

## AFRICA RISK CONSULTING

### Namibia Monthly Briefing June 2015

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#### Namibia Summary 24 June 2015

*President Hage Geingob's (2015-present) accountability drive results in five-year policy commitments from ministers but South West African People's Organisation (SWAPO) grandees resist declaring their personal assets. Phosphate mining lobbyists hope the cabinet will rescind a moratorium on [offshore] mining developments, imposed to assess environmental impacts on fish stocks. The government's failure to produce an affordable land policy by July may prompt Affirmative Repositioning (AR) to resume mass protests. The Bank of Namibia (BoN) moves to reign-in domestic credit. Annual inflation falls to a decade low but a depreciating currency and a severe drought may raise maize prices increasing inflation risks. Diamond output is growing and refined copper production is expanding.*

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#### Ministers comply with Geingob's directive on policy transparency

President **Hage Geingob** (2015-present) is pressing ahead with his transparency and accountability agenda despite prompting some senior **South West African People's Organisation (SWAPO)** members' pushback. All but three of 26 cabinet ministers and deputy ministers met Geingob's end-May deadline to submit their five-year policy declarations (see *ARC Namibia May 2015 Briefing*). The president promised to publish these policy declarations as they constitute a commitment to the public<sup>1</sup> and to hold ministers to them. Geingob pressed the three – who are all new cabinet ministers and none of whom holds a senior post – to complete their declarations without delay.

Geingob's expectation that his ministers and their deputies would follow his and his wife's lead in publicly disclosing their assets has met resistance. Geingob's predecessor, **Hifikepunye Pohamba** (2005-2015), and first president **Sam Nujoma** (1990-2005) – both now members of a new presidential council – are believed to have counselled caution in the face of ministers' reluctance. Disclosures will probably form part of the updated MPs' asset register that **National Assembly (NA)** speaker, **Peter Katjavivi**, is compiling. Whether this will be publicly available is not yet known.

Those not reconciled to Geingob's leadership and those resisting the new president's transparency drive are reserving their fire for the party's ordinary congress in 2017 when Geingob takes over the party presidency from Pohamba. Although Pohamba stepped down in April – two years early – to make way for Geingob, the SWAPO central committee has insisted that Geingob wait until the 2017 congress. Geingob's opponents will now focus on presenting candidates for the vice presidency – the party stepping-stone to the national presidency. This is likely to be a contest between a pro- and an anti-Geingob candidate. Whoever wins will determine the longevity of the transparency initiative.

The transparency drive is carrying through to investor policy. Foreign investors will be required to register at the **Namibia Investor Centre (NIC)**. The NIC in turn will become a one-stop shop for investors to speed up processes and reduce bureaucracy. A new **Investment Act** comes into effect in November and will consolidate several investment incentives. A new incentive package covering agro-processing, logistics, manufacturing and tourism will replace the existing **export processing zone (EPZ)**, which provides for zero income tax on companies exporting at least 80% of their products outside the **Southern African Customs Union (SACU)**.

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<sup>1</sup> New Era, 3 Jun 2015

Trade and industry permanent secretary, **Malan Lindeque**, commented:

*“Under the new bill, existing investors are obliged to register with the investor promotion agency, which is the **Namibia Investment Centre (NIC)**. The bill provides for a certain grace period during which such registration can be done.”<sup>2</sup>*

### ...but official transparency faces an early test

An early test of official transparency in the face of business interests will be how Geingob handles the issue of the now-expired 18-month moratorium on phosphate mining developments. The fishing industry – with the backing of fisheries and marine resources minister **Bernard Esau** – is adamant that the risks of allowing phosphate mining to proceed without a scientific assessment is too risky.

Prospects for phosphate mining are uncertain despite two large offshore deposits in shallow waters. The government is concerned about adverse impacts on the sea fishing industry and introduced the moratorium in September 2013 to allow for a comprehensive scientific assessment of the threat to the sea fishing industry and the ecology of the marine environment. Namibia’s coast is some 1,500 kilometres long and phosphate mining is currently proposed at only two locations. Esau says the moratorium will remain in force until a wide-ranging scientific assessment of the environmental impacts has been completed.<sup>3</sup>

The **Norwegian Institute of Marine Research** and consultants **Sintef** were commissioned to produce a study but have so far only produced a scoping report. The fishing industry remains strongly opposed to allowing any marine phosphate mining to proceed because of the unknown environmental risk to fish stocks; mining the material from the seabed has not been attempted anywhere else. The **Confederation of Namibian Fishing Associations (Confa)** has called on the government to continue the moratorium to allow effective scientific analysis and an environmental base line to be established before any mining is allowed. At a **Walvis Bay** press conference early this month, Confa chairperson **Matti Amwula** said the fishing industry fully backed Esau in his efforts to maintain an effective moratorium. He commented:

*“This is essential so that a proper on site research at sea can be undertaken by international expert scientists to assess potential marine phosphate mining impacts on the health of the **Benguela Current** ecosystem.”<sup>4</sup>*

Despite this strong support from the fishing industry, there are indications that Esau is becoming isolated on the issue as he recently stated that a decision on whether to lift the moratorium which expired in March would be taken by the cabinet collectively and not by his ministry alone. Mines and energy minister **Obeth Kandjoze** has made clear his view that with the expiry of the moratorium, projects with mining licences should proceed. He also warned that the legal standing of the moratorium would be difficult should firms with mining licences decide to challenge it in court.

There are powerful lobbyists engaged in trying to ensure that cabinet overturns the moratorium. The two firms with mining licences are **Namibian Marine Phosphate (NMP)**, which brought a large deposit north of Walvis Bay to the feasibility study stage before the moratorium was imposed, and **LL Namibia Phosphate (LLNP)**, which has a smaller and less advanced project in the immediate vicinity of the southern port of **Luderitz**. NMP was originally owned by a joint venture of two publicly-listed Australian firms and a minority (15%) partner, the black economic empowerment (BEE) entity **Tungeni Investments**. Omani-owned **Mawarid Mining** bought out the Australian partners three years ago, while more recently, local firm **Havana Investments** has taken over Tungeni’s shareholding (on undisclosed terms). Havana’s owner is Namibian oil exploration millionaire **Knowledge Katti**, a friend of both Kandjoze and Geingob. Katti is reported to have paraded his fellow

<sup>2</sup> The Namibian, 17 Jun 2015

<sup>3</sup> The Namibian, 27 May 2015

<sup>4</sup> New Era, 8 Jun 2015

two NMP directors, Omani businessmen **Tariq Al Barwani** and **Sushil Srivastava**, at Geingob's inauguration as head of state in March. LLNP is equally well connected; its owner is the **Israeli**-based diamond mogul **Lev Leviev**, who is keen to re-establish a presence in Namibia after the effective collapse of his offshore diamond mining and diamond cutting and polishing operations. The former has ceased to mine because it ran out of minable deposits while the latter was refused a cutting quota in the last allocation of rough diamonds by the government/De Beers'-owned **Namibia Diamond Trading Co (NDTC)** in 2013 following allegations of fraudulent activities at the factory (although this was not given as the reason for refusing an allocation). In addition, LLNP chief executive **Kombayedu Kapwanga** has strong political connections from his time as government director of mines in the 1990s, and has just been elected as the 2015-16 president of the **Chamber of Mines of Namibia (CMN)**.<sup>5</sup>

### ...and an urban land deadline looms.

Geingob's new government also faces the resumption of popular unrest from the party's youth movement. The **SWAPO Youth League (SYL)** is behind the **Affirmative Repositioning (AR)** grass roots protest campaign. Together they are pressing government to cut the cost of serviced urban plots for housing. Both groups have issued a 31 July deadline to resume mass protests. High prices have made it very difficult for both low- and middle-income Namibians to build houses. Local banks and financial institutions reportedly decline most mortgage loan applications. AR members use social media to express their anger at the slow pace of land delivery, including threats of violence to achieve their aims.<sup>6</sup> The SYL and **National Youth Council (NYC)** have disowned these threats, cautioning that breaking the law is not the answer and that those making such statements should be arrested.

Some municipalities have sought to avert confrontation. Walvis Bay has spent N\$158 million (US\$13.2 million) servicing urban land during 2014/2015 and some 1,350 plots are due to become available during the next three months. Official figures show that 43% of Walvis Bay inhabitants have decent housing while 32% live in shacks. There are ambitious plans to expand Walvis Bay to meet targets in the national long-term development goal **Vision 2030** of transforming Namibia into an industrialised society. The recently approved Walvis Bay **Integrated Urban Spatial Development Framework** provides for the building of 40,000 houses on 2,000 hectares (20 square kilometres) of serviced land and the establishment of up to 90 new townships.

### Repo rate raised by a further 25 basis points...

Nevertheless, the government is establishing itself during a period of unprecedented growth, which increasingly sees Namibia uncoupling from **South Africa's** ailing economy. Unusually high growth and its consequent expansion in household credit was at the heart of the **Bank of Namibia (BoN)'s** move on 16 June to curb household credit and raised its repurchase (repo) rate by another 25 basis points to 6.50%, which places it 100 bps higher than in neighbouring South Africa. Local commercial banks are set to raise their prime rates by an equivalent amount – which will translate into a 12% interest rate for loans and overdrafts.

BoN governor **Ipumbu Shiimi** said the bank had acted “*to contain high growth in credit, particularly that of instalment credit*”.<sup>7</sup> A large proportion of these loans finance unproductive imported luxury items, pressuring the foreign trade account and the country's international reserves. Although the BoN said the stock of foreign reserves was sufficient to underpin the Namibia dollar's one-to-one peg with the South African rand, these had fallen to N\$12.1 billion (US\$1.0 billion) from N\$15.7 billion (US\$1.3 billion) in April.

<sup>5</sup> Mining industry source plus ARC research

<sup>6</sup> New Era, 16 Jun 2015

<sup>7</sup> Bank of Namibia, Monetary Policy Statement, 17 Jun 2015

The increase in private sector credit expansion (PSCE) is “*due to strong wealth effects as a result of prolonged and abnormally high growth*”.<sup>8</sup> The strong demand for credit in Namibia contrasts with South Africa where PSCE growth is much lower due to sluggish consumer demand and low GDP growth. It is another indication that Namibia’s economic performance is decreasingly tied to its larger neighbour. The latest **RMB Global Markets Research, Sub-Saharan African Outlook** published at the end of May by South Africa’s **Rand Merchant Bank (RMB)** noted that Namibian growth was decoupling from South Africa on the back of strong mining, construction and energy sector growth. It expects the trend to continue in 2016 due to increased gold and uranium production, along with continued strong growth in the construction and wholesale/retail trade sectors.<sup>9</sup>

### ...as inflation falls to a decade low

Were it not for the imbalances caused by the over-rapid growth in domestic credit, the BoN would have no need to tighten monetary policy on inflation grounds. Year on year inflation fell to a five-year low of 2.9% in April, from 3.4% in March, mainly due to low global oil prices.

Provided there is no sharp upward spike in global oil prices in coming months, which currently looks unlikely, the inflation outlook for the rest of 2015 is broadly benign, although the year on year inflation rate is expected to move upwards in the second half of the year. Inflation should remain at below trend levels for the next few months.

However, upside pressures could develop later this year as the current severe drought affecting Namibia and parts of South Africa will result in large losses in agricultural production, necessitating higher and more costly imports of cereals, principally maize. Namibia had no rain at all in February, and precipitation in March came too late to save dry-land crops of maize and millet (*mahangu*), the latter being the principal food staple in the north. Dry-land maize production is put at only 10,000 tonnes this year, with a total maize harvest of only 35-40,000 tonnes (most will be produced on irrigated land), down from around 78,000 tonnes last year.<sup>10</sup> Import prices for white maize are expected to increase as Namibia’s stocks become depleted. South Africa is expected to have sufficient maize stocks to next April, enabling it to continue its role as Namibia’s main import source. Even so the impact on local maize prices could be severe.

The continued depreciation of the South African rand, dragging down the Namibia dollar’s value with it, will have an additional inflationary impact on imported goods. The rand depreciated against the **United States (US)** dollar by 12% in the first five months of 2015, compared to its 14% depreciation last year. An increase in bulk electricity tariffs, due to take effect in July, will add to domestic inflationary pressures. Even so, while **PSG Namibia** expects inflation to bottom out during the second half of 2015, it does not anticipate a substantial upward trajectory until into the first half of 2016. It forecasts a year on year inflation rate of 4.4% this year, down from 5.4% in 2014, based on the combined impacts of a depreciating local currency, higher domestic electricity tariffs and a projected upward trajectory in South Africa’s inflation rate. PSG Namibia director **Brian van Rensburg** commented:

*“The last time that headline inflation was this low was nearly a decade ago at a time when services cost inflation was very low. This time around, goods price inflation is below the services equivalent as a result of notably cheaper energy products.”*<sup>11</sup>

### Implications

Geingob is continuing to push forward with his transparency agenda, which has so far not met with serious resistance from the ruling party’s old guard, including several veteran ministers whom he retained in his cabinet. The fact that most ministers and their deputies complied with his directive to

<sup>8</sup> IJG Securities, 10 Jun 2015

<sup>9</sup> The Namibian, 1 Jun 2015

<sup>10</sup> New Era 4 Jun, 10 Jun 2015

<sup>11</sup>The Namibian, 19 Jun 2015

produce five-year policy programmes for their ministries by the end-May deadline shows that Geingob is still riding high after his stunning electoral victory last November. These policy statements are another innovation by Geingob and mean that ministers should in theory be held accountable for implementing the policies they are signed up to. It appears that Geingob personally intends to hold his ministers to account, which may not be palatable to those outside his inner core of loyalists.

The next few months will be crucial in determining whether Geingob's presidency really represents a new chapter in Namibia's post-independence development. Specific policies are now being worked up by key ministers, for improving the supply of affordable urban land, streamlining the existing package of foreign investment incentives, and re-introducing a bill dropped in 2013 for further consultation to establish a new more transparent public tendering system. These are being accompanied by broader measures to improve service delivery and ensure funds allocated in the annual budget are spent more quickly and effectively.

Government faces a tough challenge from phosphates lobbyists. Would-be phosphate miners have heavyweight backers in Knowledge Katti and Lev Leviev, especially as the former is a friend of both Geingob and the mines and energy minister, Obeth Kandjozi. The latter has already acknowledged he is aware of Katti's shareholding in the most advanced project, Namibia Marine Phosphate (NMP). But if the greater transparency Geingob is advocating means anything in practice, Kandjozi would have to recuse himself from the cabinet consideration of the moratorium, expected to take place soon, on the grounds he is a potentially interested party. If risks are assessed to be manageable and phosphate mining goes ahead, it will provide another string to Namibia's increasingly diversified natural resource bow, moving it away from over-dependence on diamonds as the main foreign exchange earner.

The urban land crisis is going to be Geingob's first major test given the grass roots protest movement demand that municipalities' commitments for the supply of cheaper serviced plots for housing be in place by the end of July. This is unrealistic, but if Geingob can at least offer the prospect that something will be done to remedy the current situation that might be enough to persuade some protest leaders – many drawn from the SWAPO Youth League – to call off their threat to renew mass protests and start occupying land. The problem is a mix of corruption in the allocation of serviced plots at some municipalities, including **Windhoek**, and genuine difficulties in securing sufficient funds from central government to install the necessary facilities for serviced housing plots (water, sewage and power supplies). There could be controls placed on the current auction system which favours those with available cash to the detriment of low income Namibians in genuine need of housing.

Despite continued global uncertainties and commodity price weakness Namibia's economy remains in a good place, at least so long as low oil prices continue to hold down inflation. The central bank's use of monetary policy to restrain growth in domestic credit extension rather than to reduce inflation or stimulate low economic growth – as in South Africa – underscores the current strength of the economy. The further 25 bps increase in Namibia's repurchase (repo) rate, which local commercial banks will match, will not have a significant impact on the most productive, export-orientated sectors of the economy. It will also take time to dampen domestic demand for credit; the preceding 25% repo rate increase in February has so far had little effect.

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