

AFRICA RISK CONSULTING**Namibia Monthly Briefing March 2018**

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The government appears set to abandon a provision in the National Equitable Economic Empowerment Framework (NEEEF) for historically disadvantaged Namibians (HDNs) to hold compulsory 25% minority stakes in all Namibian firms. Mines and energy minister Tom Alweendo sets out pro-investor policies for mining. Xaris Energy Namibia loses the contract to build a 200-250 MW gas plant at Walvis Bay. The 2018/19 budget deficit is to be lower but public debt keeps climbing. Year-on-year inflation falls to a new low of 3.5%. France-based car manufacturer Groupe PSA plans to open an assembly plant in Walvis Bay. Canada-based lithium producer Desert Lion Energy (DLE) signs an off-take agreement with China-based chemical converter Jiangxi Jinhui Lithium Co. covering the purchase of lithium concentrate from stockpiles at its Helicon and Rubicon project area near Karibib.

BEE 25% minority ownership stakes to be dropped...

Although it is not yet official, all the signs indicate that the **Namibia** government will abandon the most controversial provision of its **National Equitable Economic Empowerment Framework (NEEEF)** – so-called BEE (Black Economic Empowerment) law – (see *ARC Briefing Namibia December 2017, January 2018*). ARC sources have learned that the government will exclude the current clause providing for compulsory 25% minimum equity stakes in all Namibian firms, whether local (including black-owned) or foreign, to be transferred to BEE entities and individuals, also known as historically-disadvantaged Namibians (HDNs). In his opening statement to a cabinet NEEEF workshop on 27 February, President **Hage Geingob** (2015-present) said the government would have to revisit the results of the extended stakeholder consultation process on the draft law, along with feedback on key policy and legal issues, which may need to be “*revised, replaced or even discarded*”.¹ Geingob reiterated that implementation of BEE measures was urgent and commended those firms that had done so on a voluntary basis. Local media reported that following a robust debate during the workshop, the consensus was that the 25% clause should be removed in place of broad-based empowerment that will include all communities in Namibia.²

The technical committee is expected to present a final draft soon for adoption by the cabinet. **Law Reform and Development Commission (LRDC)** chair **Yvonne Dauseb** said her agency – which is responsible for legal drafting – and the **Office of the Prime Minister (Saara Kuugongelwa-Amidhila**, who is responsible for implementing NEEEF) made proposals to revise the bill based on public consultations:

¹ Statement by His Excellency Dr Hage G Geingob, President of the Republic of Namibia, at the Occasion of the Official Opening of the Cabinet Workshop on the National Equitable Economic Empowerment Framework (NEEEF) Workshop, 27 Feb 2018.

² Windhoek Observer, 9 Mar 2018.

“The proposals for revision include what the ownership equity pillar could look like. However, at this stage I am not at liberty to tell you what that proposed change will be. Cabinet must first pronounce itself before any changes can be effected to the current bill.”³

Another pointer were the policy guidelines that new mines and energy minister **Tom Alweendo** set out for the mining sector on 15 March in order to ensure both mining and energy continue to contribute significantly to national development and growth objectives.⁴ Alweendo, a leading pragmatist in the cabinet, acknowledged that Namibia needs to improve its competitiveness as an investment destination in order to attract global capital into the mining sector:

“We can benefit from our mineral endowments only when we are able to attract the needed investment capital. We are competing with other jurisdictions that are tapping into the same global capital market. It is for this reason that we will continue to review our policy framework to ensure that we have the right regulatory framework that is able to attract the necessary investment capital.”⁵

It will need a follow-through in terms of policy measures for these principles to have a practical impact on investor sentiment, but local mining sources told ARC they are hopeful.⁶

Xaris finally loses power station contract

Would-be power supplier **Xaris Energy Namibia** – an apparent subsidiary of **South Africa**-based **Xaris Holdings** – finally appears to have lost a controversial N\$5 billion (\$0.4 billion) contract to build a 200-250 MW gas plant at **Walvis Bay**. The **Namibia Power Corp. (NamPower)** had named Xaris as a preferred bidder in 2014 (see *ARC Briefing Namibia December 2015, January, February 2016*). Imported liquefied natural gas (LNG) would have supplied the plant. Alweendo confirmed on 1 March that the NamPower board had informed him in late February that they had terminated the tender in favour of Xaris.⁷

The contract has been a potential embarrassment to Geingob. Namibia’s new vice-president, **Nangolo Mbumba**, and his family are part-owners of the company, along with entrepreneur **Boni Paulino**, a former general manager of the **Namibia Financial Institutions Supervisory Authority (NAMFISA)**. Mbumba publicly confirmed his shareholding in Xaris in answering media questions when being sworn in as vice president on 12 February.⁸ Mbumba claimed that his business affairs would not cause a conflict of interest because he had already declared these to Geingob, although he reportedly omitted to name his Xaris shareholding in the recently-published, updated members of parliament (MPs) asset register for 2015 and 2016. Mbumba acknowledged he had business interests in Xaris,

“... but it is a dormant thing now, stopped by those who have the power”.⁹

The precise circumstances remain murky. The current NamPower board, headed by businesswoman **Kauna Ndilula**, had been persistently secretive about the status of the Xaris tender and Alweendo said only *“the board briefed me on their decision to terminate the Xaris*

³ Yvonne Dauseb quoted in Windhoek Observer, 9 Mar 2018.

⁴ Namibian, 15 Mar 2018.

⁵ Namibian, 15 Mar 2018.

⁶ Confidante, 18 Mar 2018.

⁷ The Namibian, 1 Mar 2018.

⁸ The Namibian, 7 Mar 2018.

⁹ Nangolo Mbumba quoted in The Namibian, 7 Mar 2018.

matter".¹⁰ However, energy ministry officials briefed that Alweendo was convinced that NamPower had selected Xaris irregularly.¹¹ Alweendo's predecessor, **Obeth Kandjoze**, had announced the cabinet's approval of the tender award to Xaris at the end of 2015 but then appeared to have doubts.¹²

There were originally four other short-listed contenders for the project, including **Arandis Power**. Nampower is reported to have sent cancellation letters to both Xaris and Arandis.¹³ Arandis lodged an affidavit with the **Windhoek High Court** in early 2016 in a bid to set aside the award to Xaris as irregular and both firms are contesting the termination, which could prove expensive for the government.¹⁴ On its website Xaris claims to have spent approximately N\$400m on the project, a figure that independent experts describe as inflated.¹⁵

Budget deficit set to fall but development spending boosted

Finance minister **Calle Schlettwein** went some way to reassure the financial markets that fiscal consolidation remains on track in the 2018/19 budget tabled on 7 March. In terms of the budget, total spending would decrease modestly to N\$65.0 billion (\$5.2 billion) this fiscal year, down 2.3% on the N\$66.5 billion (\$5.3 billion) revised estimate for 2017/18.¹⁶ At the same time, to provide a counter-cyclical boost to the economy, development spending is being raised from N\$5.6 billion (\$0.4 billion) in 2017/18 to N\$7.3 billion (\$0.6 billion) in 2018/19, a 30% increase. The current strategy is pro-growth fiscal discipline. It remains to be seen whether this will be sufficient to avert any further credit rating downgrades. This is likely, but restoring ratings agency **Fitch's** rating from the current BB- junk status to investment grade BBB- is the real prize.

Development spending is projected to reach N\$8.1 billion (\$0.7 billion) in 2020/21, the final year of the new, rolling three-year medium-term expenditure framework (MTEF), enhanced by off-budget borrowing. This is to include N\$4 billion (\$0.3 billion) from the existing **African Development Bank (AfDB)** loan facility, along with some N\$10 billion (\$0.8 billion) in proposed bilateral concessional loans over the next five years. But the budget deficit will reduce to 4.5% of GDP, down from 5.4% in 2017/18.

The national debt position is less encouraging. Overall budget financing requirements will take the total debt stock to an estimated N\$84.6 billion (\$6.8 billion) or 48.5% of GDP in 2018/19.¹⁷ This represents a 14% increase on the total estimated debt stock of N\$74.5 billion (\$6.0 billion), 43.3% of GDP, in 2017/18. Over the current MTEF period, total debt would average around 46.1%, still uncomfortably high. Along with weak GDP growth, this is likely to be the main impediment to a credit rating upgrade in the near term.

Key tax measures included reducing the basic rate of individual income tax from 18% to 17%, introducing higher income tax rates of 39% and 40% for those earning above N\$1.5m (\$0.1m) and N\$2.5m (\$0.2m) respectively, and levying 10% tax on dividends paid to

¹⁰ The Namibian, 1 Mar 2018.

¹¹ The Namibian, 1 Mar 2018.

¹² The Namibian, 1 Mar 2018.

¹³ The Namibian, 1 Mar 2018.

¹⁴ Source, Namibia analyst, London

¹⁵ The Namibian, 7 March 2018.

¹⁶ FY2018/19 Budget Statement by Calle Schlettwein, Minister of Finance, 7 Mar 2018.

¹⁷ IJG Namibia, National Budget Review 2018/19, 8 Mar 2018.

Namibian residents. Schlettwein said the increased tax rates for higher earners and reduction for low earners represented implementation of the planned solidarity wealth tax.¹⁸

Government finances 2017/18 to 2020/21 (N\$ billion)¹⁹				
	2017/18²⁰ (revised estimate)	2018/19 (estimated)	2019/20 (projected)	2020/21 (projected)
Revenue	53.7	53.3	54.5	57.6
Income/profits taxes	21.2	22.2	23.7	25.1
SACU receipts	19.6	17.4	16.2	17.0
Expenditure	66.1	65.0	65.7	66.3
Recurrent	55.4	51.2	51.2	51.4
Personnel	25.8	30.6	30.3	30.1
Capital	5.6	7.3	7.8	8.2
Debt interest payments	5.0	5.8	6.2	6.5
Budget balance	-9.2	-8.3	-7.9	-5.0
% of GDP	-5.4	-4.5	-4.0	-2.3
Total public debt	74.5	83.7	92.7	99.1
Domestic	48.6	53.9	60.3	64.3
Foreign	25.9	29.8	32.5	34.9
% of GDP	43.0	45.0	46.0	45.0

Real growth forecasts trimmed back further

The finance ministry estimates the economy recorded 0.4% negative growth last year and further revised down forecast growth rate for 2018.²¹ The 2017 GDP growth rate figure will be published at the end of this month by the **Namibia Statistics Agency (NSA)** in its preliminary annual national accounts for last year. While the finance ministry projects the economy will recover this year, growth will be only 1.2%, down from the 3.7% forecast in the 2017/18 mid-year budget review last October. In 2019, growth is projected to expand to 2.1%, still only one-third the average annual growth rate achieved in 2014-15. Mining is identified as the main growth driver this year, reflecting the continued ramp-up of the **Husab** mine to full capacity, along with higher rough diamond, gold and cathode copper output. Erratic rainfall since the start of the wet season last November is a threat to the agriculture sector. However, prospects for the crucial millet harvest in northern Namibia improved earlier this month with a weekend of rainfall after a month's dry spell.

In his budget statement, Schlettwein noted that Namibia's current low growth environment was depressing growth in per capita incomes, necessitating "*supportive policy interventions*" to stimulate growth. These will include the proposed new concessional bilateral loans to fund development projects and priority infrastructure upgrades.²²

¹⁸ The Namibian, 16 March 2018..

¹⁹ Ministry of Finance, Estimates of Revenue, Income and Expenditure, 2017/18 to 2020/21.

²⁰ Ministry of Finance, Estimates of Revenue, Income and Expenditure, 2017/18 to 2020/21.

²¹ FY2018/19 Budget Statement by Calle Schlettwein, Minister of Finance, 7 Mar 2018.

²² FY2018/19 Budget Statement by Calle Schlettwein, Minister of Finance, 7 Mar 2018.

Inflation falls to a new low

The **Consumer Price Index** rose slightly by 3.5% year-on-year (y/y) in February, from 3.6% in January, less than half the rate (7.8%) of a year earlier, and the lowest increase since November 2015.²³ The foreign exchange value of the South African rand, to which the Namibia dollar is linked at par, has remained resilient. This has continued to restrain growth in the cost of Namibia's imports, including food and consumer goods.

Inflation for food and non-alcoholic beverages – at 16.5% the second-largest weighted component of the **National Consumer Price Index (NCPI)** basket – was unchanged on the previous month at 2.0% y/y; prices for bread and cereals, oil and fats continued to fall, but those for meat, fish and fruit increased.²⁴ Inflation for housing and utilities, with the biggest NCPI basket weighting at 28.4%, fell to 3.2% y/y from 3.6% in January; rental payments inflation continued to be subdued at 2.5%.²⁵ Price rises for the sub-category electricity, gas and other fuels slowed to 5.7%, from 8.5% previously. Transport inflation (14.3% of the basket) moved up to 6.6% y/y from 6.3% in January; the cost of operating vehicles rose by 7.3%, up from 6.7% in January, and that for purchasing vehicles rose by 8.2% (6.7% previously). Having remained at around the mid-60s **United States (US)** dollar per barrel since the start of the year, the global oil price spiked up to \$70 per barrel on 23 March (benchmark Brent crude) in response to rising interest rates and fears of a world trade war after US President **Donald Trump** (2017- present) imposed \$60 billion in tariffs on **Chinese** imports the previous day.²⁶ The impact of higher oil prices would be partially cushioned as long as significant local currency depreciation does not resume. **Windhoek** stockbroker **IJG Namibia** said inflation could come down further in the coming months, "*if the currency remains strong and stable*".²⁷

French cars to be assembled in Walvis Bay

In a major boost to Namibia's efforts to expand manufacturing to diversify the economy, **France**-based car manufacturer **Groupe PSA** is establishing a vehicle assembly plant at Walvis Bay. Both **Peugeot** and **Opal** cars will be assembled from imported semi-knocked-down (SKD) kits.²⁸ The estimated N\$190 million (\$15.2m) investment is a 49%/51% joint venture with Namibia's **National Development Agency (NDA)**; approximately N\$50m (\$4m) is for the plant and N\$140m (\$11.2m) for buildings and infrastructure. The intention is to assemble 5,000 vehicles per year by 2020. Initially the Opel Grandland X and Peugeot 3008 models will be the first produced, for export mainly to the **Southern African Customs Union (SACU)** member states: South Africa, **Botswana**, **Lesotho** and **Swaziland** (plus Namibia). Trade within the SACU is duty-free; South Africa, with its own extensive car assembly sector, is the major vehicles market.

According to PSA regional executive **Jean-Christophe Quemard**, the investment is part of a long-term strategy by Groupe PSA to increase its sales in **Africa** and the **Middle East**, "*consistent with our target to sell one million vehicles [there] in 2025*".²⁹ Namibia's ambassador

²³ Namibia Statistics Agency, Namibia Consumer Price Index February 2018.

²⁴ Namibia Statistics Agency, Namibia Consumer Price Index February 2018.

²⁵ Namibia Statistics Agency, Namibia Consumer Price Index February 2018.

²⁶ The Times, 24 Mar 2018,

²⁷ IJG Namibia, NCPI- Feb 2018.

²⁸ IOL South Africa, 12 Mar 2018.

²⁹ IOL South Africa, 12 Mar 2018.

to France, **Frieda Nangula-Ithete**, said the investment had been in the works since early 2015 when PSA first indicated their interest in setting up in Namibia. She commented:

“Right from the beginning the embassy thought of the strategic area of Walvis Bay for the setting up of the assembly plant because of the existing infrastructure, notably the deep-water port and all its industrial facilities, enabling worldwide shipments and railway transport of goods in all SADC countries.”³⁰

The terms of the joint venture with the NDA have not been disclosed, nor the fiscal concessions offered by the government to PSA to secure the investment. But it is probable the plant will be granted export credit zone (EPZ) status, under which zero income tax and value-added tax is charged, and customs duty on imported machinery and equipment is waived, provided most products are exported, as these would be. In this case, PSA has got in just in time as the government is phasing out the EPZ regime. Schlettwein announced in his 2018/19 budget statement that the existing EPZ Act will be repealed and replaced by new Special Economic Zones (SEZs). Existing EPZ firms, numbering about 15 and including the **Skorpion Zinc Refinery** (owned by India-based steel firm **Vedanta**) in the south and the **Tsumeb copper smelter** (owned by **Canada-based Dundee Precious Metals**) in the northeast, will have the option of retaining their current status or migrating to the new regime, the details of which are still pending.³¹

New lithium producer signs offtake deal with China

Namibia is now plugged into the global lithium industry where growth in electric vehicle sales is the main demand driver. Newcomer Canada-based **Desert Lion Energy (DLE)**, signed an off-take agreement on 6 March with China-based chemical converter **Jiangxi Jinhui Lithium Co.** covering the purchase of phase 1 production of lithium concentrate from stockpiles at its **Helicon** and **Rubicon** project area near **Karibib**, west-central Namibia.³² **Yinchuan**-based Jinhui produces lithium carbonate and hydroxide and has made a \$4.5m pre-payment to DLE, which aims to process 150,000 to 160,000 tonnes of lithium concentrates for sale over the next 12 to 18 months.³³ The first 30,000 tonne shipment is due to be delivered from Walvis Bay from mid-April; Jinhua has agreed to buy all stockpiled material containing not less than 2.0% lithium oxide up to a maximum of 120,000 tonnes containing not less than 1.7% lithium oxide.³⁴ DLE is focused on building Namibia’s first large-scale lithium mine some 30 kilometres south east of Karibib. The historic Rubicon and Helikon mines – where amblygonite, lepidolite, petallite, bismuth and beryl were mined intermittently from the 1950s – are located in a 1.5 square kilometer area within a 301 square kilometer prospective land package, with known at- or close to surface lithium-bearing pegmatite outcrops.³⁵ The installation of a flotation plant capable of treating 350,000 to 400,000 tonnes per year of feed is underway, with commissioning to start in Q3 2018.³⁶

Initially a private company, DLE listed on the **TSX Venture Exchange (TSX-V)** at the end of February (TSX-V:DLI), when it also granted 1.4 million share options to directors, officers,

³⁰ New Era, 16 Mar 2018.

³¹ Windhoek Observer, 18 Mar 2018.

³² Desert Lion Energy, 6 Mar 2018.

³³ Desert Lion Energy, 6 Mar 2018.

³⁴ Desert Lion Energy, 6 Mar 2018.

³⁵ Desert Lion Energy, 6 Mar 2018.

³⁶ Desert Lion Energy, 6 Mar 2018.

consultants and employees under a stock option plan.³⁷ The major shareholders are **Forbes & Manhattan**, a **Toronto**-based private merchant bank, and **Pella Resources**, whose founder **Adonis Pouroulis** is DLE non-executive chair. He has a long track-record of involvement in **Southern African** resources companies, having founded **Petra Diamonds** in the 1990s and subsequent to that **Chariot Oil & Gas** which holds several exploration blocks offshore Namibia.³⁸

Lithium market analysts have widely discounted a recent report by **Morgan Stanley** forecasting that lithium prices would fall 45% from their current elevated levels by 2021 due to a pending supply glut.³⁹ The report claimed that growth in electric car sales – the main end-use for rechargeable lithium-ion batteries – will be insufficient to offset rising supply, especially from large producers such as **SQM** in **Chile**, which could add 500,000 tonnes per year of global supply, swamping forecast demand growth.⁴⁰ The report’s publication caused lithium prices – which have doubled in the past two years on expectations of massively rising demand – to plummet by almost half to \$7,700 per tonne. But industry sources said the forecast ignored the complexities of mining and processing lithium ores for conversion into high-quality lithium compounds, for which there is limited capacity. **Australia**-based **Pilbara Minerals** CEO **Ken Brinsden** noted that *“everyone, including Morgan Stanley, is grossly underestimating how quickly the market is moving on the demand side.”*⁴¹

³⁷ Desert Line Energy, 26 Feb 2018; company website.

³⁸ Desert Line Energy, 26 Feb 2018; company website.

³⁹ **Financial Times**, 26 February 2018.

⁴⁰ **Financial Times**, 26 February 2018.

⁴¹ Reuters, 24 Feb 2018.

Planner

29 Mar 2018 **(Namibia)** Q4 2017 GDP Report, Preliminary National Accounts 2017

11 April 2018 **(Namibia)** **Bank of Namibia (BoN) Monetary Policy Committee** meeting;

25-26 April 2018 **(Namibia)**, Mining Expo, Windhoek

H2 2018 **(Namibia)** National Land Conference

Chronology

27 Mar 2018 **(Namibia)** *Namibian*. President **Hage Geingob** departs for a week-long official visit to **China**;

16 Mar 2018 **(Namibia)** *New Era*. The **Green Climate Fund** approves a \$9.5m grant to Namibia for climate adaptation;

15 Mar 2018 **(Namibia)** *All-Energy*. **Spain**-based **Alten Africa** reaches financial close of \$50m on a 45.5 megawatt solar plant in the **Hardap** region;

13 Mar 2018 **(Namibia)** *eNCA*. **Namibia** reports its first listeriosis case after an outbreak in neighbouring **South Africa**;

12 Mar 2018 **Walvis Bay (Namibia)** *IOL*. **France**-based **Groupe PSA** announces it will build its **Peugeot** and **Opel** vehicles in **Walvis Bay** from late 2018;

8 Mar 2018 **Windhoek (Namibia)** *Namibian*. Namibia's finance minister, **Calle Schlettwein**, announces that the government plans to stop the preferential tax system;

5 Mar 2018 **(Namibia)** *Economist*. **Russia's** foreign minister, **Sergey Lavrov**, begins a three-day tour in Namibia to discuss bilateral and international issues;

5 Mar 2018 **(Namibia)** *Business Day*. **Australia**-based **Celsius Resources** aims to start production of its cobalt mine by 2020;

5 Mar 2018 **Karibib (Namibia)** *Proactive Investors*. **Canada**-based **Montero Mining** acquires an 80% interest in a lithium, rare and precious metals mine near **Karibib**;

28 Feb 2018 **(Namibia)** *IMF*. The **International Monetary Fund** concludes its Article IV consultation with Namibia, commending the rapid growth but noting significant economic and structural issues;

27 Feb 2018 **(Namibia)** *Bloomberg*. Namibia plans to table laws which will make it mandatory for white-owned businesses to sell 25% to black Namibians, similar to South Africa's Black Economic Empowerment laws;

27 Feb 2018 **(Namibia)** *Proactive Investors*. **United Kingdom**-based **Chariot Oil & Gas** confirms a \$15m fundraise while will allow exploration of its offshore block in Namibia;

27 Feb 2018 **Windhoek (Namibia)** *Reuters*. Namibia's state-owned airline, **Air Namibia**, faces collapse after banks refuse to grant further credit to fund day-to-day operations;

24 Feb 2018 **(Namibia)** *The Hindu*. **India**-based steel company, **Jindal Steel and Power**, plans to pursue an iron ore mine in Namibia;

23 Feb 2018 **(Namibia)** *Mining Review*. **Canada**-based **Namibia Rare Earths** acquires critical metals portfolio from **Gecko Namibia**;

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