

## Africa Risk Consulting Namibia Briefing November 2014

### Summary 24 November 2014

*The result of the 28 November presidential election is beyond doubt, with ruling South West Africa People's Organisation (SWAPO)'s candidate Hage Geingob set to obtain a larger share of the popular vote than the 75% scored by Namibia's outgoing head of state, Hifikepunye Pohamba (2005-present) in 2009. SWAPO also looks set to retain its two-thirds majority in the enlarged National Assembly (NA) in the simultaneous legislative election. The Rally for Democracy and Progress (RDP) will probably remain the largest opposition party in the NA. With Geingob's election as next head of state virtually assured, interest is now focussed on whom he will appoint as vice-president and prime minister. A fall in the year-on-year (y/y) rate of inflation since mid-year means it is now less likely that the Bank of Namibia (BoN) will raise interest rates at its last rate-setting of 2014 in December. The mega-billion Kudu gas-to-power project, intended to provide adequate domestic power generation to meet Namibia's growing demand for electricity may face delays. The operator for the offshore Kudu field, Ireland's Tullow Oil, will not now be investing in the development of a gas production facility to supply the planned onshore gas-fired electricity plant in the south. Although Chinese firms have agreed to a government invitation to replace Tullow, there is bound to be a lag in the development schedule, and completion of the project could be pushed beyond the 2018 target date.*

### Geingob can plan his new government...

With the election campaign for the simultaneous presidential and National Assembly (NA) elections on 28 November on its last lap, prime minister **Hage Geingob** remains on track for a large win in Namibia's presidential election. He is expected to retain the support of the ruling **South West Africa People's Organisation (SWAPO)**'s traditional political base, the northern **Oshivambo** ethnic group, who number around half the population, and seems likely to attract most of the votes cast by his own **Damara** community, representing about 15% of the population, who mainly inhabit north-west, west and central Namibia. This will leave slim pickings for his opponents.

Geingob has run a barnstorming campaign for the presidency, addressing packed and enthusiastic SWAPO rallies. His vigour on the campaign trail has belied his age of 74 years – which some have partly attributed to his forthcoming marriage to the much younger (34-year-old) **Monica Kolondo**, a prominent businesswoman and founder of **Stimulus Investment** as well as a member of the president's **Economic Advisory Council (EAC)**.<sup>1</sup> She has pledged to step down as an EAC member after Geingob becomes the next head of state to avoid a public conflict of interest.

Geingob's main campaign theme has been the economic emancipation Namibians will enjoy under his leadership, following the political emancipation that SWAPO delivered in achieving Namibia's independence. More opposition party leaders have placed their hats in the ring for the presidential poll than initially seemed likely.<sup>2</sup> There are seven other declared candidates in the election (compared to eleven in 2009), the most prominent being **Hidipo Hamutenya** of the opposition **Rally for Democracy and Progress (RDP)** and **McHenry Vernaani** of the **Democratic Turnhalle Alliance (DTA of Namibia)**. The main interest in the presidential poll, apart from the size of Geingob's plurality, is whether Hamutenya can repeat his second place finish of 2009, or whether Vernaani, who has run a strong campaign, pips him at the post. If that happens, Hamutenya might

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<sup>1</sup> Namib Times, 3 Oct 2014.

<sup>2</sup> New Era, 12 Nov 2014.

resign as RDP leader after the election, having failed in his stated ambition to install the RDP as the natural party of government.

There are 16 parties (including SWAPO) contesting the NA election (another seven in addition to the eight parties whose leaders are also contesting the presidency). The DTA, which is generally positioned on the political right, may attract more support this time because of its pledges to free up urban land for affordable housing developments for the poor. It could have a higher share of MPs in the new NA, likely at the expense of the RDP whose election campaign has remained lacklustre. The urban housing issue was highlighted by the SWAPO-controlled **Windhoek** municipality's recent auctioning of land for housing developments at inflated prices. The **SWAPO Youth League (SYL)** staged a protest occupation, an action disowned by the SWAPO leadership, which then obliged its information, publicity and mobilisation secretary, **Job Shipululo Amupanda**, to resign. At a mid-November rally in the southern town of **Mariental**, Geingob urged party members and sympathisers not to be "fooled" into grabbing land as the government would continue to handle land redistribution in an "orderly and responsible" manner.<sup>3</sup> He added that the government would pursue land reform through the principle of "willing-seller, willing-buyer" as well as other ways, such as land expropriation, especially when the land belongs to absentee landlords. He pledged that land would be acquired in the common interest, and that those who lose land through expropriation would be compensated for it.

Geingob has not yet made public whom he will appoint as (his and) Namibia's first vice president and as the new prime minister when he formally takes office as head of state next March. Either the vice president or the prime minister will be an Oshivambo. There is also the issue of whether he will appoint a woman to either post; given that SWAPO elected women as half of its 96 NA candidates – in line with the party's adoption of a 50:50 gender equality policy. Regional government and former defence minister **Charles Namoloh** is a leading premiership tip, while Geingob could opt to appoint as the new vice-president his predecessor as prime minister, **Nahas Angula**. Geingob is expected to retain most of the existing cabinet but to be more ruthless in shaping the new government in his own image than President **Hifikepunye Pohamba** (2005-present) was.

### ... while the ECN appears confident it can conduct a fair election

Almost as important as the actual election results – since these are largely a foregone conclusion – will be whether the **Electoral Commission of Namibia (ECN)** is able to demonstrate that it conducted polling fairly and transparently with the first time use of electronic voting machines (EVMs). Also for the first time, polling will take place only on one day – which has been declared a national holiday – and not spread over two, as was the case with the previous four post-independence elections. If there is any evidence of widespread polling irregularities, whether caused by the use of EVMs or for other reasons, opposition parties are likely to challenge the results, probably through legal action, as they did following the 2009 NA election.

ECN officials remain confident that using EVMs will not cause any problems. ECN chairperson **Notemba Tjipueja** told a mid-November news briefing:

*"We will deploy 2,080 teams to the 121 constituencies in the 14 regions of the country to operate 1,255 fixed and 2,711 mobile polling stations. For the first time Namibia will use electronic voting machines, which were purchased from **India**. This will considerably shorten the counting and verification process and we expect to announce all results 24 hours after closure of polls."*<sup>4</sup>

Not everyone shares her optimism. A recent analysis by Dr **Risco Mutelo** of the **Biometric Research Laboratory (BRL)** in Windhoek suggested the EVM process is more complicated than the ECN has acknowledged. BRL is the research group at **Namibia Biometric Systems (NBS)**, which conducts applied research in the implementation of biometrics-based solutions for both government and commercial applications. Mutelo warned that electoral commissioners

<sup>3</sup> The Namibian, 18 Nov 2014.

<sup>4</sup> South African Press Association (SAPA), 21 Nov 2014.

*“too often assume that e-voting systems are secure, while other electoral stakeholders often have greater distrust in technologies. Thus, electoral commissioners need to take security concerns extremely seriously. The security of e-voting and e-counting systems is critical to ensuring public confidence and overall electoral integrity”.*<sup>5</sup>

He noted that “numerous security flaws” had been detected in voting and counting machines in many countries, adding that

*“e-voting and e-counting systems are inherently less transparent than the use of paper ballots, where all steps of the voting and counting process are observable”.*

Mutelo also pointed out that comprehensive EVM tests needed to be performed to ensure the robustness of the systems and should include acceptance testing, performance testing, stress testing, security testing, usability testing and source code review. It is not clear to what extent the ECN has conducted these tests on the EVMs to be used in the elections. In any event, monitoring the polling process to make sure the machines operate properly is going to be challenging, given the ECN’s past record of incompetence and shortage of appropriately-trained technical personnel.

### **Inflation appears to have stabilised...**

**Namibia Statistics Agency (NSA)** monthly inflation figures for October show that the year-on-year (y/y) rate slowed to 5.0% from 5.3% in the preceding month.<sup>6</sup> This was largely due to base effects, with food and non-alcoholic beverage price inflation continuing to slow and transport prices unchanged month-on-month (although they continued to rise y/y).<sup>7</sup> Both these categories, along with housing and utilities, have the highest weighting in the basket of goods and services used for the Namibia consumer price index (NCPI).

Inflation has been on a downward path since 2012 when the annual average rate was 6.7%. This is mainly on account of falling global oil prices (Namibia has no local refinery and imports all its requirements as refined petroleum products). This will continue to be the main external trend moderating domestic inflation; **IJG Securities** expects decreasing global oil prices to filter through to Namibian consumers in two parts during the next 18 months.

*“First round effects should be felt in the next two months as fuel pump prices decline, while second round effects are expected to have a price-reducing effect on food prices 8-18 months out.”*<sup>8</sup>

The reduced inflationary pressures mean the **Bank of Namibia (BoN)** will probably not increase its repurchase (repo) rate for a third time this year at its final **Monetary Policy Committee (MPC)** meeting of 2014 on 10 December.

### **...but the Kudu gas-to-power project is in the balance**

Namibia’s NUS\$2.5-3.0 billion flagship power generation scheme, the **Kudu** gas-to-power project, which the government anticipates will meet the country’s medium-to-long-term electricity supply requirements, has suffered a major setback. **Ireland’s Tullow Oil** and its partner **Japan-based Itochu** have stepped back from further involvement in taking the Kudu offshore field through to onshore electricity production. The project was to be operational by 2018, with a floating production platform and connecting subsea pipeline network transporting gas from the field located 170 km off Namibia’s southernmost coastline, to a US\$1.2 billion 800MW onshore combined-cycle gas turbine (CCGT) plant. This was to be located at **Uubvlei**, at the southern tip of the “**Sperrgebiet**” (prohibited zone) diamond mining area, 25 km north of **Oranjemund**. Kudu was initially discovered by the **United States (US)** oil firm **Chevron** in 1974 and holds a proven reserve of 1.3 trillion cubic feet of natural gas, enough to supply the onshore gas-fired electricity plant for at least 20 years.

<sup>5</sup> New Era, 20 Nov 2014.

<sup>6</sup> Namibia Statistics Agency, Namibia Consumer Price Index, Oct 2014.

<sup>7</sup> Source, stockbroker IJG Securities, Windhoek

<sup>8</sup> Source, stockbroker IJG Securities, Windhoek

Tullow and Itochu together hold a 46% interest in the Kudu field licence (Tullow is operator), with the state-owned **National Oil Corporation of Namibia (Namcor)** currently owning 54%. Initially, Namcor held a 10% free-carried stake, i.e. with no expenditure obligation, but in 2010 the government insisted on bringing **Russia's Gazprom** into the licence partnership in an effort to speed up development. Gazprom and Namcor were joint partners in a special purpose vehicle, but in 2012 Gazprom pulled out, leaving Namcor with the majority ownership of Kudu but no funds to develop the field itself. Tullow's stake of 70% had been trimmed back to 31%, and Itochu's 20% to 15% to accommodate Gazprom. Tullow originally held a 90% interest from its 2004 takeover of **Energy Africa**, later selling a 20% stake to Itochu.

Tullow set out its reasons for withdrawing in a November 2014 interim management statement. Tullow said it would not now be investing any capital in bringing Kudu into production. Previously Tullow, which is understood to have completed front-end engineering design (FEED) on an offshore gas production facility and pipeline connections, had said it intended to make a final investment decision on Kudu by the end of this year. However, as part of an ongoing strategic review, the firm subsequently decided to reallocate capital towards producing assets and the commercialisation of existing discoveries, mainly in **West Africa**. Tullow stated:

*Kudu is an excellent project for Namibia, and Tullow is committed to assisting the government in moving it forward to a Final Investment Decision, but the Group will not be investing capital in the development as other projects currently rank higher in the capital allocation process.”<sup>9</sup>*

The government has responded to Tullow's statement by inviting the **China-Africa Development Fund (CAD Fund)** and its potential partner **China National Offshore Oil Corp. (CNOOC)** to take over the stake in Kudu. Mines and energy minister **Isak Katali** held talks with the management of both **Chinese** firms during a visit to **Beijing** in early November. Katali was reported to have confirmed that both were eager to take up shares in Kudu. CAD Fund president **Liu Hao** asked for “*more time and information*”.<sup>10</sup>

A key component yet to be finalised is the conclusion of a gas sales agreement (GSA) for the supply of gas to state-owned **Namibia Power Corporation (NamPower)**. This entity will own the onshore power plant via a special purpose vehicle, **KuduPower**, in which it currently holds a 100% interest, although the utility aims to scale this back to 51%. An initial agreement signed with **Copperbelt Energy Co. (CEC)** in February would see the privately-owned **Zambian** firm take an equity stake of up to 30% in KuduPower and purchase between 200-300 MW per year from Uubvlei. NamPower will be the sole buyer of electricity from KuduPower and will enter into power export agreements for the sale of electricity surplus to Namibian requirements.

The GSA was long a sticking point with Tullow which, in line with global oil industry norms, held out for the contract to be priced in US dollars, rather than in local currency as the government preferred. In an April 2014 interim management report Tullow had given no hint that it was reconsidering its continued involvement in the project.<sup>11</sup> It is not known whether the gas sales currency issue was resolved before Tullow decided to withdraw from the project. Potentially, the Chinese may prove more flexible over this, if the GSA has yet to be concluded.

## Implications

The presidential election is effectively over bar the shouting. Geingob will be Namibia's next head of state, and he will form a pro-investment, pro-business cabinet with the stated aim of delivering the benefits of economic growth more equably. There are unlikely to be any major policy shifts but Geingob's close ally, **Calle Schlettwein**, who is expected to retain the trade and industry portfolio, will be given authority to press on with policies to promote economic diversification and greater local beneficiation of minerals and other raw materials. There could yet be trouble on this score, as the

<sup>9</sup> Tullow Oil, Interim Management Statement, 12 Nov 2014.

<sup>10</sup> New Era, 6 Nov 2014.

<sup>11</sup> Tullow Oil, Interim Management Statement, 30 Apr 2014.

mining industry for one believes it is not the government's role to coerce miners (by imposing a raw material export levy) into becoming processors or manufacturers.

How inclusive Geingob will be as president will become clear next March when he names Namibia's first vice president and new prime minister. The former will have only a symbolic function, with the government's day-to-day direction remaining in the prime minister's hands. The vice-president would succeed a president in the case of the former's death or incapacity, pending a transition to new elections. The premiership is more important in terms of the new government's direction. A more troublesome issue will be how to handle both the party radicals of the SWAPO Youth League (SYL) and the new **Namibia Economic Freedom Fighters (NEFF)**, which could well gain one or more seats in the next National Assembly. There could be more SWAPO MPs privately sympathetic to their views – especially on speeding up land redistribution – as the party's 96 candidates in this election were much younger than previously. However, some at least will not want to blow their chances of a government post by sympathising too openly with the NEFF's strident rhetoric.

The slowdown in Namibia's inflation rate since mid-year will provide Geingob with a favourable macro-economic environment at the start of his first five-year term. Low interest rates during the past two years have been a key factor in driving economic growth, as companies have felt able to borrow more to invest. The fly in the ointment is the continued rapid expansion in domestic credit extension, which has driven imports unsustainably high. But if domestic credit growth begins to slow, the central bank will feel able to hold off further significant monetary tightening. In 2015 Namibia should also begin to reap the benefits of foreign direct investment (FDI) in new mines, with first the **Otjikoto** gold mine, then the **Tschudi** copper cathode mine, and, finally, the large **Husab** uranium mine, due to start production by the end of the year. A recovery in the uranium spot market price, which rose by almost 50% to US\$42 per pound of uranium oxide between May and November 2014 on the back of tightening supply, will also contribute to stronger economic growth in 2015. If Geingob can put in place policies that ensure the benefits of growth are translated into job-creating infrastructure investment and poverty reduction, he will have got off to a good start.

Crucial to maintaining Namibia's current economic growth path will be ensuring domestic electricity generating capacity grows to meet surging demand both from new mining and manufacturing developments, as well as the growing proportion of the population living in urban households. The withdrawal of Tullow Oil and Itochu from further participation in the Kudu gas-to-power flagship energy project is a setback, although not necessarily a terminal one for the scheme. The original end-of-2017/early-2018 timeframe for Kudu now looks unrealistic, even if the two Chinese firms the government has invited to replace Tullow can get the project moving forward again quickly.

More significant for some is the expanded strategic grasp of Namibia's natural resource sector that China's involvement in the Kudu project would represent. CAD Fund is already the joint venture partner with **China General Nuclear Power Corporation (CGNPC)** in their 90% ownership of **Swakop Uranium**, the local project vehicle for the Husab project. NamPower managing director, **Paulinus Shilambe**, announced in September that China's **Shanghai Electric Group (SEG)** and **Germany's Siemens AG** had been selected as joint preferred bidders to construct the planned 800 MW power station to be supplied by gas from the Kudu field. So, if CAD Fund and CNOOC take up an equity stake in the Kudu development, and SEG gets the contract to build the power station, Namibia will have placed both its key domestic power generation project and its biggest mining development in Chinese hands. CAD Fund and CNOOC will likely request a larger interest in Kudu than that to be relinquished by Tullow/Itochu, probably a significant majority stake. The government would likely concede, since the state-owned oil company has no chance of either raising funds on its own account or getting the government to stump up most of the cost.