investment funds.

The Namibia Investment Promotion and Development Board (NIPDB) was established in 2019 with the objective to promote and facilitate investment for economic development.<sup>5</sup> However, investment companies require the government to provide incentives and at times financial guarantees to split the investment risk and for government support towards their investment projects.

Namibia needs financial reserves to invest or partner towards local investment projects, without offering only lip service.

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<sup>5</sup> <https://nipdb.com/>

## 7. The Correlation Between FDI and Inequality

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Despite increasing investments in developing economies, poverty and income inequality persist and remains a major challenge. The relationship between Foreign Direct Investment (FDI) and income inequality is often divided into the Neoclassical and Dependency Theories. The former optimistically argues that FDI stimulates higher economic growth and, hence, lower inequality. The latter states that FDI has negative effects on economic growth and leads to higher income inequality (Firebaugh and Beck, 1994). Not many studies exist that have empirically established a link between FDI and inequality (Basu and Guariglia, 2007; Tsai, 1995; Wu and Hsu, 2012).

The relationship between FDI and income inequality research revealed the interesting finding that FDI leads to an increase in income inequality in host countries but, when controlled for other local factors such as absorptive capacity, human capital, the level of technology and the quality of institutions, FDI reduces income inequality. This clearly demonstrates that the impact of FDI on host counties is determined by their local conditions. In addition, if a country increases its human capital levels (measured by proxy of tertiary education), it can be expected that income inequality will decrease. This makes sense because as more people benefit from higher education, more likely will have access better jobs and incomes, stimulate economic spill overs and subsequently decrease inequality. (Rupinder Kaur, 2018)

Education improves both urban productivity and the capacity to innovate which, in turn, delivers higher growth. Therefore, the level of education not only improves incomes of individuals but also has a long-term effect on the local economy.

The findings also indicate that a higher level of technology and innovation (although with a lesser degree of significance) is likely to spur income inequality, because advanced technology tends to replace workers and reduce employment. However, although insignificant in this model, an interaction between total FDI and local technology would reduce income inequality (seen by the negative sign) through knowledge transfer. Furthermore, the interaction between FDI and technology reveals stronger results in the case of different sectors of FDI. (Rupinder Kaur, 2018)

High-tech FDI and inequality Interaction between hi-tech FDI and a country's absorptive capacity is important because increased absorptive capacity enables

a wider distribution of foreign investments and technologies in local economies (creating more diversification) and can lead to a more equal society. In Africa, internet and mobile data play important roles in the diffusion of knowledge to small businesses, including informal markets. For instance, ICT and mobile phone ownership enable access to business networks and education, financial services and real-time market information. (Rupinder Kaur, 2018)

### Impact of and FDI towards Resources and Inequality

In Africa, the resources sector is the second-largest recipient of FDI, accounting for 34% of total FDI.

According to a study by Kaur (2018), in African countries the relationship between FDI towards resources and income inequality is not significant, as such FDI has proven to have a negative impact on the per capita gross national income (GNI). It is estimated that such FDI generates two (2) direct jobs per USD million of FDI, compared to five or six jobs per million in the hi-tech and manufacturing sectors in a different country. The FDI towards the resources sector in Africa is extractive and mostly associated with the exports of raw material rather than local value addition. African countries only receive a short end of the stick while suffering environmental impacts and have poorer road conditions because of such activities. The findings show that an increase in human capital improves the skills of workers that are in the services sector. However, the interaction between services FDI and tertiary education tends to increase income inequality because the services sector will require skilled and qualified workers of which most African countries do not have, thereby generating only two direct jobs per USD million of FDI. (pgs 138-139) (Rupinder Kaur, 2018)

Zimbabwe as one of the most unequal countries in Africa has shown the largest decline in income inequality due to FDI, preceded by Namibia. (pg 132) (Rupinder Kaur, 2018)

According to the report by the PWC (2020), The economic rebalancing carried out most countries affects the geographical asset allocation by Sovereign Investors'. It was predicted that by 2020, countries in South America, Africa, Asia and the Middle East (SAAAME) will account for a larger percentage of Sovereign Investors' assets as well as entities. Sub-Saharan Africa is expected to demonstrate significant growth in terms of SWF investments, however more optimism is needed to boost such assets. Tremendous growth is expected for this

region in coming five years and total assets are expected to will remain comparatively modest. Additionally, the CAGR of SWF investor assets are expected to increase globally and African investor assets are expected to expand by 11.4%. (PWC, 2020)(page 10)

## 8. SWF as a Tool for Economic Stabilization

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Advance economics required funds to protect monetary and fiscal volatility and avert shocks during hostile economic slumps and recessions. Namibia's prevailing drought situation reverberates shocks throughout various sectors at an alarming rate. Drought affects raw material inputs and intermediary products, this increases overall production costs. Those dependent on Agricultural goods are directly affected by deaths of livestock, food shortages and slow crop yields. In such shaky conditions, additional funds are useful in maintaining the economy's overall fiscal balance through stabilization.

Namibia's economy is dependent on the output levels of minerals and commodities, these are mainly uranium, gold, copper, zinc and other commodities. Revenue from natural resources often accrue large amounts but are volatile to the cost of production inputs, which are unpredictable in most cases. Given the unpredictable pattern of commodity prices, other fluctuations may also appear frequently, these variations can remain for some longer periods. Such discovery of resources can lead to a destabilizing effect on the budget cycle, thus creating disproportionate and inefficient expenditure during resource booms and budget deficits during busts. (Markowitz, 2020)

According to Markowitz (2020), there is no specific fiscal rule to fit all countries, however, creating or enforcing fiscal rules with fewer loopholes is important for stabilization funds to operate effectively. Fiscal stabilization funds create a support mechanism towards counterproductive fiscal policies to protect resource revenues when tougher conditions prevail.

The enforcement of regulations ensure accountability and to ensures that the economy is protected from severe fiscal shocks and instability.

Political instability and interference pose a serious threat to stabilization funds and resource revenues when tougher conditions prevail, thus it is important to usher in supportive SWFs to protect the economy. (Markowitz, 2020)

## 9. The Current Structure of Investment Funding in Namibia

The section focuses on the size of domestic funding provided by various major financing institutions in Namibia such as banking institutions, pension funds and other equity financiers.

The results were taken from all the major financiers in Namibia for the period of 2017 to 2020. The overall funds recorded from this institution was N\$ 209 billion in 2020, an amount of N\$ 223 billion was recorded for 2019. This includes lending for private, commercial and non-commercial loans signifying a diverse demand for loans. Private loans are also included in a feasible space within the funding sector, as such loans generate revenue for the financing institutions and are not for free.

The aim of the SWF is to promote equitable wealth in the economy and to take reduce pressure or complement commercial enterprises loan commitments, additionally, it demonstrates a need for liquidity for improving livelihoods of civilians and also business funding.

If the respective commercial enterprises are foreign-owned, the funding interest will only benefit foreign entities and not develop the local economy sufficiently.

Chart 16: Namibia's overall funding position  
Banks

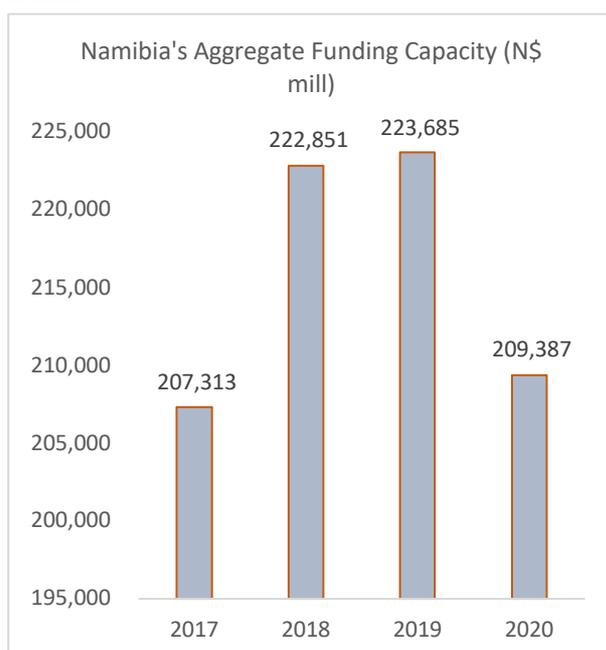
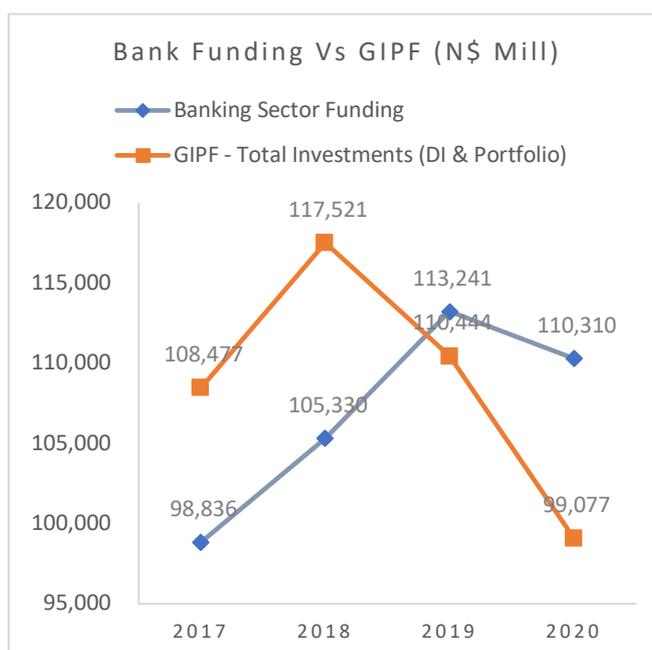


Chart 17: Funding composition GIPF vs  
Banks



Sources: Annual Reports (FNB, NEDBANK, STANDARD BANK, AGRIBANK, DBN, GIPF)

The Government Institution Pension Fund (GIPF) is a major source of local funding and financial reserves. Their total investment value was N\$ 117 billion in 2018, higher than all commercial bank aggregate of N\$ 105 billion for the same year. In 2019 commercial bank funding peaked to N\$ 113 billion, this reduced to N\$ 110 billion in 2020, whilst GIPF dropped N\$ 99 billion during the same period as a result of the Covid-19 pandemic. This also indicates that the pandemic led to a N\$ 14 billion dollar (6%) shortfall in funding or investment in the year 2020.

The GIPF makes up 64% of Namibia’s funding aggregate, of which N\$ 90 billion is an investment in Portfolio and direct investment and N\$ 108 billion is managed by fund managers (2020).

Within the local commercial bank space, Bank Windhoek makes 30% of the total local funding, followed by FNB at 28%, Standard bank at 23%, Nedbank at 11% and the DBN at 8%. (The Agribank’s results was not available for the same period).

Chart 18: Namibia’s funding composition

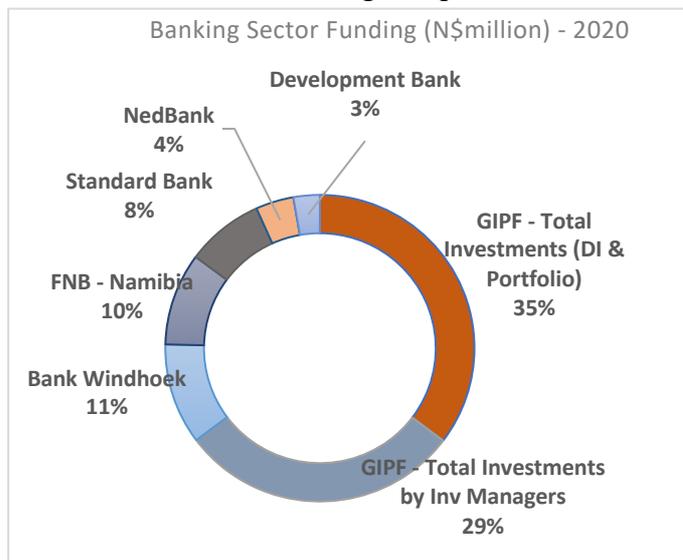
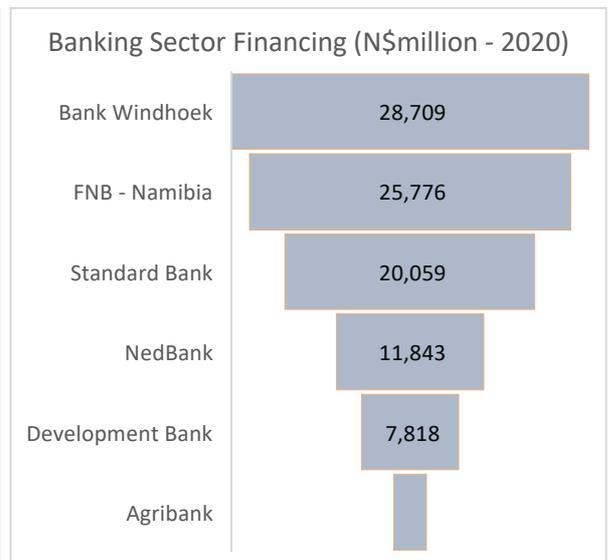


Chart 19: Commercial

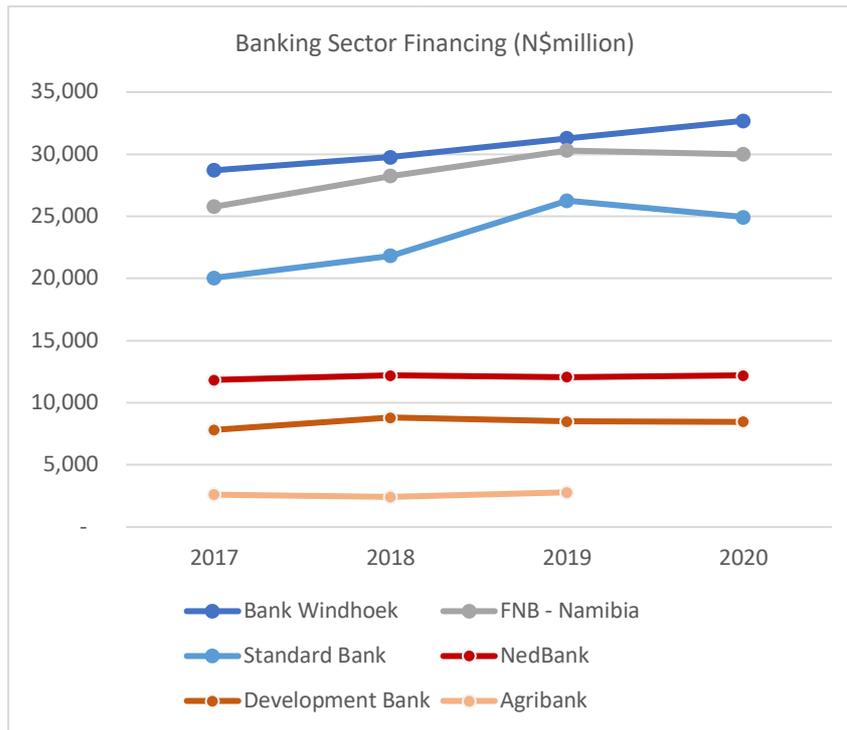


Source: Annual Reports (FNB, NEDBANK, STANDARD BANK, AGRIBANK, DBN, GIPF)

Some banks have a flatter curve when lending by keeping their funds within the same range, such as Nedbank, Agribank and Development bank, with slight increases.

Bank Windhoek, Standard Bank and FNB demonstrated a steeper upward rise in funding.

Chart 20: Trend of local funding (2017 – 2020)



Source: Annual Reports (FNB, NEDBANK, STANDARD BANK, AGRIBANK, DBN, GIPF)

The annual percentage change of Standard Bank grew by 20% in 2019 and Agribank by 15%. The highest shift for DBN was 13% in 2018, followed by FNB's 10% rise the same year. The aggregate funding position demonstrates annual growth for the 2017-2020 period at approximately 7% in 2018, 8% in 2019 and a drop of -3% in 2020 for all the banking sector.

## 10. Funding Sources for a SWF

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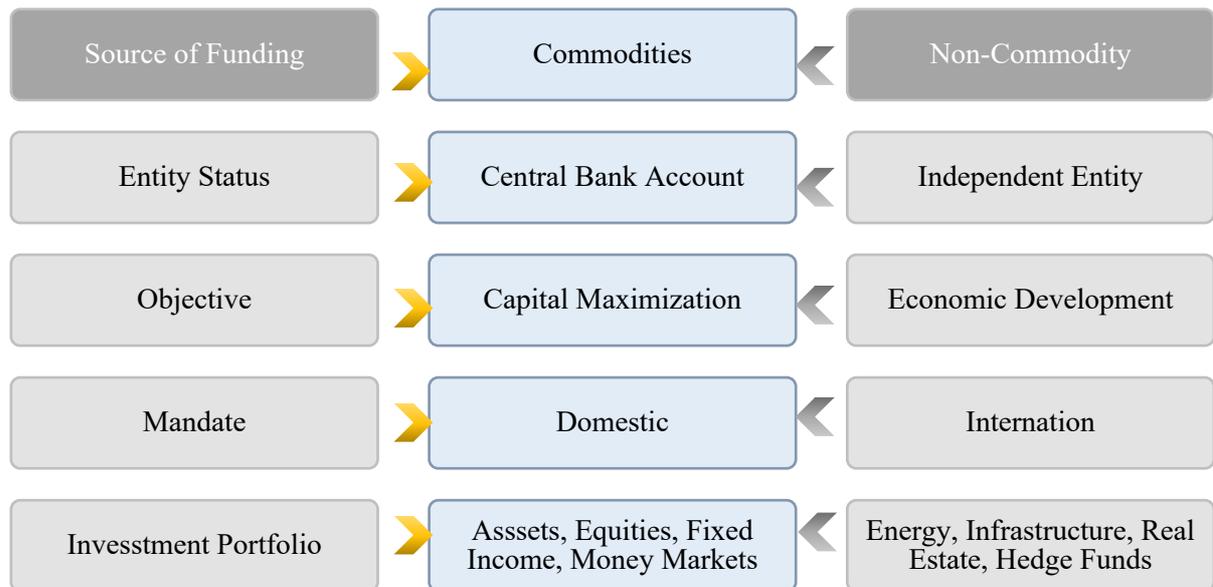
According to Estevez (2020) investment strategies of SWF's differ from country to country and the main sources of SSWF funding are:

- State-Owned Natural Resource Revenues
- Trade Surplus
- Bank Reserves
- Foreign Currency Operations
- Money from Privatizations
- Government Transfer payments (Estevez, 2020)
- Stock Markets

The main sources of Government revenue are natural resources, however, the government retains a low percentage of equity ownership in most mineral mines whereby they only collect a small amount of royalties annually. The sketchy relationship with mines and minerals is always under public scrutiny and media criticism as the government has liberated the operation of most mines. The push for nationalization, value addition and localization are also criticizing as a means of enriching few individuals and suspicion of non-transparent exploitation of such mineral ownership. Investors also remain skeptical against the forceful transfer of ownership while they have made investments in the mining companies. A fairly structured and more reliable solution is an SWF ownership of strategic local resources into the mines without compromising standard and normal business environment. The government can then appoint people with skills in those specific sectors to acquire revenue for the SWF in those respective sectors and represent the interest of the government to obtain more. Subsequently also to ensure re-investment in these sectors without diverting the funds elsewhere, while building local capacity in these respective sectors. If the benefits of having an SWF as an equity partner, then most companies will consider this as a strategic partner for long-term investment. The scenario of SWF involvement should not be imposed in an uncompetitive manner and thus should not favor one company above another under the disguise of government protection. Sectoral regulatory frameworks should oversee and impose fair industry standards. In most cases, the mines operate in spaces where adverse competition is low with monopolistic tendencies.

Namibia does not document a high score of revenue from on bank reserves, foreign currency operations, however the SWF can assist the country to build more sources of revenue.

The chart below was drafted by Price Waterhouse Coopers and demonstrates the structure of various sovereign wealth funds. It highlights the various checkpoints on funding, objectives, mandate, ownership, investment focus and sectors, domestic and foreign focus, etc.



Source: (PWC, 2020)

## 11. Targeted Investment and Sectors

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Investment is very diverse and each economy has different interests however the core target segments are a domestic, regional and international investment.

The domestic investment sectors include goods, services as well as development projects. Namibia's goods and services were outlined earlier as per the GDP sectorial analysis.

The priority development projects in Namibia that require support can be summarized as:

1. Energy sector Infrastructure (Wind, Hydro, solar energy, Power Generation and Distribution, acquisitions of existing energy projects, innovation, manufacturing of energy-efficient products).
2. Infrastructure Development (road, rail, port, transport and logistics, storage, warehousing, dams, etc.)
3. Agricultural Development (irrigation projects, equipment, information systems, feedlots, etc.)
4. Industrial Development (SME parks, food packaging facilities, food processing, manufacturing, raw materials, value addition and beneficiation, etc.)
5. Technological Development
6. Land and Property Development in urban and rural areas.
7. Water Infrastructure (Rural and urban water infrastructure, distribution and storage)

The Namibian government does not earn enough revenue to implement all development projects under its development budget, this leads to high reliance on foreign funding and concessional loans.

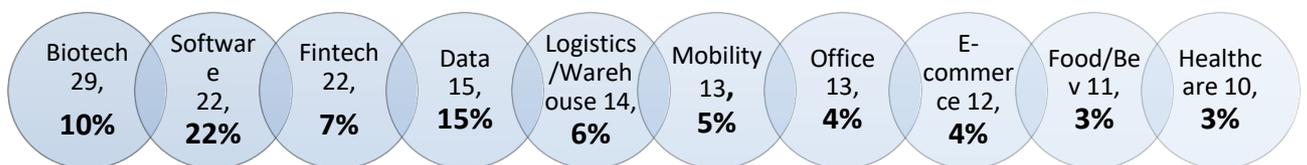
According to (Javier Capapé, 2019) the 5 main target sectors are technology with a 31.4% investment composition, Life Sciences 13.4%, Real Estate 15.9%, Services 7.6% and Infrastructure 11.2%.<sup>6</sup> SWF's are also the main contributors to Venture Capital firms by investing 5,4 billion US\$ in 2019 and 31 billion US\$ in 2018. (Javier Capapé, 2019)

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<sup>6</sup> **Source:** Sovereign Wealth Research (IE Center for the Governance of Change) and SovereignNET (Fletcher School, Tufts University). The 2019 data for the nine-month period Jan to Sep.

SWF performance by “deal-making”, states that the commitment is motivated by engaging in acting enterprise, commercial and venture deals to encourage the growth of the fund. Various other government institutions rely on wider mandates but lack quantitative goals. The Tamasek SWF of Singapore is very active in deal-making although not the largest, in 2019 they executed 82 deals, followed by GIC (Singapore) fund with 58 deals, Mubadala (UAE) with 19 deals, Abu Dhabi Investment Agency with 15 deals. (Javier Capapé, 2019) This demonstrates the proactive role by a small country such as Singapore to expand its investment footprint among dominant global players.

The top industries in terms of deal count are listed below (Javier Capapé, 2019)



There are currently 94 SWF’s globally with major players in Norway (1 trillion), China (1.3 trillion), UAE ( 745 billion), Hongkong China (529 bln), Kuwait (527 bln), Saudi Arabia (512 bln), Singapore (407 bln) and Qatar (2005). (Javier Capapé, 2019)

The economies with an SWF are have demonstrated growth and stability and secured their position in the shifting global markets.

## 12. Convergence of Technology and Investment in Africa

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### **The Tale of the City Boy and Farm Boy**

A farmer lived in a secluded village with his two sons. One of his sons grew up to be a farmer tending livestock and cultivating crops that he sold in the nearby markets. The other son migrated to the village and worked for an investment company, and he acquired a broader knowledge of economics, investment, and trade compared to his brother that resided on the farm.

After few years of integrating into the city life and the other one adopting on the farm, the father convinced them to switch their roles and his son in the city moved back to the farm, the one on the farm moved to the city.

The city life became very expensive for the village son who had to pay rent, dine at restaurants, expensive clothes, modern furniture, fuel expenses, water and electricity expenses, insurance and for his house cleaner's salary.

For the son that grew up in the city, returning to the farm was cheaper to adopt as he was only required to lower his standard of living and expenses.

They each had a divergent view of the economic environment they were accustomed to. The farm son perceived economics, development and trade from a narrow context of farming, selling, agriculture, etc. The city boy had a broader perception of the economy.

In Africa, people are more concerned about how economic theories address their rural and urban survival. Investment is one of the most important elements that is required to build a bridge between the village, the farm and the city/cities. For a common person living in Africa, there is little exposure to the concept of development, albeit a fanatical expectation that investment determines a person's destiny. In developed countries, investment is perceived as an abstract sector of the economy like any other sector, which has to develop and grow itself. This framework is supported by their inherent efforts and commitment towards hard work, education, skills, training, ethics, cooperation, integrity and patience for the benefit or strengthening the role of investment instruments in their domestic economy before reaching out to other countries successfully. The architects that are shaping the investment highway must be equipped enough to carry out robust planning and implementation strategically, else the gap between a developed and underdeveloped segment of the economy will remain wider.

The second most important instrument of connecting the village and the city is technology, there is a symbiotic relationship in Africa between investment and technological advancement, the need for basic technology is a cross-cutting

important factor for education, health, businesses, agri-industry, mining, transport and manufacturing.

The connection is that farms feed the inhabitants of any city whereby the city creates solutions for the farm and rural existence. The convergence in the two related sectors paves the way toward digital transformation in Africa. The world has finite needs, for an infinite number of people, but the digital instruments will assist Africa's economic assessment to measure the desired level of employment, productivity and the type of services required to bridge the inequality gap. Ideas are required to foster digital development, but the investment is also required to turn those ideas into reality, however domestic and foreign investment is not an idea, but an existing concept that must be enforced without delay to eliminate barriers that hamper Africa's innovative ideas. We exist in a world that has overcome the link between high productivity and profitability, the tech industry continues to prevail stronger breakthroughs by accumulating more gains by sweating less.

The current investment in digital and tech innovation sets the potential for future development and transformation in government services, state-owned enterprises, infrastructure, trade and investment, services – education, health.

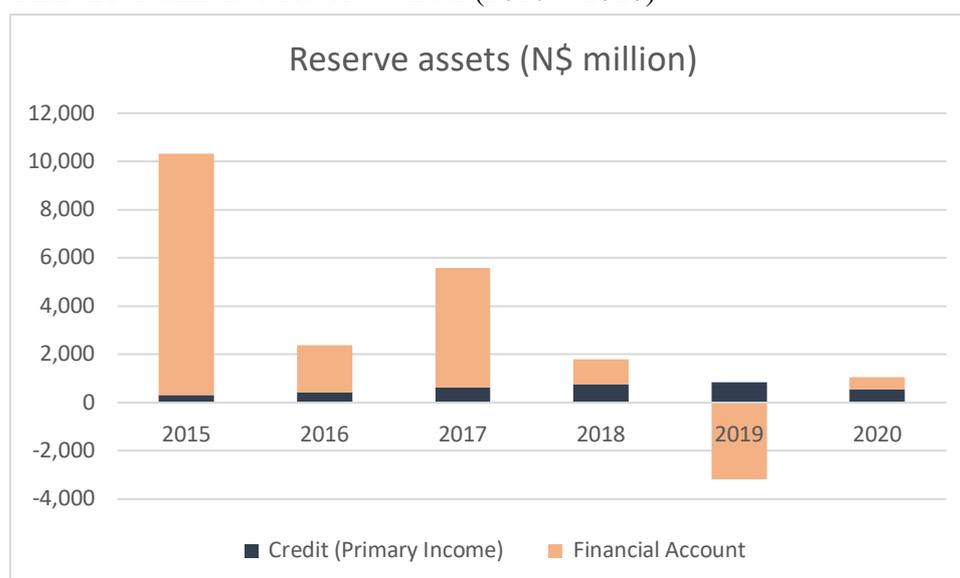
### 13. SWF and Foreign Reserves

Namibia has a low position for Current Account (primary income) reserves ranging from N\$318 million in 2015 to 547N\$ in 2020, there is a variation in its size but the highest value was N\$ 834 million in 2019. Primary income account presents primary income flows between resident and non-resident institutions, which captures returns for labor, dividends, investment income, financial assets, renting of natural resources, etc. (IMF, 2009)

The Financial Account reserves accumulated a value of N\$ 10 billion in 2015, with a decline of N\$ 3 billion in 2019 and bounced back to N\$ 521 million in 2020. According to (IMF, 2009) financial account shows the net acquisition and disposal of financial assets and liabilities. Even if the Reserve assets were high for the same period, the net financial account retains a negative value which was N\$-17 billion (2015), N\$ -18 bln (2016), N\$ -214 mln in 2019, with a positive value in 2020 (N\$ 2 bln). The negative values indicate there was a net inflow of foreign direct investment and in 2020 there was an outflow.

Acquiring foreign assets is not really an accumulation of reserve assets for the country's balance of payments but rather a diversification of the economy's wealth stock. (IMF, 2009)

Chart 21: Namibia's Reserve assets (2017 – 2020)



The current account is for that specific period under review whereas the financial account impacts future accumulation. The SWF is established using foreign reserves or portfolio investments held in other countries by Namibian institutions in a way to encourage domestic investment promotion.

The current laws in place which favours domestic investment is the withholding tax rate of 10% for foreign entities<sup>7</sup> (Namibia Income Tax Act 24, 1981) and the 35% domestic investment requirement derived from Regulation 28 of the Pension Funds Act (24 of 1956)<sup>8</sup>. The SWF can become a tool for encouraging investment by the GIPF and also ass equity partner for those companies willing to reinvest their retention funds.

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<sup>7</sup> <https://www.namra.org.na/tax-types/page/withholding-tax-30120/>

<sup>8</sup> <https://www.gipf.com.na/unlisted-investments>

## 14. Summary

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SWF is not perceived as a panacea that would heal years of poverty and economic disparities, the subject requires further impact assessment to analyze its effectiveness to resolve the current problems. There are various possibilities when countries embark to implement development funds, but for a country not to have any at all signals a serious lack of cautionary or financial progressive instruments.

The concept of the “sovereignty of wealth” is to contain the outflow of money and ensure it remains within the sovereign state.

The research aims to encourage more conversations and debate about establishing an SWF in Namibia, as an instrument to boost investment and draw participation from key decision-makers and various stakeholders in the economic policy and development policy fora.

Africa is a fertile ground for innovation and investments, in Namibia there are funds available from various sources such as pension funds, unlisted funds, development finance institutions, commercial banks, etc. The current sources prefer investing in more structured companies and this excludes new players such as SMEs and start-ups.

Most businesses die out in the incubation stages of their business and ideas and do not accumulate enough taxable revenue. The GDP expansionary challenges of the GDP will remain until more diversified funds are introduced to stimulate growth in the micro and midi segment of the economy via empowerment funds and an SWF.

Namibia is in a commendable position with a favorable legislative environment and has a good perception of transparency to discover more investment mechanisms for which an SWF is suitable.

Infrastructure development requires a stable domestic investment climate in strategic sectors such as energy, water infrastructure, rail and road infrastructure, agricultural production, etc as a stepping stone to boost domestic and regional trade productivity. Due to various other exogenous factors, Namibia requires unconventional investments with foresight to support its long-term goals and fiscal stability. Existing and novel investment funds can be structured for seasonal products and lump repayment, such funds will facilitate growth in the agricultural sector.

To achieve the SDGs countries should identify potential in the agro-industrial sector, smart cities, energy and health. SWFs are market-oriented government-controlled funds that play a key role of combining private investment in the development of the Namibia. In 2018 and 2019 alone, SWFs invested in sustainability-linked assets with a total value close to 16 billion dollars. (Javier Capapé, 2019) (pg. 9)

The achievement of the UN's SDGs need enormous investment from both the public and private role players. The SDGs are very ambitious and require a lot of resources to achieve especially for emerging economies, linking of deals and investors is tantamount. The United Nations Conference on Trade and Development (UNCTAD) estimated an annual investment deficit of \$2.5 trillion in the main sustainable development sectors in emerging countries alone. Trillions of dollars in assets under management by SWFs and other sovereign funds, government investment vehicles will play a fundamental role towards such projects. The connecting of SWF capital with various projects have proven to be a challenge, not because projects are lacking or capital is lacking, but because of a lack of profitable, viable projects. (Javier Capapé, 2019)(pg 70)

According to the PWC, Global Sovereign investors' assets grew in the past decade reaching USD 10.6 tn in 2014. While the future looks bright for many SWFs, estimated future developments forecasts depicts a slower growth prediction in the coming years, due to recent events such as the drop of oil prices and the slowdown of economies like China. (PWC, 2020) Pg 7 Hence these prospects depend from country to country.

*Sovereign Investors are disproportionately represented in emerging economies. As global economic power continues to shift, Sovereign Investors will grow faster than total global assets. (PWC, 2020)*

## 15. Tables and Charts

### a) Namibia's Investment Income

N\$ Million - Investment Income	2015	2016	2017	2018	2019	2020
Credit	3,599	3,535	3,462	4,133	4,057	3,648
Debit	3,441	7,248	7,537	10,694	8,387	6,443

### b) Namibia's Net Investment (2015-2020)

	2015	2016	2017	2018	2019	2020
Net Investment	158	(3,713)	(4,075)	(6,562)	(4,330)	(2,795)

### c) Namibia's Portfolio Investments (2015-2020)

Portfolio Investments		2015	2016	2017	2018	2019	2020
Credit	Dividends	2,078	1,812	1,656	2,038	1,908	1,481
Credit	Interest	972	974	796	909	959	1,391
Debit	Dividends	11	11	11	11	11	11
Debit	Interest	848	1,912	2,299	2,334	2,348	2,187

### d) Breakdown of Namibia's Investments (2015-2020)

		2015	2016	2017	2018	2019	2020
Credit	Direct Investment	24	80	120	(24)	(19)	11
Credit	Portfolio Investment	3,049	2,786	2,452	2,947	2,867	2,872
Credit	Other Investment	208	253	262	436	376	217
Credit	Reserve Assets	318	417	629	774	834	547
Debit	Direct Investment	1,651	3,923	4,020	6,842	4,452	3,302
Debit	Portfolio Investment	859	1,923	2,310	2,345	2,359	2,198
Debit	Other Investment	930	1,403	1,208	1,508	1,576	942

### e) Namibia's Balance of payments aggregates (N\$ million)

	2015	2016	2017	2018	2019	2020
NET DIRECT INVESTMENT [inflow (-)/ Outflow (+)]	- 10,122	-5,300	-4,601	- 1,457	2,717	2,054
NET PORTFOLIO INVESTMENT [inflow (-)/ Outflow (+)]	- 14,528	-1,193	6,168	3,041	1,810	- 2,346
NET OTHER INVESTMENT [inflow (-)/ Outflow (+)]	-2,438	- 14,598	- 10,454	- 6,383	-1,713	1,785
RESERVE ASSETS (Increase (+)/decrease (-))	10,013	1,959	4,965	1,020	-3,169	521

f) Banking Sector Financing (N\$ million)

	2017	2018	2019	2020
Bank Windhoek	28,709	29,763	31,290	32,691
FNB - Namibia	25,776	28,259	30,298	29,994
Standard Bank	20,059	21,842	26,262	24,931
NedBank	11,843	12,203	12,071	12,209
Development Bank	7,818	8,818	8,507	8,465
Agribank	2,614	2,427	2,794	
<b>Total</b>	<b>98,836</b>	<b>105,330</b>	<b>113,241</b>	<b>110,310</b>

g) GIPF Funding (N\$ million) – Part 1

	2017	2018	2019	2020
GIPF - Private	89,174	96,714	104,436	90,532
GIPF - Total Investments (DI & Portfolio)	99,077	110,444	117,521	108,477
<b>Total</b>	<b>188,251</b>	<b>207,158</b>	<b>221,957</b>	<b>199,009</b>

h) GIPF Funding (N\$ million) – Part 2

	2017	2018	2019	2020
GIPF - Total Investments by Inv Managers	89,174	96,714	104,436	90,532
GIPF - Total Investments (DI & Portfolio)	99,077	110,444	117,521	108,477
<b>Total</b>	<b>188,251</b>	<b>207,158</b>	<b>221,957</b>	<b>199,009</b>

i) Namibia's Overall Funding Position (N\$ million)

	2020
GIPF - Total Investments (DI & Portfolio)	108477
GIPF - Total Investments by Inv Managers	90532
Bank Windhoek	32691
FNB - Namibia	29994
Standard Bank	24931
NedBank	12209
Development Bank	8465
Agribank	

j) GIPF Funding versus Banking Funding (N\$ million)

	2017	2018	2019	2020
Banking Sector Funding	98,836	105,330	113,241	110,310
GIPF - Total Investments (DI & Portfolio)	108,477	117,521	110,444	99,077

k) Namibia's Total Funding Available (N\$ million)

	2017	2018	2019	2020
Namibia's Aggregate Funding Capacity (N\$ mill)	207,313	222,851	223,685	209,387

l) Namibia's Funding Annual Change (%) (2018 – 2020)

	2018	2019	2020
Bank Windhoek	4%	5%	4%
FNB - Namibia	10%	7%	-1%
Standard Bank	9%	20%	-5%
NedBank	3%	-1%	1%
Development Bank	13%	-4%	0%
Agribank	-7%	15%	
Total	7%	8%	-3%

m) Reserve Assets (N\$ million)

	2015	2016	2017	2018	2019	2020
Credit (Primary Income)	318	417	629	774	834	547
Financial Account	10,013	1,959	4,965	1,020	-3,169	521
Foreing Assets	23,577	24,720	30,177	31,024	28,941	31,752

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