UNITY LIBERTY JUSTICE

Republic of Namibia

Ministry of Finance

FINANCIAL PROVISIONS/FUND RULES: WELWITSCHIA FUND

I hereby outline the financial provisions of the Welwitschia Fund, established as a reserve account in terms of the Section 72(2) and Section 73(1)(a) of the Bank of Namibia Act, 2020 (Act No.1 of 2020) ("Bank of Namibia Act").

1. FUNDING RULES

The expressed savings rules of the Welwitschia Fund that depends on revenue streams in the National Budget, will only be exercised once public revenue collection reaches **30.5 percent of GDP**. This threshold ratio may be revised once tax effort and discretionary tax administrative measures stabilize to new, long-term trends. Nonetheless, when the financial situation permits funding from discretionary sources, outside of budgeted revenues (such as certain percentage of sales of Government assets, excess funds or contributions from Government or any Government agencies, and a portion of natural resources to be discovered in the future), will accrue to the Fund.

Upon achieving the long-term revenue-to-GDP ratio of 30.5 percent and holding the rise in public spending steady below 33 percent of GDP, other designated sources of funding shall accrue to the Fund. The Welwitschia Fund shall have several main sources of revenue in line with the overarching Fund objectives, to be remitted into two separate accounts, namely:

1.1. **Stabilisation Account**

1.1.1 The first source will be a dedicated portion of receipts from the SACU – Common Revenue Pool, where in years when the SACU receipts rebound to over 9.5 percent of GDP, at least 2.5 percent (≥2.5%) of the receipts is channelled to the Fund. In addition, in years when there are positive adjustments to SACU receipts, at least a third (≥33%) of the positive adjustment will be channelled to the Stabilisation Account.

1.1.2 the second source entails all overall fiscal budget surpluses, where in years of fiscal surpluses owing to increased SACU revenues, 50% of the surplus is channelled to the Stabilisation Account.

1.1.3 the third source under this account entails the renewable resources. In this regard, 10% of revenue from renewable resources, inclusive of income from green energy, will be directed to the Stabilisation Account of the Fund.

1.2. **Intergenerational Savings Account**

1.2.1 the first source of revenue under this account entails at least 15 per cent of revenue derived from royalties on non-renewable sources such as those from minerals and other sub-soil resources.

1.2.2 the second source shall be proceeds from divestiture from government asset holding, properties and entities, whereby at least a third (≥33%) of the proceeds will accrue to the intergenerational account, unless otherwise the sale of the property was attached to a certain commitment.

1.2.3 the third source entails all overall fiscal budget surpluses, where in years of fiscal surpluses owing to increased revenue from non-renewable sources, 50% of the surplus is channelled to the Intergenerational Savings Account.

1.2.4 the fourth source shall include excess funds invested by the Government, Government agencies and/or other legitimate sources for the sole management and benefit of the fund.

2. WITHDRAWAL RULES

The resources of the Welwitschia Fund shall only be used in line with the objectives for which the Fund was created; namely, saving (investing) for future generations and fiscal and official reserve stabilisation. The use of resources transferred from the Welwitschia Fund to the Budget should be always allocated through the Annual Budget, in compliance with the provisions of the State Finance Act, 1991 (Act No. 31 of 1991).

2.1. Stabilisation Account

Withdrawal from the Stabilisation Account should only be effected in rare circumstances to respond to macroeconomic shocks, subject to the conditions below:

2.1.1 to support the budget in the event of fiscal deficits exceeding 8.0 per cent of GDP over a two-year period due to economic cycles and/or shocks to commodity prices;

2.1.2 the said fiscal deficit emanated mainly from shortfalls in revenue collection and not from an increase in (especially operational) expenditure;

2.1.3 fiscal revenue as a percent of GDP falls below its long-term trend level (30.5 percent of GDP) over a two-year period;

2.1.4 in rare circumstances, to defend the currency in the event of a balance of payments shock, and

2.1.5 the withdrawal from the fund shall not exceed 10 percent of the account's total asset value in a given year.

2.2. Intergenerational Savings Account

The funds remitted into the Intergenerational Savings Account shall be invested and saved to benefit the future generations. Withdrawal from this account should only be effected when:

2.2.1 The Fund has reached financial accumulation equivalent to 20 percent of GDP;

2.2.2 withdrawals can only be made against the returns accruing from its investments, while the capital cannot be withdrawn;

2.2.3 in rare circumstances, to defend the currency in the event of a balance of payments shock in the event the Stabilization Account is depleted;

2.2.4 the withdrawn returns can only be channelled towards national projects and infrastructure with socio-economic impact beneficial to the future generations, and

2.2.5 withdrawal from this account shall not exceed 10 per cent of the total returns accumulated in the Account.

3. INVESTMENT OBJECTIVES AND CHARACTERISTICS

The Fund's assets shall be managed in accordance with the established policy framework, aligned with the strategic rationale for the Fund. The strategic objectives of establishing the Fund include, (a) enhancing Namibia's resilience against cyclical and/or external shocks and (b) promoting intergenerational prosperity for all Namibians, through the equitable distribution of benefits flowing from natural resources and the state's asset base. The primary investment objectives for the Welwitschia Fund will be achieving capital growth and enhancing long-term investment returns. These investment objectives will be pursued through the stabilisation and intergenerational accounts outlined as follows.

3.1. Stabilisation Account

Reported in United States dollars (USD), the Stabilization Fund aims to deliver a target annualised return of US Core PCE (US core inflation) over a three-year period. The risk profile of the Stabilisation Fund is low to moderate risk. Against this background, the Fund will be mainly invested in liquid and fixed income investments that are predominately countercyclical to the domestic economy. The annualized volatility shall not exceed 5 percent.

3.2. Intergenerational Savings Account

Reported in USD, the Intergenerational Savings Account targets to deliver an annualised return of US Core PCE (US core inflation) +3.0% over a ten-year period. The intergenerational fund has a relatively more aggressive risk profile, which is appropriate to achieve its long-term capital growth and return enhancement objectives. The funds will be invested in a diversified portfolio of offshore listed equities, fixed income, unlisted investments, real-estate, commodities and other growth assets. To support domestic economic development and job creation, the intergenerational fund may invest a small portion of its assets in local unlisted investments.

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