

AFRICA RISK CONSULTING

Country briefing – Namibia

22 December 2013

Summary

United Nations Development Programme administrator Helen Clark praises progress in macroeconomic and political development. Fitch holds a positive outlook on Namibia's economic and political status. A new liquefied petroleum gas (LPG) terminal is set for construction at the port of Lüderitz in January. An Air Mozambique (LAM) aircraft crashes in Bwabwata National Park leaving no survivors and underlining Africa's poor air safety record.

1.1 UN visit flags high youth unemployment and funding shortfalls

United Nations Development Programme (UNDP) administrator **Helen Clark** raised Namibia's high youth unemployment in high-level discussions with President **Hifikepunye Pohamba** (2005-present), Prime Minister **Hage Geingob** (2012-present), speaker of parliament **Theo Ben Gurirab**, and other ministers and project partners.¹ Half of all Namibians aged 20 to 24 are unemployed which presents Namibia with a latent political risk. The country's overall jobless rate is 27.4%.² During the UNDP's inaugural official visit in early December Clark addressed revenue shortfalls resulting from Namibia's classification as an upper middle class country. Positive development in the past 23 years has led the **World Bank** and the **European Union (EU)** to change Namibia's designation making it ineligible for more donor assistance.³ From 2007 to 2013 the country received €125m (\$172m) in development aid but EU assistance ended in June.⁴ The **United States (US) President's Emergency Plan for AIDS Relief** is also scaling back assistance by \$10m to \$80m in 2014.⁵

Clark praised Namibia's governance and sound macro-economic environment since independence in 1990 as well as progress in achieving the UN's **Millennium Development Goals (MDGs)**.⁶ She noted

¹ UN Information Centre Windhoek, 4 December 2013

² Namibian Sun, 23 October 2013

³ UNDP Press Releases, 5 December 2013

⁴ Devex, 19 June 2013

⁵ Devex, 19 June 2013

⁶ The Namibian, 6 December 2013

that Namibia will have to mitigate the effects of drought, funding rollback and unemployment by effectively utilising rents accruing from mining to fund job creation, reduction of income inequalities and human development projects⁷. However, expected growth and investments in Namibia's extractive industries, particularly mining will give rise to corresponding concerns regarding environmental degradation.

1.2 Fitch affirms credit rating

London-based credit rating agency **Fitch** has rated Namibia's long-term foreign and local currency **Issuer Default Ratings (IDR)** as BBB- and BBB respectively.⁸ Expectations of credit risk are low and capacity for payment of financial commitments is perceived as adequate.⁹ Public debt is low and economic growth has continued amidst a global economic slowdown with FDI averaging 5.8% of GDP annually since 2009.¹⁰ The government balanced its budget in fiscal year 2012/2013 primarily as a result of an increase in **Southern African Customs Union (SACU)** receipts, at 12.6% of GDP in 2013 from 7.6% in 2012.¹¹ Improvements in **South Africa's** economic performance, lower capital spending and tax revenue over-performance also contributed to a balanced budget.¹² GDP growth is expected to slow to 4.5% in 2013 from 5% in 2012 due to the negative impact of the current drought on agriculture and low demands for minerals.¹³

Fitch expects a gradual increase in foreign reserves by 2015 primarily supported by stronger SACU receipts. Although South Africa is seeking to revise the SACU revenue distribution model in February 2014, Fitch assumes there will be no major change to the SACU revenue-sharing formula that could negatively affect SACU revenues to Namibia.¹⁴ Fitch notes a positive outlook for the mining sector, especially uranium, which is expected to attract more investment and higher growth but says government development of strategies for new economic sectors such as tourism, manufacturing and agro processing would be a better guarantee of continued economic success.¹⁵ The high unemployment rate at 27% reflects the limited development of Namibia's private sector and the

⁷ UNDP in Namibia website, 5 December 2013

⁸ The Namibia Economist, 2 December 2013

⁹ Reuters, 2 December 2013

¹⁰ Reuters, 2 December 2013

¹¹ Reuters, 2 December 2013

¹² Reuters, 2 December 2013

¹³ The Namibia Economist, 2 December 2013

¹⁴ Reuters, 2 December 2013

¹⁵ Reuters, 2 December 2013



capital-intensive nature of the mining sector. Mining contributes 11% of GDP but only 2% of employment.¹⁶

Fitch expects the 2014 elections to be smooth. The presidential candidate of the ruling **South West Africa People's Organisation (SWAPO)** party is current Prime Minister Hage Geingob.

*"SWAPO will easily win re-election, despite grumblings about their handling of the drought and corruption allegations. There is no viable, national opposition and decades after independence SWAPO controls all the levers of power and finance."*¹⁷

1.3 New LPG terminal planned for Lüderitz

Corridor Gas and Oil Terminal (Corridor) will hold a ground-breaking ceremony for a liquefied petroleum gas (LPG) terminal at **Lüderitz** port in January 2014.¹⁸ Corridor is a joint initiative established in 2011 between Namibian **Ehalo Investment Holdings (Pty) Ltd** and **Pula International**, a **Botswana** based company. **Dubai**-based **Emirates National Oil Company (ENOC)** will be the joint venture's technical partner.¹⁹ Pula International is a division of **Pula Holdings**. Led by Botswana business magnate **Kagiso Mmusi**, Pula has a stake in the mobile network **Mascom** as well as property, transport and media.

The project will supply **Southern African** markets with LPG. Independent market research identified shortfalls in the regional supply chain and confirmed the venture's viability.²⁰ Corridor director **Levi Choopara** noted that the project will establish a new LPG storage, handling and distributing facility at Lüderitz offering bulk storage with a 3 000 metric tonne working capacity per year and other product handling systems.²¹

The terminal will also establish shorter distances to **Cape Town, Johannesburg, Gaborone, Zambia** and **Zimbabwe**. A regional distribution network hub will be set up throughout the region. Local partners and distributors have already been identified in the targeted countries.²²

¹⁶ The Namibia Economist, 2 December 2013

¹⁷ Windhoek-based political commentator and journalist

¹⁸ New Era, 26 November 2013

¹⁹ SeeNews Shipping Online, 28 November 2013

²⁰ New Era, 26 November 2013

²¹ SeeNews Shipping Online, 28 November 2013

²² The Namibian, 18 November 2013

“LPG is used in many industries and domestically so this is a positive development. It will help maintain a steady supply. Regionally, the terminal could turn Lüderitz into something of a hub. South Africa imports LPG and has supply and storage constraints so this could be an opportunity for Namibia to export LPG.”²³

This project will complement a pipeline to be constructed by **Mining, Oil and Gas Services (MOGS)**, a South African firm. The pipe will start in **Beira**, Mozambique, run through **Harare** and **Bulawayo** then Botswana, **Zambia** and the **Democratic Republic of Congo**.²⁴ This will ease fuel shortages in landlocked Botswana, Zambia and Zimbabwe, and support current and projected economic growth.

The LPG terminal follows the **Namibian Ports Authority’s (Namport)** \$300m construction of a new container terminal at the Port of **Walvis Bay**.²⁵ The new terminal will enable Namport to triple the container-handling capacity at Walvis Bay from 350,000 TEUs to 1,050,000 TEUs per annum.

1.4 Mozambican plane crashes in Namibia

The **LAM - Mozambique Airlines** crash in Namibia’s **Bwabwata National Park** on 29 November 2013 highlights Africa’s poor aviation safety record. Africa has a record of 7.98 accidents per million flights, which is much higher than the world average of 2.00 per million flights. Most accidents are attributed to the use of old aircraft, poor pilot training, and poor aircraft maintenance.

Flight TM470 on a 93-seater **Brazilian** made **Embraer 190** was lost in Botswana airspace en route from Mozambique to **Angola** but wreckage was located in Namibia.²⁶ Bad weather and poor visibility were reported before the plane went missing.²⁷ All 33 passengers and crew on board died.²⁸

Investigating teams from Mozambique, Angola, Brazil and the US **National Traffic Safety Board (NTSB)** recovered black boxes and voice recorders.²⁹ The preliminary crash investigation report suggests that the pilot **Hermínio dos Santos Fernandes** crashed the plane intentionally.³⁰ He

²³ Namibian economist

²⁴ Botswana Gazette, 28 November 2013

²⁵ Dredging Today, 5 November 2013

²⁶ Victor Likando, Chief Traffic Controller in Ministry of Works and Transport’s Directorate of Civil Aviation quoted in The Namibian, 2 December 2013

²⁷ The Namibian, 2 December 2013

²⁸ The Namibian, 2 December 2013

²⁹ Bloomberg News, 2 December 2013

³⁰ BBC World News, 22 December 2013



allegedly locked the co-pilot out of the cockpit while he altered the aircraft's speed and altitude. CEO of state-owned LAM **Marlene Manave** indicated that the plane had undergone routine maintenance a day before the flight.³¹ She said that both pilots were declared fit to fly (although this will be questioned in light of the preliminary crash investigation report) and held valid **Airline Transport Pilot Licences**.³² The plane was relatively new, having commenced service in November 2012.³³

Although this is the deadliest plane crash in Namibia's airspace in recent memory, it does not bring its air safety record into question. The plane did not make contact with Namibian authorities since it experienced problems in Botswana airspace and crashed just across the border into Namibia.³⁴ Several carriers have begun renewing aircraft and undergoing the **International Air Transport Association (IATA) operational safety audits (IOSA)**³⁵. Others, including LAM, have yet to get the IOSA certification.³⁶ The EU banned LAM and all air carriers certified in Mozambique from flying in its airspace in 2011, citing "significant safety deficiencies".³⁷

2 Implications

Clark's visit to Namibia together with Fitch's positive rating is a significant boost to Namibia's image and SWAPO's governance record ahead of elections in 2014. However, the ongoing drought (see *ARC Namibia November 2013 Briefing*) and the cut in development assistance will be a severe challenge. Namibia's economy is made vulnerable by its dependence on external revenue, particularly SACU receipts. Strategies for economic diversification and withdrawal from SACU dependence are imperative for sustained growth and resilience.

Investments in oil transportation infrastructure will significantly ease landlocked Southern African countries' access to fuel. The new terminals at Lüderitz and Walvis Bay will open sources of revenue for the government through user fees and marketing of oil. The Mozambican Airways crash will not mar Namibia's air safety record as initial reports blame the pilot for deliberately causing the crash. However, the crash is a grave reminder of Africa's abysmal air safety record.

³¹ Mozambique News Agency, 2 December 2013

³² Bloomberg News, 2 December 2013

³³ Mozambique News Agency, 2 December 2013

³⁴ Victor Likando, Chief Traffic Controller in Ministry of Works and Transport's Directorate of Civil Aviation quoted in *The Namibian*, 2 December 2013

³⁵ Global Travel Industry news, 30 November 2013

³⁶ Global Travel Industry News, 30 November 2013

³⁷ EU Mobility and Transport (http://ec.europa.eu/transport/modes/air/safety/air-ban/index_en.htm)

