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President Hage Geingob (2015-present) signs into law the Investment Promotion Act which provides for the exclusion of foreigners from certain sectors of the economy. The Bank of Namibia (BoN) (central bank) keeps the repurchase (repo) rate unchanged at 7.0% to underpin economic output. Year-on-year inflation hits 7.0% in July. The first African Drought Conference held in Windhoek highlighted the impact of the current drought on regional power generation. Namibia will remain reliant on imports for over 60% of its electricity needs in the near-term. The \$2 billion Husab uranium mine is due to be commissioned by October. The mine is expected to expand the economy and export earnings by 5%.

New investment law to allow exclusion of foreigners from certain sectors

President **Hage Geingob** (2015-present) has signed into law the **Investment Promotion Act (IPA)**. The IPA enables the government to reserve certain sectors of the economy to **Namibians**, excluding foreign investors.¹ It is not clear whether the IPA will affect major sectors, such as the mining industry. It appears to be primarily directed at small and medium enterprises (SME).² The act reportedly reserves certain sectors – such as take-away foods, street vending, hairdressing, beauty salons, catering and retail – for Namibians. The large **Chinese** immigrant community has competed strongly with Namibians in these sectors, setting up food and clothing shops in populous northern villages. In a coded reference, Geingob commented:

“Why should a foreigner come here and compete with locals (in that sector)? That’s not an investor; an investor cannot come and trade in kambashus (self-constructed shacks).”³

Geingob noted that the new law provides the trade, industrialisation and SME development ministry the option “*in the interest of national security and the public interest*” to reserve certain occupations “*for certain categories of investors, or for the state, or Namibians*”.⁴ It would also enable the government to sign performance agreements with foreign investors, if this was deemed to be appropriate and provide for a dispute resolution procedure.⁵

Geingob said the law would properly define an investor for the first time, with Namibianisation of the economy also an aim.⁶ He dismissed as “*speculative talk*” the idea that the IPA was copied from **Zimbabwe's Indigenisation and Empowerment Act**, which compels foreign firms to sell controlling stakes to Zimbabweans. However, Geingob appeared to suggest that the government could intervene more widely in business:

“You will agree with me that in the past, a foreigner could own 100% of anything, including strategic things like uranium. The state must have some say in uranium, which might have bigger implications if it falls into the wrong hands.”⁷

¹ New Era, 15 Aug 2016; The Namibian, 15 Aug 2016.

² New Era, 15 Aug 2016; The Namibian, 15 Aug 2016.

³ New Era, 15 Aug 2016; The Namibian, 15 Aug 2016.

⁴ New Era, 15 Aug 2016; The Namibian, 15 Aug 2016.

⁵ New Era, 15 Aug 2016; The Namibian, 15 Aug 2016.

⁶ New Era, 15 Aug 2016; The Namibian, 15 Aug 2016.

⁷ Hage Geingob quoted in The Namibian, 15 Aug 2016.

Bank of Namibia holds interest rates at 7.0%

The **Bank of Namibia (BoN)** (central bank) opted for caution at its 17 August rate-setting meeting. In deciding to keep Namibia's repurchase (repo) rate unchanged at 7.0%, the BoN's monetary policy committee (MPC) said this was necessary,

*“to continue supporting the country's economic growth, particularly in the light of the slow and fragile in the economies of Namibia's trading partners [principally the **European Union (EU)** and **South Africa**].”⁸*

The MPC met soon after the **Namibia Statistics Agency (NSA)** published its revised national accounts for 2015. The NSA reduced its GDP real growth figure for last year to 5.3%, down from 5.7% originally, reflecting a sharp, drought-related, contraction of 10.3% in agriculture (livestock sector output decreased by 14.0%), while wholesale and retail trade output growth was revised down to 5.7%, compared to 8.1% previously. **Capricorn Asset Management** investment strategist **Suta Kaveri** warned that a number of factors would continue to restrain economic growth, among them reduced water supply and the restrictions in place to limit consumption, especially in **Windhoek**, along with the erosion of disposable incomes by rising inflation and higher debt servicing costs.⁹

The BoN's monetary policy statement noted that while the year-on-year (y/y) inflation rate had continued to rise, this *“remained within acceptable levels”*, while growth in private sector credit extension (PSCE) had continued to slow due to lower demand from both households and businesses (although it accelerated again in June).¹⁰ As with the previous repo rate decision in June, the prior decision of the **South African Reserve Bank (SARB)** not to raise its repo rate above 7.0%, due to South Africa's weak economic performance, meant the BoN did not need to implement another rate hike just to stay in line with Namibia's much larger neighbouring economy (see *ARC Briefing Namibia June 2016*). It now looks less likely that either the SARB or the BoN will tighten monetary policy any further this year as had previously been anticipated, due to the weaker global, regional and domestic growth prospects, coupled with a recent recovery in the foreign exchange value of the South African rand, to which the Namibia dollar is linked at par. This will help prevent an unsustainable increase in y/y inflation.

The BoN noted the continued weakness of the global economy in the second quarter of this year.¹¹ Namibia's economy slowed during the first half of 2016 compared to the same period of last year, due mainly to lower mining growth and weaker agricultural, construction and manufacturing output. The severe drought has continued to depress agricultural output, mainly due to lower livestock marketing volumes. One bright spot was *“the relatively strong”* performance of the wholesale and retail sector.¹² While the central bank continues to forecast positive economic growth for the remainder of this year, risks are low commodity prices, the volatile foreign exchange rate of the rand, the drought and slow recovery in the economies of Namibia's main trading partners.¹³

Inflation increase in July

Year-on-year (y/y) inflation increased to 7.0% in July, having remained unchanged at 6.7% the previous month, according to the NSA.¹⁴ Analysts expected the increase due to rising utility tariffs and the continued impact of the depreciated rand on the cost of imports. Y/y inflation is now at its highest level since it hit 7.9% in June 2014, and has more than doubled from 3.3% in July 2015.¹⁵ The main

⁸ Bank of Namibia, Monetary Policy Statement, 17 Aug 2016.

⁹ Namibia Statistics Agency (NSA), Annual National Accounts 2015; *The Namibian*, 16 Aug 2016.

¹⁰ Bank of Namibia, Monetary Policy Statement, 17 Aug 2016.

¹¹ Bank of Namibia, Monetary Policy Statement, 17 Aug 2016.

¹² Bank of Namibia, Monetary Policy Statement, 17 Aug 2016.

¹³ Bank of Namibia, Monetary Policy Statement, 17 Aug 2016.

¹⁴ Namibia Statistics Agency (NSA), Namibia Consumer Price Index, July 2016.

¹⁵ Bank of Namibia, Annual Report 2015

inflation drivers were food and non-alcoholic beverages (12.2%, up from 11.3% in June), housing, water, electricity, gas and other fuels (8.2%, up from 7.6%), alcohol and tobacco (6.6%, down from 7.1%).¹⁶ Transport inflation rose by 3.3% y/y (3.0% in June), mainly in response to the higher cost of purchasing imported vehicles, which rose by 8.6% y/y, up from 8.1% in June.

A major contributor to the higher y/y inflation rate was approval by the **Electricity Control Board (ECB)** of a 16.7% tariff increase for **Namibia Power Corp. (Nampower)** bulk usage customers (principally the mining sector, larger manufacturers and municipalities) from N\$1.28 (\$0.09) to N\$1.48 (\$0.11) per kWh from 1 July.¹⁷ Most of this will be passed on to households and other non-bulk end-users via the regional electricity distributors and local authorities. ECB chief executive officer **Foibe Namene** noted that about half the increase – 8% – was due to local currency depreciation. NamPower initially requested an effective bulk tariff increase of over 31%, which would have resulted in a tariff of N\$1.68 (\$0.12) per kWh (inclusive of generation and transmission cost) to meet its service delivery costs tariffs to remain cost reflective. The ECB has evidently decided this was too steep an increase to be financially affordable by many households and it was able to keep it lower due to the mining and energy ministry having made N\$50m (\$3.7m) available through the **National Energy Fund (NEF)**, to protect households from high tariff increases.¹⁸

Drought conference highlights impact of drought on power supply

Measures to mitigate the impact of drought on regional power generation were among the issues discussed at the **African Drought Conference** held in Windhoek from 15-19 August.¹⁹ The current severe drought and the delay in commissioning sufficient additional domestic generating capacity are forcing Nampower to continue relying on electricity imported from neighbouring states – South Africa, **Mozambique**, **Zambia** and Zimbabwe – which are also suffering the effects of the drought.²⁰ The 337 MW **Ruacana** hydropower station on the **Kunene River** is currently operating at minimum capacity.²¹

Nampower managing director **Kahenge Haukofo** said in mid-August that Namibia was importing over 60% of its needs.²² Current import contracts are set to end between 2020 and 2025, but these are negotiable for extension when required.²³ Namibia will remain reliant on imports for the near-term, as the government has shelved plans to exploit the offshore **Kudu** gas field to supply an onshore combined-cycle gas turbine plant.²⁴ This was originally intended to come on stream in 2018-2019 with an 800 MW capacity, projected as sufficient to meet domestic power demand and provide an exportable surplus.²⁵ Finance minister **Calle Schlettwein** confirmed the indefinite delay to the over \$1.3 billion Kudu gas-to-power project in July when he disclosed that the government was directing public resources to other projects.²⁶ However, a key stop-gap supply project, a 250 MW gas-fired plant at **Walvis Bay**, is now set to proceed (see *ARC Briefing Namibia January 2016*). Last month, the High Court in **Windhoek** rejected a legal challenge to the preferred bidder status of South African-owned firm, **Xaris Energy** brought by a rival bidder, local firm **Arandis Power (Namibia)**.²⁷ Xaris is now due to conclude a power purchase agreement (PPA) with Nampower.²⁸

¹⁶ Bank of Namibia, Annual Report 2015

¹⁷ New Era, 1 Jul 2016.

¹⁸ New Era, 1 Jul 2016.

¹⁹ New Era, 18 Aug 2016.

²⁰ The Namibian, 9 Aug 2016.

²¹ The Namibian, 9 Aug 2016.

²² The Namibian, 9 Aug 2016.

²³ The Namibian, 9 Aug 2016.

²⁴ Bloomberg, 18 Jul 2016.

²⁵ Bloomberg, 18 Jul 2016.

²⁶ Bloomberg, 18 Jul 2016.

²⁷ Windhoek Observer, 8 Jul 2016.

²⁸ Windhoek Observer, 8 Jul 2016.

Husab mine due to start up by October

Commissioning of the \$2 billion **Husab** uranium mine in the central **Namib Desert** inland from **Swakopmund** is scheduled by October. **Swakop Uranium (SU)** CEO **Zheng Keping** delivered the message to prime minister **Saara Kuugongelwa-Amadhila** during her site visit in early August.²⁹ At full capacity, Husab will produce approximately 6,800 tonnes per year of uranium oxide, more than doubling Namibia's production of just under 3,000 tonnes last year, and making it the number two global yellowcake producer after **Kazakhstan**. SU will deliver most of the output to **China General Nuclear Power Corp (CGN)** for use in Chinese civil nuclear power stations with a smaller proportion sold on the open market to other utilities. **Taurus Mineral**, a **Hong Kong**-based non-operative subsidiary of state-owned CGN and **China-Africa Development fund (CADFund)** owns 90% of SU. Namibian government-owned **Epangelo Mining Co.** owns a 10% free-carried interest, meaning it is not required to contribute to the mine's development cost.³⁰ This is expected to exempt SU from the provisions of the current version of the controversial black economic empowerment (BEE) bill for minimum 25% equity stakes for BEE entities and individuals in all private sector firms (see *ARC Briefing Namibia July 2016*).

Keping said construction of the mine and processing plant is already "99.53% complete" with ramp-up to full-scale operations expected to start early next year. Figures presented during the visit indicated the mine will pay (presumably at full production) between N\$1.1-N\$1.7 billion (\$85-126m in corporate tax to the government, excluding taxes paid by employees. Some N\$220m (\$17m) per year would be paid in royalties, levied at 3% of the value of sales. Constructing the mine created more than 4,500 temporary jobs. The mine will employ 1,600 permanent staff and 400 contractors. Currently, around 92% of the workforce is Namibian, which is set to increase to 95%. Of these, 10% are women. Kuugongelwa-Amadhila, who is in charge of implementing the BEE bill, on which consultations are still underway, pledged that the government

*"...is committed to continue facilitating the development of our mining potential, while at the same time diversifying our economic activities into sectors which have more potential to create job opportunities in the country."*³¹

She added that mines were expected to contribute to job-creation by assisting in the creation of value chains that could supply mining operations or add value to raw materials.³²

Keping acknowledged that water remains a challenge facing the mine, and that the upgrading of the coastal desalination plant near Swakopmund owned by **French-owned AREVA Resources Namibia (ARN)** is crucial to meeting Husab's requirements:

*"Swakop Uranium is reliant on **NamWater** to supply the mine and NamWater procures water from the AREVA desalination facility in **Wlotzkabaken**. The upgrade of the desalination facility to meet our demands is not expected to be completed by November this year resulting in an expected shortfall in the next few months."*³³

The government is currently in a drawn-out process to buy the plant from ARN, which has consistently refused to publicly disclose its asking price. While Kuugongelwa-Amadhila did not offer a solution, she did promise Keping that the government would pledge its support to ensure Swakop Uranium gets whatever it needs to meet its target.³⁴

²⁹ The Namibian, 3 Aug 2016.

³⁰ Fuel Cycle Week, 11 Aug 2016.

³¹ The Namibian, 3 Aug 2016.

³² The Namibian, 3 Aug 2016.

³³ Keping quoted in The Namibian, 3 Aug 2016.

³⁴ The Namibian, 3 Aug 2016.

Implications

It is currently unclear how extensively the government would make use of new powers under the IPA to limit the ability of foreign-owned firms and non-Namibian nationals to operate through the economy. Clearly, its intention is to facilitate investment by clarifying the framework in which foreign direct investment (FDI) can take place. But it appears a curious mix, designed to protect SME business from competition by outsiders (primarily Chinese), while introducing new requirements for investors. There is the potential for restrictions being introduced more widely than the initial list of activities mentioned by Geingob at his press conference on the new law earlier this month. ARC has not yet managed to see a draft of the act and the debates during its process through the National Assembly (NA) went largely unreported. This leaves a scarcity of information as to its contents. Coupled with the ongoing uncertainty regarding the final form of the planned black economic empowerment (BEE) bill, this is not especially helpful at a time when Namibia's economy, after a strong run, is beginning to show signs of flagging growth.

The NSA has downgraded its initial estimate of GDP growth last year, although given the drought had already set in and the mining industry was having to cope with both a fall in demand for most commodities along with weaker prices, a 5.3% real growth rate remains quite an achievement. But this remains a much better performance than South Africa, which slipped into recession in the second quarter of 2016 and on a par with **Botswana**. Also, while global growth prospects remain weak both this year and in 2017, the start of production by the large Husab mine – due from October, with ramp-up to full capacity during 2017 – is expected to expand the economy and export earnings by 5%, and provide a boost of several hundred million US dollars to the Namibian treasury. The permanent workforce numbers 1,600 of whom some 92% are Namibian, providing a substantial boost to job creation, a key goal of Geingob's **Harambee Plan**.

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