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The government appears to do a U-turn on suing Germany for genocide reparations. The most contentious parts of the proposed black economic empowerment (BEE) bill look set to be dropped. The 2017/18 budget deficit is forecast to decrease to 3.6% of GDP despite a 2% increase in total spending due to substantially higher revenue. GDP grows by an estimated 1.3% in 2016 and is forecast to expand 3.7% in 2017. The late Hidipo Hamutenya's nephew may lose out in the contest to appoint a permanent CEO for the new state-owned diamond marketing company.

Government plans to sue Germany for reparations

The divisive issue of how **Namibia** can best secure compensation from **Germany** to compensate the mainly **Ovaherero** and **Nama** victims of genocidal policies just over a century ago has taken a new turn (*ARC Briefing Namibia, February 2017, January 2017*). The Namibian and German governments have been negotiating the terms for an appropriate compensation package (not reparations, which Germany does not accept it should pay) since 2014. Separately, traditional leaders have initiated legal proceedings in **New York (United States)** to press for reparations. Until now the Namibian government has resisted demanding reparations and the inclusion of Ovaherero and Nama representatives in its negotiating team. In March, however, local media reported that unpublished official documents indicate the government is now considering launching a N\$400 billion (US\$30 billion) lawsuit against the German government in the **International Court of Justice (ICJ)** in **The Hague**.¹

The office of attorney general **Sacky Shangala** has reportedly engaged lawyers from **Europe** and Namibia to draft an indictment, based on eight main points, including killings, sexual abuse, slave labour, human trafficking, land theft and loss of right to self-determination. Shangala has refused to confirm the amount being sought in reparations but has acknowledged the appointment of lawyers, although he stressed the government hopes it can reach a diplomatic solution with Germany.

The German government maintains it is unaware of any intention by Namibia to sue. The German government's special envoy in the bilateral negotiations **Rupert Polenz** commented:

*"For Germany, it does not really matter what the newspapers write. What the Namibian government does is relevant. We have not been informed of any deliberations in that sense."*²

Polenz said the negotiations will continue, with another meeting planned in **Berlin** shortly, but cautioned that an agreement, acceptable to the German parliament, seems unlikely for some months.

¹ The Namibian, 17 Mar 2017.

² Deutsche Welle, 21 Mar 2017.

Meanwhile, a second hearing on the traditional leaders' class action suit against Germany is to take place in July, following a pre-trial hearing between the plaintiff's lawyers and a judge held in **New York's District Court** in mid-March.³ The hearing discussed the possibility of the case proceeding and did not mark the start of the suit or guarantee a trial will take place. The 15 or so Namibian traditional leaders in attendance, including Paramount Chief **Kuaima Rukoro** of the **Ovaherero Traditional Authority (OTA)** and Chief **David Frederick** of the **Nama Traditional Authority (NTA)** welcomed the hearing. No German government representative was present.

The planned use of the US **Alien Tort Claims Act** to press the compensation claim may have little prospect, but the traditional leaders believe the threat of legal proceedings may persuade Germany to settle out of court. At the very least, they hope the publicity around the case will put pressure on the German government to offer more in the bilateral negotiations on a compensation package. But it will not resolve the issue of including the genocide-affected communities in the bilateral negotiations between the German and Namibian governments. At a time of fiscal consolidation it would be difficult for the government to justify embarking on an expensive international court case. Germany will not, however, accept reparations to avoid setting a precedent for demands from other previous colonies including **Cameroon (German West Africa)** and **Tanzania (German East Africa)**.

Schlettwein confirms revisions to BEE are being finalised...

Finance minister **Calle Schlettwein** outlined in the 2017/18 budget, tabled on 8 March in the **National Assembly (NA)**, that the provisions of the **New Equitable Economic Empowerment Framework (NEEEF)**, "*are being refined*".⁴ Schlettwein did not specify how the government is revising the NEEEF, the official name for the draft black economic empowerment (BEE) law. However, it seems likely to abandon or significantly modify the provision for mandatory transfers of a minimum 25% shareholding in all Namibian private companies to historically disadvantaged Namibians (HDNs). During a briefing at the **Royal Institute of International Affairs in London (United Kingdom)** in late 2016, Geingob acknowledged that investors are anxious about compulsory 25% transfers (see *ARC Briefing Namibia December 2016*).

In his budget statement, Schlettwein said the government is revising the NEEEF "*to achieve the dual objectives of empowerment and encouraging investors*". Since investors, both local and foreign, have made it clear they view the 25% provisions as unworkable and value-destructive, it seems likely the government will scrap this clause. Furthermore, Schlettwein said the government and the private sector "*should seek win-win approaches*" to realise the NEEEF's objective via ongoing consultations through Prime Minister **Saara Kuuuogongelwa-Amadhila**'s office. This, again, indicates the government has heeded the concerns of private investors. But there will be no rowing back on the empowerment principle; elsewhere in his statement, Schlettwein confirmed that,

"We need to transform the economy so that wealth is distributed downward without destroying our hard-won economic and political stability."

³ Deutsche Welle, 17 Mar 2017.

⁴ Ministry of Finance, Budget Statement for the 2017/18 Financial Year

... and measures for economic diversification and infrastructure development

In other policy initiatives, Schlettwein outlined the principle, although not the detail, of “a supportive structural reform policy agenda” along with “mainstreaming private sector investment to encourage growth and job creation”.⁵ He noted that fiscal consolidation necessitated the “timely implementation of structural policy reforms” in conjunction with mobilising alternative sources of funding to mitigate financing gaps and support capital formation. The government intends to address investor concerns about the scope of the **Investment Promotion Act** passed last year, “to further improve the competitiveness of the national investment climate” (see ARC Briefing Namibia August 2016).

The budget promised reforms to state-owned enterprises (SOEs) to improve delivery and reduce their reliance on government support. In October’s mid-year budget review, Schlettwein indicated a policy of part-privatisation and listing of some SOEs on the **Namibian Stock Exchange (NSX)**, but provided no details in the budget statement (see ARC Briefing Namibia November 2016). Schlettwein said that the 2016 public-private partnership (PPP) law would provide for private sector investment in infrastructure development. Collaboration between the government and industry had identified bankable development proposals, including in the priority sectors of road, rail, water, energy and information and communication technology (ICT) infrastructure.⁶ The government will also provide extra resources for industrial development projects in support of the ‘Growth at Home’ and industrialisation policies to promote economic diversification.

To boost the mobilisation of domestic financial resources, the government will amend minimum domestic asset requirements. At present, 35% of assets owned by financial services or asset management firms must be placed in Namibian investments, and this is to be “gradually lifted” to 45%.⁷ A large proportion of pension funds in particular have continued to invest in **South African** assets due to higher returns, which has contributed to large portfolio investment net outflows. Schlettwein said the change should ensure that

*“...some of the domestic savings which flow out of the country annually will be invested locally to narrow the savings-investment gap”.*⁸

No new taxes were announced in the budget, and the previously proposed new solidarity wealth tax to fund income redistribution, has morphed into expanded provisions of the existing capital gains tax.

The budget deficit should almost halve in 2017/18...

The budget slightly eased the fiscal consolidation introduced in the mid-year 2016/17 budget review. This is due to revenue being expected to come in substantially higher than previously forecast at an estimated N\$56.4 billion for 2017/18, up 9.5% from the revenue take for 2016/17.⁹ That almost entirely reflects an estimated 39% increase in Namibia’s share of receipts from the **Southern African Customs Union (SACU)**, which previously had been projected to decline, to N\$19.6 billion, or 35% of total revenue, compared to 27% in 2016/17. This bonanza is the result of Namibia’s increased imports during 2014-15 (proceeds from the SACU common revenue are distributed on a two-year time lag). As revenue is anticipated to

⁵ Ministry of Finance, Budget Statement for the 2017/18 Financial Year

⁶ Ministry of Finance, Budget Statement for the 2017/18 Financial Year

⁷ Ministry of Finance, Budget Statement for the 2017/18 Financial Year

⁸ Ministry of Finance, Budget Statement for the 2017/18 Financial Year

⁹ Ministry of Finance, Estimates of Revenue, Income and Expenditure (2017/18-2019/20)

come in higher, Schlettwein felt able to modestly increase expenditure to an estimated N\$62.5 billion, up by just under 1.6% from 2016/17, without undermining fiscal consolidation.

Government finances, 2015/16 to 2019/20 (N\$ billion)¹⁰				
	2016/17 (revised estimate)	2017/18 (estimated)	2018/19 (estimated)	2019/20 (projected)
Revenue	51.5	56.4	57.2	60.8
Income/profits taxes	19.8	19.2	20.0	21.5
SACU receipts	14.1	19.6	18.0	18.9
Expenditure	61.5	62.5	61.9	62.7
Recurrent	50.7	50.8	49.6	50.6
Personnel	25.8	30.6	30.3	30.1
Capital	6.9	6.7	8.0	9.0
Debt interest payments	3.9	5.0	4.3	3.1
Budget balance	-10.0	-6.1	-4.7	-1.9
% of GDP	-6.3	-3.6	-2.5	-1.0
Total public debt	66.8	71.7	73.8	75.2
Domestic	41.3	43.2	44.0	45.5
Foreign	25.4	28.4	29.7	29.7
% of GDP	42.1	41.9	40.1	37.7

In his budget statement, Schlettwein said “*the new norm of closely aligning expenditure to revenue has been adhered to*” with the objective of curbing growth in public debt by a gradual reduction in the budget deficit. But growth would be stimulated by “*mitigating*” some of the deep spending cuts front-loaded in the mid-year review. In consequence, while the budget deficit should almost halve to -3.6% of GDP compared to a revised -6.3% of GDP in 2016/17, this is slightly higher than a budget deficit of -3.0% of GDP as forecast last October. Over the new three-year **Medium-term Expenditure Framework (MTEF)** covering the 2017/18 to 2019/20 fiscal years, total spending is expected to decrease from 38.8% of GDP in 2016/17 to 31.4% of GDP in 2019/20, resulting in the budget deficit declining to 2.5% of GDP in the next fiscal year and to -1.0% in 2019/20 (when it was previously projected there would be a budget balance). Accordingly, while outstanding public debt will continue to expand – from N\$66.8 billion in 2016/17 to N\$75.2 billion in 2019/20, as a proportion of GDP it should fall from 42.1% of GDP to 37.7% of GDP over the MTEF period, provided the government’s revised economic growth projections prove reasonably on course (see below).

¹⁰ Source: Ministry of Finance, Estimates of Revenue, Income and Expenditure (2017/18 to 2019/20).

...despite public sector wages absorbing almost a third of spending

Of total expenditure, capital spending, which was revised down sharply in 2016/17, will be trimmed by a further 3% (although it is projected to rise by an average 16% annually from 2018/19 to 2019/20). This will allow for a 28% rise in debt interest payments to N\$5.0 billion in 2017/18 and a fractional increase in recurrent spending.¹¹ Personnel expenditure's share of total spending will rise from 42% in 2016/17 to 49% this fiscal year (although forecast to fall to 30% in the following two fiscal years, due mainly to an above inflation wage increase, postponed from last year - falling slightly to 48% by 2019/20). Grappling with the ever-rising cost of the public sector wage bill is an issue that successive finance ministers have dodged due to the political difficulties. But Schlettwein, presumably with Geingob's backing, now appears ready to grasp the nettle. He acknowledged that the wage bill is "*unsustainably high*".¹² He added that the government will curb future expansion of the wage bill and related expenditure; these will comprise freezing new recruitments, streamlining "*the multiplicity of bonuses and allowances*", decreasing travel expenditure and the expensive engagement of external consultants where sufficient in-house capacity exists. This was coupled with a plea to the unions to exercise restraint in demanding higher salaries in wage negotiations with the government.

Schlettwein has probably done just enough to ensure the ratings agencies do not downgrade Namibia's credit rating in the near-term. This is despite an increase, rather than as previously forecast, a reduction in spending in 2017/18, a slightly higher budget deficit than projected last October, and a very slow decrease in public debt as a proportion of GDP. However, the credibility of the current cycle of fiscal consolidation may be undermined by the latest MTEF projecting a decrease in total spending for 2018/19, its second year, just as the previous MTEF provided for decreased spending in its second year (2017/18). MTEF figures are expressed in nominal terms so hitting the targets is always problematic once inflation is factored in. With annual inflation currently around 8% this makes achieving a reduction in spending in 2018/19 especially challenging, especially as while projected to be lower, personnel expenditure will still absorb 30% of the budget. Schlettwein's efforts might prove in vain in any event, should the ratings agencies downgrade South Africa's credit rating as some anticipate at the end of March.

The government expects GDP to grow by 2.5% in 2017

The government revised down official growth rate estimates for both last year and this in the 2017/18 budget.¹³ The 2016 real growth rate was revised from 2.5% to 1.3%, still a better outcome than the 1.5% contraction recently estimated by **Windhoek**-based stockbroker **IJG Securities** (*ARC Briefing Namibia February 2017*). This may be nearer the actual figure produced by the **Namibia Statistics Agency (NSA)** in its preliminary national accounts due at the end of March. It can be assumed that the finance ministry would have had access to and coordinated with NSA data for last year. As a Q4 2016 GDP growth figure has not been produced – and may be subsumed in the annual average GDP growth rate published by the NSA – it is difficult to quantify at this stage whether or not the GDP contracted overall last year.

¹¹ Ministry of Finance, Estimates of Revenue, income and Expenditure (2017/18-2019/20)

¹² Ministry of Finance, Budget Statement for the 2017/18 Financial Year

¹³ Ministry of Finance, Budget Statement for the 2017/18 Financial Year

The previously projected 4.5% growth rate for 2017 was also revised down, to a more realistic 2.5% growth this year – just above IJG’s more cautious 2.1% projection – rising to 3.7% in 2018 with 3.5% average growth over the MTEF period. That would imply that the government expects mining sector output expansion this year to be higher than the 31% value-added increase forecast by IJG. That would certainly be achievable, provided the **Husab** mine steadily ramps up nameplate capacity of 6,800 tonnes of uranium oxide by 2018, both diamond and gold output expand as expected and the recovery in the agricultural sector is not derailed by a renewed drought.

Inflation slows down in February...

Year-on-year inflation (y/y) declined slightly to 7.8% in February 2017, from 8.2% in January according to the NSA.¹⁴ Inflationary pressures continued to be concentrated in three categories which account for approximately 60% of the weighted basket of goods making up the **Namibia Consumer Price Index (NCPI)**, with y/y inflation for the biggest component – housing, water, gas, electricity and other fuels (28.4% of the basket) – recording a further increase. The inflation rate for food and non-alcoholic beverages (16.5% of the basket) decreased by almost two percentage points to 11.3% in February, down from 13.2% in January; that for housing and utilities rose to 9.6%, from 9.3% previously, while for transport (14.3% of the basket), inflation was slightly lower at 4.7% (5.2% previously). Food prices rose for all sub-groups apart from vegetables, oils and fats confirming that post-drought reductions in the cost of staples have yet to feed through. The continued increase in housing and utilities inflation was due to a further 9.6% hike in rental payments (up 9.7% in January), while the cost of water supply and sewerage services went up by 11.5% (12.4% previously), with electricity, gas and other fuels up by 8.3% (6.7% previously). Transport inflation eased due to a fall in the cost of both purchasing and operating vehicles, reflecting greater stability on the foreign exchange rate of the South African rand/Namibia dollar.

Namibia’s annual inflation rate has been substantially higher than that of South Africa since the start of 2017; South Africa’s year-on-year inflation rate decreased for the second successive month in February, to 6.3% from 6.6% in January. This is still just above the upper threshold of the 3.0%-6.0% target range of the **South African Reserve Bank (SARB)**, central bank).¹⁵ Due to weak South African GDP growth this year, officially 1.1%, the SARB is unlikely to raise its repurchase (repo) rate during the first half of 2017, and Namibia’s central bank will not increase its repo rate above the current level of 7.0% unless South Africa does. Double digit increases in domestic food prices will likely prevail due to the continued knock-on effects of the protracted drought and pass-through impact of higher import prices, although the upward pressures have eased. But, given January’s upward spike in inflation to above 8%, IJG Securities forecasts annual inflation of 7.9% in 2017, which we think is on the high side, over one percentage point higher than last year’s average of 6.7%.¹⁶

Namdia split over CEO job

A battle was underway at the beginning of March over the appointment of a CEO for the new state-owned diamond marketing firm, **Namibia Desert Diamonds (Namdia)**, which will sell a proportion of Namibia’s rough diamond production direct to overseas markets.¹⁷ Under the new ten-year marketing agreement finalised in June 2015 between the government and

¹⁴ Namibia Statistics Agency, National Consumer Price index, February 2017.

¹⁵ New Era, 16 Feb 2017.

¹⁶ IJG Securities, Namibia CPI- February 2017.

¹⁷ The Namibian, 1 Mar 2017.

global diamond group **De Beers SA** (owned 85% by **Anglo American** and 15% by the **Botswana** government), Namdia can sell up to 15% of the run-of-mine production by the country's sole diamond producer, **Namdeb Holdings**, a 50:50 joint venture between the government and De Beers), to third parties that are not De Beers' clients, for the first time (*ARC Briefing Namibia July 2016*). The Namdia CEO will have an influential, high profile role in managing this new market opportunity and revenue stream for the government, as rough diamonds worth some US\$2 billion per year are expected to be sold to international traders and markets such as **Dubai**.¹⁸

For that reason there has been intense competition for the CEO job, which pays a N\$4m (US\$0.3m) annual salary. Namibia's diamond commissioner, **Kennedy Hamutenya**, who led the government team which negotiated the new marketing agreement with De Beers, is Namdia's acting CEO and therefore in pole position to take on the job full-time. But the appointment was delayed due to opposition by some of the seven-member Namdia board to Hamutenya; he is a nephew of the late **Hidipo Hamutenya**, the former senior cabinet minister who defected from the ruling **SWAPO Party of Namibia** and established the **Rally for Democracy and Progress (RDP)** before the 2010 presidential and legislative elections, only to re-join SWAPO shortly before his death last year. Additionally, some board members claim that Namdia undersold diamonds in 2016.

The board was reportedly divided three to four between a pro-Hamutenya faction, and another supporting the **Swakop Uranium (SU)** business improvement director, **Alex Gawanab**. SU is the locally-registered operating company for the recently commissioned **Husab** uranium mine, which is owned 90% by **Taurus Mineral**, a joint venture of **China General Nuclear Power Corp (CGNPC)** and the **China-Africa Development Fund (CADFund)**, and 10% by state-owned **Epangelo Mining Co. Deloitte Management** was responsible for the appointment process, and interviewed candidates last November; Hamutenya is understood to have been at the top of the short list, followed by **Wicus Burger**, a former Namdeb engineer and brother of Namdeb's current managing director **Riaan Burger**, with Gawanab in third place. Namdia chairperson **Shakespeare Masiza** has refused to disclose whom a mid-February board meeting recommended for the job – and whether it was just the one name – to mines and energy minister **Obeth Kandjoze**, who will then submit it for cabinet approval. Kandjoze has form for getting his way in appointing the top management for SOE, while both Masiza and deputy chairperson **Tania Hangula** are believed to be against appointing Hamutenya. Among Hamutenya's reported backers is **National Petroleum Corp of Namibia (Namcor)** technology manager **Bonny Konjore**.¹⁹

¹⁸ Industry source to ARC.

¹⁹ The Namibian, 1 Mar 2017.



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