

## AFRICA RISK CONSULTING

### Namibia Monthly Briefing August 2015

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#### Namibia Summary 19 August 2015

*President Hage Geingob (2015-present) brokers an urban land deal just in time to avert planned mass occupations by the Affirmative Repositioning (AR) grass roots movement. The government is to provide 200,000 serviced plots across the country for housing although how long this will take to roll out is disputed. The Bank of Namibia (BoN) holds off raising interest rates again as domestic credit growth slows and inflation remains low, although expected to rise again soon. Namibian uranium mining projects move forward despite continued weak demand and low prices on the global nuclear fuels market. The current severe drought looks set to extend into next year.*

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#### Geingob heads off urban land occupations...

President **Hage Geingob** (2015- present) boosted his growing political reputation following his brokering of a settlement over the serviced urban land issue with the **Affirmative Repositioning (AR)** grass roots protest movement. The AR had pledged to organise mass occupations of urban land to force town councils to meet their demands to supply affordable plots for housing (see *ARC Briefing Namibia July 2015*). AR militancy had received support from senior members of the **SWAPO Youth League (SYL)** and counts former SYL spokesperson **Job Amupanda** as one of its leaders. Ministers floundered in their response, vacillating between hardline and accommodative stances. In the end, Geingob intervened directly, convening a meeting between ministers and an AR delegation on 24 July, a week before the planned AR mass occupations. A solution was eventually agreed.<sup>1</sup> Geingob won over the AR by stressing that the urban land agreement and provision of decent housing for low-income Namibians formed only one part of his poverty eradication programme. However, he also made it clear that he disagreed with AR's approach to solving the urban land crisis and did not accept that housing should be made a constitutional right.<sup>2</sup>

The AR accepted the offer of an immediate start on the servicing of up to 200,000 urban plots, with an initial pilot programme in **Windhoek, Walvis Bay** and **Oshakati** in the north, and agreed to suspend the planned occupations. The government in turn withdrew an application lodged with the **High Court** to rule land occupations illegal. The government established a **Massive Urban Land Servicing Project (MULSP)**, with AR and representatives from central, regional and local government. Initial land clearance in the three towns took place from 29 July to 5 August.

One of the AR leaders, **George Kambala**, commended Geingob “for taking charge of the issue in regards to the negotiations and for taking an inclusive approach”.<sup>3</sup> This seems especially generous given that the ruling **South West African People's Organisation (SWAPO)** had formally expelled Kambala, along with Amupanda and the third AR leader, **Dimbulukeni Nauyoma** following the urban land agreement because of their uncompromising stance on the issue.<sup>4</sup>

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<sup>1</sup> New Era, 24 Jul 2015

<sup>2</sup> The Namibian, 27 Jul 2015

<sup>3</sup> New Era, 27 Jul 2015.

<sup>4</sup> The New Era, 27 Jul 2015

### ...but it is unclear how quickly serviced plots can be delivered

Providing sufficient serviced plots within a timeframe that will keep the AR onside may prove problematic. Several towns have claimed that they lack sufficient funds to service the required number of new plots as well as additional amenities such as schools and roads. However, finance minister **Calle Schlettwein** disputes these claims. During a tour of Oshakati, he said the government had N\$971 million (\$75m) in funding available to cover the cost.<sup>5</sup>

Local civil engineers have suggested the work could take far longer than the government has indicated, possibly as long as 2026. An engineer said that Namibia could currently service some 10,000 plots per year, which could with difficulty increase to 15-18,000. The engineer added that designs could not be compromised or developments fast tracked if the houses are to meet required standards.<sup>6</sup> The Windhoek municipal authority published a land servicing schedule with the technical process for servicing land (before construction can begin) taking four years. The servicing process involves town planning (layout of plots, up to 12 months), provision of an environmental clearance certificate (up to six months), land surveying (up to 12 months), engineering (road construction, installation of water, sewerage and electricity, up to 18 months) and land sales (up to three months). The municipality pointed out that costs would depend on a number of variables such as the size and topography of the serviced land. **Windhoek Consulting Engineers (WCE)** confirmed that it is possible to service 200,000 plots, provided the municipal authorities are “serious” about it.<sup>7</sup> WCE has offered to provide cost estimates for the servicing of land free of charge, and said it is willing to join forces with town planners, urban designers and architects, to develop “a practical” land delivery concept.<sup>8</sup>

The government has rejected claims about timeframe. MULSP chairperson **Nghidinua Daniel** said the existing cumbersome process of urban land delivery would be eliminated, by legislation if necessary.<sup>9</sup> He claimed that civil engineering concerns are based on previous service delivery methods. However, Daniel did not commit to a timeframe.

Under Geingob, ministers have put themselves in the front line of the urban land programme to an unprecedented degree. Several ministers joined volunteers carrying out the initial clearing of land, including urban and rural development minister **Sophia Shaningwa** at the **Goreangab Dam** area near Windhoek. The clearing of land at the three designated pilot towns was due to have been completed on 5 August, but as of that date only the Goreangab area, covering some 88 hectares, had been cleared. The cost of servicing this land alone is an estimated N\$280 million (\$21.6m). This is almost a third of the total available funds for land servicing that Schlettwein cited. Walvis Bay has so far identified 9,000 erven,<sup>10</sup> while Oshakati has some 6,000 available.

### Domestic credit growth slows but inflation rises again ...

The **Bank of Namibia (BoN)** kept its repurchase (repo) rate on hold at 6.50% at an 18 August meeting of its monetary policy committee (MPC). The BoN cited a recent slowdown in domestic credit growth.<sup>11</sup> Credit growth was high in the first six months of 2015 at an average 16.0%, up from 15.3% in the same period of last year, but slowed in June (the latest available month). This indicates that the two repurchase (repo) rate rises of a combined 50 basis points (bp) so far in 2015 have begun to impact on consumer appetite for borrowing. However, a further 25 bp repo rate increase is possible at one of the two remaining MPC rate setting meetings this year, scheduled for October and December.

<sup>5</sup> The Namibian, 6 Aug 2015

<sup>6</sup> The Namibian, 6 Aug 2015

<sup>7</sup> The Namibian, 6 Aug 2015.

<sup>8</sup> The Namibian, 6 Aug 2015.

<sup>9</sup> New Era, 7 Aug 2015

<sup>10</sup> Plots measuring about 400 square metres each

<sup>11</sup> Bank of Namibia, Monetary Policy Statement, 19 Aug 2015

Overall private sector credit extension (PSCE) growth decreased to an annual rate of 14.8% in June, down from 16.2% in May.<sup>12</sup> On a monthly basis, PSCE contracted by a fractional 0.24%, the first decrease since July 2011. Corporate debt growth slowed to an annual 16.6%, from 21.4% in May. Net borrowing fell by N\$643m (\$49.9m), due to the banking sector recovering more credit than it issued in June. This reduced year-to-date corporate borrowing to N\$4.3 billion (\$0.3 billion) and outstanding credit to N\$29.9 billion (\$2.3 billion).

In contrast, individual or household debt increased by 13.4%, up from 12.0% in May, with new borrowing of N\$451m (\$37.3m). This expanded year-to-date borrowing to N\$5.0 billion (\$0.4 billion) and outstanding credit to a record level of N\$42.8 billion (\$3.3 billion). Debt issuance totalled N\$9.4 billion (\$0.7 billion) over the past 12 months, bringing total outstanding credit to N\$73.0 billion (\$5.7 billion), including a small proportion held by financial corporates. The largest proportion, N\$37.5 billion (US\$2.9 billion) or 51%, remained mortgage loans, with the next biggest amount instalment credit (N\$11.3 billion- \$0.9 billion). The BoN remains concerned about the high growth in household instalment credit, as a considerable proportion is still largely used to finance unproductive, imported luxury goods. Non-mortgage debt is essentially consumptive credit, much of which flows out of the country to purchase imported vehicles, consumer electronics and furniture, contributing to the high foreign trade and current account deficits. Funding of resulting overall payment deficits has obliged the drawing down of Namibia's foreign reserves in the past three years.

There is little immediate need for a further repo rate increase on inflation grounds, as the year-on-year inflation rate has stayed low in the past year, reflecting a reduction in input costs due to the depressed global crude oil price. Since November 2014, 12-month average inflation has decreased steadily, falling to a new low of 4.1% in July. However, year-on-year inflation increased in July to 3.3% from 3.0% in June. Most analysts expect inflation to start rising again soon, as a result of higher basic food prices caused by a combination of the current drought (see below), continued depreciation of the **South African** rand, to which the Namibia dollar is linked, and utility tariff increases. In July, food prices, the second-heaviest weighted basket item (16.4%), rose 5.3% year-on-year compared to 4.1% in June. Prices for bread, cereals, fish and non-alcoholic beverages all increased.<sup>13</sup> Transport deflation (14.3% weighting) eased to -1.8% from -3.0% in June, but year-on-year inflation for the heaviest-weighted basket items – housing, water, electricity, gas and other fuels (28.4%) – slowed to 2.1% from 2.5% in June. However, bulk and electricity tariff increases implemented in July are bound to have increased inflation for this sub-sector.

Month-on-month inflation rose slightly in July, with prices up by 0.4% overall, compared to 0.3% in June. This was attributable to a monthly increase in transport costs due to domestic fuel prices increasing that month. With global crude oil prices staying weak – both the **Brent crude** and **Texas intermediate** benchmark prices dipped to below \$50 per barrel in mid-August – most forecasters expect demand and prices to remain subdued into 2016. Namibia's mines and energy ministry traditionally intervenes to smooth the impact of global oil price fluctuations on domestic pump prices, but this will occur relatively infrequently for the remainder of 2015.

Continued low oil prices look set to be increasingly outweighed by ongoing local currency depreciation which will make food imports more costly. As of mid-August, the rand/Namibia dollar had depreciated by 10% (to ZAR/N\$1=\$0.078) from its end-2014 value and by 15% from last year's average value. Most globally traded basic foodstuffs are priced in **United States (US)** dollars and Namibia is having to import larger quantities of cereals to replace domestic production (see below).

Stockbrokers **IJG Namibia** predict continuing increases in inflation, *"although at a sedate pace."*<sup>14</sup> Similarly, local financial services firm **Simonis Storm Securities** anticipates that the increase in

<sup>12</sup> IJG Namibia, PSCE- June 2015

<sup>13</sup> National Statistics Agency, National Consumer Price Index, July 2015

<sup>14</sup> IJG Namibia, Namibia Inflation- July 2015

water and electricity tariffs at the beginning of July will have a significant effect in the housing, water, electricity and gas category.<sup>15</sup>

### Uranium projects move ahead despite prevailing low prices

Uranium projects are moving ahead despite a depressed international market for nuclear fuels. The uranium spot price remains low four years after the *tsunami* of March 2011 seriously damaged **Japan's Fukushima** nuclear plant and resulted in all 48 civil nuclear reactors being taken off line. Low demand from nuclear utility buyers who currently have sufficient stocks of nuclear fuel into 2016/17 has kept the uranium spot price to below \$40 per pound of uranium oxide this year, even though the closure of several mines and mothballing of new mine development projects has reduced supply. However, analysts expect the uranium price to begin to increase from the end of this year, due to the gradual restart of Japan's reactors and **China's** building programme of nuclear power plants. The development of new mines is thought not to be commercially viable until the spot price has recovered to at least \$60 per pound.<sup>16</sup>

Construction of the large **Husab** uranium mine in the central **Namib Desert** is on track for completion by the end of 2015/early 2016. Husab is 90% owned by China's state-owned nuclear power company **China General Nuclear Power Corp (CGNPC)**, with a 10% free-carried interest held by Namibia's state-owned **Epangelo Mining Co.** Planned production is 15 million pounds (6,800 tonnes) uranium oxide per year, although ramp-up to full production is not anticipated until 2017. As CGNPC and other Chinese state-owned nuclear power utilities will purchase the bulk of Husab's output as nuclear fuel for China's nuclear power plants, Husab is not exposed to the low prevailing uranium price. Some 10-20% of production is expected to be sold on the global market via wholly-owned **United Kingdom (UK)-based** sales company **CGN Global Uranium**. Local subsidiary **Swakop Uranium** is ready for the start of commercial operations in early 2016. Work on supporting infrastructure was completed last year, including a tarred access road and off-site electricity supply, with an on-site substation currently under construction. Other major developments include a 60 kilometre permanent water supply pipeline from **Swakopmund** (with water coming from the **Wlotskazbaken** desalination plant), completion of the (conventional acid tank leach) processing plant in the third quarter of 2015, with initial hot and cold commissioning of the plant currently due in the fourth quarter.<sup>17</sup>

The **Etango** project, located near the Husab project area, will likely be Namibia's next new uranium mine. The project has a current estimated capital cost of \$870m. Proven and probable reserves are 54,100 tonnes of yellowcake; planned production would be 6-9 million pounds (2,722-4,082 tonnes) uranium oxide over a 15-year mine life, with ore extracted from one large open pit and processed by sulphuric acid heap leaching technology. The project is development ready, as a definitive feasibility study (DFS) and environmental permitting was completed in 2012. **Australia-based Bannerman Resources** owns 80% of Etango and will await an upturn in the global market before taking an investment decision (the project break-even price is estimated at \$61 per pound). It expects to fund a mine through a mix of equity and borrowing, which requires a more favourable investment climate. Bannerman submitted a mining licence application to the government in 2012. Although this has not yet been granted. Bannerman CEO **Len Jubber** confirmed to ARC that when the firm is ready to proceed with a mine development he is confident that it will be granted the licence. He described the firm's relationship with the government as excellent, noting it had fully supported the Etango project throughout.<sup>18</sup>

Bannerman completed construction of a \$1.2m heap leach demonstration plant in March, after successfully raising the required funding from its shareholders. This is now at the phase one testing stage and initial results have confirmed the suitability of heap leaching for the ore. The results are

<sup>15</sup> Namibia Economist, 14 Aug 2015

<sup>16</sup> Fuel Cycle Week, Nuclear Intelligence Weekly, various issues in July-Aug 2015.

<sup>17</sup> Swakop Uranium, updates to author

<sup>18</sup> Telephone interview with Len Jubber, 19 Aug 2015

expected to attract new joint venture/funding partners for when mine development proceeds. Bannerman said the results “*strongly support the projections and assumptions*” incorporated in the DFS.<sup>19</sup> The 18-24 month demonstration programme aims to confirm the design and projected performance outlined in the DFS, further enhancing project knowledge and advancing value engineering.<sup>20</sup>

### Drought worsens as *El Niño* kicks in

Drought conditions have intensified in much of Namibia, significantly reducing dryland crop production of cereals, while poor grazing is adversely affecting the vital commercial livestock sector (which accounts for the major share of agricultural value-added output). However, if commercial farmers are obliged to sell more animals to limit mortalities, this will provide a temporary boost to livestock marketing volumes. Namibia traditionally has to import maize as domestic production is insufficient, but this year has had to import a much larger volume of 210,000 tonnes to cover the shortfall in domestic output.<sup>21</sup> This is in itself not a problem because **Namib Mills** and other local milling firms can finance cereal imports. However, because South Africa is also experiencing drought, it will have a smaller surplus to export. Although **Zambia** has a large surplus earmarked for export, Namibia will have to procure a higher than usual proportion of its imports from the global market, which will be costly. The substantial depreciation of the South African rand/Namibia dollar in 2015 had already impacted on basic food prices, as they are all US dollar-based traded internationally.

This year’s domestic harvest of maize, millet, sorghum and wheat is forecast to be only 68,000 tonnes, 46% of the average annual output and just half of last year’s production. Poor growing conditions have affected communal crop farming areas (which produce mainly pearl millet/sorghum) in northern Namibia and the main commercial dryland maize triangle area (**Grootfontein, Otavi and Tsumeb**). The government’s **Crop Prospects, Food Security and Drought Situation** report published in August stated that the majority of communal farmers were unable to cultivate most of their fields due to repeated dry spells during the main ploughing season of December 2014-February 2015.<sup>22</sup>

Namibia is potentially on the cusp of a renewed drought cycle due to the return of the *El Niño* weather phenomenon. From mid-July *El Niño* impacted a wide area of the equatorial **Pacific** basin off the northwest coast of **South America**. This year’s *El Niño* is already blamed for drought in Australia, **Indonesia** and the **Philippines**. Possibly the strongest heat waves are currently predicted to imminently hit parts of **Southern Africa**, including Namibia, lasting into 2016.<sup>23</sup>

### Implications

It is a measure of Geingob’s growing dominance of Namibia’s political firmament that he has – virtually single-handedly – brokered a settlement of the urban land crisis. Geingob used his political capital to corral the AR leaders into a meeting to thrash out the issue once and for all. While Geingob still has enemies within SWAPO, this latest demonstration of his political acumen mitigates the threat of a credible challenge to him formally taking over as SWAPO president at the next ordinary party congress in 2017. The SWAPO Youth League is still a potential thorn in Geingob’s side but is increasingly marginalised despite its role in the AR protest movement. Should the urban land servicing programme fall significantly behind schedule, the SYL will no doubt quickly reignite its militancy over the issue.

Delivering 200,000 serviced urban land plots is a tall order given the fragmented bureaucracy that has previously hampered the provision of serviced land, both to individuals and to businesses. Geingob has pledged to curb cumbersome procedures without spelling out how. Additionally, the

<sup>19</sup> Bannerman Resources, ASX Announcement, 15 July 2015

<sup>20</sup> Bannerman Resources, ASX Announcement, 15 July 2015

<sup>21</sup> New Era, 3 Aug 2015

<sup>22</sup> New Era 4 Aug 2015

<sup>23</sup> New Era, 6 Aug 2015

agreement between the government and AR did not address affordability. To keep AR onsite, Geingob is likely to stipulate that some housing is provided free or at a nominal charge.

High levels of domestic credit growth, low liquidity and reserves mean that the BoN's current policy of interest rate normalisation by further gradual increases in the repo rate will continue. The BoN could well raise the repo at one of its rate setting meetings in October and December, if domestic credit growth accelerates again and/or inflation rises significantly. The latter is almost certain because of the impact of the drought on food prices. More expensive white maize and wheat will have to be imported this year. The unprecedented weakness of the South African rand, widening current account deficit and increasingly unfavourable investment climate, is dragging down the Namibia dollar. This, rather than weak commodity prices, is currently the main external threat to Namibia's economy.

The depreciation of the local currency runs the risk of setting off a renewed inflationary spiral in both Namibia and South Africa. Finance ministry and BoN officials are increasingly considering delinking the Namibia dollar from the rand. Namibia's relatively low foreign reserves are the main constraint on a delinkage. This could change if the Husab mine operates to capacity and increases exports and foreign exchange earnings by 2017.

While the uranium price remains around its current level, the development of new mines is uneconomic. Analysts are, however, increasingly convinced that uncovered nuclear power utility procurement needs will result in a market shortfall before 2020, perhaps as early as 2016-17. When this happens, the uranium price should increase, increasing the commercial viability of developing known deposits. Meanwhile, junior exploration firms are not waiting for the global market to improve, but are moving their projects forward on a selective basis so they are well positioned to progress to the mine development stage once the conditions are right.

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