

## AFRICA RISK CONSULTING

### Namibia Monthly Briefing July 2019

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#### Namibia Summary 16 July 2019

*An independent candidate polls strongly against the ruling SWAPO party in the Ondangwa regional by-election. The Namibian economy contracts by 2% in first quarter 2019. Inflation continues to slow in June and analysts anticipate an interest rate cut in August. A high-level economic summit takes place at the end of July in a bid to boost investment. New solar power developments are underway. The Namibian Competition Commission (NCC) conditionally approves United Kingdom-based Rio Tinto's sale of its majority interest in the Rössing uranium mine to China National Uranium Corp. (CNUC), but the Singapore stock exchange blocks Chinese-owned International Cement Group (ICG) from acquiring a majority stake in the Ohorongo cement plant.*

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#### Independent candidate polls strongly against SWAPO in Ondangwa

The emergence of independent candidates in local elections, and potentially in both the presidential and legislative polls, indicates a strong current of disaffection with both the ruling **SWAPO Party of Namibia (SWAPO)** and the main opposition parties. Although there has been no change to ARC's previous assessment that President **Hage Geingob** (2015-present) is on track to win another overwhelming victory in the presidential election at the end of November (see *ARC Briefing Namibia June 2019*), SWAPO won a slim majority in a mid-June by-election for the **Ondangwa Urban** seat in the **Oshana** regional council (northern Namibia), normally a reliable political bastion for the ruling party. The by-election was due to Geingob having appointed the previous SWAPO regional councillor for the seat, **Elia Irimari**, as Oshana region governor earlier this year.<sup>1</sup>

A young teacher, **Angelina Immanuel**, standing as an independent candidate, was backed by 1,400 voters (37% of the 3,800 votes cast), while SWAPO won with 1,900 votes, a bare majority of just 51%.<sup>2</sup> Three other candidates representing established opposition parties – the **All People's Party (APP)**, **Congress of Democrats (CoD)** and **Popular Democratic Movement (PDM)** (formerly the **DTA of Namibia**) – won only 460 votes between them, just 12% of the votes cast. The margin between Immanuel and the SWAPO candidate, **Leonard Negonga**, of only 500 votes, was far smaller than the outcome of previous elections for the seat. In the 2015 regional council elections, Irimari had won 92% of the vote, while in the 2014 **National Assembly (NA)** election, SWAPO won with 86% of the vote. One political commentator hailed the by-election result “as a change in Namibian politics, after many years of predictable election results”.<sup>3</sup>

However, SWAPO is still likely to retain the seat in this year's NA elections (and its current two-thirds majority in the NA). Despite Immanuel's impressive score, it was secured on a very low voter turnout, with voter apathy the chief winner. Only 24% of the 16,000 registered electorate cast a vote.<sup>4</sup> Turnout in national elections is normally much higher – in 2014 the number of votes cast, 15,600, was actually 400 more than the registered electorate, due to so-called ‘tendered ballots’ by voters from other constituencies with a claim to be local residents, a process that opposition parties have often

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<sup>1</sup> The Namibian, 20 May 2019.

<sup>2</sup> The Namibian, 20 Jun 2019.

<sup>3</sup> The Namibian, 20 Jun 2019.

<sup>4</sup> The Namibian, 20 Jun 2019.

criticised as open to electoral malpractice.<sup>5</sup> It is not yet known if Immanuel intends to stand as an independent candidate again in November. If she does, it will be one of the more closely watched contests.

### GDP contracts again in the 2019 first quarter ...

Real GDP growth contracted by 2.0% in the first quarter of this year, a deterioration in economic performance from a year earlier when GDP shrank by 0.5%.<sup>6</sup> In addition, revised data show the economy contracted more strongly in the final quarter of 2018 at -1.9%, compared to the 1.7% initial estimate. The revisions notably included a reduction in mining output growth to 5.7% from 11.1% originally. With the exception of the 2018 second quarter, when 2.4% positive growth was recorded, real GDP has declined in seven of the past eight successive quarters, the longest recession experienced by Namibia since independence. In absolute numbers, the **Namibia Statistics Agency (NSA)** calculates that real GDP decreased to N\$27.0 billion (\$1.9 billion), a drop of N\$583m (\$40m) compared to a year previously. Statistician general **Alex Shimuafemi** noted that the economic deterioration “*is observed across major sectors with more than half of the sectors posting declines in real value added*”:

*“[The consecutive downturn in activities] is attributable largely to weak consumer demand for goods and services as well as the impact of drought exerting further pressure on disposable income of households.”<sup>7</sup>*

Real GDP growth Q1 2019 (% change) <sup>8</sup>			
	2019	2018	
	Q1	Q4	Q1
Agriculture	-6.7	-5.5	0.3
Fishing	1.1	10.8	-1.3
Mining & quarrying	-1.1	5.7	13.4
Manufacturing	3.6	3.5	0.5
Construction	-27.8	-30.6	-0.7
Electricity & Water	2.7	9.6	-6.6
Wholesale & retail trade	-6.7	-9.7	-4.3
Hotels & restaurants	-8.7	-4.2	-17.5
Transport & Communications	-0.5	5.1	-6.6
Financial services	1.4	2.5	2.7
Real estate and business services	0.4	0.6	2.0
Public administration & defence	-1.2	-0.4	0.0
FSIM <sup>9</sup>	4.6	6.8	0.5
All industries at basic prices	-1.9	-1.8	-0.5
Taxes less subsidies on products	-3.2	-3.4	-0.2
<b>GDP at market prices</b>	<b>-2.0</b>	<b>-1.9</b>	<b>-0.5</b>

<sup>5</sup> The Namibian, 20 Jun 2019.

<sup>6</sup> Namibia Statistics Agency, Gross Domestic Product, First Quarter 2019.

<sup>7</sup> Namibia Statistics Agency, Gross Domestic Product, First Quarter 2019

<sup>8</sup> Namibia Statistics Agency, Gross Domestic Product, First Quarter 2019.

<sup>9</sup> Financial intermediation services indirectly measured

The biggest contractions occurred in the construction, hotels and restaurants, wholesale and retail trade and agriculture sectors, which registered real value-added output decreases of 27.8%, 8.7%, 6.7% and 6.7% respectively in the first quarter. Mining, public administration and defence recorded more modest output falls of -1.1% and -1.2% respectively, while manufacturing (3.6%), electricity and water (2.7%) and fishing (1.1%) were the main sectors in positive territory, although fishing and utilities output growth was substantially less than in the preceding quarter. Agriculture's livestock sub-sector contracted by 0.3% in the 2019 first quarter, mainly reflecting a 27% fall in live cattle exports to **Angola** and **South Africa** in contrast to a 53% increase a year earlier. A decrease in cultivated fields owing to the drought reduced output of the crop sub-sector by 22%, compared to 21% growth a year earlier. Uranium output rose by 13% in the 2019 first quarter, although this was well below the 56% expansion recorded a year earlier, reflecting the fact that the major ramp-up in output by the **Husab** mine took place last year (see *ARC Briefing Namibia January 2019*). All other mining sub-sectors contracted; diamonds (-4%), metal ores (-4%), due to reduced gold and lead output, and others (dimension stone etc -31%). On the upside, while diamond processing output growth slowed to 3%, from 14% a year earlier, basic non-ferrous metals (smelted copper and refined zinc) output rose by 135% compared to a 7% contraction a year earlier, with beverages, meat processing, non-metallic minerals and fabricated metal products all recording higher growth than a year earlier.<sup>10</sup>

### ... as inflation decreases again in June ...

Inflationary pressures further eased in June, with the **National Consumer Price Index (NCPI)** reporting that year-on-year (y/y) inflation declined to 3.9%, from 4.1% in May, although prices rose fractionally (by 0.1%) month-on-month (m/m). June inflation dropped to just below the rate for a year earlier (4.0%), although 12-month average inflation rose slightly to 5.0%.<sup>11</sup> Goods inflation at 3.4% remained below that for services at 4.7%, with the differential widening from May. Near-term, inflation is expected to remain around current levels. **Capricorn Asset Management (CAM)** chief economist **Floris Bergh** predicted:

*"In our view inflation is likely to remain in the 4% to 5% range in both Namibia and SA for the foreseeable future, which is until 2021. It could even fall below these levels at times... The one factor to watch, though, is maize prices. It (sic) has recently risen sharply in the **United States (US)** and in South Africa. If sustained, this could put upward pressure in the food price chain. Food, oil and the exchange rate remain, as ever, volatility drivers of inflation."*<sup>12</sup>

Despite the ongoing **US-Iran** geo-political tensions and Iranian **Revolutionary Guard** harassment of tankers transporting crude oil through the **Gulf of Hormoz**, global oil prices have yet to cause an upward spike in crude oil prices. The **Brent** crude benchmark price was \$67 per barrel as of 13 July, down from \$72 per barrel at the end of May, helped by the **Organisation of Petroleum Exporting Countries (OPEC)** maintaining output levels and increased US shale gas production.<sup>13</sup> Because of the currently benign outlook for global oil prices, Namibia's mines and energy ministry will not be increasing domestic fuel prices in July. **Walvis Bay** pump prices (inland prices are slightly higher) will stay at N\$13.05 (\$0.93) per litre of lead-free petrol and N\$13.63 (\$0.97) per litre of diesel fuel this month.<sup>14</sup> In addition, the South African rand (to which the Namibia dollar is linked at par) has held its value against the US dollar within a range of US\$1.00= ZAR14.00-14.50 since the start of 2019, helping to mute externally sourced inflationary pressures. In fact, the rand strengthened during the past month to US\$1.00=ZAR13.98 on 12 July (the highest value so far this year) from US\$1.00=ZAR14.50 on 17 June, a 4% appreciation, so reducing the cost of imported goods.<sup>15</sup>

<sup>10</sup> Namibia Statistics Agency, Gross Domestic Product, First Quarter 2019.

<sup>11</sup> Namibia Statistics Agency, National Consumer Price Index, June 2019.

<sup>12</sup> Namibia Economist, 2 Jul 2019.

<sup>13</sup> OIL-PRICE.NET, 15 Jul 2019.

<sup>14</sup> The Namibian, 1 Jul 2019.

<sup>15</sup> XE Currency Converter (online), 14 Jul 2019.

In June, transport (14.3% weighting in the NCPI basket of goods and services) was the major driver of the slower overall inflation rate, recording reduced price growth of 7.0%, down from 7.6% in May. This reflected smaller increases in the cost of buying vehicles at 3.6%, from 4.1% in May, while the cost of operating personal transport rose by 5.0%, compared to 5.7%. Inflation for food and non-alcoholic beverages (16.5% weighting) dipped again, to 3.9%, from 4.4% in May. Although price increases for bread and cereals were almost unchanged on 8.2%, this was offset by a sharp reduction in price rises for potatoes and other vegetables at 7.3% (down from 13.3%). Y/y inflation for housing, utilities and fuels, the biggest NCPI component with a 28.4% weighting, slightly increased to 2.0% (1.9% in May). Prices for electricity, gas and other fuels deflated again, by -1.5%, but this was offset by water and sewerage services prices by 5.6%, faster than in May.<sup>16</sup>

The trend in zonal consumer prices, which records inflation for each of three geographic zones into which the NSA groups Namibia's 14 administrative regions, showed some variation from the preceding month (see *ARC Briefing Namibia June 2019*). Y/y inflation for Zone 1 (northern Namibia, nine regions) rose by 3.5% (up from 3.3% in May when price rises had slowed), that for Zone 2 (**Khomas region**, including **Windhoek**) slowed for the second successive month to 3.7%, (from 4.1% in May), while that for Zone 3 (four eastern/western/southern regions including Walvis Bay and **Swakopmund**), decreased to 4.9% from 5.1%. Even so, Zone 1 inflation in June was half a percentage point less than a year earlier (4.6%), while Zone 2 inflation was half a percentage point higher (3.2%), whereas Zone 3 inflation was just over half a percentage point less than a year earlier (5.6%).<sup>17</sup>

### ... and an interest rate cut looks likely in August

If the **South African Reserve Bank (SARB)** cuts its repurchase (repo) rate at its 18 July rate setting meeting, the **Bank of Namibia (BoN)** (central bank) will likely follow suit at its next **Monetary Policy Committee (MPC)** meeting on 14 August. The SARB has been signalling for some time it will make at least one 25 basis point rate cut this year (see *ARC Briefing Namibia June 2019*). One local financial institution is confident that the BoN will loosen monetary policy to ease the economic burden of private households, predicting that a South African rate cut will result in a similar reduction by the BoN. Bergh said his firm's view is that the SARB will cut rates this month and that it will be followed by a rate cut in Namibia next month as slower inflation has created space for monetary policy to reduce interest rates (see below). He commented:

*"It seems that monetary policy will be expected to provide relief and stimulus to economies in an environment where fiscal policy can do very little. Ideally, one would like to see governments loosen the purse strings, borrow more, cut taxes or spend more."*<sup>18</sup>

### Growth summit aims to boost economy...

A two-day **Economic Growth Summit** to find ways of boosting economic activity and investment is taking place from 21 July to 1 August in Windhoek, under the theme *"Economic Revival for Inclusive Growth – Strengthening the Namibian House"*. It is the first public event to be organised by a new **High Level Panel on the Namibian Economy**, which Geingob set up in April. The panel is essentially a rebooting of the **Presidential Economic Advisory Council (PEAC)**, with 22 members drawn from the government, private sector, academia, labour and youth, including three international economic experts from **Guinea-Bissau, Nigeria** and South Africa.<sup>19</sup> According to panel chair **Johannes Gawaxab** of **EOS Capital**, a leading local, wholly Namibian-owned private equity firm, the key objectives are to *"identify opportunities for economic recovery and mass employment creation by leveraging private sector capital"*.<sup>20</sup> The summit is budgeted at a modest N\$3m (\$0.2m) and will be entirely paid for by the private sector.

<sup>16</sup> Namibia Statistics Agency, National Consumer Price Index, June 2019.

<sup>17</sup> Namibia Statistics Agency, National Consumer Price Index, June 2019.

<sup>18</sup> Namibia Economist, 2 Jul 2019.

<sup>19</sup> New Era, 5 Apr 2019.

<sup>20</sup> Namibia Economist, 1 Jul 2019.

Its immediate goal is to restore business confidence in Namibia's economic prospects and to facilitate some \$1 billion in new investment, which the panel has set as its 24-month target. One of two plenary sessions will discuss infrastructure development as a key enabler for industrialisation and strategies to promote manufacturing. Sector specific sessions will cover employment creation, utilisation of natural resources, the role of public private partnerships (PPPs), supply of affordable housing, the provision of affordable energy, means to address the recurring water crises and growth opportunities that arise from regional integration.

It is anticipated that the government will announce an undertaking to provide clarity on key policies during the summit so that investors can better assess the risk of putting their money into Namibia.<sup>21</sup> Current uncertainties over how far the government is committed to structural reforms as part of its fiscal adjustment and economic recovery programme persist, in view of its lack of a substantial response to last month's Article IV mission report of the **International Monetary Fund (IMF)**. This identified a number of key policy challenges, including the need to identify specific measures to deliver planned fiscal consolidation and roll out structural reforms to boost long-term growth (see *ARC Briefing Namibia June 2019*). CAM chief economist Floris Bergh said there was little prospect of any economic growth this year "unless larger policy issues are resolved":

*"Our hope remains that globally, regionally and domestically, increased cohesion of policy-making will be achieved ... [and] a comprehensive battle plan can be established that will benefit all."*<sup>22</sup>

### Germany provides more aid funding and solar projects take flight

There have been some positive developments in the run up to the summit. A new €80 billion (\$90 billion) bilateral financial agreement between Namibia and **Germany** will provide low-interest loans to help fund priority sectors such as water supply, transport and micro-finance.<sup>23</sup> The agreement was signed off by finance minister **Calle Schlettwein** and Germany's outgoing ambassador to Namibia, **Christian Schlaga**, at the end of June. Some N\$640m (\$46m) is allocated for the expansion of Windhoek's water supply infrastructure, including an additional water reclamation plant, where a new water saving target of 15% for consumers during 2019/20 came into effect on 1 May. National postal operator **NamPost** will receive a N\$230m (\$16m) long-term financing facility, for on-lending to small and micro businesses and low-income households. Despite a continued failure to reach a bilateral resolution of the historic genocide claims, Germany remains Namibia's largest bilateral aid donor, having provided some N\$15 billion (\$1.1 billion) in development finance since independence.

In the renewable energy sector, mines and energy minister **Tom Alweendo** officially opened a new \$70m, 37 MW solar plant near **Marienthal** in southern Namibia on 20 June.<sup>24</sup> The plant started operating at the end of 2018 and comprises 140,000 crystalline silicon panels. It is set to supply 112 GWh of electricity per year to the national grid under an independent power producer (IPP) agreement with the state-owned **Namibia Power Corp (NamPower)**. **Alten Africa**, a subsidiary of **Netherlands-based Alten Renewable Energy**, has a 51% controlling interest in the investment vehicle, **Alten Solar Power (Hardap)**, with NamPower holding 19% and previously disadvantaged Namibian (PDN) shareholders a combined 30% via **First Place Investment, Mangrove and Talyeni Investments. Standard Bank South Africa** and **France-based development finance institution Proparco** provided some \$50m in project funding.

A larger solar power development for 50 MW is moving ahead. **Terasun Energy**, a subsidiary of South Africa-based **Natura Energy**, is set to invest N\$900m (\$64m) in the **Terasun Energy Solar PV Power Park** at **Arandis**, where many **Rössing** uranium mine workers live.<sup>25</sup> In the middle of the **Namib**

<sup>21</sup> The Namibian, 3 Jul 2019.

<sup>22</sup> Namibia Economist, 2 Jul 2019.

<sup>23</sup> The Namibian, 26 Jun 2019.

<sup>24</sup> NamPower advertorial, 20 Jun 2019.

<sup>25</sup> The Namibian, 27 Jun 2019.

**Desert**, it has Namibia's highest level of irradiation. Natura decided to go ahead after the cabinet approved a modified single buyer (MSV) model, due to be introduced by the **Electricity Control Board (ECB)** this September. This allows transmission customers and independent power producers (IPPs) to transact directly for the supply of electricity, with the former now able to buy up to 30% of their energy requirements directly from a privately owned generating company. Terasun is a special purpose company that plans to engage with large power users to conclude competitively priced electricity supply agreements from the end of 2020.

### Competition commission conditionally approves Rössing mine sale to CNNC

The **Namibian Competition Commission (NCC)** provided the final outstanding regulatory consent for the sale of **Anglo-Australian** group **Rio Tinto's** 68.6% majority interest in the **Rössing** uranium mine to **China National Uranium Corp. (CNUC)**, a wholly-owned subsidiary of **China National Nuclear Corp. (CNNC)**, at the end of June (see *ARC Briefing Namibia May 2019, December 2018*).<sup>26</sup> Despite the sale meaning that Chinese nuclear power utilities will effectively control Namibia's uranium mining sector – the Husab mine is 90%-owned by **China General Nuclear (CGN)** – NCC chief executive officer **Vitalis Ndalikokule** said the transaction was unlikely to result “*in the prevention or substantial lessening of competition*”.<sup>27</sup> However, Ndalikokule acknowledged it would reinforce China's dominance of the sector and raised “*significant public interest concerns*”, including employment and local procurements along with the bundling of tenders for outsourced services.<sup>28</sup> There had seemed little prospect of the NCC blocking the transaction after Alweendo indicated in May that the government had no objection to the sale.

At an NCC stakeholders' consultation in May also, the former Rössing managing director, **Werner Duvenhage**, said Rio would bring forward closure of the mine to next year, rather than in 2025 as provided under the current mining plan, should the sale not proceed. He maintained there was no alternative purchaser in prospect as no other company had met Rio's (unspecified) sale criteria.<sup>29</sup> Rio confirmed the sale completion in mid-July. As provided under the November 2018 binding agreement with CNUC, it is receiving an initial \$6.5m cash payment, plus a contingency payment of up to \$100m, linked to uranium spot prices and Rössing's net income during the next seven calendar years. In addition, Rio would receive a further cash payment if CNUC sells the Zelda 20 (Z20) higher-grade uranium deposit during “*a restricted period following completion*”. Rio Tinto has declined to divulge how long CNUC has to make a sale. Since the deposit is located midway between Rössing and the Husab mine, the latter would appear to be the most likely buyer, a local industry source told ARC. Rio's UK media relations spokesperson **David Outhwaite** commented:

*“We have the money, and as of today, it is operated by CNUC... We cannot say more in terms of what the restricted period is. It is the period of the sale of the asset, but I am afraid I cannot say more.”*<sup>30</sup>

The NCC has, in fact, set quite tough conditions in approving the sale, although it is not clear how these would be enforced:

- The Namibian proportion of the workforce is to be maintained until mine closure, with no retrenchments during the first two years after CNNC's takeover.
- Non-Namibians must not be employed in management posts for longer than two-year fixed term contracts.

<sup>26</sup> World Nuclear News, 1 Jul 2019.

<sup>27</sup> The Namibian, 28 Jun 2019.

<sup>28</sup> The Namibian, 28 Jun 2019.

<sup>29</sup> The Namibian, 24 May 2019.

<sup>30</sup> Rio Tinto Notice to ASX/LSE, Rio Tinto completes sale of its stake in Rössing Uranium Ltd, 16 Jul 2019: The Namibian, 17 Jul 2019.

- No changes are allowed to the existing mine procurement policy that would disadvantage local suppliers until mine closure.
- For procurements worth N\$250,000 (\$18,000) or less, 80% of the goods and services purchased have to be from majority Namibian-owned companies.<sup>31</sup>

The supply chain business is crucial to the mine's economic hub effect. In 2018, Rössing procurements were worth N\$2.4 billion (\$0.2 billion), of which almost 60%, \$1.4 billion (\$0.2 billion), was placed with local suppliers (see *ARC Briefing Namibia May 2019*). Meanwhile, the 12 July decision by US President **Donald Trump** (2017-present) not to impose quotas or tariffs on imports of uranium, as two small American uranium mining producers had sought in a Section 232 petition lodged with the US **Department of Commerce (DoC)** in January 2018, is good news for Rössing, which sold 45% of its production to **North America** last year, mainly to US nuclear power utilities. The DoC's investigation report was not published (it was submitted directly to the **White House**) but reportedly advocated a progressive introduction of quota requiring 25% of utility nuclear fuel requirements to be obtained from domestic producers. Instead, Trump has initiated a 90-day review of the domestic nuclear supply chain under a previous (2017) initiative to revitalise and expand the US nuclear energy sector. The outcome is seen as broadly positive for the global nuclear power market and uranium prices. **Brandon Monro**, CEO of **Bannerman Resources**, which owns 95% of the large, low-grade **Etango** uranium project near to Rössing, noted that the various petition outcomes, including the potential to adversely affect term contracting arrangements (as opposed to spot market transactions) "*had created uncertainty that has resulted in most utility procurement programmes being suspended or sharply curtailed*":

*"Bannerman regards this no trade action outcome as highly positive for the uranium sector, given that global uranium market activity is now expected to return towards more normalised levels [and] as it maintains open market access to the US uranium market."<sup>32</sup>*

### Singapore blocks a Chinese majority acquisition of Namibia's only cement plant

The intervention of the **Singapore Stock Exchange (SGX)** at the end of June has halted the sale by Germany's **Ulm**-based **Schwenk Zement International** of its 69.8% majority interest in **Ohorongo Cement**, Namibia's only cement-producing plant, to a Chinese-linked firm.<sup>33</sup> The Namibia Competition Commission is also reviewing the N\$1.5 billion (\$107m) deal. NCC spokesperson **Dina Gowases** said the commission was aware of the SGX decision but added:

*"The proposed merger is currently under investigation and, therefore, we will not make any comments at this stage."<sup>34</sup>*

Ohorongo, located near **Otavi** in **Otjozondjupa Region**, started operation in 2011 for an initial N\$2.5 billion (\$179m) capital investment. The current production capacity is in excess of 1m tonnes of cement annually for domestic market requirements and 'special projects'.<sup>35</sup> Before the factory was opened, Namibia's cement needs were met by imports, mainly from South Africa. Imported materials used in production are sourced locally and the entire value chain is within Namibia, making the current operation very important to the local economy of Otavi and its surrounding area. Schwenk, a private family-owned business, holds its interest in Ohorongo via **Schwenk Namibia**, and has not issued a statement on why it wants to sell up. Ohorongo managing director **Hans-Wilhelm Schutte** said it was the majority shareholder that was looking for a buyer, not the Namibian company. He said:

<sup>31</sup> The Namibian, 28 Jun 2019.

<sup>32</sup> Brandon Monro quoted in Reuters 12 Jul 2019; Bannerman Resources, ASX announcement, 15 Jul 2019.

<sup>33</sup> Namibia Economist, 25 Jun 2019.

<sup>34</sup> The Namibian, 28 Jun 2019.

<sup>35</sup> Schwenk Zement website.

*“It is difficult for me to comment, because I also do not have all the information. I am only responsible for Ohorongo Cement at the operational point of view.”*<sup>36</sup>

**International Cement Group (ICG)**, a Chinese-owned company listed on the Singapore exchange, was told by the SGX’s securities trading unit (SGX-ST) that it could not proceed with the transaction, which had been proposed in April, as the Namibian company was not profitable and it did not have the funds to buy it. According to ICG chair **Ma Zhaoyang**, the SGX-ST had informed his company that the proposed acquisition did not meet the criteria for a ‘Very Substantial Acquisition’ (VSA) under the SGX’s Rule 1015 (2), to which the deal had been upgraded because of the transaction size, and because Ohorongo operates in a ‘developing jurisdiction’. The upgrade to a VSA transaction increased regulatory compliance, which the transaction did not meet. Citing the reasons for the SGX’s refusal to approve the deal, Zhaoyang said:

*“SGX-ST noted that foreign exchange losses arising from the Schwenk loan claim remain in the pro forma financial statements after the acquisition.”*<sup>37</sup>

These losses would continue to affect the accounts of the enlarged group afterwards.<sup>38</sup> On ICG’s post-acquisition financial position, SGX-ST found that the company did not have sufficient cash resources to fund the purchase consideration:

*“It intends to possibly obtain significant external loans from financial institutions and shareholder loans. Such loans when considered with the potential losses of the target business will result in a material adverse impact on the enlarged group. There is no certainty that the target business will be able to generate sufficient profits to service the loans.”*<sup>39</sup>

In addition, the exchange authorities required ICG to commission a pre-deal anti-money laundering due diligence by an external auditor to comply with its listing rules, and put in place “adequate and effective” risk management and internal control procedures. It would appear that without the scrutiny of the SGX the deal might have sailed through, although, should it be revived, it remains subject to NCC approval also. The state-owned **Development Bank of Namibia (DBN)** owns an 11% equity stake in Ohorongo, but issued a statement confirming that it had not been told that the German company intended to sell its majority interest to ICG.<sup>40</sup>

<sup>36</sup> The Namibian, 26 Jun 2019.

<sup>37</sup> Namibian Economist, 25 Jun 2019.

<sup>38</sup> Namibian Economist, 25 Jun 2019.

<sup>39</sup> Namibian Economist, 25 Jun 2019.

<sup>40</sup> The Namibian, 26 Jun 2019.

## Planner

31 Jul - 1 Aug 2019 **(Namibia), High Level Panel on the Namibian Economy**, Economic Growth Summit, Windhoek

14 Aug 2019 **(Namibia) Bank of Namibia**, Monetary Policy Committee rate setting meeting

15 Aug 2019 **(Namibia) Namibia Statistics Agency**, National Consumer Price Index, July 2019

Nov 2019 **(Namibia) National Assembly** and presidential Elections

## Chronology

16 Jul 2019 **Windhoek (Namibia) The Namibian**. **United Kingdom**-based mining company **Rio Tinto** says that its 69% stake in **Rossing Uranium** has officially been sold to **China's** state-owned **China National Uranium Corporation Ltd**;

16 Jul 2019 **Windhoek (Namibia) The Namibian**. **Electoral Commission of Namibia** chief **Theo Mujoro** says that current voters' cards will not be valid for 2020 local authority elections and voters would need to re-register, which may affect overall turnout;

15 Jul 2019 **Windhoek (Namibia) New Era**. Justice minister **Sakeus Shanghala** says that Namibia will not legalise marijuana in the near future;

11 Jul 2019 **Windhoek (Namibia) The Namibian**. President **Hage Geingob** appoints **Martin Andjaba** as acting minister of education, arts and culture;

2 Jul 2019 **Windhoek (Namibia) PV Magazine**. **Natura Energy** subsidiary **TeraSun Energy** announces a \$63.2m investment in a 50MW solar plant in **Arandis**;

25 Jun 2019 **Windhoek (Namibia) New Era Live**. Ambassador to **China**, **Elia Kaiyamo**, says the first batch of **Namibian** beef landed in China, the largest consumer market in the world;

24 Jun 2019 **Windhoek (Namibia) The Namibian**. Finance minister **Calle Schlettwein** signs a bilateral agreement for financial cooperation with **German** ambassador to **Namibia**, **Christian Schlaga**;

### About Africa Risk Consulting:

**Africa Risk Consulting (ARC)** is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

**ARC's** core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

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### About ARC Briefing:

**ARC Briefing** is ARC's essential business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

**ARC Briefing** is an information service keeping you:

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### Getting in touch

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