REPUBLIC OF NAMIBIA
Ministry of Finance

MEDIA RELEASE

Briefing on Public Debt Management and Public Procurement

By

Hon Calle Schlettwein, Minister of Finance

23 May 2019

MEDIA BRIEFING ON DEBT MANAGEMENT AND PROCUREMENT

The Ministry of Finance received numerous questions from the Media regarding different aspects of government debt such as debt servicing, government borrowing procedures, the repayment procedure and the redemption strategy for all government debt. Moreover, some questions sought clarity on the redemption strategy and government's ability to repay the two Eurobonds, maturing in 2021 and 2025. In view of the above, the Ministry has identified the need to provide information and educate the public on various dynamics regarding public debt. The Ministry of Finance hereby uses this statement to give background on the following aspects regarding public debt management:

1. BUDGET FUNDING T AND GOVERNMENT DEBT

In accordance with the State Finance Act, 1991 (Act 31 of 1991), the Minister of Finance (MOF) has the authority to undertake public borrowing, both domestically and externally to finance anticipated deficits in the State Revenue Fund, to obtain foreign currency; and to fund capital projects. Section 29 (1) of the Act stipulates inter alia that "the Minister may at any time borrow moneys within or outside Namibia…" and Section 29 (2) stipulates that "…the Minister may:

a) enter into agreements with Banks or other financial institutions, including the Bank of Namibia, an international bank or a foreign financial institution…" subject to delegation of such power by the President under Article 32 (3) (e) of the Namibian Constitution, with foreign governments; or
b) make issues of Treasury bills and public stock within or outside Namibia and issue bonds; and
c) issue bills of exchange or debentures for terms not exceeding twelve months,

In addition to the State Finance Act, the Namibia Financial Sector Strategy 2011-2021 and the Sovereign Debt Management Strategy 2018-2025 also serves as guidelines in drawing the borrowing plan and calendars. The above mention policy guidelines stipulates that about 80 percent of the annual funding requirements should be sourced from the domestic market. The offering of the bulk of the funding requirement to domestic investor is necessitated by the need to have sufficient quality investment assets in the domestic market and thus aid in deepening the domestic capital markets and provide an avenue for domestic investors to place their investments domestically.

1.1. Borrowing Rationale

During the budgeting process, the expected revenue is matched with planned expenditure. In most cases, revenue falls short of expenditure, which results in a budget deficit. In order to meet the socio-economic needs of its citizens and foster economic development, the Government needs to borrow money to fund the subsequent budget deficit. Once the size of the said deficit is determined, a borrowing plan is crafted in which the Government indicates the type of market (domestic or foreign) and type of instruments from where the funds will be sourced during a given financial year. Potential instruments range from short-term to long-term and they are issued in domestic market i.e. (Treasury bills and Treasury Bonds) and foreign market i.e. (Eurobond and Johannesburg Stock Exchange (JSE) listed bond). Funding could also directly be sourced from **multilateral** institutions or Development Financial Institution (DFI) like the Africa Development Bank, Kreditanstalt fur Wiederaufbau (KfW) and through concessional loans offered though **bilateral** arrangement between the Government of the Republic of Namibia, the Federal Republic Of Germany and Government of the People's Republic of China. At any given point of time before they are repaid, these borrowed funds add up to the total government debt portfolio, i.e. accumulated debt.

1.2. Debt Composition (Domestic/External)

As part of the commitment towards the development of the domestic capital markets, the government raises most of its required funds from the domestic market. This strategy is employed to normalise the cost of borrowing as it minimises the government exposure to exchange rate risks as well as to locally promote the development of the domestic economic. Therefore as at the end of FY2018/19, i.e. 31 March 2018, domestic debt account for **63 percent** while foreign debt account for **37 percent, *see the table below***.

The Table below provide the overall composition of Government Debt

DOMESTIC DEBT BY INSTRUMENTS @ 31 MAR 2018	Amount in N$	Average Cost of Borrowing	As % of Total Domestic Debt	As % of Total Debt
Treasury blls	21,788,860,000	8%	40%	25%
Treasury Bonds	28,427,540,000	9%	52%	33%
Inflation Linked Bonds	4,677,960,000	4%	9%	5%
Total Domestic debt	**54,894,360,000**		**100%**	**63%**

FOREIGN DEBT BY CATEGORY @ 31 MAR 2018	Amount in N$	Average Cost of Borrowing	As % of Total Foreign debt	As % of Total Debt
Bilateral (Namibia Germany and China)	1,192,738,558	2%	3.7%	1%
Multilateral (Development finacial institution)	10,032,338,703	7%	31.2%	12%
JSE listed bond	2,892,000,000	9%	9.0%	3%
Eurobond -@ Int Rate of 5.6% and 5.26% befor Hedging	18,038,562,500	7%	56.1%	21%
TOTAL	**32,155,639,761**		**100%**	**37%**

CURRENCY COMPOSITION OF DEBT AS AT 31 MARCH 2019	Amount in N$	Average Cost of Borrowing	As % of GDP	As % of Total Debt
NAD	54,894,360,000	9%	29.2%	**63%**
Eur	1,969,575,208	2%	1.0%	2%
Usd	18,229,631,600	7%	9.7%	21%
Rmb Yuan	2,174,395,552	2%	1.2%	**2%**
Zar	9,097,166,877	7%	4.8%	10%
Chf	39,646,893	3%	0.0%	0%
Jpy	588,124,953	1%	0.3%	1%
Kwd	57,098,678	3%	0.0%	0%
TOTAL	**87,049,999,760**		**46%**	**100%**

TOTAL DEBT @ 31 MAR 2018	Amount in N$	Average Cost of Borrowing	As % of Total Debt	As % of GDP
DOMESTIC DEBT	54,894,360,000	9%	63%	29%
FOREIGN DEBT	32,155,639,761	6% (avg)	37%	17%
TOTAL DEBT	**87,049,999,761**		**100%**	**46%**
GDP	**187,896,000,000**			

2. DEBT SERVICING

Debt servicing represents interest payments towards the above mentioned outstanding Government debt, both domestic and foreign. In other words, it is the cost of borrowing that the Government pays on outstanding debt. During FY2018/19, a total of N$5.7 billion was spend on debt servicing/interest payment. For FY2019/20, debt service/interest payment will account for N$6.4 billion. It is worth stating that 65 percent (65%) of the above mentioned debt servicing goes to domestic investors, contributing directly to the country's economic growth. Hence the fast growth and stable investment climate in Namibia. This can be attested by the recent profit recorded by the banking industry, pension funds, insurance companies and asset management companies despite the slowdown of the economy.

3. DOMESTIC BORROWING APPROACHES

Based on the funding plan, borrowing requirement are raised though public auctions at Bank of Namibia at public auctions. The Government invites all individuals and institutional investors to take part in the auctions for Treasury bills and Treasury bonds. This approach is the most common and occurs on a weekly basis. ***For illustration purpose, the borrowing requirement for the FY2019/20 stands at N$10.1 billion. Of this amount, N$7.1 billion will be sourced from the domestic market, while the remaining portion of N$3.0 billion will be sourced from the regional market***. The N$7.1 billion will be raised through instruments ranging from 1 years to 30 years of maturity and based on the market/investor demand.

4. FOREIGN BORROWING APPROACHES

As stated earlier, the Government also undertakes borrowing or raise funding from foreign institutions i.e. loans and foreign markets. Regarding loans, Government engages in bilateral discussion with potential lenders and agrees on lending terms. These loans are split into multilateral (government to international financial institution) and bilateral (government to government) loans, both of which tend to be concessional in nature. That is, these loans are extended on terms that are more generous and favourable, relative to ordinary market financing. The Government also issued long term bonds in the foreign market i.e. Eurobond in the international markets and Johannesburg Stock Exchange (JSE) in South Africa market.

5. TENDER/AUCTION PROCEDURES

The Borrowing Plan and Issuance Calendar are setup in accordance to the budget deficit of that particular financial year. The amount to be raised is apportioned to the various instrument (TB's and Bonds) over the 12-months period under the guidance of the Namibia Financial Sector Strategy 2011-2021 and the Sovereign Debt Management Strategy 2018-2025. The above mentioned plan are issued and reviewed semi-annually. Auctions for Treasury Bills are conducted weekly and Treasury Bonds conducted bi-monthly, whereas inflation-linked bonds are issued once a month. The borrowing plan and the borrowing calendar as well as the auctioning process can be obtained from Bank of Namibia. Investors are invited to partake at auction and they do so on their discretion based on their investment needs and portfolio structure. No individual or private placement practices are employed by Government.

6. GIPF IN PARTICULAR

In view of the Government Institution Pension Fund's (GIPF)'s investment concentration in Government debt securities, I would like state the the government issued its debt in the local market through the issuance of Treasury bills and Treasury bonds at primary auctions. These treasury bills and bonds auction are held at Bank of Namibia. All potential institutions and individual investors are invited to participate in these auctions at their own free will based on their portfolio needs. These investors could be GIPF, Brokers and Asset Mangers acting on behalf of GIPF. It is therefore worth saying that Government does not force any institution or any individuals to participate in debt securities auctions.

GIPF Exposure to Government Bond (N$)					
	2014	***2015***	***2016***	***2017***	***2018***
Government bond held by GIPF	*2,965,828,761*	*3,521,001,666*	*4,155,955,581*	*12,716,974,387*	*13,549,275,106*
Total GIPF Investment fund	*77,328,858,286*	*88,652,400,810*	*93,926,870,776*	*99,488,077,546*	*110,097,375,089*
% Exposure to Govt bonds	*4%*	*4%*	*4%*	*13%*	*12%*
Total GRN Debt					
GRN Debt held by GIPF (N$)					
Investment by GIPF in GRN Bonds	*2,965,828,761*	*3,521,001,666*	*4,155,955,581*	*12,716,974,387*	*13,549,275,106*
Total Government Debt	*36,731,405,000*	*59,626,698,330*	*60,910,184,000*	*74,467,922,000*	*87,049,999,760*
% of GIPF investment on GRN Debt	*8%*	*6%*	*7%*	*17%*	*16%*

As per the illustration in table 2 above, during 2018, GIPF investment in GRN bond accounts for N$13.5 billion out of a total pension fund size of N$110 billion, equivalent to 16% of the N$87.1 billion worth of total Government debt.

As per the GIPF investment mandate, The GIPF, like any institutional investor regularly undertake a Strategic Asset Allocation (SAA) exercise informed by its risk, return and diversification objectives. These objectives serve to ensure that the funds are invested in a manner that is prudent and that pensioners receive optimal returns on their investments. These objectives are, therefore, the leading determinants of how much GIPF invests in different asset classes such as equities and bonds, during a particular period. The stated objectives also determine the counterparties to which GIPF may be exposed to and to what extent. GIPF, hence, does not invest in government instruments to meet government's funding needs, but to meet its own required objectives. As far as exposure to local government debt is concerned, it is worth noting that GIPF's Strategic Asset Allocation has a limited exposure of 21 percent of the total funds, to the total bonds in issuance in Namibia. This includes both government and corporate bonds. This clearly indicates that GIPF, with an exposure of 12 percent at the end of 2018, is not overly exposed to the Government.

7. NAMIBIA CAPITAL MARKETS STRUCTURE

Namibia's capital market is shallow and characterised by a few participants. The GIPF is the biggest pension fund in the country and is therefore the largest domestic market participant, given the size of its asset base. The Government is also the largest debt issuer in the economy. In line with Namibia's capital market development strategy as set out in the Namibia Financial Sector Strategy 2011-2021, coupled with the risks associated with foreign borrowing, the Government deliberately finances a larger portion of its funding needs from the local market. The local market, as stipulated above, is dominated by GIPF, which inherently explains why GIPF holds a large portion of local government long term debt, relative to other market participants.

8. DEBT MANAGEMENT STRATEGY

The Government strives to issue debt in a manner that is cost effective while ensuring that the debt trajectory is on a sustainable path. Accordingly, the government has a sovereign debt management strategy aimed at ensuring that the Central Government's borrowing activities are undertaken within its risk tolerance. The Government measures, manages and monitors the developments in its debt portfolio against various risk benchmarks, which were set to manage roll-over risk, market risk and interest rate risk, among others.

The Government is aware of the adverse developments in the domestic, regional and international economy that resulted to the reduction of economic activates and further to a lower revenue collection. Hence the increased budget deficit and increase debt, on the back of debt issuances to meet the Government's funding needs as well as the unfavourable exchange rates. These adverse developments resulted to breaches in some of the risk benchmarks, especially the debt-to-GDP threshold of 35 percent. For this reason, the Government has committed to devise deliberate strategies to contain the ratios within the set benchmarks. This is evident in the budget deficit figures, which narrowed from 8 percent of GDP to 4 percent of GDP.

9. DEBT REDEMPTION STRATEGY

The government has devised a Debt Redemption Strategy, which outlines measures to be undertaken in preparation for the redemption of Central Government debt. The strategy aims to ensure prudent credit risk management to avoid default events. Accordingly, the Government maintains two sinking funds in two currencies, South African Rand (ZAR) and United States Dollar (USD). The ZAR sinking fund serves to honour local currency debt obligations and ZAR denominated debt, while the USD sinking fund is for foreign currency debt obligations, with emphasis on the two Eurobonds. Thus, the Government is currently 70% ready to redeem upcoming maturing bond. The funds are channelled to the respective sinking funds on a quarterly basis. The balance on the ZAR sinking fund as at the end of March 2019 stood at ZAR858 million while the USD sinking fund had a balance of USD350 million or N$4.9 billion at the exchange rate of 14. I would therefore like to assured the public that the Government will be 100% ready to redeem the Eurobond that is due in 2021 and beyond.

10. DIRECTIVES ON RESERVATION TO LOCAL SUPPLIERS

Let me now address the matters related to measures for enabling local participation in the economy and enhancing domestic productive capacity within the framework of the Procurement Act (Act No. 15 of 2015).

This afternoon I issued an economy-wide Procurement Directive on the Reservation of procurement of goods, services and works to local suppliers in terms of Section 73 of the Public Procurement Act.

The measure directs public entities to source specific categories of goods, services and works produced or manufactured locally and to the extent such goods, services and works are available locally, before procuring these from somewhere else.

In particular, the Directive extends procurement reservation to:-

- 100 percent Namibian-owned SMEs and entities which are 51% or more equity owned by Namibian citizens,

- in case of Joint Ventures, each entity of the Joint Venture partnership to have at least 51% or more equity owned by Namibian citizens, and

- goods, services and works to be so reserved must have at least 65 percent local content, with categories such professional services and labour works to have 100 percent local content.

Further, it is expected that entities benefiting from this directive shall have a bank account at a Namibian banking institution.

This Directive replaces the Directive I issued on the 26 February 2019 on the procurement of meat, fresh produce and related byproducts North of the Cordon Fence, but retains the essence of such Directive, requiring public entities north of the Cordon Fence to reserve the sourcing of such goods locally.

Ladies and gentlemen,
This Directive gives effect to the local economic development objectives engendered in the Public Procurement Act. Indeed, it is part of the package of structural policy reforms to support emerging economic recovery and enhancing domestic productive capacity, thus creating wealth and jobs locally.

I call on all public entities and their procurement units to adhere to this measure promptly. I also call on the beneficiaries of this measure to ensure standards of cost efficiency, quality and reliability of goods, services and works procured. I call on the private sector to emulate the developmental objectives espoused in this measure.

This Directive will persist until such time that relevant Regulations are enacted under the Procurement Act. The implementation of these measures will be accompanied by monitoring and evaluation to assess the intended impact and compliance thereof.

Thank you for your attention.