

AFRICA RISK CONSULTING

Namibia Monthly Briefing June 2016

Namibia Summary 20 June 2016

The escalating water shortage is putting pressure on President Hage Geingob (2015- present) to find large amounts of new money for urgent improvements in supply capacity. First lady Monica Kalondo Geingos establishes a non-profit foundation which aims to break the poverty cycle by promoting inclusivity, but without black economic empowerment (BEE)-style measures. The Bank of Namibia (BoN) (central bank) keeps its interest rate unchanged at 7% in June, although inflation edged up again in May. The central bank concludes that the benefits of the Namibia dollar's one-to-one peg to the depreciating South African rand continue to outweigh the disadvantages.

Current drought exposes deficiencies in water supply

President **Hage Geingob** (2015-present) is facing his first real crisis since taking office 15 months ago with the government's realisation that the scale of the current drought and water shortages in central **Namibia** is in danger of spiraling out of control. Much of this is due to the ecological damage caused by climate change, which is outside the government's control, but a backlog of investment in expanding water supply since independence is equally to blame. On being appraised of the full extent of the dire situation in central Namibia, the country's commercial agricultural and manufacturing heartland, Geingob reportedly described the position as "scary".¹ The three central dams that supply **Windhoek** and **Okahandja** are nearly depleted and currently hold only 11.1% of their capacity (**Swakoppoort** 10%, **Von Bach Dam** 20.5% and **Omatoko Dam** 2.3%). Although **Goreangab Dam** is 97.5% full, due to excessive pollution the water is now unfit for human consumption. Windhoek needs an estimated 33 million cubic metres of water a year, but faces a deficit of 15.7 million.² The **Construction Industry Federation (CIF)** has estimated that the water crisis may cost 40,000 jobs if the situation continues to deteriorate.³

Already, commercial water users in Windhoek and its surrounds, which includes the northern industrial area where many big companies such as **Namibia Breweries (Nambrew)** are located, are required to reduce their water consumption by 30% until next wet season starts, normally during November. But the situation is set to deteriorate before then, as supplies from Omatoko and Swakoppoort are expected to cease in mid-July with Von Bach going dry by November, unless there are significant fresh inflows of water by then. The impact could be wider. In the absence of good rainfall at the end of the year and subsequent inflow into the **Hardap Dam** in the south, crop irrigation at nearby **Mariental** may also be severely affected. State-owned **Namibia Water Corporation (NamWater)** engineer **Willem Venter** told an early June discussion hosted by the **Namibia Trade Forum (NTF)** that the irrigation of crops there may eventually have to be stopped.⁴ Hardap Dam does not have enough water to outlast the next two rainy seasons.⁵ The agriculture ministry's most recent augmentation study indicated that the only water supply options available for the central region are

¹ New Era, 6 Jun 2016.

² New Era, 10 Jun 2016.

³ New Era, 10 Jun 2016.

⁴ The Namibian, 10 Jun 2016.

⁵ The Namibian, 10 Jun 2016.

abstracting water from the **Kavango River** in the northeast (which might require **Botswana's** agreement) and more desalinated water from the coast.

The government is in the course of acquiring the 20 million cubic metre per year desalination plant near **Swakopmund** currently owned by **France-based Areva Resources Namibia (ARN)**. Once new connecting pipelines are built, the desalination plant could alleviate the central region's water shortage.

The main issue is where the government is going to get the money to invest rapidly in new supply capacity. At the NTF forum it was stated that between N\$10-20 billion (US\$0.7-1.4 billion) is required for expanding supply in the central area, while Windhoek alone will require N\$1 billion for the development of extraction points from existing aquifers in the northern and southern sections of the city. However, only N\$255m is currently available for water supply purposes in the 2016/17 to 2018/19 medium term expenditure framework (MTEF). Also, this is focused on defined projects, including groundwater development (N\$40m), feasibility study, planning and design for the construction the **Noordoewer Dam** (N\$12m) and continuing construction of the **Neckartal Dam** (N\$203m).

The **New Era** daily launched an unprecedented attack on government complacency over the issue. The ruling **South West African People's Organisation (SWAPO Party of Namibia)** owns the newspaper, although it is editorially independent. The *New Era* described the current water crisis as the clearest example of a man-made disaster,

"... a massive failure of logic and imagination, of misplaced priorities and wastage, of the mortal threat that mediocre and insufficient planning poses to the life of the people and future of the country".⁶

The *New Era* even took Geingob's much-vaunted **Harambee** prosperity plan to task.

"The Harambee plan has as one of its key targets the provision of potable water to 100% of the population. It is hard to see how Namibia will achieve this ambitious target with the same nonchalant outlook and the same people that led us to the brink of catastrophe in charge of our precious water resources."⁷

First Lady sets up non-profit foundation to promote inclusivity

Namibia's First Lady, Geingob's wife **Monica Kalondo Geingos**, has committed to doing something practical to help poorer, marginalised Namibians in establishing the **One Economy Foundation (ONE)** in mid-May.⁸ ONE is a non-governmental organisation (NGO) with the chief objective of promoting economic inclusivity for Namibians, based on the concept that opportunity needs to be underpinned by support. ONE is the implementing arm for all projects undertaken by the First Lady's Office; Geingos is executive chairperson, with the rest of the board comprising independent, non-executive directors drawn from a much wider range of Namibians than is usually the case with such organisations. According to Geingos, they include a financial services expert, several young Namibians, an office cleaner who aspires to be an entrepreneur, and a breadwinner whose full time occupation is guarding cars at a shopping complex in **Klein Windhoek**, an affluent suburb of the capital.

What is intriguing, but perhaps not surprising in view of Geingos' business career path, is that the activities and projects ONE will promote do not include the kind of black economic empowerment (BEE) provisions contained in the government's proposed **New Equitable Economic Empowerment Framework (NEEEF)** draft bill (see *ARC Briefing Namibia May 2016*). ONE's formal launch at a fund raising dinner came at a time when Namibia's private sector is still anxiously awaiting the outcome of

⁶ New Era, 10 Jun 2016.

⁷ New Era, 10 Jun 2016.

⁸ All Africa, 16 May 2016.

the consultation period for the bill which closed at the end of April. Prime minister **Saara Kugongelwa-Amadhila**, whose office is in charge of the BEE project, had not yet indicated whether she will make any of the alterations requested by local businesses – in particular changes to the provision for mandatory transfer of 25% equity interest in all firms to BEE entities.

In contrast to NEEEF provisions, ONE activities will be primarily focussed on, but not limited to, enterprise development and entrepreneurship. Local business criticised the draft BEE law for largely ignoring these aims. ONE activities will also focus on integrated early childhood development, institutional strategic support, gender-based violence response and preventative programmes. Geingos says the sole mission of the One Economy Foundation is to contribute to ensuring that fewer Namibians fall through the cracks and many more have a bridge to access their life's opportunity.⁹ Strategies to be used include mentoring and professional coaching; collateral-free lending; talent identification programmes for educational and entrepreneurial purposes; advocacy on adolescent reproductive health, and advocacy on communicable and non-communicable diseases.¹⁰

Central bank keeps interest rates unchanged

A recent deceleration in inflationary pressures, coupled with the slowdown in domestic credit growth enabled the **Bank of Namibia (BoN)** (central bank) to keep Namibia's repurchase (repo) rate unchanged at 7% at its latest monetary policy committee (MPC) meeting on 15 June (see *ARC Briefing Namibia May 2016*).¹¹ The decision had been correctly called by local economic analysts, partly because the **South African Reserve Bank (SARB)** had opted to keep its repo rate unchanged at 7% in May, freeing the central bank from the need to implement a matching increase in Namibia's rate to guard against any capital outflow. In an investment note on the eve of the central bank's interest rate decision, **Namibia Equity Brokers** said that it appeared satisfied with the slowdown in household credit growth and would not want to put pressure on household spending.¹² Research analyst **Ngoni Bopoto** commented:

*"Bank of Namibia is mindful of the precarious growth outlook, pressure on households and depressed commodity prices. The confluence of the points mentioned above point to [the reserve bank] keeping its repo rate unchanged at 7% this week."*¹³

However, it remains likely that the central bank will increase its repo rate again later this year. Windhoek stockbrokers **IJG Securities** predicts a further **South African** rate hike due to targeted inflation being exceeded and a volatile and depreciating rand:

*"We will see further rate hikes from the Bank of Namibia as well. This will put further pressure on the consumer which will in turn affect corporates."*¹⁴

Inflation rose slightly in May

The central bank's monetary policy decision reflected a more favourable trend in inflation and slower domestic credit growth. While continuing to rise, inflation "*remained manageable*".¹⁵ It noted that mainly due to lower lending to the business sector, overall domestic credit extension had slowed to an annual rate of 12.9% during January-April 2016, down from 15.9% in the same period of last year. The key indicator, growth in household instalment credit that the central bank has held partially accountable for the unsustainable upsurge in imports of high-end consumer goods, fell to 13.1% year-on-year (y/y), compared to 20.1% in January-April 2015.

⁹ All Africa, 16 May 2016.

¹⁰ All Africa, 16 May 2016.

¹¹ Bank of Namibia, Monetary Policy Statement, 15 Jun 2016.

¹² New Era, 15 Jun 2016.

¹³ New Era, 15 Jun 2016.

¹⁴ The Namibian, 3 Jun 2016.

¹⁵ Bank of Namibia, Monetary Policy Statement, 15 Jun 2016.

Inflation rose by 6.7% y/y in May, only slightly above the 6.6% y/y rate recorded in April according to **Namibia Statistics Agency (NSA)** data, while the monthly increase was fractionally lower at 0.5% than in April.¹⁶ The main inflation drivers continued to be food and non-alcoholic beverages (+12.2% y/y), housing, water, electricity, gas and other fuels (+7.6%), alcoholic beverages and tobacco (+7.2%). These three categories have a combined 57.5% weighting in the **Namibia Consumer Price Index (NCPI)** basket of goods. In contrast, transport inflation slowed quite sharply, to 1.5% y/y, compared to 2.8% in April, as the cost of operating personal transport (which reflects the prevailing oil price) decreased by 0.2% y/y, having risen by 1.9% in April. Even so, the central bank expects the annual rate of inflation to increase gradually for the remainder of the year. The mines and energy ministry raised domestic fuel prices on 1 June; unleaded petrol went up by 5% to N\$11.74 per litre and diesel by 4% to N\$11.48 per litre due to a recovery in the global price and continued depreciation of the rand.¹⁷ This will have a knock on effect on the distribution costs for imported foodstuffs and other products.

Domestic output facing global headwinds

The central bank also highlighted that keeping the lid on interest rates for the time being was also to continue supporting domestic economic growth, particularly in view of the “*slow and fragile recovery in the economies of Namibia’s trading partners*”.¹⁸ It noted that global growth had continued to be weak and monetary policy stances in both advanced and emerging market economies had remained “*generally accommodative*” (i.e. with low interest rates). The latest **World Economic Outlook** (April 2016) published by the **International Monetary Fund (IMF)** projects baseline global GDP growth of 3.2 % for 2016, down by 0.2 percentage points compared to its previous outlook report of January 2016. In this context, the central bank deemed that Namibia’s economy had registered “*satisfactory performance*” during the first four months of 2016, driven by solid growth in wholesale and retail trade, government-funded construction works and manufacturing.¹⁹ However, lower output of diamonds and refined zinc had reduced mining real value-added, while the drought continued to adversely affect agricultural output. While Namibia’s domestic economy would continue to record positive real growth this year, it warned that risks remain, including “*the slowdown in the economies of the country’s trading partners, soft commodity prices, volatile exchange rate and the effects of the prevailing drought conditions*”.²⁰

Central bank supports continued fixed exchange rate to the rand for now

The continued rapid depreciation of the South African rand, especially against the **United States (US)** dollar, has led the central bank to re-evaluate the pros and cons of maintaining Namibia’s one-to-one currency peg with the rand. Some analysts, such as **Nomura** emerging markets economist **Peter Montalto**, have predicted that the rand, currently trading at around 15 to the US dollar – a 27% depreciation since the end of 2014 – will fall to around 20 to the dollar by the year-end.²¹

Concern over the continued viability of the fixed exchange rate link led the central bank to publish an assessment of Namibia’s membership of the **Common Monetary Area (CMA)**, for which the rand is the ‘anchor’ currency, in its 2015 annual report. Namibia’s membership of the CMA, along with **Lesotho, Swaziland** and South Africa, is the institutional framework for Namibia’s fixed currency peg to the rand and requires it to comply with CMA (effectively South African) foreign exchange rate rules. The central bank stated that the recent depreciation of the local currency against major trading currencies had necessitated the review and renewed the public debate on whether pegging the Namibia dollar to the South African rand was still in Namibia’s best interest.²²

¹⁶ Namibia Statistics Agency, Namibia consumer price index, May 2016

¹⁷ NBC News. 27 May 2016.

¹⁸ Bank of Namibia, Monetary Policy Statement, 15 Jun 2016.

¹⁹ Bank of Namibia, Monetary Policy Statement, 15 Jun 2016.

²⁰ Bank of Namibia, Monetary Policy Statement, 15 Jun 2016.

²¹ Nomura, 4 May 2016.

²² Bank of Namibia, Annual Report 2015

The central bank noted that most developing and emerging market economies (EMEs) had experienced exchange rate volatility since the end of 2014, particularly in respect of commodity-exporting countries. It added that the currencies of commodity-export dependent countries such as **Russia** and **Brazil** had shown even greater volatility/depreciation against the US dollar over the period.²³ The central bank noted that both domestic and international factors had fuelled the further weakening of the rand during 2015, with the role of the exchange rate “*very important*” and rapid depreciation potentially damaging to a small, open economy such as Namibia’s.²⁴ However, it said these were “*complex times*” to apply macroeconomic policy in an open economy to produce a balance which will support both importers and exporters, while achieving economic objectives such as job creation.²⁵ The desired exchange rate level may accordingly be different and in conflict with these aims.

The analysis lists a number of key benefits to Namibia from the existing fixed link, including the elimination or reduction of transaction costs not only in exchanging Namibia dollars for rands, but also in the spread between rates charged for the purchase and sale of foreign currencies. With South Africa supplying some 60% of Namibia’s imports, the absence of any need to exchange Namibian dollars for rands to pay for such goods and services represents a key transaction saving. The central bank also maintains that Namibia benefits from price stability, as monetary policy has to dovetail with South Africa’s inflation targeting framework, which aims to keep the annual rate of inflation to within a range of 3% to 6%. The CMA provides for the free flow of capital between member countries, which, over the years, had proved beneficial to Namibia. The central bank acknowledged that CMA membership had also implied “*certain losses*” to the country; notably monetary autonomy, the transmission of external shocks (e.g. inflation pressures from a South African expansionary monetary policy), and capital outflows (such as Namibian pension fund investments in South African markets).²⁶ But, on balance, the central bank concludes that the benefits of pegging the Namibia dollar to the rand still outweigh the costs; notably the CMA’s primary objective of price stability continues to be achieved under the arrangement, while Namibia avoids transaction costs for the 60% of its import trade sourced from South Africa.²⁷ Although the fixed peg does result in costs, “*some of these costs would still exist even if Namibia was in a different exchange rate regime*”.²⁸

Implications

The political impact of the water crisis is muted because of SWAPO’s overwhelming dominance of the country’s executive and legislature. A no-confidence vote is inconceivable as might otherwise be the case, because SWAPO has a two-thirds majority in the **National Assembly (NA)** and over half of SWAPO MPs are the “payroll vote” as either government ministers or their deputies. The fragmented opposition parties are too weak to hold the government to account on this, as well as other issues. Geingob’s prime minister, Saara Kugongelwa-Amadhila, is fully engaged in trying to extract the government from the negative consequences of full-blown South African-style black economic empowerment (BEE), which has proved ineffective in significantly transferring wealth to poorer South Africans. This makes it probable that Geingob will have to take direct action as he did in brokering an agreement last July with the **Affirmative Repositioning (AR)** grass roots protest movement on the issue of expanding supply of service urban land plots for low-cost housing.

The Namibian way is to convene a national conference, as was done soon after independence when a national convocation was held on land. This did result in an agreed framework for land reform. Demands by some communities that land should be returned to their original owners – Namibia’s tribal communities – was rejected in favour of the land resettlement programme for the benefit of all

²³ Bank of Namibia, Annual Report 2015

²⁴ Bank of Namibia, Annual Report 2015

²⁵ Bank of Namibia, Annual Report 2015

²⁶ Bank of Namibia, Annual Report 2015

²⁷ Bank of Namibia, Annual Report 2015

²⁸ Bank of Namibia, Annual Report 2015

indigenous Namibians. This has involved its own distortions. The majority of those on the list as entitled to benefit from resettlement on farms purchased by the government under the willing-buyer, willing-seller policy, are northern **Oshivambo** who, unlike the **Ovaherero** and other groups in central and southern Namibia, were not actually dispossessed of their land by the **German** and South African colonial regimes. Geingob could also appeal to Namibia's main bilateral donors – Germany, with its high-quality technical assistance programme, and **China** with its deep pockets and strategic interest in the country's natural resources – to help kick start and fund an emergency water supply programme.

Despite inflation continuing to notch upwards, slowing private domestic credit growth enabled the central bank to pause monetary policy in June. But a further increase in Namibia's repo rate is probable later this year, possibly at the central bank's next rate setting meeting in August. This will largely depend on how far South Africa hikes its repo rate in response to mounting inflationary pressures, as the central bank would feel it would have to match this to guard against a capital outflow to South Africa. Conceivably the central bank may limit a repo rate increase to 25 basis points, even if South Africa hikes its rate by 50 basis points, to avoid putting too much pressure on stretched household budgets and under-cutting domestic output, which is currently growing more slowly than the same time last year. At the moment Namibia is continuing to ride out the continued weakness in global commodity prices better than might have been anticipated, largely due to the investment in new mining capacity. With global demand for diamond remaining depressed, higher copper, gold and uranium output – which should be substantially boosted once the large **Husab** mine starts up later this year – are the lynchpins of continued positive growth. Again, this underlines the government's need to be very careful not to make Namibia a less attractive place to invest in the mining sector due to the application of over-restrictive BEE measures, at least until a better balanced economy can develop based on more downstream beneficiation of raw materials to produce and export finished goods.

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