Development Bank of Namibia

Insights & practices

A COLLECTION OF VIEWS FROM NAMIBIA`S DEVELOPMENT FINANCE INSTITUTION

by Martin Inkumbi
and
Jerome Mutumba

Development Bank of Namibia
PO Box 235
Windhoek
Namibia

dgrobler@dbn.com.na

ISBN: 978-99945-72-20-5
Cover design and layout by NKN Studio Graphics
Printed by John Meinert Printers
First print

Index

Foreword: Accountability to the future

by Martin Inkumbi

The Development Bank of Namibia (DBN) is often faced with the question of how the Bank allocates finances. The decisions that DBN makes are often complex, but ultimately they are driven by our mandate, an exacting set of analytic and governance processes and, ultimately, our internal belief that we hold ourselves accountable, not just to our stakeholders, but also to the future.

The mandate is to deliver finance to those enterprises, public and private, large and small, which address the needs of development. The Bank's first criteria is job creation, but it also takes into account the need to spread ownership, empowerment of previously disadvantaged Namibians and stimulating economic activity in regions and sectors where it has been previously limited.

Even with this far reaching mandate, DBN has been able to finance some of the most innovative enterprises and initiatives in Namibia. It has also been able to act as a testbed for new forms of financing products.

In terms of assets and cash flows, DBN is not a large financial entity. Although the need for finance is large, the bank's resource is limited. With this in mind, DBN allocates finance to those enterprises which are most likely to remain viable and fulfill the requirements of development in the long term.

The assessment of viability is conducted on the basis of the strength of the business plan and the knowledge and abilities of the applicants. Although DBN has a relatively large risk appetite, it is often exceeded by the risk appetite of the candidate. In some instances, DBN will decline loans to applicants on the basis of risk to themselves. The Bank has a duty not just to preserve its own capital but also a moral obligation not to provide loans to applicants who promote projects that place them at risk of bankruptcy.

Occasionally the Bank is proven wrong by projects which go on to succeed with finance from other sources, however the bank has to assess and allocate finance in terms of its own governance rules and processes to ensure that it can hold itself accountable.

In this regard, my advice to candidates is to ensure that business plans are detailed, well thought-through and that your submissions give clear indications of knowledge and capability at your disposal. I also urge applicants to consider timing of applications. Very often, the bank receives applications which require a rapid decision. Commercial finance typically takes security as the primary cut in lending. In the case of DBN, the bank will also weight projects for a combination of viability and fit with the mandate, so this will require a more detailed assessment, and that will take more time.

Obviously if the proposal is incomplete, there will be further delays.

The assessment process is designed to be absolutely impartial and deliver the broadest possible range of skills at the disposal of DBN. No single person may take an individual decision: each application is assessed in a number of steps which are taken collectively by various functions. This is one of the main pillars of DBN governance.

There are three stages to the assessment. In the first step, the application is assessed for completion. In order for an application to be properly assessed it must provide the analyst with enough information to make an accurate assessment. If it does not contain the requisite information, it will be returned. In the second step, the assessment will be examined to ensure that it is viable in the long term, and that it will satisfy the mandate of the bank. In the third step, the application is assessed for the credit risk that it poses to the applicant, and to DBN.

Once these steps are completed, the assessment is submitted for a decision. Applications valued at up to N$ 5 million are assessed by the Bank's Management Credit and Investment Committee, which consists of the Head: Lending, the Head: Credit Risk and at least two other members of the executive management team. Applications of a higher value are considered by the Board Credit and Investment Committee, which is a sub-committee of the DBN Board, and also by the DBN Board in the case of loan amounts that have a significant impact on DBN's balance sheet.

Although the process is exacting and detailed, it proves the value of governance and due diligence to DBN's stakeholders and applicants. It is designed to give comfort to applicants that only the substance of their business project will determine approval by the Bank and no external influence is required. The bank has a record on which it prides itself, not just of repayment of its loans, but also of enterprises and initiatives that continue to deliver value to owners and initiators, employees and the requirements of development for Namibia.

ABOUT THE BANK

About the Bank

The Development Bank of Namibia recognises the power of enterprise, that places ownership in the hands of previously disadvantaged Namibians.

The strength of private sector enterprise is that it gives employed individuals the ability to sustain themselves and their families, and also the means to improve their circumstances, through education, health and housing.

Infrastructure, be it physical infrastructure such as roads, power and water, or social infrastructure such as medical facilities and schools, enables industries, communities and individuals to grow and prosper.

By applying commercial approaches to financing, the Bank nurtures developmentally beneficial enterprises and infrastructure, and increases its financial capacity to finance additional projects.

The Bank provides finance to larger private and public sector enterprises, and small and medium enterprises ('SMEs') in line with the goals of the Fourth National Development Plan ("NDP4"). An apex microfinance facility is available for microfinance intermediaries which satisfy the values and goals of the Bank.

The Bank uses finance in key sectors, with lower levels of economic activity, to promote ownership to the previously disadvantaged population of Namibia, particularly women and young entrepreneurs.

As a custodian of government funds, together with other lenders who have an interest in the development of Namibia, the Bank holds itself accountable for funds, and has a robust system of governance to ensure that it is well managed and governed. It takes an active interest in the growth of its loans and has a track record of successes.

To ensure that it finances viable enterprises, the Bank carefully examines each application. It ensures that the business plan has the hallmarks of viability; that the persons involved in the enterprise have the necessary skills needed, and that collateral or guarantees are sufficient for the Bank's policy of capital preservation.

DBN also considers Namibian ownership, and expansion of jobs across the regions where employment opportunities are limited. The key development factor that the Bank considers when assessing an application, is whether or not the loan will create jobs or infrastructure. The Bank does not finance speculative investments, businesses that have a negative social impact and projects that may be damaging to the environment. DBN ensures that it provides finance across the regions, that Namibians take ownership of wealth, and that the employment opportunities it creates will be in place for years to come.

DBN philosophy

Mission

The Development Bank of Namibia mobilises investment capital and facilitates national and international co-operation among public and private entities as well as community organisations in the planning and implementation of larger scale projects capable of delivering sustainable economic growth as well as social development in the form of human capital development and empowerment to Namibia.

Vision

DBN strives to be recognised for the unquestionable impact it has on sustainable socio-economic development and transformation in Namibia. DBN strives to attain its vision through:

- Being an effective mobiliser of capital for development projects with proven potential;
- Bringing innovative development products and services to market;
- Forging valuable development partnerships between business, government and the community;
- Developing human capital in the economic sphere through supporting capacity building.

Core Values

The DBN's guiding principles for its decisions and activities are:

- **Namibia First**
  Our decisions and actions are guided by what will be best for Namibia.
- **Integrity**
  We focus on doing the right thing, matching deeds with words.
- **Transparency**
  Our policies and practices are clear and visible to all.
- **Professionalism**
  We prefer to be judged by our purposefulness and the standards of our workmanship and communications.

INSIGHTS

PPPs: Rethinking public private partnerships

by Martin Inkumbi

The term 'Public Private Partnership' (PPP) has come into vogue again with references made to the form of enterprise as a tool for economic development at the UN Conference on Sustainable Development, Rio, 2012. The PPP is defined as a joint venture between the public and private sectors, in which the public sector achieves certain social goals and the company achieves a profit.

Examples of the fields of endeavour with which the PPP is associated include power generation and distribution, water and sanitation, refuse disposal, pipelines, hospitals, school buildings and teaching facilities, stadiums, airports and air traffic control, prisons, railways, roads, information technology and housing.

Unfortunately when the term PPP is mentioned images spring to mind of men and women signing important contracts for major capital projects, and the opportunities for these are few and far between. However, taking a different view, that of private projects which achieve social goals, and involve government participation, shows the field in a different light.

Perhaps the most obvious example of successful PPPs can be found in the field of mobile telecommunications and data. The government has the social goals of widespread communication and spread of internet access. Mobile telecommunication companies in Namibia achieve these goals, while generating a return for shareholders and yielding the reserves with which to develop their operations.

NamDeb is another obvious example. Its sound business approach ensures that it is viable in the long term, and it has made a significant contribution to development and employment, and is a contributor to state revenues.

These are larger projects. There are a huge number of smaller projects that go unnoticed. A lodge built on conservancy land involves an agreement between the community and the lodge operator. The agreement has to be ratified by the Ministry of Environment and Tourism, so this too is a form of PPP. TIPEEG involves multiple PPPs where companies tender to deliver infrastructure.

Viewed in a different light, PPPs are evidently thriving in Namibia, however there is room to further develop the field of enterprise, particularly with regard to revenue streams for projects which entail more than the initial capital projects.

One of the core aspects that challenges the concept of PPPs is the idea that the state should be the sole provider of services that are traditionally considered to be public services. By accepting that certain capital projects and services can be developed and rendered by the private sector, public sector resources can be directed elsewhere. Examples of this at work can be found in private education, and private medical facilities.

As illustrated by the examples above, it is quite possible for the public and private sectors to coexist, provided that agreement can be reached on quality and pricing of services between the sectors. The areas where PPPs can operate is as diverse as developmental need.

One of the areas which immediately springs to mind is the need to develop serviced land for housing, with the participation of local authorities and town councils. Health services and education are fields that can also benefit from long-term partnerships between the public and private sectors. Education is another field which may be considered.

For capital projects, DBN has a very specific and tailored approach to PPPs and regards this option as an important developmental tool in the development of the country's infrastructure. In its mandate, DBN undertakes to consider financing the development of infrastructure projects undertaken either by local authorities or state owned enterprises together with private sector operators within a Public-Private Partnership arrangement. Finance options by DBN include direct loans for PPP enterprises, subordinated debt, or participation in syndication facilities.

I strongly believe that public-private partnerships will progressively play a vital role in closing the development gaps. When managed effectively, PPPs not only provide much needed new sources of capital, but also bring significant discipline to project selections, construction, and procedures.

Decolonising trade for development

by Martin Inkumbi

Readers in the field of the pre-colonial history of Africa will be quick to confirm that the continent had a rich tradition of trade between its people. This was not limited just to goods, but also applied to the transfer of knowledge.

Colonial trade altered the tradition in several ways. Most notably, borders placed limitations on the ability of different areas to trade with one another and transfer knowledge. A new set of needs and wants was also introduced, Western goods, which fundamentally altered the ability of different groupings to satisfy requirements of trading partners. The cost of the colonial system was the large scale extraction of resources.

Although the second half of the Twentieth century liberated Africa from colonial administrative rule, it did not produce major strides in restoring intra-African trade.

During the last decade of the Twentieth Century, the concept of free trade areas began to be mooted, particularly in the Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA). This is a source of hope for restoration of trade. However the global crises dictate that productivity is needed, and Africa is one of the countries earmarked as an offset area for the goods which should notionally alleviate the crisis.

Once again, Africa is faced with the prospect of goods in return for the export of raw materials. This requires countries to reconsider their stances towards trade.

In terms of international and intra-African trade, African nations can get more value for trade goods which have been further refined and manufactured on the continent. The refinement and manufacturing processes can have a multiplier effect on development and GDP by putting in place secondary and tertiary sectors.

However in order for African nations to gain full value from their primary, secondary and tertiary sectors, the various countries have to begin to focus on trade among themselves, either as members of economic blocs or between individual nations.

There are three reasons why this is critical.

Firstly, starting from the back foot, very few African nations have the entire gamut of industry, nor do they have the capacity to immediately put in place the spectrum of industries across all sectors. By using complementary capacity in other countries, African nations can find synergies and value that do not come at a high cost. This also spreads the risk of developing sectors.

Secondly, transfer of knowledge takes place between African countries. Transfer of knowledge is particularly important as learning from the successes (and failures) of other industries reduces the possibility of failure entailed in developing and applying new knowledge.

Thirdly, this type of trade provides markets for excess productivity which cannot be consumed locally. Although there is an argument in this regard for international trade, the shorter trade corridors of trade within blocs and between neighbours produce greater economies of scale.

Obviously Namibia can benefit from trade within the SADC and with its neighbours, but it faces challenges, particularly the small population and limited pool of knowledge and experience required to develop industry.

However the strengths which were discussed immediately after Independence still apply. The most notable benefit can be found in Namibia's location. It gives unrivalled access to the central SADC, as well as SADC countries on the western seaboard of the SADC. It also has the primary resources which can fuel development of secondary and tertiary sectors in the long term.

Exceptional work has been done to develop trade corridors, however it is now important to begin focusing on intra-African trade in addition to the infrastructure. The potential for international trade is a comfort, and should in no way be discounted as a route to prosperity, however in the long term, trade based on the needs and wants of the SADC will be a valuable component and driver for local investments.

As the basis for trade develops, so to will factors such as local capital investments which generate local employment and improve local economic indicators.

With this in mind, the Development Bank of Namibia finances local equity in industry geared to trade as well as local trade initiatives.

Innovation: Investment in ideas

by Martin Inkumbi

At the turn of the millennium, a farmer in Southern Namibia developed a vehicle uniquely suited for the local terrain. It was known as the Uri. The vehicle received a lot of acclaim due to its suitability for tourism, farming, mining and civil safety under the most rugged conditions.

Unfortunately, due to lack of institutional support, low order levels and poor currency conditions, the local manufacturing operation floundered. The manufacturing operation was moved to South Africa, representing a loss for Namibia. This loss alone points to the crucial importance of recognising innovation and giving it support within the borders of our country.

Three major benefits of innovation

Innovation has three key values for Namibia: improvement of enterprise efficiency, resource utilisation and improved social indicators.

Innovation unlocks enterprise efficiency in the form of economies of scale and competitive differentials that strengthen individual enterprises. This secures the future of enterprises, their ability to create and retain employment, as well as their ability to grow. This may be on the basis of an individual enterprise or an entire industry sector.

In terms of resource utilisation, enterprises will significantly use resources more effectively, reducing costs and improving sustainability. However, this facet is also expected to improve local value adding, a key component of national economic self-sufficiency through import substitution and trade.

Thirdly innovation will improve social development indicators, not just as a byproduct of job creation and income generation, but also through development of direct approaches to enterprise such as the growing field of social entrepreneurship. Examples of this, in the Namibian context, include private medical enterprises and educational opportunities.

Acceptance of inherent risk

In order for Namibia to progress economically, and prosper, it has to adopt an accommodating approach to innovation. An accommodating approach to innovation entails, firstly acceptance of inherent risk and secondly, management of that risk. Innovation typically entails a risk to the innovator as well as the financier.

The innovator has to risk personal resources to develop the innovation, which is usually 'untried'. There is a significant, potential lost opportunity cost if the innovator could focus on a tried and tested form of enterprise, or if he or she opts for income from employment. This risk is a major barrier to development of innovations by innovators. By creating an environment which fosters innovation, through finance and institutional support, innovators can be encouraged to develop ideas, and the potential of more innovation can be unlocked.

The financier at the same time also experiences a barrier in the form of financial risk. Faced with a derivative fund model that expects returns in line with an optimum investment basket, the financier will be hesitant to retain the potential lost opportunity cost. However a closer look at traditional structuring of investment strategies shows that there is room for risk capital in the high risk portion of the investment portfolio.

Approaches to management of investment in innovation

Typically a range of smaller investments are made across a group of investments of innovation. A number of these investments are expected to fail, however the failures are written off against significant gains of project successes. This was the approach taken by Andy Bechtolsheim, and venture capital firms Kleiner Perkins Caufield & Byers and Sequoia Capital, in financing Google.

Namibian legislation makes provision for investment in local unlisted opportunities, and a portion of this capital can be expected to be directed towards innovative entities. The provider of bulk capital, in this case locally registered funds, can offset a part of the risk with the management services of special purpose vehicles. Further mitigation of risk can be provided in the form of entrepreneurial knowledge and skills to the innovator.

Vision 2030 a blueprint for innovation

Inclusion of human capital as a component of Vision 2030 opens the door for innovation vested in the intellect of excellent people. Even if innovation is not a focus, the development of human capital will entail innovation as a byproduct.

In order to attain the goals of Vision 2030, and reap the benefits of this Vision, it is critical that the risk culture of innovation be accepted and managed by all stakeholders. By fostering innovative individuals and enterprises, with managed finance, and institutional and enterprise support, Namibia can take significantly valuable steps to economic self-sufficiency.

The challenge of finance for electrification

by Martin Inkumbi

In April 2014 NamPower Managing Director Paulinus Shilamba announced an array of local generation initiatives. The opportunities will be harnessed with direct strategic intervention, through development of new infrastructure, rehabilitation of existing infrastructure and demand-side management (DSM).

Current media reporting focuses on the 250 MW Erongo power station to utilise Kudu gas. However, this generation capacity is by no means the only worthy initiative. Other initiatives include rehabilitation of the Van Eck power station at Windhoek, and Ruacana, development of the Baynes hydropower scheme by 2024, commissioning of 30 MW of solar generation capacity, and acquisition of 70 MW of electricity generated from renewable resources, by independent power producers (IPPs).

Parallel to this, DSM to create more economical usage for households, and expansion of transmission capacity, are also envisaged.

Materialising in the long-term, the additional capacity appears to be sufficient to power Namibia's industry needs. The excess capacity, and income that it generates from exports, will also be a valuable resource for further development and maintenance of Namibia's electricity generation and transmission capacity.

Poverty alleviation and the human side of electricity

The current plan for excess capacity has an additional dimension in provision for poverty alleviation. A stable supply of electricity is an absolute requirement for preservation of enterprise and infrastructure that create and support employment. However electricity is also a key need for the requirements of the envisaged 185,000 mass houses, and associated social infrastructure.

In order for mass housing to be realised, the houses will have to be provided with sufficient energy, suitable transmission infrastructure and DSM which should include efficient deployment of renewable resources for household purposes.

Timely provision of bulk finance

Current confidence is based on known capacity to implement suitable technology, however financing also has to be provided, and in a timely manner so that projects are not delayed.

In a long-term financing window, the risks entailed in international and regional volatility of supply of capital can be mitigated by providing for apportionment of finance between various sources of bulk capital, including local sources.

In order to provide for the timeline leading to 2024, when Baynes will become operational, and 2030, for the envisaged 185,000 mass houses, three strategies should to be considered, and applied in combination, by all stakeholders and sources of bulk finance.

Master financing plan: The multi-billion Namibian dollar financial requirement of the plans will require funding from state coffers, and likely international sources. However a master plan which includes local sources of commercial finance will strengthen the Namibian pool of finance, and mitigate against capital outflows. A finance master plan should identify Namibian sources of finance, and prepare those sources for inclusion.

Syndicate financing: The massive investment precludes finance from one single source. Commercial sources of finance have the ability to provide bulk financing by syndicating. This will however require clear and transparent coordination of potential sources of finance, as well as clear disclosure on milestones and any delays.

Provision for liquidity of capital: Disclosure on timing of requirements and attainment of milestones will mitigate against lost opportunity costs on capital, by enabling local sources of finance to deploy their capital in a manner which yields the best returns in short- to medium-term windows.

Timely provision of secondary financial requirements

The scope of the requirement indicates that numerous additional projects may require finance. These include local authorities, IPPs as well as enterprises engaged in establishment, rehabilitation and maintenance of infrastructure before and after implementation of the plan. In order for their requirements to be met, a similar planning strategy should mirror that of bulk capital.

Development Bank of Namibia (DBN) experience

The Development Bank of Namibia has developed a body of experience that includes large capital amounts for projects and entities such as the Caprivi Link Interconnector transmission line, Cenored and Erongo RED.

In addition, DBN has experience with finance for projects in the field of renewable energy, including Omburu Sun Energy and Omuriro biomass. Other related financing experience includes finance for local authorities and contractors.

Provision for finance is made under facilities for large entities, PPPs and the Enterprise Finance Facility. Finance can also be made available for large scale private sector enterprises seeking to develop their own electricity generation capacity.

In order to make best possible use of its financial capability, DBN encourages project promoters in the field of electricity generation to contact the Bank. It also encourages potential syndicate finance partners to make contact.

The field of finance for electricity generation and transmission is relatively new to the Namibian financial sector, however based on its experience, the Bank is confident that financing in the sector can yield acceptable returns to finance while fulfilling the requirements of Namibian development.

Collateral and repayment: What is given gets given back

by Jerome Mutumba

Repayment of loans, is critical for both the Development Bank of Namibia and its clients.

One of the Bank's dictums is 'what is given, gets given back'. The Bank has a fair approach to lending that fosters the mandate of development. However DBN also has to ensure that loans are repaid, as it uses the capital and interest that it recovers to make more loans for development of enterprise and infrastructure.

The contract between DBN and clients is a contract to responsibly use national resources, as DBN was established from national resources, Mutumba said. The contract allows clients to start up new enterprises or strengthen existing ones, and we expect our clients to prosper, but at the same time the Bank must prosper as well.

Since its inception 10 years ago, the Bank's annual level of lending had grown consistently. In the financial year 2005, when the Bank achieved full operating capacity, loan approvals were N$ 110 million, growing to N$ 1,436 billion for the 2014 financial year, with a total of N$ 5,216 billion approved since the Bank's inception.

These amounts translate into prosperity for recipients of loans, infrastructure, employment creation and retention, as well as improved social development. If repayments are not made, the pace of development will slow, and enterprise and infrastructure will slow.

The Bank has observed three primary causes of impairments and defaults.

The first primary impediment is unrealistic business planning. Entrepreneurs are often overoptimistic in the early stages of planning, and may not be able to cope with the operational reality of the plans on which they base their applications for finance. This leads to lower streams of revenue than initially expected, and will have an impact on the enterprise's ability to keep up with repayment.

Secondly, the administration of enterprise also plays a critical role in the ability of the enterprise to repay. If administration is lax, additional costs may mount up, placing strain on the enterprise's ability to service its loan repayments.

Thirdly, some entrepreneuers do not reinvest earnings, or they are quick to make drawings on profits. This also reduces the ability to repay loans in future. An enterprise must never be seen as an instant source of wealth for owners, but should instead reinvest revenue in operations and in growth. By taking the long-term view, owners will achieve financial stability and subsequent wealth.

Collateral is an important consideration. While DBN does not base its credit extension on collateral, the Bank does request a certain level of collateral in some instances. Collateral serves two main purposes. Firstly it helps align and borrower's interest with that of the Bank, i.e. the borrower shares the risk with the Bank and it ensures the borrowers commitment to the success of the enterprise. Secondly, collateral serves as a secondary source of loan repayment in case of the worst case scenario of business failure. If the entrepreneur is collateral-resistant, the Bank perceives this as a lack of confidence on the part of the entrepreneur in his or her own business.

The Bank does however make provision for reduced collateral for emerging entrepreneurs who have not yet been able to build up a portfolio of assets which can be pledged as collateral. The Bank may accept as collateral certain assets acquired with Bank finance.

Recovery of capital through collateral is inevitable, if the enterprise defaults on loan obligations, as the Bank is duty bound to preserve its capital to apply to the projects of other borrowers.

In the final analysis, finance from the Development Bank of Namibia, should be considered a privilege, not an entitlement. The decision to allocate finance is based on what is best for national development, although it envisages growing wealth on the part of the borrower.

The Bank firmly believes that good business is good for development and, as a part of this, what is given, gets given back.

The importance of apex microfinance

by Jerome Mutumba

A walk through many of the rural settlements, towns and cities in Namibia shows that microfinance has a bearing on the lives of the people and it is thriving. Microloans which are directed to productive activities in the economy are essential. An 'aunty' who sells scones and fat cakes (vetkoekies) to send her children to school or raise money for the seeds necessary for the ploughing season has a developmental impact. These kinds of economic activities should be encouraged and promoted in order to uplift the socio-economic standing of the majority of the citizens, who happen to be rural based.

In response to the growing needs of the majority of the citizens with no access to finance, the Development Bank of Namibia (DBN) deemed it appropriate to come up with an apex microfinance product to bridge that financing gap in the economy. The product is designed for micro-lenders with clear intent for on-lending to clients with developmental needs, not those who simply require finance for consumption.

The loans to be extended should clearly be life changing, such as lifecycle needs, personal emergencies such as sickness, and recovery from emergencies such as drought and flooding, but in most instances they should be offered for enterprise start-ups and bridging finance.

The development of microlending as a subsector of the Namibian financial sector is to be expected as a natural step in the evolution of local finance and the DBN wants to play its pivotal role in that regard. This is supported not only by demand, but also by the fact that the administrative barrier to access finance can be lifted. Micro-financing institutions that DBN will work with shall be registered and regulated by the authorized body, to ensure that clients' interest and rights are not abused. This offers comfort to DBN, an institution that promotes responsible lending and borrowing in the economy.

Aspects such as microenterprise finance, education and home building point to the fact that microfinance can have a very beneficial development impact. This is compounded by the fact that microloans are provided rapidly, so the impact can be faster.

In order to address the various challenges, the Development Bank of Namibia has implemented an apex microfinance facility to provide bulk capital to existing microlenders who can achieve developmentally beneficial results. The Bank therefore encourages clients and potential clients to come forth and make use of the product in order to extend the benefits to the broader populace.

In the case of DBN, apex microfinance is provided to microlenders who demonstrate the ability to reach segments of the market that have previously been excluded, in the medium to long term. A suitable match to the developmental mandate of the Bank is a natural prerequisite. The Bank also requires that the recipient of apex microfinance be under supervision of a regulatory authority or body.

Since the creation of this facility, DBN has developed a track record of successfully providing microfinance to developmentally beneficial microlenders, notably to support teacher development.

Development is challenged by a multitude of needs which make the operational burden difficult, however with facilities such as an apex microfinance facility, willing and excellent partners, and sound administration of the facility, the needs of many can be satisfied.

To improve access to finance for micro borrowers and those unable to meet the DBN minimum loan threshold, the Bank is ready to work together with reputable micro-lenders to reach out to this segment of our entrepreneurs.

Artisans wanted

by Martin Inkumbi

The experience of Development Bank of Namibia (DBN) has shown that private education is in high demand, and that education as private enterprise is viable for finance, provided that administration and governance are sound, as well as the quality of the education. Knowing this, DBN has been able to finance several primary and secondary schools, as well as the International University of Management (IUM).

However, a scan of education in Namibia shows that there is a strong preference for and bias towards academic outcomes, and that there is limited scope for vocational training.

The bias towards academic education and professional qualifications places Namibia at a disadvantage. The economy is skewed towards outputs of the primary and tertiary sectors. In essence commerce, the primary field of the tertiary sector, is wrapped up in the administration of the primary sector, and industrialisation takes the back seat.

Industrialisation is one of the core components of Vision 2030. It is expected to create jobs. Its wider aspect is that it can add value to the Namibian primary sector with manufacturing, likely extending into trade and further gains for the Namibian economy. However Namibian industry is challenged by a limited pool of artisans.

Managers of industrial companies report that not only is there a shortage of artisans, but that 'poaching' of artisans is a concern. Competition for artisan skills needed to make an industrial enterprise viable is driving up the cost of skills, and cost to enterprises, as well. A planned enterprise cannot get out of the starting block if it cannot find the skills it needs, or if it prices itself out of the market due to high costs.

The obvious solution is to produce more skilled artisans through education. The challenges will be to match training of artisans to demand, and to overcome the bias towards managerial education.

The first challenge can be overcome by liaison with existing enterprise on their requirements, in order to tailor intakes and course offerings at vocational training centers. As artisans are added to the pool of skills, existing enterprises will be able to plan and maintain their human resources with greater confidence. Although skills migrate from enterprise to enterprise, the availability and cost of artisans will be less of a concern. At the same time, and by the same process of migration, a better pool will be available to new enterprise, and losses to existing enterprises should be replenished by the process of promotion, to lead acquisition of new arrivals in the artisan pool.

The second challenge is more difficult. Driven by aspiration to escape the inequities of the past, parents and their children seek qualification based on academics, with positions in offices and managerial roles as the outcome. Unfortunately, although private sector education has responded to this, there is an excess of management graduates which the private sector cannot absorb. The end result is that a portion of tertiary education contributes to unemployment. Judging by reports of entrepreneurs and managers, those graduates could be employed had they chosen vocational training.

Artisans present a different employment paradigm. Not only are they in demand, but they are also able to create their own employment. Electricians, mechanics and plumbers are not only needed by industry, but are also needed for maintenance of households and small businesses. The fees they command are often on par, if not higher, than some classes of professionals.

The establishment of a business for an artisan is not particularly complex either. At a pinch it can begin with a toolkit and a relatively small amount of working capital, extending to transport and possibly premises as the business grows.

In a nutshell, at present the prospect for various classes of artisans are more secure than for management graduates.

Taking it a step further, an artisan or a pool of artisans in a community has the ability to uplift the quality of living of that community by developing and providing maintenance for household and business infrastructure.

Development of more artisans is critical for development of Namibia, and with this in mind, DBN is open to proposals for new facilities for training of artisans and / or expansion of existing institutions, subject to the Bank's requirements of a viable business plan.

Banking on staff for development

by Martin Inkumbi

The staff of the Development Bank of Namibia, and their combined skills and intellectual capacity, are one of DBN's core assets. The Bank places a premium on highly skilled personnel. In addition to recruiting for excellence, it also provides on-the-job exposure and ongoing formal professional development.

The Bank requires highly skilled staff because of the specialised nature of the DBN's operations, which is wider than commercial banking. Commercial banking relies on operations that are derived from past experience of the most successful approaches to achieve returns and streamline operations in favour of clients and shareholders.

The scope of financing operations in development banking is expanded by requirements that take into account a wider range of stakeholders. Decisions also take into account a number of additional factors and thought patterns. These decisions challenge the abilities of the individuals who are responsible for and contribute to operations, decisions and outcomes.

Decisions have to balance project risk and the expected outcome, rather than focusing on fit to a standard financing approach. This also has to take into account long-term viability and expected development benefits that stretch beyond the term of the finance. Where the project can potentially yield a high level of benefits, those contributing to the decision are expected to advise on risk mitigation measures.

This requires personnel who can adapt to varying administrative and technical requirements. The Bank is also often called on to finance enterprises with a degree of innovation and associated risk that rules out finance by commercial banks.

DBN has a wide range of stakeholders, requiring a large degree of accountability and transparency in approaches to decisions and operations. In commercial banking, returns are a strong consideration, but in development banking the composition of the balance sheet is a key indicator of success. Equity holdings are also an important consideration on the balance sheet.

These differences require a multifaceted array of expertise on a team, and many members of team are required to possess a broad range of skills that overlap one another. The abilities of individuals and teams not only impact on the success of the Bank, but also on development outcomes for the nation.

Individuals have to be current with development issues and objectives, and also to have exposure to the local business environment, forms of business and challenges to enterprise. Staff members often have to think 'out-of-the-box' and respond to the business logic of an application, rather than a decision made to fit the form of an application.

Advanced business skills are critical as members of the Bank's staff have been called upon to assist with resolving operational and strategic issues, and contributing to turnaround strategies, for projects with important developmental outcomes when the enterprise faces challenges.

Senior staff members of DBN are empowered to advise in terms of the Bank's values, so the ability to understand and employ the Bank's values and governance models is also key to the Bank's success.

The initial requirement for employment by DBN is a suitable qualification and experience in an environment which parallels the Bank's operation, but that the Bank takes sound measures to induct recruits and develop human resource capacity. These measures include development of experience on the job, budgeting for formal education and development, fast-tracking of key individuals and succession strategies.

The Bank is reaping a return from its human resource approach. The team not only has an impact on the developmental outcomes that the Bank produces but also on the future of Namibia. Although the Bank has a low staff turnover, some individuals have moved on to pursue ambitions and have taken up senior roles in the public and private sectors.

The pool of skills and knowledge within DBN could contribute to the broader skills pool needed by Namibia as the financial and enterprise environment develop. The Bank employs and develops individuals who are skilled as administrators, advisors, managers and decision makers.

The Bank's human resource pool could conceivably also contribute to evolution and development of Namibia's economy by providing the early skills needed for management of equity and venture capital. DBN staff can be relied upon to play their part in Namibia's sustained economic development.

Sustainability, managing collateral and defaulters

by Jerome Mutumba, Communication Manager

Banking, by its very nature, is a business of interests. It is in the process of managing or attempting to align different parties' interest that some natural conflict arises. Unfortunately, aligning the interests of business and those of its clients, in most instances, lies at the core of any bank's risk management framework, and DBN is no exception.

As may be expected in the development finance arena, Development Bank of Namibia (DBN) does not prioritize financial profit, but it ought to conduct its business in a form and manner that makes it sustainable. This is necessary to ensure that proceeds from the repayment of loans and interest, are mainly used to finance more projects. If the Bank's borrowers do not repay the amounts and interest, the Bank will not be able to finance additional projects. This is why it is imperative for DBN to carefully manage impairments and recover bad debts. Against this backdrop, collateral is required in some instances to back up loans advanced.

Sustainability in development finance

While the achievement of large financial profits is not the objective of DBN, achieving and maintaining financial sustainability is. Financial sustainability over the medium to long term entails the preservation and maintenance of moderate growth of the Bank's capital and reserves. This in turn requires an appropriate risk pricing of loans and maintenance of a low level of bad debts.

The above requires DBN to thoroughly evaluate and risk rate development projects it plans to finance, and only invest in those with a reasonable degree of success and also high development impact. In the same vein, it also requires DBN to maintain an acceptable level of collateral for loans advanced.

The question of collateral

At DBN, we have come to realize that collateral, or security requirements for a loan, is often foremost in a loan seekers mind, and considered as a stumbling block to obtaining a loan. This is an incorrect disposition. A loan seeker should ideally be focused on the financial viability of his enterprise, and ensuring that the targeted lender sees and is convinced about the enterprise's potential and viability.

The question of collateral is always difficult, in particular in our context, where DBN is mandated and expected to render a helping hand to transformation and reduction of the socio-economic inequity in Namibia. Development finance is equated to obligation-free handouts in some instances.

On the other hand, numerous studies have shown that owner's collateral is a key factor in ensuring the success and enhanced lifespan of the enterprise. In the vast majority of cases, the owner's 'stake' and the risk of losing it motivates entrepreneurs to ensure that the enterprise generates returns, even under difficult circumstances when the owner might be encouraged to abandon the attempt.

Collateral is vital to the development finance institution (DFI) as well. If the owner abandons the attempt at enterprise, then the DFI has to recover as much capital as it can so that other projects can be financed.

The Development Bank of Namibia is however flexible in its levels of required collateral, and will also consider the means of the entrepreneur, the projected development outcome of the project and the entrepreneur's skills and track record. In some instances, assets financed by the Bank can serve as collateral. Where the risk profile of an enterprise is such that it requires some level of collateral, partnerships may be encouraged to strengthen the balance sheet of the borrowers.

Three steps to prevent loan defaults

The Bank takes three steps to guard against borrowers defaulting on their loans.

The first step is to ensure that applications are sound, and the enterprise has high potential for financial viability. Each application is rigorously scrutinised for its strengths and weaknesses. Areas of particular interest are the cash flow projection, and the experience and capacity of the potential borrower to successfully implement and run the enterprise. DBN seeks to finance businesses that have realistic plans, and that will be sustainable in the long term. Although most enterprises that approach DBN for finance hold development benefits, DBN must finance those which appear most likely to succeed, and those with long-term prospects.

DBN accepts that some enterprises will run into difficulty and that repayments may be impaired. If a business delays payment due to difficulties such as a slump in the enterprise, client payment difficulties or external factors such as delayed supplies, DBN registers the delayed payments as impairments. This is the second step.

When impairments arise, DBN does not immediately register the payments as bad debts. It recognises the development value of the enterprise, and will discuss with the entrepreneur the best means to make up the delayed payments.

Only when the enterprise fails and / or the entrepreneur halts payments is the loan amount declared a bad debt. Once the amount is declared a bad debt, it is handed to DBN's panel of lawyers. Even at this stage, the client is given the opportunity to negotiate the debt and repayment.

DBN recognises that a failed enterprise has bad impact on it borrowers, but also on its employees and the broader stakeholders, and the Bank does everything in its power to ensure that the enterprise can continue. However as a matter of accountability to the nation and its development requirements, it has to ensure that capital is recovered.

PRACTICES

The five Cs of credit and looking beyond

by Martin Inkumbi

Many financial institutions follow 'The Five Cs of Credit or Lending' in their decision-making on whether to grant a loan, and the terms under which loans are granted. While the Five Cs of Credit are not the only criteria used in credit decision making, they always form part of the formulation.

Strict application of the Five Cs of Credit, can, however, become a stumbling block for entrepreneurs trying to access finance where access to finance is one of the key obstacles to doing business.

The Five Cs of Credit are:

1. Character
2. Capacity
3. Capital
4. Collateral

5 Conditions

Character refers to the trustworthiness and integrity of the business owners. By assessing the character of the borrower, banks gauge borrowers' willingness to honour their commitment to the institution. This is important because, irrespective of whether the business is financially stable or not, if the owners or managers seem to not have the intent to honour their commitment, banks will be unwilling to grant the business a loan as they may struggle to get repayments from such a borrower.

Banks try to determine borrowers' character (trustworthiness and integrity) by assessing the past and present behaviour of the borrowing business and its owners; looking at the conduct of both their business and personal financial affairs.

This is done by, among others, referring to ITC records, bank reports, and by doing reference checks with other creditors and trading partners.

Borrowers' **capacity** refers to businesses' ability to repay the debt. This is generally referred to as the 'financial viability' of the business. Financial viability is the primary source of repayment of the loan granted and, if financial viability cannot be proven, the loan will and should not be granted.

Banks measure borrowers' capacity by looking at the business' financial projections (income and cash flow projections) to determine its ability to meet loan repayments.

In determining future financial viability of a business, historic financial performance is also taken into consideration as cash flow projections have to be realistic relative to what the business has been able to achieve in the past.

In the case of a new business, the assessment is largely made on the basis of future financial projections.

Capital refers to the equity contribution made by business owners. Equity contributions can take the form of money, assets and other valuables in the business. This is, to some extent, also a measure of business owners' commitment to the venture.

Banks want to see entrepreneurs make a meaningful contribution to their businesses and so also expose themselves to some measure of risk. This avoids a bank assuming full financial risk. A meaningful equity contribution also reduces the amount of debt in the business and improves the business' ability to repay a lower debt level. Banks determine the level of capital (equity contribution) by measuring the debt-to-equity ratio of the business.

Collateral, or security, refers to the assets pledged by borrowers to secure the loan, and is considered a second source of repayment. It is also a measure of borrower's level of commitment.

Conditions refer to the provisions banks impose on borrowers. Conditions are aimed at controlling borrower's behaviour in the interest of the lender. An example of a condition could be a requirement that borrowers obtain permission from the lender if they intend borrowing money from another bank. This restriction protects the lender by limiting the amount of interest-bearing debt a borrower can take on, which could compromise their ability to repay the first loan.

Going beyond the Five Cs

I view capital (equity contributions) and collateral (the security required by lenders) as major stumbling blocks for entrepreneurs trying to access capital. This is especially true for young entrepreneurs or entrepreneurs with no money to invest as equity; or with no assets they can offer as security for a loan. Any effort to improve access to finance has to address the challenges related to access to capital and collateral.

However, banks, whether private or public financial institutions, are entrusted with public funds and are expected to lend responsibly and recover money from borrowers. One way to guarantee the recovery of loaned money, is to take some sort of collateral on a loan. This is a straightforward way of dealing with the aspect of securing depositors' funds.

More complex forms of securing depositors' funds, involve adoption of processes such as thorough assessments of applications and evaluation of businesses, in order to ensure that there is no uncertainty about the business' expected success.

Other means involve development of innovative, risk mitigating lending products and strategies.

The Development Bank applies these methods in its effort to address uncertainty and mitigate risk. The bank's bridging finance product, used to finance tenders and contracts, is one way in which the DBN secures loans. The main form of security for the product is the contract income ceded to the bank and paid directly by the entity awarding the contract.

Asset-based finance is another product used widely by banks. The product reduces the need for additional security because the asset financed through the installment sale, serves as collateral itself. This is one of the key forms of securitsation used by the DBN.

The Development Bank also sets out to involve the entities awarding contracts as partners, in an effort to have performance guarantee requirements waived for SMEs, in particular.

Many small entrepreneurs do not have assets to provide as security for performance guarantees. They often also lack the kind of track records required by banks to show that they can successfully complete a given job. In such cases, banks would not assume the risk of guaranteeing the performance of these enterprises without collateral. As it is often more difficult for SMEs to obtain performance guarantees than money for working capital, many small entrepreneurs end up losing tenders.

By working with partner institutions, the Development Bank sets out to address the immediate needs of upcoming businesses and also to contribute to the transformation of Namibia's economic landscape.

The DBN's commitment to financing change is reflected in its approach to financing enterprise in Namibia. It constantly works to find ways of improving access to finance and ensuring that it finances good business responsibly.

Planning for success

by Jerome Mutumba

Business planning should not be viewed as an academic exercise, or an exercise to attract finance. It is a process that is fundamental to the sustainability of enterprise.

Prospective entrepreneurs are often faced with uncertainty before they commence operating. This uncertainty is a risk, as the entrepreneur will be faced with challenges after the enterprise opens. Business planning should identify areas of uncertainty, and the prospective entrepreneur should seek as much information to clarify matters before setting out on the path of entrepreneurship.

If the business plan takes all factors into account, and is realistic, not only will the business have a greater likelihood of success for the entrepreneur, but it will also be more likely to succeed in the application for finance.

DBN business analysts have a wealth of experience in business planning, and applications for finance of operations which put the security of borrowers at risk are not approved. The Bank's business is to finance sustainable enterprise, not risky enterprises that could lead to the bankruptcy of borrowers and loss of jobs.

Four areas are of particular concern

Business administration skills

Many applicants have experience in their particular fields but may lack business administration skills. For instance, although an applicant may have exceptional electrical engineering skills, a lack of experience in business administration will put the applicant at risk. Partnerships with skilled business administrators or outsourcing business administration are possible solutions. This will strengthen administration, and allow the applicant to productively focus on the core skills of the individual.

Suitable markets

Many businesses place themselves at risk by ignoring core market principles. The business plan should establish that there is a demand for the product or service in the footprint of the enterprise. If the customers are not there, then the business cannot survive.

Although many entrepreneurs may be inspired by the success of others, competing against and established enterprises in the same area is a risk, and potential customers are likely to be loyal to the established competition. Entrepreneurs should seek new ideas, or try to establish enterprises where there is a small group of competitors.

Suppliers

Suppliers to the enterprise are extremely important. New and existing enterprises should ensure that they have a wide range of potential suppliers, not only to have the optimum range of prices, but also the security that if a supplier runs out of stock or closes, the entrepreneur has continuity of supply from other suppliers.

Cash flow

Reasonable cash flow projections are critical to the enterprise, and entrepreneurs should err on the side of caution. Cash flow projections must include health provisions for operational expenses and repayment of finance.

The enrepreneur should plan for his or her earnings and avoid drawings against profits, as these will jeopardise cash flow and the sustainability of the business.

Sound business planning not only reduces the risk of starting or expanding an enterprise, but it also reduces the risk of offering collateral for finance. These four basic planning factors can make the difference between success and failure.

Successful applications

by Jerome Mutumba

The Development Bank of Namibia (DBN) is often criticized by promoters of applications who do not receive finance. This criticism is based on the premise that DBN finance is an entitlement. Actually DBN finance is granted on an exacting set of requirements, and done fairly and transparently in accordance with sound business principles.

The Bank's decision

As the Bank has limited financial resources, finance is approved for enterprises that are most likely to fulfill its mandates of creating employment, spreading ownership to formerly disadvantaged Namibians and stimulating enterprise in regions that need greater levels of economic activity, among others.

If the Bank is satisfied that the enterprise fulfills these requirements, it will consider the viability of the proposal. If the proposal is not viable, the application will be declined. There are two reasons for this.

In the first place, DBN finance must be allocated to businesses with long-term prospects. It makes more sense for the bank to finance long-lived enterprise than enterprises that present the possibility of a short lifespan.

In the second place, the Bank has to consider the financial security of the prospective shareholders and their dependents. The Bank assesses applications to avoid finance for enterprises that may pose an undue risk to applicants and shareholders. If an enterprise goes bankrupt, this will be disastrous not only for applicants and their families, but also for employees of the enterprise, and of course, it will be a loss for the shareholders.

The wisdom of this approach can be seen in the fact that most enterprises financed by DBN are still in operation today.

Planning for a successful application

The Bank's primary assessment is based on a sound business plan that demonstrates that the applicant has considered a wide range of operational and managerial aspects, in addition to realistic cash flow projections.

The process of developing a business plan is complex. Unfortunately, many promoters sidestep the effort by relying on consultants without making their own contributions to the plans. These standard business plans are easy to recognise, and an interview with the applicant can quickly confirm the reality of the plan and the applicant's understanding.

The Bank recognises that consultants can alleviate the burden for clients, but strongly urges applicants to take an active role in developing the business plan to ensure that the plan is realistic and reflects the abilities and experience of the applicant. In this regard, CVs of applicants and managers are also very important.

The bank has seen different business promoters advancing similar business plans which could be an outcome of plans developed by the same consultants.

Time to decide

Due to the developmental nature and complexities of projects DBN considers, thorough due diligence and reference checks need to be carried out. DBN may also spend time assisting the applicant to restructure a business concept and implementation strategy to improve the risk profile and the projects bankable. This can result in a longer time to make a decision.

Unlike applications for personal finance, for instance a car loan , overdraft or even a mortgage loan, where a bank only considers the salary and expenditure patterns of the applicant, business loans are complex because business revenue, the source of repayment, can be adversely impacted by various factors that DBN needs to consider.

Innovation and competitive business

One of the hallmarks of DBN, is that the Bank will entertain business projects that are innovative, provided that the business plan is carefully considered. This extends beyond innovation, and also considers competitive elements.

The Bank is often faced with applications that emulate similar enterprises in the same immediate vicinity. Finance for this type of application is not developmentally sound as it places at risk existing enterprises and their employees.

The Bank gives preference to enterprises that fill gaps in the market, and bring new capacity and different forms of economic activity and social benefits to areas that are under-serviced. DBN also gives preference to projects that make better use of Namibian resources or that improve economies of scale and other efficiencies on an industry basis.

One of the problems that the Bank often faces is finance applications for similar enterprises. If applications are similar, the Bank gives preference to the application with the most sound business plan. The Bank however treats every single application as confidential.

Impartial decisions

In terms of its governance rules, the Bank ensures that each application is treated impartially. Decisions are taken by a series of committees that consider the business plan, the risk and credit aspects. This ensures that no one person takes the final decision, and that the widest possible range of expertise is bought to bear on the application.

Large multimillion capital applications are examined by and subject to approval of the Board of the Bank.

The Bank places Namibia first, and has a duty to ensure that the enterprises that it finances are sustainable. However the Bank cannot take responsibility for the quality of the applications that it receives, only the quality of the decision.

Applications are not necessarily declined because of uncertain business prospects, but can also be declined due to qualifications and experience expected by the Bank.. This is a reality of the risk management exercise.

DBN must however make decisions on the evidence presented in applications, and make its decisions with a clear conscience. Although the process of application is exacting and time consuming, those enterprises that are financed by DBN have a greater than average likelihood of success.

Character and loan applications

by Jerome Mutumba

The Development Bank of Namibia (DBN) has the mandate to provide loans that satisfy the requirements of Namibian development. As it has limited resources and is accountable to various stakeholders, it has to ensure that its capital is preserved. It also has to ensure that its capital grows, so that it can provide sustainable returns to the shareholder who has placed capital in the bank.

In order to fulfill its mandate, the Bank appraises loans carefully to select the projects with the highest probability of success.. However the Bank understands that it is not only making a lending decision on the basis of the business plans it receives. The character and abilities of the business owners and managers who are implementing those plans are equally important.

In essence the Bank makes two decisions. Firstly, is the plan feasible? Secondly, is the project promoter able to implement and sustain the plan?

Although the plan may be excellent, the project promoter also has to be excellent.

Seven factors create positive impressions of project promoters:

Skills

The project promoter has to demonstrate the necessary combination of skills to sustain the enterprise. There will typically be two broad skills sets: business administration and skills for productivity. To illustrate the point, a business that manufactures equipment will need business administration skills, but will not succeed if the skills to produce the equipment are not provided for. DBN Analysts will want to ensure that the business has the correct combination of skills.

Qualifications

Academic qualifications that support skills are not always necessary, except in the case of professional services. The presence of sound qualifications, appropriate to the enterprise, will strengthen the possibility of a decision in favour of the application.

Track record

If the project promoter can demonstrate a track record of successfully managing an enterprise, or a similar enterprise, this will count in the favour of the application.

Realism

Although the project promoter may be tempted to inflate cash flow projections and / or understate costs, this will count against the project. DBN Analysts have developed extensive experience in accurately estimating realistic cash flows and will note if they are not realistic. Unrealistic cash flows indicate that the enterprise will not be able to meet obligations to repay the loan.

Confidence

The project promoter is expected to display confidence in the enterprise. This is typically measured by the promoter's willingness to capitalise the enterprise from own resources and to offer additional collateral as required. If a project promoter is unwilling to provide own capital or refuses and acceptable level of collateral, especially when the promoter's balance sheet clearly indicates that he or she can do so, DBN cannot be expected to have a high degree of confidence either, and may reject the application.

Integrity

Project promoters are expected to provide full disclosure on all matters relevant to applications. Personal and corporate credit checks are conducted and all required documentation is checked. Failure to provide full documentation will count against the project promoter.

Trustworthy references

In addition to satisfying the above requirements, project promoters may consider submitting trustworthy references from professional service providers, professional bodies, suppliers and contractors. The Bank conducts ITC checks too to determine the creditworthiness of the promoter. These will increase the confidence of DBN in the application.

The list may seem daunting, but these are standards applied by reputable lenders locally, and across the globe.

Although first time project promoters may not fulfill all of the requirements, some leeway can be granted on the basis of circumstance. However the absolute requirements are the necessary skills set, realism in planning, the confidence of capital and collateral and integrity.

Suretyship and uncertainty

by Jerome Mutumba

During the normal course of banking business, applicants for loans will be required to provide security for their loans. In response to this requirement, most SMEs applicants usually pledge residential dwellings as collateral for their loans, in cases where collateral is needed. Unfortunately as it turns out, many of the bonds come in forms of third party suretyship, be it limited or unlimited surety. This situation presents unpleasant encounters at recovery stage when the loan applicant defaults.

Recently, uncertainty and concerns surrounding the use of homes as collateral has thrown the issue of collateral and recovery of capital into the banking spotlight once more. Moral and legal arguments are being advanced cautioning lenders against what could appear like reckless lending, particularly in instances where the third party surety was signed by a member of a vulnerable group of society, such as pensioners and women.

From the point of view of banking operations, and DBN is no exception, use of collateral is a requirement in order to share risk with the entrepreneurs and to ensure recovery of capital in the event of a default. Collateral often helps to align the borrower and the lender's interest and to aid in recovering capital so that development finance can be reassigned to other enterprises in the event of a default.

As many previously disadvantaged entrepreneurs and emerging entrepreneurs lack collateral, third party suretyship is a highly valued tool. Third party surety is simply some form of security which is provided by someone, often a relative or friend, other than the borrower or owner of the business. Suretyship allows a willing third party to provide the necessary collateral to a second party in the absence of assets for collateralisation on the part of the entrepreneur.

In the experience of DBN, third party suretyship is often offered on the basis of friendship and trust, not on a considered business basis. This makes it difficult for those signing surety to assess the business risks and by extension risks to their pledged assets. In many instances, where recovery of capital is required from a third party, DBN has found that the provider of surety is unaware of the implications of the guarantee and will contest the matter.

This leads to questions about management of suretyship and how disputes can be avoided. Although the dispute should be handled between the third party and the defaulter, there are several steps that can be taken to reduce the risk for all parties.

In the first place, absolute clarity must be given to the third party of the implications of suretyship. Although the third party may sign the cession, with the clause on understanding, the implications may still not be understood, so the financier may choose to provide council and understanding to the third party. If absolute clarity is provided before signature of the cession documentation, the risk of a legal contest will be reduced. If the third party withdraws before providing suretyship, this may also reduce the risk of default for all parties.

In the second place, a contract governing suretyship should be encouraged between the second and third party. The primary motive of the bank should be to recover capital from the defaulter, not from the third party. Although bank's see recovery as an operational matter, the broader moral principles of governance should consider the well-being of all parties to the transaction, so this second contract will also help to ensure the interests of the third party.

In the third place, the third party should be encouraged to participate in the business and understand the administration of the business as well as have an overview of the loan repayments. If the viability of the enterprise is in doubt, the third party should have the ability to take corrective action if he or she has the skills to do so. A share in the enterprise is advisable as this allows the third party greater say and the ability to ensure his or her own interests are guarded with managerial intervention.

DBN mitigates its risks not only through collateral but also through approval of business plans that have the highest likelihood of success in the considered opinion of the Bank. With greater awareness on the part of third parties, as well as the ability of third parties to intervene, it is possible that the Bank will find further means to mitigate its risks, and enhance the long-term viability of the businesses that it finances.

Issues with rescheduling

by Jerome Mutumba

Development Bank of Namibia (DBN) loans to enterprise are made with the mandate of the Bank in mind: to provide capital to enterprises that have a developmentally beneficial impact, particularly through creation of employment and development of infrastructure.

However the Bank also has a duty to recover its capital from borrowers as the capital and interest repayment is then extended to other borrowers, who multiply development impact..

In order to secure the long-term viability of emerging enterprise, the Bank took measures to allow for debt rescheduling in the event of difficult operating conditions, particularly weather phenomena, such as major flooding which prevented northern enterprises from operating, and heavy rains which prevented SMEs from reaching payment milestones while completing infrastructure tenders.

The primary purpose of rescheduling has been to ensure that enterprises continue delivering development impact, even though payments may be delayed. The secondary purpose has been to ensure that collateral, particularly in the form of fixed property is preserved. In the latter regard, the Bank actively seeks to prevent bankruptcy and its impacts on families, employees and communities.

Regrettably, there is a small number of entrepreneurs who abuse the concession of debt rescheduling even though they have the ability to repay loans.

Delays in scheduled repayments, in spite of the ability to make repayments, indicate that the borrower is redirecting financial resources in spite of commitment to the terms of the loan. This can have two causes: personal expenditure and / or expenditure on other enterprises.

Both types of expenditure, at the expense of repayment to the Bank, extend the period of repayment. Rescheduling also increases the accumulated interest due to the bank. This places the enterprise at a disadvantage in the long term by reducing long-term profitability, and growth potential of the enterprise.

In the case of personal expenditure, the Bank counsels individuals not to make drawings against profits, but to provide for salary in the cash-flow projection, and preserve as much capital in the enterprise with the goal of long-term personal wealth through long-term enterprise growth.

If the borrower seeks rescheduling to avoid repayment, that borrower risks the Bank's caution, and possible delays, or even a refusal, in the event of a requirement for rescheduling based on serious circumstances in the enterprise environment.

An additional potential burden to the unwilling payer is that the Bank may assign a higher risk rating to the borrower in future if a second loan is requested, place more restrictive conditions if an additional loan is requested or assign a higher interest rate.

The Bank has put in place several mechanisms to reduce the phenomenon. These include ongoing monitoring of repayment, better management of collateral held by the Bank and enhanced collection. As a result the cost of lending by the Bank has increased.

Reluctance to repay loans in the manner stated in agreements is a twin expense to the Bank and the borrower. The Bank counsels that borrowers who are reluctant to repay consider the cost to themselves in particular, and not avoid repayment for personal spending or short-term enterprise opportunities.

Although first time project promoters may not fulfill all of the requirements, some leeway can be granted on the basis of circumstance. However the absolute requirements are the necessary skills set, realism in planning, the confidence of capital and collateral and integrity.

ABOUT THE AUTHORS

Development
Bank of Namibia
Good business is good for development.

MARTIN INKUMBI

DBN CEO

Martin Inkumbi attended DHPS Secondary School in Windhoek, after which he obtained a B.Com with majors in Economics and Management Accounting and Finance from the University of Cape Town. In 1997 he obtained a Post-Graduate Diploma in Finance and Banking from the University of KwaZulu Natal. He received and M.Sc in Financial Economics from the University of London in 2001.

He began his career as a researcher in banking statistics at the Bank of Namibia and later moved to the Treasury as a Financial Analyst. Between 2002 and 2006 he was a Corporate Banking Manager in FNB's Corporate Banking Division. He joined DBN as a portfolio Manager in August 2006, and was promoted to the position of Head: Lending in January 2011.

JEROME MUTUMBA

COMMUNICATION MANAGER

Jerome Mutumba is a Public Relations Practitioner who attended his high school at Caprivi Senior Secondary School in the Zambezi region, after which he completed his undergraduate studies at the University of Namibia with majors in Business Economics (Management Science) and English. He completed his first masters degree in Linguistics from the University of Southern Illinois at Carbondale in the USA in 1998 and also graduated with a Master of Business Administration (MBA) from Maastricht School of Management in Netherlands. He also has business certificates in Project Management and Senior Management development program (SMP) from the University of Stellenbosch. Jerome is currently pursuing his doctoral studies in Business Administration (DBA) at the University of Namibia's Business School.

He has wide ranging experiences through his work as a Lecturer of Communications and English at the Ongwediva College of Education, Polytechnic of Namibia and the University of Namibia, before joining the corporate world as a Head of Corporate Communications at the Bank of Namibia in 2002. He has since then headed communications and external relations functions at Rio Tinto's Rossing Uranium Mine and later at the Development Bank of Namibia.

Notes

Development
Bank of Namibia
Good business is good for development.