



ADDRESS BY THE GOVERNOR OF THE BANK OF NAMIBIA

MR JOHANNES !GAWAXAB

**AT THE
AGRICULTURAL CONFERENCE**

**'AGRICULTURE FIT FOR THE FUTURE - ROBUST, RESILIENT AND
RESPONSIVE'**

**THURSDAY, 3 SEPTEMBER 2020
SAFARI HOTEL AND CONFERENCE CENTRE, WINDHOEK
NAMIBIA**

INNOVATION IN AGRICULTURAL FUNDING MODELS

Director of Ceremonies;

Honourable Calle Schlettwein, Minister of Agriculture, Water and Land Reform;

Honourable Verna Sinimbo, Deputy Minister of Trade and Industrialisation;

Esteemed Conference Participants;

Ladies and Gentlemen;

Members of the Media

Good Morning!

- 1. I am pleased to have the opportunity to address you on this very contemporary topic of innovation in agricultural funding models.** The pivotal role of the agricultural sector in Namibia cannot be over emphasized for obvious reasons. About 70 percent of Namibia's population is dependent directly or indirectly on the agricultural sector for its livelihood. According to the latest National Accounts, during the last 7 years, the primary industries on average contributed 16 percent to the country's GDP, of which about 7 percent was from the *Agriculture, forestry and fishing* sector. This, however, excludes the critical input from the agricultural sector into the manufacturing and other industries, as well as associated multiplier effects in terms of backward and forward linkages.
- 2. The sector is also paramount in terms of incomes and employment creation as it supports livelihoods directly. For instance,** the 2018 Namibia's Labour Force Survey informs that the *Agriculture, Forestry and Fishing* sector was the largest employer in the country, accounting for about 23 percent to total direct employment. Moreover, the sector accounted for about 5 percent of total export revenue in 2019 mainly in the form of live animal exports. Notwithstanding these contributions to the economy, the *agricultural, forestry and fishing* sector also happens to be one of the lowest paying sectors, estimated at N\$3,393, compared to, for instance, the *mining*

and quarrying at N\$17,963 or *manufacturing* at N\$5,749. Furthermore, investment into the agriculture sector remained stagnant over the past 30 years and even reduced marginally. The share of investment in agriculture stood at 7 percent of total investment in 1991 which has since declined to 6 percent in 2019. In terms of numbers, out of the total capital inflows of more than N\$30 billion that entered the Namibian economy in 2019, only a mere N\$1.9 billion was channeled towards agriculture and this has been the trend since 1990. Hence, a significant share of investments in the country was channeled to mining, financial services as well as wholesale and retail trade. Equally capital investment intensity in the agriculture sector remain comparably low to other sectors with an average capital stock of N\$70,556 per employee in this sector compared to the overall economy average of N\$412,275 worth of capital investments per employee during the same period. I believe these dynamics including contribution to GDP reflect the low investments in the sector, poor funding and in turn low productivity, which is the subject matter I was asked to talk to.

- 3. Globally, Kuznets notes that, at the very early stages of development, agriculture generally provides for almost all of a country's domestic requirements for food needs and foreign exchange needed for purchases of imported products including capital goods.** The agricultural sector at this stage of development accounts for a relatively large proportion of GDP and in some countries, agriculture could account for more than 30 percent of GDP. For example, in the case of Brazil, the agricultural sector accounted for 60 percent of total GDP in the early stage of economic development and played a major role in developing the manufacturing and services sectors. The predominance of the traditional and low-

productivity agriculture at the early stages of development also normally requires that a relatively large proportion of the total labour force be retained in rural areas in which agriculture typically accounts for about 30 percent of GDP and 70 percent of the labour force. From the above, it is evident that for Namibia to industrialize and become a prosperous nation, it must first unlock and unleash the agricultural sector's hidden potential and increase the sector's contribution to GDP.

4. Our banking sector data shows that, over the last 6 years, the banking sector exposure or total loans to the agricultural sector was only about 3 percent.

Coincidentally, and probably ironically too, the non-performing loans ratio with respect to the agricultural sector has also been low at about 3 percent over the same period, which underscores the lower risk emanating from the sector. This is contrary to popular belief or common justification for the risk averse lending approach normally associated with the sector. On the other hand, however, the Financial Inclusion Survey Report (2017) shows that 74 percent of the registered cooperatives in Namibia are engaged in the agricultural sector, notwithstanding that access to adequate financing remains a challenge. While a large part of lending in the sector is perhaps carried out by the Agricultural Bank of Namibia and the Development Bank of Namibia (agro-processing), and rightly so, the exposure of the private banking institutions to the agricultural sector remains significantly small. This among others, underscores the overall view of the banking sector regarding productivity, maximum returns to investment, and the associated risk in the agricultural sector. On the other hand, the lack of willingness by financial institutions to take on more risk in the agricultural sector must also be juxtaposed against the nature of our farming practices in Namibia. According to the latest Namibia Financial Inclusion Survey, 95

percent of the farming households indicated that they only farm mainly for subsistence purposes leaving only 5 percent that farms for commercial purposes. In addition, of the 95 percent, 78 percent have never considered turning their farming activities into business. Interestingly, only 2 percent indicated that farming full-time was 'too risky'.

5. **Recent data as at the end of June 2020, shows that total banks' credit to the agricultural sector was approximately N\$7.8 billion representing roughly 7.0 percent of the total loan book.** This provide further evidence that the agricultural sector remains one of the least funded sectors of the economy. On their part banks usually cite lack of skills, limited expertise and erratic rainfall and climatic conditions as some of the reasons for not prioritizing financing to the agricultural sector. Moreover, restrictive collateral requirements, may be particularly challenging for farmers in communal areas where most of them do not have title deeds to the land on which they live and cultivate. As such the land tenure system could be the prohibitive factor contributing adversely to exploiting the full agricultural potential of communal areas where the majority of Namibians live. I am pleased that work done by the Bank of Namibia in collaboration with the banking industry and the Ministry of Agriculture, Water and Land Reform in this regard is at an advanced stage and seeks to enhance access to financing through converting title deeds into some form of tradable leasehold which may unlock communal farmers access to funding. This in turn could boost agricultural productivity in the communal areas.
6. **On our part and in supporting Government efforts, the Bank of Namibia continues to spearhead the implementation of the Namibia Financial Sector**

Strategy (NFSS), aimed at guiding the achievement of the financial sector objectives as set out in the various national development plans. In this regard, the focus is on developing a more competitive, resilient, effective and inclusive financial sector. Ultimately, the NFSS should contribute to broader desired goals such as fostering economic growth, poverty alleviation as well as reducing income inequality in the country. There has been a number of notable achievements in enhancing access to finance both for individuals and businesses. In order to promote financial inclusion, it has been deemed necessary to address the issue of high fees and charges that has characterized the Namibian financial system for many years. Both the banking and non-banking industries have responded positively to the country's financial inclusion agenda, though a lot still needs to be done and quickly. The recently introduced SME Financing Strategy which encompasses a credit guarantee scheme is a step in the right direction in augmenting all the other efforts to address access to finance as we start to think of and spread out other financing models such as broad-based venture capital financing, leasing, factoring and even securitization.

7. **Lending to the agricultural enterprises can be an important opportunity for economic growth due to a variety of factors.** There is an increasing demand for food and commodities as highlighted by Covid-19; there is an increasing emergence and development of profitable agricultural value chains, while small and medium sized agricultural enterprises can be productive and efficient if markets for their goods and services function properly.
8. **Agricultural investment is often regarded as one of the most effective ways to promote food security, reduce poverty and mitigate inequality.** Investing in the

agricultural sector is also a growth opportunity for financial intermediaries as the demand for food is set to increase. Financing farmers to invest in new technologies and access better inputs, increase yields significantly and thus contributes to food security and better investment returns. Innovative funding, risk mitigation and distribution models hold some promise that the risks and costs of agricultural SME lending can be managed.

9. It is my understanding that no insurance products currently exist in the Namibian market to protect farmers against commodity price risks.

Contingency fund policies are used as an instrument to provide some form of protection against price fluctuations.

10. Having said this, let me turn to some proposals that may transform the agricultural sector and realign it for increased value to be able to attract investment.

Though some of these proposals have certainly already been mentioned by the experts in the sector over the course of yesterday and today, I would like to reiterate some of them to provoke further policy debates:

- a) There is need to strengthen local market policy making which entails converting and modernizing subsistence agriculture into commercial agricultural activities,
- b) Promote Public-Private Partnership (PPP) in Agro-processing and Green scheme Projects, given limited fiscal space. In this connection, the private sector is thus encouraged to participate in initiatives such as the Green schemes and Agribusdev and even take over from Government in the medium term.

- c) Address land tenure and land rights policies for possible use of land as a collateral to unlock access to funding from commercial banks,
- d) Banks and insurance companies jointly must be innovative and introduce products that fit the farming practices and climatic conditions in Namibia. Tailor-made insurance products against droughts for instance could reduce the perceived risks in the sector and increase investment by domestic financial institutions.

11. In conclusion, agricultural development is a must for the economic development of a country. It plays a strategic role in the process of development and has made a significant contribution to the economic prosperity of advanced countries. Improving agricultural production, especially in the rural areas can improve incomes and create a foundation for agro-processing. History shows that the agricultural revolution preceded the industrial revolution in developed economies and that industrial and agricultural development are not alternatives. They are complementary and mutually supporting. Increased agricultural output and productivity contribute substantially to overall economic development of a country.

12. It is therefore rational and appropriate that Namibia must place greater emphasis on the development of the agricultural sector. In order to industrialize and become a prosperous nation, Namibia must unlock and unleash the agricultural sector's hidden potential by addressing the challenges outlined above. Innovative funding plays a critical role in the attainment of the above objective. As we have noted, government's fiscal space is restricted and will continue to be for the foreseeable future – with competing demands heightened by the Covid 19 pandemic.

That's why a blended approach will be key so that every public penny is spend on attracting and combining with private investment into the sector.

13. As a Central Bank with an expanded mandate of promoting economic development in Namibia, we are more than ready to play our part. The Bank's contribution is well encapsulated in the NFSS and the various NDPs, and I can happily state that we are along the way as demonstrated by amongst other activities in the implementation of the SME Financing Strategy in the past few months. To fully realise the potential of innovative financing models in agriculture, all stakeholders are expected to get their hands dirty and address the challenges, and I am confident that we have the capacity to deliver in unison.

At this juncture, I would like to take the opportunity to thank you for your attention and please keep safe!