



## **MINISTRY OF FINANCE**

**Notice of Question by Hon. Vipuakuje Muharukua**

**Responses by**

**Honourable Ipumbu Shiimi, MP**

**Minister of Finance**

**18 March 2021**

***In a media statement titled “ECONOMIC STIMULUS AND RELIEF PACKAGE: Impact of Covid-19 on the economy and Households” you announced a number of Covid-19 relief measures. The following measures for farmers were part of your announcement:***

- a) Granting of “...payment holiday on the principal amount for period of 6 to 24 months”;*
- b) Recapitalisation of interest; and*
- c) Waiving of penalty provision*
- d) Lengthening loan repayment periods.*

***Question 1***

- 1. Will you affirm the understanding of many farmers that I consulted, that the public understood, payment holiday to mean that farmers were not to pay their instalment for a period, and that their loan period would be extended by the holiday period?***

*Honourable Speaker,*

1.1 The repayment holiday was announced as a guiding policy intervention of the Stimulus Package for the financial sector players to extend to their clients. The extension of such relief conditions is not a blanket prescription, but it would be implemented on a case by case basis, taking into consideration the circumstances of each client or categories of clients as well as the financial sustainability of the banking institutions. As such;

- (a) AgriBank, as does other Development Financial Institutions, requires clients to indicate the extent to which their operations are impacted by COVID-19 and provide verifiable proof of such impacts as part of the application, assessment and approval process.

- (b) To enable the Bank to extend the approved relief, Government provided a guarantee for AgriBank to source capital of N\$350 million from the market to scale-up its capacity to provide relief to its clients.

## **Question 2**

***Will you further affirm that the public understood that waiving of penalty clauses meant that farmers with arrears were not to pay any penalties on their arrears for the relief period?***

*Honourable Speaker,*

2.1 Regarding the waiving of penalties, this is to be understood in the context of assessed impact on clients. As such, AgriBank has provided the following waivers:-

- restructuring of arrears, against a reduced down payment of either 20% or 30% of the arrears, depending on the client's history of honouring their repayment arrangements,
- de-listing of clients from ITC (credit bureau) against a minimal payment of 10% of the arrears, as opposed to the normal requirement of full settlement of arrears,
- restructuring of arrears imply that once a client has made the down payment, the remaining arrears are capitalized and a further period of up to 2 years added to the client's loan term. Where the additional 2 years are assessed as not being feasible, the Bank may extend the repayment for further periods as it is deemed necessary,
- With restructuring, arrears effectively disappear, which means penalty interest on arrears also falls away.
- suspension of legal action against payment of 20% or 30% of the arrears, depending on the client's repayment history, which is a significant reduction from the normally 100% settlement usually demanded by the Bank.
- reduction of interest rate on a number of products in order to provide relief to its clients. The interest rate adjustments were done in such a way that the sustainability of the Bank is not compromised.

### Question 3

***Agribank recapitalized loan instalments as opposed to providing real payment holidays. This was in essence farmers obtaining new loans from Agribank. As opposed to being afforded a pause on their instalment. This supposed relief measure escalates farmer's debts, as opposed to making their burden lighter. Some farmers concluded that the recapitalization can be likened to penalties for applying for the relief measures. Are these catastrophic results in conformity with Cabinet's intentions, and directives to the bank and your said announcement or has the bank deviated from the directives?***

*Honourable Speaker,*

- 3.1 I have provided information and details on the waivers which AgriBank provides and the matters which the Bank takes into consideration in that regard. Recapitalization allows for the clients to have their loans restructures and for the Bank to shore up the financial ability of affected farmers to deal with the shocks on income during these difficult times.

### Question 4

***Agribank further did not waive interest for farmers with arrears, but rather reduced penalty from 2% to 1.5%. Again is this in conformity with Cabinet's intentions and directives to the bank and your said announcement?***

*Honourable Speaker,*

- 4.1 I have clarified the matter of conformity with the overall strategic policy intent. The relief measures are not a one-size fits all. They are applied on a case by case basis and take into consideration financial stability and sustainability of the AgriBank. Reduction in penalty interest is generally welcome because it provides a breather to the clients.

- the penalty interest on arrears is reduced from 2% to 1.5% for a period of 12 months, from 1 June 2020 to 31 May 2021.

- In total and according to Agribank records, 210 relief applications have already been approved by the Bank with over 100 applications currently in the pipeline for assessment.

#### **Question 5**

***Should the bank have erred in its applications of what ought to have been done, how does your Ministry intend to remedy the situation for our needy farmers to provide much needed relief?***

*Honourable Speaker,*

5.1 Providing for significantly reduced down payments and restructuring arrears such that clients have longer repayment periods offers relief to the affected farmers.

5.2 In this context, the Bank could not have erred in its actions. Arrears are instalments that should have been paid in the past but have not. In fact, by capitalizing the arrears, making the penalty interest fall away and giving the client a longer period to repay, the Bank is indeed providing relief to the client.

#### **Question 6**

***Should the bank carried out their instructions correctly in crafting and implementing so-called relief measures, will you agree with me that Cabinet and AgriBank has once again acted like these personal insurance brokers by tricking Namibian farmers into thinking they are accruing a benefit of a payment holiday, whilst in fact they are being offered a new loan?***

*Honourable Speaker,*

6.1 A distinction needs to be drawn between loan restructuring and new loans. What AgriBank has provided its affected clients is reduced burden for repayment and a longer repayment period through restructuring of arrear payments. By restructuring the arrears, in most cases penalties on interest fall away and the client has a longer period to repay. As such the relief provided is not inconsistent with the policy intent.

#### **Question 7**

***Should you affirm that the 1.5% penalty is in conformity with Cabinet decision, will you agree with me that you misled Namibians in your announcement when you said the penalties will be waived?***

7.1 As I have repeated on this matter, waiving of penalties is based on assessment (on a case by case basis) and depending on how economic sectors and different operators are impacted by the pandemic. The information obtainable from AgriBank is that once arrear restructuring is effected, not only the down payment requirement is reduced but the penalties on interest also falls away. This outcome is not inconsistent with the policy announcement.

*Thank you*