

**REMARKS ON THE MANAGEMENT OF THE WELWITSCHIA FUND:
MR JOHANNES !GAWAXAB, GOVERNOR OF THE BANK OF NAMIBIA,
ON THE OCCASION OF THE LAUNCH OF WELWITSCHIA SOVEREIGN WEALTH FUND,
WINDHOEK, 13 MAY 2022.**

Your Excellency Dr Hage Geingob, President

Madam Monica Geingos, the First Lady,

Your Excellency, Nangolo Mbumba, Vice President,

Right Honourable Saara Kuungongelwa Amadhila, Prime Minister,

Hon. Cabinet Ministers,

Prof. Peter Katjavivi, Speaker of the National Assembly,

Hon. Lukas Sinimbo Muha,

Hon. Members of Parliament,

Your Lordship Petrus Damaseb, Deputy Chief Justice,

Hon. Laura McLeod-Katjirua, Governor of the Khomas region,

Mr Ebson Uanguta & Ms Leonie Dunn, Deputy Governors of the Bank of Namibia

Executive Directors of Ministries,

Captains of Industry,

Esteemed leaders of political parties, youth formations and civil society,

All invited guests,

Members of the media,

Fellow Namibians and the global community at large,

1. **First and foremost, I wish to thank you for this opportunity to say a few words at this momentous occasion.** Today marks a historic milestone for the people of Namibia and its future generations as the country launches Africa's newest Sovereign Wealth Fund (SWF), named the Welwitschia Fund as explained by the distinguished speakers before me.
2. **The creation of the Welwitschia Fund will, without doubt, strengthen Namibia's fiscal stability and resilience to the external shocks that stem from Namibia's interconnectedness with the global economy.** The Welwitschia Fund will facilitate the transfer of wealth sourced from Namibia's abundant natural resources so that generations to come also benefit even long after the current resource base is depleted.

3. **Inspired by Article 95 of the Constitution, the Bank of Namibia is entrusted to manage the newly founded Welwitschia Fund.** The assets of the Welwitschia Fund belong to the Government of the Republic of Namibia and will be independently managed by the Bank of Namibia in consultation with the Ministry of Finance who will act as the representative of the Government.

Your Excellency,

Ladies and Gentlemen,

4. My task here today is to draw on the governance structure of the Fund, its operationalisation and investment management activities as well as the Fund's structure and strategic objectives. Before addressing these points, please allow me to make a few remarks.
5. **In these uncertain times when the waves of financial markets turmoil stimulate a discussion on every tenet of the global economy, there is scope for innovation and paradigm shifts.** Indeed, the economic shocks of the past decade have certainly provided an opportunity to rethink, redesign and reposition the role and management of sovereign wealth funds. In this light, SWFs have been acting as an important new force in the global financial system in both developed and developing countries as dynamic institutional investors. According to the 2021 Sovereign Wealth Funds Report, SWFs which operated from the wings are now at an all-time high, managing more than USD10 trillion in assets. To put this into context, and by way of comparison, this would make SWFs, on aggregate, the third-largest economy in the world, behind the United States and China.
6. **It is clear from recent data that the size and rapid growth of SWFs is placing them at front and center stage of public attention.** Thus far, the role of SWFs in the context of the recent turmoil in global financial markets has been notably positive. If anything, the actions of SWF's have shown that they can play a shock-absorbing role in global financial markets by dampening short-term market volatility and financially aiding countries in times of crises. SWFs stabilize both fiscal outcomes and the balance of payments.
7. **In the same vein, sovereign fund managers are influential lenders and investors in the global financial arena.** Their stature stems from their important public policy responsibility – being custodians and managers of state-owned financial assets and liabilities. The 2008 financial crisis and the Covid-19 pandemic have reinforced the

importance of this responsibility, reminding sovereign fund managers that they must help strengthen countries' resilience, protecting against downside risks and abrupt market disruptions.

GOOD GOVERNANCE & ROLES

8. **Let me focus now on Namibia's Fund and how it will be governed.** The success or failure of SWFs often comes down to the strength of their independence, institutional structure, and management. It follows that a large portion of SWF literature is devoted to best practice guidelines for institutional structures, governance, investment/risk management strategies, and transparency and accountability in management and reporting. Several assessment tools have thus been developed for this purpose. In particular, the International Forum for SWFs has gained prominence as a voluntary grouping of SWFs that in 2008 agreed to develop and adhere to SWF governance principles, known as the Santiago Principles. These guiding principles have enabled Namibian authorities to benchmark and draft the Investment Policy of the Fund, signed off by the Finance Minister, Hon. Ipumbu W. Shiimi this year. The matter of public trust is important; hence the aspect of reporting and transparency is amplified in the policy document.

9. **To re-emphasise this point, the ultimate objective of sovereign investors can thus only be achieved if SWFs are managed within a sound governance structure and with appropriate investment strategies.** With good governance follows sustainability. Close co-ordination with macroeconomic policies and the management of other assets and liabilities in the public sector is essential. The SWF objectives and consequent investment policy should be considered within macroeconomic policy setting and objectives, and the design of SWF mandates should consider the implications for the broader economy. In addition, the governance structure must ensure a clear division of roles and responsibilities between the various governing bodies. In this regard, the Bank of Namibia, and the Ministry of Finance, are assigned with the statutory and fiduciary duty to manage the affairs of the Welwitschia Fund. These key stakeholders will play an active role in the oversight and management of the Welwitschia Fund as inscribed in both the policy document and the Memorandum of Understanding to be signed between the Ministry of Finance and the Bank of Namibia today.

10. **Like past performances, the Bank of Namibia undertakes to execute its statutory mandate and is strongly committed to managing the Welwitschia Fund.** This is in

line with the Bank of Namibia Act (1) of 2020 section 4 which expands on the holding and managing of the foreign exchange reserves of Namibia. We have an excellent governance structure already in place and the management of the Fund will therefore be complementary to the work we do already as the designated manager of the country's foreign exchange reserves. Worthy of note, our governance structure is aligned to international best practice which has also paved the way for a robust new Strategic Plan over the next three years. Due to the rapidly changing environment, we are operating in, the Bank of Namibia will focus on its Strategic Plan while continuing to execute on its mandate with aspirations to be a leading, future-fit central bank committed to a prosperous Namibia. This Strategic Plan ensures that the Welwitschia SWF is prioritised in both our current and future organisational strategy.

KEY COMPONENTS OF THE FUND

11. **SWFs are usually distinguished based on their stated policy objectives and consequent asset allocation.** Based on Namibia's country-specific circumstances there are two objectives that will be targeted by the Welwitschia Fund as explained by the Minister of Finance. The first component is aimed at achieving short-term objectives relating to balance of payments and fiscal stability. The second will be geared towards the attainment of long-term intergenerational wealth transfer earned mainly from Namibia's natural resources. Accordingly, the Welwitschia Fund will comprise two independent investment accounts or portfolios, namely (a) the Stabilization Account and (b) the Intergenerational Savings Account. Each of these portfolios will have different risk and return characteristic commensurate with their investment objectives and constraints.

12. **The Stabilization Account is premised on the regular setting aside of the portion of certain categories of public revenue, including SACU receipts and proceeds from renewable resources.** The Stabilization Account will be invested in offshore fixed income assets with a focus on low risk, liquidity and a medium-term investment horizon of 3 years. The Intergenerational Savings Fund facilitates the investment of a portion of defined proceeds from the present utilization of natural resources and proceeds from divestiture in state assets. In this regard, the foreign asset class mix will have a bias towards riskier asset classes such as equity and infrastructure over a longer investment horizon of 10 years. Provision is also made to invest in domestic infrastructure projects with socio-economic benefits for future generations.

13. One of the key factors that determine the success and formation of investment strategies of any sovereign wealth fund is the strength of its withdrawal rules.

The withdrawal rules of both the stabilization and intergenerational accounts are stringent, which aids the achievement of their long-term targets. The withdrawals from the Welwitschia Fund will be rare, far out in the future, and only likely to happen under exceptional circumstances caused by exogenous factors emanating from beyond our borders. In those circumstances when withdrawal is unavoidable, such withdrawals will be small in relation to existing balances of the fund. These provisions will ensure the objectives of fiscal stability and intergenerational wealth transfer are not undermined.

Your Excellency,

Ladies and Gentlemen,

14. Our economic future depends above all on our capacity to produce goods and services that we and others value.

The recent oil discoveries come at an opportune time whereby oil revenue, if managed wisely, can give our nation an opportunity for economic transformation, contribute towards economic stabilization and fairly transfer wealth across generations. A nation that comes into a large fortune must make a number of choices and trade-offs. Sound wealth management is therefore first and foremost a question of maintaining and developing the value of our productive resources.

15. There is a thought-provoking finding in economics commonly known as the resource curse.

In a 1995 study, the economists Jeffrey Sachs and Andrew Warner demonstrated that resource-rich countries generally do not become wealthier. Natural resource wealth is not necessarily a blessing. They argue that spending this wealth crowds out industries that are exposed to international competition, thereby reducing growth capacity – the so-called Dutch disease. Other leading economists find that the relationship between economic development and natural resources is more complex; many countries become poorer after discovering abundant natural resources, others become wealthier. They conclude that the quality of the institutional framework is decisive. A good case study to escape the resource curse is the Norwegian Government Pension Fund Global - a wealth fund which is often used as a benchmark in the world of SWFs.

16. Philosopher Henrik Syse offers the following compelling perspective: He asks whether we have the right in the course of a single generation to expend resources that have taken nature millions of years to produce? Thus, spending

and saving are mutually exclusive actions. The definition of saving is quite simply to abstain from spending. When a country comes to a windfall, with the revenues and the return on the portion saved, they are in a better position to increase spending while accumulating considerable savings. But spending must be adapted to the return on the portion saved. Sound and long-term management of oil wealth, for instance, also requires separating saving decisions from spending decisions. The fiscal rule sets an important cap. The rule states that oil revenues are to be saved, while the government may spend the return on the oil fund. Once the cap has been set, expenditures across worthy public programmes must be made according to priorities - not by lifting the cap. If the ability to prioritise fails, and the cap is lifted, the long-term margin will be reduced quickly. Less will be left to future generations.

17. **In conclusion, making wise trade-offs is probably one of the most important and difficult challenges in public policy.** Many of you may ask if it is feasible to set up a SWF during a time when the country is still reeling from the effects of Covid-19, high inequality, poverty, and unemployment and a tight fiscal position. These are all relevant and valid concerns, yes, but we must remind ourselves *WHY* this is necessary, what the overall benefits will be to our country both in the short-run (fiscal stabilisation tool) and long-run (intergenerational wealth transfer). We must look beyond these valid concerns and do what we believe is the right thing for the present generation and posterity. There's a popular proverb which says: ***"The best time to plant a tree was 20 years ago. The second-best time is now."*** Basically, in the context of the conversation here today, this means that if we want to collectively achieve the objectives we believe our country needs, the best time to act is NOW.

18. **The benefits of the Fund far outweigh any short-term considerations.** The Fund will have undeniable impact on economic development and demonstrate our resolve to set up a pool of assets for future generations. Indeed, this is a feather in the cap for our collective ambition and today we are operationalising our long-term thinking, to ensure that the management of our wealth will be a success story. *As leaders – we are dealers in HOPE.* But today it's all about demonstrating and celebrating ACTIONS. Today's ACTIONS will stand the test of time. I am proud that the Government of the Republic of Namibia has bestowed the responsibility on the central bank to play a leading role in the success of the Fund and therefore contributing towards a vibrant, dynamic and prosperous Namibia – in full acknowledgement that we are beholding a resurgent and resilient Namibia – a nation on the MOVE. Let no man underrate the aspiration and abiding power of the Namibian people in setting up its own SWF, the Welwitschia Fund

underpinned by a strong institutional framework. The highroads of the future offered by the Welwitschia Fund will be clear, not only for our times, but for a century to come.

I thank you for your attention.