

## AFRICA RISK CONSULTING

### Namibia Monthly Briefing November 2015

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#### Namibia Summary 26 November 2015

**The ruling South West African People's Organisation (SWAPO Party of Namibia) will dominate the 30 November regional council and local authority elections. The former Rally for Democracy and Progress (RDP) leader Hidipo Hamutenya returns to SWAPO. A controversial 'solidarity' tax to combat inequality is going ahead. Namibia's Doing Business ranking decreases 13 places. Fiscal 2015/16 spending is reprioritised as revenue prospects weaken. The corrected Q2 GDP growth figure shows economic growth stayed strong and inflation remains subdued.**

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#### SWAPO set for another big poll win...

The campaign for **Namibia's** 27 November regional and local authority elections was peaceful with very few incidents between supporters of rival parties. The *New Era* daily newspaper – which is owned by the ruling **South West African People's Organisation (SWAPO Party of Namibia)** but is editorially independent said,

*"Even the exchanges of political rhetoric between rival politicians were conducted within the boundaries of overall general respect – a rarity in Namibia."*<sup>1</sup>

A key result will be **Kunene Region** in the northwest, the only region not under SWAPO control. A coalition of the **Democratic Turnhalle Alliance (DTA)** and **United Democratic Front (UDF)**, which has mainly **Damara** support, controls Kunene. Kunene is the proposed location of the **Baynes** hydropower station. Traditional leaders of the local **Himba** community remain strongly opposed to Baynes, which would be located on the **Kunene River**.

The **Rally for Democracy and Progress (RDP)** enters the election in disarray despite in October forming a five-party coalition with the **Congress of Democrats (CoD)**, the **Herero-based National Unity Democratic Organization** and the smaller **Republican Party (RP)** and **National Democratic Party (NDP)**.<sup>2</sup> Former RDP leader **Hidipo Hamutenya** not only rejoined SWAPO – which he quit in 2007 to form the RDP – but addressed a SWAPO rally on the final weekend of campaigning in **Ohangwena Region** in the north. This is Hamutenya's home region and where the RDP has polled strongly in the past. The decision to bring Hamutenya into the front line has divided opinion within SWAPO with some discounting it as an election tactic and not an indication that he will be brought back into the leadership.<sup>3</sup> Former president **Hifikepunye Pohamba** (2005-2015) has warmly endorsed Hamutenya's return to SWAPO and predicted that President **Hage Geingob** (2015-present) will appoint him an advisor. Other party sources concur, suggesting that Hamutenya would be promoted to Geingob's 'A-Team' as a presidential advisor on trade-related matters (he was trade and industry minister from 1993-2002).

#### Government goes ahead with solidarity wealth tax...

The government will proceed with a new "solidarity" wealth tax announced in late October as a redistributive measure to reduce inequality despite criticism by business and taxpayer groups. Criticism targeted the lack of detail about the application of the tax notably over what level of income

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<sup>1</sup> New Era, 26 Nov 2015.

<sup>2</sup> New Era, 2 Nov 2015.

<sup>3</sup> New Era, 19 Nov 2015.

it would be levied on. The proceeds from the tax will be ring-fenced and its distribution subject to parliamentary scrutiny; it will not be paid directly to individuals as the proponents of a basic income grant (BIG) for all Namibians have advocated. **Namibia Consumer Trust (NCT)** executive director **Michael Gaweseb** said that while he viewed the tax as necessary, the threshold at which it becomes payable requires consideration.<sup>4</sup> Gaweseb advocated that only individuals earning above N\$800,000 (US\$59,000) per year and companies earning 15% profit and above in the commercial, non-resource sectors are subject to the tax.<sup>5</sup>

Finance minister **Calle Schlettwein** provided further details of the tax – likely to be introduced in the 2016/17 fiscal year – in his 3 November mid-year budget review. Schlettwein described the tax as “*a progressive withholding tax on income*” expected to raise N\$600m (\$41.8m) a year.<sup>6</sup> Schlettwein said the government is currently investigating the “*feasibility*” of the tax, although he noted that all individuals and registered companies would have to pay the tax. The tax would be levied on a graduated scale for individuals and a flat amount from corporate entities. He promised further public consultation, noting the proceeds would accrue to a dedicated fund under the control of the finance ministry and the prime minister’s office.

### **Namibia drops 13 places in latest Doing Business survey**

The overall ease of doing business in Namibia has considerably deteriorated according to the **World Bank’s** annual survey.<sup>7</sup> In *Doing Business 2016* Namibia’s ranking slipped 13 places to 101<sup>st</sup> from 88<sup>th</sup>, based on an unchanged coverage of 189 countries. This put Namibia in the bottom half of the countries surveyed for the first time. Although the World Bank business categories do not explicitly recognise foreign currency weakness, the substantial depreciation of the **South African** rand and the Namibia dollar (down 18% against the **United States (US)** dollar since the start of 2015) was a background trend dragging down both countries’ business attractiveness.

The slide in Namibia’s ranking more than reversed a ten-place improvement (from 98<sup>th</sup>) recorded in *Doing Business 2015*. Namibia lost ground in most areas, which outweighed an improved performance in three categories. Starting a business (ranked 164<sup>th</sup>, down from 156<sup>th</sup> previously), and registering a property (174<sup>th</sup>, down from 173<sup>rd</sup>) remained especially problematic. Namibia’s low ranking for starting a business reflected the number of procedures (ten) and excessive length of time (66 days) involved, while registering a property takes almost as long (52 days). The worst slippage was in enforcing contracts (103<sup>rd</sup>, down from 53<sup>rd</sup>), which takes on average 460 days to achieve and costs 36% of the claim value and resolving insolvency (97<sup>th</sup>, down from 81<sup>st</sup>), which takes 2.5 years and costs 15% of the estate value. Namibia’s ranking for dealing with construction permits fell from 25<sup>th</sup> to 66<sup>th</sup>, with ten procedures taking an average 137 days. In its summary section on reforms enacted in 2014/15, the World Bank noted that obtaining construction permits had become more time consuming as a result of inefficiencies at the municipal authority level.

The increasing complexity of Namibia’s tax system was the main reason for the country’s “paying taxes” ranking falling to 93<sup>rd</sup> (previously 85<sup>th</sup>), with an average 27 payments per year taking 302 hours (just under 13 days) per year. There were improvements in getting credit (ranked 59<sup>th</sup>, up from 61<sup>st</sup>), protecting minority investors (66<sup>th</sup>, up from 87<sup>th</sup>) and trading across borders (118<sup>th</sup>, up from 136<sup>th</sup>). The World Bank stated that Namibia improved access to credit information through “*guaranteeing by law borrowers’ right to inspect their own data.*”<sup>8</sup>

<sup>4</sup> The Namibian, 30 Oct 2015.

<sup>5</sup> The Namibian, 30 Oct 2015.

<sup>6</sup> Mid-Year Budget Review Policy Statement by Calle Schlettwein, Minister of Finance, November 2015.

<sup>7</sup> World Bank Group, Doing Business 2016.

<sup>8</sup> World Bank Group, Doing Business 2016.

## Mid-year budget review reprioritises spending

In his mid-year budget review on 3 November, Schlettwein announced cuts to, and a recalibration of, government spending for the remainder of the 2015/16 (April 1-March 31) fiscal year, as well as changes to the government's future fiscal strategy.<sup>9</sup> The context for the review included the potential impacts of continued global economic uncertainties on domestic output and fiscal output, and a fall in Namibia's receipts from the **Southern African Customs Union (SACU)**.<sup>10</sup> SACU receipts account on average for around 40% of total government revenue. The government had accordingly revised the macro-economic and fiscal projections for preparing the next budget (for the 2016/17 fiscal year) and the next three-year medium-term economic framework (MTEF, 2016/17-2018/19 fiscal years).

New tax proposals, in addition to the "solidarity" tax (see above) to be tabled in the next session of parliament, include an export levy bill to promote domestic value-addition and processing of raw materials and a first phase environmental tax on CO2 emissions by motor vehicles. The government will also investigate modalities for a "presumptive tax" on the informal sector to broaden the tax base. Schlettwein told the National Assembly (NA) that four key "macro-critical" issues require policy attention both immediately and over the course of the next MTEF. These were: the structural challenge of eradicating poverty, unemployment and inequality through targeted development intervention measures; decreasing revenue due to contracting SACU receipts; widening budget and current account deficits driven by previous expansionary budgets and high import growth; a declining stock of foreign reserves due to a persistently negative foreign trade balance. The budget deficit is to be maintained below 5% of GDP annually over the MTEF, with macro-fiscal risks to foreign reserves minimised through moderated public spending growth and promotion of export-led growth.

On the immediate fiscal situation, Schlettwein said that the 2014/15 revenue outturn was 95% of the amount estimated. Schlettwein therefore adjusted downwards current and subsequent fiscal year targets, increased borrowing to fund the shortfall, and reduced expenditure to ensure fiscal consolidation. Accordingly, the finance ministry currently estimates that 2015/16 revenue would decrease by 4.9% to N\$55.6 billion (US\$3.9 billion) from N\$58.4 billion (US\$4.6 billion) originally. The SACU common revenue pool incurred an estimated N\$7.6 billion (US\$528m) deficit in 2014/15, meaning Namibia had to repay some N\$3 billion (US\$298.6m) in 2016/17 as its share over and above a projected decrease in SACU receipts caused by the South African economy's slow growth rate. In response the government will implement a series of cost savings measures expected to realise N\$4 billion (US\$287m) in the current fiscal year, at least N\$4.1 billion (US\$285m) in 2016/17 and some N\$3.8 billion (US\$264m) in 2017/18. These would be achieved by spending cuts of 42% on indicative allocations to nine "non-core and least priority" recurrent spending items, cuts and postponement of "non-productive" capital spending such as new office buildings and transfers to state-owned enterprises for non-priority projects, and containment of rising public sector wage bill costs. Identified savings for the current fiscal year are to be reallocated to urgent priority needs and programmes experiencing funding shortfalls. During the remaining two fiscal years of the current MTEF, fiscal consolidation will continue through further expenditure adjustments and measures to improve revenue generation.

The mid-year budget review generally drew a positive response from local economists.

*"We believe it's a brilliant way of opening and making the budget process more transparent... and it can also be used to redirect budget votes to priority areas within a fiscal year."*<sup>11</sup>

However, other sources say a deficit equivalent to 5% of GDP for the next three years "is still too high and will depend on strong GDP growth to remain sustainable".<sup>12</sup>

<sup>9</sup> Multiple sources: New Era, 4 Nov 2015; Mid-Year Budget Review Policy Statement by Calle Schlettwein, Minister of Finance, Nov 2015.

<sup>10</sup> Ministerial Statement on the Government fiscal position and financing of budget deficit for FY2015/16, 15 Oct 2015.

<sup>11</sup> Source, economist, Windhoek

<sup>12</sup> The Namibian, 4 Nov 2015.

The successful issue of a US\$750m ten-year **Eurobond** on 22 October has boosted financing of the 2015/16 budget deficit (see *ARC Briefing Namibia October 2015*). Namibia's second Eurobond was equivalent to N\$10.4 billion at the prevailing exchange rate. The proceeds will bolster Namibia's foreign reserves, for which US\$300m has been set aside, and to fund infrastructure project financing and other development projects, for which US\$450m has been allocated.<sup>13</sup> The Eurobond has a 5.25% coupon rate, better than that for the previous Eurobond issued in late 2011, and was finally priced to yield 5.375%, representing a spread of 336 basis points over the benchmark 10-year **US Treasury bond**. At the initial price guidance of 5.75%, the Eurobond was over-subscribed with a US\$3.8 billion order book, before the guidance was revised down to 5.5%, plus/minus one eighth of a percent. **Fitch Ratings** has rated the bond BBB-, the same rating as its Namibia sovereign long-term foreign currency Issuer Default Rating (IDR), and **Moodys** rated it Baa3. The issue attracted a broad geographic distribution; **United Kingdom (UK)** and US financial institutions took up 78% of the final investor allocations, with banks from **Africa, Asia, Continental Europe** and the **Middle East** accounting for the remainder.<sup>14</sup>

### Q2 2015 GDP growth turns out to have been stronger and inflation remains low

The **Namibia Statistics Agency (NSA)** has corrected its previously published GDP growth rate figure for Q2 2015. Overall real growth is now reported as almost one percentage point higher (see *ARC Briefing Namibia October 2015*). The NSA gave the correct GDP growth rate for Q2 as 5.2%, up from 4.2% previously. This partly reflected a corrected wholesale and retail trade growth rate of 8.5%, almost treble the previous rate.

The corrected figure means that rather than slowing year-on-year, Namibia's economy actually increased slightly faster than the 5.0% growth rate recorded in Q2 2014 and only slightly below the 5.3% growth rate for Q1 2015. This confirms that the economy remains in strong growth mode with no serious impact yet from the trough in most global commodity prices and weaker growth in international trade.

Like most oil importers, Namibia continues to benefit from low global oil prices, while robust construction activities, higher commercial livestock output and buoyant wholesale and retail trading underpin domestic output. It now seems likely that initial commissioning of the **Husab** uranium mine will take place earlier next year rather than by the end of 2015 as previously expected which will boost overall GDP growth by one or two percentage points in 2016. With year-on-year inflation remaining low, domestic credit extension having slowed and a reduction in the foreign trade and current account deficits, the **Bank of Namibia (BoN)** is not currently expected to increase its repurchase (repo) rate at the final meeting in 2015 of its monetary policy committee (MPC) on 9 December.<sup>15</sup> The MPC kept the rate at 6.5% in October and August 2015, having raised it by 25 basis points in July and February.

Year-on-year (y/y) inflation rose only slightly in October to 3.4%, from 3.3% in September. This mainly reflected higher inflation for food and non-alcoholic beverages of 6.7% (5.7% in September) and for housing, water, gas, electricity and other fuels of 2.8% (2.3%), both categories accounting for a combined 45% in the overall national consumer price index basket of goods. However, transport (14.3% weighting) continued to record deflation of -2.4% (-2.2% in September), due to the reduced cost of operating personal transport equipment as a result of continued low domestic fuel prices.

Despite the upward blip in overall inflation, January-October 2015 average inflation decreased to 3.4% from 5.5% for the same period of last year. Opinions are divided over whether low inflation will continue into 2016. **Windhoek** stockbrokers **IJG Securities** expect inflation to increase near-term due to higher domestic utility prices and as the base effect of last year's sharp reduction in the global oil price falls away and imports costs rise due to the weak foreign exchange value of the South African

<sup>13</sup> Mid-Year Budget Review Policy Statement by Calle Schlettwein, Minister of Finance, November 2015

<sup>14</sup> New Era, 26 Oct 2015.

<sup>15</sup> The Namibian, 18 Nov 2015

rand and Namibia dollar. In contrast, **Simonis Storm Securities** believes continued low oil prices will keep domestic inflation subdued for the rest of 2015. In November, the mining and energy ministry announced a further decrease in the price of unleaded petrol, the second since September.<sup>16</sup>

### ...Domestic credit growth slows and the foreign trade deficit falls

Domestic credit growth, a key determinant of the BoN's decision on whether to increase interest rates again by the year-end, slowed slightly to 15.7% year-on-year (y/y) in September, down from 15.8% in August.<sup>17</sup> This compares to accelerating growth in the first half of 2015 so may be sufficient to head off another repo rate hike. Private sector lending totalled N\$1.4 billion (US\$0.1 billion) in September, taking total credit outstanding to N\$75.9 billion (US\$5.6 billion), of which over half – N\$44.2 billion (US\$3.3 billion) – comprised loans to households. Household credit growth expanded by 13.5% compared to 11% in August, but crucially, growth in installment credit, the second largest type of loans to individuals, slowed to 15.7% y/y, down from 16.4% in August. The BoN has continued to reiterate that installment credit used by individuals to finance purchases of non-essential imports has contributed to a widening foreign trade gap and placed pressure on Namibia's foreign reserves. Credit growth to business remained much higher, although it slowed to 18.8% y/y from 23.1% in August, and is not viewed as detrimental to the foreign trade balance.

A narrowing of the foreign trade and current account deficits in the first half of this year has helped to reduce near-term pressures to raise interest rates again, although this trend may not be sustained into the second half of 2015. According to the BoN's latest quarterly bulletin, Namibia's external balance was improved by a surprising reduction in the foreign trade deficit.<sup>18</sup> In most circumstances local currency depreciation would increase the cost of imports priced in US dollar and other currencies. However, in Namibia, foreign currency fluctuation does not directly affect the 65% of total imports sourced from South Africa and priced in rand, to which the Namibia dollar is pegged at parity. The continued weak global oil price has also held down the part of Namibia's import bill denominated in US dollars, notably petroleum products. Accordingly, the foreign trade deficit for January-June 2015 decreased by one-fifth to US\$1.1 billion compared to a year earlier. Exports decreased by 10% to US\$2.1 billion in the first two quarters due to lower diamond and uranium exports only partially offset by higher copper and gold exports, but imports fell by 14% to US\$3.2 billion. The result was a narrowing of the current account deficit to US\$296m, down 58% on a year earlier. However, the foreign trade deficit looks to have widened subsequently in Q3 2015; NSA data show the deficit rose to US\$0.9 billion, up from the BoN's figure of US\$0.7 billion in Q2, with imports surging by 15% quarter-on-quarter to US\$2.0 billion while exports were almost unchanged.<sup>19</sup>

### Implications

The significance of the 27 November regional and local elections will be demonstrating that under Geingob SWAPO has increased its already overwhelming dominance of Namibian politics. The rehabilitation of former RDP leader Hamutenya is a sign that Geingob is managing to make SWAPO more inclusive. One certain consequence is to weaken the new leader of the RDP, **Jeremiah Nambinga**. The RDP's future looks uncertain especially if it performs poorly in the elections. Other former SWAPO leaders who quit alongside Hamutenya are reportedly poised to return to SWAPO. According to the Windhoek rumour mill, the COD leader, **Ben Ulenga**, is also planning to defect back to SWAPO. This would leave the DTA of Namibia the official opposition in parliament with three MPs and a young leader in **McHenry Venaani**, virtually the last significant opposition party.

Schlettwein recognises that after six years of expansionary budgets and increasing central government borrowing to finance successive budget deficits, something has to give. The prospect of an unprecedented decrease in Namibia's share of receipts from the SACU common revenue pool has

<sup>16</sup> The Namibian, 16 Nov 2015.

<sup>17</sup> IJG Securities, PSCE September 2015, 4 Nov 2015.

<sup>18</sup> Bank of Namibia, Quarterly Bulletin, September 2015.

<sup>19</sup> Namibia Statistics Agency, Quarterly Trade Statistics Bulletin, Third Quarter 2015.

given new urgency to the need for fiscal consolidation (read reduced recurrent spending). Until now, increases in SACU revenues from year-to-year have enabled the Namibian government to continue to increase total spending levels without the budget deficit going through the roof.

In line with lower projected revenue, Schlettwein has revised the previous total expenditure ceiling (recurrent and development spending) for 2016/17 downward by just under 8%. In line with the government's commitment to anti-poverty programmes and reduction in inequality, Schlettwein has pledged to protect spending on social sectors, but it seems unlikely this could be achieved without real spending cuts elsewhere, including the until now sacrosanct defence budget. Since Namibia has no external border disputes or other causes of potential conflict with neighbouring states, it is unclear why defence spending should continue to expand in real terms year by year.

Schlettwein identified five main areas of macro-fiscal risks to which the government is giving priority attention. Crucially, he acknowledged that the **International Monetary Fund** highlighted these in its recent Article IV consultation, indicating the government has taken on board its key recommendations (see *ARC Briefing Namibia July 2015*). These relate to potential negative impacts of global economic trends, which Namibia aims to reduce by decreased reliance on commodity raw material exports, an appropriate fiscal policy stance in the face of heightened global uncertainties, domestic financial market liquidity constraints and maintaining an adequate stock of foreign reserves.

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