

## AFRICA RISK CONSULTING

### Namibia Monthly Briefing May 2015

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#### Namibia Summary 28 May 2015

**President Hage Geingob (2015- present) publishes details of his personal assets and those of his wife, as promised in April. The detailed declaration of their wealth puts pressure on cabinet ministers and senior officials to follow suit. While Geingob's declaration was voluntary, MPs are obliged by law to declare their assets. Fitch Ratings holds Namibia's credit rating at investment grade level due to a stable outlook, based on a smooth political transition from the November 2014 elections, strong economic growth outlook and a reduced fiscal deficit last year. It warns of the downside risk posed by any further deterioration in Namibia's foreign exchange reserves due to surging imports; the current account deficit almost doubled last year mainly due to the deficit on merchandise trade expanding to a record level. The government seeks to allay mining industry concerns that domestic power generation capacity may not expand in time to meet its need for secure and affordable supply of electricity. The contract for a new 250 MW gas-fired power plant at Walvis Bay appears to have been indefinitely shelved amidst continuing controversy over a contract award to a local firm in 2014.**

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#### Geingob and first lady disclose assets of over N\$95m...

President **Hage Geingob** (2015- present) has disclosed the personal assets and business interests of himself and his wife, first lady, **Monica Geingos**, revealing their joint wealth is between N\$95-111 million (US\$7.9-9.2 million).<sup>1</sup> Geingob had pledged the unprecedented disclosure of their joint assets during his inauguration on 21 April (see *ARC Namibia April 2015 Briefing*). Geingob and his wife voluntarily disclosed their personal assets at a press briefing on 21 May,<sup>2</sup> a week or so later than expected, mainly because auditing firm **PricewaterhouseCoopers (PwC)** had to employ international experts to complete a thorough audit.<sup>3</sup> Geingob prefaced the declaration with tales of hardship he had endured as a Namibian exile, including having slept in **Botswana** for almost two years with a single blanket. Independent **Anti-Corruption Commission (ACC)** director **Paulus Noa** welcomed the disclosure, praising Geingob for his initiative, while stating the need for an asset declaration law that would compel all politicians and heads of state-owned enterprises (SOEs) to declare their wealth. Noa stated:

*"He has set a good example for politicians and managers to emulate. The President has shown that we can live in a society driven by honesty and transparency. This move has really raised Namibia's image."*<sup>4</sup>

Geingob's assets are slightly less than those of his wife, a businesswoman who is reportedly one of Namibia's wealthiest women. While he owns more cash, her assets are the more valuable. Geingob professed to be relaxed about this, commenting that her assets were a little bit more than his, *"but that is alright"*.<sup>5</sup>

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<sup>1</sup> New Era, 21 May 2015

<sup>2</sup> iol news, 25 May 2015

<sup>3</sup> The Namibian, 21 May 2015

<sup>4</sup> The Namibian, 21 May 2015

<sup>5</sup> The Namibian, 22 May 2015

Although there were no major surprises or evidence of anything dubious, the joint declaration underscored how well Namibia's political and business elite has fared in material terms since independence. Geingob revealed he has some N\$14m (US\$1.3m) held in 12 bank accounts, including N\$1.1m (US\$0.1m) in five foreign bank accounts. In addition, he has N\$10m (US\$0.9m) invested with asset managers and a N\$2m (US\$0.2m) collection of art, gold, gems, jewellery and furniture. His properties are worth N\$8-10m (US\$0.7-0.9m) and include his villa (**Casa Rosalia**) on the outskirts of **Windhoek**, a house at **Henties Bay** on the coast, and a livestock farm near **Tsumeb**. These are registered through a family trust, **Dr Hage Geingob Family Trust Assets**, which also owns a 20% interest in a property firm, **African Sunrise Investment** worth N\$10m.

The declaration stated that Geingob was in the process of deregistering **H.G. Consultancy**, which he said had become dormant.<sup>6</sup> This company became controversial after it received over N\$2.5m (US\$0.2m) for Geingob's role in facilitating approval of a mining licence for the **Trekkopje** uranium project which **France's AREVA** had purchased in 2007 for US\$2.2 billion from a small company listed on **London's Alternative Investment Market (AIM)**, **UraMin**. AREVA mothballed the partially completed Trekkopje mine two years ago on the grounds that the weak uranium market made its completion uneconomic.

Geingos declared her net worth was between N\$45-60m (US\$4.2-5.5m) and listed companies in which she holds direct shareholdings. The first lady is a founding member and chairperson of **EBank**, Namibia's first electronic bank, as well as being a founder/executive director of **Pointbreak Equity** and **Pointbreak Property Unit Trust**, holding companies **Pointbreak Group Holdings** and **Pointbreak Namibia Holdings**. Pointbreak is the owner/asset manager of **Stimulus Investment** (of which Geingos is founder/managing director) and owns 77.5% of EBank. Stimulus Investment is the only local private equity investment firm listed on the **Namibian Stock Exchange (NSX)**, with a market capitalisation of N\$455m (US\$42m) as of mid-March. Investments under management by Stimulus – with a combined value of N\$380m (US\$35m) – include **Namibia Media Holdings (NMH)**, which publishes several newspapers, **Plastic Packaging** and **Walvis Bay Stevedoring**. Geingos added that she had resigned as a director in some of these firms and is in the process of resigning from the others in which she is still a director.

### ...pressure now on ministers to follow suit

Geingob's declaration upped the pressure on cabinet ministers to declare their assets also. While Geingob's disclosure was voluntary (there is no requirement on heads of state to declare their assets and neither of his predecessors did so), as MPs, cabinet ministers are already supposed to make regular declarations. The **National Assembly (NA)** last published an asset register of MPs' interests in 2009. Since that time MPs for various – unconvincing – reasons, have not declared their assets. Since all ministers must be MPs, the cabinet as a whole has been in breach of the requirement to list their assets for the past six years. Given the breadth of Geingob's declaration it can be expected that when cabinet ministers do comply, there could well be some revealing disclosures about their outside (business) interests. Geingob has instructed ministers, deputy ministers and permanent secretaries (who are in the process of being reshuffled) to submit an overview of their plans for the next five years. In a letter of 27 April, Geingob included a template of how he would like their submissions to look, for the sake of "*comparability, monitoring and evaluation*" purposes.<sup>7</sup>

*"Ministers should briefly explain what is done in their ministries, what are the key challenges and opportunities, and how they contribute to the government's key priorities."*<sup>8</sup>

He reminded the recipients that during the next five years (Geingob's first presidential term), these priorities will be "*poverty eradication, industrialization, reduction of income disparities, economic*

<sup>6</sup> The Namibian, 21 May 2015

<sup>7</sup> The Namibian, 19 May 2015

<sup>8</sup> The Namibian, 19 May 2015

*growth/wealth creation, and job creation*".<sup>9</sup> Ministers were given until 30 May to return the completed templates.

The issue has already caused a public spat between NA speaker **Peter Katjavivi** and German-Namibian academic **Henning Melber**. Although a member of the ruling **South West African People's Organisation (SWAPO)** since 1974, Melber has been a leading critic of SWAPO's alleged failure to follow up Namibia's political liberation with economic transformation to empower Namibians. A former director of the Windhoek-based **Namibian Economic Policy Research Unit (Nepru)**, which closed down in 2011, and current senior adviser to the Uppsala-based **Dag Hammarskjöld Foundation**, Melber set out his critique in his 2014 book *"Understanding Namibia, The Trials of Independence"*. What drew Katjavivi's ire were remarks Melber made in a recent public lecture that Geingob might face an uphill battle to get cabinet members to declare their assets since he had not done so when a minister himself. Geingob was Namibia's first prime minister but in 2002 took up an overseas job in **Washington DC (United States)** when the then head of state **Sam Nujoma** (1990-2005) demoted him. Geingob served as trade and industry minister from 2008-2012 after returning to Namibia and becoming an MP again. Former president **Hifikepunye Pohamba** (2005-2015) reappointed him as prime minister in December 2012.

In a media response, Katjavivi charged Melber with misleading the nation about asset declarations by government leaders and MPs. He said a declaration of assets had gone through various consultations and would be presented to the NA for "operationalisation". He also pointed out that MPs had previously declared their assets and that Geingob as an MP and minister had "always" complied with the requirement.

### **Fitch Ratings reaffirms sovereign credit rating...**

International rating agency **Fitch Ratings** has reaffirmed Namibia's investment grade credit status and boosted its ability to continue raising external funding from global capital markets. Fitch kept the long-term foreign and local currency issue default ratings (IDRs) at 'BBB-' and 'BBB' respectively, with a stable outlook.<sup>10</sup> Fitch accorded Namibia these ratings some five years ago, enabling Namibia to issue a US\$500 million **Eurobond** at the end of 2011 at an affordable coupon rate (although the cost of servicing the bond has increased due to the Namibia dollar's depreciation against the US dollar).

Fitch indicated that the stable outlook for both ratings reflected upside and downside risks currently being balanced.<sup>11</sup> Positive factors included GDP growth exceeding the 'BB' and 'BBB' medians, a smooth political transition (to the new Geingob presidency), a smaller than anticipated budget deficit in the 2014/15 (April-March) fiscal year, a projected narrowing of the current account deficit over the medium term, along with foreign reserves of more than three times the local narrow money base and a sound domestic banking system. Positive factors possibly translating into an improved rating over the medium term were stated to be convergence towards 'BBB' peers in the context of macroeconomic stability, a marked improvement in the fiscal and current account balances, improvement in the business environment, and economic diversification that would reduce dependency on commodities.

Fitch identified the main risk factors that could negatively affect Namibia's investment-grade rating as fiscal slippage (ie higher than currently-projected budget deficits) translating into a substantial rise in outstanding public debt, and a further significant decline in foreign exchange reserves, a steep increase in external debt ratios and weaker economic growth.<sup>12</sup> According to the **Bank of Namibia (BoN)**'s 2014 annual report, Namibia's foreign reserves had decreased by 14% to N\$13.5 billion (US\$1.2 billion) by the end of last year, reducing import cover to 1.9 months (from 2.4 months in 2013). However, reserves had recovered to N\$15.7 billion (US\$1.3 billion) in April this year.

<sup>9</sup> The Namibian, 19 May 2015

<sup>10</sup> The Namibian, 19 May 2015

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

<sup>12</sup> The Namibian, 19 May 2015

**PSG Namibia** director **Brian van Rensburg** agreed with Fitch's assessment, noting that Namibia's outlook is encouraging, both from a political and economic perspective, despite the much-hyped oil 'discovery' of two years ago not having led to the location of commercially-exploitable resources. (Brazil's **HRT Participações em Petróleo** announced it had discovered light oil in the first of three offshore exploration wells drilled in the **Walvis** basin during May-September 2013, "although not in commercial volumes"). He commented:

*"Namibia is currently juggling fiscal and current account deficits, low levels of import cover, a dip in foreign direct investment and a weak exchange rate. However, various combinations of these issues have been several times over the past decade, and this has not cost the country its investment grade 'BBB-' rating- and we do not expect to see real downward pressure anytime soon."*<sup>13</sup>

### ...but the current account deficit has almost doubled...

Provisional figures published in the central bank's 2014 annual report show that the current account deficit almost doubled to N\$9.6 billion last year, equivalent to 6.7% of GDP, up from N\$5.0 billion (4% of GDP) in 2013.

Current account 2013-2014 <sup>14</sup>						
	Jan - Dec 2013 <sup>15</sup>		Jan - Dec 2014 <sup>16</sup>		% change	
	N\$m	US\$m	N\$m	US\$m		
<b>Exports</b>	<b>44,724</b>	<b>4,649</b>	<b>47,943</b>	<b>4,427</b>	<b>7.2</b>	<b>-4.8</b>
Diamonds	11,718	1,218	13,999	1,293	19.5	6.2
Uranium	5,099	530	4,219	390	-17.3	-26.4
Other minerals	2,326	242	3,068	283	31.9	16.9
Food & live animals	4,383	456	3,787	350	-13.6	-23.2
Manufactured products <sup>17</sup>	7,379	767	9,684	894	31.2	16.6
Re-exports	6,037	628	5,609	518	-7.1	-17.5
Other	7,827	814	7,575	699	-3.2	-14.1
<b>Imports</b>	<b>64,005</b>	<b>6,653</b>	<b>73,926</b>	<b>6,826</b>	<b>15.5</b>	<b>2.6</b>
<b>Merchandise trade balance</b>	<b>-19,281</b>	<b>-2,004</b>	<b>-25,983</b>	<b>-2,399</b>	<b>34.8</b>	<b>19.7</b>
Services (net)	-129	-13	-158	-54	22.5	315.4
Income (net) <sup>18</sup>	-830	-86	-1,228	-114	48	32.6
Current transfers (net)	15,212	1,581	18,165	1,677	19.4	6.1
<b>Current account balance</b>	<b>-5,028</b>	<b>-523</b>	<b>-9,634</b>	<b>-890</b>	<b>91.6</b>	<b>70.2</b>

In US dollar terms, the deficit rose somewhat less, by 70% to US\$890m, reflecting the Namibia dollar's 11% depreciation against the US currency last year, although this was below the 15% depreciation

<sup>13</sup> The Namibian, 19 May 2015

<sup>14</sup> Source: Bank of Namibia *Annual Report 2014*

<sup>15</sup> Provisional

<sup>16</sup> Provisional

<sup>17</sup> Includes refined zinc, smelted copper, cut diamonds, processed meat and fish, export processing zone (EPZ) products

<sup>18</sup> Includes compensation of employees

recorded in 2013. The main driver was a substantial widening in the foreign trade deficit to a record N\$26.0 billion (US\$2.4 billion), compared to N\$19.3 billion (US\$2.0 billion) in 2013; this was over three times higher than the N\$8.2 billion (US\$1.2 billion) deficit recorded in 2007. While export growth was only 7% in local currency terms, and negative in US dollar terms, imports surged by 15.5% and just under 3% respectively. Although local currency diamond exports increased by a fifth (up by 6% in US dollar terms), reflecting higher output and strong prices for rough gem stones, uranium exports decreased by 17% in Namibia dollar terms and by 26% in US dollar terms due to operational difficulties at the mines and weak global prices.

Both the current account services and investment income deficits widened also, due to increased net payments on transport and insurance services, and larger outflows to foreign direct investors respectively. On the upside, the current transfers surplus further strengthened, to a record N\$18.2 billion (US\$1.7 billion), as a result of increased inflows of **Southern African Customs Union (SACU)** receipts. The surplus on the capital account continued to increase last year, to N\$10.5 billion (US\$973m), due to higher net long-term investment capital inflows, which almost doubled in local currency terms, reflecting increased borrowing by local entities, mainly to finance new mine developments. This more than offset a 42% decrease in net foreign direct investment (FDI) inflows caused by a substantial slowing in invested equity capital. In addition, portfolio investment outflows declined by a fifth, due to decreased investment by local financial institutions (primarily pension funds) in foreign debt securities, only partially offset by higher investment in foreign equity securities. The increased capital account surplus would have been sufficient to have kept Namibia's overall balance of payments in surplus; however, because of a negative entry for net errors and omissions, the overall balance recorded a N\$1.8 billion (US\$0.2 billion) deficit compared to a small surplus of N\$0.6bn (\$62m) in 2013.

### ...and power supply continues to be a concern

New mines and energy minister **Obed Kandjoze** has sought to reassure anxious mining sector investors that the government is on track with projects to expand Namibia's power generating capacity. Speaking at the two-day **Mining Expo** and accompanying conference in Windhoek from 20-21 May, Kandjoze said the government was "*working round the clock*" to ensure delivery of the **Kudu** gas-to-power project and the **Baynes** hydropower station on the **Kunene River**, 200 km downstream from the existing 332 MW **Ruacana** hydropower plant. He pledged that the 884 MW Kudu combined-cycle gas turbine (CCGT) power station near **Oranjemund** would be operational in 2019 at a cost of around US\$1.2 billion. That is a year later than the original date, due to the delay caused by **Ireland's Tullow Oil** having pulled out as operator/developer of the Kudu offshore gas field late last year. Completion of a 300 MW power station at Baynes is expected in 2024 at a cost of US\$1.3m. Kandjoze stated: "*It is expected that the Kudu power project, which represents the least cost of supply for Namibia, will replace the high electricity costs from imports and short-term supply.*"<sup>19</sup>

However, that still leaves Namibia with a near-term power shortfall as the project for 250 MW gas-fired power station at Walvis Bay appears to have been put on ice after the reported irregularities in the N\$3 billion (US\$0.3m) contract award last year by the **Namibia Power Corporation (Nampower)** to a local firm, **Xaris Energy Namibia**. In late May, Geingob was reported to have decided that independent experts will have to be appointed to advise on the best solution for the country's near-term power needs pending completion of the Kudu project (on which a start has yet to be made).<sup>20</sup> Geingob allegedly intervened after Kandjoze informed him that a section of the Nampower board of directors was undermining him, with the board itself divided and the utility's management at odds with the directors.<sup>21</sup> Kandjoze had asked the board to delay implementing the contract with Xaris – whose managing director **Hennie Steyn** has claimed the project is on track – but the board had wanted to ignore his request and confirm the contract.

<sup>19</sup> The Namibian, 22 May 2015

<sup>20</sup> The Namibian 20 May 2015

<sup>21</sup> Source, local consultant, Windhoek

The mining sector's worries over adequate future power supply were set out by the **Chamber of Mines of Namibia (CMN)** outgoing president, **Werner Duvenhage**, managing director of **Rössing Uranium Ltd**. He said that one of the industry's major concerns was the uninterrupted supply of power and water and the increasing cost of the tariffs charged. He noted that electricity tariffs are increasing well above inflation on a yearly basis, despite Nampower having declared that cost-reflective tariffs (covering the full cost of supply) had been reached some three years ago. CMN members are "*extremely burdened*" by depressed commodity prices, and any further tariff increases and additional levies would impact negatively on the competitiveness of mines in Namibia.<sup>22</sup>

### Implications

Geingob's detailed declaration of his personal wealth and that of his wife is unprecedented, not just in Africa, but is in contrast to most heads of states around the globe, where transparent procedures are not in place. As such it marks a change of culture, which could have profound implications, although there is no sign of any of Geingob's fellow heads of state within the **Southern African Development Community (SADC)** doing the same. But for Namibia it finally marks the emergence of greater accountability by those governing the country, which given SWAPO's political dominance, could only be a good thing for democracy and a more equitable society. While it is undoubtedly the case that cabinet ministers now have little excuse not to follow Geingob's example and fully disclose their assets, it is by no means a foregone conclusion that they will do so. There are two reasons for this, political and procedural (although the latter is really a delaying tactic). Some veteran members of the cabinet who have been ministers almost continuously since Namibia became independent, and have built up extensive outside interests, will drag their feet. Most were under no pressure from Namibia's first two heads of state to act transparently, and indeed Namibia's first president, Sam Nujoma, led, according to some sources, a culture of self-enrichment at the top (although he himself never appeared to be personally corrupt like so many heads of state).

Nujoma refused to publish the many official corruption reports that were completed – often after complex court hearings – during Namibia's first decade of independence, reportedly because they contained evidence implicating senior members of the ruling party. The veteran ministers are Geingob detractors within the government, most of whom, by no coincidence, are Nujoma loyalists. So this group is likely to be extremely reluctant to accept the argument they are now under moral pressure to emulate Geingob's example. They may see it instead as an opportunity to mobilise wider opposition to Geingob formally taking over as SWAPO president – a post he holds on an interim basis until the next party congress in 2017 – following Pohamba's unexpected decision to relinquish the post (see *ARC Namibia April 2015 Briefing*). Geingob's initiative may have an underlying political objective, to discredit his opponents associated with a powerful pro-Nujoma faction known as the "**Omusati clique**" which has been linked to numerous controversial state contracts since the 1990s.<sup>23</sup>

It is also not clear that even those cabinet members who are either close to Geingob or are in favour of greater transparency, would publish their assets as a group. Instead, they would be likely to do so via the existing requirement on MPs to disclose their assets in a parliamentary register. This is supposed to be open to public inspection and because of that there have long been suspicions that MPs have massaged their entries to remove controversial business holdings that would be seen as a conflict of interest. Speaker Peter Katjavivi, regarded as an unimpeachably honest politician, has promised that the 2009 register of assets is being brought up to date and will be presented in the NA soon. This runs the risk that Geingob's apparent intention that ministers and senior officials should declare their assets with full transparency may become diluted through the due process of meeting just the legal minimum of existing requirements.

Namibia's recent retention of its investment credit rating was not unexpected – it would have been a shock if Fitch had downgraded it – but it is nevertheless a welcome boost to the new Geingob

<sup>22</sup> The Namibian 21 May 2015

<sup>23</sup> Source, political analyst, Namibia

government's priority of expanding economic growth and wealth creation to the benefit of a majority of Namibians. This will require an increase in both external borrowing to meet the goal set out in the current fourth national development plan (**NDP4**) of expanding public infrastructure to service a growing economy and maintaining foreign direct investment (FDI) inflows for private sector projects in the resource and manufacturing sectors. An important component of the strategy is diversifying the economy by developing new industries that utilise domestic raw materials and enable Namibia to export a higher proportion of finished goods to world markets. Whether this is realistically achievable, given the competition from resource-dependent developing countries trying to do the same, is debatable but there is undoubted potential for expanding local value-added manufacturing. Financial constraints may be less crucial than finding the right mix of policies to develop local skills, given that overall productivity remains low.

But as Fitch pointed out there are downside risks, notably greater fiscal and external imbalances. The main danger at present is that surging imports – both from greater demand for equipment and supplies for mines and industry and for consumer goods – will reduce foreign reserves to an unsustainably low level. Last year the record foreign trade gap was the main cause of Namibia's current account almost doubling, also to a record level. This of itself poses no threat to Namibia's currency, because the Namibia dollar is linked at par to the **South African** rand. However, South Africa's weak GDP growth in the past two years and widening of its own much larger current account deficit has caused the rand – and with it the Namibia dollar – to depreciate by 26% in the past two years. This has pushed up the cost of imports, and once the oil price starts moving up again, as it is expected to do during the next year, this will drive imports up even further.

Relief may be on the horizon as the start of production at the large Husab uranium mine from the end of this year will substantially expand exports during 2016-17. The Husab mine is currently on track for initial commissioning by the end of 2015, although it will only ramp up to full planned production of some (6,800 tonnes) uranium oxide, triple Namibia's current output, over the next two years. Since **China** will buy the majority of Husab product for use as nuclear fuel in its expanding fleet of nuclear power stations, there seems little risk that Husab will prove economically unviable. The cushion of expanded exports from Husab will provide a breathing space for Namibia to pursue economic diversification to widen its export base away from continued over-dependency on minerals subject to the vagaries of fluctuating commodity prices.

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